

PUBLIC FINANCE - TAXATION
ECONOMICS 3329B-001
Department of Economics
Western University

Prof. James Davies
Office: SSC 4092
email: jdavies@uwo.ca

January, 2020
Office Hours:
M: 11:00-12:00
W: 4:00-5:00

Class Hours: M 1:30-2:30; W 1:30-3:30PM
Classroom: UCC 67

Course Website: <https://owl.uwo.ca/portal>

Registration

You are responsible for ensuring you are registered in the correct courses. If you are not registered in a course, the Department will not release any of your marks until your registration is corrected. You may check your timetable by using the Login on the Student Services website at <https://studentservices.uwo.ca/secure/index.cfm>. If you notice a problem, please contact your home Faculty Academic Counsellor immediately.

Prerequisite and Antirequisite Notes

The prerequisite for this course is **Economics 2261A/B**. The antirequisite is **Economics 2160A/B**.

You are responsible for ensuring that you have successfully completed all course prerequisites, and that you have not taken an anti-requisite course. Lack of pre-requisites may not be used as a basis for appeal. If you are found to be ineligible for a course, you may be removed from it at any time and you will receive no adjustment to your fees. This decision cannot be appealed.

If you find that you do not have the course prerequisites, it is in your best interest to drop the course well before the end of the add/drop period. Your prompt attention to this matter will not only help protect your academic record, but will ensure that spaces become available for students who require the course in question for graduation.

Course Objectives:

This course covers the economics of taxation from both a theoretical and applied viewpoint. It is one of two courses in the Public Finance sequence. ECON 3328 focuses on government expenditure.

Learning Outcomes:

Students will be able to:

- use data from the national and public accounts to explain the level, growth and composition of taxes
- apply public finance theory to analyze the incidence, incentive, and welfare effects of each major type of tax
- distinguish rigorously between positive and normative analyses of taxation
- explain the implications of modern empirical studies for the analysis of the effects of taxes
- solve standard analytical problems in tax theory
- apply the main insights of optimal tax theory and the theory of the second best to tax policy
- assess and evaluate arguments for tax reform

Textbook (“RWS”): The textbook for this course is: Rosen, Harvey S., Jean-Francois Wen and Tracy Snoddon (2016), *Public Finance in Canada*, 5th edition, McGraw-Hill Ryerson, Toronto.

NOTE: *All readings from the textbook indicated in this outline are required.*

Assessment: Your course grade will be computed in the following way:

Article Review (due Wed., March 25)	20%
Midterm (in class, Wed. Feb. 26)	30%
Final exam (cumulative, covers whole course)	50%

Article Review: The article review, due on the date indicated above, will review a full-length article in an academic economics journal. The article should ideally be referenced either in your textbook or this course outline. You may request to review an article not referenced in those sources, but approval is needed. Required readings cannot be used for this review. All students must send email to jdavies@uwo.ca by March 4th to say what article they wish to review.

The article review has a limit of 1,200 words. It must answer the following questions, with those questions being used as section headings:

1. What is the main research question addressed in this article?
2. Why did the author(s) believe this research question was interesting?
3. Why do you believe this research question is interesting?
4. How does the article answer the research question?
5. Is the article’s answer to the research question convincing? Why or why not?

Attendance Requirement: Attendance is required. Students with unsatisfactory attendance may not be allowed to write the final exam. Students who are absent for more than two consecutive classes should provide a doctor's note or other evidence that their absence was unavoidable.

Midterm Test and Final Exam: The midterm test will be held in classtime, on the date indicated above. The midterm will be 90 minutes long. The final exam will be two hours long. The midterm test will cover all elements of the course up to the time of the test. The final exam will cover all elements of the full course.

Course Contents and Readings

All readings from the textbook, RWS, are required. Any handouts provided in class are also required reading. Readings marked below by * are required.

I. Introduction (Weeks 1 and 2)

RWS, chapters 1 and 14.

Gillespie, W. Irwin (1976), "On the Redistribution of Income in Canada", *Canadian Tax Journal* 24 (4).

Davies, J., F. St-Hilaire and J. Whalley (1984), "Some Calculations of Lifetime Tax Incidence", *American Economic Review* 74 (4).

*Dyck, Dagmar (2005), "Fiscal Redistribution in Canada, 1994-2000", *Canadian Tax Journal* 53(4): pp.974-1006. <https://www.fin.gc.ca/pub/pdfs/wp2003-22e.pdf>

Harberger, Arnold C. (June 1962). "The Incidence of the Corporation Income Tax". *Journal of Political Economy*. 70 (3): 215–240.

Milligan, Kevin and Michael Smart (2019). "An Estimable Model of Income Redistribution in a Federation: Musgrave meets Oates", *American Economic Journal: Economic Policy*, 11 (1): pp. 406-34.

- revenues and expenditure of governments in Canada
- income distribution
- partial equilibrium tax incidence studies
- general equilibrium incidence

II. Efficiency and Equity (Weeks 3 - 5)

RWS, chs. 15&16

Ramsey, Frank (1927). "A Contribution to the Theory of Taxation". *The Economic Journal* 3(145): 47-61.

Corlett, W.J., Hague, D.C. (1953). "Complementarity and the Excess Burden of Taxation." *Review of Economic Studies* 21(1): 21-30.

Mirrlees, James, and Peter Diamond (1971). "Optimal Taxation and Public Production I: Production Efficiency", *American Economic Review* 61: pp. 8-27.

- Mirrlees, James, and Peter Diamond (1971). "Optimal Taxation and Public Production II: Tax Rules", *American Economic Review* 61: pp. 261-278.
- Dahlby, Bev (2008). *The Marginal Cost of Public Funds Theory and Applications*, MIT Press: Cambridge.
- *Dahlby, Bev and Ergete Ferede (2011). "What Does it Cost Society to Raise a Dollar of Tax Revenue?", C.D. Howe Institute Commentary No. 324.
https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_324.pdf
- Piketty, Thomas and Emmanuel Saez (2013). "A Theory of Optimal Inheritance Taxation", *Econometrica*, 81 (5): pp. 1851-86.
- Alstadsaeter, Annette, Niels Johannesen and Gabriel Zucman (2019). "Tax Evasion and Inequality" *American Economic Review*, 109 (6): pp. 2073-2103
- Auten, Gerald and David Splinter (2019) "Inequality in the United States: Using Tax Data to Measure Long-term Trends" Office of Tax Analysis, U.S. Treasury Department and Joint Committee on Taxation, U.S. Congress.
http://davidsplinter.com/AutenSplinter-Tax_Data_and_Inequality.pdf

- excess burden of taxation
- theory of the second best
- optimal tax theory
- production efficiency theorem
- Corlett-Hague proposition

III. Direct Taxes (Weeks 6&7)

RWS, chs. 17&18

- Davies, James B. and Stanley Winer (2011). "Closing the 49th Parallel: An Unexplored Episode in Canadian Economic and Political History", *Canadian Public Policy* 37: pp. 307-334.
- Milligan, Kevin and Michael Smart (2016). "Taxation and Top Incomes in Canada", *Canadian Journal of Economics* 48 (2): pp. 655-81.
- *Stevens, Harvey and Wayne Simpson (2017). "Toward a National Universal Basic Income Guarantee", *Canadian Public Policy*, 43 (2), pp. 120-39.
https://d3n8a8pro7vhmx.cloudfront.net/bicn/pages/57/attachments/original/1512576226/2017_Toward_a_National_Universal_Guaranteed_Basic_Income_%28Stevens_and_Simpson%29.pdf?1512576226
- Boadway, Robin, Katharine Cuff and Kourtney Koebel (2018), "Can Self-Financing Redeem the Basic Income Guarantee?", *Canadian Public Policy*, 44 (4): pp. 447-57.

- Personal Income Tax (PIT) system in Canada
- incentive effects on labor supply and saving
- income tax vs. consumption tax

IV. Consumption Taxation (Week 8)

RWS, ch. 19

Bird, Richard and Michael Michael (2016). “Taxing Consumption in Canada: Rates, Revenues and Redistribution”, *Canadian Tax Journal* 64 (2): pp. 417-42.

Dahlby, Bev and Kevin Milligan (2017). “From Theory to Practice: Canadian Economists’ Contributions to Public Finance” *Canadian Journal of Economics*, 50 (5): pp. 1324-47

- federal taxes: GST, excise taxes and duties
- provincial sales and excise taxes
- carbon tax; cap-and-trade (ch. 5)

V. Wealth and Property Taxes (Week 9)

RWS, ch. 20

Davies, James B. (1991). “The Distributive Effects of Wealth Taxes”, *Canadian Public Policy* 17: pp. 279-308.

*Oates, Wallace and Robert Schwab (2015). “The Window Tax: A Case Study in Excess Burden”, *Journal of Economic Perspectives*, 29 (1): pp. 163-80.
https://www.lincolninst.edu/sites/default/files/pubfiles/2380_1720_Schwab_WP14RS1.pdf

Anderson, John E. and Shafiun N. Shimul (2018). “State and Local Property, Income and Sales Tax Elasticity: Estimates from Dynamic Heterogeneous Panels”, *National Tax Journal*, 71 (3), 521–546.

- annual wealth tax
- property tax
- estate and gifts taxes

VI. Corporate Taxation (Weeks 10 - 12)

RWS ch. 21

*Boadway, Robin (2015). “Tax Policy for a Rent-Rich Economy”, *Canadian Public Policy*, 41 (4): pp. 253-64.
<https://cdn.dal.ca/content/dam/dalhousie/pdf/faculty/science/economics/seminars/2015/Seminar2015-10-02Boadway.pdf>

Saez, Emmanuel and Stefanie Stantcheva (2018), “A Simpler Theory of Optimal Capital Taxation”, *Journal of Public Economics*, 162: pp. 120-42.

- structure of Corporate Income Tax (CIT) in Canada
- relationship between CIT and PIT
- treatment of dividends and capital gains
- treatment of depreciation, interest payments
- incidence and excess burden

Please Note
Department Policies for 2019-2020

Remember that the University expects all students to take responsibility for their own Academic Programs. Students should also check their registration to ensure they are enrolled in the correct courses.

1. Guidelines and policies for the Faculty of Social Science and the Department of Economics are posted online in the current Western Academic Calendar at:
<http://westerncalendar.uwo.ca>.
2. Students must familiarize themselves with the “Rules of Conduct for Examinations”
http://www.uwo.ca/univsec/pdf/academic_policies/exam/administration.pdf.
3. **Cheating as an academic offence:** Students are responsible for understanding what it means to “cheat”. The Department of Economics treats cheating incidents very seriously and will investigate any suspect behavior. Students found guilty will incur penalties that could include a failing grade or from future registration in other Economics courses or programs. The University may impose further penalties such as a notation on an official academic transcript, suspension or expulsion.
4. **Plagiarism:** Students must write their essays and assignments in their own words. When taking an idea/passage from another author, it must be acknowledged with quotation marks where appropriate and referenced with footnotes or citations. Plagiarism is an academic offence (see Scholastic Discipline for Undergraduate Students in the Western Calendar at http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_20).

Western University uses software to check for plagiarism and students may be required to electronically submit their work. Those found guilty will be penalized as noted in point 3.

5. It is a Department of Economics policy that **NO** assignments be dated, stamped or accepted by staff. Students must submit assignments in class or to the instructor during office hours.
6. When appealing a mark, students should refer to the Student Academic Appeals section in the current Western Academic Calendar at:
http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_14
Please note the relevant deadlines.

The Department will not consider an appeal unless an attempt has been made to settle the matter with the instructor first. Students who remain dissatisfied with the outcome may proceed with a written appeal (e-mails are not acceptable) to the Undergraduate Director in Economics, stating the reasons for their appeal. A checklist is provided at:
http://economics.uwo.ca/undergraduate/program_counselling/responsibilities_policies.html#appeals.

7. Systematic adjustments of a class grade distribution (either up or down) can occur in Economics courses. The fact that grades have been adjusted is **not** grounds for an appeal.
8. Note the following add and drop deadlines:

Deadline to <u>add</u> a second term half course:	January 14, 2020
Deadline to <u>drop</u> a second term half course:	March 7, 2020
9. Faculty of Social Science policy states that oversleeping or misreading an exam schedule is NOT grounds for a makeup. This rule applies to midterm and final exams in the Department of Economics.

Policy on Tests, Final Exams and on Missed Academic Responsibilities

Students who proceed to write a test or examination must be prepared to accept the mark. Rewriting tests or examinations, or retroactive reweighting of marks, is **not** permitted. Students must book travel arrangements AFTER final exam dates have been posted; travel is not an acceptable excuse for absence from a final exam.

Students who are temporarily unable to meet academic requirements due to extenuating circumstances can follow Western University procedures to request academic consideration through the following routes:

- a) Submit a Self-Reported Absence form if the conditions for submission are met (e.g., only for exams or assessments worth 30% or less of the course mark; not applicable to final exams; maximum 2 self-reported absences per academic year; see [link](#) for full list of conditions and info).

If the conditions for submission of a Self-Reported Absence form are not met, then:

- b) For medical absences, submit a Student Medical Certificate (SMC) signed by a licensed medical or mental health practitioner along with a request for academic consideration to Academic Counselling in the student's home Faculty (see [link](#) for full info) ; or
- c) For non-medical absences (e.g., religious or compassionate), submit appropriate documentation to Academic Counselling in the student's home Faculty (see [link](#) for full info).

It is strongly recommended that students notify their instructors as soon as possible. University policy is that students **must** communicate with their instructors no later than **24 hours** after the end of the period covered by either the self-reported absence or SMC, or immediately upon their return following a documented absence. Failure to follow University policy and procedures may result in denial of academic accommodation and a grade of zero. Students should also set up an appointment to meet with their instructor as soon as possible. If the instructor is not available, send an email message, copying the Undergraduate Coordinator at econugrd@uwo.ca.

Note: Academic consideration is not normally intended for long-term, recurring absences, an existing disability, or high levels of stress related to academic performance. In such cases, students should consult their academic counsellor. See [link](#) for full information.

In all cases, if the documentation submitted to request academic consideration is not acceptable, students will receive a grade of zero for the missed test, exam, or assignment.

For full information about Western University’s policies and procedures for student absences and requests for academic consideration, please visit this [link](#).

Policies Regarding Academic Accommodation

The Faculty of Social Science’s policies regarding academic accommodation is found at http://counselling.ssc.uwo.ca/procedures/having_problems/index.html.

“Academic Rights and Responsibilities” are also outlined in the Western Calendar at <http://westerncalendar.uwo.ca/PolicyPages.cfm?PolicyCategoryID=1&command=showCategory&SelectedCalendar=Live&ArchiveID=>. Claiming that “you didn’t know what to do” is not an acceptable excuse for not following the stated procedures.

Policy Regarding Class Attendance

If the instructor deems a student’s class attendance as unsatisfactory, that student may be prohibited from writing the final examination. If there is intent to make use of this University policy, the student will be notified in writing.

Statement on Mental Health and Support Services

Students under emotional/mental distress should visit http://uwo.ca/health/mental_wellbeing/ for more information and a complete list of resources on how to obtain help.