

International Water Institute

Tax
Freedom
Day

MAY 2018						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

#4 - Government Revenues

<https://iwinst.org>

IWI

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See also:

#1 - Efficiency

#2 - Government Organizations and NGOs

#3 - Benefit/Cost Analysis Primer

#4 - Government Revenues

#5 - Inflation

#6 - Natural Resources Planning

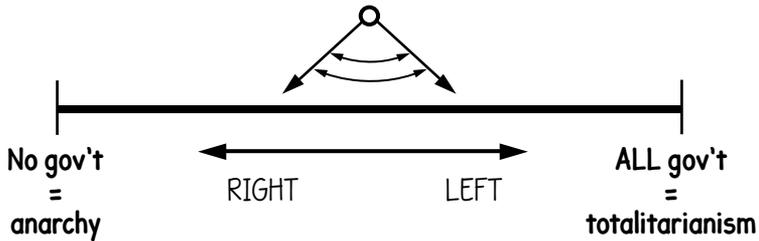
#7 - Robert's Rules of Order

#8 - Natural Resources Economics

CONSERVATION IS: The prevention of wasteful use of a resource ... the efficient use of resources.

ECONOMICS IS: The study of how individuals, firms, groups, government, society ... allocate their scarce resources among competing uses to satisfy unlimited wants.

Government/Economic Systems



A - Democratic Capitalism

Minimal government intervention

- national defense, money supply, police, foreign affairs
- means of production privately owned

B - Democratic Socialism

Some government intervention

- means of production privately owned
- but government takes from private sector for social purposes

C - Centrally-planned Communism

Total government intervention

- means of production owned by government
- government provides what it thinks is appropriate to people

The economic system in the United States is between free market and limited socialism.

More socialist countries are Canada and most western European countries.

Revenue Sources

Tax Bases

Income

Sales/consumption

Property/wealth

Sin

Gullibility

Payroll
(SS + Medicare)

Other

Enterprise and
user fees

External; tax
sharing; grants

Print money

Borrow/bond

Tariffs

Limits on state and local taxes

- ① Cannot deficit spend (only Feds can do that)
- ② Some state-imposed limits on tax increases and mill levies
- ③ Tiebout limit - taxpayers will vote with their feet
- ④ No limit to "revenue diversification!"

Functions of Taxes

(taxes are the price of civilization)

- ① Revenue to operate government
- ② Redistribute income \Rightarrow equity
- ③ Fiscal policy
- ④ Social engineering

Where do government revenues go?

- ① General fund account
- ② Dedicated/restricted/earmarked account

Income Tax

- Personal
- Corporate
- Gross earnings
- Royalty
- Occupation tax

Federal income tax is progressive,
10%-37%

Minnesota income tax is progressive,
5.35%-9.85%

North Dakota income tax is progressive,
1.1%-2.9%

2018 Federal Taxable Income Brackets

Tax Owed	Tax Percentage
	37%
\$74,252	35%
\$25,200	32%
\$36,732	24%
\$19,679	22%
\$7,146	12%
\$1,940	10%

\$612,350

\$400,200

\$321,450

\$168,400

\$78,950

\$19,400

Sales Tax

General sales tax - retail sales less excluded items, proportional

- What's taxed?

Use tax - sales tax on items bought out of state, proportional

Excise tax - sales tax on specific items:

- vehicles (state and federal)
- deed transfer
- guns and ammunition
- fishing equipment (10%)
- cosmetics
- some vehicles
- indoor tanning services
(10% FET as of 7/1/2010)

VAT - value-added tax

- Canada, Europe

Excise + VAT = tax on a tax

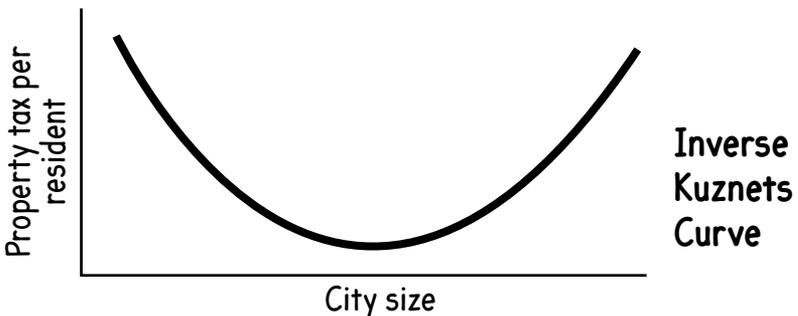
Property Tax (wealth)

- Real property
- Personal property
- Estate
- Tree growth
- Severance (energy)
- Vehicle registration
- Oil and gas (an *ad valorem* tax)

Some states in the east have a property tax on autos.

Some politicians are proposing an annual 'wealth' tax on the richest Americans.

The tax that gives local governments autonomy.



Sin (sumptuary) Tax

- Tobacco products
- Alcohol products
- Hazardous waste
- Landfill
- Pot tax

Gullibility Tax

- Lawful gambling
- Pull tabs
- Lotteries

About 50% goes to government

About 5-10% goes to administration

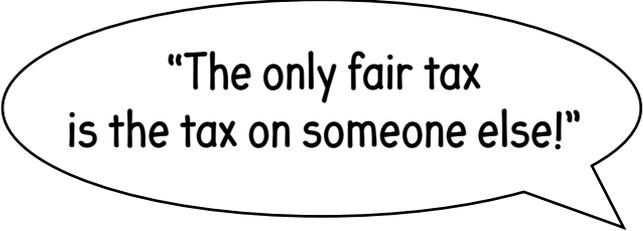
About 40-45% goes to winners

Characteristics of a “Good” Tax System

1. Equitable
2. Efficient
3. Neutral (unless ...)
4. Adequate
5. Reliable
6. Understandable
7. Low compliance costs
8. Low administrative costs
9. Minimal shifting
“good” for taxing jurisdiction
10. Exportable?
11. Competitive?
12. Balanced??

Tax Equity

- ① According to ability to pay
(e.g., income tax)
- ② According to benefit received
(e.g., gasoline tax)



“The only fair tax
is the tax on someone else!”

How to measure ability/capacity?

What if 2 people earn the same but have different net worth?

What if 2 people have the same capacity to earn, but one chooses leisure (in public parks!)

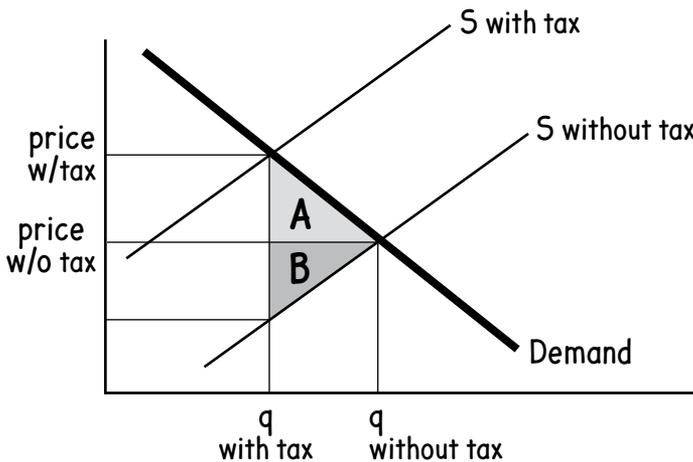
Progressive - % goes up and base goes down

Proportional - % stays the same with base

Regressive - % goes down as base goes up

Tax Efficiency

How a tax affects resource allocation, patterns of consumption and spending, patterns of work and leisure, ...



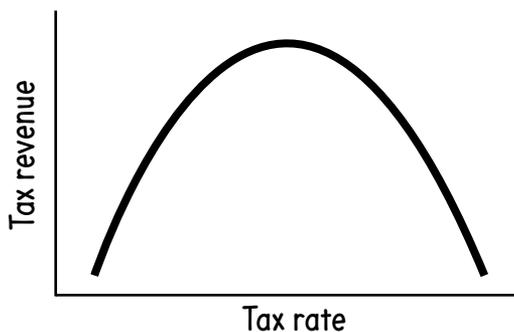
A - lost consumer surplus
+ B - lost producers' surplus
= the TAX WEDGE, deadweight loss, excess burden

$$\text{Coefficient of inefficiency} = \frac{\text{Excess burden}}{\text{Total tax revenue}}$$

U.S. range is 13¢ - 24¢

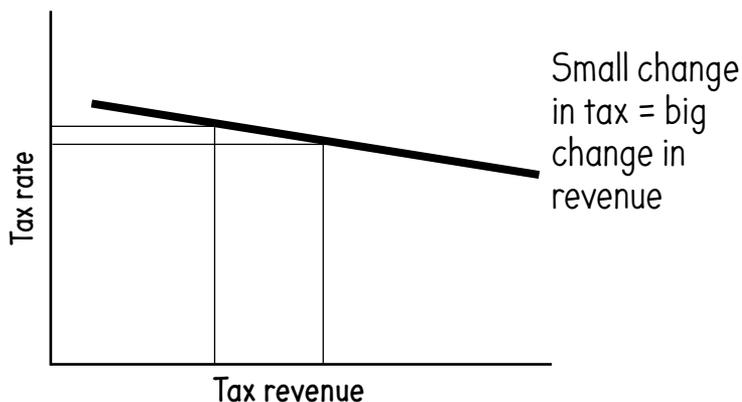
Reliable

Laffer Curve

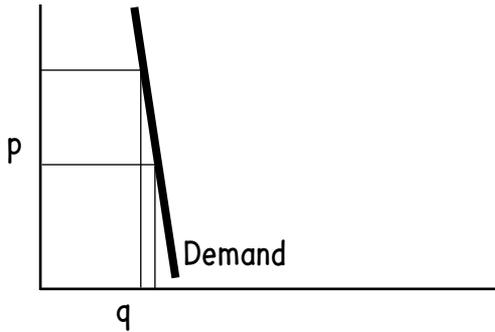


Elasticity

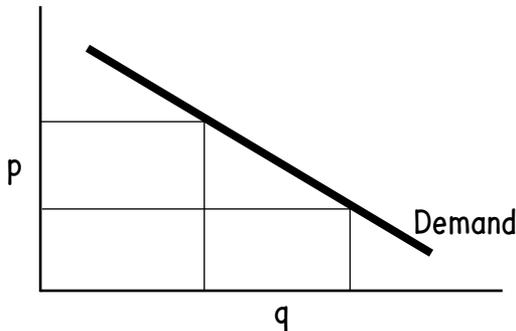
Wagner's Law - the demand for public goods is income elastic



The demand for some goods is inelastic (cigarettes, insulin)



For other goods it is elastic (7-up)



If a tax is imposed on a good with **inelastic demand**, consumer pays most of the tax and quantity demanded doesn't change much.

If a tax is imposed on a good with **elastic demand**, producer pays most of the tax and quantity demanded drops.

Summary

It takes revenue to operate government.

Revenue can come from many sources (pockets).

Policy makers need to consider how important each of the characteristics is to their government unit and design revenue sources accordingly.

All state and local taxes as a percentage of personal income:

	2008	2015
- Minnesota	10.3%	10.6%
- North Dakota	9.85%	16.5%
- South Dakota	8.6%	8.0%
- Highest: New York	13.1%	14.9%
- Lowest: Alaska	9.7%	6.2%