Principles for State Tax Policy

Americans for Prosperity strives to create an economy that works for all—empowering people to earn success and realize their potential. The core beneficial role of state government is to protect the foundational rights necessary for people to control their own destiny. State budgets should prioritize residents' ability to take risks and be entrepreneurial to earn their success. When government spending and taxes exceed this positive role, it harms the economy, diminishing opportunities for citizens.

What are the Principles for State Tax Policy?
One way to ensure government doesn't become untethered from its beneficial role is for state governments to have a fairer, flatter and simpler tax policy that unleashes growth and removes barriers to opportunity so all Americans can improve their lives.

Simple and Transparent
Tax policy should be clear and simple so taxpayers and small businesses without expensive lawyers and accountants can easily calculate and pay what they owe, without being subjected to high compliance costs that waste time and money. Convoluted and complex tax laws create perverse incentives for avoiding taxes through tax shelters and complex accounting and business practices. People should understand what they are paying in taxes and for what purpose so that they can hold their elected officials accountable.

Neutral
The point of taxes is not to control people's behavior. Tax policy should be neutral to the economy and cause as little disruption as possible. A broad tax base with a low rate is the most effective element of a neutral tax policy. High tax rates create incentives for businesses and families to move to lower tax jurisdictions, but also for special interests to lobby for carve outs and exemptions.

High tax states around the nation show that when an activity is heavily taxed, it reduces that activity. This trend has been shown through businesses moving from high Corporate Net Income Tax (CNIT) states like California and Illinois to low CNIT states like North Carolina and Texas. Employees follow employment opportunities, which is why states with higher taxes on businesses are also seeing outmigration of people. This doesn't just result in less business taxes, but also removes the revenue that states would get in Personal Income Taxes and Sales and Use Taxes.

Equitable
Lawmakers should eliminate all corporate welfare and special-interest handouts that create a two-tiered tax system. Tax policy should not pick winners and losers by providing favors to politically preferred behaviors, activists or industries.

Predictable and Permanent
A strong, pro-growth economy requires certainty over tax policy. Tax policy should be long-lasting and temporary tax policies should be eliminated. Tax changes should be forward looking, not retroactive. A broad tax base with low rates and limited carve outs will provide a more stable tax base, easing dramatic fluctuations in tax revenues.