

Are tax reforms monotonic?

Argue that the answer is “yes”, but with qualifications.

Three approaches in the paper

- 1 OECD-Data, changes of statutory tax rates in 33 OECD countries for the years 2000-2016.
- 2 Reforms of the federal income tax in the US: Tax return micro data \times NBER Taxsim
- 3 Proposals that were part of political campaigns in the US, using data of the Tax Policy Center.

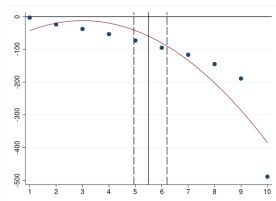
In the following, focus on reforms of the US federal income tax.

Approach

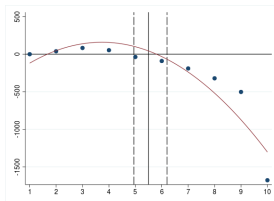
- Construct a (counterfactual) measure of the change in a taxpayer's tax burden that is only due to the reform.
- Example: TRA86, phased in between 1985 and 1988. Let T_0 be the tax system in 1985 and T_1 be the tax system in 1988.
- We observe any i 's pre-tax income y_0^i , and all further characteristics relevant to compute the i 's tax burden in 1985.
- We then use TAXSIM to calculate the person's tax payment $T_0(y_0^i)$.
- To account for the fact that T_1 becomes effective three years later, we compute an inflation-adjusted version of y_0^i , denoted by \hat{y}_0^i .
- Our measure of the reform induced change of the person's tax burden is then $T_1(\hat{y}_0^i) - T_0(y_0^i)$.

Type I (monotonic) reforms (by decile)

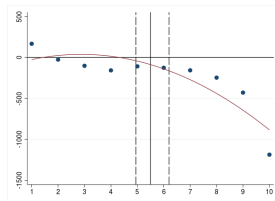
(a) RA64



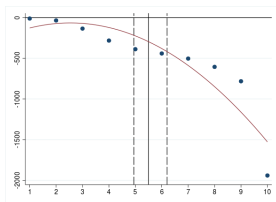
(b) ERTA81



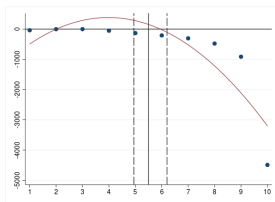
(c) TRA86



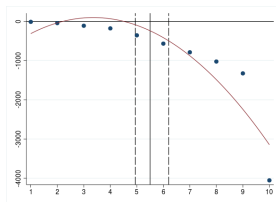
(d) EGTRRA01



(e) JGTRRA03

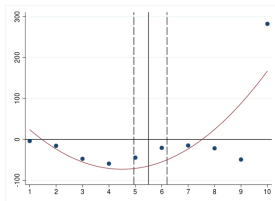


(f) TCJA17

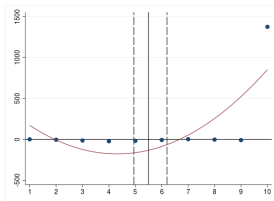


Type II (v-shaped) reforms (by decile)

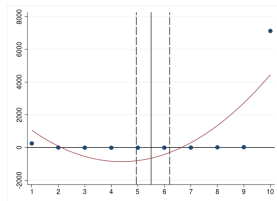
(a) OBRA90



(b) OBRA93



(c) ATRA12



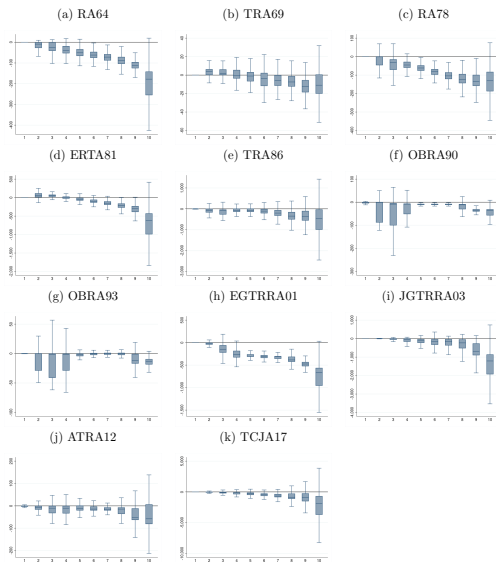
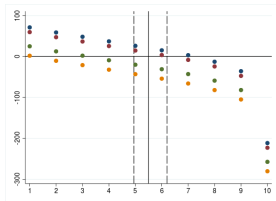


Figure 3: Changes in tax liability: Heterogeneity within deciles

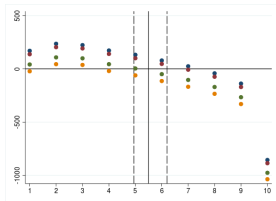
Was there majority support? Did the median voter gain?

- Look at reform winners and losers by decile. Was there majority support?
 - Does the median voter theorem hold in the data? (Enough monotonicity for our theory to apply?)
- ⇒ Relate support by voters with close to median income to majority support in the population large.

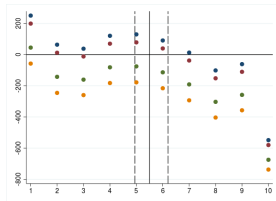
(a) RA64



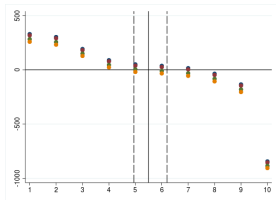
(b) ERTA81



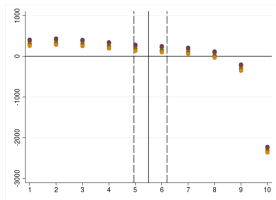
(c) TRA86



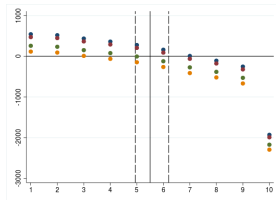
(d) EGTRRA01



(e) JGTRRA03

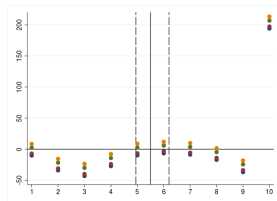


(f) TCJA17

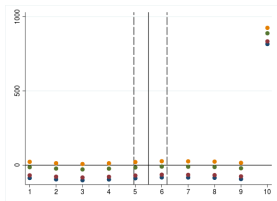


Type II (v-shaped) reforms (by decile)

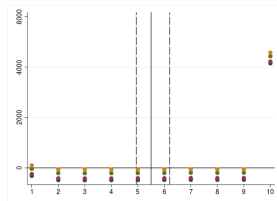
(a) OBRA90



(b) OBRA93



(c) ATRA12



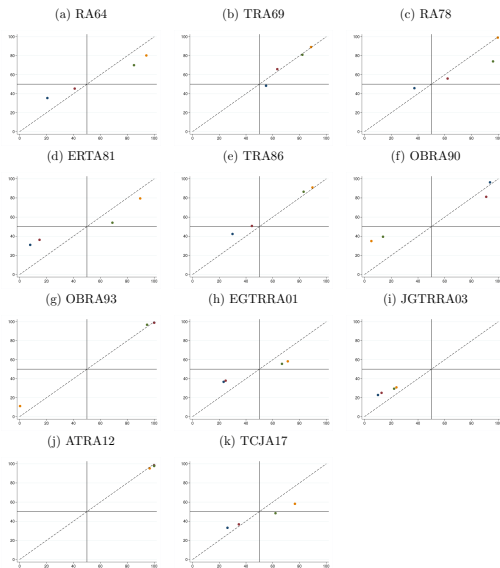


Figure 6: Majority support versus support by the median voter