

# To tax or not to tax, is that even a question?

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Robin Hood would not even have had to become an outlaw if the markets had been more competitive and Nottingham's taxation office had known how to assess taxes efficiently.

Today's financial world may not require a savior dressed in green, but it remains to be seen whether there is a need to reflect on checks and balances in examining invisible loss assessment.

Now, a researcher at Kyoto University and his collaborator are proposing a solution with an [analytical framework](#) for evaluating tax efficiency, mainly in the context of consumption taxes on goods. Consumer surplus and producer surplus—together, social surplus—both frame the dynamic relationships that describe the impact of tax changes on [social welfare](#) in tangible and intangible ways.

"This impact constitutes the invisible burden, manifested as behavioral constraints imposed by taxation on producers and consumers, added to the visible burden of the actual amount taxed," explains lead author Takanori Adachi.

The team has derived a formula expressing the marginal cost of public funds, essentially a ratio of a net loss in social surplus to a net increase in tax revenue.

"We derived this formula from only a few indices, common across specific market demand conditions and cost factors, that clearly tell us how the degree of tax-driven social burden relates to imperfect competition," the author adds.

The team has derived a second formula, termed the incidence, to express the decrease in consumer benefits relative to net decrease in producer profits. This formula relies on the same indices as the first [formula](#), helping to describe the general state of consumer confidence and perhaps hinting at economic forecasts.

"Our [theoretical framework](#) focuses on a single market for a deeper study of how the socio- [economic factors](#) interrelate," says Adachi.

"Initially surprising but natural in hindsight is our finding that the assessment formulas reflect only the indices related to demand and cost structures plus the mode of competition."

The research was published in the *Journal of Public Economics*.

**More information:** Takanori Adachi et al, Pass-through, welfare, and incidence under imperfect competition, *Journal of Public Economics* (2022). [DOI: 10.1016/j.jpubeco.2021.104589](https://doi.org/10.1016/j.jpubeco.2021.104589)

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