

**THE CHURCH OF SCOTLAND
GENERAL ASSEMBLY 2003
CHURCH AND NATION COMMITTEE
REPORT EXTRACT**

THEOLOGY OF TAXATION

1. Introduction

1.1 The Committee last reported on taxation to the General Assembly of 1995, although reports since then have contained references to the subject. We feel it is timely to revisit the issue, not by looking at specific taxes as such but rather by seeking to set out some basic principles on which a theology of taxation can be based.

1.2 The 1995 report stated “ In recognising that taxation is an essential source of government income to pay for public expenditure, the committee believes that taxation should not be regarded as an imposition. It is a very effective mode of distribution and a way of sharing. For it not to be regarded as a burden, however, requires the individual to recognise his or her responsibility to pay for the needs of the community. Equally Government must ensure that taxation is borne fairly by all individuals.”

1.3 If a statement is made often enough it is accepted without question, becoming a presupposition. It is some of the current presuppositions about taxation that the committee seeks to challenge. “All taxes are unpopular”; “to reduce tax is a good thing”; “to increase public expenditure is a bad thing”; “government simply does not have the capacity to supply all that a citizen desires or has come to expect.” These and similar statements are frequently made and as frequently unchallenged. We believe that in Jesus words “It should not be so among you.” We believe that we are greater than these assumptions make out. At the heart of our worship is the offering, a free giving of what we have to be used for the benefit of others. We thus believe that it is not a grim duty but a privilege for those who have to contribute to a common pool for the benefit of those who have not. God’s kingdom is not pride in prosperity and power, it is in achieving a just and equal sharing of life's necessities. Jesus overcomes injustice and evil and this is our model. The way we meet human need demonstrates our discipleship.

2. Taxation and Fairness

2.1 Almost all of us recognise the necessity of taxation in general terms, but few of us look at our payslips and think cheerfully of the cut taken by the Inland Revenue. Government ministers tell us frequently that public expenditure means "spending the taxpayers' money". Commentators who wish to criticise a particular allocation of resources, perhaps the refurbishment of a prison or the provision of facilities for refugees, are quick to claim that it is "our" money that is being spent. What does it mean to say that this is "our" money?

2.2 Asking what taxes are for necessarily involves asking what government is for. If we believe that government is necessary, then it must be resourced and the natural source of its funding is the people whom it governs. At a minimum, taxes allow government to operate and to maintain the basic structures which allow society to function, *eg* law and order and the functions of government itself. Beyond that, there are forms of government expenditure which may be highly desirable, if not absolutely essential, *eg* financial support for the arts and culture. How much tax we pay depends on how much we want the government to spend, and on what. This is not just an issue of the cost of public services; international obligations, for example, may lead a government to increase taxes without there being any increase in domestic expenditure.

2.3 As soon as we consider any of the main areas of public expenditure on which tax revenues are spent, we meet differences of opinion. Take health care, for example. On one view, expenditure on a national health service is essential; people have a right to health care and there is an obligation on government to provide that care. On another view, health care is a commodity which, like any other, requires to be paid for and payment should be made by those who use it in proportion to that use. Another view might be that state funded health care is desirable, but unaffordable and that a compromise of basic care for

the worst off should be maintained. The same range of views could be rehearsed in relation to any one of a number of possible areas of expenditure.

2.4 For a society and an economy to function efficiently and effectively, there must be in place a legal system which allows obligations and rights to be enforced. Citizens must have confidence in a system of order, from the point of view both of physical safety and of the knowledge that their civil rights will be upheld. Such a system can best function if it applies to all equally. The benefits we each obtain from it are immeasurable and, for that reason, impossible to quantify. Such a system depends on a government structure with personnel, facilities and so forth, all of which needs to be paid for by the state. Significantly, it is only because such a state-funded system exists that individuals and corporations are able to act as economic beings and to generate income and profit. References to income only make sense within the context of the structure which supports the employment from which that income is derived. Without the structure that allows the economy to function, whether public or private sector, it is meaningless to speak of an individual's income or a company's profits.

2.5 It can be seen, therefore, that taxation is integral to the functioning of society. It is also one of the fundamental links between the public and private spheres. Because it has to be universal to achieve its purpose, it is one of the very few areas in which the individual is obliged to come into contact with the state.

2.6 Once taxation is seen in context in this way, it becomes clear that it should not be regarded simply as payment to the government in return for services received from the government. To regard it as such suggests that citizens can somehow "buy in" law and order for themselves. But as individuals, we cannot choose how much or how little law and order we wish to enjoy. The benefits the system provides only accrue to each of us because we are already members of a developed society. But taxation is not just about paying more efficiently for benefits that we each enjoy as individuals; it is also about paying for wider societal goods. For example, we all benefit from the existence of a good, generally available education system. Even if an individual has no children of school age, or chooses private education instead, he or she will benefit in other ways from there being a generally well-educated, literate, numerate population. For that to be near universal, it is difficult to imagine a system other than one which is state funded.

2.7 Taxation is about taking part in society, but it also involves questions about the kind of society we want. A structure which makes generous provision for health, education, social security benefits, old age pensions, environmental protection and support for culture and the arts, as well as defence, justice and other "basic" needs, is likely to involve high levels of taxation. We cannot consider the policy priorities of government without an understanding of their revenue implications.

2.8 Participation in society is also carried out by the exercise of the electoral franchise. Taxation and representation have a long historical connection and the relationship between the taxpaying electorate and those they elect to determine tax policy is close and complex. A democratic structure needs financial support. Of course, it is not only taxpayers who have the right to vote, and there are societies in which taxes are levied where there is no meaningful democracy. However, both taxation and representation are features of a functioning social contract.

2.9 As well as asking what level and quality of services we want government to provide, there is a further and bigger question. How should the tax burden be distributed in a society with significant disparities of wealth? Taxation is one of the means available for shaping society. That shaping may extend to redistribution. There are different ways of looking at redistribution. On one view, it could mean the re-allocation of money, using the tax system, from the rich to the poor in the form of heavy taxes on the former and payouts to the latter. On another view, it could mean the redistribution of welfare. Recognising, for example, that the poor suffer disproportionately from ill health, such a system might weight health spending in order to benefit the poor disproportionately.

2.10 So should those who earn more pay proportionately more of their income in tax than those who earn less? Other than income, what else should be subject to tax? What options are available?

2.11 The simplest approach is that everyone should pay the same amount of money, regardless of income. This is a head charge, recognisable in the form of the poll tax. In one sense, it is "fair", but only in the sense that it is fair that a shop charges a rich person and a poor person the same price for groceries. It appears to be based on the assumption that taxation is simply about paying for services. But it takes no account of the fact that individuals have different levels of income and capital. It penalises the poor more than the rich and for this reason it is inconsistent with social or economic justice.

2.12 Another option is the "flat tax". Under such a system, everyone pays the same percentage of his or her income as tax. Proposals to introduce this system in the United States have a good measure of political and popular support. The disadvantages in terms of social justice, however, are clear. The person whose income is £1,000 who pays tax at 10% retains £900. The person on an income of £100 retains £90. The £90 has a higher marginal utility: in practical terms, each person must meet normal living expenses, which represent a far higher proportion of the available income of the person who retains £90 than of the available income of the wealthier person. A person on a low income needs most or all of it for essentials and can therefore less afford the amount taken in tax, whereas the wealthy person can more easily afford to pay the larger amount that the same tax rate would deduct. A flat tax takes no account of the impact of its imposition on the economic circumstances of the relatively poor person. Although it is arithmetically proportionate, therefore, its impact is disproportionate.

2.13 A less attractive option is a regressive system, in which the average rate decreases as income rises. In common with most countries within the Organisation for Economic Co-operation and Development the system of income tax in the United Kingdom is progressive, in that the rate of tax increases as the level of income rises. Every taxpayer has a personal allowance that changes with their age and marital status. The single persons rate for the fiscal year 2002/3 is £4,615. Higher amounts of income are taxed at the different rates of 10%, 20% and 40% with the highest earners paying tax at the highest rate.

2.14 Of course, it is not just income that is taxed. Companies pay Corporation Tax and Business Rates. The full rate of Corporation Tax for the fiscal year 2002/3 is 30%. Commercial transactions are also taxed in the form of Value Added Tax (VAT) currently set at 17.5%, though some items, for example children's clothes and food, are exempt from the tax. Vat is "fair" in that everyone pays the same amount, but it is regressive in that the bottom fifth of households pay proportionally more of their income on VAT and other indirect taxes than the top fifth. Inheritance is also taxed on sums over £250,000, although in practice tax is only an issue in a very small proportion of executries. It is often argued that the interest of the Inland Revenue in wealth left by one member of a family to another is unjustified state interference in the private concerns of individuals, even by those who recognise the necessity of income tax. Another view, however, is that since wealth which is inherited is in no sense earned, the imposition of a tax cannot harm the donee, who has done nothing to "deserve" it. Indeed, it can be said that what is being taxed is what does not belong to the donee.

2.15 These points do not in themselves answer the question of what a fair system of tax is, but they must all be taken into account in any assessment of fairness. One answer is that a system which takes into account the ability of the taxpayer to pay is fair. However, there are some difficulties in identifying what "ability to pay" means.

2.16 There is a powerful argument that taxation should not be regarded as taking away private property at all. Rather, it is such a fundamental demand that taxes are logically prior to property rights. Two academics from the United States, Liam Murphy and Thomas Nagel, have recently argued (in *The Myth of Ownership - Taxes and Justice*, Oxford University Press, 2002) that it is a mistake to regard citizens as having a right to pre-tax income. Setting out the issue, they state:

"One cannot maintain that it is an appropriate end of government to maximize the general welfare through the provision of social benefits, or to rectify inequality of opportunity or class stratification, unless one is prepared to countenance the use of taxes to finance those activities, and that inevitably means taxing some people for the benefit of others. How we feel about this will depend on our view of the moral status of private property, as well as on what we think we owe to each other as fellow members of a society."

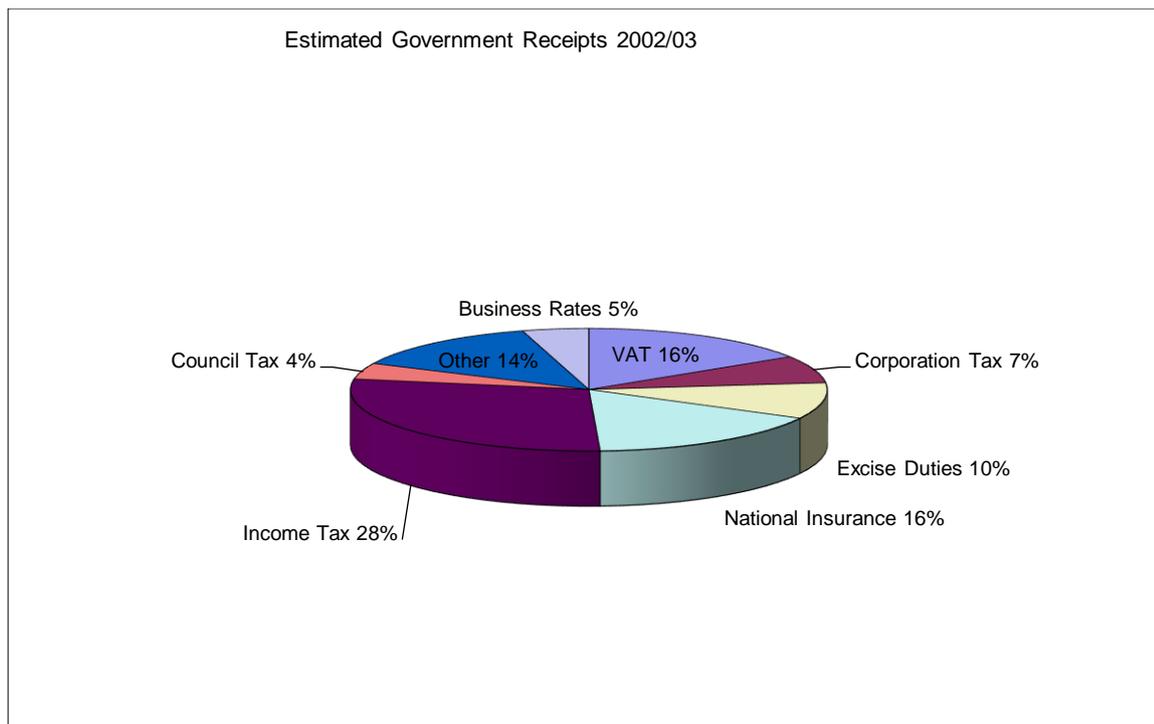
"One view is that taxation is an appropriation by the state of what antecedently belongs to individuals, and that it must overcome a prima facie objection to the transgression of the right of those individuals to dispose of their property as they wish. The opposite view is that what belongs to you is simply defined by the legal system as what you have discretion to dispose of as you wish, after taxes have been levied. Since there are no property rights independent of the tax system, taxes cannot violate those rights. There is no prima facie objection to be overcome, and the tax structure, which forms part of the definition of property rights, along with laws governing contract, gift, inheritance, and so forth, must be evaluated by reference to its effectiveness in promoting legitimate societal goals, including those of distributive justice."

2.17 It is their position that any entitlement to pre-tax income is a logical impossibility: *"All people can be entitled to is what they would be left with after taxes under a legitimate system, supported by legitimate taxation - and this shows that we cannot evaluate the legitimacy of taxes by reference to pre-tax income. Instead we have to evaluate the legitimacy of after-tax income by reference to the legitimacy of the political and economic system that generates it, including the taxes which are an essential part of that system."*

That view is at odds with the popular political view of taxation, but it presents a coherent view through which it is possible to reconcile private rights and public obligations.

3. The Present System

3.1 During the last half of the 20th century government expenditure almost doubled; from 23.4% of GDP between 1920 and 1939 to 40.2% at the start of the 1970's. This increase reflected the creation of the Welfare State and increased spending on Health, Education and other Social Services together with an increase in the range and cost of welfare payments. These increases were inevitably matched by increases in taxation. From the 1970's onwards government expenditure has hovered around 38% to 45% of GDP. Currently Government income almost entirely from taxation represents just over 40% of GDP and is projected to remain at this level. For the financial year 2001-2002 Government receipts estimated at £398.4b represent 40.25% of GDP, about £8500 for each UK adult.



3.2 The estimated government receipts from taxation and other sources are shown in the figure above. The balance between revenue from spending taxes and income and wealth taxes has hardly changed over the last fifty years, although if National Insurance is regarded as an income tax, such taxes have increased slightly from 52% of the total in the 1950's to 59% in 2000.

3.3 Top and bottom rates of income tax have fallen since the 1970's. However over that period the thresholds above which tax is paid have been altered at the rate of inflation and not at the rate of increase in incomes. As incomes have risen faster than inflation during that period an increasing number of taxpayers have begun to pay tax at the 40% rate.

3.4 Thought must also be given to the effort that is involved in collecting taxes. It cost £2.1bn to run the Inland Revenue in 2001/2. Much of that is spent on collecting overdue taxes. Action against non-compliance in 2001/2 produced £3.5bn. It is important that appropriate and proportionate measures are taken against large organisations in default, as well as against individuals owing small amounts.

3.5 Since the Labour Government took office in 1997 the tax regime has become slightly more progressive and the post tax incomes of poorer households have, on average, increased. These gains have been mainly from the introduction of a lower initial tax rate of 10% and the replacement of Family Credit with the more generous Working Families Tax Credit. Poorer families have also gained, on average, from increases in some benefits.

3.6 Losses to richer households are in increased National Insurance Contribution (NIC) and in the abolition of mortgage tax relief and the married couples allowance. NIC rates have steadily been aligned with levels of income tax with the objective of easing the transition into work (the benefit trap) and reducing the complexity of the system. There has been a series of changes to other indirect taxes, including the introduction of a climate change levy and a landfill tax. Increases in fuel duty rose to 85% in 1999 (as a total of retail price) and fell back to 75% in 2000; in 1979 the figure was 49%.

3.7 Government policy is to ensure through fiscal prudence that revenue expenditure does not exceed income over any economic cycle, although the Chancellor announced in November 2002 that he would have to borrow to meet targets which include the reduction of poverty and increased capital and revenue investment in public services.

3.8 The recently introduced Working Family Tax Credit (WFTC) is available for all families where one person works more than sixteen hours a week. This enables 1.3 million low and middle-income families to benefit by, on average, £40 per week over the old Family Credit system. An example was provided by a Glasgow minister:

A man known to me who works in the Cleansing Department, emptying bins. He volunteered the information to me that prior to the WFTC he had had to work overtime as often as he could in order to make it worth while him working. Otherwise he'd have been making more money on the Social. So he never saw his four sons, aged 14, 22, 6 and 1. With the WFTC, however, he now has more money and spends Saturday and Sunday with the family.

3.9 In April 2003 WFTC is being replaced by Child Tax Credit and Working Tax Credit which is intended to improve the situation further. At present, one third of families eligible for WFTC are failing to claim and this has implications for the Government's Impact on Poverty, which aims to abolish child poverty by 2020. The government action to reduce child poverty has concentrated on increasing child allowances in Income support and child credits in the Working Families Tax Credit. Progress towards this target has been monitored and though there has been a significant reduction in the number of children living in poverty the target may not be met. There are several possible reasons for this, not the least being that the target is a moving one. Child poverty is measured as 60% of median income and as income has risen above the level of inflation so too has the measure of the child poverty level.

3.10 It has been estimated that, if there is no dramatic increase in the numbers of parents who are the head of poor households in employment, an increase in revenue of 1% of GNP could be needed to raise child allowances and child credits to a level that would result in a reduction of 50% in child poverty.

3.11 The Church also has an important part in the tax system. Through the Gift Aid scheme, the government has made it possible for charities, including churches, to benefit by receiving donations from taxpayers free of tax. A tax-efficient donation of £10 results in the Church receiving £12.82.

4. A Christian understanding of taxation

4.1 The previous section of this report outlined a variety of ways in which the State can raise money for its purposes and a number of approaches to what might be called a philosophy of taxation. As Christians, we have a duty to consider how we are called to distribute our resources and to contribute to the shared good of our communities. It is the deciphering of this calling which is the answer to the question, "what is a Christian understanding of taxation systems?"

4.2 The Bible itself makes explicit references to tax regimes which were operative at the times of writing. However, few would argue that these are the places in which to seek a basis for principles to apply to modern situations. We have to look beyond these and find our direction in the justice and grace of God and the duty which is placed upon us both to give thanks for that and to characterise our lives by concern for our brothers and sisters.

4.3 Throughout scripture and in our communion liturgy the principle is set out that it is, "indeed right, our duty and our joy at all times and in all places to give thanks and praise." Those who are healthy, have a job, good housing *etc* are called in thankfulness to give so that those who have not can benefit. In the New Testament era and in Scotland until 1843 provision for the poor was both paid for and organised by the church.

A Christian understanding of taxation is one in which we give cheerfully in recognition of that which has been graciously given to us.

4.4 Even if the sharing of resources described in Acts 4.32^{ff} reflects an ideal that may never actually have occurred, the principles of a pooling of resources; a having of things in common, as opposed to a rampant individualism; the rich helping the poor is as appropriate a word for our day as it was for that

of Luke. It was these principles among others that led to Paul's collection on behalf of the Jerusalem poor. The so-called "House Tables", (Ephesians 5.22ff, Colossians 3.18ff, 1 Peter 2.13ff), reflect a social culture vastly different to ours. Yet the principle that those in a position of power must not exploit those under their control and that there are responsibilities as well as rights, has its relevance. The strong and powerful must not vote themselves tax cuts at the expense of those whose need is greatest. This concept of justice and fairness also features in the Baptist's ethical teaching as recorded in Luke 3.7ff.

A Christian taxation system is one which is designed to offer justice for all.

4.5 The fifth commandment enjoins honour of father and mother. This commandment is the bridge between duty to God, the theme of the first four, and duty to neighbour, the theme of the remainder. Brevard Childs sees this commandment as " - a command that protected parents from being driven out of the home or abused after they could no longer work." We do not argue for a return to the days when many, mainly women, had to abandon careers, marriage or other prospects to care for aged parents. Many will recall the Geriatric Pavilions of an earlier age and we rejoice that residential care of the elderly is now more sensitively delivered. This costs money and we would argue that obedience to the fifth commandment involves making this money available. This principle applies not just to residential care but also to the funding of adequate provision of those services required to enable the elderly among others to remain in their own homes should they so wish. Honour for father and mother means not using phrases such as "bed blockers", recognising that it is people we are talking about. If there should be a shortage of accommodation or funds to provide it, we should be glad and willing to pay increased tax so that the lack can be overcome.

A Christian taxation system is one which provides the means for a community to offer all of its members dignity and equality of opportunity.

4.6 We believe that these are the principles against which all and any national systems of taxation should stand to be judged. Do they encourage us to share cheerfully? Do they enshrine justice and promote the interests of the weak before the interests of the powerful? Do they uphold the human rights of the individual and also contribute to the well-being of the community at large?

5. Choices and Dilemmas

5.1 Already the Church and other care agencies have experienced the pain of having to make difficult cut backs because of a claimed inadequate funding by the state of the services they sought to provide. It is not just the voluntary sector that is concerned. Highland Council for example, already claiming to be unable fully to implement the McCrone proposals for Schools because of lack of funds, in November 2002 was presented with a report from its Social Work Committee in respect of the provision of Free Personal and Nursing care for the elderly. The Council was informed that the £4m grant from the Scottish Executive for this purpose was insufficient; that demand was exceeding available funding. The Council was urged to change in its area the rules for eligibility to reduce the numbers qualifying, to introduce a waiting list for low priority cases in the future and to impose new limits on those previously qualifying for grant towards such care in their own homes. If such people have needs that exceed the new limit they are to be offered residential care as the only option available in their circumstances.

5.2 Obviously Highland Council as others face a funding problem but whatever view we might take of the decision to provide this care, those passing the legislation, and certainly those who welcomed its passing believed that Free Personal and Nursing Care meant precisely that and that such care was to be provided free of means test and in accordance with nationally laid down criteria.

5.3 We seem to face the dilemma of either increasing taxation or reducing spending ambitions. The problem in our view is not lack of funds but lack of the will to provide the necessary funds. "*Knowledge we ask not, knowledge thou hast lent But Lord, the will, there lies our deepest need Grant us to build above the high intent, the deed the deed.*" We can afford it if the will to do so is there. We submit that Christians should be in the vanguard of those working for a change of will in this regard.

5.4 There is of course the argument that not only can the state not provide everything but that people should be free to choose which services they wish and from whom these services are obtained. Freedom to choose is well and good, but not only must there be real freedom there must also be real choice. The socially excluded are in no position to seek private provision and in many cases would not be accepted into any private scheme of insurance.

5.5 For years we have been told that we are not making adequate provision for retirement, and that the state cannot meet the deficit, that people should take responsibly for their own pension provision. There is truth in these claims. Yet many low paid people and the unemployed or long term sick simply lack the means to make adequate provision for their today let alone for their uncertain tomorrow. Recent Stock Market changes in 2002 have meant that even those who had made what was regarded as adequate provision have seen the value of their pension fund drop by around 30% and were powerless to do anything about it. There are in our view therefore securities that only the state is large enough to provide.

5.6 The Government published a green paper on pensions on 17.12.02. Obviously discussion of this is at an early stage but certain aspects are welcome: the recognition that the present system is too complex and too rigid; the recognition that "those earning less than £10,000 a year should not save" - and, we would say, cannot save. The opportunity to work longer may be welcome for some but for others would not be so. It is clear that the present system is failing those who are most dependent on it. In addition to the options of people working longer and saving more we would add the option of increasing taxation. The original idea of NI contributions was to create a fund that would provide benefits as the need arose. We accept that the fund has always been a fiction but, given that most people now see NI as a form of income tax, increased NI contributions linked to an adequate pension would be acceptable. Because of all these considerations the Committee intends next year to bring a further discussion of pensions to the General Assembly.

5.7 There are advantages to direct taxation. Since it is a more overt means of revenue collection it is much clearer exactly how much is being raised. Indirect taxation may be more attractive to politicians because it is hidden but it also hides the contribution we are making to what the state provides. Stealth taxes play down the contributory nature of a taxation system. Christians should regard it as a right and a joy to contribute to the common good.

5.8 A more serious objection to indirect taxation is that it is by its nature a tax on participation. In as much as indirect tax such as VAT increases the cost of a product or service it can thereby put that service out of the reach of the poorest in our society. We would also claim that taxation should be based on the principle that those who can afford most should pay most, those in most need should receive most. This principle is best served by direct taxation linked to ability to pay. Yet the 1995 report is correct to say that it is "impossible to conclude that a tax is regressive just because it is an indirect tax."

5.9 The basis of a fair taxation system is that of a just sharing of resources. The church however is not adept at this sharing. While in theory we have in the Mission and Aid scheme a system whereby the wealthy and the strong aid the poorer and the weak, there is an indication that some of the stronger are now objecting to the level of the contribution they are being called upon to make. The dire plight of some of our UPA parishes gives the lie to the notion that we have achieved a just sharing of resources.

5.10 The matter of taxation as a tool for changing public behaviour is complex. Society can and does use taxation as a means of expressing its approval or disapproval of particular activities. Some on this basis would argue for an environmental tax or a carbon tax. It is open to question whether such taxes actually achieve their stated aim, yet such taxation can send out positive or negative signals. Car fuel tax would have to rise to politically suicidal levels before most people would exchange their cars for public transport but it has to be admitted that the taxation changes greatly encouraged the change from leaded to unleaded car fuel.

5.11 A full assessment of a Christian understanding of taxation must also take into account the rôle of

commercial organisations within society. The payment of taxes is bound up with the concept of corporate responsibility. It is not enough for companies simply to discharge the social responsibilities which they bear simply by paying the taxes which are legally due. Just as the paying of taxes signifies a meaningful relationship between an individual and the wider society, so it represents part of what binds commerce into the fabric of society. It is the intention of the Committee to continue to work on this theme, including the rôle of taxation in aiding enterprise, and to report at a future General Assembly.

6. Conclusion

The statement made in the 1995 report is still valid. “The committee is clear that a fair system of taxation ought to be regarded as an ideal means of sharing resources within society and paying for public expenditure directed towards helping the disadvantaged.” Although since 1995 there have been many changes made and suggested, we would urge adherence to that same principle. The problem is not so much a lack of resources as a lack of the willingness to share that which we have.

Sources:

The following sources of information have been used in the compilation of this report:

- *Briefing Notes*, from the Institute of Fiscal Studies.
- *Paying for Progress*, the report by the Commission on Taxation and Citizenship, published by the Fabian Society.
- *Steering a Steady Course: Delivering Stability, Enterprise and Fairness in an Uncertain World*, pre-budget report of November 2002, HM Treasury.