University of California, Berkeley **Professor Alan Auerbach**
Fall 2013 **525 Evans Hall (3-0711)**

Law 260.1: Tax Policy and Public Finance

Class meetings: Tuesdays, 3:35 to 5:25, August 27-November 26
Office hours: Mondays, 10-11:30

This class 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 27

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 polices?

Tax Policy Center,
Total Tax Receipts as a Percentage of GDP, 1929-2011.
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 3

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 10

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 17

4. *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, 18-38. 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

Daniel Baneman, Joseph Rosenberg, Eric Toder, and Roberton Williams, *Curbing Tax Expenditures* (January 30, 2012). http://www.taxpolicycenter.org/UploadedPDF/412493-Curbing-Tax-Expenditures.pdf

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? What are the implications of DOMA and its demise?

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 24

6. *Tax Exempt Organizations and Charitable Contributions*

What is the rationale for having tax-exempt organizations? What role do they play in the political process? How does the charitable deduction influence taxpayer behavior?

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

Tobin, Donald B., *FAQs on 501(c)(4) Social Welfare Organizations*, May 20, 2013. http://moritzlaw.osu.edu/electionlaw/analysis/documents/FAQs%20on%20501(c)(4)%20Social%20Welfare%20Organizations%20v.6.pdf

October 1

7. *Deficits and Budget Rules*

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

Alan J. Auerbach and William G. Gale, *Fiscal Fatigue* (February 28, 2013). http://www.taxpolicycenter.org/UploadedPDF/1001664-Fiscal-Fatigue.pdf

Alan J. Auerbach, "Budget Rules and Fiscal Policy: Ten Lessons from Theory and Evidence," *German Economic Review* (forthcoming). http://onlinelibrary.wiley.com/doi/10.1111/geer.12023/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 8

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

How would they be implemented? 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 15

9. *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 22

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 (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**).

11. *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 29

12. *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://ntj.tax.org/wwtax/ntjrec.nsf/7813EF0E17804BAC852577FC0057CD60/$FILE/Article%2010-Slemrod.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

November 5

13. *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 12

14. *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 19 &26

Class presentations