The Instructor: About me

Name: Neil Bruce

Bio: I am the Paul F. Glaser Professor of Economics and have been at UW since 1991. I received my Ph.D. from the University of Chicago in 1976. My field specialty is Public Finance and Public Policy. My current research interests are Social Security, retirement saving, and the economics of aging populations.

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Please note: I do not answer questions about course subject matter or assignments by email. You should come to my office hours with such questions. A discussion board has been set up on the class page where information and questions about the course subject matter and assignments can be discussed and exchanged. I will monitor the board and when possible provide input.

Classlist: econ451a_WI14@uw.edu

Classpage: https://catalyst.uw.edu/workspace/brucen/41576/

The Course: What You Will Learn

You will be evaluated on how well you achieve three learning goals.

1) Develop an understanding of how taxes affect the economic decisions made by households and businesses, and more generally how taxes affect the allocation of economic resources and the distribution of income in an economy.

2) Assemble a working knowledge of the main facts about the United States tax system, and an understanding of how the main taxes such as the Federal personal and corporate income taxes and the State and Local Retail Sales tax are structured.

3) Be able to evaluate tax policies and reforms or potential tax policies according to the normative criteria of economic efficiency, distributional equity and administrative feasibility.

The Course: How Your Learning Will Be Assessed

Your course grade is based on two non-cumulative class tests. The first class test is on Wednesday February 5 and the second class test is on Wednesday March 12 (last day of class.) The tests must be taken on these days—I do not have the resources to offer make up tests.

There are also five optional, but highly recommended, assignments. Your assignments will be used to improve your grade, but not to lower it. The main reward for doing the assignment is preparation for the tests. But at my discretion,
I will count your average assignment grade for up to 20% of your total grade. Assignments are graded 4 (good), 3 (adequate) or 1 (thank you for handing something in.) If you do not do the assignments your grade will depend wholly on the tests. Assignments must be handed in hard copy in class on the due date, or earlier. Electronic submission is allowed with advance notice.

Tests and assignments are objective (no essays.) I do not curve grades.

**Policy on Academic Integrity**

I will enforce the policy of the Department of Economics on Academic Integrity.

*Academic integrity is the cornerstone of the Department's rules for student conduct and evaluation of student learning. Students accused of academic misconduct will be referred directly to the Office of Community Standards and Student Conduct for disciplinary action pursuant to the Student Conduct Code and, if found guilty, will be subject to sanctions. Sanctions range from a disciplinary warning, to academic probation, to immediate dismissal for the Department and the University, depending on the seriousness of the misconduct. Dismissal can be, and has been, applied even for first offenses. Moreover, a grade of zero can be assigned by the instructor for the course.*

My preference is to respect you, treat you as responsible adults, and presume that you are honest. I ask that you return this respect by proving me right. If any academic dishonesty on tests is discovered, I will follow the appropriate institutional procedures. Cooperative learning on assignments is permitted, even encouraged.

**Lectures and Readings**

Lecture notes are available on the class page. These are **required reading**. The notes contain hyperlinks where more information is available to strengthen your learning, but these linked readings are not required. **Please read the upcoming topics before class and be prepared to discuss and ask questions.** *The lecture notes are not a perfect substitute for attending class.*

I  **Introduction**

A) **TOPIC 1 TAXATION AND GOVERNMENT.** What is a tax? What are the main taxes in an economy? The “stylized facts” on government taxation in the US including type of taxes levied, how much revenue collected, and what level of government levies the tax. Differences in taxation across countries.

II  **The Economic Effects of Excise Taxation**

A) **TOPIC 2 THE EFFECT OF AN EXCISE TAX.** The excise tax as a model of any selective tax. Per unit and percentage tax rates. The effect of an excise tax as compared to that of a lump-sum tax on consumption decisions.
B) **TOPIC 3 **EXCISE TAXES AND TAX SHIFTING. The effect of an excise tax on the equilibrium market quantity and prices to buyers and sellers. Statutory incidence and tax equivalence. The determinants of economic incidence between buyers and sellers.

C) **TOPIC 4 **REVENUE AND DEADWEIGHT LOSS. Diminishing returns to revenue collection as the tax rate increases. The “Laffer Curve” and the elasticity of the tax base. Deadweight loss and why it increases at an increasing rate as the tax rate increases.

III **Tax Incidence—Who Bears the Burden of Taxation?**

A) **TOPIC 5 **MEASURING TAX INCIDENCE. Tax incidence across income groups. Average tax rates and tax shares by income quintiles. Progressive, proportional and regressive Incidence. The incidence of Federal taxes and the incidence of state and local taxes.

B) **TOPIC 6 **ECONOMIC INCIDENCE AND TAX SHIFTING. Assumptions about tax shifting in tax incidence studies. How the income incidence of excise taxes is calculated. Economic incidence of taxes on income, general equilibrium models of tax shifting.

IV **Tax Policy Analysis**

A) **TOPIC 7 **WHAT MAKES GOOD TAX POLICY? Five criteria for evaluating tax policy including efficiency cost, compliance cost, and fairness. Revenue neutral tax changes. Reducing the excess burden of collecting a given amount of revenue as a guide to good tax policy.

B) **TOPIC 8 **REDUCING THE EFFICIENCY COST OF TAXATION. Revenue neutral ways of reducing the excess burden by reducing efficiency cost. Tax base broadening, the inverse elasticity rule, and Pigouvian taxes.

C) **TOPIC 9 **MEASURING THE FAIRNESS OF TAXES. Fairness and the impartial spectator. Ability-to-pay and benefits received principles of tax fairness. The social welfare function and distributional weights. The excess burden of regressive taxation.

V **The Structure of Federal Income Taxation**

A) **TOPIC 10 **PERSONAL INCOME TAXATION—TAXABLE INCOME. Haig-Simons Income, Adjusted Gross Income and Taxable Income. The standard deduction, personal exemptions and itemized deductions. Excluded income and subtracted income.
B) TOPIC 11 PERSONAL INCOME TAXATION—TAX RATES AND TAX CREDITS. The graduated tax rate schedule. Marginal tax rates and average tax rates. Tax credits. The negative income tax system and the earned income tax credit.


VI Economic Effects of Personal Income Taxation

A) TOPIC 13 THE ECONOMIC EFFECTS OF TAX EXPENDITURES. How the Federal government spends a trillion dollars with special tax breaks. The economic effects of the charitable gifts deduction, the employer-paid health insurance exemption, and the mortgage interest deduction. The incidence of tax expenditures.

B) TOPIC 14 INCOME TAXATION AND LABOR SUPPLY. The effects of income taxation on hours worked and labor force participation. Income effects and substitution effects on the labor-leisure choice.

C) TOPIC 15 INCOME TAXATION AND INTERTEMPORAL CONSUMPTION CHOICE. The life cycle model of the consumption-saving decision. Effects of income taxation on retirement consumption choices. Effects of traditional and Roth individual retirement accounts (IRAs). Taxing income versus taxing consumption.

VII Business Income Taxation

A) TOPIC 16 HOW BUSINESS INCOME IS TAXED. How net business income is defined for income tax purposes. Expensing and depreciation. The corporation income tax.

B) TOPIC 17 BUSINESS INCOME TAXES AND BUSINESS DECISIONS. The neutrality of taxing economic profit. Effects of business income taxes on employment, investment and financing decisions by firms. Marginal effective tax rates.

VIII State and Local Taxation