

Discussion Paper no. 2018-48.

Reply to Jose Cordero (reader)

First of all, we would like to thank you for your commentaries and recommendations about our discussion paper. We detail the explanations about two main questions that you raise:

1. With respect to the use of the weighted marginal rate based on Onrubia and Sanz (2009), we point out that the main problem when analysing taxpayers' responses to the dual income tax is that there are two tax bases on which different marginal rates are applied. Despite of the previous tax model had two tax bases too, the main difference we can find is that the savings income (financial savings) is taxed by 2007 PIT in the "saving base" (together capital gains and losses, which were already taxed in the previous tax, in most cases, at a proportional rate). On the contrary, in the 2006 PIT model the savings income was taxed in the general base (together the labour, professional and business income, rents and other income from non-financial capital). Therefore, it is not necessary to apply the weighted marginal tax rate. The specific incomes taxed in each base are detailed in table A.1 (entitled "Income classification").

2. Regarding the question about optimal marginal rates, you can find in the Table 6 the optimal marginal tax rates for the combinations of the different tax income brackets and estimated elasticities. In this table, we highlight (shaded) which are the particular optimal tax rates for the Spanish dual income tax reform. The result for the overall taxpayers is showed in the last row of the table, while the results for each tax income bracket of the dual 2007 PIT are reported in the middle of the table. It is true that the optimal tax rate is reduced with respect to income. This is a consequence of the fact that estimated elasticities increase with income, as expected. This means that the higher income taxpayers have more sensibility (or more elasticity) to the high marginal tax rate, while low-income taxpayers show lower sensitivity (or lower elasticity). Otherwise, according to the above, higher (lower) income taxpayers will have lower (higher) marginal tax rates.