

UNIVERSITY OF PITTSBURGH-KATZ GRADUATE SCHOOL OF BUSINESS

Course: Tax Policy, BACC 2543, Tuesdays 6:20-9:20pm (Jan 14-Feb 25)

Instructor: Tara Z. Fisher, CPA, Email: TZF5@pitt.edu

Access to Courseweb: <http://courseweb.pitt.edu> Login using your Pitt e-mail ID and Password. It is very important that you check Courseweb before each class session.

Students with Disabilities

If you have a disability for which you are (or may be) requesting an accommodation, please contact me and the Office of Disability Resources and Services, 140 William Pitt Union, (412) 648-7890, (412) 383-7355 (TTY) at the very beginning of the semester.

Overview. This course will explore the history of tax policy in the United States, the tax legislative process, how tax policies influence decisions and behavior, international tax considerations, and ideas for future tax reform. Students will discuss what factors are important in designing a good tax system and survey the social justices and injustices that arise from how the government raises its revenue. Upon completion of this course, students should be able to think critically about our tax system and form opinions grounded in facts and policy.

Required Text and Resources. The main text for the course will be *Taxing Ourselves: A Citizen's Guide to the Debate Over Taxes (4th Edition)* by Joel Slemrod and Jon Bakija (**referred to as "Text"**). Additional reading and assignments will come from on-line resources. The main websites utilized in this course will be:

www.taxpolicycenter.org and www.jct.gov

Format and Grading. The course is designed to follow a 7-week format. Student grades will be based on three factors (each worth 33.33 percent): (1) Class Participation & Homework, (2) Final Exam, and (3) Tax Research Project.

Class Participation & Homework. To earn credit for this course, students must actively engage in class discussions and complete the regularly scheduled homework assignments.

Final Exam. The final exam will be administered on the last day of class (Week 7). The format will include a mixture of multiple choice, ordering/matching, and short answer questions. It will be a comprehensive exam covering content from all lectures. It will not be an open book/open notes exam and you may not use a laptop or any other electronic device during the test.

2144_BACC 2543_Tax Policy_Syllabus_FISHER

Tax Research Project. Students will write a 4-6 page paper discussing an idea for tax simplification or tax reform and give a 5 minute oral presentation summarizing the proposal in Week 6. Topics will be selected from the Tax Policy Center website and assigned based on student interest in a particular area. The paper should be organized as follows; I.Description of the proposal (**what** is it intended to do?), II.Mechanics of the proposal (**how** does it work), III.Distributional impact (**who** are the winners and losers?), IV.Economic impact (**why** should it be done?), V.Political Viability (**when**/can it be passed by Congress?)

Other requirements. Students must have completed *BACC 2559 Individual Tax Accounting and Planning* before enrollment in this course.

Course Schedule. This course will explore five key concepts; (1) the history of tax policy in the United States, (2) the tax legislative process, (3) how tax policies influence decisions and behavior, (4) international tax considerations, and (5) ideas for future tax reform.

1. Week 1 (Jan 14)-History of Tax Policy in the United States

Reading Assignment = Text; Chapter 1 & Chapter 2 (Introduction and Overview of the U.S. Tax System)

- a. The Mellon Plan-review tax policy goals outlined by Andrew Mellon during his term as Secretary of Treasury. Discuss Mellon's 1924 Book; "Taxation: The People's Business"-the concept of reducing tax rates to decrease tax avoidance/evasion and the idea of giving preferential treatment to "earned" income relative to "unearned income."
- b. Tax Reform Act of 1986-to date the most significant tax simplification of the Internal Revenue Code. Discuss concept of "broadening the tax base" to impose "lower tax rates," which led to a drastic reduction in tax preferences and tax brackets.
- c. How the Government Gets Money-biggest source of revenue for the federal government is the personal income tax. Discussion of U.S. taxes as a percentage of GDP and the economic concepts tied to this relationship.
- d. How Do We Compare to Other Nations-based on the size of our economy, the United States imposes lower taxes than most other OECD countries. International comparison of taxes as a percentage of GDP (e.g., Japan, UK, Canada, Germany).

2. Week 2 (Jan 21)-Tax Legislative Process

Reading Assignment = History of the Joint Committee in the Legislative Process at <http://www.jct.gov/about-us/role-of-jct> and Text; Chapter 3 (Fairness)

In-Class Assignment = Overview of the Federal Tax System as In Effect for 2012 at <http://www.jct.gov/publications> document JCX-18-12 (32 pages)

- a. Fairness-discuss vertical equity, horizontal equity, and transitional equity.
- b. Joint Committee on Taxation-review history of the Joint Tax Committee and its integral role in tax legislation. Discuss tax legislative process and the two tax writing committees-House Ways and Means Committee and the Senate Finance Committee.
- c. A Detailed Look at the Federal Tax System-Federal receipts by source, Federal receipts as a percentage of GDP, sources of gross income for all individual taxpayers, distribution of income and taxes, and taxpayers affected by the AMT.

3. Week 3 (Jan 28)-How Tax Policies Influence Decisions and Behavior

Reading Assignment = Tax Expenditures: What are they and how are they structured? at www.taxpolicycenter.org/briefing-book/background/expenditures and Text; Chapter 4 (Taxes and Economic Prosperity)

- a. Trade-off between fairness and prosperity-the economic gains achieved through simplification often come at the cost of penalizing the poor and middle class.
- b. Incentives through Exclusions-the implications of excluding certain items from income (e.g. gain from sale of principal residence)/realized v. recognized gain.
- c. Incentives through Deductions-the implications of providing deductions from income (e.g. home mortgage interest)/erosion of U.S. tax base.
- d. Incentives through Credits-the implications of providing credits against tax liability (e.g. 1st time home-buyer credit)/benefit of a credit v. deduction.

4. Week 4 (Feb 4)-International Tax Considerations and Research Project Assignments

Reading Assignment = How does the current system of international taxation work? at www.taxpolicycenter.org/briefing-book/key-elements/international and Text; Chapter 5 (Simplicity and Enforceability)

In-Class Assignment = U.S. Model Income Tax Treaty and Technical Explanation of U.S. Model Income Tax Treaty at www.treasury.gov

- a. Global Marketplace-the lesson of the global marketplace is that any one country finds it difficult to impose a tax burden on individuals whose income-earning opportunities are mobile across borders.
- b. U.S. Worldwide System-implications of a worldwide tax system based on citizenship (versus a territorial system based on residency). Discussion of foreign tax credit to mitigate double taxation.
- c. Income Tax Treaties-introduction of the U.S. Model Treaty and the treaty negotiation process carried out by the U.S. Treasury Department.
- d. **Assignment of Research Paper Topics**-topics will be selected from the Tax Policy Center website and assigned based on student interest in a particular area. All topics will relate to tax simplification or tax reform.

5. Week 5 (Feb 11)-Ideas for Future Tax Reform and Preparation of Research Papers

Reading Assignment = Text; Chapter 6 (Elements of Fundamental Reform), Chapter 7 (What are the Alternatives?) and Chapter 8 (Starting from Here)

- a. Flatness in Taxation-discussion of a single rate and a clean tax base.
- b. Consumption Tax Plans-consideration of a retail sales tax, VAT, and flat tax. Discussion of simplicity and enforceability, distributional effects, and economic impact under each of these options.
- c. Reforming the Current System-eliminating the AMT and cleaning up the base.
- d. **Preparation of Research Papers**-in class research and writing.

6. Week 6 (Feb 18)-The Tax Policy Debate and Presentation of Research Papers

Reading Assignment = Text; Chapter 9 (A Voter's Guide to the Tax Policy Debate)

- a. **Presentation of Research Papers**-each student will give a 5 minute oral presentation to the class discussing their proposal for tax simplification or tax reform (including overall structure, distributional impact, and political viability.)

Take Aways...

- b. A System that Encourages also Discourages-in defending a tax break, politicians point to how it will encourage positive behavior (i.e. housing, charity, saving), but what other behaviors are being discouraged?
- c. Fairness is a Slippery Slope-no politician or economist has the answer to what is fair...this kind of determination rests in independent judgments.
- d. Be Skeptical of Economic Nirvana-equitable distribution of the tax burden requires that tax liability be linked to indicators of well-being such as income, consumption or wealth. Defining such indicators is a complicated endeavor.

7. Week 7 (Feb 25)-Final Exam

Tax Quotes

"Taxes are what we pay for civilized society"--Oliver Wendell Holmes, Jr., Supreme Court Justice

"The hardest thing in the world to understand is the income tax"--Albert Einstein, Physicist

"The power of taxing people and their property is essential to the very existence of government"--James Madison, US President