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TAXING WAGES

PUBLIC LECTURE
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Port Vila
Vanuatu

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Objective

- **NOT** to say Vanuatu should or should not implement income tax

BUT

- Highlight **constraints and limitations**, particularly on employment and wages

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Why Wages are different to other sources of incomes?

- Wages are the means by which households and individuals without other assets achieve, fully or partially, their material livelihood
- Since labour can't be stored, it can't be saved to be used in a better occasion
- The alternative of work or not is marginally on the hands of the worker that holds the power to work
- Wages are paid to an individual, according to productivity
- but it is consumed by the household which may have different sizes and material needs

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How a tax on wages may affect supply and demand in the labor market ?

- 1. Supply** (individuals in the market working or looking for a job)
- 2. Demand**(firms looking for workers)

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How a tax on wages may affect supply and demand in the labor market ?

1. Supply (individuals in the market working or looking for a job)
 - If the household perceives that the HH head receives a lower salary, additional members may activate and go to look for a job
 - This may affect in the long run certain member, such as students
 - If wages are reduced some members will find less incentive to go to work in the more skilled segment

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How a tax on wages may affect supply and demand in the labor market ?

2. Demand(firms looking for workers)

- May not be able to pay higher salaries and reduce workers or stagnate demand
- Transfer higher labor costs to prices

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Problems with the proposal

- It has all the problems of taxing wage, hence, making labor more expensive
- Can induce informality and or under-declaration of salaries, bonuses, extra pay, etc, even, workers.
- This is also an incentive to under-declaration of sales generating a Vicious circle
- Taxes wages independent of the family size
Will be unable to find informal workers

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Need for an evidence based approach

- There are no clear numbers on the labour market in Vanuatu
- Nor in relation to HH expenditures
- Both are needed in order to have a sensible study on the impact on different income levels and HH sizes

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Thank You

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