Question 1: What are the characteristics of a good tax system?

The subject of taxes and taxation is one that is constantly being researched and critiqued. With an ever-growing society and economy, the government, is constantly, having to evaluate and create new mandates and laws regarding assessing taxes. To create fair taxes, a person first needs to know what a good According to the text, “Because everyone pays taxes, as a matter of simple fairness a good tax system distributes the burden it creates among all its citizens in an equitable manner.” This statement means that all citizens must pay their share of taxes. Legislators must be vigilant in constantly evaluating and adjusting laws so that they are as close to a good tax system as possible. However the text also states, “No taxing unit-local, state, or federal- has yet produced a taxation program that meets universal acceptance by all its taxing clients.”

A good tax system is comprised of six sections: fairness and equity, adequacy, low costs of collections, impact/incidence, neutrality, and predictability. When dealing with the taxation of working people, there will always be someone unhappy. It is for this reason in particular that legislators and government officials work as hard as possible to make sure that the tax system in place is a good tax system. A good tax system makes sure that the burden is distributed evenly throughout all individuals. This means that all individuals, companies, and businesses pay taxes.

Fairness and equity is the first attribute of a good tax system. According to the text, Taxes are considered fair if they contain features of progressivity with a larger percent falling on individuals with higher income.” A good tax system watches the tax burden that is placed upon its citizens. If an individual earns a higher income, he or she will have a higher tax burden. The other person who earns less will have a slightly lower tax debt. According to the text, “Persons with high incomes should never pay lower rates than persons with lower incomes, if it is assumed that the taxing system is based on the ability-to-pay principle.”

Adequacy of yield, when discussing a good tax system, is used when discussing having taxes assessed towards “productive resources.” This means that taxes should not be mandated just for because. There must be a clear reason for the
tax and what is to be taxed. According to the text, “Nuisance taxes that provide only minimum revenue should be avoided as much as possible in the taxing system of any level of government.”

A good tax system must ensure that the costs of taxes assessed and collected, does not outweigh the actual revenue generated. As stated in the text, “Taxes should have low collection and administrative costs for both the government and the individual.” A tax is only useful if the monies generated can be used to help elsewhere. If the cost of having to pay companies and agencies to drum-up the paperwork needed and the manpower to collect the taxes outweighs the amount actually taken in, the tax is not profitable as needed or intended.

In a good tax system, tax shifting should be kept a bare minimum. The text states it best: “A good tax system provides that every person and every business be required to pay some tax to government. It is a distinct violation of good taxation theory to pass tax laws that have gaping loopholes whereby many citizens or businesses can escape paying their share of the tax burden.” Tax shifting is the movement of the tax burden from one person to another. This can happen from the seller of a property that mandates that a purchaser pay a tax. This can also mean that a buyer requires a seller to pay a tax.

A good tax system requires that a tax be neutral. Basically stated, a neutral tax is one that has the least amount of negative outcomes for the individual paying and has the best possible outcome for which the tax applies. In other words, the higher the tax rate is on something, the less likely it is to be neutral. The old phrase, “getting the most bang for the buck,” easily applies here.

Finally, a good tax system must have predictability. Predictability means that a tax is set and is expected and understood. A tax needs to be steady and consistent. Taxes do not need to continually fluctuate. Individuals, businesses, agencies, and the government base their budgets on the amounts of taxes that will be received or paid out. If a tax constantly changes, the ability to create and sustain a budget is virtually impossible.

We as individuals and the local, state, and the federal government must work hard to come to an agreement of tax system that is fair, equitable for all parties
involved, productive, cost effective, neutral, predictable, and has the least amount of loopholes. Even though a total agreement from all stakeholders about how taxes are created, mandated, and collected, we must work hard to continually work towards this being our goal. If we want a better tomorrow, we must be better today. As citizens of the greatest nation in the world, the United States of America, we must pay our share and make sure that our country continues to thrive.