

Discussion Paper no. 2018-48.

Reply to Carmen Marín-González

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Thank you very much for your carefully reading on our paper and for giving your opinion about the same. We try to clarify and answer each of your concerns and comments below. Our replies are divided in three issues, as they have been raised by you:

1. Regarding doubts about the interpretation of the variable "Percentage of income of main income earner" (see Table 1), we have to clarify that:

a) In the tax returns corresponding to married couples in joint taxation, we have adopted the following criteria for the distribution of income between both spouses: earned income, pensions, unemployment benefits, self-employment and business income are assigned to the main income earner; while the remaining income (capital incomes and capital gains and losses) are divided equally between both spouses. These distribution criteria are consistent with the legal regulation of the Spanish tax. So, earned income, pensions, unemployment benefits, self-employment and business income are strictly attributable to your legal earner or beneficiary, while capital income is assigned according to the ownership of the assets that generate it. In Spain, most marriages distribute the ownership of their assets in equal parts (according to the so-called "legal regime of acquisitions"). In the absence of detailed information on the distribution of income between spouses who are jointly taxed, we think that it is a reasonable criterion, generally followed by authors that use the same micro data base.

b) The option of joint taxation in the Spanish IRPF is only beneficial for those marriages where there is a main income winner. In the event that a spouse obtains less than 85-90% of the total taxable income, the option of taxing separately is always preferable. This allows us to defend our criterion of income distribution between spouses, because with more equal participation between both, they will have opted for separate taxation.

c) In the case of separate taxation, there is no assignment problem. We directly apply the values recorded in the tax return variables of the individual taxpayer, regardless of whether he is single or married.

2. Regarding the second question raised (In Table 3, the taxpayer group can be single or married. My question is the treatment of individual and joint files), we think that the doubts have been clarified in the answer to the previous point, since both questions were related.

3. In relation to the third commentary referred to the possible changes in the marginal tax rates, according to the estimated optimal values, we agree with the given argument. All in all, our position in this paper assumes that the Personal Income Tax (both the synthetic model and the dual or semi-dual model) pursues redistributive goals, which requires that it has a progressive tax structure.

Although it is not a strictly necessary condition, according to tax designs in force in the real world, this means having a tax schedule with increasing marginal tax rates (applicable, in our case, to the so-called "general taxable income base"). This redistributive requirement is not incompatible with the reduction of the higher marginal tax rates (those of brackets 4 and 5), provided that the increasing structure of marginal tax rates is maintained.