Using Tax Policy Principles to Guide a Proposal for a Statewide 4H Fee
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Funding for Extension programs comes from a variety of sources, including federal, state, and local governments, non-governmental organizations, and fees collected from program participants. As the declining U.S. economy has stressed budgets at all levels of government, Extension has striven to increase the nongovernmental portions of their revenues: grants and fees. For 4H youth development programs, this has meant considering proposals for a statewide fee – in some states, for the first time – for participation in 4H.

Setting a statewide fee for participation in 4H is similar to levying a tax on 4H participants. Therefore, the principles that typically guide tax policy can also help guide the development of a proposal for a statewide 4H fee. Those principles, together with some initial thoughts about how they might apply to 4H, are explained below.

1. The proposal should raise an adequate amount of revenue.
   - Revenue from a statewide 4H fee could be used to cover specific state-level costs, or it could be used to supplement public 4H funding, generally. In either case, the fee should be set so that revenue goals are met as nearly as possible.
   - Therefore, policymakers will need to predict the amount of revenue the fee is expected to generate. That estimate should take into consideration the responsiveness of demand for 4H programming to the cost of participating. If the number of 4H participants is not expected to change in response to the new fee, then estimated revenue is simply the current number of participants times the amount of the fee. But if the fee discourages some families from participating, expected fee revenue will be lower. On the other hand, user fees sometimes signal to consumers that a program is of high quality. If a statewide 4H fee acts as a quality signal, it could attract families to the program, increasing expected fee revenue.
   - Similarly, county 4H councils and clubs might raise, reduce, or repeal their county and club fees in response to the new statewide fee, altering the existing array of county and club fees.

2. The proposal should be fair.
   - Fairness is a subjective matter that is not completely resolvable by economic analysis. Policymakers and taxpayers must consult their own values in deciding whether a particular proposal is fair.
A commonly held view is that a fair tax system is one that collects the same amount from people with a similar ability to pay taxes, and greater amounts from people with a greater ability to pay taxes. This ability-to-pay principle is often interpreted to mean that the share of income that a household pays in taxes should increase as household income increases. Applying this principle to a statewide 4H fee would dictate that families would be charged a fee that is based on their income, and which is higher for higher-income families.

An alternative fairness principle holds that individuals should pay taxes in proportion to the benefits they receive. The benefits-received principle is most effective to apply when the benefits received are easily identified and attributed to a user, and the costs of collecting a fee for a good or service are low. Applying this principle generally results in charging fees to the users of specific public services. Applied to 4H, this principle would suggest that fees for specific 4H activities (camp, after school programs, trips, etc.) should generally be paid by the families that directly benefit from the activities, and that funds collected from other families should not be used to support these programs.

Decision-makers commonly object to levying taxes or fees according to benefits received when they feel that access to a program should not be limited to those who have the means to pay a user fee. They may want to ensure that low-income families have access to the program without charge or at a rate that takes into consideration the family’s ability to pay. Requiring that a participant show proof of financial need, however, introduces administrative costs as well as privacy concerns. These costs and concerns must be weighed against the advantages of levying fees according to income.

To evaluate the fairness of a particular fee proposal, Extension and 4H policymakers might want to know how the proposal affects families at different income levels (the distribution of the fee burden by income). This would require cumulating all of the 4H fees and charges that families of different income levels incur (at all administrative levels—county, club, state).

The proposal should minimize the impact on families’ choices.

- Economists tend to assume that individuals make the best possible choices for themselves and their families, given their means and available information. A tax or fee system, therefore, should be as neutral as possible with respect to families’ choices. The fee should not be so high as to discourage families who truly value 4H from participating; nor should it be so low (zero? a subsidy?) as to induce families to use more 4H resources than they truly value.

- To ensure that families are free to make the best choices for themselves, the fee structure should be neutral across types of 4H activities: it should not encourage one type of participation and discourage others.

- The impact of a tax or fee on families’ choices is generally larger for larger amounts of taxes or fees. Assessing the overall impact of 4H fees will require cumulating all of the fees and charges a family incurs (at all levels) to participate in 4H. In other words, a small statewide fee might not affect
families’ choices a great deal, but put together with county and club fees, the overall impact could be greater.

4. **The proposal should be simple to administer and to comply with.**
   - A simple fee system minimizes administrative and compliance costs, the cost of communicating with 4H staff and families about the system, and consumers’ efforts to avoid a fee.
   - Therefore, the system should be as simple as possible to ensure that administrative costs are kept low relative to revenue.

5. **The proposal should promote social goals.**
   - The tax system is often used to promote social goals, such as home ownership, charitable giving, and employer provision of employee health insurance. Policymakers frequently pursue these goals by including in the tax law special deductions, credits and rates designed to encourage certain types of economic activity and discourage others. Perhaps the state 4H leadership has similar goals that they would like to pursue with a fee system. For example, if environmental education across the state is a high priority, the statewide fee could be reduced or eliminated for those who participate in environmental programs.

Clearly, the task of evaluating revenue proposals is complicated by tensions among the basic principles and goals. One of the most obvious tensions is between fairness and complexity: the simplest system (a lump sum, per person fee) is considered by many to be the least fair. Many provisions that enhance fairness, such as reduced rates for low-income families, also introduce complexity. In general, provisions that allow the system to be personalized create complexity.

Tax policymakers often try to balance the competing goals of fairness and simplicity by including provisions that approximate fair treatment. For example, a fee might be based on income, but not require detailed proof of income level. The result is a simpler system that treats most people fairly, but creates some “winners” and some “losers,” relative to a much more complex system. This approach is sometimes called rough justice.

Another tension occurs because any special provisions that are adopted to pursue social goals can conflict with all four of the other principles. These provisions can increase complexity, reduce revenue, reduce neutrality – by encouraging one kind of activity over others—and they can be seen as reducing fairness. Many tax policymakers, therefore, would prefer to keep special provisions out of the tax system and pursue social goals through other means, such as direct subsidies (scholarships) or regulation.

Policymakers must balance these competing criteria against one another by weighting the criteria according to our own values. For policymakers considering 4H fee proposals, the directive is this: choose a flexible system that best satisfies these criteria, weighted according to the Extension Service’s and the 4H program’s values.