

Tithing – The Mormon Tax System

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The art of tax collection remove from the goose the most possible feathers with the least possible hissing.
Jean Baptiste Colbert, contrôleur general to Louis XIV

Introduction

Tithing has been paid off and on by members of the Mormon Church throughout its history. As is the case with most concepts related to LDS history, the perception of members is that things have always been as they are now perceived, whereas reality is much more interesting than that. See <http://www.signaturebooks.com/excerpts/hier2.htm#tithing> for a summary of how tithing has evolved within the Mormon tradition that is drawn from Michael Quinn's book "The Mormon Hierarchy – Extensions of Power".

This essay summarizes some of the ideas that I have had respecting what tithing is and how it should or could be calculated. I am recording here some advice I provided to members of my Ward near Vancouver, B.C., Canada while serving as Bishop a number of years ago, as well as things that occurred to me as I started to write essay.

Tithing as a Form of Taxation

Information is power. The course of human history shows a gradual democratization of power, driven by a democratization of information. One of the fundamental principles of democracy, as the Americans know best of all, is "no taxation without representation". Most of us forget that tithing is a form of taxation, and likely the most ancient. Not long ago, the rights of the king were grounded in divine mandate. Paying taxes to the king was, hence, a form of what we think of as tithing.

As church and state diverged, the concept of a separate religious tax - or tithe - came into being. And it has been collected at different rates and in different ways over time. Karen Armstrong notes that all fundamentalist leaning religious traditions are "anti-historical" since it is easier to inculcate obedience in a community that is unaware of how flexible its rules have been in the past. We have all heard the old saws about how those who do not know history are condemned to repeat it, and how those who control the past also control the future. These provide the key to understanding the Mormon "faithful history" policy and host of other Mormon governance issues.

Taxes are designed to finance "public goods" - things like common areas (chapels, temples etc.) or law enforcement that will be neglected or run amok unless someone is put in charge of them and they are funded by the community at large. In the olden days, kings and aristocrats became unconscionably wealthy by taxing the people without being held accountable to produce only the public goods the people wanted to "purchase" with those taxes. With the advent of democracy, a system developed that for a long time now has subjected taxation to the

closest of scrutiny. Elections are often fought on that very issue - how heavily will we be taxed and what will our money be spent on. Spending and taxation cannot be divorced from each other for long until the chickens start coming home to roost, despite how often politicians attempt to perform this alchemy.

In order for a taxation system to work as just described, it is of fundamental importance for the people to know what their money is being spent on, how much their government either has in the bank or owes to other parties, and what expenditures are planned. Without this information, representation by those who pay the taxes respecting how they are spent, and whether they should be collected in the first place, is impossible. And as a result, in cases where representation is absent those who control the right to tax tend to become very rich.

It should be clear how disconnected the Church is from this paradigm. The members know nothing about what is in the bank, how the money is spent, etc. All they are told each year by the Church's audit committee is, laughably, that the Church's spending is in accordance with the Church's spending policies, both of which are unknown to the members and all but a few of the leaders. This makes the members vulnerable to claims from local leaders (who are every bit as in the dark as the members are) that tithing rates are down, etc. and all should pay more.

While I lived in Vancouver, one particularly difficult to deal with General Authority told us on several occasions that our stake was about as good as the typical stake in the Philippines in terms of tithing and other donations etc., and that he was embarrassed to be our leader. "So pull up your socks and start to pay more!!", he told us. And some of us did; typically those who already carried an unconscionably heavy load.

The Church functions, in effect, in the fashion of a feudal fiefdom, and by all accounts a very wealthy one. The Church is buying shopping malls, developing game farms and building great and spacious monuments to current LDS leaders all over the world, and is asking for more money all the time at the local level. And in the time honoured political tradition, current leaders do not have the temerity to name these monuments after themselves but they leave them unnamed so that those who come along behind can apply the "appropriate" name. Look around BYU's campus for many examples of this practise. I will be surprised if the "Conference Center" does not someday bear Gordon Hinckley's name.

Contrast that to what is happening at the moment in this part of Canada. Oil and gas royalties have been strong for the past decade, we have run consistent budget surpluses, and we are approaching the point at which we will have no more provincial (equivalent of state) debt. And guess what is happening to our tax rates? They are coming down. There is speculation that at some future time the residents of this province may receive a "dividend" because they live here instead of having to pay taxes. Why? Because the people of the province own its natural resources, and this seems like an equitable way to divide that wealth. How about that? This testifies to the power of information. And where no information is available to the citizens (or members), that power resides in one place and one only - at the top of the hierarchy.

How Much Latitude Do Those Who Pay Tithing Have in its Calculation?

While serving as Bishop a number of years ago, I was regularly consulted as tithing settlement time approached by members of our Ward and others who knew I was a practising tax attorney. Their burning question was – "What constitutes a full tithe?". There is a dearth of advice from the Church's leaders on this point, and the usual controversy among members relates to the "gross" v. "net" debate. There is, however, much more to consider than that.

10% of Their "Interest"

Tithing is scripturally defined within Mormonism as "10% of their interest" (D&C 119:4) The Church's leaders have indicated that "interest" means "income", and have declined to say much more than that on the basis that what is a full tithe is between the individual and the Lord. I am only aware of a few cases in which a Bishop has had the temerity to ask for a real accounting before accepting a member's word that she is a full tithe payer.

My first point is that there are a multitude of ways to calculate "income", and it is calculated for many of purposes. Hence, we have a wide degree of choice as to which method we use for purposes of calculating tithing.

Did Abraham pay tithing on the value produced by his wives and concubines as they laboured away for him? I doubt it. All he likely paid tithing on was the increase of his herds and crops, and I doubt that he did that regularly. All tax systems (including tithing systems) are designed to raise "enough" to support the institution that levies the tax or tithe, and they are aimed at what can be easily taxed. In those days, crops and herds could be easily taxed, and 10% was a nice round number that was thought to produce "enough" to keep the religious establishment going. The Church simply latched onto this precedent because it had the weight of scripture behind it and hence could be easily enforced. Remember geese and hissing. Scriptural authority both gets more feathers and reduces hissing.

In our modern society, we have a system of trade that is much more extensive than that of olden times. So, instead of having a large harem and servants who provide services and create goods for me that are valuable and not subject to tithing or other forms of taxation, I turn my time into money ("income" that is subject to tithing) and use that to purchase many of the same things Abraham's family and servants created or did for him.

Hence, I would argue that the traditional idea of tithing is misplaced in our society. Interestingly, very few other religions attempt to use it and I think that is why. To rework it properly, we should start with the question of what the Church realistically needs to get along today (as opposed to what it needs to buy more shopping malls) and recreate the whole system from that point forward. Since that won't happen, members who still feel compelled to pay are left to rationalize their way out of paying as best they can, or to simply pay which many do.

One way to do this is first to think of "interest", or "income" as the Church has defined it, as a net concept, which as I note below makes great sense. But where do we get the net concept? Most people are inclined to look at their tax return. But each tax system has a different way of calculating net for tax purposes. These generally produce numbers that make no sense for tithing purposes. In Canada, for example, interest on house loans are not deductible, and the proceeds of sale of your home are not taxable even if you make a huge score in a rising market and move somewhere else that is cheaper so that you can pocket the difference. Many Californians now living in Utah have done precisely this.

Gross v. Net?

Lets first debunk the idea that tithing must be paid on "gross" income, which most members interpret to mean income before deducting taxes paid. Consider the case of one of the most faithful women in my former stake who ran her own small business. It was not incorporated, so she had income from it on her tax return (where most people start when deciding how much

tithing to pay) instead of on a corporate tax return where most people who run businesses have it. Lets say that in one year she had \$200,000 of gross income, and \$160,000 in expenses, for net income of \$40,000 on which she would pay tax of about \$20,000 leaving her with about \$20,000 in her pocket. Surely she was not expected to pay \$20,000 in tithing. If she did so, she would get a \$20,000 deduction for income tax purposes, which would generate a \$10,000 tax refund for her, which would be all she would have left in her pocket after expenses, tithing and taxes. As a result of the prevailing view of Church members in this regard, I had a tough time convincing her that all she needed to pay on was net (before her taxes), and \$4,000 in tithing was the most she would be required to pay instead of \$20,000. I note that most people who say tithing should be paid on gross are employees and so don't need to worry about much in terms of expenses. I told her that she was being generous if she paid on net before tax, and walked her through the reasoning set out below. In the end, she paid on something more than net, but not gross. She was a wonderful lady who liked to feel that the Lord was in her debt.

Another way to think about the gross v. net concept is to remember that my expenses are other people's income. Using the business above as an example, lets assume that of the \$140,000 in expenses, \$100,000 was paid in wages to other Mormons this fine lady employed. They would all be responsible for tithing on that income. Surely she should not have to pay tithing on it too. In the tax world, this is called "double taxation" (subjecting the same income stream to two levels of taxation) and considerable effort is made by the weak humans who design taxation systems to eliminate this because of the economic havoc it wrecks. Surely god does not want to cause his people to suffer from a design flaw such as this.

The example becomes more obvious if we assume that there are four businesses, each of whom provides services to the next, so that the same \$100,000 is an income and expense item all the way down the chain. If they all have to pay tithing on that same \$100,000, 40% will be paid. This example could be extended to the point where much more tithing is paid than the sum of money that is itself passed through the chain of transactions. This is what double taxation does.

Some use the biblical analogy to raising sheep or crops to suggest that Mormons should pay tithing on gross. That is, in ancient times 10% of the crop or the season's lambs would be given as tithing. Imagine the case where I have hired someone to raise my crops and the deal was that they get 50% for doing so. After harvest they take their share and deliver mine to me. Am I to pay 10% of what they took, or only of what is delivered to me? It seems that "my" crop is what was delivered to me. That seems fair, particularly in light of the fact that if they are of my faith as well, they have an obligation to pay 10% on their share. That is "their" crop as surely as my share is mine. The Lord does not want 20% on their share (10% from them and 10% from me), does he? That would seem a heavy burden to impose.

This example focuses on the difference between gross and net from an accounting point of view, before we consider what should be done with taxes. While taxation was a feature of ancient life we are not told how that factored into tithing. My guess is that since taxation was often in kind in those days as well, that it went the same way as what I have just described. If I had to give the king half of my crop, I would not be likely to think I needed to give more than 10% of what I had left as my tithe. The king, if he is a believer, should surely be responsible for his own tithing on the crops I have given to him. If he is not a believer, why should the amount of my tithing depend upon a factor beyond my control like that?

An example from Sweden helps to illustrate how nonsensical it is to suggest that in all cases tithing should be paid on income before the deduction of taxes. Until not long ago, Sweden

levied a tax of 80% on income above a certain amount. Hence, if I make \$100,000 that is subject to that rate of tax, I am required to pay \$80,000 in tax. Am I really expected by the Mormon Church to pay \$10,000 of the \$20,000 I have left over in tithing? As a Bishop, I doubted that, and suggested to any congregant who asked in British Columbia, Canada where at the time the top tax rate was 54%, with a high sales taxes (14%) and property taxes as well, that they should roughly determine the value of the "social goods" they received from the government which they in effect purchased with their taxes (the use of roads, schools etc.), and any tax they paid above that amount need not be considered for tithing purposes. And I now think that was unduly harsh advice.

For example, lets say Bro. A earned net income (after all expenses) of \$100,000 and paid taxes of \$40,000 (including property taxes, sales taxes and income taxes) while the average head of household in his state/country etc. paid \$10,000 in total taxes. As a rule of thumb, I would assume that the value of the social goods provided by the country to be \$10,000. Hence, I would reduce Bro. A's income for tithing purposes by \$30,000 (his \$40,000 in taxes, less the \$10,000 in social goods he received). That \$30,000 was taken from him without his receipt of anything in return. It was like the crops that were never his. Hence, he might tithe on \$70,000. This was, in my view as a Bishop, easily justifiable. But I always told our people that "the Lord will be more generous with those who are more generous with him..." I now feel pretty bad about that advice.

As noted above, I think that it is justifiable for even the most faithful of Mormons (I can still get into that head space with a bit of effort) to simply take the position that any income that she has to hand over to the government is not hers. In the US where social goods have little value relative to places like Canada and Sweden, this is particularly easy to justify. In Canada, for example, health insurance and education is provided by the government to a much greater extent that it is in the US, and so there is more of a case to be made that some value should be attributed to goods received from the government of that sort in exchange for our taxes.

I know lots of faithful Mormons in Canada who rip off the tax man by building one house after another, living in each for 6 months to a year, and then selling and doing it again. This is a form of business that produces taxable income. There is clear case law in Canada to that effect. Many of the people who do this are engaging, whether they know it or not, in a form of tax evasion that is facilitated by not reporting any income from this activity to the government. I don't know of any of them who have thought that the considerable income they earn in this regard is tithable. Their thought process seems to be, "The income does not show up on my tax return, so why would it be subject to tithing?" Other capital gains (on farm property and certain kinds of private companies) are not taxable in Canada but probably should be subject to tithing. The US has all kinds of funny rules of a similar nature. I would suggest that there are lots of items that are not deductible for tax purposes that might well be taken into account for tithing purposes, and likewise items that are not taxable that likely would be subject to tithing if were working within a logically coherent system.

Here a couple of other examples to highlight the silliness of using the tax system to find net income for tithing purposes. Tax deductions for employees are limited. If I require child care in Canada in order to be able to work, very limited deductions are available. And no credit is given for the labour performed (and income forgone) in that regard by stay at home parents. In addition, many types of employment require special clothing, tools etc., and deductions for tax purpose are not permitted for those. I even know a lawyer or two who will tell you with a straight face that the expensive suits the wear, car they drive, parties they attend, vacations they go on

etc. are all part of maintaining their professional credibility and hence their income stream. And, there is something to this.

The list of items not deductible for tax purposes that should be deducted for tithing purposes, and deductions that are allowed for tax purposes that should arguably not be allowed for tithing purposes, is potentially endless.

A Tithing Testimonial

Here is my favourite story to illustrate the harmful nature of the Church's financial system and how it harms the most faithful Mormons.

Shortly after my wife and I married I was going to school and she worked in a bank for about eight months until her first pregnancy (which began two weeks after our marriage - close enough that I know a lot of people counted) progressed far enough that she had to quit. As a result of the taxes she paid while working, she received the following Spring an \$800 tax refund. When she received it, we had a couple of hundred dollars in the bank and a month to go before I started a summer job. This gave us a small margin for error in our shaky student finances. We had been counting on this money to buy a few extra things we wanted/needed for our new baby and to catch up on other expenditures that had been deferred. Within a couple of weeks of getting the refund cheque, our Bishop (a man I still know and like) gave an impassioned plea for money respecting a Stake building fund. A new stake center was under construction, the money was not coming in quick enough, everyone was asked to dig deeper and blessings were promised. My naive wife and I went home, talked about it, prayed about it (I still remember being on my knees and feeling good about this), and felt inspired to hand over \$600 of the \$1000 we had. That left us with \$400 - just enough to get us through until my first summer pay cheque. And so we paid that \$600 to the Mormon Church and did without. The same kind of thing happens all over the world in a variety of religions. The Catholic Church in Latin America is one of the worst offenders. But in principle, the Mormons are right there with them.

And while I did not know it at the time, the kind of obedience and blind faith my wife and I exhibited in the manner just described is what will bring you to the attention of local leaders, and mark you as having future "leadership" potential. Just crawl over some broken glass at the request of your leaders, and they will lay out more for you to crawl over. And all of this will be done in good faith, with the best of intentions, just as are almost all religious self flagellations.

This story illustrates yet again one of the Church's many unhealthy paradoxes - it does the greatest harm to those who are the most faithful to its dictates. Those who don't take things literally or seriously - who are not as "faithful" - are not exposed to the organization's ills to the same extent. But the true believers (as I was) can and often do run themselves through a meat grinder created by the combination of their faith and the organization's demands.

An Alternative Proposal for the Calculation of Tithing

When you combine the silliness of any taxation system when considered as a source of data from which to calculate tithing, the random or culturally determined way in which the tithe was initially fashioned and the awkward manner in which it fits with our modern economy, I think we can justify calculating "interest" and "income" on almost any basis we want. One that appeals to me that to start with net income from a simple accounting point of view, and deduct all "necessary" expenditures. What is left is our "net income" for tithing purposes. What is necessary varies from case to case and is value dependant. Certainly things like taxes, house

payments, health care, groceries, basic transportation, education, etc. are all necessary in most cases.

If you accept the above logic and go through the equation I have suggested, I think all but a small fraction of Mormon society will end up obliged to make no more than a nominal tithing contribution. Those who are relatively wealthy will think about what they earn each year that is not committed to necessities and pay 10% of that. And my guess is that the Church will have more than enough to continue to take care of its necessities, but would not likely have enough cash flow to purchase more shopping malls or build great and spacious buildings at the rate it recently has.

This proposal has the virtue of making it less likely that innocents like my wife and I will engage in the kind of silliness outlined above.

Conclusion

I am in favour of generosity of spirit and intend to continue to support a variety of worthy causes. And since leaving the Church I have enjoyed choosing those causes. This is in keeping with the spirit of personal responsibility that has permeated most parts of Western cultures since the Renaissance. I hope that attitude will play an increasing role in the lives of those I love the most, and within Mormon culture in general.