

Issue of 2021–05–17
nine papers chosen by
[Thomas André](#)
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1. [Optimal tax problems with multidimensional heterogeneity: A mechanism design approach](#) By [Jacquet, Laurence](#); [Lehmann, Etienne](#)
2. [Marginal tax changes with risky investment](#) By [Raffaele Rossi](#)
3. [Price floors and externality correction](#) By [Griffith, Rachel](#); [O'Connell, Martin](#); [Smith, Kate](#)
4. [Are your tax problems an opportunity not to pay taxes? Evidence from a randomized survey experiment](#) By [Blesse, Sebastian](#)
5. [Tax Planning Knowledge Diffusion via the Labor Market](#) By [John M. Barrios](#); [John Gallemore](#)
6. [Should we Revive PAYG? On the Optimal Pension System in View of Current Economic Trends](#) By [Westerhout, Ed](#); [Meijdam, Lex](#); [Ponds, Eduard](#); [Bonenkamp, Jan](#)
7. [Proportional Tax under Ambiguity](#) By [Dong, Xueqi](#); [Liu, Shuo Li](#)
8. [Who truly bears \(bank\) taxes? Evidence from only shifting statutory incidence](#) By [Jiménez, Gabriel](#); [Martinez-Miera, David](#); [Peydró, José Luis](#)
9. [Temporary VAT Reduction during the Lockdown](#) By [Marius Clemens](#); [Werner Röger](#)

1. [Optimal tax problems with multidimensional heterogeneity: A mechanism design approach](#)

By: [Jacquet, Laurence](#); [Lehmann, Etienne](#)

Abstract: We propose a new method, that we call an allocation perturbation, to derive the optimal nonlinear income tax schedules with multidimensional individual characteristics on which taxes cannot be conditioned. It is well established that, when individuals differ in terms of preferences on top of their skills, optimal marginal tax rates can be negative. In contrast, we show that with heterogeneous behavioral responses and skills, one has optimal positive marginal tax rates, under utilitarian preferences and maximin.

Keywords: allocation perturbation; mechanism design; multidimensional screening problems; optimal taxation

Date: 2021–01

URL: <http://d.repec.org/n?u=RePEc:cpr:ceprdp:15721&r=&r=pbe>

2. Marginal tax changes with risky investment

By: Raffaele Rossi (University of Manchester)

Abstract: Using an estimated life-cycle model, we quantify the role of heterogeneity in wealth returns for the response of income to marginal tax changes. In our economy, agents who are sufficiently productive can obtain higher returns by choosing to be entrepreneurs. Return heterogeneity amplifies the responsiveness of total income to marginal tax changes along the entire income distribution with the top 1 percent displaying the highest elasticities. Return heterogeneity increases the incentives to invest for the richest, high-return entrepreneurs, thus amplifying their income responses to marginal tax changes. This reallocation of capital increases aggregate productivity, generating a larger boost in equilibrium wages. This in turn strengthens the income response of the bottom 90 percent, but nevertheless, their response is smaller than at the top.

Keywords: risky investment, elasticity of taxable income, life-cycle, entrepreneurs, structural estimation

JEL: E62 H21 H24

Date: 2021–04

URL: <http://d.repec.org/n?u=RePEc:bde:wpaper:2116&r=&r=pbe>

3. Price floors and externality correction

By: Griffith, Rachel; O'Connell, Martin; Smith, Kate

Abstract: We study the introduction of a price floor for alcohol that is aimed at correcting for negative consumption externalities. Policy effectiveness depends on whether the measure achieves large reductions in the most socially costly consumption. We exploit a natural experiment to show the policy raised prices of cheap products favored by heavy consumers, and achieved large demand reductions among this group. We use pre-reform data to estimate a model of consumer demand that is able to match these patterns, and use this to compare the welfare performance of a price floor with the counterfactual introduction of an ethanol tax. We show that if the marginal external cost of drinking is at least moderately higher for heavy drinkers, then a price floor is better targeted at the most socially costly consumption and therefore achieves larger welfare gains than an ethanol tax. Although the price floor leads to a larger fraction of the consumer burden falling on those with low incomes compared with the tax reform, it leads to a consumer burden that is smaller for all income groups.

Keywords: Alcohol; corrective taxes; externality; price floors

JEL: D12 D62 H21 H23

Date: 2020–11

URL: <http://d.repec.org/n?u=RePEc:cpr:ceprdp:15476&r=&r=pbe>

4. Are your tax problems an opportunity not to pay taxes? Evidence from a randomized survey experiment

By: Blesse, Sebastian

Abstract: Taxpayers often view tax rules and filing processes as complicated. In this paper I study whether the perceived tax uncertainty among peers leads to a reduction of voluntary tax compliance. I find strong supportive evidence for this hypothesis using a survey experiment for a large representative sample of the German population. Providing randomized information that others are uncertain about how to file their taxable income decreases individual tax morale. This suggests that subjects use negative peer signals as an excuse in order to opt-out of tax compliance. Studying related heterogeneous treatment effects, I find that both older and left-wing subjects are more responsive to tax uncertainty of others. I also show persistent treatment effects among very honest taxpayers in a follow-up survey.

Keywords: Tax Complexity, Taxpayer Uncertainty, Tax Morale, Survey Experiments

JEL: H26 Z13 K42 C9

Date: 2021

URL: <http://d.repec.org/n?u=RePEc:zbw:zewdip:21040&r=&r=pbe>

5. Tax Planning Knowledge Diffusion via the Labor Market

By: John M. Barrios; John Gallemore

Abstract: We examine the extent to which the labor market facilitates the diffusion of tax planning knowledge across firms. Using a novel dataset of tax department employee movements between S&P 1500 firms, we find that firms experience an increase in their tax planning after hiring a tax employee from a tax aggressive firm. This finding is robust to various research designs and specifications. Consistent with tax planning knowledge driving this result, we find that the tax planning benefit of hiring an employee from a tax aggressive firm is stronger when the employee has more tax experience and is hired into a senior tax department role, and when the hiring firm likely had less tax planning knowledge prior to the hire. Further tests suggest that tax planning knowledge is highly specific in nature: the increase in tax avoidance is larger when the hiring and former firms are similar (i.e., operating in the same sector or having similar foreign operations), and firms are more likely to hire tax department employees from firms with similar characteristics. Our study documents the first-order role of the labor market in the diffusion of tax planning knowledge across firms, and suggests that tax department human capital is a central determinant of tax planning outcomes.

JEL: H25 H26 J20 J24 J4 J44 J60

Date: 2021–05

URL: <http://d.repec.org/n?u=RePEc:nbr:nberwo:28775&r=&r=pbe>

6. Should we Revive PAYG? On the Optimal Pension System in View of Current Economic Trends

By: Westerhout, Ed (Tilburg University, School of Economics and Management); Meijdam, Lex (Tilburg University, School of Economics and Management); Ponds, Eduard (Tilburg University, School of Economics and Management); Bonenkamp, Jan

Date: 2021

URL: <http://d.repec.org/n?u=RePEc:tiu:tiutis:63418f60-e248-4dc9-aac8-ffef6da93a4&r=&r=pbe>

7. Proportional Tax under Ambiguity

By: Dong, Xueqi; Liu, Shuo Li

Abstract: This paper studies how investment can be influenced by common tax and monetary policies, where investment is measured by the proportion of an investor's wealth invested in the asset that pays a random return. We further prove that all risk- uncertainty averse individuals will increase investments if and only if a type of proportional tax with full loss offset (Domar and Musgrave 1944, QJE) is imposed. This result holds: 1. under ambiguity, that is when the probability distribution of an asset's return is unknown; 2. when borrowing in the safe asset is allowed.

Keywords: Proportional Tax with Full Loss Offset, Ambiguity, Portfolio Choice

JEL: D80

Date: 2021-05

URL: <http://d.repec.org/n?u=RePEc:pra:mprapa:107668&r=&r=pbe>

8. Who truly bears (bank) taxes? Evidence from only shifting statutory incidence

By: Jiménez, Gabriel; Martinez-Miera, David; Peydró, José Luis

Abstract: We show strong overall and heterogeneous economic incidence effects, as well as distortionary effects, of only shifting statutory incidence (i.e., the agent on which taxes are levied), without any tax rate change. For identification, we exploit a tax change and administrative data from the credit market: (i) a policy change in 2018 in Spain shifting an existing mortgage tax from being levied on borrowers to being levied on banks; (ii) some areas, for historical reasons, were exempt from paying this tax (or have different tax rates); and (iii) an exhaustive matched credit register. We find the following robust results: First, after the policy change, the average mortgage rate increases consistently with a strong but not complete tax pass-through. Second, there is a large heterogeneity in such pass-through: larger for borrowers with lower income, a smaller number of lending relationships, not working for the lender, or facing less banks in their zip-code, thereby suggesting a bargaining

power mechanism at work. Third, despite no variation in the tax rate, and consistent with the non-full tax pass-through, the tax shift increases banks' risk-taking. More affected banks reduce costly mortgage insurance in case of loan default (especially so if banks have weaker ex-ante balance sheets) and expand into non-affected but (much) ex-ante riskier consumer lending, experiencing even higher ex-post defaults within consumer loans.

Keywords: banks; Incidence; inequality; Mortgages; risk-taking; taxes
JEL: E51 G21 G28 G51 H22
Date: 2020–12
URL: <http://d.repec.org/n?u=RePEc:cpr:ceprdp:15519&r=&r=pbe>

9. Temporary VAT Reduction during the Lockdown

By: Marius Clemens; Werner Röger

Abstract: This paper evaluates the temporary VAT reduction introduced by the German government over the third and fourth quarter of 2020 as most controversial part of the COVID-19 stimulus package. Critics argue that VAT reductions are ineffective because of limited pass-through of temporary measures to consumer prices and in presence of lockdown measures. Advocates emphasize positive effects on durables and stress that a VAT reduction can at least partly substitute for a limited monetary policy response under the ZLB. We build a DSGE model which is capable to address these channels. Our model distinguishes between sectors directly and indirectly affected by the lockdown. This allows us to trace economic spillovers of lockdown measures to the rest of the economy and the differentiated impact of VAT measures on both sectors. We disaggregate consumption into durables and non-durables for both financially constrained and unconstrained households and we allow for imperfect pass-through of VAT measures into consumer prices. In general, if we include the durable investment channel we find robust sizeable effects of VAT changes on consumption even under a limited VAT pass-through. For the specific situation in Germany, we analyze the impact of the VAT reduction in conjunction with the lockdowns in 2020 Q2 to Q4. We use non-linear solution techniques to solve the model in the presence of a ZLB, forced savings and a lockdown constraint. We find a VAT short-term multiplier of one, which reduces over the medium term. Thus, the temporary VAT reduction is an effective instrument in the short-term but not efficient with regard to medium-term budget sustainability. Furthermore, we can show that the VAT reduction is able to mimic the macroeconomic effects of a central bank reaction according to a Taylor rule in case of a lockdown shock. However, compared to the monetary policy reaction the VAT reduction has only small direct effects on private investments.

Keywords: Fiscal policy, DSGE modelling, COVID-19 lockdown, tax multiplier
JEL: E62 E65 H21
Date: 2021

URL: <http://d.repec.org/n?u=RePEc:diw:diwwpp:dp1944&r=&r=pbe>

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