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25/9

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Asymmetric Labor Supply Responses to Tax Rate Reform: Experimental Evidence*

Katharina Pfeil[†], Matthias Kasper[‡], Sarah Necker^{§¶}, Lars P. Feld^{†||**}

Abstract

We study how individuals adjust their labor supply in response to tax reforms that alter income tax progressivity. In an online experiment with 522 participants, we compare responses to reforms that replace a progressive tax system with a flat tax and vice versa. We find asymmetric effects: labor supply increases when a progressive regime is replaced by a flat tax system, but does not decline when progressivity is introduced. This increase in labor provision occurs only when the reform lowers the marginal tax rate, not when it raises it. Our results suggest that labor supply responses to tax reforms are nuanced and path-dependent: reforms change behavior when they ease tax burdens for individuals who were previously discouraged from working more due to progressive thresholds.

Keywords: Tax System Design, Tax Reform, Notches, Labor Supply, Online Experiment.

JEL Classification: J20; J22; H24; H30; C91.

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1 Introduction

Progressive taxation is a central feature of modern tax systems. By taxing individuals with lower income at a lower rate, it is intended to contribute to a more equitable distribution of resources and to strengthen the perceived fairness of the tax system. For instance, many income tax systems contain favorable treatment of low-income earners such as the Earned Income Tax Credit in the United States (Bastian & Lochner, 2022), or marginal employment thresholds in Germany (Tazhitdinova, 2020) or Austria (Steiner & Wakolbinger, 2013) by lowering tax rates for low-income earners. However, increasing progressivity can create disincentives to work or earn more, raising concerns about potential efficiency losses. Understanding how individuals respond to changes in tax progressivity is therefore crucial for designing systems that balance redistribution with incentives for labor market participation.

However, individual responses to such tax system features do not necessarily align with theoretical predictions, suggesting that behavioral factors, such as misperceptions, limited attention, loss aversion and overconfidence, affect labor supply decisions (e.g., Amberger et al., 2023; Gibson et al., 2019; Kostøl & Myhre, 2021; Chetty et al., 2013; Chetty & Saez, 2013; Chetty, 2012). Such deviations may be especially pronounced in the context of tax reforms, where individuals have to reassess incentives under a new system. For example, Doerrenberg & Duncan (2014) show that even in flat tax regimes, the direction of past tax rate changes influences current labor provision. Pántya et al. (2016) and Masclet & Montmarquette (2008) find that individuals respond differently to flat versus progressive tax regimes, and that prior tax experiences shape effort. Mavrokonstantis & Seibold (2022) show that bunching responses to tax notches adjust only gradually after reforms, suggesting path dependence in behavior.

We contribute to this literature by studying how individuals respond to tax reforms that vary progressivity by introducing or eliminating notches, i.e., discontinuous changes in the tax rate. We examine whether responses differ depending on the direction of reform and the pre-reform tax regime. This allows us to test for symmetric, path-dependent labor supply behavior in a clean, controlled setting. While prior work has examined labor supply under different tax regimes, it remains unclear how individuals respond to changes in tax progressivity, and whether aggregate responses to reform are driven by directly affected individuals or by general adjustments. Identifying these effects in the field is notoriously difficult, as tax reforms are

rarely exogenous and typically confounded by other policy changes. We address these challenges through a real-effort online experiment that holds other institutional features constant while varying the type of reform and the baseline regime. This design allows us to isolate the causal effect of reform direction, test for path dependence, and distinguish responses from affected individuals and general shifts in behavior.

We conduct a real-effort experiment in an online labor market (Amazon Mechanical Turk), where participants are randomly assigned to one of four treatment groups or a control group (between subjects design). The treatments vary along two dimensions. First, we manipulate the type of tax reform: either a flat tax is replaced with a progressive system (introducing a notch), or a progressive system is replaced with a flat tax (eliminating a notch). Second, we vary whether the reform affects individuals earning below or above the threshold, thereby implementing either a tax increase or a tax cut. The control group faces a progressive system without reform. In all treatment groups, each participant makes 16 labor supply decisions.

We formulate three main predictions. First, we expect that tax reforms affect labor supply decisions. In particular, replacing a progressive system with a flat tax, or vice versa, changes net-of-tax earnings at specific income levels and should therefore influence individuals' willingness to exert effort. Second, we expect labor responses to depend on the direction of the reform and the design of the pre-reform tax system. If individuals respond purely to current net-of-tax incentives, as standard theory predicts, labor supply should adjust symmetrically across reforms. However, if individuals are influenced by reference points or loss aversion, asymmetric and path-dependent behavior might be observed. Third, we expect that responses are concentrated among individuals who are directly affected by the reform.

Our findings confirm that tax reforms can affect labor supply, but only under specific conditions. We observe a significant increase in labor supply when a progressive tax regime is replaced by a flat tax, thereby reducing the tax burden. In contrast, labor supply remains unchanged when a flat tax is replaced by a progressive system. This asymmetry suggests that not only current incentives matter but also the pre-reform tax regime. We also find that labor supply responses are concentrated among individuals directly affected by the reform. Stronger effects are visible on both the intensive and extensive margins, but only in treatments involving a reduction in the tax burden. Post-experimental survey responses reinforce this interpretation: participants exposed to tax cuts are more likely to perceive the reform as fair, correctly compute the tax burden, and align their labor supply with financial incentives.

Our study contributes to several strands of literature. First, we contribute to the literature studying the effect of tax reforms experimentally. In contrast to Doerrenberg & Duncan (2014) and Pántya et al. (2016), we do not consider tax evasion as a second channel of adjustment, which allows us to examine the effect on labor supply in a cleaner way. Our design also allows us to compare tax increases and decreases symmetrically, whereas other studies compare evolutions of tax rates (Doerrenberg & Duncan, 2014) or only look at one reform direction (Masclét & Montmarquette, 2008). We also extend previous studies by showing that behavioral responses to changes in taxation are concentrated among individuals directly affected by the reform. More broadly, we add to a literature on asymmetric responses to institutional change. For instance, Falk et al. (2006) find that introducing a minimum wage increases employment more than removing it reduces it.

Second, we build on experimental research examining how labor supply responds to changes in wages (e.g., Chen & Sheldon, 2015; Chen et al., 2024; Kube et al., 2013). Most closely related is the study by Doerrenberg et al. (2023), who find in a similar setting as in our study that workers reduce their labor supply more strongly in response to wage cuts than they increase it in response to equivalent wage gains, particularly at the extensive margin. We extend this line of work by asking whether similar asymmetries arise when financial incentives are altered through the tax system rather than through gross wage changes. This allows us to assess the relevance of behavioral asymmetries in policy contexts, where changes in net income often result from tax reforms. Previous literature suggests that individuals react differently to tax changes than wage changes (e.g., Fochmann et al., 2013). In line with Doerrenberg et al. (2023), we observe asymmetric labor supply responses. However, our results also highlight important differences, suggesting that asymmetries depend on the interaction between tax structure, reform direction, and individual exposure.

This paper is structured as follows. In Section 2, we describe the experimental design. Section 3 develops theoretical expectations. Section 4 presents the results. Section 5 concludes and discusses limitations.

2 Experimental design

2.1 Experimental procedure

We examine the effect of tax reforms on labor supply in an online experiment. This setting allows us to introduce systematic variation in the type and timing of tax reforms, as well as in the amount of income that participants can earn when they work. Clean identification of labor supply responses to tax reform is challenging in real-life settings, because reforms are often endogenous, typically affect all taxpayers equally, and are often intertwined with other (political) changes.

We conducted the experiment on Amazon Mechanical Turk (MTurk), an online labor market where workers complete tasks — so-called Human Intelligence Tasks (HITs) — in exchange for monetary compensation. MTurk is widely used in social science, including studies on behavioral responses to taxation (e.g., Burgstaller & Pfeil, 2024; Schneider & Mill, 2022; Satterthwaite, 2016; Brink & Lee, 2015; LaMothe & Bobek, 2020). While concerns have been raised about data quality on the platform, we implemented several safeguards to ensure data reliability, see Section 2.4.

The structure of the experiment is illustrated in Figure 1; Appendix B provides additional details on the experimental design. Upon entering the study, participants are informed that they are taking part in an academic study on individual decision-making, which is expected to last approximately 20 minutes.¹ Participants first complete a short survey on sociodemographic characteristics, followed by instructions and a set of comprehension questions. Those who fail to answer correctly within two attempts are redirected to the instructions before proceeding.

The main experiment consists of 16 decision-making periods. In each period, participants indicate how much labor they would be willing to supply under the tax rate applicable in that round (*decision stage*), without actually performing the task. After completing all 16 periods, one round is randomly selected, and participants are required to complete the number of tasks they had chosen in that round (*working stage*). The experiment concludes with a post-experimental survey that collects information on participants' preferences and perceptions. Participants receive a fixed show-up fee and a performance-based bonus depending on their output in the selected round. Implementation details are provided in Section 2.4.

¹This duration is comparable to other online experiments on MTurk (e.g., Hunt & Scheetz, 2019; Arechar et al., 2018). In line with best practices for survey design (Stantcheva, 2023), we refrain from revealing specific information about the task's purpose and only state that the study is conducted by an independent academic institution.

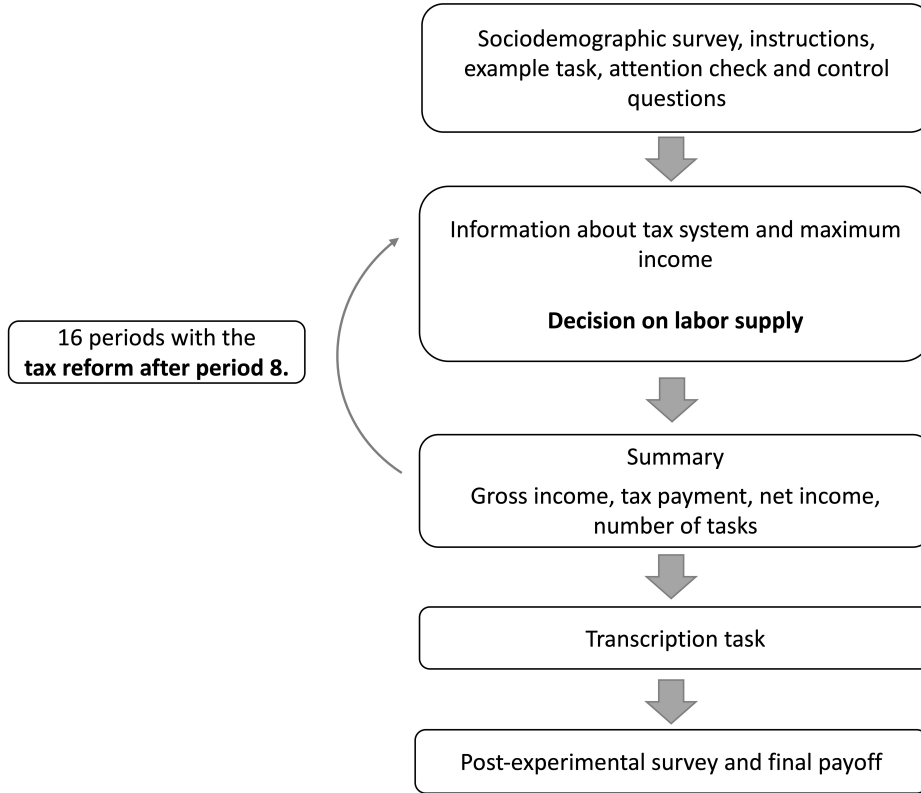


Figure 1: Experimental procedure

2.2 Decision stage: Treatments

2.2.1 Setup of decision stage

Each period in the decision stage follows the same structure, consisting of two screens. On the first screen, participants are shown the applicable tax schedule and the maximum gross income they can earn in that round. Participants then choose how much gross income they want to earn, which corresponds to how many tasks they are willing to complete. The maximum gross income is 600 cents. Each task pays 20 cents, allowing for completion of up to 30 tasks.

For every income level, the system automatically calculates and displays the corresponding number of tasks, the tax payment, and the net income. The fewer tasks selected, the lower the income and tax burden. Once participants have made their choice, a second screen confirms the selected gross income, associated tax, number of tasks required, and the potential payoff if the period is selected for payment.

2.2.2 Treatment design

Participants are randomly assigned to one of five treatments that differ only in the tax structure they face during the decision stage, summarized in Table 1.

Reform Type	Affected Income Group	Treatment (n)
Eliminate notch (Prog $\rightarrow$ Flat)	Above threshold Below threshold	<i>Prog,Flat25</i> (n = 107) <i>Prog,Flat50</i> (n = 104)
Introduce notch (Flat $\rightarrow$ Prog)	Above threshold Below threshold	<i>Flat25,Prog</i> (n = 110) <i>Flat50,Prog</i> (n = 99)
No reform (Prog $\rightarrow$ Prog)	–	<i>Prog,Prog</i> (n = 102)

Table 1: Treatment overview by reform type and affected income group

Notes: Each participant makes 16 decisions. In the four treatments, a tax reform occurs after period eight.

The baseline condition, *Prog,Prog*, serves as a control and features a progressive tax system for all 16 rounds. Incomes up to 400 cents (20 tasks) are taxed at 25%; incomes above that threshold are taxed at 50% on the entire income, thus introducing a notch at 400 cents. The instructions state: “In this round, the tax rate is 25% for incomes equal to or below 400 cents. The tax rate is 50% on the entire income if the income exceeds 400 cents. For example, for an income of 420 cents, your tax payment would be 210 cents.” This setup creates a salient and substantial discontinuity.

The other four treatments include a tax reform introduced after period eight. In *Prog,Flat25*, the initial progressive tax system is replaced with a flat tax of 25%. Instructions state: “In this round, the tax rate is 25% for all incomes.” This reform lowers the tax burden for incomes above the 400-cent threshold (or 20 tasks) by 25 percentage points, while incomes below remain unaffected. In contrast, *Prog,Flat50* replaces the progressive system with a flat tax of 50%. Participants are informed: “In this round, the tax rate is 50% for all incomes.” This reform increases the tax burden for incomes below the 400-cent threshold while leaving higher incomes unaffected.

The final two treatments reverse these transitions. In *Flat25,Prog*, participants begin under a flat 25% tax and then transition to the progressive system described above. This reform implies a tax increase for incomes above the 400-cent threshold. In *Flat50,Prog*, the initial flat tax of 50% is replaced by the progressive schedule,

reducing the tax burden for incomes below the threshold in the post-reform phase.

2.2.3 Variation in income

To enhance engagement with the experimental task, we introduce variation in the maximum gross income participants can earn in each period. Specifically, one of eight possible maximum gross incomes, ranging from 280 to 600 cents, is randomly assigned in each round (see Table 2 for details). Participants then choose how much income to earn within that range by selecting the corresponding amount of labor to supply. Each 20-cent increment corresponds to one transcription task in the real-effort task, implying a possible workload between 0 and 30 tasks per round.

		<i>Prog</i>		<i>Flat25</i>		<i>Flat50</i>	
$Tasks_{max}$	Y_{max}	Y_{net}	t	Y_{net}	t	Y_{net}	t
14	280	210	0.25	210	0.25	140	0.5
16	320	240	0.25	240	0.25	160	0.5
20	400	300	0.25	300	0.25	200	0.5
21	420	210	0.5	315	0.25	210	0.5
22	440	220	0.5	330	0.25	220	0.5
24	480	240	0.5	360	0.25	240	0.5
25	500	250	0.5	375	0.25	250	0.5
30	600	300	0.5	450	0.25	300	0.5

Table 2: Maximum tasks, gross and net incomes, and tax rates by tax regime

Notes: We randomly assign one of the maximum amount of tasks/ income to each period. Subjects can choose any amount of tasks between 0 and $Tasks_{max}$ in each period. Y_{max} is the maximum before-tax income in cents that a subject can choose in each period. Y_{net} denotes the respective after-tax income in cents for each tax treatment depending on the tax rate.

2.3 Working stage: Task

To earn income, participants provide labor by completing real-effort tasks. The task involves transcribing randomly generated sequences of ten letters, following a design similar to those used by Augenblick et al. (2015) and Dickinson (1999).² The task is simple and does not require prior knowledge or mathematical skills.

²Real-effort tasks are commonly used in online labor experiments on MTurk. For example, Horton et al. (2011) and Doerrenberg et al. (2023) use comparable transcription tasks based on images. This type of task is thus familiar to MTurk participants.

The number of tasks participants must complete is determined by their choices during the decision stage. After the decision stage, one of the 16 periods is randomly selected, and participants must complete the number of tasks they chose in that round. A task is only considered complete when all letters are entered correctly. In the case of a mistake, a new sequence is shown. There is no time limit for task completion, and the copy-paste function is disabled to ensure that tasks are completed manually. Participants complete a sample task during the instruction phase to familiarize themselves with the interface and task structure.

2.4 Implementation

The experiment was programmed using *LIONESS Lab* (Giamattei et al., 2020). We ran the experiment on MTurk between September 12 and 14, 2022. Conducting experiments online often involves a trade-off between reduced experimental control and a more diverse subject pool, especially regarding actual labor experience. We recruited workers via CloudResearch to ensure high-quality data (Litman et al., 2017). In line with the literature, we restricted our sample to U.S. citizens geographically located in the U.S., with an approval rate of at least 95% and more than 500 completed HITs (see Arechar et al., 2018; Peer et al., 2014). We chose U.S. citizens because they represent the largest share of MTurk workers (Difallah et al., 2018).

MTurk has been criticized regarding the presence of bots and inattentive participants, which may bias experimental data (e.g., Cuskley & Sulik, 2022; Webb & Tangney, 2022; Hauser et al., 2022). However, Prissé & Jorrat (2022) show that online experiments yield results similar to laboratory studies across several standard economic tasks. Likewise, Arechar et al. (2018) find that online replications of classic economic experiments produce reliable and valid data, supporting the use of MTurk.

To ensure high data quality, we additionally implemented several safeguards. First, we provided financial incentives in line with the average MTurk hourly wage (Hara et al., 2018). Second, we screened out bots using a CAPTCHA test. Third, we included an attention check to exclude inattentive participants (Schneider & Mill, 2022). Fourth, subjects had to correctly complete a set of control questions after the instructions. Those who failed twice were excluded. In total, 241 individuals — 27% of the initial sample — were excluded based on attention and manipulation checks. Fifth, we prevented duplicate participation. Finally, we monitored feedback during the implementation phase, including on worker review platforms like Turkerview,

and found no signs of negative participant experience or experiment sharing.

Participants received a fixed participation fee of \$1.00 for completing the study. In addition, they earned a performance-based bonus equal to the after-tax income in one randomly selected round. Bonuses ranged from \$0 to \$4.50, resulting in a maximum possible payment of \$5.50. All payments were made within three days of participation.

3 Expectations

Table 3 shows the amount of labor provision (solved tasks) that maximizes after-tax income.

<i>Tax system</i>	<i>Tax rate if ≤ 20 tasks</i>	<i>Tax rate if > 20 tasks</i>	<i>Number of tasks to maximize income</i>
<i>Prog</i>	25%	50%	20*
<i>Flat25</i>	25%	25%	30
<i>Flat50</i>	50%	50%	30

Table 3: Tax systems and income maximizing behavior

Notes: In *Prog*, a tax rate of 25% applies if the participant solves 20 tasks or less. If the participants solves more than 20 tasks, a tax rate of 50% applies to all income. *) while in a progressive systems subjects earn the same when they complete 30 tasks, assuming positive effort costs, working on 20 tasks maximizes income.

Standard economic theory predicts that individuals respond to financial incentives. Labor supply should thus reflect income tax rates and individuals provide the amount of labor that maximizes their after-tax income. However, if financial incentives change, labor supply should adjust accordingly:

H1: Changes in the income tax rate affect labor provision.

How labor supply responds to a change in tax rates is theoretically ambiguous. On the one hand, a tax increase reduces after-tax income, which may lead individuals to increase their labor effort to maintain disposable income (income effect). This reaction may also reflect loss aversion (Kahneman & Tversky, 1979), where individuals respond to a perceived loss in net income by working more. On the other hand, higher tax rates reduce the return to work relative to leisure, which may lead to a decline in labor supply (substitution effect). These mechanisms apply symmetrically

in the case of a tax decrease. It remains an empirical question which of these forces dominates in our experiment.

Importantly, aggregate responses to tax reform may mask underlying heterogeneity. In particular, we expect that labor supply responses vary depending on (i) the direction of the reform (tax increase vs. tax decrease) and (ii) whether individuals are directly affected by the reform, given their pre-reform labor supply. Regarding (i), if individuals respond purely to current net-of-tax incentives, as standard theory predicts, labor supply should adjust symmetrically across reforms. However, if individuals are influenced by reference points or loss aversion, asymmetric and path-dependent behavior might be observed. In line with previous literature (see Section 1), we assume that behavioral factors matter and expect that:

H2: Behavioral responses to tax reforms depend on the direction of the reform.

Regarding individual affectedness, for example, under a flat tax system, a change in the tax rate affects all individuals. In contrast, under a progressive system with a notch, a reform affects only those whose income falls above or below the threshold. We distinguish individuals based on their pre-reform labor supply. We define individuals as *affected* if their labor supply falls below or above the tax threshold of 20 labor units prior to the reform $T0$, thus placing them in a tax bracket that changes after the reform $T1$; all others are *unaffected*. We expect that unaffected individuals will not adjust their labor supply after the reform, while affected individuals will do so in response to the change in incentives, as summarized in Hypothesis 3.

H3: Behavioral responses to tax reforms depend on individual affectedness.

Importantly, we expect the direction and magnitude of behavioral responses among affected individuals to depend on the nature of the tax reform. For example, in *Flat25,Prog*, participants who worked more than 20 labor units in $T0$ are now exposed to a 50% tax rate in $T1$, making their pre-reform income level no longer attainable. In this case, we expect a decline in labor supply, consistent with a substitution effect. Conversely, in *Prog,Flat50*, individuals who previously provided 20 or fewer labor units in $T0$ face an increase in the tax rate in $T1$. These individuals may increase their labor provision to offset lower net pay, consistent with an income effect or loss aversion. In contrast, when tax rates decrease, the theoretical prediction is ambiguous. For example, in *Prog,Flat25*, individuals who worked more than 20 labor units in $T0$ benefit from a tax cut. Likewise, in *Flat50,Prog*, individuals who previously provided 20 or fewer labor units experience a reduction in their tax

burden. Whether these groups increase or decrease labor supply in response depends on whether income or substitution effects dominate.

4 Results

4.1 Sample and data quality

In total, 879 U.S. citizens with an approval rate of at least 95% clicked on the link to enter our study. The final sample consists of 522 participants, each of whom completed 16 labor supply decisions, resulting in a dataset of 8,352 observations.³ An attrition analysis (Table 7 in Appendix A) indicates that dropout is not significantly correlated with sociodemographic characteristics. Moreover, dropout rates do not differ systematically across treatment groups.

On average, participants complete the experiment in 20 minutes. The average earning is \$3.47, corresponding to an hourly wage of \$10.65.⁴ The mean age of participants is 42 years, and 58% are female. Sixty percent of the sample have at least a bachelor’s degree, 59% report household incomes below the U.S. median for 2022, and 49% are employed full-time. Table 8 in Appendix A reports the distribution of sociodemographic characteristics by treatment. Overall, there are no significant differences in sociodemographic composition across treatments.⁵

We implement several checks to assess data quality, specifically, whether participants understand the experimental instructions and the underlying incentive structure. A key indicator is the share of subjects choosing to provide 20 or fewer labor units, since providing more than 20 units does not increase after-tax income under the progressive tax regime (see Section 3). In our baseline treatment, *Prog, Prog*, 80% of participants choose to provide 20 labor units or less. As expected, this share is with 66% considerably lower in the tax reform treatments, where incentives differ.

³A total of 344 individuals (39.1%) were excluded or dropped out before the main experiment (see Figure 6 in Appendix A). Specifically, we excluded 16 participants who failed the captcha test, 104 inattentive subjects, and 137 individuals who did not pass the control questions after two attempts. Additionally, 30 participants left during the instructions, and 57 dropped out during the example real-effort task. Another 13 subjects exited the experiment during the decision or working stage.

⁴Our compensation is substantially higher than the median reservation wage for MTurk workers reported in earlier research (Horton et al., 2011) and exceeds typical payments in comparable online experiments (Doerrenberg et al., 2023). However, data collection in those studies occurred over a decade ago. Our payment structure follows recommendations to offer fair wages above the minimum wage (Aguinis et al., 2021). Accordingly, our compensation aligns with the average hourly wage on MTurk (>\$11/h) reported in a review by Hara et al. (2018), and with rates suggested by other platforms such as Prolific (e.g., \$12/h). We therefore argue that participants’ perception of our task is comparable to their perception of other MTurk tasks.

⁵The only exception is the proportion of respondents reporting below-median household income, which differs significantly between *Prog, Flat25* and *Flat25, Prog*. We control for sociodemographic characteristics in all regressions.

These findings provide an initial indication that labor supply decisions broadly align with the experiment’s incentive structure.

To further examine this, we compare pre- and post-reform behavior in Table 4. In the *Prog,Prog* treatment, we find no significant difference in labor supply before and after period eight, confirming that, in the absence of a reform, participants do not change their behavior over time. In other words, the vast majority of subjects behave in line with rational choice. In contrast, in treatments featuring a tax reform, we observe substantial shifts in labor supply across the reform threshold. Specifically, the fraction of labor decisions at or below 20 units ranges between 79% and 88% in progressive regimes and is significantly lower in flat tax regimes, where providing more labor yields higher after-tax income. In sum, this initial evidence reinforces our confidence in the quality and internal validity of the data.

Treatment	Pre-reform	Post-reform	<i>p-value</i> (MWU)
<i>Prog,Prog</i>	.78	.81	0.1084
<i>Prog,Flat25</i>	.88	.46	< 0.0001
<i>Prog,Flat50</i>	.83	.54	< 0.0001
<i>Flat25,Prog</i>	.53	.79	< 0.0001
<i>Flat50,Prog</i>	.54	.79	< 0.0001

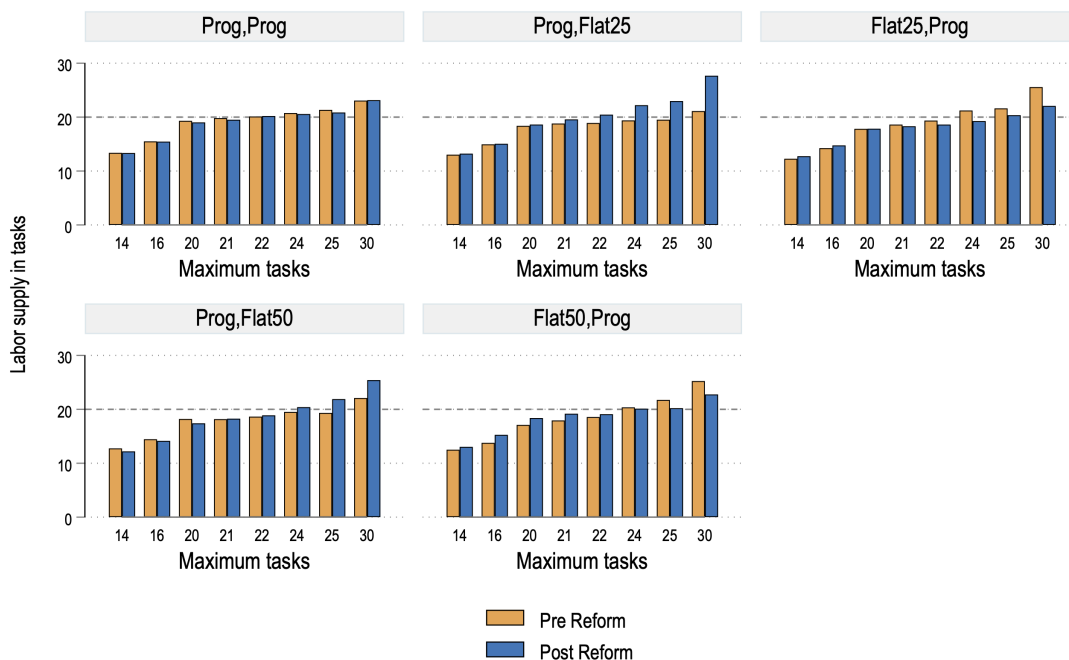
Table 4: Fraction of labor supply decisions below or equal to 20 labor units by treatment

Notes: Pre-reform are periods are periods 1 to 8, and post-reform are periods 9 to 16. The p-values are derived from Mann-Whitney U tests between pre- and post-reform labor supply.

4.2 Descriptive analysis

To gain an initial intuition of whether subjects respond to tax-induced financial incentives as expected (see Section 3), we compare labor provision across treatments. Specifically, we examine whether participants tend to provide 20 labor units in the progressive regime, where additional effort does not increase after-tax income, and 30 units in the flat tax regimes, where effort is consistently rewarded. Figure 2 displays the average number of chosen labor units relative to the maximum number possible. As expected, labor supply tends to cap at 20 under the progressive tax and peaks

in *Prog,Flat25*, with an average of 28 units. In other flat tax treatments, averages cluster around 25 units. While participants generally respond to incentives, they do not fully maximize after-tax earnings, even when allowed to provide 30 units.



Graphs by Treatment

Figure 2: Average labor supply (chosen labor units) by maximum possible units

Notes: This figure shows the average number of chosen labor units in tasks for each assigned maximum possible number of tasks. Periods 1 to 8 are pre-reform, and periods 9 to 16 are post-reform.

To account for differences in maximum task constraints across periods, we normalize labor supply as the percentage of tasks completed out of those available. On average, subjects complete 87% of available tasks. In 60% of decisions, participants reach their maximum allowed effort. Labor provision is highest in *Prog,Prog* (90%) and lowest in *Prog,Flat50* (86%).

Figure 3 shows how labor supply in percent of available tasks evolves across periods. Behavior is relatively constant in the control group. In *Prog,Flat25*, labor provision increases after the reform to a 25% flat tax, while in *Flat25,Prog* it declines after the introduction of progressivity. In *Prog,Flat50* and *Flat50,Prog*, labor provision remains stable, suggesting limited reform effects. The descriptive patterns support our first hypothesis (*H1*) that changes in income tax rates affect labor sup-

ply. In particular, they are consistent with a substitution effect: when taxes increase, leisure becomes relatively more attractive, leading to lower labor supply; when taxes decrease, the relative return to labor rises, and individuals work more. This pattern is most pronounced in *Prog,Flat25*, where the reform reduces tax rates, resulting in an upward shift in labor provision. Conversely, in *Flat25,Prog*, the introduction of a progressive tax structure is associated with a decline in labor supply after the reform.

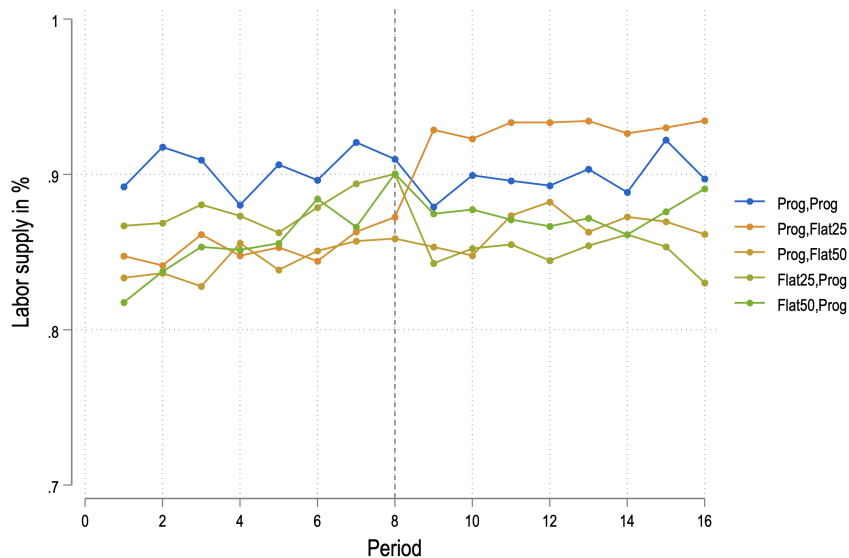


Figure 3: Development of labor supply by period and treatment

Notes: This figure shows mean labor supply (in % of available income) by treatment over 16 decision periods. The tax reform occurs after period eight (dashed line).

4.3 Main results

We next investigate whether these results hold when we compare pre- to post-reform labor supply relative to the baseline treatment, accounting for sociodemographic characteristics. To test the causal effect of tax policy reform on labor supply more formally, we estimate the following difference-in-differences model:

$$Labor\ Supply_{it} = \beta_0 + \beta_1 \cdot Post_t + \beta_2 \cdot Treat_i + \beta_3 \cdot (Post_t \times Treat_i) + \epsilon_{it}$$

The dependent variable $Labor\ Supply_{it}$ denotes the relative amount of labor, i.e., the number of tasks subject i chooses to solve as a share of the maximum number of tasks possible in period t . $Post_t$ is a dummy variable that equals 0

in pre-reform periods and 1 in post-reform periods. $Treat_i$ is a dummy variable indicating whether a subject is assigned to one of the reform treatments: $Prog, Flat25$, $Prog, Flat50$, $Flat25, Prog$, or $Flat50, Prog$. The coefficient of interest is β_3 , which captures the interaction between time and treatment, i.e., how the reform treatment affects post-reform labor supply relative to the control group. We control for self-reported sociodemographic characteristics, including age, gender (female), MTurk experience, full-time employment, household income below the U.S. median, and having obtained at least a bachelor's degree. We cluster standard errors at the individual level.

First, we test whether changes in the income tax rate affect labor provision, as outlined in Hypothesis 1 (*H1*). Specifically, we compare changes in labor supply between pre- and post-reform periods across each treatment group and the control group ($Prog, Prog$). Estimation results are reported in Models (1) to (4) of Table 5. We find a significant treatment effect only for $Prog, Flat25$ (Model 1): the introduction of a flat tax regime with a low rate leads to an 8 percentage point increase in labor supply compared to the baseline group. This effect is statistically significant at the $p < 0.001$ level. In contrast, the estimated treatment effects for the other three reforms do not reach conventional levels of statistical significance, indicating no detectable impact of reforms on labor supply relative to the baseline. These findings confirm that a tax reform can affect labor provision, but only when the reform decreases the tax burden. The descriptive and regression results for $Prog, Flat25$ are consistent with a substitution effect, which predicts that labor supply increases in response to a lower tax rate, due to the higher relative return to work.

Result 1: Labor provision responds to a decrease, but not to an increase, in the income tax rate.

Result 2: A reduction in the income tax rate increases labor supply, consistent with a substitution effect. We find no evidence of labor supply adjustments in response to tax increases.

	Diff-in-Diff – Labor Supply					
	<i>Reference: Prog,Prog</i>				<i>Ref: Flat25,Prog</i>	<i>Ref: Prog,Flat50</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Post Reform	-0.007 (0.006)	-0.007 (0.006)	-0.007 (0.006)	-0.007 (0.006)	-0.029* (0.012)	0.021 (0.015)
Prog,Flat25	-0.052* (0.022)				-0.034 (0.028)	
Prog,Flat50		-0.058** (0.021)				
Flat25,Prog			-0.026 (0.024)			
Flat50,Prog				-0.048 (0.025)		0.016 (0.029)
Post $\times$ Treat	0.083*** (0.009)	0.027 (0.016)	-0.022 (0.013)	0.022 (0.017)	0.106*** (0.014)	-0.005 (0.023)
Constant	0.947*** (0.055)	0.920*** (0.082)	0.950*** (0.067)	0.895*** (0.060)	1.003*** (0.056)	0.901*** (0.074)
Observations	3344	3216	3296	3392	3376	3344
R ²	0.035	0.025	0.044	0.021	0.076	0.009
Controls	✓	✓	✓	✓	✓	✓

Table 5: Regression-DD estimates for reform effects

Notes: OLS estimates. The dependent variable is labor supply (in %). The reference category for Models (1)-(4) is the control group (*Prog,Prog*). The reference category for Model (5) is *Flat25,Prog*, and the reference category for Model (6) is *Prog,Flat50*. Socioeconomic controls are age, female, having obtained at least a bachelor's degree, full-time employment, below median household income, and MTurk experience. Table 9 in Appendix A displays controls and includes further individual characteristics such as risk aversion, loss aversion or understanding. Robust standard errors clustered on the subject level are in parentheses.

*** p<0.001, ** p<0.01, * p<0.05.

Models (5) and (6) assess whether the sequence of tax regimes affects behavior, i.e., whether labor supply responses are symmetric across equivalent reforms. We compare treatments that introduce a flat tax with those that eliminate the same flat tax, holding monetary incentives constant. In these comparisons, an insignificant β_3 implies that the order of regimes does not matter. A significant β_3 , by contrast, would suggest asymmetric, path-dependent responses to reforms. In Model (5), we compare the tax decrease in *Prog,Flat25* to its reverse counterpart *Flat25,Prog*. The positive and significant interaction term ($\beta_3 = 10.6$ percentage points, $p < 0.001$) indicates that labor supply increased more following the tax cut in *Prog,Flat25* than it declined in response to the equivalent tax increase in *Flat25,Prog*. This finding is consistent with asymmetric behavioral responses. In contrast, Model (6) compares the tax-decreasing reform *Flat50,Prog* with the tax-increasing reform *Prog,Flat50*. Here, the interaction term is statistically insignificant, pointing to a symmetric response. Hence, the results offer partial support for H2 that the response is asymmetric.

Result 3: The sequence partly matters for reform responses. Only experiencing a tax decrease in a reform from a progressive to a flat tax regime increases labor supply.

Asymmetric responses may depend on which individuals are affected by the reform. The possibility of increasing after-tax income may have a stronger effect on labor supply than the possibility of keeping the same after-tax income by working less. To investigate this issue, we split the sample in two groups according to pre-reform labor supply below or equal to 20 labor units and above 20 units.

Table 6 reports difference-in-differences estimates that distinguish between participants affected and unaffected by each reform, based on their pre-reform labor supply. In the tax-decreasing treatment *Prog,Flat25*, labor supply increases significantly for both affected (> 20 units) and unaffected (≤ 20 units) individuals, by 4.6 and 8.3 percentage points, respectively (Models 1–2). These results support a substitution effect, indicating that lower taxes lead to more labor. In *Prog,Flat50*, we find no significant changes for either group (Models 3–4), partly in line with our expectations: unaffected individuals show no response, as predicted, but affected individuals also do not increase effort, contrary to the income effect or loss aversion hypothesis.

In *Flat25,Prog*, we observe a 6.2 percentage point decline among affected participants (> 20 units), consistent with a substitution effect from higher taxes (Model 6). Surprisingly, labor supply increases among unaffected participants (Model 5), despite no change in their marginal tax rate, possibly reflecting broader reactions to

the regime change. In *Flat50,Prog*, affected individuals (≤ 20 units) increase labor supply by 11.9 percentage points (Model 7). However, the unaffected group reduces effort by 6.2 points (Model 8), which is not predicted by standard theory.

Overall, the results support H3: individuals affected by the reform respond most strongly. Most effects are consistent with substitution, though changes among unaffected individuals suggest additional behavioral channels may be at play.

	Diff-in-Diff – Labor Supply							
	≤ 20	> 20	≤ 20	> 20	≤ 20	> 20	≤ 20	> 20
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Post Reform	0.005 (0.005)	-0.049** (0.015)	0.005 (0.005)	-0.049** (0.015)	0.005 (0.005)	-0.049** (0.015)	0.005 (0.005)	-0.049** (0.015)
Prog,Flat25	-0.046 (0.025)	-0.003 (0.005)						
Prog,Flat50			-0.059* (0.023)	-0.012* (0.006)				
Flat25,Prog					-0.098** (0.032)	0.001 (0.004)		
Flat50,Prog							-0.139*** (0.035)	-0.003 (0.003)
Post $\times$ Treat	0.083*** (0.009)	0.046** (0.015)	0.028 (0.018)	0.011 (0.023)	0.039* (0.017)	-0.062*** (0.018)	0.119*** (0.025)	-0.062*** (0.017)
Constant	0.939*** (0.065)	1.002*** (0.014)	0.878*** (0.096)	1.011*** (0.021)	0.959*** (0.090)	0.955*** (0.021)	0.885*** (0.079)	1.000*** (0.020)
Observations	2786	558	2592	624	2156	1140	2224	1168
R ²	0.041	0.119	0.029	0.089	0.075	0.214	0.068	0.245
Controls	✓	✓	✓	✓	✓	✓	✓	✓

Table 6: Regression-DD estimates by reform affectedness

Notes: OLS estimates. The dependent variable is labor supply (in %). The reference category for all Models is the control group (*Prog,Prog*). For each treatment, we estimate two models in which we restrict the sample to labor supply decisions of either ≤ 20 or > 20 labor units in *T0*. Control variables include age, female, bachelor's degree, full-time employment, below median household income and MTurk experience.

Table 10 in Appendix A displays all controls, adding loss aversion and other variables.

Robust standard errors clustered on the subject level are in parentheses.

*** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$.

Result 4: Labor supply responses to tax policy reform are mostly driven by substitution effects in decisions which are affected by the reform.

4.4 Extensive and intensive margins

In addition to analyzing labor supply as the share of tasks provided relative to the maximum possible, we examine behavioral responses on the extensive and intensive margins. This allows us to assess whether differences in average treatment effects primarily stem from participants reacting to the reform (extensive margin) or from adjustments in labor supply among those who respond (intensive margin).⁶

On the extensive margin, we classify whether a taxpayer i) does not respond to a reform, ii) reduces labor due to the reform, or iii) increases labor due to the reform. For the intensive margin, we focus on how much labor is provided conditional on the taxpayer not changing, reducing or increasing labor supply after the reform.

Figure 4 plots average reform responses for the extensive and intensive margins by treatment. Panel A shows that, in the control group without reform (*Prog, Prog*), 87% of labor supply decisions remain unchanged across periods. In contrast, reform treatments show larger behavioral shifts. In *Prog, Flat25*, nearly half of all decisions (49%) increase labor supply post-reform, the highest across all treatments. This share is lower in *Prog, Flat50* (37%) and drops to 12% and 17% in *Flat25, Prog* and *Flat50, Prog*, respectively. These latter two treatments instead show more reductions in labor supply (34% and 32%). Across all reform treatments, the share of those who do not respond falls to 47–54%, highlighting greater overall responsiveness compared to the baseline. Regression results in Table 11 (Appendix A) confirm these findings.

This pattern helps explain why earlier analyses found significant effects only for *Prog, Flat25*. In this treatment, the extensive margin is tilted toward labor-increasing responses, while in other reforms, increases and reductions are more balanced. As a result, aggregate effects in those treatments may cancel out.

⁶We use the term "extensive margin" to refer to the decision to change labor supply due to the reform. However, it is important to note that we are unable to account for participants' participation in other tasks on MTurk. Therefore, our use of the term "extensive margin" does not refer to the broader decision of whether to work at all, but rather to whether to work on our particular task.

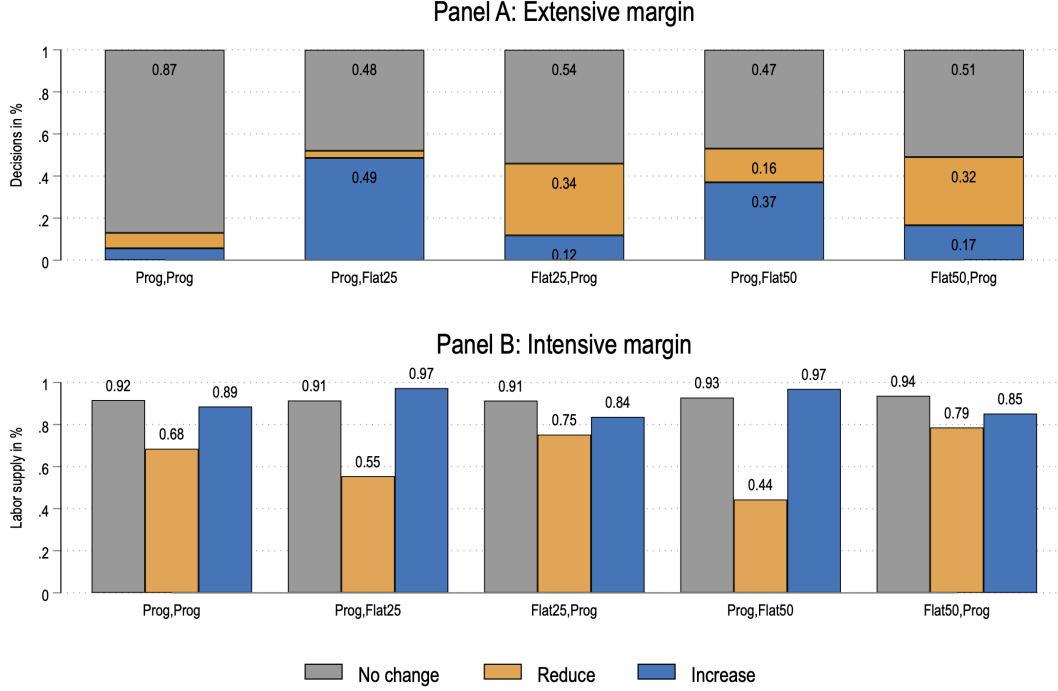


Figure 4: Average reform responses on the extensive and intensive margin by treatment

Notes: Panel A shows stacked bars of average behavioral responses to reforms by treatment. No change means that taxpayers do not change their labor supply between pre-and post-reform periods. Reduce implies that taxpayers choose less labor after the reform, whereas increase means that they choose more labor after the reform. Panel B shows the labor supply (in %), conditional on having reduced or increased labor after the reform or not having changed labor.

Panel B of Figure 4 illustrates average labor supply conditional on whether subjects increased, reduced, or did not change their labor provision after the reform. In *Prog,Flat25* and *Prog,Flat50*, individuals who increased labor supply nearly maximize their effort, solving 97% of available tasks. In the other treatments, although fewer subjects increase their labor supply, those who do still provide on average 85% of possible tasks. Interestingly, intensive responses are more muted in *Flat25,Prog* and *Flat50,Prog*. While increases and reductions in labor supply occur with similar intensity (around 85%), the fraction of reductions is much higher, potentially neutralizing net treatment effects. In contrast, when subjects reduce labor in *Prog,Flat25* and *Prog,Flat50*, their labor supply falls to 55% and 44%, respectively, suggesting that reductions are more severe in these treatments. Regression results including control variables, presented in Table 12 in Appendix A corroborate these findings.

Overall, these findings indicate that the strong and asymmetric effects observed in *Prog,Flat25* stem from a combination of (i) a high share of participants increasing their labor supply (extensive margin) and (ii) near-maximal effort among those who increase (intensive margin). In contrast, for other reforms, mixed responses on both margins seem to offset each other in the aggregate.

4.5 Bunching

To explore whether participants adapt rationally to progressive tax systems, we examine bunching behavior. A large body of literature estimates bunching at discontinuities across various contexts using administrative data (for an early overview, see Kleven, 2016). In our experimental setting, we expect bunching to occur at the threshold of 20 labor units, corresponding to a gross income of 400 cents.⁷

Figure 5 displays pre- and post-reform bunching by treatment. The share of bunching decisions is highest in *Prog,Prog*, with approximately 60%. This aligns with our expectations, as participants face a progressive tax regime in all 16 periods. Bunching slightly increases over time, suggesting learning behavior. However, bunching is far from 100% suggesting incomplete adaption to financial incentives.

While all reforms induce significant changes in bunching behavior, the decline in bunching after switching from a progressive to a flat tax appears particularly pronounced in *Prog,Flat25*. In contrast, the increase in bunching when introducing a progressive tax (e.g., *Flat25,Prog* and *Flat50,Prog*) is also substantial but slightly less pronounced or comparable. Regression results in Table 13 (Appendix A) confirm that all reforms result in significantly different bunching responses compared to the control condition. In line with earlier findings, these patterns suggest some asymmetry in behavioral responses, although this is not consistent across all reforms.

⁷To identify bunching, we exclude decisions where the maximum possible labor supply is at or below 20 labor units (400 cents), since bunching at the threshold is not feasible in these cases. As a result, the sample used in this analysis includes ten observations per subject.

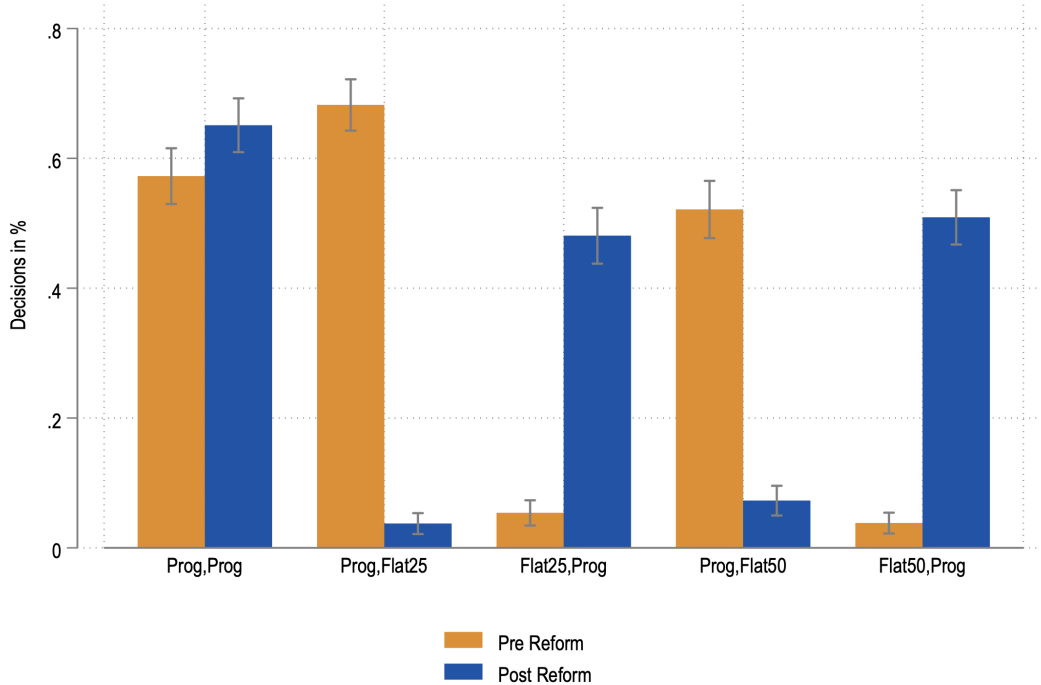


Figure 5: Bunching behavior by treatment

Notes: This figure shows average proportions of bunching decisions with 95% confidence intervals by treatment pre- and post-reform. We display a dummy variable denoting whether a taxpayer chooses 20 tasks in the periods where the maximum number of tasks possible is above 20. Pre-reform periods are periods 1 to 8, and post-reform are periods 9 to 16.

4.6 Mechanisms to explain reform responses

The asymmetry in reform responses raises the questions what mechanisms drives these effects. And what drives the lack of optimal adaptation to progressive tax regimes? One possible explanation is ‘overbunching’: subjects reduce their labor supply below the threshold of 20 units more than would be expected based on financial incentives alone. This behavior occurs in all progressive tax regimes, where around 10% of subjects bunch excessively. In *Prog, Prog* and *Prog, Flat25*, this pattern is less pronounced (3–8%), suggesting more rational adjustment.

Such deviations could stem from behavioral factors. Fairness is a well-documented determinant of tax compliance and labor effort (e.g., Keser et al., 2020; Lévy-Garboua et al., 2009; Hundsdoerfer & Matthaei, 2022). We measure fairness perceptions using a binary indicator indicating whether subjects consider the tax burden as very fair or

somewhat fair.⁸ Overall, 58.4 % of participants perceive the tax burden as fair. While only 50 % find the tax in *Prog,Prog* fair, the share rises to 71 % in *Prog,Flat25*. Other treatments receive significantly lower fairness ratings. These differences align with our results: *Prog,Flat25*, which is perceived as the most fair, leads to the strongest increase in labor supply. In contrast, *Flat25,Prog* is perceived as less fair and elicits no comparable positive response. This suggests that fairness perceptions may amplify or dampen behavioral adjustments to tax reforms.

We also explore whether subjects correctly understand the progressive tax regime. In a post-experimental question, we ask participants to calculate the tax due on an income just above the notch threshold.⁹ Across the sample, 81.2 % respond correctly. Unsurprisingly, understanding is highest in *Prog,Prog* (86.3 %), where subjects experience the progressive regime throughout the experiment. Accuracy is also higher in *Prog,Flat25* than in the other reform treatments. Nevertheless, 13.0% of participants miscalculate the tax, mistakenly interpreting the notch as a kink, believing that only the marginal income above 400 cents is taxed at 50%. This misunderstanding persists despite salient instructions and examples. It may help explain the weaker labor supply responses observed in *Prog,Flat50* and *Flat50,Prog*, where 14.1% and 16.4% of participants, respectively, misperceive the structure of the progressive tax.

These results suggest that behavioral responses to tax reform are shaped not only by incentives but also by fairness perceptions and cognitive limitations.

5 Discussion and Conclusion

Discontinuous changes in the tax burden are a common feature of real-world progressive tax systems. In this study, we use an incentivized online labor-market experiment with 522 participants to examine how individuals adjust their labor provision in response to tax reforms that introduce or remove such discontinuities. Our findings offer several novel insights into the behavioral responses to tax reform.

Most importantly, our results point to a central insight: for tax reforms to influence labor supply, individuals need not only be affected by the reform, but affected in a way that strengthens their financial incentives to work. We find that labor

⁸The question reads: “If you think about choosing an income in the experiment, would you say that the tax payment was fair or unfair?” on a 5-point Likert scale.

⁹Question: “Suppose you chose to earn an income of 420 cents. The tax rate is 25 % for incomes equal to or below 400 cents. The tax rate is 50 % on the entire income if the income exceeds 400 cents. What would be the tax payment? [105 cents, 110 cents, 210 cents].”

supply increases only when a progressive regime is replaced by a flat tax system and the reform lowers the marginal tax rate for individuals who had previously adjusted their labor supply to a tax notch. Specifically, this effect is concentrated among those directly affected by the reform, i.e., those whose pre-reform labor provision was at or just above the threshold of the progressive regime. By contrast, individuals whose tax burden increases mostly do not adjust their behavior. This asymmetry suggests that labor supply responses to tax reforms are selective and path-dependent: reforms must (i) reduce the marginal tax rate, and (ii) follow from a regime that previously discouraged work.

One limitation of our study is the stylized nature of the experimental setting. As with most laboratory studies aimed at informing policy, our design follows the principle of parallelism (Smith, 1982): it replicates the essential features of real-world decision-making without reproducing the full institutional complexity (List, 2020). Our primary objective is to isolate how individuals adjust their labor supply in response to changes in after-tax income. We implement this through per-unit payment reductions framed explicitly as taxes, a common approach in experimental labor supply research (Choo et al., 2016). To reinforce the salience of the tax context, we use tax-related terminology throughout the experiment, guiding participants to interpret earnings reductions as taxation (Torgler, 2002). While the setting omits institutional elements such as filing procedures or withholding, the core incentive structure mirrors real-world income taxation. We thus believe the experiment provides a level of abstraction that enables internally valid and policy-relevant insights.

A related concern is whether participants interpret the tax framing as an institutionally meaningful concept or merely as a reduction in disposable income. While we explicitly inform them that they “will have to pay taxes on their income”, we clarify that these taxes apply only within the experimental setting and do not affect real-world tax obligations. Despite this abstraction, participants’ behavior indicates that they perceive the incentives as intended: in treatments without tax reforms, labor supply remains stable, whereas in reform conditions, participants respond systematically to tax rates and discontinuities. To strengthen the credibility of this interpretation, we adopt best practices for online experiments. These include real-effort tasks familiar to MTurk workers (Horton et al., 2011; Doerrenberg et al., 2023), fair compensation (Hara et al., 2018; Aguinis et al., 2021), and data quality checks, including comprehension questions. These safeguards enhance confidence that participants understand and engage with the tax treatment in a meaningful way.

In sum, our findings underscore that the effectiveness of tax reforms hinges not only on their economic design but also on how they are perceived and experienced by individuals. Reforms produce asymmetric and selective effects that diverge from standard theoretical predictions. Recognizing this, policymakers aiming to influence labor supply through tax policy must account for both institutional structures and the behavioral mechanisms that shape how reforms are understood and acted upon.

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A Additional analyses

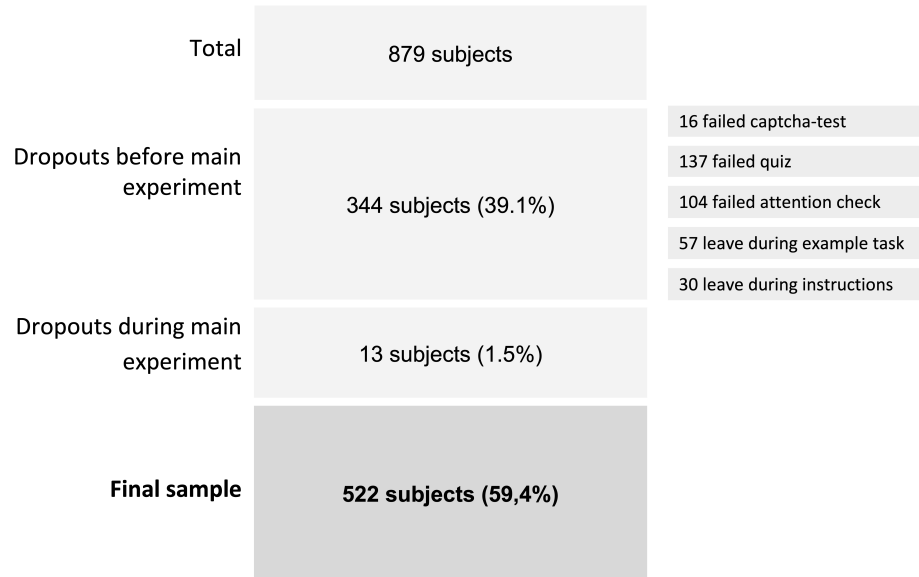


Figure 6: Dropouts at different stages of the experiment

	Probit (ME) – Dropouts
Age	-0.00225 (-1.80)
Female	0.00417 (0.12)
At Least Bachelor’s Degree	0.105** (2.98)
Full-time Employment	-0.0407 (-1.16)
Below Median Income	-0.0153 (-0.42)
MTurk Experience	0.000365 (0.25)
Observations	842

Table 7: Attrition analysis

Notes: The dependent variable is a dummy variable indicating whether an individual dropped out of the experiment. Independent variables are sociodemographic characteristics surveyed before the experiment. Note that this analysis does not include observations from individuals that dropped out before answering the sociodemographic questionnaire. Coefficients are marginal effects; standard errors are in parentheses.

*** $p < 0.001$, ** $p < 0.01$, and * $p < 0.05$.

	Prog,Prog	Prog,Flat25	Flat25,Prog	Prog,Flat50	Flat50,Prog	Total
Age	42.92 (10.41)	40.96 (13.06)	43.46 (13.73)	40.40 (12.24)	42.93 (13.75)	42.15 (12.74)
Female	0.63 (0.49)	0.54 (0.50)	0.62 (0.49)	0.58 (0.50)	0.53 (0.50)	0.58 (0.49)
At Least Bachelor's Degree	0.65 (0.48)	0.60 (0.49)	0.52 (0.50)	0.62 (0.49)	0.61 (0.49)	0.60 (0.49)
Full-time Employment	0.50 (0.50)	0.45 (0.50)	0.45 (0.50)	0.55 (0.50)	0.51 (0.50)	0.49 (0.50)
Below Median Income	0.56 (0.50)	0.52 (0.50)	0.68 (0.47)	0.60 (0.49)	0.60 (0.49)	0.59 (0.49)
MTurk Experience	14.29 (11.16)	13.99 (10.57)	14.26 (11.70)	13.28 (12.10)	12.62 (11.43)	13.68 (11.37)

Table 8: Sociodemographic characteristics by treatment

Notes: Standard deviations in parentheses. Age in years, MTurk experience in hours, the other variables as dummies.

	Diff-in-Diff – Labor Supply					
	(1)	(2)	(3)	(4)	(5)	(6)
Post Reform	-0.007 (0.006)	-0.007 (0.006)	-0.007 (0.006)	-0.007 (0.006)	-0.029* (0.012)	0.021 (0.016)
Prog,Flat25	-0.048* (0.019)				-0.032 (0.028)	
Prog,Flat50		-0.062** (0.021)				
Flat25,Prog			-0.027 (0.023)			
Flat50,Prog				-0.045 (0.025)		0.016 (0.029)
Post × Treat	0.083*** (0.009)	0.027 (0.016)	-0.022 (0.013)	0.022 (0.017)	0.106*** (0.014)	-0.005 (0.023)
Age	-0.001 (0.001)	-0.000 (0.001)	-0.002 (0.001)	-0.000 (0.001)	-0.004** (0.001)	-0.001 (0.001)
Female	-0.015 (0.021)	-0.021 (0.027)	-0.003 (0.022)	0.006 (0.021)	0.020 (0.028)	0.005 (0.031)
Bachelor's Degree	0.023 (0.023)	0.017 (0.028)	0.043 (0.026)	-0.014 (0.025)	0.056* (0.027)	0.002 (0.032)
Full-time Employed	0.015 (0.023)	-0.023 (0.027)	-0.015 (0.028)	0.040 (0.025)	-0.028 (0.028)	-0.020 (0.032)
Below Median Income	0.013 (0.023)	-0.021 (0.026)	0.061* (0.028)	0.026 (0.025)	0.038 (0.028)	-0.015 (0.028)
MTurk Experience	-0.000 (0.001)	0.001 (0.001)	-0.000 (0.001)	-0.001 (0.001)	0.000 (0.001)	0.000 (0.001)
Regime Fair	-0.009 (0.019)	0.011 (0.024)	0.022 (0.022)	0.010 (0.021)	-0.008 (0.022)	-0.010 (0.026)
Task Easy	-0.028 (0.022)	-0.016 (0.025)	0.001 (0.025)	-0.010 (0.025)	-0.020 (0.030)	-0.015 (0.034)
Tax Understood	0.074 (0.049)	0.003 (0.036)	0.030 (0.039)	0.046 (0.037)	0.077 (0.047)	0.048 (0.039)
Financially Literate	0.030 (0.024)	-0.013 (0.026)	0.027 (0.025)	-0.000 (0.023)	0.054* (0.024)	-0.022 (0.029)
Risk Averse	-0.037 (0.020)	0.028 (0.024)	-0.006 (0.025)	0.008 (0.022)	-0.050 (0.027)	0.026 (0.031)
Loss Averse	-0.002 (0.027)	0.021 (0.030)	-0.016 (0.024)	0.012 (0.024)	-0.011 (0.030)	0.039 (0.034)
Tax Honest	0.061 (0.045)	-0.033 (0.034)	-0.023 (0.029)	0.005 (0.027)	0.067 (0.051)	-0.020 (0.034)
Conservative	-0.005 (0.021)	-0.021 (0.025)	0.001 (0.023)	-0.006 (0.024)	-0.003 (0.025)	-0.010 (0.032)
Constant	0.853*** (0.094)	0.939*** (0.088)	0.925*** (0.079)	0.836*** (0.074)	0.873*** (0.096)	0.865*** (0.081)
Observations	3344	3216	3296	3392	3376	3344
R ²	0.081	0.038	0.054	0.030	0.126	0.023
Controls	✓	✓	✓	✓		

Table 9: Regression-DD estimates for reform effects with controls

Notes: The reference category for Models (1)-(4) is the control condition. The reference category for Model (5) is *Flat25,Prog*, and for Model (6) it is *Prog,Flat50*. Robust standard errors clustered on the subject level are in parentheses.

*** p<0.001, ** p<0.01, * p<0.05.

	Diff-in-Diff – Labor Supply							
	≤ 20	> 20	≤ 20	> 20	≤ 20	> 20	≤ 20	> 20
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Post Reform	0.005 (0.005)	-0.049** (0.015)	0.005 (0.005)	-0.049** (0.015)	0.005 (0.005)	-0.049** (0.015)	0.005 (0.005)	-0.049** (0.015)
Prog,Flat25	-0.036 (0.021)	-0.007 (0.007)						
Prog,Flat50			-0.063** (0.023)	-0.013 (0.007)				
Flat25,Prog					-0.096** (0.032)	0.001 (0.006)		
Flat50,Prog							-0.130*** (0.037)	-0.004 (0.004)
Post $\times$ Treat	0.083*** (0.009)	0.046** (0.015)	0.028 (0.018)	0.011 (0.023)	0.039* (0.017)	-0.062*** (0.018)	0.119*** (0.025)	-0.062*** (0.017)
Age	-0.002 (0.001)	0.000 (0.000)	-0.000 (0.002)	0.001* (0.000)	-0.003 (0.002)	0.000 (0.000)	-0.001 (0.001)	0.000 (0.000)
Female	-0.002 (0.023)	-0.016 (0.009)	-0.010 (0.031)	-0.021 (0.014)	0.001 (0.029)	-0.007 (0.008)	0.015 (0.027)	-0.007 (0.008)
At Least Bachelor's Degree	0.024 (0.023)	-0.026* (0.013)	0.032 (0.031)	-0.018 (0.014)	0.050 (0.032)	0.009 (0.010)	-0.018 (0.030)	-0.012 (0.011)
Full-time Employed	0.009 (0.024)	0.018 (0.012)	-0.027 (0.031)	-0.014 (0.013)	-0.026 (0.034)	0.007 (0.009)	0.049 (0.031)	0.002 (0.009)
Below Median Income	0.007 (0.025)	-0.011 (0.010)	-0.024 (0.028)	-0.013 (0.014)	0.065 (0.036)	0.014 (0.010)	0.022 (0.032)	-0.002 (0.009)
MTurk Experience	-0.000 (0.001)	-0.000 (0.000)	0.001 (0.001)	-0.000 (0.000)	-0.000 (0.001)	0.000 (0.000)	-0.001 (0.001)	-0.001 (0.000)
Regime Fair	-0.013 (0.020)	0.010 (0.011)	0.011 (0.028)	0.000 (0.012)	0.021 (0.028)	0.015 (0.008)	0.014 (0.028)	0.005 (0.008)
Task Easy	-0.036 (0.025)	-0.010 (0.008)	-0.019 (0.029)	0.008 (0.017)	0.006 (0.033)	-0.013 (0.008)	-0.009 (0.033)	-0.004 (0.008)
Tax Understood	0.094 (0.054)	-0.008 (0.010)	0.013 (0.041)	-0.005 (0.014)	0.041 (0.051)	-0.012 (0.010)	0.064 (0.047)	-0.008 (0.010)
Financially Literate	0.048 (0.028)	0.010 (0.010)	-0.003 (0.032)	0.010 (0.013)	0.045 (0.036)	-0.000 (0.009)	0.008 (0.031)	-0.005 (0.009)
Risk Averse	-0.043 (0.022)	-0.001 (0.009)	0.030 (0.028)	-0.008 (0.012)	-0.010 (0.031)	0.001 (0.009)	0.005 (0.027)	0.004 (0.008)
Loss Averse	0.015 (0.030)	0.009 (0.012)	0.051 (0.036)	0.000 (0.015)	-0.017 (0.031)	0.008 (0.010)	0.024 (0.029)	0.010 (0.011)
Tax Honest	0.096 (0.055)	-0.000 (0.010)	-0.031 (0.043)	-0.008 (0.014)	-0.032 (0.037)	0.008 (0.012)	0.006 (0.035)	0.003 (0.010)
Conservative	-0.001 (0.023)	-0.006 (0.011)	-0.029 (0.028)	-0.006 (0.012)	-0.008 (0.028)	0.007 (0.008)	-0.013 (0.030)	-0.005 (0.008)
Constant	0.785*** (0.108)	1.003*** (0.022)	0.861*** (0.106)	1.017*** (0.030)	0.919*** (0.101)	0.955*** (0.025)	0.794*** (0.101)	1.001*** (0.025)
Observations	2786	558	2592	624	2156	1140	2224	1168
R ²	0.116	0.132	0.050	0.096	0.089	0.224	0.083	0.249

Table 10: Regression-DD estimates for reform effect by reform affectedness with controls

Notes: The reference category is the control group *Prog,Prog*. For each treatment, we estimate two models in which we restrict the sample to labor supply decisions of either ≤ 20 or > 20 labor units in T_0 . Robust standard errors clustered on the subject level are in parentheses.

*** p<0.001, ** p<0.01, * p<0.05.

	Extensive margin (ME) – Labor supply											
	No change				Reduce				Increase			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Prog,Flat25	-0.361*** (0.024)				-0.034 (0.019)				0.395*** (0.022)			
Prog,Flat50		-0.364*** (0.025)				0.080** (0.031)				0.310*** (0.026)		
Flat25,Prog			-0.309*** (0.031)				0.264*** (0.028)				0.056* (0.025)	
Flat50,Prog				-0.343*** (0.029)				0.258*** (0.029)				0.111*** (0.030)
Observations	1672	1608	1648	1696	1672	1608	1648	1696	1672	1608	1648	1696
Pseudo R^2	0.148	0.164	0.119	0.130	0.043	0.064	0.131	0.112	0.225	0.164	0.042	0.061
Controls	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Table 11: Probit estimates for extensive margin reform responses

Notes: The reference category for all Models is *Prog,Prog*. Robust standard errors clustered on the subject level are in parentheses.

*** p<0.001, ** p<0.01, * p<0.05.

	Intensive margin – Labor supply											
	No change				Reduce				Increase			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Prog,Flat25	-0.004 (0.033)				-0.108 (0.099)				0.078** (0.026)			
Prog,Flat50		0.018 (0.025)				-0.234*** (0.063)				0.086*** (0.025)		
Flat25,Prog			-0.008 (0.027)				0.058 (0.059)				-0.050 (0.036)	
Flat50,Prog				0.019 (0.024)				0.091 (0.049)				-0.046 (0.041)
Observations	1121	1082	1160	1159	89	187	344	345	462	339	144	192
R ²	0.014	0.023	0.047	0.022	0.194	0.267	0.080	0.051	0.086	0.089	0.069	0.168
Controls	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Table 12: OLS estimates for intensive margin reform responses

Notes: The reference category for all Models is *Prog,Prog*. Robust standard errors clustered on the subject level are in parentheses.

*** p<0.001, ** p<0.01, * p<0.05.

	Diff-in-diff – Labor Supply			
	(1)	(2)	(3)	(4)
Post Reform	0.049*** (0.014)	0.049*** (0.014)	0.049*** (0.014)	0.049*** (0.014)
Prog,Flat25	0.066 (0.037)			
Prog,Flat50		-0.028 (0.038)		
Flat25,Prog			-0.320*** (0.030)	
Flat50,Prog				-0.331*** (0.028)
Post $\times$ Treat	-0.452*** (0.030)	-0.329*** (0.031)	0.218*** (0.031)	0.245*** (0.030)
Constant	0.436*** (0.072)	0.372*** (0.078)	0.536*** (0.070)	0.430*** (0.076)
Observations	3344	3216	3296	3392
R ²	0.134	0.105	0.118	0.120
Controls	✓	✓	✓	✓

Table 13: Regression-DD estimates for bunching responses

Notes: The reference category for all Models is *Prog,Prog*. Robust standard errors clustered on the subject level are in parentheses.

*** p<0.001, ** p<0.01, * p<0.05.

B Instructions and screens

Short survey on individual decision-making(~ 20 minutes)

Description: You will answer two brief questionnaires and make decisions. You will receive a bonus up to \$ 4.50 depending on your decisions in addition to a flat payment of \$1 for completing the study. Participation should take about 20 minutes. Please note that you can only click on the link once and that the Internet Explorer/ Microsoft Edge is not supported.

Instructions

Go to [Link](#) and follow the study instructions. Note the secret key found at the end of the study which you will need to complete the HIT.

* 1. Enter the **SECRET KEY** (not your Worker ID) found at the end of the linked survey. Do not add any comment or text here

Submit

Powered by CloudResearch.com

Figure 7: Description of the human intelligence task (HIT) with the link to the experiment

Before you proceed to the survey, please complete the captcha below.

☐ I'm not a robot


reCAPTCHA
[Privacy](#) - [Terms](#)

Please indicate your Mturk ID, so that we can pay you *after completion of this study*.

Continue

Figure 8: Welcome screen with a captcha

Welcome

You will now take part in an academic research study from the University of Freiburg, Germany. With your participation you will make an important contribution to research. The study is about **individuals' behavior towards taxation**. You will participate in a demographic survey (Part I), a decision-making experiment (Part II), and a follow-up survey (Part III). Participation should take about **20 minutes**.

It is very important that you **read the instructions carefully** and that you complete the **entire study**, once you have started. This study will contain attention checks to ensure that you fully read the instructions. If you do not pass the attention checks, you will be excluded from the experiment.

For completing the study, you will receive **\$ 1**. Additionally, you can earn up to **\$ 4.50** depending on your decisions. Only after you completed the whole study, you will receive the MTurk code in order to receive your payment. Additional payments will be distributed as a bonus payment within three days upon completion of the study.

Confidentiality: You will remain **anonymous** throughout the study. Results may include summary data, but you will never be identified. All data collected are for **research purposes** only. By continuing, you consent to the publication of study results.

Participants' rights: **Your participation is voluntary**. You may stop participating at any time by closing the browser window or the program to withdraw from the study. If you stop participating in this study before completing it and you do not want your data to be used, please kindly contact us at taxresearch@eucken.de.

Please also contact us at taxresearch@eucken.de if you have any questions.

By continuing, you indicate that you are **at least 18 years old**, have **read and understood the above**, and you voluntarily **agree to participate** in this study.

Continue

Figure 9: Introduction with participant's rights and consent

Survey (Part I)

Please answer the following questions about yourself.

Please indicate your gender

Please indicate your age

What is your highest educational degree?

What is your current employment status?

Figure 10: Survey Ia

How high was your total household income, before taxes, last year (2021)?

How many hours per week do you spend working online on MTurk or similar platforms?

Now, please imagine the following situation. You can choose between different payoffs which are related to different probabilities of winning. Option A earns a payoff of \$1.90 with a probability of 20%. Option B earns a payoff of \$1.80 with a probability of 30%. Option C earns a payoff of \$1.70 with a probability of 40% etc. We are interested in whether you take the time to read the instructions; if not, some results may not tell us much about decision-making in the real world. To show that you have read the instructions, please check the third option below.

Please choose a combination of payoff and probability:

Option A: Probability 20% and \$1.90
Option B: Probability 30% and \$1.80
Option C: Probability 40% and \$1.70
Option D: Probability 50% and \$1.60
Option E: Probability 60% and \$1.50
Option F: Probability 70% and \$1.40

Figure 11: Survey Ib

Instructions to the Decision-Making Experiment (Part II)

You will now participate in a decision-making experiment on behavior towards taxation. This experiment has a decision and a working stage:

The **decision stage** consists of 16 rounds. In each round you will **choose how much income you want to earn**. The income determines the number of tasks you have to complete later. The task is to transcribe words.

You will have to pay taxes on your income. **The tax rate may, but does not have to, vary from round to round**. Each of the 16 rounds is independent of each other.

In each round, you are first informed of the tax rate in this round and the income that you can earn. The income can be up to 600 cents. The higher the income you choose, the more tasks you will have to complete. The lower the income, the earlier you can finish the experiment. 20 cents correspond to 1 task.

After you have entered an income, the number of tasks and the due tax payment will be automatically calculated and shown on the screen. The tax payment equals the chosen income multiplied by the tax rate. After each round, you will receive information about your payoff. Your payoff is the chosen income minus the tax payment.

In the **working stage**, you will have to complete the number of tasks to earn the income that you indicated in one of the previous 16 rounds. This round will be randomly selected. It also determines how much your additional earnings from the experiment will be.

On the following screen, we will explain the working stage in more detail.

Continue

Figure 12: Instructions

Working Stage

After the 16 rounds in the decision stage, you will have to work on the income you chose in one randomly selected round.

Your task is to transcribe text sequences. Each text sequence consists of 10 letters, see the example below. The number of tasks that you will work on depends on your decisions in the 16 rounds and on chance. A sequence is counted when you correctly typed in every letter.

Please transcribe one text sequence below to familiarize yourself with the task.

A "Continue" button will appear once you have correctly typed in one sequence.

Correct Text Sequences: 0

Text Sequence:

acyrgxrcqm

Answer:

Submit

Figure 13: Example task

Control Questions

Please answer the following questions to verify that you understood the instructions. You have two attempts. Afterwards, you will be excluded from the experiment.

You may also review the instructions below.

Instructions for Decision Stages

- Income up to 600 cents varies between the 16 rounds
- Tax rates may change between rounds, but do not have to
- You will choose an income, which determines the number of tasks you work on later
- 20 cents correspond to 1 task

Each round ends with information about what your payoff from that round would be.

Instructions for Working Stage

You will have to complete the number of tasks to earn the income that you indicated in one of the 16 rounds. The round will be randomly selected. The chosen income in that round determines how much your additional earnings from this experiment will be.

Figure 14: Control questions

Suppose you choose an income of 600 cents. How many text sequences do you need to complete in the working stage?

1

30

60

100

What does the additional payment for this decision-making experiment depend on?

It depends on the income I choose in each round.

It depends on the tax rate.

It depends on the round that is selected by chance.

All of the above.

Continue

Attempts left to answer the control questions: 2

Figure 15: Control questions

Round 1 of 16

In this round, the tax rate is 25% for incomes equal to or below 400 cents. The tax rate is 50% on the entire income if the income exceeds 400 cents. For example, for an income of 420 cents, your tax payment would be 210 cents.

You can earn an income of **480 cents**.

Please indicate whether you want to work for 480 cents or another income:

Income (in cents):

Number of text sequences to earn this chosen income:

Tax payment (in cents):

Continue

Figure 16: Decision-making stage with treatment sentence (example for progressive tax regime)

Summary of Round 1 of 16

Chosen Income: 400 cents

Tax Payment: 100 cents

If this round is chosen, your payoff equals 300 cents and you have to work on 20 text sequences.

Continue

Figure 17: Summary after the decision-making stage

Working Stage

Round 2 was randomly chosen to determine how much you need to work.

In round 2, you chose an income of 0 cents. To earn this income, you need to correctly transcribe 0 text sequences. When you reached the required number of text sequences, the "Continue" button will appear.

Correct Text Sequences: 0

Text Sequence:

nsmjqmgeip

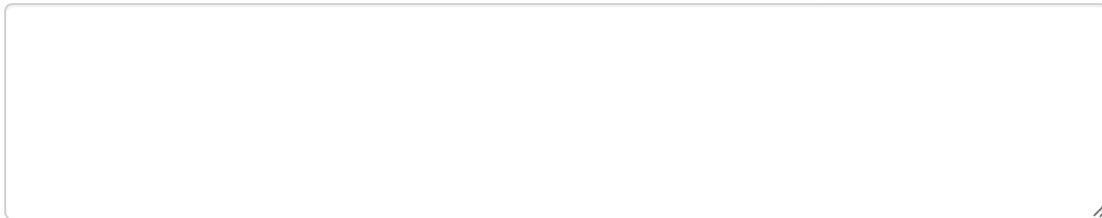
Continue

Figure 18: Working stage

Survey (Part III)

In this third and last part of this HIT, we would like to know more about your decisions and attitudes.

Please describe how your income was taxed in the different rounds in your own words.



If you think about choosing an income in the experiment, would you say that the tax payment was fair or unfair?

Please indicate this on a scale from 1 to 5, where 1 means "not fair at all" and 5 means "very fair".

1 = Not fair at all  5 = Very fair

How did you feel about the transcription task that you worked on?

Please indicate this on a scale from 1 to 5, where 1 means "very tedious" and 5 means "not tedious at all".

1 = Very tedious  5 = Not tedious at all

Figure 19: Survey IIa

Suppose you chose to earn an income of 420 cents. The tax rate is 25% for incomes equal to or below 400 cents. The tax rate is 50% on the entire income if the income exceeds 400 cents.

What would be the tax payment?

105 cents
110 cents
210 cents

Suppose you could earn 40 cents per task. The tax rate is 50% for all incomes. You can choose up to 30 tasks.

Please indicate the number of tasks you would work on by moving the slider below.

-

tasks

+

Figure 20: Survey IIb

For the next question, please imagine you are offered two options:

Option 1: Have \$1 added to your compensation for this study.

Option 2: Have \$2 donated to a charity of your choice.

Which of these options would you choose?

Option 1

Option 2

In the following table you find a list of coin tosses with different payoffs. The payoffs differ in how much you lose if the coin turns up heads. For each row, please indicate whether you would toss the coin or not.

1. If the coin turns up heads, then you lose \$2; if the coin turns up tails, you win \$6.

Accept

Reject

2. If the coin turns up heads, then you lose \$3; if the coin turns up tails, you win \$6.

Accept

Reject

Figure 21: Survey IIc

3. If the coin turns up heads, then you lose \$4; if the coin turns up tails, you win \$6.

Accept

Reject

4. If the coin turns up heads, then you lose \$5; if the coin turns up tails, you win \$6.

Accept

Reject

5. If the coin turns up heads, then you lose \$6; if the coin turns up tails, you win \$6.

Accept

Reject

6. If the coin turns up heads, then you lose \$7; if the coin turns up tails, you win \$6.

Accept

Reject

Figure 22: Survey IId

Suppose you had \$100 in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

More than \$102.

Exactly \$102.

Less than \$102.

Do not know.

Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?

More than today.

Exactly the same as today.

Less than today.

Do not know.

Figure 23: Survey IIe

Do you think that the following statement is true or false? "Buying a single company stock usually provides a safer return than a stock mutual fund."

True.

False.

Do not know.

Have you ever submitted a tax declaration?

Yes

No

Please indicate whether you think it can always be justified, never be justified, or something in between on a scale from 1 (= never justifiable) to 10 (= always justifiable) to cheat on taxes if you have a chance.

1 = Never justifiable



10 = Always justifiable

Figure 24: Survey II

Please indicate, in general, how willing or unwilling you are to take risks.

Please use a scale from 1 to 10, where 1 means you are "completely unwilling to take risks" and 10 means you are "very willing to take risks".

1 = Completely unwilling to take risks  10 = Very willing to take risks

In political matters, people talk of "the left" and "the right." How would you place your views on this scale, generally speaking?

Please use a scale from 1 to 10, where 1 means "left" and 10 means "right".

1 = Left  10 = Right

As a result of the Covid-19 pandemic, did you...?

☐ Lose all income from your job or business

☐ Earn some income but less than usual

☐ Earn about the same income as usual

☐ Earn more income than usual

Do you have any comments concerning this study?

Figure 25: Survey IIg

Thank you for your participation!

For your payoff, round 2 was randomly chosen!

Your payoff in round 2 is 0 cents.

In total, you receive $\$1 + \$0.00 = \$1.00$.

Please note this number for your payoff:

1000105

Thank you for your participation!

Figure 26: Final stage with payoffs

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