Evaluating a Tax Proposal: *A Tax Should Be…*

- **Efficient**
  - A tax should have a low ratio of administrative cost to revenue produced.
  - Implications for enforceability, competitiveness, and neutrality.
  - Example: The fuel tax is highly efficient.
- **Equitable**
  - A tax should be structured so as not to discriminate unduly among taxpayers large and small, interstate and local, and so forth.
  - A tax inequitable by itself may be made fairer by coupling it with another - for instance, a fuel tax levied in tandem with vehicle registration fees.
  - To a very large degree, equity is in the eye of the beholder.
  - Transparency is not always a virtue in a tax.
  - Implications for enforceability and effectiveness.
  - Example: A weight-distance tax is a notably inequitable tax.
- **Effective**
  - A tax should raise adequate revenues at reasonable rates.
  - Implications for efficiency.
  - Example: The fuel tax is an effective tax for the purpose of funding highways.
- **Enforceable**
  - A tax should be structured and administered so as not to invite evasion.
  - Large implications for efficiency and equity, some also for effectiveness.
  - A self-assessed tax is usually not highly enforceable.
  - Highly enforceable taxes tend to employ a withholding mechanism or to have a small number of taxpayers.
  - Employment of “modern technology” does not ensure enforceability.
  - Enforceability does not ensure proper enforcement.
  - Examples: The gasoline tax is highly enforceable, the diesel tax less so; a weight-distance tax and the HVUT are not readily enforceable.
- **Competitive**
  - A tax should not disadvantage businesses located in the taxing state vis-à-vis out-of-state competitors, or taxpayers in one industry vis-à-vis competing industries.
  - Implications for equity, efficiency, and effectiveness.
- **Neutral**
  - A tax should be structured so as not to unduly influence business investment decisions or run counter to important state policies.
  - Example: A gross receipts tax is not a neutral tax, since it distorts business investment.
- **Nonintrusive**
  - A tax should not unduly implicate privacy concerns, either individual or commercial.
  - Examples: Income tax reporting, both personal and corporate is intrusive, and implicates serious privacy concerns. So does government tracking of private vehicles for tax administration.

SOUTH CAROLINA TRUCKING ASSOCIATION