This PDF is a selection from a published volume
from the National Bureau of Economic Research

Volume Title: Tax Policy and the Economy, Volume 18

Volume Author/Editor: James M. Poterba, editor

Volume Publisher: MIT Press

Volume ISBN: 0-262-16226-1

Volume URL: http://www.nber.org/books/pote04-1

Conference Date: November 4, 2003

Publication Date: August 2004

Title: Introduction, acknowledgment

Author: James M. Poterba

URL: http://www.nber.org/chapters/c10867

INTRODUCTION

James M. Poterba
Massachusetts Institute of Technology and NBER

This volume represents the eighteenth installment of the NBER's *Tax Policy and the Economy* conference series. This series communicates current academic research findings in the areas of taxation and government spending to policy analysts in both the government and the private sector. *Tax Policy and the Economy* papers address issues that have an immediate bearing on current policy debates as well as questions that are of longer-term interest. All of the research described at *Tax Policy and the Economy* meetings has some connection to policy analysis in the field of public finance. The five papers in this year's volume touch on topics that are as old as the income tax itself, such as the measurement of depreciation allowances, as well as on currently emerging issues, such as the tax treatment of income on assets that have been saved to pay for expenses associated with higher education.

The first paper, by Mihir Desai and William Gentry, investigates "The Character and Determinants of Corporate Capital Gains." The paper starts with the observation that the tax and other determinants of corporate capital gain realizations have received far less research attention than the analogous determinants of individual capital gain realizations. The authors note that this is surprising, since corporate capital gain realizations average nearly thirty percent of individual realizations. The paper then shows that aggregate corporate capital gain realizations track aggregate individual gains quite closely, and it also finds a substantial elasticity of corporate capital gain realizations with respect to the corporate capital gains tax rate. The authors document this behavioral elasticity using both aggregate time series data and panel data on individual firms. They conclude that high corporate capital gains tax rates may discourage firms from raising cash by selling physical assets or the securities of other companies, thereby inducing a "lock-in effect." Their analysis of firm-level data on sales of physical assets and securities represents a novel investigation of the asset turnover behavior of U.S. firms.

The next paper focuses on a perennial issue of tax policy design: the estimation of asset depreciation rates. Mark Doms, Wendy Dunn, Stephen Oliner, and Dan Sichel are the authors of "How Fast Do Personal Computers Depreciate? Concepts and New Estimates." This paper uses a large new data set consisting of the second-hand prices of personal computers manufactured by five major firms to study the rate at which these computers lose their resale value. Their estimates suggest that a personal computer loses roughly half of its remaining value with each year of use. This decline in value is the result of both physical depreciation and revaluation. These estimates of asset value decay rates can be used to evaluate the depreciation provisions of the current income tax code. At low inflation rates, current rules generate depreciation benefits that are similar to the loss in value experienced by PCs. At higher inflation rates, however, current depreciation allowances would fall below actual depreciation. This paper offers a framework for evaluating depreciation allowances and for using asset price data to calibrate tax depreciation parameters.

The third paper, by Susan Dynarski, is "Tax Policy and Education Policy: Collision or Coordination? A Case Study of the 529 and Coverdell Saving Incentives." This paper analyzes the benefits of recently-created tax incentives for college saving, when viewed from the perspective of participating families. The key insight of this paper is that one must recognize the interplay between tax incentives to accumulate assets to finance higher education and the incentives embodied in college financial aid rules. In particular, Dynarski shows that the standard treatment of college saving under the income tax and financial aid rules that applied prior to 2003, and that was under debate and possible reform at the time of the conference, could make some households worse off if they saved in a tax-favored saving account. This outcome is the result of poor coordination between financial aid rules and tax rules. This possibility was particularly important for "aid-marginal" households, those for whom a substantial increase in the family's financial assets could result in a substantial decline in the family's financial aid package.

The next paper is Emmanuel Saez' "Reported Incomes and Marginal Tax Rates, 1960-2000: Evidence and Policy Implications." This paper addresses a central question of tax policy debate, with a particular bearing on the problem of revenue estimation: how do changes in marginal income tax rates affect reported taxable income? Saez' new empirical analysis is based on repeated cross-sections of tax filings. These data sets provide a large sample of taxpayers in each year, thereby allowing greater precision than smaller panel data sets in estimating some aspects of taxpayer behavior. The results suggest two important conclusions. First, there appear to be stark differences in taxpayer responses to different tax

reforms. While the Tax Reform Act of 1986 and the tax increase in 1993 were associated with large taxpayer responses, earlier tax reforms, notably those in the 1960s, appear to have resulted in only minimal changes in taxpayer behavior. Thus it appears as though the elasticity of taxable income with respect to the marginal tax rate is a time-varying or context-dependent parameter. Second, the taxable income elasticity appears to be greater at higher income levels than at lower levels. This implies that for the purpose of revenue estimating, it may be more important to consider potential behavioral responses at high incomes than at lower incomes.

Finally, the last paper focuses on the long-standing issue of tax subsidies to housing. Todd Sinai and Joseph Gyourko study "The (Un)changing Geographical Distribution of Housing Tax Benefits: 1980–2000." Their paper offers a careful analysis of the income tax expenditures associated with owner-occupied housing. They compute the difference in the total income tax liability that households in different states would face under two different assumptions about the tax treatment of housing. The first is the status quo, and the second is an alternative tax regime in which homeowners are taxed on their imputed rental income while claiming deductions for interest expense and property taxes, as under the current tax rules for itemizes, as well as for maintenance costs, which are not currently deductible. The results show that homeowners in coastal California, New England, and several mid-Atlantic states with high house prices, receive the largest per-household subsidies. The broad geographical pattern of subsidies has remained reasonably stable over time, but rising dispersion in house prices has increased the dispersion in per-household tax subsidies. The cross-state dispersion in tax subsidies to owner-occupied housing is greater today than twenty years ago.

Each of these papers illustrates the type of policy-relevant research that is carried out by the affiliates of the NBER Public Economics Program. Each provides important background information for policy analysis, without making recommendations about the merits or demerits of particular policy options. I hope that each of these papers will provide useful input to various participants in the policy process who are concerned with the design of tax policy.

ACKNOWLEDGMENTS

In planning and organizing this year's *Tax Policy and the Economy* conference and the associated volume, I have incurred debts to many individuals. Martin Feldstein, President of the NBER, has been an active supporter of this conference throughout its history. Conference Department Director Carl Beck and Rob Shannon did an outstanding job in updating the invitation list and in disseminating information about the conference to potential participants. The members of the NBER Conference Department, notably Lita Kimble, Rob Shannon, and Carl Beck, handled conference logistics with efficiency and good cheer. Helena Fitz-Patrick oversaw the publication process with outstanding attention to detail and with exceptional speed and efficiency.

I am also grateful to Professor N. Gregory Mankiw, who is currently on leave from Harvard University's Department of Economics to chair the President's Council of Economic Advisers, for delivering a fascinating set of luncheon remarks at the conference at which these papers were presented. Greg's remarks focused on how current analyses of the estate tax overstate the progressivity of the tax. He noted that assigning tax burdens to decedents rather than to those who receive bequests is likely to overstate the wealth and income of those who pay the estate tax. He also called for more systematic analysis of the general equilibrium incidence of the estate tax, and in particular for greater recognition that the tax may discourage capital accumulation and therefore burden workers as well as those who accumulate and bequeath wealth.

Finally, I wish to thank each of the authors whose papers are included in this volume for striving to communicate their important research findings in a readable and clear fashion. I appreciate their efforts and willingness to participate in this very important opportunity for interchange between the research community and policy-makers.