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Second Edition

State Tax Policy

A Political Perspective

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PRINCIPLES OF SOUND TAX POLICY

Determining what constitutes "good" tax policy is difficult. To some individuals, good tax policy is measured by the burdens placed on individuals by the tax system; that is, what segments of the population should be responsible for paying particular shares of government costs. This question has sparked the seemingly endless debate of whether that responsibility should fall largely on the wealthy rather than on the less fortunate. Some have based the question of sound tax policy on religious principles (Hamill 2003).

Others evaluate tax policy in terms of how it affects commerce and industry—whether the policy sparks or inhibits economic growth. But, as in the debate on what groups should be taxed more heavily, a great divide separates those who believe that the business community should be relatively unburdened and those who believe that business entities, rather than individuals, should pay for a greater share of public services.

For some, good tax policy depends on its political ramifications. For example, will a particular plan help constituents? Will it garner campaign contributions? Tax policy choices often lead politicians to ask the simple question, will this course of action lead to reelection or certain defeat? While few politicians will admit to sharing this particular view, history is replete with examples of state legislators succumbing to political pressure on tax policy decisions.

For others, good tax policy is a function of one's philosophical views on the size and role of government and the wisdom of redistribution.

Some believe that good tax policy is best determined by how effectively the government raises revenue for public services. Individuals with this viewpoint often think that how government raises revenue is less important than ensuring that funds are available to pay for government programs. Conversely, some individuals cast a wary eye on most government programs. Those with this kind of jaundiced view of the public sector tend to see taxes as a necessary evil—no matter how the government collects them.

All along this continuum are people who sincerely believe that their normative vision of good tax policy is in the best interests of society. Despite often wide-ranging ideological differences, the people who engage in much of the public debate over how the government should raise revenue are those most interested in developing tax policies to benefit the country.

Of course, there will always be those individuals who have a much more cynical interest in advocating particular tax policy choices. These people view tax policy from a narrow, self-serving perspective and define good tax policy as whatever benefits their particular interests. But if one takes the more public-spirited approach, it is possible to develop a set of principles upon which large segments of society can agree.

The question of what constitutes sound tax policy has been debated for hundreds of years. Adam Smith was the first to articulate a set of guidelines for raising revenue in a market-based economy. In 1776, Smith enumerated four principles for evaluating a revenue system.

1. The subjects of every state ought to contribute toward the support of government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.
2. The tax that each individual is bound to pay ought to be certain and not arbitrary.
3. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay.
4. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state (Papke 1993, 386).

Smith's views have been echoed by scholars, policymakers, and practitioners for over two centuries (Blough 1955; Break and Pechman 1975; Reese 1980; Shoup 1937). While applicable to tax systems at all levels of government, his views have become particularly important in the field of state taxation.

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In the area of state taxation, two organizations—the National Conference of State Legislatures (NCSL) and the Lincoln Institute of Land Policy—have provided what is perhaps the best set of principles for sound tax policy. In 1988, those organizations gathered lawmakers and academics to discuss improving state tax systems. The outcome of that meeting was the seminal report, *Principles of a High-Quality State Revenue System*. The principles outlined in the report restate most tax theorists' beliefs about what constitutes a sound tax system. The report was widely circulated by NCSL in 1992 and appeared in a much-cited book, *The Unfinished Agenda for State Tax Reform* (Gold 1988).[1]

Although policymakers and tax specialists continue to debate the particulars of good state tax policy, they generally agree on five broad principles.

Principle One: Raising Adequate Revenue

The primary purpose of any tax system is to raise revenue to cover the costs of public expenditures. The tax system, then, is merely a means (collection) to an end (funding outlays determined through the political process) (Blough 1955). This principle is particularly important in the state tax arena. As discussed below, balanced budget laws largely prevent states from deficit spending. Thus, the tax system must raise the requisite revenue to pay for those services the public demands.

A tax system must not only provide for current spending, but also meet the future revenue needs of the state. In its widely circulated report, NCSL asserted that to meet the revenue needs of a state, a tax system must demonstrate sufficiency, stability, and certainty (NCSL 1992, 7).

Sufficiency requires that enough revenue is available to balance the state budget and to adapt that budget to changes in state spending. More broadly, the state tax system must be designed to raise enough revenue to fund the programs and policies demanded by the citizens and enacted by their elected representatives. The hallmark of sufficiency is that state tax systems maintain flexibility. Spending needs will vary over time as political and economic developments unfold (Fox 2003).

Stability requires that a consistent amount of revenue is collected over time, necessitating a mix of taxes, "with some responding less sharply to economic change" than others (NCSL 1992, 7). For example, personal income taxes are widely thought to produce more revenue than other levies during economic expansions but not during recessions. By contrast, revenue raised through broad-based sales taxes tend to be relatively consistent during economic swings. Stability is important because most public services are designed to last for an indeterminate time. That is, much of what state governments spend money on (e.g., schools, roads, prisons) remains the same from year to year.

Certainty requires that policymakers minimize the number and types of tax changes. The 1992 NCSL report recognized that frequent changes interfere with economic choices and with long-term financial planning for both businesses and individuals. Frequent changes in the law also lead to increased compliance and administrative costs.

Of course, all governments must recognize that the revenue system must sometimes be altered to meet the needs of a changing economy or to improve fairness and efficiency. But most would agree that significant changes to state revenue systems should be implemented cautiously and with much forethought.

According to this first principle—raising adequate amounts of revenue to pay for existing and future public services—state governments have generally been successful. State public-finance systems have been remarkably adept at raising revenue through good and bad economic times.

Part of the states' success in raising sufficient revenue is attributable to the balanced budget requirements that essentially preclude states from deficit spending. The constitutions of 24 states require that the final state budget be in balance. In 8 additional states, a balanced budget is a statutory requirement. And all states except Vermont have some legal requirement that a balanced budget be submitted by the governor or approved by the legislature. Thus, political leaders are often forced to make difficult choices between public services and the tax burdens these services produce.

The states' success also reflects the political will of the legislative leaders who have found ways to pay for public services despite continuing economic and political challenges to raising tax revenue. This aspect of state politics has not been studied and is little understood by academics or the public. Yet legislatures, to their credit, have been remarkably resourceful in raising revenue through the most trying times. For the past quarter-century, state lawmakers have been able to provide the services demanded by their constituents in an atmosphere plagued by balanced budget laws, a shrinking tax base, and decidedly antitax political sentiments. The resourcefulness of lawmakers in funding state services under often-trying conditions is underappreciated.

But much of the success in funding government is due to the structure of the state tax systems themselves. As noted, these systems have proved quite capable of dealing with the public's service demands through both prosperous and lean times. A majority of the states' revenues have come from a mix of income and consumption taxes.

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The reliance on various types of taxes and sources of revenue has also provided extraordinary flexibility and discretion to state legislators. State lawmakers have been able to target (or otherwise limit) revenue reductions or increases to a particular tax. Thus, states have been able to raise revenue or cut taxes without significantly reforming the public finance system.

That the states have dealt so well in an ever-changing economic environment is surprising given that most major state tax systems were developed in the early 20th century. The country's economy at that time hinged on the manufacture of tangible personal property and farming. Over the past century, the U.S. economy has shifted to a service base and a greater dependence on international trade. Today, the age of electronic commerce is producing another dramatic economic shift.

So far, through all the economic changes, the state tax systems have managed to produce the revenue necessary to pay for public services. Whether they will continue to meet this objective is debated widely in public finance circles.

Principle Two: Neutrality

Most economists and political theorists agree that taxes should have as little an effect on market decisions as possible. Neither businesses nor individuals should be forced (or encouraged) to take action solely because of tax consequences, either positive or negative. Market conditions and economic efficiency—not the tax code—should dictate business decisions. Similarly, taxes should not be used to influence individual consumption choices. To be sure, all taxes affect decisionmaking to some extent. Optimally, however, the tax system should minimize market distortions.

Policymakers widely agree that tax neutrality is best attained by a system with a broad tax base (i.e., one with few exemptions, deductions, and credits) and low rates (NCSL 1992).[2] Tax systems built on a foundation of broad bases and low rates will minimize the opportunity and incentive to make economic decisions based on tax savings. Moreover, if the state must differentiate between groups of people in determining tax burdens, those differentials should reflect the external costs or transaction costs created by the taxpayers who bear the greatest burdens (Pogue 1998).

State tax systems have generally failed to attain neutrality. A host of tax provisions are designed to influence individual and business behavior. Literally thousands of provisions are on the books—far too many to discuss here. Businesses are provided deductions, credits, and exemptions as incentives to invest in plants and equipment and to expand their workforces. While these incentives are sometimes offered to all businesses in the state, in some cases they are offered to particular industries or specific companies. The incentives usually involve reductions in corporate income, sales and use, or property taxes. The tax incentives are typically used to motivate businesses to act in ways in which policymakers believe the businesses would not otherwise act.

Individuals are granted tax breaks as well. Through the various state tax systems, people are encouraged to serve in the military, have children, own a home, attend college, and engage in other activities that they might not have undertaken but for the tax rewards involved. In addition, individuals' shopping patterns—where and when they make purchases—are influenced by sales tax "holidays," exemptions for clothing, and exemptions on food for home consumption. Most people agree that the activities encouraged by individual tax breaks are socially desirable and should be promoted by the government. The question is whether the tax system is the most efficient way to accomplish these social goals.

It's important to note that individual and business behavior is influenced not only by tax breaks, but also by tax burdens. Tobacco and alcohol excise taxes are designed in part to discourage the use of these two substances. Moreover, corporate tax plans are often designed to encourage businesses to adopt policies that prevent pollution or help clean up the environment.

These examples show the goal of neutrality is rarely met by state tax systems. The political and economic pressures inherent in a federal tax system make achieving tax neutrality very difficult.

Principle Three: Fairness

Tax systems, like all aspects of government, should be fair and equitable. But how to achieve equity through policy choices is subject to substantial disagreement, perhaps more than any other aspect of sound tax policy. After all, "equity" is a concept fraught with value judgments, and fairness and justice are inherently difficult ideals upon which to build consensus. In addition, charges of inequity can be politically powerful. Political leaders routinely assert the unfairness of the revenue code when advocating tax policy. These cries of unfairness are not heard merely from "liberal" politicians crusading for the downtrodden; such rhetoric is just as likely to come from politicians representing the interests of wealthy corporations.

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Despite these difficulties, tax experts have agreed on two general concepts of equity. In the tax policy realm, fairness is traditionally defined in terms of horizontal and vertical equity (Reese 1980).

Horizontal Equity

The concept that a tax system should treat similarly situated taxpayers the same is known as horizontal equity. Simply put, persons and businesses with similar incomes and assets should be taxed alike. This concept is closely related to the issue of neutrality discussed earlier. But while neutrality primarily concerns economic efficiency, horizontal equity—that people and firms should be treated equally—is seen as imperative in a democratic society.

Real or perceived differences in the taxation of equals undermine public confidence in a tax system. Consider a homeowner who discovers that his neighbor, with essentially the same house, pays substantially less in property taxes, or an employee who sees a coworker earning the same salary being taxed at a different rate. Such situations can only breed distrust of the tax system and government in general.

Moreover, horizontal inequities invariably lead to a smaller tax base. As individuals, groups, or particular transactions are exempted from a tax, the base shrinks. And a shrinking tax base leads to higher tax rates for everyone not enjoying the exemption. If certain purchases, such as food for home consumption, are exempt from sales tax, the state will have to increase rates on other purchases to raise the same amount of revenue. In effect, the people not receiving the benefit subsidize those who do.

Policymakers widely agree that taxes should be horizontally equitable. In practice, however, horizontal equity is elusive at all levels of government. As in the examples above, literally thousands of similarly situated individuals and businesses are treated differently by the tax laws of virtually every state. Despite equal income and economic assets, a citizen's status as a veteran, parent, senior citizen, or student will often result in more favorable tax treatment.

Businesses, of course, are rarely treated uniformly by the tax system. States often reward companies that have made new investments in plants and equipment but not companies that have already made such investments. Similarly, companies receive tax breaks for hiring specified numbers of employees, but companies that have already hired the requisite numbers of employees do not receive the same benefits. Moreover, businesses with similar operations, revenue, and size are often treated differently because of their choice of entity.

The horizontal inequities presented by the tax system have not given rise to widespread public dissatisfaction or political upheaval. Part of the public's benign reaction is because the public generally agrees that some groups receiving preferential treatment (e.g., veterans) deserve it. But some of the reaction, or lack thereof, reflects the public's limited knowledge about the consequences of creating horizontal inequities (greater tax burdens on everyone else) or even that these inequities exist.

Vertical Equity

Tax experts generally agree that the tax system should also be based, to some extent, on one's ability to pay (Blum and Kalven 1953; Institute on Taxation and Economic Policy [ITEP] 2005). This much more politically problematic concept is known as vertical equity. Some observers argue that vertical equity requires a "progressive" form of taxation; that is, taxpayers should bear a greater burden of paying for government services as their income grows. Progressive taxes, depending on their design, could include corporate and business taxes; inheritance, estate, and gift taxes; property taxes; and individual income taxes. Others argue that equity requires a proportional form of taxation where all persons are taxed at the same rate. These individuals contend that most modern state taxes could be designed to impose a roughly proportional burden on all taxpayers.

A virtually undisputed notion, however, is that a sound revenue system minimizes regressivity (NCSL 1992). Regressivity means that a person's relative tax burden increases as his or her income or wealth decreases. Scholars, policymakers, political leaders, and most commentators writing about tax policy consider a regressive system unfair.

Despite this consensus in academia and among commentators,[3] state tax systems have been decidedly regressive throughout their history (Brunori 2002a; Citizens for Tax Justice and ITEP 1996; Pechman 1985; Phares 1980).[4] In virtually every state, the poorer an individual is, the greater the percentage of his or her income that is paid to support the government. In recent years, state taxes have become even more regressive (Johnson and Tenny 2002). It should be noted that the level of regressivity or progressivity varies substantially among the states. Chernick and Sturm (2005) found that the tax incidence in the most progressive states was three times as great as in the least.

The regressive nature of state revenue systems is largely the result of the heavy reliance on consumption taxes, both general sales and use and excises (ITEP 2005).[5] As explained in detail in chapter 5, consumption taxes are regressive primarily because low-income individuals spend a larger percentage of their income on goods subject to tax than do high-income individuals. For example, sales taxes are generally not imposed on services; the wealthy spend a far greater percentage of their income on services than do the poor.

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The effects of consumption taxes on the poor are somewhat offset by the personal income taxes levied in 41 states and the District of Columbia. But this progressive form of state taxation is not enough to overcome the regressive effects of the significant reliance on consumption taxes. General sales taxes are imposed by 45 states and have historically accounted for a third of state tax revenue. The various excise taxes account for about one-fifth of total state tax revenue. The states, therefore, rely on regressive levies for about half their tax revenue.

Moreover, the majority of personal income tax systems are only mildly progressive (Brunori 2002a). Most states have low rates and relatively few designated brackets. In fact, as of 2004, 31 of 41 states imposed taxes on families at or near the poverty level (Llobrera and Zahradnik 2004). A study by Lav, McNichol, and Zahradnik (2005) found that only 23 states had top tax rate brackets starting at $30,000 or more. And of course several of the largest states (Texas and Florida, for example) do not tax personal income. As discussed in later chapters, other taxes that could be considered progressive—corporate income and inheritance taxes—make up a very small percentage of total state tax revenue.

Making state tax systems more progressive, or at least less regressive, is difficult, if not impossible (Brunori 2002a). Consumption taxes are an important part of state public finance systems. They raise billions of dollars in revenue and cannot be replaced easily. Consumption taxes also have positive attributes that many believe may outweigh the problems of regressivity. Unfortunately, real and perceived problems associated with interstate competition prevent states from significantly increasing their reliance on business and income taxes.

Thus, states face a real dilemma. They rely heavily on regressive taxes, which are unfair, but political and economic conditions make reducing that reliance nearly impossible.[6] State policymakers have been unable to devise a tax system that is either horizontally or vertically equitable. Given the tax system's impact on the poorest Americans, this inability is arguably the biggest failure of state tax policy.

Principle Four: Ease of Administration and Compliance

The administrative requirements of sound tax policy entail minimizing the costs of compliance for taxpayers and of collection for the government (Reese 1980; Shoup 1937). If a revenue system is efficient, it avoids complex provisions and regulations; multiple filing and reporting requirements; and numerous deductions, exclusions, and exemptions. In this sense, the need for simplicity is related to the goal of neutrality because the factors that lead to complexity inevitably distort market decisions.

The more complicated the tax system grows, the greater the costs of taxpayer compliance. Both businesses and individuals will spend more time and money determining the requirements of the law and planning to minimize their tax burdens. Because a complicated tax system creates doubt about the meaning of the law, individuals and businesses will also spend more time and money defending against government audit activity as well as on litigation. Moreover, complexity often deters effective fiscal planning. Conversely, a less-complicated system of taxation facilitates understanding of the law and enhances public confidence in the system.

The government faces many of the same problems as individuals when navigating a complicated revenue system. From the government's perspective, complexity increases the costs of administration. The more complicated a system becomes, the more likely that taxpayers will express dissatisfaction. Tax systems with numerous exemptions, deductions, and credits require more audit and litigation resources. Ultimately, the complications (which are usually the result of a desire to ease regressivity or to provide incentives) require significantly more resources and thus raise the costs of enforcement and collection.

By and large, state tax systems get high marks for the administrative ease and efficiency of taxes paid by individuals. Sales taxes and personal income taxes both place relatively small compliance burdens on individual taxpayers and minimal enforcement burdens on state revenue departments. For example, an individual's compliance obligations for sales taxes end at the time of purchase; no forms need to be filed, no records kept, no accountants consulted. Similarly, withholding requirements and widespread conformance to federal tax laws minimize the burdens of complying with individual income taxes.

That is not to say no complications exist. Indeed, some areas of state tax law are replete with Byzantine rules. In addition, as noted in chapter 5, compliance with rules on the individual use tax is virtually nonexistent. Estate and inheritance taxes are barely understood by most citizens (Brunori 2000i). Although compliance costs are much greater for these taxes, the taxes themselves constitute a very small percentage of total state tax revenue.

State taxation tends to be much more complicated for businesses than for individuals. The most difficult state tax in terms of compliance and administration is the corporate income tax, although it accounts for less than 5 percent of total tax revenue. The already complex rules governing multistate corporate taxation are further complicated by state legislatures' constant efforts to change the law to encourage economic development. Moreover, additional costs arise in deciphering

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The sales and use tax also poses administrative and compliance problems for business, especially for firms with multistate operations. In general, vendors must collect and remit the sales tax to the state. They must keep track of the legal requirements in various taxing jurisdictions and file returns quarterly or monthly. They must also keep extensive records in case of an audit.

The goal of simplicity requires constant vigilance. Political pressure to alleviate burdens on the poor creates numerous sales and personal income tax exemptions. Political pressure to spur economic development creates numerous exemptions, deductions, and credits for virtually all taxes paid by businesses. The more the state governments create tax breaks (for either individuals or business), the more they complicate the system. Tax breaks for individuals or business entities increase the costs of compliance with, and the administration of, the tax laws.

Principle Five: Accountability

Achieving accountability requires states to play several roles. First, the government must ensure that those charged with the administration and enforcement of the tax laws are performing their duties efficiently and fairly. Few things are more damaging to taxpayer morale than corrupt or ineffective collection.

Second, the government must enforce the laws. People and businesses must pay their outstanding taxes. And the government must demonstrate the means and political will to ensure the collection of those taxes. Each principle of sound tax policy discussed here requires the government to enforce the revenue laws. As many countries have discovered, lax tax enforcement leads to widespread tax evasion.

For the past quarter-century, state revenue departments have largely been free of serious or widespread corruption. By all accounts, the states have done an exemplary job of collecting revenue. Most revenue departments receive high marks for their professionalism and effectiveness.

The third aspect of accountability—open, transparent tax policy—has proved more difficult for states to achieve. In a democratic society, tax decisions should be made openly, and the laws governing taxes should be explicit rather than hidden. The costs and benefits of fiscal decisions, especially those that favor particular taxpayers, should be understood by the electorate as well as by tax administrators. Accordingly, government information regarding the tax system, including all documents that promulgate tax policy, should be open to the public for review. Only through open government decisionmaking can the public determine whether elected officials are adequately serving the public's interests.

Nonetheless, much state tax policy is developed and implemented behind closed doors at both the legislative and executive levels of government. The legislative secrecy that often surrounds tax law is nothing new; it has occurred for years. Typically, a person, corporation, or industry will lobby a legislator for a particular tax benefit. For various reasons, the entity or legislator may not want the particular tax benefit to become public knowledge.[7] In many case, the legislator will then attempt to "hide" the true beneficiary by burying the proposed change in legislation that appears generally applicable.

Literally hundreds of attempts to affect tax law in this way occur every legislative session. Most of these efforts are unsuccessful; however, one recent case in which the legislator succeeded, and one in which the attempt almost succeeded, are worth noting. In 1999, the Virginia legislature passed a law creating a sales-tax exemption for certain purchases of computer equipment. Later research revealed that only one taxpayer—the Internet giant America Online (AOL)—would benefit from the exemption. The legislation was crafted so that it appeared to apply to all computer equipment purchases; in reality, the legislation only applied to purchases by certain types of companies. As a result, AOL alone was entitled to tax exemptions—worth $18 million. The most surprising aspect of the case was that most Virginia lawmakers did not realize the law benefited only one taxpayer (Brunori 1999i).

In 1999, in a similar but ultimately unsuccessful bid, Maryland legislators proposed a law that would have capped income tax liability for capital gains at $104,000. At the time, most legislators and the public did not know that only one-tenth of 1 percent of the state's population would benefit from the measure. The press later reported that the legislation resulted from the lobbying efforts of a single wealthy individual (Brunori 1999i). The legislation failed, but few Maryland lawmakers realized that the benefits would apply to a small percentage of citizens.

Administrative secrecy is also a widespread phenomenon in state tax matters. Many laws either expressly or implicitly prevent public access to state administrative actions. Few would argue that sound tax policy requires confidential taxpayer information to be disclosed. Individuals' tax return information, and some businesses', should, as a general rule, not be disclosed to the public. But administrative documents that set tax policy should clearly reside in the public domain. Such documents, however, are not always available for review.

For example, in 1998, the Georgia legislature passed Georgia Code Sec. 48-7-31(d)(1). This statute allows corporate taxpayers that are plan-

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ning to build new or expand existing facilities in Georgia to enter into an agreement with the state revenue commissioner on the allocation and apportionment of the corporation's revenue for corporate income tax purposes. To date, little or no published information is available on which companies have taken advantage of the law or on the terms of any of the agreements. Nor is there a mechanism allowing the public or press to obtain this information (Kerner 2000; Richie 2005).

Finally, accountability requires states to review existing laws and determine whether they are serving the needs of the citizens. Only through periodic evaluations can the public and its elected representatives know if the policies are raising revenue successfully or if they need revision. Such evaluations also help determine if a state's tax policies are fair. Moreover, tax policy that is meant to promote or deter specific behavior (such as economic investment) must be evaluated on whether it meets the intended goal.

Despite the importance of preserving the integrity of tax systems, most states score poorly on evaluating their laws and policies. Some states have established commissions to study tax reform needs (McGuire and Rio 1995). Few states, however, evaluate their revenue systems routinely. For example, no state conducts regular incidence studies to determine who is paying what share of government services. And only a few states conduct these studies when considering legislation (Mazerov 2002).

The states play no role in determining the regressivity of the tax laws. Similarly, no states conduct regular studies to determine whether the tax laws are raising revenue efficiently economically. In general, states have also not evaluated inefficient, costly, or burdensome rules and regulations governing compliance and administration. Moreover, states fail to examine whether the myriad of tax laws are functioning as they were intended. Does a particular tax raise enough revenue to justify the compliance and administrative costs? Does a particular tax or procedure no longer make sense because of changing economic conditions? These and similar questions are rarely addressed by the states except when an infrequent commission is established to conduct a comprehensive review of the finance system. States fail to evaluate their revenue laws regularly because they are not legally required to do so. State legislatures have not mandated (or appropriated funds for) such studies.

THE QUEST FOR SOUND TAX POLICY

The states receive mixed reviews on how well they comply with the established principles of sound tax policy. Tax systems are considerably less fair and more complicated than the ideals described here would mandate. At the same time, the systems have proved resilient to economic change and have consistently managed to produce enough revenue to keep public services funded. And tax enforcement is generally strong, although many aspects of state tax policy are steeped in secrecy.

Tax experts widely agree on what constitutes sound tax policy. But devising policies and government practices that adhere to these principles is much more difficult. Political and economic pressures can lead to laws and regulations that often conflict with the principles described here. Tax breaks for particular individuals or businesses, often made in the name of fairness or economic development, usually lead to less equitable, less neutral, and more costly tax systems. But such tax breaks will likely continue as long as political leaders lobby for their constituents' interests. Perhaps most troubling is the regressive nature of many tax policies. Although virtually every expert agrees that tax systems should minimize regressivity, the federal system and interstate competition for wealthy individuals and businesses have made regressivity almost inevitable.

Yet, the goals are worth striving toward. It may be difficult to create a fair and efficient tax system, but the difficulty alone should not be a deterrent. Good government requires sound tax policy; it is incumbent upon our political leaders to pursue that ideal.

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