



Ten Principles of Sound Tax Policy

1. **Transparency is a must.** A good tax system requires informed taxpayers who understand how taxes are assessed, collected and complied with. It should be clear to taxpayers who and what is being taxed, and how tax burdens affect them and the economy.
2. **Be neutral.** The fundamental purpose of taxes is to raise necessary revenue for programs, not micromanage a complex market economy with subsidies and penalties. The tax system's central aim should be to minimize distortions in the economy, and to interfere as little as possible with the decisions of free people in the marketplace.
3. **Maintain a broad base.** Taxes should be broadly based, allowing tax rates to be as low as possible at all points.
4. **Keep it simple.** The tax system should be as simple as possible, and should minimize gratuitous complexity. The cost of tax compliance is a real cost to society, and complex taxes create perverse incentives to shelter and disguise legitimately earned income.
5. **Stability matters.** Tax law should not change continuously, and tax changes should be permanent and not temporary. Instability in the tax system makes long-term planning difficult, and increases uncertainty in the economy.
6. **No retroactivity.** Changes in tax law should not be retroactive. As a matter of fairness, taxpayers should rely with confidence on the law as it exists when contracts are signed and transactions are made.
7. **Keep tax burdens low.** It makes a difference how large a share of national income is taken by government in taxes. The private sector is the source of all wealth, and is what drives increases in the standard of living in a market-based economy. Taxes should consume as small a portion of national income as possible, and should not interfere with economic growth and investment.
8. **Don't inhibit trade.** In our increasingly global marketplace, the U.S. tax system must be competitive with those of other developed countries. Our tax system should not penalize or subsidize imports, exports, U.S. investment abroad or foreign investment in the U.S. Taxes on corporations, individuals, and goods and services should be competitive with other nations.
9. **Ensure an open process.** Tax legislation should be based on careful economic analysis and transparent legislative procedures. Tax legislation should be subject to open hearings with full opportunity to comment on legislation and regulatory proposals.
10. **State and local taxes matter.** The same general principles that apply to federal taxes also apply at the state and local level. Local, state and federal tax systems should be harmonized to the extent possible, including consistent definitions, procedures and rules.