



Leibniz-Institut für
Wirtschaftsforschung Halle

IWH Research Seminar in Economics

Montag, 22. Mai 2017, 14:15–15:45 Uhr, Konferenzsaal im Erdgeschoss



The Impact of Taxes on Income Mobility

Mario Alloza, Ph.D. (Bank of Spain, Madrid)

This paper investigates how taxes affect relative mobility in the income distribution in the US. Household panel data drawn from the PSID between 1967 and 1996 is employed to analyse the relationship between marginal tax rates and the probability of staying in the same income decile. Exogenous variation in marginal tax rates is identified by using counterfactual rates based on legislated changes in the tax schedule. I find that higher marginal tax rates reduce income mobility. An increase in one percentage point in marginal tax rates causes a decline of around 0.8% in the probability of changing to a different income decile. Tax reforms that reduce marginal rates by 7 percentage points are estimated to account for around a tenth of the average movements in the income distribution in a year. Additional results suggest that the effect of taxes on income mobility differs according to the level of human capital and that it is particularly significant when considering mobility at the bottom of the distribution.

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