
- **Early Childhood Investment and Income Taxation**

Musab Kurnaz (Koç University)
Mehmet Ali Soytaş (Özyeğin University)

Abstract

We study the impact of taxation on parental investment for children and its consequence on intergenerational income correlation. We estimate a life-cycle dynastic model of households and decompose the correlations in earnings across generations. We find that human capital accumulation in the labor market, the nonlinear return to part- versus full-time work, the return to parental time investment in children, and the progressivity of income taxation are the main forces driving the intergenerational correlation in earnings through their effects on fertility and the division of labor within the household. The impact of progressive tax system is two- fold. First, it impacts labor decision of both generations. Second, and more importantly, it impacts parental time investment in children, which, in return, improves children's educational outcome that is an important component of earnings equation. In counterfactual analysis, we find that tax system also impacts fertility decisions significantly.