

Learning Goals

- Learning most important theoretical and empirical concepts, as well as the recent developments in the theory and empirics of Public Economics at the Master level
- Developing critical reading skills and knowledge to be able to interpret, evaluate and critique research articles on Public Economics
- Developing presentation skills and presenting and discussing research articles on Public Economics
- Finding a possible research topic and question for your Master Thesis

Course Format

Course lectures consist of two components. In one component, the lecturer will discuss the theoretical and empirical research on a topic. In the other, the students will discuss and comment on research articles.

Lecture Dates

Dates	Topic
March 4	Introduction and topic selection (Loretz/Halla) Recent Trends in Public Finance (Halla)
March 11	Economics of VAT and Pass-through of VAT changes (Loretz)
March 18	Student Paper Discussion – VAT pass-through (Loretz)
April 8	Tax evasion (Halla)
April 15	Student Paper Discussion – Tax Evasion (Halla)
April 22	Personal income taxation in Austria Recent reforms (Loretz)
April 29	Student Paper Discussion - Commuting Tax Allowances in Austria: Incentives, Mis-use and Reform Options (Loretz)
May 6	Incidence of Corporate Income Tax (Loretz)
May 13	Student Paper Discussion -Incidence of Corporate Income tax (Loretz)
May 27	Redistribution Through the Government (Loretz)
June 3	Health Insurance (Halla)
June 10	Developments in the international corporate tax reform debate (Loretz)
June 17	Endterm exam

Grading

The course grade will depend on the following:

- 40% Presentation (slides & oral)
- 20% Homework
- 40% Final Exam

Topics (preliminary and subject to change)

Topic 1 (Halla): Recent Trends in Public Finance, and methods (if needed)

- Readings will be announced soon.

Topic 2 (Loretz) Economics of VAT and Pass-through of VAT changes

As part of the economic stimulus package in response to the Covid-19 crisis the VAT for restaurant services, theater visits, repair services amongst others. The arguments in favour for such VAT rate reductions vary from support for the hard-hit sectors to promote the demand for repair. During the energy crisis an increasing number of political actors have also argued that a VAT cut could be used to tackle high inflation. To better understand such demand, this class will first review the general economics of the VAT. Building on this, it will become clear that whether a VAT rate cut can actually help to boost the demand for a service depends crucially on the pass-through of the tax rate change in form of a lower price. This class will review evidence from other European countries to see how much of a (temporary) VAT rate reduction is expected to show up in lower prices.

- Benedek, D. de Mooij, R., Keen, M. and P. Wingender (2020), Varieties of VAT pass through, *International Tax and Public Finance*, Vol. 27 (4), pp. 890-930.
- Benzarti, Y., D. Carloni, J. Harju and T. Kosonen (2020), „What Goes Up May Not Come Down: Asymmetric Incidence of Value-Added Taxes“, *Journal of Political Economy*, Vol.128 (12), pp 4438-4474.
- VAT Gap in Europe Report 2023

Topic 3 (Halla): Tax Evasion

This lecture covers the seminal treatment of income tax evasion by Allingham and Sandmo (1972). This theory provides us with important tools for the analysis of tax evasion; and it sets the basis for numerous further developments in the field.

- Allingham, M. G., & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. *Journal of Public Economics* 1 (3–4): 323-338.
- Kleven, H. J., Knudsen, M. B., Kreiner, C. T., Pedersen, S., & Saez, E. (2011). Unwilling or unable to cheat? Evidence from a tax audit experiment in Denmark. *Econometrica*, 79(3), 651-692.
- Hindriks, J., & Myles, G. D. (2013). Chapter 17 „Tax Evasion“ *Intermediate public economics*. MIT press

Topic 4 (Loretz) Personal Income Tax in Austria – Recent Reforms

Starting with 2023 Austria has changed its personal income tax system and indexes the income tax brackets to compensate for fiscal drag. This class will review this reform and discusses various concepts of fiscal drag.

Topic 4 (Loretz) Commuting tax allowances in Austria: Incentives, Mis-use and reform options

The Austrian coalition government had planned that the tax reform will include an ecological reform of the commuting tax allowances (“Ökologisierung der Pendlerpauschale”), but there

is little consensus how this should look like. This part of the class will therefore review a set of academic papers which highlight existing problems of the commuting tax allowance and then discuss reform options.

- Paetzold, J. (2019) Do Commuting Subsidies Increase Mobility? Evidence from a Regression Kink Design, *Regional Science and Urban Economics*, Vol. 75, pp. 136-147.
- Frimmel, W., M. Halla and J. Paetzold (2019), The Intergenerational Causal Effect of Tax Evasion: Evidence from a Commuter Tax Allowance in Austria, *Journal of the European Economic Association* 17 (6): 1843-1880.
- Paetzold, J. and H. Winner (2016), Taking the High Road? Compliance with Commuter Tax Allowances and the Role of Evasion Spillovers, *Journal of Public Economics*, 143: 1-14.

Topic 5 (Loretz): Incidence of corporate income tax

There is a growing consensus that corporations should pay their fair share of taxation. However, corporations as legal institutions do not bear the tax burden in itself and the incidence of the corporate income tax falls either on the owner (capital) or the workforce (labour). This part of the class will first work through the theoretical predictions of the incidence and then review recent empirical analyses of corporate tax incidence.

- Arulampalam, W., M. P. Devereux, and G. Maffini (2012), “The direct incidence of corporate income tax on wages”, *European Economic Review* 56(6): 1038–1054.
- Fuest, C., A. Peichl, and S. Siegloch (2018), “Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany.” *American Economic Review* 108 (2): 393–418.
- Harberger, A. C. (1962), The Incidence of the Corporation Income Tax” *The Journal of Political Economy* 70 (3): 215-240.

Topic 6 (Loretz) Redistribution through the government

An important role of public policy is to redistribute between wealthy and less wealthy households. However, very often redistribution is viewed in isolation from different policy goals and policy measures are evaluated individually. The Austrian Institute of Economic Research therefore has been regularly commissioned to conduct studies how the different policy instruments jointly redistribute between households in Austria. While this is the most comprehensive approach to redistribution through the government in Austria to date, we will discuss existing gaps and limitations together with the main results of the redistribution study.

- Rocha-Akis, S. J, Bierbaumer-Polly, J. Bock-Schappelwein, M. Einsiedl, M. Klien, T. Leoni, S. Loretz, H. Lutz, and C. Mayrhuber (2019) *Umverteilung durch den Staat in Österreich 2015* WIFO Studie im Auftrag des Bundesministeriums für Arbeit, Soziales, Gesundheit und Konsumentenschutz und des Bundeskanzleramtes.

Topic 7 (Halla): Health Insurance

- Selected Chapters from the book by Phelps and/or Bhattacharya, Hyde and Tu
- Two papers to be announced

Topic 8 (Loretz) Developments in the international corporate tax reform debate

Recently there have been substantial reforms and there are still ongoing discussions about further far-reaching reform proposals in the area of corporate taxation. In their inclusive framework on Base Erosion and Profit Shifting (BEPS) the OECD has amongst others proposed to introduce a global minimum tax and to reallocate taxing rights for profits of multinational groups. In this class we will review the proposals, the implementation of the reforms so far and take stock about the research regarding the expected consequences of such reforms.

- Hanappi, Tibor and Cabral, Ana Cinta González, (2020), The impact of the Pillar One and Pillar Two proposals on MNE's investment costs: An analysis using forward-looking effective tax rates, No 50, OECD Taxation Working Papers, OECD Publishing, <https://EconPapers.repec.org/RePEc:oec:ctpaaa:50-en>.
- OECD (2020), *Tax Challenges Arising from Digitalisation – Economic Impact Assessment: Inclusive Framework on BEPS*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, <https://doi.org/10.1787/oe3cc2d4-en>.

Paper Discussion / Homework

All students will be expected to read and prepare the papers to be covered for a discussion. All students are expected to participate in the discussion (we may ask students individually to answer questions on details of a paper, run small quizzes etc.). Note that *all* students are required to read the paper in advance and be prepared for the discussions. We also ask students to work on some homework assignments (to be announced in due time). Homeworks and their deadlines will be posted at learn@WU. You must submit your homeworks electronically at learn@WU – either scanning your hand-written homework or typing up your solutions – before the homework deadline. Working on Paper Discussion / Homework is essential for your final exam preparation.

Exams

The exams will cover all the materials covered in class as well as the discussed papers / homework.

Contact

If you have any questions regarding the course content, lectures or the preparation of the presentations or want to schedule an appointment, you can reach us at martin.halla@wu.ac.at and simon.loretz@wifo.ac.at.