



TAXPAYERS'  
FEDERATION  
OF ILLINOIS

## Statement of Principles

The Taxpayers' Federation of Illinois supports sound tax policy and fiscal practices that encourage economic growth in Illinois. The tenets of sound tax policy can be articulated in a number of different ways. The Taxpayers' Federation of Illinois evaluates Illinois' overall state and local tax structure and individual tax provisions using the following guideposts:

**Adequacy.** A tax structure must raise enough revenue to properly fund government operations. Decisions about the scope and level of government services are outside the scope of tax policy, except to the extent overall tax burdens become unsustainably high. Tax revenues need to reflect economic growth, which usually requires that tax collections be balanced across multiple tax types. Income, property, and sales taxes are the most common tax types relied on by state and local governments.

**Stability/Predictability.** From the taxpayer's perspective, tax liabilities should not fluctuate dramatically from year to year. From the government's perspective, the same is true of revenues. Similarly, both taxpayers and governments function best when their future tax liabilities and collections can be projected with some degree of confidence. "The most damaging thing you can do to any businessman in America is to keep him in doubt, and to keep him guessing, on what our tax policy is." That was true when President Lyndon Johnson said it in 1964, and it remains true today.

**Equity/Fairness.** Equity has two dimensions: horizontal equity and vertical equity. Horizontal equity compares similarly situated taxpayers. Vertical equity compares tax burdens across taxpayer income or wealth brackets. Identical houses situated side-by-side should have the same property tax bill; that is horizontal equity. A third, more valuable house should have a higher tax bill commensurate with the higher value; that is vertical equity. Both actual and perceived fairness are important.

**Collectibility/Transparency/Simplicity.** These interrelated principles apply primarily to tax administration and, although they are generally noncontroversial, are too often overlooked. Voluntary compliance is an essential ingredient in most state and local tax structures; these principles help maintain taxpayer confidence in and compliance with the system. In addition, if a tax is easy to comply with and easy to collect it is also less costly to do so, and more funds are available for other business and government needs.

**Efficiency.** This is sometimes considered an aspect of equity. Taxes should be imposed without distorting economic behavior; the tax code should not pick winners and losers. The notion of a broad base and low rate is a manifestation of the efficiency principle. Similarly, the tax compliance and administration processes should not be unnecessarily inefficient and costly (which is frequently a consequence of violating the simplicity principle).

Taxes matter. Individuals and businesses make decisions every day about where to live, to invest, to expand. Illinois' overall business climate and economic prospects are critical factors in those decisions. Our tax structure and each taxpayer's anticipated tax liabilities are certainly not the only piece of the puzzle, but they play an important role in the process. Individual tax provisions and our tax code as a whole should adhere as closely as possible to these principles. The Taxpayers' Federation of Illinois supports those measures that do so, and opposes those that do not comport with good tax policy.