



# Guiding Principles for Tax Policy

## What is a fair tax system?

**Background:** The LWWNC Tax Policy Review Committee was formed after the 2023 State Convention to lead a statewide review of the LWWNC tax policy position adopted in 1989. Committee members included Martha Roblee, Ruth Ann Groh, Lucille Howard, and Elaine Okal. With a goal to come to member agreement on a revised LWWNC tax policy position statement, the committee conducted four informative sessions focusing on specific aspects of taxation, concluding with a concurrence session held on June 6, 2024. The committee received a request during the concurrence session to supplement the revised tax policy position statement, which was purposefully stated in broad terms, with a report tying together the key concepts of taxation from the prior four sessions. The goal of this supplementary document is to provide further guidelines to members when interpreting the revised tax policy statement in LWWNC advocacy efforts.

### Types of taxes:

- Local property tax
- Sales and use tax
- Personal income tax
- Corporate income tax
- Other sources of revenue

### **Supplement to Revised LWWNC Tax Policy Position Statement:**

Under this position, LWWNC would support tax measures that broaden the base, improve the equity of the tax system, and provide adequate funding of needed services. In evaluating specific state and local tax proposals, the League will apply the following standards: equity, adequacy, collectability, economic effect, transparency, and consistency, as explained below.

- **Equity** in taxation refers to the idea that taxes should be levied in a way that is just and impartial, often interpreted as taxing individuals based on their ability to pay or capability to bear the burden of the tax. The concept of tax equity includes such terms as progressivity (tax rate increases as taxable income increases), regressivity (tax rate is applied uniformly across all income ranges), horizontal (everybody earning same income subject to same tax rate) and vertical (taxes paid increase with an increase in income).
- **Adequacy** addresses the need for a state and local system of taxation to provide sufficient revenue to meet government expenditures and public needs, including constitutionally mandated programs.
- A well-designed tax system is **collectable** if it encourages taxpayers to comply and is cost beneficial to administer. Understanding the economic effects of a tax policy on tax revenue or tax base helps policymakers design effective tax systems by considering how consumers, producers, and government are affected by taxation.
- **Transparency** is a key principle for both LWWUS and LWWNC. The League believes that a democratic government depends upon informed and active participation in government and requires that governmental bodies protect the citizen's right to know by giving adequate notice of proposed changes to law, holding meetings open to the public, and making public records accessible. Tax transparency can be defined as the disclosure and publication of quantitative and qualitative data about the tax system, that a society needs to hold decision makers to account and

to reach informed judgements on how the tax system is performing during a particular time period. Specifically, the stakeholders of a tax system require the information that allows them to

1. understand how the tax that people have to pay is determined;
  2. understand the administrative procedures that prescribe how taxes are paid;
  3. assess whether the taxes they are expected to pay are fair compared to the contribution required of others within the society of which they are a part;
  4. determine whether all of those who should pay taxes actually do so;
  5. evaluate what alternative options for raising revenues exist within their society;
  6. understand how their tax system compares to those of similar jurisdictions; and
  7. know how the taxes that are collected are used by government.
- **Consistency** refers to how a well-designed tax system supports the collective provision of revenue to fund other public policy goals such as public education, availability of quality day care, or a criminal justice system that treats all citizens fairly and equally. A well designed state and local tax system will complement, not work against, other public policy goals.

When applying these concepts to state and local taxes, it's important to consider the various types of taxes that are levied, such as income, property, sales, and excise taxes.

**Income taxes** can be designed to be progressive by implementing graduated tax rates that increase with income levels or proportional/regressive when everyone pays the same flat tax rate regardless of income. It can also be applied in the context of a corporate income tax. A corporate income tax structure can be inequitable if it causes individual taxpayers to bear an increased tax burden in other state and local taxes paid to cover public expenditures.

- Ex. Currently, NC's individual income tax is a flat tax that is proportional in terms of its rate because it applies the same rate to all income groupings (4.5% in 2024). Prior to 2013, NC had a progressive rate structure because effective tax rates rose as taxable income rose (6%, 7%, 7.75%, and 8.25%, based on filing status and income levels).
- **Property taxes**, while typically proportional, can incorporate exemptions/exclusions or credits to increase fairness for lower-income homeowners.
  - Ex. Property tax in NC is a locally assessed tax collected by the counties based on the assessed value of the property. Local property tax is considered a regressive tax because the ability to pay is not taken into account. Quality of assessment and exemptions/exclusions such as the elderly or disabled homestead exemption or deferral can mitigate some of the inequities in the NC property tax.
- **Sales and excise taxes** tend to be regressive, as they take a larger percentage of income from lower-income individuals; however, exemptions or rebates on essential goods can help mitigate this effect.
  - Ex. NC state sales tax rate is currently 4.75%, with local option sales tax rate add-ons total sales tax rates can range from 4.75% to 7.5%. Food is exempt from the state portion of sales tax but not the local portion (2%). Other exemptions apply such as prescription medicines and sales of items paid for with EBT cards (a/k/a food stamps). NC's sales tax is considered regressive as it places a greater tax burden on those with lower incomes.

State and local governments must balance these principles with the need to raise adequate revenue for public services. Progressive income taxes are one tool that can be used to achieve a more equitable tax system, as they are based on the taxpayer's ability to pay. However, over-reliance on sales and excise taxes can lead to a regressive system where lower-income families bear a disproportionate tax burden. Over reliance on any one type of tax can also lead to a tax system that does not adequately fund needed services in times of economic downturn or creates unfair excesses in times of economic boom. Thus, any state and local tax system should be broad-based or diversified and not rely on any one type of tax so that it is more fiscally sustainable, more efficient, and fairer despite economic ups or downs.

Moreover, tax policies can have broader implications for social equity, particularly when considering the racial and economic disparities that exist within states. A tax system that disproportionately impacts low-income families and communities of color can exacerbate existing inequalities. Therefore, policymakers must carefully craft tax codes that not only adhere to the principles of fairness, progressivity, and equity but also consider the long-term social and economic effects of taxation.

In conclusion, applying the standards of equity, adequacy, collectability, economic effect, transparency, and consistency to state and local taxation is a complex task that requires thoughtful consideration of the types of taxes levied and the socioeconomic makeup of the community. By striving for a tax system that is fair, progressive, equitable and adequate, state and local governments can ensure that all citizens contribute their fair share while also providing the necessary resources for public services that benefit society as a whole.

It should be noted that LWVNC members can use the national tax policy position at the state and local level to develop support for actions taken at those levels. While the LWVUS tax policy position cites the federal level of government, it also can be used as a guide to LWVNC members to develop plans to act at the state or local level. See below for a side-by-side comparison of the LWVUS and LWVNC tax policy position statements.

<b>LWVUS AND LWVNC TAX POLICY POSITION STATEMENTS</b>	
<b><u>LWVUS</u></b>	<b><u>LWVNC</u></b>
<p>LWVUS believes that the federal tax system should: be fair and equitable; provide adequate resources for government programs while allowing flexibility for financing future program changes; be understandable to the taxpayer and encourage compliance; accomplish its objectives without creating undue administrative problems.</p> <p>The League of Women Voters of the US believes that the federal tax system, taken</p>	<p>The League of Women Voters of North Carolina believes that a state and local system of taxation should provide for adequate funding of needed services, be broad-based, and incorporate standards of equity, adequacy, collectability, economic effect, transparency, and consistency.</p> <p><b>Equity</b></p> <ul style="list-style-type: none"> <li>• Measure both in terms of ability to pay and that similarly situated people pay the same amount.</li> </ul>

<p>as a whole, should be progressive, not proportional.</p> <p>The League: supports income as the major tax base for federal revenues; believes that the federal income tax should be broad-based with minimal tax preferences and a progressive rate structure; opposes value-added tax or a national sales tax in the federal revenue system.</p>	<p><b>Adequacy</b></p> <ul style="list-style-type: none"> <li>• Provide sufficient resources to adequately fund needed services and constitutionally mandated programs.</li> <li>• Evaluate elasticity in reference to the degree to which an increase in the tax rate causes a change in the tax base (e.g., taxable income or asset value).</li> <li>• Allow flexibility for responsible fiscal management and equitable distribution of the civic burden.</li> </ul> <p><b>Collectability</b></p> <ul style="list-style-type: none"> <li>• Be understandable to the taxpayer to encourage compliance.</li> <li>• Be enforced even-handedly.</li> <li>• Consider ease and cost of administration.</li> </ul> <p><b>Economic Effect</b></p> <ul style="list-style-type: none"> <li>• Consider minimal distortion to economic behavior.</li> <li>• View use of tax laws designed as incentives or disincentives in terms of the common good.</li> </ul> <p><b>Transparency</b></p> <ul style="list-style-type: none"> <li>• Give the public adequate notice of proposed changes in tax laws.</li> <li>• Hold open meetings.</li> <li>• Make public records accessible.</li> </ul> <p><b>Consistency</b></p> <ul style="list-style-type: none"> <li>• Be consistent with other public policies (e.g., public education, land use).</li> </ul> <p>The above standards are applicable to all types of state and local taxes, including income, sales &amp; use, property, and user fees.</p> <p>There should be a collaboration and balance between state and local governments to give local governments the necessary flexibility to utilize new revenue sources or to expend tax revenues to better serve their residents.</p>
---	--