

# Public's Tax Preferences and Self-Interest

## *Literature Survey*

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The two research questions that this study aims to answer are: (1) do people prefer tax structures that favor them? And (2) do they change their preferences when 'nudged' about the importance of government spending? The existing literature in the field mostly comprises of surveys that have been conducted to understand the public's opinion, perception, and aspirations for tax.

One category of studies focusses on exploring public satisfaction with taxes and government studies. Citrin, 1979 [1] finds that most respondents have the opinion that they pay higher than average tax. But concurrently, they also demand more spending and services from the government. The anti-tax sentiments varied with respect to three factors. First, imparting information about government cutting when taxes are low decreased the sentiment. Second, the sentiment was stronger when direct taxes were raised as compared to invisible taxes. Negative beliefs about the government's efficiency also invoked a stronger negative sentiment. Another study by the Pew Research Center (2011) [4] reveals that about half the American population feels that they are paying the right amount of taxes. But a majority (~60%) feel dissatisfied with the current tax structure.

Beck and Dye, 1982 [2] and Beck et al [5] measure the public attitude towards taxation in Florida. These studies are interesting because Florida is one of the states implementing a lower and more regressive tax structure in the USA. Beck and Dye, 1982 [2] finds that most people in Florida were satisfied with all taxes except the federal taxes. Anti-tax sentiments were mostly fueled by beliefs

about inefficient governance, low trust in the government, and lower levels of dependence on public services. Beck et al [5] find that a majority (~50%) find taxes to be too high but are satisfied with public services. The majority also preferred paying more taxes over sacrificing public goods.

These studies reveal that there is a general dissatisfaction with taxes and most studies only look at anti-tax behavior. It is also clear that most respondents do not keep government spending in mind while choosing their preferred tax levels. Pro-tax behavior has not been considered in these studies. There are several reports of individuals wanting to pay more taxes [9], [10], [11] and this behavior has not been studied. In addition, since tax knowledge is low among individuals, it has not been studied how an informed person might respond to tax raises.

Growing inequality has sparked numerous debates about what a more equitable tax structure should look like. So quite unsurprisingly, several studies survey the support for progressive tax structures. Ballard-Rosa et al (2017) [7] finds interesting trends in American's support for progressive taxation. There was strong disapproval for tax plans that taxed the poor heavily. But although on average respondents approved taxing the rich more, there was no significant difference in support between tax brackets that assigned values ranging from 25% to 50% for the rich. So, there was a majority agreement on the existence of inequality and people preferred less tax on the poor but flat tax on the rich. Overall most people preferred tax structures that raised less total revenue than the existing tax structure. A treatment group was 'nudged' by being shown a rough estimate of the dip in revenue from the new tax plan. These respondents preferred structures that raised more revenue than the control group but even their preferred tax structure raised less revenue than the existing structure. Robert et al (1994) [6] finds that most people support the idea of a progressive tax structure. But when presented with tax brackets and rates, most people pick a flat/regressive tax structure.

Gaines, 2017 [8] compiles the results of a group of surveys about American's public opinion on taxes. One study finds that although many Americans believe the rich do not pay enough taxes, the estimate the 'fair' tax for the rich to be lower than the current structure. In another study, respondents were asked to pick a tax structure, and then they were shown the rough estimate for the revenue raised. Most respondents who picked a tax structure with lower revenues voted to cut government spending followed by taxing the rich to make up for the shortage. When forced to pick a tax structure that raised a minimum revenue, the average respondent raised the taxes everyone except for the poor population. Another study found that an average American felt that a fair lottery tax should be 15%, whereas it was 35% not including state taxes. These studies also reinforce the fact that most respondents do not keep government revenues in mind while choosing their favorable tax. It also translates that general knowledge about the tax rates for different brackets and progressive taxation is lacking.

Several studies also outline the role of demographics in tax preference. Citrin, 1979 [1] found that tax preferences varied over various demographics. White, homeowners, and Republicans were more likely to support tax cuts than black, renters, and Democrats. McGee et al 2019 [3] show that several factors like age, gender, education, income, religion, country, etc. played a role in determining an individual's tax preference. Ballard-Rosa et al (2017) [7] show that democrats and republicans both on average prefer a progressive structure, but Republicans preferred an overall less tax. Republicans support a high tax on the rich, but this support was lower than the support from Democrats.

Self-interest is another aspect that has been mentioned in two studies. Beck et al [5] also find that people's tax preferences are motivated by self-interest. Majority Florida residents preferred raising taxes that do not affect them such as taxing new homeowners in the area. In Ballard-Rosa et al

(2017) [7] the respondents also exhibited self-interest. On average, they preferred structures assigning lesser tax on their income bracket. But neither of the two studies touches on possible pro-tax behavior in certain individuals.

Previous studies have shown that most people do not understand the repercussions of a tax cut. They have also shown the general lack of knowledge of the public with respect to the existing tax structure. In our study, we aim to ‘nudge’ the respondents with an informational video about the current structure and how taxation works. We also propose encouraging the respondents into picking a higher tax by showing them the implicated revenue generated through the preferred tax structure. All the previous studies have used an approximate simulation to compute the generate revenue. But in this study, we use a much more detailed open source tax calculator to obtain a more robust response from the respondents.

- [1] Citrin, “[Do people want something for nothing: Public opinion on taxes and government spending](#)”, National Tax Journal, (June 1979).
- [2] Beck, Dye, “[Sources of public opinion on taxes: the Florida case](#)”, Journal of Politics (1982).
- [3] McGee, Benk, Yuzbasi, “[Should Governments Tax the Rich and Subsidize the Poor? A Comparative Study of Muslim and Christian Respondents](#)”, Religions (2019).
- [4] “[Tax system seem as unfair, in need of overhaul](#)”, Pew Research Center (2011).
- [5] Beck, Rainey, Nicholls, Traut, “[Citizen views of taxes and services: a tale of three cities](#)”, Social Science Quarterly (1987).
- [6] Roberts, Hite, Bradley, “[Understanding Attitudes Toward Progressive Taxation](#)”, Public Opinion Quarterly, pages 165-190 (Jan, 1994).

- [7] Ballard-Rosa, Martin, Scheve, “[The Structure of American Income Tax Policy Preferences](#)”, Journal of Politics, (Jan, 2017).
- [8] Gaines, “[Flat is fair, American public opinion on taxes and the myth of egalitarianism](#)”, The Independent Review, (2017).
- [9] Ghilarducci, “[Why some of the rich want to pay more taxes](#)”, Forbes (Feb 11, 2019). Retrieved from <http://www.forbes.com>.
- [10] Zaretsky, Renu, “[Why Do Taxpayers Leave Money on the Table?](#)” TaxVox: Individual Taxes article, Tax Policy Center, Urban Institute and Brookings Institution (May 6, 2015).
- [11] Clifford, “[Billionaire Ray Dalio: ‘Of course’ rich people like me should pay more taxes](#)”, CNBC (Apr 8, 2019). Retrieved from <http://www.cnbc.com>.