

Law 260.1: Tax Policy and Public Finance

This seminar will meet Tuesdays in Room 136 from 3:35 to 5:25, beginning on August 28. It requires a paper, a preliminary version of which must be presented during one of the last two meetings of the seminar. The completed paper is due December 4, the last day before the final examination period. URLs provided are accessible from within the UC Berkeley IP domain.

Outline and Readings

August 28

1. *Introduction*

Overview of the US tax system: what is taxed, and how has this changed over time? How are income and other tax bases defined? What criteria should be used to evaluate tax policies?

Tax Policy Center,

Total Tax Receipts as a Percentage of GDP, 1929-2010.

http://taxpolicycenter.org/taxfacts/Content/PDF/historical_receipt_comp_chart.pdf

OECD Taxes as Share of GDP 1999-2008 (April 4, 2011).

http://taxpolicycenter.org/taxfacts/Content/PDF/oecd_tax_gdp.pdf

OECD Composition of Taxes 1999-2006 (March 16, 2010).

http://taxpolicycenter.org/taxfacts/Content/PDF/oecd_source.pdf

Roberton Williams, "Who Pays No Income Tax?" *Tax Notes* 123 (June 29, 2009), 1583.

http://www.taxpolicycenter.org/UploadedPDF/1001289_who_pays.pdf

September 4

2. *Basic Welfare Economics*

What is the role of government in the economy? How should we measure the impact of government intervention?

Joseph Stiglitz, *Economics of the Public Sector*, 2nd ed., Norton (1988), 61-68, 71-84, 112-114.

Joint Committee on Taxation, *Methodology and Issues in Measuring Changes in the Distribution of Tax Burdens* (JCS-7-93; June 14, 1993), 20-40.

<http://www.jct.gov/publications.html?func=startdown&id=2857>

September 11

3. *Measuring the Distributional Effects of Taxation*

What is the distributional burden of the U.S. tax system? How has the progressivity of this burden changed over time?

Congressional Budget Office, *The Distribution of Household Income and Federal Taxes, 2008 and 2009* (July, 2012).

<http://www.cbo.gov/sites/default/files/cbofiles/attachments/43373-06-11-HouseholdIncomeandFedTaxes.pdf>

Congressional Budget Office, *Effective Tax Rates: Comparing Annual and Multiyear Measures* (January, 2005).

<http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/60xx/doc6051/01-06-longitudinaltaxrates.pdf>

September 18

4. *Tax Expenditures*

What are the major deviations from a comprehensive income tax? What are the effects of these deviations on behavior and progressivity?

Tax Policy Center, *Income Tax Expenditures Ranked by Total Fiscal Year 2013-2017 Projected Revenue Effect* (March 15, 2012).

http://www.taxpolicycenter.org/taxfacts/Content/PDF/project_taxexpend_ranked.pdf

Joint Committee on Taxation, *A Reconsideration of Tax Expenditure Analysis* (JCX-37-08; May 12, 2008); 2-6; 18-38.

<http://www.jct.gov/publications.html?func=startdown&id=1196>

5. *Tax Treatment of the Family*

What are the problems inherent in a progressive income tax with respect to the equitable treatment of different family units?

Congressional Budget Office, *For Better or for Worse: Marriage and the Federal Income Tax* (June, 1997), 1-56.

<http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/0xx/doc7/marriage.pdf>

September 25

6. *Deficits and Budget Rules*

What are the economic effects of budget deficits? What role can budget rules play in controlling them?

Alan J. Auerbach and William G. Gale, "The Federal Budget Outlook: No News Is Bad News" (June 14, 2012) <http://emlab.berkeley.edu/users/auerbach/Auerbach-Gale%202012-06-14.pdf>

Alan J. Auerbach, "Federal Budget Rules: The U.S. Experience," *Swedish Economic Policy Review* 15 (2008), 57-82. http://www2.hhs.se/personal/floden/SEPR/15_1_3.pdf

George K. Yin, "Temporary-Effect Legislation, Political Accountability, and Fiscal Restraint," *NYU Law Review* 84 (April, 2009), 174-257. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1172102##

October 2

7. *Consumption Taxes (including "Flat" Taxes and Value Added Taxes)*

What are they? How do they differ from income taxes with respect to fairness, simplicity, and impact on economic performance?

Alan J. Auerbach, "The Choice between Income and Consumption Taxes: A Primer," in A. Auerbach and D. Shaviro, eds., *Institutional Foundations of Public Finance: Economic and Legal Perspectives*, Harvard University Press (2008), 13-46. <http://www.nber.org/papers/w12307.pdf>

October 9

8. *Environmental Policies and the Control of Externalities*

How can tax policy be used to pursue environmental objectives? How do tax-based solutions differ from other approaches in their effects on distribution and efficiency?

Gilbert E. Metcalf, "Market-based Policy Options to Control U.S. Greenhouse Gas Emissions" *Journal of Economic Perspectives* 23 (Spring, 2009), 5-27. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.23.2.5>

October 16

9. *Capital Gains Taxation*

What are the distributional and behavioral effects of taxing gains on realization and at a favorable rate? What would be the impact of a reduction in capital gains taxation? What alternative changes in the capital gains tax might be considered?

Thomas L. Hungerford, *The Economic Effects of Capital Gains Taxation* Congressional Research Service (March 4, 2009). http://assets.opencrs.com/rpts/R40411_20090304.pdf

Alan J. Auerbach, "Reforming Capital Gains Taxation," *Tax Notes* 135 (June 11, 2012), 1399-1400 (available through LEXIS).

10. *Estate and Inheritance Taxes*

What is the rationale for the current treatment of estates and inheritances? What alternatives are there?

Joint Committee on Taxation, *History, Present Law, and Analysis of the Federal Wealth Transfer Tax System* (JCX-108-07; November 13, 2007). <http://www.jct.gov/x-108-07.pdf>

Louis Kaplow, "A Framework for Assessing Estate and Gift Taxation," in W. Gale, J. Hines, and J. Slemrod, *Rethinking Estate and Gift Taxation*, Brookings Institution (2001), 164-204. <http://www.nber.org/papers/w7775.pdf>

October 23

11. *Taxation and Financial Innovation*

How have financial innovations affected our ability to tax income? What are the potential tax policy responses to recent activities of the financial sector?

Alvin C. Warren, Jr., "US Income Taxation of New Financial Products, *Journal of Public Economics* 88 (April, 2004), 899-923.
<http://www.sciencedirect.com/science/article/pii/S0047272703000422>

Douglas A. Shackelford, Daniel N. Shaviro, Joel B. Slemrod, "Taxation and the Financial Sector," *National Tax Journal* 63 (December, 2010), 781-806.
http://www.law.nyu.edu/ecm_dlv3/groups/public/@nyu_law_website_faculty_faculty_profiles_dshaviro/documents/documents/ecm_pro_067118.pdf

Peter R. Orszag, "The Taxation of Carried Interest," Testimony before the Committee on Finance, United States Senate (July 11, 2007).
http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/83xx/doc8306/07-11-carriedinterest_testimony.pdf

October 30

12. *Corporate and Personal Income Taxes and their Integration*

What is the rationale for the corporate tax? What are its behavioral effects? Who bears its burden? How might the individual and corporate income taxes be coordinated?

Michael J. Graetz and Alvin C. Warren, Jr., "Integration of Corporate and Individual Income Taxes: An Introduction to the Issues," 84 *Tax Notes* 1767 (1999) (available through **LEXIS**); also in Graetz and Warren, *Integration of the U.S. Corporate and Individual Income Taxes: The Treasury and American Law Institute Reports*, Tax Analysts (1998), 3-33.

Alan J. Auerbach, "Who Bears the Corporate Tax? A Review of What We Know," in J. Poterba, ed., *Tax Policy and the Economy* 20 (2006), 1-40.
<http://www.nber.org/chapters/c0065.pdf>

November 6

13. *Taxation of Multinational Enterprises*

How does the United States tax foreign source income? What norms should apply in evaluating the taxation of international investment?

Hugh J. Ault and David F. Bradford, "Taxing International Income: An Analysis of the U.S. System and Its Economic Premises," in A. Razin and J. Slemrod, eds., *Taxation in the Global Economy*, University of Chicago Press (1990), 11-46.
<http://www.nber.org/chapters/c7203.pdf>

Dhammika Dharmapala, C. Fritz Foley, and Kristin J. Forbes, "Watch What I Do, Not What I Say: The Unintended Consequences of the Homeland Investment Act," *Journal of Finance* 66 (June, 2011), 753-787. <http://onlinelibrary.wiley.com/doi/10.1111/j.1540-6261.2011.01651.x/pdf>

Alan J. Auerbach, *A Modern Corporate Tax*, Paper jointly released by The Center for American Progress and The Hamilton Project (December, 2010).
<http://www.americanprogress.org/issues/2010/12/pdf/auerbachpaper.pdf>

November 13

14. *Transition Problems and the Tax Reform Process*

How should taxpayers be treated in transition from one tax system to another? Should such transitions be announced in advance?

Louis Kaplow, "Transition Policy: A Conceptual Framework," *Journal of Contemporary Legal Issues* 13 (2003), 161-209.
http://lsr.nellco.org/cgi/viewcontent.cgi?article=1200&context=harvard_olin

November 20 & 27

Class presentations