

Public Policy 290 – Introduction to Tax Policy

Lecture 2: The US tax system: who pays what?

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Roadmap

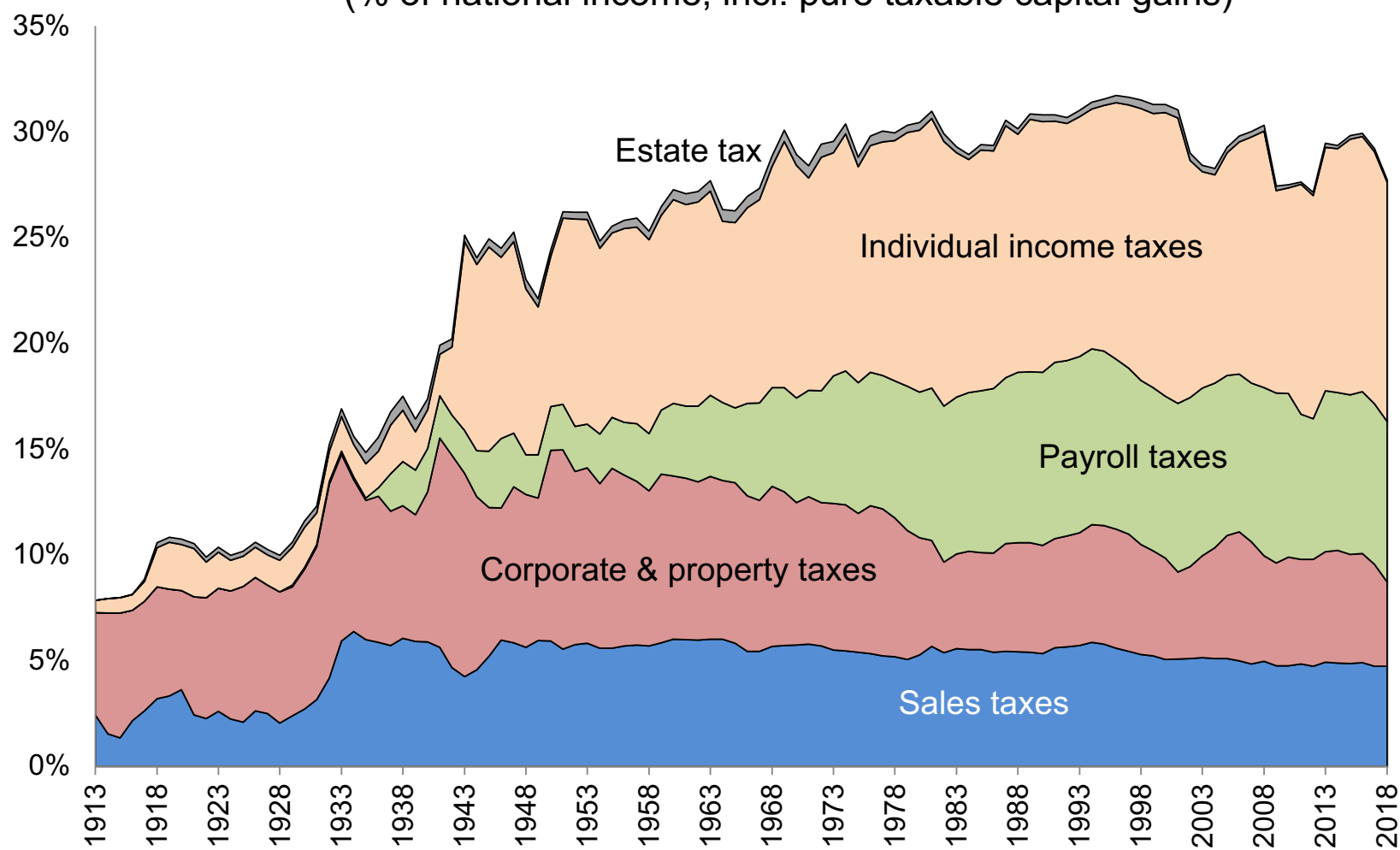
1. The structure of taxation in the US
2. Allocating taxes to people
3. Is the US tax system progressive?

1 The structure of taxation in the US

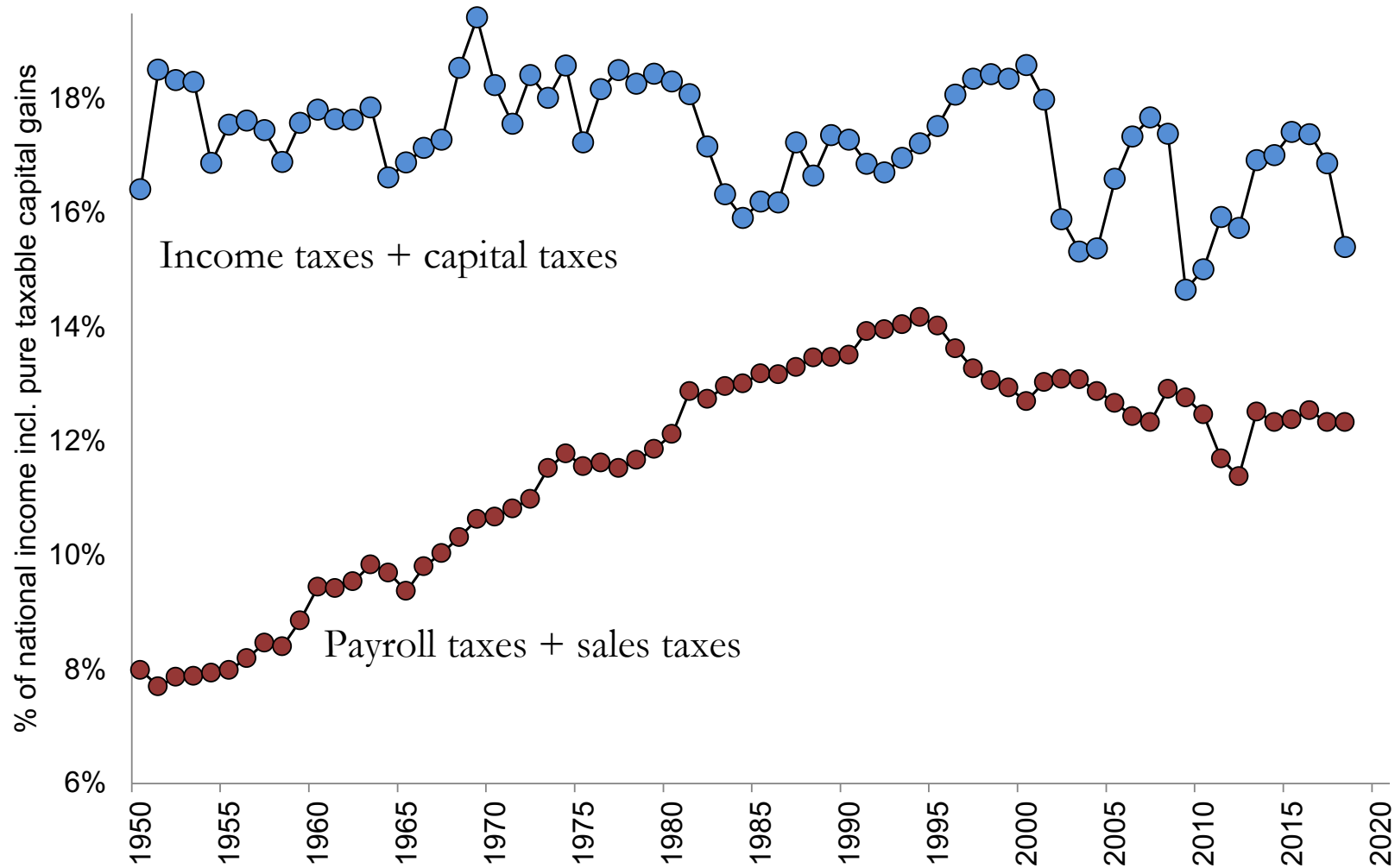
Broadly speaking, taxes can be divided in four buckets:

- Individual income taxes
- Payroll taxes
- Capital taxes
- Consumption taxes

Appendix Figure 1.1: Taxes in the United States
 (% of national income, incl. pure taxable capital gains)



Appendix Figure 1.4: Structure of taxes in the United States



The structure of capital taxes in the US

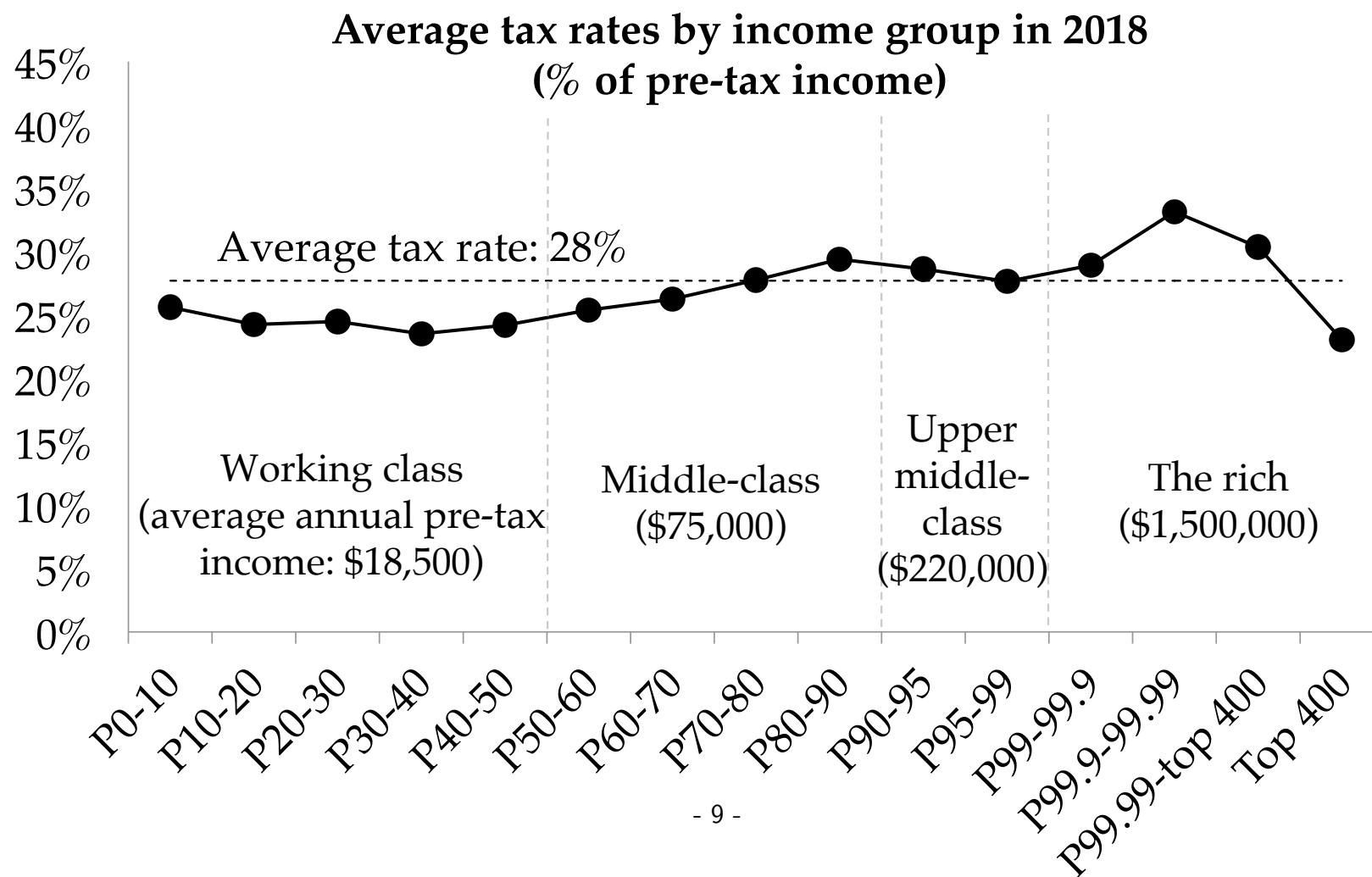
- Corporate tax = 1.5% of Y (around 10% of a 15% tax base)
- Annual property taxes = 3% of Y (around 1% of a 300% tax base)
- Estates = 0.2% of Y (around 2% of a 10% tax base)
- So overall, capital taxes add up to about 4-5% of US national income

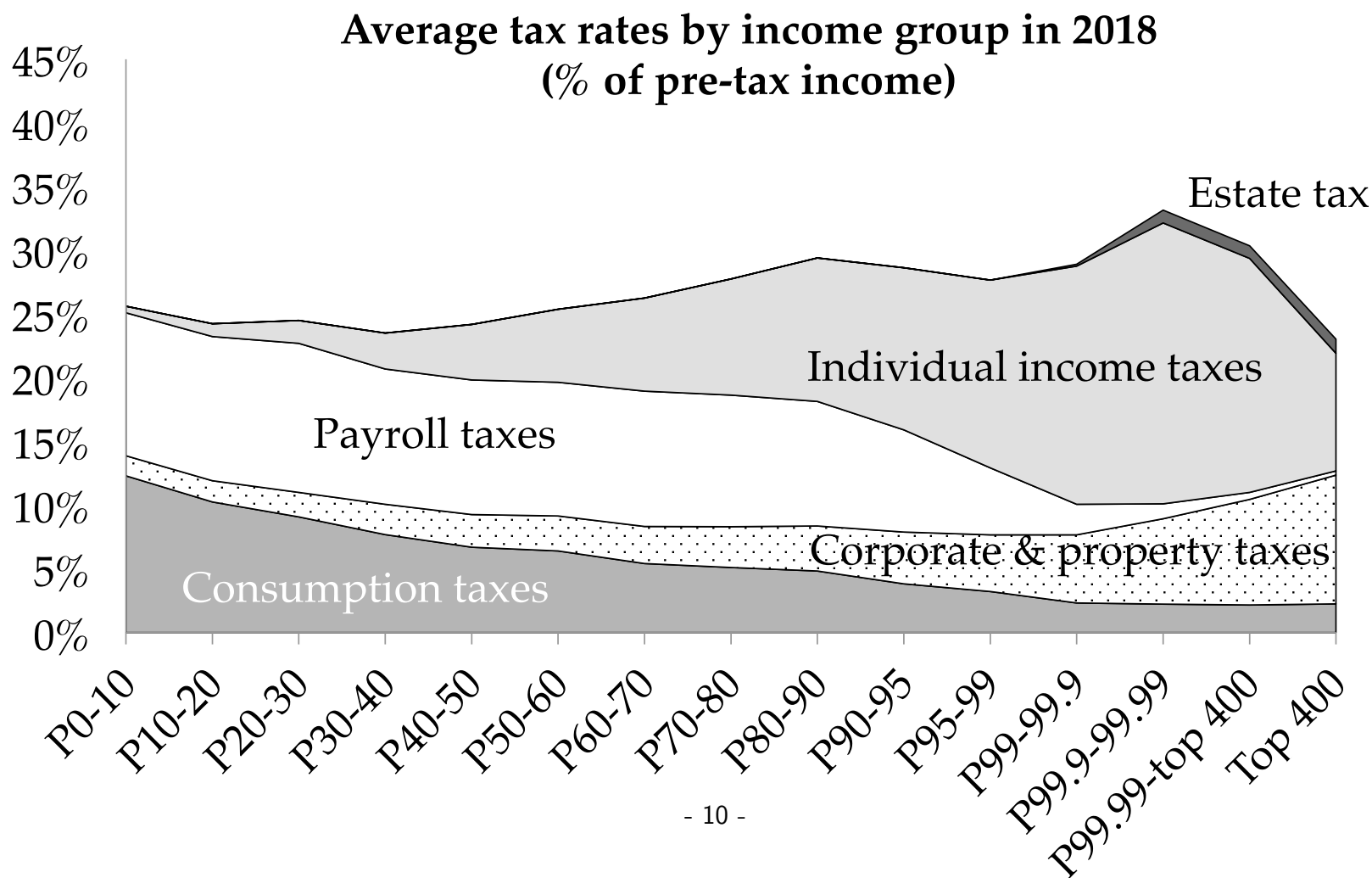
2 Allocation taxes to people

- Only people pay taxes
- Taxes paid by foreigners \approx taxes paid by US residents to foreign countries
- Entity that remits the tax is not necessarily the one that pays the tax
- Economically, consumers pay consumption taxes, workers pay labor taxes, capital owners pay capital taxes

This is different from the issue of “tax incidence” as economists understand it

- Tax incidence: analysis of how economic behavior is affected by taxes
- E.g., taxes affect labor supply, saving, etc. → affect the level of national income
- Here more modest objective: take national income as given and assign taxes comprehensively





3 The progressivity of the US tax system

3.1 Relatively high tax rates at the bottom

- Regressive sales taxes: US has a poor man's VAT: only on goods, not services
- ↑ payroll taxes despite ↓ minimum wage (\neq Europe: ↑ min wage, ↓ payroll taxes for low earners)

3.2 Relatively low tax rates the very top

- Capital income not/little taxed

- Ccorporate retained earnings
- Reduced rates on dividends and capital gains
- Collapse of corporate taxation: Federal corporate tax revenue almost halved in 2018 vs. 2016

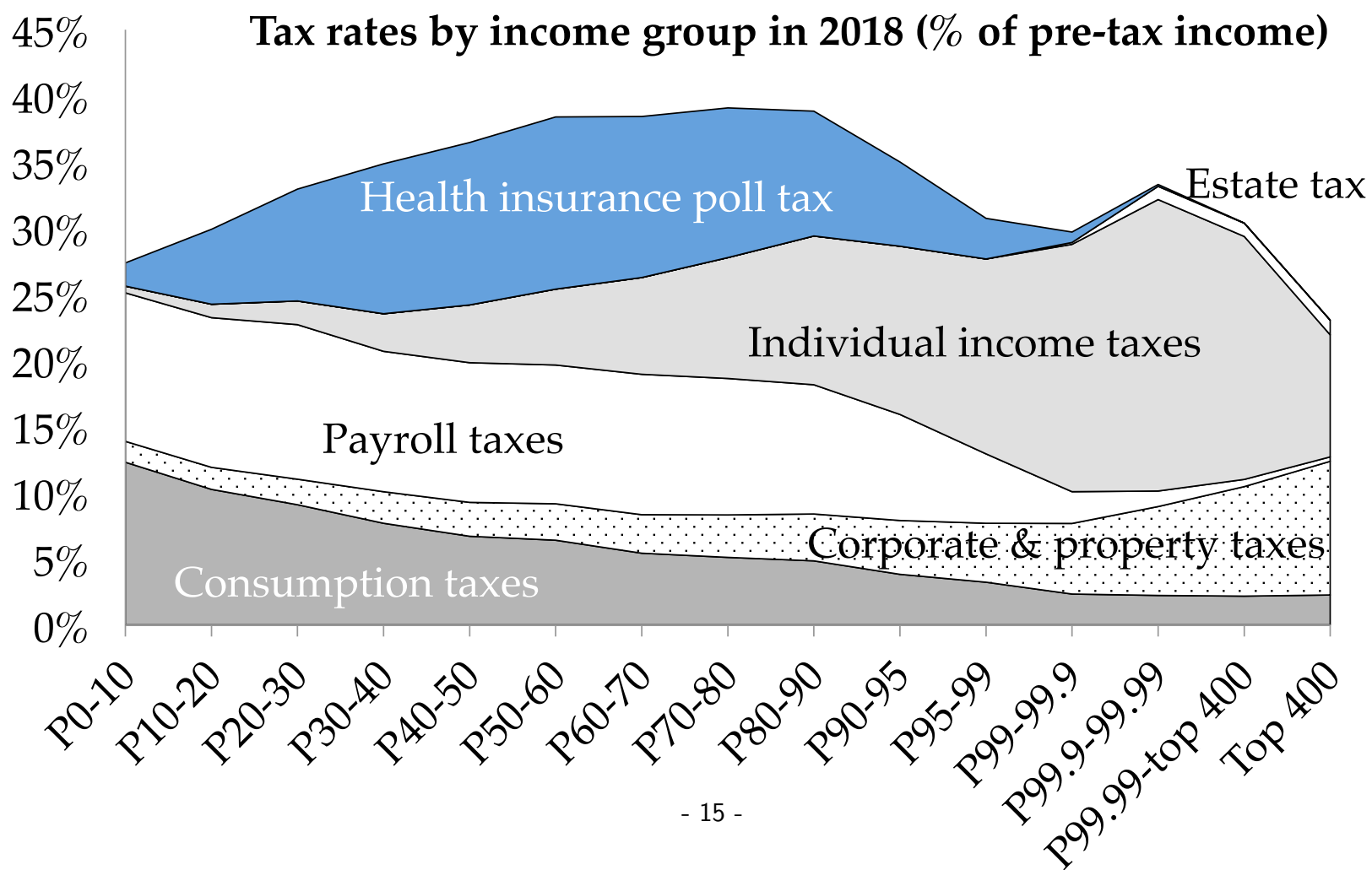
3.3 Differences with CBO estimates

- CBO only includes federal taxes
- Different income definition (we include tax-exempt income at the denominator, CBO does not)
- Allocation of corporate tax
- Refundable tax credits

3.4 Adding health insurance premiums

Since 2010, it is mandatory to have health insurance. Mostly done through employers.

- Cost \$13,000 per covered worker, irrespective of income
- huge head tax administered by employers on behalf of government
- Mandatory payments to insurers (private oligopoly) \approx Medicare tax paid to gov (public monopoly)
- Except insurance premiums are much more regressive



References

Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman, “Distributional National Accounts: Methods and Estimates for the United States,” *Quarterly Journal of Economics*, 2018 (web)

Saez, Emmanuel and Gabriel Zucman, “The Rise of Income and Wealth Inequality in America: Evidence from Distributional Macroeconomic Accounts,” *Journal of Economic Perspectives*, 2020 (web)