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.

Location: Savery Hall 329

Office Hours: M., W. 10:30A-11:30A

Phone: 206-543-5874

E-Mail: brucen@uw.edu

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 questions about the course subject matter and assignments can be discussed and exchanged. I will monitor the board and respond when I can. You are encouraged to participate.

Classlist: econ451a_sp14@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 is Assessed

Your course grade is based on two non-cumulative class tests. The first class test is on Wednesday April 30 and the second class test is on Wednesday June 4 (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 six optional, but highly recommended, homework assignments. Your assignments are used to improve your grade, but not to lower it. The main
reward for doing the assignment is learning and preparation for the tests, but at
my discretion, I will count your homework average for up to 20% of your total
grade. Assignments are graded 4 (good), 3 (average), 2 (below average), or 1
(thank you for handing something in.) If you do not do the assignments your
grade depends wholly on the test grades. Assignments must be submitted in
hard copy in class on the due date, or earlier. Electronic submission is allowed
only under special circumstances and must be requested in advance.

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

Policy on Academic Integrity (PLEASE READ)

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 policy is to respect you, treat you as responsible adults, and presume that
you are honest. I ask that you return this respect adhering strictly to the
Department policy. 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 do not substitute for attending class. Questions on assignments
and tests are drawn from both the lecture notes and class discussions.

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 types of taxes levied, how much revenue is collected,
and what level of government levies the tax. Differences in tax
structures across countries.
II The Economic Effects of Excise Taxation


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 how it increases as the tax rate increases.

III Tax Incidence—Who Bears the Burden of Taxation?


IV Tax Policy Analysis


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 generalizemmean, 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 of income taxes on the labor-leisure choice. Empirical studies.

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 BUSINESS INCOME TAXES AND EFFECTS.** How net business income is defined for income tax purposes. Expensing and depreciation. The corporation income tax. The neutrality of taxing economic profit. Effects of business income taxes on employment, investment and financing decisions by firms.

VIII State and Local Taxation

A) **TOPIC 17 STATE AND LOCAL TAXES.** How tax structures vary across the states. How retail sales taxes and real estate property taxes are structured. Tax exporting and tax competition. Multijurisdictional tax rules. Taxing internet commerce.