23. Other Taxes

Fiscal Policy and Inequality

3 December 2018

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
- Property taxes are the main source of revenue for local government.
  - These taxes fund local public goods and amenities, which then increase land value.

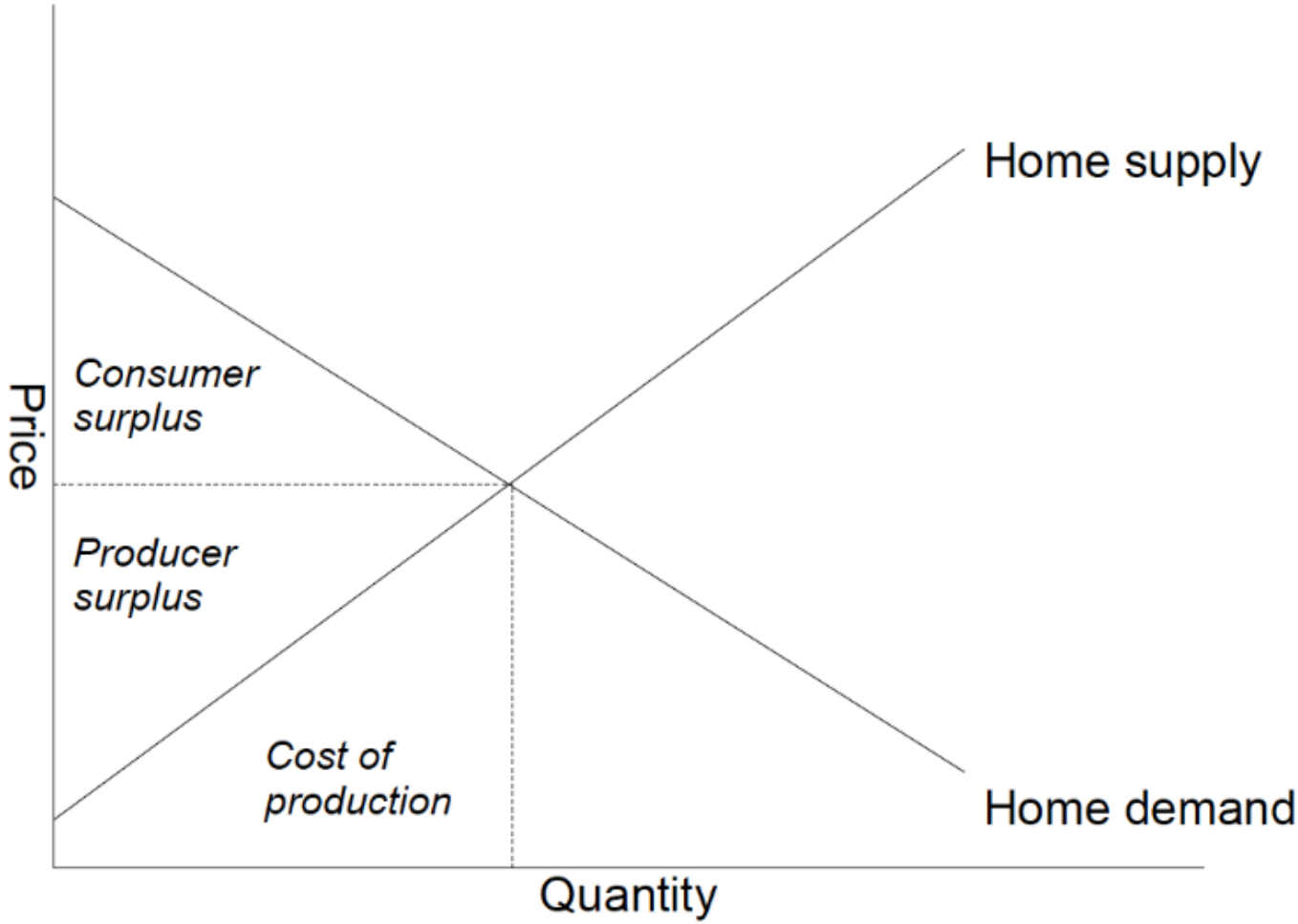
Measuring Property Value

- Property assessments are usually done by finding comparable arms-length market sales.
  - Often difficult, especially in rural areas where sales are rare and each land tract is unique.
- Without comps, can be done by assessing the particulars of the land (e.g. soil, trees, resources) and the buildings (houses, factories).
- Land value can be computed by the market value of the property, minus the replacement value of the buildings.
  - 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.

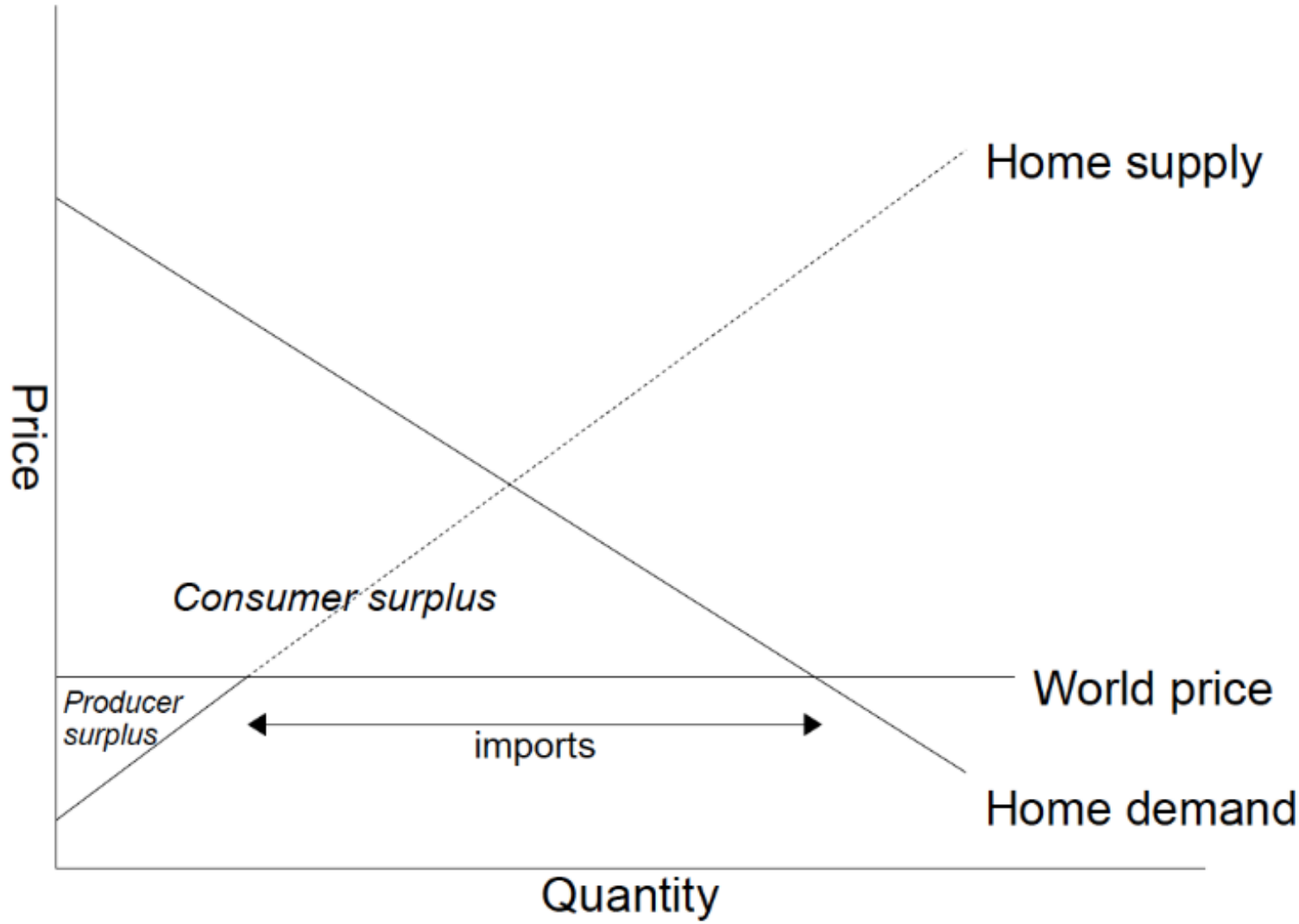
Land Rents

- Except permanent ecological improvements (which could be deducted), land value is determined by the actions of a whole community.
- The actions of an individual landowner have (in most cases) negligible impacts on land values.
- Therefore, elasticity of land value choices with respect to the tax are negligible.
- Also, fairness argument for taxing these gains from just owning land.

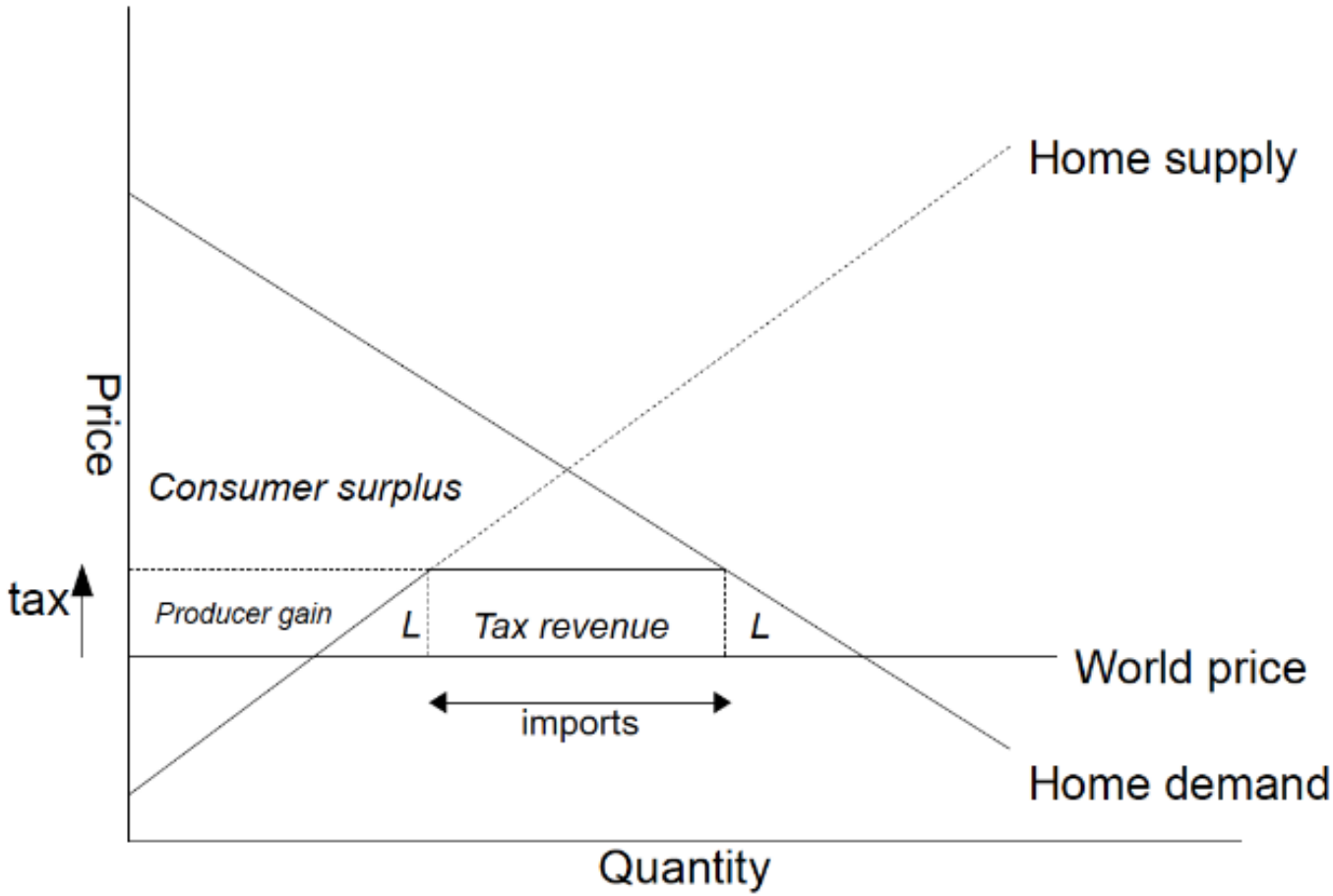
Autarky


Home supply
Consumer surplus
Price
Producer surplus
Cost of production
Home demand
Quantity

Free Trade

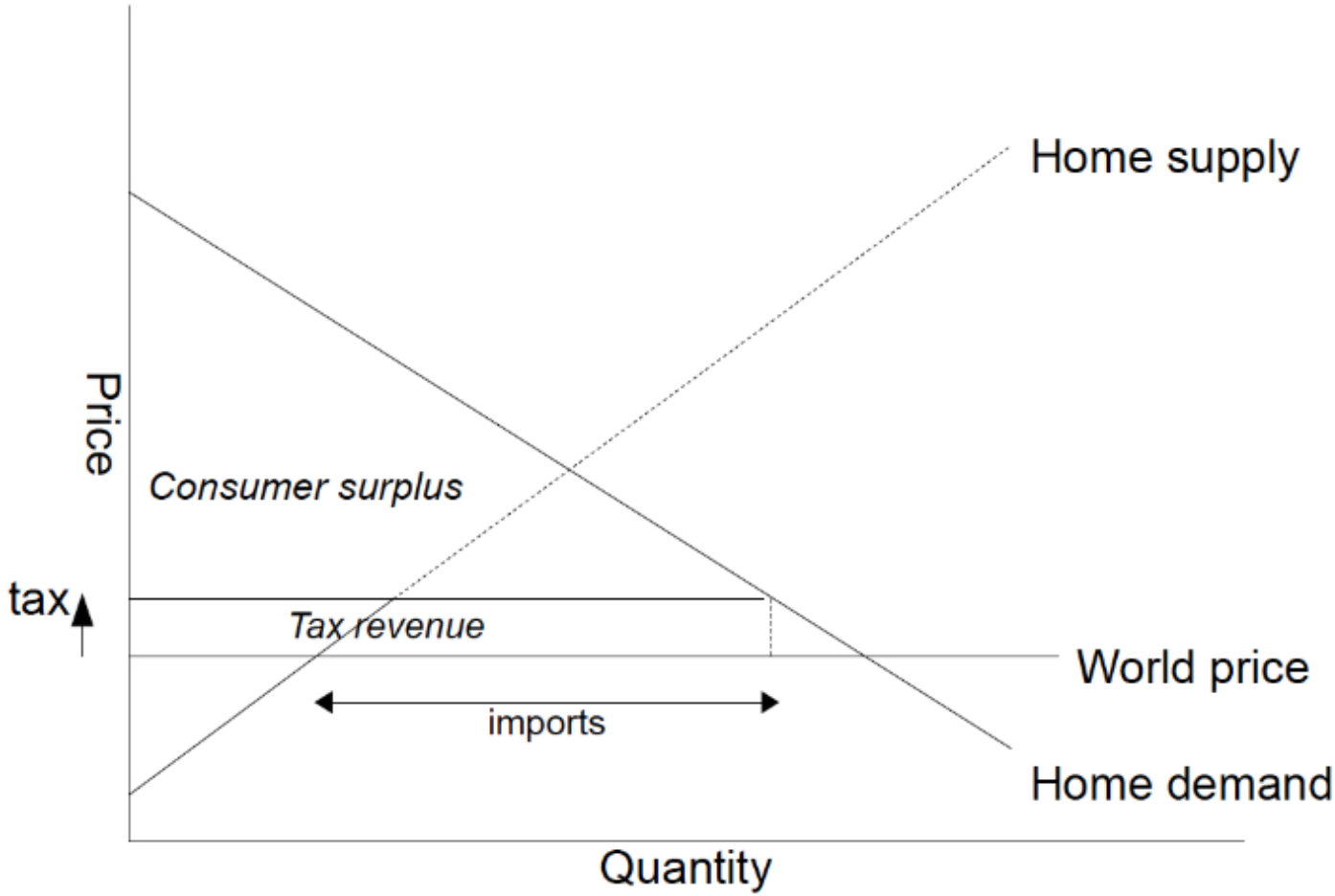

Home supply
Price
Consumer surplus
World price
Producer surplus
imports
Home demand
Quantity

Tariffs



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

A Uniform Tax With Trade

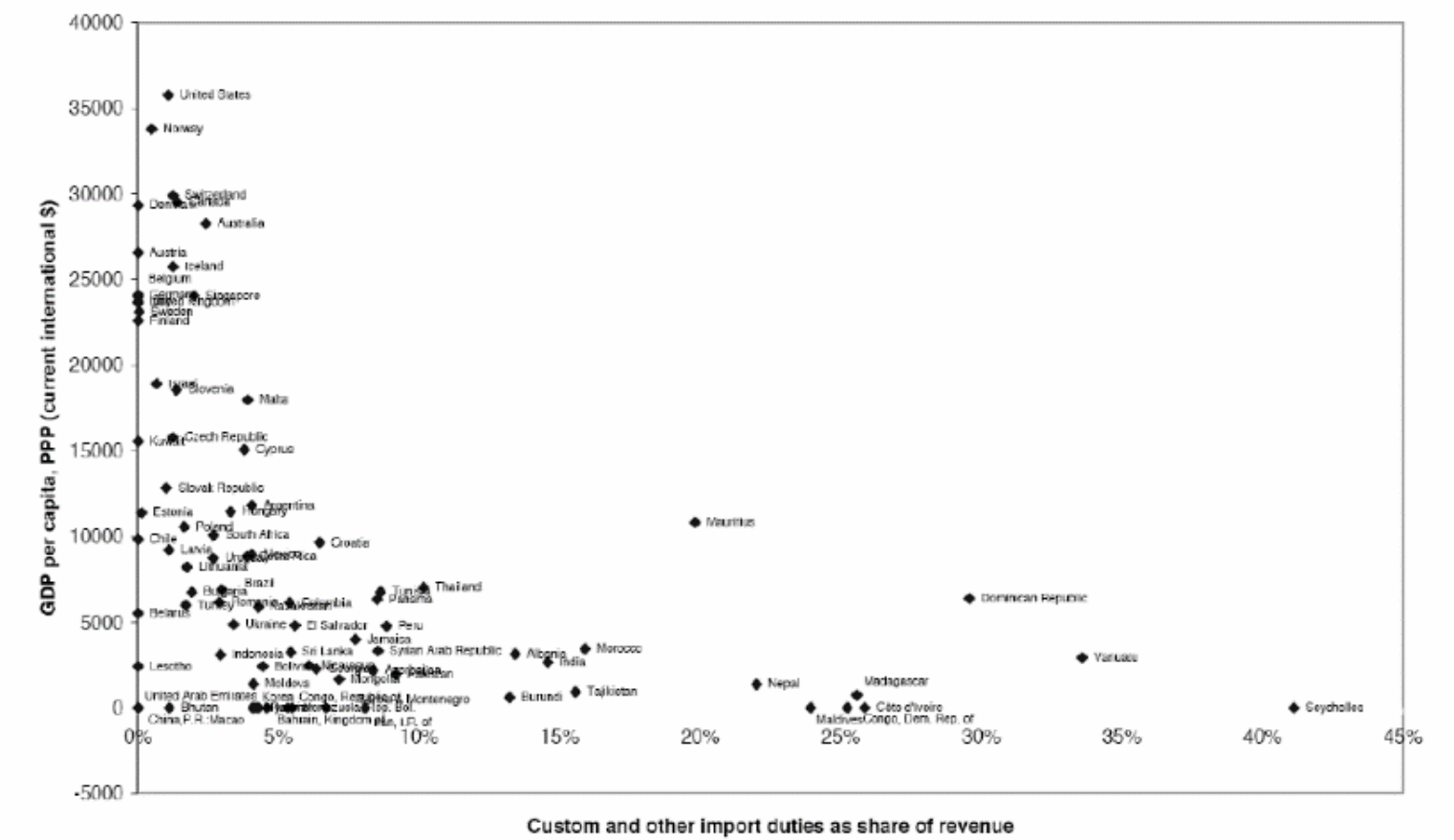


- Relative to tarrif, a uniform tax has lower deadweight loss, higher consumer surplus, and lower producer surplus.

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.

Tariff Politics and Incidence

- Tariffs benefit producers, but hurt the economy as a whole
  - Most direct cost of tariffs is to consumers of the protected good
- But producers are likely to be more organized politically than domestic consumers
  - Goldberg and Maggi (1999): industries that make larger political campaign contributions receive more import protection
  - 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).

Pigouvian Carbon Taxes

- The optimal tax on pollution (and any activities with negative externalities) is given by the social marginal cost of the activity
  - Incentivizes polluters to pollute only when the private marginal benefit of the activity exceeds the social marginal cost.
- The problem with applying this to carbon taxes is estimating the size of the externality, which presumably is many years away.
- 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

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

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

Luxury Taxes

- On a basic model, taxes on luxuries could be treated the same as any excise tax.
  - incidence analysis is the same as taxes on cigarettes, for example.
- 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
  - B: you live in a 3,000 square foot house and others live in 2,000 square foot houses
- Choose:
  - A: you have four weeks a year of vacation time and others have six weeks.
  - B: you have two weeks a year of vacation time and others have one week.
- The size of your house is *positional* – your relative position matters

Positional Externalities

- Robert Frank (2005) introduces the interesting idea of a positional externality:
  - "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.

Positional Externalities→Luxury Tax

- Positional externalities justify taxes on luxuries:
  - 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.