

"A man is
great by
deeds, not by
birth"
-Chanakya

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Working Paper

IIMK/WPS/677/ECO/2026/01

March 2026

Participation Frictions, Access Policy, and Optimal Income Taxation

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Participation Frictions, Access Policy, and Optimal Income Taxation

Abstract:

We develop a theory of access redistribution inside a Mirrleesian income taxation framework. Households face participation frictions that distort the mapping between disposable income and effective consumption. Participation is modeled as a smooth function of a policy instrument (access policy) and disposable consumption resources, capturing the idea that participation costs are partly policy-shiftable and partly resource-dependent. We characterize the optimal nonlinear income tax jointly with access policy using a sufficient-statistics approach. The optimal marginal tax rate depends on a “total elasticity” that aggregates the standard intensive response of earnings and a participation response induced by taxation through its effect on disposable resources. We establish an attenuation result for income redistribution when participation frictions are high, a bias result showing that ignoring participation leads to over-taxation, and a complementarity result linking access improvements to lower optimal marginal tax rates. The model offers a tractable public economics foundation for distinguishing income redistribution from access redistribution.



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