Description of NCSL Principles of Tax Policy

1. A high-quality revenue system comprises elements that are complementary, including the finances of both state and local governments. It relies on a balanced variety of revenue sources.

- relationship of state and local governments within the tax system (type of taxes, tax rates, filing requirements, taxpayer compliance cost)
- delegated tax authority by type of tax for cities, counties, school districts, special districts
- state mandates to local governments should include adequate tax base; local resistance to property taxes can force higher state tax rates
- state subsidy of local governments with insufficient tax capacity (small cities and small counties assistance programs in NM as well as state capital spending)
- principle of local autonomy—local voters decide what public services they want and raise local taxes to pay for them
- state tax and expenditure limitations can undermine ability of state and local governments to meet their responsibilities
- evaluate the tax burden of the tax system, not the tax burden of any single tax

2. A high-quality revenue system produces revenue in a reliable manner. Reliability involves stability, certainty and sufficiency. Sufficiency includes the ability of the revenue system to support short-term spending levels and to respond to growth in the economy and in the demand for public services.

- Stability: tax revenue collections should be predictable over time; impose a mix of taxes (diversification and broad-based taxes)
- Certainty: tax changes kept to a minimum to promote long-term business and household planning
- Sufficiency: adequate tax collections to balance the state budget in the short-run and in the long-run; tax collections should keep up with inflation and population growth
- Minimize the use of tax earmarking, e.g. gasoline tax for roads, governmental gross receipts for NM Finance Authority, cigarette tax for UNM Cancer Center. Causes rigidities in the state budget and subjects these programs to the risk of inadequate or unstable revenue source.
- Earmarking generally acceptable when based upon the "benefit" principle of taxation, e.g. roads financed by gasoline tax or road use fees

3. A high-quality revenue system treats individuals in similar circumstances the same and businesses engaged in similar commercial activities the same.

- horizontal equity (equal treatment of equals)
- equal taxation of all goods and services transactions

- profit versus non-profit business organization
- minimize tax pyramiding across all industries
- what are similar circumstances? age, number of children, disabled/blind, veteran?

4. A high-quality revenue system, at the least, minimizes the regressivity of taxes by minimizing taxes on low-income individuals.

- ultimately a value/political judgment
- vertical equity (taxation based upon ability to pay, e.g., progressive income tax)
- regressivity of the tax system should be minimized
- LICTR, exemption of food stamp purchases from GRT, low income property tax credit, personal exemptions, standard/itemized deductions

5. A high-quality revenue system facilitates taxpayer compliance. It is easy to understand and minimizes compliance costs.

- taxes well understood
- understandable forms and filing requirements
- perception of fairness by taxpayers
- minimize different rates and requirements for businesses that operate in multiple jurisdictions (gross receipts taxation, multi-state corporations)
- links to federal taxation policy

6. A high-quality revenue system promotes fair, efficient and effective administration. It raises revenue efficiently, is administered professionally, and is applied uniformly.

- easy of administration reduces likelihood of errors and facilitates perception of fairness
- improves taxpayer compliance and collections

7. A high-quality revenue system is responsive to interstate and international economic competition.

- a relatively new tax principle
- use tax system as a tool of state and local economic development
- benefit/cost analysis should be performed to justify the erosion of the state tax base
- tax policy is not the sole variable in business location decision; public service levels (education) are also important.
- horizontal equity—similar treatment of all industries and all firms within a given industry within the state

8. A high-quality revenue system minimizes its involvement in spending decisions and makes any such involvement explicit.

- economic efficiency – be economically neutral
- economic decisions affected by the level of tax rates; to keep tax rates low, maintain a broad tax base
- different tax rates on different goods and services affects the after-tax relative price of goods and services (e.g., mail order, internet sales may be tax-free)
- tax system can be used to foster/discourage certain activities
- earmarking of taxes removes policy decision for appropriate level of state expenditures
- sunset provisions for exemptions, deductions, credits, earmarking
- public expenditures should be direct and explicit; minimize tax expenditures

9. A high-quality revenue system is accountable to taxpayers. Tax increases or decreases should be transparent, not hidden.

- proposed tax changes should be well publicized and debated
- establish a tax expenditure budget for accountability
- benefit/cost analysis of tax exemptions, deductions, credits
- sunset provisions so that there is regular review of efficiency and effectiveness of tax policy

10. Other

- Tax exporting (tourism; the federal government and NM GRT; itemized deductions on federal income tax return for state income taxes and property taxes, but not gross receipts/sales taxes; severance taxes on exported energy and minerals)