

Navigating the Question of 'Flat Tax' – 'Through the Fog'

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Some of you have asked me about the current issue of so-called "flat tax", all part of the broader conversation concerning tax cuts. Some have expressed concern over "things tax" and the relationship with increasing social and economic inequality in Australia. One of the things I have learnt over the years is that one way of clarifying the purpose of policy is to ask the question, 'who benefits'? So, I thought I might put pen to paper, asking the question, 'who benefits' from different tax policies? I shall divide this up into two sections: What is Flat Tax?... and...What does Christian Ethics Make of It?

Context: The Budget

Clearly the issue of so called 'flat tax' has arisen from the recent Federal budget and the Australian Government's stated broad intention to move toward a "simpler" tax structure over a period of seven years, marked by major tax cuts across the board. The first phase, the centre-piece of the 2018 budget, is to furnish a cash rebate of \$530 to 4.4 million taxpayers with incomes between \$48,000 and \$90,000. Additionally, in two elections' time, the government proposes a shift toward a flat tax system where the current 37% tax bracket, which applies to people between incomes of \$87,001 and \$180,000 will be axed, leading to a situation where people on incomes between \$41,000 and \$200,000 will be taxed at the *same marginal rate* of 32.5%, which would be a windfall for higher income earners whose tax rate in their higher earnings bracket, has traditionally been considerably more – at 45%. Let's then begin with the first question!

What is Flat Tax?

The term "flat tax", in its purest form, refers to the idea that the same tax rate applies to every taxpayer regardless of income. Democracies have generally been reluctant to establish flat tax rates, largely because of concerns about inequality and unfairness – more on that later. Three points are worth making here:

First, flat taxes are not without their history – some of it quite good. They have been applied in a range of countries in Eastern Europe and the Baltic and in all these cases, the motivation has had more to do with pragmatism than ideology. For example, Russia introduced a flat tax in 2001 of 13%, largely because the Russian state was collapsing, unable to pay its bills. By 1998, Russia's biggest enterprises were ignoring 29% of their taxes and paying another 63% 'in kind', with goods and services the government did not want. In lieu of \$80,000 in taxes, one company reportedly offered the government "ten tonnes of toxic chemicals". With the introduction of flat tax in 2001, within 12 months, personal income tax raised almost 26% more revenue in real terms. This increase in receipts was sustained and remains so today. The conclusion then is that in states where taxation systems have been dysfunctional, corrupt or virtually non-existent, flat tax systems have been useful, since they are easier both to administer and comply with.

Second, while the motivation in the mentioned countries has had to do with ease and efficiency of collection, this does not mean that flat tax has necessarily always been low tax. While many of the states concerned did actually cut their tax rates as they simultaneously flattened them, this was not so universally. For example, Lithuania's flat tax remains at 33%: clearly too high for many economic conservatives, but necessary to ensure comprehensive government services.

Third, while the purpose for flat tax in Eastern Europe and the Baltic, has been one of efficiency; in the West, it has been all about tax reduction. This is especially true of the US, but also in Australia and other Anglo-countries, where the ideology of 'small government' fascinates some. The logic goes like this: flat tax – in other words, less tax – gives taxpayers a greater incentive to earn more because they are not penalized as they move into higher tax brackets. With more disposable

income, the expectation is that people and institutions, will be freed-up to spend more, stimulating the economy and generating greater collective wealth – something that is ‘necessarily good’. Behind the apparent utopia however, lies something else – precisely what many of you have voiced to me – low tax rates for those of high income (regressive tax) and lower inflows into government coffers, meaning government has fewer economic resources at hand for the resourcing of significant services that are ‘givens’ in liberal democracies: education, health services and pensions, to name just three.

In sum then, flat tax can be of use. It has been easier for countries with problematic tax systems to adopt it as a path to fiscal functionality. In the West however, the purpose behind the idea is one of tax minimization for the wealthiest – citizens or corporates.

What Does Christian Ethics Make of It?

Let’s now turn to Christian ethical thought! What stands as axiomatic to Christian ethics, is the value of equality. This commitment has nothing to do with the idea that we are all equal in capacity – clearly, we are not. It has to do with something else: the conviction that we are all equal *before* God: put pithily, ‘worth is only worth in relation to God’. It is this equality before God, that has ‘knock-on’ effects for social and economic policy. The north American theologian, H. Richard Niebuhr, unpacked this well, when he wrote, “No one is excluded from God’s valuing. No special privilege can allow people to claim superiority for themselves or any in-group; no form of exclusion can be justified by assertions of differential human worth. The social ethic resulting from this vision, must extend to all”.

In the light of this commitment to equality *between* people in a community because of our common equality *before* God, the constant question for the Christian mind is, what does this or that idea, this or that policy mean when it comes to the good of us all together? This is where flat tax begins to fall ‘flat’ (no pun intended). Here I make two observations:

First, that the proposed structure for flat tax in Australia, is likely to promote more inequality. Ross Gittins, the SMH economics editor, warns us of this in his Opinion Piece (Tuesday, May 15th, 2018). Of Salvation Army background, and steeped in things Christian himself, he writes, “The peculiar design of these cuts gives prominence to...immediate but modest cuts for ‘low and middle-income earners’, while playing down the much more valuable cuts going later to the well-off (including a certain economic journo – in year seven I’m looking at savings of \$7225 a year).” What Gittins alludes to here is the ideological aspect of flat tax which the politicians understate.

Second, that lower tax receipts for government is likely to lead to cuts in services. In a sense, this is the more potentially destructive result from flat tax. Governments will have fewer resources than otherwise, leading to real difficulty in resourcing services that are fundamental to the community. These are services which people of more moderate means rely upon, including the aged. There is here then a ‘double whammy’ impact. People of more moderate means, pay proportionately more tax, while also living with fewer social services (Greg Jericho: The flat tax is really about cutting services, not taxes, The Guardian, May 10th, 2018).

For Christian ethics, the tax system, when managed well, can play an important social role in moderating inequality. That is always the primary Christian concern. Flat tax, construed as tax minimization for wealthy interests, remains unpersuasive, because it is one group and one group alone that benefits at the expense of the majority and of the common good. In democracies, worthy of the name, this is a high-risk strategy.

