

Federal Income Taxation
Fall 2011
Professor Miranda Perry Fleischer

Unit IA: Tax Policy Basics

We will spend the first class on August 22 exploring the basics of tax policy before delving into the nuts and bolts of our current tax system on August 24.

For the first class, please carefully read pages 1-4, 21-23 and 28-41 and skim pages 4-12 from *Federal Income Taxation: Principles and Policies* (6th ed. 2009), by Michael J. Graetz and Deborah H. Schenk. Be prepared to discuss the following issues:

- (1) You are an aide to a Senator who says that she is thinking of proposing a special tax of \$10,000 per Mercedes on people who buy Mercedes cars. Do you think that this is a good idea or a bad idea? Why? What principles do you think should be used to evaluate this idea?
- (2) The Senator has decided to scrap the idea of taxing Mercedes cars. She asks you for the pros and cons of other tax bases, such as a head tax, a consumption tax, an income tax, and an endowment or ability tax. Can you think of other ways to measure people's ability to pay tax?
- (3) Two individuals, Penelope and Lola, each receive \$100,000 during 2011. What else might you want to know about Penelope and Lola and their money to determine whether they should pay the same or different amounts of tax?
- (4) Sawyer earns \$50,000 and pays \$10,000 (or 20%) in tax. Tucker earns \$200,000. The principle of vertical equity suggests that Tucker should pay more tax than Sawyer. Do you think Tucker should also be taxed at a rate of 20% (such that he pays \$40,000 to Sawyer's \$10,000)? Or should Tucker be taxed at a rate higher than 20%, such as 30% or 40%? What are the strongest arguments for a proportionate tax? For a progressive tax?

We will be using TWEN for the remainder of the semester, so be sure to add our class to your course list. The next several assignments have already been posted, as well as a course syllabus.

A word about the required statutory supplement (Daniel J. Lathrope, *Selected Federal Taxation Statutes and Regulations*). You will need the most recent edition, which was published in July of 2011 and reads "2012" on the spine. Congress passed substantial changes to the tax code in December of 2010, after the June 2010 version of the statutory supplement was published (which last year's class used). Although you may be tempted to borrow an older version from a friend, do so only at your own peril. The tax code is enough of a maze already without you looking at an outdated version.