

Tax Policy and Public Finance: Introduction

August 17, 2021

Some Basic Concepts

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

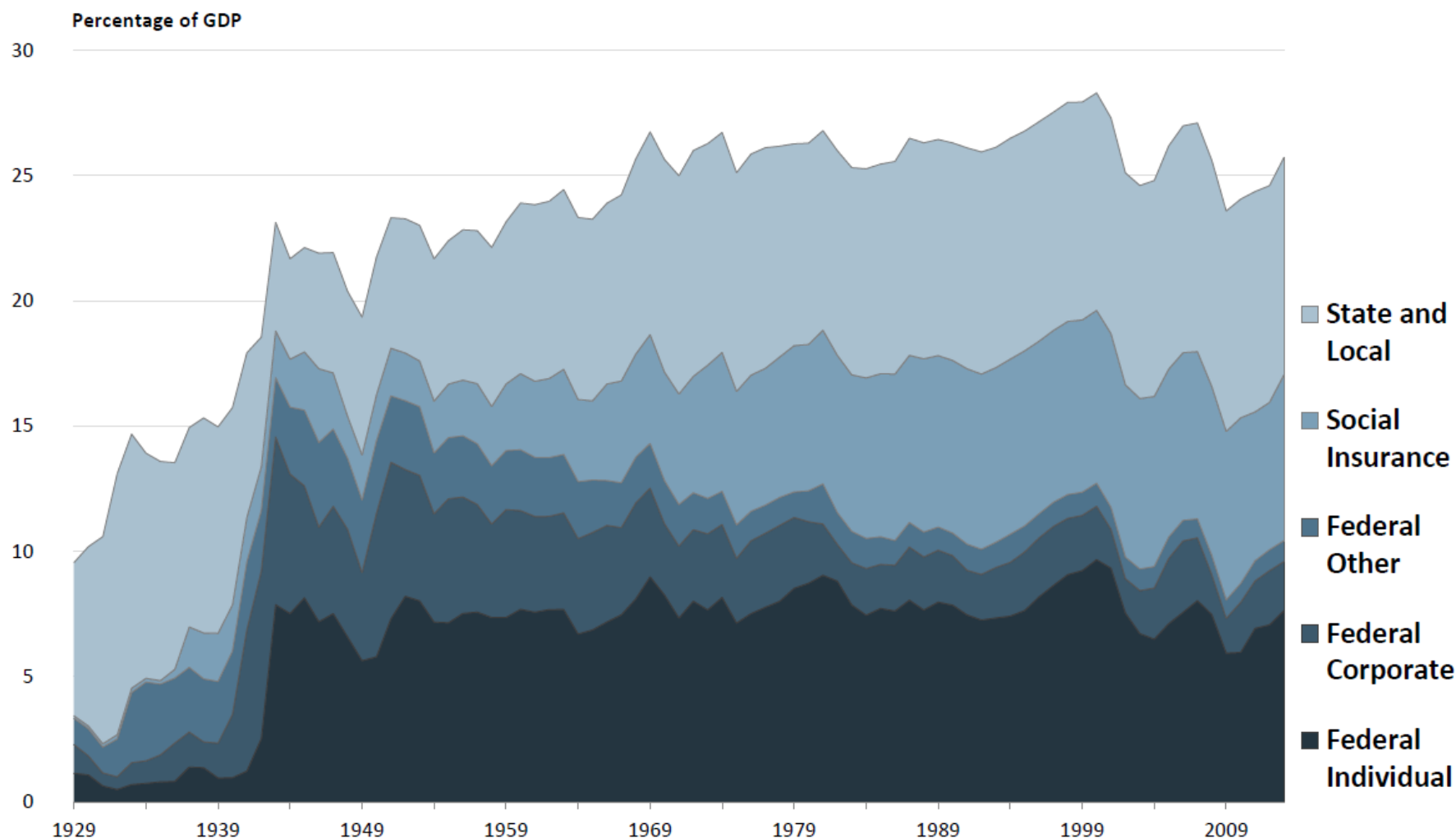
Defining Consumption and Wealth

- 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, 2019

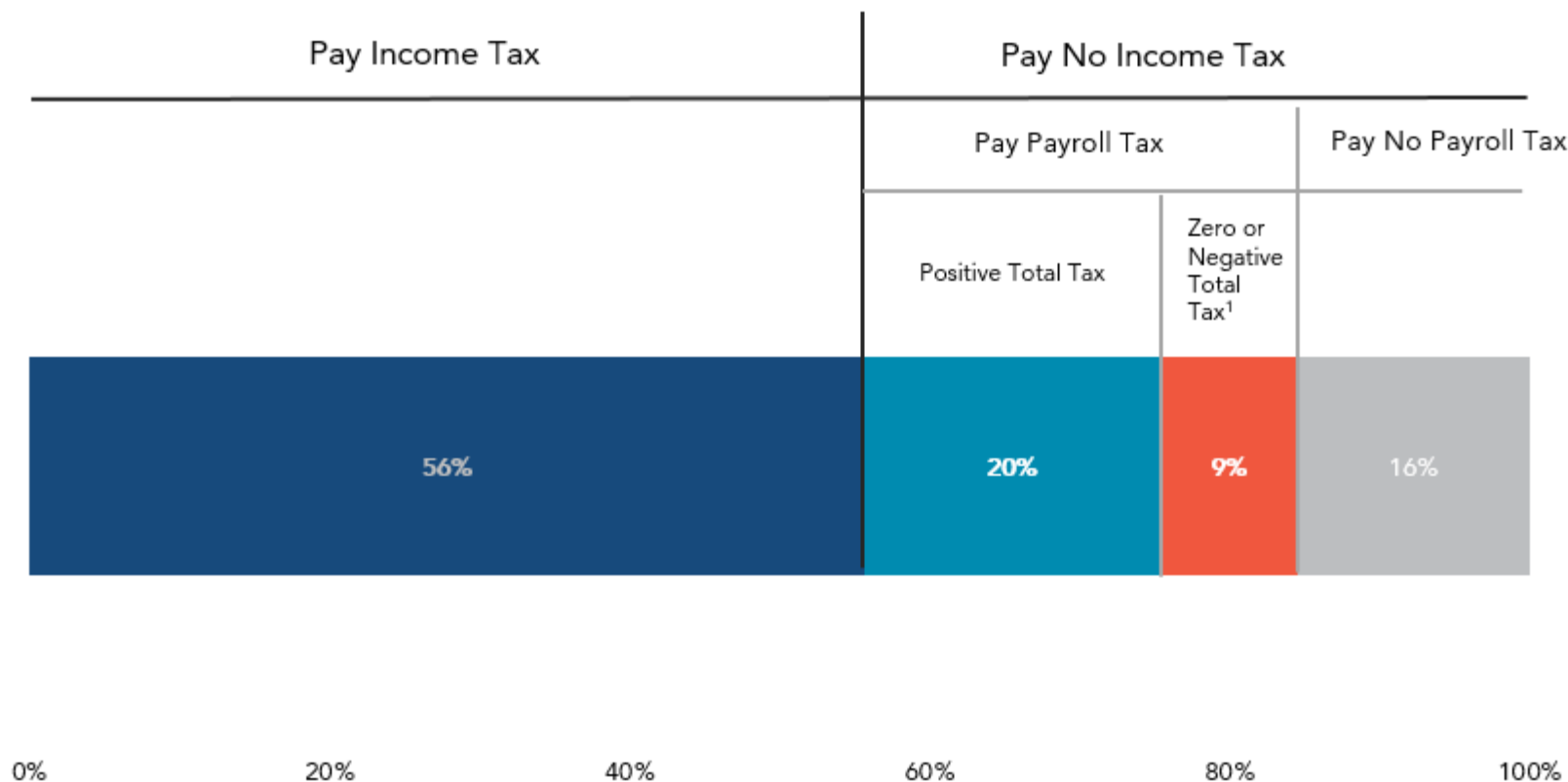
Country	Total Tax Receipts as Share of GDP	Country	Total Tax Receipts as Share of GDP
Denmark	46.3%	Spain	34.7%
France	45.4%	Canada	33.5%
Belgium	42.9%	Estonia	33.1%
Sweden	42.9%	United Kingdom	33.0%
Italy	42.5%	New Zealand	32.3%
Austria	42.4%	Japan	32.0%
Finland	42.2%	Latvia	31.2%
Norway	39.9%	Israel	30.5%
Netherlands	39.3%	Lithuania	30.3%
Luxembourg	39.2%	Australia	28.7%
Germany	38.8%	Switzerland	28.5%
Greece	38.7%	South Korea	27.4%
Slovenia	37.7%	United States	24.5%
Iceland	36.1%	Turkey	23.1%
Hungary	35.8%	Ireland	22.7%
Poland	35.4%	Chile	20.7%
Czech Republic	34.9%	Mexico	16.5%
Portugal	34.8%	-	
Slovak Republic	34.7%	OECD - Unweighted average	33.8%
		OECD - Weighted Average	33.7%

Tax Sources as a Share of Total Tax Revenue, 2019

Country	Personal income tax	Corporate income tax	Social Security contributions		Taxes on property, estates, and gifts	Taxes on goods and services	Other
			Employees	Employers			
Australia	41%	19%	0%	0%	10%	25%	5%
Austria	23%	6%	14%	16%	1%	28%	12%
Belgium	27%	9%	9%	18%	8%	26%	3%
Canada	37%	11%	6%	8%	12%	23%	4%
Chile	7%	23%	7%	0%	5%	53%	4%
Czech Republic	13%	10%	9%	28%	1%	32%	7%
Denmark	52%	7%	0%	0%	4%	30%	6%
Estonia	16%	5%	1%	33%	1%	42%	0%
Finland	29%	6%	8%	18%	3%	34%	2%
France	21%	5%	8%	22%	9%	27%	8%
Germany	27%	5%	16%	18%	3%	27%	4%
Greece	16%	6%	17%	13%	8%	39%	1%
Hungary	14%	2%	16%	16%	3%	45%	3%
Iceland	41%	6%	0%	0%	6%	33%	15%
Ireland	31%	14%	6%	11%	6%	31%	2%
Israel	21%	10%	10%	5%	10%	36%	8%
Italy	26%	5%	6%	21%	6%	28%	9%
Japan	19%	13%	19%	19%	8%	20%	3%
South Korea	18%	16%	12%	12%	11%	26%	6%
Latvia	21%	0%	10%	20%	3%	45%	0%
Lithuania	23%	5%	24%	2%	1%	38%	5%
Luxembourg	24%	15%	13%	11%	10%	24%	4%
Mexico	21%	21%	0%	0%	2%	36%	19%
Netherlands	22%	9%	13%	14%	4%	31%	8%
New Zealand	40%	12%	0%	0%	6%	39%	3%
Norway	26%	14%	9%	16%	3%	30%	2%
Poland	15%	6%	0%	0%	4%	24%	51%
Portugal	18%	9%	11%	17%	4%	40%	1%
Slovak Republic	11%	9%	11%	26%	1%	35%	7%
Slovenia	14%	6%	23%	15%	2%	36%	4%
Spain	23%	6%	5%	26%	7%	29%	4%
Sweden	29%	7%	6%	15%	2%	28%	13%
Switzerland	31%	11%	11%	11%	7%	21%	8%
Turkey	16%	8%	12%	18%	4%	39%	3%
United Kingdom	28%	8%	8%	11%	12%	33%	1%
United States	41%	4%	11%	12%	12%	18%	1%
-							
OECD - Total (excluding US)	25%	9%	10%	15%	7%	27%	6%

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.