Optimal Income Tax And Redistribution

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Optimal Labor Income Taxation Thomas Piketty 2012 This paper reviews recent developments in the theory of optimal labor income taxation. We emphasize connections
between theory and empirical work that were initially lacking from optimal income tax theory. First, we provide historical and international background on labor income taxation and means-tested transfers. Second, we present the simple model of optimal linear taxation. Third, we consider optimal nonlinear income taxation with particular emphasis on the optimal top tax rate and the optimal profile of means-tested transfers. Fourth, we consider various extensions of the standard model including tax avoidance and income shifting, international migration, models with rent-seeking, relative income concerns, the treatment of couples and children, and non-cash transfers. Finally, we discuss limitations of the standard utilitarian approach and briefly review alternatives. In all cases, we use the simplest possible models and show how optimal tax formulas can be derived and expressed in terms of sufficient statistics that include social marginal welfare weights capturing society's value for redistribution, behavioral elasticities capturing the efficiency costs of taxation, as well as parameters of the earnings distribution. We also emphasize connections between actual practice and the predictions from theory, and in particular the limitations of both theory and empirical work in settling the political debate on optimal labor income taxation and transfers. Limits and Problems of Taxation Finn R. Forsund 1985-06-18 Optimal Income
Redistribution When Individual Welfare Depends Upon Relative Income Eytan Sheshinski 1976 The purpose of the present note is to explore the structure of optimal income taxation/redistribution in an economy where the welfare of individuals depends in part on relative after-tax consumption, i.e., we specify individual welfare as a function of absolute and relative after-tax consumption, with diminishing marginal utility to each. With such a specification, of course, an additional incentive for income redistribution from wealthy to poor citizens is created and the logical impossibility of increasing tax rates to the point where disincentive effects actually reduce tax revenues is potentially removed. The analysis highlights the importance of the marginal valuation placed on upward social mobility in various ranges of the income distribution and its interaction with the elasticity of the marginal utility of consumption; of course, "labor supply" elasticities, the form of the social welfare function, and the skill distribution continue to play an important role.

The Optimal Income Taxation of Couples Henrik Jacobsen Kleven 2006 This paper analyzes the optimal income tax treatment of couples. Each couple is modelled as a single rational economic agent supplying labor along two dimensions: primary and secondary earnings. We consider fully general joint income tax systems. Separate taxation is never optimal if social
welfare depends on total couple incomes. In a model where secondary earners make only a binary work decision (work or not work), we demonstrate that the marginal tax rate of the primary earner is lower when the spouse works. As a result, the tax distortion on the secondary earner decreases with the earnings of the primary earner and actually vanishes to zero asymptotically. Such negative jointness is optimal because redistribution from two-earner toward one-earner couples is more valuable when primary earner income is lower. We also consider a model where both spouses display intensive labor supply responses. In that context, we show that, starting from the optimal separable tax schedules, introducing some negative jointness is always desirable. Numerical simulations suggest that, in that model, it is also optimal for the marginal tax rate on one earner to decrease with the earnings of his/her spouse. We argue that many actual redistribution systems, featuring family-based transfers combined with individually-based taxes, generate schedules with negative jointness.

A Diagrammatic Exposition of the Theory of Optimal Income Taxation Efraim Sadka 1975


Inequality and Optimal Redistribution Hannu Tanninen 2019-04-30 From the 1980s onward, income inequality increased in many advanced countries. It is very difficult to account for the rise in income inequality using...
the standard labour supply/demand explanation. Fiscal redistribution has become less effective in compensating increasing inequalities since the 1990s. Some of the basic features of redistribution can be explained through the optimal tax framework developed by J. A. Mirrlees in 1971. This Element surveys some of the earlier results in linear and nonlinear taxation and produces some new numerical results. Given the key role of capital income in the overall income inequality, it also considers the optimal taxation of capital income. It examines empirically the relationship between the extent of redistribution and the components of the Mirrlees framework. The redistributive role of factors such as publicly provided private goods, public employment, endogenous wages in the overlapping generations model and income uncertainty are analysed.

Redistribution Through Charity, and Optimal Taxation when People are Concerned with Social Status Thomas Aronsson 2016

The optimal taxation of height: a case study of utilitarian income redistribution Nicholas Gregory Mankiw 2009

Should the income tax include a credit for short taxpayers and a surcharge for tall ones? The standard Utilitarian framework for tax analysis answers this question in the affirmative. Moreover, a plausible parameterization using data on height and wages implies a substantial height tax: a tall person earning $50,000 should pay $4,500 more in tax than a short
person. One interpretation is that personal attributes correlated with wages should be considered more widely for determining taxes. Alternatively, if policies such as a height tax are rejected, then the standard Utilitarian framework must fail to capture intuitive notions of distributive justice.

Redistribution and Insurance with Simple Tax Instruments
Sebastian Findeisen 2015
We analyze optimal taxation of labor and capital income in a life-cycle framework with idiosyncratic income risk. We provide a novel decomposition of labor income tax formulas into a redistribution and an insurance component. The latter is independent of the social welfare function and determined by the degree of income risk and risk aversion. The optimal linear capital tax is non-zero and trades off redistribution and insurance against savings distortions. Our quantitative results reveal that the insurance component contributes significantly to optimal labor tax rates and provides an informative lower bound on optimal taxes: even for welfare functions that do not value redistribution, marginal tax rates are positive for all income levels. Optimal capital taxes are significant and yield sizable welfare gains; in particular if labor income taxes are suboptimal.

The Encyclopedia of Taxation & Tax Policy
Joseph J. Cordes 2005
"From adjusted gross income to zoning and property taxes, the second edition of The
Encyclopedia of Taxation and Tax Policy offers the best and most complete guide to taxes and tax-related issues. More than 150 tax practitioners and administrators, policymakers, and academics have contributed. The result is a unique and authoritative reference that examines virtually all tax instruments used by governments (individual income, corporate income, sales and value-added, property, estate and gift, franchise, poll, and many variants of these taxes), as well as characteristics of a good tax system, budgetary issues, and many current federal, state, local, and international tax policy issues. The new edition has been completely revised, with 40 new topics and 200 articles reflecting six years of legislative changes. Each essay provides the generalist with a quick and reliable introduction to many topics but also gives tax specialists the benefit of other experts' best thinking, in a manner that makes the complex understandable. Reference lists point the reader to additional sources of information for each topic. The first edition of The Encyclopedia of Taxation and Tax Policy was selected as an Outstanding Academic Book of the Year (1999) by Choice magazine."--Publisher's website. When Only Death Remains Certain Jason Huang 2015 Although developing countries face high levels of income inequality, they rely more on consumption taxes, which tend to be linear and are less effective for
redistribution than a non-linear income tax. One explanation for this pattern is that the consumption taxes are generally more enforceable in these economies. This paper studies the optimal combination of a linear consumption tax, with a non-linear income tax, for redistributive purposes. In our model, households might not comply with the income tax code by reporting income levels that differ from their true income. However, the consumption tax is fully enforceable. We derive a formula for the optimal income tax schedule as a function of the consumption tax rate, the recoverable elasticities, and the moments of the taxable income distribution. Our equation differs from those of Mirrlees (1971) and Saez (2001) because households respond to income tax not only through labor supply but also through mis-reporting their incomes. We then characterize the optimal mix between a linear consumption tax rate and a non-linear income tax schedule. Finally, we find that the optimal consumption tax rate is non-increasing in the redistributive motives of the social planner. Ramsey Strikes Back Hunt Allcott 2018 An influential result in modern optimal tax theory, the Atkinson and Stiglitz (1976) theorem, holds that for a broad class of utility functions, all redistribution should be carried out through labor income taxation, rather than differential taxes on commodities or capital. An important requirement for that result is that commodity taxes are known and fully salient when...
consumers make income-determining choices. This paper allows for the possibility consumers may be inattentive to (or unaware of) some commodity taxes when making choices about income. We show that commodity taxes are useful for redistribution in this setting. In fact, the optimal commodity taxes essentially follow the classic "many person Ramsey rule" (Diamond 1975), scaled by the degree of inattention. As a result, to the extent that commodity taxes are not (fully) salient, goods should be taxed when they are less elastically consumed, and when they are consumed primarily by richer consumers. We extend this result to the setting of corrective taxes, and show how nonsalient corrective taxes should be adjusted for distributional reasons.

**Essays in Quantitative Macroeconomics** Philipp Grübener 2021 This thesis contains four independent essays in heterogeneous agent macroeconomics. They explore the sources of income inequality and income risk and study the optimal design of public redistribution and insurance. The first chapter, joint with Filip Rozsypal, studies the origins of idiosyncratic earnings risk in frictional labor markets, with a particular focus on the role of firms for worker earnings risk. First, using administrative matched employer-employee data from Denmark, we document key properties of the worker earnings growth distribution, the firm revenue growth distribution, and their joint distribution. The
worker earnings and firm revenue growth distributions exhibit strong deviations from normality, in particular excess kurtosis, with many workers and firms experiencing very small changes to their earnings/revenues, but a significant minority experiencing very large changes. Large earnings losses are more likely for workers in firms with negative revenue growth, driven both by separations to unemployment and earnings losses on the job. Second, we develop a model framework consistent with the data, with four key features: i) frictional labor markets and on the job search to capture unemployment risk and wage growth through a job ladder, ii) multi-worker firms to capture gross and net worker flows, iii) risk averse workers such that earnings risk matters, and iv) contracting with two-sided limited commitment because earnings of job stayers are changing infrequently in the data. Third, we use the model to explore policies designed to mitigate earnings fluctuations. The second chapter, joint with Annika Bacher and Lukas Nord, studies one particular private insurance margin against individual income risk only available to couples, which is the so called added worker effect. Specifically, we study how this intra-household insurance against individual job loss through increased spousal labor market participation varies over the life cycle. We show in U.S. data that the added worker effect is much stronger for young than for old households. A stochastic
Life cycle model of two-member households with job search in a frictional labor market is capable of replicating this finding. The model suggests that a lower added worker effect for the old is driven primarily by better insurance through asset holdings. Human capital differences between employed young and old contribute to the difference but are quantitatively less important, while differences in job arrival rates play a limited role. In the third chapter, joint with Axelle Ferriere, Gaston Navarro, and Oliko Vardishvili, we study optimal redistribution, taking into account not just the large income and wealth inequality in the data, but also the distribution of income risk that is key in the first two chapters. The U.S. fiscal system redistributes through a rich set of taxes and transfers, the latter accounting for a large part of the income of the poor. Motivated by this, we study the optimal joint design of transfers and income taxes. Within a simple heterogeneous-household framework, we derive analytical results on the optimal relationship between transfers and tax progressivity. Higher transfers are associated with lower optimal income tax progressivity. Redistribution is achieved with generous transfers while efficiency is preserved via a lower progressivity of income taxes. As such, the optimal tax-and-transfer system features larger progressivity of average than of marginal tax rates. We then quantify...
the optimal tax-and-transfer system in a rich incomplete-market model with realistic distributions of income, wealth, and income risk. The model features a novel flexible functional form for progressive income taxes and means-tested transfers. Relative to the current U.S. fiscal system, the optimal policy consists of more generous means-tested transfers, which phase-out at a slower rate. These larger transfers are financed with higher tax rates, but the taxes are not more progressive than the current system. The fourth chapter, joint with Axelle Ferriere and Dominik Sachs, also studies optimal redistribution, but instead of considering a stationary environment it analyzes the dynamics of the equity-efficiency trade-off along the growth path. To do so, we incorporate the optimal income taxation problem into a state-of-the-art multi-sector structural change general equilibrium model with non-homothetic preferences. We identify two key opposing forces. First, long-run productivity growth allows households to shift their consumption expenditures away from necessities. This implies a reduction in the dispersion of marginal utilities, and therefore calls for a welfare state that declines along the growth path. Yet, economic growth is also systematically associated with an increase in the skill premium, which raises inequality and the desire to redistribute. We quantitatively analyze these opposing forces for two countries: the U.S. from
1950 to 2010, and China from 1989 to 2009. Optimal redistribution decreases at early stages of development, as the role of non-homotheticities prevails. At later stages of development the rising income inequality dominates and the welfare state should become more generous.

**Direct Or Indirect Tax Instruments for Redistribution**

Emmanuel Saez 2002 Optimal tax theory has shown that, under weak assumptions, indirect taxation such as production subsidies, tariffs, or differentiated commodity taxation, are sub-optimal and that redistribution should be achieved solely with the direct income tax. However, these important results of optimal tax theory, namely production efficiency and uniform commodity taxation under non-linear income taxation, have been shown to break down when labor taxation is based on income only and when there is imperfect substitution of labor types in the production function. These results in favor of indirect tax instruments are valid in the short-run when skills are exogenous and individuals cannot move from occupation to occupation. In the long-run, it is more realistic to assume that individuals choose their occupation based on the relative after-tax rewards. This paper shows that, in that context, production efficiency and the uniform commodity tax result are restored.

Therefore, in a long-run context, direct income taxation should be preferred to indirect tax instruments to raise revenue and achieve redistribution.
Redistributive Taxation in the Roy Model  
Casey Rothschild 2012  
We consider optimal redistribution in a model where individuals can self-select into one of several possible sectors based on heterogeneity in a multidimensional skill vector. We first show that when the government does not observe the sectoral choice or underlying skills of its citizens, the constrained Pareto frontier can be implemented with a single non-linear income tax. We then characterize this optimal tax schedule. If sectoral inputs are complements, a many-sector model with self-selection leads to optimal income taxes that are less progressive than the corresponding taxes in a standard single-sector model under natural conditions. However, they are more progressive than in canonical multi-sector economies with discrete types and without occupational choice or overlapping sectoral wage distributions.

The Myth of Ownership  
Liam B. Murphy 2005  
In a capitalist economy, taxes are the most important instrument by which the political system puts into practice a conception of economic or distributive justice. This book aims to bring together the philosophical discussions of justice with the complex debates about tax policy that go on in practical politics, in economics, and in law.

Optimal Taxation and Low Income Earners in Switzerland  
Jessica Hug 2012  
This master thesis on the one hand derives an expression for the optimal tax rate in a
Mirrless'like setting with fixed costs of work. On the other hand, it simulates two models, with and without fixed costs of work with the Swiss earnings distribution, in order to observe the relative impact of the inclusion of the fixed costs on the optimal level of taxation for low income earners. The main finding is that even though the absolute value of the optimal marginal tax rates are not reliable, the relative effect of the introduction of the fixed costs of work show that with realistic social preferences for the unemployed in Switzerland, no economic justification can be found for work subsidies for low potential income earners.

**Tax Policy** Robin Boadway
2022-05-12 Tax policies are informed by principles developed in the tax theory and policy literature. This Element surveys the policy lessons that emerge from optimal tax analysis since the 1970s. This Element begins with the evolution of tax policy principles from the comprehensive income approach to the expenditure tax approach to normative tax analysis based on social welfare maximization and recounts key results from the optimal income tax analysis inspired by Mirrlees and extended by Diamond to the extensive margin approach. This Element also emphasizes analytical techniques that yield empirically relevant concepts and show the equity-efficiency trade-off at the heart of tax policy. We also extend the analysis to recent literature incorporating involuntary unemployment, and...
policies like welfare and unemployment insurance.

Inequality and Optimal Redistributive Tax and Transfer Policies Mr. Howell H. Zee 1999-04-01

This paper explores the revenue-raising aspect of progressive taxation and derives, on the basis of a simple model, the optimal degree of tax progressivity where the tax revenue is used exclusively to finance (perfectly) targeted transfers to the poor. The paper shows that not only would it be optimal to finance the targeted transfers with progressive taxation, but that the optimal progressivity increases unambiguously with growing income inequality. This conclusion holds up under different assumptions about the efficiency cost of taxation and society’s aversion to inequality.

Optimal Income Tax and Redistribution Matti Tuomala 1990

This book provides a comprehensive survey of optimal income tax theory, following the development of research strategy from the basic Mirrlees model through to its refinements, examining how optimal tax rates and the shape of tax schedules are affected by new considerations. Optimal tax theory has an important contribution to make to tax policy formation, and has become especially pertinent in recent years with the renewal of controversy over whether progressive income tax is in fact desirable or not. The author not only covers the historical background and modern formulations of the theory, but extends his discussion to consider the most important extensions of the model.
and the interrelation of income tax with other instruments of tax and expenditure policy. **Optimal Income Transfer Programs** Emmanuel Saez 2000 This paper investigates the optimal income transfer problem at the low end of the income distribution. The government maximizes a social welfare function and faces the traditional equity-efficiency trade-off. The paper models labor supply behavioral responses along the intensive margin (hours or intensity of work on the job) and along the extensive margin (participation in the labor force). Optimal tax formulas are derived as a function of the behavioral elasticities, the shape of the income distribution and the redistribution tastes of the government. When behavioral responses are concentrated along the intensive margin, the optimal transfer program is a classical Negative Income Tax program with a substantial guaranteed income support that is taxed away at high rates. However, when behavioral responses are concentrated along the extensive margin, the optimal transfer program is an Earned Income Credit program with negative marginal tax rates at low income levels and a small guaranteed income. Numerical simulations calibrated with the actual empirical earnings distribution are presented for a range of behavioral elasticities and redistributive tastes of the government. For realistic elasticities, the optimal program provides a moderate guaranteed income, imposes low tax rates on very low annual earnings levels, and then starts...
phasing out benefits at substantial rates

**Optimal Income Taxation**
Jonathan Heathcote 2015

What structure of income taxation maximizes the social benefits of redistribution while minimizing the social harm associated with distorting the allocation of labor input? Many authors have advocated scrapping the current tax system, which redistributes primarily via marginal tax rates that rise with income, and replacing it with a flat tax system, in which marginal tax rates are constant and redistribution is achieved via non-means-tested transfers. In this paper we compare alternative tax systems in an environment with distinct roles for public and private insurance. We evaluate alternative policies using a social welfare function designed to capture the taste for redistribution reflected in the current tax system. In our preferred specification, moving to the optimal flat tax policy reduces welfare, whereas moving to the optimal fully nonlinear Mirrlees policy generates only tiny welfare gains. These findings suggest that proposals for dramatic tax reform should be viewed with caution.

**French Favored Redistributions Derived from Surveys**
Adrien Fabre 2018

**The Economics of Taxation**
Bernard Salanié 2011-11-10

A concise and rigorous text that combines theory, empirical work, and policy discussion to present core issues in the economics of taxation. This concise introduction to the economic theories of taxation is intuitive yet rigorous, relating...
the theories both to existing tax systems and to key empirical studies. The Economics of Taxation offers a thorough discussion of the consequences of taxes on economic decisions and equilibrium outcomes, as well as useful insights into how policy makers should design taxes. It covers such issues of central policy importance as taxation of income from capital, environmental taxation, and tax credits for low-income families. This second edition has been significantly revised and updated. Changes include a substantially rewritten chapter on direct taxation; a discussion of recent research in the chapter on mixed taxation; the replacement of the chapter on capital taxation with a chapter on the “new dynamic public finance”; and considerations of environmental taxation in both theory and policy chapters. The book is aimed at graduate students or advanced undergraduates taking public finance classes as well as economists who want to learn more about the topic. It combines discussion of theory, empirical work, and policy objectives in compact form. Appendixes provide necessary background material on consumer and producer theory and the theory of optimal control. 

Social Versus Individual Work Preferences: Implications for Optimal Income Taxation

Zhiyong An 2022-03-25

The benchmark optimal income taxation model of Mirrlees (1971) finds that the optimal marginal income tax rate (MIT) is always non-negative. A key model assumption is the
coincidence between social and individual work preferences. This paper extends the model to allow for differences in social and individual work preferences. The theoretical and simulation analyses show that under this model, when the government places a higher social weight on work than individuals, the optimal MIT schedule is shifted downwards, introducing the possibility for optimal wage subsidies at the bottom of the income distribution. This implies lower revenues, demogrants, and overall progressivity.

**The Optimal Income Taxation of Couples**

Henrik Jacobsen Kleven

2010 This paper analyzes the optimal income tax treatment of couples. Each couple is modelled as a single rational economic agent supplying labor along two dimensions: primary and secondary earnings. We consider fully general joint income tax systems. Separate taxation is never optimal if social welfare depends on total couple incomes. In a model where secondary earners make only a binary work decision (work or not work), we demonstrate that the marginal tax rate of the primary earner is lower when the spouse works. As a result, the tax distortion on the secondary earner decreases with the earnings of the primary earner and actually vanishes to zero asymptotically. Such negative jointness is optimal because redistribution from two-earner toward one-earner couples is more valuable when primary earner income is lower. We also consider a model where both spouses display...
intensive labor supply responses. In that context, we show that, starting from the optimal separable tax schedules, introducing some negative jointness is always desirable. Numerical simulations suggest that, in that model, it is also optimal for the marginal tax rate on one earner to decrease with the earnings of his/her spouse. We argue that many actual redistribution systems, featuring family-based transfers combined with individually-based taxes, generate schedules with negative jointness. Good Jobs, Bad Jobs and Redistribution Kjell Erik Lommerud 2003 We analyse the question of optimal taxation in a dual economy, when the government is concerned about the distribution of labour income. Income inequality is caused by the presence of sunk capital investments, which creates a 'good jobs' sector due to the capture of quasi-rents by trade unions. We find that whether the government should subsidise or tax investments is crucially dependent on union bargaining strength. If unions are weak, the optimal tax policy implies a combination of investment taxes and progressive income taxation. On the other hand, if unions are strong, we find that the best option for the government is to use investment subsidies in combination with either progressive or proportional taxation, the latter being the optimal policy if the government is not too concerned about inequality and if the cost of income taxation is sufficiently high. Essays on the Economics
of Income Taxation
Emmanuel Saez 1999

Simple Models of Income Redistribution
András Simonovits 2018-05-23

The rising role of intra- and intergenerational transfers (e.g. basic income, child benefit and public pensions) characterises modern economies, yet most models depicting these transfers are too sophisticated for a wider but mathematically trained audience. This book presents simple models to fill the gap. The author considers a benevolent government maximizing social welfare by anticipating citizens’ shortsighted reaction to the transfer rules. The resulting income redistribution is analyzed for low tax morale, strong labor disutility and heterogeneous life expectancy. Key issues that the book addresses include the socially optimal pension contribution rate, retirement age, and redistribution programs. The author concludes by removing some strong restrictions and introducing median voter, incomplete information and dynamic complications. The book will be of value for graduate students and researchers interested in public economics, especially in public and private pensions.

On the Volume of Redistribution
S. M. Ravi Kanbur 2018

The optimal income taxation literature focuses on the tradeoff between the equity gains of higher progressivity versus its greater incentive costs at the individual level. This paper highlights a neglected aspect of redistribution—greater progressivity requires a higher volume of gross redistributive flows.
across income levels. If these flows are costly to manage, administratively or politically, then progressivity will be lower. Moreover if redistribution across income levels implies redistribution across socio-politically salient groups because of the way in which these groups line up relative to the income distribution, this can be an added cost in the objective function and progressivity is further disadvantaged. The paper develops a simple framework in which these questions can be addressed. Among the many interesting results is that when the capacity for the volume of redistributive flows, across income levels or across socio-political groups, is reached, an increase in market inequality can lead to a fall in progressivity in the tax-transfer regime without any change in the government's preferences for equity. A focus on the volume of redistribution thus opens up an important set of theoretical and empirical questions for analysis and for policy. On Optimal Personal Income Taxation Paweł Doligalski 2016 How should we tax people's incomes? I address this question from three different angles. The first chapter describes the optimal income tax when people can hide earnings by working in a shadow economy. The second chapter examines the optimal taxation of employees when firms can insure their workers and help them avoid taxes. The final chapter shows that a basic income policy - an unconditional cash transfer to every citizen - can, under certain conditions, be
justified on efficiency grounds. In `Optimal Redistribution with a Shadow Economy', written jointly with Luis Rojas, we examine the constrained efficient allocations in the Mirrlees (1971) model with an informal sector. There are two labor markets: formal and informal. The planner observes only income from the formal market. We show that the shadow economy can be welfare improving through two channels. It can be used as a shelter against tax distortions, raising the efficiency of labor supply, and as a screening device, benefiting redistribution. We calibrate the model to Colombia, where 58% of workers are employed informally. The optimal share of shadow workers is close to 22% for the Rawlsian planner and less than 1% for the Utilitarian planner. Furthermore, we nd that the optimal tax schedule is very different than the one implied by the Mirrlees (1971) model without the informal sector. New Dynamic Public Finance describes the optimal income tax in the economy without private insurance opportunities. In `Optimal Taxation with Permanent Employment Contracts' I extend this framework by introducing permanent employment contracts which facilitate insurance provision within rms. The optimal tax system becomes remarkably simple, as the government outsources most of the insurance provision to employers and focuses mainly on redistribution. When the government wants to redistribute to the poor, a dual labor market can be optimal. Less productive workers are hired on a xed-term...
basis and are partially insured by the government, while the more productive ones enjoy the full insurance provided by the permanent employment. Such arrangement can be preferred, as it minimizes the tax avoidance of top earners. I provide empirical evidence consistent with the theory and characterize the constrained efficient allocations for Italy. When does paying a strictly positive compensation in every state of the world improves incentives to exert effort? In 'Minimal Compensation and Incentives for Effort' I show that in the typical model of moral hazard it happens only when the effort is a strict complement to consumption. If the cost of effort is monetary, a positive minimal compensation strengthens incentives only when the agent is prudent and always does so when the marginal utility of consumption is unbounded at zero consumption. I discuss potential applications of these results in personal income taxation. The minimal compensation can be interpreted as a basic income - an unconditional cash transfer to every citizen. Therefore, I provide an efficiency rationale for the basic income.

Using Elasticities to Derive Optimal Income Tax Rates Emmanuel Saez 2000 This paper derives optimal income tax formulas using compensated and uncompensated elasticities of earnings with respect to tax rates. A simple formula for the high income optimal tax rate is obtained as a function of these elasticities.
and the thickness of the top tail of the income distribution. In the general non-linear income tax problem, this method using elasticities shows precisely how the different economic effects come into play and which are the key relevant parameters in the optimal income tax formulas of Mirrlees. The optimal non-linear tax rate formulas are expressed in terms of elasticities and the shape of the income distribution. These formulas are implemented numerically using empirical earnings distributions and a range of realistic elasticity parameters.

Optimal Taxation in Theory and Practice

N. Gregory Mankiw 2009

We highlight and explain eight lessons from optimal tax theory and compare them to the last few decades of OECD tax policy. As recommended by theory, top marginal income tax rates have declined, marginal income tax schedules have flattened, redistribution has risen with income inequality, and commodity taxes are more uniform and are typically assessed on final goods. However, trends in capital taxation are mixed, and capital income tax rates remain well above the zero level recommended by theory. Moreover, some of theory's more subtle prescriptions, such as taxes that involve personal characteristics, asset-testing, and history-dependence, remain rare in practice. Where large gaps between theory and policy remain, the difficult question is whether policymakers need to learn more from theorists, or the other way around.

Optimal Redistribution
Optimal Nonlinear Income Taxation with Costly Tax Avoidance
Borys Grochulski 2007-12
Studies the problem of optimal income taxation in an economy in which income can be falsified. Agents are assumed to have access to a technology that allows them to hide income from public view. As hidden income cannot be taxed, the possibility of income falsification puts a limit on the amount of redistribution that can be implemented in this economy. Given that the process of income concealment is costly, however, limited social insurance can be provided through partial redistribution of revealed income. In this economy, the authors derive Pareto-optimal income redistribution schedules & show how the resulting allocations of consumption can be implemented with a system of nonlinear income taxes. Charts, tables & graphs.

Taxation
Martin O'Neill 2018-07-19
This is the first book to give a collective treatment of philosophical issues relating to tax. The tax system is central to the operation of states and to the ways in which states interact with individual citizens. Taxes are used by states to fund the provision of public goods and public services, to engage in direct or indirect forms of redistribution, and to mould the behaviour of individual citizens. As the contributors to this volume show, there are a number of pressing and thorny philosophical issues relating to the tax system, and these issues often connect in fascinating ways with foundational questions.
regarding property rights, public justification, democracy, state neutrality, stability, political psychology, and other moral and political issues. Many of these deep and fascinating philosophical questions about tax have not received as much sustained attention as they clearly merit. The aim of advancing the debate about tax in political philosophy has both general and more specific aspects, ranging across both over-arching issues regarding the tax system as a whole and more specific issues relating to particular forms of tax policy. Thinking clearly about tax is not an easy task, as much that is of central importance is missed if one proceeds at too great a level of abstraction, and issues of conceptual and normative importance often only come sharply into focus when viewed against real-world questions of implementation and feasibility. Serious philosophical work on the tax system will often therefore need to be interdisciplinary, and so the discussion in this book includes a number of scholars whose expertise spans across neighbouring disciplines to philosophy, including political science, economics, public policy, and law.

**Taxes and Taxation Trends** Jolanta Iwin-Garzyńska 2018-04-20

Taxes are a constant part of life for every company and a constant element of economics, finance, and financial law. Any changes observed in the science and theory also apply to the importance and position of taxes in the
practice of corporate finance, public finance, and economic growth. Besides this, a new meaning of taxes in the economies of countries in the world and the European Union is introduced. Taxes will always introduce risks and uncertainties in business, due to the high volatility and uncertainty of tax law. Moreover, being a category that affects the economic growth, they cause disturbances in stability and welfare of the state. Therefore, while considering the essence of taxes in a country, one should not consider this category in isolation from corporate finance and social welfare. Two things are certain in the world: death and taxes.

**Three Essays on Income Redistribution** Bo Hyun Chang 2016 "Income redistribution is one of the primary concerns for policy makers and economists. Among the countries in the Organization for Economic Co-operation and Development (OECD), the degree of income redistribution (measured by the percentage decrease in the income Gini coefficients between the before and after taxes/transfers) ranges from 5% (Chile) to 49% (Ireland). Understanding and comparing redistribution policies across countries in a unified framework is not an easy task. However, recent developments in quantitative general equilibrium heterogeneous-agents models allow us to address several issues. In this dissertation I study three issues about the redistribution polices using a state-of-the-art quantitative general equilibrium..."
Chapter 1 uncovers Pareto weights that justify the current progressivity of income taxes in 32 OECD countries. Chapter 2 shows that the current tax rate in the U.S. can be close to political equilibrium under an ex-ante differences in earnings ability and income-dependent voting behaviors. Chapter 3 finds and explains the negative relationship between economic outlook and income redistribution. In Chapter 1, we develop a model that reproduces income distribution and redistribution policies in 32 OECD countries. The individual income tax schedule is assumed to follow a log-linear tax function, which is widely used in the literature (Heathcote et al., 2016). According to our model, the optimal tax progressivity under the equal-weight utilitarian social welfare function varies from 0.21 (South Korea) to 0.41 (Ireland), and the corresponding optimal redistribution ranges between 20% (South Korea) and 37% (Ireland). For 22 countries, mostly European countries, the current progressivity is higher than optimal. In the other 10 countries, including the U.S., the optimal progressivity is higher than the current one. In our model the optimal tax progressivity is favored by the majority of the population in almost all OECD countries. Then, why does the current (suboptimal) tax rate prevail? The society's choice for redistribution may differ from the equal-weight utilitarian welfare function (Weinzierl, 2014; Heathcote and Tsujiyama, 2016), or can be...
affected by various factors such as the externality of public expenditure (Heathcote et al., 2016), and the preference heterogeneity (Lockwood and Weinzierl, 2015). In this chapter we ask a rather simple positive question within the utilitarian framework: what are the weights in the social welfare function that justify the current tax progressivity as optimal? We interpret these relative weights in the social welfare function as broadly representing each society's preferences for redistribution and political arrangement. According to our calculations, in Sweden, the average Pareto weight on the richest 20% of the population is only 0.53, whereas that on the poorest 20% is 1.74. By contrast, in Chile, the Pareto weight on the richest 20% is 2.65, whereas that on the poorest 20% is a mere 0.15. In the U.S. that on the richest 20% is 1.45 and that on the poorest 20% is 0.60. We also compare our social weights to those from Lockwood and Weinzierl (2016), who extend Mirrleesian (1971) framework to uncover weights. To our knowledge, this is the first study that compares how societies aggregate individual preferences over redistributive policies, and does so across a large set of countries. The utilitarian social welfare function often predicts that the optimal income tax rate in the U.S. is much higher than the current rate (e.g., Piketty and Saez, 2013). In Chapter 2, we focus on the interaction of ex-ante heterogeneity in household earnings and income-dependent turnout.
rates. While the relationship between each factor and income redistribution has been reported by many studies (Benabou and Ok, 2001; Charite et al., 2015, Mahler, 2008), quantitatively neither effect alone is large enough to explain the current tax rate. However, the interaction of the two magnifies the effect on redistribution, political equilibrium can be close to the current tax rate. More specifically, we construct three model economies: no ex-ante heterogeneity (NH), small ex-ante heterogeneity (SH), and large ex-ante heterogeneity (LH). All three economies match the overall income dispersion (Gini coefficient) in the data, but the share of ex-ante productivity (ability) and ex-post productivity (shocks) is different. According to our estimates following Guvenen (2009), 31% (SH) and 57% (LH) of wage dispersions are driven by ex-ante productivity. In the NH, by design, all wage dispersions are from ex-post productivity. For tractability, a flat tax rate and a lump-sum transfer are assumed in this chapter. The current tax rates in the three economies are set to 24% from the U.S. data. According to our model, the optimal tax rates under an equal-weight utilitarian social welfare criterion are similar in all three economies: 37% (NH), 38% (SH) and 37%. These high optimal tax rates are consistent with a majority of literature based on a utilitarian social welfare function (e.g., Piketty and Saez, 2013; Heathcote and Tsujiyama, 2016).
tax rates chosen by a simple majority rule are 37% (NH), 37% (SH), and 34% (LH), still much higher than the current rate. However, once we introduce increasing voter turnout rates with income, as in the data (Mahler, 2008), the political equilibrium vastly differs across the three economies. The tax rates chosen by effective voting are 35% (NH), 33% (SH), and 27% (LH). In LH, where income dispersion is driven mainly by ex-ante productivity, the insurance benefit from a heavy tax-and-transfer policy diminishes, and high-ability households are more against strong redistribution. If their turnout rates are higher, a relatively low tax rate can become a political equilibrium, which is close to the current tax rate. In Chapter 3, I find a new relationship between the economic outlook and redistribution among 33 OECD countries between 1996 and 2010, using the historical forecasts in the World Economic Outlook and the Standardized World Income Inequality Database. A one percentage point decrease in expected growth is associated with a 0.005 point and 0.9% increase in the income Gini before taxes and transfers. To examine this relationship I introduce labor-augmenting technology into my model at the cost of assuming a simple tax structure (linear tax and lump-sum transfer). The current tax rate (21.8%) and labor-augmenting productivity growth (3%) are chosen to match the U.S. economy before the Great Recession. Then, after an unanticipated productivity slowdown, the productivity growth...
decreases to 1%. Once productivity slows down, households save more to prepare for lost consumption in the future. As the capital-to-output ratio increases, the interest rate goes down from 4% to 1.7%. As seen in previous chapters, explaining the current tax rate is still disputed. Leaving this question to other studies, this chapter focuses on the effect of a productivity slowdown. More specifically, social weights that justify the current tax rates are derived, and, given these weights, the optimal tax rate under the low-growth regime is calculated. While all households save more against productivity slowdown, poor households, who are close to borrowing constraints, have more difficulty in increasing their savings. Hence, higher tax rates (23.6%) and more transfers can enhance social welfare under the low-growth regime. This relationship between expected growth and redistribution is similar to my empirical estimates. A general equilibrium effect from increased capital plays an important role. If interest rates are fixed, private savings are more effective against a productivity slowdown, since households can continue to save at the same rate. In this economy the optimal tax rate under the low-growth regime is much lower than the current rate."

"Optimal Income Taxation with Endogenous Participation and Search Unemployment" Etienne Lehmann 2011

We characterize optimal redistributive taxation when individuals are
heterogeneous in their skills and their values of non-market activities. Search-matching frictions on the labor markets create unemployment. Wages, labor demand and participation are endogenous. Average tax rates are increasing at the optimum. This shifts wages below their laissez faire value and distorts labor demand upwards. The marginal tax rate is positive at the top of the skill distribution even when the latter is bounded. These results are analytically shown under a Maximin objective when the elasticity of participation is decreasing in the skill level and are numerically confirmed under a more general objective.