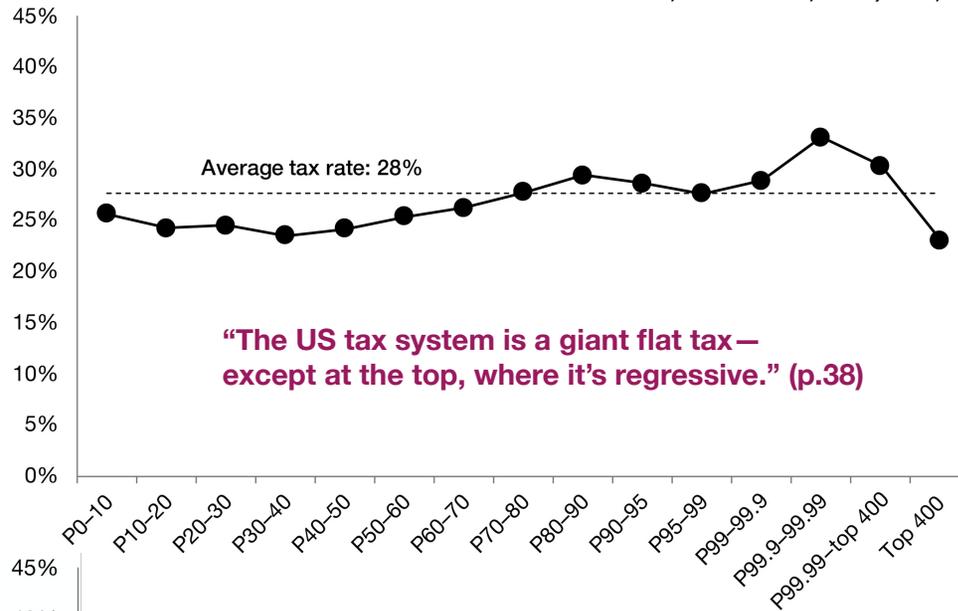


Normative Analysis of Taxation

Wealth, Income, Payroll, Consumption

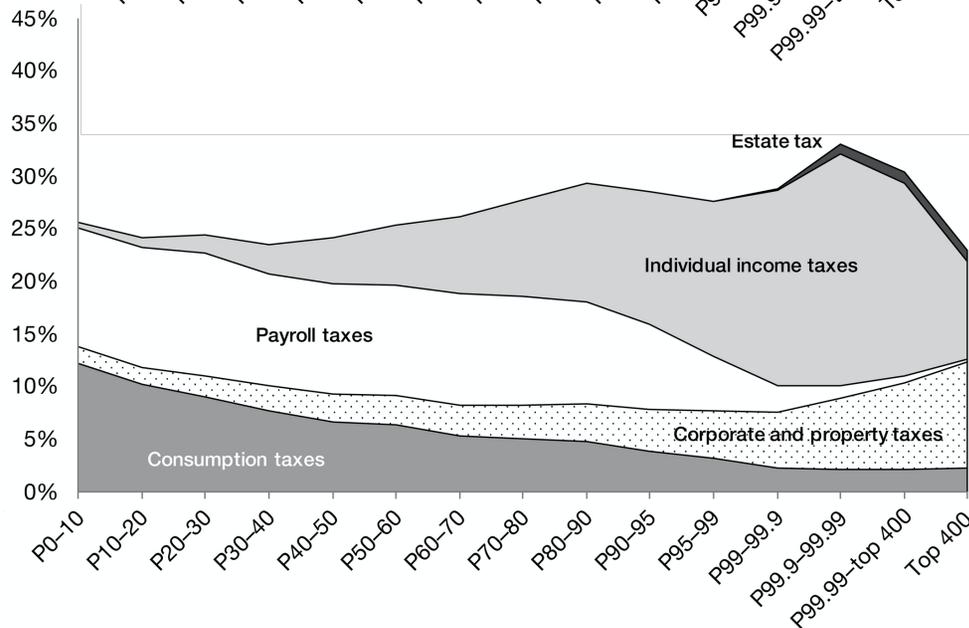


“The US tax system is a giant flat tax— except at the top, where it’s regressive.” (p.38)

Average Tax Rate by Income Distribution Percentile (bottom 10% to top 400 individuals)

“The figure depicts the average tax rate by income groups in 2018. All federal, state, and local taxes are included. Taxes are expressed as a fraction of pre-tax income. P0–10 denotes the bottom 10% of the income distribution, P10–20 the next 10%, etc. Taking all taxes together, the US tax system looks like a giant flat tax with similar tax rates across income groups but with lower tax rates at the very top. Complete details at taxjusticenow.org.”

(Saez and Zucman, 2019, p.40)



Composition of Taxes (consumption, income, wealth) for each Income Group

“The figure depicts the average tax rate by income group and its composition by type of tax in 2018. All federal, state, and local taxes are included. Tax rates are expressed as a fraction of pre-tax income. The working class pays almost as much as the middle class and the rich because of regressive consumption taxes and payroll taxes. The super-rich pay less than other groups because most of their income is not subject to taxation. Complete details at taxjusticenow.org.”

(Saez and Zucman, 2019, p.43)

Progressive Taxes, Regressive Taxes

“Since their inception, progressive taxes have had a core purpose: to offset the regressivity of consumption taxes, thereby making taxation socially acceptable. [...] today’s income tax largely fails to achieve these goals, for three key reasons” (p.45-47)

1. Most of the income of billionaires is not subject to the personal income tax
2. Corporate taxes are quite small (due to the Trump tax cut and because of profit-shifting overseas)
3. Federal individual income tax has morphed from treating income from capital and labor equally, to favoring income from capital

Explanation for reason # 3: “the federal income tax is supposed to draw on all income, whether it derives from working (wages) or from owning capital (interest, dividends, capital gains, etc.)” - under Trump, the way the federal income tax is structured changed to favor income from capital over income from labor - basically, companies could deduct 2.5% of capital stock without factoring in depreciation - capped at 20% of their income.

“Broadly speaking, taxes in the United States—like in most other developed countries—can be grouped into four buckets:

1. individual income taxes,
2. payroll taxes,
3. capital taxes,
4. consumption taxes.” (p.30)

Questions to think about and discuss:

- * What are taxes for?
- * How should taxes be split
- * Should there be regressive taxes? progressive taxes?
- * How do you determine what fair taxes are?
- * Is the culture of tax dodging good? e.g. is it smart if you can use loopholes to lower your taxes?

