Tax Policy and Public Finance: Introduction

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Some Basic Concepts

• Key elements of tax bases
  – Income
  – Consumption
  – Wealth

• Related, via Haig-Simons income definition:
  – Income = consumption plus accretions to wealth
Defining Consumption and Wealth

• Many questions of classification; e.g.,
  – Medical expenses
  – Gifts and bequests
  – Tax payments for state and local government services
  – Is “human capital” part of wealth?
How Do We Tax Income?

• Annual calculation
• Realization based for both wage and salary income and capital income (but with exceptions)
• Ignore some components of income, notably imputed rent on housing and consumer durables
Note: "Federal Other" includes federal estate taxes, gift taxes, and custom duties. Excludes Federal nontaxes. "Social Insurance" includes Employer, Employee and Self-Employed Contributions at the Federal, State and Local levels.
Source: Bureau of Economic Analysis, National Income and Product Accounts, Annual Tables 1.1.5, 3.2, 3.3, 3.6.
http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1
| Country            | Total Tax Receipts as Share of GDP |
|--------------------|-----------------------------------|
| Denmark            | 46.3%                             |
| France             | 45.4%                             |
| Belgium            | 42.9%                             |
| Sweden             | 42.9%                             |
| Italy              | 42.5%                             |
| Austria            | 42.4%                             |
| Finland            | 42.2%                             |
| Norway             | 39.9%                             |
| Netherlands        | 39.3%                             |
| Luxembourg         | 39.2%                             |
| Germany            | 38.8%                             |
| Greece             | 38.7%                             |
| Slovenia           | 37.7%                             |
| Iceland            | 36.1%                             |
| Hungary            | 35.8%                             |
| Poland             | 35.4%                             |
| Czech Republic     | 34.9%                             |
| Portugal           | 34.8%                             |
| Slovak Republic    | 34.7%                             |
| Spain              | 34.7%                             |
| Canada             | 33.5%                             |
| Estonia            | 33.1%                             |
| United Kingdom     | 33.0%                             |
| New Zealand        | 32.3%                             |
| Japan              | 32.0%                             |
| Latvia             | 31.2%                             |
| Israel             | 30.5%                             |
| Lithuania          | 30.3%                             |
| Australia          | 28.7%                             |
| Switzerland        | 28.5%                             |
| South Korea        | 27.4%                             |
| United States      | 24.5%                             |
| Turkey             | 23.1%                             |
| Ireland            | 22.7%                             |
| Chile              | 20.7%                             |
| Mexico             | 16.5%                             |
| OECD - Unweighted average | 33.8%   |
| OECD - Weighted Average | 33.7%   |
| Country            | Personal income tax | Corporate income tax | Social Security contributions | Taxes on property, estates, and gifts | Taxes on goods and services | Other |
|--------------------|---------------------|----------------------|-------------------------------|--------------------------------------|-------------------------------|-------|
|                    |                     |                      | Employees | Employers |                           |                               |       |
| Australia          | 41%                 | 19%                  | 0%        | 0%        | 10%                          | 25%                           | 5%    |
| Austria            | 23%                 | 6%                   | 14%       | 16%       | 1%                           | 28%                           | 12%   |
| Belgium            | 27%                 | 9%                   | 9%        | 18%       | 8%                           | 26%                           | 3%    |
| Canada             | 37%                 | 11%                  | 6%        | 8%        | 12%                          | 23%                           | 4%    |
| Chile              | 7%                  | 23%                  | 7%        | 0%        | 5%                           | 53%                           | 4%    |
| Czech Republic     | 13%                 | 10%                  | 9%        | 28%       | 1%                           | 32%                           | 7%    |
| Denmark            | 52%                 | 7%                   | 0%        | 0%        | 4%                           | 30%                           | 6%    |
| Estonia            | 16%                 | 5%                   | 1%        | 33%       | 1%                           | 42%                           | 0%    |
| Finland            | 29%                 | 6%                   | 8%        | 18%       | 3%                           | 34%                           | 2%    |
| France             | 21%                 | 5%                   | 8%        | 22%       | 9%                           | 27%                           | 8%    |
| Germany            | 27%                 | 5%                   | 16%       | 18%       | 3%                           | 27%                           | 4%    |
| Greece             | 16%                 | 6%                   | 17%       | 13%       | 8%                           | 39%                           | 1%    |
| Hungary            | 14%                 | 2%                   | 16%       | 16%       | 3%                           | 45%                           | 3%    |
| Iceland            | 41%                 | 6%                   | 0%        | 0%        | 6%                           | 33%                           | 15%   |
| Ireland            | 31%                 | 14%                  | 6%        | 11%       | 6%                           | 31%                           | 2%    |
| Israel             | 21%                 | 10%                  | 5%        | 10%       | 10%                          | 36%                           | 8%    |
| Italy              | 26%                 | 5%                   | 6%        | 21%       | 6%                           | 26%                           | 9%    |
| Japan              | 19%                 | 13%                  | 19%       | 19%       | 0%                           | 20%                           | 3%    |
| South Korea        | 18%                 | 16%                  | 12%       | 12%       | 11%                          | 25%                           | 6%    |
| Latvia             | 21%                 | 0%                   | 10%       | 20%       | 3%                           | 45%                           | 0%    |
| Lithuania          | 23%                 | 5%                   | 24%       | 2%        | 1%                           | 38%                           | 5%    |
| Luxembourg         | 24%                 | 15%                  | 13%       | 11%       | 10%                          | 24%                           | 4%    |
| Mexico             | 21%                 | 21%                  | 0%        | 0%        | 2%                           | 36%                           | 19%   |
| Netherlands        | 22%                 | 9%                   | 13%       | 14%       | 4%                           | 31%                           | 8%    |
| New Zealand        | 40%                 | 12%                  | 0%        | 0%        | 6%                           | 39%                           | 3%    |
| Norway             | 26%                 | 14%                  | 9%        | 16%       | 3%                           | 30%                           | 2%    |
| Poland             | 15%                 | 0%                   | 0%        | 0%        | 4%                           | 24%                           | 51%   |
| Portugal           | 18%                 | 9%                   | 11%       | 17%       | 4%                           | 40%                           | 1%    |
| Slovak Republic    | 11%                 | 9%                   | 11%       | 26%       | 1%                           | 35%                           | 7%    |
| Slovenia           | 14%                 | 6%                   | 23%       | 15%       | 2%                           | 36%                           | 4%    |
| Spain              | 23%                 | 6%                   | 5%        | 26%       | 7%                           | 29%                           | 4%    |
| Sweden             | 29%                 | 7%                   | 6%        | 15%       | 2%                           | 26%                           | 13%   |
| Switzerland        | 31%                 | 11%                  | 11%       | 11%       | 7%                           | 21%                           | 8%    |
| Turkey             | 16%                 | 8%                   | 12%       | 18%       | 4%                           | 39%                           | 3%    |
| United Kingdom     | 28%                 | 8%                   | 8%        | 11%       | 12%                          | 33%                           | 1%    |
| United States      | 41%                 | 4%                   | 11%       | 12%       | 12%                          | 18%                           | 1%    |
| OECD - Total (excluding US) | 25% | 9% | 10% | 15% | 7% | 27% | 6% |
Tax Units That Pay No Federal Income Tax

2018

| Pay Payroll Tax | Pay No Payroll Tax |
|----------------|-------------------|
| Positive Total Tax | Zero or Negative Total Tax |
| 20%                 | 9%                  |
| 16%                 |                     |

Source: Tax Units with Zero or Negative Income Tax Under Current Law, 2011-2028.

Notes: Percentages do not sum to 100 because of rounding.

1 Total tax refers to the sum of federal income and payroll taxes.