Using the Alternative Minimum Tax to Estimate the Elasticity of Taxable Income for Higher-Income Taxpayers

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Summary

- Uses effective tax schedule from the interaction of the AMT with the regular income tax schedule for higher-income taxpayers
- estimate and compare elasticities via two methods: the traditional bunching estimator, and a method using sub-distributions as control groups
- low elasticity estimates obtained for higher income taxpayers in the United States using the traditional bunching estimator is a result of excluding the impact of another salient federal income tax instrument, which interacts with the regular tax schedule at higher income levels and confounds such an analysis.
- individual income tax return data from 1993-2011
- find an elasticity estimate of 0.08 at the effective kink
- higher elasticities than Saez (2010) for higher-income taxpayers

Contributions

- Exploits the intersection kink is more robust to endogeneity concerns
- Larger jump in tax rate from 28 percent to 39.6 percent at the intersection kink

Comments

- Isoelastic utility
- No Income effects
- Small estimated elasticities for high-income
  - Compare with previous literature
- Implications for optimal tax rates