Progressive Taxation

Economics

The case for and against rates rising with income.

Arguments for

- Diminishing marginal utility of income
- Ability to pay principle
- Funds public goods all rely on
- Reduces inequality directly
- Offsets regressive consumption taxes

Arguments against

- May reduce effort at high rates
- Encourages avoidance and relocation
- Complexity of the resulting system
- Narrow base concentrates revenue risk

THE DIFFERENCE THAT MATTERS

The empirical question is where behavioural response outweighs revenue gain. Estimates of that point vary widely.

Educational reference. The revenue-maximising top rate is contested and depends heavily on how mobile the base is.