

Principles for Fair and Just Taxation
A Policy Paper for the Kentucky Council of Churches
Adopted October 2004

The Social Context in 2004

The Commonwealth of Kentucky, along with virtually every other state government in these United States, has faced increasing financial difficulties over the past few years. The economic crisis and inadequate revenues have combined to force difficult budget choices which have resulted in cuts to programs and services to all Kentuckians, but which have fallen most heavily upon those already struggling against poverty, health factors, job loss, and inadequate education to find new opportunities for themselves and their families. Our lives as citizens in this Commonwealth have been further complicated by the partisan political stand-off in our state legislature that has prevented the adoption of a budget by the General Assembly over the two biennial budget cycles of 2002 and 2004.

Numerous government-sponsored study commissions have stated that Kentucky's system of generating tax revenues is woefully inadequate for present needs; that it is unjust, taxing Kentucky's already poor population at one of the two highest rates in the nation; and that it must be modernized or reformed. At the same time, the (so-called) "Taxpayer Protection Pledge" campaign among Kentucky legislators has prevented both the public and the legislators from taking fresh and imaginative looks at the Commonwealth's system of generating revenue. This pledge for "no new taxes" does not protect taxpayers in the long run, but places greater and greater burdens on individual tax payers and on those least able to pay because of its effect of inhibiting any real tax modernization.

The current Governor of the Commonwealth has recommended a tax modernization plan that includes a variation of a national effort known as TABOR, the Taxpayers Bill of Rights. Governor Ernie Fletcher has proposed a plan in which there is a "trigger" mechanism that mandates both revenue and spending limits. The revenue limit would lower income tax rates every time growth in revenue is projected to be higher than a factor based on a ratio of growth in the population plus inflation. In a time when the Commonwealth's treasury is already projecting deficits, this "trigger mechanism" would not enable the state to catch up and develop adequate "rainy day" reserves. The fundamental aim of such a program is the diminishment and reduction of government. Rather than representative democracy, such reductions lead inevitably to a less equitable style of governance in which services and programs

are voted on in referenda by the people, rather than by their elected representatives.

Oliver Wendell Holmes once stated that “taxes are the price we pay for a civilized society.” In order for a civilized society to thrive, taxes at all levels of government must be sufficient to meet the legitimate needs of the population, especially the modern equivalents of the Biblical widows and orphans.

It has become common for Americans to complain that they are “being taxed to death.” In reality, however, when looked at from an international perspective, we learn that the overall tax burden in the United States falls well below the average for the world’s developed countries. In these industrialized nations, taken together, taxes account for almost 37% of the total economy; in the United States, the comparable figure is just under 30%. Too many leaders have portrayed taxes as the cause of societal problems—including the struggles of the middle class to stay afloat economically. Too few leaders have advocated a tax system that is adequate for government and its programs and services, and that will be just and equitable to all citizens and all businesses.

Tax policy has tremendous potential to divide communities. The debate about taxes centers around how much money we get to keep for ourselves and how much we are expected to contribute to the common wealth of the society. As citizens, we have a moral obligation to assure that the money from the shared treasury is spent efficiently and for the common good, not for the privileged few.

Theological Foundations for our Convictions

The Kentucky Council of Churches has been an advocate for justice, especially justice for the poor, throughout its history, as have our member communions and congregations in their much longer histories. In a policy statement adopted by the 44th Annual Assembly, in October, 1991, the Council affirmed its conviction that God intends justice in human affairs. This conviction was grounded in the testimony of Scripture, particularly the witness of the prophets and Jesus. [*cf. “A Call for Justice”, adopted by the 44th Annual Assembly, October 11-12, 1991*] The indivisible commandment of Jesus to love God with all our being and to love our neighbors as ourselves constitutes the basis of all the Council’s work and advocacy in the public arena.

That same policy statement on justice articulated the resolve of the Council to support programs and policies, both in church and in government, that:

- recognize the mutual responsibility of all people, both as individuals and as groups, for each other;

- promote participation in the opportunities and responsibilities of citizens in our society;
- provide support and resources adequate for basic life necessities;
- promote opportunities for the poor to escape their limited choices; and
- encourage all citizens to examine how existing social structures maintain injustice.

The Bible and Taxes

While the Bible does not give us explicit direction on the issues of tax policy, neither is it silent on matters of taxation. Several familiar biblical stories are actually about taxation:

- Almost overlooked in the story of Joseph and his “coat of many colors” is that the heart of Joseph’s proposal for preparing Egypt for the coming years of famine was a 20% tax on the produce of the land (Genesis 41). It was this tax-generated produce which carried the Egyptians through the “lean” years.
- Gleaning was established in the Israelites’ law (Leviticus 19:9-10) as a way for those who owned the capital of that day (i.e., land) to care for the poor and destitute. Those with agricultural produce were not to harvest all of it; rather some was left so that those in need could help themselves.
- The story of Jesus which ends in the familiar “Render to Caesar the things that are Caesar’s...” arose when Jesus was asked whether the Jewish people should pay taxes to Rome (Mark 12:13-17). His answer seems to approve of those taxes, while recognizing that there are also things that belong to God. And the story of Zacchaeus (Luke 19:1-10) indicates that taxes could be exorbitantly or fraudulently high.

Principles of Just Taxation

- The Kentucky Council of Churches affirms its belief that representative democracy and a just and equitable system of taxation provide citizens with an important means of fulfilling the call of God to care for our neighbors, and especially the widow, the orphan, the sick, and the oppressed. With respect to tax policy Catholic/Christian social teaching understands the principle of social justice to include both contributive and distributive justice. Contributive justice suggests that all members of a society have a responsibility to contribute to the common good. Through contributions collected by taxes, we share the blessings that God has given us so that these resources may be used for the good of all. The collection of taxes

should be just, so that those with greater means should pay more of their income in taxes than those with less means

- Secondly, distributive justice includes these components:
 - The distribution of wealth should first address the basic material needs of all people for food, shelter, health care, and opportunity for personal and economic growth.
 - The revenues generated should be substantial enough to meet the needs and the objectives of the citizens as expressed through representative government. The challenge of providing a fair distribution of resources tests the moral strength of a society and serves as a crucial indicator of how well we maintain and regulate the inevitable struggle for justice and power. When we fail to respond to the cry of the poor and do not address the excesses of the privileged and powerful, we undermine the foundations of democracy and of justice in our society.
- Third, we affirm that Kentucky's current tax system is outdated, inefficient, unjust, and inequitable, both in its collection and in its distribution. We urge our legislators to set aside their fears of constituent retaliation regarding some prior commitment by the legislator to a pledge of "no new taxes." We urge our legislators, instead, to make a positive affirmation for, and to act swiftly to create, a modern and just tax revenue system for the Commonwealth of Kentucky. A sound revenue system for state government needs to be
 - efficient, that is, easy to collect and calculate;
 - stable;
 - able to grow with the economy;
 - and sufficient to meet the important needs of educating our children, caring for our most vulnerable and needy neighbors, and maintaining the public good;
 - one that will ensure the public welfare, by helping stimulate environmentally sound and socially just economic growth.
- Fourth, Kentucky needs to target tax relief for those who need it most:
 - for low-income working families through removal of the heavy level of taxation on the poor under current law, and
 - by the creation of a state Earned Income Tax Credit. Fifteen states have adopted state EITCs based on the federal EITC credit. The federal credit lifts more people out of poverty than any other program except Social Security.
- Fifth, tax loopholes that have created exemptions that may or may not have been appropriate in a particular time, but which grant special privileges not granted equitably to all, need to be closed. Businesses must pay their fair-share of the costs of government, which include maintenance of the public infrastructures, public education, health services, and public safety.

- Sixth, the Kentucky Council of Churches advocates for a just and equitable tax system that will not have negative effects on family life and on the poor.
 - Sales taxes are often more politically popular than income taxes or property taxes, because they are only collected by small amounts at a time, and the perception is that “everybody pays them.” Yet the fact is that sales taxes *only on goods* results in the low income people paying a larger proportion of their income than higher-income people. This is called “regressive taxation.” The Kentucky sales tax should be *applied to services as well as to goods*, especially in an economy based more on services than on the production of material goods. As food and medicine are exempted from the sales tax, so medical services should be the only exemption from the sales tax on services.
 - Revenue generated by taxing gambling, and by authorizing the expansion of gambling, will not solve Kentucky’s fiscal plight, but may, instead, make it worse. We do not see any state with commercial gambling whose fiscal situation is healthy. Academic economics professors in published, peer-reviewed research, have shown that the cost to society is about twice the revenue generated for the state. Expanded gambling is not worth the cost of the damaged lives of families, businesses, and the social fabric in general.

Conclusion: The Kentucky Council of Churches has confidence in the democratic legislative process in our Commonwealth to manage our tax policy in a morally responsible manner. We support the democratic process with the expectation that its deliberations will serve the common good with a special commitment to aiding and protecting the most vulnerable of our neighbors. When taxes are fairly determined and regulated, they will create a more stable and compassionate society, one that assures the possibility that all of us may live in peace and may be able to fulfill our human potential while enjoying the benefits of our life together.

Resources for this statement

Catholic Conference of Kentucky. Principles for Just Taxation, adopted by the Roman Catholic Bishops of Kentucky, February 2004.

Web-site: www.ckky.org

Iowa Catholic Conference. Statement on Taxation. October, 2003.

Web-site: www.iowacatholicconference.org

Maine Council of Churches. Principles for Fair Taxation, adopted February, 2003.

Web-site: www.mainecouncilofchurches.org

Missouri Catholic Conference. MCC Public Policy Committee’s Recommendations

Concerning the FY 2004 State Budget. February, 2003

Web-site: www.mocatholic.org

North Carolina Council of Churches, Tax Justice: A Policy Statement Adopted by the House of Delegates, November 9, 2000.

Remembering the Common Good in Times of Financial Crisis: A Policy Statement adopted by the House of Delegates, November 12, 2002.

Web-site: www.nccouncilofchurches.org

Discussion Questions:

1. **What aspects of our national life and life in the state of Kentucky need to be financed by government? Brainstorm a list of what government now finances as a beginning step in discussing this question.**
2. **Should all people be required to contribute something to the common good? If so, what kinds of contributions are appropriate? Are taxes the only way to contribute? What other contributions might be mandatory?**
3. **Should contributions be "progressive"; that is, based on the ability to contribute?**
4. **Do you agree with the principle of distributive justice? If so, why? If not, why not?**
5. **Should the state care for those unable or unwilling to support themselves? What happens when the weak and vulnerable are not supported? Who is responsible?**
6. **How does the Great Commandment that we love God with all our heart, mind, soul, and strength, and our neighbor as ourselves, apply to the issue of tax justice?**
7. **What would be the most just means for a society to provide the services required for a healthy nation or state? Are "voluntary" taxes on gambling, tobacco, and alcohol, "just"? How? Should the state promote gambling so that it can harvest the taxes on it at a much higher rate than on any other product or business, and thereby avoid raising income taxes, property taxes, or sales taxes?**
8. **Would you support a sales tax on all "services" except medical services? In an economy based more on services than on consumption of goods, what justifies the continued exclusion of services from the sales tax?**