

Tax Policy
Prof. Chorvat
Fall 2023

There is no required book for this course. As you will see below, there are some book recommendations, but you do not have to purchase either of them. The readings consist of articles that are posted to the TWEN site for the course.

The intended learning outcome for this course is to introduce you to some of the basics of the analysis of tax policy. By the end of the course, you should have analytic tools sufficient to begin the analysis of any tax proposal. Of course, you will not be an expert in tax policy by the end of the course.

The subject and the literature on tax policy is vast. Any choice of subjects is necessarily idiosyncratic. I have chosen subjects based on a combination of what I believe are their importance and ease of exposition.

The topics discussed in class and the associated reading assignments are given below. I will also post videos for many (possibly most) of the topics a few days before the classes covering those topics. These videos are intended to introduce the papers that we will discuss and give you some background information so that you will be able to better understand the papers as you read them before class.

Method of Assessment: At the end of the semester, you will submit a paper. The grade for the course will be based on this paper. You can choose your own topic, or if you have not come up with a topic I will have a default topic on which you can write your paper. If you choose your own topic, please talk to me about it first. As the semester goes along, I will discuss the basis on which the papers will be assessed.

Use of Generative Artificial Intelligence (GAI): You may use GAI in researching your papers, however, the drafts and final version of the paper you turn in for a grade must be your own. If you use text generated by GAI, you must explicitly state that you did not draft that text. I will discuss this more in class, and if you have any questions, please contact me.

Recommended Books: There are two main books I would suggest if you are looking for something that will give you a background on the topics we cover. The first is TAXES AND BUSINESS STRATEGY, (the lead authors are Scholes and Wolfson) the current edition is the sixth edition. The second is PUBLIC FINANCE, by Rosen and Gayer, the current edition is the 10th. These are very different books and each has its strengths and weaknesses. Don't feel the need to purchase either of these books.

Each assignment is expected to take approximately one week (Financial Products may be longer).

Assignment I.

Readings: Powerpoint Slides for Class I

Oates and Schwab, *The Window Tax: A Case Study in Excess Burden*

Suggested Reading: Chapter 3 (in the 6th edition), TAXES AND BUSINESS STRATEGY, Scholes and Wolfson

Topics: Time value of money, value of deferral versus immediate deduction. The value of different investment vehicles. Basic economics of taxation

Assignment II Consumption Taxes

Reading:

Bankman and Weisbach, *The Superiority of an Ideal Consumption Tax over an Ideal Income Tax*

Alvin Warren, *How Much Income Taxed under an Income Tax is Exempt under a Consumption Tax*

Assignment III Corporate Taxes

Reading: Morck and Yeung, *Dividend Taxation and Corporate Governance*

Chorvat, *Apologia for the Double Taxation of Corporate Income*

Assignment IV Executive Compensation and Taxes

Readings :Brian Hall and Jeffrey Liebman, *The Taxation of Executive Compensation*

Frydman and Malloy, *Does Tax Policy Affect Executive Compensation: Evidence from Postwar Tax Reforms*

Assignment V. Financial Products

Readings: Alvin Warren, *US Income Taxation of New Financial Products*

David Schizer, *Balance in the Taxation of Derivative Securities*

Also read:

Comments by Andrea Kramer, David Miller and Alex Raskolnikov on “*Tax Reform and the Treatment of Financial Products*”

Background: Joint Committee, *Present Law and Issues Related to the Taxation of Financial Instruments and Products*

Assignment VI. Taxing Capital Gains

Zhonglan Dai & Edward Maydew & Douglas A. Shackelford & Harold H. Zhang. *Capital Gains Taxes and Asset Prices: Capitalization or Lock-in?*

Alan Auerbach and Kevin Hassett, *The 2003 Dividend Tax Cut and the Value of the Firm: An Event Study*

Assignment VII. Social Security and Saving for Retirement

Reading: Burtless, *Fixing Social Security: Major Reforms or Minor Repairs*

Liebman, Luttmer & Seif, *Labor Supply Responses to Marginal Social Security Benefits: Evidence from Discontinuities.*

Alternate take, not directly covered in class:

Buchanan, *Social Security is Fair to All Generations*

Assignment VIII. Tax Shelters

Reading :

Mihir Desai and Dhamikka Dharmapala, *Earnings Management, Corporate Tax Shelters and Book-Tax Alignment*

Daniel Shaviro, *Corporate Tax Shelters in a Global Economy*

Extra:

Stephen Schafer, *Taxes and Security Market Equilibrium*

Dammon and Green, *Tax Arbitrage and the Existence of Equilibrium Prices for Financial Assets.*

Assignment IX. Home Mortgage Interest Deduction

Edward L. Glaeser, Jesse M. Shapiro *The Benefits of the Home Mortgage Interest Deduction*

Martin Gervais and Manish Pandey *Who Cares about Mortgage Interest Deductibility?*

Assignment X. International Aspects of U.S. Taxation

Hines and Desai, *Old Rules and New Realities, Corporate Tax Policy in a Global Setting*

Donohoe, McGill, and Outslay, *The Geometry of International Tax Planning After the Tax Cut and Jobs Act*

Assignment XI Government Projections

Kashin, King and Soneji, *Systematic Bias and Nontransparency in US Social Security Administration Forecasts*

Assignment XII. The Estate Tax

Readings: Cagetti and De Nardi, *Taxation, Entrepreneurship and Wealth*
Sawyers, *Restructuring Estate and Gift Taxes*

Assignment XIII Tax Compliance

Reading: Luttmer and Singhal, *Tax Morale*