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## **In-Work Benefits for Married Couples: An Ex-Ante Evaluation of EITC and WTC Policies in Italy**

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### **Abstract:**

This paper investigates labor supply and redistributive effects of in-work benefits for Italian married couples using a tax-benefit microsimulation model and a multi-sectoral discrete choice model of labor supply. We consider two in-work benefit schemes following the key principles of the Earned Income Tax Credit (EITC) and the Working Tax Credit (WTC) existing in the US and the UK, respectively. The standard design of these in-work benefits is however augmented with a new benefit premium for two-earner households in order to overcome the well-known disincentive effects that these welfare instruments may generate on secondary earners. In simulation, the proposed in-work benefits are financed through the abolition of Italian family allowances for dependent employees and contingent workers thus ensuring tax revenue neutrality. We show that our EITC and WTC reforms have strong positive effects on labor supply of wives, weak negative effects on labor supply of husbands, and strong positive effects on equity. The EITC is more effective than the WTC in boosting employment of wives, while the WTC is more effective than the EITC in fighting poverty. In both schemes, the trade-off between labor supply incentives and redistributive effects is crucially related to the new benefit premium for two-earner households. Other things being equal, tax revenue neutrality implies that a higher value of this policy coefficient yields stronger incentive effects and weaker redistributive effects.

**Text:** See [Discussion Paper No. 6739](#)

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