## A Beckerian Theory of Taxation

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## <u>Abstract</u>:

We study tax incidence, tax efficiency, and optimal taxation in bilateral matching environments in the spirit of Becker (1973). Both the distribution of matches and the sharing of surplus in the matches in such environments are endogenous and depend on taxes. Even simple tax reforms lead to complex chain reactions as agents adjust their matching behavior and surplus sharing to the new equilibrium. We show that to characterize the effects of taxation one needs to solve a certain system of integral equations, and develop novel analytical techniques to solve this system in general settings. Using our approach, we show how one can both characterize taxes that maximize a given social objective and to test if existing taxes are Pareto efficient. We apply our techniques to study income taxation of married couples.