

How much tax do the rich really pay? Evidence from the UK

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Views are my own and not necessarily those of the Federal Reserve Board

The paper

- Uses UK administrative tax data to compute effective average tax rates of different income groups & compares to headline rates
- Finds that tax rates differ across and within income groups
 - Decline as income increases
 - Vary substantially even for similar incomes
 - > Reasons: composition of income (labor vs capital) and tax relief claimed
- Proposes reform to increase tax rates for the rich

Empirics: questions & suggestions (1)

- Describe your sample in more detail (if possible)
 - Provide summary statistics, especially focusing on group differences
- Do non-income characteristics explain variation?
 - Family structures (marital status, number of dependents)
 - Transfers (unemployment benefits, food and housing support, etc)
 - Student loan payments or medical expenditures
 - Taxes filed by hired consultant
- (Does UK tax code map them into the relief measure?)

Empirics: questions & suggestions (2)

- Could information missing in your dataset affect empirical distribution of tax rates?
 - Inheritances, retained firm profits, occupational pensions (pre-tax wage), ...
 - Use your other papers to clarify numerical ballpark
 - Same info in PAYE records (low-income filers) as in tax returns?
 - In US, large tax rate heterogeneity at the bottom (transfers, tax credits, etc)
- Formalize and condense results, e.g. using variance decomposition
 - Income composition (relief) explains x% and y% of within vs. across variation
 - How much variation unexplained?

Policy reform: how much revenue?

- To increase tax rates of high incomes, paper suggests to
 1. equalize tax rates on different incomes
 2. change reliefs and exemptions (introduce AMT)
- Revenue computation: no effect on tax base = upper bound scenario
 - Powerful but counterfactual assumption: not only behavioral response but change in relative prices (capital vs. labor) and occupations (self-employment, business-owners)
- Alternative to full-fledged model: add lower bound scenario
 - Use tax reforms captured in your sample to gauge response
 - Do back of envelope calculations using literature estimates

Great work!

- Valuable empirical findings (few admin tax results for UK)
- Speaks to relevant and divisive public debate
- Clearly written and well-structured
- Comprehensive definitions and empirical analysis
- I learned a lot from this paper!