

Max W. Risch

Max Risch is a PhD Candidate in Economics at the University of Michigan. His research fields include public finance, development economics and labor economics. Max's research uses new administrative datasets to analyze the relationship between public policies and income inequality. One strand of research investigates how firm-worker relationships shape responses to tax policy and how public policies, in turn, shape firm-worker relationships. Another strand of research analyzes the role of tax evasion and tax enforcement for real and measured income inequality. Prior to entering the doctoral program, Max received an M.P.A. from Columbia University, served in the United States Peace Corps and received a B.A. in Political Science from the University of Michigan.

Do Pass-Through Owners Pass Tax Burdens Through to their Workers?

The extent of spillovers from the personal tax code to the operations, hiring, and compensation practices of firms has been hotly debated in the United States for decades, becoming a central issue in debates over the relationship between tax policy and income inequality. Despite the significance of this issue, the existence and magnitude of any such spillovers have been difficult to estimate. This paper uses a new linked owner-firm-employee dataset created from administrative tax records to analyze the role of the firm in mediating responses to changes in top marginal tax rates. I focus on pass-through firms, firms for which business income is taxed at the personal income tax rates of firm owners, and address the question: Do changes in the top marginal tax rate affect the compensation of lower-bracket workers who are not directly subject to the rate changes? I find that lower-bracket workers in firms whose owners were more exposed to an increase in the top marginal tax rate reported lower relative earnings following the tax change. These results provide some of the first direct evidence of spillovers from changes in the top marginal personal income tax rate to lower-bracket individuals not directly subject to the top rate. I examine the implications of these findings for the incidence of business taxation and for optimal personal income taxation.