BOOK REVIEWS

In each issue, JATA publishes reviews of textbooks and other books of interest to tax scholars. All book reviews are solicited by the Associate Editor. However, if you know of a book that you would like reviewed, or if you are interested in reviewing a book, please contact the Associate Editor.

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Many municipalities rely heavily on the property tax as a source of government revenues. Property tax exemptions for charities and other not-for-profits can be costly for cities that have a significant presence of universities, government and religious institutions, as well as other charitable organizations. By granting these organizations exemption from the property tax, other taxpayers often must pay higher property tax rates. Evelyn Brody’s text, Property Tax Exemption For Charities, provides an in-depth analysis of the issues surrounding exempting charities from the property tax.

The book contains 18 readings discussing the historical, theoretical, and judicial justification of the property tax exemption for charities. Several chapters evaluate the exemption’s economic and political consequences. The book begins by explaining state law requirements for exemption. Most states do not tax property owned by churches, nonprofits, educational, or charitable institutions that are operated exclusively for the purpose for which the organization received its Section 501(c)(3) status. In addition, some states require a higher standard than an organization’s qualification under Section 501(c)(3) in order to receive a property tax exemption. The states generally require that an organization engage in charitable work in order to receive an exemption, and the states have different definitions of “charity.” In addition, most states do not grant exemptions for leased or investment property. Some states will not exempt property that is in excess of that amount required for the organization to conduct its charitable activities. The book describes many interesting court cases examining whether property is necessary for a charity to accomplish its exempt purpose.

The second chapter describes the political issues surrounding the property tax exemption. This debate centers on whether the property tax constitutes payment for a valuable community service, such as police and fire protection. The growth of the nonprofit sector and increased scrutiny of charities’ activities have raised concerns regarding the preferential tax treatment that they receive.

The next portion of the book describes analyses estimating that the annual value of the property tax exemption for charities is between $8 billion and $13 billion, without considering property owned by churches. The economic impact of the exemption varies greatly, with the largest effect being in the Northeast due to its concentration of property owned by educational, historical, and religious institutions.

The book then examines the history of the property tax. During the 1800s most states enacted laws exempting churches from property taxes. Many Protestants feared that the exemption would encourage the growth of the Catholic Church. The author explains that tax incentives date back to the Civil War. In the 1860s, Congress considered a proposal to exempt all hospitals from the property tax if they provided free treatment to sick or disabled U.S. soldiers. The bill failed due to wartime demands for revenue.

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The book includes five chapters describing how local municipalities have tried to regain some of the revenue lost due to the property tax exemption. Several cities, as well as some states, have negotiated payments in lieu of taxes (PILOT) with not-for-profits. According to an author, local governments in Pennsylvania “were able to convince not-for-profits that making a PILOT was preferable to an exemption challenge in court” (p. 194). Subsequent chapters examine similar programs in Philadelphia and Hartford. The book also contains a paper describing the fiscal challenges faced by New Haven, Connecticut in its efforts to obtain PILOTs from Yale University.

Two essays examine alternatives to provide financial relief for municipalities, including limiting the property tax exemption to those charities receiving a prescribed percentage of their support from donations. The author found that, if a charity were required to receive from 44 to 50 percent of its public support from donations, 40 to 78 percent of all nonprofits studied would lose their property tax exemption (p. 341).

This book provides a wealth of research ideas to those interested in charitable organizations. Each chapter contains numerous citations to relevant literature and court cases, making the text a valuable reference. The volume gives a thorough, balanced discussion of all aspects of the property tax exemption for charities. I highly recommend it to anyone interested in this subject.

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Income taxes may significantly reduce the after-tax return earned from investments and, as a result, the amount of wealth ultimately accumulated by the investor. An investor with a working knowledge of the techniques for tax-efficient investing has the opportunity to minimize the adverse impact of taxes and consequently end up with a much larger wealth accumulation. This book provides the reader with a guide to the techniques and strategies that might be employed to minimize the impact of taxes on the investor’s portfolio.

The intended readers are primarily sophisticated investors and their financial advisors rather than professional tax advisors. As a result, the book is written in an easy-to-read style and does not include references to authoritative sources. According to the authors, this is the only book currently in print with its focus entirely on tax-efficient investing. It is current through the Economic Growth and Tax Relief Reconciliation Act of 2001.

The book’s overview entitled “The Tax Code Discourages Investing More Than Encouraging It,” sets the stage for the book by pointing out that tax laws discourage investing because of what the authors term “one-way laws.” Examples of these laws are provided by the authors. Capital gains are immediately taxed, but individuals may only deduct $3,000 of net capital losses against ordinary income. Margin interest borrowed to purchase investments may not be deductible in the absence of net investment income. Wash sale rules prohibit the recognition of capital losses if identical or substantially identical stock or options to buy the stock are immediately acquired after the sale. Dividends are taxed twice—both at the corporate level and then to shareholders when they are distributed. The investor needs to take maximum advantage of the existing tax laws in order to combat these one-sided laws.

The remainder of the book is organized in a logical format. Part one discusses strategies for investments held in taxable accounts. Part two addresses tax-advantaged investment opportunities. Part three deals with special situations, and part four has a single chapter on year-end tax planning. Chapter 1 under part one addresses alternative ways to own equities (instead of just directly), such as through options and other derivatives. Chapters 2 and 3 discuss when and how to harvest capital losses. Chapter 4 is about managing fixed income assets. Chapter 5 consists of a discussion of how to manage appreciated stock using hedging techniques, and Chapter 6 provides the reader with useful material on choosing a tax efficient mutual fund.

Chapter 7 of part two not only reviews the rules for the various retirement plan options, such as the IRA and 401(k), but also, using charts and graphs, compares accumulations under different tax rates and holding periods when assets are held in a retirement vs. a taxable account. Chapter 8 weighs the various tax-advantaged options now available to save for college such as the Section 529 plan and education savings account, as well as the subsidies available to reduce the actual cost of college, such as the Hope and Lifetime Learning Credits. Chapter 9 looks at how life insurance and annuities are taxed.
Chapter 10 of part three reviews commonly encountered elections relevant to investments, such as the specific identification method, amortization of bond premium, and classification as a trader (instead of as an investor). Chapter 11 discusses ways to guard against downside risk when an employee holds a significant amount of “in the money” stock options. Chapter 12 focuses primarily on how to avoid being classified as a personal holding company, and Chapter 13 provides a necessarily very brief overview of state taxes and the differences across states in tax burdens and types of taxes collected.

The authors advocate the use of options and other derivatives for many of the tax strategies. Derivative-based strategies may undoubtedly work for many large sophisticated investors. In my opinion, however, they usually do not make sense for the average investor with modest amounts to invest because of their added cost and complexity. I would have liked to see the authors provide information about the costs involved in implementing derivative-based strategies and what could possibly go wrong in their implementation.

Because of the inherent complexity of many of the topics addressed, their treatment is necessarily superficial. It will therefore often be necessary for the reader to consult other more in-depth sources before implementing many of the strategies. Overall, however, I believe this book fills an important gap in providing a broad overview on critically important subjects—minimizing the income tax impact on investments. There are topics in the book that should be helpful to all investors, regardless of their level of sophistication.

This book was designed as a practical reference and not for classroom use. Nevertheless, I do believe this book would make a useful supplemental text for either an undergraduate or graduate course in investments. It is my observation that taxes, to the detriment of the students, are usually ignored in finance and investment courses.

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In 1990, the Accounting Change Commission made recommendations on restructuring the entire accounting curriculum, including the first two tax courses. In 1996, a task force of the AICPA Tax Division’s Tax Education Committee prepared the initial AICPA Model Tax Curriculum (MTC), which was revised in 1999. The following excerpt from the 1999 AICPA MTC document summarizes the reason and purpose of the change:

Taxes have an impact on almost every financial transaction, including everything from a personal or corporate tax planning engagement or financial statement analysis to structuring investment portfolios and complex financial transactions. The importance of research, planning, and ethics should be emphasized in any financial planning setting.

The task force created a series of tax curricula, including the first two undergraduate tax courses (at some universities, the second tax course is offered at the graduate level). Their general description of the second tax course and its objectives are presented below:

**Description**

Students taking a second three-semester hour of tax have already been introduced to basic concepts of corporate and partnership taxation. As such, it provides a basis for examining additional, more complex topics in those areas. Each type of entity is studied using a life cycle approach. Additional topics such as estate and gift, fiduciary accounting, tax-exempt entities and qualified and nonqualified plans are included at a basic level....Ethics, technology, business awareness, should continue to be integrated throughout the program to encourage students to interpret converging information, by using financial and non-financial information. The program [for the second tax course] is designed to emphasize the differences between financial and tax accounting theory. Differences should be highlighted whenever possible.
Objectives

- To expand knowledge base as to choice of entity and special tax subjects.
- To reinforce the importance of ethical considerations, competent tax research, and thoughtful tax planning.
- To enable students to start with a trial balance and make necessary adjustments to arrive at taxable income.
- To enable students to prepare returns using tax preparation software.

Before proceeding with my book review, the reader should understand that I am in favor of the AICPA MTC. We implemented the MTC at University of Northern Colorado in Fall 2001. I adopted *Principles of Taxation for Business and Investment Planning*, by Sally M. Jones, for the 2001–2002 year. We are using it for the 2002–2003 year in Tax I, and we are using *Principles of Taxation: Advanced Strategies* for Tax II.

*Principles of Taxation: Advanced Strategies* has many strengths. First, it was specifically designed to provide coverage of advanced tax topics within the framework of the AICPA MTC. *Advanced Strategies* covers all of the topics in the MTC (except the suggested one-hour coverage of Circular 230, taxpayer and tax preparer penalties, and SSTPs), which provides continuity for students whose first course included an introduction to corporations, S corporations, and partnerships. Another strength is the book’s focus on business and tax planning. This focus is illustrated by the six parts in which the book is divided:

1. Strategic Tax Planning (Ch. 1),
2. Tax Strategies for New Businesses (Chs. 2–3),
3. Business Operating Strategies (Chs. 4–7),
4. Strategies for Business Growth and Expansion (Chs. 8–10),
5. Business Capital Transactions (Chs. 11–13), and

However, tax research is only briefly covered in an appendix. I would like to see a full chapter exploring tax research (preferably at the beginning of the textbook).

The main strength of *Advanced Strategies* is the clarity of the text. I believe that the clarity of the concepts in this book is much greater than in traditional “entities” books for two reasons. One method the authors use to increase clarity is the way in which the material is organized. Topics are organized functionally based on the life-cycle of a business, from organization through liquidation, instead of being organized by entity. For example, Chapter 7 is entitled “Distributions to Business Owners,” which covers corporate distributions, partnership distributions, and S corporation distributions. Presenting the topics together makes it easier to discuss the similarities and differences between the entities.

The second reason for the textbook’s increased clarity is the level of detail presented. Overall, the authors provide sufficient detail necessary to explore complex topics, such as partnership special allocations due to built-in gains or losses on contributions of property. The rationale behind the rule is presented, followed by an example. But, the explanations and examples are not filled with compliance-type details, such as those associated with corporate mergers and acquisitions. For example, in Chapter 12, “Corporate Acquisitions, Mergers, and Divisions,” the “boot relaxation” rule for a Sec. 368(a)(2)(B) stock-for-stock acquisition is only briefly mentioned in a footnote, instead of in the main text. It also does not include other clarity-impairing information, such as whether use of convertible-preferred stock would disqualify the transaction. In place of such esoteric discussions, *Advanced Strategies* discusses how to deal with an obstinate minority shareholder who refuses to participate in the stock-for-stock transaction. Additionally, references to specific Code and Regulation sections are usually relegated to footnotes unless the section number is integral to the discussion (e.g., §351, §1244), so as not to impair the flow of the text.

Chapter organization is similar to other tax textbooks. A list of learning objectives is presented at the beginning of the chapter, and each objective is listed in the margin at the point in chapter where the objective is discussed. There are many examples throughout the chapter. Examples
concentrate on main points, so students do not “get lost” in a myriad of detailed exceptions to the
general rule.

End-of-chapter materials consist of five types of homework questions. Questions and Problems for Discussion are conceptual problems that do more than just ask students to regurgitate information presented in the chapter. Application Problems are quantitative application exercises. Issue Recognition Problems are very interesting. A taxpayer’s situation is described, and students are asked to identify the tax issues. I like the Issue Recognition Problems because they help prepare students for the real world, where identifying the problem (or issue) is often more difficult than finding a solution. Research Problems are single-issue problems that require students to use some sort of tax research database to resolve the issue. The end-of-chapter materials conclude with Tax Planning Cases. These are business- and wealth-planning problems that require students to integrate knowledge from the chapter to evaluate one or more alternatives. Although the materials provide instructors with a great deal of flexibility in the types of problems that can be assigned, I feel that each chapter should have one or more comprehensive problems, and there should be a comprehensive problem at the end of each of the six sections.

Ancillary materials are adequate, but not overwhelming. There are separate web sites for both instructors and students. The student site contains a high-quality PowerPoint presentation, as well as a multiple-choice quiz for each chapter. The web site for the 2003 edition of Advanced Strategies (not available when this review was written, but the web site for the 2002 edition was available) will have a page containing Internet-based exercises and another page for additional research projects. The instructor web site contains the PowerPoint presentations, the instructor’s manual (includes brief outlines of each chapter, suggestions for discussions, and solutions for end-of-chapter problems), solutions to Internet exercises, and solutions to the additional research projects. The test bank is available in both electronic format and hard copy. There seems to be an adequate number of questions for each chapter (true-false, multiple choice, issue identification, and problem/essay questions).

Since Advanced Strategies is based on the curriculum for the second AICPA MTC course, it is well suited for any second course for students who already had an introduction to C corporations, S corporations, and partnerships. However, for accounting programs whose first course is taught using a more traditional curriculum (compliance-based with a focus on individual taxation), the question is whether Advanced Strategies is a viable alternative to traditional entities books. I believe that this book could be used in such instances. However, the instructor would have to provide an introduction to the business entities (e.g., the last part of Chapter 8, and all of Chapters 9 and 10 in the Principles of Taxation textbook).

In summary, Advanced Strategies is an excellent textbook to be used in a second tax course based on the AICPA MTC. Its major strengths are its clarity, level of detail, organization, and focus on tax and business planning. I believe that both students and instructors will enjoy it.

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In his book, Fair Not Flat: How to Make the Tax System Better and Simpler, Edward McCaffery argues for a consumption-based tax system along with a progressive tax rate. He shows that the current tax system encourages consumption and discourages savings. The tax laws also allow the wealthy to maintain their high standards of living while punishing the hardworking lower-and middle-income taxpayers.

This book certainly is well written and easy to read for the unsophisticated reader. Many of McCaffery’s points are well taken and succinctly explained. Unfortunately, for the knowledgeable reader of tax laws and their possibly economic and social ramifications, the book will often leave
you wanting either more “hard cold facts” or the other side of the argument. For example, in
Chapter One, the author points out that:

As an employee, it appears as if the Social Security tax combined with the Medicare tax
is roughly 7.5 percent, but it’s really 15 percent since the employer must match [it]. In
essence, it is money the employer cannot pay you.” (p. 18)

Certainly, that would depend on the demand and supply of the employee’s labor—whether the
employer would necessarily pay the employee the extra amount. However, McCaffery never men-
tions that possibility.

McCaffery also recalls the past history of high income tax rates and states that, “Rates of 70
to 90 percent, falling on work and savings, were disastrously inefficient” (p. 23). Immediately, the
reader would wonder at what income levels the 70 to 90 percent tax rates took effect—but
McCaffery does not provide this information. Certainly too, it would seem that the rates would
probably tax a substantial amount of interest, dividend, and capital gains, probably a much larger
percentage than work income, but again, McCaffery leaves the reader wanting more information.

The author also tries to appeal to middle- and lower-income taxpayers with arguments that
seem naïve. For example, he states, “A billionaire spending $10 million a year will now have to
pay taxes on $10 million a year. The consistent progressive tax on spending will reduce the
accumulated wealth of those rich people living the good life” (p. 151) (emphasis in the original).
This quotation seems to mean that, because of the mechanisms in place for the McCaffery flat tax,
the wealthy can no longer accumulate wealth. Unfortunately, a billionaire might be making $1
million per year in income (which will no longer be taxed), so his wealth will continue to increase
if he spends less than this per year.

Many questions about this new system of taxation are also answered by McCaffery. Most of
his answers are conclusive and well done. A few responses are overly simplified, and leave the
reader frustrated. For instance, on p. 134 the author stated that borrowing would be a consumable
activity, thereby incurring a tax. On the other hand, if the borrowed money was used to purchase
a home (which is an investment activity), the two would offset each other, and there would be no
tax. But the author also says, on p. 137, that purchasing a car is a consumable activity, thereby
incurring a tax. This leaves the reader to wonder if you borrowed money to purchase a car, would
there be a double tax? It also seems unfortunate for students who borrow money (student loans)
to attend college. An exemption for food and clothing will be provided each year, but college
tuition (along with necessities) will far exceed the exemption amount. Will they be taxed on these
student loans? Does this mean they must borrow even more money?

McCaffery provides a thought-provoking, easily readable book that the general public will
find interesting. This simplicity, unfortunately, leads to McCaffery drawing conclusions that the
well-informed reader will find premature or faulty. With this in mind, this might be a useful
supplement to an introductory taxation course (along with a healthy level of discussion at numerous
points in the book). Upper level courses, including those at the master’s level, might find more-
useful, in-depth texts elsewhere.

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BRUCE D. MEYER AND DOUGLAS HOLTZ-EAKIN, eds., Making Work Pay: The
Earned Income Tax Credit and Its Impact on American Families (New York, NY:

Making Work Pay: The Earned Income Tax Credit and Its Impact on American Families is an
excellent resource for tax policy researchers, instructors, and students alike. It provides fairly
comprehensive background, discussion of issues, empirical summaries, and analyses of what has
become one of the largest, and potentially most effective, transfer programs in the United States.
The book brings together the work of 16 recognized researchers, who have published in a variety
of tax and public policy outlets.
The introduction to the book describes the background of the earned income tax credit (EITC) in substantial detail, which readers unfamiliar with the credit will find useful. Chapter 1, by Dennis Vestry, reviews the 30-year history of the EITC, including the political climate, the negative income tax, and public assistance programs. Vestry also summarizes the compliance problems, the predicted labor disincentive, and the role of research in the development and expansion of the credit.

The early chapters of the book focus on current studies of the EITC and its effects on work and marriage. In Chapter 2, Bruce Meyer and Dan Rosenbaum review their empirical research using household survey data on the effect of the EITC, and other welfare policy changes, on the employment incentives of single mothers, whose labor supply increased relative to other groups during the expansionary periods of the credit. Chapter 3, by David Ellwood, speaks to the effects of the EITC on work and marriage incentives for single and married women, using household survey data and difference-in-difference estimates of work behavior. Ellwood begins the book’s discussion on the potential marriage penalty effect of the credit, caused by a phase-out range that is the same for all taxpayers, regardless of filing status.

Janet Holtzblatt and Robert Rebelein continue the marriage penalty and bonus discussion in Chapter 4. They calculate marriage penalties and reductions in marriage bonuses using alternative approaches and assumptions, with the Treasury Department’s micro-simulation model. The chapter also addresses recent proposals to reduce marriage penalties in the EITC, such as increasing the phase-out range and allowing a two-earner deduction. Holtzblatt and Rebelein support the two-earner deduction, but recognize its many complications.

The optimal design of the EITC is discussed by Jeffrey Liebman in Chapter 5. Liebman uses a micro-simulation model, with household survey data, to examine the amount of utility produced for each dollar spent on the credit in the phase-in and phase-out ranges. Interestingly, and in contrast to prior research, Liebman finds that the overall efficiency cost of the EITC is fairly low. Under multiple scenarios, he estimates optimal phase-in and phase-out rates at between 30 and 40 percent. However, the optimal structure of the credit is heavily dependent on society’s goals for redistribution.

The third section of the book addresses the compliance problems associated with the EITC and reviews suggested solutions. In Chapter 6, Janet McCubbin explains the effect of noncompliance, in general, on economic efficiency. She also discusses the specific compliance problems of the EITC, which include errors associated with qualifying children and filing status, income reporting errors, and overall complexity of the credit. While reducing the EITC would reduce the amount of the credit received by ineligible claimants, it would also reduce the amount received by those who are truly eligible.

Chapter 7, by Jeffrey Liebman, looks at the identities of the ineligible EITC claimants, using household survey data. Liebman finds that between 11 and 13 percent of the claimants in 1990 did not have a required eligible child in their households. The rate was even higher for male heads-of-household, of whom one-third had no eligible children. Liebman also finds that many of the ineligible families are otherwise similar to those eligible for the credit. Some of the EITC noncompliance problems are due to the voluntary nature of the compliance system that does not provide a means for physically verifying the status of children claimed on tax returns.

The fourth and final section of the book speaks to how EITC recipients use their credits. In Chapter 8, Timothy Smeeding, Katherin Ross Phillips, and Michael O’Connor use data from surveys of free tax assistance clients to examine EITC recipients’ expectations of a tax refund and how they spend their refund checks. They find that a large percentage of recipients use their refunds to pay bills and as savings for moving, tuition, or car-related expenditures. Larger families are more likely to use the refund on consumption-related expenditures.

In Chapter 9, Lisa Barrow and Leslie McGranahan use consumer survey data to estimate the potential effect on consumption for recipients of a lump-sum refund after their tax returns are filed. Barrow and McGranahan find that consumption for EITC-eligible households rises by 3 percent in total and by 9 percent on durable goods during February, the peak refund month. However, the average increase in consumption is less than the average refund, indicating that a portion of the refund is being saved for future consumption.

Jennifer Romich and Thomas Weisnner conclude the examination of the EITC refund with an ethnographic analysis of the advance payment option in Chapter 10. Romich and Weisnner find that most of their sample had unpredictable work lives or incomes. Most families are aware of the credit, but do not know how much of their total refund is due to the EITC. Many do not know about the advance payment option; however, upon learning about it they continue to prefer the lump-sum payment, even if they are having trouble making monthly ends meet.
I recommend this book for researchers, instructors, and students interested in tax policy, and specifically in the EITC. The research explores a variety of issues, research methodologies, and data sources. Although the book has a cohesive focus, the individual chapters can stand on their own. This does, of course, entail repetition of many issues. While the reiteration may benefit a reader who is new to the topic, the more knowledgeable reader may choose to skim some of the early sections in the chapters.

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This book consists of 11 papers from the Lincoln Foundation’s January 2000 Conference on property taxation and local government finance in honor of C. Lowell Harris. The two-day conference drew on recent scholarship on the property tax. The book includes discussions on seven of the papers by leading economists in taxation.

The property tax has been the major source of tax revenues for local governments in the United States since the 1700s. Throughout this time, controversy over the tax has also been an enduring part of its history. As articulated by the editor in the first paper, two general and competing theoretical views are currently entangled in the local property tax controversy. These two distinct views, the “benefits view” put forth by William Fischel and the “new view” proposed by George Zodrow, provide two compelling conceptual examinations and much of the conceptual framework for the book. In the second paper, Fischel argues that the local property tax approximates a benefit tax, which encourages local residents to undertake only those local measures in which the benefits exceed the costs. As Fischel points out, this action by local residents is due to the capitalization of the property tax liability into the value of local property. Thus, the incidence of the tax is clearly placed upon the local residents, an unambiguous signal to take explicitly into account both the benefits and costs of prospective local programs.

Although compelling, Fischel’s view is not without criticism. In the third paper, Zodrow provides a competing argument to Fischel. In this so-called “new view,” initially developed by Peter Mieszkowski, the property tax is viewed as a levy on capital that leads to certain kinds of distortions in the housing market and in local fiscal decisions. Under this view, local property tax rates that exceed the national average reduce the amount of capital in the local jurisdiction, providing a “capital migration” to lower tax jurisdictions. Thus, the property tax differentials result in an inefficient allocation of the national capital stock. Although both views have considerable merit, Thomas Nechyba, in paper four, provides an important synopsis of the two views through a discourse on this debate.

The remaining seven papers in the book then expand upon the conceptual framework outlined in the first four papers. These papers provide a wealth of insights into the policy issues that surround local property tax and suggest several practical reforms to address these issues. The fifth paper, by John Wallis, offers a close look at the local property tax and historical trends related to it. Wallis then provides and addresses two important questions in local property tax: (1) Why does the public sector prefer the property tax? (2) What factors determine the relative importance of the local sector in intergovernmental relations?

Jan Brueckner articulates how the local property tax may encourage urban sprawl in the sixth paper. Brueckner provides an interesting argument that shows the implications of the property tax’s tendency to reduce the intensity of land development, leading to city expansion spatially to accommodate an increasing population. The implications and experiences of local property tax limitations are argued and evaluated in the seventh paper, authored by Arthur Sullivan. William Evans, Shelia Murray, and Robert Schwab provide a comprehensive understanding of the effects of court-mandated school finance reform in the eighth paper, given that over 90 percent of school district revenues come from the local property tax.

Alternatives to property taxation have been the focus of investigations for public officials interested in providing property tax relief. William Duncombe and John Yinger offer an extensive discussion of property tax relief currently used in the United States in paper nine. Therese McGuire offers a thoughtful discussion of alternatives to the property tax for local governments in the tenth paper. McGuire raises critical issues focused on the need for a local tax and posits that the property tax is the best alternative for a local revenue source, given that a local tax is necessary. In the final
paper in the book, Dick Netzer takes a reflective look at the changing role and importance of the local property tax.

This book is a must read for students of state and local government taxation. The topics articulated in the various papers convey the dominance of the tradition of property taxation for local governments. The papers contained in this book find much to be said in favor of the property tax, providing a strong case for local government self-financing its general expenditures. For this purpose, the local property tax stacks up well relative to such alternatives as income and sales taxes. One of the important contributions of this book to the academic, practitioner, or student is the inclusion of the conceptual debate about the theoretic role of property tax. This debate is presented in a very readable format. The book provides the reader with the opportunity to explore the discourse on property tax among the leading economic scholars in the field. For scholars, practitioners and students interested in the conceptual underpinnings of current property tax research and practice, this book provides one of the most valuable contributions in recent years.

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There are three (not two) things in life of which a person can be certain: death, taxes, and the ever-changing tax provisions. The winner and losers from a tax law change depends both on the taxpayer’s position at the time of the change and the transition rule adopted. That is, the transition rule can be retroactive or grandfathered. As the author points out, a retroactive change is generally used when a gain results to taxpayers, and a grandfathered transition is generally used when a loss results to taxpayers (p. 47).

Not surprisingly, discussions on retroactive tax transition are inconclusive. The author, however, does identify three discernible stages with respect to the tax transition issue in the tax literature debate. The first stage is the “old view,” whereby grandfathering should be given when a rule is repealed that favors a particular investment. The second stage is the “new view,” whereby grandfathering is not an appropriate transition. The latest stage appears to be a movement back toward the “old view.” In addition, these stages are matched to those identified in the economic literature.

Throughout the book, the author compares and contrasts the various positions by rigorous analysis at the legal, economic, and policy levels. In addition, he provides numerous illustrations from prior tax legislation to allow the reader to appreciate the discussion. Since the book, however, is copyrighted in 2000, the reader has the opportunity to consider this analysis in light of recently enacted legislation, such as the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Job Creation and Worker Assistance Act of 2002.

The book can be divided into two sections. The first section includes Chapters 1 through 5, whereby the first chapter lays out a framework for examining the economic and political perspectives of introducing transition rules in tax law. The author clearly establishes his objectives to advance economic understanding of the transition issues posed by rules changes and to establish a set of normative guidelines by means of integrating the economic with tax political science analysis. To achieve these objectives, one must accept his basic framework, as given in Chapter 2, of utilitarianism and neoclassical economics assumption of rational expectations for making normative judgments. Chapter 3 analyzes the taxpayer’s risk preferences and potential tax rules in the case of retroactive taxes, whereby tax rules are broken down into both the policy content and accounting content. The analysis continues in Chapter 4 by looking at the political aspect of transition relief. Chapter 5 wraps up this section by discussing constitutional norms for tax law and the introduction of a comprehensive tax base for tax policy. Two main transition norms are held by the author: first, deny transitional adjustment in the case of policy-change retroactive taxes; second, generally provide transitional adjustment in the case of accounting-change retroactive taxes.

The second section includes Chapters 6 through 10 and focuses on the transition issues in a variety of tax situations. Specifically, the author addresses changes in income tax rates, income tax base changes, adoption of corporate integration, shifting between income and consumption taxation, and social security reform. All of these topics are relevant today since Congress has and continues to debate them. Within each chapter, the author illustrates his legal, economic, and policy points by means of reoccurring examples and the introduction of new ones.
The final two chapters make a slight detour by introducing alternative transition instruments. In particular, compensation, grandfathering, delay, and partial immediate implementation are discussed as alternatives.

Overall, the book does a good job of presenting a framework for evaluating the relevant legal, economic, and policy issues that are associated with the tax law changes and transition rules. Moreover, throughout the book, the author has taken great pains to critically review the viewpoint that is held by others (see, e.g., p. 191) yet inconsistent with his own viewpoint. Although the author mainly assumes that to grandfather is the transition instrument of choice, the reader is privy to an in-depth critique of the differing points of view on the transitional tax issue.

This book is appropriate as a supplemental reading text or reference book for a graduate tax policy course. It provides the reader with a critical analysis of differing viewpoints on the challenges faced by policymakers in addressing past, current, and future tax legislation and even more in proposing tax reform.

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Taxpayer behavior is a widely researched field and this text, the first paperback edition of the original year 2000 edition, is an essential component of that stream of literature. The contributing authors and those who provided commentary are leaders in the economics and tax fields. The text reads easily, and the analysis and conclusions are written in a straightforward manner. The volume is a must-have tool for any tax policy researcher and graduate economics student, but it would likely be easily understood by any interested reader.

There is a lack of consensus about taxpayer elasticities in the existing research, and this precludes consensus about other tax issues (e.g., optimal progressivity). The book attempts to redress the gaps in the extant literature regarding how much and how to tax—the perennial questions of tax reform. In doing so, the chapters provide strong empirical analysis blended with tax theory. Each article is presented with additional commentary, which helps the reader contemplate many of the issues.

The book is divided into three sections: History and Background, New Empirical Evidence on Behavioral Response, and Alternative Perspectives. The first section provides a thorough investigation into the history of the relationship between tax policy and the rich. Additionally, it provides excellent and relevant demographic information on the make-up of high-income and wealthy Americans. The section concludes with an article by Doug Shackelford that draws together many pertinent tax issues faced by the wealthy, including sources of income, consumption, savings, and tax avoidance.

Without question, the “meat” of the text is section two, the majority of which is what Austan Goolsbee has termed the “new tax responsiveness” literature. Goolsbee reviews the impact of the taxable income elasticity research that has become so prevalent, and he identifies areas where the research could be improved. James Alm and Sally Wallace continue with an empirical analysis of how the rich, collectively, are different from other taxpayers. They also provide evidence that “the rich” are, in fact, significantly nonhomogeneous. Another important issue is addressed by Roger Gordon and Joel Slemrod: How does the corporate tax base impact tax planning by the individual taxpayer? They argue that tax law responses in corporate activity cannot be ignored, especially when investigating the behavior of the rich, since those taxpayers have the resources to shift income between the individual and corporate tax systems.

The remaining authors in section two touch upon numerous tax-related aspects: portfolios and investments, labor supply, taxable income, estate tax, and deductions (i.e., charitable contributions). Through the studies in these varied and sometimes controversial areas, the reader gains a feel for the contribution of the affluent to overall economic performance. Generally, results are presented in a manner such that the conclusions and information gathered in one specific tax area may be applied within another.

The final section provides insight into the savings behavior of the rich under two different models: the life-cycle model and the dynastic model. This is an important issue as altering savings behavior is typically cited in the Congressional Record as the reason behind many tax law changes.
The final article examines the issues surrounding degrees of progressivity and income inequality—a perennial question in tax research. Most would agree the rich, indeed, are more complex and require a certain amount of research resources in order to understand and predict their behavior, and admittedly, they make up a large part of the total tax revenue. However, the authors fail to emphasize that small-income taxpayers, collectively acting or reacting to tax law changes, will also have a significant impact on tax revenue and, thus, a resulting economic consequence.

Does Atlas Shrug? The Economic Consequences of Taxing the Rich is essential reading for anyone interested in taxpayer behavior. The text provides empirical evidence, commentary, and insight into various aspects of taxing individuals, especially the most affluent members of American society. It is especially relevant for those researchers beginning to look at the results of the Tax Relief Act of 1997 and the Economic Growth and Tax Relief Reconciliation Act of 2001.

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