Criteria for Evaluating Taxes Answer Key

Directions: Congratulations! The U.S. Congress has decided to replace the tax code and start from scratch. The voters have already agreed that $3 trillion in revenue is needed to fund the services they desire. You have been hired as economic consultants to craft guiding principles to design the new tax system. You do not need to design the precise taxes and rates, but rather create priorities and objectives for the overall system. These will become the criteria by which the final proposals will be judged.

Based on significant prior research, Congress has already included a few possible criteria for you to consider. It would also like your suggestions for additional criteria. Your job is to read over the following suggested list, add any criteria of your own, and rank them according to your own priorities. Share your top five choices with your colleagues and come to consensus on the *three most important* goals for a tax system, which will become the criteria by which a tax system will be judged.

Rank (#)	Criterion
	People should be able to keep what they earn. They have a right to make choices as to what is best for them and their family and no obligation to provide for other people. People know best what they want and resources are allocated most efficiently when people have maximum freedom.
	Taxes should be simple, clear, and consistent; people shouldn't need to think too much about them or devote much time to figuring out how much they owe (or how they might avoid paying).
	People should pay taxes in proportion with their wealth. People who have more can more easily make sacrifices and should pay more to support those in need.
	Taxes should be based on strict equity—just like anything else, everybody pays the same.
	Taxes should create the right incentives; they should encourage economically productive and socially desirable activities, like working, saving, and investing, and discourage undesirable behaviors like polluting the environment.
	Taxes should generate enough revenue to provide a "social safety net," including Social Security and Medicare, for everyone.

Teacher Guidance

- *Student responses, rankings, and definitions will vary. Encourage diversity of opinions in that there are a multitude of definitions of fairness and differences of opinion on how to best achieve efficiency, which in this context means achieving the highest revenue at minimum cost. Fairness may mean that everyone is treated the same, or pays the same tax, or that those who use services the most pay the most. It could also mean that those who are most able pay the most, because they can afford to or to redistribute wealth. Efficiency might mean that taxes create the right incentives by, for example, putting higher taxes on undesirable things like smoking and lower taxes on desirable things like working. Students should also be encouraged to think about the extent to which these two goals—fairness and efficiency—are compatible, or if they are contradictory/mutually exclusive.*

- *Some common themes*
  - *students who rate freedom highly will likely oppose all taxes*
  - *students who rank proportionality high will typically be okay with payroll taxes but may acknowledge that income taxes do not work that way*
  - *students who believe in the social safety net will typically be in favor of corporate taxes*