

Open Book Exam

**Fundamental Federal Tax Reform and
State and Local Tax Systems**

*Ten Things Anybody Interested in Fundamental Federal Tax Reform
Should Know about Its Effects on the State and Local Sector*

Note: there are 10 questions of equal weight, 100 Points Total
+ 1 Bonus Question Worth 10 points

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Q1. A one percent *relative* increase in the real, after-tax rate of return on private savings will raise the *relative* US savings rate (choose one):

- A. +1.4 percent
- B. +.5 percent
- C. +03 percent
- D. +.001 percent
- E. Nobody knows for sure

[Hint: this is a question about the size of the elasticity.]

A1. E: Nobody knows for sure

Q2. A tax on business gross receipts at 20% will bring in less revenues than a 20% value added tax (choose one).

- A. True
- B. False

A2. False

Q3. Name one state that does not incorporate the Internal Revenue Code into its state revenue code.

A3. Arkansas

Q4. The percentage of states with personal income taxes that rely on either federal Adjusted Gross Income or federal Taxable Income in the calculation of state taxable income is (choose one):

- A. 0-20% of the states with personal income taxes
- B. 21-40% of the states with personal income taxes

- C. 41-60% of the states with personal income taxes
- D. 61-80% of the states with personal income taxes
- E. 81-100% of the states with personal income taxes

A4. E 81-100% of the states with personal income taxes (as of 1993/4)

Q5. The percentage of states that are currently under federal-state cooperative agreements with the Internal Revenue Service is (choose one):

- A. 0-20% of the states
- B. 21-40% of the states
- C. 41-60% of the states
- D. 61-80% of the states
- E. 81-100% of the states

A5. E. 81-100% of the states as of 1993/4

Q6. The 1932 manufacturer's wholesale excise tax, HR10236, that was reported by the Ways and Means Committee of the US Congress: (choose one)

- A. Never got to the House Floor
- B. Got to the House Floor but was never voted upon
- C. Was passed by the House but never considered by the Senate
- D. Was defeated on the House floor
- E. Was passed by the House and the Senate but died in Conference Committee
- F. Was passed by the Congress but vetoed by President Roosevelt

A6. C. Was defeated on the House floor

Q7. Name and briefly discuss 3 administrative mechanisms for administering a value added tax.

A7. First, generally define the Value Added Tax as:

$$VAT = t(R - C_x)$$

where t is the tax rate, e.g. 20%, R is revenues of each firm, and C_x are external costs to the firm. The three administrative methods are:

- i. addition method: $VAT = t (\text{Wages} + \text{Return to Capital})$, e.g. the difference between R and C_x
- ii. subtraction method: $VAT = t (R - C_x)$
- iii. credit invoice method: $VAT = tR - tC_x$

Q8. The accounting records of domestic US corporations, kept in accordance with financial reporting and accounting requirements of the Securities and Exchange Commission, readily support the administration of a credit-invoice value added tax(choose one).

- A. True
- B. False

A8. B. False

Q9. Were the Internal Revenue Code to eliminate taxation of income, the states would be able to easily obtain information on (respond to each, indicating True or False, 2 points each):

- A. Dividends paid and dividends received (True or False)
- B. Interest paid and interest received (True or False)
- C. Capital gains realized (True or False)
- D. Rent paid and rent received (True or False)
- E. Royalties paid and royalties received (True or False)

A9.

- A. False
- B. False
- C. False
- D. False
- E. False

Q10. The Internal Revenue Service Could Implement a National Retail Sales Tax in 12 months.

- A. True
- B. False

A10. B. False

Q11. A revenue neutral (\$1.3 trillion in revenues) value added tax rate, that excluded housing, medical care, food, and clothing would be:

- A. 5-10%
- B. 11-16%
- C. 17-20%
- D. 21-25%
- E. 26-30%
- F. 31-35%
- G. > 36%

A11. G > 36%

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