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**Mr. Zolt                      California Institute of Technology                      Spring 2012**

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## **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* (4<sup>th</sup> Ed. 2008). It can be purchased through Amazon at the following link:

<http://www.amazon.com/Taxing-Ourselves-4th-Citizens-Debate/dp/0262693631>.

### **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).

Brownlee, *Introduction and The Formative Tax Regime 1789-1916*, pages 1-46 in *Federal Taxation in America: A Short History* (1996).

Slemrod & Bakija, *Taxing Ourselves: A Citizen's Guide to the Debate over Taxes*. Chapt. 2, *An Overview of the U.S. Tax System*, pages 13-55 (4<sup>th</sup> Ed. 2008). (Jan 5).

#### **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:*

Slemrod & Bakija, *Taxing Ourselves*, Chapt. 3, *Fairness*, pages 57-98. (Jan. 10)

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:*

Rosen, *Income Tax Progressivity: A Century Old Debate*, Business Review (1990).

Karoly, *Trends in Income Inequality: The Impact of, and Implications for, Tax Policy*, in *Tax Progressivity and Income Inequality*, 95-129 (1994). (Jan. 17)

Krueger, *Inequality, Too Much of a Good Thing*, pages 1-75, in *Inequality in America* (2003)

Sokoloff & Zolt, *Inequality and Taxation: Evidence from the Americas on How Inequality May Influence Tax Institutions*, 59 Tax L. Rev. 167 (2006). (Jan. 19)

**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  
Chamale 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:*

Slemrod & Bakija, *Taxing Ourselves*, Chapt. 4, *Taxes and Economic Prosperity*, pages 99-157.

Aghion, Caroli & Garcia-Penalosa, *Inequality and Economic Growth: The Perspective of the New Growth Theories*, 37 J. of Econ. Lit. 1615-60 (1999).

Barro, *Inequality, Growth and Investment*, in *Inequality and Tax Policy*, 1-38 (2001).

Eisner v. Macomber  
Helfer 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:*

Alesina, Glaeser, & Sacerdote, *Why Doesn't the US have a European-Style Welfare State*, 2 Brookings Papers on Economic Activity, pages 187-247 (2001).

Report of the President's Commission to Strengthen Social Security (Dec. 2001).

Aaron, Blinder, Munnell & Orszag, Perspectives on the Draft Interim Report on the President's Commission to Strengthen Social Security (July 2001).

[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:*

Tiebout, *A Pure Theory of Local Expenditures*, 64 J. of Pol. Econ. 414 (1956).

Ross, *Does Taxation Lead to Representation*, 34 British J. of Pol. Sci. 229-249 (2004).

## **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:*

Andreoni, Erard & Feinstein, *Tax Compliance*, 36 J. of Econ. Lit. 818 (1998).

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:*

McLure, *Globalization, Tax Rules and National Sovereignty*, IBFD 328-341 (Aug. 2001).

Hines & Summers, *How Globalization Affects Tax Design*, 23 *Tax Policy and the Economy* 123 (2009).

***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:*

Slemrod & Bakija, *Taxing Ourselves*, Chapt. 7, *What are the Alternatives?* pages 231-268.

Rick Perry Tax Proposal: The Flat Tax Alternative

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