

Tax Policy and Public Finance: Introduction

August 17, 2020

Some Basic Concepts

- Key elements of tax bases
 - Income
 - Consumption
 - Wealth
- Related, via Haig-Simons income definition:
 - $\text{Income} = \text{consumption} + \text{accretions to wealth}$

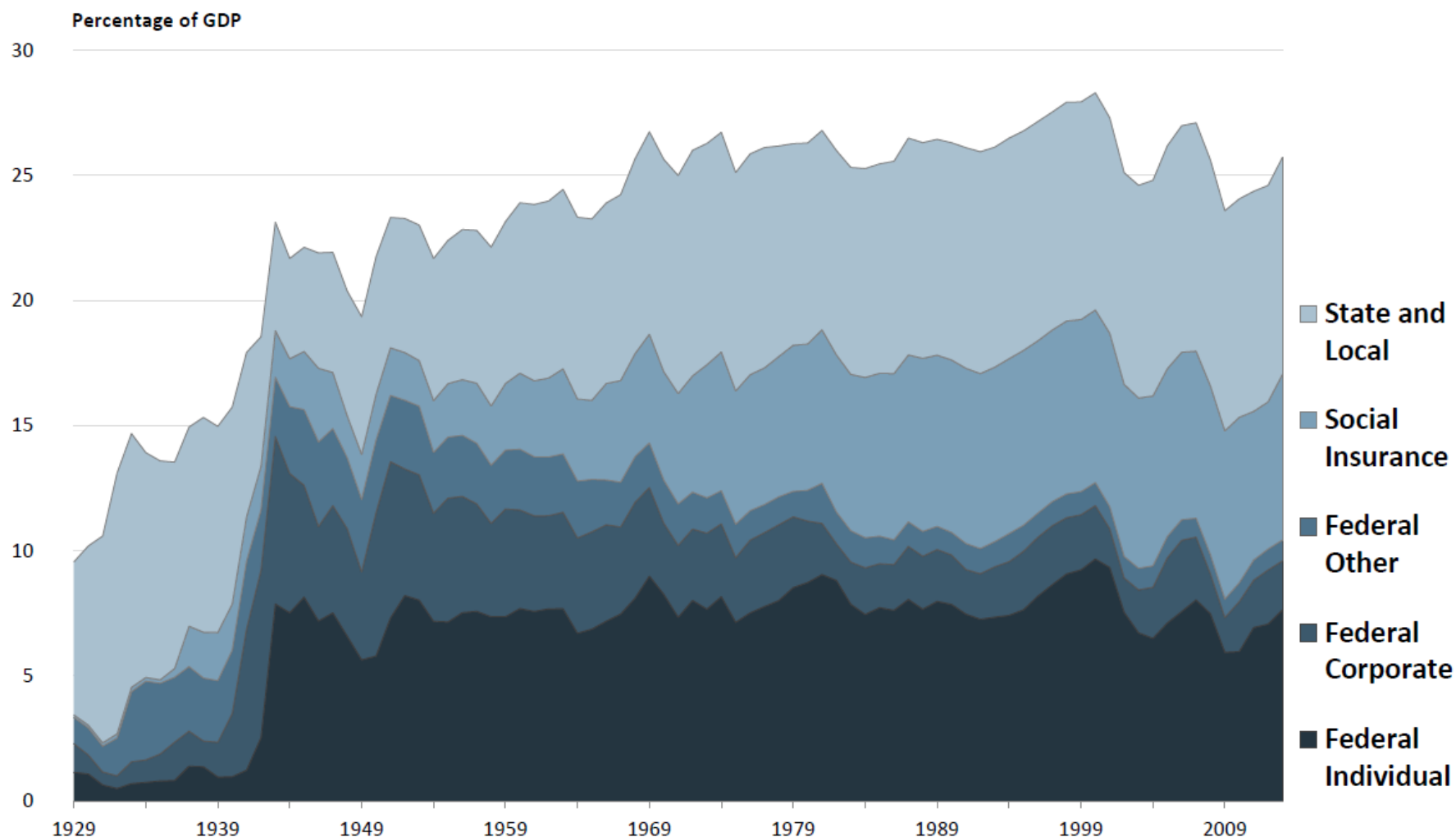
Defining Consumption and Wealth

- Many questions of classification; e.g.,
 - Medical expenses
 - Gifts and bequests
 - Tax payments for state and local government services
 - Is “human capital” part of wealth?

How Do We Tax Income?

- Annual calculation
- Realization based for both wage and salary income and capital income (but with exceptions)
- Ignore some components of income, notably imputed rent on housing and consumer durables

TOTAL TAX RECEIPTS AS A PERCENTAGE OF GDP: 1929-2013



Note: "Federal Other" includes federal estate taxes, gift taxes, and custom duties. Excludes Federal nontaxes. "Social Insurance" includes Employer, Employee and Self-Employed Contributions at the Federal, State and Local levels.

Source: Bureau of Economic Analysis, National Income and Product Accounts, Annual Tables 1.1.5, 3.2, 3.3, 3.6.

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1>

Taxes as a Percentage of GDP, 2018

Country	Total Tax Receipts as Share of GDP	Country	Total Tax Receipts as Share of GDP
France	46.1%	Estonia	33.2%
Denmark	44.9%	Slovak Republic	33.1%
Belgium	44.8%	Canada	33.0%
Sweden	43.9%	New Zealand	32.7%
Finland	42.7%	Japan	31.4%
Austria	42.2%	Israel	31.1%
Italy	42.1%	Latvia	30.7%
Luxembourg	40.1%	Lithuania	30.3%
Norway	39.0%	South Korea	28.4%
Netherlands	38.8%	Switzerland	27.9%
Greece	38.7%	Australia	26.5%
Germany	38.2%	Turkey	24.4%
Iceland	36.7%	United States	24.3%
Hungary	36.6%	Ireland	22.3%
Slovenia	36.4%	Chile	21.1%
Portugal	35.4%	Mexico	16.1%
Czech Republic	35.3%	-	
Poland	35.0%	OECD - Unweighted average	34.2%
Spain	34.4%	OECD - Weighted Average	33.7%
United Kingdom	33.5%		

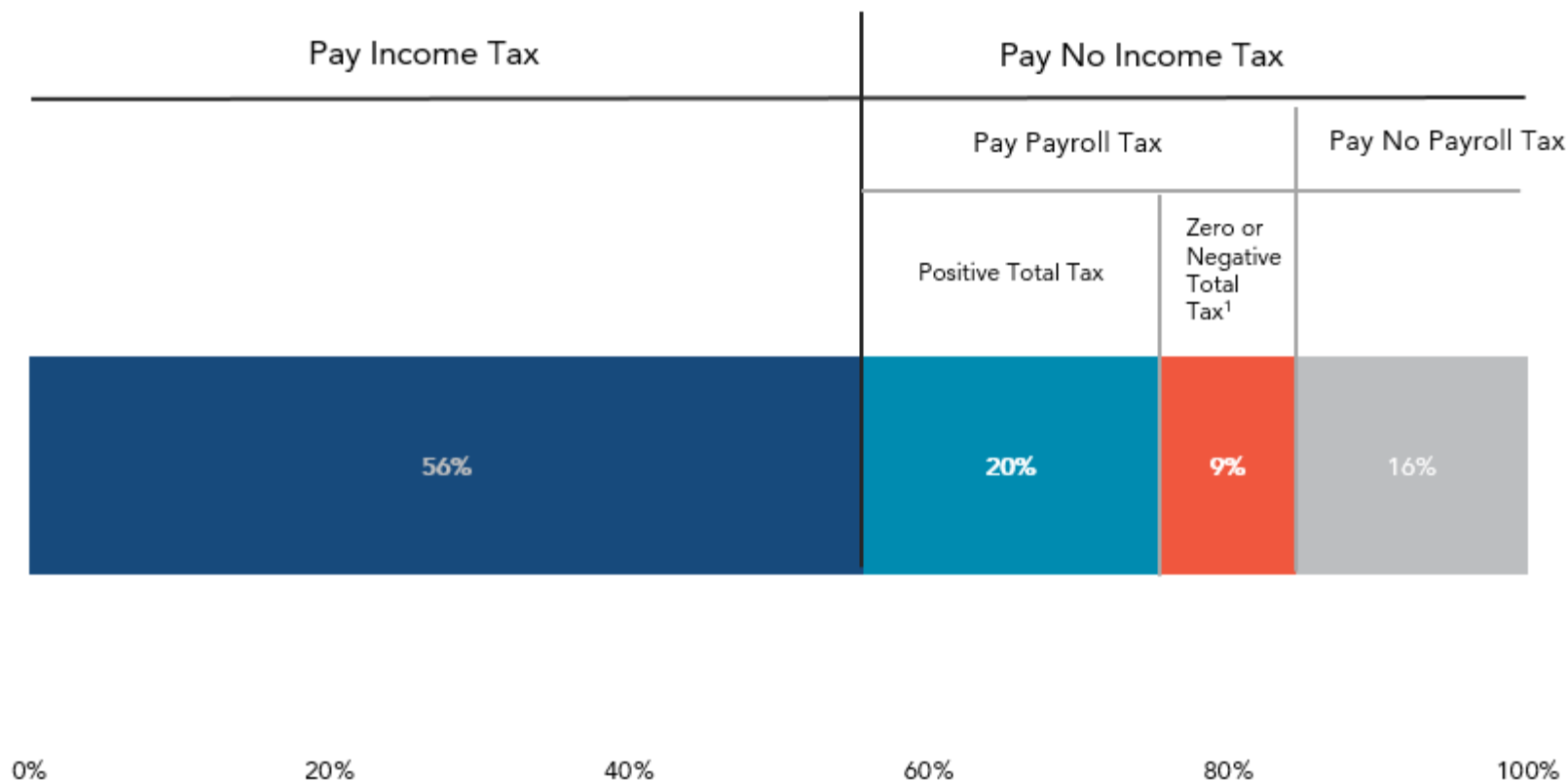
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Tax Sources as a Share of Total Tax Receipts, 2018

Country	Personal income tax	Corporate income tax	Social Security contributions		Consumption Taxes	Other
			Employees	Employers		
Australia	40%	18%	0%	0%	26%	15%
Austria	22%	6%	14%	16%	27%	14%
Belgium	27%	10%	9%	18%	24%	12%
Canada	36%	11%	6%	8%	23%	16%
Chile	7%	22%	7%	0%	53%	11%
Czech Republic	12%	10%	9%	28%	32%	8%
Denmark	54%	6%	0%	0%	33%	6%
Estonia	17%	6%	1%	33%	41%	1%
Finland	29%	6%	8%	18%	34%	6%
France	21%	5%	8%	24%	25%	17%
Germany	27%	6%	17%	17%	26%	7%
Greece	16%	5%	17%	12%	39%	10%
Hungary	14%	3%	16%	17%	44%	5%
Iceland	40%	7%	0%	0%	33%	21%
Ireland	31%	14%	5%	11%	30%	8%
Israel	21%	10%	10%	5%	36%	18%
Italy	26%	4%	6%	21%	28%	15%
Japan	19%	12%	18%	18%	21%	12%
Korea	18%	16%	11%	12%	26%	17%
Latvia	19%	3%	8%	21%	44%	4%
Lithuania	13%	5%	8%	29%	38%	7%
Luxembourg	24%	15%	13%	11%	24%	13%
Mexico	21%	22%	0%	0%	36%	20%
Netherlands	21%	9%	14%	14%	29%	14%
New Zealand	37%	16%	0%	0%	38%	9%
Norway	25%	15%	9%	15%	30%	5%
Poland	15%	6%	16%	15%	35%	13%
Portugal	19%	10%	11%	16%	40%	5%
Slovak Republic	11%	10%	11%	26%	33%	9%
Slovenia	15%	5%	21%	15%	38%	6%
Spain	22%	7%	5%	25%	29%	12%
Sweden	29%	7%	6%	16%	28%	14%
Switzerland	30%	11%	11%	11%	21%	16%
Turkey	15%	9%	11%	17%	40%	7%
United Kingdom	27%	9%	7%	11%	32%	14%
United States	41%	4%	11%	12%	18%	14%
OECD - Unweighted Average	24%	9%	9%	14%	32%	11%

FIGURE 1

Tax Units That Pay No Federal Income Tax 2018



Source: Tax Units with Zero or Negative Income Tax Under Current Law, 2011-2028.

Notes: Percentages do not sum to 100 because of rounding.

¹Total tax refers to the sum of federal income and payroll taxes.