

WHEN IS TAX EVASION ETHICALLY JUSTIFIABLE? A SURVEY OF GERMAN OPINION

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ABSTRACT

This paper examines the issue of the ethics of tax evasion. It begins with a review of the literature and proceeds to discuss the three main views on the issue that have emerged over the last 500 years. The paper then reports on the results of a survey taken of German business students.

INTRODUCTION

Over the centuries, three basic views have emerged on the ethics of tax evasion. View One takes the position that tax evasion is always, or almost always unethical. There are basically three underlying rationales for this belief. One reason is the belief that individuals have a duty to the state to pay whatever taxes the state demands. This view is especially prevalent in democracies, where there is a strong belief that individuals should conform to majority rule. The second rationale for an ethical duty to pay taxes is because the individual has a duty to other members of the community. This view holds that individuals should not be freeloaders by taking advantage of the services the state provides while not contributing to the payment of those services. A corollary of this belief is the view that if tax dodgers do not pay their fair share, then law abiding taxpayers must pay more than their fair share. The third rationale is that we owe a duty to God to pay taxes, or, stated differently, God has commanded us to pay our taxes. This view holds no water among atheists, of course, but the view is strongly held in some religious circles.

View Two might be labeled the anarchist view. This view holds that there is never any duty to pay taxes because the state is illegitimate, a mere thief that has no moral authority to take anything from anyone. The state is no more than a mafia that, under democracy, has its leaders chosen by the people. There is no such thing as a social contract according to this position. Where there is no explicit agreement to pay taxes there also is no duty. All taxation necessarily involves the taking of property by force or the threat of force, without the owner's permission. Thus, it meets the definition of theft. Stated as an equation, TAXATION = THEFT. A corollary equation is that FAIR SHARE = 0.

View Three holds that tax evasion may be ethical under some circumstances and unethical under other circumstances. This view is the prevalent view, both in the literature and according to the present survey.

REVIEW OF THE LITERATURE

Although many studies have been done on tax compliance, very few have examined compliance, or rather noncompliance, primarily from the perspective of ethics. Most studies on tax evasion look at the issue from a public finance or economics perspective, although ethical issues may be mentioned briefly, in passing. The most comprehensive twentieth century work on the ethics

of tax evasion was a doctoral thesis written by Martin Crowe (1944), titled *The Moral Obligation of Paying Just Taxes*. This thesis reviewed the theological and philosophical debate that had been going on, mostly within the Catholic Church, over the previous 500 years. Some of the debate took place in the Latin language. Crowe introduced this debate to an English language readership. A more recent doctoral dissertation on the topic was written by Torgler (2003), who discussed tax evasion from the perspective of public finance but also touched on some psychological and philosophical aspects of the issue.

Leiker (1998) speculates on how Rousseau would have viewed the ethics of tax evasion. Alfonso Morales (1998) examined the views of Mexican immigrant street vendors and found that their loyalty to their families exceeded their loyalty to the government.

A number of articles have been written from various religious perspectives. Cohn (1998) and Tamari (1998) discuss the Jewish literature on tax evasion, and on ethics in general. Much of this literature is in Hebrew or a language other than English. McGee (1998c, 1999) comments on these two articles from a secular perspective.

A few articles have been written on the ethics of tax evasion from various Christian viewpoints. Gronbacher (1998) addresses the issue from the perspectives of Catholic social thought and classical liberalism. Schansberg (1998) looks at the Biblical literature for guidance. Pennock (1998) discusses just war theory in connection with the moral obligation to pay just taxes, and not to pay unjust or immoral taxes. Smith and Kimball (1998) provide a Mormon perspective. McGee (1998b, 1999) comments on the various Christian views from a secular perspective. When Jesus is asked whether people should pay taxes to Caesar, Jesus replied that we should give to Caesar the things that are Caesar's and give God the things that are God's [Matthew 22:17, 21]. But Jesus did not elaborate on the point. He did not say that we are only obligated to give government 10 percent or 5 percent or any particular percent of our income.

There are passages in the Bible that seemingly take an absolutist position. Romans 13, 1-2 supports the Divine Right of Kings, which basically holds that whoever is in charge of government is there with God's approval and anyone who disputes that fact or who fails to obey is subject to damnation. It is a sin against God to break any law. Thus, Mao, Stalin and Hitler must all be obeyed, even though they were the three biggest monsters of the twentieth century, because they are there with God's approval.

A few other religious views are also addressed in the literature. Murtuza and Ghazanfar (1998) discuss the ethics of tax evasion from the Muslim perspective. McGee (1998a, 1999) comments on their article and also discusses the ethics of tax evasion under Islam citing Islamic business ethics literature (1997). DeMerville (1998) discusses the Baha'i perspective and cites the relevant literature to buttress his arguments. McGee (1999a) commented on the DeMerville article.

METHODOLOGY

After reviewing the Crowe thesis (1944), which summarized the 500 year theological and philosophical debate that has been going on regarding the ethics of tax evasion, and after becoming familiar with the scant recent philosophical literature on the topic, a questionnaire was developed that incorporates all the major issues that have been discussed in the literature. The questionnaire includes 18 statements that reflect all three viewpoints on the issue. The questionnaire was then distributed to business school graduate students and upper level undergraduate students at the Georg-Simon-Ohm Fachhochschule in Nuernberg, Germany. Seventy-one (71) usable responses, 30 from MBA students and 41 from upper-division International Business majors, were received.

Respondents were asked to indicate their agreement or disagreement with each statement by placing a number from 1 to 7 in the space provided. The statements generally started with the phrase "Tax evasion is ethical if..." A score of one (1) indicated strong agreement with the statement. A score of seven (7) indicated strong disagreement. Table 1 summarizes the results of the survey.

SURVEY RESULTS

Table 1 Ranking of Combined International Business and MBA Students (1=strongly agree; 7=strongly disagree)		
Rank	Score	Statement
1	6.38	Tax evasion is ethical even if most of the money collected is spent wisely.
2	6.31	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me.
3	6.21	Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects.
4	6.04	Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me.
5	6.00	Tax evasion is ethical if the probability of getting caught is low.
6	5.97	Tax evasion is ethical even if tax rates are not too high because government is not entitled to take as much as it is taking from me
7	5.72	Tax evasion is ethical if everyone is doing it.
8	5.13	Tax evasion is ethical even if it means that if I pay less, others will have to pay more.
9	5.07	Tax evasion is ethical if tax rates are too high.
10	4.76	Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of.
11	4.48	Tax evasion is ethical if I can't afford to pay.
12	4.25	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust.
13	4.24	Tax evasion is ethical if the tax system is unfair.
14	4.03	Tax evasion is ethical if a large portion of the money collected is wasted.
15	3.69	Tax evasion is ethical if the government imprisons people for their political opinions.
16	3.65	Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends.
17	3.59	Tax evasion would be ethical if I were a Jew living in Nazi Germany in 1935.
18	3.41	Tax evasion is ethical if the government discriminates against me because of my religion, race or ethnic background.

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