TAX POLICY CENTER
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Discussant comments on Tax and Transfer at the US State Level by Fleck et al.

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Taxes and Transfer Progressivity at the US State Level

- The authors do a good job pulling together a plethora of information to come up with an answer to an important and HARD question.
- Builds on prior work examining optimal tax progressivity but that focused on federal taxes (Heathcote, Storesletten and Violante)
  - Once move on to different taxes in a federalist system where different governments get to set policies and populations vary the work involved grows exponentially
  - Must decide which taxes and transfers to include, what is your population sample and at what level of aggregation do you look at things
- How progressive are US taxes and transfers?
  - Found patterns similar to previous work but the devil is in the details
  - Namely, federal taxes and transfers progressive – state and local less so.
  - Tremendous variation across states *and* characteristics of the state matters

Details about what is included and excluded matter

- What you include or exclude in part needs to depend on what questions want to ask and what can be excluded or simplified
- Authors include:
  - Taxes on individuals (income, sales, residential property, excise taxes) but not on businesses (corporate income taxes, commercial property taxes)
  - Specific transfer programs
  - Working age population and households with at least one person working
  - Use CPS augmented with information from SOI
- Assumptions about incidence of taxes , especially business taxes can affect results
- There is no perfect dataset or source to answer these questions

These are not simple questions to answer

- **How do state and local taxes and transfers contribute to redistribution across US households?**
  - Individuals and households matter, excluding elderly understates this
  - More important to include measures based on federal and state and local combined
- **How much does progressivity vary across states?**
  - Basic patterns likely hold, but once you include corporate taxes and non-residential property taxes, how do the results change?
  - Find New York less progressive once you take property tax levels into account, but that may be driven by assumption that renters bear total cost

These are not simple questions to answer (ctd.)

- **What accounts for this heterogeneity?**
  - Politics matter as do demographics and income heterogeneity
  - Are these endogenous and how do details matter?
- **Has state and local progressivity changed over time?**
  - Important to look at federal and state and local together as important interactions. Problems if you don’t have all sources of income and distribution.
  - Discussions about TCJA and the impact highlight that interactions matter.

Specific questions about paper

- Would love more discussion of what states without income taxes are reliant on
  - Are these states using other taxes or lower levels of spending or both?
- How do regression results on what drives progressivity change if you look at cumulative federal, state, and local vs just state?
  - Does it vary if you include non-residential property? or vary incidence assumption for renters?
  - Do you need to take endogeneity into account?
- Calculate progressivity assuming income distribution the same across states
  - Opposite of fiscal capacity work.
  - Ideally would love to be able to decompose inequality and change from population and policy (Cooper, Lutz and Palumbo)
- Spending much of my career looking at these questions and figuring out how we answer them given limitations on datasets and information
- Valuable contribution to the field