

**INDIANA UNIVERSITY – BLOOMINGTON
SCHOOL OF PUBLIC AND ENVIRONMENT AFFAIRS**

| Course Information | Contact information |
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| Course: SPEA F609 – Seminar in Revenue Policy and Administration Semester: Fall 2016 Class Times: Mon/Wed (9:30-10:45 am) Classroom: BH205 Office Hours: Mon/Wed 2-4pm and by appointments. | Instructor: Denvil Duncan Office: SPEA 375F Phone: 1 - 812 - 855 - 7493 Email: duncande@indiana.edu |

Course Overview and Objective

This course examines several critical questions of government revenue systems: From what sources do governments raise their money? What revenue alternatives do they have? What are the consensus policy standards for evaluating revenue alternatives? How do these sources measure up against the standards? What options do governments have in the design of revenue sources? What difference do these structural choices make? How do governments actually administer the revenue sources they have selected? The course will emphasize taxes used by federal, state, and local governments in the United States and some important taxes levied by other governments (particularly the value-added tax). It explicitly seeks to develop the skills that are relevant to staff of tax departments, budget agencies, and policy research organizations so that you can be a productive contributor from your first day of work. This skill development is the purpose of the exercises and the project.

Required Text and Additional Readings:

There is no textbook. Readings are available on Canvas, from listed websites, or from the electronic journals collection of the library. Additional readings may be assigned throughout the semester as new materials appear or as topics on the current outline expand in importance. Not everything in the readings will be discussed in class and not everything discussed in class is covered in the readings.

Course Policies and Procedures

Academic honesty

Students are expected to adhere to SPEA's standards on cheating and other academic behavior. These standards are clearly outlined at <http://bulletins.iu.edu/iu/spea/2012-2013/policies/index.shtml> . SPEA's policy dictates that "Academic dishonesty can result in a grade of F for the class (an F for academic dishonesty cannot be removed from the transcript). Significant violations of the Code can result in expulsion from the University." It is critical that you become familiar with these standards.

Withdrawals and incompletes

SPEA's policy on this matter will be enforced. Please see <http://bulletins.iu.edu/iu/spea/2012-2013/policies/index.shtml>

Canvas

Canvas will be the primary channel of communication in this class. Students are advised to check Canvas regularly for any notifications, assignments, and additional readings.

Class Sessions

You are expected to treat class as a professional event. This means attending each scheduled class, arriving on time, and arriving prepared. You are expected to participate in the class discussions in an informed and relevant manner.

Grading and Evaluation

Your final grade will be based on the following elements:

| | |
|-------------------|-----|
| Assignments | 30% |
| Final exam | 30% |
| Presentation | 10% |
| Analytical report | 30% |

Assignments

You are assigned several exercises, cases, and problems to prepare for grading. The exercises are designed to develop the skills that tax policy and administration professionals regularly use so that you will be a useful employee from the day that you start work. Some of the exercises are based on assigned readings and on materials presented in class, but most are accompanied by lengthy discussion materials that explain the exercise. You may choose to discuss these assignments with your colleagues, but you will submit individual work for evaluation. The exercises and necessary ancillary materials are posted on Canvas. Most will involve numbers and many can be handled conveniently with Excel. Assignments must be typed using an appropriate software and must be submitted online via Canvas. **DO NOT SUBMIT YOUR ASSIGNMENT VIA EMAIL.** You may submit any additional documentation (e.g., spread sheet with analysis) for assignments that require data analysis. **Late submissions will not be graded.**

Examinations

The examination will consist of a large number of multiple choice questions that are designed to stretch your understanding of tax policy and administration. Please note the exam date and plan accordingly. There will be no make-up exams in this course.

Analytic Report and Presentation

The analytic report attempts to simulate work that fiscal staff in a budget agency, revenue department, legislative service agency, or research organization would be assigned. With a group of your student colleagues (three students per group), you will undertake an investigation whose end product is a report and a presentation

Topics for report: There are nine topics to choose from. The first group to request a topic gets it. Only one group per topic. A group gets a topic by being the first to send me an email that indicates the group members (**3 members per group**) and the topic chosen. I must receive this email by **January 23**.

1. **Design an Indiana** excise tax for legalized recreational marijuana. You must define the rate structure and base, the remittance policy (who remits the tax, to which agency, and how frequently), and a compliance (audit) mechanism. You will estimate the net revenue (revenue and administrative costs) that Indiana could collect from the tax and describe how the revenues are to be used. You will also discuss how the choices you have made impact the characteristics (efficiency, equity adequacy etc) of the tax you have designed. You may inform your choices by reference to the taxes in states that have legalized recreational marijuana, although you may choose some other structure if you believe it to be more appropriate for Indiana.
2. **The road mileage user fee is viewed as a promising revenue mechanism to fill the gap in states' highway funds. Design** a road mileage user-fee for the state of Indiana. Your report should provide a detailed account of how the fee would be administered, including but not limited to: rate structure, tax base (e.g., all miles, in-state miles, in-state and out-of-state miles, etc.), mileage collection technology, remittance policy,

- compliance (audit mechanism), and revenue estimation. Be sure to justify your choices and explain how your fee stacks up against the standard criteria for evaluation of tax policies.
3. **Most states** exempt basic food items from the base of retail sales taxes (RST) in an effort to reduce the regressivity of the RST. A more targeted approach is to exempt food only for those individuals who qualify for the supplemental nutrition assistance program (SNAP) and temporary assistance to needy families (TANF). Both of these program are administered with an Electronic Benefit Transfer (EBT) card in Indiana. Therefore, the alternative is to exempt basic food items if paid for with an EBT card. Evaluate this proposal. Your evaluation must cover, among other things, administration, behavioral and revenue implications, and fairness considerations.
 4. The rise and expansion of e-commerce is seen as a major issue for states that are dependent on retail sales tax for revenue. Describe the nature and scope of this issue; i.e., why are online retailer's tax differently and what are the impacts of this differential treatment? Is this differential treatment consistent with the criteria of a "good" tax? Be sure to discuss the merits of (dis)continuing this differential treatment as well as your own policy recommendations.
 5. **The City of Bloomington receives the bulk of its revenue from a property tax and its distribution from the County Option Income Tax (COIT).** Develop a model for forecasting revenue to the city from these two sources, making sure your approach could produce a forecast prior to adoption of the city budget in late summer and making sure that it reflects the tax rate circuit breakers (1:2:3) controlling use of the property tax.
 6. Many have argued for a broader base / lower rate revision of the federal individual income tax. Examine the specifics of such a restructuring, paying close attention to how such a program would stack up against the revenue policy standards. You must specify how you would broaden the base and specify what rate reductions you would make.
 7. **Indiana local governments differ considerably in the extent to which they host properties that are exempt from property** taxation because they are owned by another government or by an exempt non-profit entity. Examine Indiana policy with regard to treatment of such property, identify the general magnitude of the problem (if you believe it to be a problem), and make any policy recommendation you believe necessary.
 8. **Some recent rulings have dictated "Dark Store Assessment" of large retailers in Indiana for the real property tax. Examine the nature of the issue, how it impacts local governments and local economies, and what options are possible.**
 9. Topic of your choice pending approval.

Guidelines for the report:

1. The report should clearly explain the problem, the methods used to examine the problem, and the conclusions you have reached.
2. Several of the topics will require that you propose options for dealing with the problem. Some topics may require analysis of tax laws, others may require some use of quantitative analysis. What you do will depend on what your topic is.
3. You will research the topic, using academic research (*National Tax Journal*, *State Tax Notes*, *Tax Notes*, *Tax Notes International*, *Public Budgeting & Finance*, *Public Finance Review*, etc.), government documents, reports of independent research organizations, and data relevant to the topic at hand.
4. You should go to the source for any data you use, rather than working with data that has already been molested by another analyst. If the data originate with the Bureau of Census, then use data from the Census source, not the product of some other researcher's manipulation of those data.
5. Many helpful materials are available on the internet, but use extreme caution because such sources are of widely varying quality.

6. Do not be misled by biased work prepared by narrow interest NGOs. NGO is not the same thing as unbiased. Indeed, most NGOs are both biased and unaccountable. Having “.org” at the end of the web address is not a guarantee of either quality or of lack of bias. So be extremely careful as you read such reports.

Deliverables:

1. **Report:** You will prepare a professional report on your investigation – there is no set standard for length but it should neither be excessive nor too brief. A long report is neither advantageous nor disadvantageous on its own. But a report that is unnecessarily wrong will be a problem for you. The report is due April 23 in both hard copy (to my mailbox by close of business) and in electronic form (on canvas).
2. **Presentation:** Your group will brief the class on your work in the last week of class. The presentation will not exceed **ten** minutes. The presentation will be in a form that would be appropriate for delivery to a legislative committee, an investigatory task force, a budget agency, etc.

Your contribution to the final report will be rated by the other members of your group and you will rate the contribution of the other members of your group. Each member of the group must be rated on a scale from 1 to 10. Your peer-rating will influence your final grade.

Software requirements:

I strongly recommend that you take a refresher course in Microsoft office (especially excel and word). Modules are available here: <http://ittraining.iu.edu/training/browse.aspx>. You may complete analytical work with the statistical software of your choice. However, I am only proficient in Excel, STATA, and R.

Useful links for this course:

www.taxfoundation.org/blog
<http://taxvox.taxpolicycenter.org>
www.tax.com/taxcom/taxblog.nsf
<http://taxprof.typepad.com>
<http://www.econtalk.org/>
<http://www.gfoa.org/services/nacslb/>
http://www.abfm.org/public_budgeting_finance_journal.htm
<http://www.csg.org/policy/publications/bookofthestates.aspx> (Important state level data)
<http://crfb.org/socialsecurityreformer/>

Topics, Readings, and Due dates

| Week | Date | Lecture Topics | Due dates (Assignments) and Readings |
|-----------------|------|--|---|
| January | | | |
| 1 | 9 | Taxes in the Budget: Forecasts | |
| 1 | 11 | Taxes in the Budget: Estimates | |
| 2 | 16 | MLK JR Day – No class | |
| 2 | 18 | Taxes in the Budget: Tax Expenditures | HW1: Revenue Forecast |
| 3 | 23 | Traveling (Guest Speaker Brad Heim) | HW2: Revenue Targets |
| 3 | 25 | Traveling (Guest Speaker Justin Ross) | |
| 4 | 30 | Taxes in the Budget: Microsimulations | HW3: Estimation for North Carolina Lottery |
| February | | | |
| 4 | 1 | Adequacy Buoyancy, Elasticity, and Stability | |
| 5 | 6 | Adequacy Buoyancy, Elasticity, and Stability | |
| 5 | 8 | Equity and Economic Incidence | HW4: Dynamic Adequacy |
| 6 | 13 | Efficiency | |
| 6 | 15 | Taxes and Growth/Development | HW5: Fiscal Disparity – Representative Tax System Indices |
| 7 | 20 | Personal Income Taxation | |
| 7 | 22 | Personal Income Taxation | HW6: Suits Index |
| 8 | 27 | Business Income Taxation | |
| March | | | |
| 8 | 1 | Business Income Taxation | HW7: Haig Simons Income |
| 9 | 6 | Consumption taxes: RST | HW8: Bulgarian Income Tax |
| 9 | 8 | Consumption taxes: RST | |
| 10 | 13 | Spring Break | |
| 10 | 15 | | |
| 11 | 20 | Consumption taxes: VAT | HW9: Income Apportionment |
| 11 | 22 | Consumption taxes: VAT | |
| 12 | 27 | Consumption taxes: Excise | |
| 12 | 29 | Wealth and Property Taxation | HW10: Retail Sales Tax, Value Added Tax, and Gross Receipts Tax |
| April | | | |
| 13 | 3 | Wealth and Property Taxation | |
| 13 | 5 | Wealth and Property Taxation | |
| 14 | 10 | Wealth and Property Taxation | |
| 14 | 12 | Tax Administration and Compliance | HW11: Assessment Quality |
| 15 | 17 | Tax Administration and Compliance | |
| 15 | 19 | Guest Speaker: Chris Atkins | HW12: Nonprofit Exemption |
| 16 | 24 | Presentations | |
| 16 | 26 | Presentations | HW13: Kursk Tax Inspector |
| May | | | |
| 17 | | Final Exam Week | |
| 17 | | | |

Notes: Topics are tentative. The instructor reserves the right to change this syllabus as time and circumstances dictate. Necessary changes will be announced in class in advance when possible. The assigned exercises are due on dates that follow unless you receive other instructions in class. Most of the exercises are accompanied by explanations and instructions that will explain the significance of the exercise to tax policy and administration and

will guide you through your work on the exercise. You should not assume that the exercise will be discussed in class before it is due.

TOPICS AND ASSIGNED READINGS

Many of the sections are prefaced with a chapter from John L. Mikesell, *Fiscal Administration*, Ninth Edition. This material is for background review only, in case you want a refresher before moving into the assignment. Reading materials are either posted on Canvas, are available from an entity website identified here, or are available through the IU Library electronic journals database. If no other sourcing is given for the document, it is posted on Canvas. New readings may be added throughout the semester. You will be notified of any additions to the reading list.

Creating Baselines, Scores, and Tax Expenditure Budgets

For review only: Mikesell, *Fiscal Administration*, Chapter 13.

1. Forecasting (The Baseline)

"Forecasting Techniques," *The Economist Numbers Guide*, ch. 5.

Joint Committee on Taxation, *Summary of Economic Models and Estimating Practices of the Staff of the Joint Committee on Taxation*, September 19, 2011, JCX-46-11 [<http://www.jct.gov/publications.html?func=startdown&id=4359>]

Mikesell and Ross, "State Revenue Forecasts and Political Acceptance," *Public Administration Review*, 74 (March / April 2014): 188 – 202 (IU Library electronic journals)

USDA, *Understanding USDA Crop Forecasts*. [A really different forecasting approach.]

2. Estimating (Scoring)

"Dynamic Revenue and Budget Estimation," Chapter 5, *Economic Report of the President 2004*. [http://www.presidency.ucsb.edu/economic_reports/2004.pdf] Starts on page 117 of Report.

Mikesell, "Revenue Estimation/Scoring by States: An Overview of Experience and Current Practices with Particular Attention to Dynamic Methods," *Public Budgeting & Finance* 32 (Summer 2012): 1 – 24. (access via IU Library electronic journals)

3. Tax Expenditures and Incentives

Craig and Allan, "Fiscal Transparency, Tax Expenditures, and Budget Processes: An International Perspective," *NTA Proceedings 2001*.

Mikesell, "Tax Expenditure Budgets, Budget Policy, and Tax Policy: Confusion in the States," *Public Budgeting & Finance*, XXII (Winter 2002): 34 – 51. (access via IU Library electronic journals)

Legislative Service Agency, *2015 Indiana Tax Incentive Evaluation* (Review only: example of report several states are preparing)

4. Using Microsimulation for Tax Estimating, Forecasting, and Analyzing

Donihue and Kitchen, "The Troika Process: Economic Models and Macroeconomic Policy in the USA"

Rohaly, Carasso, and Saleem, "The Urban-Brookings Tax Policy Center Microsimulation Model: Documentation and Methodology for Version 0304"

Standards and Principles of Tax Policy

For Review Only: Mikesell, *Fiscal Administration*, Chapter 8

1. The Basic Principles

GAO, *Understanding the Tax Reform Debate* (GAO-05-1009SP), 2005 (GAO website: www.gao.gov)

2. Dynamic Adequacy: Buoyancy, Elasticity, and Stability

Mikesell, "Revenues and Revenue Assignment" (Barents Group, 1998)

Mansfield, "Elasticity and Buoyancy of a Tax System: A Method Applied to Paraguay," *IMF Staff Papers* (1972)

Belinga et. al., 2014. Tax buoyancy in OECD countries, IMF working paper WP/14/110

3. Equity and Economic Incidence

IMF Handbook, Krelov, "Concepts of Tax Incidence" and "General Equilibrium Incidence of Taxes."

"Tax Incidence: Who Bears the Tax Burden?," Chapter 4, *Economic Report of the President 2004*. [http://www.presidency.ucsb.edu/economic_reports/2004.pdf] Starts on page 103 of the *Report*.

The institute on taxation and economic policy, 2015. Who pays? A distributional Analysis of the Tax systems in all 50 States.

"2015 Minnesota Tax Incidence Study" (Review only: an example of how the principles come together)

4. Economic Efficiency: Distortions

Oates and Schwab, "The Window Tax: A Case Study in Excess Burden," *Journal of Economic Perspectives* 29(Winter 2015).

5. Taxes and Economic Development

Tannenwald, "Do Taxes Matter? The Latest from the Tax Policy Center and CBPP," *State Tax Notes*, June 22, 2015.

Gravelle and Marples, "Tax Rates and Economic Growth," Congressional Research Service, January 2, 2014. [<https://www.fas.org/sgp/crs/misc/R42111.pdf>]

Lee, Young, and Roger H. Gordon. "Tax structure and economic growth." *Journal of public economics* 89.5 (2005): 1027-1043.

Important Tax Systems: Income Taxation

For Review Only: Mikesell, *Fiscal Administration*, Chapter 9.

1. Personal Income Taxation

Slemrod and Bakija, "An Overview of the U. S. Tax System," in Hildreth and Richardson, ed., *Handbook on Taxation*.

IMF Handbook, "Conceptual Definitions of Income and Their Application to Policy Analysis"

Tax Foundation, *Putting a Face on America's Tax Returns: A Chartbook* [<http://taxfoundation.org/sites/taxfoundation.org/files/docs/PuttingAFace2013.pdf>]

"Chapter One: The Case for Reform" and "Chapter Three: Tax Basics," *Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System* (President's Advisory Panel on Federal Tax Reform – Bush II, not Obama) (<http://govinfo.library.unt.edu/taxreformpanel/final-report/index.html>)

Peter, Klara Sabirianova, Buttrick, Steve, and Duncan, Denvil (2010), [Global Reform of Personal Income Taxation, 1981–2005: Evidence From 189 Countries](#), *National Tax Journal*, **63**:3, pp. 447–78

2. Business Income Taxation

CBO, *Taxing Business Through the Individual Income Tax* (December 2012)

IMF Handbook, "Corporate Income Taxation"

Clausing, Kimberly. "Corporate Inversions." *Tax Policy Center* (2014).

3. State Corporate Income Taxation

Atkins, "A Twentieth Century Tax in the Twenty-First Century: Understanding State Corporate Income Tax Systems," *Tax Foundation Background Paper*, September 2005.

Fox and Luna, "State Corporate Tax Revenue Trends: Causes and Possible Solutions," *National Tax Journal*, September 2002.

4. Business Income Tax – Personal Income Tax Integration

IMF, "Corporate – Personal Income Tax Integration"

Important Tax Systems: Consumption of Goods and Services

For Review Only: Mikesell, *Fiscal Administration*, Chapter 10.

1. Retail Sales Taxation

Mikesell, "Sales Tax Incentives for Economic Development: Why Shouldn't Production Exemptions Be General?" *National Tax Journal*, LIV (Number 3).

Quick and McKee, "Sales Tax on Services: Revenue or Reform?" *National Tax Journal*, September 1988.

2. Value Added Taxation.

Cnossen, "A VAT Primer for Lawyers, Economists, and Accountants," *Tax Notes International*, July 27, 2009.

a. SOURCES FOR EXPLANATIONS OF VAT:

- i. <http://www.hmrc.gov.uk/vat/index.htm>
- ii. http://ec.europa.eu/taxation_customs/taxation/vat/index_en.htm
- iii. <http://www.belastingdienst.nl/english/business.html>
- iv. <https://globalvatonline.pwc.com/uk/tls/gvol2/gvol2.nsf/AllByCode/RJAI-8DPFEV?OpenDocument>
- v. <http://www.taxationweb.co.uk/1-minute-guides/other-tax/value-added-tax-vat.html>

3. Comparing RST and VAT

Mikesell, "Comparing Operations of Retail Sales and Value Added Taxes," *Tax Notes* (October 8, 2012).

Mikesell, "Misconceptions about Value-Added and Retail Sales Taxes: Are They Barriers to Sensible Tax Policy," *Public Budgeting & Finance* 34 (Summer 2014): 1 – 23. (IU electronic journals)

Mikesell, *Gross Receipts Taxes in State Government Finances: A Review of Their History and Performance*, Tax Foundation Background Paper Number 53 (January 2007)

4. Selective Excises

IMF, "Excise Taxes"

Puentes and Prince, "Fueling Transportation Finance: Primer on Gas Tax"

Important Tax Systems: Property and Wealth Taxation

For Review Only: Mikesell, *Fiscal Administration*, Chapter 11.

1. Policy

Fischel, Oates, and Youngman, "Are Local Property Taxes Regressive, Progressive, or What?" IIPF Conference 2010

Fisher, "The Real Property Tax," Hildreth and Richardson, ed., *Handbook on Taxation*

Cornia and Wheeler, "The Personal Property Tax," Hildreth and Richardson, ed., *Handbook on Taxation*

Kenyon and Langley, *Payments in Lieu of Taxes* (Lincoln Institute, 2010)

2. Administration

Franzen and McCluskey, "Value-Based Approaches to Property Taxation," in McCluskey, et. al. *A Primer on Property Tax*

McCluskey et. al., "Computer Assisted Mass Appraisal and the Property Tax," in McCluskey et. al., *A Primer on Property Tax*.

Ross, Justin M., and Wenli Yan. "Fiscal illusion from property reassessment? An empirical test of the residual view." *National Tax Journal*, *Forthcoming* (2012).

Ross, Justin M. "Assessor incentives and property assessment." *Southern Economic Journal* 77.3 (2011): 776-794.

Administration and Compliance

1. Administration and Compliance: Collecting

Mikesell, "Chapter 12. Collecting Taxes," *Fiscal Administration*, 8th edition (this chapter is not in the 9th edition).

Mikesell. 1998. "Tax Administration: The Link Between Tax Law and Tax Collection," In *Handbook of Public Finance*, edited by Fred Thompson and Mark Green. Marcel Dekker.

Duncan and McLure, "Tax Administration in the United States of America: A Decentralized System," *Bulletin of the Bureau of International Fiscal Documentation*, February 1997.

2. Administration and Compliance: Paying, Avoiding, and Evading: Why Do Tax Payers Pay?

Mikesell and Birskyte, "Lessons of Tax Compliance Research for Lawmakers and Tax Administrators: Getting Best Returns from Limited Resources, in Frank, ed., *Public Financial Management*.

Slemrod, "Cheating Ourselves: The Economics of Tax Evasion," *Journal of Economic Perspectives* 21 (Winter 2007): 25 – 48. (IU Electronic journals)

Toder, "What Is The Tax Gap?" *Tax Notes*, October 22, 2007.

Johns, Andrew and Slemrod, Joel (2010), [The Distribution of Income Tax Noncompliance](#), *National Tax Journal*, **63**:3, pp. 397-418

DeBacker, Jason, Bradley T. Heim, and Anh Tran. "Importing corruption culture from overseas: Evidence from corporate tax evasion in the United States." *Journal of Financial Economics* 117.1 (2015): 122-138.