Children as Taxpayers: A Proposal to Tax Aaccording to Income Per Capita and its Implications for The Ultra-Orthodox Household

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Income tax is imposed on the annual growth of consumption ability. Children are human beings, namely residents, that is, part of the Israeli society, namely taxpayers. They finance their consumption out of their parents' income. Therefore, in order to accurately measure the growth in a parent's ability to consume, it is necessary to take into account the fact that the parents' income finances the consumption of not only the parents but also their children. It is important to do so, due to the increasing marginal rate structure of the income tax. Taxation should therefore be determined on a per capita basis in the household. The accurate way to do this is to divide the aggregate income of the household by the number of individuals that share in that income, adjusted for economies of scale as well as for a possible difference between the consumption of a child and that of an adult. A less accurate but simpler way to do it is to allow the transfer of child credits between parents to maximize take-up. Israel is the only OECD country that does not allow that. It is time to correct this distortion. In recent years there has been a legislative change towards taxation per capita. It is time to complete this process. The article demonstrates the existing distortion by examining the ultra-Orthodox community in Israel, as they have many children and are therefore subject to significant over-taxation.