Advocating for Tax Reform as Christian Stewardship and Public Duty
A Resolution of Witness
Approved by General Synod XXIX (2013)

Summary

The General Synod has repeatedly called for a tax system that is progressive (with the burden falling most heavily on those with more money), adequate (raising sufficient revenue for society's needs), and equitable. To bring the current tax code more in line with these principles, General Synod XXIX urges all settings of the United Church of Christ to advocate and work for a financial transaction tax; a stronger estate tax; reform of the corporate income tax, and an end to a reduced tax rate on capital gains.

Background

In 1969, General Synod VII approved a pronouncement, "Sharing the Cost of Government Fairly," that began:

> Christians recognize that government has an important place in the providence of God in meeting [God's] 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.

This statement is as true today as in 1969. But in the intervening years, support for paying taxes has eroded, as has the fairness of the tax system. Many serious problems plague the country today: the large number of poor and near-poor families who fail to receive the financial support they need and the opportunities they deserve; the severe shortage of good jobs; the unaffordable cost of higher education; the millions of people who lack health insurance; the roads and bridges that are crumbling, and the high level of income inequality. While multiple factors contribute to these problems, our flawed tax system plays an important role.

Religious organizations and our community partners struggle to meet the needs of the many people who lack food, shelter, health care, jobs, and other essentials. But these faithful efforts inevitably fall short; the needs are just too great. In a nation of 310 million people, and in a world of over six billion, only government – of, for, and by the people – has the potential to raise sufficient resources and put in place the structures and institutions that can fill our unmet needs and provide for the common good. Taxes pay for a social safety net that supports us when we cannot support ourselves. Taxes fund avenues of opportunity by paying for education, health care, training programs, childcare, and early childhood education. Taxes strategically assessed can encourage desirable behaviors and discourage undesirable ones. Taxes pay for goods and services that promote the common good. A good tax system is essential for an equitable and well-functioning society.

For the government to do its work successfully it needs adequate resources. But in 2012, federal revenues, as a share of national income, were lower than at any time since 1950.[1] More revenue is needed. The tax system must also be fair. The United Church of Christ has long supported a progressive tax system, that is, a system in which tax obligations "fall on taxpayers in accordance with their ability to pay….It is proper for individuals with higher incomes to be taxed at successively higher rates, other things being equal."[2]

A good tax system raises sufficient revenue for society's needs, is progressive, that is, the tax burden falls most heavily on those with more money, and is fair, without loopholes and other possibilities for tax evasion. The following reforms could strengthen the U.S. tax system.

Financial Transaction Tax. A financial transaction tax would slightly raise the cost of buying and selling financial instruments such as stocks, bonds, mutual funds, currency, derivatives, and credit default swaps. Although the tax – a very small amount in the range of ½ of 1% of the purchase price – would be nearly unnoticed by typical investors, it would reduce unproductive and potentially destabilizing financial speculation while encouraging investments in the long-term health and growth of a company.

Capital Gains Taxes. Under current law, taxes are assessed on the gains from the sale of investments in stocks, bonds, businesses, mutual funds, and property. (Only gains on primary residences above $250,000 for single filers or $500,000 for married are taxable.) Currently the tax rate on capital gains is 15% for investments held for a year or more, compared with a rate of 35% on personal income above $388 thousand.[3] The benefits of a low tax rate on capital gains accrue disproportionately to the wealthy. In 2013, an estimated 94% 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.[4] Because many wealthy people receive much of their income from investments, the low tax on capital gains is the primary reason that millionaires pay lower taxes, as a share of income, than their secretaries.[5] In 1969, General Synod VII called for the elimination of the "present preferential treatment afforded most capital gains ….[which] should be taxed at the same rates as any other income."

Carried Interest. In a private investment fund like a hedge fund, the lead manager (the general partner) typically receives 20% of the fund's profits each year. This "carried interest" is typically about one-third of the general partner's annual pay[6] which can exceed $1 billion a year.[7] Carried interest is taxed at the low capital gains rate of 15%, not at the rate of 35% applied to personal income. It would be fairer and more efficient for carried interest to be taxed like other wage and salary income.

Estate Tax. The estate tax is the most progressive federal tax. In 2011, when the tax was assessed on estates of $5 million or more and the top rate was 35%, just 3,270 estates owed any estate tax and only 40 estates with small businesses or farms (defined as those with a value below $5 million) owed estate taxes. Over half of all estate taxes are paid by people who were, before death, in the top 1/10th of 1% of the income distribution.[8] The tax also encourages donations to the nonprofit sector because contributions to charity made from estates are 100% tax-free. The estate tax helps narrow income inequality by reducing the size of massive inheritances and limits the corrosive power and influence that accompanies wealth.

Corporate Taxes. The total amount of taxes paid by corporations, measured as share of national income or gross domestic product, has been declining for decades. In the 1950s, corporate taxes totaled 4.8% of national income. The share fell to 3.8% in the 1960s, to 2.7% in the 1970s, and to 1.7% - 1.9% in the 1980s, 1990s, and 2000s. But while firms' contributions to federal revenue have declined, their needs for the things that tax money buys are unchanged. Corporations need healthy, educated, talented, and innovative employees; they need reliable infrastructure that allows them to communicate and move products to market; and they need the courts and a regulatory system to make the market function.

Corporate tax *rates* in the U.S. are higher than in many other industrialized countries. But U.S. corporations have lower tax liabilities – that is they *pay* less in taxes – than do corporations in nearly all the major industrialized countries. Among 26 countries, firms in the U.S. pay less corporate tax, measured as a share of GDP, than do firms in all but one of the other countries.[9] A three-year study of 280 Fortune 500 corporations found that they paid just 18.5% of their profits in taxes, on average, roughly half the official corporate tax rate of 35%. Thirty corporations, including GE, Boeing, PepsiCo, PG&E, and others, paid no taxes during the three years.[10]

There are many loopholes and preferences in the corporate tax code that allow firms to reduce their tax liabilities. Reforms need to focus on the treatment of stock options, depreciation allowances, and industry-specific tax breaks. Firms also evade taxation by shifting income to low-tax foreign jurisdictions (so-called tax havens) where they maintain an office or at least a post office box. U.S. multinational firms appear to book a disproportionate share of profits in low-tax locations.[11] A recent GAO report found that 83 of the 100 largest publicly-traded U.S. corporations have subsidiaries in tax havens.[12] Some large firms have many such subsidiaries: Abbott Laboratories, a giant drug company, reported 36; ExxonMobil has 32; and Citigroup reports 427. Estimates of the taxes lost through these practices range from $10 to $60 billion a year.[13]

Another flaw in the tax code not only reduces firms' tax liabilities but also encourages them to move jobs offshore. Because the U.S. does not tax corporations on the profits they earn abroad until they bring those profits back to the U.S., corporations have a financial incentive to build plants and create jobs in other countries, or to make their business appear to take place abroad, in order to reduce their taxes. This flaw in the tax code also encourages a host of other book-keeping irregularities designed to boost reported profits earned abroad and reduce profits earned in the United States.

Theological and biblical foundations

The Great Commandment calls Christians to love God and love our neighbors as we love ourselves (Matthew 22:36-39). We are called to care for the hungry, the thirsty, and the sick (Matthew 25: 31-46). We are called to care for orphans, widows and others who cannot care for themselves (James 1:27). In a modern society caring and sharing occur in many ways including, very importantly, a system of progressive taxation that pays for a social safety net, the universal provision of public services, and opportunities for all.

We are called to generosity and we need not fear scarcity. God provides abundantly for all people (Exodus 16: 14-21, Mark 6: 30-44). We do not need to worry whether there will be enough. If we first seek God's reign, if we first seek to live out God's vision for God's people and God's earth, then all we need will be given to us (Matthew 6: 25-34). There is enough for all if we share.

In Paul's second letter to the Corinthians, he asks them to donate money to help poor Christians in Jerusalem. He writes, "I do not mean that there should be relief for others and pressure on you, but it is a question of a fair balance between your present abundance and their need, so that their abundance may be for your need, in order that there may be a fair balance. As it is written, 'the one who had much did not have too much, and the one who had little did not have too little'" (2 Corinthians 8:13-15).

A fair balance is needed. One person's abundance is for another person's need. There is plenty for all if we share. We are called to work for a world where there is a "fair balance" between abundance for a few and the needs of many.

The words from the 2005 resolution, "For the Common Good," are worth repeating. Too often our culture promotes the false message that "each of us is responsible for oneself alone and that our individual successes and failures are due solely to our own efforts. …For Christians this idolatrous and narcissistic view fails to acknowledge the primacy of God. The earth is the Lord's and all that is in it (Psalms 24:1). God's abundance is to be shared by all God's children."

TEXT OF THE MOTION

WHEREAS, in 2005, General Synod XXV approved the resolution "For the Common Good," http://www.ucc.org/justice/public-education/pdfs/Resolution-for-the-Common-Good.pdf affirming that "paying taxes for government services is a civic responsibility of individuals and businesses"; "the tax code should be progressive, with the heaviest burden on those with the greatest financial means"; and reaffirming "the obligation of citizens to share through taxes the financial responsibility for public services that benefit all citizens, especially those who are vulnerable";

WHEREAS, in 2005, General Synod XXV also approved the resolution, "To Advance the Cause of the Most Disadvantaged in the Budgetary and Appropriations Process," http://www.ucc.org/synod/resolutions/TO-ADVANCE-THE-CAUSE-OF-THE-MOST-DISADVANTAGED-IN-THE-BUDGETARY-AND-APPROPRIATION-PROCESS.pdf urging the "General Minister and President and … Justice and Witness Ministries to: … exert their full influence in the public forum to support the restoration of more progressive taxes and to oppose cuts in programs that hurt the disadvantaged";

WHEREAS, in 2003, General Synod XXIV approved the resolution, "A Theological Response to Corporate Greed," http://www.ucc.org/synod/resolutions/A-THEOLOGICAL-RESPONSE-TO-CORPORATE-GREED.pdf calling the UCC to "[s]upport legislation limiting the ability of companies to use offshore subsidiaries to shelter tax payments or to avoid transparency of information needed to monitor corporate behavior";

WHEREAS, in 1975, General Synod X approved a "Statement on Racial and Economic Justice" calling the UCC to "address the need for just tax reform which recognizes the problem of inadequate income distribution";

WHEREAS, in 1969, General Synod VII approved the pronouncement, "Sharing the Cost of Government Fairly," affirming that "[t]axes should fall on taxpayers in accordance with their ability to pay" and calling for a number of tax reforms including the elimination of the "present preferential treatment afforded most capital gains ….[which] should be taxed at the same rates as any other income."

WHEREAS, the United States is an extremely wealthy nation;

WHEREAS, in 2011, 46.2 million people (15.0%) in the Unites States lived in poverty including 16.1 million children (21.9%) and, of these, 44% lived on less than half the poverty-level income;

WHEREAS, as the national income, per person, doubled over the past 38 years, income inequality rose: average income for the bottom 90% of households declined, average annual income for the next 9% rose by less than 50% (less than $50,000), but annual income among the top 1/100th of 1% of households rose by an average of $20 million;

WHEREAS, income inequality is weakening society and destroying the social fabric;

WHEREAS, shortcomings of the tax system highlighted in the 1969 pronouncement "Sharing the Cost of Government Fairly," persist:

- the tax system does not meet the test of equity,
- the tax base does not meet the test of adequacy, and
- the inequities of the federal law become inequalities in state taxation.

WHEREAS, churches and nonprofit organizations are unable to meet the needs and provide the opportunities needed by all God's people in order to live out God's vision for lives of fullness;

WHEREAS, in a nation of over 300 million people and a world of over six billion, government action is needed to provide for the common good and adequate tax revenues are needed to fund these activities;

WHEREAS, the United Church of Christ has previously called for a tax system that is:

- progressive, insuring that higher-income households and corporations 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 legally 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 in order to reduce income inequality and enhance social cohesion.

THEREFORE BE IT RESOLVED that General Synod XXIX of the United Church of Christ calls all settings of the United Church of Christ to advocate, educate, work, and pray for:

- a financial transaction tax to reduce financial speculation;
- taxes on capital gains and "carried interest" (income earned by hedge fund managers that is currently taxed at the rate of capital gains) that match those levied on wages and salaries;
- a strong estate tax to reduce the transfer of massive wealth across generations;
- reform of the corporate income tax to 1) boost revenue, 2) close loopholes and stop the use of tax havens, and 3) end incentives that encourage corporations to move jobs offshore; and
- a tax system that is progressive, fair, neutral, adequate, and redistributive; and
- We call upon national staff to explore effectiveness and implications of carbon taxes.

FUNDING

The funding for the implementation of the Resolution will be made in accordance with the overall mandates of the affected agencies and the funds available.

IMPLEMENTATION

The Collegium of Officers, in consultation with appropriate ministries or other entities within the United Church of Christ, will determine the implementing body.

ENDNOTES

[1] Council of Economic Advisors, *Economic Report of the President 2012*, table B79. 2012.
[2] From "Sharing the Cost of Government Fairly," a Pronouncement adopted by General Synod VII, 1969.
[3] Tax Policy Center. Individual Income Tax Parameters (Including Brackets), 1945-2012. January 10, 2012.
http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=474 Accessed 10-11-12

[4] 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

[5] 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

[6] Tax policy Center, Business Taxation: What is carried interest and how should it be taxed? http://www.taxpolicycenter.org/briefing-book/key-elements/business/carried-interest.cfm Accessed 10-11-12

[7] Creswell, Julie and Azam Ahmed. Large Hedge Funds Fared Well in 2011. *New York Times.* March 29, 2012. http://dealbook.nytimes.com/2012/03/29/large-hedge-funds-fared-well-in-2011/ Accessed 10-11-12.

[8] Tax Policy Center. Tax Topics: Estate and Gift Taxes. http://www.taxpolicycenter.org/taxtopics/estatetax.cfm Accessed 10-11-12

[9] Citizens for Tax Justice. U.S. Is One of the Least Taxed Developed Countries. June 30, 2011. http://www.ctj.org/pdf/oecd201106.pdf Accessed 10-11-12

[10] Citizens for Tax Justice. Corporate Taxpayers & Corporate Tax Dodgers, 2008-2010. November 2011. http://www.ctj.org/corporatetaxdodgers/CorporateTaxDodgersReport.pdf Each of the 280 firms made a profit in each of the three years, 2008-2010. Accessed 10-11-12.

[11] Tax Policy Center. International Taxation: What are the consequences of the U.S. international tax system? http://www.taxpolicycenter.org/briefing-book/key-elements/international/consequences.cfm Accessed 10-11-12.

[12] GAO, Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions, GAO-09-157, Dec 18, 2008. http://www.gao.gov/products/GAO-09-157 Accessed 10-11-12.

[13] Gravelle, Jane G. Tax Havens: International Tax Avoidance and Evasion. Congressional Research Service. June 4, 2010 http://assets.opencrs.com/rpts/R40623_20100604.pdf Assessed 10-11-12