Panama Papers reveal New Zealand is a tax haven for world's elites

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New Zealand's National Party government is attempting to contain the damage from revelations in the Panama Papers that the country is a tax haven for the world's super-rich. While denying New Zealand is involved in enabling tax avoidance, Prime Minister John Key announced on Monday the appointment of an "independent" expert to review the laws governing foreign trusts.

The inquiry will be designed to leave the current system essentially unchanged. The appointee, John Shewan, is a former head of PriceWaterhouse Coopers (NZ), known for his close links to the tax consultancy industry. In 2009, the Auckland High Court found Shewan had advised Westpac Bank on how to minimise taxes in order to pay a rate of only 6.5 percent instead of the standard corporate rate of 30 percent. At the time, Westpac owed nearly $NZ1 billion in taxes and interest.

The Panama Papers, released by the International Consortium of Investigative Journalists (ICIJ), show that Mossack Fonseca, the Panamanian legal firm, made millions of dollars by facilitating money laundering, tax avoidance and criminal activity, including drugs and arms dealing. The ICIJ revealed 214,000 foreign trusts and companies, set up in more than 200 countries for wealthy clients, including public officials, current and former heads of government and billionaires.

The revelations rank New Zealand, which is mentioned over 60,000 times in the Panama Papers, among the world's tax havens. ICIJ director Gerard Ryle told Radio NZ on April 8 that Mossack Fonseca was "very active" in New Zealand. Among people in the know the country was regarded as "a really soft touch" for setting up secret trusts. "It's a first world country, so basically people don't think of bad things happening out of New Zealand. It's a very nice front for criminals," Ryle declared.

According to an analysis by the *Australian Financial Review* (AFR) on April 4, New Zealand hosts 12,000 offshore trusts that pay no New Zealand tax on their foreign earnings. The AFR noted: "Their beneficiaries are not registered and their accounts are not filed with any public body. New Zealand regulators may demand this information, but it is not disclosed to foreign governments."

Under pressure, Prime Minister Key admitted on Tuesday he has a "short-term deposit" in an Auckland-based company that specialises in such trusts. The Antipodes Trust Group describes itself as "a specialist provider of trustee services for foreign trusts using New Zealand as their jurisdiction of choice." It boasts that the country offers a "tax neutral environment for New Zealand-based foreign trusts which are a well-established vehicle for carefully managing the inter-generational transfer of wealth." It points to the tax-free benefits, as well as the laws that protect client confidentiality and "limited" reporting requirements, which mean the identities of settlers and beneficiaries do not need to be disclosed.

The AFR cited two Maltese officials—the current prime minister's chief of staff Keith Schembri and Energy Minister Konrad Mizzi—who have used New Zealand as a base for trusts. One of Mexico's wealthiest tycoons, Juan Armando Hinojosa Cantú, is also linked to New Zealand via a "chain of offshore entities." The revelations have triggered a crisis for the Maltese government, while underlining the ease with which overseas operators, including politicians, use New Zealand laws to hide their wealth.

The British Virgin Islands and the Cayman Islands—two well-known tax havens—are also, according to economist Bill Rosenberg, among the main foreign owners of unnamed New Zealand companies, with over $160 million in foreign direct investment. Other tax havens with entities investing in New Zealand companies include Vanuatu, Channel Islands, Liechtenstein, Bermuda and

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the Bahamas.

Revenue Minister Michael Woodhouse flatly declared it was ridiculous to suggest New Zealand was a tax haven. “Tax havens thrive on secrecy,” he claimed. “Our tax rules require foreign trusts to be registered.” Key, a former Merrill Lynch currency trader and multi-millionaire, maintained that “tax havens are where there is non-disclosure of information” and New Zealand had “full disclosure.” He added that the country’s rules had been given the “all clear” by a 2013 OECD report.

Tax experts contradicted the government’s assertions. Deborah Russell from the Massey University School of Accountancy said the “shameful” fact that New Zealand law “allowed foreign trusts to escape taxation has been known about for years” and nothing had been done to shut this down. “This makes us complicit in schemes to avoid tax,” she declared. Commentator Bernard Hickey noted that a separate OECD report in 2013, which Key avoided mentioning, was “scathing” about the use of shell companies. The report said such companies were being established in New Zealand “as a conduit for illegal activity” but nobody had been prosecuted.

In 2011, the National government’s finance minister Simon Power provided evidence that over a four-year period, 143 New Zealand registered companies had been implicated in criminal activities overseas, including smuggling, money laundering and tax fraud. The Inland Revenue Department (IRD) warned the government in 2011 and 2013 about the risks of New Zealand foreign trusts damaging the country’s “reputation,” but the government ruled out any regulatory reform.

Successive Labour and National-led governments have removed restrictions on financial operations to facilitate the business and tax affairs of the domestic and foreign wealthy elite. The rules covering foreign trusts date from 1988. They were introduced by the Labour government of Prime Minister David Lange as part of its sweeping market “liberalisation” program, which opened up the financial system. This included removing controls on foreign exchange, floating the NZ dollar and implementing a ruthless program of public asset sales. New Zealand achieved notoriety as the “wild west” of international financial deregulation.

Labour’s tax reforms, which were retained and extended by subsequent governments, played a critical role in enriching the wealthy. Tax rates were lowered and flattened, the top company tax rate was slashed and a regressive Goods and Services Tax introduced, shifting the tax burden onto the working class. National ended the inheritance tax in 1992. In 2010, it cut the personal tax rate for the top 10 percent of earners (over $70,000 per annum) from 38 to 33 percent.

The use of tax avoidance schemes increased. The *New Zealand Herald* reported in June 2013 that the IRD had found multimillionaires using a host of devices—such as companies, trusts and overseas bank accounts—to avoid paying tax. One individual had a network of 197 such entities. The number of top income earners using shelters increased from 146,000 in 2001 to 237,000 in 2010, when many were making fortunes in the share market boom.

The *Herald* reported last month that the 20 multinational companies most aggressive in shifting profits out of New Zealand paid virtually no tax, despite recording nearly $NZ10 billion in annual sales. Their combined income tax bill could have been $490 million. The companies, including Facebook, Google, Pfizer and Pernod Ricard, declared they simply followed New Zealand laws.

Labour and other opposition parties, including the Greens and NZ First, have called for “loopholes” to be closed. Labour leader Andrew Little said Key “must address claims he has fought to retain the loophole whereby foreign trusts … have no tax obligations in New Zealand and don’t have to file an annual income tax return here.” In fact, Labour is equally culpable. In 2005 Labour’s finance minister, Michael Cullen, tightened minor reporting requirements for the foreign trusts but insisted that their activities would remain tax-free.

The IRD is now trying to get information on New Zealanders who have dealt with Mossack Fonseca and who may have engaged in “abusive offshore arrangements.” Peter Bale, head of the Centre for Public Integrity, told TV3’s “The Nation” on April 9 that more files will be released, and he was “certain” they will include names of “significant numbers” of New Zealanders and New Zealand entities.

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