Discussion of "Tax and Transfer Progressivity at the US State Level"

by Johannes Fleck, Jonathan Heathcote, Kjetil Storesletten and Giovanni L. Violante

Sebastian Dyrda

University of Toronto

2021 NTA Annual Conference
November 17, 2021

The paper

- Great paper, carefully executed by leading experts in the field. Hard to find anything to comment on!

- The issue: state and local taxes are important - 7% of GDP. Compared to 8% for federal income taxes.

- The questions: How do state and local taxes impact the overall redistribution? How much variation is there across states in tax/transfer progressivity?

- FHSV combine the number of administrative data sets (ASEC, CPS, CEX, SOI) and estimate the tax/transfer function:

$$\log(y_i - T_i) = \lambda + (1 - \tau)\log(y_i)$$

The findings

1. Overall state and local tax/transfer system: $\tau = 0.008$.

2. State income taxes: $\tau = 0.011$. Then:
   - Transfers: progressivity $\uparrow$
   - Regressive property, sales and excise taxes: progressivity $\downarrow$

3. Lot of cross-state variation in progressivity: Texas, Dakotas (low) vs. Wisconsin, Oregon, Michigan (high). Driven by the choice of tax base.

4. State characteristics explaining higher progressivity:
   - democratic-leaning
   - ethnic diversity

Comment: asymmetric treatment of business profits

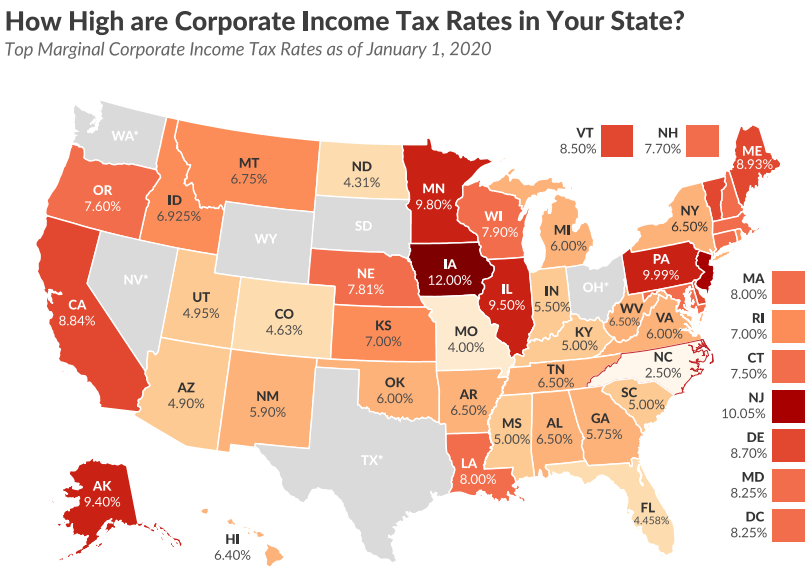

Figure 11 illustrates the geographical variation in state tax and transfer progressivity.

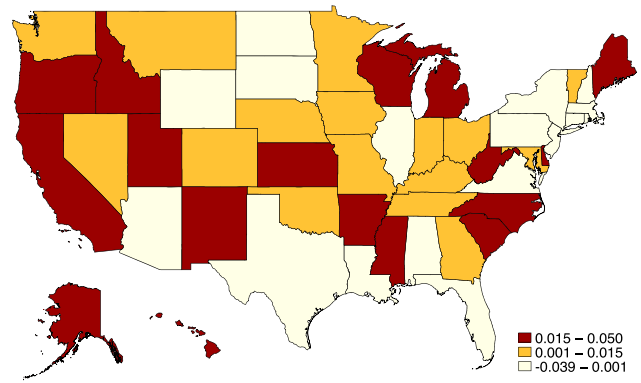

Figure 11: Variation in tax and transfer progressivity across US states

- Asymmetry: FHSV include profits from pass-through businesses in income definition, but corporate profits are included only if paid out as dividends.
- Cross-state variation in corporate income taxes and deductions potentially affect the estimates (choice of tax base).

Further comments

1. How robust are the findings w.r.t. change in the functional form? Other forms on the table: Guner, Kaygusuz and Ventura (2014).
   - My experience with HSV: single parameter controlls progressivity thus changes in marginal tax rates only at the top hard to capture.

2. AGI composition differs across states:
   - Salaries and wages: 56.5% in Florida, 69.8% in New Jersey
   - Net capital gains: 10.2% in Massachusetts, 3.5% in Missisipi
   - Taxable IRA and pensions: 7.3% in California, 12.3% in South Carolina

   Different marginal rates (deductions etc.) on different sources of AGI. Do you account for that in state characteristic regression?

3. Time dimension. A bit out of papers's scope but: does the progressivity ranking across states vary over time? Do we see the change in tax competitiveness between say Texas vs. California?