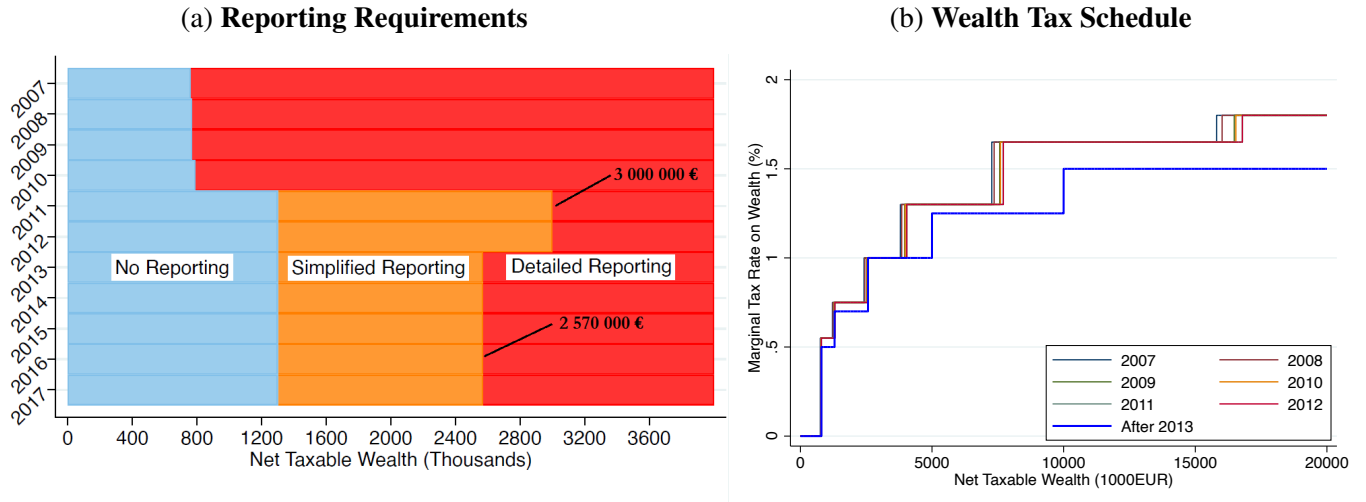


Appendix (for Online Publication)

A Additional Figures and Tables

Figure A.1: Wealth Tax Schedule and Reporting Requirements in France, 2007-2017



Notes: Panel A summarizes the reporting requirements for wealth taxpayers by level of reported net taxable wealth over the period 2007-2017. Panel B shows the wealth tax schedule between 2007 and 2017.

Figure A.2: Reporting requirements: Simplified versus Detailed reporting

Detailed reporting

Simplified reporting

DÉTERMINATION DE LA BASE IMPOSABLE
(à remplir à l'appui de votre déclaration de patrimoine)

1 : ACTIF BRUT

IMMEUBLES BÂTIS
Annexe 1 : nombre de feuilles: AB

Régime principal
Autres immeubles: AC

IMMEUBLES NON BÂTIS, PARTS DE GROUPEMENTS FORESTIERS OU FONCIERS
Annexe 2 : nombre de feuilles: BD

Bois, forêts et parts de groupements forestiers (1): BD

Biens ruraux loués à long terme
• dont montant dans la limite de 101 897 €: BF
• dont montant pour la fraction supérieure à 101 897 €: BG

Parts de Groupements Fonciers Agricoles et de Groupements Agricoles Fonciers: BH

• dont montant dans la limite de 101 897 €: BI
• dont montant pour la fraction supérieure à 101 897 €: BJ

Autres biens: BK

DROITS SOCIAUX - VALEURS MOBILIÈRES - LIQUIDITÉS - AUTRES MEUBLES
Annexes 3-1 et 3-2 : nombre de feuilles: CL

Parts ou actions détenues par les salariés et mandataires sociaux: CL

Parts ou actions de sociétés avec engagement de conservation de durée indéterminée: CE

Droits sociaux de sociétés dans lesquelles vous exercez une fonction ou une activité: CF

Autres valeurs mobilières: CG

Liquidités: CH

Autres biens meubles (dont valeurs d'assurance vie): CI

Montant des exonérations afférentes aux droits et titres ci-dessous:
• Droits sociaux détenus à la suite d'un rachat d'entreprise par les salariés: CJ
• Droits sociaux détenus par le foyer fiscal dans une société détenue: CK
• Droits sociaux constituant plus de 50% du patrimoine: CL
• Titres ou parts de FICP ou FCR reçus en contrepartie de la souscription au capital d'une PME: CM

TOTAL DES IMMEUBLES ET DES BIENS MEUBLES: AB + AC + BD + BF + BG + BI + BK + CM + CC + CG = DI

Forfait mobilier (Si les valeurs mobilières sont déjà été déclarés et imposables à l'Agence CIG, soustraire 0%, sinon, soustraire 0,5%): DJ

TOTAL DE L'ACTIF BRUT: DE + BF = EI

2 : PASSIF ET AUTRES DÉDUCTIONS
Annexe 4 : nombre de feuilles: GH

TOTAL DU PASSIF ET AUTRES DÉDUCTIONS (1): GH

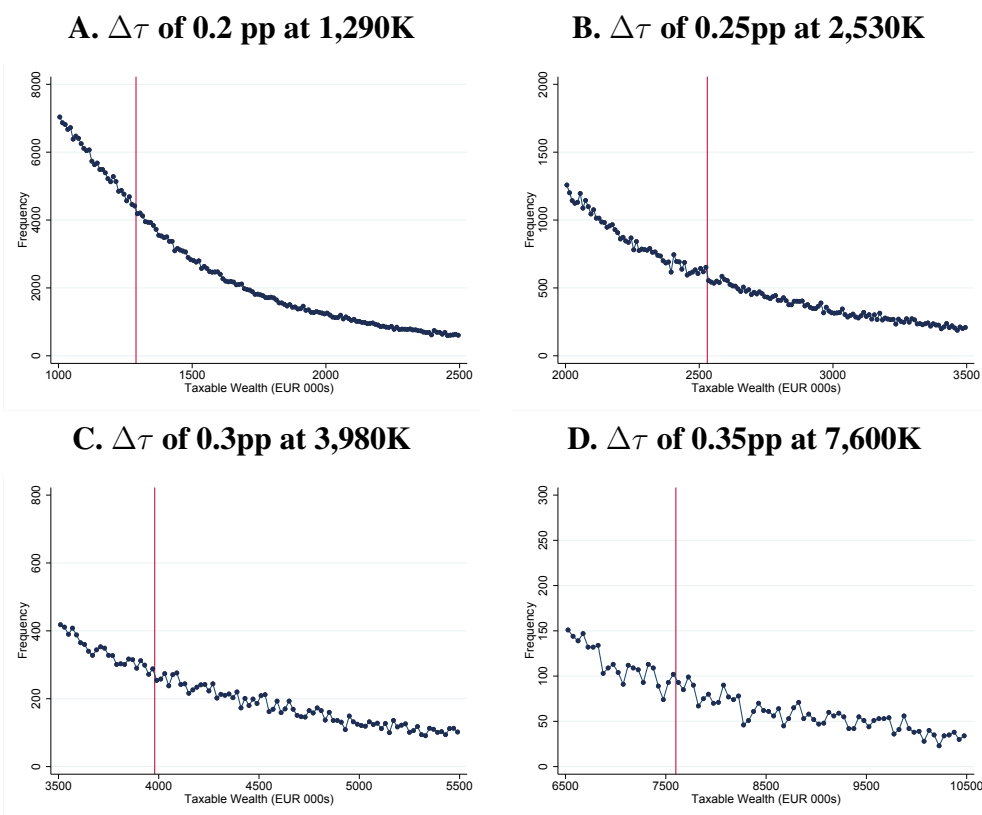
3 : ACTIF NET IMPOSABLE
BASE IMPOSABLE: FI - GH = HJ

IMPÔT DE SOLIDARITÉ SUR LA FORTUNE

Base nette imposable pour un patrimoine au 1.1.2013 supérieur à 1 300 000 € et inférieur à 2 570 000 €: 91H

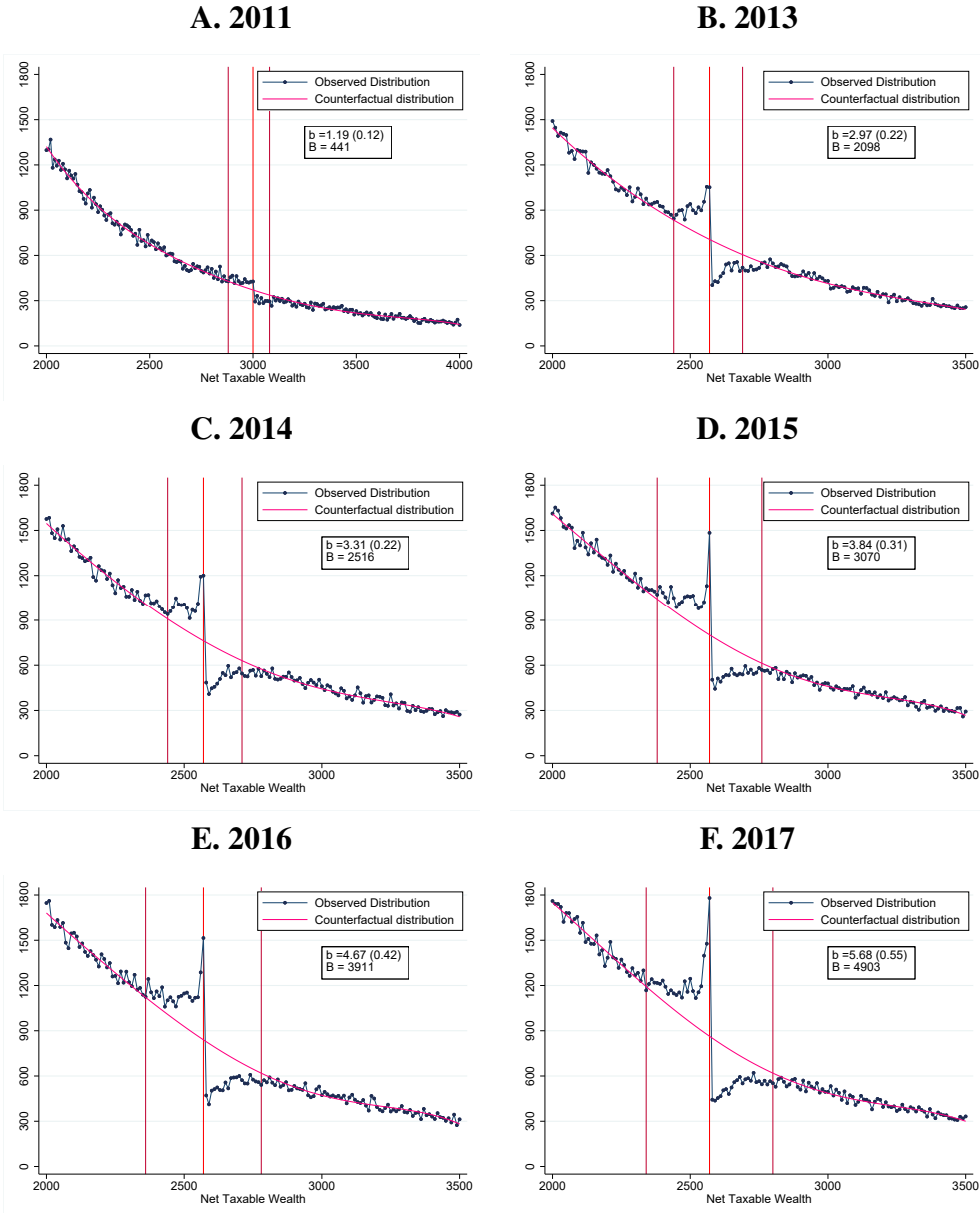
Valeur brute du patrimoine: 91G

Figure A.3: Absence of Bunching at Kinks in the Tax Schedule (Marginal Tax Rate Changes)



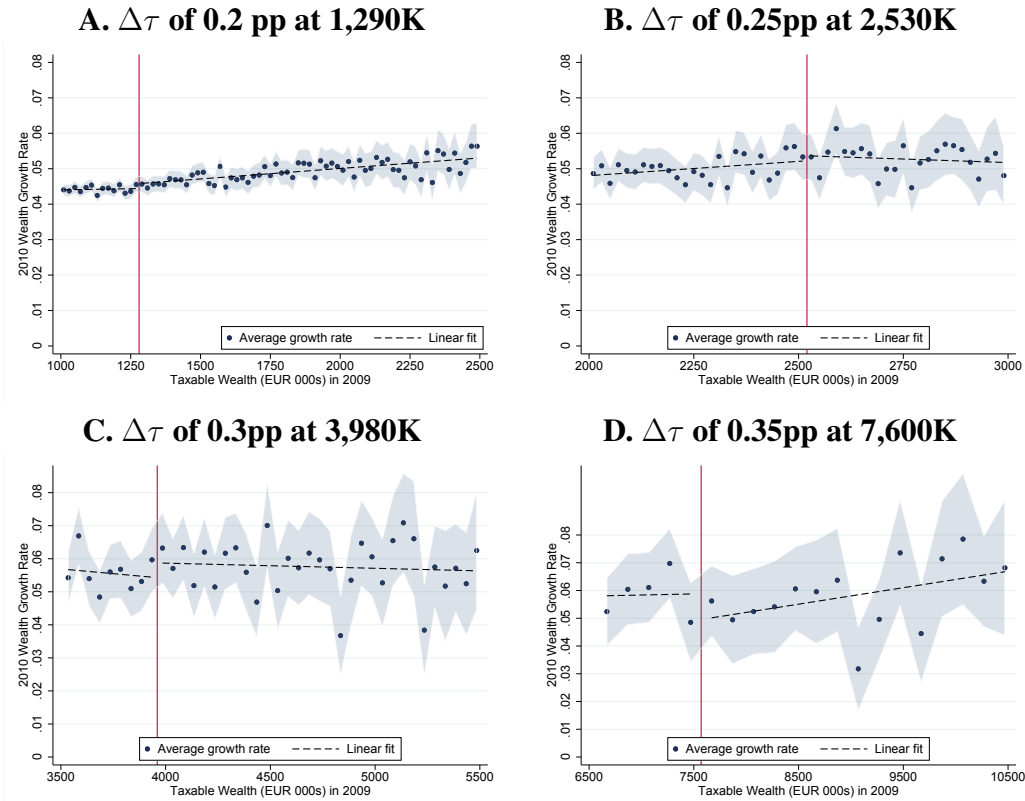
Notes: This figure shows the distribution of taxpayers by net taxable wealth around the second (Panel A), third (Panel B), fourth (Panel C) and fifth (Panel D) wealth tax bracket threshold in year 2010. For the full tax schedule, see Figure A.1 (Panel B). In each figure, we group households into bins of €10,000 of net taxable wealth for Panel A and B, €20,000 in Panel C and €50,000 in Panel D, and plot the bins counts around each kinks.

Figure A.4: Excess Mass Estimates using Static Bunching



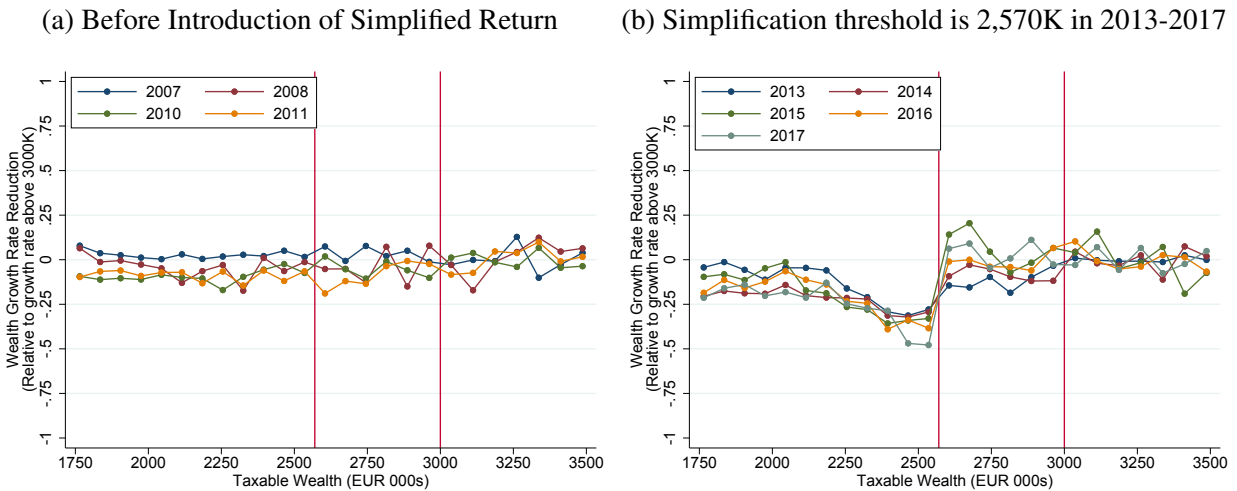
Notes: This figure shows the distribution of taxable wealth in bins of €10,000 of taxable wealth around the third bracket threshold of the French wealth tax, for year 2010, and each year between 2013 and 2017. In 2010, the threshold was 2,530K and was associated with a kink in the wealth tax schedule. From 2013 to 2017, the threshold was 2,570K and was associated with a kink in the wealth tax schedule and a change in reporting requirements (notch). We plot the observed distribution in blue and an estimate of the counterfactual distribution absent the kink in pink. The counterfactual is obtained by fitting a 5th-order polynomial to the observed distribution, excluding a segment that we determine following the standard bunching methodology. The bunching estimate b equals excess mass at the kink (B), scaled by the height of the counterfactual distribution at the kink.

Figure A.5: Behavioral Responses to Marginal Tax Rates, Wealth Growth Rates



Notes: Notes: This figure shows the pooled distribution of yearly wealth growth rates by individuals' wealth bin over the period. We plot the average wealth growth rate by taxable wealth bin around the marginal tax rate thresholds depicted by the vertical line in each figure. We fit a linear model below and above the cut-off that is depicted by the fitted dashed black line. In each figure, we group households into bins of €10,000 of taxable wealth for Panel A and B, €20,000 in Panel C and €50,000 in Panel D. The shaded area depicts 95% confidence intervals.

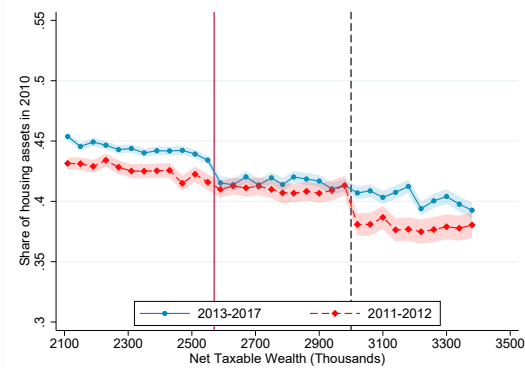
Figure A.6: Cross-Section of Wealth Growth Rates



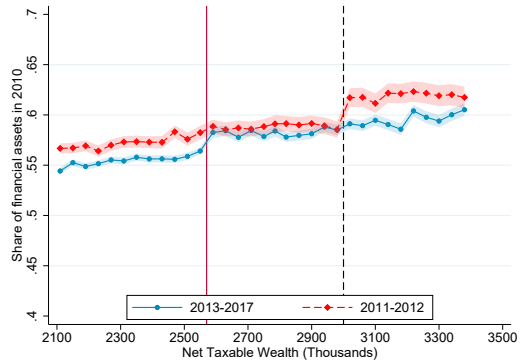
Notes: This figure shows wealth growth rate reduction by 70K bins of taxable wealth each year. For each bin, we compute the wealth growth rates reduction relative to the average growth rate of taxpayers between 3,000K and 3,500K in the same year. The two vertical red lines denote the simplification thresholds in place during the period 2011-2017.

Figure A.7: Pre-Reform Differences in Portfolio and Income Taxes

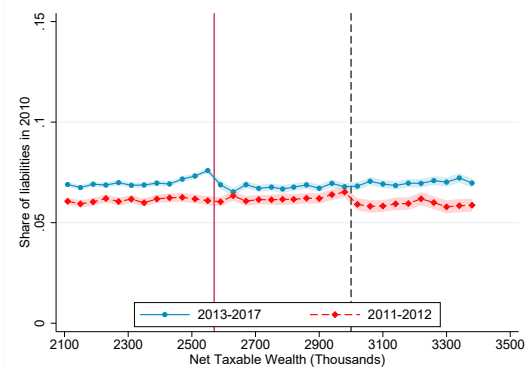
A. Housing Assets



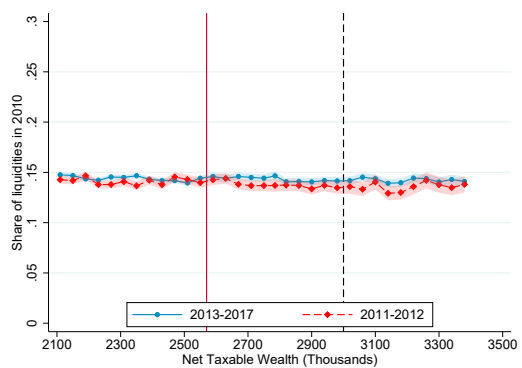
B. Financial Assets



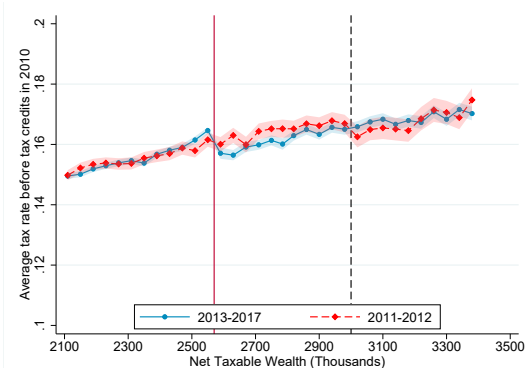
C. Liabilities



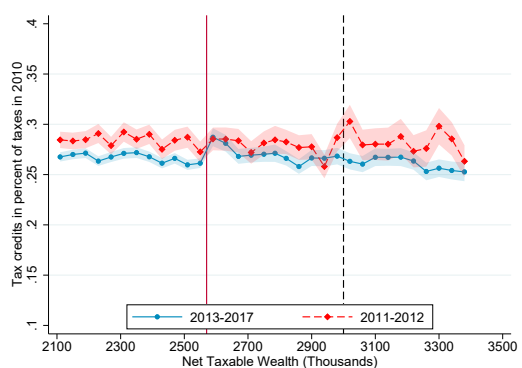
D. Liquidities



E. Income tax rates before tax credits

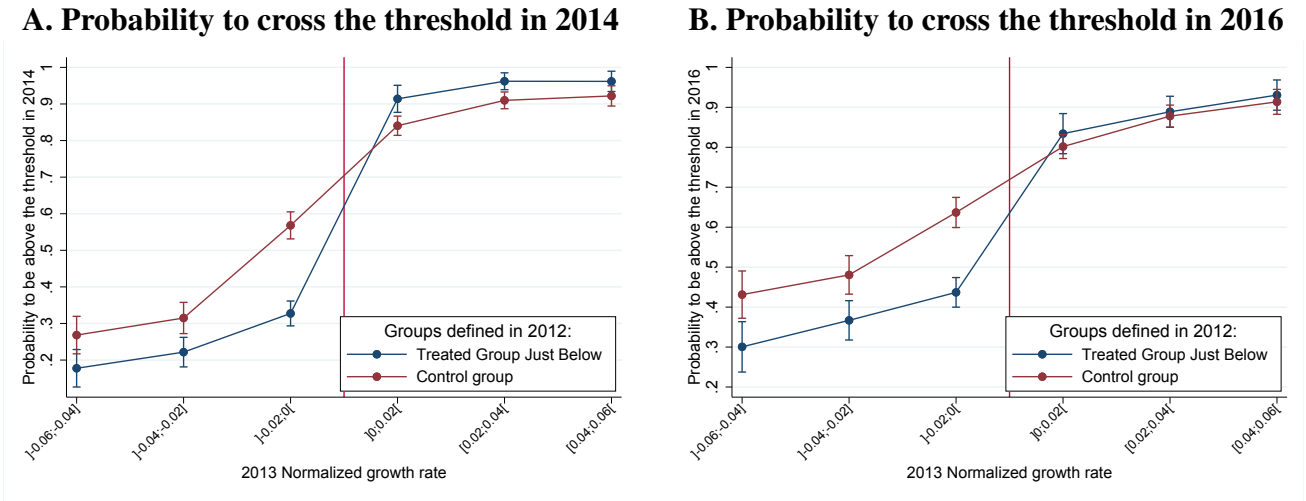


F. Tax credits in percent of income taxes



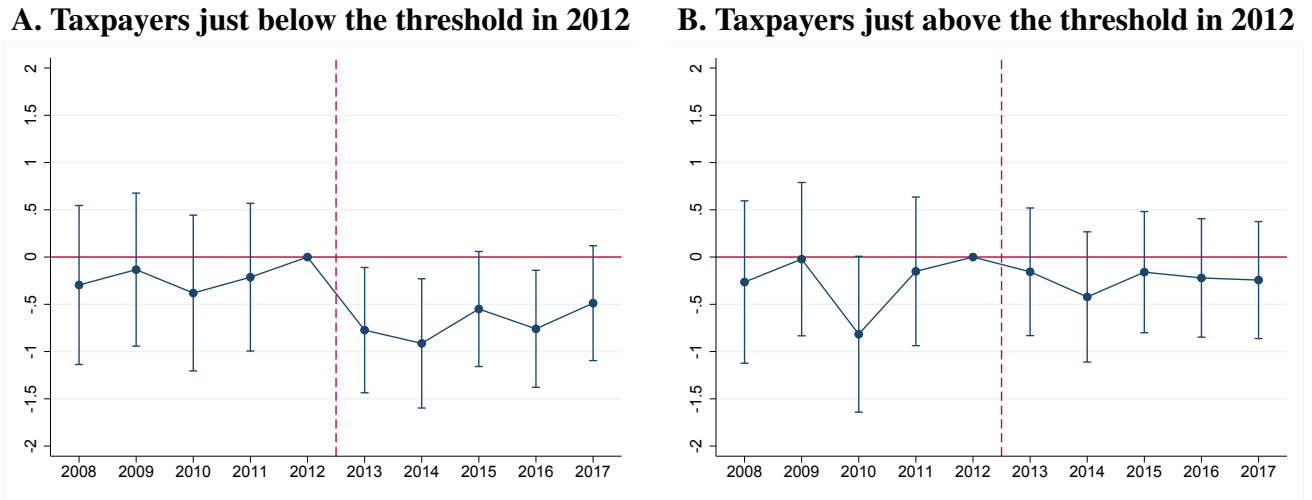
Notes: This figure shows differences in housing assets (Panel A), financial assets (Panel B), liabilities (Panel C), liquidities (Panel D), income tax rates before tax credits (Panel E), and tax credits in percent of income taxes (Panel F) for our treated and control groups, defined in 2012, by bin of 2013 normalized growth rate.

Figure A.8: Probability to cross the simplification threshold for bunchers



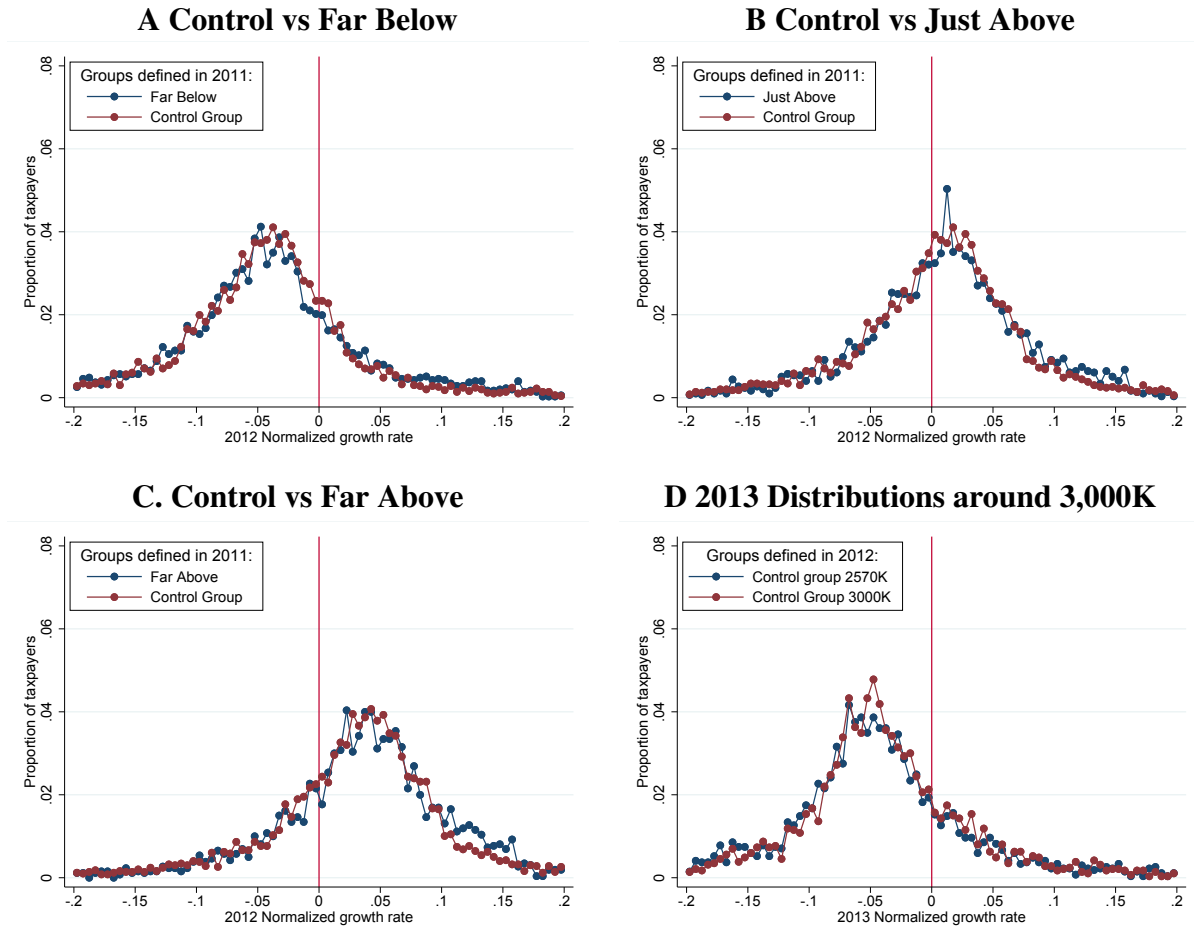
Notes: This figure shows the share of taxpayers who cross the simplification threshold in 2014 (Panel A) and 2016 (Panel B) for our treatment and control group, by normalized growth rates defined between 2012 and 2013. For the control group, the normalized growth rate is defined relative to the placebo threshold.

Figure A.9: Behavioral Responses to Simplification Thresholds, Difference-in-Differences



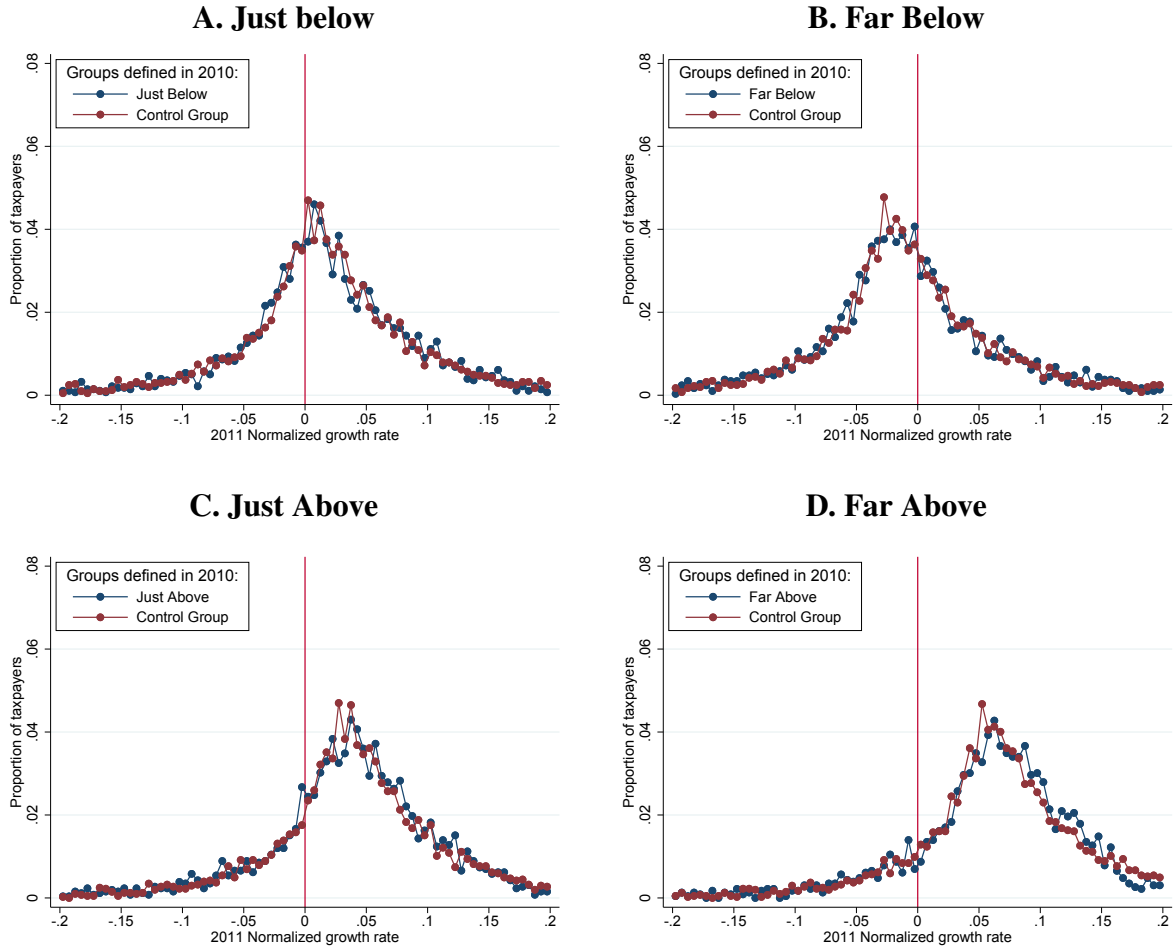
Notes: This figure plots the path of estimated $\beta_{k,j}$ and their 95 percent confidence interval band from the difference-in-differences model summarized by Equation 8. The dependent variable is the yearly wealth growth rate for each taxpayer (in percentage points). Standard errors are clustered at the taxpayer level. The pre-reform coefficient $\beta_{2012,j}$ is normalized to zero such that estimates can be interpreted relative to pre-reform year. The control group includes taxpayers with wealth in the [2710K,2850K] bracket in 2012. Panel A shows the effects of the simplification reform for individuals with wealth in the [2500K,2570K] bracket in 2012 (the “Just below” group). Panel B shows the effects of the simplification reform for individuals with wealth in the [2570K,2640K] bracket in 2012 (the “Just above” group).

Figure A.10: Validation of the identification assumption: Additional tests



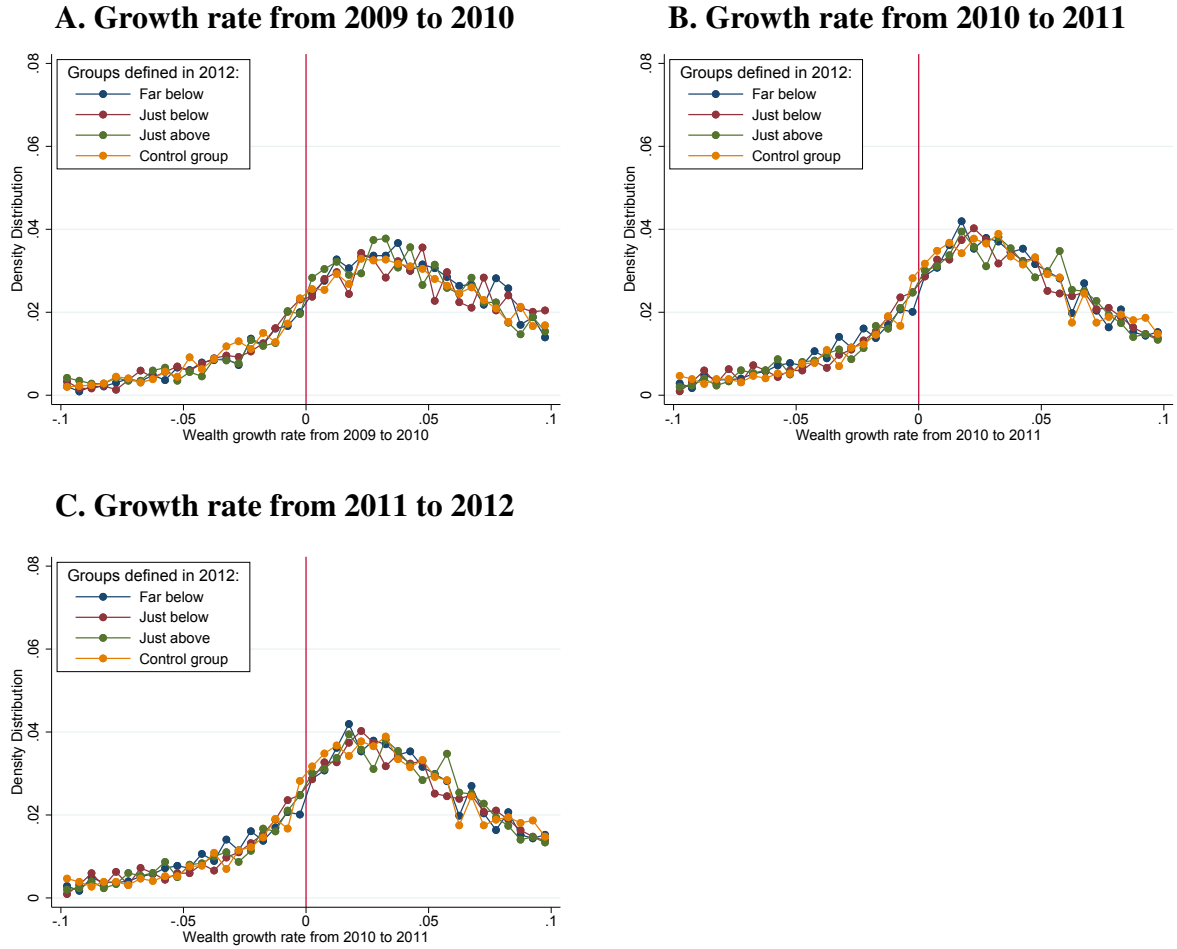
Notes: This figure investigates whether the distribution of normalized growth rates in the control group (taxpayers located in [2710K,2850K] in 2012) is comparable to the distribution of normalized growth rates for other taxpayers (“Far below”, “Just above”, and “Far above”). In Panel A, B, and C, we define our control and treated groups by level of wealth in 2011, and plot their 2012 normalized growth rates as explained in Sections 4.2.1. Panel D investigates whether the control group (defined in 2012) has been affected by the repeal of the simplification threshold at 3,000K in 2013. It compares the distributions of 2013 normalized growth rate at 3000K in the control group ([2710K,2850K]) with the group of individuals far above the 3,000K threshold (“Control Group 3,000K” in [3150K,3225K]).

Figure A.11: **Validation of the identification assumption: Distribution of 2011 normalized growth rates across groups defined in 2010):**



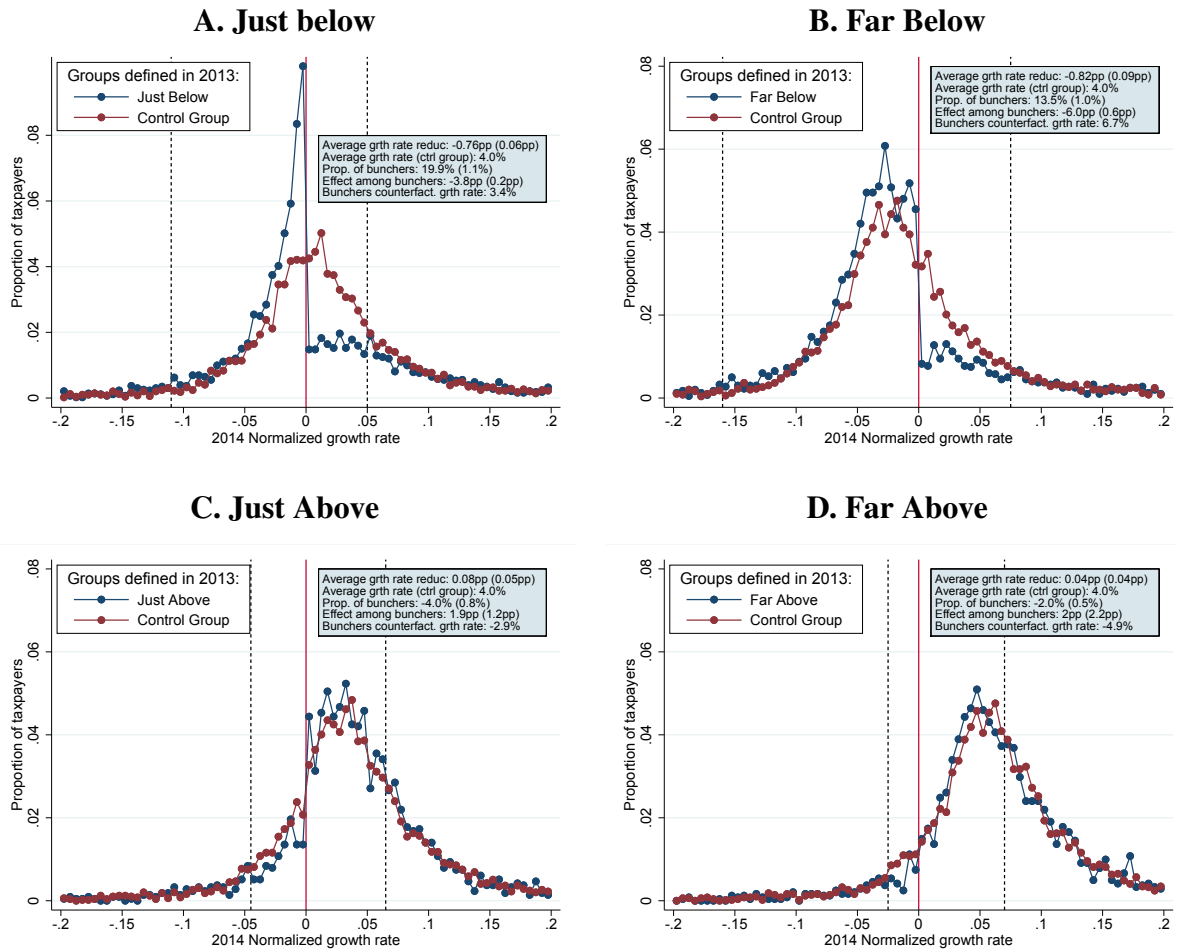
Notes: This figure investigates whether the distribution of normalized growth rates in the control group (taxpayers located in the interval [2710K,2850K] in 2010) is comparable to the distribution of normalized growth rates for other taxpayers (“Far below”, “Just below”, “Just above”, and “Far above”). We define our control and treated group by level of wealth in 2010, and plot their 2011 normalized growth rates as explained in Sections 4.2.1 and 4.2.2.

Figure A.12: Validation of the identification assumption: Pre-reform Growth Rates for Groups Defined in 2012



Notes: This figure shows the distribution of wealth growth rates before the 2013 reform, for our treatment and control groups (defined in 2012).

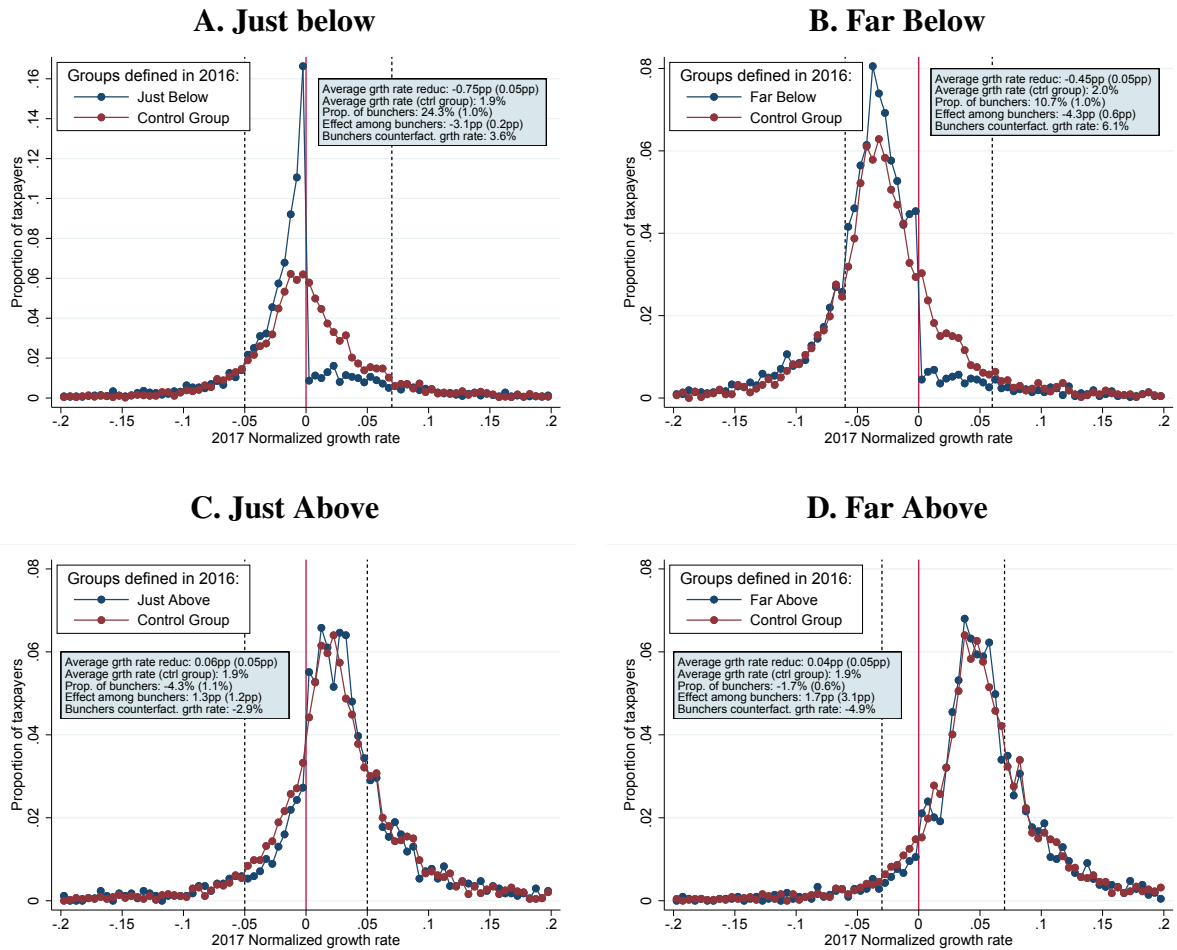
Figure A.13: Dynamic Bunching for the 2013 Cohort



Notes: This figure plots the distributions of normalized growth rates as defined in Section 4.2 for the control group and for one treated group (“Just below” in Panel A; ‘Far below” in Panel B; “Just above” in Panel C; and “Far Above” in Panel D), where groups are defined in 2013. Each panel summarizes our estimates of the impact of the simplification reform on wealth growth rates, using our dynamic bunching analysis described in Section 4.2.3. Each panel reports the average growth rate reduction between the treated and control group (ITT); the average growth rate in the control group; the proportion of the treated group that bunches (“bunchers”); the reduction in growth rates among bunchers (LATE); and the counterfactual growth rate of bunchers in the absence of the simplification threshold.

As compared to Figure 9, groups (“cohorts”) are defined based on their level of taxable wealth in 2013 instead of 2012.

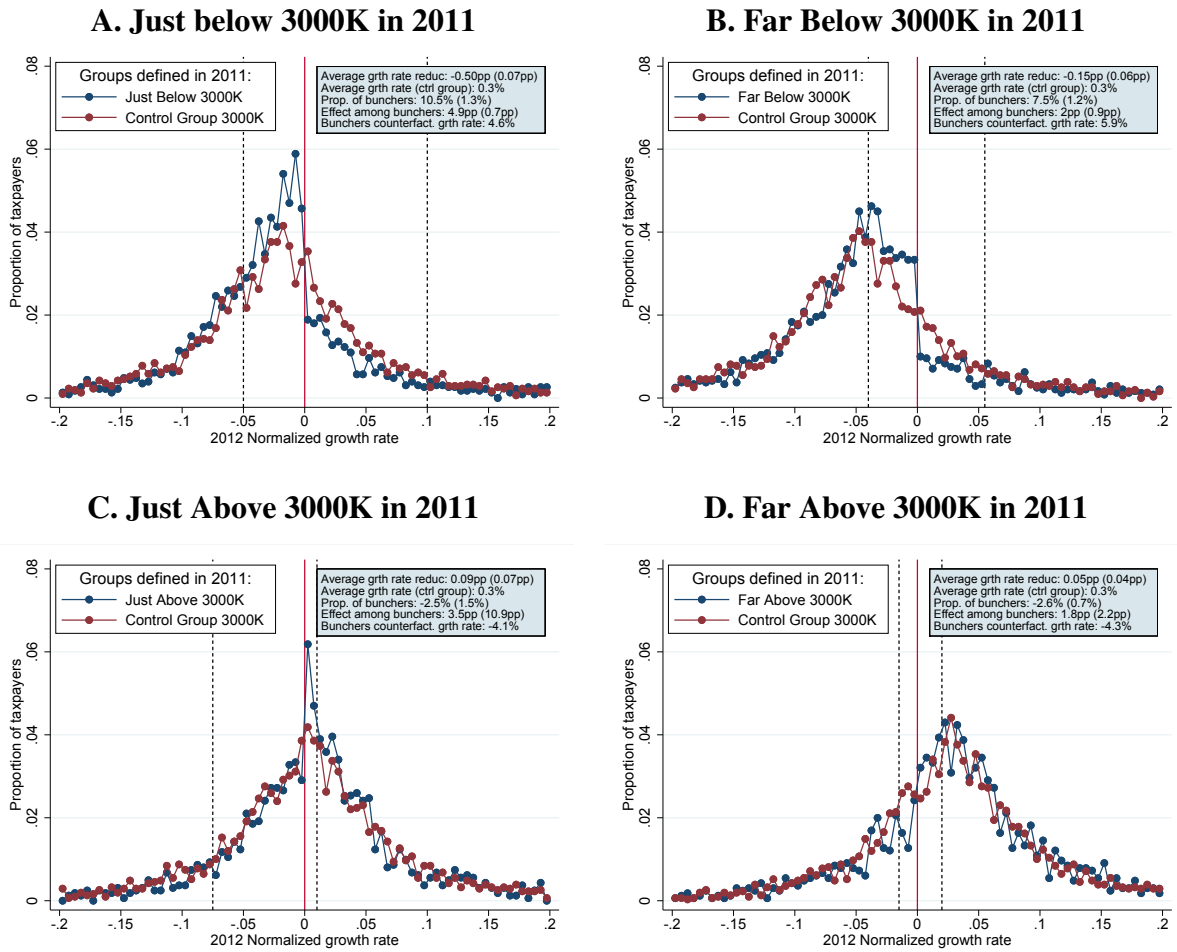
Figure A.14: Dynamic Bunching for the 2016 Cohort



Notes: This figure plots the distributions of normalized growth rates as defined in Section 4.2 for the control group and for one treated group (“Just below” in Panel A; “Far below” in Panel B; “Just above” in Panel C; and “Far Above” in Panel D), where groups are defined in 2016. Each panel summarizes our estimates of the impact of the simplification reform on wealth growth rates, using our dynamic bunching analysis described in Section 4.2.3. Each panel reports the average growth rate reduction between the treated and control group (ITT); the average growth rate in the control group; the proportion of the treated group that bunches (“bunchers”); the reduction in growth rates among bunchers (LATE); and the counterfactual growth rate of bunchers in the absence of the simplification threshold.

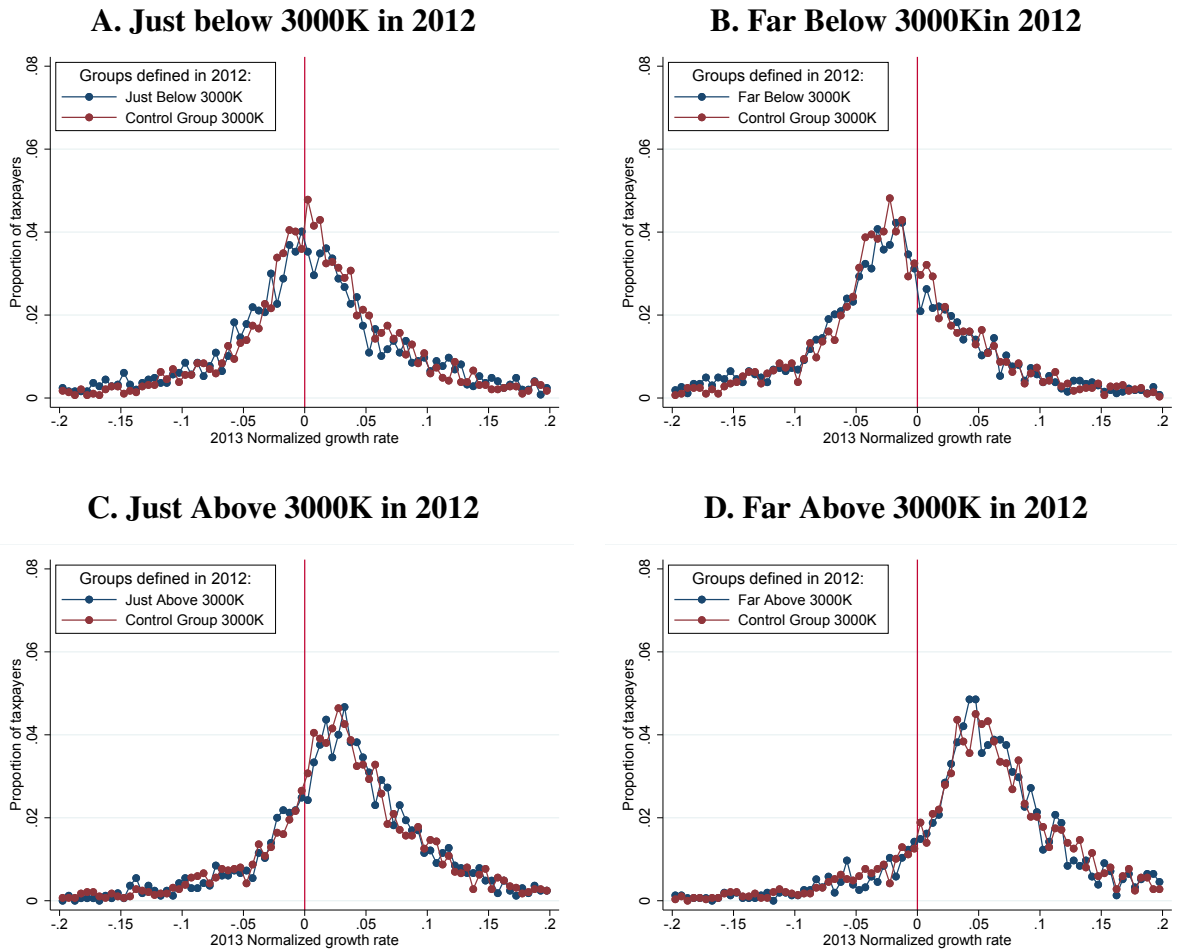
As compared to Figure 9, groups (“cohorts”) are defined based on their level of taxable wealth in 2016 instead of 2012.

Figure A.15: **Distribution of 2012 normalized growth rates of treated and control group around the 3,000K simplification threshold**



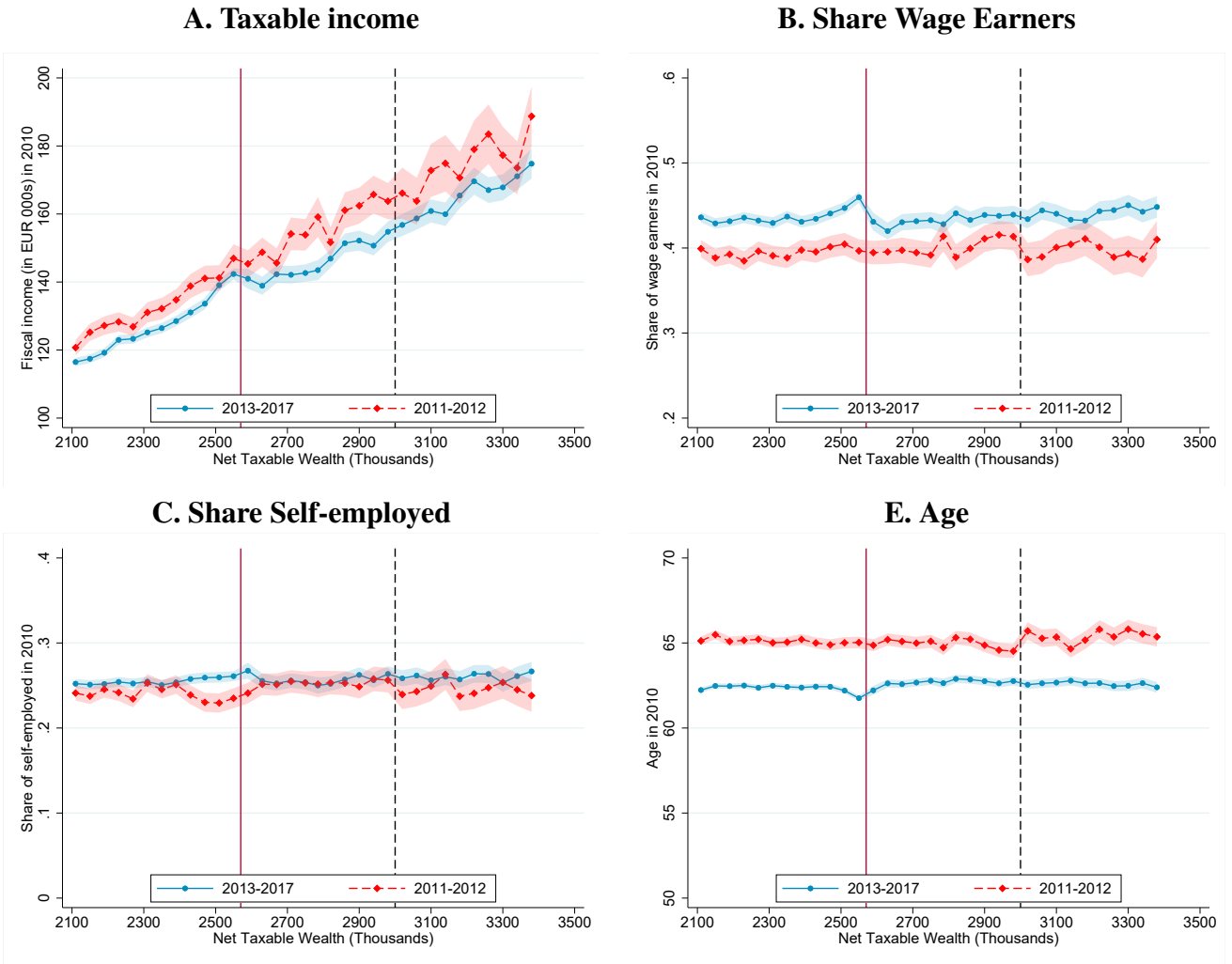
Notes: This figure applies the dynamic bunching analysis to the simplification threshold at 3,000K threshold in 2012. This figure plots the distributions of 2012 normalized growth rates ($f(\tilde{g}_{i,3000})$) as defined in Section 4.2 for the control group and for one treated group (“Just below 3000K” in Panel A; “Far below 3000K” in Panel B; “Just above 3000K” in Panel C; and “Far Above 3000K” in Panel D), where groups are defined based on their level of taxable wealth in 2011. The groups “Far Below 3000K”, “Just Below 3000K”, “Just above 3000K”, and “Far Above 3000K” correspond to individuals with wealth in the range [2850K,2925K[, [2925K,3000K[, [3000K,3075K[, [3075K,3150K[, respectively. The control group corresponds to individuals with wealth in the range [3150K,3225K[.

Figure A.16: **Distribution of 2013 normalized growth rates of treated and control group around the 3,000K simplification threshold**



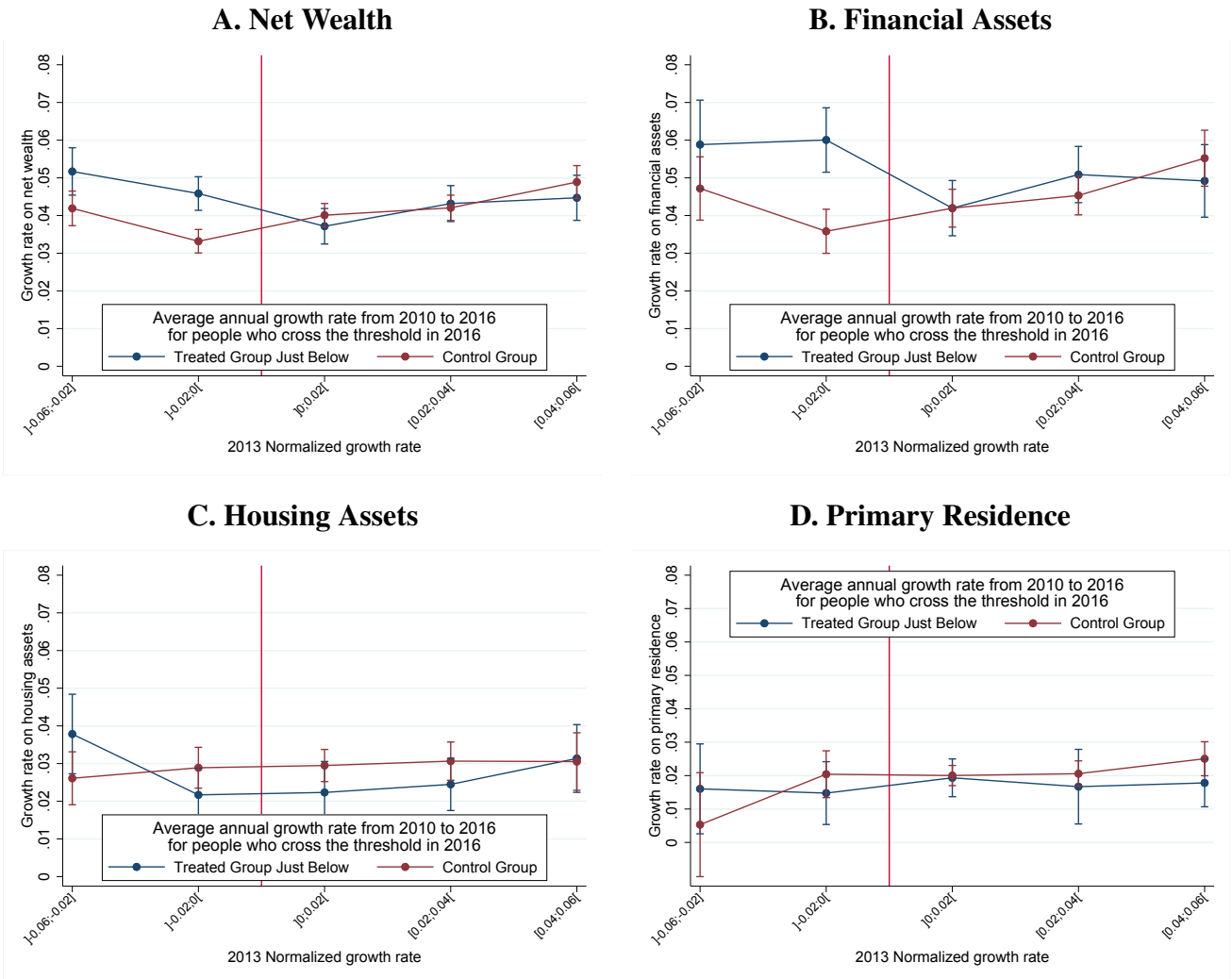
Notes: This figure applies the dynamic bunching analysis to the simplification threshold at 3,000K threshold in 2013. This figure plots the distributions of 2013 normalized growth rates ($f(\tilde{g}_{i,3000})$) as defined in Section 4.2 for the control group and for one treated group (“Just below 3000K” in Panel A; “Far below 3000K” in Panel B; “Just above 3000K” in Panel C; and “Far Above 3000K” in Panel D), where groups are defined based on their level of taxable wealth in 2012. The groups “Far Below 3000K”, “Just Below 3000K”, “Just above 3000K”, and “Far Above 3000K” correspond to individuals with wealth in the range [2850K,2925K[, [2925K,3000K[, [3000K,3075K[, [3075K,3150K[, respectively. The control group corresponds to individuals with wealth in the range [3150K,3225K[.

Figure A.17: Pre-Reform Differences in Income and Demographics



Notes: This figure shows differences in taxable income (Panel A), share of wage earners (Panel B), share of self-employed (Panel C) and Age (Panel D) for our treated and control groups, defined in 2012, by bin of 2013 normalized growth rate.

Figure A.18: Average Annual Growth Rate After Crossing the Simplification Threshold, 2016



Notes: This figure shows the average annual growth rates in components of taxable wealth from 2010 to 2016, for treated and control individuals defined in 2012, who cross the simplification threshold in 2016. Normalized growth rates are defined between 2012 and 2013. For the control group, the normalized growth rate is defined relative to the placebo threshold.

Table B.1: **Reporting Requirements for Wealth Taxpayers in France**

	Regular Form	Simplified Form
<i>Tax exemptions</i>		
Taxpayer has exempted professional assets	Y	N
Name, activity and tax ID of the company of main activity	Y	N
Names, activities and tax IDs of held companies	Y	N
Profession in held companies	Y	N
Share of capital owned in held companies	Y	N
Capital share representing more than 50% of taxable wealth	Y	N
Capital share after takeover by employees	Y	N
Holding shares after SMEs capital buyout	Y	N
<i>Taxable assets decomposition</i>		
Real estate, main residence (address + characteristics+value)	Y	N
Real estate, other buildings (address + characteristics+value)	Y	N
Forests	Y	N
Rural lands	Y	N
Agricultural lands	Y	N
Shares owned with 6 years holding clause	Y	N
Shares owned by employees	Y	N
Other financial assets	Y	N
Liquid assets	Y	N
<i>Tax deductions</i>		
75% deduction for forests (+ proofs)	Y	N
75% deduction for 6 years holding clause (+ proofs)	Y	N
75% deduction for shares owned by employees (+ proofs)	Y	N
Liabilities (+ proofs)	Y	N
<i>Tax credits</i>		
Direct investment in SMEs*	Y	Y
Investment in SMEs through holdings (FIP/FCPI)*	Y	Y
Charitable giving*	Y	Y
<i>Tax ceiling</i>		
Income taxes paid	Y	N
Amount of capped wealth tax	Y	Y
<i>Gross and Net Taxable Wealth</i>		
Net Taxable Wealth	Y	Y
Gross Taxable Wealth	Y	Y

Notes: *components for which taxpayers filling the regular form must attach proofs, while taxpayers filling the simplified form do not have to attach proofs.

Table B.2: Descriptive Statistics, sample selection

	All		Tax payers with wealth between 2,360 and 2,850K€ in 2012			
	2010	2012	without restrictions		with restrictions	
	2010	2012	2010	2012	2010	2012
<i>Demographics</i>						
Age	66	67	65	66	65	67
% Married	69	68	72	70	74	73
% Non residents	4	5	4	5	0	0
% Retirees	67	67	63	67	64	69
% Wage Earners	38	39	42	39	41	37
% Self-Employed	23	24	26	25	26	24
% Landlords	67	72	75	75	75	76
<i>Incomes & income tax</i>						
Taxable income	89,668	119,937	123,800	128,344	124,302	127,201
Gross income	114,447	184,104	161,437	180,884	160,928	168,699
<i>Pension benefits (%)</i>	23	17	18	18	18	20
<i>Wages (%)</i>	28	23	28	25	27	25
<i>Self-employment income (%)</i>	13	11	14	13	15	14
<i>Rental income (%)</i>	17	15	19	17	19	19
<i>Financial income (%)</i>	18	22	20	20	19	20
<i>Other (incl. Capital gains) (%)</i>	1	11	1	6	1	2
Income Tax	17,099	29,086	26,941	30,416	26,973	28,976
Income tax rate (% gross income)	15	16	17	17	17	17
<i>Wealth & wealth tax</i>						
Taxable wealth ('000)	1,747	2,656	2,371	2,585	2,380	2,584
<i>Housing assets (%)</i>	46		46		45	
<i>incl. Primary Residence (%)</i>	17		15		15	
<i>Financial assets (%)</i>	62		62		63	
<i>Liabilities (%)</i>	8		8		8	
Wealth tax	6,094	16,919	7,944	12,537	7,925	12,533
Wealth tax rate (%)	0.3	0.6	0.3	0.5	0.3	0.5
Wealth tax (total, billion)	3,6	4,9	0,21	0,36	0,17	0,28
Tax units	590,031	289,119	26,677	28,872	21,243	22,331

Table B.3: Behavioral Responses to Simplification Threshold, Difference-in-Differences

	Dependent Variable: Wealth Growth Rate in percent				
	(1)	(2)	(3)	(4)	(5)
	Wealth groups defined in 2012				
	Just Below [2500K,2570K[Far Below [2430K,2500K[Very Far Below [2360K,2430K[Just Above [2570K,2640K[Far Above [2640K,2710K[
Pre-Period (2008-2009)	-0.23 (0.35)	-0.01 (0.33)	0.23 (0.33)	-0.13 (0.35)	0.45 (0.37)
Pre-Period (2010-2011)	-0.30 (0.34)	-0.32 (0.33)	-0.03 (0.32)	-0.48 (0.35)	0.50 (0.37)
Post-Period (2013)	-0.77** (0.34)	-0.38 (0.32)	-0.30 (0.31)	-0.16 (0.34)	0.14 (0.36)
Post-Period (2014-2015)	-0.74** (0.30)	-0.43 (0.29)	-0.16 (0.28)	-0.30 (0.31)	-0.16 (0.32)
Post-Period (2016-2017)	-0.63** (0.29)	-0.19 (0.27)	-0.25 (0.27)	-0.23 (0.30)	-0.02 (0.31)
Constant			3.56*** (0.07)		
Observations			241,259		
Individuals			27,021		

Notes: This table summarizes estimates from Equation 8. The dependent variable is the yearly wealth growth rate. Standard errors are clustered at the taxpayer level. The pre-reform coefficient β_{2012j} is normalized to zero such that estimates can be interpreted relative to the pre-reform year 2012. The control group includes taxpayers with wealth in the [2710-2850] bracket in 2012.

Table B.4: Behavioral Responses to Simplification Threshold, Dynamic Bunching vs. DiD

	Dependent Variable: Wealth Growth Rate in percent				
	(1)	(2)	(3)	(4)	(5)
	Wealth groups defined in 2012				
	Just Below [2500K,2570K[Far Below [2430K,2500K[Very Far Below [2360K,2430K[Just Above [2570K,2640K[Far Above [2640K,2710K[
	Diff-in-diff				
Average effect (ITT)	-0.77 (0.34)	-0.38 (0.32)	-0.30 (0.31)	-0.16 (0.34)	0.14 (0.36)
	Dynamic bunching				
Average effect (ITT)	-0.47 (0.07)	-0.44 (0.08)	-0.37 (0.08)	-0.18 (0.03)	-0.03 (0.03)
Share of bunchers	14.7 (1.1)	8.5 (1.0)	6.6 (1.1)	3.9 (0.7)	1.4 (0.5)
Effect among bunchers (LATE)	-3.2 (0.4)	-5.3 (1.0)	-5.8 (1.6)	-4.8 (0.9)	-1.7 (3.5)

Notes: This table summarizes our estimates using dynamic bunching or standard difference-in-differences designs for the year 2013. More details are provided in the text.

Table B.5: Quantification of Missing Taxpayers and Tax Revenues at Simplification Threshold

	Threshold	Missing Taxpayers	% Taxpayers	Missing wealth	% Evaded wealth	Tax Loss (M€)	% Evaded Taxes	% Tax Revenues
2011	3000	412	14.6	39.09	3.1	0.48	8.3	1.2
2013	2570	1,891	24.2	182.27	3.7	0.68	3.8	0.9
2014	2570	2,299	27.4	230.44	3.8	1.45	6.5	1.8
2015	2570	2,508	28.5	317.23	4.8	1.64	7.0	2.0
2016	2570	2,900	31.6	400.70	5.3	2.51	9.3	2.9
2017	2570	3,332	35.3	474.58	5.4	2.92	9.5	3.3

Notes: This table summarizes our estimates of missing taxpayers and missing tax revenues from bunching at the simplification threshold. The counterfactual distribution of wealth taxpayers is estimated fitting a 5th order polynomial to the observed distribution, excluding data in a range around the notch and extrapolating the fitted distribution to the notch. We compute the different statistics by comparing the actual and the counterfactual distributions in the range [3000:3080K] for 2011, and [2570:2690K] from 2013 to 2017. The variable “% Taxpayers” corresponds to missing taxpayers expressed as a share of the counterfactual number of taxpayers. This variable can be read as follows: in 2017, 35.3% of taxpayers with taxable wealth between 2570K and 2690K are missing from the French wealth tax declarations due to the simplification threshold. The variable “Tax Loss” represents the amount of tax revenues missing due to underreporting. Thus, missing tax revenues from bunching at the simplification threshold amount to €2.92 million in 2017. The variable “% Evaded Taxes” represents the share of taxes evaded by the bunchers at the simplification threshold, calculated as the total amount of taxes evaded expressed as a percentage of the taxes they would have paid absent the simplification threshold. It can be read as follows: in 2017, bunchers evaded 9.5% of the wealth tax they should have paid. Similarly, the variable “% Tax Revenues” denotes the tax loss expressed as a percentage of the total counterfactual tax revenues. It can be read as follows: in 2017, missing tax revenues from bunching at the simplification threshold accounted for 3.3% of the counterfactual tax revenues.

Table B.6: Quantification of Missing Taxpayers and Tax Revenues at Simplification Threshold using Pareto Counterfactual Distributions

	Threshold	Missing Taxpayers	% Taxpayers	Missing wealth (M€)	% Evaded wealth	Tax Loss (M€)	% Evaded Taxes	% Tax Revenues
2011	3000	470	7.3	49.72	3.4	0.49	7.5	0.5
2013	2570	1,322	10.3	87.01	2.5	0.38	3.0	0.3
2014	2570	1,866	13.4	147.12	3.0	1.08	5.9	0.8
2015	2570	2,286	15.5	215.26	3.6	1.19	5.5	0.8
2016	2570	3,163	20.2	352.31	4.2	2.74	9.1	1.8
2017	2570	3,824	23.6	422.73	4.2	3.37	9.3	2.2

Notes: This table summarizes our estimates of missing taxpayers and missing tax revenues from bunching at the simplification threshold using Pareto counterfactual distributions. The counterfactual distribution of wealth taxpayers is estimated using the average of Parameto parameters in the bracket [3500K:4000K].

Table B.7: Quantification of Missing Taxpayers and Tax Revenues at Exemption Threshold using Pareto Counterfactual Distributions

	Threshold	Missing Taxpayers	% Taxpayers	Missing wealth (M€)	Tax Loss (M€)	% Tax Revenues
2006	750	171,999	43.5	147,374	95.2	26.3
2007	760	224,195	47.3	195,793	131.7	30.8
2008	770	171,823	39.3	150,241	86.8	23.9
2009	790	125,490	31.6	111,480	58.6	18.8
2010	790	181,652	40.1	162,886	92.1	26.0
2011	1310	6,517	10.1	8,869	18.2	9.4
2013	1300	15,698	20.5	21,461	33.9	18.1
2014	1300	21,197	25.9	29,016	45.8	23.2
2015	1300	26,233	30.3	35,976	57.0	27.6
2016	1300	34,124	36.9	46,907	74.5	34.3
2017	1300	39,500	41.4	54,357	86.5	38.8

Notes: This table summarizes our estimates of missing taxpayers and missing tax revenues from bunching at the exemption threshold using Pareto counterfactual distributions. The counterfactual distribution of wealth taxpayers is estimated using the average of Parameto parameters in the bracket [3500K:4000K]. We compute the different statistics by comparing the actual and the counterfactual distributions in the range [threshold:1210K) from 2006 to 2010, and [threshold:1490K) from 2011 to 2017.

B A Model of Taxpayer Behavior

This Section presents a simple model of taxpayer behavior that can help rationalize our findings (summarized in Section 5.4). The lower growth rates below the simplification threshold and the absence of bunching at tax kinks in the detailed regime are consistent with lower evasion costs for taxpayers filing the simplified form. Bunching at the exemption threshold (which is a combination of a reporting notch and a tax kink) suggests a fixed cost from entering the wealth reporting area, such as hassle costs or administrative reporting costs. Denote this fixed cost of filing a wealth tax return by γ_i .

Taxpayer i has wealth w_{it} in year y and reports wealth \hat{w}_{it} . We assume away real wealth responses for expositional ease; adding them would provide another channel for responses. The sequence of expected wealth is given exogenously to the taxpayer. For the sake of notation, we omit expectation operators but it can be assumed that all future payoffs are in expected value.

The cost of misreporting has two components, which differ depending on whether the taxpayer is in the simplified or the detailed reporting regime. First, there is a cost to misreporting wealth. This cost is increasing and convex in the amount misreported. Denote by $v_i^k(w_{it} - \hat{w}_{it})$ the cost of reporting wealth \hat{w}_{it} when true wealth is w_{it} for taxpayer i in regime k , where $k = S$ for the simplified regime and $k = D$ for the detailed regime. One interpretation of this cost specification is that the cost represents the expected cost from being caught misreporting by the tax authority, which is a function of the probability of being audited, the probability of misreporting being uncovered conditional on an audit, and the penalty for misreporting, all of which are potentially increasing in the gap between true and reported wealth.

In addition, the cost of misreporting has a second component, which depends on the reported wealth *growth*: $h_i^k(\hat{w}_{it} - \hat{w}_{i,t+1})$ is the cost of reporting a growth in wealth $\hat{w}_{i,t+1} - \hat{w}_{i,t}$. This cost is decreasing and convex in $\hat{w}_{it} - \hat{w}_{i,t+1}$, i.e., the lower reported growth the higher the misreporting cost. A key difference between an income flow (such as self-employed income) and a stock (such as wealth) is that low wealth growth rates—especially negative growth rates—can raise a flag for the tax authority. For instance, it is likely that a taxpayer who reports the same wealth level in subsequent years is misreporting because asset values change due to price changes. Therefore, it may be that $h_i(0) > 0$. Similarly, a decline in reported wealth may raise flags if the economy is overall growing and returns are positive (as was the case over the entire period of study), so the cost may become steeper for negative reported growth values.

A given taxpayer has a value $V_{i,t}$ from being in the simplified regime. As explained in the main text, this could be the value due to lower hassle costs, privacy concerns, or the ease of misreporting. Consider a taxpayer in year t who reports taxable wealth above the exemption threshold. Assuming an infinite horizon, quasilinear utility, a tax rate τ for simplicity, and a discount factor β_i , the utility of this taxpayer is:

$$\sum_{j=t}^{\infty} \beta_i^{j-t} (w_{i,j} - \tau \hat{w}_{i,j} - \mathbb{I}_{i,j} (v_i^S(w_{i,j} - \hat{w}_{i,j}) + h_i^S(\hat{w}_{i,j-1} - \hat{w}_{i,j}) - V_{i,j}) - (1 - \mathbb{I}_{i,j}) (v_i^D(w_{i,j} - \hat{w}_{i,j}) + h_i^D(\hat{w}_{i,j-1} - \hat{w}_{i,j})))$$

where $\mathbb{I}_{i,j} = 1$ if the taxpayer is below the simplification threshold in year j and 0 otherwise.

For a taxpayer in period t , with reported wealth $\hat{w}_{t-1,i}$ in period $t - 1$ and who is still in the

simplified filing regime and plans to remain in it in period $t + 1$, the interior first-order condition with respect to \hat{w}_{it} is:

$$-\tau + v_i^{S'}(w_{i,t} - \hat{w}_{i,t}) + h_i^{S'}(\hat{w}_{i,t-1} - \hat{w}_{i,t}) - \beta h_i^{S'}(\hat{w}_{i,t} - \hat{w}_{i,t+1}) = 0$$

The taxpayer misreports wealth up to the point where the marginal tax savings τ equal the marginal cost of misreporting, taking into account that misreporting in year t changes the cost of misreporting in year $t + 1$ as well. Specifically, reporting lower wealth in year t makes it easier to misreport in year $t + 1$, inducing an intertemporal consideration to the misreporting decision that may be absent (or less directly relevant) for income flows.

In period $t + 1$, the first-order condition is:

$$-\tau + v_i^{S'}(w_{i,t+1} - \hat{w}_{i,t+1}) + h_i^{S'}(\hat{w}_{i,t} - \hat{w}_{i,t+1}) - \beta h_i^{S'}(\hat{w}_{i,t+1} - \hat{w}_{i,t+2}) = 0$$

Rearranging and combining these first-order conditions yields:

$$v_i^{S'}(w_{i,t} - \hat{w}_{i,t}) + \beta v_i^{S'}(w_{i,t+1} - \hat{w}_{i,t+1}) + h_i^{S'}(\hat{w}_{i,t-1} - \hat{w}_{i,t}) - \beta^2 h_i^{S'}(\hat{w}_{i,t+1} - \hat{w}_{i,t+2}) = \tau(1 + \beta)$$

Result 1: taxpayers below the threshold will start adjusting to the anticipation of crossing the threshold in future years.

A myopic taxpayer ($\beta = 0$) will simply solve the static problem with first-order condition:

$$v_i^{S'}(w_{i,t} - \hat{w}_{i,t}) + h_i^{S'}(\hat{w}_{i,t-1} - \hat{w}_{i,t}) = \tau$$

A non-myopic taxpayer, however, will anticipate how their future ease of misreporting is affected by their current misreporting and engaged in “misreporting smoothing” over time. All else equal, a taxpayer who anticipates having to misreport to cross the threshold in a future year will start misreporting already in previous years, to minimize their misreporting costs.

To see this, suppose that taxpayer i expects their wealth to be above the threshold in year $t + 1$. In year $t + 1$, the taxpayer misreport their wealth to remain below the threshold and report $\hat{w}_{i,t+1} = 2,570K$. They will also do so in $t + 2$ in order to keep staying below the threshold. Knowing this, their decision in year t of how much wealth to report is governed by the FOC:

$$v_i^{S'}(w_{i,t} - \hat{w}_{i,t}) + \beta v_i^{S'}(w_{i,t+1} - 2,570K) + h_i^{S'}(\hat{w}_{i,t-1} - \hat{w}_{i,t}) - \beta^2 h_i^{S'}(0) = \tau(1 + \beta)$$

Therefore, we expect to see taxpayers significantly below the threshold also misreport, and not just taxpayers immediately below it. This is consistent with the systematically lower reported wealth growth rates below the threshold (relative to above) which we observe in the data.

Result 2: Bunching can persist for several years and taxpayers can be pushed above the threshold by a sufficiently large wealth shock.

Let $M_i^k(w_{it})$ denote the continuation value of a taxpayer with wealth w_{it} in regime $k \in D, S$.

Taxpayer i will bunch at the threshold if and only if:

$$\begin{aligned} & w_{it} - \tau w_S - v_i^S(w_{it} - w_S) - h_i^S(\hat{w}_{i,t-1} - w_S) + V_{i,t} + \beta M_i^S(w_{it}) \\ & \geq w_{it} - \tau \hat{w}_{i,t}^* - v_i^D(w_{it} - \hat{w}_{i,t}^*) - h_i^D(\hat{w}_{i,t-1} - \hat{w}_{i,t}^*) + \beta M_i^D(w_{it}) \end{aligned} \quad (10)$$

For a myopic taxpayer, the bunching condition is the classic static bunching indifference equation or inequality. However, a forward-looking taxpayer anticipates the dependency between future misreporting costs and today's reporting behavior. Note that this bunching indifference condition can hold for several years, as different realizations of wealth occur, and as long as the value from remaining in the simplified regime $V_{i,t}$ is high enough.

We can also see that a high realization of w_{it} will push a taxpayer above the threshold as it will increase the cost of misreporting $v_i^S(w_{i,t} - w_S)$ such that it becomes too costly to remain at the threshold.

Result 3: Taxpayers above the threshold will bunch less, since it requires them to decrease reported wealth which is particularly costly. If the cost h_i^S of reporting negative wealth growth is sufficiently large and steep, taxpayers above the threshold will face a higher cost, all else equal, of locating at the threshold. To see this, consider taxpayers with wealth above and below the threshold, respectively, with the same cost functions and same value V . From the bunching condition (Equation 10), we can see that for a taxpayer with wealth above the threshold, the left-hand side is smaller, making it less likely that the bunching will be appealing. Furthermore, they may even engage in reverse bunching, whereby they will over-report their true wealth to avoid having to report negative wealth growth.

Result 4: There is no detectable bunching at pure tax kinks in the detailed reporting regime because the costs of misreporting imply low elasticities of misreporting. In the limit, if there is a fixed (and large) cost component of misreporting above the threshold, only taxpayers with sufficient incentives to do so will misreport and the observed tax elasticity of misreporting may be low.

Result 5: We will observe bunching at the exemption threshold because of the fixed cost of reporting wealth.

C Dynamic Bunching and Local Average Treatment Effect

In this Section we formally map our dynamic bunching approach to the causal framework from Angrist et al. (1996) to show how our approach allows us to identify a local average treatment effect (LATE). We present and discuss the identifying assumptions.

Let $Z_i \in \{0, 1\}$ be an indicator for being affected by a policy (*eligibility to the treatment*). The “potentially affected group” is such that $Z_i = 1$ after the reform. Similarly, $Z_i = 0$ for the unaffected (control) group. In our set-up, taxpayers are affected by the reform when they were located in a given range of reported wealth prior to the reform.

Let $D_i \in \{0, 1\}$ be an indicator for taxpayer i reporting a negative normalized growth rate (*selection into treatment*).

For all taxpayer i , observed D_i can be written as

$$D_i = D_i(1)Z_i + D_i(0)(1 - Z_i) \quad (11)$$

where $D_i(z)$ are indicators for i reporting a negative normalized growth rate when $Z_i = z$. As with any potential outcomes framework, for any taxpayer i , only one potential $D_i(z)$ is observed.

Let g_i be taxpayer i 's reported normalized growth rate. g_i can be written as:

$$g_i = g_i(0,0)(1 - Z_i)(1 - D_i) + g_i(0,1)(1 - Z_i)D_i + g_i(1,0)Z_i(1 - D_i) + g_i(1,1)Z_iD_i \quad (12)$$

where $g_i(z, d)$ denotes i 's potential normalized growth rate when $Z_i = z$ and $D_i = d$. So far we have not made any assumptions.

Let us now assume, for all taxpayer i :

- **Exclusion:** $g_i(z, d) = g_i(z', d) \forall z, z', d$, which allows to define $g_i(d) = g_i(z, d) \forall z, d$
- **Monotonicity:** $D_i(1) \geq D_i(0)$
- **Independence:** $g_i(0), g_i(1), D_i(0), D_i(1) \perp\!\!\!\perp Z_i$

The **exclusion restriction** says that to the extent the policy affects the normalized growth rate, it is only causing a taxpayer i to report a negative $g_i(1)$ to bunch below the simplification threshold (instead of $g_i(0)$). Therefore [Equation 12](#) simplifies to:

$$g_i = g_i(1)D_i + g_i(0)(1 - D_i) \quad (13)$$

The **monotonicity condition** says that the policy only affects bunching in one direction. No taxpayer is induced to report away above the simplification threshold when affected by the reform (i.e., when $Z_i = 1$).

The **independence assumption** says that Z_i is as-good-as-randomly assigned, in the sense of being unrelated to potential outcomes. Although we cannot test the validity of this assumption after the reform, we provide support for this assumption by showing in [Figure 5](#) (Panel A) and [Figure A.12](#) that the distribution of growth rates is identical across all the different groups before the reform (i.e., $g_i(0) \perp\!\!\!\perp Z_i$).

Identifying the compliers

Under these conditions, we have:

$$E[D_i|Z_i = 1] - E[D_i|Z_i = 0] = P[D_i(1) > D_i(0)] \quad (14)$$

This tells us that the proportion of compliers is identified by the change in the probability of taxpayers locating below the simplification threshold.

Local Average Treatment Effect

Using the monotonicity and independence assumptions, the average change in growth rate when the policy goes into effect identifies:

$$\mathbb{E}[g_i|Z_i = 1] - \mathbb{E}[g_i|Z_i = 0] = \mathbb{E}[g_i(1) - g_i(0)|D_i(1) > D_i(0)] \times \mathbb{P}[D_i(1) > D_i(0)] \quad (15)$$

which is [Equation 14](#) multiplied by the “*local average treatment effect*” (LATE) of bunching on simplified reporting, $\mathbb{E}[g_i(1) - g_i(0)|D_i(1) > D_i(0)]$. It follows we can divide [Equation 15](#) by [Equation 14](#) to identify this LATE in growth rate:

$$\frac{\mathbb{E}[g_i|Z_i = 1] - \mathbb{E}[g_i|Z_i = 0]}{\mathbb{E}[D_i|Z_i = 1] - \mathbb{E}[D_i|Z_i = 0]} = \mathbb{E}[g_i(1) - g_i(0)|D_i(1) > D_i(0)] \quad (16)$$

Estimating the elements of the theoretical framework

For taxpayers affected by the reform, we can directly observe $\mathbb{E}[g_i(1)|Z_i = 1]$. Relying on the validity of our control group, we can estimate $\mathbb{E}[g_i(0)|Z_i = 0]$ as the average reported growth rate among control taxpayers.

We can observe $D_i(1)$, thanks to taxpayers who locate below the simplification threshold after the reform (i.e, with a negative normalized growth rate - NGR). The observation of the NGR allows thus to compute $\mathbb{E}[D_i|Z_i = 1]$ as $\mathbb{P}[g_i < 0|Z_i = 1]$, which corresponds to the share of affected taxpayers with negative NGR.

Finally, we cannot observe the remaining part of the denominator of the LATE (i.e., $\mathbb{E}[D_i|Z_i = 0]$). Therefore we use our control group and define a relevant *placebo* threshold (as explained in [subsection 4.2.2](#)) for taxpayers in the control group, such that the probability for taxpayers affected by the reform to cross the simplification threshold absent the reform would be identical to that of taxpayers from the control group to cross this placebo threshold.³¹ Concretely, we compute this placebo threshold so as it is at the same distance from the control group as the actual simplification threshold is for the affected group.³² We therefore can estimate $\mathbb{E}[D_i|Z_i = 0]$ (i.e., $\mathbb{P}[g_i < 0|Z_i = 0]$) as the share of taxpayers from the control group whose NGR is negative. More details on the computation of the sample counterparts are presented in [subsection 4.2.3](#).

³¹It would be irrelevant to look at taxpayers from the control group who locate below the simplification threshold since by construction of the control group, these taxpayers are much further away above the threshold than the taxpayers affected by the reform. Therefore, absent the reform, the probability of taxpayers in the control group crossing the simplification threshold is not comparable with that of the affected taxpayers.

³²Once computed the NGR for the affected and control groups, we show in [Figure A.10](#) that before the reform, for each affected group, the distribution of the NGR is the same for both the affected and the control groups. In [Figure A.11](#), we provide the same evidence for the 2011 reform.