



Social versus individual work preferences implications for optimal income taxation /

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Analítica

The benchmark optimal income taxation model of Mirrlees (1971) finds that the optimal marginal income tax rate (MIT) is always non-negative. This paper extends the benchmark model to allow for differences in social and individual work preferences while maintaining its assumption that individuals are rational. 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 case for wage subsidies is reinforced when the government places a relatively higher weight on work for low earners. The model also allows for an analysis of the optimal income tax schedule when government places a social value on unpaid non-market work as argued by Atkinson (2009, 2015)

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