

The background of the slide is a photograph of the interior of a grand, ornate dome, likely a state capitol building. The dome features intricate architectural details, including a large central skylight with a diamond-patterned glass design. The walls are covered in murals depicting various scenes, including figures on horseback and a figure holding a torch. A large, multi-tiered chandelier with numerous white globe lights hangs from the center of the dome. The overall color palette is muted, with greys, blues, and greens, giving it a formal and historical appearance.

Principles for Evaluating State Tax Sources

Part I: Introduction

HJ 35 Study of State and Local Tax Policy

Revenue Interim Committee

June 27, 2019

Prepared by Megan Moore, Committee Staff

Principles for Evaluating State Tax Sources

- Adapted from NCSL's Tax Policy Handbook for State Legislators and Principles of a High-Quality State Revenue System
- Introduction for purpose of framing HJ 35 study of state and local tax policy
 - What problem(s) is the study aiming to solve?

Principles for Evaluating State Tax Sources

1. Reliability
2. Equity
3. Compliance and Administration
4. Responsiveness to Competition
5. Economic Neutrality
6. Accountability
7. Complementary state and local financial systems
8. Balanced revenue sources

Principles for Evaluating State Tax Sources

1. Reliability

- 3 components:
 - Stability: constant over time, no unpredictable fluctuations
 - Certainty: tax changes are minimal (allows for planning)
 - Sufficiency: revenue covers desired spending
- Can be achieved with balanced mix of taxes
- Reliability of a tax depends on its elasticity
 - How revenue increases or decreases with a change in activity being taxed

Evaluation: tax collection data, summary of major tax changes over time, elasticity literature

Principles for Evaluating State Tax Sources

2. Equity

- Horizontal equity: taxpayers with similar economic circumstances have similar tax burdens
- Vertical equity: distribution of tax burdens among taxpayers with different economic circumstances
- Progressive: average tax rate increases with income
- Regressive: average tax rate decreases with income

Evaluation: review principles of taxation; consider horizontal equity, vertical equity, progressivity, and regressivity for different tax types

Principles for Evaluating State Tax Sources

3. Compliance and Administration

- Encourage taxpayer compliance by minimizing time and effort to comply
- Minimize administrative cost to collect revenue, enforce law, and audit
- Taxes that are expensive to administer reduce the yield of the tax

Evaluation: Input from DOR and county treasurers (administration), business community and CPAs (compliance)

Principles for Evaluating State Tax Sources

4. Responsiveness to Competition

- Policies of other states may affect revenue collections of some taxes
 - Business location decisions may be effected by taxes
 - Individuals may decide where to live based on taxes, shop in other states

Evaluation: Compare to other states

Principles for Evaluating State Tax Sources

5. Economic Neutrality

- Goal: minimize the effect of the tax system on the economy
 - If using tax system to influence behavior, review often
- Taxes with broad bases and low rates spread across economic activities reduce effects of taxes on the economy

Evaluation: Consider whether rates, tax bases, exemptions, deductions, credits, etc. influence taxpayer decisions

Principles for Evaluating State Tax Sources

6. Accountability

- Tax burdens should not be hidden
 - Minimize taxes that are passed through to consumers
 - Minimize credits and exemptions and review frequently

Evaluation: Identify taxes passed through to consumers and those included in purchase price without itemization, possible public survey about tax awareness

Principles for Evaluating State Tax Sources

7. Complementary state and local tax systems

- Consider how state tax decisions affect local governments (and vice versa)
- Awareness of limitations and financial responsibilities state places on local governments
- Avoid patchwork of tax structures to ease compliance and promote efficiency

Evaluation: overview of local government sources of revenue and state limits on local taxes, review revenue sources shared between state/locals

Principles for Evaluating State Tax Sources

8. Balanced revenue sources

- Rely on diverse and balanced range of sources so bases can be broad and rates low
- Reason for selecting the mix of taxes should be clear
- May benefit from evaluating new revenue systems

Evaluation: Data on portion of state/local revenue that comes from various taxes

Principles for Evaluating State Tax Sources

- Possible approach in September
 - Agenda item for each principle with presentations from staff, DOR, stakeholders
 - Committee uses info to rate taxes on each principle
 - Committee reviews compiled ratings and uses them to focus the study and define the problems to be solved
 - (Presentations on economy, demographics, local government may be included in above agenda items or presented separately)