

Taxation, Incentives, and Behavior: Empirical Evidence and Implications

George Kopits

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Outline

Challenges in the post-Covid era

Taxation of capital

Taxation of labor

Personal income taxation

Selective excises

Distortionary taxes

Implications for the post-Covid era

Challenges in the post-Covid era

- Ongoing and future pandemics
- Aging, **decline in the productive labor force**
- Inflationary pressures (Goodhart-Pradhan, 2020)
- Deterioration in fiscal sustainability
- Rise in interest rates, including risk spreads
- **Secular stagnation** (Rachel-Summers, 2019)
- **Climate change**
- **High international mobility of capital**

Taxation of capital

[Through rental cost of capital, derived from profit maximizing objective function]

Effect on investment

Time-series estimate of effect (-) of taxation and simulation of effect (+) of US investment tax credit (Hall and Jorgenson, 1967)

Effects on MNC financial inflows

Cross-country estimate of effects (-) of differential tax rates on US-based intrafirm dividends and on royalties, including via transfer pricing (Kopits, 1972, 1976)

Taxation of labor

Effect on employment

Time-series estimate of effect (-) of payroll tax and simulation of effect (+) of France's *prime d'incitation a la creation d'emploi* (Kopits, 1978)

Time-series estimates of effect (-) on employment and simulation of effect (+) Italy's employment tax credits (Cipollone-Guelfi, 2006)

Personal income taxation

[Based on a two-sector general-equilibrium model]

Effect on work effort

Time-series simulations of effect of progressive tax, including through “Laffer curve” (-) within top range of Sweden’s marginal income tax rates (Stuart, 1981)

Selective excises

Effect on consumption

Various estimates of effects (-) of specific-rate tobacco, alcohol, fuel excises (various sources)

Effect on carbon abatement

Various estimates of effect (-) of specific-rate carbon taxes on carbon emission, and of effect (+) of tax credits for carbon capture (IMF, 2019)

Distortionary taxes

[Based on endogenous growth model]

Effect on growth

Cross-country time-series OECD panel estimate of effect (-) of income taxes, payroll taxes, property taxes, on per-capita growth (Kneller *et al.*, 1999)

Implications for the post-Covid era

- **Targeted incentives (tax credits, subsidies) for investment in R&D → tech innovation, growth**
- **Targeted incentives (payroll tax cuts, tax credits) for hiring, training → employment, growth**
- **Cuts in distortionary taxes → growth**
- **Taxes on carbon emissions; tax credits for carbon capture → mitigation of climate change**
- **Worldwide minimum corporate tax, uniform base → allocative efficiency, growth**

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