

Taxation: A Very Short Introduction

Stephen Smith

Questions for thought and discussion

- Why has the burden of taxation risen so dramatically over the past 50 years? Does this reflect democratic pressures for higher public spending, and the higher taxes needed to pay for this, or does it reflect a failure of the democratic process of some sort? Does your answer have any implications for tax policy?
- What is the "burden of taxation"? Is it simply the amount of tax you have to pay?
- In what sense is there an economic cost when people change their behaviour because of the presence of a tax?
- What determines how the burden of taxation is distributed between different categories of taxpayer – for example how a sales tax is divided between firms and their customers, or a tax on the occupation of domestic property between landlords and tenants?
- The UK charges a "stamp duty" on the sale of houses (above a certain value), which is charged as a percentage of their value, and must be paid by the buyer. Would it be fairer for this tax to be charged to the seller instead, or would this make no difference?
- Why can an announcement of a future change in the tax treatment of assets (financial assets or housing for example) provoke immediate sharp adjustments in their price?
- In the 19th century the US radical writer Henry George advocated taxing land values. What is distinctive about the taxation of land? Why might taxing land values have lower economic cost than taxing consumer spending through a sales tax, or taxing work through a tax on labour income?
- Jean-Baptiste Colbert, finance minister to the French King Louis XIV, is quoted as saying: "The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing." Would this principle result in a good tax system, consistent with principles of efficiency and equity?
- Are the best taxes those which no-one notices? If not, why not?
- Why is taxation so complicated? Would we be better-off if taxation was simplified, so that tax law could be written on the back of a postcard?
- If your plumber asked to be paid in cash so that they didn't have to pay income tax, would you be happy to do so? If so, why? Do you think plumbers should pay less tax than other people?
- If people get away without paying their taxes, good luck to them! Do you agree?
- Many countries tax food less than other goods, or not at all. Is this a good way of helping the poor? What if the rich in fact benefit more from the lower tax, because they spend more on food?
- What does the notion of economic efficiency imply for tax policy?
- Do principles of equity and efficiency always conflict in designing a tax system?
- Why do some large international corporations manage to pay so little tax on their profits? What, if anything, should be done about this? Can effective action be taken by individual countries acting alone?

- If you were in charge of tax policy, and could decide to reduce some taxes, so long as others were increased to raise the same total revenue, what taxes would you cut, and what taxes would you increase? Why would you make these choices? How would you persuade people that your changes were justified?

Other books and articles by Stephen Smith

Environmental Economic: A Very Short Introduction, (Oxford University Press, 2011)

"National Policy Interests in the Duty Free Market", (with Vidar Christiansen), *CESifo Economic Studies*, vol 50, 2/2004, 351-375.

"Economic Issues in Alcohol Taxation", in Sijbren Cnossen (ed) *Theory and Practice of Excise Taxation. Smoking, Drinking, Gambling, Polluting and Driving*. (OUP, 1995)

"VAT fraud and evasion: What do we know and what can be done?" (with Michael Keen), *National Tax Journal*, Vol LIX, No 4, pp 861-887, December 2006.

Further Reading

Institute for Fiscal Studies, *Tax by Design. The Mirrlees Review*. (OUP, 2011).

Paul Johnson, 'Tax without Design: Recent developments in UK Tax Policy', *Fiscal Studies*, 35 (2014): 243-273.

Joseph E Stiglitz (2000) *Economics of the Public Sector*. (Norton)

Joel Slemrod, 'Cheating Ourselves. The Economics of Tax Evasion' *Journal of Economic Perspectives*, 21 (2007): 25-48. (open-access via the *American Economic Association* website)