

# Tax Policy and Public Finance: Introduction

January 8, 2024

# Some Basic Concepts

- Key elements of tax bases
  - Income
  - Consumption
  - Wealth
- Related, via Haig-Simons income definition:
  - $\text{Income} = \text{consumption} + \text{accretions to wealth}$

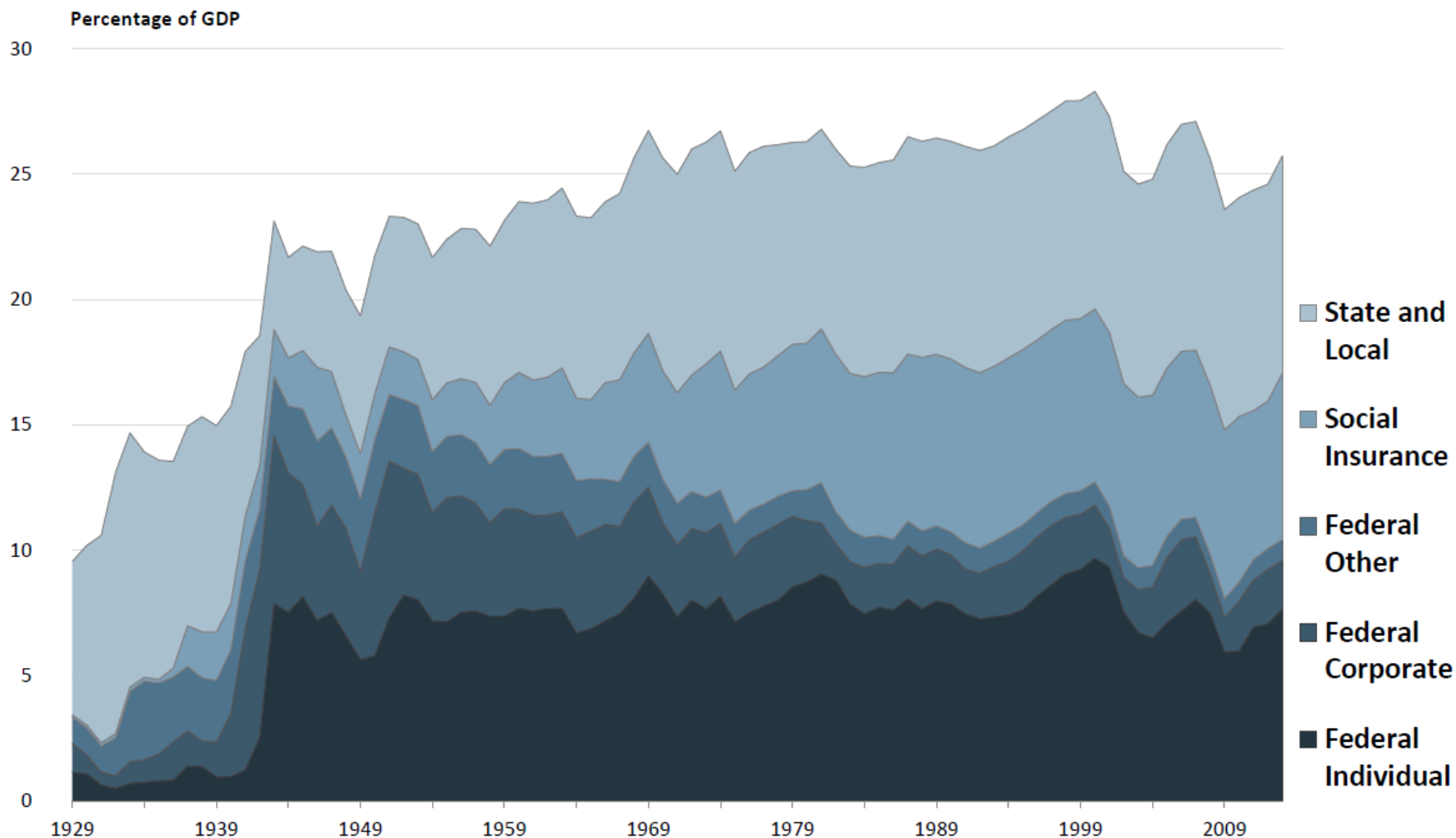
# Defining Consumption and Wealth

- Many questions of classification; e.g.,
  - Medical expenses
  - Gifts and bequests
  - Tax payments for state and local government services
  - Is “human capital” part of wealth?

# How Do We Tax Income?

- Annual calculation
- Realization based for both wage and salary income and capital income (but with exceptions)
- Ignore some components of income, notably imputed rent on housing and consumer durables

## TOTAL TAX RECEIPTS AS A PERCENTAGE OF GDP: 1929-2013



Note: "Federal Other" includes federal estate taxes, gift taxes, and custom duties. Excludes Federal nontaxes. "Social Insurance" includes Employer, Employee and Self-Employed Contributions at the Federal, State and Local levels.

Source: Bureau of Economic Analysis, National Income and Product Accounts, Annual Tables 1.1.5, 3.2, 3.3, 3.6.

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1>

## Taxes as a Percentage of GDP, 2021

Country	Total Tax Revenue as Share of GDP	Rank
Denmark	46.9%	1
France	45.1%	2
Austria	43.5%	3
Italy	43.3%	4
Finland	43.0%	5
Sweden	42.6%	6
Norway	42.2%	7
Belgium	42.0%	8
Netherlands	39.7%	9
Germany	39.5%	10
Greece	39.0%	11
Luxembourg	38.6%	12
Spain	38.4%	13
Slovenia	37.4%	14
Poland	36.8%	15
Slovak Republic	35.8%	16
Portugal	35.8%	17
Iceland	35.1%	18
Hungary	34.0%	19
Czech Republic	33.8%	20
New Zealand	33.8%	21
Estonia	33.5%	22
United Kingdom	33.5%	23

## Taxes as a Percentage of GDP, 2021

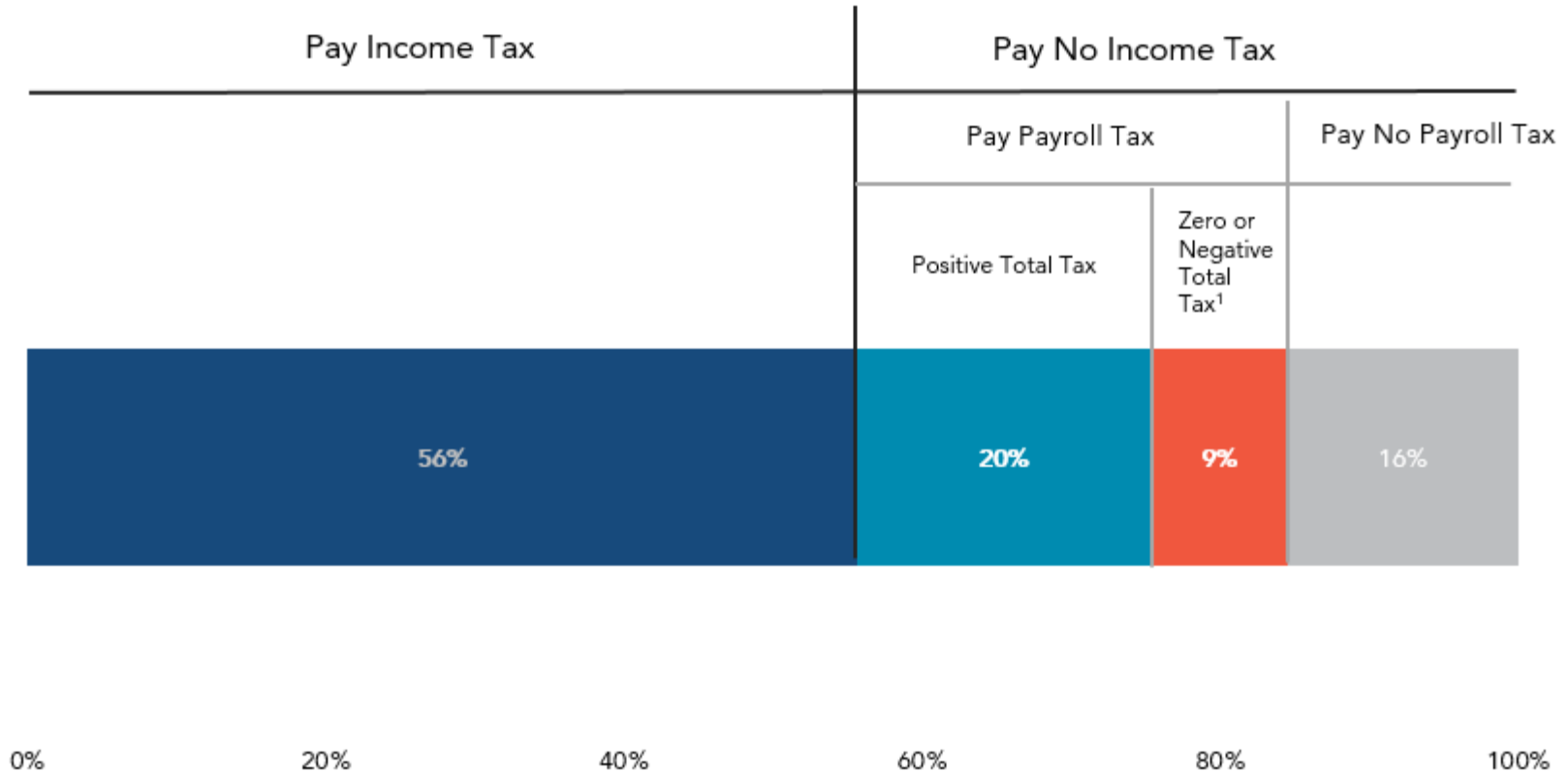
Country	Total Tax Revenue as Share of GDP	Rank
Canada	33.2%	24
Japan	33.2%	25
Lithuania	32.8%	26
Israel	32.2%	27
Latvia	31.2%	28
Korea	29.9%	29
Australia	28.5%	30
Switzerland	28.0%	31
United States	26.6%	32
Costa Rica	24.2%	33
Turkey	22.8%	34
Chile	22.2%	35
Ireland	21.1%	36
Colombia	19.5%	37
Mexico	16.7%	38
OECD - Unweighted average (including United States)	34.1%	
OECD - Unweighted average (excluding United States)	34.3%	
OECD - Weighted average (including United States)	31.6%	
OECD - Weighted average (excluding United States)	34.2%	

## OECD Countries: Tax Sources as a Share of Total Tax Revenue, 2020

State	Personal income tax	Corporate income tax	Social Security contributions	Taxes on property, estates, and gifts	Taxes on goods and services	Other
Australia	42%	17%	0%	10%	26%	5%
Austria	22%	5%	37%	1%	27%	7%
Belgium	28%	8%	32%	8%	25%	0%
Canada	36%	12%	14%	12%	22%	3%
Chile	10%	24%	8%	5%	55%	0%
Colombia	7%	25%	10%	10%	41%	8%
Costa Rica	7%	8%	36%	2%	33%	13%
Czech Republic	14%	8%	46%	1%	31%	0%
Denmark	54%	6%	0%	4%	31%	5%
Estonia	18%	5%	37%	1%	39%	0%
Finland	30%	5%	27%	4%	34%	0%
France	21%	5%	33%	9%	27%	5%
Germany	27%	4%	40%	3%	26%	0%
Greece	15%	6%	33%	8%	38%	0%
Hungary	15%	3%	31%	3%	45%	3%
Iceland	42%	6%	9%	7%	31%	5%
Ireland	33%	16%	17%	6%	28%	1%
Israel	22%	9%	17%	10%	36%	6%
Italy	27%	5%	32%	6%	27%	4%
Japan	19%	12%	41%	8%	20%	0%
Korea	19%	12%	28%	14%	24%	2%
Latvia	19%	2%	32%	3%	44%	0%
Lithuania	23%	5%	33%	1%	38%	0%
Luxembourg	25%	12%	29%	10%	23%	0%
Mexico	21%	20%	14%	2%	37%	6%
Netherlands	23%	8%	34%	4%	30%	1%
New Zealand	39%	14%	0%	6%	39%	2%
Norway	29%	6%	29%	3%	32%	0%
Poland	14%	6%	38%	4%	34%	4%
Portugal	20%	8%	30%	4%	38%	1%
Slovak Republic	11%	7%	45%	1%	35%	1%
Slovenia	15%	4%	46%	2%	34%	0%
Spain	24%	5%	37%	7%	27%	0%
Sweden	29%	7%	21%	2%	29%	12%
Switzerland	31%	11%	25%	8%	19%	7%
Turkey	13%	9%	30%	4%	43%	1%
United Kingdom	29%	7%	21%	12%	31%	0%
United States	41%	5%	25%	12%	17%	0%
OECD - Total (including US)	30%	7%	28%	9%	24%	2%
OECD - Total (excluding US)	25%	8%	30%	7%	27%	3%

**FIGURE 1**

# Tax Units That Pay No Federal Income Tax 2018



**Source:** Tax Units with Zero or Negative Income Tax Under Current Law, 2011-2028.

**Notes:** Percentages do not sum to 100 because of rounding.

<sup>1</sup>Total tax refers to the sum of federal income and payroll taxes.