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# Optimal taxation when people do not maximize well-being

Aart Gerritsen\*

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I derive the optimal nonlinear income tax when individuals do not necessarily maximize their own well-being. This generates a corrective argument for taxation: optimal marginal taxes are higher (lower) if individuals work too much (too little) from a well-being point of view. I allow for multi-dimensional heterogeneity and derive the optimal tax schedule in terms of measurable sufficient statistics. One of these statistics measures the degree to which individuals fail to optimize their labor supply. I empirically estimate this by using British life satisfaction data as a measure of well-being. I find that low-income workers tend to work ‘too little’ and high-income workers ‘too much,’ providing a motive for lower marginal tax rates at the bottom and higher marginal tax rates at the top of the income distribution.

JEL: H21, I31, D63

Keywords: Optimal taxation, corrective taxation, subjective well-being

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