Family Size and Optimal Taxation in the Extensive Model

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Abstract

This paper studies optimal taxation with extensive labor supply margin and variable family size. Households are differentiated by market and non-market (child-care) ability, and the number of children. When the government only employs non-linear income tax, in-work credit can be optimal within every family size class. The joint distribution of ability pattern affects the size of in-work credit. The relationship between income tax liabilities and family size depends on the government's redistributive taste, extensive labor response and lump-sum transfer. When the government also imposes a tax/subsidy on child-specific commodities, the desirability of in-work credit appears to be ambiguous. The role of differential commodity tax is that it reveals her child-care ability whenever the demand for child-specific commodity is related to the child-care ability. Furthermore, we confirm some conditions that Atkinson-Stiglitz Theorem remains valid in this context.

Keywords: H21, H23, J13, D13

JEL classification: Optimal taxation; Family size; Extensive margin

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