



JOHN CREEDY

Tax and Transfer Tensions

Designing Direct
Tax Structures

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Victoria University of Wellington and
New Zealand Treasury



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Part I

Introduction

Chapter 1

Introduction and Outline

This book is concerned with the thorny question of tax design. Its emphasis is on the issues and problems involved in choosing a tax and transfer structure. Rather than examining the details of particular systems or countries, the following chapters discuss broad problems which can be illustrated using relatively simple models.¹ However, it is well known that even the simplest possible tax structure – a basic untaxed and unconditional transfer payment combined with a proportional tax in a population where individuals differ only in their income-earning ability – presents substantial complexities.

Part II of the book is concerned with the link between economic theory and tax policy. Chapter 2, from which the title of the book is taken, discusses the question of why it is so difficult to design a tax and transfer structure which receives widespread support. It considers the numerous elements involved, such as the information needed, the modelling problems, the constraints on choices and, above all, the range of objectives and value judgements held by different judges. The crucial role of value judgements plays a substantial part in subsequent chapters. The link between economic theory and tax policy is examined further in chapter 3, stressing that there is

¹For detailed examinations of particular tax structures, a valuable role can be played by behavioural tax microsimulation models. These have been discussed in other books by the author and colleagues; see Creedy *et al.* (2002), Creedy and Kalb (2006) and Buddelmeyer, Creedy and Kalb (2007).