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