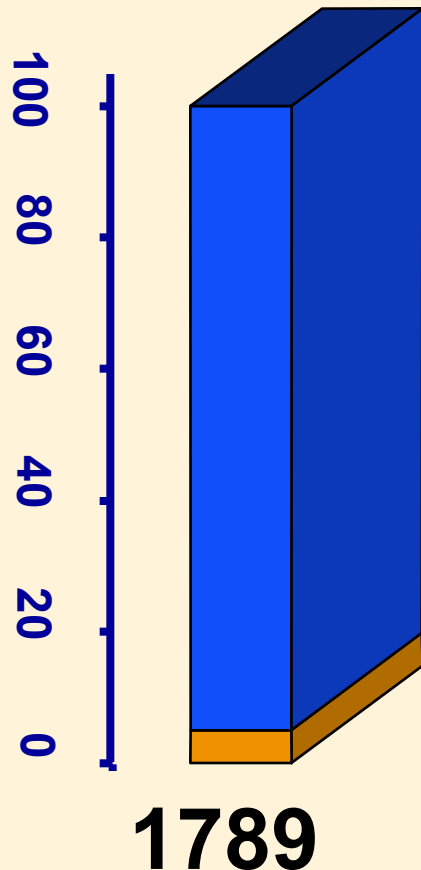


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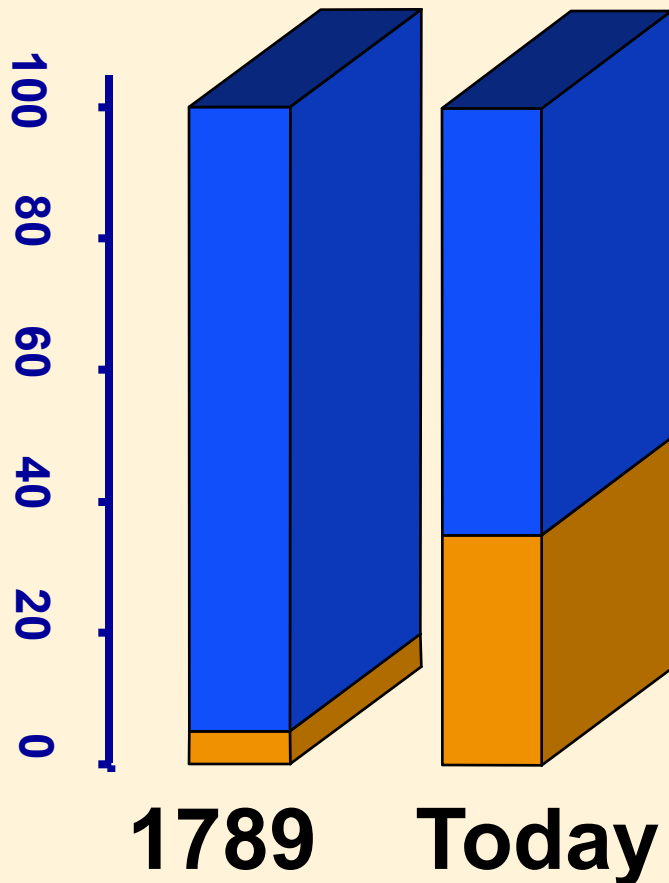
The Design of the Tax System

"In this world nothing is certain but death and taxes."
... **Benjamin Franklin**



Taxes paid in Ben Franklin's time accounted for 5 percent of the average American's income.

"In this world nothing is certain but death and taxes."
... Benjamin Franklin



Today, taxes
account for *up*
to a third of
the average
American's
income.

Figure 1 Government Revenue as a Percentage of GDP

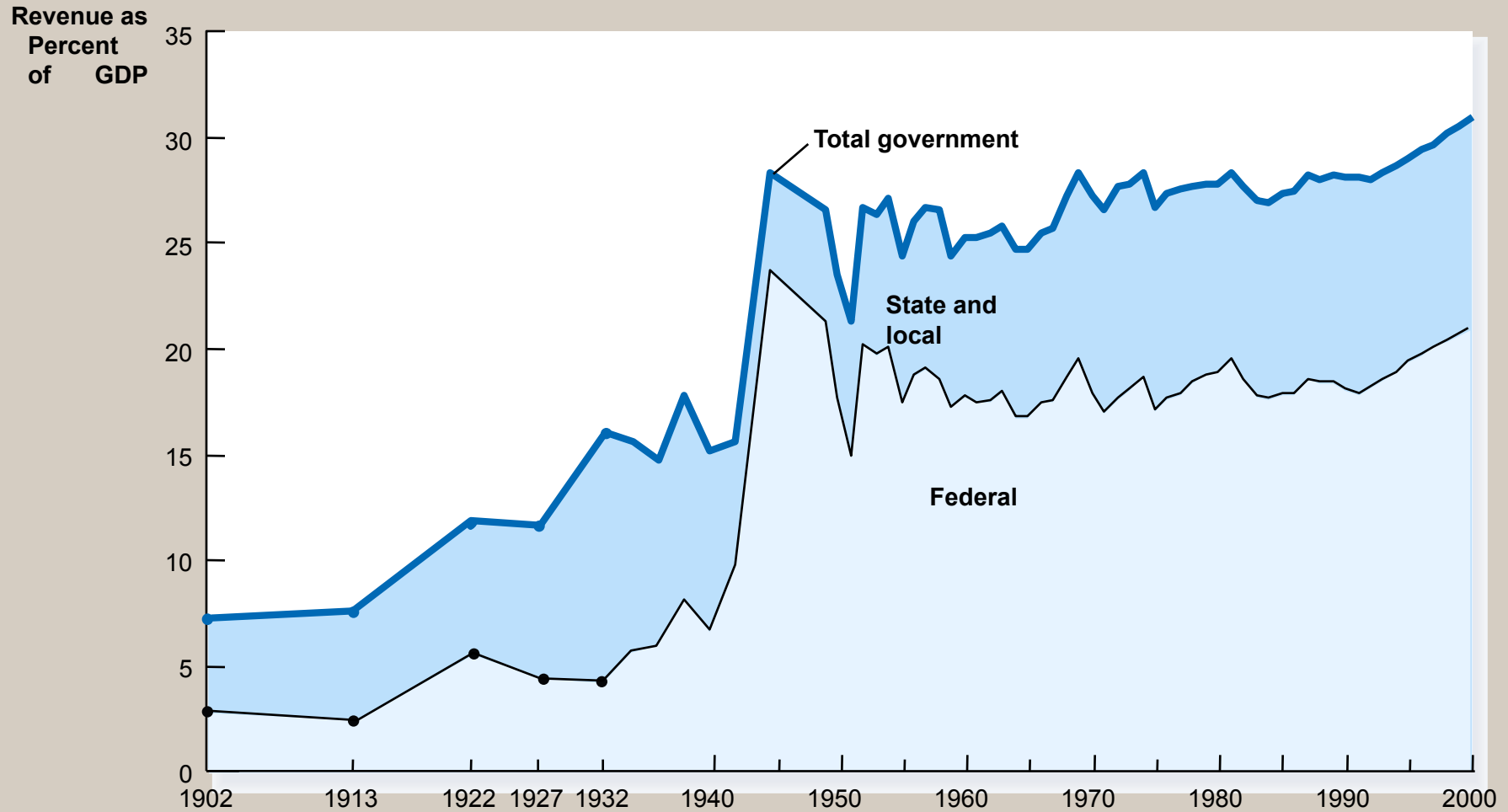


Table 1 Central Government Tax Revenue as a Percent of GDP

Source: *World Development Report 1998/99.*

France	38.8%	Russia	17.4
United Kingdom	33.7	Pakistan	15.3
Germany	29.4	Indonesia	14.7
Brazil	19.7	Mexico	12.8
United States	19.3	India	10.3
Canada	18.5		



2012

Russia	36.9
United Kingdom	39.0
United States (all levels)	26.9
Sweden	47.9
Denmark	49.0
France	44.6

The Federal Government

- The U.S. federal government collects about two-thirds of the taxes in our economy.

The Federal Government

- The largest source of revenue for the federal government is the individual income tax.

The Federal Government

- Individual Income Taxes
 - The *marginal tax rate* is the tax rate applied to each additional dollar of income.
 - Higher-income families pay a larger percentage of their income in taxes.

The Federal Government

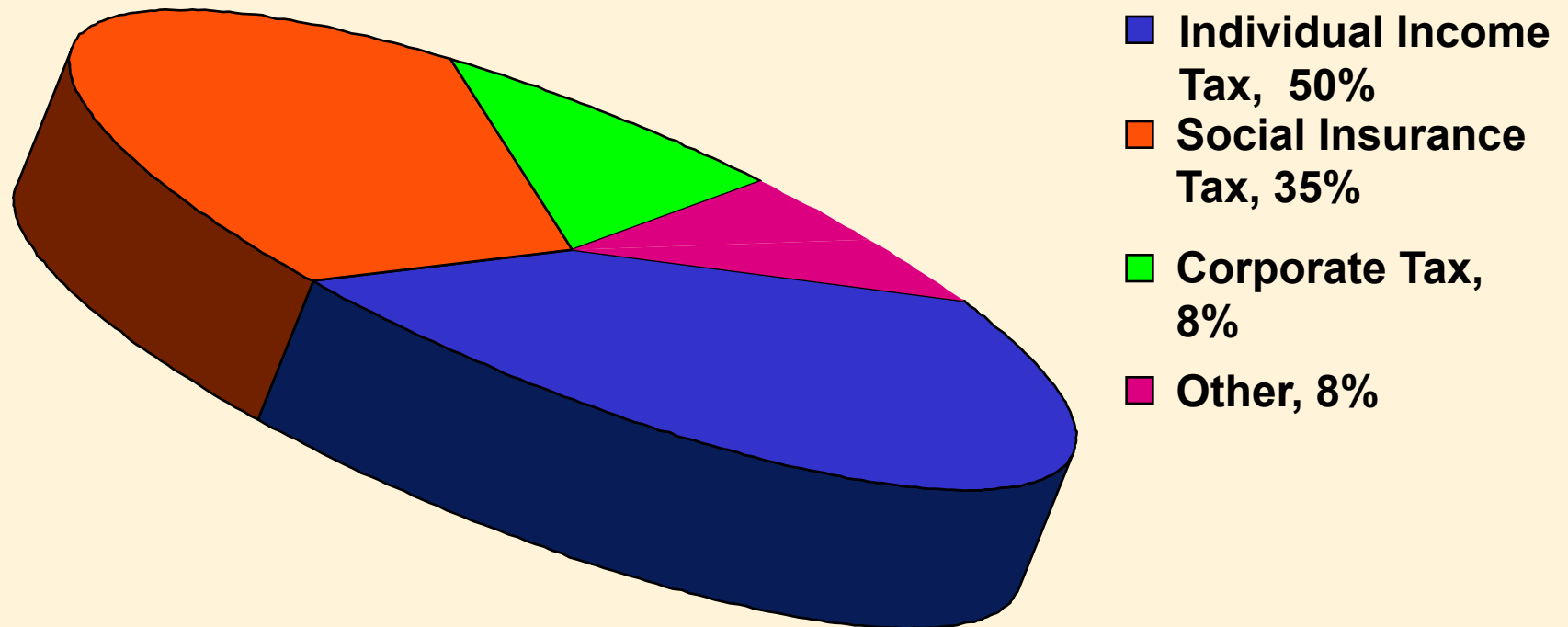
- The Federal Government and Taxes
 - Payroll Taxes: tax on the wages that a firm pays its workers.
 - Social Insurance Taxes: taxes on wages that is earmarked to pay for Social Security and Medicare.
 - Excise Taxes: taxes on specific goods like gasoline, cigarettes, and alcoholic beverages.

Table 2 Receipts of the Federal Government: 2001

Source: *Economic Report of the President*, 2002, table B-81, p. 416.

Tax	Amount (billions)	Amount per Person	Percent of Receipts
Individual income taxes	\$ 994	\$3,488	50%
Social insurance taxes	694	2,435	35
Corporate income taxes	151	530	8
Other	152	533	8
Total	\$1,991	\$6,986	100%

Receipts of the Federal Government...



The Federal Government

- Federal Government Spending
 - Government spending includes transfer payments and the purchase of public goods and services.
 - Transfer payments are government payments not made in exchange for a good or a service.
 - Transfer payments are the largest of the government's expenditures.

The Federal Government

- Federal Government Spending
 - Expense Category:
 - Social Security
 - National Defense
 - Income Security
 - Net Interest
 - Medicare
 - Health
 - Other



The Federal Government

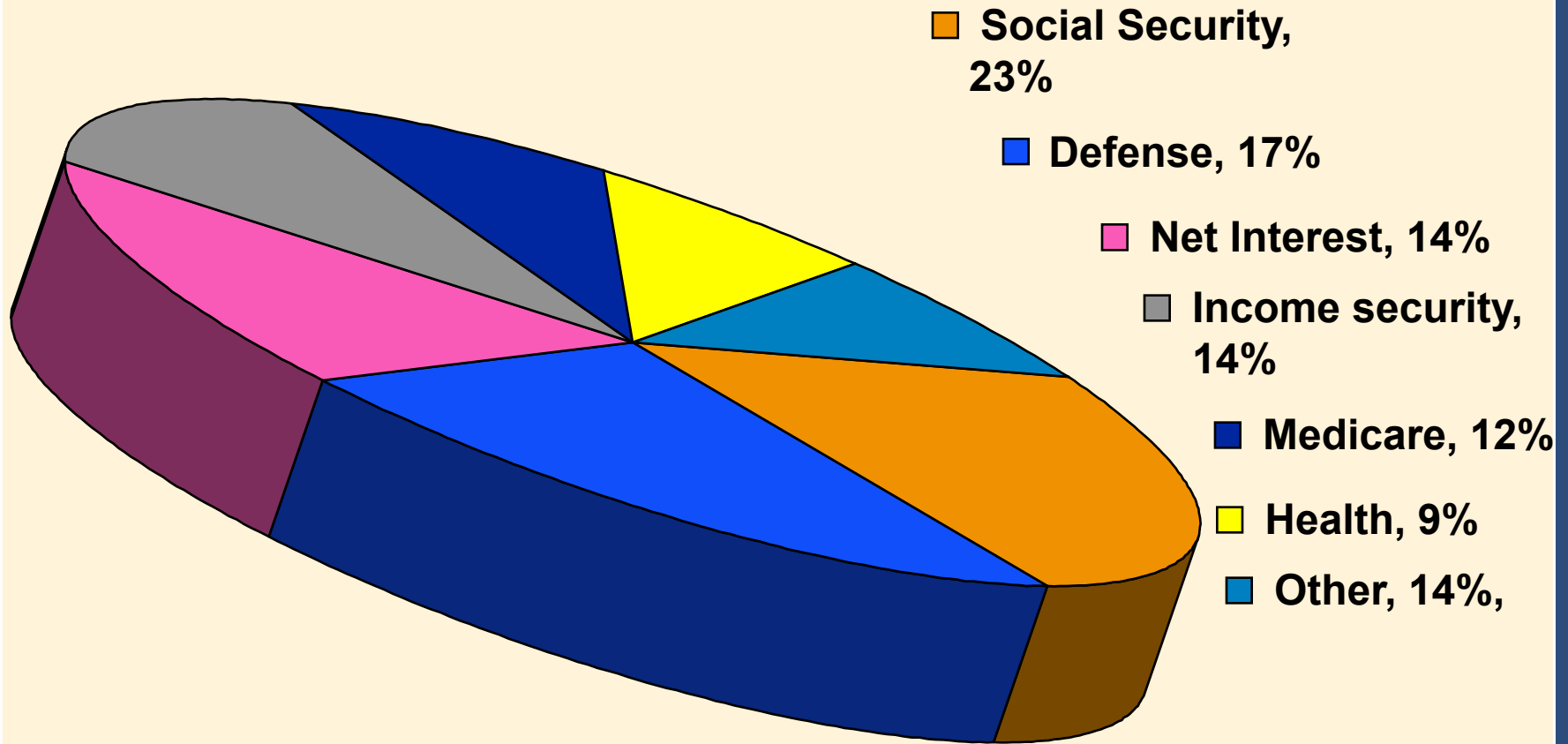
- Budget Surplus
 - A *budget surplus* is an excess of government receipts over government spending.
- Budget Deficit
 - A *budget deficit* is an excess of government spending over government receipts.

Table 4 Spending of the Federal Government: 2001

Source: *Economic Report of the President*, 2002, table B-81, p. 416.

Category	Amount (billions)	Amount per Person	Percent of Spending
Social Security	\$ 433	\$1,519	23%
National defense	309	1,084	17
Income security	270	947	14
Net interest	206	723	11
Medicare	217	761	12
Health	173	607	9
Other	256	898	14
Total	\$1,864	\$6,540	100%

Federal Government Spending: 2001



The Federal Government

- Financial Conditions of the Federal Budget
 - A budget deficit occurs when there is an excess of government spending over government receipts.
 - Government finances the deficit by borrowing from the public.
 - A budget surplus occurs when government receipts are greater than government spending.
 - A budget surplus may be used to reduce the government's outstanding debts.

State and Local Governments

- State and local governments collect about 40 percent of taxes paid.

State and Local Government

- Receipts
 - Sales Taxes
 - Property Taxes
 - Individual Income Taxes
 - Corporate Income Taxes
 - Federal government
 - Other

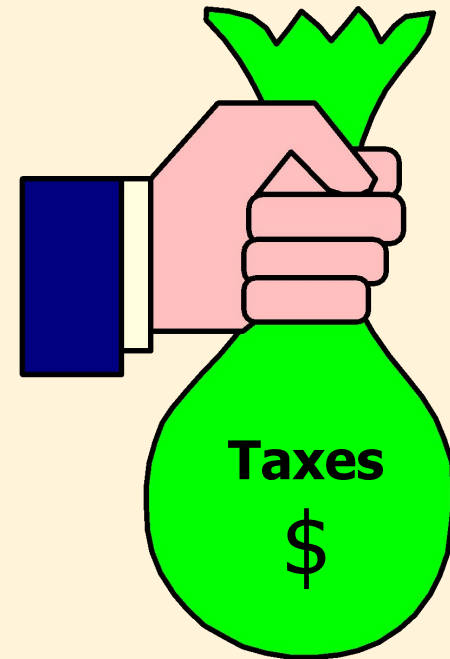


Table 5 Receipts of State and Local Governments: 1999

Source: *Economic Report of the President*, 2002, table B-86, p. 421.

Tax	Amount (billions)	Amount per Person	Percent of Receipts
Sales taxes	\$ 291	\$1,070	20%
Property taxes	240	882	17
Individual income taxes	189	695	13
Corporate income taxes	34	125	2
From federal government	271	996	19
Other	409	1,504	29
Total	\$1,434	\$5,271	100%

State and Local Government

- Spending
 - Education
 - Public Welfare
 - Highways
 - Other

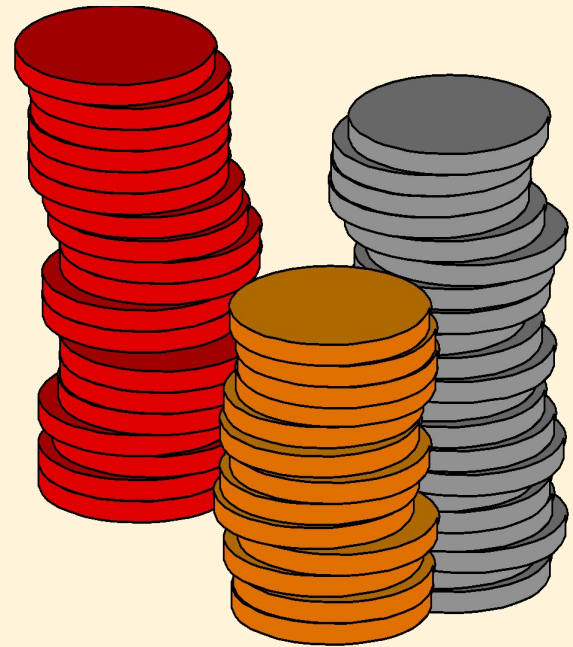


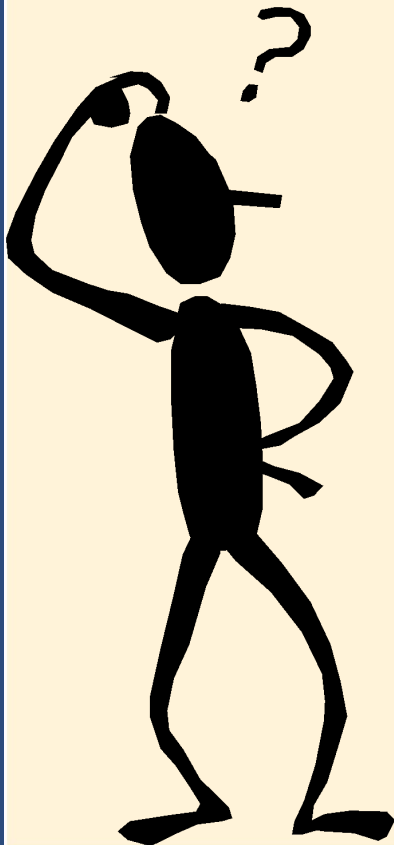
Table 6 Spending of State and Local Governments: 1999

Source: *Economic Report of the President*, 2002, table B-86, p. 421.

Category	Amount (billions)	Amount per Person	Percent of Spending
Education	\$ 483	\$1,776	34%
Public welfare	219	805	16
Highways	93	341	7
Other	607	2,232	43
Total	\$1,402	\$5,154	100%

TAXES AND EFFICIENCY

- Policymakers have two objectives in designing a tax system...



- Efficiency
- Equity

TAXES AND EFFICIENCY

- One tax system is more *efficient* than another if it raises the same amount of revenue at a smaller cost to taxpayers.
- An *efficient* tax system is one that imposes small deadweight losses and small administrative burdens.

TAXES AND EFFICIENCY

- The Cost of Taxes to Taxpayers
 - The tax payment itself
 - Deadweight losses
 - Administrative burdens



Deadweight Losses

- Because taxes distort incentives, they entail deadweight losses.
 - The deadweight loss of a tax is the reduction of the economic well-being of taxpayers in excess of the amount of revenue raised by the government.

Administrative Burdens

- Complying with tax laws creates additional deadweight losses.
 - Taxpayers lose additional time and money documenting, computing, and avoiding taxes over and above the actual taxes they pay.
 - The administrative burden of any tax system is part of the inefficiency it creates.

Marginal Tax Rates versus Average Tax Rates

- The *average tax rate* is total taxes paid divided by total income.
- The *marginal tax rate* is the extra taxes paid on an additional dollar of income.

Lump-Sum Taxes

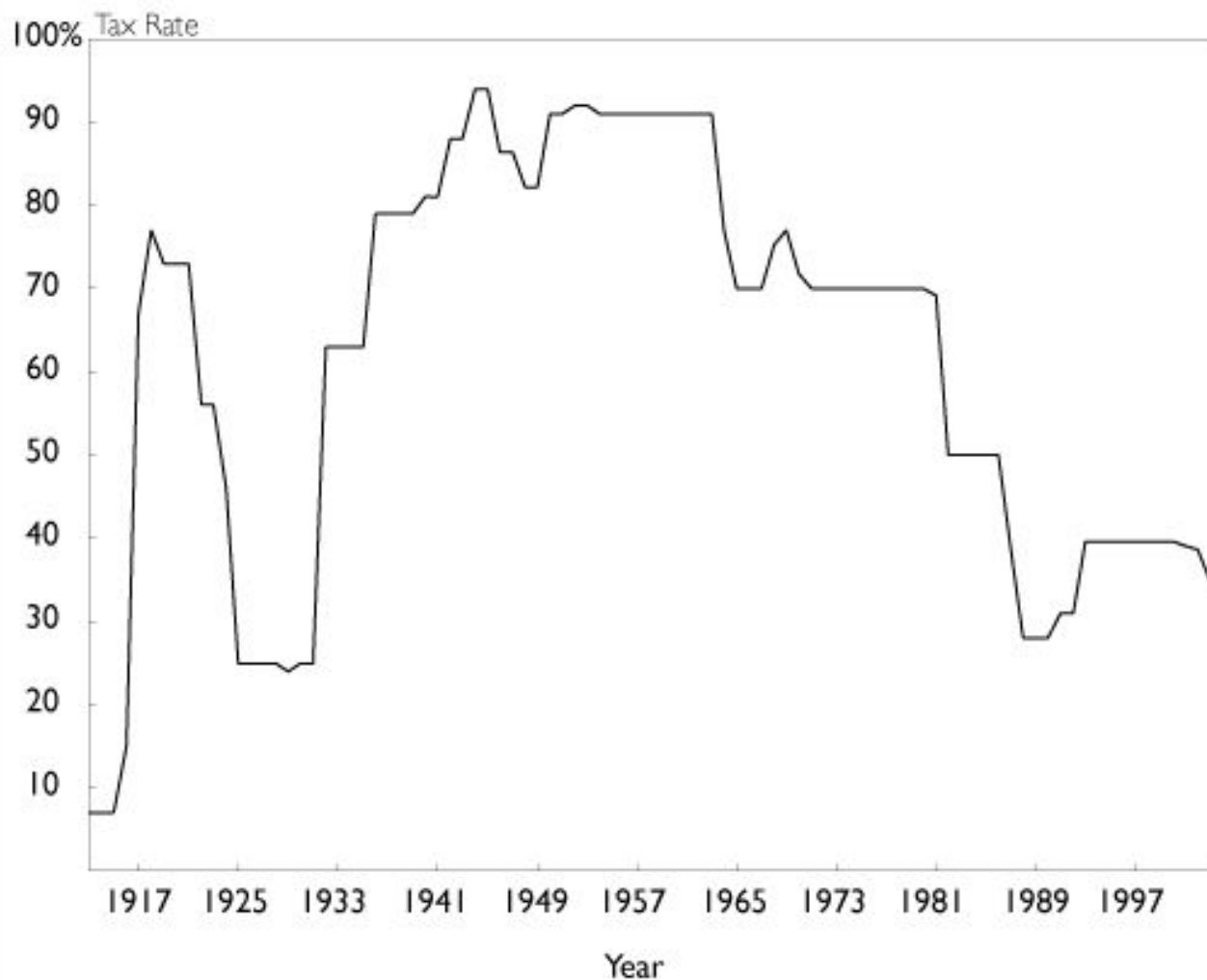
- A lump-sum tax is a tax that is the same amount for every person, regardless of earnings or any actions that the person might take.
- (аккордный налог)

TAXES AND EQUITY

- How should the burden of taxes be divided among the population?
- How do we evaluate whether a tax system is fair?

The Top Marginal Personal Income Tax Rate, 1913-2003

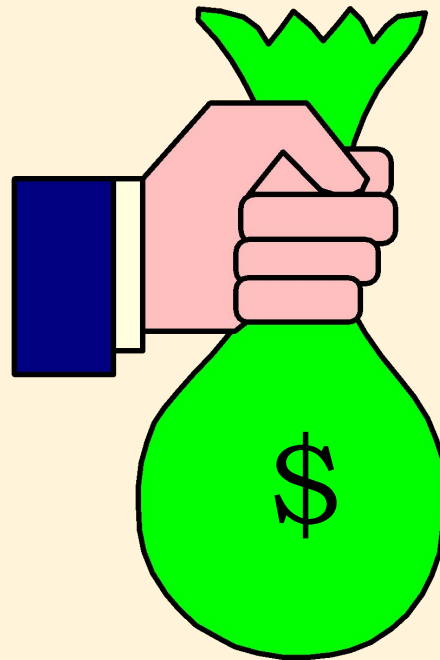
(When applicable, top rate on earned and/or unearned income)



Source: Internal Revenue Service.

TAXES AND EQUITY

- Principles of Taxation
 - Benefits principle
 - Ability-to-pay principle



Benefits Principle

- The *benefits principle* is the idea that people should pay taxes based on the benefits they receive from government services.
- An example is a gasoline tax:
 - Tax revenues from a gasoline tax are used to finance our highway system.
 - People who drive the most also pay the most toward maintaining roads.

Ability-to-Pay Principle

- The *ability-to-pay principle* is the idea that taxes should be levied on a person according to how well that person can shoulder the burden.
- The ability-to-pay principle leads to two corollary notions of equity.
 - Vertical equity
 - Horizontal equity

Ability-to-Pay Principle

- *Vertical equity* is the idea that taxpayers with a greater ability to pay taxes should pay larger amounts.
 - For example, people with higher incomes should pay more than people with lower incomes.

Ability-to-Pay Principle

- Vertical Equity and Alternative Tax Systems
 - A *proportional tax* is one for which high-income and low-income taxpayers pay the same fraction of income.
 - A *regressive tax* is one for which high-income taxpayers pay a smaller fraction of their income than do low-income taxpayers.
 - A *progressive tax* is one for which high-income taxpayers pay a larger fraction of their income than do low-income taxpayers.

Ability-to-Pay Principle

- Horizontal Equity
 - *Horizontal equity* is the idea that taxpayers with similar abilities to pay taxes should pay the same amounts.
 - For example, two families with the same number of dependents and the same income living in different parts of the country should pay the same federal taxes.

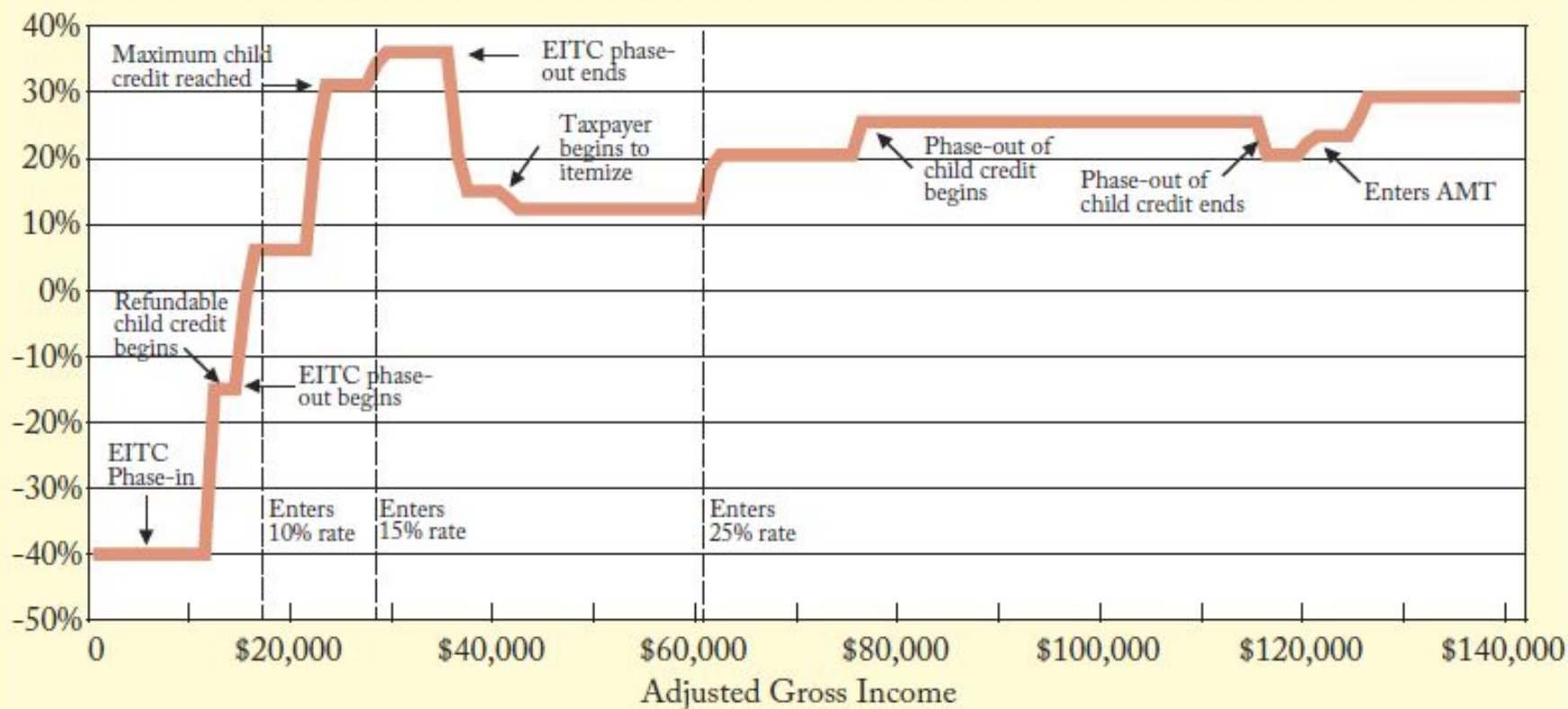
Table 7 Three Tax Systems

Income	Proportional Tax		Regressive Tax		Progressive Tax	
	Amount of Tax	Percent of Income	Amount of Tax	Percent of Income	Amount of Tax	Percent of Income
\$ 50,000	\$12,500	25%	\$15,000	30%	\$10,000	20%
100,000	25,000	25	25,000	25	25,000	25
200,000	50,000	25	40,000	20	60,000	30

Table 8 The Burden of Federal Taxes

Quintile	Average Income	Taxes as a Percent of Income	Percent of All Income	Percent of All Taxes
Lowest	\$11,400	5.3%	4.0%	0.9%
Second	28,600	12.8	9.0	5.2
Middle	45,100	16.7	13.9	10.4
Fourth	65,600	20.0	20.2	18.1
Highest	167,500	27.4	53.2	65.4
Top 1%	1,016,900	32.7	15.8	23.1

Figure 1.2. Marginal Effective Federal Income Tax Rates for Hypothetical Head of Household with Two Children in 2005



Федеральные налоги и сборы:

Налог на добавленную стоимость 18

Акцизы

Налог на доходы физических лиц 13

Соц. страховые взносы 22+2.9+5.1

Налог на прибыль организаций 20

Налог на добычу полезных ископаемых

Водный налог

Сборы за пользование объектами животного мира и за
пользование объектами водных биологических ресурсов

Государственная пошлина

Региональные налоги:

Налог на имущество организаций

Налог на игорный бизнес

Транспортный налог

Местные налоги:

Земельный налог

Налог на имущество физических лиц

Специальные налоговые режимы:

Единый сельскохозяйственный налог — ЕСХН

Упрощенная система налогообложения

Единый налог на вменённый доход

Система налогообложения при выполнении соглашений о разделе продукции

CASE STUDY: Horizontal Equity and the Marriage Tax

- Marriage affects the tax liability of a couple in that tax law treats a married couple as a single taxpayer.
- When a couple gets married, they stop paying taxes as individuals and start paying taxes as a family.
- If each has a similar income, their total tax liability rises when they get married.

Tax Incidence and Tax Equity

- The difficulty in formulating tax policy is balancing the often conflicting goals of *efficiency* and *equity*.
- The study of who bears the burden of taxes is central to evaluating tax equity.
- This study is called *tax incidence*.

Tax Incidence and Tax Equity

- Flypaper Theory of Tax Incidence
 - According to the *flypaper theory*, the burden of a tax, like a fly on flypaper, sticks wherever it first lands.
 - (this is wrong, of course)

Summary

- The U.S. government raises revenue using various taxes.
- Income taxes and payroll taxes raise the most revenue for the federal government.
- Sales taxes and property taxes raise the most revenue for the state and local governments.

Summary

- Equity and efficiency are the two most important goals of the tax system.
- The efficiency of a tax system refers to the costs it imposes on the taxpayers.
- The equity of a tax system concerns whether the tax burden is distributed fairly among the population.

Summary

- According to the benefits principle, it is fair for people to pay taxes based on the benefits they receive from the government.
- According to the ability-to-pay principle, it is fair for people to pay taxes on their capability to handle the financial burden.

Summary

- The distribution of tax burdens is not the same as the distribution of tax bills.
- Much of the debate over tax policy arises because people give different weights to the two goals of efficiency and equity.