

# Optimal Dynamic Nonlinear Income Taxes: Facing an Uncertain Future with a Sluggish Government\*

Marcus Berliant<sup>†</sup> Shota Fujishima<sup>‡</sup>

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## Abstract

We consider the optimal nonlinear income taxation problem in a dynamic, stochastic environment when the government is sluggish in the sense that it cannot change the tax rule as uncertainty resolves. We argue that the zero top marginal tax rate result in static models is of little practical importance because it actually holds only when the top earner in the initial period receives the highest shock in every period.

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<sup>†</sup>Department of Economics, Washington University in St. Louis, Campus Box 1208, 1 Brookings Drive, St. Louis, MO 63130-4899 USA. Phone: (314) 935-8486. Fax: (314) 935-4156. Email: [berliant@artsci.wustl.edu](mailto:berliant@artsci.wustl.edu)

<sup>‡</sup>Department of Economics, Washington University in St. Louis, Campus Box 1208, 1 Brookings Drive, St. Louis, MO 63130-4899 USA. Email: [sfujishima@go.wustl.edu](mailto:sfujishima@go.wustl.edu)