

IMF Working Paper
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Social Versus Individual Work Preferences: Implications for Optimal Income Taxation
Prepared by Zhiyong An and David Coady

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ABSTRACT: 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.

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WORKING PAPERS

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