Guiding Principles for Tax Reform

As Proposed by the Chairs of the Revenue and Taxation Interim Committee and the Governor's Office of Management and Budget

Utah's tax system should be:

(1) Simple
(2) Economically neutral
(3) Reliable
(4) Equitable
(5) Responsive to interstate and international competition
(6) Designed to minimize burdens of compliance and administration
(7) Accountable and transparent

A **simple** tax system that imposes low rates across a broad tax base enhances respect for the tax system; is easier for citizens to clearly understand; facilitates collection and administration; and minimizes tax-created economic distortions.

An **economically neutral** tax system minimizes adverse effects on household and business decisions by imposing low rates across a broad tax base; treats similar transactions similarly; allows free markets to drive economic decisions by focusing broadly on the general tax system rather than on narrow tax provisions; avoids incenting behavior that would occur absent the incentive; clearly articulates the reasons for preferential tax treatment and regularly scrutinizes for outcomes; and prevents tax-driven, zero-sum games among local jurisdictions or taxpayers.

A **reliable** tax system raises sufficient revenue to provide necessary public services; remains relatively stable and yields a relatively predictable amount of revenue over time; allows revenue estimation with reasonable accuracy; responds to inflation and population growth; provides certainty by allowing taxpayers to anticipate the tax consequences of economic decisions; minimizes frequent changes in tax bases and rates; manages the impact of tax changes including consideration of impacts on prior economic decisions, transition measures such as phase-ins and incremental changes to minimize dramatic revenue changes, and fiscal impacts that assume both no change in economic behavior as well as demonstrably likely behavioral changes.

An **equitable** tax system is perceived to be fair, taking into account the broad array of equity issues such as ability to pay; vertical equity (considering the impact on differently-situated taxpayers, including vulnerable populations such as low-income households); horizontal equity (considering the impact on similarly-situated taxpayers); and the benefits principle (where those who use services pay for the service - particularly goods and services other than social welfare and public goods [non-rival and non-excludable goods]); and avoids tax cliffs.

A tax system that is **responsive to interstate and international competition** fosters a positive climate for capital investment and high-quality job growth; avoids impeding or reducing the productive capacity of the economy; cultivates economic competitiveness with other states and nations; and discourages cross-border shopping

A tax system **designed to minimize burdens of compliance and administration** makes it easy for taxpayers to be in compliance by clearly specifying how to determine the tax amount; balances the cost-benefit ratio for collection, administration, and enforcement; minimizes the costs borne by businesses and households to comply with tax laws (including both explicit out-of-pocket compliance costs, as well as implicit costs such as time); and ensures filing and reporting requirements are efficient.

A tax system that is **accountable and transparent** engenders confidence in the tax system; allows taxpayers to know how much tax they are paying and to which entity they are paying the tax; protects personal and proprietary information; minimizes tax pyramiding; minimizes noncompliance and is difficult to evade; continually monitors the impact and effectiveness of tax policies (including regular scrutiny for any preferential tax treatment); and clearly notifies taxpayers when tax changes occur.