

COM-031 Tax Justice: A Christian Response to a New Gilded Age—From the Advisory Committee on Social Witness Policy.

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RECOMMENDATION

In fulfillment of the assignment of the 220th General Assembly (2012) to provide a biblically grounded witness for current discussions of tax reform, the Advisory Committee on Social Witness Policy recommends that the 221st General Assembly (2014) approve the following statement of principles and recommendations on justice in taxation, and receive the supporting rationale and resources for study:

I. Principles and Covenant Framework

It is a basic mark of a healthy social covenant that all share in the society's benefits and burdens. Just taxation is a foundational part of a moral society's answer to poverty and its close relatives, inequality, economic insecurity, and social immobility. Just taxation is also a key tool for enabling communities to thrive, for advancing science and culture, and for sustaining democratic institutions. Each citizen has an affirmative duty to contribute to the common good by paying their fair share of taxes.

The 219th General Assembly (2012) addressed the growth of income concentration and its consequences for the United States and the church itself in *World of Hurt, Word of Life: Renewing God's Communion in the Work of Economic Reconstruction* (Minutes, 2012, Part I, pp. 1055ff. of the electronic version, pp. 242 ff. of print version). Recognizing taxation as "a legitimate function of government in the Christian tradition" that "lies at the heart of debates over the role of government and the responsibilities of citizens," the assembly directed that a study team "assess the values implicit in tax policy, focusing on the areas of personal income, wealth, giving, and consumption, and considering a spectrum of reform proposals" (Ibid., p. 1061 electronic, p. 248 print).

The following principles arise from the Reformed covenant theology described in this study's rationale, and are a Presbyterian response to the clear and pressing needs of the people of God. In accord with our tradition of public responsibility, this contribution by a Christian church is also offered to the broader worldwide movement for tax justice. Accompanying this report is an appendix that summarizes the history of progressive taxation in the United States, showing the influential role of Christians and churches.

There is a growing consensus within our community that tax revenues are collected in a manner that harms those who have the least. Current tax policies put higher proportional burdens on middle class and poor Americans. Further, the amount realized is insufficient to meet this country's pressing social needs. As a result, deficits have increased while those with the most need are asked to pay a more burdensome portion of their income than the wealthy. This call to tax justice addresses a real crisis. It does so while urging local, state and federal jurisdictions to play their unique roles in the overall United States tax system, and supporting new measures internationally to prevent corporations and individuals from sheltering income and wealth from citizenship responsibilities. The background paper that accompanies this recommendation section provides basic data on the ways globalization has affected our U.S. tax base and led to a shifting of the tax burden away from transnational corporations and onto citizens and companies whose operations are primarily domestic.

The church's moral claim recognizes the reality that even the greatest individual and corporate fortunes depend on the shared goods of physical and institutional infrastructure, governance, social peace, and intellectual capital built up over years of civilization. Morality, and particularly the morality that we as a society adopt through our political choices, is indeed at the heart of the problem of tax justice. We as a society are tolerating immoral tax laws when we allow tax minimization strategies, whether individual or corporate, to shift payment for these shared goods to those who have less ability to underwrite the costs and to share in the benefits. The impact of inequality in America today is undeniable, prompting many comparisons with the first Gilded Age a century ago, when the permanent graduated income tax was put in place. Progressive taxation alone cannot rectify the imbalance that puts 35.6 percent of total U.S. wealth in the hands of one percent of the population, almost as much as the 36.6 percent held by the lower 95 percent, even in the recession year of 2009.¹ Yet fair taxation is a key part of providing adequate revenue for government and, indeed, for maintaining public investment, social mobility, and equitable public policies.

The recommendations in this report seek to make the U.S. tax system fairer, calling it to be:

- more progressive, taxing those with greater wealth at higher proportions of their income, wealth, and inheritance;

- more transparent, which includes both simplicity and accountability for all tax preferences and tax expenditures;
- more solidarity-focused, which means reducing the use of tax expenditures, shelters and havens, and supporting more adequate international standards to reduce tax competition within and among nations;
- more sustainable for current and future generations, which means avoiding unproductive financial and ecological indebtedness; and
- more adequate, effectively addressing broader objectives of economic and social health than efficiency alone, such as meaningful employment, improved family life, and restored public trust. The tax system must be characterized by both efficiency in tax collection and revenue sufficient for the common good.

We build upon the four criteria for evaluating tax systems affirmed by the 189th General Assembly (1977):

Equity (progressive for current and future generations)

Integrity (honoring communal obligations and discouraging corruption)

Simplicity (understandable despite its need to address a complex economy)

Efficiency (balancing cost-effective collection with economic growth)

In order to respond to new patterns that challenge the church's values in an unavoidably global context, the 221st General Assembly (2014) approves an updated set of principles: Progressivity, Transparency, Solidarity, Sustainability, and Adequacy, defined as follows:

1. **Progressivity:** this is the basic framework of an equitable tax system. Guided by our equality in sharing in God's grace at the communion table, which St. Paul extends to sharing God's gifts with communities most in need, and by the responsibility "of those who have much" to contribute accordingly, we affirm biblical support for graduated tax systems whose rates increase as the level of income and wealth increase. Progressivity begins to redress the redistribution upward, a feature of current markets that channel economic gains disproportionately to top earners and investors. Progressivity also addresses today's large disparities in wealth, including financial wealth that is more highly concentrated than income, and promotes economic growth, keeping money in the hands of lower- and moderate-income people who spend proportionately more of their income. Progressivity is the key indicator that equity is being sought for all participants in the economy.
2. **Transparency:** this principle combines values of integrity and clarity. Guided by our sense of accountability to God and our awareness of human envy and greed, transparency serves the common good by minimizing corruption and the cynicism that grossly uneven tax burdens engender. Beyond inviting honesty among individual taxpayers through comprehensible, well-administered, and adequately funded tax collection, transparency challenges the practices of secrecy jurisdictions that are frequently used as tax havens. By clearly identifying burdens and benefits and upholding standards of dignity and respect, tax transparency strengthens the integrity of the community as a whole. Lack of transparency, exemplified in part by the thousands of pages of tax code, is countered by simplicity. A simpler tax code is also more efficient, saving tax payers millions of dollars in fees now spent on tax advisors seeking to exploit every nuance of the code, though over-simple approaches do not do justice to our complex economy.
3. **Solidarity:** this principle addresses taxation as a form of mutual support based in cooperation and the rule of law. Christians recognize an indebtedness of the individual to the community over time, for the nurture and education of children, for the risks borne by those who provide for mutual security, for the knowledge inheritance of developed societies, for the benefits to social life and commerce of enforceable contracts, justice systems, and infrastructure, and much more. This communal sense of gratitude prompts measures to restrain jurisdictional tax competition (a "race to the bottom") that beggars neighbors and makes it impossible for governments to address even the most pressing social needs.
4. **Sustainability:** this principle responds to the environmental and fiscal challenges we face today and which future generations will face tomorrow. Stewardship means holding God's gifts in trust, turning away from unwise growth and unnecessary consumption. It will require public planning to manage resources for the common good. A sustainable tax system provides for green incentives to reduce waste of renewable as well as non-renewable resources and to encourage investment and charitable giving for maximum community benefit. It may mean choosing to forgo tax income from natural resource exploitation in order to protect future generations from climate and health risks.
5. **Adequacy:** this principle combines efficiency in revenue collection with sufficiency defined by social purpose. Hebrew, Christian, and Muslim scriptures abound with images of human generosity and creativity reflecting God's inexhaustible riches shared throughout creation. At the same time, the virtue of frugality translates clearly to cost efficiency. Thus an effective tax system ensures that revenue collected is adequate for a full measure of human and natural flourishing, while also minimizing collection cost relative to collection revenue.

A Covenant Vision Frames the Recommendations:

The five principles identified above work in concert with each other and fit within the covenantal vision of mutual responsibility held by Reformed Christians. This vision builds on the development of covenantal concepts through scripture to the "new covenant" we celebrate in communion, which is a sign of our redemption in Christ. For us, human life is best understood not in isolation, but in relationship with God and others. Our lives are bound by covenantal relationships in families, congregations, and political and economic communities, where burdens as well as blessings are to be shared by all. These relationships both make our lives possible and give rise to duties to God and others. Covenants bind future behavior and are often most just when they are most explicit about obligations and expected benefits. They are the basis for community-wide taxation as well as personal charity.

Taxation is part of the self-government of communities. The maxims "no taxation without representation," and equally, "no representation without participating fairly in taxation," apply to all citizens. By the degree to which corporations, individuals, and families of great wealth exercise inordinate political influence to lower their tax burdens, democratic values are jeopardized. A nation, state, or locality's overall tax burden should be progressive, although each combination of income, sales, consumption, property, and other wealth taxes may unavoidably include some regressive measures justified on efficiency grounds, such as fees to discourage waste of natural resources. Social and environmental objectives may justify incentives and tax expenditures or deductions, but such preferences should generally be time limited and capped both for the taxpayer receiving benefits and in the aggregate (total spent by society to achieve given goals). The broadest possible tax base is always desirable to enhance participation of citizens, but measures to mitigate poverty also require rebates, negative, or minimal taxes for those at the lowest income or wealth levels.

II. Recommendations

In adopting specific recommendations for public policy witness, the General Assembly is guided by a particular "preliminary principle" characteristic of Presbyterianism: that "Truth is in order to goodness ... that there is an inseparable connection between faith and practice, truth and duty. Otherwise, it would be of no consequence either to discover truth, or to embrace it" (Synod of New York and Philadelphia, prefix to Form of Government, 1788). In this context, the goals of our tax policy recommendations are to help achieve consequences in accord with Reformed theology and principles. Therefore, in order to encourage greater tax justice in the United States and internationally, the 221st General Assembly (2014) approves the following public policy recommendations:

A. Individual Taxation

1. Work to eliminate the application of lower tax rates on unearned as opposed to earned income. In most cases, taxes assessed on unearned or investment income (dividends, capital gains/losses, carried interest, etc.) currently are lower than marginal tax rates assessed on earned income (wages, salaries, business income, etc.). This privileges unearned income (and higher-income tax payers and asset-holders) and reduces tax progressivity.
2. Increase progressivity overall, increasing upper income brackets' tax rates and restricting deductions and exemptions, both to boost revenue and reduce income inequality. State income taxes tend to be less progressive, and several states have no income tax, putting a higher burden on lower income residents through sales and other regressive taxes. Across the board (flat) taxes are inconsistent with the principle of progressivity and can reinforce the concentration of wealth.
3. Improve the fairness of important parts of the country's retirement system. The payroll tax that supports Social Security is capped at \$117,000 in 2014. This cap privileges high-income earners and produces marked regressivity and should be removed. Lifting the cap would also extend Social Security's stability without requiring other long-term fixes, such as raising the retirement age. Existing state exemptions from taxation of higher level pension income and benefits should be eliminated, though in general any changes to employee pensions should only affect new contractual obligations.
4. The earned income tax credit (EITC), which helps ensure working people a living wage, is a longstanding feature of the tax code, supported historically by both liberals and conservatives. The need for this kind of measure is very great today, and the EITC, or similar measures aimed at keeping working families out of poverty, should be expanded.
5. Work to repeal or prevent the imposition of sales taxes on necessities, such as food and clothing, while retaining (despite their inevitably regressive nature) sales and excise taxes on gambling, alcohol, tobacco, and other legal addictive substances and high-risk behaviors, both to discourage this activity and to pay for rehabilitation/recovery and other social costs.

B. Tax Expenditures Benefiting Individuals

1. Work to require tax expenditures or deductions to be subject to time limitation and periodic, independent review for both their social economic benefit and possible future retention, reduction, or removal. Recognizing that tax deductions generally benefit higher-income households in the first place, this would generally phase out tax expenditures as the taxpayer's Adjusted Gross Income increases. Examples of measures to be addressed follow, with the recommendation of capping benefits less needed by high-income individuals and families:

- **The mortgage interest deduction as currently constructed privileges those who borrow the most; it should be limited to one residence and capped at a level that has a meaningful relationship to average home costs (i.e. that reflects reasonable housing needs rather than luxury market subsidies);**
 - **Charitable contributions are only deductible by the approximately 25 percent of taxpayers who itemize deductions. Although tax-exempt charitable organizations (including religious bodies) play a critical role in our country, the nonprogressive means by which most tax-exempt organizations are financed means that nonprofits have a great responsibility to provide social benefit, broadly conceived, and to prevent leaders and managers from receiving undue personal gain;**
 - **Rules governing tax exempt "social welfare organizations" (501(c)(4)s) should exclude or strictly limit the eligibility of donations for partisan political purposes, parties and candidates, and the individual and corporate donors to or through such organizations should be made public due to their influence on the political process.²**
 - **The exclusion of capital gains on home sales privileges high-value property owners who can make maximum use of exclusion.**
 - **The exclusion of certain foreign-earned income (up to \$95,100 in 2012) and housing benefits privileges income earned out of the country and encourages the movement of United States citizens to foreign jurisdictions.**
 - **The capping of property taxes for senior citizens privileges many elders while burdening younger citizens of similar income. This tax expenditure does not appear to adhere to the principle of progressivity; means testing is one solution to this, as is raising the cap, depending on jurisdiction.**
- 2. Work to cap deductions for state tax, and municipal bond interest exemptions, for very high net worth households.**

C. Individual Tax Avoidance and Fraud

- 1. With respect to tax evasion and fraud, work to maximize wealth and income transparency. The Foreign Account Tax Compliance Act (FATCA), and similar laws adopted by other countries, represents an important legislative step forward in requiring foreign financial institutions to report balances, financial activities, and transactions to a taxpayer's home jurisdiction. Communitons that recognize the fallen nature of humanity support transparent financial reporting. This transparency fosters equality and fairness, and helps address tax avoidance and fraud, including money laundering.**
- 2. Work with international coalitions and communions to oppose "race to the bottom" policies enacted by states and countries that seek to attract business investment and wealthy depositors by assessing extremely low tax rates and creating secrecy jurisdictions. These policies hurt economic competition by disadvantaging companies that do not engage in tax avoidance strategies and reduce government revenues needed for domestic social and economic development.**
- 3. Work cooperatively for full disclosure of beneficial owners of corporations and greater transparency in private banking strategies. Tax avoidance and fraud are abetted by the creation of corporations based in tax havens whose owners are not disclosed, depriving tax revenue for needed programs in "home" countries. Activities that have no productive value, sometimes involving overseas mergers and spin-offs, allow for significant tax avoidance.**
- 4. Work to ensure adequacy of Internal Revenue Service funding and technical capacity—and of international aid to help develop effective tax administration in the poorest countries.**

D. Corporate Taxation

- 1. Work to lower corporate tax nominal (statutory) rates while simultaneously (a) broadening the tax base by reducing corporate tax expenditures/deductions, i.e., oil depletion allowance, accelerated depreciation, etc., and (b) obtaining additional tax revenues from corporations that use global tax havens, schemes that are based on defects in transfer pricing rules, and other means to avoid or reduce United States taxes. This would increase effective corporate tax rates while lowering nominal rates. Alternative minimum taxes for corporations could also be instituted. Overall, while statutory tax rates are reduced, total corporate tax collections must rise.**
- 2. While recognizing arguments by some that the corporate income tax inherently discourages investment, the committee believes that it should be retained in the United States. Although the corporate tax currently raises a relatively small percentage of federal revenues, this amount remains important in absolute terms and should be increased. Elimination of the corporate income tax would further enable the use of corporations and businesses to shelter income. Note that two-thirds of corporations' dividend income goes to pension funds and other nonprofit (and untaxed) entities and is not taxed until it reaches the beneficiaries (thus calls for an end to the corporate income tax because of "double taxation" are largely inaccurate). In addition, eliminating the federal corporate tax would impair the ability of state governments to administer their own corporate tax rules, and elimination of the corporate tax would set an unfortunate precedent for developing countries, as**

explained further below.

3. Support standardization of corporate tax structures among developing nations that, often, depend on corporate taxation for a much higher proportion of tax revenue and are more vulnerable to corruption. Greater standardization also can facilitate enforcement and negotiation with private entities and achievement of social development goals.
4. Ensure adequacy of funding and enforcement capacity for the Securities Exchange Commission, Consumer Finance Protection Bureau, and other bodies with oversight over corporate and banking behavior and concentration.
5. Work to implement the progressive reduction in deductibility of expenses for corporate salaries, inclusive of bonuses, option packages, and other benefits, for highly compensated employees, and other measures to curb the dynamic of extreme inequality in corporate compensation.³
6. Support the implementation of a financial transactions tax, similar to those used by some other countries, to raise revenue (as most other transactions are taxed), and reduce financial speculation and risk. (A form of this tax existed in the United States until 1964).⁴

E. Tax Expenditures Benefiting Corporations

Work to limit and eliminate corporate tax expenditures that do not broadly serve a business or societal purpose. Four examples are noted:

1. All tax expenditures that provide targeted benefits to particular businesses or industries should be granted only for a specified period of time; they should all sunset. As in the case of individual tax deductions, corporate tax expenditures should be subject to periodic, independent review for both their social economic benefit and possible future retention, reduction, or removal.
2. Corporate siting tax expenditures are utilized by cities, counties, and states to entice corporations to locate in their jurisdiction. Such tax expenditures should be subject to a rigorous cost/benefit analysis by all jurisdictions that propose them to ensure that benefits would be widely shared. The law should provide for enforceable community benefit agreements (CBA's) as well as "claw back" provisions for firms that subsequently fail to live up to their ends of the agreements. States themselves should seek to reduce competition among their own cities, suburbs, and rural areas. (Prior General Assemblies have favored "brownfield" development in already industrialized areas for ecological and equity reasons).
3. Tax holidays for taxes deferred on profits from assets domiciled in United States corporations' international subsidiaries. Tax deferral may encourage offshore investments, as well as tax-driven mergers and acquisitions; hence full-profit repatriation (and payment of taxes owed) should be required within a limited time frame.
4. Exemption from taxation of online purchases. This privileges online enterprises over brick and mortar stores, weakening the tax base of communities and states.

F. International Corporate Tax Avoidance

1. With respect to laws, including "transfer pricing" laws (described more fully in the background section), which today facilitate the movement of income by businesses to tax havens, the church should support work that has been begun to cause nations to change laws so that tax avoidance through income-shifting to tax havens is no longer permitted. This is to affirm the direction of charitable and religious organizations and research institutes seeking tax justice, as well as intergovernmental bodies including the OECD (Organization for Economic Co-Operation and Development) and G-20 governments working for greater tax policy coordination. The toleration of today's porous tax laws by countries around the world reflects a dangerous "race to the bottom" by which countries compete to offer tax favoritism to businesses; the result is to deprive governments, particularly of poor countries that depend especially heavily on revenues from international businesses, of funds needed for urgent social needs.
2. Greater clarity and transparency in lawmaking are needed so that today's opportunities for arguably legal tax avoidance, for example, by the use of tax havens, are eliminated. International tax laws, including transfer pricing laws and highly technical provisions such as "check the box," appear innocuous at first impression, especially by those without technical backgrounds in taxation, but they allow such room for tax avoidance that multinational firms often can "pick" the jurisdiction in which to pay taxes (and not to pay taxes) without regard to the country of residence of owners, employees, or customers or location of raw materials or manufacturing. Logically the firm picks the lowest tax jurisdiction possible. Any solution must deliver transparency and real force to transfer pricing rules. The method of "formulary apportionment," while requiring careful technical work on the necessary implementing laws, may advance solutions in this area.
3. The church supports efforts, by religious and charitable organizations as well as by governmental foreign-aid bodies, to assist developing-country governments in raising revenues through their tax systems. Developing countries inevitably need to depend upon strong and nonporous corporate tax laws, since a disproportionate amount of economic activity in poorer countries tends to involve investment by foreign-

owned multinational companies, such as mineral extraction companies, service providers such as cell-phone companies, and distributors of foreign-supplied food, beverages, clothing, and other consumer products. Developing-country governments should be encouraged to avoid participating in the “race to the bottom” with respect to corporate income taxation, as developing countries suffer disproportionate financial harm from the resulting loss of corporate tax revenues.

4. The movement—often on paper—of income generating assets (such as intellectual property rights) to subsidiaries in lower tax areas should continue to be addressed within the United States. Legislation and regulation of tax competition among the fifty states is still needed to work toward equalization of tax rates, to strengthen high standards for beneficial owner disclosure, and to help sustain adequate living standards.

G. Estate and Wealth Taxes in a Covenantal Framework

1. Work to implement progressivity in estate tax rates. Even though only a portion of the top 5 percent is significantly affected, that number covers a very wide range of high income and assets. Tax justice for this group also demands progressive rates, and it is a reasonable source for adequate revenues.

2. Support a progressive estate tax beginning with estates considerably lower than the current \$5,000,000 for individuals and \$10,000,000 for couples. Coupling a lower starting point with a progressive scale could more accurately reflect the degree of benefit received from our current economic arrangements.

3. Work to eliminate the step-up in basis for inherited assets, which effectively exempts large amounts of capital gain from taxation. The benefits from this now-antiquated provision of the tax code inure or accrue disproportionately to those with high incomes and wealth. Gain on sales of inherited assets should be taxed in the same manner as gain on sale of assets received as gifts (carryover basis). If the step-up is retained, it should be limited to gains below a reasonable maximum amount. (More description of current taxes on estates (federal and state) and inheritances (applied to beneficiaries) is provided in the background section to this report).

4. Middle and lower income citizens already pay a wealth tax on their primary asset, their home, when they pay property taxes on the value of their home. Given serious and likely continuing high levels of poverty and inequality in our country, we encourage taxing other forms of wealth through a federal wealth tax (such as a small progressive rate on high net worth, an occasional “capital levy,” or other measures to meet serious social or environmental need). Financial transaction and activity taxes may also be seen as taxes on wealth.

5. Related to the above, and recognizing the role of poverty as a major determinant of poor academic performance and limited social mobility, work towards equity in education funding among jurisdictions, to alleviate remaining disparities among school districts of widely differing property wealth and resulting tax bases.

H. “Green” Taxes and New Forms of Economic Development for Future Generations

Work to adopt taxes and tax expenditures that encourage responsible stewardship and protection of God’s creation. “Green” taxes, generally speaking, incorporate a product’s social and environmental costs (often called “externalities”) into the costs of consumption, paying for remediation or innovation in some cases and reducing consumption or use that carries undesirable consequences.

1. In an ecological perspective, both nonrenewable and renewable resource use has significant costs to be compensated for through tax policy. One new approach envisions depletion taxes to be measured at the wellhead, mine, forest, or other source that could assess the value of nonrenewable and renewable resources, to be passed on to eventual customers. This would put carbon use taxes in a larger marketplace that would also put a greater valuation on the consumption of water, a range of minerals, topsoil, and other natural resources. Resource extraction industries often carry significant ignored societal costs, which should be reflected in prices through fair taxation, trade, and tariff policies. This points to a context of economic policy beyond the scope of this report that addresses ways to redirect growth and re-value social goods so as to minimize “through-put” and waste while improving the quality of life—which for Christians and many others includes a spiritual dimension. Federal subsidies of various sorts that currently encourage the extraction and exploitation of nonrenewal resources (while also reducing their market price)—for example, for coal, oil, and timber—should be eliminated promptly.

2. It should be borne in mind that green taxes fall on everyone, regardless of ability to pay. Since people’s energy use is difficult to reduce in the short term, these taxes can lay a heavy burden on those with the fewest resources. This does not mean that they should be avoided; to the contrary, their use in an era of global climate change would appear essential. Nevertheless, ability to pay (or incidence) should be taken into account when designing green taxes as when designing all other tax levies, and lower-income taxpayers must receive rebates or refundable credits to partially offset their payment of green taxes. In the case of gasoline taxes, for example, currently inadequate even for transportation system needs, necessary increases need mitigating offsets for poorer consumers. The overall transition to a lower carbon future requires much more significant public investment in energy efficient transportation, building, agricultural, and industrial infrastructure and design. (See the 2008 General Assembly report, “The Power to Change”).⁵ The costs of not taxing more wisely now are already being seen in changing weather patterns, rising seas, and “unnatural disasters.”

I. Recommendations for the Church:

1. The 221st General Assembly (2014) invites all members, congregations, and councils and directs the appropriate officers of the Presbyterian Mission Agency to encourage study and discussion of this report and to represent its positions in the consideration of tax and related legislation at all governmental levels, and directs the Stated Clerk to communicate this report electronically and through a limited number of print copies to members, ecumenical partners, and governmental bodies, with guidance from the Office of Public Witness and the Advisory Committee on Social Witness Policy.

The assembly further approves recommendations that:

2. Elders, deacons, pastors, and Christian educators encourage reflection among members and the broader public on the covenantal value of taxes and stewardship, including concepts such as "who are my children;" "whose shoulders do I stand on, and who stands on mine;" and "what is my responsibility towards generation-to-generation accumulating inequality?" These questions connect to significant choices in both personal giving (including charitable deductions) and to the example that Christians should set regarding the value of their communities and their country in their estate planning.

3. Because this study focused on the largest factors affecting the tax structure of our society in its global setting, it has not reviewed the specific tax laws related to the free exercise of religion that have changed since the last study of those considerations in 1988, in a report adopted by the 200th General Assembly, "God Alone Is Lord of the Conscience."⁶ Thus the Advisory Committee on Social Witness Policy is directed to examine developments in clergy compensation, use of government funding by church mission programs and schools, and the rules governing Section 501(c)3 and 501 (c)4 organizations that may merit social witness on behalf of the church, to consult with the Advisory Committee on Litigation and ecumenical partners involved in church/state matters, and to report to the 222nd General Assembly (2016) as to whether further targeted study should be authorized.

Conclusion: Taxation and the Renewal of Moral Purpose

Considered together, the necessarily detailed recommendations of this report encourage greater use of progressive taxes including income and wealth-transfer (i.e., federal and state estate and inheritance) taxes, and more limited and selective use of regressive taxes such as sales, excise and similar taxes and user fees. The twenty-plus year pattern of reducing progressive income taxes while increasing payroll and sales taxes and user fees has eroded progressivity to a serious extent, as has the relative decline in corporate tax payments. While wealthy Americans still pay a significant share of personal income taxes, the combination of payroll and other taxes on salaries and wages (rather than capital gains, carried interest, investment income) places a greater and generally disproportionate burden for the support of the common wealth on those with lower incomes and fewer assets. The Christian community is called to work against this pattern.

As is documented in the background section, citizens of the United States are not highly taxed. Among the nations gathered in the Organization for Economic Cooperation and Development, the typical integrated tax system generates 26.1 percent of GDP. The United States' tax system generates 17.9 percent of GDP. We believe it is clear that our current tax system is failing to raise adequate revenue to address the grievous level of poverty, with its often grinding degree of economic insecurity, and to remedy the undemocratic level of inequality in our society, nor are revenues sufficient to support thriving communities. It is our steadfast hope that this report may offer Presbyterians and fellow citizens a way to discuss the role of taxation in creating a more just, prosperous, and sustainable society for our ourselves as well as our children's children. As we understand God's covenant today, it is our calling to strengthen the bonds of community and mutual support so that all may share in this gift of life that comes from a gracious and just God.

This calling to help renew the moral vision of our society is a calling to which we invite other churches and persons of goodwill to join in with us. Thus we share an ecumenical statement on "the Ends of Wealth and the Divine Economy" prepared for the Centennial of the National Council of Churches in 2010:

We will never create a fully just social order, yet we have a calling from God to seek whatever approximation of one that may be possible. All creation shares in an interdependent destiny, and all human communities must work to devise a sustainable future. The vision of the new and redeemed creation that ends the New Testament is of a city in harmony with nature, where—even after great suffering—"the leaves of the trees are for the healing of the nations" (Rev. 22:2).

... Unlimited growth and consumption by some are not adequate social goals. The exploitation of labor and of nature are not worthy measures of productivity ... Money itself is not the only form of recognition and incentive ... In theological terms, the communion of saints includes not only those who have gone before us in death, but those who come after us in God's providence. As a stewardship rather than ownership society, the church itself looks always forward for the consummation of God's promises.

Loss of faith in government's capacity to change conditions ... is a relative of the false god of fatalism. Government is not God, but scripture tells us that good government is of God, ordering life for justice, security, and common welfare. ... In Luke 12, Jesus ends a parable with "to whom much has been given, much will be required" (Lk 12:48). He is speaking of faith, not wealth, but as we end this treatment of the ends of wealth, we point again to the divine generosity that sustains all of life. As Christians ... we seek to

orient ourselves so that we can point the way to a more divine economy sustained by fairer sharing of both burdens and joys.” (<http://www.nccusa.org/witnesses2010/christian-understanding-of-economy.pdf>)

RATIONALE

Tax Justice: A Christian Response to a New Gilded Age

These recommendations are in response to the following referral: 2012 Referral: Item 11-09. World of Hurt, Word of Life: “Renewing God’s Communion in the Work of Economic Reconstruction. The Churches Work in Today’s Fallen Economy, Recommendation 4. The Advisory Committee on Social Witness Policy Is Directed to Appoint a Seven-Volunteer Study Team to Assess the Values Implicit in Tax Policy, Focusing on the Areas of Personal Income, Wealth, Giving, and Consumption, and Considering a Spectrum of Reform Proposals—From the 220th General Assembly (2012) (Minutes, 2012, Part I, pp. 28, 32, 1061 of the CD; p. 248 of the printed copy).

I. The Crisis and the Need for Reform

Having reviewed the nationwide debate over tax reform in recent years, the Advisory Committee on Social Witness Policy wishes it could share the conclusion that the nation is moving toward a more just and effective tax system. Unfortunately, however, there are many signs that the opposite is the case, and that we continue our long drift in the direction of a tax system that is less equitable and less adequate to meet this country’s social needs.

The problems have been compounded by what is now a long-standing “race to the bottom” by both the federal and state governments. At the federal level, our laws have allowed a great deal of income from multinational companies to escape taxation, with the thought that loss of much of the country’s revenue base is justified by what is perceived as a need to create a low-tax environment for international business. At the state level, the race to the bottom has been fueled by a belief that tax rate reductions and/or the flattening of tax progressivity will attract more businesses to locate in particular states, creating more economic activity and jobs. The result has been fierce tax competition at both the international and U.S. state levels, with countries and states matching one another’s tax reductions, and a proliferation of tax avoidance and evasion. The ultimate result is that tax revenues are depressed around the world and around the United States, but no jurisdiction ends up with the competitive advantage it sought.

The U.S. economy—and the majority of American people—are facing many harmful trends. Defective tax laws, which enable tax avoidance by corporations and high-income individuals, directly add to the burden on those who pay their full taxes. At the same time, the growth in national income is heavily skewed towards the wealthy who hold investible resources. More than 20 percent of children live in poverty, but households in the top 1 percent of the income spectrum receive more than 22 percent of all income for which is publicly accounted. Over the past forty years, U.S. income inequality has increased markedly. Even though the economy has partially recovered and profits are at historic highs, the combined numbers of unemployed and discouraged workers remain at more than 10 percent—and even greater in communities of color. At the same time, taxation overall has become more regressive, pushing the cost of government onto the less well-to-do and future generations.

The result is that in our country—and in other countries that have suffered similar difficulties with respect to economic policies—resources that are needed to support human well-being are being withheld. Virtually everywhere on the globe people look to their governments for essential services like airline traffic control, basic research and development, border security, building codes, child safety, data security, diplomacy, education, electric power management, epidemic prevention, environmental protection, financial regulation, firefighters and police, food security, foreign aid, gas pipeline regulation, health care, historical preservation, inoculations, judicial services, law enforcement, marine protection, national defense, national parks, ports and harbors, postal services, prisons, professional certification, railroads, roads and bridges, sanitation, space exploration, social insurance, tax collection, underwriting, water, and zoos. Economic efficiency may argue for privatization in some instances, but we list these functions because governments generally perform them more efficiently and fairly and pay for them out of tax and fee revenues.⁷

Greater justice in taxation will not solve all our economic ills, but effective and fair tax laws are vital for producing enough revenue for social and economic advance. It is a basic mark of a healthy social covenant that all share in the society’s benefits and burdens, and that each person’s tax burden reflects their ability to pay. Just taxation is fundamental to a moral society: to relieve poverty and its close relatives, inequality and social immobility, to provide for the common good and a thriving society. This report cannot capture the harsh realities contained in the words, “poverty,” “hunger,” and “unemployment,” whose consequences on millions of Americans may take generations to rectify.⁸ Yet the moral claim of these neighbors, suffering preventable hardship, should affect each of us at the deepest levels of faith and conscience.

We are also aware that we live in a global economy in which consideration of individual taxes in any particular country is impossible to separate from the taxation of multinational corporations. Global economic competition has tempted many countries to reduce taxes on multinational corporations in hopes of attracting corporate investment. The resulting “race to the bottom,” however, has largely nullified any competitive benefits to particular countries; instead, the reduction in tax revenues around the world severely constrains government efforts to foster education and social advancement. The effects have been especially severe in developing countries, which typically rely more heavily than wealthier countries on taxes paid by corporations, and which have especially pressing needs for government revenues in order to help improve social conditions. This global dynamic of “off-shoring” and “out-sourcing,” at least partly for tax reasons, is generally seen as legal under the system of international tax law that has developed over several

decades. Tax avoidance is not the same as tax evasion. It does, however, mesh with the illegal concealment of assets by persons of great wealth and some businesses, and often the same tax “havens,” or very low tax jurisdictions, are used. Currently, organizations including the OECD (Organization for Economic Co-Operation and Development) and the IMF (International Money Fund) have called for fundamental changes in this system, and countries should support their work through national legislation.

This report argues for robust regulation of tax havens and secrecy jurisdictions, based on their key role in “the race to the bottom.” Apart from monies lost to countries of origin by corporations registering assets or assigning income to foreign subsidiaries, the scale of illegal money held by a virtual tax haven industry cannot be ignored. Concealed monies in excess of a staggering \$21 trillion have been identified based on large troves of leaked documents and extensive analysis by experts in the tax justice movement.⁹ This total includes criminal tax evasion through the use of shell companies and funds “hidden” from public accounting for generations. Again, legal structures in countries around the world allow multinational groups to transfer to havens large sums, which under rational tax laws would be considered taxable income in countries where the firms operate but instead escape taxation. Famously, one address in the Cayman Islands has more than 6,000 corporate subsidiaries headquartered there for the sole apparent purpose of tax avoidance, while the entities controlling the funds are located in Toronto, New York, Miami, and elsewhere. U.S. chartered corporations—many incorporated in secrecy-permissive Delaware¹⁰—are also allowed to defer payment of taxes from overseas operations, monies that are then kept invested abroad—encouraging the outsourcing of manufacturing as well—in hopes of tax holidays that reduce taxes on profits eventually brought home (repatriated). The open proliferation of both legal tax avoidance and illegal tax evasion paints a picture, for the world to see, of cynical disregard of governments for their obligations to raise revenues to support their people. This unseemly and tragic situation rightly causes disrespect for both corporations and governments, yet it will take much improvement in laws and enforcement to correct.

In recent years, investigative reporting by journalists, as well as reports by charitable and religious organizations, has exposed the extent to which tax laws around the world have been effectively nullified as major corporations and some wealthy individuals pay little or no tax.¹¹ Several important international bodies, including the Organization for Economic Co-Operation and Development (OECD) and the G-20 group of governments, have expressed the view that national governments around the world need to eliminate holes in their tax codes in order to end the current unacceptable situation. Concrete legislative action is needed at home, and—in concert with other countries—abroad, and we believe churches should be in the forefront of supporting the badly needed reforms.

The church recognizes that private charity, while necessary and admirable, cannot alone remedy the hardships and injustice that continue to permeate society. Our tax system needs reform to restore moral fairness and fund the common work of our towns, cities, states, and federal government. The immediate crisis should be transformed into a *kairos*—a defining moment—for restoring fair taxes that raise sufficient tax revenue for a sustainable society.

The need for justice in taxation is based on the fact that poor and middle class people are paying too much of the burden, while the wealthier among us systematically underpay, as the overall mix of taxes has gotten less and less progressive due to distorted but legal incentive structures and outright evasion. The growing economic divide reduces human freedom and opportunity for fulfillment for a vast number of people, and leaves some urban and rural areas as “sacrifice zones,” such as has been the case in Detroit. We need to engage in positive international cooperation. Yet the race to the bottom invites every country or state to fund only a truly minimal government.

The committee affirms the value of well-ordered, regulated markets, both domestic and international. Nevertheless, it is also clear that in order to serve human needs, private institutions must operate within government fiscal systems that can moderate economic hardships and ensure that all have the opportunity to participate in the market and other institutions on which the world depends. We acknowledge that this insistence on the constructive role of governmental institutions is to some extent countercultural in the current political climate; nevertheless, we feel it is necessary to encourage greater balance in policy debates, and it is to this end that this report is devoted.

II. “World of Hurt, Word of Life” Mandate:

In 2008, the General Assembly of the Presbyterian Church (U.S.A.) and the National Council of Churches of Christ approved a new Social Creed for the 21st Century calling for new forms of social responsibility, recognizing the new context of uneven globalization and increasing climate change (Minutes, 2008, Part I, pp. 924ff). With regard to taxation it contains this goal: “tax and budget policies that reduce disparities between rich and poor, strengthen democracy, and provide greater opportunity for everyone within the common good” (Ibid, p. 925).

In 2012, the Presbyterian General Assembly approved a comprehensive study of the economic crisis, “World of Hurt, Word of Life: ‘Renewing God’s Communion in the Work of Economic Reconstruction’” (Minutes, 2012, Part I, pp. 1055ff). That document stated:

Standing against this tide and echoing the social awakening of our predecessors in the last Gilded Age, the Presbyterian Church (U.S.A.) opposes the market fundamentalism that has diminished Christian values in our economy and political culture—values of common sacrifice and shared prosperity, care and uplift for the most vulnerable, and responsibility for future generations. (Ibid, p. 1056)

The church had not been entirely disinterested. As a 2010 report on the recession had noted pressures on church budgets, questioning, “If the Presbyterian Church (U.S.A.) is a ‘middle class church,’ how do we adapt when the middle class declines?” Whether or not any church should reflect any social class, greater tax justice depends on

values and virtues that the church and other religious bodies should exemplify, teach, and nurture.

Thus, after addressing the economic dangers to jobs, families, neighbors, and long-term sustainability, that 2012 report also called for the study of tax reform here presented:

Because taxation is considered a legitimate function of government in the Christian tradition and, today, lies at the heart of debates over the role of government and the responsibilities of citizens, and because tax policy reflects the nature of social trust and mutual obligation, pushing our focus beyond the idea of “contract” to the implicit “covenant” in our society, the Advisory Committee on Social Witness Policy is directed to appoint a seven-volunteer study team to assess the values implicit in tax policy, focusing on the areas of personal income, wealth, giving, and consumption, and considering a spectrum of reform proposals. With input from a wide range of experts and policy leaders in the field, and with necessary grounding in existing church teaching on the subject and our church’s communion principles for economic reconstruction, articulated above, the study team will report its findings and recommendations to the 221st General Assembly (2014). (Minutes, 2012, Part I, p. 1061)

Basic Kinds of Taxes and their Operation:

Personal income taxes are assessed by the federal government and many states on most kinds of income. Federal income taxes are progressive, though less so than in the thirty years following World War II. In 2012, personal income taxes contributed nearly half (47 percent) of federal revenue.

The tax rate assessed and paid on an additional dollar of income is called the marginal tax rate. In a progressive system, the marginal tax rate rises with rising income. Current marginal tax rates are shown in the box below.

For purposes of background, it may be useful to familiarize oneself with the basic terminology and structure of the U.S. income tax through the following simplified example. A couple has income of \$150,000. To calculate their taxes, they would first subtract from their income all their deductions, either the standard deduction or itemized deductions such as mortgage interest payments, charitable donations, and state and local taxes. Assume these deductions equal \$20,000, leaving them with a taxable income of \$130,000. On the first \$17,850 of income they pay 10 percent or \$1,785. (See the chart of marginal tax rates under “Additional Resources.”) On the next \$54,650 (the difference between \$17,850 and \$72,500) they pay 15 percent or \$8,197.50. On the next \$57,500 (the difference between \$72,500 and their taxable income of \$130,000) they pay 25 percent or \$14,375. So their total tax bill would be \$22,750.50 or 15.2 percent of their total income. This example omits tax credits such as the Child Tax Credit and other possible deductions or exclusions from income they may have been eligible to receive and that would have reduced their tax liability. (Note: itemized deductions on incomes of \$150,000 are more likely to range between \$35,000–\$50,000, depending on the filer’s knowledge of the tax code).

Payroll taxes are assessed by the federal government on most earnings. The taxes, deducted from workers’ paychecks (“FICA”), pay for Social Security and Medicare. Employees and employers each pay 6.2 percent of all earnings up to a cap (\$117,000 in 2014) that rises each year at the rate of average wage growth. Both employers and employees also pay 1.45 percent of earnings for Medicare. Unlike Social Security, there is no cap on earnings subject to the Medicare tax. Self-employed people pay both the employer and employee share of these taxes. In 2012, payroll taxes contributed one third (34 percent) of federal revenue. This share has been rising over time.

Payroll taxes are regressive. Although the tax rate is the same for all workers (so it might mistakenly be seen as a proportional tax), other features of the tax make it regressive. First, the tax is assessed only on wages and salaries. Higher income households receive less of their income through working than do others. For example, the top 20 percent receive less than half of their income from wages or salaries while 34 percent comes from interest, dividends, capital gains, and business and proprietary income.¹² Second, the Social Security tax is not assessed on earnings above the cap. No taxes are assessed on fringe benefits, such as employer contributions for medical insurance and retirement savings.

At this time the Social Security program is receiving more money in taxes than it pays out in benefits. The surplus is invested in Treasury bonds. But these bonds, purchased with our payroll tax money, are funding 18 percent of federal spending (a percentage that changes with the health of the economy). So a sizable portion of the current operations of the federal government are funded by a regressive tax.

Capital gains taxes are assessed on the gains from the sale of stocks, bonds, businesses, mutual funds, property, and other investments. The tax rate on capital gains is lower than the rate on wages and salaries. Households with income above \$400,000 (single people) or \$450,000 (couples) pay a tax of 20 percent instead of 39.6 percent, the rate they pay on earnings. Those with incomes below this level but above \$36,250 (single) or \$72,500 (married) pay 15 percent, not 25 percent, 33 percent, or 38 percent.

Historically, low rates on capital gains have been supported by several rationales, including the argument that some gains reflect inflation rather than real economic gain, and also that high capital gains taxes tend to “lock” investors in to particular assets in economically undesirable ways. While these arguments should be acknowledged, it also must be recognized that the benefits of a low tax rate on capital gains accrue disproportionately to the wealthy. In 2013, an estimated 94 percent of the benefits from the low rate on capital gains will go to taxpayers with cash incomes over \$200,000 and three-fourths of the benefits will accrue to millionaires.¹³ Because many wealthy people receive much of their income from investments, the low tax on capital gains is a primary reason that millionaires pay lower taxes, as a share of income, than their secretaries.¹⁴

Estate taxes are the most progressive federal tax, simply because they focus solely on those with the greatest capacity to pay. After changes made in January 2013, a tax of 40 percent is now assessed on estates of \$5.25 million or more (this figure is doubled if a couple owned the assets) and this amount will rise each year with inflation. In 2011, just 3,270 estates exceeded \$5 million and owed estate tax. Over half of all estate taxes were paid by people who were, before death, in the top 1/10 of 1 percent of the income distribution.¹⁵ The estate tax helps narrow income inequality by reducing the size of massive inheritances and limits the corrosive power and influence that accompanies wealth. The tax also encourages donations to nonprofit organizations because contributions to charity made from estates are tax-free.

(While this technically affects all inheritors, in practice the effect is minimal or nil on middle and lower income taxpayers.)

Our tax system contains another anomaly with respect to taxation in connection with death that is highly regressive in effect. At the time of death, a decedent's assets receive a new income tax basis, for determining gain or loss on later sale of the asset, equal to the asset's fair market value. This means that those receiving assets as an inheritance essentially receive forgiveness of tax on whatever gain was built into the asset at the time of the decedent's death. This results in a very large hole in the capital gains tax; it disproportionately benefits the wealthiest; and our report recommends its elimination (perhaps with a reasonable exemption to protect relatively modest amounts of assets transferred at death).¹⁶

We recognize that in recent years the idea of estate taxes and other taxes at death has been unpopular in some quarters but we believe a fair tax system calls for the reinvigoration of taxes on large inheritances. A forthright defense of estate taxes can be found in *Wealth and Our Commonwealth: Why America Should Tax Accumulated Fortunes* (2002) by William Gates Sr. and Chuck Collins. A more philosophical (and theologically aware) account of the role of accumulated intellectual capital in the creation of wealth today comes in *Unjust Deserts: Wealth and Inequality in the Knowledge Economy* (2008) by Gar Alperovitz and Lew Daly, which makes the case for society's rightful claim to gains resulting from technologies made possible by shared infrastructure, culture, and above all, advanced education. Alperovitz and Daly's case goes beyond estate taxes to support progressive taxation generally; the epigraph to their book is 1 Corinthians 4:7.

Wealth Taxes, as such, do not exist in the United States, although property taxes do assess one kind of wealth. Given the enormous and likely continuing levels of inequality in our country, where the top .01 percent, a bit more than 16,000 families, averaged more than \$30 million in income each for 2012, and where the top 1 percent received 22.5 percent of national income, the study team came to give serious consideration to wealth taxes.¹⁷ As this report was being drafted, the International Monetary Fund released a study that discussed wealth taxes in relation to economic growth and income concentration.¹⁸ A recent book by economist Thomas Piketty maintains that further income and wealth concentration is inevitable and will be impervious to usual reforms. He advocates a "global wealth tax."¹⁹ While the primary goal of taxing wealth or anything else is to derive adequate revenue for a decent society, studies of the effects of systemic inequality show economic deterioration as well as spiritual and psychological dangers.²⁰ This brief section builds on argument elsewhere that more resources are needed for proactive governmental investment to increase employment, reduce poverty, and improve social outcomes, but it does not quantify the amounts needed as is done in alternative budgets and tax plans. The increasing trend toward wealth concentration, however, makes it difficult not to address its consequences for tax policy.

To understand the realities that would be addressed by wealth taxes, two graphs illustrate current patterns of concentration:²¹ (See Household Wealth under "Additional Resources.")

A chart that looks at the distribution of wealth by sector of the population (rather than individual asset holder):²² (See Shares of All Household Wealth under "Additional Resources.")

III. Covenant Theology and Taxation: To Whom Much Is Given

Covenant as an alternative vision of the race to the bottom—another vision of how humans work together.

As stated in *World of Hurt, Word of Life*, we are called by Christ to be a new covenant community, the very body of Christ. At table, we are knit together to become a "manifestation of the Spirit for the common good" (see 1 Cor. 12:7). For believers, this experience of communion transforms our behavior. Though that experience helps us integrate all parts of our lives, we focus here on that obligation we experience to help relieve poverty and redress economic inequity.

On the one hand, the gift of communion profoundly aligns the believer with God's creation. At table we find a grace-fed faith and hope that is eternal. Amazing! As a result, we feel blessed and deeply indebted to the God who names us, calls us a people, and invites us in our all-too-human condition to table.

On the other hand, it stirs the conscience to question how we can be guided by the profound equality forged by Christ at table. As we will demonstrate later in this document, a conscience troubled by the radical equality of Christ's table pushes for equity in the community of Christ and the public body politic.

These two underpinnings of gift and task build on the communion theology developed in *World of Hurt, Word of Life*. We are convinced as people of the covenant that equity must define our life, both in our relationships with each other and our witness in the world. We who are fed at Christ's table are filled with gratitude for the gifts and challenges that

God puts before us. We invoke the Spirit and invite all to experience these gifts and challenges.

Covenant in the Bible

Christians in the Reformed Tradition have maintained that families, congregations, and political and economic communities are most just and function best when they are ordered as covenants. Covenants in the Bible contrast with contracts in which people make specified commitments to serve their mutual advantages within set limits. Covenants grow out of the awareness of indebtedness for undeserved gifts and involve exchange of promises to be faithful for the long haul. Covenants are formed when parties make vows that bind future behavior.²³ For example, partners in a marriage covenant “tie the knot” when they promise to love one another for better or for worse, for richer or for poorer, in sickness and in health. The American Declaration of Independence is a classic political covenant because in the act of dissolving the “bands” that tied us to Britain, the signers pledged their lives, fortunes and sacred honor to engage in “acts and things that states may of right do.” These promises bind us together and are the basis of communal life. They give rise to obligations and expectations of mutual responsibility.²⁴

Covenant and Politics

Scripture portrays covenant partners as equal before God.²⁵ This reinforces the equality safeguarded by the biblical land laws with their jubilee fail-safe mechanism to prevent landlessness (see Leviticus 25). Given the incredible diversity of gifts and conditions among humanity, it provides metaphysical or religiously based support for the concept of equality before the law. The importance of this equality for democratic self-governance makes us question the moral acceptability of extreme inequalities of wealth and power. By affirming God’s sovereignty equally over all others—who are all in God’s image—covenant provides a better basis than kinship or ethnicity for including strangers and immigrants into the community. Covenant gives an alternative vision for how humans can live and work together; covenant is incompatible with the above-mentioned race to the bottom.

Covenant puts the impetus for personal autonomy in creative tension with the fundamental need for a structured, orderly, and predictable communal life. In so doing, it paves a middle way between tight collectivism and atomistic individualism.²⁶ For us, it connects the communitarian core of our faith, based in communion, with universal standards of application. According to covenantal political theory, the balance between freedom and order is structured by a constitution.²⁷ In the American political context, the Articles of Confederation and, later, the U.S. Constitution, as well as state constitutions, follow this model. A constitution sets the framework for the continual renegotiation of rights, obligations, and duties of life together. Today, the U.S. Constitution includes amendments that outlaw the shame of slavery and racial discrimination.

Covenant and Economics

A covenantal perspective illumines the social dimensions of human life. Individuals are not self-made. They have been raised, taught, and given opportunities by the communities that nurtured them. They are indebted. While some modern economic theories reduce all motivations to rational self-interest, a covenantal viewpoint observes that, as social creatures, humans are motivated by multiple loves. These include: love of family, friends, work, one’s country, company, coworkers, customers, community, self, and God. Any of these can inspire hard work, saving, investment, entrepreneurship, and sacrificial giving. According to the Christian vision, our lives are bound to others in ways that enrich individual and common life. We are more than competitors for scarce goods.

A covenantal perspective does not denigrate hard work, but it notes that individuals can only create wealth in concert with others. They depend on the gifts of human culture, knowledge, and technology. They depend on trading partners and others with whom they can divide labor.

The fact is that individuals cannot create wealth apart from a well-defended, ordered, educated, developed, and increasingly just society. In developed societies, hardworking individuals benefit from roads and courts to enforce contracts. Indeed, we see dysfunctional societies around the globe where people toil to eke out a living with barely anything to show for it. The lesson we should take from this is that government governs best not when it governs least, but when it governs well. Chaos and devastation may be the outcome for those whose governments govern least.

Our own society presents abundant benefits and enormous opportunities. These benefits give rise to the obligations of citizenship, including a duty to participate in our democracy, defend our country from enemy threats, and care for those in need, and pay taxes.²⁸ Society’s benefits are the moral basis for taxation; therefore, all taxation is not rightly considered “theft,” nor should all efforts to ameliorate economic inequality be shouted down as “class warfare.” Political rhetoric to that effect is neither balanced nor helpful.

Societal Sin

The prophets and Jesus confronted the social sin of rebellious worldly kingdoms that had become organized in defiance of God’s purposes.²⁹ They help us to look beyond individual bad behavior to identify and confront corporate, systemic evil.

The recognition that societies can sin helps us appreciate that immoral behavior is not simply an expression of bad character, but can be influenced by the way a nation or other political unit allows “the game is played.” In this light, it is not enough to call sinful individuals to repent. We must also confront sinful systems and structures that condition us

to do or accept evil.³⁰

Often multiple dynamics work together. For example, consider how companies seek to maximize profits, how states compete for business and capital, and how politicians seek short-term victories to win the next election.³¹ Together these forces tempt politicians to cut taxes to attract business and capital, without adequately taking into account the consequences of, effectively, nullifying portions of a country's or state's tax laws. The result can be a race to the bottom: chipping away at progressive taxation and lowering the quality of life for citizens. While there may be a short-term win for the politicians and companies that benefit, in the long term it may weaken economic potential by starving education, research, and infrastructure.

A Broken Covenant

Unfortunately, all of us are at times tempted to go astray, to be "free-riders." We are tempted to value the larger community solely for what we get from it, to deny that it has showered us with gifts that make our lives possible. We can resent the demands of life together, even when these demands have been democratically decided. We are capable of ignoring what others need in order to flourish and endure.

This paper makes the case that our current situation, where extremely wealthy individuals benefit greatly from American society and do not proportionately contribute to its continuing welfare, constitutes a "broken covenant." The ties that bind us are strained. We have lost the sense that "we are all in this together." Tax injustice is a key marker of this. The community that made the creation of wealth possible is starved of the funds it needs to maintain infrastructure, engage in research and development, educate its young, care for the needy, and uphold the rule of law. God's children are denied the benefits of communal life. Poverty is allowed to perpetuate for generations in what is increasingly a low-wage, low-opportunity society. God-given talents of the poor go undeveloped and are never fully employed in service to God and the community, diminishing us all. The working poor, whom some economists would characterize as "the makers," are dismissed as "takers" because they cannot afford food, healthcare, or to educate their children without government help (i.e., wage subsidy).

The spiritual effects of economic insecurity, as experienced by, at this point, a large percentage of the American public, must also be recognized. It is hard for a citizenry to be committed to mutual support and care if so many individuals feel themselves to be poised at the edge of economic disaster for themselves and their families. We must provide reasonable security for all before we can realize our potential as a just and mutually caring society. An equitable and adequate tax system is needed in order to promote such a society.

We will be proposing principles to guide efforts toward tax justice, but principles alone are not enough. A social vision that honors our communal nature is essential if future generations are to thrive on a healthy planet. It is gratitude that should move us to moral responsibility. It is a privilege to step up to that moral vocation, a service of obligation to God, an affirmation of the dignity for all who share our societal life, and an extension of covenantal care for the total economy of our planet.

IV. Our History of Progressive Taxation

Individual and Corporate Income Taxation (and why we need to address them both)

At the beginning of the 20th century, the Social Gospel movement in the United States roused Christian consciences concerning the harsh conditions of industrial cities and immigrant populations. This period is often called the "Gilded Age," referring to the extreme wealth gathered by those at the top, often through monopolistic means.

The Social Gospel and parallel movements in economics and political science introduced a vision of social systems that names our interdependence in a more complex society (social order). The Social Gospel proponents argued that the Gospel of Christ needed to take new forms in new societies. The Federal Council of Churches developed a Social Creed in 1908 that advanced worker rights and social protections, many of which anticipated the New Deal by twenty-four years or more.

A key part of the re-balancing and recovery of the economy came with the adoption of the permanent and progressive federal income tax in 1913, under Presbyterian Woodrow Wilson. There was growing recognition that reliance on regressive taxes and fees and tariffs was failing to generate sufficient revenue, leaving areas of extreme poverty and otherwise leading to undesired public indebtedness. The U.S. experience then came to demonstrate how greater tax justice requires a broad base of tax-paying citizens who make governments more accountable than governments that depend solely on resource windfalls and tariffs on trade.

As the 20th century continued, the United States became a leader in progressive, broad based taxation. We were actually the eleventh country to adopt a nationwide, progressive, peacetime income tax. With its adoption, mass participation expanded. Rates became more progressive. Taxation shifted from wealth to income and reporting from voluntary to automated.³² Churches like the Presbyterian Church (U.S.A.) stressed honesty in taxation and Americans have remained reasonably honest, although with inequality and limited social mobility more people gamble and what David Callahan calls a "cheating culture" has expanded.³³ Our society may still be far from the patterns of widespread corruption in some undemocratic developing countries, where as much as a third of export revenue is estimated to be skimmed off and hidden in tax havens. A 2012 Internal Revenue Service (IRS) report on unpaid taxes from 2006 showed voluntary compliance for individual income tax payers fell from 79 to 77 percent in 2001–6, with much of the underreporting among those whose income was not subject to payroll measurement.³⁴ While this report

focuses on the ways our tax system needs to be restructured for greater fairness and less poverty and inequality, the size of the “tax gap” of uncollected revenue—an informed estimate puts the 2013 total at \$566 billion—strongly suggests that cutting the IRS budget does real damage to our society and should be reversed.³⁵

The role of income taxation grew in the United States as World Wars I and II and the Great Depression created massive needs for revenue. Understanding this need through the lens of the Gospel led to Christian social witness. The leaders of the church promoted policies favoring progressivity and broad based funding of government. For a concise treatment of the broadening and deepening understanding of public responsibilities by the church, the Social Creed for the 21st Century, approved in 2008, provides a one-page treatment of salient issues and lifts up key values.³⁶

In the 20th century, marginal rates peaked at 94 percent for individuals filing jointly in 1944 and 79 percent for corporations in 1968–1969. Second, progressivity peaked in the mid-1960s after fifty years of development with the highest tax bracket paying 91 percent on incomes over \$2 million.³⁷ This progressive, broadly based tax system was arguably efficient and sometimes sufficient enough to include payment of prior years’ debt.

Income inequality in the United States decreased until the mid-1970s, driven by a rise in wages and household income, particularly in the lower and middle parts of the income ladder. This beneficial trend has been reversed, however, and since the late 1970s, income has become steadily more unequal. Productivity still increased, particularly with the digital data revolution, but the economic rewards have gone primarily to the wealthiest, driven by falling or stagnant wages for most and dramatically increased salaries and bonuses going to those at the very top. It is hard to argue that levels of executive compensation in multiples of hundreds above workers’ wages are related to productivity, yet among other factors the tax system was losing its corrective function.³⁸

To show the changes in sense of public obligation, we contrast the following tax schedule during Dwight Eisenhower’s presidency with the current schedule. The 1954 schedule was after a tax cut.

Income Tax Rate

	1954	2013
\$10,000	20.0%	10.0%
\$100,000	38.0%	25.0%
\$500,000	75.0%	39.6%
\$1,000,000 (\$1M)	89.0%	39.6%
\$2,000,000 (\$2M)	91.0%	39.6%
\$5,000,000 (\$5M)	91.0%	39.6%
\$10,000,000 (\$10M)	91.0%	39.6%
\$50,000,000 (50M)	91.0%	39.6% ³⁹

The worsening of inequality driven by these trends in wages and incomes has been exacerbated by changes in taxes. While incomes received by people at the top have soared, the share of their income paid in taxes has dramatically declined.

The following graphic (see Federal Individual Taxes by Reported Income Class under “Additional Resources”) tracks this reality and shows the effective tax rate (the share of income paid in taxes) for each income group. Taxes paid, measured as a share of income, have been somewhat stable over this period for many income groups and trended downward for the lowest income households. But the top 1/100th of 1 percent of tax payers has seen a very dramatic reduction in taxes, from approximately 70 percent of income to below 40 percent in 2004, the last year for which this data series is available.

The chart shows a reduction in the progressivity of the federal personal income tax, largely driven by the massive decline in taxes paid by the highest-income tax payers. This erosion in the personal income tax is being compounded by other trends in taxation, i.e., increased reliance on payroll taxes, declines in corporate taxes, and new, sophisticated tax avoidance strategies. The reduction in taxes paid at the top and the reduction in income growth for those in the middle and the bottom of the distribution has resulted in a level of inequality tragically reminiscent of the first Gilded Age in the 1920s.

Overview of U.S. Taxes

The chart (see Federal Revenue by Source under “Additional Resources”) shows the sources of federal revenue between 1934 and 2012. While revenue has increased over this period, the chart shows the percentage of the total that was raised through various types of taxes. These various taxes fall very differently on different segments of the population. So the amount of revenues raised from the different taxes affects the overall fairness of the system.

Reading the chart. Each color (measured in vertical distance) indicates the percentage of all federal revenue contributed by the tax in a particular year, indicated on the horizontal axis. Consider 1970, a year shown in the middle of the bottom axis. Moving up from the 1970 hash-mark, the blue color indicating the individual income tax extends to 47 percent, a figure that can be roughly "eye-balled" off the left axis. The red color indicating corporate income taxes extends from (around) 47 percent to about 64 percent indicating a contribution of 17 percent (64 minus 47). Green (payroll taxes) extends upward from 64 percent to about 87 percent indicating a 23 percent contribution, etc.

The following changes are most significant:

- During the 1940s income taxes rose from less than 20 percent of revenues to just over 40 percent where they have continued until today.
- Corporate income taxes have declined significantly from 20 percent to nearly 40 percent during World War II to less than 10 percent today. This is partly reflected in the difference between the 35 percent official rate (actually with some variation⁴⁰) and the effective corporate rate of 12.6 percent.⁴¹
- The decline in corporate income tax revenue has been largely offset by the increase in payroll tax revenue, up from the low teens in the 1950s to over one-third of all revenue today.
- Excise taxes on alcohol, tobacco, and motor fuel have also declined significantly, although many state governments have increased excise taxes over this period.

"Other" taxes in the chart include estate taxes and customs duties (tariffs).

Tax Expenditures

Individual Tax Expenditures

Before moving forward, it is necessary to define a tax expenditure⁴². A contribution to the church, for example, may legally be deducted from the donor's income. This reduces the church member's taxable income and lowers her tax payment. This "lost" revenue is a tax expenditure. The allowable deduction causes revenue to not be collected by government via the tax system. The U.S. tax system incorporates a huge variety of allowable deductions and "credits" that can reduce tax payments. These are all tax expenditures. Opinions, of course, vary widely on the wisdom of different tax expenditures, but it must be remembered that each one exacts a cost in government revenue—and each reduces the effective tax rates of those taxpayers who take advantage of them. "Tax efficiency" results from the expert use of deductions for mortgage interest, investment costs, pensions, health care, certain non-federal taxes, charitable gifts, and tax-exempt bonds and corporate structures like partnerships. With the introduction of tax credits, the set of options for tax minimization increased, as did the community of skilled advisors available to guide that strategy.

Tax expenditures under the individual and corporate income tax code have grown over the years to become nearly as large as the federal government's discretionary spending.⁴³ As of 2012, tax expenditures were worth more than \$1.3 trillion (the budget was \$3.6 trillion) and were projected to grow to more than \$1.8 trillion by 2017 unless reforms are enacted.⁴⁴ Indeed, on the corporate side, the yearly loss from corporate tax expenditures is now almost equal to the entire revenue collected from the federal corporate income tax.⁴⁵

Tax expenditures exist at the federal, state, and local levels. At each level of government, they should be subjected to regular, careful, and transparent cost-benefit analysis. At the state and local levels many of these tax expenditures take the form of subsidies for particular kinds of business enterprises, sometimes seriously eroding government access to revenues. Some of the most debated involve tax exemptions granted to sports teams or stadium owners by municipalities like Detroit and New York City, under threat of losing the franchises to other locations.⁴⁶

As of 2013, the most important tax expenditures, with rough estimates of annual revenue lost, are the following:

1. The exclusion of employer contributions to health insurance and health care (\$184 billion);⁴⁷
2. Preferential tax rates on dividends and long-term capital gains, relative to ordinary income (\$91 billion);⁴⁸
3. The mortgage interest deduction for up to two residences (\$72 to \$88 billion);⁴⁹
4. The deduction for non-business state and local taxes and property taxes (\$79 billion);⁵⁰
5. The earned income credit (\$60 billion);⁵¹
6. The exclusion of Medicare benefits (\$58 billion);⁵²
7. The deduction for charitable contributions (\$47 billion);⁵³
8. The forgiveness of capital gains taxation on inherited assets (\$38 billion);⁵⁴

9. The exclusion of capital gains on home sales (\$20–\$30 billion);⁵⁵
10. The child tax credit (\$28–\$57 billion);⁵⁶
11. The exclusion from individual income taxes of interest earned on state and local bonds (\$18 billion);⁵⁷
12. The exclusion of foreign-earned income (up to \$95,100 in 2012) (\$8 billion);⁵⁸
13. The exclusion of interest earned on life insurance savings (\$2.5 billion).⁵⁹

Apart from corporations, the largest beneficiaries of tax expenditures are upper income households. (See Tax Expenditures Received by Each Household Income Group under "Additional Resources.") In 2011, the top 10 percent of households received 53 percent of tax expenditure benefits while the top 1 percent of households received 24 percent.⁶⁰ Just 11 percent of all tax expenditure dollars accrue to the lowest 40 percent of taxpayers. The Earned Income Tax Credit and Child Tax Credit are refundable tax expenditures, that is, they are paid to households even if they owe no personal income tax. Refundable tax credits (primarily the EITC and CTC) comprise 18 percent of all tax expenditures.⁶¹ But even though these two tax expenditures are particularly beneficial to lower-income people, the overall impact of tax expenditures is to benefit wealthier households.

Key Corporate Tax Expenditures:

Tax expenditures for corporations can be calculated in various ways, of which the Government Accountability Office listing of the seven largest federal corporate tax expenditures (below) is perhaps the most basic. The GAO's summary notes the overlapping use of more than two thirds of corporate tax expenditures by individuals: "In 2011, the Department of the Treasury estimated 80 tax expenditures resulted in the government forgoing corporate tax revenue totaling more than \$181 billion. Many of these tax expenditures are broadly available to both corporate and individual taxpayers. More than two-thirds or 56 of the 80 tax expenditures used by corporations in 2011 were also used by individual taxpayers, such as other types of businesses not organized as corporations."⁶² William Quigley provides an overview that includes an estimate of \$80 billion for state and local subsidies to corporations, a CATO Institute calculation of \$100 billion in direct federal subsidies (seen as market interference),⁶³ deductions for the costs of settlements to avoid further prosecution for improper activities, and notes the de facto subsidies provided when low wage employees depend on food stamps and other public benefits.⁶⁴

Table 1: Seven Largest Corporate Tax Expenditures, 2011⁶⁵

Tax Expenditure	Federal revenue loss estimates resulting from corporations (dollars in billions)	Share of total estimated corporate tax revenue losses
Accelerated depreciation of machinery and equipment ^a	\$76.1	42%
Deferral of income from controlled foreign corporations	41.4	23%
Deduction for US production activities ^b	9.8	5%
Credit for increasing research activities ^c	8.3	5%
Exclusion of interest on public purpose State and local bonds ^d	7.6	4%
Deferred taxes for financial firms on certain income earned overseas	6.2	3%
Credit for low-income housing investment ^e	5.8	3%
Total	\$155.3	86%

Source: GAO analysis of Office of Management and Budget budget data on tax expenditures, fiscal year 2013.

Note: Totals may not add due to rounding.

^aAlso had estimated individual revenue losses of \$42.4 billion in 2011.

^bAlso had estimated individual revenue losses of about \$3.3 billion in 2011.

cAlso had estimated individual revenue losses of \$460 million in 2011.

dAlso had estimated individual revenue losses of about \$18.6 billion in 2011.

eAlso had estimated individual revenue losses of \$310 million in 2011. In addition, the credit for low-income housing investments has outlay effects of nearly \$3.5 billion in 2011.

Watchdog groups, such as Citizens for Tax Justice, provide information on a company-by-company basis, also organized by state.⁶⁶ The high return on investment from lobbying by individual firms, former officials, and trade associations is summarized in a Boston Globe article, drawing on research for the Center for Responsive Politics.⁶⁷

Burdened and Heavy Laden? How to Assess U.S. Tax Burden as an Integrated System with Moral Burdens

It has been suggested that the United States citizen is over-burdened and "heavy laden" with taxes. It may feel that way at times, especially when wages are stagnant or falling, and if other prices and perhaps interest rates are rising. And for some in our society, it is a virtual matter of faith to oppose any new taxes, no matter what the social need. No set of tables or measured argument can change such views. The goal here is simply to lay out the integrated system, allowing readers to see their tax position both within the dynamics of U.S. taxation and, briefly, within a global context. Domestically, there are some taxes that have been more or less progressive, i.e., the individual income tax, while the payroll tax is regressive giving preference to high-income earners.

Any overall comparisons must (as in the next chart) condense a large amount of data that averages state property, sales, and estate taxes, which are quite variable. States also vary widely in the amount of safety net and quality of social services, funds spent on prisons and education, the role of lotteries and casinos, etc. In contrast, other developed nations generally tax at higher rates, spend more on public goods, and provide more generous social provisions (such as medical care), all of which tend toward greater economic equality. The recommendations of this report do not follow the practice in much of Europe to use VAT, or value-added taxes on purchases, the regressive impacts of which are then offset by rebates—VAT would entail a massive restructure of the U.S. system. This report does follow most of the nations of the world, however, in recommending higher energy taxes.

The following graphic (see Incomes and Federal, State and Local Taxes under "Additional Resources") delineates tax-generated revenue for the typical United State citizen. It identifies the jurisdiction and tax schedule that generated the revenue.⁶⁸

One way to test the overall United States tax burden is to look at our tax obligations in relationship to other nations. The following graphic (see bar chart under "Additional Resources") compares our percentage of taxes to Gross Domestic Product with other countries in the OECD. This chart takes into account the higher proportion of payroll taxes in the United States in comparison with mainly European nations.

From Avoidance to Evasion: Tax Competition and Tax Havens

Tax avoidance (using legal means to avoid paying taxes) is not foreign to most of us. How many have stopped at a brick and mortar retail store, checked out the merchandise and then ordered online to dodge the sales tax? Similarly, it is reasonable to expect taxpayers to modify behavior to obtain tax expenditures or to time when their income will be taxed. The ethical challenges faced by the individual start not in the domain of illegality, but in the place of personal integrity. The long-term wealth of any household is preconditioned on the success of our civil society. Aggressive tax avoidance can be seen as antithetical to an individual's beneficial interest if one's dependence on a "good society" is admitted, even if we do not look at needs of others or the future needs of our own families.

For the Christian, however, there is an additional overlay, the call of the Gospel of Jesus Christ to give voice to the voiceless, heal the sick, and look out for the poor, hungry, and homeless, and the sick, the widow, the orphan, and the stranger in the land, to safeguard God's gift of creation, and to promote and protect the common good.⁶⁹ To do so requires concerted action not solely accomplishable by individual acts of compassion. There is an identifiable role for government in the building of a responsible society. As a result, members of the Christian community, who are firmly grounded in Gospel and at the same time fully participating in civic society and the political economy, approach the question of tax avoidance from a distinctive ethical and transnational perspective. In the Reformed tradition we have called it a covenantal perspective, but we recognize similar values when our brother, Pope Francis, speaks of the idolatry of money and the cry of the poor.

Most Presbyterians have some acquaintance with tax competition, which occurs among jurisdictions competing to attract businesses seeking the lowest tax rates. Starting with local tax abatements (or reductions—often to attract or keep businesses), moving through interstate competition, and then seeing nations struggle for comparative advantage, sometimes sacrificing wage levels and public investment to appease powerful economic interests. The key function of the tax haven industry and its 71 or so prime jurisdictions is to be the "anchor," or lowest points, in the "race to the bottom" that is now an unavoidable aspect of economic globalization.⁷⁰ Some of the more fortunate among us face personal choices of whether to use tax havens, but they are part of the moral environment for all of us. They are part of many of our business lives, as most major corporations are themselves both driven and drivers, making extensive use of havens to "park" income transferred from subsidiaries around the world, under various tax avoidance plans, often based on defective transfer pricing rules. And our investment portfolios inevitably benefit from such practices, unless we have particularly scrupulous screens. One could perhaps even say for church investors that benefits from tax havens are a subtle form of unrelated business income.

In pre-globalization forms, tax havens have been in existence for centuries. As early as the 1930s as nominal rates increased, United States Treasury officials began to notice a rise in noncompliance, including not only misstatement of income and expenses, but also the use of offshore havens to stash income and wealth, particularly in countries like Switzerland and Lichtenstein.⁷¹ A ruling by the Bank of England in 1957 permitting establishment of "Euromarkets" allowed assets to be held extra-country, i.e., dollar deposits outside the United States, pound sterling outside the United Kingdom, etc. This pushed the envelope creating a large, unregulated lending industry in Panama, the Caymans and the Channel Islands and other newer locations.

Reforming secrecy jurisdictions and the related practices of tax avoidance and tax evasion is difficult. Switzerland, among other jurisdictions, until recently has fought both international requests for transparency and internal whistleblowers.⁷² The United States has itself resisted demands for transparency from the international community. Miami's banking industry, host to Latin American depositors, has resisted reporting of income attributed to non-United States citizens. Laws in Delaware and Nevada permit corporations to be established without listing their owners; if the IRS can't find out who owns something, taxes cannot be assessed.⁷³ Just like secrecy regimes in offshore locations, these states attract business by offering secrecy which, in itself, is not evidence of illegal behavior. The states do not obtain nor divulge information that is needed for the corporations to be taxed. The role of the private banking industry and specialized large law and accounting firms cannot be explored here, but clearly plays a vital intermediary role for individuals seeking to minimize their tax burdens, and some persons go so far as to change their residency for tax purposes.⁷⁴

The result of opaque financial structures is an inability to determine how much tax revenue is sliding away. The amount of money booked in tax havens, much of it the result of plainly illegal activity, is enormous. The estimate of over \$21 trillion was noted earlier.⁷⁵ Another estimate, generated by the Boston Consulting Group, totals "on paper roughly \$8 trillion of private wealth out of a global total of \$123 trillion sits offshore, but this excludes real property, yachts and other fixed assets."⁷⁶ One take-away from this work of detection and analysis is the recognition that most measures of inequality are probably understated; parts of the worldwide .001 percent hold assets that are literally off the charts.

The total result of this lack of transparency is unknown, but the amounts involved would likely provide for substantial government debt reduction if ever collected. What was once tolerated in the international community is becoming less unacceptable as national and regional jurisdictions cope with deficits.

The following counter trends are working to increase compliance, restrain tax competition, and to limit the power of tax havens. It may also be the case that broader trends of "re-globalization," along with demographic and environmental changes, will affect the investment patterns of nations and the regulation of corporations, moderating dynamics that have favored inequality among and within nations.

1. The United States is a leader in the movement for wealth and income reporting from "on demand" to "mandatory and concurrent." This is being accomplished in substance by the Foreign Account Tax Compliance Act (FATCA) adopted by the 111th Congress for implementation starting in March of 2010. The act is a unilateral demand by the United States that all holdings and activities of financial accounts held by its citizens be reported electronically to the IRS. The act was an attempt to claim up to \$100 billion in payment non-compliance.⁷⁷ While the "arrogance" of this act was at first the focus of international comment and criticism, in recent months additional nations have joined the movement by also requiring similar "big data" exchanges via bi-lateral treaties.⁷⁸
2. On the state level, there are some bright spots, as in the substantial tax reform achieved in Minnesota,⁷⁹ based partly on public debate and analysis of the dynamics behind corporate relocation decisions. The desirability of talented workforces, good educational and cultural capacities, and well-maintained infrastructure: these all nurture and attract businesses that are not simply "extractive," and pay better wages.⁸⁰ Elsewhere, an influential banker chairing the Washington State Citizen Commission for Performance Measurement of Tax Preferences has developed a comprehensive economic policy program to reverse trends towards inequality.⁸¹
3. The international community has begun conceptual work on automatic exchanges to facilitate multiparty exchange of financial account data. Reaching consensus and then adoption, however, may be far in the future. The price of freedom will be vigilance and persistent advocacy for the adoption of legislation for the exchanges.⁸²
4. A global tax justice movement has emerged. The church has taken its role in the movement. Through advocacy, policy development and, where possible, whistle blowing the movement has helped generate public interest in tax justice.⁸³ The movement may be seen as a multinational counterforce to the easy temptations of immediate profits and self-service.
5. The church ecumenical has taken up its role in witness and advocacy. In 2013, the General Synod of United Church of Christ, for example, adopted a resolution, "The Tax System: A Matter of Faith, Fairness, and Flourishing Communities."⁸⁴ Its key criteria:

An equitable tax system is:

- progressive, requiring higher-income households and corporations to pay a greater share of income in taxes than lower income ones;

- fair and without loopholes, havens and other arrangements that can be used to shield income from taxation;
- neutral, that is, does not create incentives for particular behaviors except when those behaviors are explicitly intended as a goal of public policy;
- adequate to raise sufficient funds to meet social needs and promote the welfare of all; and
- redistributive, shifting income from rich to poor to reduce income inequality and enhance the common good.

In applying these principles, their General Synod called for all income to be taxed at basically the same rate, and any "tax expenditures" to be targeted to impact less wealthy citizens. They favored keeping the corporate income tax and adding a financial transaction tax to moderate speculation toward longer term investment.

Before leaving this historical review, we return to the simple statement: the faithful interact with this world's ability to facilitate unethical behavior in a unique, often prophetic way. We cling to the principles of Christ while challenging ourselves and the principalities of this world to act in an ever more just manner. We do so for the most vulnerable of the children of God.

V. Principles of a Just Tax System

This report addresses the heart of the matter and its primary implications: to make the U.S. tax system fairer, it needs to be:

- more progressive, taxing those with greater wealth at higher proportions of their income, wealth, and inheritance;
- more transparent, which includes both simplicity and accountability for all preferences and tax expenditures;
- more solidarity-focused, which means reducing the use of tax expenditures, shelters, and havens, and supporting more adequate international tax standards;
- more sustainable, which may mean choosing to forgo taxation by not exploiting nonrenewable resources; and
- more effective, meaning it must produce adequate revenues to provide for the common good, and avoid unwise debt which shifts taxation to future generations.

This section provides a fuller rationale for the principles outlined at the beginning of the recommendations section. The first step was to affirm the work of previous Presbyterians working on the question of fair taxation, even as this report updated that key work from thirty-seven years ago. The value of solidarity is perhaps the most significant addition, though the study team re-thought all of the principles. This was the value seen most at stake in challenging the "race to the bottom," in order to honor social solidarity within and among nations and ensure multinational corporations contribute to the societies that provide them their wealth.

Thirty-seven years ago, the 189th General Assembly (1977) of the United Presbyterian Church in the United States of America outlined four criteria for evaluating tax systems:

- Equity—Revenue should be generated so that the task of providing for the common good/social services is not borne disproportionately by the poor. Equity should also be sought among generations—judicious use of debt to fund society's current work must not cause future generations to assume a disproportionate amount of the cost.
- Integrity—The tax system should be free from corruption and characterized by moral wholeness such that taxpayers recognize their communal indebtedness.
- Simplicity—The tax system should be understandable to taxpayers so they can trust the equity and integrity of the system.
- Efficiency—The tax system should generate revenue for the highest output of goods and services, including intangible outputs to increase the public good, with the least amount of administrative cost and so that the return produced is in excess of the amount expended.

Over the years new patterns have emerged that challenge the church's witness. It is time to refresh the church's criteria. Thus we propose that these principles be enriched by a new set of principles for a new gilded age: Progressivity, Transparency, Solidarity, Sustainability, and Adequacy.

1. Progressivity:

Each time we approach communion with Christ, we are reminded of his desire to fairly set the table of this world. In our work, equity will be enacted through progressivity:

We seek equity among generations. The failure to adequately fund the work of society today leads logically to one of two outcomes: Today's work is not completed, or borrowing to fund today's work causes future taxpayers to assume the cost.

We do not argue that equity is best served by a rigid or legalistic application of this principle. There are times, as in the Great Recession, when economists argue that it is appropriate to borrow. We do assert that equity requires judicious use of debt to fund society's current work.

a. We embrace progressivity as the overarching concept of an equitable tax system. At the communion table, we are asked to serve the vulnerable, those who are dependent, the poor. Logically, this means faithful work to build a graduated tax system whose rates increase as the level of income increases. Given that the core of tax injustice is that the poor are paying proportionately more (and receiving less and less), then increased progressivity is needed to redress the resulting personal suffering and widening inequity redistribution upward of labor markets dominated by large non-union firms, low wages, and export markets.

b. The demands of equity cause us to reject a flat tax or tax expenditures⁸⁵ that are highly regressive. Low-income individuals and families struggling to meet basic living expenses cannot pay taxes at the same rate as the higher-income individual or family. The previously affirmed principle of equity compels the church to affirm progressive tax solutions, including the Earned Income Tax Credit (EITC), an effective idea pioneered by Republican economists that helps those working at low wage levels and the communities in which they live.

The believer will note that the current method of generating revenue for social security insurance is regressive, not progressive. The first dollar of a person's wages is taxed at a flat (not progressive) percentage, while dollars over 115,001 are not taxed at all. It is highly advantageous for the high-income taxpayer but not so for the low-income taxpayer.⁸⁶ Hence we advocate phasing out the cap, a simple change that will also ensure the soundness of that system past 2040.

2. Transparency:

It is not necessary only that a tax system be fair; it must be fair visibly, so that taxpayers are assured that all are paying their proper shares of the national tax burden. Transparency addresses the integrity of the system and would increase simplicity—consistent with the scale of the economic actor being taxed and the complexity of our economy.

In the words of St. Paul, the law can be a 'stumbling block' to each of us: none of us has clean hands or an envy-free imagination. When we approach the communion table, we are overtaken by grace and realize we are called to wholeness, not perfection. Another word for moral wholeness is integrity, the principle we affirm from our predecessors in 1977. At the same time, we update this principle to the word transparency, as a comprehensive look at taxation must look at organizations as well as individuals.

The tax system we seek is created, administered, and enforced in a manner that invites honesty. Unlike the equitable system described above, the inequitable system is perceived as unfair by taxpayers. If our neighbors do not pay taxes, we feel foolish paying ours. If corporations dodge taxation and receive inequitable tax expenditures, cynicism mounts. Corruption abounds. The law becomes a stumbling block.

Likewise, to sustain integrity, those who administer tax rules are expected to treat the taxpayer with dignity and respect. And the taxpayer should be informed, both about the tax rates and participation by all citizens and corporations, so that the payment of taxes is understood as both a social norm and a good.

Simplicity is an antidote to complexity. Over the past century, the U.S. tax code has added layers of complexity. The time is now for the simplification of structure through the reduction or elimination of tax expenditures. The Assembly recognizes that there is a constituency for each deduction or credit. Nonetheless, reducing tax expenditures generates the additional revenue required and makes the enterprise more understandable. But the problem is not simply that it is hard to quantify expenditures; it is a matter of trust amid entrenched special pleadings.

3. Solidarity:

We recognize that we are dependent on the community we sustain with our taxes. This communal dimension to our gratitude and to our calling prompts a further updating of the four values from 1977: the addition of solidarity.

We see our communal indebtedness as we reflect on our early years and our last days in facilities built with our taxes.⁸⁷

We see our indebtedness as our children are reared, educated, and their identity forged with the building blocks delivered through our taxes.

We see our indebtedness as our police and military risk their lives for freedom here and around the world.

We see our indebtedness to society—that is, to one another—as corporations draw on legal and contractual traditions, move goods via roads built with our tax dollars, and hire personnel educated in our schools.

It is this sense of gratitude to the greater good of a knowledge economy developed over time that guides the report in its address to transnational corporations and other entities that weaken the solidarity within and among nations through means we have described. The resulting inequities have become publicly notorious and portray a global fiscal system based on cynical exploitation of defective laws, and a kind of law-making that is largely invisible to the public. Conversely, a good tax system fosters an opportunity to strengthen the communities that sustain us. For this reason, above all, we recommend the principle of solidarity.

4. Sustainability:

Economic and environmental sustainability must go together. The tax system is one of the key ways that productive capacity is targeted to both short-term and long-term need. Prices of products and wages of people carry much valuable information, but markets alone do not reflect moral values and they have a decided short-term bias. This report reflects an overall understanding that the current level of economic inequality in our society—and its recent growth—are both immoral and unsustainable—though inequality is more addressed by the criterion of solidarity. Economic growth has typically been the recipe for addressing inequality: “a rising tide lifts all boats.” But we now see that most of our economic gains are captured by a very small share of the already very rich. According to the Wall Street Journal, 95 percent of the growth in national income between 2009 and 2012 went to the top 1 percent.⁸⁸ Growth is not only threatening the environment but it is failing to correct inequality or alleviate poverty.

(To step out of the metaphor, however, a rising tide caused by global warming is raising sea levels, causing vast amounts of economic damage along shorelines, as well as a host of other drought/flood and extreme weather patterns. According to the study by Nicholas Stern commissioned by the British government, the costs of mitigating climate change impacts grow exponentially as they are deferred.⁸⁹ Already insurance costs for coastal areas are increasing, reflecting risk with increasing accuracy. Yet without wise government planning—and the financial capacity from taxation, as well as regulation of fossil fuel uses—new inequities based on geography will dominate future decades. Without sufficient international cooperation on climate, experts predict large numbers of climate refugees and increased danger of resource wars. Such struggles over water and fertile land are already seen to be underway around the Sahara desert and in de-forested areas elsewhere.)

Sustainability as a value in taxation introduces a way to tax growth in a way that addresses externalities, or social and environmental costs, in a new and more holistic way. Sustainability means preventing unintended consequences and taxing to cover costs more immediately. It also means being clearer about incentives to eliminate waste in virtually every form. Thus the understandable goal of controlling carbon by putting a price on it addresses the chief cause of global warming, but all nonrenewable resources require more deliberate use and recycling whenever possible. The trade-offs of development become more stark, and the hazards of population growth are also increased. Even renewable resources require some level of taxation to allow precisely for their renewal—like fisheries around the world, or even fertile soil, which is being depleted by over-use, erosion, and pesticide contamination.

Climate change and humanity’s contribution to production of greenhouse gases have focused the attention of prior General Assemblies. Drawing upon creation narratives, biblical injunctions, and ethical analysis, our predecessors have spoken prophetically about our sin against creation and God’s longing for its restoration. The 218th General Assembly (2008) approved a comprehensive policy, *The Power to Change—U.S. Energy Policy and Global Warming*. This assembly (the 218th General Assembly [2008]) which supported taxing carbon and discussed the pros and cons of “cap and trade” and other policies designed to transition toward a sustainable energy future (<http://www.pcusa.org/resource/power-change-us-energy-policy-global-warming/>).

The overall argument for this principle reflects thinking on the re-direction of the economy pioneered by Herman Daly and John Cobb, but the challenge is mustering the political will, nationally and internationally, to test new models, such as that carbon taxes and increased gasoline taxes, that would advance transportation efficiency far more effectively than (still valuable) improvements in car engine efficiency.⁹⁰

5. Adequacy:

As described above, the efficient tax system

- utilizes tax expenditures (in general) for targets that produce a social return in excess of the amount expended;
- delivers its revenue to the end user with the least amount of administrative cost;
- works to generate the highest output of goods and services, and intangible outputs to increase the public good.

Yet efficiency is not an adequate measure in itself, for taxation is not simply a technical calculation that can be separated from social purpose. The debate over “revenue neutrality” can illustrate this reduction of the purpose of tax reform. Adequacy is defined by the objectives that the funding itself is to serve not simply by an arbitrary “neutral.” Efficiency, then, should guide the administration of a tax system, but effectiveness to the purposes of government should help assess tax expenditures and other subsidies, not only for their fairness, but for their aggregate results. Talking about the purposes of government leads us to the framework within which these principles interact.

Thus the report proposes moving from Equity, Integrity, Simplicity, and Efficiency to Progressivity, Transparency, Solidarity, Sustainability, and Effectiveness. These principles work in concert with each other, but also within an overall vision of mutual responsibility, a social covenant.

VI. Note on the Study Team:

As authorized by the General Assembly, the Advisory Committee on Social Witness Policy (ACSWP) appointed the following persons to a study team:

The Reverend Kenneth GY Grant, chair, currently a principal in a private firm administering assets for pension plans,

endowments, foundations, and private and public funds; providing transfer agency and trading services for investment product; and managing investment trusts for the institutional market; Boston, Massachusetts.

The Reverend Gloria Albrecht, Ph.D., professor of Christian Ethics, Emerita, University of Detroit/Mercy; Detroit, Michigan.

Elder Ellen Pearre Cason, CPA, MBA, principal in a specialized accounting firm; New York, New York.

Elder Simon Park, Ph.D., retired mission co-worker with the Presbyterian Mission Agency, and former professor of accounting.

The Reverend Raymond Roberts, Ph.D. pastor, The Presbyterian Church of Westfield, New Jersey.

Elder Brian Rusche, director of an interfaith social justice advocacy organization; Minneapolis, Minnesota.

By special arrangement, Dr. Edith Rasell, Ph.D., M.D. an economist and staff member of the United Church of Christ, Cleveland, Ohio, served as a member and advisor to the study team.

Consultant services were provided by James S. Henry, Esq., author, public interest lawyer, former chief economist of McKinsey & Company; Sag Harbor, New York.

The Reverend Michael Durst, Esq.; recently ordained in the United Church of Christ; tax attorney and columnist; Bloomberg BNA; consultant at one time to the Internal Revenue Service; served as an advisor to the study team.

Staff assistance: The Reverend Christian Iosso, Ph.D. coordinator, Advisory Committee on Social Witness Policy, Louisville, Kentucky.

The Reverend Leslie Woods, associate for National Issues, Office of Public Witness, Presbyterian Mission Agency; Washington, D.C., provided some staff assistance and developed much of an ecumenical and interfaith forum on tax policy in May of 2013.

The Study Team met four times, in Boston, New York, and Cleveland, in addition to the extended public forum meeting in Washington, D.C. An eighth person appointed to the study team was unable to serve.

APPENDIX TO TAX JUSTICE REPORT TO THE 221st GENERAL ASSEMBLY (2014)

A Short Historical Account of Progressive Taxation in the United States and its Ethical Bases

By James S. Henry, Esq.

This is an edited section of a longer work on tax policy by the author, a leader in the Tax Justice movement and former chief economist for McKinsey & Company.

First Efforts

Progressive taxation has very deep roots in U.S. history. This year, 2013, marked the 100th anniversary of the first permanent progressive U.S. federal income tax. But the first crude graduated tax on personal "faculties" actually dates back to 1706 in Massachusetts. A federal income tax was also once proposed to pay the costs of the War of 1812, but the war ended before it could be adopted.⁹¹ At the state level, Alabama, Connecticut, North Carolina, and Virginia all experimented with income taxation before 1850, and Pennsylvania pioneered a 3 percent corporate income tax in the 1880s.⁹² The first temporary progressive federal income tax, a graduated tax of 3 to 5 percent on incomes over \$11,000 and \$185,000⁹³ respectively, was proposed by Abraham Lincoln and adopted by Congress in July 1862 to help finance the Civil War. In 1864 the rates were boosted to 5 to 10 percent on incomes from \$7,400 to more than \$124,000, then simplified in 1867 to a flat 5 percent on incomes over \$14,000, and finally slashed to 1870 to 2 percent of income over \$33,000. In 1872, this first, generally successful experiment with federal income taxation was repealed by the Grant Administration.⁹⁴

The First Gilded Age and the Christian Social Gospel

Demands to restore a peace-time federal income tax reemerged in the so-called "Gilded Age" of the 1880s and 1890s. This was a period of rapid U.S. industrialization and urbanization, which generated prolonged periods of deflation and depression, the "original accumulation" of large family fortunes, and wealth concentration. This was due in part to the sidelining of the income tax from 1872 to 1913, just as elite incomes were soaring, especially in the North. The "labor problem" also emerged during this period, featuring pitched battles between, on the one hand, employers, Pinkertons, police, and federal troops, and striking workers and labor organizers on the other. For the industrialists of the new trusts, this was something of an "Atlas Shrugged" paradise, with minimal labor laws, minimum wages, health and safety regulations, housing laws, securities laws, banking laws, building codes, rights for women and minorities, anti-bribery laws, or limits on selling drugs and alcohol; instead there was child labor, eighteen-hour days, hazardous sweatshops and mines, and mind-numbing squalor and addiction, especially in densely-populated urban slums. This was a time when even the average physical heights of Americans diverged sharply by social class, a "gilded age" only for those of substantial means.⁹⁵

That late 19th century American world of sweatshops and extreme inequality eventually generated antidotes: in the mines and the shop floor, a radical labor movement; on the farms, the Populist movement; and in the churches, the liberal professions, and the universities, the so-called "Progressive" movement. Each movement had its own particular causes and prescriptions for reform. Over time, however, reviving the progressive federal income tax became one of the causes that united them.

Proposals for a revival of the federal income tax first appeared during this period in the farmer-labor-based Populist and Socialist Party platforms of the 1880s. The Democratic Party, led from 1896 to 1908 by William Jennings Bryan, a devout Presbyterian from Nebraska, quickly coopted it. In 1894, the reformers won a modest 2 percent federal tax on incomes over \$99,000 (in \$2013). But in 1895 the U.S. Supreme Court ruled 5-4 that a federal tax on property income (unlike one on labor earnings) was unconstitutional.⁹⁶ This unpopular decision helped to galvanize the demands for tax justice.

This Gilded Age campaign for the federal income tax is especially interesting to us because it was spearheaded by leading proponents and believers in the so-called "Christian Social Gospel" movement. As one historian has described it, this was "one of the most productive intellectual movements to originate from American Protestantism."⁹⁷ It was also one of the first attempts to translate religious convictions into a political agenda that would seek popular support.

Originating in the early 1880s, the Social Gospelers included such distinguished Protestant intellectuals as John T. Ely, the Johns Hopkins economist who founded the American Economics Association; theologian Walter Rauschenbusch;⁹⁸ the Congregational minister Rev. Charles M. Sheldon, whose 1896 book "In His Steps—What Would Jesus Do?" sold thirty million copies, more than any other 19th century publication; John R. Commons, another noted economist; Josiah Strong, a Congregational minister who helped to organize the Federal Council of Churches in 1905-08; the leading Chicago Methodist pastor Harry F. Ward, who drafted the original 11-line Social Creed, and George D. Herron, Woodrow Wilson's future Ambassador to Moscow.⁹⁹ In 1908, thirty-three mainline Protestant churches, including the United Presbyterians, the Methodist Episcopalians (Methodists), Congregationalists, the United Lutherans, and the Northern Baptists, came together to adopt a "Social Creed" and found the Federal Council to help tackle such issues.¹⁰⁰

Gospel Politics and the Income Tax

Theodore Roosevelt took a special interest in the Social Gospel leaders, inviting several of them to the White House in 1907.¹⁰¹ He became a forceful advocate for a graduated income tax, especially after he left the Presidency in 1909.¹⁰²

But the key politician involved in the shaping of income tax after it became legal movement was Wilson himself. The son of a leading Southern Presbyterian minister, Wilson had studied with Professor Ely at Johns Hopkins University in the 1880s. He later became a history professor at Princeton, that University's President, and Governor of New Jersey. In 1911-12, as a leading Progressive, Wilson realized a meteoric ascent to the U.S. Presidency, defeating President Taft, Roosevelt, and the Socialist Party's Eugene V. Debs in that year's hotly-contended four-way race.

Wilson achieved this success while maintaining and deepening his commitment to the "Social Gospel" version of Christianity. As he later recalled, "Christianity gave us in the fullness of time the perfect image of right living, the secret of social and of individual well-being. For the two are not separable."¹⁰³ Such convictions played a key part in his conclusion—to the consternation of his Wall Street friends—that "The most serious problem facing us today is the concentration of money power in the hands of a few."

But Wilson was no socialist. Indeed, only a handful of Social Gospelers could be accused of being "Christian Socialists" who questioned the very foundations of capitalism. Rather, Wilson, Bryan, and most key Social Gospelers were simply trying, in Bryan's words, to practice "applied Christianity."¹⁰⁴ They sought to smooth capitalism's rough edges with basic reforms like the 8-hour day, the 6-day week, anti-monopoly laws, and taxes on income and wealth.

From a theological standpoint, they believed that Christianity was not just about individual salvation, the after-life, or fervent protestations of belief. As Rauschenbusch wrote, "The Lord's Prayer is ... not the property of those whose chief aim is to pass through an evil world in safety, leaving evil unshaken."¹⁰⁵ They saw Jesus as an activist, even to some extent an enemy of the state, whose spoken words were inspiring, but whose silent deeds were even more inspiring: healing the sick, feeding the hungry, comforting social outcasts, and expelling the money changers, even at the risk of defying conventional religious and political authorities. In their view, it was hard to make sense of such actions if faith alone, absent active involvement, were sufficient for "salvation."

Of course the Social Gospel thinkers were not the only proponents of the federal income tax. Even some business interests supported it as a substitute for high federal tariffs, which were hurting trade. Nor were the tax rates enacted all that progressive, at first.¹⁰⁶ Still, the Social Gospel contributed significantly to providing ethical and religious foundations for Progressive reforms in the pre-war period.¹⁰⁷

The 1913 Federal Income Tax

The campaign for the first U.S. peacetime income tax, led by Progressives and supported by the Social Gospel movement, culminated in the 16th Amendment, which was adopted by Congress in 1909 and ratified in 1913 after Wilson's election. At first the individual income tax was barely progressive—a modest 1 percent tax on net incomes

over \$4,000 (\$90,000 in \$2013). For the top .5 percent with incomes above \$20,000 (\$450,000 in \$2013), there was a 2 to 7 percent surtax, with the top rate applying to incomes over \$11.6 million (\$2013). Since 1909 there had also been a 1 percent on corporate net income above \$100,000 (\$2013). The first federal estate tax was added in 1916.

Compared to today's "tax expenditure"-laden environment, this was a pristine income tax. At a time when the average U.S. household earned \$16,000, only 358,000 out of 37 million households, or less than 1 percent, had to file federal tax returns in 1913-16, and U.S. Treasury's "Bureau of Internal Revenue" could make do with just 4,000 employees.¹⁰⁸

But costly wars and income taxation go hand in hand, at least until the 21st century. Under the impact of impending U.S. entry to World War I in April 1917, the Revenue Acts of 1916-17 halved the \$90,000 exemption, doubled the minimum rate, and adopted a 4 to 67 percent on incomes over \$100,000 (\$2013)—the top 5 percent. For corporations there was also a new 12 percent "excess profits/war profits" tax regime.¹⁰⁹ The 67 percent rate only applied to the top 400 households with incomes over \$36 million.

Overall, however, by comparison with regressive excise taxes and distorting tariffs, this new system quickly proved not only fairer, but also could generate enormous sums of tax revenue even in wartime. In 1914 the federal income taxes generated just 10 percent of a much smaller federal revenue base; by 1918, its share of revenue was 69 percent. While the U.S. had only been the 11th country in the world to adopt a nationwide income tax, by then it had the world's most progressive income tax system. World War I was responsible for accelerating this development, but Wilson and his fellow Progressives and Social Gospel leaders had given it a strong start.

The Expansion of Progressive Taxation in the U. S.

For our purposes, the key point of this story is that for decades the U.S. led the world in fair income and wealth taxation. Furthermore, this experiment with mass-based progressive income taxes was a resounding success. Not only were strong progressive rates adopted and maintained, but mass participation in the tax system soared.¹¹⁰ This was partly because minimum tax rates for people with lower incomes were also raised, and partly because tax authorities decided that millions of ordinary workers—unlike the recipients of property income—would be subject to a withholding tax on wages, rather than voluntary reporting. The resulting broad tax base complemented high progressive tax rates by making everyone pay a little.

Of course there were vehement opponents along the way—for example, Andrew Mellon, the Pittsburgh banking, steel, Alcoa, and Gulf Oil magnate who served as Treasury Secretary under three Republican Presidents from 1921 to 1932. One of the three richest people in the U.S., his series of revenue acts in the 1920s substantially weakened Wilson's progressive income tax and estate tax. But the Great Depression led to Franklin D. Roosevelt's victory over Herbert Hoover, and to Mellon's prosecution for income tax evasion in 1934-35. Especially after 1936, FDR relied on stiff progressive tax rates as well as increased borrowing to finance New Deal spending programs and World War II.

The Great Depression and the war were followed by the Cold War, the Korean War, and a costly arms race. For two decades after World War II, the national security issue helped to justify high progressive tax rates to the public.

During the system's first fifty years, both individual and corporate progressivity increased significantly. In 1917-20, as a result of the U.S. entering World War I, federal rates on individual incomes were boosted from a 2 percent to 15 percent range to a 4 percent to 73 percent range, with the top rate applying to incomes over \$50 million.¹¹¹ Similarly, during the Depression, federal rates extended from 4 percent on \$10,000 to 63 percent on \$50,000,000 or more, while during World War II (1941-45) they extended from 10 percent to 94 percent on \$50 million or more. Rates peaked at 94 percent for individuals in 1944 and 79 percent for corporations in 1968-69.¹¹² In contrast, as of 2013, the top rate of 39.6 percent for non-capital gains income kicks in at \$440,876 (for married couples filing jointly), with no higher rate beyond that.¹¹³ Many states also enacted income taxes, as well as estate taxes, property taxes, and sales taxes.

Once in place, these high federal graduated rates tended to be applied to lower income levels, which made the system more progressive. By 1963, at the fifty-year mark, the system was at its peak level of progressivity, with incomes over \$100,000 taxed at 75 percent, a 91 percent rate on incomes over \$2 million, and a 75 percent-plus rate on corporate income taxes as well.

Of course these were not the actual "effective" tax rates that most people were paying. During the 1930s, for example, as nominal rates increased, U.S. Treasury officials began to notice a sharp rise in non-compliance, including not only misstatements of expenses and income, but also the use of offshore havens to stash income and wealth. A 1937 letter from Treasury Secretary Henry Morgenthau to FDR complains that at the time, wealthy Americans had started to use "offshore havens" like Panama and Newfoundland (!) to hide their riches.

Second, over time, the high rates also generated a lucrative tax planning industry, as wealthy taxpayers became adroit at exploiting "tax expenditures" like deductions for mortgage interest, investment costs, pensions, and charitable contributions, as well as the market for tax-exempt municipal bonds.¹¹⁴ As tax dodging became more sophisticated, the understaffed IRS of the period accumulated a multi-year audit backlog.

Still, even after taking into account the growth of avoidance mechanisms, the U.S. post-tax distribution of income during this high tax period was significantly less unequal than the pre-tax distribution. Inequalities of wealth and income declined dramatically during World War II, the 1950s and early 1960s, aided not only by the impact of the

Great Depression and WWII on large fortunes, but also by steep marginal rates on high incomes.¹¹⁵ At the same time, the ratio of public debt to GDP, which had increased sharply during World War II, steadily declined. During this post-war period the U.S. acquired a dominant position in the world economy, and progressive income taxes allowed the Treasury to share in the very profitable expansion of U. S. businesses.

The Decline and Fall of Progressive Taxation in the U. S.

While “tax expenditures” and tax dodging appeared on the stage quite early, as of 1963 the U.S. federal income tax was still quite broad and progressive.¹¹⁶ The same basic progressive federal structure had prevailed throughout the late 1940s and 1950s. One can debate what the “effective” tax rates really were back then, after taking into account write-offs and deductions, especially for the corporate tax. But compared with today’s rates,¹¹⁷ there is little question that the overall federal income tax regime in the early 1960s was much more progressive.¹¹⁸

The first modest retreat from progressive taxation began in January 1963, when President Kennedy proposed to cut the maximum individual federal tax rate to 65 percent and the minimum rate to 14 percent, with lower corporate rates as well.¹¹⁹ Kennedy intended this to be a “demand-side” stimulus for consumption and investment in a period of excess capacity, not as a “supply-side” incentive. But it marked the first time since the 1920s that aggressive rate reductions were proposed for the very top of the income distribution. Interestingly, Kennedy’s proposal was rejected by the Democratic-majority Congress. In early 1964 President Johnson got Congress to cut the top individual rate to 77 percent, and to reduce corporate rates slightly.

1970s Shocks

For the next decade reductions in progressivity were limited, but the conditions were building for an anti-tax movement. The U.S. economy started to experience more erratic growth, fueled by higher energy costs, increased global competition, and increased political instability around the globe. That period’s prolonged series of unexpected shocks included the 1970 recession, the 1971 decision to float the U.S. dollar, the Arab-Israeli war and the OPEC (Organization of Petroleum Export Countries) oil price spikes of 1973, the 1974-75 recession, and the 1979 Iranian Revolution, which set off another sharp oil price spike. Meanwhile, more and more U.S. multinational corporations (MNCs) and banks started to move their operations, intellectual property, and other assets offshore for tax purposes, taking advantage of new tax code provisions that permitted foreign profits to be stockpiled abroad tax free, as well as an expanded offshore haven network and accelerated globalization of trade and investment.

In 1976, the Supreme Court issued the first of several decisions that undercut Congressional attempts to limit the role of money in political campaigns. Over time, this permitted the country’s largest financial institutions, multinational corporations (MNCs), and the wealthy to purchase greater political influence relative to unions, the middle class, and the poor.¹²⁰ Abroad, similar interests also began to acquire increased influence in other key OECD (Organisation for Economic Co-Operation and Development) countries, notably the United Kingdom and Germany.

The Floodgates

Largely as a result of these developments, there was a sharp decline in U.S. income tax progressivity, especially after 1981.¹²¹ This was partly the direct result of the lower nominal tax rates noted above. But there was also a rise in “tax expenditures” that favored special interests, as well as a decline in the IRS’ real resources for tax enforcement. Since the 1990s it also became much easier for MNCs to engage in “legal” tax avoidance by offshoring their intellectual property and trading companies to low-tax havens, allowing them to retain billions in profits abroad tax free.

Finally, there was also a shift of the overall U.S. tax base from progressive federal corporate and individual income taxes to other much less progressive taxes.¹²² In particular, the key fact about payroll, sales, property, and non-federal income taxes is that they are not only less progressive than the federal income tax, but regressive. As one recent study of state and local taxation concluded, “Nearly every state and local tax system takes a much greater share of income from middle- and low-income families than from the wealthy.”¹²³ Indeed, in many localities families with incomes less than \$25,000—less than half the median income for a family of four—now pay far higher combined state and local tax rates than those with incomes over \$150,000.¹²⁴

While anti-tax lobbyists may note that wealthy individuals now pay the bulk of income taxes, almost all Americans pay these much more regressive taxes, which are virtually unavoidable. Once all these other taxes are taken into account, there has been a clear trend toward transferring most of the costs of local, state, and federal government from multinational corporations (MNCs) and high net worth households to small business, the middle class, and the poor. The anti-tax agenda seems determined to push this even farther, with some advocating the replacement of federal income taxes with VAT (value added) taxes.

Endnotes

1. This data comes from the Economic Policy Institute: <http://inequality.org/wealth-inequality/> It does not reflect the gains made by the Forbes 400, for example, due especially to the stock market recovery: <http://www.forbes.com/forbes-400/>

2. This recommendation would generally support the recently proposed IRS rulemaking, “Guidance for Tax-Exempt Social Welfare Organizations on Candidate-Related Political Activities,” though additional regulation and legislation is likely to be needed to address the sheer scale of political contributions by a small percentage of

extremely wealthy citizens and non-citizens (one reason for disclosure of contributor names). See: <http://www.gpo.gov/fdsys/pkg/FR-2013-11-29/pdf/2013-28492.pdf> .

3. The goal here is to reduce incentives for corporations to grant salaries, bonuses, and options packages that have little discernable relation to productivity and that often exceed by fifty or more times the average wage of all workers in large firms. An alternative practiced elsewhere would put graduated levies on those corporations with highly elevated CEO salaries, recognizing that the U.S. has been the leader in CEO salary levels, while having near the lowest minimum wage among developed countries. Consideration of the moral impacts of excessive severance and "golden parachute" arrangements is beyond the scope of this report, but a 2010 treatment of the theology of compensation can be found at: <http://www.pcusa.org/resource/ neither-poverty-nor-riches>
4. The General Assembly report, Just Globalization: Justice, Ownership, and Accountability (<http://www.pcusa.org/resource/resolution-just-globalization/>) called for a "small tax on international capital transactions," associating such a tax with the "Tobin Tax," named for the late economist, James Tobin that was to be applied to currency transactions. This language would allow for harmonization with the financial transactions taxes en route to implementation in Europe and now often termed "Robin Hood" taxes: see <http://www.robinhoodtax.org/>.
5. <http://www.pcusa.org/resource/power-change-us-energy-policy-global-warming>.
6. <http://www.pcusa.org/resource/god-alone-conscience>.
7. For a cross-section of 140 countries at all income levels, it turns out that government spending as a share of national income has averaged 23 percent over the past decade. Significantly, for the thirty-four OECD countries at the top of the income distribution—including the U.S., the UK, France, and Germany—it has averaged 33 percent. This data sample is from the World Bank's World Development Indicators data base (2013). It includes all 140 countries for which the required indicators are available, including all OECD—Organization for Economic Cooperation and Development—countries. The 33 percent overall average is for federal government spending. In the U.S., where state and local government spending is also quite important, the median ratio of government spending at all levels to GDP for 2001–2012 was 32.8 percent, while the ratio for federal government spending alone was 21 percent. U.S. Bureau of Economic Analysis (2013) data, James S. Henry analysis.
8. In an earlier and much longer version of this report, economist and lawyer James S. Henry began his assessment of the needs for tax revenue and public investment with the realities of hunger and poor health affecting millions of U.S. citizens, and then documented twelve other consequences of the poverty and inequality tolerated, if not generated, by the concentration of wealth and power mirrored in our tax system.
9. "The Missing \$20 Trillion," *The Economist*, a February 2013 cover story. Calculations of total funds concealed in tax havens run higher. For context: The most recent estimates for total financial wealth place it at about \$223 trillion as of 2012. See <http://www.prnewswire.com/news-releases/credit-suisse-global-household-wealth-falls-52-to-usd-223-trillion-with-eurozone-crisis-as-backdrop-173564661.html>.
10. See for example: <http://www.nytimes.com/2013/11/02/opinion/delaware-den-of-thieves.html? r=0>.
11. E.g., Christian Aid, "False Profits: Robbing the Poor to Keep the Rich Tax-Free" (Mar. 2009); ActionAid, "Calling Time: Why SABMiller Should Stop Dodging Taxes in Africa" (updated version, Apr. 2012) <http://www.actionaid.org.uk/tax-justice/calling-time-the-research>. These notable investigations by church-related bodies should not be taken to suggest that the corporate activities involved are unique. A video treatment of religious concern for taxation developed by Baptist ethicists, Sacred Texts, Social Duty, provides a very good introduction to the moral arguments: <http://www.ethicsdaily.com/sacred-texts-social-duty-cms-16512#intro> A treatment of the tax debate in popular culture can be found in the film, We're Not Broke: <http://werenotbrokemovie.com/the-film/>.
12. Economic Policy Institute, State of Working America, Sources of pretax comprehensive income, by income group, 2007 (2011 dollars). <http://stateofworkingamerica.org/chart/swa-income-table-2-4-sources-pretax-comprehensive/> Accessed 5/3/2013.
13. Tax Policy Center, "Capital Gains and Dividends: What is the effect of a lower tax rate?" <http://www.taxpolicycenter.org/briefing-book/key-elements/capital-gains/lower-rate.cfm>. Accessed 10-11-12.
14. Citizens for Tax Justice. Ending the Capital Gains Tax Preference would Improve Fairness, Raise Revenue and Simplify the Tax Code. September 20, 2012. <http://www.ctj.org/pdf/cgdiv2012.pdf> . Accessed 10-11-12.
15. Tax Policy Center. Tax Topics: Estate and Gift Taxes. <http://www.taxpolicycenter.org/taxtopics/estatetax.cfm> Accessed 10-11-12.
16. In slightly more detail, there is currently a significant difference between gifts and inheritance that the report's recommendations seek to eliminate. This relates to how the accumulated gain in value of assets is calculated. Gain upon sale is, generally, the difference between the basis (original cost with certain adjustments) and the sale price (where the sale price is higher). In the sale of a gift, the basis is that of the donor at the time originally bought/acquired. In the sale of an inheritance, currently the basis is that on the date of death of the

donor and the accumulated unrealized gains from the donor's purchase to date of death (sometimes decades) are permanently tax-free for both the deceased and the inheritor. Conversely, under the "carryover basis" method, accumulated gains on inherited assets are not taxed until their eventual sale (as is true of gifts), and at that time all accumulated unrealized gains since the donor's purchase are subject to tax (as is true of gifts). Because there is such dramatically different tax treatment of a gift received a week prior to death, versus an inheritance received a week later, this method would greatly simplify certain distortions of estate tax planning, in addition to related family dynamics.

17. Emmanuel Saez and Thomas Piketty have written extensively on income concentration and inequality. For their analysis of 2012: <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2012.pdf>. An online journal on sometimes surprising dimensions of inequality is Sam Pizzigatti's Too Much, available at inequality.org.

18. On wealth taxes, including taxes on financial activities, see: <http://www.imf.org/external/pubs/ft/fm/2013/02/pdf/fm1302.pdf>.

19. See summary by Thomas Edsall, "Capitalism vs. Democracy, The New York Times, January 28, 2014: <http://www.nytimes.com/2014/01/29/opinion/capitalism-vs-democracy.html?hp&rref=opinion&r=2>.

20. Richard Wilkinson and Kate Pickett, *The Spirit Level: Why greater equality makes societies stronger*, Bloomsbury Press, 2009.

21. State of Working America, 12th edition. Economic Policy Institute. Table 6.7 <http://stateofworkingamerica.org/chart/swa-wealth-table-6-6-wealth-groups-shares/>.

22. *Ibid.*, table 6.6.

23. The Hebrew word for covenant, *brit*, means "to bind."

24. Note that "obligation" and "religion," contain the word "ligament," reflecting their covenantal origins.

25. The word "partner" is associated with covenantal language and expresses equality among the members of the covenantal community.

26. James Luther Adams, *Voluntary Associations* (Chicago: Exploration Press, 1986), p. 243. See also Eric Nelson, *The Hebrew Republic: Jewish Sources and the Transformations of European Political Thought* (Cambridge: Harvard University Press, 2010).

27. In families covenants are constituted informally as partners negotiate the duties of life together. In larger groups, however, the process of constituting life together is more formal. The Constitution of the Presbyterian Church is an example of how larger group life can take structure and form. Federal theologians claim that Deuteronomy functioned as the constitution for ancient Israel.

28. Revolutionary War patriot (1797) Thomas Paine, in *Agrarian Justice* (1797), put it this way, "Separate an individual from society, and give him an island or a continent to possess, and he cannot acquire personal property. He cannot be rich. So inseparably are the means connected with the end, in all cases, that where the former do not exist the latter cannot be obtained. All accumulation, therefore, of personal property, beyond what a man's own hands produce, is derived to him by living in society; and he owes on every principle of justice, of gratitude, and of civilization, a part of that accumulation back again to society from whence the whole came."

29. For example, Jesus confronted systemic evil in the religious system of his day when he touched those who were considered unclean (Mk. 5:21–34), told the parable of the Good Samaritan (Lk. 10:25–37), and turned over the tables in the temple (Mt. 21:12).

30. While this report focuses on large trends, for an exposé-style approach to abusive practices, three books by David Cay Johnston may be noted: *The Fine Print: How Big Companies Use 'Plain English' to Rob You Blind* (2012), *Perfectly Legal: The Covert Campaign to Rig Our Tax System to Benefit the Super Rich—and Cheat Everybody Else* (2004), and *Free Lunch: How the Wealthiest Americans Enrich Themselves at Government Expense (and Stick You with the Bill)* (2007). For a brief bio: <http://www.law.syr.edu/deans-faculty-staff/profile.aspx?fac=227>.

31. We want to emphasize that our intention is not to disparage business and market institutions, which serve many good and worthy purposes. We do not believe it helpful, as some rhetoric has done, to equate profit with greed. Companies need to stay profitable to stay in business in order to meet human needs.

32. The move to automation was made possible, in part, by the reliance on employer-generated wage data submitted to the Internal Revenue Service. Technology, including the current generation's work in "big data", reduced the cost of providing data and increased the efficiency of reporting. Recent innovations include the electronic reporting by financial institutions of cost basis for the calculation of realized capital gains and losses.

33. See <http://www.cheatingculture.com/aboutdavidcallahanhtm/>.

34. For a brief treatment of tax enforcement on the corporate side: <http://www.nytimes.com/2010/04/12/business/12audit.html> See also Government Accounting Office (Nov. 7,

2013), at <http://www.cbo.gov/publication/44716>.

35. In 2012 the IRS reported the number \$450 billion for the year 2006, a number that exceeded popular calculations based on estimated evasion, underreporting, and other noncompliance, particularly by those with discretion in how their income is reported (see: http://seattletimes.com/html/nationworld/2015503714_taxgap04.html). James S. Henry extrapolates from the \$450 billion based on his prior research: See James S. Henry, Esq., "Non-Compliance With US Tax Law: Evidence on Size, Growth, and Composition," in *Income Tax Compliance. A Report of the ABA Section of Taxation. Invitational Conference on Income Tax Compliance.* (American Bar Association, Section of Taxation, March 1983), 15-111. This is still the most detailed treatment of the conceptual and measurement issues involved in identifying non-compliance trends over time. Improvements for the IRS in calculating the gap are suggested by TaxAnalysts, the leading expert body focusing on tax matters in the United States: <http://www.taxanalysts.com/www/features.nsf/Articles/230C8EF3731074F785257BFA0065A1AC?OpenDocument>. A short update on IRS budget cuts and their impacts: <http://www.bloomberg.com/news/2014-01-08/irs-audits-of-individuals-reached-lowest-rate-since-2005.html>. In addition to Tax Justice Network information on havens that suggests significant undercounting in official numbers (see TJN-USA.org), there is a more retail approach to underreporting among those who encourage whistleblowing: <http://taxwhistleblowerreport.com/>

36. <http://justiceunbound.org/journal/current-issue/a-social-creed-for-the-21st-century/>.

37. The equivalent 1963 tax brackets adjusted to 2013 dollars were \$10,000, 20 percent; \$100,000, 38 percent; \$500,000, 75 percent; \$1M, 89 percent; \$2M, 91 percent; \$5M, 91 percent; \$10M, 91 percent; \$50M, 91 percent. Tax Foundation (2013), data inflation adjusted by James S. Henry.

38. This paragraph generalizes a number of factors treated at greater length in *World of Hurt, Word of Life* (2012). Changes that shorten the length of the supply chain (or global distribution of production), some related to energy development within the U.S., may improve the bargaining position of some workers, but as long as high unemployment persists, inequality will be reinforced.

39. This chart is show the official or statutory rates, but does not reflect changes in currency valuation or the "effective" tax rates when deductions and exclusions are in place.

40. See <http://biztaxlaw.about.com/od/businesstaxes/a/corptaxrate.htm>.

41. This figure is from the Government Accountability Office for 2010: <http://www.dailyfinance.com/2013/07/02/american-companies-effective-tax-rate/>.

42. Harvard Law Professor Stan Surrey coined the term "tax expenditures" for these preferences back in the 1970s, capturing the essential idea that they are, in effect, government subsidies. The Joint Committee on Taxation uses this definition: "Tax expenditures are defined under the Congressional Budget and Impoundment Control Act of 1974 (the "Budget Act") as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." (Pub. L. No. 93-344), sec. 3(3). Quoted from ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 2012-2017, Joint Committee on Taxation, Feb 1, 2013, pub. JCS-1-13.

43. See also GAO (2013), at http://www.gao.gov/key_issues/tax_expenditures/issue_summary. [The study team received additional background provided to ACSWP: Exhibit 65: "Federal Tax Expenditures, vs. Discretionary and Mandatory Federal Spending."]

44. See Tax Notes (2012), Donald B. Marron, "How Large are Tax Expenditures?," available at <http://taxpolicycenter.org/publications/url.cfm?ID=1001602>; U.S. Senate Budget Committee (2012), at <http://www.budget.senate.gov/democratic/public/index.cfm/search?p=search&num=10&filter=0&q=U.S.+Senate+Budget+Committee+2012>.

45. For example, in FY 2011, the GAO estimated that US federal corporate tax expenditures cost the Treasury more than \$181 billion, about the same as the total revenue collected by the federal corporate income tax that year. See <http://www.gao.gov/assets/660/653120.pdf>.

46. For the case of Cablevision's tax exemption of Madison Square Garden by New York City, see <http://www.dnainfo.com/new-york/20130417/midtown/state-pols-square-off-over-madison-square-gardens-property-tax-exemption>; for Detroit's recent tax break deal for a new stadium with the owners of the Red Wing hockey franchise, at a time when the city is closing public schools, see <http://voiceofdetroit.net/2013/09/09/illitch-plans-881-million-red-wings-stadium-project-with-public-funds-despite-detroit-bankruptcy-filing/>

47. Estimates for the size of particular tax expenditures differ significantly, depending on the methodology. See The Pew Charitable Trusts (2012), "Tax Expenditure Database," at <http://www.pewstates.org/research/reports/tax-expenditure-database-85899429743>.

48. See Pew (2012), supra, <http://www.pewstates.org/research/reports/tax-expenditure-database->

[85899429743.?](#)

49. See GAO (2013); Pew (2012); Tax Policy Center (2008), at <http://www.taxpolicycenter.org/briefing-book/background/expenditures/largest.cfm>.
50. See Tax Policy Center (2008), *supra*.
51. Pew (2012), *supra*.
52. See U.S. Senate Budget Committee (2012), at <http://www.budget.senate.gov/democratic/public/index.cfm/search?p=search&num=10&filter=0&q=U.S.+Senate+Budget+Committee+2012>.
53. Tax Policy Center (2008), *supra*.
54. See U.S. Senate Budget Committee (2012), *supra*.
55. *Supra*.
56. *Supra*.
57. See <http://money.usnews.com/money/retirement/slideshows/top-10-corporate-tax-breaks/4>.
58. See <http://www.budget.senate.gov/democratic/public/index.cfm/search?p=search&num=10&filter=0&q=U.S.+Senate+Budget+Committee+2012>.
59. See <http://www.gao.gov/assets/660/653120.pdf>.
60. Daniel Baneman, Joseph Rosenberg, Eric Toder, and Robertson Williams. Tax Policy Center. "Curbing Tax Expenditures." January 31, 2012. <http://www.taxpolicycenter.org/publications/url.cfm?ID=412493>.
61. Tax Policy Center, "Tax Expenditures: What are they and how are they structured?" <http://www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm>. Accessed 2/26/13.
62. *Supra*. 37, p. 1.
63. <http://object.cato.org/sites/cato.org/files/pubs/pdf/PA703.pdf>.
64. http://www.huffingtonpost.com/bill-quigley/ten-examples-of-welfare-for-the-rich-and-corporations_b_4589188.html.
65. <http://www.gao.gov/assets/660/653120.pdf>, page 16, top (in document numbered p. 11).
66. See: http://ctj.org/ctjreports/2011/11/corporate_taxpayers_corporate_tax_dodgers_2008-2010.php#.UyWz917ajUQ and <http://www.itcp.org/pdf/CorporateTaxDodgers50StatesReport.pdf>.
67. <http://www.bostonglobe.com/news/politics/2013/03/16/corporations-record-huge-returns-from-tax-lobbying-gridlock-congress-stalls-reform/omgZvDPa37DNISqj0G95YK/story.html>.
68. Citizens for Tax Justice, "Who Pays Taxes in America in 2013?" April 1, 2013. http://ctj.org/ctjreports/2013/04/who_pays_taxes_in_america_in_2013.php#.Uv_semJdWHN.
69. This reference is from the World of Hurt, Word of Life approved by the 220th General Assembly (2012) and the charter of the Tax Reform Study Team: "Yet we cannot serve two masters. If we are to confront this moral crisis we must recover the biblical values of justice, compassion and covenant community. We must seek nothing less than to place God—not the economy, wealth, or competition—at the center of our lives. In doing so, we will empower our church, our society, and our government to look out for the poor and the sick, the widow, the orphan, and the stranger in the land, to safeguard God's gift of creation, and to promote and protect the common good. The depth and scale of the challenges force us to respond, not only to the obvious distress of many we know and love, but to the many more God commands us to love. This challenge is more than a call for a new ethical compass in our personal behavior. The work of economic reconstruction today requires something like a new national covenant, a new public framework derived from authentic religious values, to reorient the way wealth is produced and shared and to reclaim the role of government in securing the common good." 220th General Assembly (2012), World of Hurt, Word of Life, p. 1.
70. For the 2011 "Financial Secrecy Index" list of the top 71 havens, most of which are not First World countries, see <http://www.financialsecrecyindex.com/>. A new index is about to be released in November 2013, with detailed evaluations of more than eighty jurisdictions.
71. For a study relating noncompliance to effective tax rates for corporations using statistical analysis: Michelle Hanlon, Lillian Mills, Joel Slemrod, "An Empirical Examination of Corporate Tax Noncompliance," June 24, 2005, online: <http://www.bus.umich.edu/otpr/WP2005-7.pdf> This study largely confirms the anecdotal view that larger and more complex firms (generally multinational) have more options for noncompliance. The business school authors observe that companies with more intangible assets have more opportunity for tax planning. Accepting

the concept of “tax aggressive” corporations, where the tax departments may be viewed as profit centers, they find “preliminary evidence that executive compensation is positively related to tax noncompliance,” p. 23.

72. The Economist in its February 16, 2013, special report on Offshore Finance noted that the cost of whistle blowing is both social ostracization and formidable legal fees for self-defense. In many instances it is against the law blow the whistle with any volume. The Economist, *Who’s the criminal?*, 2/16/2013, p xx.

73. The Economist, writes, “States such as Delaware and Nevada offer cheap, easy incorporation, with anonymity guaranteed. Registration agents do not even have to ask for ID, as they do in most tax havens. And what is not collected cannot be passed to the police, which is why criminals and debtors love American shells.” The Economist, *Onshore financial centres: Not a palm tree in sight*, February 16, 2013, p. xxx.

74. For overview, see Exhibit 61: “Big Six Global Accounting Firms, 2012.” For more details see Sikka and Wilmott (2013, at http://www.essex.ac.uk/ebs/research/working_papers/WP2013-2_Corporate_Governance.pdf; The Guardian, “Gilt-edged profits for profession’s ‘big four’”, <http://www.guardian.co.uk/business/2009/feb/07/tax-gap-avoidance-schemes>.

75. The Economist, *Storm survivors*, February 16, 2013, p xx.

76. Ibid.

77. 111 Cong. Rec. S1635-36 (daily ed. Mar. 17, 2010) (statement of Sen. Levin) (“Right now, thousands of U.S. tax dodgers conceal billions of dollars in assets within secrecy-shrouded foreign banks, dodging taxes and penalizing those of us who pay the taxes we owe. The Permanent Subcommittee on Investigations... estimated that these tax-dodging schemes cost the Federal Treasury \$100 billion a year.”), <http://www.gpo.gov/fdsys/pkg/CREC-2010-03-17/pdf/CREC-2010-03-17-pt1-PoS1633-8.pdf#page=4>, found at http://en.wikipedia.org/wiki/Foreign_Account_Tax_Compliance_Act#cite_note-9.

78. The committee notes that FATCA is an example of tax compliance theory at work. Here the taxpayer is viewed as a potentially unreliable self-reporter of income. To counteract this propensity third parties are asked to report taxable income, etc. For example, employee income is documented by payroll reporting generated by the employer. Financial institutions are now required to report capital gains, not simply the value realized at the sale of a security. Each of these is an example of third party reporting aided by the emergence of big data and as a result a limitation on tax avoidance or fraudulent evasion.

79. <http://mn.gov/governor/budget/fair-taxes/>.

80. A summary from one of the longtime interfaith tax and budget reform groups: <http://www.irlc.org/advocacy/2013-session-summary>.

81. See William Longbrake, *The Longbrake Letter Special Edition | Income Inequality November 2013* http://www.bsnlawfirm.com/newsletter/OP1113_Longbrake_Extra.pdf.

82. Contrary to anarchist and libertarian positions that seek to reduce taxes in order to starve governmental functions, the Presbyterian Church (U.S.A.) has articulated a policy witness that promotes an appropriate role for the civil society. Freedom requires a funded government and taxes are required to sustain that government. We argue that taxation meet the principles of progressivity, transparency, solidarity, sustainability and effectiveness as defined in this document.

83. The Global Alliance for Tax Justice includes such leading NGOs as Action Aid Intl, Africa Forum, Africa Community Development Foundation, Attac (multiple European countries), Asia Initiatives (US), Berne Declaration (Sw), BothEnds (Neth), Bread for All, Centre for Budget and Governance Accountability (India), the Center for Global Development, Canadians for Tax Fairness, CCFD-Terresolidaire (France), Christian Aid (UK), Centro Bonó de República Dominicana (DR), CNCD (Belgium), Debt and Development Coalition Ireland, Eurodad, Fairfood Intl, Finnwatch (Finland), FUNDE (El Salvador), Global Policy Forum (USA/Germany), Global Witness, Halifax Initiative (Canada), IBIS (Denmark), ICEFI (Guatemala), the Institute for Democracy in Southern Africa, Latindadd (Peru), Misereor (France), the National Council for Combatting Discrimination (Rumania/Italy), Oxfam GB, Oxfam Intl, Prakarsa (Indonesia), Red de Justicia Tributaria Latinoamericana, Sherpa (France), SOMO Centre (Netherlands), Tax Justice Network (Africa, Norway, UK, US), the War on Want (UK), and WEED (World Economy, Ecology and Development) (Germany).

Among the church groups involved are: Baptists for Tax Justice (UK), Caritas/AllianceSud, Catholiques Contre le faim et pour le developpement (France), JPIC Ministry—Missionary Oblates, Jubilee USA, Jubilee South, Kairos, Leadership Conference of Women Religious, Methodists for Tax Justice (UK), the Micah Challenge International, Norwegian Church Aid, Secours-Catholique, Religious Sisters of Charity (California), and the Uniting Church in Australia.

84. <http://www.ucc.org/justice/economic-justice/pdfs/Taxes-EAD-HO.pdf>.

85. A tax expenditure is a tax credit or deduction that exempts some or all of the tax payer’s income or wealth, as defined at note 34.

86. The Study Group notes that political rhetoric suggesting that “many people” or the “poor” or another group

of the society do not pay taxes is inaccurate. Every working individual pays the social security tax from dollar one of his or her employment compensation. This is a flat tax up to approximately \$115,000 in 2014.

87. The study group celebrates that longevity of members of our community of faith. Eighty years old is the new seventy for many. This lengthening of the years of life is made possible by the public health efforts of government. Without taxes and the revenue they provide we would die at a surprisingly early age, as previously.
88. Wall Street Journal. September 10, 2013. "Some 95% of 2009-2012 Income Gains Went to Wealthiest 1." <http://blogs.wsj.com/economics/2013/09/10/some-95-of-2009-2012-income-gains-went-to-wealthiest-1/>
89. http://www.climateemergencyinstitute.com/stern_review2.html.
90. MIT Study: Carbon Tax a "Win-Win-Win" for America's Future. John Reilly and Sebastian Rausch in a 2012 study, "Carbon Tax Revenue and the Budget Deficit: A Win-Win-Win Solution?" published by MIT "calculated the impact a carbon tax starting at \$20 per ton would have using a national economic model that details energy taxes and household incomes. They found that the tax would raise \$1.5 trillion in revenue, which could then be used to reduce personal or corporate income taxes, extend the payroll tax cut that expires this year, maintain spending on social programs—or some combination of these options—while reducing the deficit." See also Valerie Karplus, "The Case for a Higher Gasoline Tax," *The New York Times*, February 22, 2013, a summary of a much longer paper in the journal, *Energy Economics*.
91. See John F. Witte, *The Politics and Development of the Federal Income Tax*. (U Wis. 1986), 67.
92. For a detailed history, see E.A. Seligman, *Progressive Taxation in Theory and Practice*, American Economic Association (1894), available at <http://tinyurl.com/lmrzso>.
93. All tax bracket figures are in comparable \$2013.
94. For historical U.S. individual federal income tax rates and brackets, see <http://taxfoundation.org/article/us-federal-individual-income-tax-rates-history-1913-2013-nominal-and-inflation-adjusted-brackets>. This source provides inflation-adjusted brackets back to 1913. For earlier periods we have used the historical deflators available at <http://www.measuringworth.com/uscompare/#>. In the repeal of the income tax during the Grant Administration may be seen some of the same private interests that prevailed in the Teapot Dome and other scandals.
95. See Matthias Zehetmeyer, "The continuation of the antebellum puzzle: stature in the U.S., 1847–1894." *European Review of Economic History* (2011) 15 (2): 313–27. *European Review of Economic History* (2011) 15 (2): 313–27.
96. The tax in question was a 2 percent tax on bond income. See *Pollack v. Farmers' Loan and Trust Company*. 157 U.S. 429 (1895).
97. See John E. Eigmy, "Religious Liberalism in the South During the Progressive Era," *Church History*. (V.38, # 3, Sept 1969.). Vol. 38, No. 3 (Sep. 1969), pp. 359–72.
98. See Walter Rauschenbusch, *Christianity and the Social Crisis* (1907), and *Christianity and the Social Order*. (1912).
99. See G.D.Herron, "The Message of Jesus for Men of Wealth." (1890); "The Christian Society." (1894). Others who deserve mention include the Princeton trustee Stephen Colwell, one of the first to promote Christian ethics; the Reverend Washington Gladden ("Working People and Their Employers," (1876); Josiah Strong ("Our Country: Its Possible Future and Current Crisis," (1885); the Reverend Shailer Matthews, (*The Social Teaching of Jesus*, (1897)); the Reverend Charles M. Sheldon, (*In His Steps* (1896), the best-selling U.S. book of the 19th century, with 30 million copies and the subtitle "What Would Jesus Do?"; and the Harvard Divinity School's Francis Peabody ("Jesus Christ and the Social Question," (1900)). On the movement generally, see Gary Dorrien, *Social Ethics in the Making*. (NY: Wiley, 2011), and A. Scott Berg, *Woodrow Wilson* (2013).
100. For the Social Creed of 1908 (original Methodist Episcopal version), see <http://liberalslikechrist.org/about/socialcreed.html>. In 2008, to commemorate the 1908 creed, a "New Social Creed for the 21st Century" was adopted by the Advisory Committee on Social Witness Policy of the PC(USA). See <http://www.presbyterianmission.org/ministries/acswp/social-creed-21st-century>.
101. Roosevelt invited several leading Methodist Episcopalians who were Social Gospel proponents to the White House in December 1907. <http://liberalslikechrist.org/about/socialcreed.html>.
102. See the famous progressive speech that Roosevelt made at Osawatomie, Kansas, on August 10, 1910, which included a rousing endorsement of a graduated income tax: <http://teachingamericanhistory.org/library/document/new-nationalism-speech/>.
103. Woodrow Wilson, *When A Man Comes to Himself*. (NY: Harper & Brothers, 1901).
104. See Matthew Bowman, "Sin, Spirituality, and Primitivism: The Theology of the American Social Gospel,"

Religion and American Culture. (V. 17, 2007), 95–126.

105. Walter Rauschenbusch, *Prayers for the Social Awakening*, (1909), 23.

106. See Exhibit 8 Appendix Slides: "Family Tax Rates by \$2013 Income Level, 1913–2013." (Slides of data calculations referred to here and below were developed by James S. Henry and are available from the Advisory Committee on Social Witness Policy—ACSWP.)

107. At least on issues not involving race, alcohol, or immigration; from today's standpoint, some supporters of the social reform were quite politically incorrect when it came to their patronizing attitudes toward blacks and immigrants. Several also became strong advocates of Prohibition, seen as a moral, economic, and public health issue. On questions of racial equality and especially the "Jim Crow" laws that were sweeping the South at the time, the largely white supporters of economic reforms, including Bryan and Wilson, were only intermittently progressive. See Berg, Wilson, *op. cit.* Indeed, under Wilson's presidency, Jim Crow laws were extended to Washington D.C. This is one of the few blemishes on Wilson's otherwise forthright role with respect to progressive causes, from tax justice and labor laws to the League of Nations.

108. See Exhibit 8, Appendix Slides: "Family Tax Rates by \$2013 Income Level, 1913–2013." (as at note 106).

109. For more details on the 1916–17 Revenue Acts, see George K. Yin, "James Couzens, Andrew Mellon, and the Creation of the Joint Committee on Taxation," NYU/UCLA Tax Symposium, October 2012.

110. See Exhibit 7, Appendix Slides: "Growth of Public Participation in U.S. Federal Income Taxation, 1913–2013." (available from ACSWP).

111. All tax bracket figures are in comparable \$2013.

112. See the data on historical US tax rates at The Tax Foundation, <http://taxfoundation.org/article/us-federal-individual-income-tax-rates-history-1913-2013-nominal-and-inflation-adjusted-brackets>; <http://taxfoundation.org/article/federal-corporate-income-tax-rates-income-years-1909-2012>.

113. See Exhibit 8, Appendix Slides: "Family Tax Rates by \$2013 Income Level, 1913–2013."

114. See U.S. Revenue Act of 1917, 40 Stat. 300.

115. See Kopczuk and Saez, "Top Wealth Shares in the United States, 1916–2000: Evidence from Estate Tax Returns." NBER Working Paper No. 10399?March 2004, available at <http://elsa.berkeley.edu/~saez/estatelong.pdf>.

116. See Exhibit 8, Appendix Slides: "Family Tax Rates by Real \$2013 HH Income Level." On the individual side, in real \$2013 terms, tax rates ran from 20 percent on the first \$10,000 to \$100,000, 38 percent on \$100,000 to \$500,000, 78 percent on \$500,000 to \$1 million, 85 percent on \$1 million to \$5 million, and a full 91 percent on net incomes over \$5 million. The nominal federal corporate tax rates were 30 percent on the first \$25,000 of net income and 52 percent on income over \$25,000, with a 22 percent surtax, for a combined maximum of 74 percent.

117. As of February 2013, the maximum nominal federal rate was 39.6 percent for individuals and 35 to 39 percent for corporations. The marginal nominal corporate tax rate is a temporary 39.1 percent for corporate profits in the narrow bracket \$100,000 to \$335,000, and 38 percent in the bracket \$15 million to \$18.3 million due to the phasing out of lower brackets. For corporate from \$335,000 to \$10,000,000 the rate is 34 percent; for \$10,000,000 to \$15,000,000 and over \$18,333,000, 35 percent.

118. There are heated arguments about what the average effective federal income tax rates on for companies and small business, but the best recent estimate is about 18.5 percent, with far lower rates for MNCs on their non-U.S. profits and royalties. See CTJ(2011): "Corporate Tax Payers and Corporate Tax Dodgers, 2008–2010," at <http://www.ctj.org/corporatetaxdodgers/CorporateTaxDodgersReport.pdf>. For US state corporate income taxes, the average effective state corporate income tax rate is about 3 percent. After allowing for interactions, the average combined rate is about 20.9 percent as of 2013. For a corporate view, with less accurate accounting, see Price Waterhouse Coopers, "Assessing Tax: 2013 Tax Rate Benchmarking Study," available at http://www.pwc.com/en_US/us/industrial-products/publications/assets/pwc-industrial-products-tax-rate-benchmarking-report-2013.pdf; and Tax Foundation (2011, 2013), at <http://taxfoundation.org/sites/taxfoundation.org/files/docs/sr195.pdf>; <http://taxfoundation.org/blog/another-study-confirms-us-has-one-highest-effective-corporate-tax-rates-world> Both TF and PWC found much higher average effective rates, at 27 percent. The TF methodology, however, based their calculations on profits reported by companies to the IRS—though the point of tax avoidance is to reduce reported profits below actual profits.

119. See John F Kennedy, "Special Message to Congress, January 24, 1963," at <http://www.presidency.ucsb.edu/ws/?pid=9387#axzz2hKBVloUk>.

120. See *Buckley v. Valeo*, 424 U.S. 1 (1976), which struck down federal campaign spending limits. This was one of the first in a series of decisions by the court that expanded the role of money in U.S. political campaigns, on the view that "money is speech."

121. See Exhibit 9, Appendix Slides: "Federal Individual Income Taxes by Reported Income Class—Reduced Progressivity: 1960s to 2000s." The chart on this data ends in 2004, but the reduced federal income tax progressivity trend continued until January 2013, when the top federal rate was boosted slightly, from 35 percent to 39.6 percent, a 13 percent jump. At the same time, however, a 2011 cap on employee payroll tax rates was removed, allowing them to increase by 2 percentage points, a 15 percent jump. So once take federal payroll tax rates into account, it is not clear that overall progressivity increased in 2013.

122. Exhibits 10: Appendix Slides: "Composition of Total U.S. Tax Receipts/GDP(%), 1950–2012." (available from ACSWP).

123. See Exhibit 11: "U.S. State and Local Total Tax Rates By Income Level;" Institute on Taxation and Economic Policy, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," November 2009, p. 1, available at <http://www.itepnet.org/whopays3.pdf>.

124. In 2009, about a third of state tax revenues derived from property taxes. 23 percent were from sales taxes, 21 percent from individual income taxes, just 3.6 percent were from state corporate taxes, 1 percent were from state estate taxes, and 19 percent came from various other generally regressive taxes. Tax Foundation (2012) data.

ADDITIONAL RESOURCES

Tax Justice-Charts

[Tax Justice-Charts.pdf](#)