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Optimal Taxation, Child Care and Models of the Household
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Abstract:
This paper presents for the first time the properties of optimal piecewise linear tax systems for two-earner households, based on joint and individual incomes respectively. A key contribution is the analysis of the interaction of second earner wage differences, variation in prices of bought-in inputs into household production in the form of child care, and domestic productivity differences as determinants of across-household heterogeneity in second earner labour supply. The analysis highlights the importance of the elasticity of substitution between parental and non-parental child care in determining the relationship between utility and income across households. A central result is that taking account of a richer and more realistic specification of household time use widens the set of cases in which individual taxation is welfare-superior to joint taxation.

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