

## Chapter 9c – Government and Economics: Taxes

Are progressive taxes beneficial? Are there benefits to lower tax rates?

1. Does government have the right to collect taxes?

“Is it lawful to pay taxes to Caesar, or not?” (Matt. 22:17).

“Therefore render to Caesar the things that are Caesar’s, and to God the things that are God’s” (Matt. 22:21).

<sup>6</sup>For because of this you also pay taxes, for the authorities are ministers of God, attending to this very thing. <sup>7</sup>Pay to all what is owed to them: taxes to whom taxes are owed, revenue to whom revenue is owed, respect to whom respect is owed, honor to whom honor is owed (Rom. 13:6-7).

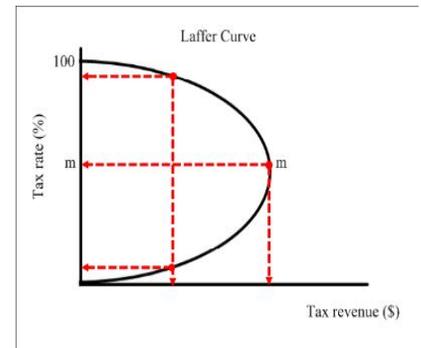
2. Should tax rates be high or low in an economy?

- If the tax rate is 0%, then the government has no money to support its functions or responsibilities.
- If the tax rate is 100%, then government controls all economic life, and no one has freedom.
- Every increase in taxes takes away that much more human freedom.

3. The benefit of lower taxes

a. Lower tax rates bring economic and social benefits in the following way:

- (1) Encouraging businesses to invest and to grow
- (2) More jobs & lower prices, which both benefit the economy and encourage economic growth.
- (3) Businesses and individuals earn higher incomes
- (4) Higher incomes are taxed at the lower tax rate, but more tax money still flows into the government coffers because people are paying taxes on so much more income.
- (5) Lower taxes increase peoples’ personal freedom to do what they want to do with more of their own money



b. There is a lower limit to how far tax rates can drop and still result in a total increase in taxes paid, but there is disagreement as to where this point is.

c. When thinking about higher or lower taxes, the question is whether one wants to *increase human freedom* and *also raise more money for government needs* and *also help the economy*, or whether taking more money from the “wealthy” is *more important than all of these other three goals*.

4. Taxes on corporations

- a. If a government imposes high taxes on corporations the entire society actually pays this tax
- b. The corporate tax rate in the US is 39.3% (avg combined fed/state corp taxes), the 2<sup>nd</sup> highest in the world.
- c. Lowering the corporate tax rate will:
  - Restore our competitiveness in the world economy
  - Encourage business investment
  - Stimulate the economy and bring about lower prices for goods produced in the US
  - Attract more foreign investment to the US & encourage our corporations to invest here rather than abroad.

5. Capital gains tax - a tax paid on the increase in the value of an asset that is held over a period of time

- The owner already pays taxes on the income that is produced each year from that investment. Should he also pay taxes on the increase in value on that property?
- It is economically beneficial to the nation to have this rate be very low, since that encourages more investment, which helps an economy to grow.

6. Income tax rates

a. Tax rates are progressive; determined by the person’s marginal tax rate and their deductions

b. Is such a system of tax rates fair?

- Israel had both a “flat tax” and a “head tax,” but there is no biblical justification for a progressive tax

Marginal Tax %	Single	Married Filing Jointly
10%	\$0 - \$8,350	\$0 - \$16,700
15%	\$8,351 - \$33,950	\$16,701 - \$67,900
25%	\$33,951 - \$82,250	\$67,901 - \$137,050
28%	\$82,251 - \$171,950	\$137,051 - \$208,850
33%	\$171,951 - \$372,950	\$208,851 - \$372,950
35%	\$372,951 +	\$372,951 +

<sup>22</sup> Be sure to set aside a tenth of all that your fields produce each year. <sup>23</sup> Eat the tithe of your grain, new wine and oil, and the firstborn of your herds and flocks in the presence of the LORD your God at the place he will choose as a dwelling for his Name, so that you may learn to revere the LORD your God always (Deut. 14:22-23).

<sup>30</sup> A tithe of everything from the land, whether grain from the soil or fruit from the trees, belongs to the LORD; it is holy to the LORD . . . <sup>32</sup> The entire tithe of the herd and flock—every tenth animal that passes under the shepherd's rod—will be holy to the LORD (Lev. 27:30-32).

<sup>13</sup> Each one who crosses over to those already counted is to give a *half shekel*, according to the sanctuary shekel, which weighs twenty gerahs. This half shekel is an offering to the LORD. <sup>14</sup> All who cross over, those twenty years old or more, are to give an offering to the LORD. <sup>15</sup> *The rich are not to give more than a half shekel and the poor are not to give less* when you make the offering to the LORD to atone for your lives (Exod. 30:13-15).

7. *But isn't it "fair" for the rich to pay a higher percentage?*

a. Problems:

- Assumes that a rich taxpayer for some reason *does not deserve* to have more money left to live on
- Destroys incentives for work, excellence & productivity if the government levels out after-tax incomes by heavily taxing the wealthy (i.e. taxing \$50,000 at 0% and \$500,000 at 90% so both are left with \$50,000)

b. A better solution: Each person deserves *what he has legally and fairly earned* in each year.

- The principle of a 10% tithe in the Bible would give some support to the idea of a "flat tax"
- With a flat tax, both rich and poor receive *exactly the same benefits* from the government, though the rich pay *many times as much as poor taxpayers* for these benefits
- The appropriate rate of taxation *does not depend on how much each person has left after paying taxes.*  
"You shall not steal" (Ex. 20:15)

"The laborer deserves his wages" (Luke 10:7).

"He who plants and he who waters are one, and each will receive his wages according to his labor" (1 Cor. 3:8).

In Jesus' parable of the ten servants who each received one mina to use in "business" (Luke 19:13), the servant who said, "Your mina has made ten minas more" was commended by the master and given great reward, for the master said, "Well done, good servant! Because you have been faithful in a very little, you shall have authority over ten cities" (Luke 19:17; see also the parable of the talents in Matt. 25:14-30).

c. Objection: "Nobody in society should be able to earn \$500,000. That is just too much for any one person."

- Salaries are determined according to the varying market demand for certain skills and abilities.
- If we don't like it, the way to change it is to change the viewing habits and spending habits of the society

8. *It is good for society if everyone who earns income pays some taxes, and it is destructive to society if most people who earn income pay little or no taxes*

a. If everyone who earns income in a society pays at least some amount of tax, then the government is accountable to the broadest possible base of society for how it spends money.

b. Some provision should be made so that people who earn a very small amount of income will pay only a small amount of tax, but still *some tax*

And if she cannot afford a lamb, then she shall take two turtledoves or two pigeons, one for a burnt offering and the other for a sin offering . . . (Lev. 12:8).

c. However, in the US in 2009, nearly half (47%) of the citizens *pay no federal income taxes at all*

d. This means *nearly half of the voters in the US* do not really care what gov't does with the tax rate

e. In this way the government is cut loose from accountability to the voters

9. *Who is paying most of the taxes in the US today?*

a. The numbers

- The top 50% of wage earners paid 97% of all the taxes in 2006
- The bottom half of those who earned income paid less than 3%
- The top 1% of people who earned income in the US paid 40% of income taxes in 2006 (They earn 22% of the income reported.)

10. *The economy as a whole, and all the people in the nation, and the government, all gain benefits from lower taxes on the rich*

a. The benefits:

- (1) Each taxpayer is able to keep more of his own money, which helps him and also, because the money is quickly put to work, helps others in the economy, and the economy grows.
- (2) It gives more incentive for people to work & to be productive, and this also means the economy will grow
- (3) The government will collect more money in taxes
- (4) There will be a significant increase in personal liberty in the nation

b. The options:

- (a) Help the economy, help people at every income level from poor to rich, help society, increase government tax revenue, and increase liberty

(b) Take a higher percentage of money from the rich, harm the economy, harm everybody in society from poor to rich, harm society, decrease taxes received by the government, and decrease liberty

c. The relevant biblical teachings all argue in favor of lower tax rates:

- (a) Property belongs to individuals, not to society and not to the government,
- (b) Gov't should not take excessive amounts of money for itself
- (c) Gov't should seek to bring economic benefit and economic growth to a society
- (d) Gov't should protect and safeguard individual liberty

11. *But are the rich getting richer and the poor getting poorer?*

- a. The poor are not "getting poorer" in the US nor in any developed country.
- b. The rich are getting richer, but *the poor are also getting richer*, because as the economy grows, people *at every level of income* generally benefit. *The important point is that everybody is better off.*
- d. The only way to prevent this is for gov't to confiscate disproportionate amounts of income from those who earn more money, which removes the motivation to work harder and earn more money
- e. Gov't can *force* everybody to live in *equality of poverty* but cannot force everybody to live in equality of riches
- f. Many people who are poor one year actually start becoming wealthier in the next year.
- g. There is tremendous income mobility over time in the US, so when people talk about "the poor" and "the rich" over time, we must remember that *there are different people in the groups over time.*

12. *The death tax (estate tax)*

- a. The Question: Is it right for the government to take money from the estate of a taxpayer before he can give it to his children?
  - The principles of the Bible indicate that private property belongs to individuals, not to society or the government.
  - When the taxpayer acquired this wealth through productive work and saving, he *already paid* income tax as he was earning it.
  - The estate tax is a strong disincentive to entrepreneurship,

13. *The Bible's teaching on inheritance:*

A good man leaves an inheritance to his children's children . . . (Prov. 13:22).

House and wealth are inherited from fathers, but a prudent wife is from the LORD (Prov. 19:14).

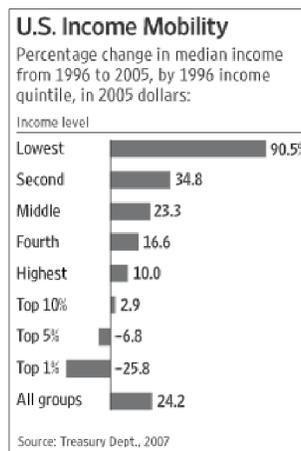
<sup>8</sup>And you shall speak to the people of Israel, saying, 'If a man dies and has no son, then you shall transfer his inheritance to his daughter. <sup>9</sup>And if he has no daughter, then you shall give his inheritance to his brothers. <sup>10</sup>And if he has no brothers, then you shall give his inheritance to his father's brothers. <sup>11</sup>And if his father has no brothers, then you shall give his inheritance to the nearest kinsman of his clan, and he shall possess it. And it shall be for the people of Israel a statute and rule, as the LORD commanded Moses (Num. 27:8-11).

*The prince shall not take any of the inheritance of the people, thrusting them out of their property. He shall give his sons their inheritance out of his own property, so that none of my people shall be scattered from his property (Ezek. 46:18).*

b. One argument for estate taxes: It prevents "excessive" amounts of wealth from accumulating within a few families.

c. Some responses:

- Who is to decide what is "excessive"?
- Must we assume wealthy people are more likely to misuse their money in socially harmful & destructive ways?
- If they do not use or acquire it in illegal ways, why should it be taken away from them?
- An estate tax simply accumulates more and more power for the government, which can be *more* harmful to a nation than a lot of wealthy families,
- It ultimately boils down to the question of who ultimately owns the property of a nation: individuals or the government? The Bible clearly takes the side of individual ownership of property.



Estate Taxes 2001-2011		
Year	Exclusion Amt	Top tax rate
2001	\$675,000	55%
2002	\$1 million	50%
2003	\$1 million	49%
2004	\$1.5 million	48%
2005	\$1.5 million	47%
2006	\$2 million	46%
2007	\$2 million	45%
2008	\$2 million	45%
2009	\$3.5 million	45%
2010	Repealed	0%
2011	\$1 million	55%

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