

## The Foundations of Tax Justice

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### **Introduction**

I am often asked what I mean by "'tax justice'. As a result, and as a contribution to the [\*\*Briefing Sheet\*\*](#) series I am developing, I have written the following summary of what I think tax justice is. It is also available [as a briefing sheet](#).

### **Tax justice**

Tax justice is a broadly based concept. It relates to individuals and all taxable entities. But it also relates to tax systems as a whole.

### **Tax compliance — the duty of the taxpayer**

For the individual taxpayer tax justice is about tax compliance. This happens when the individual seeks to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions they undertake coincides with the place and form in which they report them for taxation purposes.

### **Tax and society**

But tax justice is about much more than the individual: tax justice is also about the existence of tax systems that promote social well being within and between societies. It is about the creation of environments in which all people can prosper. That necessarily means that the state institutions and businesses that meet the needs of people can also prosper. But it means yet more than that: it means that those who fail to prosper are protected from misfortune until such time as they can prosper again.

That means tax justice is about four things above and beyond the duty of the individual to be tax compliant. First it is about understanding why we tax. Second it is about defining the attributes of a good tax system. Third it is about defining the process that delivers tax justice and finally it is about understanding transparency — without which tax justice is not possible.

## **The 5 Rs for taxing**

There are five reasons for taxation. Tax is used to:

1. Raise revenue;
2. Reprice goods and services considered to be incorrectly priced by the market such as tobacco, alcohol, carbon emissions etc. and by providing tax reliefs e.g. for childcare;
3. Redistribute income and wealth;
4. Raise representation within the democratic process because it has been found that only when an electorate and a government are bound by the common interest of tax does democratic accountability really work; and finally to facilitate:
5. Reorganisation of the economy through fiscal policy.

If tax justice is to prevail taxes must be set taking all these considerations into account.

## **The 10 Cs of a good tax system**

An efficient taxation system has nine attributes with one over-riding characteristic to which they all contribute. An efficient tax system is:

1. Comprehensive — in other words, it is broad based;
2. Complete — with as few loopholes as possible;
3. Comprehensible - it is as certain as is reasonably possible;
4. Compassionate — it takes into account the capacity to pay;
5. Compact — it is written as straightforwardly as possible;
6. Compliant with human rights;
7. Compensatory — it is perceived as fair and redistributes income and wealth as necessary to achieve this aim;
8. Complementary to social objectives;
9. Computable - the liability can be calculated with reasonable accuracy;
- All of which facilitate the chance that it will be:
10. Competently managed.

In combination these are key attributes of a good tax system.

## **The 6 steps to tax justice**

Tax justice can be defined as a six stage process:

1. **Define** the tax base. This is the first essential step in creating progressive taxation and in promoting the better use of resources within society.
2. **Find** what is to be taxed. If the tax base cannot be accurately located then there is no point trying to tax it.
3. **Count** the tax base. Unless the tax base can be quantified it cannot be taxed.
4. **Tax** the tax base at the right rates of tax. In the process making sure the inter-relationship between the various tax bases is properly managed to ensure that the essential revenue raising, repricing and redistributive qualities of a just tax system is vital.
5. **Allocate** the resulting revenues efficiently and to best social effect
6. **Report** - governments must be accountable for what they do with tax revenues or the democratic principle fails.

## **The 11 steps to financial transparency**

Tax justice cannot happen by chance. To achieve it information is needed. That means all potentially taxable people, whether they are human beings or legal entities created under law, must be transparent about what they do, are and have done.

Financial transparency exists when the following information is readily available to all who might need it to appraise transactions they or others might undertake or have undertaken with another natural or legal person:

1. Who that other person is;
2. Where the person is;
3. What right the person has to enter into a transaction;
4. What capacity the person has to enter into a transaction;

And with regard to entities that are not natural persons:

5. What the nature of the entity is;
6. On whose behalf the entity is managed;

7. Who manages the entity;
8. What transactions the entity has entered into;
9. Where it has entered into those transactions;
10. Who has actually benefited from the transactions;
11. Whether all obligations arising from the transactions have been properly fulfilled.

### **Creating tax justice**

Tax justice is not simple, as is already apparent. That, however, is not a problem: a great deal of what humans do is not simple, and yet it is achieved none the less. Tax justice is possible: that is what is important.

These five criteria, tax compliance on the part of taxpayers and the four sets of attributes on which just tax systems are built, are the foundations of tax justice. Together they create a world in which social justice can prevail for all.

That is what tax justice seeks to achieve.