Comments on "The Economic Incidence of Additional State Business Taxes" by Bob Cline et. al.

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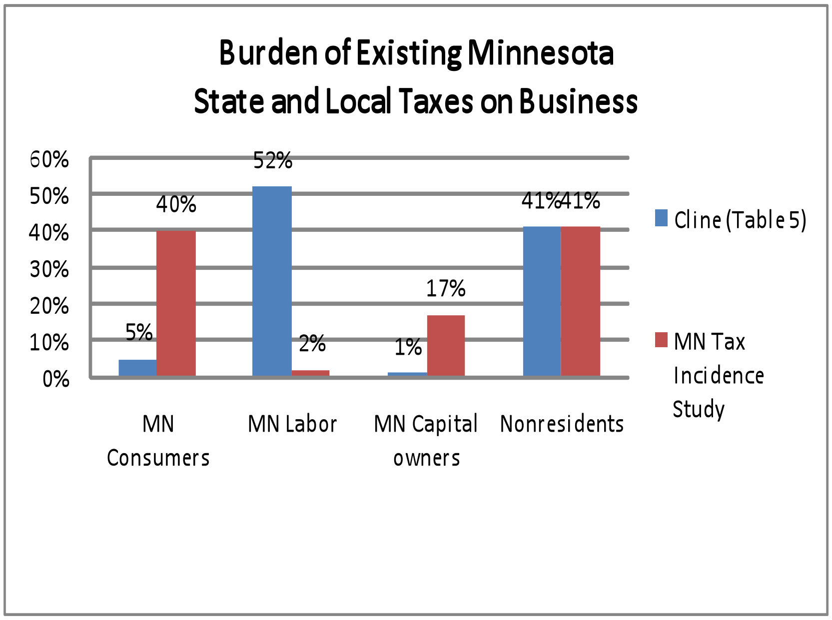
- "Not an easy assignment"
- Makes the important distinctions – existing vs. incremental change, destination vs. origin-based, local vs. national markets.
- Says nice things about the MN model
- How do the results compare to those in the MN Tax Incidence Study?
  - Existing taxes
  - Change in tax

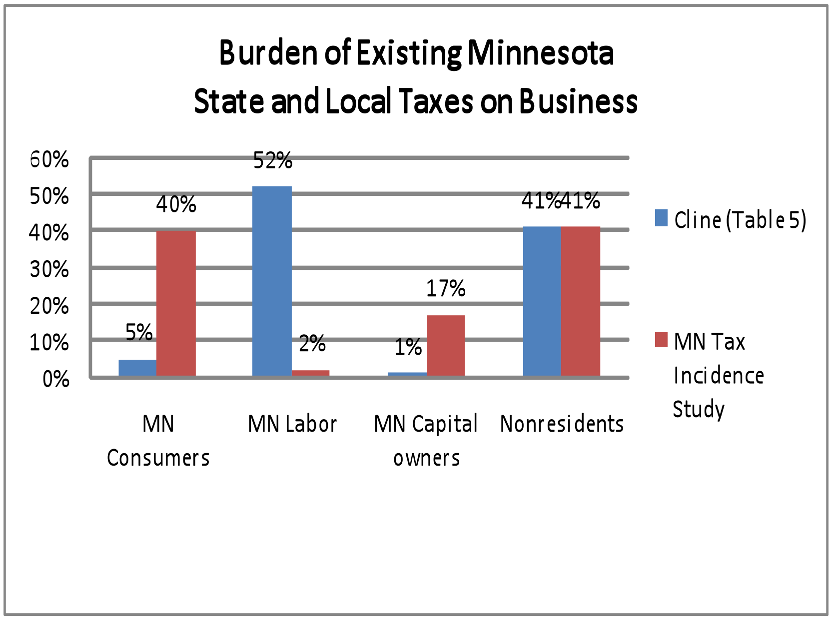


Why the Difference?

- Same definition of business taxes
- Not much due to different approach to corp tax.
  - Not sure about the role of apportionment for existing taxes.
- All taxes combined vs. taxes separately?
  - Unlikely to make much difference, but combining business taxes (as Cline does) is an improvement.
- Agree on defining "3 parts" of the tax rate: National all-sector average, national sector differential, state sector differential.

- Major Difference #1: Assumptions about mobility
  - Both capital ***and labor*** *are* completely mobile?
  - Incidence Study assumes labor not mobile. (Benefits from government spending generally offset any added tax burden.)

- Major difference #2: "Tax on ***production***" (Cline) vs. "Tax on ***capital***" (MN)
  - Cline: Average national tax as % of private GSP is borne by both capital and labor.
  - MN Tax Incidence Study: Average national tax on capital (as % of value of capital stock) is borne by capital.



Existing Taxes: Political Difficulty of Using Cline Approach in Some States

- Consider a tax incidence study for Oregon:
  - Oregon labor pays 72%, Oregon capital 1%, and 64% is exported – total of 137% of the tax,
  - Oregon's business taxes **reduce** prices, so consumers gain an amount equal to 37% of the tax collected.
- Very tough to argue that your consumers gain due to your existing business taxes.

Incremental Incidence

- For an incremental change in tax in one state only, there is no (significant) change in the national average tax or national sector average tax – it's all a change in the state differential.
  - Prices rise if local market.
  - Otherwise shift to fixed factors.
- How does labor bear 28% of the burden (Cline Table 6)? Must be assuming labor is immobile.

One Significant Question on Incremental Incidence

- Doesn't a state export some of the burden to the federal government (due to lower federal taxes)?
  - Added state tax of $100 cuts federal tax by $35?
  - Argument against using federal tax offset for existing taxes does not apply to incremental changes
  - This would significantly increase the portion of the incremental tax change that is exported.

"…the incidence of a change in tax – unlike existing taxes – should take the federal tax offset into account."

MN Tax Incidence Study, p. 64.