

23. Other Taxes

Fiscal Policy and Inequality

3 December 2018

Outline

Land and Real Property Tax

Tariffs

Carbon Taxes

Luxury Taxes

Real Property Taxation

- ▶ Two major types:
 - ▶ “Property Tax”: based on rental value of property, or assessed market value
 - ▶ “Land Value Tax”: based on the site or land value, minus improvements

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 - ▶ “Property Tax”: based on rental value of property, or assessed market value
 - ▶ “Land Value Tax”: based on the site or land value, minus improvements
- ▶ Property taxes are the main source of revenue for local government.
 - ▶ These taxes fund local public goods and amenities, which then increase land value.

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 - ▶ But what about old/historic buildings?
- ▶ Evasion:
 - ▶ The value of buildings can be hidden (e.g., a big basement).
 - ▶ But full evasion is tricky because property cannot be hidden offshore –government can seize property in event of non-payment.

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- ▶ Therefore, elasticity of land value choices with respect to the tax are negligible.
- ▶ Also, fairness argument for taxing these gains from just owning land.

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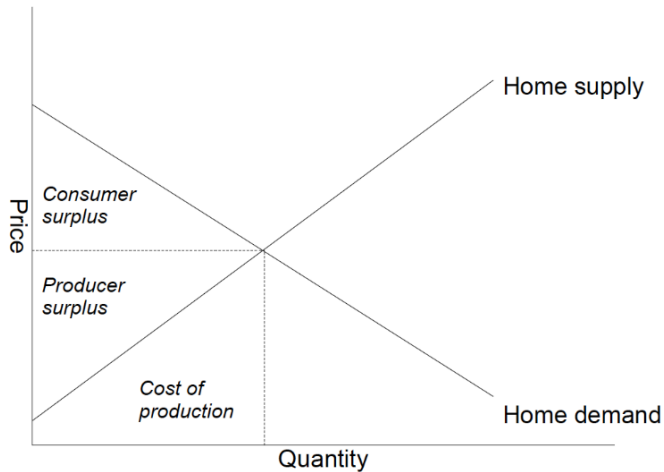
Land and Real Property Tax

Tariffs

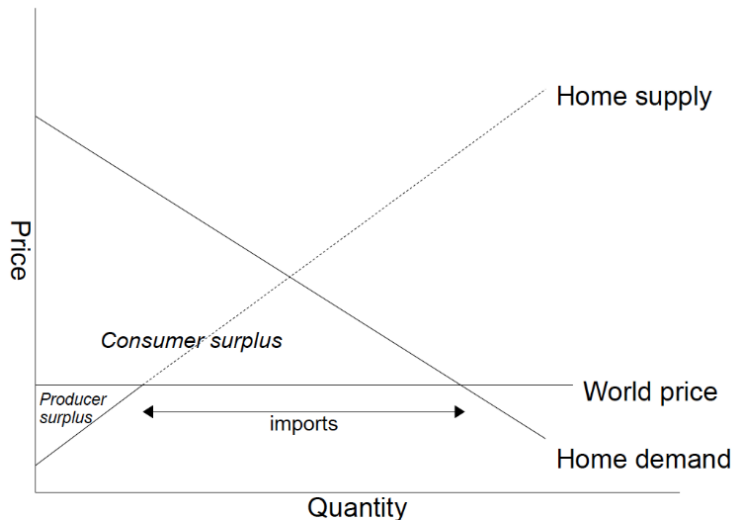
Carbon Taxes

Luxury Taxes

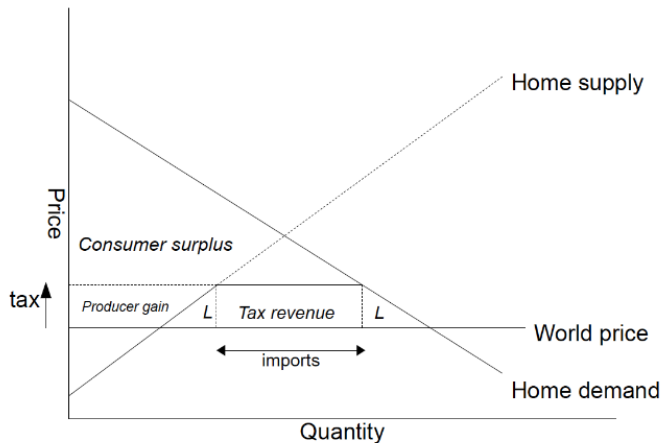
Autarky



Free Trade

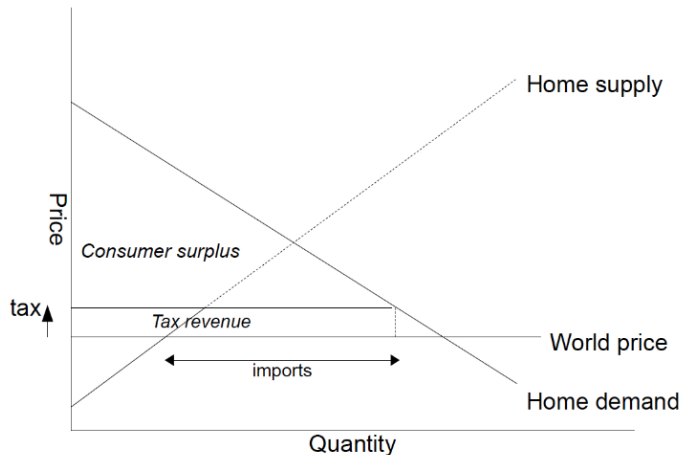


Tariffs



- $L+L$ = deadweight loss, optimal tariff is zero.

A Uniform Tax With Trade

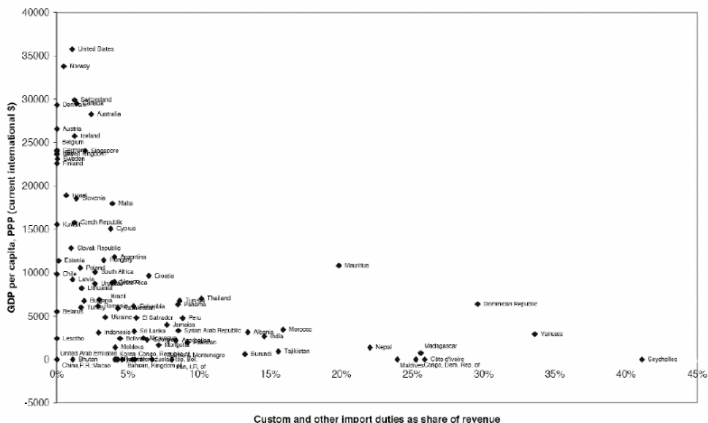


- ▶ Relative to tariff, a uniform tax has lower deadweight loss, higher consumer surplus, and lower producer surplus.

Then why tariffs?

- ▶ Inefficient compared to an excise tax
 - ▶ But may be easier to administer than other taxes (e.g., income tax), especially in developing countries
- ▶ Tariffs provided more than half of US government revenue 1870-1914 (Baack and Ray 1983)

Tariffs are used in developing countries



Source : OECD Secretariat's calculations based on IMF Government Finance Statistics and World Development Indicators. Customs and import duties and revenue refer to central government only, the reference period is the latest available year in period 1998-2003.

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 - ▶ And tariffs have low salience – small increased price of importable goods
- ▶ Low- and middle income consumers are hurt most by tariffs because they spend more on tradable goods, such as food and clothes (Fajgelbaum and Khandelwal 2016).

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Pigouvian Carbon Taxes

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- ▶ Other issues:
 - ▶ have to estimate elasticity of emissions with respect to the tax; current estimates are unreliable.
 - ▶ have to determine incidence of tax

Leading Carbon Tax Proposals

<u>Source</u>	<u>Initial tax,</u> <u>\$/tonCO2</u>	<u>Annual Tax</u> <u>Increment</u>	<u>Tax Rate in 10</u> <u>yrs</u>	<u>Tax Rate in 20</u> <u>yrs</u>	<u>Revenue treatment</u>
<u>Nordhaus</u>	<u>\$7.40</u>	<u>2 - 3%</u>	<u>\$9 - 11</u>	<u>\$11-13</u>	<u>offsets for poor,</u> <u>low-carbon energy</u> <u>R&D, assistance for</u> <u>LDCs</u>
<u>Metcalf</u>	<u>\$16.60</u>	<u>0</u>	<u>\$16.6</u>	<u>16.6</u>	<u>payroll tax shift</u>
<u>Shapiro</u>	<u>\$15</u>	<u>\$2</u>	<u>\$35</u>	<u>\$55</u>	<u>payroll tax shift</u>
<u>Carbon Tax</u> <u>Center</u>	<u>\$10</u>	<u>\$10</u>	<u>\$100</u>	<u>\$100-200</u>	<u>payroll tax</u> <u>shift/dividend</u>

- ▶ Estimated costs: \$1500 per year per household, which could be offset by cash transfers or tax cuts.

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- ▶ Redistribution:
 - ▶ in general more efficient to target high incomes directly through income taxes, rather than through luxury taxes.
- ▶ Evasion:
 - ▶ Easy for some luxuries (jewelry) but not others (cars, yachts, jets)

Positional Goods

- ▶ Choose:
 - ▶ A: you live in a 4,000 square foot house and others live in 6,000 square foot houses
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- ▶ The size of your house is *positional* – your relative position matters

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 - ▶ “Arms Race” for consumption
 - ▶ Related to Thorstein Veblen’s idea of “conspicuous consumption”
- ▶ The idea is that when consuming some goods, that has a negative externality on others by affecting their “social position” in some way.
 - ▶ E.g., I move to a new village and build a much bigger house than anyone else.

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 - ▶ and in particular, any goods with these status effects
 - ▶ e.g., progressive taxes on housing values
 - ▶ higher in the middle of a city than on a deserted island
- ▶ The optimal tax is still a Pigouvian tax, equal to the social marginal cost of the positional externality.