

Budgeting in
Local
Government

Fall 2019



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Welcome!


Quick introduction before we dive in



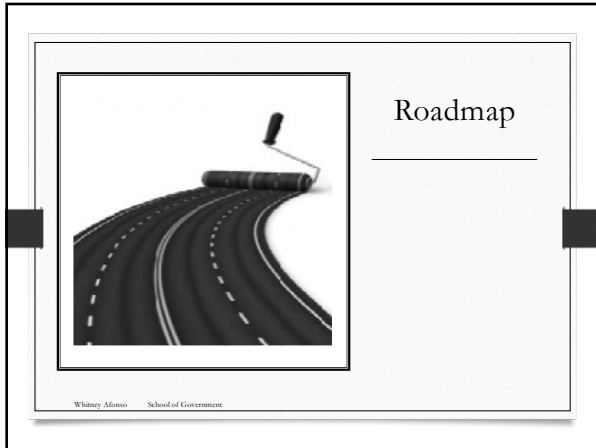
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Housekeeping

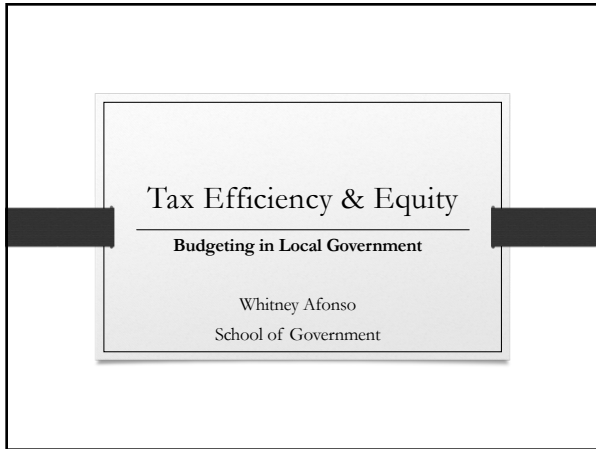
- Drinks
- Recycling
- WiFi
- Smoking
- Parking
- Maps
- Emergencies



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Perspectives



This afternoon we are going to briefly talk about underlying theory and criteria on tax policy



Discuss the trade-offs



May have limited impact what your options are, but it informs the conversation and provides and underlying understanding

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tax
/ˈtæks/ ⓘ

noun


- 1 a compulsory contribution to state revenue, levied by the government on workers' income and business profits or added to the cost of some goods, services, and transactions.
synonyms: duty, tariff, excise, customs, dues. More
- 2 a strain or heavy demand.
"a heavy tax on the reader's attention"
synonyms: burden, load, weight, demand, strain, pressure, stress, drain, imposition
"a heavy tax on one's attention"

- They are not voluntary
- They are policy decisions
- That does not mean that we will not have to discuss them *and explain* them to citizens



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Evaluating Tax Systems

- How do you discuss if tax policy is "good"?
- Defining and measuring the criteria for judging the effects of a tax
 - Efficiency
 - Equity
 - Adequacy
 - Feasibility

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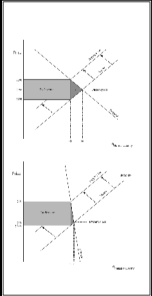
Efficiency

- For most things the “efficient” point is where the market supplies and prices the good
 - Taxes move us away from that point
- Taxes will change behavior more (create larger efficiency losses) when those goods are “elastic”
- Key concept: efficiency, elasticity

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Evaluating the Efficiency of a Tax

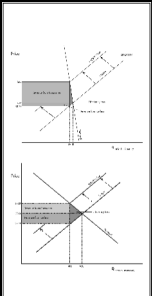


- What relative price will this tax distort?
- How much will consumers and producers change their behavior in response to this tax?

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Tax Incidence



- Who pays the tax?
 - Another way of asking this question is: Who bears the economic burden of the tax

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Equity

- Equity standards assess the *fairness* of a tax
- Equity objectives may be explicitly considered in setting a tax rate structure
- Equity considerations may represent trade-offs or unintended consequences from a tax

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Ability to Pay Principle

- People pay taxes based on their ability to pay for them.
- Two different notions exist of the ability-to-pay principle:
 - Horizontal Equity
 - Vertical Equity
- Key concept: Effective tax rate

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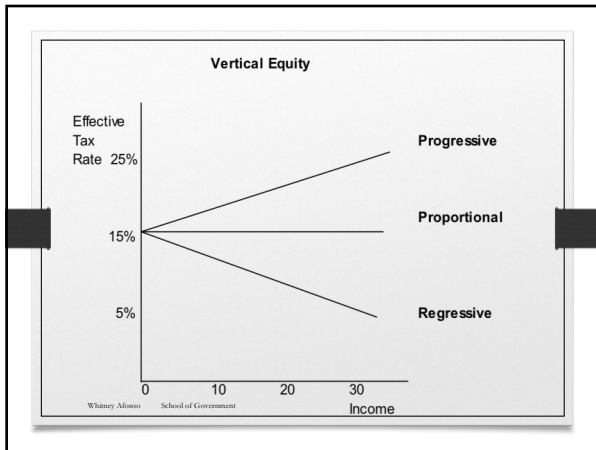
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Horizontal & Vertical Equity

<p>Horizontal</p> <ul style="list-style-type: none">• People with the same ability to pay, should pay the same• What should be included when gauging ability to pay?	<p>Vertical</p> <ul style="list-style-type: none">• People with different abilities to pay, should have different burdens• Key Issue: Progressivity
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Benefit Principle

- Cost of public expenditures should be borne by those who benefit from them
- People pay directly for the benefits they receive
- Fairness is based on the relationship between consumption and payment

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Adequacy

- Revenue Raising Capacity
 - The ability of the tax to produce a significant amount of revenue at reasonable tax rates.
 - The broader the tax base the lower the tax rate can be to produce the same amount of revenue
- Stability
 - Revenue raised over time remains relatively constant
 - Tax elasticity
 - How well do tax revenues keep up with changes in income?
 - We want revenues to grow with budget needs
 - These can be in contrast with each other

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Feasibility

- Administrative Feasibility
 - Compliance costs?
 - Easy to administer?
- Political Feasibility
 - Visibility
 - Exportability

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Prompt

- Work in groups of about 5.
 - Pull out your calculators!
 - *You do not have to really calculate the actual fees and revenue, just think about them in broad terms.*
- We will take about 10 minutes
- Decide on which option you are choosing and the two most crucial reasons why it is the best choice.
 - Then choose someone to share them with the whole group.

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Prompt

Are parks necessary?

Are they a part of what local governments are entrusted to provide their citizens?

Whom do they serve? Who benefits from them?

Colorado Springs example.

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Property Taxes

Efficient:

- Elastic?
- Size of base

Unpopular

- Visible
- Inequitable
 - Horizontally
 - Vertically
- Circuit breakers and exclusions

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Sales Taxes

- **Efficiency:**
 - It depends on what is included (excluded)
 - Food, clothes, etc?
 - Change to NC law last year
 - Beer and wine taxes?
 - Competition
- **Equitable?**
 - Make more = spend more?

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User Fees

- **Equity**
 - Ability to pay
 - Benefit Principle
- **Efficiency**
 - What are examples of user fees in your government?
 - Are they inelastic? (sensitive to price)

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Fiscal Illusion

People *systematically misperceive* their true tax burdens and the cost of government

- Evidence to suggest they underestimate it

Fiscal illusions are more prevalent when the tax is indirect and less visible

Does this notion change any of our earlier discussions about some of these options?

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Final Thought

- Taxes are only one side of the equation... do not forget expenditures.
 - For citizens especially
 - What are the trade-offs?
 - What are the services provided?

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Thank you

PLEASE FEEL FREE TO CONTACT ME WITH ANY QUESTIONS! AFONSO@SOG.UNCLEDU

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