ADDENDUM

RESPONSIVENESS OF INCOME TO LOCAL INCOME TAXES: EVIDENCE FROM INDIANA

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After the publication of the paper “Responsiveness of Income to Local Income Taxes: Evidence from Indiana” in the June 2017 issue of the National Tax Journal 70 (2), pages 367–392, we were made aware of two papers closely related to our study.

Both papers estimate the rate elasticity of Indiana local income tax base using county-level income tax data. Landers (2008) estimates how the average per capita taxable income — as opposed to the aggregate county taxable income used in our paper — changes as the combined state and county income tax rate changes from 1996 to 2006, through estimating ordinary least squares regressions. The rate elasticity estimate is around –0.1, very close to that reported from the OLS regression in our paper (see Table 3, columns 2 to 4). Also aligned with our findings, neighboring county tax rates are not statistically significantly associated with own county tax base.

Landers (2013) estimates how the aggregate county taxable income changes as the combined state and county income tax rate changes from 1996 to 2010, when controlling for both county and year fixed effects. The empirical approach is similar to the one we take, but differs in several aspects. First, Landers (2013) includes only two covariates — population and unemployment rate — and the elasticity estimates are very close to ours when we control for fixed effects without any covariates (see Table 3, column 5). However, once we add in additional covariates, the estimate gets closer to zero. Second, though Landers (2013) finds statistically significant elasticities while our estimates are insignificant, this is partly driven by differences in standard errors employed in the two papers — the standard errors employed by Landers (2013) adjust for autocorrelation, while our paper estimates clustered standard errors which are robust to heteroscedasticity and autocorrelation. Third, we additionally estimate models that control for lagged own income tax rates, and competitor income and property tax rates, and these models provide statistically insignificant estimates that are close to zero in magnitude as well.

We sincerely thank Jim Landers for bringing these papers to our attention, and we regret the omission.
REFERENCES
