

IPS PRINCIPLE PERSPECTIVE

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RETHINKING TAXATION

PRESIDENT'S LETTER



"Principle Perspective" does not usually devote an entire issue to one subject, but this edition departs from the norm. This time, we have chosen to take an in-depth look at the principles of taxation.

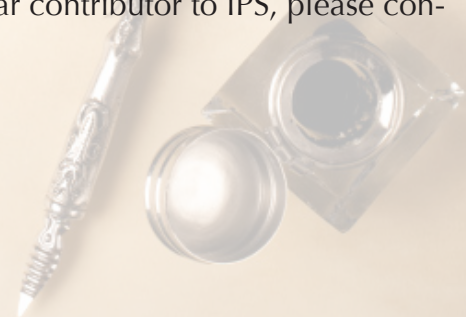
The issue of taxation is so important to our society that we felt it necessary to devote substantially all of this edition of "Principle Perspective" to the subject. If a nation's tax policies are bad, they do far more than irritate its tax-paying citizens. Our current methods of taxation significantly reduce our nation's standard of living, and, more importantly, they are one of the most important factors contributing to poverty. Americans assume that the poor pay little in taxes and that they are not substantially impacted by the economic effects of taxation on the rest of the economy. Both of these assumptions, however, are false.

The articles in this issue of "Principle Perspective" will demonstrate that these important pragmatic problems can be solved only by understanding the biblical and economic principles relating to taxation. I encourage all of our readers to study and digest all of this critical content.

I would be remiss if I didn't also remind our readers that IPS is supported entirely by voluntary contributions. Accepting government funds would deny our own fundamental teaching, and we don't have the support of large foundations either. Instead, we are funded by the sacrificial giving of people like you. I want to thank you for the support that enables us to continue our ministry. Keep in mind that we have dozens of powerful expansion opportunities that are waiting for us, but we cannot pursue these opportunities without additional support. So if you are not a regular contributor to IPS, please consider investing in our work.

Sincerely,

Mike Winther
President



TAXATION 101: *So Many Taxes, So Little Time*

By Michael R. Winther

Death and taxes may be inevitable in life, but this fact doesn't excuse us from our responsibilities to handle both of these eventualities in a prudent and judicious manner. Our legal system endeavors to establish clear, cautious standards for dealing with issues of life and death—our procedure for trying a capital crime being just one example. In like manner, we should be no less deliberate with our tax policy. Citizens have never enjoyed (and probably never will enjoy) paying taxes, but if some taxation is going to be necessary, we should endeavor to find the best way to pay (and collect) taxes. Not all methods of taxation are created equally, as we will discuss in more detail in a later article.

Tax systems can either produce or reduce poverty, they can help or hinder economic prosperity, and they can defend or destroy liberty. Both government and citizens have a moral duty to implement tax systems that do no harm to our fellow man. Citizens who also happen to be Christians have more knowledge and therefore carry an additional burden to advocate in favor of tax systems that meet scriptural standards.

Our present tax system makes almost every possible tax mistake. Our tax system is inefficient and wasteful, it encourages people to lie and cheat, it discourages production, it violates property rights, it favors special interests, it infringes on the privacy of citizens, and it hides the real cost of government. But none of these evils are necessary. There are methods of taxation that avoid almost all of these problems.

Before we can identify the best system of taxation, however, we must first understand some basic tax principles. Fundamentally, we must understand the four broad categories of taxation: taxes on the person, taxes on property, taxes on exchange, and taxes on actions. A study of the nature of each of these categories will provide considerable insight into our later attempt to determine the best method of taxation.

Taxes on the person

Taxes on the person are often referred to as “head taxes” or “capitation taxes”. This category of taxation is quite rare in the modern world, but it should be studied and seriously considered.

Perhaps the greatest appeal of this form of taxation is the potential for citizens to equally share in the cost of government. An example of a head tax might be a system that takes the total government budget for the upcoming year and divides that amount equally between each individual or each family in the country. Each person or family would then pay their exact portion of the budget. There is merit to this kind of system. Since each citizen receives roughly the same benefit from the nation's national defense (and other constitutional functions of the federal government), it makes sense that we should all pay equally—we pay for what we get.

This system, however, is not without its problems. First, some people may be asked to pay more than they have. How would our government deal with these people? The primary methods of enforcing compliance with government requirements are fines and imprisonment, but neither of these are appropriate or effective responses to an actual inability to pay. If people are legitimately unable to pay a tax, how would we expect them to pay the tax *and* a fine? Incarceration is similarly counterproductive. The productive capacity of an imprisoned person is greatly reduced, so instead of contributing to the economy and the government, he becomes an additional expense to society.

The second problem with a tax on the person is that it might be difficult to collect from those who can afford it. Substantial expense would be required to determine ability to pay, and then additional costs would be involved to collect from these individuals.

Taxes on property

Real estate taxes are the most common form of property taxes. Most states and counties in America have property tax systems. These taxes, which are usually paid through county governments, tax real property at a percentage of its value. The rates and methods of determining value may vary from one jurisdiction to another, but the general concept is essentially the same. Property taxes also include taxes on cars, boats, and motor homes. Some jurisdictions may also charge businesses a tax on inventory or on the physical assets that the business owns.

“Property taxes are one of the most unjust forms of taxation because they subvert the important concept of property ownership.”

Property taxes are one of the most unjust forms of taxation because they subvert the important concept of property ownership. Let's examine a common problem with property taxes. Assume that a young husband and wife purchase a home. They work for 30 years to pay off the mortgage, and now that they are in their golden years, they own the home free and clear... or do they? Let's also assume that our couple (now elderly), lives on a small fixed income and they find themselves unable to pay the property taxes on their home. Within a few short years, the county will foreclose on the property and sell it to pay the taxes. Our honest and hardworking property owners may now find themselves homeless; the home that they had worked so hard to acquire has been taken away from them for no reason other than their inability to pay the ongoing property taxes. In this system, they were never truly property owners; instead, they were just renters, renting the property from the state.

A system with this much disregard for property rights is on a dangerous path toward a Marxist view

of property as communally owned.

There are only two circumstances in which a government could justly confiscate private property. A just government can enforce the financial commitments (promises) that we voluntarily make to other parties. This enforcement of private, voluntary contract would generally result from the outcome of a civil legal proceeding. A just government can also require a citizen to make appropriate compensation to people that he may have injured. If someone is unable or unwilling to honor these commitments from cash assets, it would then be appropriate for the state to “take” that portion of any private property necessary to settle these debts.

I don't believe that paying property taxes to the state falls into either of these two categories. As citizens, our “indebtedness” to the state does not involve our compensating someone that we have injured. Nor is it a debt resulting from a voluntary promise or contract made by the citizen. Some have argued that a tax debt is the same as a debt incurred in a voluntary contract if the tax was enacted through legitimate legislative processes. The difference is that not every citizen agrees to every tax. The retired property owners in our hypothetical example are still homeless in a property tax system, regardless of whether they or their elected representative voted for the offending property tax.

Aside from the two justifications of enforcing contract and compensating victims, there is no legitimate reason to confiscate private property, and any system that allows for this is unjust.

I might add parenthetically that the money used by our hypothetical couple to purchase their home had, in all likelihood, already been taxed—either by an income tax or by some sort of transaction tax. Even if this was not the case, however, the confiscation of property from innocent people is still unjust even if the assets used to buy the property had never been taxed.

A tax on property ownership, therefore, is incompatible with property rights. If any ongoing payment is required to maintain ownership of a property, then the ownership is incomplete and

conditional. The real owner is the one to whom the payments must be made. In a governmental system with property taxes, the government becomes the ultimate owner of all property that is subject to the tax. In a property tax system, only the government (and those that the government exempts) can own the property without a rent payment—so this government is the only possible “free and clear” owner.

This affront to property rights is especially disconcerting because property rights lie at the foundation of all other rights. What good is freedom of the press if one cannot own ink, paper, and a printing press? Freedom of speech is significantly



Over the past century, Congress has gradually created a piece-meal, complex, and convoluted tax system. It is now time for Congress to clear the table and start over.

limited if there are no private radio stations, TV stations, or newspapers. Although religion can be exercised in private, its full exercise requires churches in which to worship and homes in which to pray or hold Bible studies. The right to keep and bear arms assumes that a person can own a gun as private property. Many of the rights listed in our Bill of Rights cannot be exercised without private property, and in this way private property ownership is absolutely fundamental to all other rights.

Taxes on exchange

Taxes on exchange raise revenue by placing a tax on some type of transaction. These transaction taxes can be levied on retail sales, imports, exports, financial transactions, or any other exchange of assets or property. Taxes on exchange have the benefit of

being semi-voluntary. By this we mean that the tax can be avoided by not engaging in the transaction or exchange that is being taxed. Of course, it is almost impossible for individuals to avoid all exchange, but even the most comprehensive and oppressive tax systems don't usually tax all exchanges. For example, the purchase of used merchandise is left untaxed in most sales tax systems.

In this area, the black market may serve a beneficial role. When the taxes are small and reasonable, there is little profit potential for those who would work illegally to distribute the product through an underground economy. Only those products that suffer from a high rate of taxation are likely to be sold in the untaxed black market. Governments quickly discover that high tax rates on products results in a reduction of revenue to the government. In this respect, transaction tax rates are somewhat self-limiting.

The problems of collection and ability to pay are minimized in exchange-based tax systems because people don't engage in the transaction unless they are able to pay the transaction tax. For example, if I want to purchase a new golf club that costs \$100.00 and I know that the purchase is subject to a 6% sales tax, I will not attempt the purchase unless I know that I have \$106.00.

Additional advantages of transaction or exchange-based tax systems include the ability to pay the tax without providing the government with any personal information. In fact, most of these kinds of taxes can be paid anonymously.

The danger of the value added tax (VAT)

This article makes the case that taxes on exchange are superior to property taxes in a number of ways. However, there is one tax on exchange that should be avoided: the Value Added Tax. The Value Added Tax (VAT) taxes products at each stage of production. Every time value is added to the product, the increased value is taxed. A finished product may have been subject to dozens or even hundreds of taxes on the product and its components. In most VAT systems, the tax rate is the same on each phase of production, so that a 20% VAT at each phase of production results in a total tax of 20% on the

finished product. In the end, the government gets the same revenue as it would with a retail sales tax at the last point of sale. Although the VAT is a tax on exchange, most of the tax on a product has been paid before the consumer sees the cash

“Our reckless tax laws are responsible for much of the poverty and moral decay that we observe in our world today.”

register receipt. This enables the government to hide the true amount of tax that is included in the purchase.

The retail sales tax levies the tax all at once at the final point of sale, but the VAT levies the tax in bits and pieces all along the production process. Governments with high tax rates prefer the VAT because it limits the ability of the black market to bypass the tax process. Even if one stage of production should manage to hide from the tax collector, the other stages are likely to get taxed. The VAT does have fraud avoidance benefits, but at what cost? In exchange for this possible compliance benefit, we dramatically increase both paperwork and the points of collection, making it a tax with high overhead.

Taxes on actions


There are some taxes that apply to certain actions or behavior when there is no exchange of money or property. These taxes might include a city fee for erecting a building on your property, or a fee for entering a national park. This method of taxation may be reasonable if the tax (or fee) is designed to

cover a specific cost for a specific service provided by the government. Unfortunately, taxes on actions often become a way for governments to further regulate citizen behavior.

What about the income tax?

Not all taxes fit neatly into these four categories. Income taxes and inheritance taxes each possess qualities of both property and exchange taxes. For example, the income tax might be considered a tax on the exchange between the employer and employee, or it might be considered a tax on the property of the employee (his earnings). Inheritance taxes, likewise, could be classified as either a property tax or an exchange tax, but the soundest reasoning tends to support the argument that taxes on inheritance are primarily a property tax on family property.

Conclusion

There is great value in understanding the four main categories of taxation. These different methods of taxation are not equal. In fact, there are practical and ethical reasons why we should promote taxing exchange rather than taxing property or behavior. The following articles in this series will provide additional insight into how and how much government should tax its citizens. As we study this issue, we must remember that there are grave consequences for a society that adopts bad tax policies. Our reckless tax laws are responsible for much of the poverty and moral decay that we observe in our world today. We ignore this subject at great peril, but when we study and properly understand the principles of taxation, we will find great blessing. 

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A new study from the Tax Foundation says that in 2012, Americans will pay approximately \$4.041 trillion in taxes, which is \$152 billion, or 3.9%, more than they will spend on housing, food, and clothing combined.

FINDING THE BEST TAX SYSTEM

By Michael R. Winther

No one enjoys paying taxes. Just take a poll of Americans around April 15th, and the general opinion regarding taxes will become quite clear. Nevertheless, some form of taxation is necessary in our form of government, so we must determine the best option for a reasonable tax system. Recognizing the necessity of some form of taxation, therefore, what are the qualities of what we might call an “ideal” (best of all possible options) tax system?

1) The best tax is a tax on exchange.

A tax on exchange poses no threat to private property. Property, once acquired, is subject to no further taxation, nor is it in any risk of confiscation for non-payment of taxes on that property. This is in stark contrast to our current property tax system that endangers the property rights of citizens.

Taxes on exchange avoid many collection problems. If the tax is added to the purchase price (or the cost of the exchange), then the exchange cannot occur without simultaneous payment of the tax. Although taxes on exchange can and will prevent some exchanges, the negative effect on trade will be miniscule if the tax rate is reasonable.

2) The best tax is a tax on consumption.

A good tax policy will tax consumption rather than production. There is a well-established truism that essentially states that if you subsidize something, you will get more of it, and if you tax something, you will get less of it. Exceptions to this principle are few and far between. This could also be called the “behavior modification principle” of tax policy.

If our exchanges of goods and services were done in a barter economy, every tax on an exchange would be simultaneously a tax on both production and consumption. But because most of our exchanges of goods or services involve money as a medium of exchange, it is possible to pinpoint our tax and limit its application solely to production or solely

to consumption. Using the “behavior modification principle” of tax policy, we can conclude that a tax on consumption discourages consumption. Conversely, a tax on production will discourage production. Therefore, if we have to discourage one of these behaviors, which one should it be?

Both biblical principle and economic theory tell us that it is better to discourage consumption than it is to discourage production. Scripture is clear that we are to be productive, and that our society should encourage productivity. In Genesis 3:17-19, God commands us to labor. Although this is part of the curse, it is also part of God’s plan of redemption. All of the consequences of sin, including God’s judgments, serve to lead to our repentance, obedience, and restoration. Proverbs 6:6-11 encourages work and savings. Second Thessalonians 3:6-13 discourages idleness and encourages work.

One would be hard pressed to find in Scripture any directive to discourage or limit our production, but we are admonished to be savers and givers. Both of these activities necessitate both high levels of production and a limitation on our consumption. Although consumption in and of itself is not wrong, we are well advised not to be too quick to consume.

From a purely economic perspective, taxing consumption instead of production will encourage production and savings—both highly beneficial activities from an economic standpoint. Increasing production will benefit everyone in a society, especially the poor. This is because an expansion in the supply of goods and services causes prices to go down, reducing the cost of living.

Eliminating the income tax and replacing it with a simple consumption tax would have substantial positive effects on our economy. It would produce a rapid and measurable increase in GDP, and living standards would rise precipitously.

3) The best tax is an indirect tax.

Whether a tax is direct or indirect is determined by the relationship between the taxpayer and the government. A direct tax necessitates a considerable amount of information flow between the taxpayer and the government, whereas an indirect tax separates the taxpayer from the government. Taxes can be measured in terms of degrees of their “directness”. The following qualities are generally indicators of a direct tax:

- It is paid directly to the government by the taxpayer.
- The taxpayer is the one who reports or calculates the tax.
- The government knows who is paying the tax.

An indirect tax, on the other hand, will usually be a tax on exchange, and it will not possess any of these three qualities. Taxes on the person and taxes on property cannot be calculated, collected, or enforced without knowing the identity of the taxpayer. Only taxes on exchange have the potential to be paid anonymously.

Some forms of direct taxation (like income taxes) actually promote fraud and abuse. Our current income tax, for example, makes liars and cheats out of too many Americans. When the person paying the tax is also the one reporting and calculating the tax, there is considerable incentive to cheat—if only a little bit. (“After all, everyone else does it!”) A direct tax gives the taxpayer both the motive and the opportunity to cheat. Indirect taxes, on the other hand, have the unique benefit of separating the paying of the tax from the calculating and reporting of the tax. There is less incentive to cheat when the party that reports the tax is not the same one who ultimately will pay the tax.

4) The best tax is an obvious tax.

Obvious taxes are the best taxes. This is a case where what you don’t know can hurt you—and the entire economy. In our current convoluted tax system, many Americans believe that they pay no

federal taxes. In fact, we often hear complaints that half of Americans pay no federal income tax. While this is true, it is not true that these people pay no taxes at all. They actually do pay substantial amounts of hidden taxes that don’t show up on a paystub or tax return.

Citizens and voters regularly make decisions about the size and scope of their government. Although we would hope that voters would make these decisions based on principle, the unfortunate reality is that these decisions are often based on pragmatic questions like, “What is the cost benefit ratio for me and my family?” The presence of hidden taxes in a society causes voters to make inaccurate assumptions that result in bigger government. When taxes are hidden, voters can easily get the impression that there is such a thing as a free lunch. They vote for particular programs and receive benefits, but are entirely unaware that they are paying dearly for these benefits. If tax calculations are simple, obvious, and paid by all citizens, it is easier to see the cost of burgeoning government.

“If we are truly looking for causes of poverty in America, here is one that cannot escape our notice.”

5) The best tax has minimal collection overhead.

Like the individual citizens in a nation, government should also work to minimize waste and inefficiency. We reduce overhead and increase efficiency when we have simple methods of calculation, have fewer points of collection, need fewer audits and enforcement, and have reduced incentive for people to cheat. There are several components to the collection cost of any tax: taxpayer compliance costs, government collection costs, and fraud detection and audit costs. Each of these costs is substantially higher in an income tax system than they would be in other tax systems, but the most oppressive of these three costs is the cost of taxpayer compliance.

Daniel Pilla, a tax expert, advocates replacing the federal income tax with a broad-based sales tax. He cites the high inefficiency of collecting an income tax and makes this statement:

...the cost of compliance is close to 65 percent of the amount collected... That is to say, for every dollar of tax paid to the Treasury, it costs citizens and businesses 65 cents to get it there. Given that \$2.3 trillion was paid to the IRS in 2009, society incurred a collection cost of nearly \$1.5 Trillion.

This amounts to almost \$5,000.00 for every man, woman, and child in America, each and every year. There is no excuse for a tax system with this much overhead. If we are truly looking for causes of poverty in America, here is one that cannot escape our notice.

6) The best tax is levied at the retail level.

A “retail” tax is a tax at the final point of sale. By applying a tax at the retail level, it is placed where it is most obvious to the consumer.

The best way to keep these taxes low and reasonable is to build the tax system in such a way that some consumption can avoid taxation. One way to do this is to tax only new merchandise. This produces several advantages. First, it motivates governments to keep the tax rates reasonable. If the rates go too high, the government will actually lose revenue as people opt to purchase untaxed, used products. Second, for those who are concerned about the regressive nature of a tax system and its impact on the poor, a sales tax on new merchandise at the retail level allows low income citizens to purchase used items free of tax.

7) The best tax does not promote fraud.

We know that there is plenty of corruption in human nature, and because people are responsible for their own actions, we cannot always blame the government when some people engage in fraud to avoid paying their taxes. However, our public

policy should never encourage fraud. In every way, we should endeavor to enact policies that are just, enforceable, and that do not entice people to cheat. There are at least four things that we can do to minimize tax fraud.


1. Make the tax system simple. People are more likely to cheat when they are frustrated by the complexity of a tax system. Complexity also blurs the distinction between an honest mistake and outright fraud. All other things being equal, a simpler tax will always have the best compliance and least evasion.
2. Lower tax rates. The higher the rate of tax, the greater the incentive to cheat. This principle partially explains why reduced tax rates sometimes produce more revenue than higher tax rates.
3. Payers should not be reporters. We should place the duties of calculating and reporting a tax in different hands than those who actually pay the tax. By not allowing the payer of the tax to calculate and report the tax, we reduce another opportunity to commit fraud. When the party who pays the tax is also responsible for calculating and reporting the tax, we place the motive and opportunity to cheat in the same hands. Our current income tax system makes this mistake. We rely on the taxpayers to report all of their income and to accurately account for deductions. This system produces both the incentive and the opportunity to under-claim income and to over-claim deductible expenses. A transaction tax, on the other hand, has one party calculate and collect the tax while a different party pays the tax.
4. Minimize the number of points of collection. This reduces collection costs, as well as audit and enforcement costs. The federal income tax has one point of collection for each household in the country. This amounts to more than 142 million tax returns each year. A national sales tax has one point of collection for each retail business in the country—a decidedly smaller number.

The principles put forth in this article would lead to a conclusion that the best tax might be a fixed-percentage, national, retail sales tax. A system of import tariffs, as envisioned by our founding fathers, comes in as a close second. A transition to a national retail sales tax, however, should only be considered if the enacting legislation simultaneously abolishes the structure and mechanisms for the federal income tax. The failure to link the elimination of the income tax to the implementation of a substitute system would risk the possibility of saddling America with both tax systems. Some have proposed that we should add a sales tax and use this revenue to offset a reduction of income tax rates. This is a dangerous course of

“The production incentive from taxing only consumption would produce more goods and services, and would reduce prices measurably.”

action because it allows the infrastructure for both tax systems to exist simultaneously, each being vulnerable to gradual increases over time. If a national sales tax (or other consumption tax) and a national income tax are allowed to coexist, we fail to achieve the advantages that the new tax might produce—namely, that we still retain the income tax system that discourages production, violates privacy, and encourages fraud.

As we conclude, it is important to answer the pessimist who says, “This sounds good, but this plan will never pass”. Ideas, even those most radical to a society at the time of introduction, have frequently found acceptance and adoption into public policy when those advocating the ideas demonstrate persuasion, persistence, and patience. This is no less true for the ideas presented here. There can be little doubt that the principles and concepts presented in this article, properly implemented, would transform our society in powerful and positive ways. The production incentive from taxing only consumption would produce more goods and services, and would reduce prices measurably. The reduced compliance costs would shift millions of productive workers from the tax collection process into other productive employment, further increasing productivity and reducing prices. Savings and investment would be encouraged. By eliminating hidden taxes, we could begin to overturn the “free lunch” mentality, and Americans and our elected representatives would make better decisions about government spending. This would be a valuable first step toward reducing the size and scope of government. And last, but not least, our citizens would recover much of their lost privacy.

A principled approach to tax policy is an idea whose time has come. We must restore reason to our nation’s tax policies soon before our current path results in the death of our economy, our republic, and our liberty. 

*Do not cause anyone to stumble, whether Jews,
Greeks or the church of God -*

1 Corinthians 10:32

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Here at IPS, we believe that one of the most effective ways to spread our message is by reaching teachers. Our teachers, whether private, public, or homeschool, are those most involved in the shaping of the next generation. The strategy is a long-term one, building biblical principles from the ground up, and giving young Christians the tools they will need as they become leaders in America. This summer is our annual conference for teachers, featuring two seminar options: biblical government and economics, or training in team policy debate.

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CAN SOCIETY USE FORCE TO COLLECT TAXES?


By Michael R. Winther

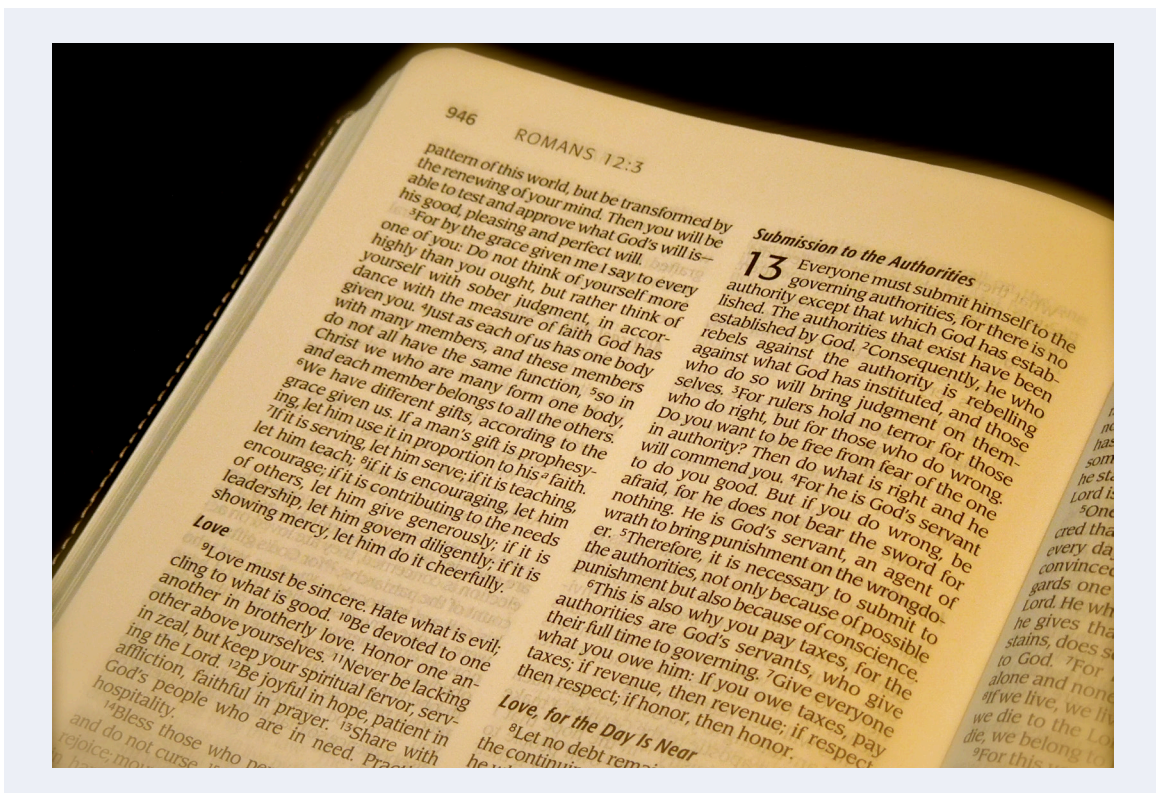
Many thoughtful political analysts argue that all taxation is theft and that all government revenue should be contributed voluntarily. This is a reasonable argument if mankind is the only source of his own rights and the source of all government authority. But there is, of course, one problem with this argument. If people can decide that all taxation should be voluntary, then is it not also possible—and legitimate—that people can decide that an oppressive amount of taxation is also appropriate? Wouldn't we prefer to have an objective set of standards instead of the relativity that results when men are the ultimate source of authority?

The entire American experiment in government was predicated on the position that God is the source of the citizen's rights, and—though not developed in America's founding documents as thoroughly as it could have been—the logical extension of this idea is that if God is the source of our individual rights, then God must also be the source of all legitimate government authority. If this is true, then we should consult His Word on the matter of taxation.

Romans 13:6-7 indicates that there is some level of appropriate taxation: "This is also why you pay taxes, for the authorities are God's servants, who give their full time to governing. Give everyone what you owe him: If you owe taxes, pay taxes; if revenue, then revenue; if respect, then respect; if honor, then honor."

In Luke 20:20-26 & Matthew 22:15-22, Jesus is asked whether it is right to pay taxes to Caesar.

Jesus' response does not indicate that citizens should pay to Caesar everything that he asks, but that we should pay the amount that is rightfully due. What is "rightfully due" to any government? Simply this: the amount that is necessary or reasonable to enable that government to carry out its proper duties. A full analysis of these proper duties is outside the scope of this article, but the point here is that some amount of taxation is legitimate, as long as it does not exceed what is strictly necessary to allow government to carry out its proper role. 



TAX THE RICH: SHOULD THE RICH PAY MORE?

By Michael R. Winther

When considering tax policy, most people assume that wealthier individuals should pay more than the poor. The modern welfare state is predicated on this assumption that government should take from the rich and give to the poor. These practices of wealth redistribution are far closer to Karl Marx than they are to the Bible—or the U.S. Constitution. Scripture admonishes us to care for the widow, the orphan, and the alien. The wealthy are especially encouraged to give of their resources to meet these needs, but to do so voluntarily.


The problem is that taxation is, by definition, not voluntary. In a biblical sense, there is an underlying problem with involuntary redistribution. Forced redistribution violates the 8th commandment (“You shall not steal”) and the 10th commandment (“You shall not covet”). The poor man and the politician often have one thing in common: they covet the rich man’s property. Few people in modern society understand that this covetous, forced redistribution of resources actually creates more poverty than it solves.

Justice should be impartial, but our tax system is far from just. Purposing to charge more to the rich shows partiality—the opposite of justice.

In II Chronicles 19, Jehoshaphat appoints judges and gives this exhortation: “Consider carefully what you do, because you are not judging for man but for the Lord who is with you whenever you give a verdict. Now let the fear of the Lord be upon you. Judge carefully, for with the Lord our God there is no injustice.” Justice is not a superficial equality of outcome; rather, true justice is equal treatment under the law.

In reference to the Judiciary Act of 1789, historian and author Daniel J. Ford provides this analysis:

Each federal judge was required to swear that he would adjudicate impartial justice—more precisely, to “solemnly swear or affirm, that I will administer justice without respect to persons, and to do equal right to the poor and to the rich... So help me God.” By such an explicit oath, no judge could bend the arm of justice to favor any class of people over another. In other words, by an oath sworn before the judge of the universe, no court should favor one person’s status as either poor or rich over another, nor should it validate laws that target the wealth of some unequally over others. Put another way, no law that unequally taxes the rich ought to be upheld by a duly-sworn federal judge any more than a law that targets the poor.

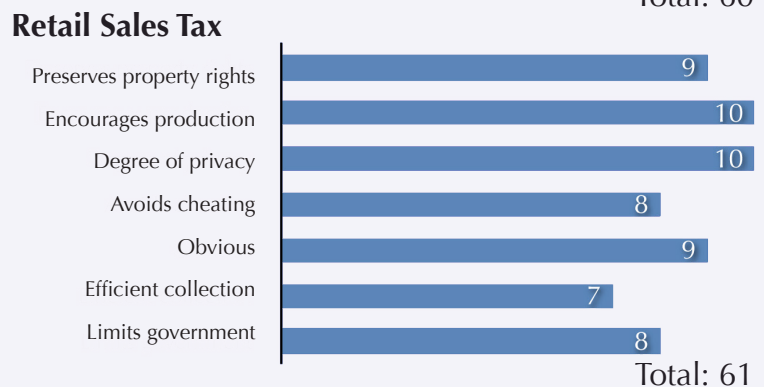
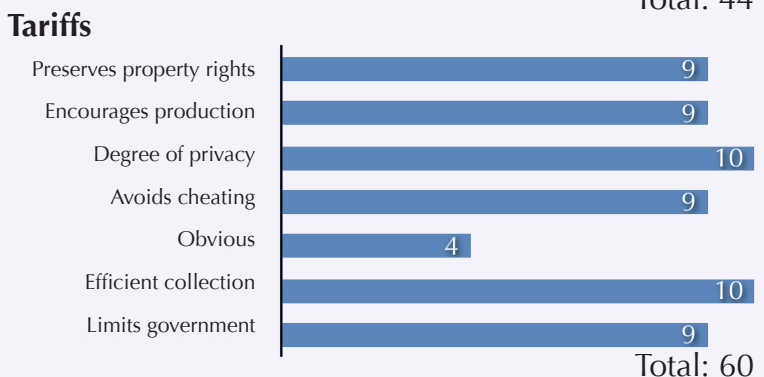
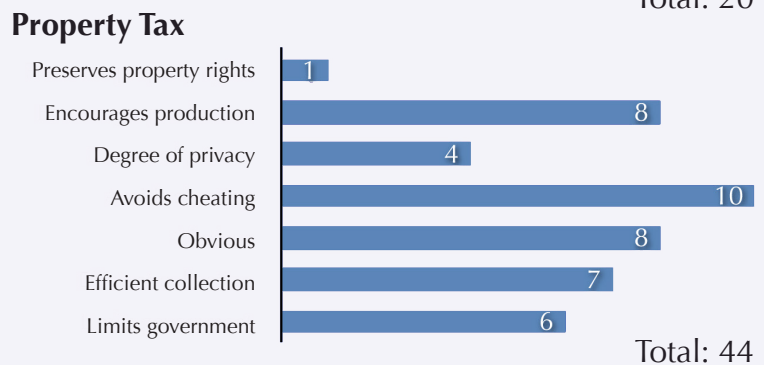
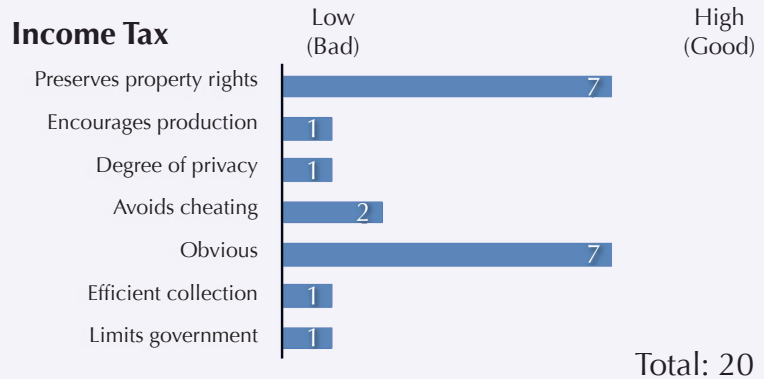
The idea of laying a heavier tax burden on the rich is not new. Throughout history, governments have wanted more money for wars, monuments, and the buying of votes, and they have often obtained these funds through some form of progressive taxation. (Of course, the politically-connected and unscrupulous rich always manage to escape the heavier tax burden.) The prevalence of progressive taxation in history, however, does not make it right. In fact, this concept of progressively taxing incomes is so important to the communist and socialist worldview that Karl Marx codified it into the second plank of his Communist Manifesto where he calls for a “heavy, progressive, or graduated income tax”. We should avoid this Marxist approach to tax policy at all costs. 

MEASURING THE DESIRABILITY OF COMPETING TAX SYSTEMS

Some things are difficult to measure. Applying quantitative measures to the desirability of various tax systems is quite difficult. Nevertheless, we have endeavored to produce a quantitative analysis of the various tax systems. In the accompanying table, we have rated each system on seven scales: property rights, production, privacy, avoidance of cheating, obviousness, efficiency, and ability to limit government.

Although our specific ratings in each category may be subject to debate, we believe that this evaluation is a useful tool for determining a nation's tax policies. Any government would do well to re-think its tax systems in light of these seven scales.

The United States Federal Tax code is now over 73,000 pages. This doesn't include the far larger number of pages of case law that our income tax has produced.



TITHES AND FIRST FRUITS

By Michael R. Winther


Most of the previous articles have focused on the method of taxation, but I would be remiss if I didn't discuss the amount of taxation. Even the most ideal method of taxation can be unjust if the amount of the tax is exorbitant. Choosing the best method of taxation can help to prevent unreasonable tax burdens, but even the "best" form of taxation is subject to abuse.

The 10% standard

In I Samuel Chapter 8, the Israelites ask for a king. The passage makes it clear that this request was not pleasing to Samuel or to God, and God warns the people of the negative consequences that would result if they were to be ruled by a king. One of the consequences that God lists involves paying a 10% tax. This must have been more than they were paying—otherwise it wouldn't be seen by the people as a curse. An important question is why God specifically mentions 10%. The 10% number is significant primarily because 10% was the amount (in the form of a tithe) that God asked His people to give to Him. Scripture tells us that our God is a jealous God, who demands to be first among the things that we worship or honor. For the civil authorities to demand more than God requires for Himself would be seen as a form of idolatry—in other words, the king must not seek more tribute than God.

Could our federal government do its job for less than 10% of our incomes? Yes, it could, if we were willing to limit it to only Constitutional tasks. It might be beneficial here to mention that three different 9% taxes, as proposed by some political personalities, do not constitute a sub-ten-percent tax.

The principle of "first fruits"

In an effort to improve compliance and ease the collection of our income tax, our federal government has implemented laws requiring employers to withhold the income tax (and several other taxes) from the worker's paycheck. As a result, the money is collected for the government before the employee even receives his paycheck. Although this does insure the collection of some of the income tax, it poses a problem for Christians and Jews who are instructed that they should tithe the "first fruits" of their labor to God. If government takes its portion first, it has placed itself in that prime position reserved for God. Since the modern worker is paid in money and not in produce, one can make the argument that as long as God receives the tithe, it makes little difference which dollars are tithed. (One might argue that the first dollar is no different than the last dollar.) But even in the Old Testament, the first fruits concept was about more than just the quality of the produce—it was about honoring God first and putting Him above other demands on our resources. Our current system of taxation does not allow for even the possibility of this attitude among Christians, however, since we do not have access to our "first fruits". 



WHAT ABOUT TARIFFS?


By Michael R. Winther

Tariffs are taxes on international trade—usually on products imported into a nation. Tariffs have many of the ideal tax qualities (for example, they are indirect, they tax consumption, and they preserve the privacy of citizens), but they fall short in two specific ways.

First, they are largely hidden to the consumer, who is the ultimate payer of the tax. As discussed in an earlier article, hidden taxes are always less desirable than obvious taxes.

Second, tariffs, if raised too high, have the danger of creating a protectionist policy. Tariffs can easily morph from a revenue generation tool into a means of protecting favored classes of domestic production from international competition. Although it is not necessarily wrong to do this, there are a number of risks to heavy usage of tariffs. Politically powerful

companies, unions, or trade associations frequently attempt to use tariffs to gain advantages—sometimes even against domestic competitors. The use of tariff policy in domestic political battles was a significant contributor to the U.S. Civil War. An accurate understanding of history will not allow us to ignore at least a partial link between preferential tariffs and America's most deadly war. If there is a legitimate reason to limit certain imports (a national security reason, for example), then such imports should be limited by Congress for that reason, but we should not disguise this as a tax policy.

America's founders assumed that tariffs would be the primary source of federal revenue, and that was indeed the case in the early years of the republic. A tariff system, despite its failings, is certainly far superior to an income tax system, and in this regard, the founders showed considerable wisdom. 

GOALS OF AN IDEAL TAX SYSTEM

The ideal tax system should . . .

Maximize privacy:

This is best achieved with an indirect tax.

Minimize cheating and fraud:

This is best achieved with an indirect tax.

Respect property rights:

This is best achieved with a tax on exchange.

Encourage production:

This is best achieved with a tax on consumption.

Be Simple and understandable:

This is best achieved with fixed, flat rate taxes.

Be obvious:

This is best achieved with retail consumption tax.

Have efficiency of collection:

This is best achieved with tariffs.

Help limit the size and scope of government:

This is best achieved with taxes that are simple, flat rate, and applied to retail sales.

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