SHARING THE COST OF GOVERNMENT FAIRLY
A Pronouncement adopted by General Synod VII (1969)

Christians recognize that government has an important place in the providence of God in meeting his purposes and human needs. Christian stewardship regards the payment of taxes, levied through the democratic process, as a public duty, and their responsible use as a public trust. In the interest of justice, we insist that the revenues necessary to meet the expenses of government must be apportioned with utmost fairness.

Tax Criteria

Taxes, while primarily a source of governmental revenue, intentionally or unintentionally also affect the economic and social process. Tax policy, therefore, requires difficult choices to be made in accordance with the relative weight given to diverse, sometimes contradictory, norms.

The following criteria, however, are basic in a just system:

1. **Adequacy.** Taxes should provide adequate revenue for the government.
2. **Simplicity.** The law should be understandable to the taxpayer and relatively easy for both taxpayer and government to administer.
3. **Distributive Justice.** Taxes should fall on taxpayers in accordance with their ability to pay. While income is not the only element in a measure of ability to pay, it is proper for individuals with higher incomes to be taxed at successively higher rates, other things being equal. Regressive taxes—which take a larger share of income from the poorer taxpayer than from the richer—should be used sparingly and avoided entirely whenever possible.
4. **Neutrality.** Taxes should not create artificial incentives for making economic decisions except where explicitly intended as a matter of public policy. Even then, the end sought may be more effectively and forthrightly achieved through properly designed controls and incentives.
5. **Vitality.** Both the nature and extent of taxation should be designed to enhance rather than inhibit economic efficiency, healthy non-inflationary growth, and productivity in a socially constructive manner.
6. **Encouraging Voluntary Agencies.** The tax structure should continue to stimulate the use and development of voluntary agencies for their salutary contributions to our life.

Shortcomings of Our Tax System

In the light of these principles, we believe that major reliance should be placed on the income tax. But we call attention to certain shortcomings in present United States tax policy.

1. **The tax system does not meet the test of equity.** Since 1913 the United States has accepted the principle that a person's income tax should be related to his ability to pay, and that those enjoying greater income should contribute a larger percentage in taxes than those with a smaller income. Nevertheless, this rule is inequitably applied in practice. The mass of our citizens, who work for wages and salaries, pay full tax on their incomes. Yet in 1965 individuals reporting incomes over $1-million paid, in the aggregate, income taxes amounting to less than 31% if the net taxable income which they actually reported. They paid far less than this percentage of their total income, although the nominal rate scale called for a tax of at least 67%. In 1967, there were 155 Americans with incomes in excess of

$200,000 who paid no federal income tax at all.[1] At the other end of the income scale there are persons who pay income tax on annual incomes of less than $2,000, in addition to Social Security payroll taxes and a host of state and local taxes.

These disparities are not due to dishonesty in reporting. In great measure they are the result of legal "loopholes" which favor certain forms of income as over against others or apply inconsistent criteria in defining the (untaxed) costs of earning income.

These inequities were intensified by the 10% surtax of 1968. This measure taxes at a still higher level those of moderate income who already pay taxes. It taxes at a minimal rate, or not at all, those who are able to escape a full share of the tax burden.

Tax reform, largely deferred when taxes were reduced in 1964 and substantially denied when taxes were increased in 1968, it is important to counteract the prevailing bitterness and sense of injustice. It would assure that the burden will fall fairly on all the American people, not just on those powerless to secure preferential tax immunity or relief.

2. **The tax base does not meet the test of adequacy.** The federal tax base has been eroded by many provisions that permit vast amounts of real income legally to avoid inclusion in net taxable income. As a result, those who can benefit are too much concerned with the technicalities of tax avoidance; our resources are unwisely allocated; and a high rate scale is applied to those forms of income which are fully taxed. Our direction must be toward a broader tax base involving fewer tax preferences, with a consequent reduction in rates.

3. **Tax inequities prevent counterbalancing fiscal policies.** In order to carry out its responsibilities to eliminate unemployment and inflation, the government needs effective tools and techniques. One of the most important ways of achieving these objectives is by adjusting income tax rates to counteract adverse economic trends. To be most useful, however, these changes must be enacted as soon as such problems appear. So long as our tax law is laden with complexities and inequities, Congress will be reluctant to alter tax rates to meet national economic requirements.

4. **The inequities of the federal law become inequities in state taxation.** Many states compute their own income taxes on a base that is identical with that for the federal tax, except for minor modifications. As a result, the state income tax heightens the inequities of the federal tax. This inequity is intensified by state reliance on property, sales, and other taxes that have undesirable impacts on economic efficiency, urban development, housing, and the living standards of the poor. States cannot take the lead in tax reform without increasing the compliance burdens of taxpayers. Reform at the federal level, therefore, is essential for the improvement of state fiscal systems.

Proposed Reforms

We recognize that a revision of the federal tax structure involves many technical questions. Nevertheless, we ask for correction of certain glaring and obvious deficiencies:

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[1] Testimony of former Secretary of the Treasury Joseph Barr before the Joint Economic Committee of the Congress.

1. **All personal income, whatever its source, should for tax purposes be treated on essentially the same basis, and be subjected to a graduated rate of taxation which is progressively heavier as the total amount increases.** Any exceptions must be fully justified by a vital social or economic purpose, and must be scrutinized particularly as to their effect upon the less affluent members of society.

2. **In the interest of greater equity and adequacy, the following steps should be taken to correct existing preferences and inconsistencies:**
   - **a)** Interest paid on bonds hereafter issued by state and local governments should be taxed like income from other investments. In order to make this change financially feasible for state and local governments, federal grants and/or low-interest loans to such governments must be provided to offset the otherwise increased interest costs. This would be preferable and cheaper than the present hidden subsidy by tax exemption, which is no longer required by constitutional interpretations.
   - **b)** Corporations should be allowed to deduct cash dividends as a business expense in determining their taxes, just as interest payments are now deducted. This would eliminate "double taxation" and tend to encourage the sale of new stock.
   - **c)** The present preferential treatment afforded most capital gains should be eliminated and such gains should be taxed at the same rates as any other income. Provision should be made for averaging the gains over the years involved to prevent unduly high rates for a single year. It is contrary to most notions of fairness that capital gains income should be taxed at lower rates than income earned as wages or salaries. Such preference also injects an artificial influence into business decisions. There are better ways to improve the vitality of our economy.
   - **d)** Provisions for averaging income for tax purposes should be simplified and extended to taxpayers not presently enjoying this advantage. Persons who receive the bulk of their income in a relatively short period of their working life tend to pay higher income taxes over their lifetimes than those receiving their income more evenly throughout their productive years.
   - **e)** The preferential treatment extended to taxpayers who invest in oil, gas, and mineral properties should be ended. Depletion deductions, like depreciation deductions available to taxpayers in other fields, should be limited to the amount of the taxpayer's actual investment.
   - **f)** Federal estate and gift taxes should be revised to permit a husband or wife to receive property from the spouse tax free; but the law should not permit wealthy families to avoid estate taxes for generations by the use of long-term trust arrangements.
   - **g)** Provisions permitting profits on property appreciated in value to escape tax free at the owner's death should be changed so that where no inheritance tax is paid the recipient of inherited property takes the decedent's basis for the property.
   - **h)** Property contributed to spurious, tax-haven foundations which do not significantly serve social purposes should no longer confer the benefits of tax deduction on the individuals who created them.
   - **i)** Business and property of churches, foundations, educational and charitable organizations, but unrelated to their normal religious, educational, and humanitarian pursuits, should be taxed at the standard rates applicable to business and property not so owned.

j) We oppose use of a threshold principle below which charitable gifts would not be deductible.

3. **The income tax should be completely eliminated for those below the poverty line, and should not fall so heavily upon those immediately above the poverty line that they are thereby brought below it.** Millions of citizens living below the subsistence level already pay unduly large portions of their income in income, sales, Social Security, and other taxes.
4. **Any further increases needed to augment our Social Security trust funds for higher benefits to persons below or near the poverty level, should come from general revenues, principally the graduated income tax, rather than from increased taxes on the low-income worker's take-home pay.**[2]

We recognize that these initial efforts will not eliminate all inequities, but they will provide a worthy beginning. We must remove any ground for the cynicism which results when the tax system favors the citizen who can afford a lobbyist or a high priced tax adviser, and places a disproportionate share of the cost of maintaining the peace or eliminating want upon those who are below, at, or immediately above the poverty level. The sense of shared enterprise and purpose will be real and deep only when each person who is required to help finance the national effort knows that each of his fellow citizens is sharing the burden as he is, and that all income is given equal treatment.

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[2] How best to assure a reasonable minimum income to those living in poverty is not the subject of this pronouncement. Better Social Security, as improved welfare system, and the use of a negative income tax for these purposes are still under review by the CCSA.