

**Federal Income Taxation**  
**Fall 2012**  
**Professor Miranda Perry Fleischer**

**Unit IA: Tax Policy Basics**

We will spend the first class on August 28 exploring the basics of tax policy before delving into the nuts and bolts of our current tax system on August 30.

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* (6<sup>th</sup> 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 2012. 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.