Tax Exposure and Political Preferences

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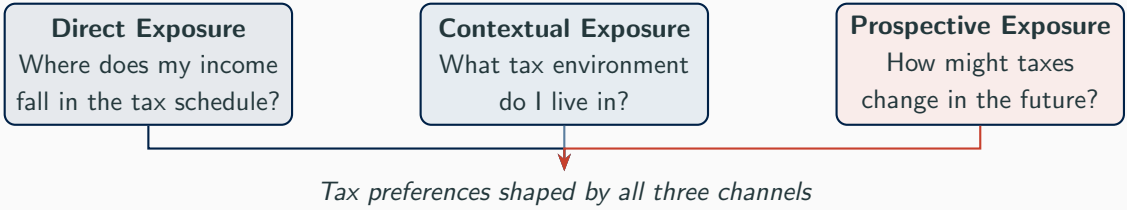
Motivation: Beyond Meltzer–Richard

- The dominant model of tax preferences (Meltzer & Richard 1981) assumes a **flat tax** and **uniform transfer** — income maps linearly onto preferences.
- But real-world tax systems are **progressive**: marginal rates rise with income; reforms target specific brackets, deductions, and thresholds.
- Existing survey measures are blunt: "reduce the gap between rich and poor."

$\Rightarrow$ **This paper:** People form tax preferences based on their concrete *tax exposure* — not from abstract redistribution attitudes.

The Concept of Tax Exposure



- Tax preferences are **nonlinear and discontinuous** around thresholds — not a smooth function of income.
- Self-interest is targeted: the rich do not oppose *all* taxes, only taxes that affect *them*.

Three Hypotheses

H1: Direct	There is a **nonlinear or discontinuous** effect of income on tax preferences, steepest around tax thresholds.
H2: Contextual	Individuals exposed to **higher local tax burdens** (e.g. homeowners in high-tax/high-price areas) are less supportive of further tax increases and more protective of existing deductions.
H3: Prospective	Where people expect future taxes to **increase** (e.g. left-wing government), higher-income individuals are less supportive of progressive taxation.

Study 1: UK Conjoint Experiment — Design

Setting

- YouGov survey, May–June 2021
- $N = 3{,}186$ adults, England & Wales
- $\sim$16,000 observed choices (5 per respondent)

Task

- Forced choice between two randomised income tax schedules
- Marginal rates on four UK tax brackets

Conjoint dimensions

Bracket	Rates
$<$£12.5k	0%, 10%, 20%
£12.5–50k	10%, 20%, 30%
£50–150k	20–60%
$>$£150k	20–70%

Three income groups:

- $<$£15k (untaxed)
- £15–50k (basic rate)
- $>$£50k (higher rate)

Study 1: Results — Preferences Track Tax Thresholds

Key findings (Figure 1, right panel):

- **Lowest bracket** (<£12.5k): Low-income respondents strongly favour 0% rate; high-income indifferent between 0% and 10%.
- **Basic rate** (£12.5–50k): Middle-income group distinctly less favourable to 30% than others.
- **Higher rate** (£50–150k): High earners sharply oppose 50–60% rates; low and middle earners' preferences are *identical*.
- **Additional rate** (>£150k): All groups converge — none are exposed to this

Study 2: US Contextual Exposure — The Trump Tax Bill

Setting

- 2018 Cooperative Congressional Election Study (CCES), $N > 45{,}000$
- Trump tax bill (2017) limited:
  1. Mortgage interest deduction (cap from \$1M $\rightarrow$ \$750k)
  2. State & local tax (SALT) deduction (capped at \$10k)

Key insight

- Impact varies by *where you live*: local house prices and local tax rates determine exposure.

Identification strategy

- Merge CCES with zip-code house prices (Zillow ZHVI) and county-level property taxes (ACS)
- Interact **homeownership** $\times$ **local prices/taxes**
- Controls: income, age, education, gender, Trump approval
- State and county fixed effects; clustered SEs

DVs: Support for capping each deduction (binary)

Study 2: Results — Geography Shapes Tax Preferences

Mortgage deduction cap (Figure 2)

- Doubling zip-code house prices ($500k → $1M):
  - Homeowners: −7pp support
  - Renters: −1pp support
- No owner/renter gap where houses are cheap; **sharp divergence** where houses are expensive.
- Robust to county fixed effects — not just anti-Trump sentiment in wealthy areas.

SALT deduction cap (Figure 3)

- In low-tax counties: homeowners and renters have similar preferences (∼50% support).
- In high-tax counties ($10k avg. real estate tax):
  - Homeowners: ∼35% support
  - Renters: ∼48% support
- Interaction of homeownership × county tax is significant and negative across all specifications.

⇒ **H2 supported:** local tax context shapes exposure and preferences.

Study 3: Cross-National Evidence (ISSP, 30 Countries, 1985–2017)

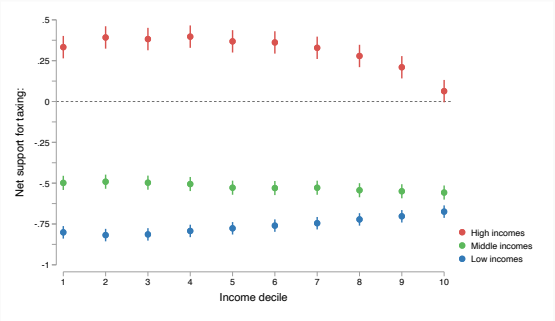
Data

- ISSP Role of Government & Social Inequality modules, $N = 90{,}275$
- DV: Net support for taxing *high*, *middle*, and *low* incomes (-1 to $+1$)
- Income measured in country-year deciles
- Multilevel models with country and country-year random effects

Direct exposure results (Figure 4)

preferences depend on who the tax targets.

Figure 4: Net Support for Taxing High, Middle, and Low Incomes



Note: N = 90,275. The results are based on the estimates in Supplementary Appendix Table C1 (models 1, 3, and 5)

Whereas net support for taxing high incomes decreases non-linearly with income, net support for taxing middle incomes varies little across income deciles. The lack of variation in net support for taxing middle incomes across income groups may be a result of misperceptions about individuals' placement in the income distribution. As discussed, research shows that both low and high-income individuals tend to believe that

Study 3: Contextual and Prospective Exposure

Contextual: Top tax rates (Figure 5)

- Compare low-tax (33%) vs high-tax (60%) regimes.
- Bottom 80%: unaffected by prevailing top rate.
- **Top two deciles:** much less supportive of taxing the rich when top rates are *already high* ($\Delta \approx 0.33$ SD).
- Top decile moves from supporting higher taxes on the rich (low-tax regime) to supporting the status quo (high-tax regime).

Prospective: Government partisanship (Figure 6)

- Under **right-party** government: the rich are *slightly supportive* of higher taxes on high incomes.
- Under **left-party** government: the rich actively *oppose* higher taxes on high incomes ($\Delta \approx 0.37$ SD).
- Lower deciles show the opposite: more supportive of taxing the rich under right governments.
- No partisan conditioning for taxes on *low* incomes — effect is specific to

Conclusion

1. Tax preferences are **not** a smooth, linear function of income. They are **discontinuous around tax thresholds** that directly affect the respondent.
2. **Context matters**: homeowners in expensive/high-tax areas defend deductions that benefit them; individuals in high-top-rate countries resist further increases.
3. **Expectations matter**: the rich oppose higher taxes on themselves when left parties govern and tax hikes are plausible — but express cheap support under right parties.
4. Implication for survey research: vague questions about "reducing inequality" do not capture how people respond to **concrete fiscal trade-offs**.

Three studies — UK conjoint experiment, US CCES & Trump tax bill, ISSP across 30 countries — all converge on the same conclusion: **tax exposure structures tax preferences**.