

Analyzing Tax Policy and Advocating for Tax Reform

By Noah Glyn
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The Tax Foundation

- Founded in 1937
- Non-partisan
- Provides “sound research and analysis on federal and state tax policy.” (TF’s Mission Statement)
- Different Publications: Fiscal Facts, Special Reports, Maps, Supreme Court Briefs, Tax Watch (quarterly)
- Tax Foundation University



Principles of Sound Tax Policy

Courtesy of Adam Smith

- **Simplicity:** Minimal administrative costs; less complicated taxes; high rates of compliance
- **Transparency:** Legislation should be transparent; taxpayers understand how tax assessment, collection and compliance works
- **Neutrality:** Taxes should influence fewer economic decisions; primary purpose is to raise revenue, not influence behavior.
- **Stability:** Not in constant flux, making financial planning easier.
- **No Retroactivity:** Corollary to stability; taxpayers should rely on the law as it exists when contracts are signed.
- **Broad Bases and Low Rates:** Corollary to neutrality; avoid credits, deductions, and exclusions; fewer tax preferences.



Two Big Projects

- Earned Income Tax Credit (EITC)
- State-level research and development (R&D) tax credits



EITC

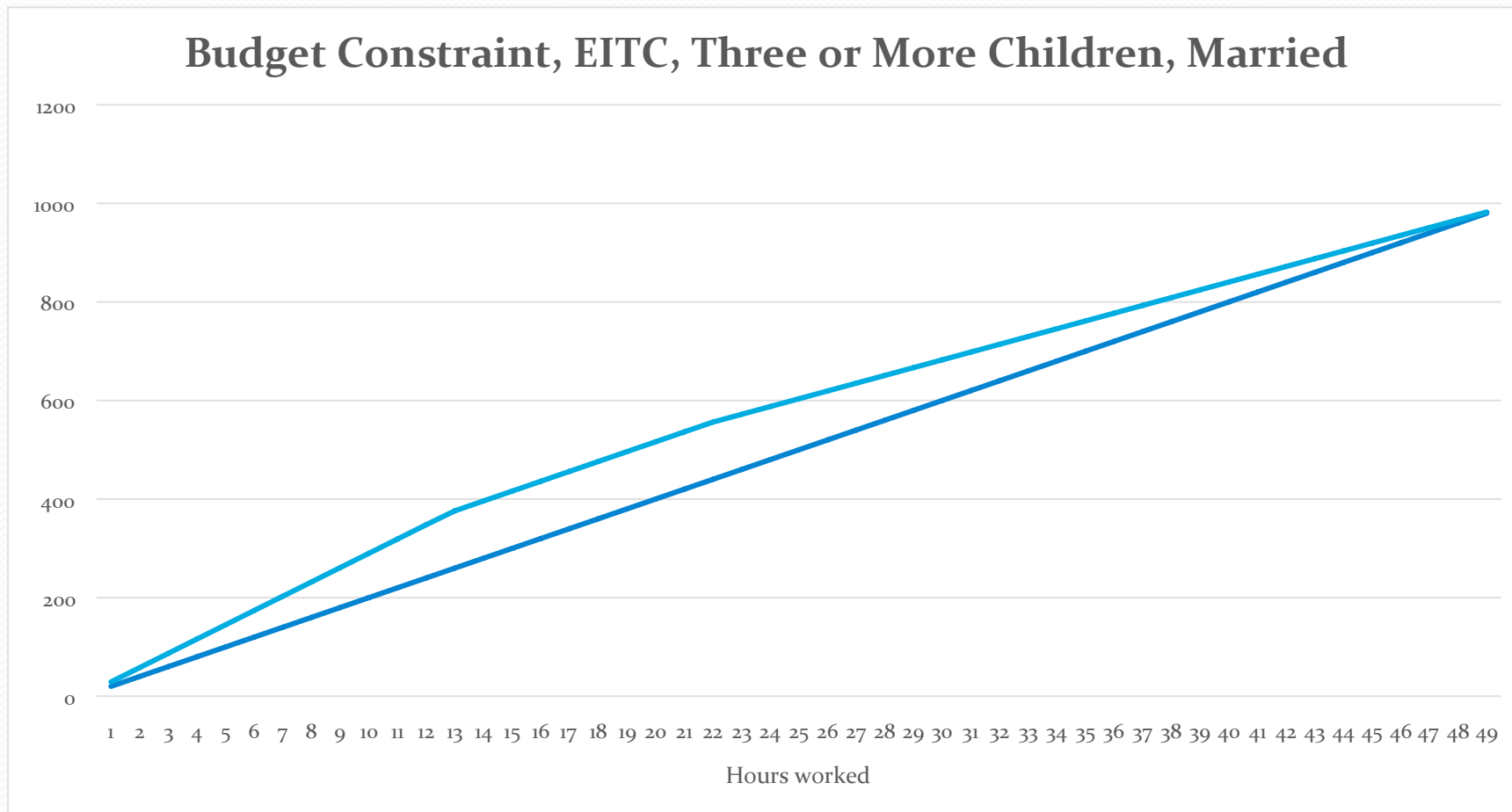
- Created in 1975 during Ford administration
- Expanded by Democrats and Republicans
- Refundable tax credit
- Lowers income tax liability for low and moderate income taxpayers
- Decreases marginal tax rate → Increases work incentives
- . . . or does it?



EITC Details

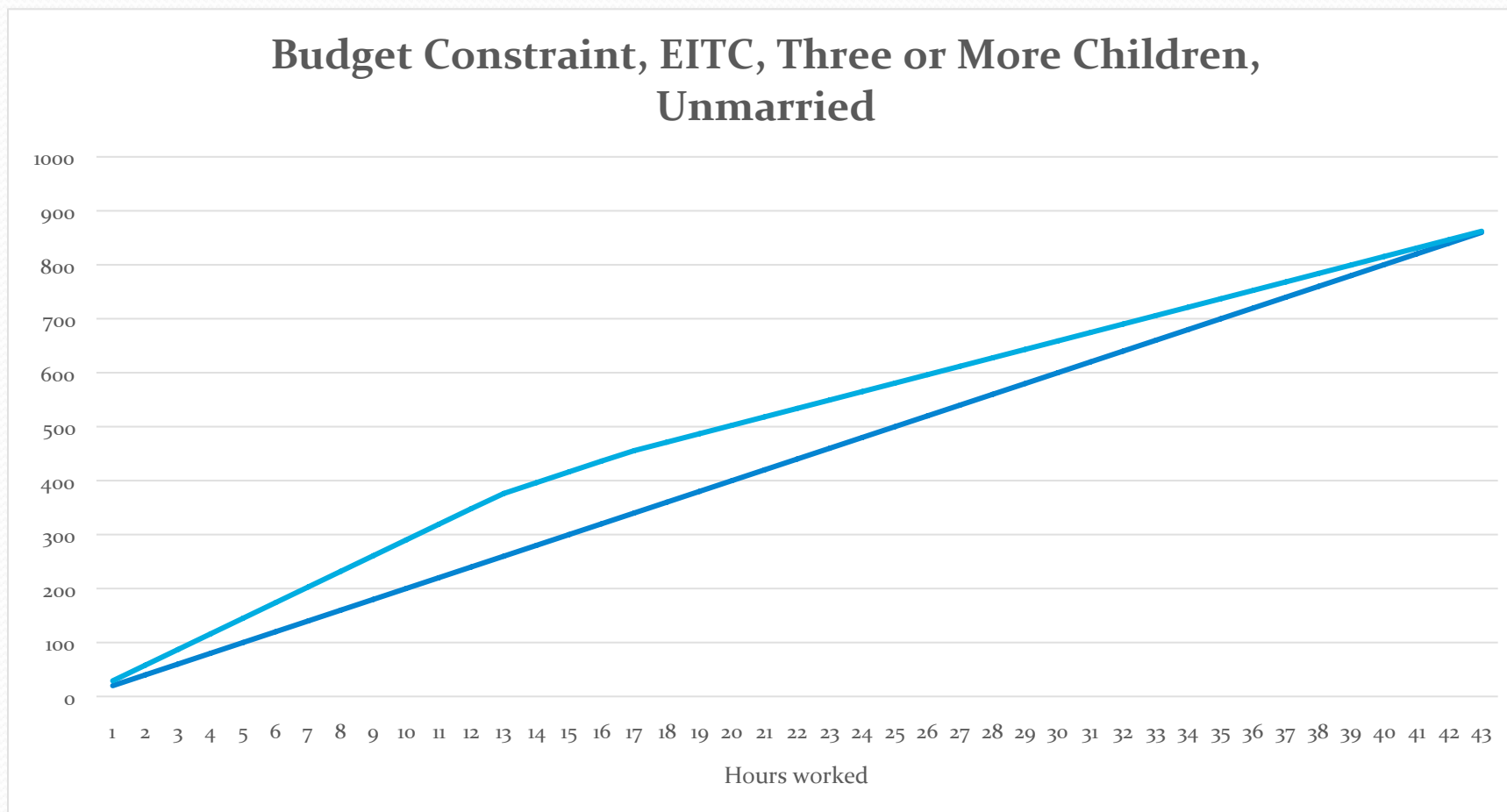
- Note: Graphs about to be shown are for individuals earning \$20 per hour.
- Marriage: Being married increases the phase-out stage of EITC
- Children: Having more children increases the size of the maximum credit

EITC Budget Constraint



EITC Budget Constraint #2

Budget Constraint, EITC, Three or More Children,
Unmarried





R&D Tax Credits

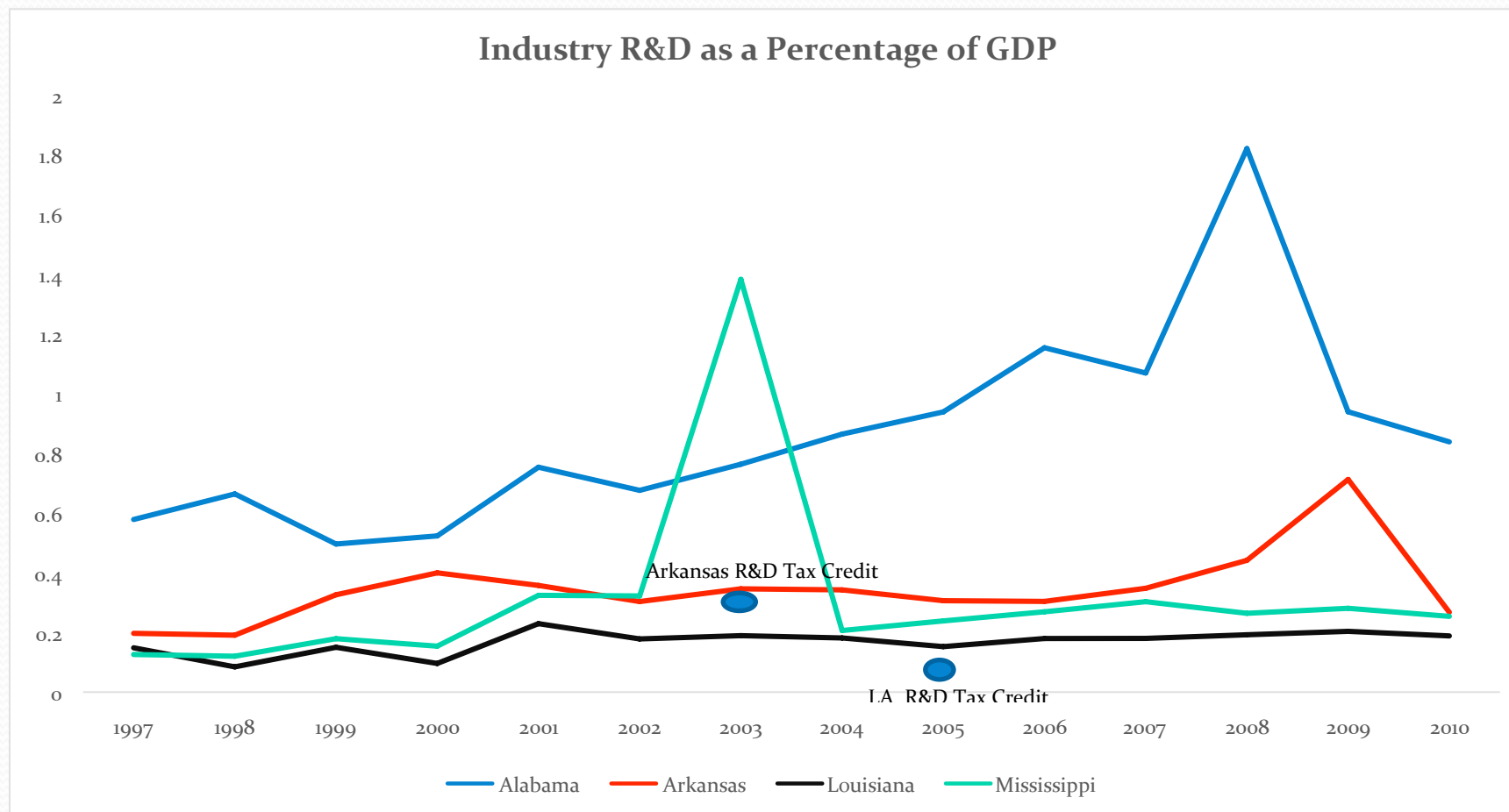
- In 1981, federal government institutes federal R&D tax credit to increase R&D
- States start creating their own R&D tax credit programs
- Currently, 30 states have R&D tax credits



Empirical Research

- San Fran Fed: “[S]tate R&D tax credits are indeed effective at increasing R&D within the state,” but “nearly all of the resulting increase comes at the expense of reduced spending in other states.”
- State-level R&D tax credits **do not create new R&D**, but relocate the already existing R&D.
- “Zero-sum game among states.”

Four States: Arkansas, Alabama, Mississippi, and Louisiana





My Story

- Majored in economics
- Economics is my concentration in graduate school
- Courses taken/taking: Finance, State and Local Finance, Macroeconomics, Health Care Policy
- Working at the Tax Foundation:
 - enhanced my economic policymaking skill-set.
 - connected to knowledge learned from prior economics courses.



My Future

- Potential employers:
 - Policymakers
 - Think tanks
 - Governments
 - Private firms



That's My Time, I Thank You for Yours

- Questions?
- Comments?
- Suggestions?
- Arguments?