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Inequality and Taxation

Insights into the redistributive effects of the Swiss tax system
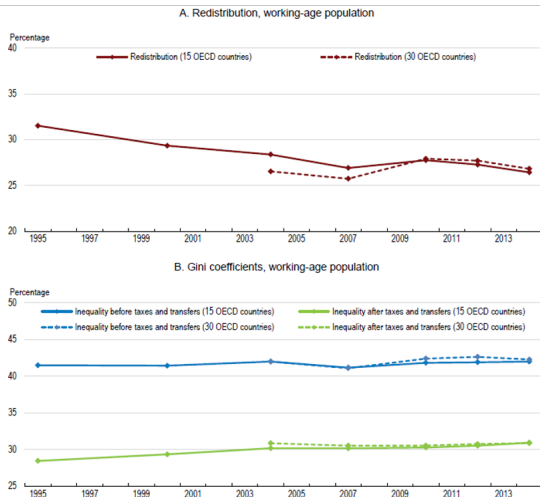
Dr. Rudolf Farys, University of Bern
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Prof. Dr. Ben Jann, University of Bern

115th ASA Annual Meeting. Power, Inequality, and Resistance at Work
August 8-10, 2020, San Francisco, CA

Introduction: Increase in inequality of disposable income as a result of less redistribution

Source: Orsett Causa & Mikkel Hermansen, 2018. Income Redistribution Through Taxes and Transfers across OECD Countries, LIS Working papers 729, LIS Cross-National Data Center in Luxembourg

Introduction: The role of the tax system to reduce income inequality

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- Yet many countries also provide options for claiming deductions that alter the redistributive effect of taxes. This latter aspect however is often neglected since data usually only reports on taxes paid.

- By using administrative tax data we are able to evaluate *the visible (taxes & benefits) and hidden (deductions) instruments of the welfare state*

http://inequalities.ch/
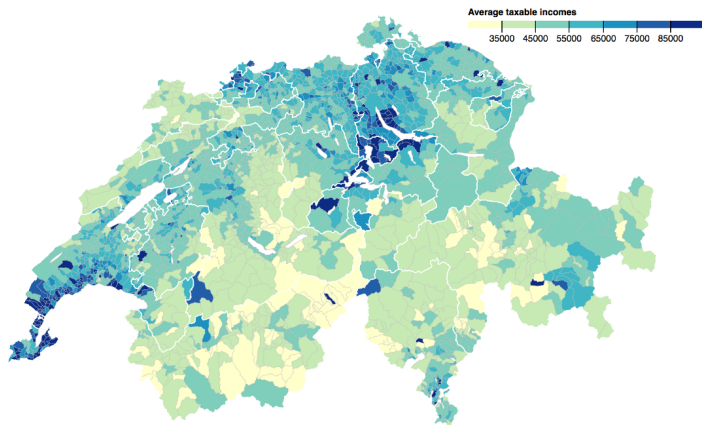
Using tax data for inequality studies – The case of the Swiss tax system

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- Bern is the 2nd largest canton in Switzerland (1 Million inhabitants), with respect to economic inequality, it is a bit below Swiss average and direct taxes are comparably higher.

Data linkage
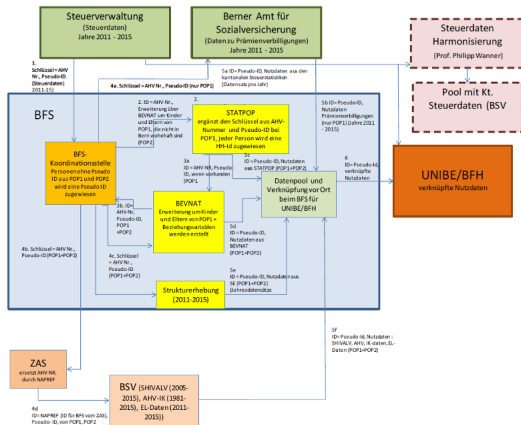
Method: Decomposition of redistibutive effects

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▶ (1) Identify effect of taxes (and benefits)
▶ (2) To identify the effect of deductions a post tax income distribution without any deductions was created (G_z). The effect of every single deduction (u_i) was identified by comparing post tax income distributions applying deduction i (G_{u_i}) to G_z.

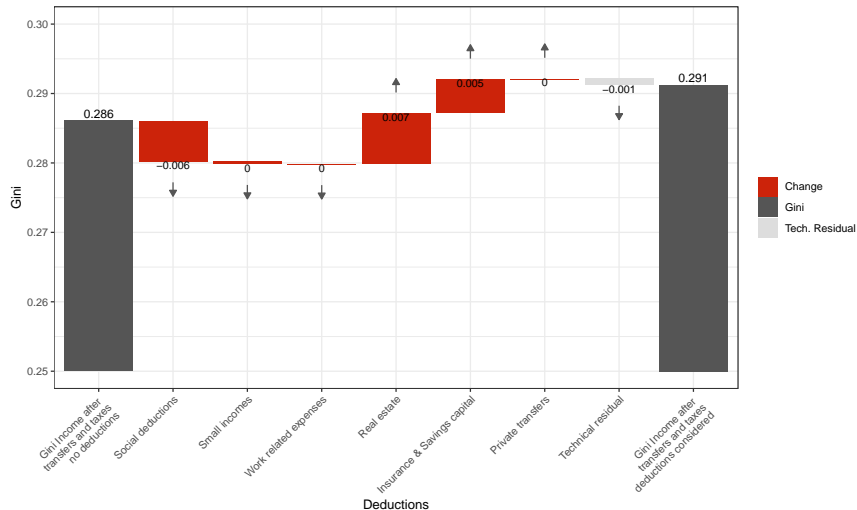# Results: Redistributive effect of taxes and benefits
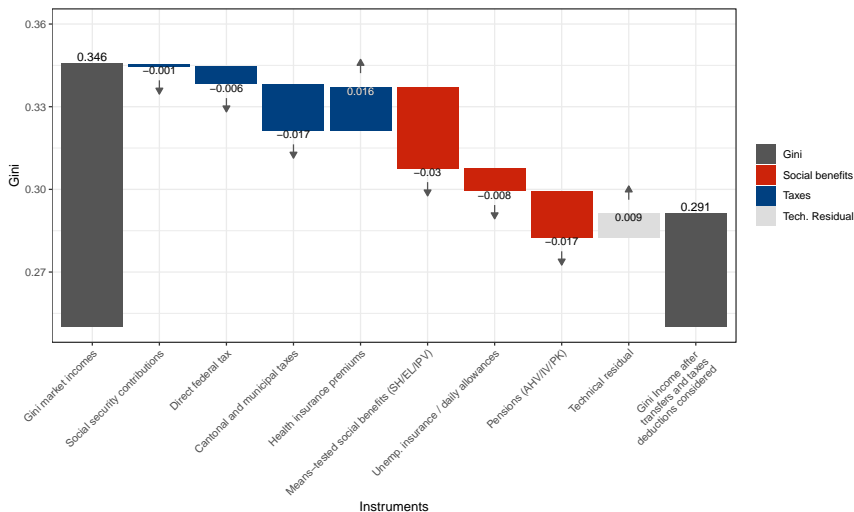
Note: Income inequality before and after taxes and benefits, working age population, Canton of Bern, equivalence-scaled income

Results: Which income groups profit from deductions?
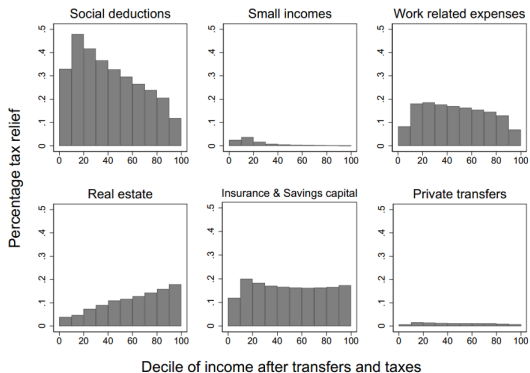
Results: Effect of deductions (via taxes) on income inequality

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▶ Political debates arise around deductions. Right now, there is a voting on increase child deductions, that is subject of fierce debate in Switzerland.

▶ It is therefore important for inequality and policy analysis to investigate on the effect of deductions and not only on tax rates.

Thank you for your attention!
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