

## Law 260.1: Tax Policy and Public Finance

Class meetings: Tuesdays, 6:25 PM - 8:15 PM, Room 107, August 20 - November 19

Office hours: Mondays, 10 AM- 11:30 AM, and by appointment

This class requires a paper, a preliminary version of which must be presented during one of the last two class meetings. The completed paper is due (electronically) at noon on December 14, the last day of the final examination period. A one-page paper outline is due October 22. Each student must also serve as a discussion leader for one of the weekly session topics. Grading will take account of class attendance and participation. URLs listed are accessible from within the UC Berkeley IP domain. Readings with no URL listed will be made available via bCourses.

### Outline and Readings (Note: dates of topics may change)

#### August 20

##### 1. *Introduction*

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

David F. Bradford, *Untangling the Income Tax*, Harvard University Press (1986), Chapter 2.

Tax Policy Center, *Total Tax Receipts as a Percentage of GDP, 1929-2013*.

[https://www.taxpolicycenter.org/sites/default/files/statistics/pdf/historical\\_receipt\\_comp\\_chart.pdf](https://www.taxpolicycenter.org/sites/default/files/statistics/pdf/historical_receipt_comp_chart.pdf)

Tax Policy Center, *OECD Taxes as Share of GDP 1965-2014* (May 25, 2018).

<http://www.taxpolicycenter.org/statistics/oecd-taxes-share-gdp>

Tax Policy Center, *OECD Composition of Taxes 1999-2014* (May 8, 2017).

<http://www.taxpolicycenter.org/statistics/oecd-composition-taxes-1999-2014>

Roberton Williams, "Who Pays No Income Tax? A 2013 Update" *Tax Notes* 140 (September 30, 2013), 1615. <http://www.taxpolicycenter.org/publications/who-pays-no-income-tax-2013-update/full>

#### August 27

##### 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*, 2<sup>nd</sup> 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), 20-31 (“The Economic Theory of Tax Incidence”). <http://www.jct.gov/publications.html?func=startdown&id=2857>

### September 3

#### **3. *Measuring the Distributional Effects of Taxation***

What is the distributional burden of the U.S. tax system? How has inequality increased over time, and what role has the tax system played in the increase?

Congressional Budget Office, *The Distribution of Household Income, 2014* (March 2018). <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53597-distribution-household-income-2014.pdf> [With updated numbers: Congressional Budget Office, *The Distribution of Household Income, 2016* (July 2019). <https://www.cbo.gov/system/files/2019-07/55413-CBO-distribution-of-household-income-2016.pdf>]

Congressional Budget Office, *Is Social Security Progressive?* (December 15, 2006). <https://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/77xx/doc7705/12-15-progressivity-ss.pdf>

### September 10

#### **4. *Tax Treatment of the Family***

What problems are inherent in a progressive income tax regarding the equitable treatment of different family units? How should family structure influence income tax design? How are children treated by the tax system?

James Alm and J. Sebastian Leguizamon, “Whither the Marriage Tax?” *National Tax Journal* 68 (June, 2015), 251-280. <https://www.ntanet.org/NTJ/68/2/ntj-v68n02p251-280-whither-marriage-tax.pdf?v=%CE%B1&r=08644226443183878>

Tax Policy Center, *What is the Child Tax Credit?*  
<https://www.taxpolicycenter.org/briefing-book/what-child-tax-credit>

Tax Policy Center, *What is the Earned Income Tax Credit?*  
<https://www.taxpolicycenter.org/briefing-book/what-earned-income-tax-credit>

#### **5. *Tax Expenditures***

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

Joint Committee on Taxation, *A Reconsideration of Tax Expenditure Analysis* (JCX-37-08; May 12, 2008), 2-6, 18-21.

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

Congressional Budget Office, *The Distribution of Major Tax Expenditures in the Individual Income Tax System* (May, 2013).

[http://www.cbo.gov/sites/default/files/cbofiles/attachments/43768\\_DistributionTaxExpenditures.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/43768_DistributionTaxExpenditures.pdf)

Eric J. Toder, Joseph Rosenberg, and Amanda Eng, “Evaluating Broad-Based Approaches for Limiting Tax Expenditures,” *National Tax Journal* 66 (December, 2013), 807–832. <http://www.taxpolicycenter.org/publications/evaluating-broad-based-approaches-limiting-tax-expenditures-0/full>

Joint Committee on Taxation, *Background on the Itemized Deduction for State and Local Taxes* (JCX-35-19; June 24, 2019).

<https://www.jct.gov/publications.html?func=startdown&id=5206>

September 17

## **6. Tax Exempt Organizations and Charitable Contributions**

What is the rationale for tax-exempt organizations? What is their role in the political process? How does the charitable deduction influence taxpayer behavior? How might charitable deductions be reformed?

Joint Committee on Taxation, *Historical Development and Present Law of the Federal Tax Exemption for Charities and Other Tax-Exempt Organizations* (JCX-29-05; April 19, 2005), 18-44. <https://www.jct.gov/publications.html?func=startdown&id=1586>

Joint Committee on Taxation, *Present Law And Background Relating To The Federal Tax Treatment Of Charitable Contributions* (JCX-4-13; February 11, 2013), 33-56. <https://www.jct.gov/publications.html?func=startdown&id=4506>

Alex Brill and Derrick Choe, “Charitable Giving and the Tax Cuts and Jobs Act,” *AEI Economic Perspectives* (June 2018). <https://www.aei.org/wp-content/uploads/2018/06/Charitable-Giving-and-the-Tax-Cuts-and-Jobs-Act.pdf>

September 24

## **7. 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? Can tax policy be used to encourage other countries to pursue environmental objectives?

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>

Kenneth Gillingham and James H. Stock, “The Cost of Reducing Greenhouse Gas Emissions,” *Journal of Economic Perspectives* 32 (Fall 2018), 53-72.  
<https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.32.4.53>

October 1

## **8. Deficits and Budget Rules**

What are the economic effects of budget deficits? What role can budget rules play? How do federal and state governments account for future commitments?

Alan J. Auerbach, William G. Gale, and Aaron Krupkin, “Revisiting the Federal Budget Outlook,” *Tax Notes Federal* 164 (August 5, 2019), 813-829.

Alan J. Auerbach, “Budget Rules and Fiscal Policy: Ten Lessons from Theory and Evidence,” *German Economic Review* 15 (February, 2014), 84-99.  
<http://onlinelibrary.wiley.com/doi/10.1111/geer.12023/pdf>

Robert Novy-Marx and Joshua D. Rauh, “The Liabilities and Risks of State Sponsored Pension Plans,” *Journal of Economic Perspectives* 23 (Fall, 2009), 191-210.  
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.23.4.191>

October 8

## **9. Consumption Taxes**

How would they be implemented? How do they differ from income taxes with respect to fairness, simplicity, and impact on economic performance? How do they operate at the state and local level? What is the impact of *South Dakota v. Wayfair*?

David F. Bradford, *Untangling the Income Tax*, Harvard University Press (1986), Chapters 4 and 5.

Alan J. Auerbach, *Consumption Tax Options for California*, Public Policy Institute of California (June 9, 2011). [https://www.ppic.org/content/pubs/report/R\\_611AAR.pdf](https://www.ppic.org/content/pubs/report/R_611AAR.pdf)

October 15

## **10. 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 (June 18, 2010). <https://fas.org/sgp/crs/misc/R40411.pdf>

Alan J. Auerbach, "Reforming Capital Gains Taxation," *Tax Notes* 135 (June 11, 2012), 1399-1400. <http://taxprof.typepad.com/files/135tn1399.pdf>

### **11. Estate, Inheritance, and Wealth 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-52-15; March 18, 2015). <https://www.jct.gov/publications.html?func=startdown&id=4744>

October 22

### **12. Corporate and Personal Income Taxes and Pass-Through Entities**

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? How has recent legislation affected the choice between corporate and pass-through entity forms?

Michael J. Graetz and Alvin C. Warren, Jr., "Integration of Corporate and Shareholder Taxes," *National Tax Journal* 69 (September, 2016), 677-700. <https://ntanet.org/NTJ/69/3/ntj-v69n03p677-700-integration-corporate-shareholder-taxes.pdf?v=%CE%B1>

Alan J. Auerbach, "Measuring the Effects of Corporate Tax Cuts," *Journal of Economic Perspectives* 32 (Fall 2018), 97-120. <https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.32.4.97>

William G. Gale and Aaron Krupkin, "Navigating the New Pass-Through Provisions: A Technical Explanation," Tax Policy Center Brief (January 31, 2018). <https://www.taxpolicycenter.org/publications/navigating-new-pass-through-provisions-technical-explanation/full>

October 29

### **13. Taxation of Multinational Enterprises**

How does the United States tax foreign source income? How was this affected by the Tax Cuts and Jobs Act? What norms should apply in evaluating the taxation of international investment? What causes corporate inversions and how have they been affected by recent legislation? What is the rationale for recent proposals for the taxation of digital services?

Joint Committee on Taxation, *Present Law and Selected Policy Issues in the U.S. Taxation of Cross-Border Income* (JCX-51-15; March 16, 2015).  
<https://www.jct.gov/publications.html?func=startdown&id=4742>

Congressional Budget Office, *An Analysis of Corporate Inversions* (September 2017).  
<https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53093-inversions.pdf>

November 5

#### **14. Place-Based Policies and Local Tax Competition**

How do policies such as “opportunity zones” work? What is their justification? Do state and local governments gain from providing tax incentives to attract business activity?

Joint Committee on Taxation, *Qualified Opportunity Zones: An Overview* (June 19, 2019). <https://www.jct.gov/publications.html?func=startdown&id=5201>

Daniel Wilson, *Competing for Jobs: Local Taxes and Incentives*. Federal Reserve Bank of San Francisco Economic Letter 2015-06 (February 23, 2015).  
<https://www.frbsf.org/economic-research/files/el2015-06.pdf>

David Neumark and Helen Simpson, *Do Place-Based Policies Matter?* Federal Reserve Bank of San Francisco Economic Letter 2015-07 (March 2, 2015).  
<https://www.frbsf.org/economic-research/files/el2015-07.pdf>

#### **15. Pensions and Retirement Saving**

What tax incentives exist for encouraging adequate saving for retirement? How might they be made more equitable and effective?

Joint Committee on Taxation, *Present Law and Background Relating to Challenges in the Retirement System* (JCX-20-19; May 10, 2019).  
<https://www.jct.gov/publications.html?func=fileinfo&id=5186>

John N. Friedman, “Tax Policy and Retirement Savings,” in A. Auerbach and K. Smetters, eds., *The Economics of Tax Policy* (Oxford University Press, 2017).  
<https://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780190619725.001.0001/acprof-9780190619725-chapter-18>

November 12 & 19

*Class paper presentations*