The Principles of Sound Tax Policy

As a nonpartisan educational organization, the Tax Foundation has earned a reputation for independence and credibility. However, it is not devoid of perspective. All Tax Foundation research is guided by the following immutable principles of sound tax policy, which should serve as touchstones for tax policy everywhere:

Simplicity: Administrative costs are a loss to society, and complicated taxation undermines voluntary compliance by creating incentives to shelter and disguise income.

Transparency: Tax legislation should be based on sound legislative procedures and careful analysis. A good tax system requires informed taxpayers who understand how tax assessment, collection, and compliance works. There should be open hearings and revenue estimates should be fully explained and replicable.

Neutrality: The fewer economic decisions that are made for tax reasons, the better. The primary purpose of taxes is to raise needed revenue, not to micromanage the economy. The tax system should not favor certain industries, activities, or products.

***Stability*:** When tax laws are in constant flux, long-range financial planning is difficult. Lawmakers should avoid enacting temporary tax laws, including tax holidays and amnesties.

No Retroactivity: As a corollary to the principle of stability, taxpayers should rely with confidence on the law as it exists when contracts are signed and transactions made.

Broad Bases and Low Rates: As a corollary to the principle of neutrality, lawmakers should avoid enacting targeted deductions, credits and exclusions. If such tax preferences are few, substantial revenue can be raised with low tax rates. Broad-based taxes can also produce relatively stable tax revenues from year to year.

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