



Berner Fachhochschule  
Haute école spécialisée bernoise  
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# The impact of redistribution through taxes and deductions on the income distribution - A decomposition analysis with administrative tax data from Switzerland

Dr. Oliver Hümbelin, BFH Centre for Social Security.

Dr. Rudolf Farys, University of Bern

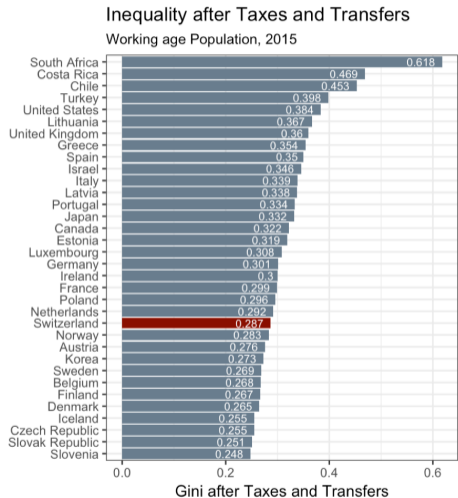
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22nd August 2019, 10.30 am - 12.30 am

**1** Part 1: Economic Inequality in Switzerland. What we can learn from tax data

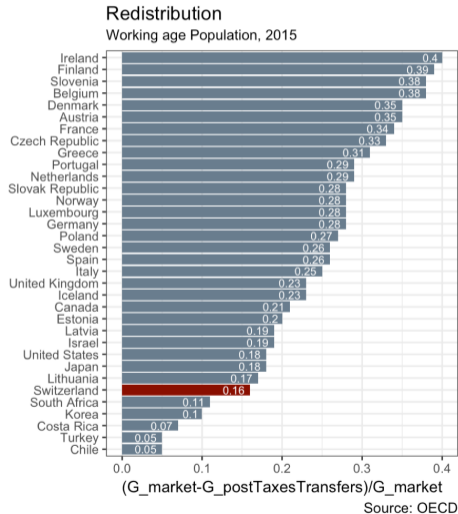
**2** Part 2: Results from a study on redistribution through taxes and deductions with Swiss tax Data

# Economic inequality in Switzerland: low income Inequality.

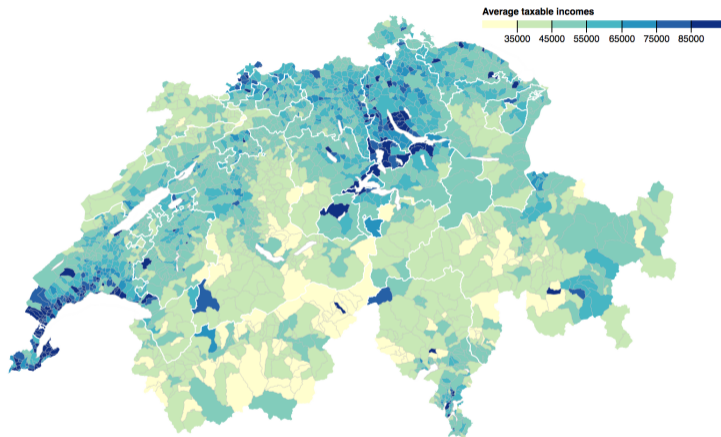


Source: OECD

# Economic inequality in Switzerland: low income Inequality & little Redistribution.



# Regional inequality within Switzerland



(Source: <http://inequalities.ch/>)

# Part 2: Results from a study on redistribution through taxes and deductions with Swiss tax Data

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### Income redistribution through taxation – how deductions undermine the effect of taxes

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#### Abstract

This paper shows the potential of administrative data to grant us a more complete picture of the redistributive effects of the visible (tax rates) and hidden (tax deductions) instruments of the fiscal welfare state. Based on

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Published

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- ▶ An important element of income inequality reduction are *progressive direct taxes*. On average 25% of the overall redistribution can be attributed to income taxes (Wang et al. 2014).
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- ▶ An important element of income inequality reduction are *progressive direct taxes*. On average 25% of the overall redistribution can be attributed to income taxes (Wang et al. 2014).
- ▶ 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) and hidden (deductions) instruments of the welfare state* with respect to their impact on income inequality.

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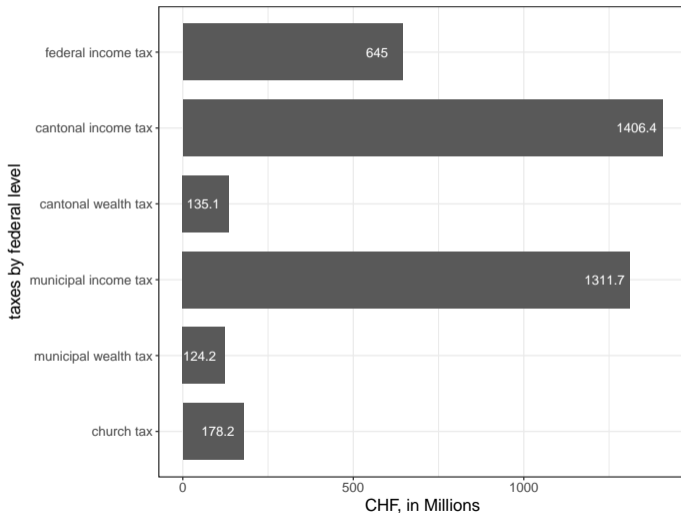
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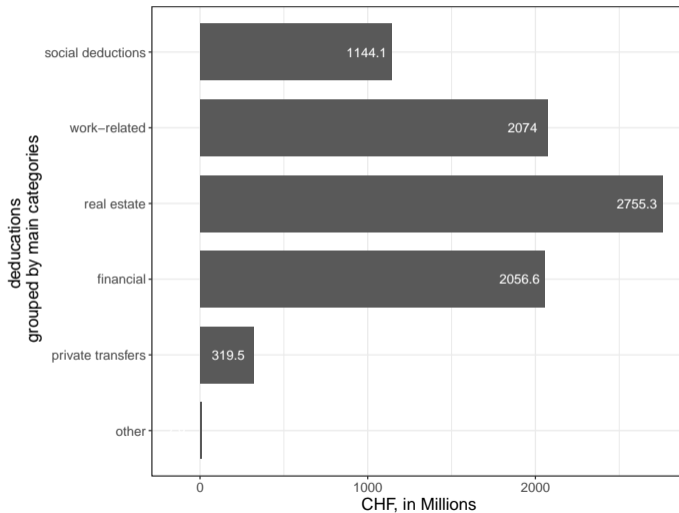
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- ▶ We use tax data from a large canton in Switzerland.
- ▶ Aargau is the fourth largest canton in Switzerland, with respect to economic inequality, mean income and the tax system it is an average canton, thus its not a special case we are looking at.

# Overview on taxes under scrutiny



# Overview on deductions under scrutiny



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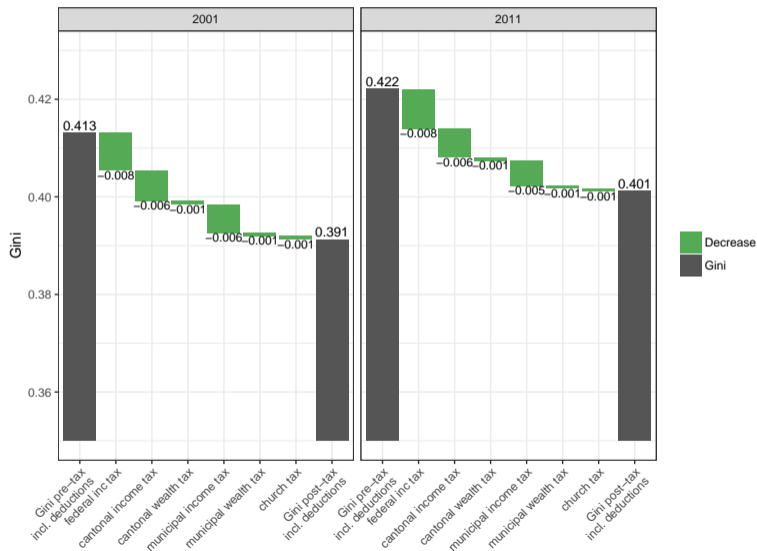
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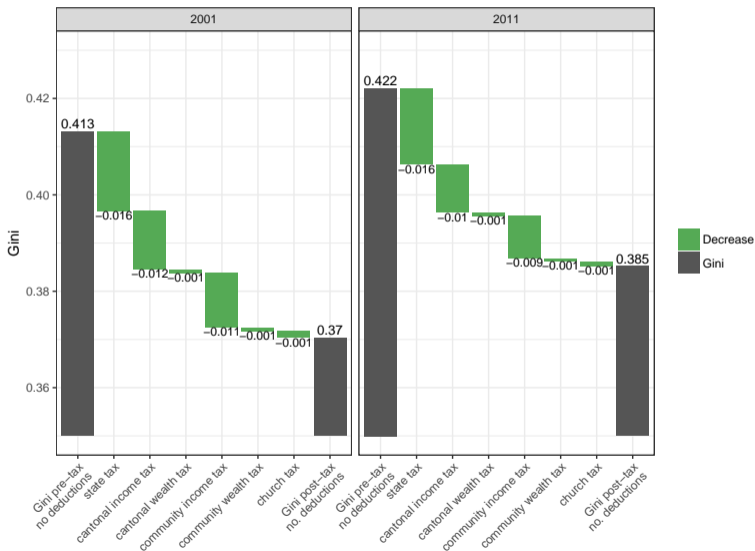
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- ▶ (1) Identify effect of taxes
- ▶ (2) To identify the effect of deductions a post tax income distribution without any deductions was created ( $G_z$ ). The effect of every single deduction ( $u_i$ ) was identified by comparing post tax income distributions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

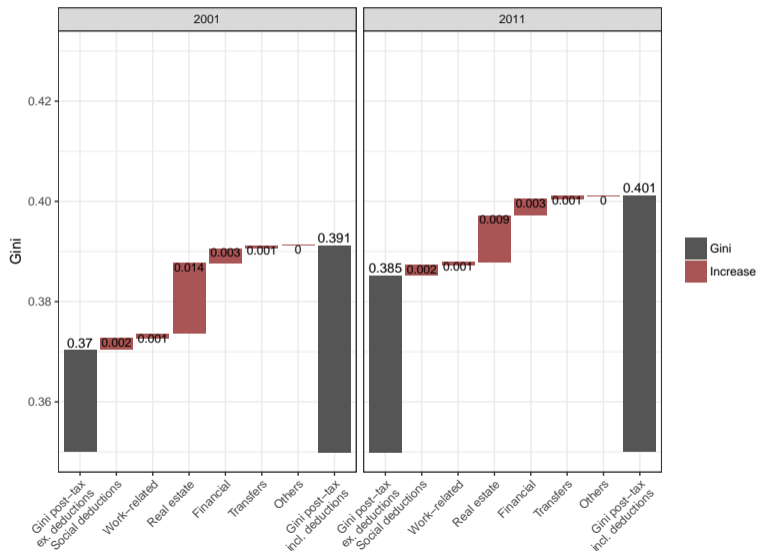
# Results: Partial redistributive effect of taxes (incl. deductions)



# Results: Partial redistributive effect of taxes (no deductions)



# Results: Partial redistributive effect of deductions







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  2. High income earners have additional options to claim deductions like costs related to homeownership or shifting money to the pension system.
  3. Inequality and redistribution scholars should therefore also have an eye deductions and not only on tax rates.

*Thank you for your attention!*  
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