Who understands the French Income Tax?
Bunching where Tax Liabilities start

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Abstract

This paper deals with behavioral responses and informational barriers at the earnings level where French income tax liabilities start. Complexity of the tax system induces an ambiguity between three potential thresholds. I highlight a significant bunching in the taxable income distribution of maintenance obligation recipients for two of them: the tax collection notch, which is the true point of entry in the tax system, and a taxation kink located below. The resulting ETI is equal to 0.15 when accounting for the 80% optimization frictions estimated. Bunching at the false threshold might be rationalized as a cautious behavior in an uncertain environment, since optimizing households favor this location when the local marginal tax rate just above increases. Finally, I show that a better access to information through online reporting steps up reactions at the point of entry in the income tax.

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