



The Peace Tax- Hypothecation

Introduction

This series of briefing papers looks at the QCEA proposals relating to the recognition of Conscientious Objection to taxation for military purposes which we are making to the Council of Europe and sets them in the context of the Council of Europe and its prior work on Conscientious Objection to Military Service. This series of briefing papers will answer the following questions:

- What is hypothecation? (with examples)
- How do these examples differ from each other and what are you proposing?

Three different possible models of tax hypothecation will then be offered along with some concluding remarks.

What is hypothecation?

In this context, the word is being used to mean "hypothetical dedication" i.e. a "dedicated tax" to be collected for a specific purpose. In order to have a Peace Tax, hypothecation of tax is exactly what would need to be done, so it is important to the campaign to be able to demonstrate that Peace Tax is a practical proposition; it is achievable. A useful way to demonstrate that it clearly is possible is through an examination of existing taxes which are collected by hypothecation.

Examples of hypothecation

- TV licences in 25 European, 5 Asian and 4 African countries¹
- Road fund tax in the UK
- National Insurance Contributions in the UK
- The Church Tax in Germany²

How do these examples differ from each other and from what are you proposing?

These examples are all relatively simple forms of hypothecation. Essentially an *extra* tax is being paid i.e. in addition to regular taxation. Clearly if a person does not own a television they have no need of a license and therefore will elect not to pay this additional tax. Similarly with Church tax in Germany, if a person elects not to pay this additional tax then they pay less tax than someone who does choose to pay the tax. What **is** important to note from these examples is that

¹ Europe: Albania, Austria, Belgium (Walloon region), Bosnia and Herzegovina, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Macedonia, Malta, Norway, Poland, Romania, Slovakia, Slovenia, Sweden, Switzerland, United Kingdom

Asia: Israel, Japan, Republic of Korea, Pakistan, Singapore

Africa: Ghana, Mauritius, Namibia, South Africa

(Source: http://en.wikipedia.org/wiki/Television_licence#Opinions_of_television_licensing_systems)

² Please note that although German Church tax is collected by the State it is not a State tax. It is mentioned only to show that the government can hypothecate funds in the collection of this tax.

it is possible to collect money for a specific purpose and to spend the money collected only on that purpose.

There are some important differences between this sort of hypothecation and the hypothecation that would be required for Peace Tax:

1. It is not intended to be an *extra* tax
2. A person who chooses to pay Peace Tax will not pay more tax than a person who is content for their taxes to fund the military (nor will they pay less).
3. It is an *alternative* tax i.e. a redirection of tax from the military and towards a non-military fund.
4. It is an essential aspect of this fund that it is transparent; that Peace Tax supporters have a guarantee that their money is not being spent on the military.

The commonly quoted challenges associated with the practicality of this method are threefold. Firstly, many argue that it would prove difficult to calculate the exact percentage of each person's tax that would ordinarily have gone to the military. Secondly, even if this could be accurately calculated, that percentage would have to be collected separately as an ear marked fund for non-military spending (Peace Tax). Thirdly, an additional challenge and cost would then be the administrative costs required to maintain transparency of spending of Peace Tax.

These are all legitimate and important questions. It can be seen that hypothecation is possible because it is already used by governments to collect certain taxes for a specific purpose. It cannot be denied that the hypothecation necessary to implement a Peace Tax would be more complicated and that there would be certain costs associated with this. Before offering a few possible tax models to allow for a Peace Tax fund, there are a few more important points to note:

This is not tax avoidance.

The same amount of tax will be paid by everyone, regardless of whether they choose Peace Tax.

Another important point to note is that Peace Tax hypothecation does not undermine the sovereignty of the national government to allocate tax spending. The allocation of Peace Tax is in not governed by those taxpayers who choose to pay into it. Its spending is still controlled by the government. The only influence the tax payer has is by saying that there is one thing on which it *cannot* be spent i.e. the military.

Models

The main challenge to bear in mind is that taxation is divided into direct and indirect taxes (VAT etc). Finding a way to ensure that taxes paid into either the direct or the indirect 'pot' are not used to fund the military is the main obstacle when designing a possible tax model. This document will present three models as possible ways in which conscientious objectors could redirect their taxes away from the military.

Model 1: Calculation of direct tax

This is probably the simplest model of the three but perhaps also the least accurate. Essentially the taxman would calculate that x% of each person's direct and indirect tax would go to the military. This percentage of tax would then be put into (hypothecated into) a separate fund (Peace Tax Fund) which would be transparent and would be spent exclusively on non-military projects.

Model 2: The balancing act

In this model, the idea would be that, if a person chooses to redirect their taxes from military spending, all of their direct taxes would go into a hypothecated 'Peace Tax fund.' None of their direct taxes could therefore go towards the military. Of course, this would not be the case for indirect taxes. However, it is estimated that the military expenditure from the indirect tax 'pot' would be essentially cancelled out by the non-military funds in the direct tax 'pot'. However, the benefit of this model is that no approximate calculation of the military budget would be required.

Model 3: Restriction on indirect tax spending

Of the three models, this is by far the most restrictive on governments. It would incorporate the idea behind model 1 which would involve an estimated calculation of the percentage of direct tax spent on the military. This percentage would then be hypothecated into a Peace Tax fund. However, the added restriction would be that there would be legislation in place which would also mean that the government could not spend indirect taxes on the military budget either.

Conclusions

Model 3 is clearly the best way to ensure that a conscientious objector would not pay for the military through either direct or indirect taxation. However it is also the most drastic and restrictive of the three and therefore likely to be the least popular.

However, the fact that the implementation of a new tax model would be difficult is not an argument against Peace Tax. If the European Court of Human Rights or a national court formally recognises the right to conscientious objection against the payment of military tax then it will become a legal requirement for that country to find a way to allow for a Peace Tax. It is not for Peace Tax campaigners to design a new tax system, nor should it be an influencing factor in whether or not this new tax system would be easy to implement. If a court rules that the payment of military tax is a violation of the right of freedom of conscience then a peace tax alternative, easy or not, will have to be created.