

The Ten Guiding Principles of Good Tax Policy

The AICPA recommends that this ten-principle framework be used to analyze proposals to change a tax rule, as well as to change an entire tax system, such as by changing it from an income tax system to a consumption tax system, or to better address e-commerce transactions. Note that the ten guiding principles of good tax policy are equal in importance; the numbered order of the principles in this statement is for reference only and should not be taken as an indication of the order of importance of these principles.ⁱ

1. *Equity and Fairness.* Similarly situated taxpayers should be taxed similarly.
2. *Certainty.* The tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined.
3. *Convenience of Payment.* A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer.
4. *Economy in Collection.* The costs to collect a tax should be kept to a minimum for both the government and taxpayers.
5. *Simplicity.* The tax law should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner.
6. *Neutrality.* The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum.
7. *Economic Growth and Efficiency.* The tax system should not impede or reduce the productive capacity of the economy.
8. *Transparency and Visibility.* Taxpayers should know that a tax exists and how and when it is imposed upon them and others.
9. *Minimum Tax Gap.* A tax should be structured to minimize noncompliance.
10. *Appropriate Government Revenues.* The tax system should enable the government to determine how much tax revenue will likely be collected and when.

ⁱ One framework that is frequently used to define good tax policy was laid out by economist Adam Smith in his 1776 work entitled *The Wealth of Nations*. (See *The Wealth of Nations*, edited by Edwin Cannan, New York, The Modern Library, 1994, pages 887 to 890). A review of tax systems at each level of government today shows the influence of Adam Smith's maxims of tax policy. The first four principles provided in this report are based on Smith's maxims. The remaining six principles have originated with state and federal legislators and administrators, as well as tax advisers and economists. The latter, more modern principles are considered an appropriate basis for good tax policy and are often used to justify changes to the tax laws. For example, see Joint Committee on Taxation, *Description and Analysis of Proposals to Replace the Federal Income Tax* (JCS-18-95), June 5, 1995, pages 58 to 59.