Law 136. Tax Law and the Democratic State

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I. Overview

This class will examine several issues important in the role of taxation in society. We will focus on the legal, political, and economic challenges in raising revenue to support government operations and the allocation of the tax burden among individuals. Students will be asked to write three 5-7 page papers over the winter term.

The main text for this class is Slemrod & Bakija, *Taxing Ourselves: A Citizen’s Guide to the Debate over Taxes* (4th Ed. 2008). It can be purchased through Amazon at the following link:


II. Class Readings

1. Institutions and Overview (January 3 and 5)

   a. Role of institutions
   b. Historical perspective
   c. Overview of US tax system

Reading:

Olson, Big *Bills Left on the Sidewalk: Why Some Nations are Rich, and Others Poor*, 10 J. of Econ. Persp. 3 (1996). (Jan. 3).


2. Fairness and Concepts of Income (January 10 and 12)
a. Concepts of equity
b. Concepts of income
c. Taxation of non-cash compensation
d. Taxation of gifts

Readings:


Benaglia v. Commissioner
Commissioner v. Duberstein
United States v. Harris

Code Sections 61(a); 102; and 119 (Jan. 12)

3. **The Relationship of Inequality and Taxation (January 17 and 19)**

   a. Inequality
   b. Taxation and redistribution
   c. Inequality and taxation
   d. Writing Assignment No. 1---Sumo Wrestling in Pasadena (Jan. 19)

Readings:


4. **Spending through the Tax System: Tax Expenditures and Personal Deductions (January 24 and 26)**

   a. Concept of tax expenditures
   b. Personal deductions

Readings:

Article on Tax Expenditures (JCT Report)
Blackman v. Commissioner
Chamales v. Commissioner
Pevsner v. Commissioner
Ochs v. Commissioner

Code Sections 165(a), (b), (c) and (h) and 213

Ottawa Silica Co. v. United States
Bob Jones University v. United States

Code Section Sections 170(a)(1)(b),(c),(e)(1) and 501(c)(3)

5. Taxation and Growth (January 31 and February 2)

a. Economic development and inequality
b. Inequality and savings
c. Growth and earnings inequality

Readings:

Eisner v. Macomber
Helvering v. Bruun
Encyclopaedia Britannica v. Commissioner

6. The Welfare State (February 7 and 9)

a. Comparing US and Western Europe
b. Social Security
c. Taxes and health care reform
d. Writing Assignment No. 2—Private Accounts in Social Security (Feb. 9)

Readings:


[Article on taxes and health care reform]

7. **Taxes and the State (February 14 and 16)**
   
   a. Taxes and local government  
   b. Taxes and democracy

*Reading:*


8. **Tax Avoidance and Evasion (February 21 and 23)**
   
   a. Economics of tax evasion  
   b. Different types of tax noncompliance  
   c. Measuring tax evasion

*Reading:*


Tax shelter cases

Code Sections

9. **Taxes and Globalization (February 28 and March 1)**
   
   a. Possible responses to globalization  
   b. Tax competition  
   c. Challenges to traditional tax bases
Readings:


10. Tax Reform Options (March 6 and 10)

   a. Revising the current income tax system
   b. Consumption tax alternatives
      i. Retail Sales Tax and VAT
      ii. Flat Taxes
      iii. USA Tax
   c. Tax Reform Proposals of Past and Present Presidential Candidates
   d. Writing Assignment No. 3—When and how should the US reform its tax system? (March 10)

Readings:


Rick Perry Tax Proposal: The Flat Tax Alternative

Herb Cain’s Tax Proposal: The 9-9-9 Plan