Optimal Taxation, Marriage, Home Production, and Family Labor Supply

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Abstract

This paper develops an empirical approach to optimal income taxation design within an equilibrium collective marriage market model. Taxes distort labour supply and time allocation decisions, as well as marriage market outcomes, and the within household decision process. Using data from the American Community Survey and American Time Use Survey we structurally estimate our model and explore empirical design problems. We consider the optimal design problem when the planner is able to condition taxes on marital status, as in the U.S. tax code, but for married couples we allow for an arbitrary form of tax jointness. We also show how design problem changes when we introduce cohabitation as an alternative state, offering many of the same economic benefits of marriage, but with the informational friction that forces individuals in the cohabitation and single state to be subject to the same tax schedule.

Keywords: Collective Models, Labour Supply, Optimal Taxation, Marriage Market

JEL Classification Number: H21, J12, J22.

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