

Recommendations

1. Adopt guiding principles based on equity and economic neutrality to shape changes in Washington's tax system, so the tax system is focused on raising needed revenue for core functions of government, not directing the choices and behavior of citizens.
2. Policymakers should seek to lower the overall tax burden to promote prosperity and opportunity in the economy for the benefit of all citizens.
3. Embrace tax transparency by creating an online searchable database of all state and local tax rates.

Principles of Taxation for Elected Officials

by Paul Guppy, Vice President for Research &
Jason Mercier, Director, Center for Government Reform

October 2008

Introduction

With Washington facing a projected \$3.2 billion budget deficit (the difference between growing revenues and even faster projected spending growth), the temptation exists for elected officials to close the budget gap with tax increases. Already policymakers are being encouraged to enact a “temporary” sales tax increase.¹ Before any conversation about raising taxes can occur, however, state officials should first agree to a set of guiding principles on taxation.

The proper function of taxation is to raise money for core functions of government, not to direct the behavior of citizens or close budget gaps created by overspending. This is true regardless of whether government is big or small, and this is true for lawmakers at all levels of government. Many lawmakers think of the tax code as a way to penalize “bad” behaviors and reward “good” ones. They have sought incessantly to guide, micromanage and steer the economy by manipulating the tax laws.

Taxation will always impose some damage on an economy's performance, but that harm can be minimized if policymakers resist the temptation to use the tax code for social engineering, class warfare and other extraneous purposes. A simple and fair tax system is an ideal way for advancing Washington's economic interests and promoting prosperity for its residents.

Guiding Principles of Taxation²

The fundamental principles presented here provide guidance for a fair and effective tax system; one that raises needed revenue for core functions of government, while minimizing the burden on citizens.

- **Simplicity** – The tax code should be easy for the average citizen to understand, and it should minimize the cost of complying with the tax laws. Tax complexity adds cost to the taxpayer, but does not increase public revenue. For governments, the tax system should be easy to administer, and should help promote efficient, low-cost administration.
- **Accountability** – Tax systems should be accountable to citizens. Taxes and tax policy should be visible and not hidden from taxpayers. Changes in tax policy should be highly publicized and open to public debate.
- **Economic Neutrality** – The purpose of the tax system is to raise needed revenue for core functions of government, not control the lives of citizens. The tax system should exert minimal impact on the spending and business

decisions of individuals and businesses.

- **Equity and Fairness** – Fairness means all taxpayers should be treated the same. The government should not use the tax system to pick winners and losers in society, or unfairly shift the tax burden onto one class of citizens. The tax system should not be used to punish success or to “soak the rich.”
- **Complementary** – The tax code should help maintain a healthy relationship between the state and local governments. The state should always be mindful of how its tax decisions affect local governments so they are not working against each other – with the taxpayer caught in the middle.
- **Competitiveness** – A low tax burden can be a tool for Washington’s economic development by retaining and attracting productive business activity. A high-quality revenue system will be responsive to competition from other states.
- **Balance** – An effective tax system should be broad-based, avoid special exemptions, and utilize a low overall tax rate with few loopholes.
- **Reliability** – A high-quality tax system should be stable, providing certainty in taxation and in revenue flows. It should provide certainty of financial planning for individuals and businesses.

While these guiding principles are important, there are inherent problems with any system of taxation. Basically, taxation reduces spending on private sector goods and services traded in the free market. The benefits of free exchange – to both the purchaser and seller – are reduced when trade is restrained by taxation. The way that taxes restrain private trade varies.

Income and property taxes reduce incomes to taxpayers, lowering their demand for goods and services. Sales and excise taxes increase costs to suppliers, reducing their willingness to provide goods at any given prices. In any case, taxes reduce private trade and curtail job creation.

Benefits of a Low Tax Burden

Since taxes lower the economic welfare of citizens, policymakers should try to minimize the economic and social problems that taxation imposes. Citizens then directly gain the benefits of a low tax burden. These benefits are summarized below:

- **Faster economic growth** – A tax system that allows citizens to keep more of what they earn spurs increased work, saving and investment. A low tax burden would mean a competitive advantage for Washington over states with high-rate, overly progressive tax systems.
- **Greater wealth creation** – Low taxes significantly boost the value of all income-producing assets and help citizens maximize their fullest economic potential, thereby broadening the tax base.
- **End micromanagement and political favoritism** – A complex, high-rate tax system favors interests that are able to exert influence in the state capitol, and who can negotiate narrow exemptions and tax benefits. “A fair field and no favors” is a good motto for a strong tax system.
- **Increased civic involvement** – A complex, high-rate tax system makes it nearly impossible for the average citizen to understand how and why the

state is collecting money. Citizens become cynical and alienated from their government. At some point, most citizens come to feel the state government no longer represents their interests. A simplified, broad-based, low-rate system encourages citizens to become re-engaged with government and to seek greater civic involvement.

Tax Transparency

Another important principle for elected officials to embrace is tax transparency. Individuals and business owners should be able to quickly and easily learn about how much officials in each taxing district add to their total tax burden. This is especially true when considering there are currently 1,790 taxing districts in the state.

To improve tax transparency an online searchable database of all tax rates in the state should be created and modeled after the [searchable budget website](#) enacted into law during the 2008 Legislative Session (SB 6818). The [online tax database](#) should be set up to allow users to find their state and local tax rates (such as property and sales taxes) by entering their zip code, street address, or by clicking on a map showing individual tax district boundaries. An online calculator should also be included to allow citizens to calculate what their potential total tax burden is and know which of their elected officials are responsible for which parts of it.

The people of Washington work hard for what they earn. Money paid in taxes is by definition not available to meet other needs. As a matter of respect to citizens, policymakers should work to keep the overall level of taxation to the absolute minimum needed to pay for the core functions of government while being transparent about the total tax burden being imposed.

Recommendations

1) Adopt guiding principles based on equity and economic neutrality to shape changes in Washington’s tax system, so the tax system is focused on raising needed revenue for core functions of government, not directing the choices and behavior of citizens. Basic to the concept of a fair tax system is that the state should take no more from citizens than it needs to pay for the core functions of government. This consideration goes beyond the need to balance the budget; it is a matter of fundamental respect and trust between citizens and their government.

2) Policymakers should seek to lower the overall tax burden to promote prosperity and opportunity in the economy for the benefit of all citizens. Washingtonians require and expect basic government services, and taxes must be collected to pay for these services, but government revenue should be limited to real public needs, so the tax system itself does not become one of the major problems of life. A fair and efficient tax system is a matter of having respect for the citizens of our state.

3) Embrace tax transparency by creating an online searchable database of all state and local tax rates. Policymakers should build on the state’s transparency reforms and help citizens learn more about what government decisions mean to their pocket books.

¹ “What if state lawmakers wanted to raise revenues next year?” by Brad Shannon, *The Olympian*, September 25, 2008.

² The text in this section is adapted from: “Principles of Sound Tax Policy,” by Dan Mitchell, Heritage Foundation, Washington, D.C., November 2001, “Guiding Principles of Taxation,” Tax Policy and Research, Montana Department of Revenue, October 2001, and “Some Underlying Principles of Tax Policy” by Richard K. Vedder and Lowell E. Galloway, Joint Economic Committee, United States Congress, Washington, D.C., September 1998.

Additional Resources

[Washington Policy Center Proposes Tax Transparency Website](#)

[Taxation Disclosure Act](#)

Paul Guppy is vice president for research at Washington Policy Center, a non-partisan independent policy research organization in Seattle and Olympia.

Jason Mercier is director of WPC’s Center for Government Reform.