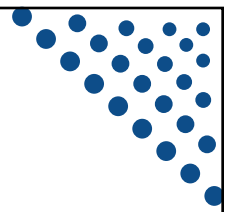


Osher Lifelong Learning Institute, Summer 2024 Contemporary Economic Policy

OLLI – University of California
June, 2024

Jon Haveman, Ph.D.
National Economic Education Delegation



Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- Healthcare Economics





Taxes: Rebellions, Rascals and Revenues

OLLI - University of California, Berkeley
June 25, 2024

Jon Haveman, Ph.D.
NEED



Course Outline

- **Contemporary Economic Policy**

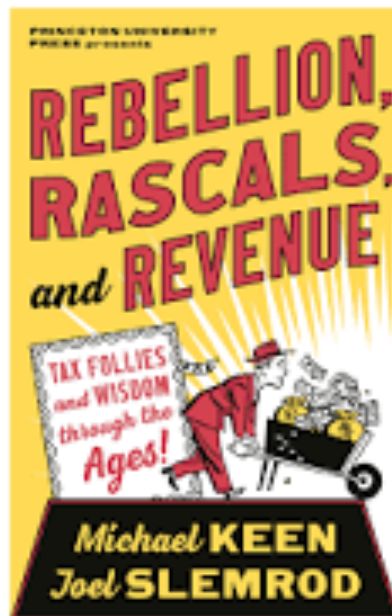
- Week 1 (6/4): US Economic Update (Jon Haveman, NEED)
- Week 2 (6/11): Economics of Immigration
- Week 3 (6/18): Federal Debt
- **Week 4 (6/25): Taxes: Rebellion, Rascals, and Revenue**



Credits and Disclaimer

- **This slide deck was authored by:**
 - Jon Haveman, Executive Director of NEED
- **Content sourced primarily from:**
 - *Rebellion, Rascals, and Revenue: Tax Follies and Wisdom through the Ages*
 - o Michael Keen and Joel Slemrod, Princeton University Press, 2021
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).

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Outline

- What Are Taxes?
- Tax Rebellions
- Federal Revenues
- History of U.S. Taxation
- Tax Rascals (Tax Gap)
- Tax Issues (Fairness, Burden, Incidence)
- U.S. Income Tax Structure
- Summary

7

What Are Taxes and Why Should We Talk About Them?

8

Justice Oliver Wendell Holmes

**“Taxes are the price we pay
for a civilized society.”**



Definitionally:

- **Taxes are mandatory contributions levied on individuals or corporations by a government entity.**
 - National, state/regional, or local.
- **Tax revenues finance government activities, including public works and services such as roads and schools, or programs such as Social Security or Medicare.**
- **Three basic tax types:**
 - On what you earn.
 - On what you buy.
 - On what you own.



Variety of Different Types of Taxes

TYPES OF TAXES

- **Poll tax**
 - Aka Head tax
- **Community tax**
 - Community is collectively responsible for local tax liability.
- **Ad valorem tax**
 - Tax is a specific percent (%) of the value of the item.
- **Specific tax**
 - Tax is a specific monetary amount, per unit.

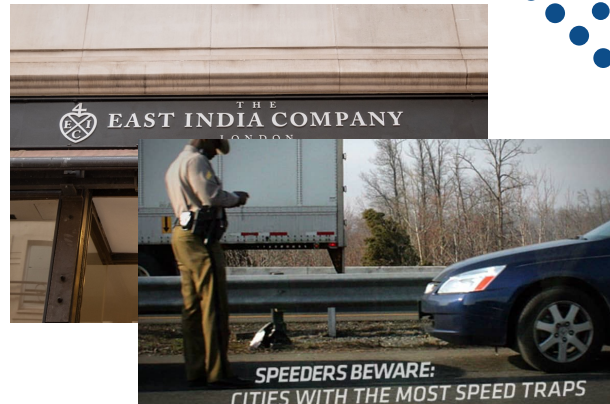
THINGS THAT GET TAXED

- **Personal income**
- **Corporate income**
- **Payroll/wages**
- **Sales**
- **Property**
- **Estates**
- **Imports**
- **Many other things...**

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Not All Taxes are Called "Taxes"

- **Granting state monopolies**
 - Ability to ship alcohol in California
- **Conscription**
- **Sale of spectrum**
- **Un/under paid work**
 - Slaves throughout history
 - Rwanda – on Saturday each month
 - U.S. convict labor
- **Voluntary contributions**
 - Prussia 1813-1815 gifts of gold to support the war against Napoleon.
 - Germany – "Gold for the fatherland"
 - California – suggested contribution to child's school
- **Diligence in law enforcement**



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Not All Taxes are Called “Taxes” – *con’t*

- **Tobacco Master Settlement Agreement**
 - Structured so as to be a tax on future cigarette sales.
- **Venality – sale of public positions**
- **Lotteries – tax on stupidity(?)**
- **And so many more...**



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What Are Taxes For?

- **Raise Revenues**
 - Finance wars and response to emergencies
 - Make investments in the economy
- **INVESTMENTS:**
 - **Infrastructure**
 - Ports, bridges, roads, airports
 - Infrastructure in the United States routinely receives poor marks. Improvements would likely result in increased economic growth.
 - **Health care**
 - A healthier workforce is a more productive workforce.
 - **Education**
 - Education is increasingly important for growth of the U.S. economy.



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What Are Taxes For?

- **Social Engineering**
- **Cigarette and alcohol taxes**
 - Sin taxes
- **Beard taxes**
 - Russia: Get nobility to look more European.
- **Hut tax**
 - Brits, 1898, Sierra Leone, tax on all housing
 - Get natives to participate in the cash economy



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What Are Taxes For?

- **Reduce Market Inefficiencies**
 - Tax negative spillovers
 - Subsidize positive spillovers
- **Externalities**
 - Market interactions can affect people outside of the market.
 - **Negative**
 - Pollution/climate change
 - Smoking
 - Driving
 - **Positive**
 - General R&D
 - Education
 - Raising bees.



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Tax Rebellions



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Early...non-U.S.

- **King John signing the Magna Carta, 1215**
 - Embodied the idea that the power to tax was limited by general consent.
- **King Charles and the Ship Money tax, 1634**
 - Inland areas and John Hampden refused to pay.
- **Hut tax war – 1898**
- **Maori uprising – Dog Tax War - 1898**
- **10 Cents War – 1879-1884**
 - Why is Bolivia landlocked?



18

General Rule About Taxing

- “The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest amount of hissing.”

Jean-Baptiste Colbert
French Minister of the Navy



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In The United States: Revolutionary Times

- **1689 Boston Revolt**
 - Governor Andros imposed new taxes and other restrictions.
 - Origins of the “No taxation w/o representation” sentiment.
- **1772 Gaspee Affair**
 - The Gaspee was a British customs ship. It collected customs taxes (goods) from ships believed to be evading the taxes.
 - It ran aground in 1772 and locals set it afire to express their displeasure.
- **1773 Boston Tea Party**
 - Townshend Acts
- **1794 Whiskey Rebellion**



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Stamp Act 1765 (aka Duties in American Colonies Act)

- Required that many printed materials in the colonies be produce don stamped paper from London which included an embossed revenue stamp.
- Failed: No taxation w/o representation!



Townshend Acts (1767-68)

- Instituted taxes on glass, lead, paint, paper, and tea.
- The purposes of the acts were to:
 - Raise revenue in the colonies to pay the salaries of governors and judges so that they would remain loyal to Great Britain,
 - Create more effective means of enforcing compliance with trade regulations,
 - Punish the Province of New York for failing to comply with the 1765 Quartering Act, and
 - Establish the precedent that the British Parliament had the right to tax the colonies.



Boston Tea Party



- **Was about the REMOVAL of taxes!**
- **Tea Act of May 19, 1773:**
 - Allowed East India Company to sell tea from China in the colonies without paying taxes other than the Townshend Act taxes.
 - Prior to the Tea Act, tea from China paid taxes in Britain before paying more taxes in the colonies.
 - After the Tea Act, taxes on tea from China sold in the colonies were lower.
 - So prices were lower.
 - Turns out smugglers (John Hancock) didn't like that.
 - Thus, the tea party.



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1794 Whiskey Rebellion

- **1791 Hamilton put a tax on whiskey.**
 - First tax on a domestic product: "whiskey tax". (Previously only tariffs.)
 - Intended to generate revenue to pay for war debt.
 - Flat fee per still, or paying by the gallon
 - Large distilleries could pay flat fee (~\$.06/gallon).
 - Small distillers (farmers) were subject to greater fees (~\$.09/gallon).
 - Western Penn. farmers objected and violently resisted paying taxes.
 - Washington rode in with 13,000 militiamen to quell the uprising.



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Federal Revenues

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What Does the US Govt. Budget Look Like?

2023 Budget Summary (in Billions)

Revenue		Outlays	
Income Taxes	\$2,176	Mandatory	\$3,753
Payroll Taxes	\$1,614	Discretionary	\$1,722
Corporate Taxes	\$420	Interest	\$659
Other	\$228		
Total	\$4,439	Total	\$6,134

Budget Deficit: \$1,695 Billion

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Federal Government Revenues in 2023

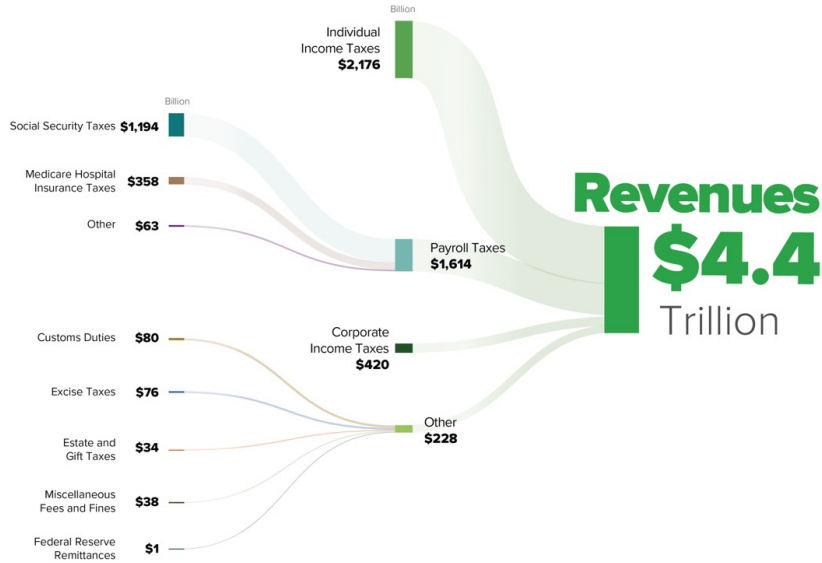
Funds collected from the public that arise from the government's exercise of its sovereign powers

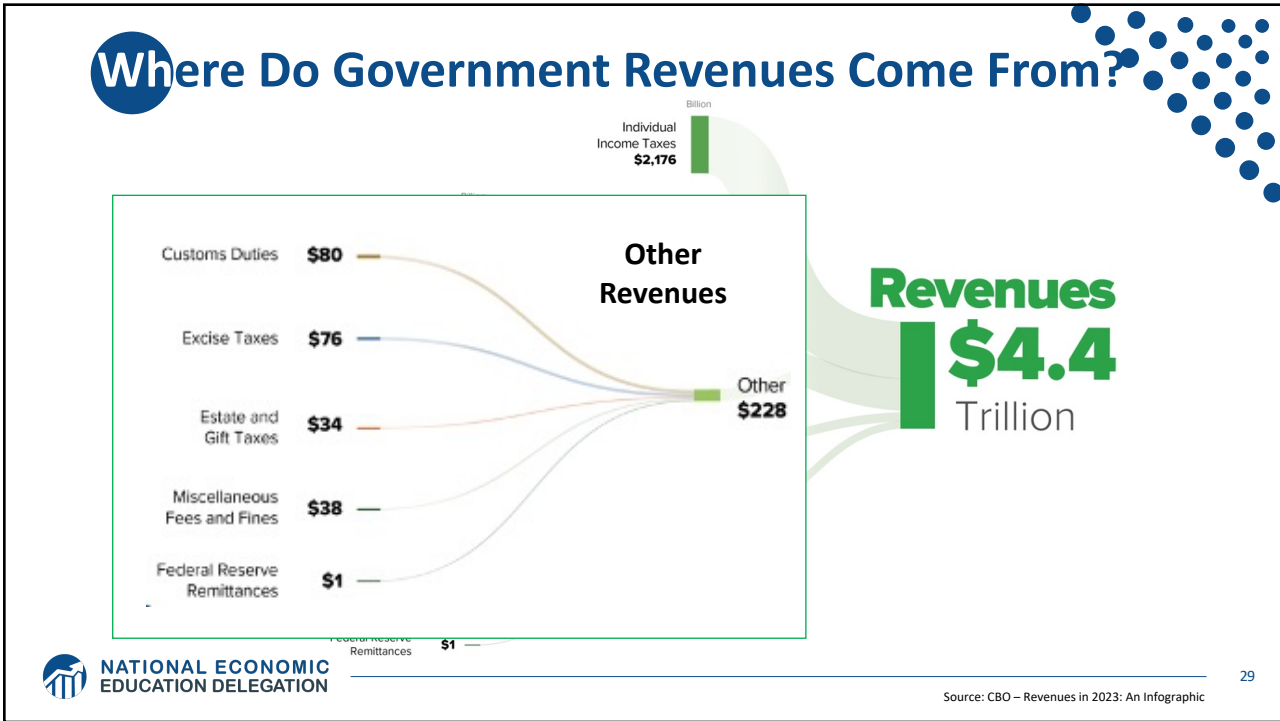
At a Glance



U.S. GDP: \$23.4 Trillion
In 2023

Where Do Government Revenues Come From?



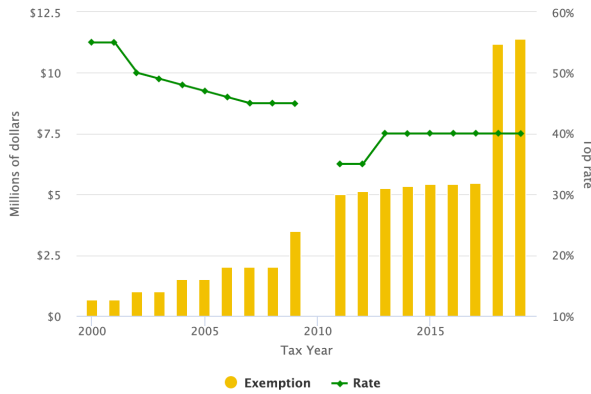


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Estate Tax Rates and Special Treatment

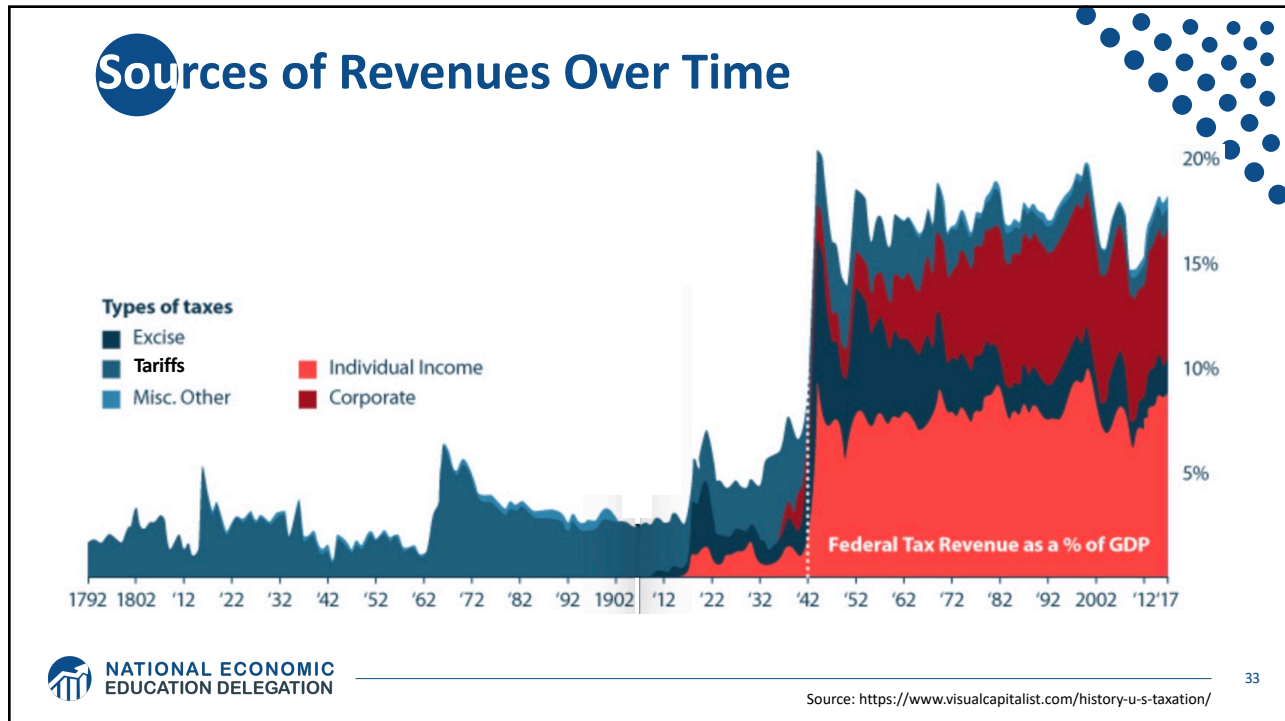


- **Farms receive favorable treatment**
 - Less than 1% of farms owe estate taxes.
 - Can take 14 years to pay tax.
- **As do small businesses**
 - Also 14 years.
- **“step up in basis”**
 - Eliminates capital gains taxes on inherited funds.

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History of U.S. Taxation

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U.S. Tax Policy History

- **1787 Constitution**
 - "Congress shall have the power to lay and collect taxes, duties, imposts, and excises."
 - For years, primarily excise taxes and tariffs, including an "importation tax on slaves."
- **1791-94 Whiskey Rebellion**
- **1862 First Income tax**
 - To cover civil war expenses.
- **Revenue Act of 1894**
 - Corp tax (1909)
 - Income tax – ruled unconstitutional.
- **1913 16th Amendment**
 - Allows taxation w/o allocation according to state population.
 - Form 1040 is introduced.
 - Top rate of 7%. < 1% of pop pays.
- **1918 Revenue Act**
 - Top tax rate goes to 77%.

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U.S. Tax Policy History – *con't*

- **1935 Social Security Act**
 - Introduced payroll taxes (2% shared)
- **1942 The Revenue Act**
 - Raised tax rates.
 - Broadened the base.
- **1943 Current Tax Payment Act**
 - Instituted tax withholding.
- **1981 Economic Recovery Tax Act**
 - Lowered taxes to stimulate growth.
- **1986 Tax Reform Act**
 - Lowered individual taxes.
 - Raised corp taxes (20%-28%)
 - Reduced corp tax breaks.
- **2001 Econ Growth and Tax Relief Reconciliation Act**
 - Lowered individual rates.
 - Expanded child tax credit.
- **2017 Tax Cuts and Jobs Act**
 - Lowered tax rates.
 - Restricted some deductions.



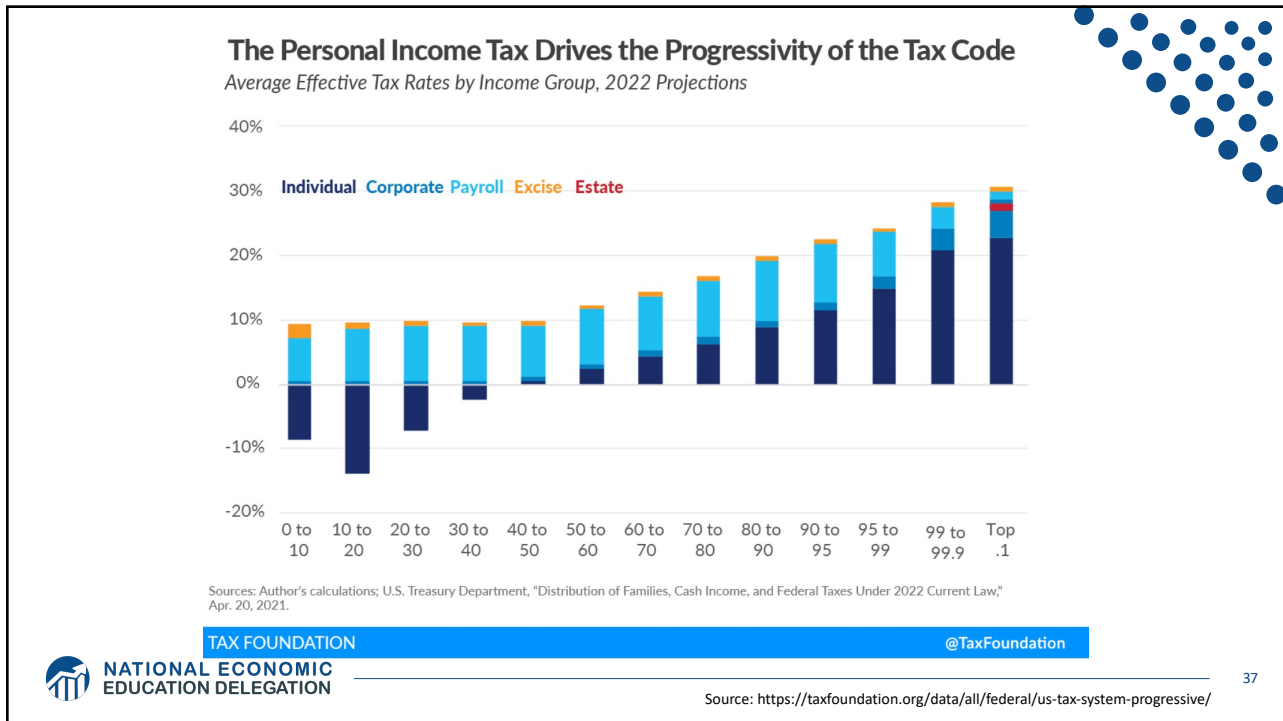
35

Personal Income Tax

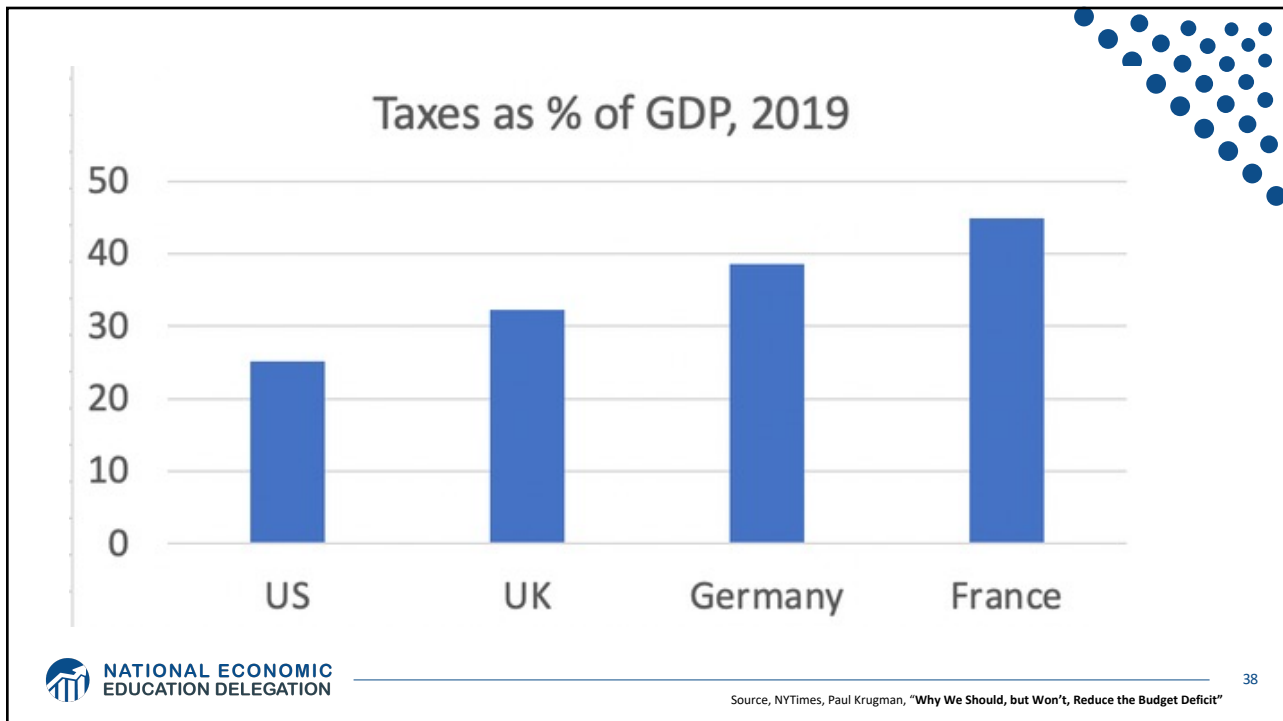
- **Not every dollar is taxed the same.**
- **Tax systems can be progressive, flat, or regressive.**
 - **Progressive:** average effective tax rate increases with income.
 - **Proportional:** average effective tax rate is the same at all levels of income.
 - **Regressive:** average effective tax rate decreases with income.
- **Different for single people and married couples**
- **Deductions**
 - For yourself, and for dependents
 - Numerous others....



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Why Tax Corporate Income?

- **Arguments in favor of a corporate income tax:**

- Revenues have to come from somewhere.
- Adds to the progressivity of the overall tax system.
- Absent the tax, corporations could be used for tax avoidance.

- **Arguments against a corporate income tax:**

- Distorts economic activity: reduced investment and entrepreneurship.
- Compliance costs of an additional tax.
- The tax leads to tremendous spending on avoidance strategies.
- It's a hidden tax of unknown size on workers.



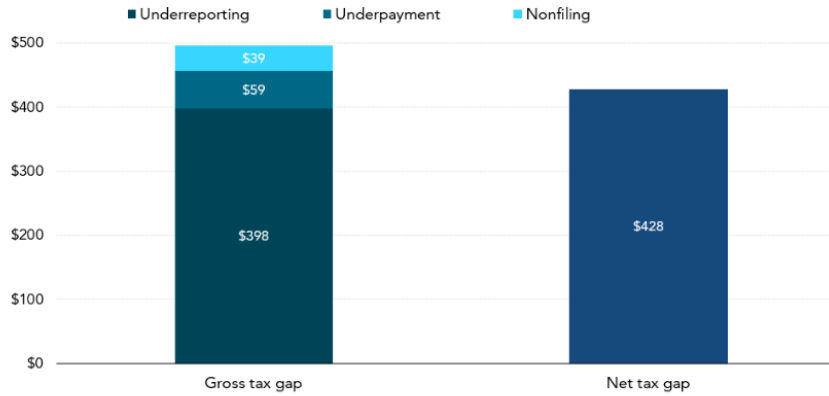
Tax Rascals (The Tax Gap)



Types of Avoidance

Components of the Tax Gap

Billions of dollars, tax years 2014 to 2016



Source: Internal Revenue Service. "Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2014–2016." Publication 1415, Table 2. Tax Gap Estimates for Tax Years 2014–2016 (Rev. 10-2022).
 Notes: Estimates are annual averages for the tax years 2014 to 2016 timeframe.

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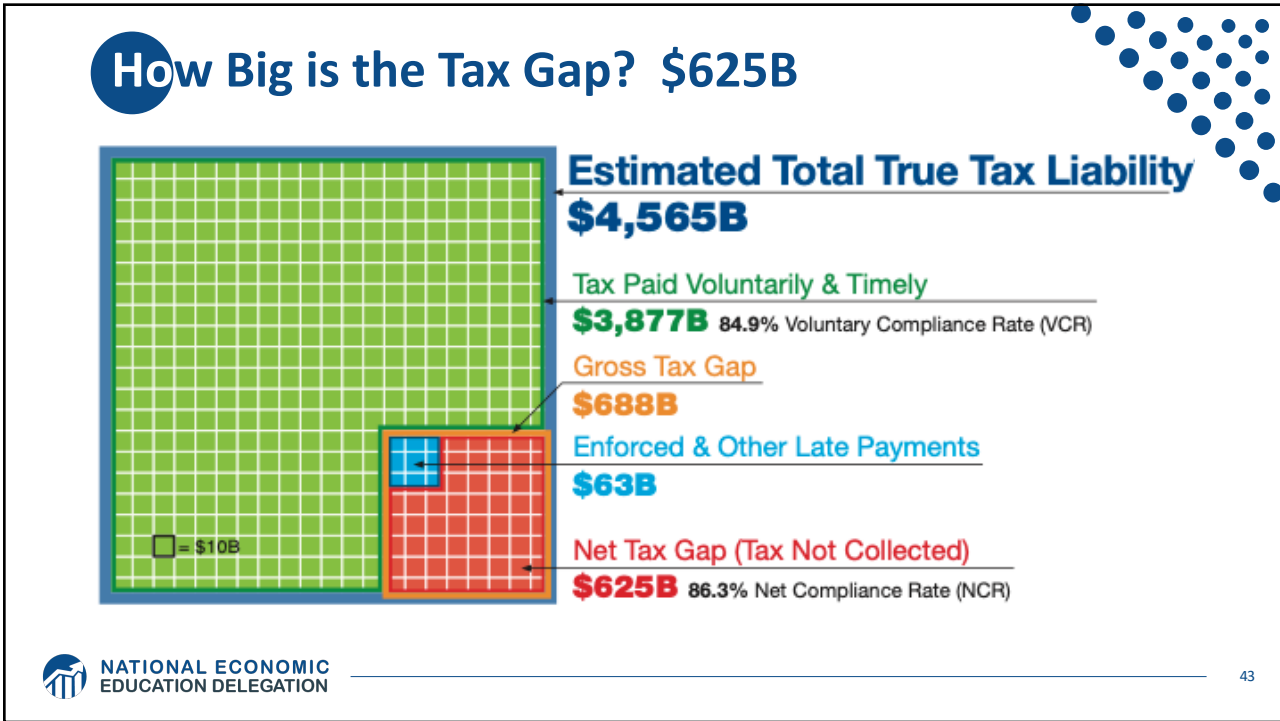
The Tax Gap



Calculating the Net Tax Gap

$$\begin{aligned}
 & \text{Nonfiling} \\
 & \text{Underreporting} \\
 & + \text{Underpayment} \\
 & \hline
 & \text{Gross Tax Gap} \\
 & - \text{Enforced \& Other Late Payments} \\
 & \hline
 & \text{Net Tax Gap}
 \end{aligned}$$

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Who Are the Biggest Rascals? (2021)

Tax Category	True Tax Liability	Tax Paid Voluntarily	Gross Tax Gap	Enforced & Other Payments	Net Tax Gap	Gap Relative To Liability (%)
Individual Income Tax	2,721	2,201	520	45	475	17.5
Corporate Income Tax	304	259	45	8	37	12.2
Employment Tax	1,455	1,337	118	6	112	7.7
Estate Tax	21	17	4	3	1	4.8
Total	4,565	3,877	688	63	625	13.7

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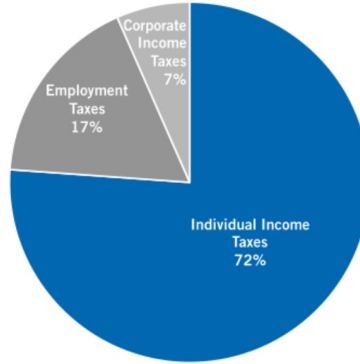
44

Where Should Enforcement Be Focused?



Individual income taxes make up the largest share of unpaid taxes

Projected Tax Gap in 2021:
\$688 Billion per Year



SOURCE: Internal Revenue Service, Federal Tax Compliance Research: Tax Gap Projections for Tax Years 2020 & 2021, October 2023.
 NOTES: Data shown are for gross tax gap projections in 2021. Employment taxes include Social Security, Medicare, and federal unemployment taxes. Estate, gift, and excise taxes are not shown.
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PGPF.ORG

Main Sources of the Gap

• Gap has 3 main sources:

- Failure to file
- Income underreporting
- Tax underpayment

• Who is best able to cheat?

- Schedule C
- Partnerships
- Sole Props
- Estate and Trust
- Capital gains

• Who is least able to cheat?

- Wage and salary workers



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39 Major Companies Paid ≤ No Taxes

Company	Pre-Tax Income (Millions)	Effective Tax Rate (%)	Company	Pre-Tax Income (Millions)	Effective Tax Rate (%)
Adv Micro Dev	\$1,208	0.0	Salesforce	\$2,630	-0.5
Archer Daniels	\$438	-37.4	TDS	\$284	-61.6
Booz Allen	\$561	-0.5	Unum Group	\$923	-10.7
Dish Network	\$2,532	-9.1	Verisign	\$447	-27.7
FedEx	\$1,218	-18.9	Westlake Chem	\$227	-91.6
HP	\$861	-2.8	Williams	\$278	-10.4
Nike	\$2,873	-3.8	Xcel Energy	\$1,465	-0.9

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73 Paid < Half The Statutory Rate

Company	Pre-Tax Income (Millions)	Effective Tax Rate (%)	Company	Pre-Tax Income (Millions)	Effective Tax Rate (%)
Amazon	\$43,437	4.3	Gen'l Motors	\$14,653	0.2
Bank of America	\$77,069	3.9	Hartford Fin.	\$6,599	6.1
Charter Comm	\$7,037	0.3	Honeywell	\$10,204	4.0
Deere	\$6,275	6.2	Lincoln Nat'l	\$3,227	6.5
Domino's Pizza	\$1,397	7.4	Motorola	\$2,703	8.3
Eversource (Energy)	\$4,038	5.5	Netflix	\$5,296	0.4
Exelon (Energy)	\$8,504	4.0	Northrop	\$2,703	10.5

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Taxes Equity or Fairness

Don't tax you, don't tax me, tax the fellow behind the tree!



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How to Define Fairness?

• You pay what you can?

- Related to station in life
- Richer pay more than poorer?
 - o In total or as a % of income?
- How do you determine this?

• You pay for what you get?

- This is growing in popularity.
- Port taxes: Why should a farmer pay for the protection of ports?
- Earmarks
- How do you determine this?



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Two Pillars of Fairness

Horizontal Equity

- **People of a similar station should be treated equally.**
 - Some things that make people different should be off limits.
 - Race/gender/geography.

Vertical Equity

- **People in different stations should be treated differently.**
 - Taxing by class.
 - Taxing by community
 - Taxing the finer things in life.
 - Presumptions of prosperity
 - Window taxes
 - But more, less?
 - Kings of India taxed the poor more to ensure their subjugation.



Horizontal Equity is Hard

- **Men and women have different preferences/needs.**
 - Taxing feminine products?
 - Cigarette taxes? (Men smoke more.)
- **Income tax is a tax on labor.**
 - Burdens those with a taste for goods over a taste for leisure.
- **Individuals vs couples: marriage penalty.**
 - Hits black families more than white.
- **Very hard.**



Taxes and Burden

How much do taxes really cost?



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The Burden of Taxes

- **Economic burden of the tax:**

- Amount of the tax paid.
- Cost of change in behavior.

- **Tax Incidence**

- Who really pays?



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Example: British Port and Lighthouse Fees

- **1773 – for one hundred years**
 - Tax that increased with the length and breadth of the vessel.
 - Did not depend on the depth of the vessel.
- **How did this affect behavior?**
 - Build ships that were skinny and deep drafted.
- **What could go wrong?**
 - These ships were much less stable than the regular designs.
- **Economic burden = amount of the tax + cost of lost ships**



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Example: Hearth (Fireplace) Tax

- **1662-1689 England: Hearth Tax**
 - Set tax payable for each fireplace.
- **Why?**
 - Attempt to tax higher income households more.
 - More expensive homes have more fireplaces and are occupied by wealthier families.
- **What could go wrong?**
 - Tax collectors had to walk throughout the house.
 - Not very popular.
- **Economic burden = amount of the tax + excess burden.**
 - EB: letting tax collector in. Cold in the wintertime!



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Example: Window Tax

- **1696 Window Tax**
 - Set tax payable per window.
- **Why?**
 - Replace the unpopular Hearth Tax.
- **What could go wrong?**
 - People might brick up windows.
- **Economic burden = amount of the tax + lost benefit from bricked windows.**
 - Light and fresh air.



57

Consider the Window Tax: 2 shillings/window

- **John Winslow**
 - W/o the tax: 5 windows
 - W/ the tax: 4 windows
 - Excess burden? 1 shilling (Less than 2, but more than 0)
 - Economic burden? 4x2 shillings + 1 shilling = 9 shillings

Note: Excess burden = 11% of the economic burden



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Consider the Window Tax: 2 shillings/window

- **Bernard Smith**

- W/o the tax: 5 windows
- W/ the tax: 2 windows
- Excess burden? 3 shilling (Less than 2, but more than 0)
- Economic burden? 2×2 shillings + 3 shilling = 7 shillings

Note: Excess burden = 43% of the economic burden



Consider the Window Tax: 4 shillings/window

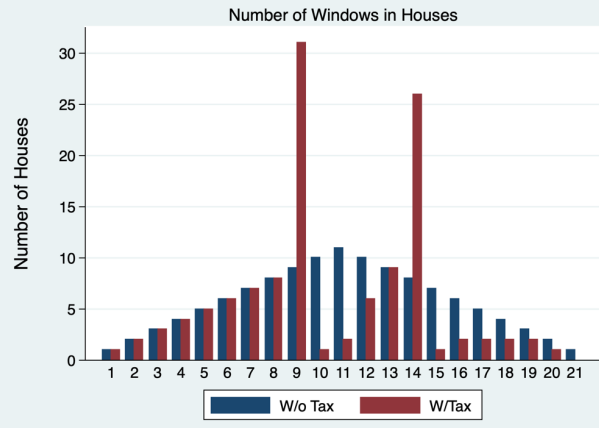
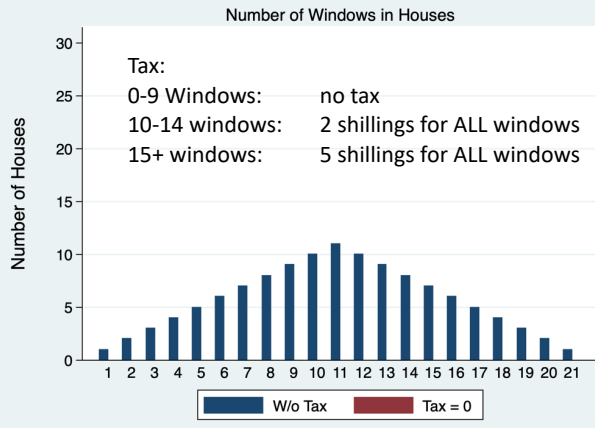
- **John Winslow**

- W/o the tax: 5 windows
- W/ the tax: 3 windows
- Excess burden? 1 shilling (1st window) & 3 shillings (2nd)
- Economic burden? 3×4 shillings + 4 shilling = 16 shillings

Note: Excess burden = 25% of the economic burden



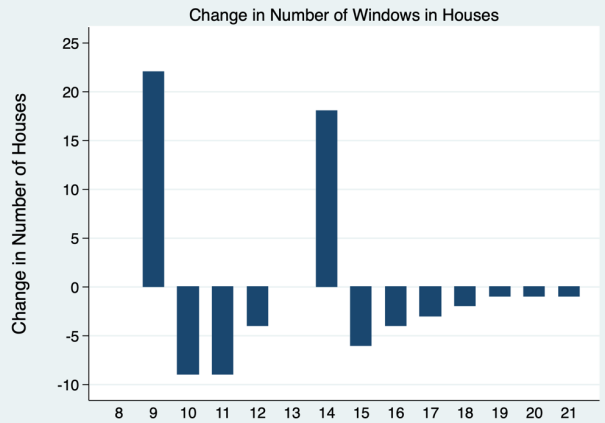
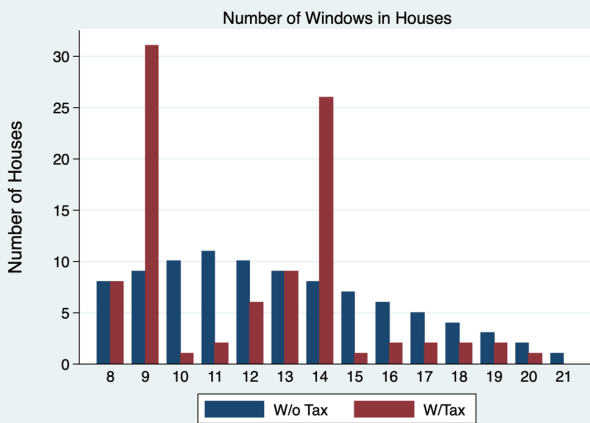
The Window Tax and "Notches"



10th and 15th windows are VERY expensive.

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The Window Tax and "Notches" – con't



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Major Lessons

- **There is a cost to a tax beyond the amount of taxes paid.**
- **This cost is higher the more it changes behavior.**
 - E.g., how many windows go away?
 - Tax items that are necessities more – lower excess burden.
- **Equity issues with the windows tax.**
 - Lower-income households maybe more responsive.
 - Urban/rural – rural may have lower income per window.
- **“Notches” are no good!**



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Tax Incidence: Who Pays?



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Not Always Who You Think!

- Corporate Taxes
- Social Security Taxes
- Sales Taxes
- Luxury Taxes
- Tariffs



Corporate Income Tax & Incidence

- Who pays the corporate tax?
 - Owners
 - Stockholders through lower dividends
 - Employees through lower wages
 - Customers through higher prices



Who Pays Payroll Taxes? E.g. Social Security

Technically:

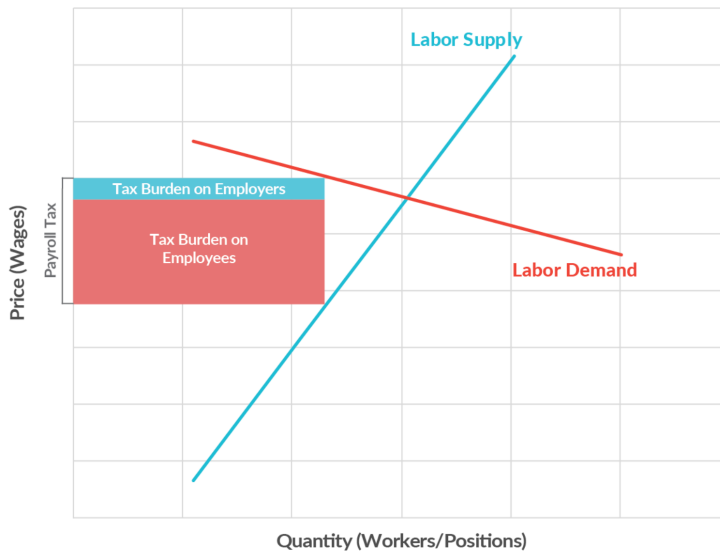
- 6.2% by employers
- 6.2% by employees

Actually:

- Depends...
 - Will employers lose a lot of workers if wages go down?
 - Will employers have to raise prices in response?
 - What is more responsive:
 - Demand for labor
 - Supply of labor

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The Majority of the Payroll Tax Burden is Borne by Employees



Labor DEMAND is more responsive to a change in price than is labor SUPPLY.

Employers can pass the tax on to workers through lower wages without losing workers.

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Sales Tax Incidence: Sellers vs Buyers

- **Transactionally: The buyer pays the tax and seller remits.**
- **Who ACTUALLY pays the tax?**
 - Some split between buyers and sellers.
 - It depends on the product.
 - If it's a necessity: consumer likely pays the tax.
 - If it's a luxury: producer likely pays the tax.
- **If fewer people buy the product because the cost is higher, sellers will respond by lowering the price.**
 - It is the lowering of the price that shifts some of the ACTUAL burden to the seller.

U.S. 1990 Luxury Tax

- **Tax on expensive items: Boats, Airplanes, Cars, Jewelry and furs**
 - 10% on the part of the price over the threshold.
- **Boats: Threshold was \$100,000**
 - Unintended consequences (Excess burden/incidence):
 - **Wealthy bought boats overseas**
 - U.S. boat sales collapsed
 - **> 7,600 boat related jobs lost**
 - **Est. total of 30,000 jobs lost**
 - **Gov't paid unemployment benefits**
 - **Boat tax yielded \$3 million/yr**
 - **Losses probably exceeded revenues**

U.S. 1990 Luxury Tax – con't

- **Tax Incidence:**
 - Boat-building and tourism industries.
 - Wealthy who had to go to Europe to get a boat.

- **Excess Burden: Perhaps > 100%**



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Let's Talk About Tariffs

- **Tariffs are taxes on imported goods.**
- **Why do we impose tariffs?**
 - Raise revenue
 - Protect/promote domestic industry
 - o E.g., solar
 - National Defense
 - o E.g., semiconductors
 - Protect workers, create jobs
 - Punish foreign countries
 - o For their tariffs
 - o For other things – war, human rights



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Let's Talk About Tariffs – con't

- **Trump has said the Chinese will pay the duties (incidence).**
 - You all now know that's not true.
 - It is sometimes true, but the exception and not the rule.
- **Tariffs have other implications:**
 - Tariff wars:
 - Great Depression – Smoot-Hawley
 - U.S. vs France: Tech tariffs (EU) vs Retaliatory (US, cheese, wine, etc.)
 - Domestic producers who use imported goods.
 - Steel tariffs protect the steel industry
 - Hurt: manufacture of cars, airplanes, bridges, homes, clothes washers



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U.S. Income Tax Structure



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Marginal Tax Schedule – Is Progressive, 2024

Tax Rate	Single Filers	Married Filing Jointly
10%	Up to \$11,600	Up to \$23,200
12%	11,601-47,150	23,201-94,300
22%	47,151-100,525	94,301-201,050
24%	100,526-191,950	201,050-383,900
32%	191,951-243,725	383,901-487,450
35%	243,726-609,350	487,451-731,200
37%	Over \$609,350	Over \$731,200

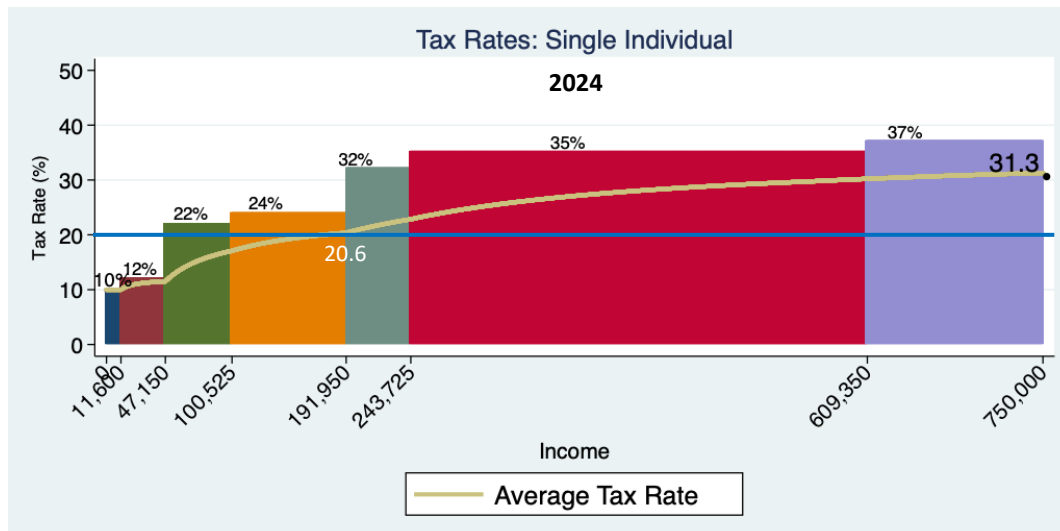
Quintile Upper Bounds:

- 1st Quintile: Up to \$30,000
- 2nd Quintile: Up to \$58,020
- 3rd Quintile: Up to \$94,000
- 4th Quintile: Up to \$153,000

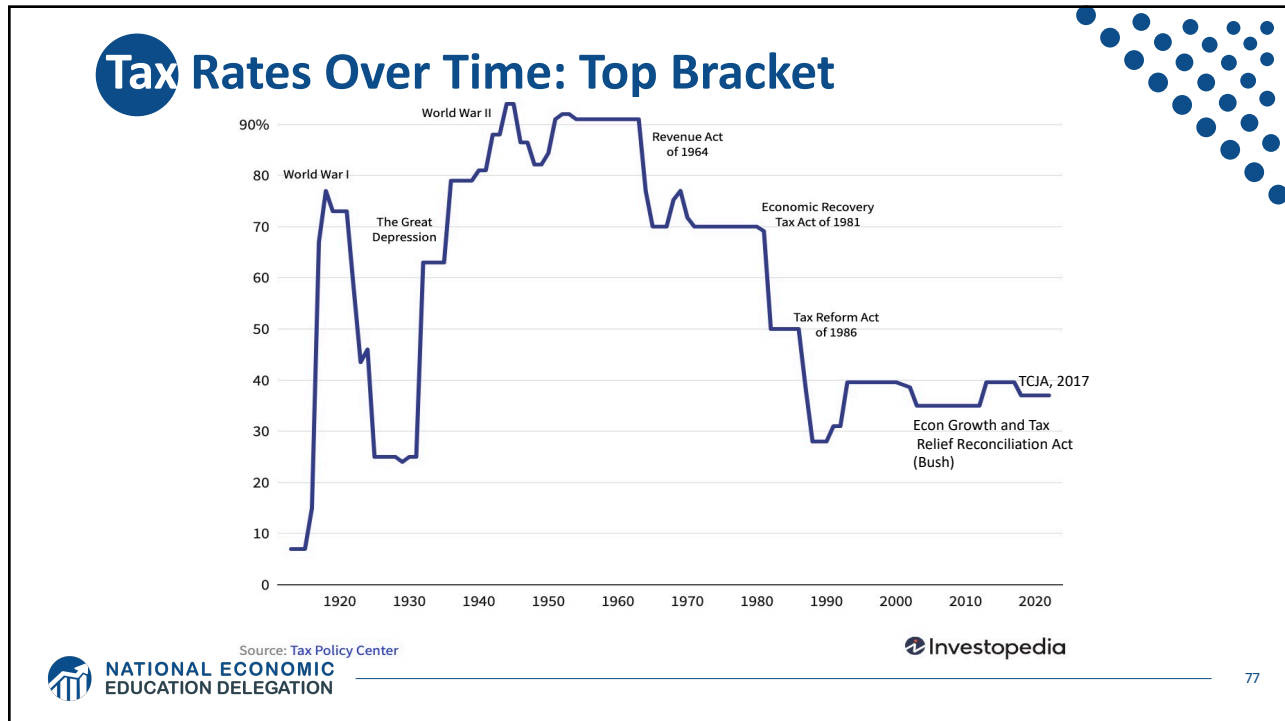
Lower Bound:
Top 5%: Starts at \$295,000

75

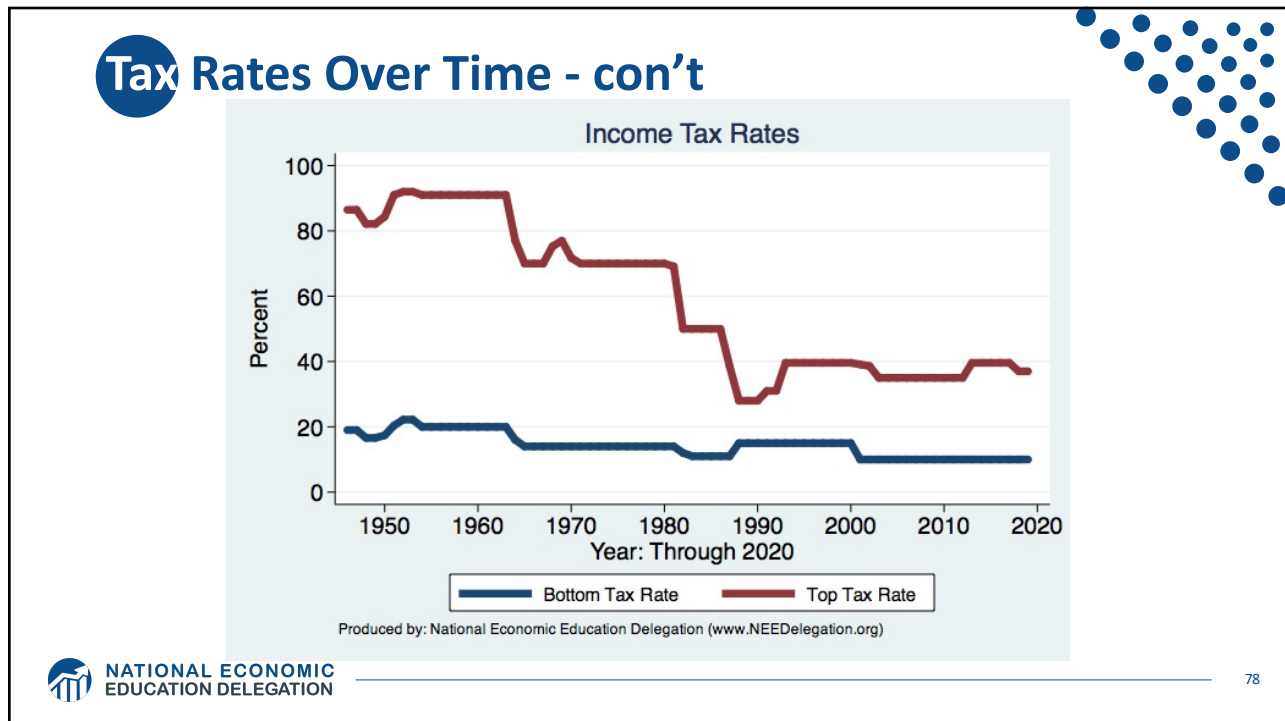
Marginal And Average/Effective Tax Rates



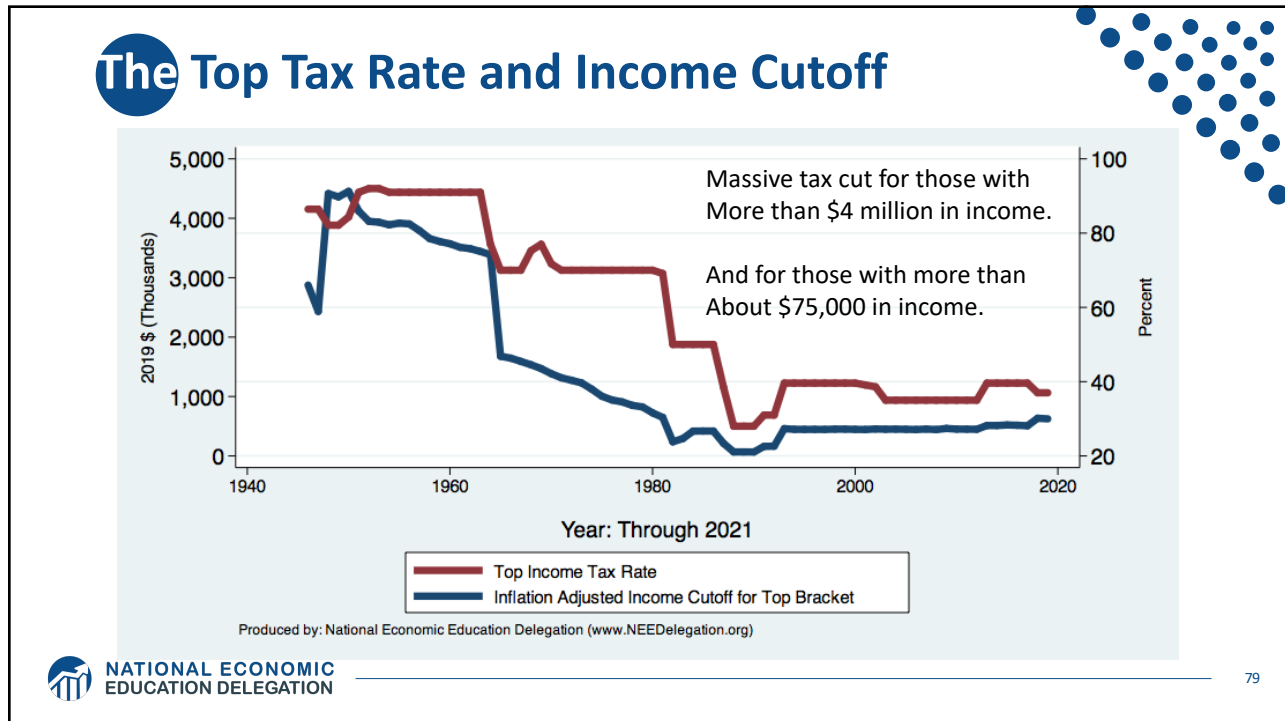
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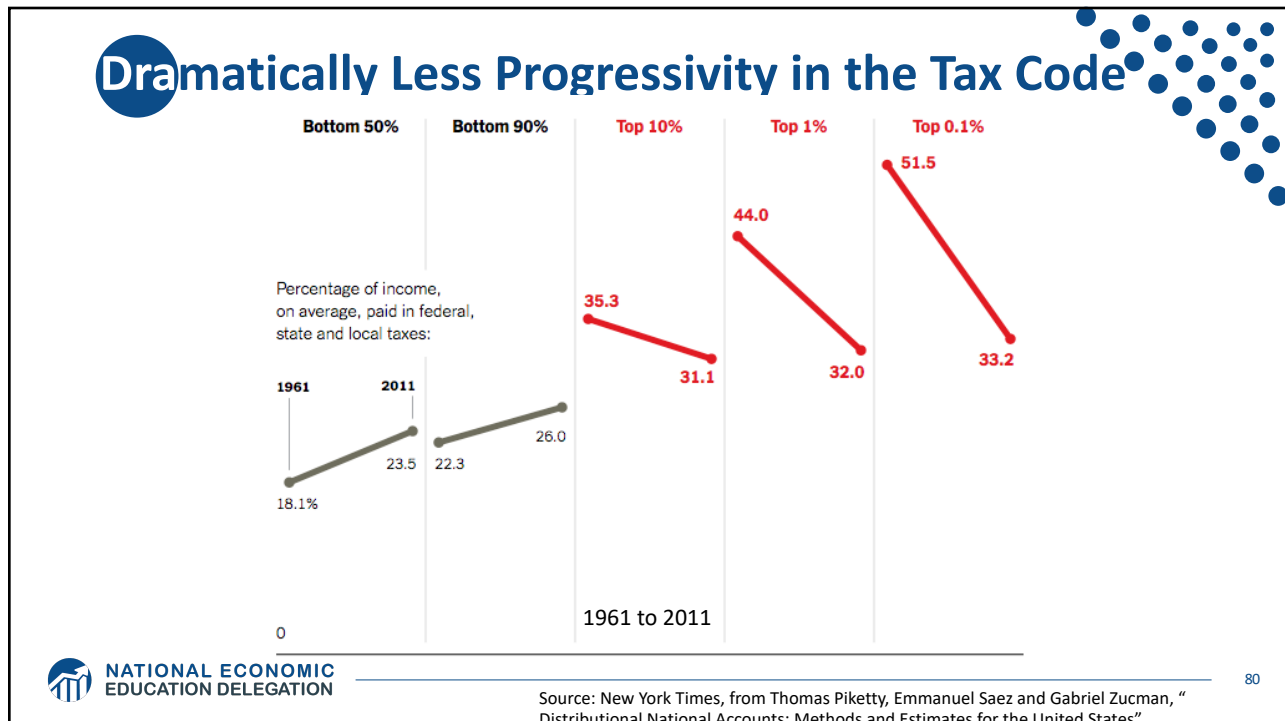
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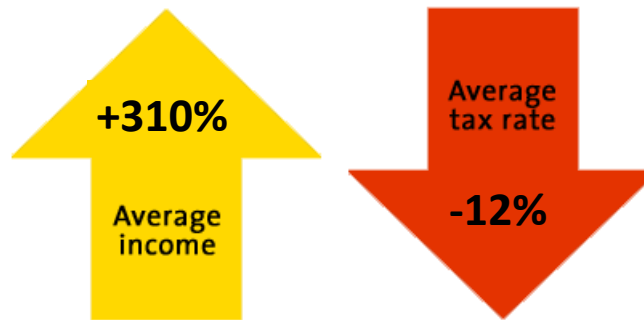


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What About Tax Rates at the Tippy-Top?

400 TAXPAYERS WITH HIGHEST INCOMES

1992-2014



NATIONAL ECONOMIC
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Source: IRS, Statistics of Income Division, December 2016.

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Individual Income Taxes: Other Deductions

- **State and local taxes**
 - Income and real estate and property taxes
- **Mortgage interest**
- **Charitable donations**
- **Medical and dental expenses**
- **Tax preparation fees**
- **Gambling losses**
- **Retirement plan contributions**
- **And still many more....**

- **BUT: You can only make these deductions if**
 - you don't use the *standard deduction*



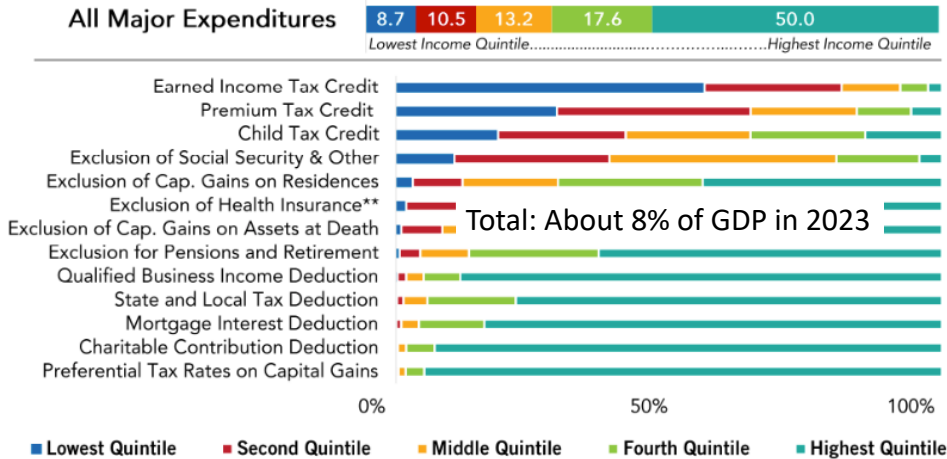
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What Are Tax Expenditures?

SHARE OF MAJOR TAX EXPENDITURES* (%)



SOURCE: Congressional Budget Office, *The Distribution of Major Tax Expenditures in 2019*, October 2021.

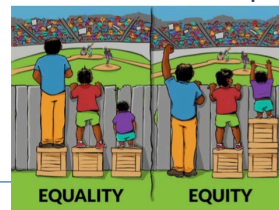


Source: https://www.pggf.org/Chart-Archive/0199_distribution_tax_expenditures

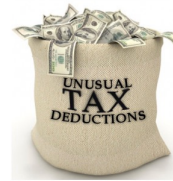
Tax Cuts or Tax Reform?

• Tax Reform – Fundamental Principles and Characteristics

- **Horizontal equity:** people with similar incomes/wealth should pay similar taxes.
- **Vertical equity:** people with more income/wealth should pay more taxes.
- **Efficiency:** taxes should minimize distortions to people’s behavior—doing less or more of something they would otherwise do.
- **Economic Growth:** taxes should be structured in a way to minimize their impact on economic growth.
- **Simplicity:** taxes should be administered in simpler rather than more complex ways.



Elements of Tax Reform



- **State and local tax deduction**
 - Residents of high-tax states receive more government services.
 - Residents of low-tax states must buy these services from private markets.
- **Mortgage interest deduction**
 - Why favor homeowners over home renters?
 - Homeownership policy amplified 2008 financial crisis.



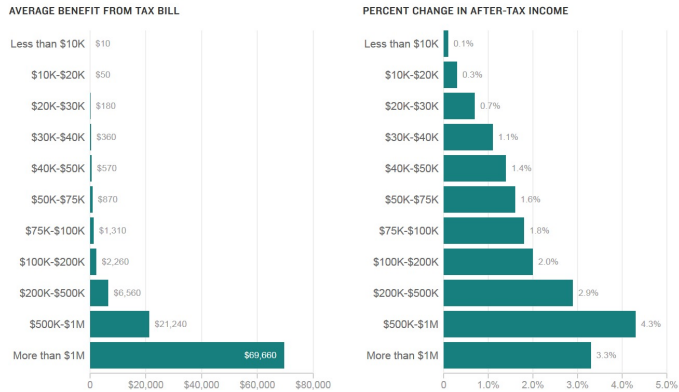
Effects of 2017 TCJA

- **Who Benefits?**

Distribution of Benefits: 2018

The GOP Tax Bill's Estimated Effects In 2018

In 2018, the Republican tax overhaul would give all of these income groups a tax cut, on average. But both by percentages and total dollars, the benefits would be far greater for higher-income households. Households making \$1 million or more per year would get an average tax cut of \$69,660, a 3.3 percent boost in after-tax income.

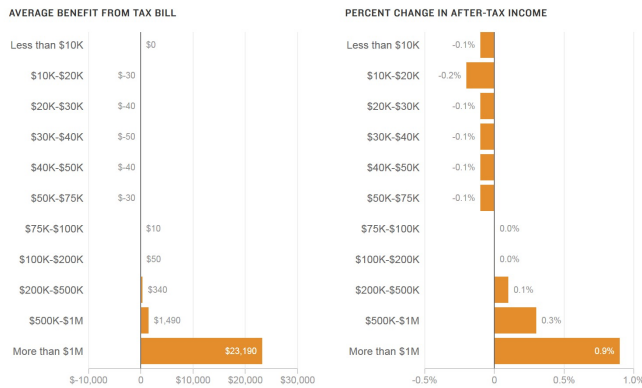


Source: Tax Policy Center
Credit: Danielle Kurtzleben & Katie Park/NPR

Distribution of Benefits: 2027

The GOP Tax Bill's Estimated Effects In 2027

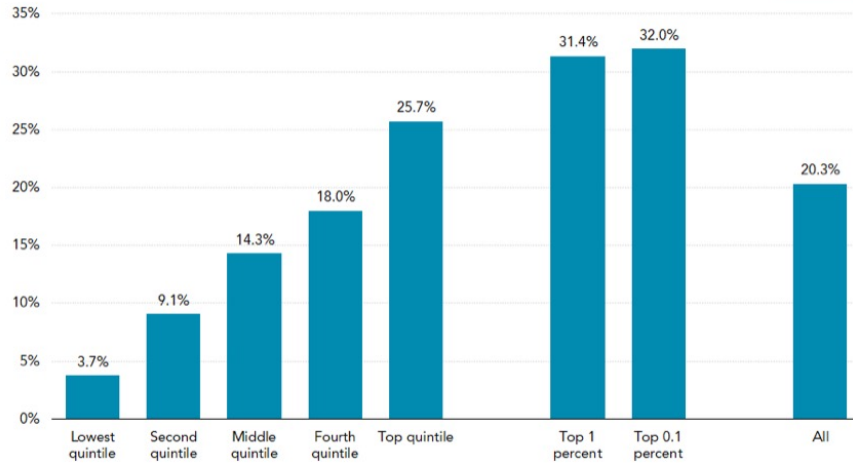
In 2027, the Republican tax overhaul would raise taxes on 53 percent of households. Still, as in 2018, both by percentages and total dollars, the benefits would be far greater for higher-income households. Households making \$1 million or more per year would get an average tax cut of \$23,190, a 0.9 percent boost in after-tax income.



Source: Tax Policy Center
Credit: Danielle Kurtzleben & Katie Park/NPR

Federal Income Tax is Still Progressive

Average Effective Federal Tax Rates by Income Percentile
All federal taxes, 2023*

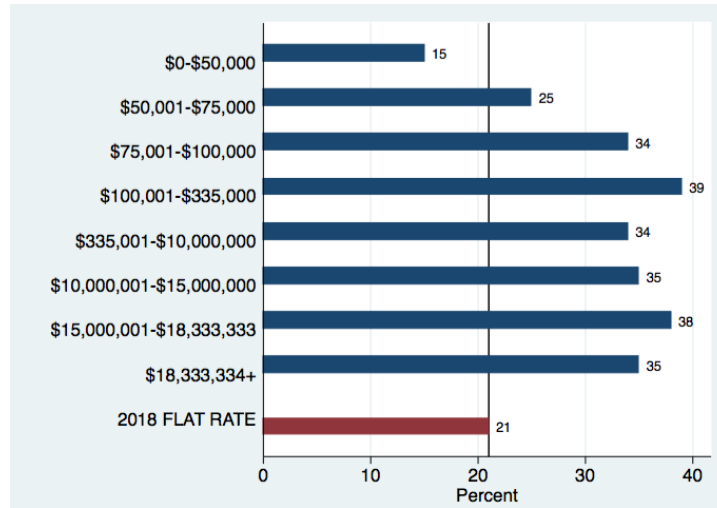


Tax Policy Center: Are Federal Taxes Progressive?

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How Did Corporate Income Tax Rates Change?

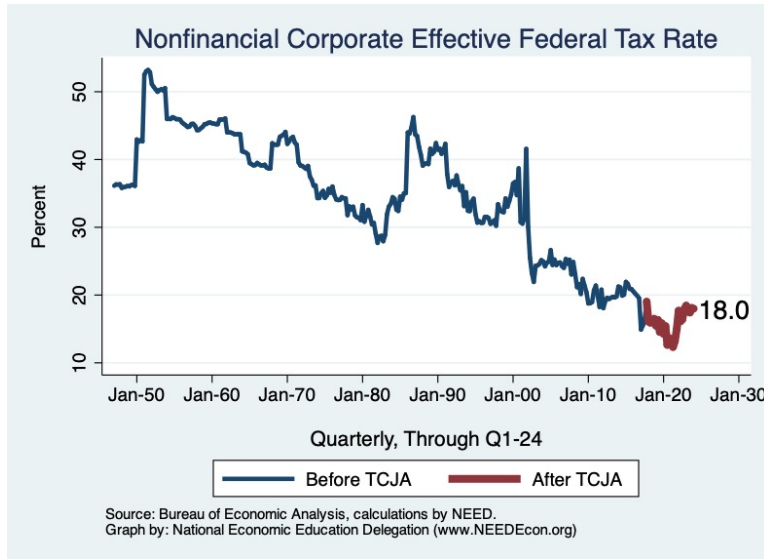


Source:RMS Consulting, 2017 Federal Tax Rates

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What about Effective Tax Rates?



Summary

Taxes Affect the Efficiency of the Economy

- **Many taxes have costs above and beyond the revenues raised.**
 - Excess burden/deadweight loss.
 - The higher the tax, the higher the burden is likely to be.
- **Taxes are likely a necessary evil for an economy.**
 - A free market does not exist – courts make contracts meaningful.
 - Courts cost money.
- **Taxes are very complicated.**
 - Equity is hard to determine, judge, enact.
 - Never sure exactly who pays them – incidence.
- **Tax policy is more interesting than you thought! (?)**



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Thank you!

Any Questions?

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