RELIGIOUS GIVING AS A GUIDE TO THE PRINCIPLES OF GOOD TAXATION

Robert C. Wolf*

Abstract

The principles of good taxation are a set of guiding values necessary for any responsible state to consider in constructing their tax policy. The principles are derived from various philosophical and economic discussions including but not limited to the role of the state, ownership of natural resources, the optimal size of the state, the emphasis on individual versus community rights, and what is reasonable. Adam Smith (1776) initiated the discussion on the principles of good taxation including equality, certainty, convenience and economy. Others have expanded and articulated the principles to include reasonable and neutral. Curran (2001), Hamill (2006), and others have considered the principles of good taxation from a religious viewpoint. Along different lines, Croteau (2005) develops the principles of giving for a religious institution. As religious institutions rely on giving in a similar manner that states rely on taxes, it is useful to review the principles of good taxation in comparison to the principles of giving. This research finds strong consistency between the principles of good taxation and the principles of giving. Additionally, the principles of giving make a strong argument for elevating the importance of

---

* Robert C. Wolf is a Full Professor in the Finance Department at the University of Wisconsin – La Crosse.

effective allocation of tax revenues as a principle of tax collections.

INTRODUCTION

In any reasonable case, good government necessitates good tax policies. However, the philosophical and economic values regarding tax policies may vary by constituency, time, location, institutional purpose, and economic system. Although the philosophical and economic literature on taxes and the principles of taxation is unusually voluminous, Smith (1776) provides a benchmark for the principles of taxation that has demonstrated substantial applicability through time. More current discussions have modified the principles in Smith (1776) based on changes in economic focus and the implications of technology. Other additions to the literature, often motivated by a religious orientation, have increased the emphasis of social justice on tax principles, including the role of the state as well as equitable allocation of global or community resources.

The philosophical and economic arguments are engaging but substantial; the following provides only a brief introduction to two important philosophical discussions. A fundamental issue that has implications for tax policy is the ownership rights and responsibilities of natural resources. Curran (2001) suggests the goods of creation exist to serve the needs of all. De Jouvenel (1952) cites the ethical premise, ‘men should be equally endowed with natural resources from which to draw produce in proportion to their toil.’ If this concept is held true by the state, some redistribution is necessary to allocate resources to everyone. Additionally, it may be necessary to continuously reallocate the goods of creation to continuously rebalance the endowment of the members of the state. Alternatively, Nozick (1974) argues the failure to manage one’s natural resources will often lead to an equitable deterioration of endowment and mismanagement should not be rewarded. Many others argue the market mechanism is the most efficient at assigning endowment to productive members of the state.

Another fundamental philosophical discussion is whether the state emphasizes individual rights versus state's rights. Curran (2001) suggests the Catholic tradition attempts to find a balance between individualism and collectivism, allowing individuals' rights to private property, but to a limited extent. Nozick (1974) argues the state's primary concern is to support individual rights. However, which individual rights or needs is an important decision of the state. The state may support a strong welfare system or a strong military. In either case, redistribution is necessary for the state to support these or any rights, as Holmes et.al. (1999) suggests all rights have a cost. Nozick (1974) arguing from a libertarian view suggests the government should intervene as seldom as possible. Additionally, Nozick (1974) and others would argue smaller government is better government, which necessarily implies fewer redistributions for any right, need or cause. Finally, Nozick (1974) suggests substantial redistribution may lead to a loss of individual rights, larger government and increased power for the state.

Smith (1776) takes a moral perspective on the economic arguments and Steuerle (2008) takes a descriptive perspective. Smith's Wealth of Nations (1776) develops criteria for 'good' taxation in a market economy. Smith (1776) does not define 'good' explicitly, but the motivations for his principles include the maximization of tax revenues, the equity of the tax burden, the reduction of fraud, and an appropriate level of system complexity. Steuerle (2008) suggests a non-profit, non-partisan perspective and takes a pragmatic view on modern tax policy. Steuerle (2008) compares the actual tax policy to tax principles over time, suggesting numerous contradictions for many reasons. He further suggests tax principles are important but receive the most emphasis when times are tough. Steuerle (2008) also suggests the tax code should change according to societal development, government changes in emphasis, and changes in the economy. Finally, the tax system is unavoidably connected to the budget.

According to Black (2004), a tax is a compulsory payment imposed by the law on the citizens of a state or a nation in order to meet public needs. As state may refer to a religious institution and citizens may be defined as those belonging to a specific institution, a tax may be specifically viewed as 'a compulsory payment imposed by a religious institution on those that belong to the religious state to support the needs of that state.' From the Biblical Old Testament, the tithe was a compulsory payment imposed by the legal code of the Old Testament on the Israelites to support the theocracy. Croteau (2005) developed the principles of giving based on the Biblical New Testament and explains the critical principles necessary for the religious institution to consider in raising revenues to support the institution. As such, the principles of giving are comparable to the principles of good taxation.

The principles of good taxation must be part of the discussion and above the discussion simultaneously. The principles of good taxation are not a discussion of progressive versus regressive tax systems, but the realization that a fair and fully informed discussion and decision on vertical equity is necessary for the tax system to be 'good'. It may be useful intuitively, to view the principles of good taxation as the mission statement of tax policy.

The paper will proceed with a review of the literature on the principles of taxation in section 2, a summary and application of the principles of giving on the principles of taxation in section 3, and a conclusion in Section 4.

PRINCIPLES OF TAXATION

Adam Smith (1776) identified the principles of taxation as equality, convenience, certainty and economy. These principles still capture much of the discussion. Buckstein (2008), Guppy et.al. (2008), Minnesota Taxpayers Association (2000), and Ten Principles of Sound Tax Policy, all provide principles of good taxation developed by various policy groups. Steuerle (2008) develops a list of principles that strongly overlaps with Smith (1776), but has a more descriptive orientation. For example, Smith (1776) suggests a simple tax code supports several tax principles, while Steuerle (2008) directly suggests the tax code should be simple.

Smith (1776) defines the principle of equality by suggesting the tax payer's "contribution should be proportional to their respective abilities, in proportion to the revenue they enjoy under the protection of the state." Equity is the most commonly cited tax principle, often divided into two discussions, vertical equity, and horizontal equity. Vertical equity refers to treating individuals of varying incomes fairly, which essentially is a discussion of whether tax rates should be progressive. Most argue the tax system should be broad based and all Americans should have responsibility for funding the government. However, standard exceptions to this idea of equity include less responsibility for the poor or those with substantial personal expenses. Hamill (2006), Curran (2001), and others suggest taxes should be progressive, requiring a greater percentage burden on those with greater ability to repay.[1] Blum and Kalven (1966) suggest that although progressive taxation has substantial popular support, there is no clear argument to justify the popularity or to clearly substantiate a progressive tax policy. De Jouvenel (1952) concludes the popular support for progressive taxation may simply be resentment of the wealthy. Mitchell (2005) and others, as flat tax advocates, suggest vertical equity implies a flat tax across all income levels. Horizontal equity suggests those receiving the same income should be taxed the same. Although this principle appears obvious to many, there are complications or conditions that may and have often justified differing tax rates for equal income individuals. For example, families with dependent children are often taxed at lower rates than single individuals with identical incomes. A couple living together is taxed less than a married couple of the same income. Whether these deviations from

[1] Rosenberg et.al. (2006) suggests the wealthy should pay a higher marginal percent on income, but also suggest total wealth should be considered in allocating tax burden.

equal taxation rates across the same income are examples of equity or inequity is debated.[2]

Smith (1776) lists the second principle as certainty. The principle of certainty includes “time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and every other person. The intent of the principle includes the ideas of clarity, accountability, and consistency. A lack of clarity allows the tax gatherer to aggravate specific contributors or gather revenues for the tax gatherer himself. Uncertainty encourages the insolence and favors of corruption. A small degree of uncertainty is more important than a large degree of inequality.” Clarity suggests the implied tax burden should be understood by all. It includes the idea of open and transparent. Delugo (1869), Curran (2001), and Hamill (2006) argue the tax code should be ethical. However, the principles they prescribe make a clear statement about an ethical tax burden, but comment little on the process being ethical. Also, the idea of clarity is especially important when the population is responsible to calculate their own tax burden. Clarity increases transparency and should reduce administrative costs. Some suggest a clear tax code is a simple tax code, but this may be too dramatic, as some complications are clear and improve the compliance of the tax code with tax principles. Others have made the tax code open or transparent but very complex, effectively reducing the clarity of the code. Certainty also suggests the tax liability needs to be paid at a specific time and place; often this is described as accountability. The principle of certainty also includes the idea that tax payers have the ability to reasonably forecast current and future tax liability. Typically this implies the tax code does not change dramatically over time and that the tax code is stable, non-retroactive, or predictable. The U.S. tax code is increasingly complex and changes frequently and substantially, often violating the principle of certainty.

---

[2] There also appears to be an unstated assumption that fair implies a tax on income and seldom a tax on wealth.

Smith (1776) lists the third and fourth principles of good tax policy as convenience and economy, respectively. Smith (1776) defines the principle of convenience as a “convenient time and manner for taxpayers to cooperate, taxes paid at the time of purchases or at the time of receiving taxable revenue.” Convenience also includes the idea of accessibility, suggesting the tax code should be simple enough for all to understand and calculate. Similarly, Smith (1776) describing the principle of economy as tax revenues to the state should be similar to the cumulative tax liabilities of taxpayers. Economy suggests the tax collection system is inexpensive and does not create undue burden. Most discussions of tax principles suggest the system needs to be easy to administer which would reduce cost and increase compliance.

Many discussions on tax policy include economic efficiency or neutrality. The idea of efficiency is predicated on the assumption that the market mechanism provides the most efficient allocation of resources and generates the greatest productivity. An efficient tax code preserves the allocation of resources provided by the market. Neutrality suggests the tax code should not alter the market allocation of resources. For example, a tax code should not favor an industry, business model, individual demographic or regulatory body.[3] The two concepts are similar, but neutrality is slightly more general. Although neutrality is often offered as a principle, it is actually a favored position for free market economists under a principle that may be termed ‘equitable endowment’ or similar.

The tax code needs to be reasonable. The taxes raised need to be sufficient to support necessary government expenditures but should not substantially reduce individual freedoms and the rights to private property. The interpretation of necessary government varies widely. Hamill (2006) argues the government must provide the minimum essential job training, education, health care and

[3] Downer (2001) suggests current tax law is non-neutral providing a subsidy supporting internet sales.

housing, but adds all have reasonable rights to private property, individual autonomy and freedom. Delugo (1869) and Curran (2001) suggest the tax code needs to meet the needs of the common good that are affordable. Curran (2001) lists several conditions for the just distribution of the tax burden focusing both on the principles of raising tax revenues as well as the principles of spending tax revenues. Holmes et.al. (1999) suggests without effective government, American citizens would not be able to enjoy their private property in the way they do and summarizes with the idea that individual rights, whatever they are, cost money. Steuerle (2008) suggests individuals have rights to the products of their labor and a fair return on savings. Nozick (1974) provides a philosophical argument against redistribution suggesting the state is best when it provides very limited intervention. Much of governments' size is dependent on how actively it redistributes; bigger governments redistribute more. Finally, De Jouvenel (1952) suggests substantial redistribution from wealthy to poor is more importantly a redistribution of power from the individual to the state.

Table 1 lists the principles of good taxation developed by various authors.

Table 1: Principles of Good Taxation, Various Authors

Smith (1776)	Curran (2001)	Hamill (2006)	Steuerle (2008)
Equality Horizontal Vertical Certainty Convenience Economy	Progressive Reasonable Tax only for the common good	Progressive, suggesting no tax on poor Opportunity to develop basic rights provided	Horizontal Equity Vertical Equity Efficiency Individual Equity Simplicity Revenue Raising

THE PRINCIPLES OF GIVING COMPARED TO THE PRINCIPLES OF GOOD TAXATION

Croteau (2005) summarizes the principles of giving from a religious viewpoint, using the Biblical New Testament as a source. The summary imposes the following categories: the details of giving, the amount of giving, the foundation of giving, the motivation of giving, the attitude of giving and the results of giving.[4] Some of the principles may be less applicable due to the differences between a religious institution and a civic institution; however as we, 'pledge allegiance to the flag,' some of the allegiance expected by religion may also be appropriate for a civic government.

The principles included under details of giving are everyone should give, everyone should give on a regular systematic basis, and great care should be used in handling the proceeds. Although almost every summary of tax principles suggests the tax burden should be broad based, few suggest everyone is responsible. Most suggest the poor should be spared the responsibility of tax liabilities or at the very least bear a reduced burden. Hamill (2006) suggests an ethical tax code does not tax the poor. In contrast, requiring all to make a tax contribution may reduce the 'free rider' problem and generate a sense of responsibility and identification with the goals of the state. Also, the principles of giving include some wealth reallocation from wealthy to poor, suggesting, as many tax policies, that when distributions are included with collections the tax policy is increasingly progressive.[5]

The details of giving also suggest giving should be chronologically regular. This is consistent with the current mode of taxation as taxes are automatically deducted from regular paychecks. This appears to be similar to the principle of

---

[4] A summary of the principles of giving by category is in the Appendix.

[5] The principles of giving repeatedly suggest contributions should be assigned to meet community needs.

convenience as described by Smith (1776). However, convenience suggests the timing of tax collections should be consistent with the individual's income receipts. Chronologically regular tax payments are not necessarily convenient in economies with strong seasonality, for example agriculture.

The details of giving also suggest great care should be used in handling proceeds. Both the religious views expressed by Hamill (2006) and Curran (2001) omit a discussion on the integrity of the tax collectors, while Smith (1776) includes this topic. Smith (1776) suggests a small lack of clarity is considerably worse than larger errors in equity. Smith (1776) recognized and clearly stated the tax system needed to reduce opportunity for fraud or self interested behavior both in assessing and collecting tax liabilities. Additionally, the integrity of the tax collector could also be included under the motivation to give, as mismanagement of taxes certainly undermines collection of taxes.

The principles included in the amount of giving are giving should be proportional to prosperity, giving needs to be sufficient to meet the needs of the institution, and giving should be generous but not too generous. Giving should be proportional is a reference to the discussion on vertical equity found in almost every discussion of tax principles, however clearly advocates for a constant percentage across incomes. The current discussion on vertical equity is split, some models suggest the marginal rate should be flat across income levels and some suggest the marginal rate should increase with higher incomes. Curran (2001) and Hamill (2006) both argue an ethical tax system should be progressive in nature, charging higher tax rates with higher incomes. Steuerle (2008) argues for vertical equity, but does not provide a definitive statement about flat versus progressive tax rates. Numerous authors have proclaimed the advantages of a flat tax system. Smith (1776) argues taxes should be proportional to 'the revenues enjoyed under the protection of the state,' or for a flat tax.

Giving needs to be sufficient to support leadership and the institutional structure, but not large enough to eliminate the benefits of liberty and private property. Curran (2001) suggests taxes should be sufficient to fund the needs of the common good. Steuerle (2008) suggests revenue raising, although not a principle, is a necessary goal such that tax revenues are sufficient for necessary and affordable government services. Alternatively, Hamill (2006) suggests taxpayers should be allowed to enjoy the product of their labor. The literature, taken in aggregate suggests the tax burden should be reasonable; sufficient to meet needs, but not burdensome to the elimination of freedom and private property.

The foundation of giving reviews the value of a relationship with Deity and highlights the blessings, i.e. health, peace, love, forgiveness and prosperity followers receive from Deity. Mauss (1954) models the relationship with Deity as a 'gift exchange,' common in many cultures. The gift exchange is defined as Deity providing various blessings in exchange the recipient of the blessings responds with gifts including tithes or offerings to the Deity. Similarly, a well organized state provides many benefits including peace, health, wealth, and etc, suggesting the foundation of giving taxes could be based upon the good provided by the state. As taxpayers acknowledge the state is well run and they are recipients of the health, wealth, safety and etc provided by the state, they should be more inclined to pay taxes. Although, Curran (2001) suggests taxes need to be sufficient to pay for the needs of the common good relating tax collection to revenue allocation. The principles of giving make a stronger statement suggesting distribution and collection of tax revenues are not separate. More directly, 'good' distribution of tax revenues is the foundation of tax collection. Previous research on the principles of good taxation generally stops with a description of tax collection procedures that are good and fair. However, if tax revenues are spent poorly, good procedures of tax collection are substantially undermined. One could argue poor allocation of resources will drive collection of tax revenues to be increasingly militaristic, regardless of how well the tax code complies with the principles of good taxation. Therefore, the foundation of the principles of good tax collection is adherence to the principles of good tax revenue allocation. Similarly, Holmes et.al. (1999) argues, which rights the state supports, is a critical decision of the state.

The remaining principles are grouped in categories with a more subjective nature. The principles included in the motivation of giving, the attitude of giving, and the results of giving suggest giving is an expression of thankfulness; giving increases righteousness and encouragement; and giving should be done voluntarily. This would imply we should pay taxes out of thankfulness. The activities of the state may provide many benefits, substantially improving quality of life. Greenwood (2007) suggests taxes are good because they strengthen the economy, support excellent schools, reduce pollution, promote economic justice and are good for business. Even a poorly run state is better than chaos. As recipients of the products of the state we should be grateful for the opportunity to support the state through taxes. As a well run state's contribution is substantial, the opportunity to participate in the good deeds of the state through tax contributions should generate a sense of pride and ownership. The Declaration of Independence states, 'to secure these rights, Governments are established among men.' Holmes et.al. (1999) provides extensive argument that the rights provided by government cost money. Paying taxes could make people feel good. Finally, giving voluntarily or willingly is in contrast to an earlier principle of giving suggesting a required contribution. In context, it is possible voluntary suggests cooperation with the principles of giving without coercion.

CONCLUSION

The principles of giving have many similarities to the principles of good taxation including vertical and horizontal equity, certainty, convenience, reasonableness and neutrality. The principles of giving suggest giving should be proportional to prosperity, very similar to a flat tax. Although there is avid debate on flat versus progressive tax structures, the principles of giving are consistent with flat tax proponents. Interestingly, the principles of giving are broad based, requiring even the poor to give.

Although consistent with vertical equity, this is largely inconsistent with most tax policy. Also, the principles of giving demonstrate horizontal equity making no mention of accommodation for variation in expenses, such as, children. Certainty includes the concepts of clarity, simplicity, accountability, and consistency. The principles of giving are clear and simple. However, as no specific percent of income is stated and may vary with the needs of the institution, some variation in giving rates seem probable. Also, although giving is expected, there is no clear enforcement policy, which is inconsistent with the standard view of accountability. The requirement of regular gifts is convenient and the principles of giving are simple, allowing easy compliance. The principles of giving require a reasonable tax, enough to fund the needs of the common good, but not too burdensome to preclude enjoyment of private property. Finally, the principles of giving are highly neutral and allow the market mechanism to function without substantial reallocation. However, the allocation of receipts from giving should support community needs, suggesting the net tax after distributions has some progressive element.

The primary contribution of the principles of giving is to elevate the importance of the allocation of tax revenues to the collection of tax revenues. The idea that poorly allocated tax revenues has a negative and potentially strongly negative impact on tax collection is a notable improvement to the principles of taxation. A principle that is sufficiently meritorious to be included equivalently with those of Smith (1776) or Steuerle (2008). Finally, the principles of giving encourage the attitudes of thankfulness and cooperation in paying taxes. Although those attitudes are not part of the standard discussion on the principles of good taxation, it would be naive to suggest attitude is not a factor in compliance with the procedures of good taxation. Whether, thankfulness is useful in a discussion of the principles of good taxation or simply an attitude that we all need help remembering is unclear. Regardless, the state is essential to the normal functioning of society and taxes are our opportunity to support the good deeds of the state.

REFERENCES

Black, Henry. 2006. Black's Law Dictionary. Westlaw.

Blum, Walter and Harry Kalven. 1966. The Uneasy Case for Progressive Taxation. Chicago: The University of Chicago Press.

Buckstein, Steve. 2008. Oregon needs to set principles to guide tax policy. www.statesmanjournal.com.

Curran, Charles. 2001. Just Taxation in the Roman Catholic Tradition. The Journal of Religious Ethics, pp. 113-133.

De Jouvenel, Bertrand. 1952. The Ethics of Redistribution. London: Cambridge University Press.

De Lugo, Johannes. 1869. *Disputationes Scholasticae et Morales,* Vol. 8, Paris.

Downer, Pauline. 2001. Taxation of Electronic Commerce: An Examination of Canadian Government Tax Policies and Directives: Application of Adam Smith's Canons of Taxation. Journal of Financial Management and Analysis 14(1): 52-63.

Greenwood, Stephanie. 2007. 10 Excellent Reasons Not To Hate Taxes. New York: The New Press.

Guppy, Paul and Jason Mercier. 2008. Principles of Taxation for Elected Officials. Washington Policy Center: Policy Note. washingtonpolicy.org.

Hamill, Susan Pace. 2006. An Evaluation of Federal Tax Policy Based on Judeo-Christian Ethics. Virginia Tax Review 25(3): 671 -764.

Holmes, Stephen and Cass Sunstein. 1999. The Cost of Rights. New York: W.W. Norton and Company.

Mauss, Marcel. 1954. The Gift: Forms and Functions of Exchange in Archaic Societies. Glencoe, Illinois, The Free Pres.

Minnesota Taxpayers Association. 2000. Health Care Taxes in Minnesota: An Analysis. 4/23/20094/23/2009.

Tax Foundation. Ten Principles of Sound Tax Policy. www.taxfoundation.org/files/tfprinciples.pdf.

Mitchell, Daniel. 2005. A Brief Guide to the Flat Tax. Backgrounder by The Heritage Foundation 1866 (July 7).

Nozick, Robert. 1974. Anarchy, State and Utopia. New York: Basic Books, Inc.

Smith, Adam. 1776. An Inquiry into the nature and causes of the Wealth of Nations. New York: Modern Library.

Steuerle, Eugene. 2008. Contemporary U.S. Tax Policy. Washington D.C.: The Urban Institute Press.

Stevens, Marty. 2006. Temples, tithes, and taxes: the temple and the economic life of ancient Israel. Peabody, Massachusetts: Hendrickson Publishers Inc.

Appendix: Principles of Giving

Principles of Giving by Categories	
I. The Foundation of Giving	
Relationship – Driven[a]	Giving is based upon one's relationship with the Lord and the receiver of the giving
Grace – Driven[b]	Giving is a response to the grace of God shown to believers
Love – Driven[c]	Giving is a demonstration of a Christians love
II. The Details of Giving	
Universal[d]	Every believer should give
Systematic[e]	Give on a regular basis, that is, weekly, bi-monthly, or monthly
Precautions[f]	Proper precaution should be made with the handling of money
III. The Amount of Giving	
Heart-Based[g]	Giving is based upon the amount determined in one's heart
Income-Based[h]	The value of the gift given is expected to be related to the income of the offerer
Needs – Based[i]	Meet the needs of those ministering and of fellow saints
Generous[j]	Give generously, but not to the point of personal affliction
IV. The Motivations for Giving	
Love[k]	Giving is an expression of love for God
Spiritual Growth[l]	Giving causes one to grow in good works
Thankfulness[m]	Giving expresses thankfulness to God
Sacrificial[n]	Recognize that God praises sacrificial giving

Appendix: Principles of Giving (continued)[6]

V. The Attitude of Giving (and possessions)	
Voluntary[o]	Giving ought to be done out of one's free volition
Intentional[p]	Seek opportunities and give deliberately in order to meet a genuine need, not out of guilt merely to soothe a pressing request
Cheerfully[q]	God loves a cheerful giver
Willingness[r]	All of a Christian's possessions should be at the Lord's disposal
VI. The Results of Giving	
Righteousness[s]	Give so your righteousness will grow
Edification[t]	Generous giving will cause other believers to rejoice and glorify God

[6] a. 2 Cor 8:5, b. 2 Cor. 8-9, c. 2 Cor. 8:8, d. I Cor 16:2; Rom 1:20-21, e. 1 Cor 16:2, f. 2 Cor. 8:20-21, g. Exod 25:1; 35:5, 21-22; 36:6; 2 Cor 9:7, h. Deut 16:16-17; 1 Cor 16:2; 2 Cor 8:3,12, i. 1 Cor 9:1-14; 2 Cor 8:13-14; 2 Cor 9:12, j. 2 Cor 8:2-3, 13; Phil 4:17-18, k. 2 Cor 8:8-9, l. 2 Cor 9:6,8, m. 2 Cor 9:12, n. Mark 12:42-44; 2 Cor 8:2-3, o. 2 Cor 8:3; 9:7, p. 2 Cor 8:4; 9:2, q. 2 Cor 9:7, r. Matt 19:16-21, s. 2 Cor 9:6, 9-10, t. 2 Cor 9:13