F I S C A L   I M P A C T   R E P O R T

SPONSOR Soules **ORIGINAL DATE** 2/25/19 **LAST UPDATED** 3/04/19 **HB**

SHORT TITLE Next Gen Carbon Emission Pricing Plan **SB** 393

ANALYST Graeser

APPROPRIATION (dollars in thousands)

Appropriation					Recurring or Nonrecurring	Fund(s) Affected
FY19	FY20	FY21	FY22	FY23		
		Revenues are earmarked and subject to appropriation by the legislature			Recurring	NEW Low-income Home Energy Assistance Fund
		Revenues are earmarked and subject to appropriation by the legislature			Recurring	NEW Fossil Fuel Displaced Worker Fund
		Revenues are earmarked and subject to appropriation by the legislature			Recurring	NEW Renewable Energy Technology Fund

Parenthesis ( ) indicate expenditure decreases

Note: the following tables exhibit the intent of the proponents. In particular, the Natural Gas Processors surtax allows an exemption for export and for venting and flaring. The natural gas volume data for production and in-state consumption (from the Energy Information Agency of the federal Department of Energy) may, or may not, accurately reflect the provisions of this bill. More importantly, the provisions of this bill would have major economic impacts throughout the state's economy. The magnitude of feedback revenue effects would likely be equal or greater to the direct static changes reported in the following tables.

REVENUE (dollars in thousands)

Combined Impact						
FY19	FY2020	FY2021	FY2022	FY2023	FY2024	Fund Affected
0.0	13,000.0	55,260.0	63,960.0	88,840.0	114,210.0	Low-income Home Energy Assistance Fund
0.0	8,670.0	36,840.0	42,640.0	59,220.0	76,140.0	Fossil Fuel Displaced Worker Fund
0.0	13,000.0	55,260.0	63,960.0	88,840.0	114,210.0	Renewable Energy Technology Fund
0.0	52,010.0	95,670.0	3,470.0	(24,060.0)	(17,440.0)	General Fund

Natural Gas surtax revenue ($ thousands)						
FY19	FY20	FY21	FY22	FY23	FY24	Fund Affected
0.0	6,760.0	20,270.0	33,780.0	47,300.0	60,810.0	LIHEAP Fund
0.0	4,510.0	13,510.0	22,520.0	31,530.0	40,540.0	FFDW Fund
0.0	6,760.0	20,270.0	33,780.0	47,300.0	60,810.0	RET Fund
0.0	27,020.0	81,090.0	135,150.0	189,190.0	243,260.0	General Fund

Gas surtax table ($ thousands)						
FY19	FY2020	FY2021	FY2022	FY2023	FY2024	Fund Affected
0.0	**6,240.0**	**34,990.0**	**30,180.0**	**41,540.0**	**53,400.0**	LIHEAP Fund
0.0	**4,160.0**	**23,330.0**	**20,120.0**	**27,690.0**	**35,600.0**	FFDW Fund
0.0	**6,240.0**	**34,990.0**	**30,180.0**	**41,540.0**	**53,400.0**	RET Fund
0.0	**24,990.0**	**139,980.0**	**120,720.0**	**166,150.0**	**213,600.0**	General Fund

Carbon Emission Income Tax Credit ($ thousands)						
FY19	FY2020	FY2021	FY2022	FY2023	FY2024	Fund Affected
0.0	**0.0**	**(125,400.0)**	**(252,400.0)**	**(379,400.0)**	**(474,300.0)**	General Fund

Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Transportation (DOT)
Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill – Provided by EMNRD

Senate Bill 393 amends §7-1-6.10 NMSA for distribution of a proposed gasoline and natural gas processors surtax and adds a new Carbon Emission Income Tax Credit. The proposed gasoline surtax is exempted from distribution to the state road fund and would be in addition to the current gasoline tax and begin on January 1, 2020. SB 393 Next Gen Carbon Emission Pricing Plan proposes the enactment of a gasoline and natural gas processors surtax that would be used to fund a low-income home energy assistance fund, a fossil fuel displaced worker fund a renewable energy technology fund and a low- to moderate-income Carbon Emission Income Tax Credit. The proposed distribution for both the gasoline and natural gas processors surtax is as follows:

- 15 percent for the low-income home energy assistance fund, administered by Human Services Department;
- 10 percent for the fossil fuel displacement worker fund, administered by Workforce Solutions; and
- 15 percent for the renewable energy technology fund, administered by the Energy, Minerals and Natural Resources Department (EMNRD), to support programs that promote renewable energy technology and public education regarding climate change.

The gasoline surtax would start at nine cents per gallon and increase each year by nine cents over the next five years until 2024, reaching a permanent forty-five cents per gallon. The proposed natural gas processors surtax would be in addition to the current natural gas processors tax and begin on January 1, 2020. The natural gas processors tax would start at sixty cents per million

British thermal units (mmBtu) and increase each year by sixty cents over the next five years until 2024, reaching a permanent $3.00. per mmbtu.

SB 393 also establishes a carbon emission income tax credit that is based on a taxpayer's modified gross income as it relates to its percentage over the federal poverty guidelines. A taxpayer who files an individual New Mexico income tax return and who is not a dependent of another individual may claim a tax credit against their yearly income tax liability. The tax credit is limited to one tax credit per household and would start in 2020 and increase incrementally each year until 2024. The increase in the tax credit is based on where the taxpayer falls within federal poverty guidelines and allows a tax credit equal to fifty percent of the tax credit for up to two minor children who reside in the household. If the tax credit exceeds a taxpayer's liability, then the excess would be refunded to the taxpayer based on the amounts listed on the table below:

% Over Federal poverty guidelines	But not over	Credit amount for a taxable year beginning on or after: 2020	2021	2022	2023	2024
400%	500%	$0	$25	$50	$75	$100
300%	400%	50	100	150	200	250
200%	300%	100	200	300	400	500
100%	200%	125	250	375	500	625
0%	100%	150	300	450	600	750

A taxpayer with income in the range is instructed in the bill to increase the tax credit by 50 percent of the tabled amount for each minor child that resides in the taxpayer's household, up to a maximum of two children.

The effective date of this bill is July 1, 2020. The applicability date for the income tax credit of Section 4 is for taxable years beginning January 1, 2020. This will affect general fund revenues for FY 21, since TRD will not adjust the withholding tables effective January 1, 2020 and affect FY20 revenues. There is no delayed repeal date but LFC recommends adding one.

FISCAL IMPLICATIONS

This bill creates a three new funds and provides for continuing appropriations. These new funds are the "Low-Income Home Energy Assistance Fund," the "Fossil Fuel Displaced Worker Fund" and the "Renewable Energy Technology Fund." LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the Legislature to establish spending priorities.

This bill creates the "Carbon Emission Income Tax Credit", which is a new tax expenditure with a cost that is difficult to determine but very significant. LFC has serious concerns about the significant risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or be held for future consideration.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency, and equity. Due to the increasing cost of tax expenditures, revenues may be insufficient to cover growing recurring appropriations.

As mentioned in the note preceding the revenue tables on pages 1 and 2 of this FIR, the proponents of this bill have provided a revenue estimate that is presented in the tables. The methodology differs only in timing and revenue impact of the natural gas processors surtax from the methodology discussed below from TRD. The essential difference is whether TRD and the industry can successfully implement the exemptions from the surtax for natural gas exported out of the state. We include TRD's table for this natural gas processor's tax, assuming 80% of the gas is exported rather than the 89 percent assumed by the proponents.

TRD has provided a comprehensive revenue estimate for each of the three separate parts of the bill. TRD staff discuss each of these four impacts separately:

> For the gasoline surtax, the Taxation and Revenue Department (TRD) began with Department of Transportation (DOT) estimates for the amount of gasoline to be sold in the state(which includes natural decline of volumes). The average new surtax for each year and the percentages for each of the new funds distributions were then applied. By statute, all remaining money after the defined distributions flows to the General Fund. Effects in FY2020 are halved because the new tax rate would only take effect halfway through the fiscal year. (Note: both DOT/TRD and the proponents correctly a natural decline in gasoline volume. This decline is shown in the following table.)

Gasoline Volumes (million gallons)

FY20	FY21	FY22	FY23	FY24
924	910	894	879	879

DOT also provided a fiscal impact estimate of the gasoline tax portions of the bill and this estimate is shown in the table above. For the fiscal years 2019 through FY 2023, the TRD and DOT estimates are effectively identical. DOT notes that fiscal effects continue changing through FY24. DOT also notes the following:

> This revenue estimate is based on the gasoline volume forecast of the January 2019 State Road Fund estimate. No price elasticity of demand factor has been used to decrease gasoline volumes due to uncertainty regarding oil prices. However, some decline in volumes is more than likely in light of the substantial increase in the total out of pocket price to consumers as a result of the surtax.

Estimated Revenue							**Recurring or Nonrecurring**	**Fund Affected**
FY19	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**		
	$24,980	$73,674	$120,718	$166,152	$213,597	$237,330	Recurring	General Fund
	$6,245	$18,419	$30,179	$41,538	$53,399	$59,333	Recurring	Low-Income Home Energy Assistance Fund
	$4,163	$12,279	$20,120	$27,692	$35,600	$39,555	Recurring	Fossil Fuel Displaced Worker Fund
	$6,245	$18,419	$30,179	$41,538	$53,399	$59,333	Recurring	Renewable Energy Technology Fund

For the natural gas processors surtax, TRD began with the Consensus Revenue Estimating Group (CREG) estimate for the natural gas processors tax (which includes natural growth of volumes) and the underlying assumptions of natural gas processed in New Mexico. Using the same annual net taxable volume of natural gas, the proposed surtax rates were applied to the volumes to arrive at the new revenue. Revenue is then distributed to the new funds by the proposed bill language with the balance being sent to the General Fund per statute. . (Note: the proponents estimate split the estimate in half because the tax changes are scheduled for January 1 each year and added the two halves together to get an estimate of the fiscal year impact. However, the proponents estimate did not include any estimate of natural growth, whereas the TRD estimate did include natural growth.)

Estimated Revenue Impact for the natural gas processors surtax*					**R or NR****	**Fund(s) Affected**
FY2019	**FY2020**	**FY2021**	**FY2022**	**FY2023**		
$0.0	$12,260.0	$37,500.0	$63,100.0	$89,180.0	R	NEW Low-income Home Energy Assistance Fund
$0.0	$8,160.0	$25,000.0	$42,060.0	$59,460.0	R	NEW Fossil Fuel Displaced Worker Fund
$0.0	$12,260.0	$37,500.0	$63,100.0	$89,180.0	R	NEW Renewable Energy Technology Fund
$0.0	$49,020.0	$149,940.0	$252,340.0	$356,700.0	R	General Fund

For the carbon emission income tax credit, TRD used taxpayer data related to income and dependents to estimate the impact. The analysis assumed modified adjusted gross income for the income threshold and reported dependents for the additional credit for minor children. Taxpayer year 2017 was used as the base and income and number of dependents was assumed fixed for all forecasted years. Using the published "federal poverty guidelines"[1] and the amount of credit specified on page 6 of the bill, the credit amounts by fiscal year were estimated.

FY19	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**	**Fund Affected**
0.0	13,000.0	55,260.0	63,960.0	88,840.0	114,210.0	Low-income Home Energy Assistance Fund
0.0	8,670.0	36,840.0	42,640.0	59,220.0	76,140.0	Fossil Fuel Displaced Worker Fund
0.0	13,000.0	55,260.0	63,960.0	88,840.0	114,210.0	Renewable Energy Technology Fund
0.0	52,010.0	95,670.0	3,470.0	(24,060.0)	(17,440.0)	General Fund

From the proponent's analysis, SB393 increases the overall recurring revenue of the General Fund by about $52 million in FY 2020 when the gasoline surtax first takes effect at 9 cents per gallon and the natural gas processors surtax takes effect at $.60 per mmBtu). By FY 2025, when the gasoline surtax has increased to 45 cents per gallon and the natural gas processors tax has increased to 43.00 per mmbtu, the general fund recurring revenue from the surtaxes will have increased by $457 million while the low- to middle-income carbon

[1] https://www.federalregister.gov/documents/2018/01/18/2018-00814/annual-update-of-the-hhs-poverty-guidelines

emissions tax credit will have increased to $474 million for a net loss to the general fund of $17 million.

The LFC/TRD estimate assumes only 80 percent of exported natural gas will be exempted, hence the general fund impact will always be positive and larger than the net estimate provided by the proponents.

As mentioned in the introductory section on page 1, these substantial changes will render all of these estimates moot.
We can make some general predictions, as follows:

- There is a significant delay between the financial impact of the tax increases and the tax relief for low- to middle-income taxpayers. The carbon emissions table is strongly progressive so that residents with lower incomes receive greater amount of rebate. Although the tax credit is refundable, there is a substantial delay of up to 13 months between when the taxes are paid on gasoline and home heating natural gas and when the residents receive the rebates. The 15% of total collections going to the LIHEAP program will help with the home heating portion of this additional burden, but the LIHEAP program might have substantial difficulty dealing with a massive increase in recipients and funding.
- The gasoline surtax imposes up to $.45 per gallon in additional taxes on gasoline added to the $.17 per gallon state gasoline tax, $.01875 per gallon state petroleum products loading fee and a federal excise tax on gasoline of 18.4 cents per gallon. When gasoline is selling at retail for about $2.20 per gallon, taxes represent about 17 percent of retail. With a $.45 per gallon additional tax (and assuming that retail prices would increase only as much as the increased taxes – a somewhat dubious assumption), the tax load would increase to over 31 percent of retail.
- Residents of New Mexico have tolerated gasoline taxes at levels far in excess of the levels generally imposed by the gross receipts tax largely because the taxes have been seen as user fees for improvement of roads in the state. Ask oldtimers about Manny Aragon's five-cent gasoline tax for general fund purposes that got Gary Johnson elected governor in 1994. This bill would take the gasoline surtax to the general fund and not the road fund, so that this tolerance for high gasoline taxes would not be favored by the citizens.
- A substantial increase in energy prices would occur in the short- to mid-term, as coal-fired generation is being replaced with a mixture of renewable sources and natural gas peak and base load. This additional cost of electricity might torpedo efforts to recruit and expand commercial, industrial and manufacturing enterprises. This is a danger of increasing carbon taxes on a state-by-state basis. New Mexico is already at the bottom of many lists of per capita income, educational attainment, child welfare and poverty. This proposal will affect the economic equilibrium statewide, will increase unemployment, decrease per capita income and, possibly (or even likely) place New Mexico into a permanent recession.
- At minimum, before imposing this somewhat draconian tax regime on the residents of the state, a thorough study should be conducted. This study must keep in mind and model the effects on the state when out-migration (voting with the feet) is a real possibility for middle- to upper-income residents, who would bear the direct burden

of these increased taxes, without relief from the three new funds or the carbon emissions tax credit.

SIGNIFICANT ISSUES

TRD has contributed an extensive discussion of some of the policy issues implicit in the provisions of this bill:

New Mexico gasoline prices for the last four calendar years have been below the long term national inflation adjusted average of $2.64. They were above that average for the four calendar years preceding that. Gasoline taxes are regressive, meaning that they comprise a larger share of the budget the lower a household's income. However, this bill attempts to mitigate that effect by including a new low-income tax credit and a low-income home energy assistance fund.

Even so, by the time the full effect of the new surtax is imposed in 2024 (and assuming no other state raises their taxation rate between now and then), New Mexico would have the highest effective gasoline taxation rate in the nation at 63.8 cents per gallon.

Additionally, the yearly changing tax rate means that gasoline already in inventory may be affected. The bill should amend 7-13-3.1 to add the surtax to its treatment of gasoline inventory.

The proposed low-income tax credit may not fully offset the household fiscal income of the proposed gasoline surtax. Many New Mexicans live in rural areas of the state and would be disproportionately impacted by the gasoline surtax. As mentioned above, the tax also has a disproportionate impact on low income households. The timing of reporting the income credit will also mean that households will need to pay higher gasoline prices for at least a year before income credit relief.

The proposed new natural gas processors surtax would apply to 18 current operators reporting the natural gas processors tax. The tax rate imposes a heavy burden on these taxpayers and reaches a level of tax in 2023 that is approximately 83% of the CREG's forecasted value for natural gas per mmbtu (million British thermal units). The tax could put these processors out of business or force them to move out of state. The heavy burden on a handful of taxpayers also brings into question the equity and efficiency principals of good tax policy.[2] The natural gas processors work in conjunction with companies severing the natural gas from the ground but natural gas severers are not sharing a portion of the new tax burden. If the surtax is meant to capture the "external" costs of the environmental impact of fossil fuels, then the tax burden is disproportionately applied.

[LFC staff note: the bill provides an exemption for gas that is exported out to the state. However, once gas leaves the processing plant, it may be difficult for TRD to accurately administer and verify the quantity of gas exported. Yes, there may be FERC reports to rely on, but there will be significant administrative costs and efforts needed to implement the provisions of this. Because of this export exemption, it is essentially a new tax, not a piggyback on the current Natural Gas Processor's Tax.]

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[2] TRD, 2016 Tax Expenditure Report, page 258

DOT expands the description of the gasoline tax provisions of this bill as follows:

> Senate Bill 393 (SB 393) imposes a gasoline surtax of up to 45 cents per gallon and a natural gas processors surtax of up to 3 dollars per mmbtu, and distributes the revenue from these surtaxes into three newly created funds – Low-Income Home Energy Assistance Fund, Fossil Fuel Displaced Worker Fund, and Renewable Energy Technology Fund – as well as the General Fund. SB 393 also phases in a Carbon Emission Income Tax Credit.
>
> SB 393 introduces and phases in a 45 cents Gasoline Surtax beginning January 1, 2020, when the surtax is 9 cents per gallon of gasoline received. The surtax increases to 18 cents per gallon on January 1, 2021, and then to 27 cents on January 1, 2022. Beginning January 1, 2023, the surtax increases to 36 cents and finally, beginning January 1, 2024, the surtax increases to 45 cents.
>
> Under SB 393, the newly created Low-Income Home Energy Assistance Fund and Renewable Energy Technology Fund would receive 15% each of the revenue generated by the Gasoline Surtax. Another 10% of the revenue is distributed to the newly created Fossil Fuel Displaced Worker Fund, and the remaining 60% of the revenue is distributed to the General Fund.
>
> Per current law, gasoline is subject to a 7 cents per gallon Gasoline Tax and a 1.875 cents per gallon Petroleum Product Loading Fee.

DOT also provides a discussion of the impact of this bill on the State Road Fund.

> SB 393 diverts 100% of the revenue from the new Gasoline Surtax to the Low-Income Home Energy Assistance Fund, the Fossil Fuel Displaced Worker Fund, the Renewable Energy Technology Fund, and the General Fund, while the State Road Fund <u>does not</u> receive any of the revenues.
>
> Furthermore, imposing a Gasoline Surtax of 45 cents will increase New Mexico's total taxes/fees on Gasoline by 238% to 63.875 cents (=17 cents Gasoline Tax + 1.875 cents Petroleum Products Loading Fee + 45 cents Gasoline Surtax). This is 89% greater than the current national average of 33.78 cents in Gasoline Motor Fuel Taxes and will be the highest in the nation (well above the current high of 58.7 cents per gallon imposed by Pennsylvania). Under current law, New Mexico's total gasoline motor fuel taxes are 44% lower than the national average.

Gasoline Motor Fuel Taxes -- New Mexico Vs. US Average			
(in cents)	NM - Current Law*	NM - Proposed Law**	% increase in NM
	18.875	**63.875**	**238%**
Current U.S. Max	58.700	58.700	
Current U.S. Average	33.780	33.780	
% Difference between NM and US Average	-44%	89%	

** 17 c Gasoline Tax + 1.875 c Petroleum Products Loading Fee*

*** 17 c Gasoline Tax + 1.875 c Petroleum Products Loading Fee + 45 c Gasoline Surtax*

Such a substantial increase in gasoline taxes is likely to have an adverse impact on gasoline demand depending on gasoline's price elasticity of demand and could potentially depress future recurring revenues of the State Road Fund. Also, such a high surtax would limit the potential to increase Gasoline Tax for transportation-related purposes.

EMNRD comments on the underlying proposal:

> SB 393 creates a green fee on carbon resources that could be used as a funding mechanism for energy/climate programs. The bill also creates a tax credit/rebate for low-moderate income individuals that could be negatively affected by the green fee. Although a tax credit/rebate is created under SB 393, low income individuals could still be affected in their day to day needs as they would not be compensated for those additional costs created by the surtax until the end of the tax year and may not have alternative modes of transportation available to them.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is probably <u>not</u> met since, although TRD is required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the carbon emission income tax credit, there are no stated goals and no milestones. TRD will be unable to determine if the provisions of the bill are meeting this unstated purpose.

ADMINISTRATIVE IMPLICATIONS

EMNRD has some concerns about administration of this relatively complicated bill.

> There could be potential administrative funding implications for the departments tasked with administering the funding programs created by SB 393. SB 393 does not explicitly outline how the funding for each of the funding programs would be used. If each of the departments (including EMNRD) tasked with implementing a funding program under SB 393 could use part of the funding generated from the gasoline and natural gas processors surtaxes to cover the administrative costs of implementing the new funding programs, that would alleviate some of the fiscal burden.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB6 also modifies the gasoline tax.

TECHNICAL ISSUES

In keeping with LFC's tax policy guidelines, this bill does not contain a delayed repeal date. LFC recommends adding a delayed repeal date.

DOT notes a technical issue: "On page 2 (last line), SB393 refers to Subsection A of Section 7-1-6.11 NMSA 1978 when referring to gasoline tax sharing agreement between the secretary of transportation and a qualified tribe. However, the relevant reference is Subsection A of Section 7-1-6.44 NMSA 1978."

TRD has contributed a number of technical comments:

> There is a problem in amending the gasoline distribution to two tribes. Section 1-A(8) of the bill changes the working of the distribution of gasoline revenue to qualified tribes to now refer to Section 7-1-6.11(A) NMSA 1978 of current statute. However, that subsection discusses distribution of cigarette tax revenue to the University of New Mexico (UNM). Most likely the bill intended to refer to Section 7-1-6.44(A) NMSA 1978. The analysis above makes that assumption.
>
> Pages 5 thru 6, Section 4 (B) and (C): TRD suggests the bill specify how often to update the threshold amounts as benchmarked to the federal Department of Health and Human Services "federal poverty guidelines."
>
> Page 6, Section 4 (D) and pages 7 and 8, Section 4 (H) (2): For the carbon emission income tax credit, rather than introduce a new definition for "minor child," the use of dependent under the age of 18 may make the intent clearer. Dependent as used for IRS purposes has very clear definitions and takes into consideration children that live in multiple homes throughout the year so they are not double counted.
>
> Page 21, Section 13 (B): The bill language proposes an additional deduction for the natural gas processor surtax that differs from the current natural gas processors tax deductions. The new proposed deduction language, "exported and maintained outside of the borders of the state" is vague and needs clarification. This deduction is the only deduction out of the five listed that occurs outside of the plant and applies only to the surtax not the original tax. If this deduction is interpreted as being able to move the product for processing out of state, this would allow them to deduct and reduce the taxable volumes to zero. The analysis above assumed no loss of taxable volumes from the added deduction due to the current ambiguity.

TRD notes that portions of the bill take effect on January 1, 2020. However, the effective date of the bill is later, listed as July 1, 2020. LFC has reviewed this comment and determined that no adjustment of dates is required. The carbon emission tax credit is applicable for taxable years beginning January 1, 2020. This will affect general fund revenues for FY 21, since TRD will not adjust the withholding tables effective January 1, 2020 and affect FY20 revenues.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

LG/sb/al

Senate Bill 393 – Page 11

Attachments: