

Intertemporal Labor Supply Substitution?

Evidence from the Swiss Income Tax Holidays*

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Abstract

This paper estimates the intertemporal labor supply (Frisch) elasticity of substitution exploiting an unusual tax policy change in Switzerland. In the late 1990s, Switzerland switched from an income tax system where current taxes were based on the previous two years' income to a standard annual pay-as-you go system. This transition created a two-year long, salient, and well advertised tax holiday. This change occurred both for the federal and local income taxes. Swiss cantons switched to the new regime at different points in time during the 1997–2003 period. Exploiting this variation in timing as well as heterogeneity in tax burdens across geographical areas, and using population-wide administrative social security earnings data matched with census data, we identify the Frisch elasticity. We find significant but quantitatively small responses of earnings with a Frisch elasticity of .05 overall. Some groups, such as high wage income earners and especially the self-employed display larger responses with Frisch elasticities of .1 and .27.

Keywords: Tax holidays, Labor supply, Frisch elasticity, Intertemporal labor supply elasticity, Income shifting, Income taxes, Tax avoidance

JEL: E65, H24, H26, J22

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1 Introduction

The intertemporal labor supply elasticity of substitution—traditionally called the Frisch elasticity—measures how much more people are willing to work when their wage increases temporarily. This elasticity plays a key role in amplifying the effects of technological shocks on labor supply and economic activity in calibrated macro real business cycle models. The intuition is the following. Suppose there is temporary negative technological shock which reduces productivity (relative to trend). This shock reduces wages temporarily. If the Frisch elasticity is large, relatively modest technological shocks can translate into large labor supply responses and hence explain why downturns are accompanied by large falls in employment. Indeed, calibrated macro real business cycle models require a very large Frisch elasticity in excess of one to generate realistic quantitative predictions (see e.g., [King and Rebelo, 1999](#)).

However, identifying the Frisch elasticity is empirically challenging as it requires exogenous time variation in net wage rates unrelated to labor supply or human capital accumulation decisions. As a result, recent studies have often used specific occupations—such as taxi drivers—where exogenous variation in wages is more plausible (see [Reichling and Whalen, 2012](#); [Chetty et al., 2013](#), for recent surveys and discussions). Using tax variation has long been a traditional source of exogenous variation to estimate *static* labor supply elasticities (see e.g., [Keane, 2011](#), for a recent survey). However, tax variation typically does not provide temporary variation needed to estimate the Frisch elasticity.¹ In this paper, we break new ground on this important issue by exploiting an unusual tax policy reform in Switzerland that generated large, salient, and well advertised one- or two-year long income tax holidays staggered across the 26 Swiss cantons, which are the member states of the Swiss Confederation. The tax holiday, which exempts earnings from income taxation temporarily in the local economy (the cantonal level), is close to being the ideal experiment to estimate the Frisch elasticity. This has two additional advantages relative to previous work. First, our estimates are representative of the total population and do not focus on very specific—and potentially more elastic—occupations (such as taxi drivers). Second, we can identify the Frisch on an annual frequency which is the relevant time frame for business cycle frequency (occupation-specific studies use much higher—often daily—frequencies).

In the late 1990s and early 2000s, Switzerland switched from an income tax system where current taxes were based on the previous two years' income to a standard annual pay-as-you go system. For example, in the old system, income taxes due in years 1997

¹An important exception is [Bianchi et al. \(2001\)](#) who use a 1-year income tax holiday in Iceland. We discuss the link between this study and our paper in detail below.

and 1998 were both based on the average income over the two preceding years 1995 and 1996. This system of owing taxes based on prior year incomes was common in income tax systems before pay-as-you earn withholding systems were put in place.² In the new system, taxes on income earned in year t are collected during year t with a tax return filed in year $t + 1$ and an adjustment made through a tax refund or an extra tax payment if taxes already collected are not exactly equal to taxes owed.³ This is the system now used in virtually all advanced economies today.

However, the transition did not take place at the same time in all cantons. Cantons transitioned in three waves in 1999, 2001, and 2003. Two cantons transitioned early in 1999, most cantons transitioned in 2001, and three cantons transitioned late in 2003. The transition happened for federal, cantonal, and municipal income taxes. To illustrate the mechanism, take the example of the canton of Thurgau as depicted on Figure 1, which transitioned in 1999. In 1997 and 1998, income taxes (at the federal, cantonal, and municipal levels) were paid based on the average of 1995 and 1996 incomes. In 1999, income taxes (at the federal, cantonal, and municipal levels) were based solely on 1999 incomes. In 2000, income taxes were based solely on 2000 incomes, etc. To avoid double payment of taxes in 1999 and 2000, no tax was ever assessed on 1997 and 1998 incomes (which would have been paid in 1999 and 2000 under the old system). Therefore, this transition created a two-year long income tax holiday for years 1997 and 1998. Hence, cantons transitioning in 1999 had a tax holiday for years 1997-1998; cantons transitioning in 2001 had a tax holiday for years 1999-2000; and cantons transitioning in 2003 had a tax holiday for years 2001-2002. An extra source of variation comes from the fact that some cantons used an annual system of assessment (instead of biennial) for the cantonal and municipal taxes. For these cantons, the transition generates only a 1-year long tax holiday for local taxes.⁴

Local income taxes (defined as cantonal plus municipal) are very large in Switzerland and account for about 5/6 of total income taxes (with the remaining 1/6 coming from the federal income tax). There is significant variation in the level and progressivity of local income taxes both across cantons but also within cantons as each municipality sets its

²The US transitioned in 1943, the UK transitioned in 1944. France is the last hold-out among advanced economies and is scheduled to transition in 2019. The Swiss system was further particular in that it used an average of two years to compute base income (instead of using a standard annual income base).

³In both the old and the new system, Switzerland does not use withholding at source and individuals are typically required to pay estimated taxes in quarterly installments (as is done in the US for income not subject to tax withholding).

⁴Take the example of Zurich which transitioned in 1999. In 1998, local taxes were based on 1997 incomes. In 1999, local taxes were based on 1999 incomes, so that the tax holiday for local taxes was just for 1998.

own tax level as a percent of the cantonal tax. Therefore, this rich variation in timing and intensity of the tax holiday across localities in Switzerland provides a unique opportunity to identify its effects on individual behavior and estimate the Frisch elasticity. The tax holiday timing was discussed at length in the press well before the transition took place, making it salient to the public, particularly for the last 2 waves of transitioning cantons. Various press articles discussed how working and earning more during the tax holiday (relative to later years) was fiscally advantageous. The tax holiday increased the net-of-tax rate (defined as one minus the marginal tax rate) by about 25–30% on average. Hence, with a Frisch elasticity of one, we should expect a 25–30% increase in earnings.

To carry out our study, we use population-wide social security earnings records matched to 2010 Census data covering a long range of longitudinal annual earnings from 1990 to 2010. These data allow us to obtain precise estimates exploiting fine geographical variation. Our strategy relies on a simple difference-in-differences method where we compare earnings outcomes over time and across localities which transitioned at different times (or had different treatment intensity due to differences in local tax levels). Because we have large data, we obtain smooth and precise time series for a number of earnings outcomes even when restricting the data to specific earnings quantiles or demographic groups. We find that series for different cantons move in a very similar way over time pre- and post-reform giving us confidence that the parallel trend identification assumption holds. The graphical time series evidence shows clearly that spikes in earnings arise during the tax holidays for some sub-groups, and can then be confidently interpreted as the causal effect of the tax holiday. Our analysis is limited to labor income because we do not have data on capital income (as the cantonal tax administrations did not systematically collect data on incomes earned during the tax holidays). Our main analysis focuses on prime age individuals aged 25 to 60 and on intensive labor supply responses. We study responses for the elderly separately as they interact with retirement decisions and the incentives created by the retirement system. We also study certain extensive labor supply responses separately because the old tax system had special rules in case of extensive labor supply responses (durable job entry or exit).

We obtain five main results. First, there is a small aggregate response of wage earnings with an implied Frisch elasticity of .05 for aggregate wage earnings. The responses are concentrated among the top 5% of the wage earnings distribution with a Frisch elasticity around .1 for this group. There is no visible responses below the top 5%. Second, there is a larger response of self-employment earnings that is present at all earnings levels (and not just the top), the Frisch elasticity for self-employment earnings is around .3-.4. Third, effects are actually larger for men than for women and even married women, in

contrast to the standard findings in the labor supply literature. Fourth, most of these responses are visible for the last wave of transitioning cantons with tax holidays in 2001–2002. Responses for earlier transitions such as 1997–1998 or 1999–2000 appear to be much muted. This latter effect might be due to learning as it might take time for the public to understand tax holidays and how to respond to them. Fifth, we can detect no response along the extensive entry margin. This suggests that the Frisch elasticity is also very small along the extensive margin.

This paper is organized as follows. Section 2 reviews the prior empirical literature on the Frisch elasticity. Section 3 describes the reform and the variation we exploit. Section 4 describes the data we use. Section 5 describes our empirical results. Section 6 concludes. The appendix includes more details on the data we use as well as a number of robustness checks that we only mention briefly in the main text.

2 Literature Review

There is a large literature in both micro and macro-economics estimating the Frisch elasticity. Reichling and Whalen (2012) provide a recent survey. The labor economics strand of the literature adopts a micro-approach while the macro economics strand adopts a macro-approach. Chetty et al. (2013) discuss in detail the macro and micro evidence and show that calibration based macro estimates generate much larger elasticities than micro based elasticity estimates along the extensive margin. They also provide estimates of comparable Frisch elasticities along the extensive margin of micro studies (Table 1, Panel B of their paper) that we discuss below.

The macro-economic literature still uses very large Frisch elasticities when calibrating dynamic models of labor supply. While this literature recognizes that the empirically estimated Frisch elasticities along the intensive margin is much smaller, they argue that the elasticity along the extensive margin might be much larger (see e.g., Conesa and Kehoe (2017) for a recent study). Consequently, workhorse New Keynesian dynamic stochastic general equilibrium such as Smets and Wouters (2007) or, more recently, Del Negro et al. (2015) are calibrated using Frisch elasticities exceeding 1.

The vast majority of studies using the micro-approach exploit variation in wages (rather than taxes). They find a range of estimates going from 0 to around 1. However, this wage variation is rarely exogenous and is typically connected with human capital accumulation decisions. For example, a person work little temporarily in order to build up human capital possibly confounding inter-temporal substitution effects. Hence, in this review, we focus on reduced form studies that use quasi-exogeneous sources of identifica-

tion, and hence are closest to our study.⁵

High frequency studies. Some recent studies have used quasi-exogenous and experimental variation in wage rates for specific groups of workers to study intertemporal labor supply decisions. The studies typically look at labor supply at a very high (often *daily*) frequency and are hence less relevant for business cycle analysis than our annual frequency analysis. In the case of taxi drivers, [Camerer et al. \(1997\)](#) find a negative Frisch elasticity which is not consistent with rational intertemporal behavior but could be explained by income targeting on a daily basis. These findings, however, have been challenged by [Farber \(2005, 2015\)](#), who reports positive Frisch elasticities for Taxi drivers between .4 and .8. [Oettinger \(1999\)](#) finds that stadium vendors labor supply is quite responsive to variations in demand. [Fehr and Goette \(2007\)](#) provide randomized variation to wages of cycling messengers and find a sizable Frisch elasticity slightly above one. Similarly, [Stafford \(2015\)](#) and [Giné et al. \(2017\)](#) report Frisch elasticities around one for the daily labor supply of fishermen in Florida and India, respectively, mainly due to a large extensive margin elasticity. By contrast, [Goldberg \(2016\)](#) finds that the weekly labor supply for work on agricultural development projects in Malawi is very inelastic.

Labor demand shock. [Carrington \(1996\)](#) finds fairly large supply side responses to the large positive demand shock created by the construction of the Trans-Alaska pipeline in the 1970s. This supply side response is due to both immigration and increased employment in the local population. The implied Frisch elasticity along the extensive margin is .43.

Retirement programs studies. Retirement programs can generate intertemporal variation in labor supply incentives. [Brown \(2013\)](#) uses a bunching approach and kink variation in benefits by tenure at retirement in the California teach pension system. She estimates a Frisch elasticity along the extensive margin of .18. [Manoli and Weber \(2016\)](#) exploit compelling variation in severance pay discontinuities by tenure in Austria and find significant responses with an implied Frisch elasticity around .25 along the extensive margin.

Tax/welfare reform studies. [Ziliak and Kniesner \(1995\)](#); [Saez \(2003\)](#); [Looney and Singhal \(2006\)](#) use anticipated changes in tax rates associated with changes in tax bracket and family composition to estimate intertemporal labor supply elasticities and find fairly

⁵[Keane \(2011\)](#) provides an extensive review structural estimates of the Frisch elasticity in the labor literature.

large responses, with implied Frisch elasticities in the range .5–1 (along the intensive margin). [Card and Hyslop \(2005\)](#) analyze a randomized experiment providing three-year long subsidies for work to welfare recipients in Canada and find significant responses with an implied Frisch elasticity at 0.38 along the extensive margin. As [Dokko et al. \(2008\)](#) argue, this type of tax or transfer variation mixes up both substitution and income effects, particularly if individuals face credit constraints or are partly myopic in their decision making.

A key advantage of our setting compared to these studies is that the tax holiday is a large and salient change. Furthermore, it does not create an income effect for myopic individuals as income taxes are due every year. Hence, our set-up cleanly identifies substitution effects. Finally, our set-up identifies the impact of a market wide change in wage rates (instead of a purely micro effect), hereby coming closer to the ideal experiment of an economy wide fluctuation in technological change.

Iceland tax holiday study. Closest to our study, [Bianchi et al. \(2001\)](#) exploit the one year tax holiday in Iceland produced by a transition from an income tax based on prior year income to a pay-as-you earn income tax in 1987. [Bianchi et al. \(2001\)](#) report large effects with an implied Frisch elasticity of .42 along the extensive margin. However, it is difficult to disentangle the tax effects from the business cycle effect in this study as the tax holiday corresponded to the peak year of the business cycle. Furthermore, in contrast to Switzerland, the tax holiday in Iceland applied uniformly with no geographical or time variation across the country. As tax holidays in Switzerland happen at different times in different cantons, which can be seen as local economies, our estimates at the cantonal level can recover a macro-level Frisch elasticity and hence are relevant for the macro-literature on the Frisch elasticity.

3 The Tax Holiday Reform

3.1 The Swiss Income Tax System

Individual income taxes in Switzerland are quantitatively large and represent about 1/3 of total tax revenue or about 9% of the Swiss GDP. Income taxes in Switzerland are levied at the federal, cantonal, and municipality level. The federal income tax is set by federal law and is uniform across cantons and represents about 1/6 of total income tax revenue. Local taxes which include cantonal and municipal taxes are very large and

represent about 5/6 of income tax revenue.⁶ Cantonal taxes are set by cantonal law and municipalities simply apply a multiplier to the cantonal tax to determine municipal taxes. The cantons set their income tax schedule freely and municipalities choose their multiplier freely. This creates large geographical variation in tax burdens (conditional on income) both across and within cantons.⁷ The federal tax is more progressive with very low tax rates on low and middle income taxpayers while local taxes often impose significant tax burdens through most of the income distribution. The top marginal tax rate combining all income taxes is typically in the 30-40% range (although it can go as low as the low 20s and go as high as the mid-40s in some municipalities).⁸

Married couples file together and are taxed based on total family income so that secondary earners face significant tax burdens, particularly if the income of the primary earner is high. The income tax base includes both labor and capital income although this study will solely focus on labor income (including wage earnings and self-employment earnings) due to data availability constraints. The cantonal tax administrations are responsible for the collection of the taxes at all three levels and taxpayers only file one tax return for all three taxes.

Old tax system. Prior to the tax reform we are exploiting in this paper, Switzerland applied a biennial retrospective income tax system. For example, taxes paid in years 1997 and 1998 were based on average income in 1995 and 1996. In 1997, a tax return would be filed reporting incomes in 1995 and 1996. From this tax return, tax liability would be determined for both year 1997 and year 1998 (and identical in 1997 and 1998) so that taxpayers only had to file a tax return every second year. Tax payments were typically made in quarterly installments each year. The drawback of this system is that if the economic situation of the taxpayer changes (due to marriage, divorce, job loss, etc.), the tax due might not correspond well with current income.⁹ Indeed, in cases of permanent

⁶These statistics are taken from [OECD \(2016\)](#) and refer to year 1996 which is the year just before the reforms we study take place. Statistics for 2015 (the latest year available) are fairly similar.

⁷Indeed, the Swiss federation comes perhaps closest to the ideal Tiebout model of local public finance with many studies analyzing tax competition and tax induced mobility across municipalities and cantons. [Liebig et al. \(2007\)](#); [Schmidheiny \(2006\)](#); [Brülhart et al. \(2016\)](#); [Martinez \(2016\)](#) study mobility across Swiss Cantons in response to local income or wealth taxes. [Kirchgassner and Pommerehne \(1996\)](#); [Eugster and Parchet \(2018\)](#); [Parchet \(2014\)](#); [Brülhart and Parchet \(2014\)](#) study tax competition in the setting of tax rates by municipalities and cantons.

⁸Appendix Figure [A1](#) depicts the average income tax rate (summing across federal and local income taxes) by municipality for a single taxpayer with an annual income of 100,000 CHF (this is about the 90th percentile of the labor earnings distribution among workers) as of 1999.

⁹A few cantons, including the large canton of Zurich, were actually using an annual period of assessment (instead of biennial) for the cantonal and municipal taxes. In these cantons, incomes earned in year t were taxed in year $t + 1$ and returns had to be filed every year. The federal tax was still biennial in these cantons. One canton, Basel, had always had a standard pay-as-you-earn income tax system for

entry and exit during a tax period, the old system adopted temporary pay-as-you-earn taxation (called *betwixt* assessments) till the end of the period. We will discuss below how this system worked as we will use some of its features in our empirical analysis.

New tax system. In the new system, Switzerland uses a standard pay-as-you-earn annual income tax system whereby incomes earned in year t are taxed in year t through estimated payments. Individuals pay estimated taxes typically in quarterly installments (with some variation across cantons). In contrast to other countries, Switzerland has not adopted tax withholding at source under the new system. The fact that Switzerland does not have tax withholding on earnings makes income taxes quite salient as individuals pay installments directly to the government. After the end of year t , an income tax return is filed in year $t + 1$ which lists all income sources and computes the exact tax. Any difference between the exact tax owed and the taxes already paid during year t generates a tax refund or an extra tax payment. This pay-as-you-earn system is the standard system used for individual income taxation in virtually all advanced economies at the present time.

3.2 Description of the Tax Holiday Transition

Discussions about switching to a modern pay-as-you-earn annual income tax system had taken place since the 1980s in the Swiss government. In December 1990, two federal laws were passed encouraging (but not forcing) cantons to make the transition from the old system to the new system by 2001 and allowing the federal income tax to change alongside with cantonal taxes.¹⁰ However, the cantons were free to adopt the new system whenever they wanted. Two cantons, Zurich and Thurgau decided to switch early in 1999 while most cantons waited till 2001. Three cantons were not yet ready by 2001 and hence postponed the transition to 2003.¹¹ Importantly, when a canton decided to transition in a given year, the transition applied to all taxes at the federal, cantonal, and municipal levels.¹²

How does the transition generate tax holidays? Suppose a canton wants to transition

its local taxes and hence did not need to transition except for the federal tax.

¹⁰The two laws were the cantonal tax harmonization law (StHG) which was scheduled to become effective on January 1st, 1993 and the new federal tax law (DBG) scheduled to become effective on January 1st, 1995.

¹¹Due to the biennial structure of the old system, the change could only take place in an odd year such as 1999, 2001, 2003. No canton was ready to consider switching in 1995 or 1997.

¹²Hence, the federal tax was not uniform across cantons during the transition as cantons transitioned during different years. This departure from uniformity was allowed by the new federal tax law (DBG) enacted to encourage the transition.

in 1999. This specific example is illustrated on Figure 1. In 1997 and 1998, income taxes under the old system are based on the average income for years 1995 and 1996. In 1999, income taxes have to be based on 1999 incomes. This means that incomes earned in 1997 and 1998 are never taxed, hereby creating a two-year long tax holiday. Taxpayers do pay taxes every year during the transition but no tax is ever paid on the incomes for the two years before the transition. All cantons specified that the transition would indeed create tax holidays and that only extraordinary incomes earned during the holiday would be taxable. Extraordinary income included one time lump-sum payments, irregular capital incomes, lottery winnings, and extraordinary business incomes due to accounting changes. Importantly, for labor earnings, income increases due to promotions, job changes, or more hours worked, were not considered extraordinary income.¹³ Symmetrically, extraordinary deductions made during the holiday period would be deductible against income made outside the tax holiday period, typically in the year just after the holiday. In sum, any real labor supply response (and corresponding compensation) was not extraordinary income and hence was fully exempt during the tax holiday. Some tax avoidance responses were still possible. For example, tax exempt contributions to pension plans could be postponed during the tax holiday and deferred to after the tax holiday or moved forward to before the tax holiday.

As mentioned above, a few cantons (including Zurich) used an annual assessment period (instead of biennial) for their cantonal and municipal taxes. For such cantons, there is a *single* tax holiday year for local taxes and two tax holiday years for the federal tax. Let us illustrate this with the case of Zurich which transitioned in 1999. In 1997, local taxes in Zurich are based on 1996 incomes while federal taxes are based on the average of 1995 and 1996 incomes. In 1998, local taxes are due based on 1997 incomes while federal taxes are again based on the average of 1995 and 1996 incomes. In 1999, both local and federal taxes are based on 1999 incomes. Hence, 1997 and 1998 are tax holiday years for federal taxes but only 1998 is a tax holiday for local taxes. Hence, the tax holiday for local taxes in Zurich is reduced to a single year. Four of the 20 cantons transitioning in 2001 are also in this situation and have a tax holiday for local taxes for only year 2000 (and 1999-2000 for federal taxes).

Figure 2 depicts a map of the cantons in Switzerland and summarizes the timing of the transition across cantons. For the federal income tax, the tax holiday was either 1997/1998 (cantons in blue), 1999/2000 (cantons in green), or 2001/2002 (cantons in brown). Generally, the tax holiday for the local (cantonal and municipal) income tax was the same as for the federal tax. However, for cantons which were using *annual*

¹³Bonuses and shared profits were not considered extraordinary profits if they were specified in the contract and had been paid in prior and / or later years as well.

assessment periods (instead of biennial), the tax holiday for local taxes is only one year. These cantons are depicted in darker blue and darker green. One canton (Nidwalden in very dark green) had no local tax holiday at all due to a different form of transition. One canton (Basel in pink) had always had a pay-as-you-earn local tax system and transitioned to the annual pay-as-you-earn system for the federal tax in 1995.¹⁴ We will use this color coding in all our subsequent analysis.

Cantons differed in the reporting requirements for incomes earned in tax holiday years. Some cantons only collected information on extraordinary incomes (and did not require reporting of ordinary income that was tax exempt). As a result, income tax data cannot be used to study the reform. That is why we rely on social security data that provide information on labor earnings (both wage earnings and self-employment) for all years. This is also why we cannot study capital income.

3.3 Extensive Margin and Betwixt Assessments

The tax holiday did apply along the extensive margin as long as the labor supply response was temporary (e.g., taking a temporary job during the tax holiday). As the tax holiday was temporary, we would expect responses to be also temporary. Such temporary responses will be fully captured in our empirical analysis. However, in certain cases like accelerating entry or delaying exit, the response to the tax holiday along the extensive margin could take the form of a permanent change.

Betwixt assessments in the old system. As we mentioned above, under the old system, when a person started or ended a job on a permanent basis during a tax period, the system adopted a temporary pay-as-you-earn taxation (betwixt assessment) until the end of the period. Let us examine how this affects incentives for permanent entry and permanent exit. It is important to note that the betwixt assessments were done only when changes were permanent which is defined as a change in work status lasting at least 2 years. Starting to work for a short period (less than 2 years) or stopping work temporarily (less than 2 years) would not trigger a betwixt assessment.

Permanent entry. Suppose the tax period is 1995/1996 and a person had not worked in 1993/1994 and started working in July 1st, 1996 for 2000CHF/month. In this case, there is no taxation in 1995 and the first half of 1996 (as the reference period 1993/1994 has zero earnings). In the second half of 1996, there is a betwixt assessment where the

¹⁴For this transition, the federal tax in 1995 was based on the maximum tax liability under the old and the new system. Therefore this transition did not generate a clean tax holiday for the federal tax. As such, our analysis will not try to estimate the effects of this early transition in Basel.

person is taxed based on her current new earnings, annualized to $2000 \times 12 = 24,000$ CHF. This assessment lasts for 6 months only (so that half of an annual tax on 24000 CHF is due). In 1997/1998, the person is taxed based on her annualized income of 24,000 CHF from 1996 (i.e., the reference earnings for the 1995/1996 are taken to be the annualized earnings when the person was working). Earnings from 1997/1998 will then be taxed in 1999/2000, etc. Therefore, in the old system, new entry earnings were doubled taxed, first as pay-as-you-earn and then during the regular next period of taxation. The best strategy to minimize double taxation is to enter with a low level of earnings so that taxes over the next tax period are based on this low basis (and let earnings ramp up over the next tax period). Empirically, we will show that entrants had indeed lower entry earnings in the old system (using the new system as a control group).

Entering during the tax holiday triggers a betwixt assessment exactly as in the old system but, in contrast to the old system, there would be no double taxation during the next period. Hence, the tax holiday also reduces the tax burden on the entry margin but it is less salient as only the second and future layer of taxation is removed. Empirically, we will show that the tax holiday has no significant impact on entry decisions.

Permanent exit. Symmetric incentives are created along the exit dimension.¹⁵ Let us consider the most common case of retirement. Suppose a person earns 2000 CHF/month up to July 1st 1996 and then retires with a pension of 1000 CHF/month. In 1995 and the first half of 1996, the tax is based on average earnings of 1993 and 1994. In the second half of 1996, the person is taxed pay-as-you-earn based on annualized pension income of $12 \times 1000 = 12,000$ CHF. In 1997/1998 the tax will also be based on 12,000 CHF of annual pension income from the second half of 1996. Hence, initial pension income is also double taxed. This implies that the earnings while working made in 1995 and the first half of 1996 are never taxed in the old system (and the earnings for 1993/1994 are only taxed for 1.5 years out of 2, hence bear only 75% of the normal tax burden). Effectively, the old system created a tax holiday for earnings made in the tax period when leaving the labor force (and a partial tax holiday for the period before leaving the labor force). Therefore, the best strategy is to have high earnings (e.g. earn overtime or get bonuses) just before retirement.¹⁶ Empirically, we will show that retirees had indeed high earnings in their

¹⁵Under the old system, death extinguishes tax liability so that income made during one's last tax period is never taxed (and income earned during the tax period preceding death is only partly taxed while the person is still alive in her last tax period). We do not study this aspect as most people stop working well before death and death while still working is typically an unexpected event.

¹⁶The timing of exit along the extensive margin is actually neutral. Exiting early in the period implies the previous tax period earnings are almost fully exempt. Exiting late in the period implies the current tax period earnings are exempt. Empirically, we find no effect on the timing of retirement during the tax period in the old system. The old system also encouraged people to have initially low retirement benefits.

last tax period in the old system (using the new system as a control group).

Exiting during the tax holiday triggers a betwixt assessment exactly as in the old system. Therefore, pre-retirement earnings are taxed exactly the same in the old system and during the tax holiday transition. The only difference is about the treatment of pension income. In the old system, pension income in the first period of retirement is taxed twice while it is taxed only once during the tax holiday. We do not have access to pension income data to analyze responses of pension benefits.¹⁷

3.4 Salience of the Reform

Behavioral responses to the tax holiday can happen only if the public is well informed about the reform and understands that it generates a tax holiday. Hence, it is very important to provide evidence on how salient the tax holiday was. Each canton could freely decide when to transition and the exact form that the transition would take. The decision was taken by cantonal legislatures. In 14 cantons, such as Zurich, the new tax laws were put to a popular referendum—either by default, by wish of the cantonal legislature, or because a party or group of individuals forced a referendum by collecting a pre-determined number of signatures. In the cases where a referendum was held, by default the whole (Swiss) population in a canton received voting documentation by mail. We have gathered this documentation for each canton. The voting documentation included information on the transition in an easy to understand language and in many cases the incidence of the tax holiday was further explained by a graphical illustration (see Figure 3 for an example). It also listed what was classified as extraordinary incomes (expenses), which were subject to taxation (deductions) even during the holiday. In about half of all cases, the votes took place during the first tax holiday year (see Figure 4). In all cases, the vote was always strongly in favor. Turnout ranged between 26 and 60% (see appendix Table A1 for complete details on the vote timing and turnout by cantons). However, the actual referendum or legislative vote was the last step in a longer process. In the cantons where there was no vote, the final decision on the transition hence tended to take place before the beginning of the holiday. The first drafts for the reform, including the date, were usually discussed 3–4 years before the transition. Typically, the transition was in the public debate for many months before the decision was officially taken through the referenda or legislature votes. In most cases, the official decision time came about 1.5 years before the beginning of the transition year. Hence, for 2 year long tax holidays,

¹⁷There is relatively little scope for individuals to control the level of their defined benefits pensions. However, there is more flexibility in how individuals choose to receive their defined contributions benefits from their individual pension fund accounts: they can choose the pre-defined annuity, which is taxed as income, or cash-out the capital, which is taxed with a separate one-time tax at payout.

the public was always informed in advance for the *second* year of the tax holiday. The public was typically officially informed in the middle of the first tax holiday year although the public debate often started before the first tax holiday year. In summary, we expect more information (and hence larger behavioral responses) for the second year of the tax holiday. Let us describe in more detail the transition process in each of the three waves of cantons depicted on Figure 2.

Early transitions. Two cantons, Zurich and Thurgau transitioned early in 1999. Zurich held a popular referendum on transitioning in 1999 on June 8, 1997. As Zurich has a single 1998 tax holiday year for cantonal taxes, the public was officially informed about the 1998 tax holiday more than 6 months before the start of 1998, leaving time to anticipate and prepare for the reform. Thurgau decided its transition in 1999 on June 30, 1997. This means that Thurgau residents knew for sure by the middle of 1997 that 1997 and 1998 would be tax holiday years. Hence, we should expect a larger behavioral response for 1998 than for 1997 in Thurgau.

2001 transitions. Most cantons were expected to transition in 2001. These decisions were typically made during calendar year 1999, with votes held into calendar year 2000. This implies that in many cases the information was made official during the first tax holiday year of 1999 and before the start of 2000, the second tax holiday year. Most of the referenda held in 2000 were mandatory referenda, and the large share of yes votes show that the new tax laws were uncontested. Taxpayers could therefore expect the new system to be put in place. Hence, we should expect a larger response in the second tax holiday year. As Zurich and Thurgau had already transitioned with tax holidays, we expect that the public was even better informed for this large group of cantons.

2003 transitions. The three cantons VD, VS, and TI which transitioned late in 2003 decided to transition at this date typically in 2000 or 2001. The reason these cantons transitioned late were due to some of the changes of the federal laws between 1997 and 2001, and because their information technology systems were not yet ready. Legally, these cantons claimed that they needed to make some changes in their cantonal laws to incorporate the new requirements and that due to some of the changes the transition period was extended until January 1 2003. As most cantons had already transitioned, the nature of the transition and the tax holidays it creates is likely to have been even more salient for these cantons.

Press coverage. Another way to assess salience is to examine press coverage of the transition and in particular how often tax holidays were mentioned.

The top panel of Figure 5 shows an illustration of a press article explaining the tax reform and the tax holiday it creates. The article was published in February 16, 2001 for the canton of Valais which transitioned in 2003 and hence had a tax holiday for years 2001 and 2002. Hence, as early as the beginning the first holiday year, the public was clearly informed that incomes earned in 2001 and 2002 would not be taxed.

The bottom panel shows the number of press articles mentioning the word “Bemesungslücke” (blank year) and the French term “brèche fiscale”, or other expressions used to refer to the reform in German and French¹⁸ by year and most major newspapers.¹⁹ The figure displays four series: (1) the series in blue is for two Zurich based newspapers, (2) the series in light green for three Bern and Lucerne based newspapers, (3) the dashed series in dark green for two Geneva and a Solothurn based newspapers, (4) and the series in brown for three Vaud and Valais based newspapers. The tax holiday for Zurich is depicted in blue, the tax holiday for Bern and Lucerne is depicted in light green, the tax holiday for Geneva and Solothurn is depicted in dark green, and the tax holiday for Valais and Vaud is depicted in light brown. The figure shows that press interest in the tax holiday peaked during the years when the actual tax holidays happened (i.e., in advance of the transition year which is the year immediately after the tax holidays). Interestingly, the figure shows that these peaks corresponded to the regions where the blank year was in place. This suggests that at least for the second blank year and especially for the second wave of the reform (1999/2000) salience can be assumed to have been large.

There were two additional reasons why press coverage of the tax transition was widespread. First, there were wide complaints by homeowners about the fact that they would not be able to deduct expenses for renovations from the income tax during the tax holidays. Second, there was a public outcry following the decision of the well-known multi-billionaire Martin Ebner to move his bank “BZ Bank Zürich” from Zurich to Schwyz in late 1997 in order to avoid taxation of his extraordinarily large incomes in 1997. This was possible because Zurich had not yet changed corporate taxation to the new system (as opposed to all other cantons, who changed in 1995). Therefore, in 1997, the bank

¹⁸These are “Gegenwartsbesteuerung, Gegenwartsbemessung, postnumerando, pränumerando, brèche de calcul, trou de taxation, taxation bianuelle, and taxation annuelle”.

¹⁹We constructed these graphs by scraping the newspaper archive “Swissdox”, which contains a full text archive of most newspapers in Switzerland. The sample is restricted to large daily newspapers whose archive covers the relevant time period (i.e. starts in 1998 or earlier). The following German- and French-speaking newspapers fulfill these sample restrictions and are based in the regions shown in the graph: 24 Heures (since 1997), Berner Zeitung (since 1998), Der Bund (since 1994), Le Matin (since 1997), Le Temps (since 1998), Neue Luzerner Zeitung (since 1998), Neue Zürcher Zeitung (since 1993), Solothurner Zeitung (since 1996), Tages-Anzeiger (since 1995), and Tribune de Genève (since 1997).

paid taxes in Zurich on gains realized in 1996. In 1998, the bank's tax liability was in Schwyz, where corporations were already taxed according to the new system, hence the tax base were gains from 1998. The large gains from 1997 were never taxed anywhere. Many newspapers wrote about this case and gave advice on how also individuals could benefit from moving across cantons.²⁰

It is important to recognize that the fact that the transitions were formally passed by the cantonal legislatures and discussed in the press does not automatically insure that all taxpayers were perfectly informed. Many people do not follow local legislative activity nor read the press systematically. Indeed, recent empirical work has shown that taxpayers often have imperfect information about tax systems even when tax systems have been fairly stable (see e.g., [Fujii and Hawley \(1988\)](#)). However, the most elastic taxpayers are those who have the most to gain from learning about the tax system and hence should have the strongest incentives to get informed. Inelastic taxpayers do not respond to changes in tax rates and hence have no need to learn about the tax system.²¹ Hence, if elastic taxpayers are well informed, our estimates still capture most of the "full information" elasticity that would prevail if everybody were perfectly informed. Furthermore, the tax holiday was a simple concept to understand: earnings during the tax holiday are free of all income taxes. This does not require understanding the intricacies of the income tax code nor the marginal tax rate schedule.

3.5 Expected Behavioral Responses

What behavioral responses should we expect from this tax holiday reform?

Quasi-pure intertemporal substitution effects. The tax holiday generates substitution price effects as income earned during the tax holiday escapes the income tax. On the extensive margin, the cut in the average tax rate is around 12 points on average (see [Figure 6](#), top panel). On the intensive margin, the cut in the marginal tax is even larger, around 20-25 points on average (see [Figure 6](#), bottom panel). The cut in tax rates is lower for lower income individuals due to the progressivity of the tax system. On an annual basis, there is no direct income effect as income taxes are due every year. Indeed, the reason for the tax holiday is precisely to avoid double taxation during the transition.

²⁰Newspaper publications include: *Sonntagszeitung* Nov 16 1997; *NZZ* December 12/13/16 1997, February 13 1998; *Tages Anzeiger* December 11/12/19 1997, March 17 1998; *Blick* December 12 1997; *Der Bund* December 13/19/22 1997; June 17 1998; *BaslerZeitung* December 12/16/19/22/27 1997, January 7/17/20 1998; *Facts* February 5 1998

²¹The lack of good information on the tax system could be rationally explained if the earnings decisions of a large fraction of taxpayers are just not elastic with respect to tax rates.

Aggregate annual income tax collections do not display any discontinuity during the tax holiday and transition years (see appendix Figure A3). Therefore, the tax reform comes very close to a pure substitution effect that can identify the Frisch elasticity.²²

Real labor supply responses. The tax holidays should induce individuals to work more during the tax holiday both at the extensive and intensive margin.

On the extensive margin, individuals might decide to work who would not have in the presence of taxation. This effect should be strongest for secondary earners as they are traditionally seen as more elastic and the average tax rate on secondary earners is significant due to joint taxation of married couples. In principle responses along the extensive margin should be temporary (as the tax holiday incentive is temporary). For temporary responses, the tax holiday applies fully. For permanent entries such as young workers deciding to enter the labor force earlier, the tax holiday removes one layer of the double taxation that used to apply in the old system but this tax holiday relief is less salient and hence may create smaller extensive response than a clean tax holiday (see our discussion above).

On the intensive margin, individuals might decide to work more and earn more as the marginal income tax rate on extra earnings is zero during the tax holiday. Individuals could work overtime, take an extra job or add work through self-employment, or cut down on unpaid vacation. Self-employed individuals are likely to have more flexibility in adjusting their labor supply and hence we should expect a larger response among the self-employed.

Using the conventional labor supply and labor demand competitive model, if the labor supply response is strong and labor demand is not perfectly elastic, then the wage rate could fall. In that case, this attenuates the labor supply response. Demand responses should lead to a fall in the wage rates. Our main analysis focuses on earnings (wage rates times hours of work) as social security data record only earnings and not wages and hours of work separately. However, it is possible to use the wage structure surveys (described in detail below) to examine wage rates specifically. If anything, our evidence suggests that hourly wages increase as a response to the tax holiday, implying no visible demand driven wage effects. This is perhaps not surprising in light of the quite modest supply responses we obtain in aggregate.

²²If individuals are fully myopic and make labor supply decisions on a purely annual basis as in the standard static labor supply model, then the tax holiday creates a pure substitution effect and no income effect as the burden of taxation remains present in each year. In this case, the tax holiday variation identifies the compensated static labor supply elasticity.

Tax avoidance responses. Individuals might also be able to shift income into the tax holiday years (at the expense of surrounding years) through tax avoidance. This could happen for example if workers have flexibility regarding the payment of their labor income. In principle, such shifting is easiest for the self-employed. Therefore, we will analyze self-employment earnings specifically and separately from wage earnings. Alternatively, workers might shift tax exempt contributions to pension plans (called pillar 3 pensions in Switzerland) away from the tax holiday year and into surrounding years (our earnings data are always before pension contributions and we unfortunately cannot observe pension contributions at the individual level).²³ Individuals might also negotiate with their employer a higher pay during the tax holiday (and correspondingly lower pay either before or after). For example, bonuses might be retimed into the tax holiday year. We will assess whether labor earnings are depressed either just before and just after the tax holiday to detect such time shifting effects. Finally, a widely discussed avenue for tax avoidance was the postponing of home renovations till after the tax holiday as such costs are deductible from the income tax (and such deductions are lost if the renovation happens during the tax holiday).

4 Data

We use three main data sources for our empirical analysis. We defer to the online appendix the complete description of the data and provide a short summary in this section.

Matched SSER-Census Data. Our main dataset merges the register-based 2010 population census of Switzerland with longitudinal social security annual earnings records (SSER) covering the period 1981–2012. Both datasets cover the full population. In the SSER data, employed or self-employed individuals generate one record per job per year that details the starting and ending month of an employment relationship along with the total earnings over that time period. Labor earnings are uncapped, and include variable pay components such as bonuses and stock options. We match these records to census data because the social security data do not contain geographical and marital information which are key for our empirical design.²⁴

²³There is unfortunately no data on total pension contributions by canton that we can exploit. However, it is possible to examine country level contributions to pillar 3 pension as shown in appendix Figure A2. This evidence suggests that there was a clear dip in pillar 3 contributions in years 1999 and 2000 when most cantons had their tax holiday.

²⁴Unfortunately, the 2000 Census, which is closest to the time of reforms we analyze, does not have social security numbers and hence cannot yet be matched to the earnings data systematically.

Because virtually everybody generates a record at some point in their life, our matched data set contains 99% of the resident population aged 20–64 in 2010. As we move back in time, the sample coverage of persons aged 20–64 gets slightly smaller because certain individuals that lived in Switzerland in these earlier years died or emigrated and hence are not present in the 2010 census. Figure A4 in appendix shows that our matched data set contains 91% of all individuals aged 20–64 living in Switzerland in 2000, the time around which the reforms we analyze took place.

In appendix Figure A5, we compare the employment rate of 20 to 64 year-old Swiss men and women in our data with the employment rate of these groups according to the labor force survey described below. We observe that the employment rates are slightly higher in our data than they are in the labor force survey. This is likely due to the fact that people with very low but positive earnings have a social security earnings record but might not report participating in the labor force in the labor force survey.

Our matched dataset has four drawbacks that should be noted. First, the earnings records in 1998 are incomplete. The share of wage earners for which records are missing is about 5–6% due to errors in recording in some of the local social security offices. The missing records prevent us from analyzing aggregate outcomes in 1998, as the problem of missing records is not equally distributed across cantons. Second, the register-based census 2010 does not contain information on some variables of interest normally available in census data such as schooling/education, occupation, or number of children. Third, we only observe the family characteristics of individuals as of 2010. This is a concern for characteristics that can change over time, especially an individual’s place of residence, marital status and immigrant status or citizenship. The census provides information on how these characteristics changed in the past, allowing us to reconstruct the information for years prior to 2010. Nevertheless we have to impute some of the data points using a set of assumptions. We discuss the imputations procedures for the three variables in the appendix. Fourth and finally, even though marital status is observed in 2010, we cannot match married spouses together even in 2010. As a result, we cannot observe the earnings level of spouses for individuals who are married. This sharply limits our ability to exploit variation in the level of spousal earnings as a source of identification.

Labor Force Survey (SLFS). The labor force survey is the equivalent of the US Current Population Survey. It includes about 17,000 individuals (approximately 0.5% of households) before 2002 and about 50,000 (1.5%) from 2002 onward. These data have two main advantages relative to our main census-social security data. First, they provide earnings and employment information for both spouses for married individuals, which we

use to estimate spousal earnings in order to estimate tax rates for married individuals. Second, they provide information on hours of work (in the week before the survey) as well as overtime hours (in the 12 months before the survey). The main drawback relative to our main data is a very small sample size (the full population data is about 100 times larger). As a result, most of the series produced with the labor force survey are very noisy compared to the population-wide data. Another drawback is that most variables are self-reported introducing significant measurement error as well.

Wage Structure Survey (LSE). The Swiss wage structure surveys have been conducted every two years by the Swiss federal Statistical Office (FSO) since 1994. They are a large stratified random sample of private and public firms with at least three full-time-equivalent (FTE) workers from the manufacturing and service sectors in Switzerland.²⁵ They cover between one sixth (1996) and one half (2010) of total employment in Switzerland. The mandatory surveys contain extensive information on the individual characteristics of workers and provide reliable (employer-reported) information on hours worked per worker. Moreover, they contain detailed salary information broken down into individuals pay components, including overtime pay and bonus payments per worker. The main drawbacks of these data are that (1) they cannot be used to study the extensive labor supply margin, (2) they only provide the geographical location of the work location (and not the residence location) which creates measurement error for individuals who do not live in the same canton they work, (3) they are bi-annual and hence do not cover every single year (although the even years are always the second year of the tax holiday and hence the ones where the information is best and the expected response largest). We address the second problem by excluding zipcodes where more than 25% workers stem from one of the other groups of cantons relevant in the analysis. Approximately 10% of all observations in the surveys are dropped due to this restriction. The commuting patterns by zipcode are computed from the census in 2000. We use the wage structure surveys to examine how the tax holiday affected wage rates and variable pay components.

5 Empirical Results

In this section, we present our empirical results. We divide cantons into various groups as depicted in our earlier Figure 2: (1a) 1 canton (Thurgau) which transitioned early in

²⁵The data exclude public sector employees at the federal and local levels, as well as the agricultural sector. Additionally, we exclude the public sector (i.e. public administration, education, and health, NACE rev. 1.1. two-digit industries 75, 80, and 85) from the analysis since it is not fully covered in the early waves.

1999 with tax holiday in 1997-98, (1b) 1 canton (Zurich) which transitioned early in 1999 with tax holiday in 1998 only for local taxes (and 1997-98 for the federal tax), (2a) 16 cantons which transitioned in 2001 with a tax holiday in 1999-2000 for both the federal and local income taxes, (2b) 4 cantons which transitioned in 2001 with a tax holiday in for 2000 only for local income taxes (and 1999-2000 for the federal tax), (3) 3 cantons which transitioned late in 2003 with tax holiday in 2001-02. We always use the same colors as in Figure 2 to depict each group: (1a) light blue, (1b), dark blue, (2a) light green, (2b) dark green, (3) brown. We sometimes group together groups (1a) and (1b) into a single group (1) and groups (2a) and (2b) into a single group (2).

First, we examine the levels of tax rates to establish the magnitude of the first stage generated by the tax holidays. Second, we analyze aggregate effects on employment, and earnings. Third, we zoom in on specific sub-groups by age and income groups. Most of our empirical analysis is based on the matched social security and census data which are the most comprehensive. But we also examine additional outcomes such as hours of work, wage rates, and bonuses using the wage structure surveys. We also present a number of robustness checks.

5.1 First Stage Effect on Tax Rates

First, we examine the levels of average and marginal tax rates so that we can establish the size of the first stage in terms of tax rate reductions. Figure 6 displays the average income tax rate (top panel) and marginal income tax rate (bottom panel) averaged across workers in our sample by year and groups of cantons from 1990 to 2010. Tax rates include federal, cantonal, and municipal income taxes. The average tax rate is the total income tax divided by gross income. We treat married individuals and singles separately. We use tax rates for singles without children in case a person is single. For married individuals, we first impute household income using data on spousal income by household group from the Swiss Labor Force Survey.²⁶ We then compute tax rates based on the resulting household income, using tax rates for married individuals with two children for all married persons. This approach implies that we slightly understate the actual tax burden for married couples without children, which, in turn, implies that the estimated Frisch elasticities rather represent upper bound elasticities.²⁷ Averages across municipalities and cantons

²⁶In particular, we add an estimate of spousal earnings by demographic group (defined by age, income, gender, marital status, and canton group in 2002) to each individual's labor earnings for married individuals.

²⁷The bias turns out to be of limited quantitative importance, however. If we use tax rates for married couples without children for all married couples, the Frisch elasticities are only approximately 10% smaller.

are employment weighted. The cantons are divided in five groups based on when the tax holiday took place as described above following Figure 2. In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called “blank years” in French and German). This graphical representation will be used in all subsequent reduced form graphs. For each of the groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code.

Tax rates are naturally zero during tax holidays. Cantons with a single year tax holiday (groups 1b and 2b) also have a *federal* tax holiday the preceding year explaining the lower tax rate. Yet, the effect is small as federal income tax revenue is only 1/6 of total income tax revenue. Substantively, two points are worth noting. First, tax rates and especially marginal tax rates are fairly high for the average worker. Average tax rates are around 10–12% while marginal tax rates are around 20–25%. Obviously, the change in average and especially marginal tax rates are even substantially larger for groups with above-average incomes (such as men). Second, the graph shows that, over the period 1990–2010, the variation in tax rates (either average or marginal) due to the tax holidays dwarves other variations due to tax reforms. Hence, there is no doubt that the tax holiday reform creates very large temporary variation in tax rates and hence provides a promising natural experiment to identify the Frisch elasticity.

5.2 Effects on Employment

We start by plotting simple employment statistics by year and by groups of cantons focusing on the sample of working age individuals aged 20-60 in the relevant year.²⁸ Hence, these statistics are repeated cross-sectional statistics. In all these graphs, the tax holiday years are denoted by the vertical shaded bars and we use the same color coding as in Figure 6 on tax rates. We exclude groups (1a) and (1b) which transitioned early with tax holidays in 1997 and 1998 in our benchmark results for three reasons. First, as discussed above, we unfortunately do not have complete data for 1998. Second, it was not fully clear until June 1997 that 1997 would be a tax holiday so that the response in 1997 might have been muted. Third, for Zurich, the largest of the two early cantons in group 1, 1997 was a tax holiday only for the federal tax (and not local income taxes).²⁹

Recall that the tax holiday applies along the extensive margin only for temporary job entries or exits as permanent job entries or exits were treated differently in the old system.

²⁸For individuals aged over 60, retirement becomes an important part of the labor supply decision. We will analyze older individuals separately later on exploiting the incentives created by the old system that we discussed above.

²⁹Appendix Figure A6 presents employment effects for the canton of Zurich using an imputation method for missing data described in appendix.

Hence, these employment effects capture only temporary extensive decisions. However, as the tax holiday was temporary, we expect that most extensive responses would also be temporary.³⁰

Employment rates. Figure 7 displays the employment rates for men (top panel) and for women (bottom panel) from 1990 to 2010 in the three groups of cantons: (2a), (2b), and (3). The sample in each year is defined as all individuals aged 20-60 in the year (and who are still alive and Swiss residents in 2010, when we match to Census). The employment rate is computed as the fraction of individuals in the sample with positive earnings (either from wages or self-employment) during the year, as is common in the literature (see Chetty et al., 2013, Table 1).

Two findings are worth noting on Figure 7. First, all three groups of cantons follow remarkably parallel trends over the full period, and particularly so for men.³¹ This implies that for each group of cantons, the two other groups constitute good control groups. Second, there is no evidence of any relative increase in employment rates during the tax holidays represented by the shaded areas. This implies that a temporary tax holiday does not affect labor supply along the extensive margin. To put these findings in perspective, because the cut in the average tax rate is around 12% (Figure 6), a Frisch elasticity of one along the extensive margin (as commonly used in macro calibrations) should generate an increase in employment rate of 11%, i.e. 9 points for men and about 8 points for women. This would create an enormous spike in the empirical series of Figure 7. Therefore, our very simple evidence can clearly rule out such large Frisch elasticities.

We have done two robustness checks. First, we have redefined employment as annual earnings above some modest positive threshold of 10,000 CHF (instead of any positive earnings). It is conceivable that some individuals who intend to temporarily enter (or not to leave) the labor force during the tax holidays might not be able to target exactly the calendar year. Therefore, using a higher threshold for employment can help capture these effects as well. The absence of any response carries over unchanged when using the higher 10,000 CHF threshold (see appendix Figure A7 comparing the top and bottom panel). Second, we have repeated the analysis using the smaller labor force survey dataset in

³⁰We will examine the case of permanent entry and exit in Section 5.6 as the old system created complex incentives along these dimensions as we discussed above.

³¹The decline in the male employment rate is due in part to the way the sample is selected. Individuals need to be present in the 2010 census and hence the sample is relatively younger in earlier years and hence has a higher employment rate. We have also produced employment rates series which re-weight cohorts so that, in each year, the sample is representative of the full population in terms of the age distribution. The downward trend in male employment rates is much attenuated. These re-weighted graphs do not display any evidence of a response during the tax holidays either. We focus on the unweighted graphs for simplicity as these demographic trends do not affect the difference-in-difference analysis.

appendix Figure A8. The first panel of this figure displays the employment rate using the Labor Force Survey. We also include the group of cantons which transitioned early. The figure is noisier due to smaller sample size but it does not display any tax holiday effects on the employment rate (consistent with our results using Social Security data).

Appendix Figure A9 zooms in on married women whose labor supply decisions are traditionally expected to be most elastic. The top panel of this figure displays the employment rate for married women by year and groups of cantons from 1990 to 2010. Married women are expected to be particularly responsive to taxes, yet, the figure does not show effects on employment.

Column (1) in Table 1 presents the quantitative estimates of the employment effects of the tax holiday based on the graphical analysis we have presented. All regressions in the table are based solely on OLS regressions using the aggregate time series presented in the graphs. This provides the most transparent and most conservative standard errors. We regress the time series for the 3 groups of cantons on year dummies, group dummies, and an indicator called “blank year” that is equal to 1 during tax holiday years: for 2 years in cantons that have two-year long tax holidays for cantonal and municipal taxes, and for 1 year for cantons whose cantonal tax holiday only lasted one year (i.e. the dark green cantons in the figures). Panel A reports effects for the full sample of adults aged 20–60. Panels B and C report effects of males and females, respectively. Panel D reports effects for married women only.

In each case, we first report the estimated level effect of the blank year on labor supply from the regression. Then, we translate the estimated effect into a percent increase, $\% \Delta y$, by dividing the coefficient by the average level of the outcome variable in the year just before the tax holiday. We then divide the percent change in the outcome by the percent change in net-of-tax wage rate ($\% \Delta[1 - \tau]$) created by the tax holiday to estimate the implied Frisch elasticity, η^F . For each individual, $\% \Delta[1 - \tau]$ is computed by comparing the zero tax load during the tax-free years with hypothetical average and marginal tax rates that an individual would have faced on the income during the tax-free years under the tax system in place just prior to the tax holiday. We then average the hypothetical tax burdens during the tax holidays over all individuals with positive labor earnings in the respective population groups to estimate population-wide hypothetical average and marginal tax rates.

As can be seen in Panel A of Table 1 and visually in the top panel of Figure 6, we estimate that the tax holidays reduced the average tax from 11.1% to 0 for the total population, resulting in an increase in the average wage of $\Delta[1 - \tau] = 12.5\%$. We compute the net-of-tax wage change based on the average tax rate when we look at the extensive

margin (i.e. employment rates), and the marginal tax rate when we focus on the intensive margin (i.e. labor earnings, average wages, and average self-employment earnings).

The first column of Table 1 show that employment effects are never significant and are fairly precisely estimated. For example, for the full sample (Panel A of Table 1), we find an overall employment effect of 0.0 percentage points with a standard error of .35 percentage points, implying that we can rule out a positive effect .7 percentage points with 95% confidence. The implied estimated Frisch elasticity is correspondingly very close to zero and we can rule out an elasticity larger than .07 with 95% confidence. No elasticity estimate along the extensive margin is larger than .02.

Other extensive margin effects. In appendix Table A2, we present estimates of the effect of the tax holiday on a set of further extensive margin outcomes constructed using our matched social security and census data. As before, the regressions are based on aggregate time series for the three main canton groups. The outcome in column (1) is the number of jobs per person employed. Distinct jobs are identified in the social security data based on an individual's number of different register entries with positive labor earnings in a given year. The outcome in column (2) is the number of months in employment per person employed during the year. The outcome in column (3) is the number of self-employed as a fraction of the total population. Finally, the outcome in column (4) is the number of persons moving into the respective canton group in a given year as a fraction of the total population. This capture migration effects. Panel A reports effects among all individuals aged 20-60. Panel B and C report effects for males and females, respectively. Panel D reports effects for married women only. We do not find statistically significant evidence that the tax holiday affected anyone of these outcomes for any of these groups. Therefore, the lack of responses along the extensive margin is pervasive and holds along all the dimensions we have explored.

5.3 Effects on Earnings

Figure 8 displays the average earnings (including non-workers) for men (top panel) and for women (bottom panel) from 1990 to 2010 in the three groups of cantons: (2a), (2b) and (3). The sample in each year is again defined as all individuals aged 20-60 in the year (and who are still alive and Swiss residents in 2010, when we match to Census). Hence, people with zero earnings are also included in the averages (we hence capture both extensive and intensive margin responses). Earnings are defined as the sum of wage earnings and self-employment earnings.

Three points are worth noting. First, overall, the trends are close to parallel in all

three groups especially for women. Second, for men, there are clear spikes in earnings in 2000 for cantons with tax holidays in 1999-2000 or 2000 (green series) and especially in 2001-02 for cantons with tax holidays in 2001-02 (brown series). These spikes are consistent with a behavioral response to the tax change. However, the magnitude of the spikes is fairly modest, a couple points of average earnings at most. Third, for women, the spikes are largely absent suggesting a much smaller response in this group. Note that the parallel trend assumption between the light green and brown groups is excellent both pre- and post-reform and displays a very small positive earnings effect for women for the cantons which transitioned last (in brown).³²

Next on Figure 9, we disaggregate earnings between wage earnings vs. self-employment earnings among workers (we focus on workers as our earlier evidence ruled out extensive margin effects). Figure 9 displays average wage earnings (top) and average self-employment earnings (bottom) by year and groups of cantons from 1990 to 2010. For the top panel on wage earnings, the sample in year t includes only individuals with positive wage earnings in year t . For the bottom panel on self-employment earnings, the sample in year t includes only individual with positive self-employment earnings in year t . For wage earnings, we observe a very small response to the tax holiday but precisely estimated as the parallel trend assumption pre- and post-reform holds very well. For self-employment income, we see a much larger response for late transitioning cantons (in brown) with about 5-10% excess self-employment earnings during the tax holiday years although the effect is not quite as precisely estimated due to overall noise in the series. Therefore, the evidence from Figure 9 shows that self-employment earnings respond much more than wage earnings, a finding in line with the previous literature.

In Figure 10, we repeat Figure 9 but zooming in on high income earners. This figure displays average wage earnings (top) and average self-employment earnings (bottom) by year and groups of cantons from 1990 to 2010. We start from the sample from Figure 9 with the additional restriction that the individual has average annual labor earnings (wages plus self-employment) above 200,000 CHF in 1994-1996, a couple years before the reform started. Earnings are expressed in 1000s of 2010 CHF (adjusted for inflation). The top panel on wage earnings shows a clear and significantly larger response of wage earnings for this high income group (relative to the full population), of around 5% excess earnings during the tax holidays. The bottom panel also shows large spike in self-employment income for the 2001-2 tax holiday, again of about 7-10% excess self-employment in these

³²Appendix Figure A9 zooms in on married women whose labor supply decisions are traditionally expected to be most elastic. The bottom panel of the figure displays the average earnings of married women (including zeros) by year and groups of cantons from 1990 to 2010. The figure has excellent parallel trends for the three series so that we can be quite confident that earnings of married women, which include both the intensive and extensive margins, did not respond.

years.

We next provide estimates of the corresponding Frisch elasticities as we did for employment rates. Columns (2-4) in Tables 1 present the quantitative estimates of the earnings effects based on the graphical analysis we have presented. Column (2) focuses on earnings per person (including non workers). Column (3) considers wage earnings per employee and column (4) considers self-employment earnings per self-employed worker. Table 2 reports labor supply effects of the tax holiday for the same outcomes as in Table 1 by 5 income sub-groups where individuals are assigned to one of the five income groups based on the average income in the three years 1994–1996, i.e. shortly before the first wave of tax holidays. Workers aged 20–60 that have no labor income in these years are dropped from the analysis.³³ As noted above, the estimates of the Frisch elasticity η^F reported in the tables are based on changes in marginal tax rates. For the full sample, the percent increase in one minus the marginal tax rate amounts to $\Delta(1 - \tau) = 27.6\%$.

Panel A of column (2) in Table 1 shows that earnings per person respond significantly to the tax holiday, with a 1.4% effect relative to pre-holiday earnings. Given the estimated decrease in the marginal tax rate, this estimate translates into a small but precisely estimated Frisch elasticity of 0.05 (0.017). The effect is concentrated solely among men ($\eta^F = 0.06$), with no statistically significant effects among women ($\eta^F = 0.02$) in contrast to the usual finding from the literature that female labor supply is more elastic than male labor supply.

Column (2) of Table 2 shows that earnings responses are concentrated among higher earnings groups. Among the highest earnings group, with annual earnings above 200,000 CHF, the earnings effect is 5.3%, implying a Frisch elasticity of $\eta^F = 0.09$. Columns (3) of Tables 1 and 2 show that wage earnings per worker respond to the tax holiday but less than total earnings. The response of wage earnings is significant for men but not for women. The response of wage earnings is insignificant and very small for low and middle wage earners but becomes significant and fairly large for top wage earners. Individuals with wage earnings above 200,000 CHF show a substantial response of 5.1% with an implied Frisch elasticity of 0.09. Column (4) shows that self-employment earnings respond strongly to the tax holiday with an overall Frisch elasticity of .27 (.09) in the full sample. We find that the response is stronger for men than for women. As shown in Table 2, the response of self-employment earnings is strong along the full distribution of labor income. The Frisch elasticities implied by these estimates are significantly higher than those for wage earnings. Because the tax burdens are smaller for low-income individuals, the Frisch elasticities decline with income, ranging from 0.44 for self-employed in the lowest income

³³This table also shows employment rate effects in column (1). We do not find any significant effects along the extensive margin for any income group consistent with our earlier analysis.

groups to 0.12 for self-employed in the highest income group.

Appendix Table A3 displays the average biennial income growth rate of total labor income (top panel) and of income from self-employment (bottom panel) following the same set of individuals (instead of considering repeated cross sections as we have done so far). This longitudinal analysis confirms that responses to the tax holiday were strongest in the last group of cantons changing system in 2001-02, and that responses are concentrated among most responsive subgroups, namely self-employed, and high-income earners.

Appendix Table A4 explores whether the positive effects on earnings during the tax holiday come at the expense of earnings just before and just after the tax holiday. Consistent with our graphical analysis, estimates do not generate statistically significant evidence of depressed earnings around the tax holidays. This suggests that the extra earnings during the tax holiday do not come solely at the expense of earnings in surrounding through short-term retiming.

5.4 Additional Results

Decomposing earnings: hours of work and wage rates. In the basic model of labor supply and demand that we described above, the tax holiday creates a positive labor supply response in the form of increased hours of work. This positive labor supply effect might in turn reduce the wage rate if labor demand is not perfectly elastic. This will dampen the effect on total earnings. Therefore, it is important to examine separately the effects on hours of work and wage rates. Hours of work and wage rates are not measured in the social security data but are measured in the labor force survey and the wage structure survey. We present evidence from the wage structure surveys.³⁴

Figure 11 uses the wage structure surveys (LSE) carried out bi-annually to depict hours of work (top panel) and hourly wage rates (bottom panel) by year and group of cantons.³⁵ Hours of work and hourly wages are based on the month of October in each year. Hours worked refer to contractual (i.e. normal) hours worked for workers with monthly wages and to actual hours worked for workers paid by the hour. Wage rates incorporate regular pay but exclude overtime and variable pay components (e.g. bonuses). In both panels, the sample in each year is limited to workers aged 20–60, excluding public sector employees and foreign workers that do not pay regular taxes in Switzerland. We group cantons as usual by when they experienced their tax holiday. Geographical information in the wage structure survey is based on place of work while

³⁴The labor force survey is much smaller and hence produces noisier series. These series are presented in appendix Figure A8.

³⁵We show in appendix figure A10 that total monthly earnings in the wage structure survey respond to the tax holiday consistent with our findings from the social security data.

tax treatment is based on residence. To reduce the number of cases where a person works in one group of cantons but resides in another one, we exclude zipcodes in which more than 25% of workers live and work in different groups of cantons according to the census in 2000.

Both panels display fairly stable parallel trends before and after the reform. The top panel shows at best a very small response of hours of work to the tax holiday. Appendix Figure A11 shows that the hours response is concentrated among employees with individual contracts with no response for employees under a collective (firm-, occupation-, or industry-wide) bargaining agreement. This could be explained by the fact that employees on individual contracts have more flexibility to choose their hours of work and also because, under collective agreement, overtime wages tend to carry a higher premium, so that employers might be more reluctant to use overtime.

The bottom panel is consistent with a *positive* effect of the tax holiday on wage rates. There is a spike in hourly wage rates at the time of the tax holiday, both for the cantons transitioning in 1999-2000 and even more so for the cantons transitioning late in 2001-2002. This positive effect is the reverse of a labor demand effect driving wages down during the tax holiday. It suggests instead that workers are able to manipulate their wage rate as well to drive up their earnings and take advantage of the tax holiday.³⁶

Overall, the decomposition of earnings into wages and hours of work shows clearly that the labor demand channel cannot explain the very small effects on earnings we have obtained. In contrast to the labor demand channel story, we have found that wage rates respond if anything positively to the tax holiday. Therefore, the change in net-of-tax wage rates due to the tax holiday is not dampened through a labor demand reduction in wage rates. The lack of effects on hours of work we have found confirms that the Frisch labor supply elasticity is very small.

Finally, we look at bonuses which is an earnings component that is more flexible than regular wages and salaries and hence might be used to shift earnings toward the tax holiday years. Bonus data are available in the wage structure survey (but not the social security earnings). Figure 12 displays the fraction of employees with bonuses above 5,000 CHF (among all employees including those with no bonus) by year and groups of cantons from 1996 to 2010 using the wage structure survey (LSE) carried out bi-annually. The sample in a given year t includes all employees in the dataset weighted to represent population averages. The top panel is for all employees while the bottom panel is restricted to male workers in private sector firms. The top panel shows clear evidence

³⁶To test this hypothesis, we show in appendix figure A12 that the hourly wage response is stronger when the sample is restricted to workers more likely to be well informed about the tax holiday (workers in activities “examining, advising, attesting”).

of a bonus spike during the tax holidays, especially in the cantons that transitioned late in 2001-02. Bonus likelihood was around 8% and jumps up to 10% during the tax holiday before falling back some after the tax holiday. The bottom panel shows that the bonus spike is more pronounced within the sample of male employees in the private sector. Therefore, this evidence confirms that workers are able to shift bonuses to take advantage of the tax holiday. The absence of hours of work effects along with positive effects on wage rates and bonuses suggests that the response we have obtained might be due to tax avoidance rather than actual labor supply behavior.

The estimates corresponding to the graphical evidence shown in previous figures using the Wage Structure Survey are presented in Table 3. The table presents estimates of the tax holiday on labor supply and wages based on regressions of aggregate time series for two groups of cantons (cantons which transitioned in 2001 and 3 cantons which transitioned in 2003) on year dummies, group dummies, and an indicator which is 1 in the year in which municipal and cantonal taxes are zero. The estimation is based on the wage structure surveys (LSE) 1994–2010 carried out bi-annually. The dependent variable in column (1) is earnings in 2010 CHF in October of each year. Earnings include regular salaries and overtime and other variable pay components (e.g. bonuses). The dependent variable in column (2) is hourly wages, computed from October salaries in each year, excluding overtime and variable pay components (e.g. bonuses). The dependent variable in column (3) is employer-reported hours worked per worker in October. Hours worked refer to contractual (i.e. normal) hours worked for workers with monthly wages and to actual hours worked for workers paid by the hour. The dependent variable in column (4) is the fraction of employees with bonuses above 5,000 in 2010 CHF. Panel A reports results for all employees aged 20–60 (excluding public sector employees). Panel B is restricted to workers with individual wage contracts. Panel C is restricted to workers falling under a collective (firm-, occupation-, or industry-wide) bargaining agreement. Panel D is restricted to workers in jobs with the main activities examining, advising, and attesting.

The results from the table confirm our graphical evidence. There is a significant effect of 1.5% on total earnings for the total sample—an estimate that is in line with our baseline estimate in Table 2 based on the social security data. The effect on earnings is much stronger (4.5%) in the job category examining/advising/attesting. This effect on total earnings is driven by an effect on hourly wage rates of 1.2% (also much stronger for the examining/advising/attesting sector). The effect on hours of work is very small (0.3%) and insignificant. The effect on hours of work is stronger (0.8%) and significant for workers in individual contracts. The effect on bonuses is fairly large (around 10%)

but not quite significant due to the noise in the series.

Response to local tax levels. Next, we examine heterogeneity in tax holiday effects by the size of local taxes, exploiting the rich variation in tax rates that we documented in Figure 1. We focus on high earners and the self-employed as these two groups displayed the largest responses and because tax rate variation across municipalities is largest for high income earners.

Figure 13 displays average wage earnings (top) and average self-employment earnings (bottom) by year and groups of cantons from 1995 to 2005. The sample in a given year t is all individuals aged 20-60 in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census) and had average annual labor earnings (wages plus self-employment) above 250,000 CHF in 1994-1996. Earnings are expressed in 1000s of 2010 CHF (adjusted for inflation). We consider two groups of cantons: (a) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999-00 for the federal tax (in darker green), (b) 3 cantons which transitioned in 2003 with tax holiday in 2001-02 (in brown). Group (b) is further split into three subgroups of municipalities based on the level of taxes in each area: (1) low marginal tax rates in 2000 (squares, solid line), (2) medium marginal taxes (triangles, dotted line), and (3) high marginal taxes (circles, dashed line). In the series, the dots corresponding to tax holidays are bigger and are blanked out. For each of the two groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code.

Appendix Figure A13 displays the first stage. It shows that average marginal tax rates were about 6 points higher in the high tax municipalities (around 41%) than in the low tax municipalities (around 35%) just before the tax holidays. The rates are high because we focus on high income earners. This implies that the high tax group experienced a net of tax rate increase of 69.5% during the tax holiday while the low tax group experienced a net of tax rate increase of 54%. Hence we should expect a behavioral response 29% larger in the high tax group if responses are proportional of the change in net-of-tax rates.

The top panel of Figure 13 shows that the effects on high wage earners are approximately the same across the three groups of localities ranked by tax rates. In contrast the bottom panel shows that the spike in self-employment earnings is larger in the localities with the highest tax rates during the first blank year. Therefore, there is only weak evidence that the size of the response is related to the size of the tax rate cut. This again is suggestive evidence that the response is more likely due to tax avoidance rather than real labor supply.

Heterogeneity. We explore in appendix Table A5 whether the tax holiday effects we have uncovered are heterogeneous along various dimensions. We investigate information proxies (whether the canton held a popular referendum on the tax reform and whether this vote happened early or late), tax burden proxies (whether local average or marginal average tax rates are high), cultural proxies (French- vs. German-speaking municipalities), as well as the level of the unemployment rate. We do not find any robust evidence of heterogeneous effects along these dimensions. This suggests that none of these factors were critical in driving the responses we have found.

5.5 Robustness Checks

Controlling for canton, age, and individual fixed effects. Appendix Table A6 shows that our baseline estimates estimates of the labor supply effects of the tax holiday from Table 1 are robust if we flexibly control for canton, age, and person fixed effects. With person fixed effects, the effect of the tax holiday is purely identified from within-person variation in labor supply in these regressions. Age fixed effects control for the lifecycle labor supply profile of men and women. To parallel our previous analysis without fixed effects, we adopt the following regression strategy. We first run panel regressions on the individual level for employment, total labor earnings, wages, and self-employment earnings, separately by gender.³⁷ More specifically, for each outcome y_{it} of individual i in year t , we estimate the following panel fixed effects regression:

$$y_{it} = \gamma_i + \gamma_{canton} + \gamma_{age} + \epsilon_{it}, \quad (1)$$

where γ_i are individual fixed effects, γ_{age} are fixed effects for each year of age, and γ_{canton} are canton fixed effects. We then build aggregate time series for employment and earnings by averaging the residuals from these regressions. Reassuringly, the estimates using these residualized outcomes both qualitatively and quantitatively close to our baseline estimates.

Sampling and estimation choices. Table 4 illustrates the robustness of our results regarding certain sampling and estimation choices. We present effects on the employment rate, average earnings per person (including non-workers), average wages per employed person, and average self-employment earnings per self-employed person for men aged 20-60 in columns (1)–(4). In column (5), we present effects on the female employment rate.

³⁷Moreover, we restrict the sample to individuals with positive earnings when we focus on wage and earnings of self-employed.

Column (6) presents effects on average earnings per person for high earners (individuals with more than 200K CHF of annual earnings in 1994-1996). Panel A presents our baseline estimates for comparison.

In Panel B, we identify the effect of the tax holiday only from the response in the second cantonal blank year (if a canton has a two-year long cantonal tax holiday). The motivation to do so is the potentially greater salience of the tax holiday in the second year. The estimated effects are indeed somewhat larger by about 10-20%. We still find no evidence for an effect on the extensive margin.

Panel C and D show that our results are very similar if we only use observations with known place of residence (i.e. if we discard observations for which we had to impute the place of residence) and if we focus on Swiss nationals only, discarding foreigners.

The results are also very similar if we use wage and self-employment incomes that are not capped at 2.5 million in 2010 CHF (Panel E), or if we include the year 1998, which we dropped from the rest of the analysis and the graphs so far (Panel F). We correct for the non-random missing records in 1998 by discarding individuals that are likely to be affected by the missing data problem in 1998. To this end, we identify OASI compensation offices whose number of records is 5% lower in 1998 compared to 1997 *and* 1999. All individuals with records from these compensation offices are then dropped from the entire analysis.

Panel G uses the dataset from Panel F and includes a fourth time series for the cantons of Zurich (ZH) and Thurgau (TG) with cantonal tax holidays in 1998. The estimated Frisch elasticity for earnings tends to become somewhat smaller if we do this, but remains statistically significant and positive.

Panel H is restricted to individuals with positive labor income in previous year. We find that results are fairly similar to the baseline results in this case as well.

5.6 Permanent Exit and Permanent Entry

As we discussed above, the old system created incentives to enter work with low initial earnings and conversely to have high earnings just before retirement. Such responses are also Frisch responses to the double taxation of entry earnings and tax exemption of earnings just before retirement that the old system created. The old system had been in place for many decades and hence in principle knowledge about these features should have been pervasive leaving time for people to plan ahead and respond. Therefore, we should expect those responses to be likely larger than the response to the one time and less anticipated tax holidays we have studied.

Retirement. In the old tax system, retirement triggered a betwixt assessment, leading to tax exemption for earnings made during the tax period when the person retired. Figure 14 examines whether workers responded to this tax exemption by having higher earnings just before retirement. The figure depicts average monthly wages of retirees in the months preceding retirement. The top panel focuses on male employees aged 61–69 (± 4 years around the legal retirement age of 65) and the bottom panel female employees and self-employed aged 58–66 (retirement age 62) that retire in the years 1993–1996.

In the figure, the time index is equal to zero ($t = 0$) in December of the year of retirement. We track average wages of three groups: (i) workers in cantons with two-year long tax periods that retire in an even year. Due to the betwixt assessment at retirement, their labor earnings in the year of retirement and in the year before are tax exempt. (ii) Workers in cantons with two-year long tax periods that retire in an odd year. (iii) Workers in cantons with one-year tax period. For groups (ii) and (iii), only the labor incomes in the year of retirement are tax exempt. Note that average wages are always computed among workers not yet retired. As a result, the sample is not the same across time as more and more individuals retire.

We drop all observations in which retirement occurs in December because the timing of retirement is not correctly recorded in the majority of these cases. In the series, the dots corresponding to tax holidays are bigger and are blanked out.

Entry. In the old tax system, incomes earned in the tax period of entry formed the tax base in the entry tax period and the following tax period, leading to double taxation of entry earnings. Figure 15 analyzes whether workers responded to the double taxation by entering late and/or by having low earnings in the tax period of entry. We focus on individuals aged 20–30 that enter the labor market in the period 1993–1996. Entrants are defined as individuals with positive earnings in a specific month that did not participate in the labor market in the prior 24 months, i.e. who had neither labor earnings nor unemployment benefits. Starting to work triggered a betwixt assessment for these individuals. We differentiate between workers in cantons with one- and two-year long tax periods in the old system. The time index t is set to 0 in December 1994 for individuals entering 1993/1994 and December 1996 for individuals entering 1995/1996. The top panel shows the share of all entrants of a given two-year tax period that are employed in a given month. The bottom panel shows average earnings per entering worker, indexed to 100 in $t = 12$. We drop all observations in which entry occurs in January because the timing of entry is not correctly recorded in the majority of these cases.

6 Conclusion

Our paper has estimated the intertemporal labor supply (Frisch) elasticity of substitution exploiting an unusual tax policy change in Switzerland. In the late 1990s, Switzerland switched from an income tax system where current taxes were based on the previous two years of income to a standard annual pay-as-you go system. This transition created a two-year long, salient, and well advertised tax holiday. This change occurred both for the federal and local income taxes. Swiss cantons switched to the new regime at different points in time during the 1997–2003 period with large heterogeneity in local tax levels across places. Exploiting such rich local variation, and using population-wide administrative social security earnings data matched with census data, we identify the Frisch elasticity.

Overall, we can draw the following conclusions. First, there is no evidence at all of responses along the extensive margin, even for sub-groups likely to be more elastic such as married women. Second, there is a small aggregate response of wage earnings which is concentrated at the top of the earnings distribution for individuals with earnings above 100,000 CHF (top 5%) and no statistically significant responses for wage earnings below. The overall Frisch elasticity for wage earners is .05 and is about .1 for high wage earners. Third, there is a larger response of self-employment earnings that is present at all earnings level (and not just the top) with a Frisch elasticity around .3. Fourth, effects are concentrated among men with essentially no effects for women and even married women, in contrast to the standard findings in the labor supply literature. Fifth, most of these responses are visible for the last wave of transitioning cantons with tax holidays in 2001-2002. Responses for earlier transitions such as 1997-1998 or 1999-2000 appear to be much muted. This latter effect might be due to learning as it might take time for the public to understand tax holidays and how to respond to them.

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Online Appendix

A.1 Data Description

We are using several data sources for our empirical analysis.

A.1.1 Matched SSER-Census Data

The main data set used in the empirical analysis tracks the entire labor market history of the population of Switzerland. To this end, we merge the register-based population census of Switzerland as of December 2010 merged (via a social security number) to 100% of the social security earnings records (SSER) from the Old-Age and Survivors' Insurance (OASI, AHV in German), covering the period 1981–2012.³⁸ We match to census data because the social security data do not contain geographical and marital information which are key for our empirical design.

In the SSER data, employed or self-employed individuals generate one record per job per year that details the starting and ending month of an employment relationship along with the total earnings over that time period. For example, a person with two different employers and also some self-employment income would generate three records.³⁹ Finally, the register also contains contributions of non-employed individuals (e.g. students) because contributions to the old-age scheme are mandatory from age 20 onward until reaching the statutory retirement age. The statutory retirement age was 65 for men throughout our sample period. For women, it was increased from 62 to 63 in 2001 and to 64 in 2005 as part of the 10th OASI reform implemented in 1997. Besides the retirement age, the reform increased compulsory coverage of non-employed married and widowed women below retirement age, who had been exempt from annual contributions towards the OASI before.

Because virtually everybody generates a record at some point in their life, our matched data set contains 99% of the permanent population aged 20–64 in 2010. Naturally, as we move back in time, the sample coverage of persons aged 20–64 gets slightly smaller because certain individuals that lived in Switzerland in these earlier years died or emigrated and hence are not in the 2010 census. Figure A4 illustrates the sample coverage of our data. It compares the number of individuals aged 20–64 in the matched data set with data on the actual population aged 20–64 in a given year. The latter data are taken from the official population statistics of the Federal Statistical Office. The figure shows that our matched data set contains 91% of all individuals aged 20–64 living in Switzerland in 2000.

In Figure A5, we compare the employment rate of 20 to 64 year-old Swiss men and women in our data with the employment rate of these groups according to the SLFS. We observe that the employment rates are slightly higher in our data than they are in the SLFS, which is probably

³⁸Unfortunately, the 2000 Census does not have social security numbers and hence cannot be matched to the earnings data.

³⁹Moreover, the data contain individual records for unemployment benefits and disability pensions as well as income compensation allowances in the event of military service or maternity.

because our data do not contain a small number of individuals that do not participate in the labor market.

While the data hence covers the near universe of the population of Switzerland, the matched data set has some disadvantages, too. First, the earnings records in 1998 are incomplete. The share of wage earners for which records are missing is about 5%. It is not entirely clear why these records are missing (see the discussion below). The missing records prevent us from analyzing aggregate outcomes in 1998, as the problem of missing records is not equally distributed across cantons. Second, the register-based census 2010 does not contain information on some variables of interest normally available in census data such as schooling/education, occupation, or number of children. Third, we only observe the characteristics of individuals as of 2010. This is a concern for characteristics that can change over time, especially an individual's place of residence, marital status and immigrant status or citizenship. The census provides information on how these characteristics changed in the past, allowing us to reconstruct the information for years prior to 2010. Nevertheless we have to impute some of the data points making a set of assumptions. We discuss the imputations procedures for the three variables in the following subsections.

Missing records in 1998. The earnings records in the year 1998 are incomplete. About 4.5–5.5% of all records are missing. Figure A16 illustrates this. The reasons for the missing observations are not entirely clear. According to statisticians of the compensation office, the missings most likely arise because one of the IT pools, which are responsible for delivering the earnings records of several equalization funds (*Ausgleichskassen*), had IT problems at the time. As one IT pool handles several equalization funds, several equalization funds have missing records in 1998. The problem for us is the missing data problem does not affect all cantons to the same extent. Only the equalization funds at the respective IT pool are affected. Our analysis suggests that the equalization fund of the cantons of St. Gallen and Fribourg were strongly affected. The problem with the missing records remained unnoticed at the time because statistics that are based on the earnings records were only published in odd years. Inquiries revealed that it would be impossible to try to recover the missing records as of today. The reason is that many affected workers are retired by now. The equalizations funds discard the data for retired workers. When using aggregate data, we thus discard observations from 1998 to ensure that our graphical analysis is not affected by this data problem.

Place of residence. Apart from the place of residence in 2010, the data provide the following information: (1) year a person moved to the municipality, (2) municipality of residence 1, 2 and 5 years ago, (3) last municipality of residence.

Using this information, we can assign a known municipality of residence to roughly two thirds of the individuals in the relevant period (i.e. 1997–2003, see Figure A17a). If we are willing to assume that individuals paid taxes for at least 8 years in the municipality they come from—8 years is the median duration of stay in the municipality of residence of 20–64 year olds in the census 2010—we can impute roughly 90% of the places of residence. However, our

baseline strategy is to assign all individuals to the last known municipality. Two comments on this assumption are in order. First, the problem of missing information on the place of residence is smaller for older individuals, as individuals usually become more settled, the older they get. Second, the assumption is not as strong for the imputation of canton (rather than the municipality) of residence because only 26% of the observed moves in our data occur across cantons.

We can evaluate the accuracy of our imputation when it comes to the canton of residence. The reason is that the data identify cantonal unemployment agencies paying unemployment benefits. Since the unemployed are assigned to cantonal agencies based on their canton of residence, we can compare the imputed canton of residence of registered unemployed with the canton of their unemployment agency. Figure A17b provides a summary of the results of this accuracy test. It shows the share of correctly assigned cantons of residence for individuals for which we actually know the canton of residence due to the information in the census and for all individuals, including the imputed places of residence. The figure shows that the share of correctly assigned cantons of residences is around 90% in 2000, where the canton of residence is only known for 66% of the sample.

Immigrant status. Information on the residency status of immigrants is important in our analysis because immigrants only pay taxes in Switzerland if they either have a residency permit C or obtained the Swiss citizenship. We impute the missing information on the immigrant status in the years before 2010 using information on when an individual arrived in Switzerland, which is reported in the 2010 census. In particular, we assume that an immigrant has a permit C or gained the Swiss passport—and thus pays taxes in Switzerland—if he or she lived in Switzerland for at least 10 years. Figure A18 provides the motivation for this approach using data from the 2010 census. It shows that ten years after immigration 86% of all foreign born have a C permit or a Swiss passport. Moreover, we know the residence status in 2010. We can thus reassign individuals that are thought to be either Swiss citizen or C permit holders in 2010 which in fact are not.

Marital status. Marital status is an important variable as it affects both the potential labor supply response and the tax rate faced by individuals due to joint filing. In addition to the marital status and a variable on whether someone is separated in 2010, the census data provide the following information: (1) year when the marital status changed (if applicable), (2) year of separation (if applicable).

Based on this information, it is possible to reconstruct the history of an individual's marital status up to the last change. Prior to that event, however, we need to make different assumptions to impute the marital status. Note that we need the information on separated but (yet) undivorced individuals because they are taxed as singles. Figure A19 below shows the share of the population aged 35 to 75 in 2010 for which the civil status is known according to different imputation approaches. The bottom line makes the weakest assumption, assuming only that

before divorce or widowhood (marriage) someone was married (single) for at least one year. According to these assumptions, the share of individuals with respect to the total population aged 35 to 75 in 2010 with known civil status lies at 80% in 1995 and increases up to 98% in 2010. In the next line this assumption is extended to having been married for at least 7 years before divorce or widowhood. With the average duration of marriage before divorce being 14 years, this is still not a very strong assumption. In the next scenario (third line from below) we make more sophisticated, gender-specific assumptions on marriage behavior based on age at time of marriage, divorce, and dissolved same-sex partnerships. First, we assume that those who married before the median marriage age (men: 28, women: 26) were single before. Everyone we assume was single for at least one year before getting married. Those who were in their 40s when they got married we assume that they were single for at least two years before getting (re-)married. The reason is that at that age it is more likely that they have children from an earlier marriage, in which case we assume a divorce to take longer. In case a couple does not reach an amicable agreement on the divorce, 2 years is the time period a couple has to be factually separated before they can get a divorce at a court. Unfortunately, the data do not provide any information on whether someone has children. Those who divorced at the median age of divorce or earlier (men: 43, women: 40) are assumed to having been married since the gender-specific median age of getting married (men: 28, women: 26). Similarly, for widows and widowers we assume that they have been married since the gender-specific median age of getting married. For someone coming out of a same-sex partnership we assume that they were married since 2007, first year in which a legal union between same-sex couples was possible, and that they were single for 7 years prior to getting married. The top line finally is based on an imputation method which assumes that the change in civil status recorded in the data is the only one that ever took place. In this scenario everyone was single before getting married, and every divorce or widowhood was preceded by a marriage which started at the average marriage age (men: 30, women: 29). Before that age, individuals who are divorced in 2010 are assumed to have been single. For dissolved same-sex partnerships we assume that they started no earlier than the average marriage age but always later than 2006, and that before that, the person was always single. These strong assumptions allow to assign a marital status to everyone in the sample, corresponding to 98% of the Swiss population aged 35 to 75 in 2010 throughout the period 1990–2010.

Missing contribution types for non-pensionable incomes prior to 2000. The SSER has separate records for so-called non-pensionable incomes. These are entries for earnings from (a) individuals in the year they reach the legal retirement age, (b) individuals who continue to work past their retirement age, and (c) old age benefits collected by persons who retire before reaching the legal retirement age. The problem with these records is that the variable *cspecial* is not well recorded prior to 2000. This variable indicates whether non-pensionable incomes represent earnings from self-employment, dependent employment, or other types of incomes. We can be quite certain that non-zero earnings recorded as non-pensionable income in this

period indicate that a person was employed, as early claiming of old age pensions was not yet possible prior to 2000. However, we do not know whether these incomes stem from wage or self-employment. We impute this information using the following procedure. We first use information on *cspecial* for the same individual for years posterior to 1999. If this does not work, we exploit information on the individual's past labor market histories. On the one hand, we use the income source of the highest income earned in the last working year. On the other hand, we use the share of wage-, self-, or nonemployment records in all records of an individual in the 3 years up to the last working year.

A.1.2 Labor Force Survey (SLFS)

This labor force survey is the equivalent of the US Current Population Survey.

Sample

- Swiss nationals and foreign nationals with permit C
- Ages 15–70

Outcomes considered

- Employment rate: fraction of people employed as a share of the permanent population (refers to employment in week before survey)
- Full-time equivalents: average activity level of individuals as a percentage of a full-time employment (full-time employees: 1=100%), 0 for people who are not employed
- Number of jobs: number of jobs held in week before survey (EX01, LX01 and TBD1), 0 for people who are not employed
- Self-reported earnings: Yearly gross earnings (BWU1)
- Hours worked: Hours effectively worked in week before the survey (EK08, refers to all jobs held), 0 for people who are not employed
- Overtime hours: average hours of overtime work per week in main job in 12 months prior to survey (EK12, note that there is a timing problem, as survey is in Q2!), 0 for people who are not employed
- Stated desired hours of work, part-time workers (EK07).

A.1.3 Wage Structure Survey (LSE)

The Swiss wage structure surveys have been conducted every two years by the Swiss Federal Statistical Office (FSO) since 1994. They are a stratified random sample of private and public firms with at least three full-time-equivalent (FTE) workers from the manufacturing and service sectors in Switzerland. They cover between 16.6% (1996) and 50% (2010) of total employment in Switzerland. Participation is mandatory. The surveys contain extensive information on the individual characteristics of workers and provide reliable information on hours worked per worker. Moreover, they provide detailed information on the wage components of each worker, providing, among others, detailed information on overtime pay and bonus payments per worker.

Sample

- Swiss nationals and foreign nationals with permit C
- Ages 15–70
- Years 1996–2010 (the survey in 1994 only covers manufacturing)
- Due to the sampling of the survey:
 - Firms with more than 3 workers in the private and public sector
 - Excluded are (i) public sector employees in municipalities (until 2006), (ii) agriculture, and (iii) apprentices and interns
 - If possible, workers are assigned to cantons over the zipcode and not over the variable `arbkt0` which is the canton in which most workers of a firm work. The zipcode variable is likely to serve as an identifier for the establishment/plant.
 - We drop observations with missing information on gender, nationality, and civil status.

Outcomes considered (see variable lists “ESS-LSE Codebook 2010 fr” and ”ESS-LSE Questionnaire 2010 fr” for more information)

- Indicators of labor supply
 - Number of workers, measured in October
 - Full-time equivalents (FTE): activity level of employed workers as a percentage of a full-time employment (full-time employees: 1=100%), in October
 - Hours worked: hours worked of employed workers in October (for workers paid a monthly wage: 4 1/3 times effective weekly working time)
- Wage components (see “Erläuterungen” for the wage concept of the survey):
 - Standardized monthly wage: Wage in October including variable wage components except overtime pay, adjusted for working time (see ESS-LSE Description variables fr for details on the computation)
 - Net monthly wage: monthly wage excluding social security contributions and including *all* wage components
 - Gross salary in October including social security contributions
 - Overtime pay in October
 - Extra monthly wage(s): 13th/14th payments of basic wage
 - Bonus: Bonuses, premiums, employee profit sharing and other non-regular wage payments to the worker for the entire year of the survey
 - Other extra pay: extra pay for difficult working conditions (e.g. shift work)

A.1.4 Income Tax Rates Data

None of the above micro data sets includes individual’s tax rates. We therefore merge the statutory tax rate for a given income in a given municipality to these data. Income tax rate data have been collected and made available by [Parchet \(2014\)](#) for this project. The data set is based on average effective tax rates on gross income published by the Federal Tax Administration for the 800 (approximately) largest municipalities. These tax rates are defined as shares of the consolidated cantonal, municipal and church tax liability in gross annual income for differ-

ent categories of taxpayers (unmarried, married without children, married with two children, retired) and gross income classes (from CHF 10,000 to CHF 1,000,000). [Parchet \(2014\)](#) has collected the municipal tax multipliers for all municipalities between 1983 and 2014 and, using the fact that intracantonal differences in consolidated tax rates are almost entirely due to municipal tax multipliers, has estimated the total average tax rate for all municipalities and taxpayers.

Missing Cantons. Unfortunately, tax rates cannot be estimated with this method for the cantons of Appenzell Innerhoden and Neuchâtel before 2001. In the former, multipliers are not available; in the latter, municipalities could set their own tax schedule. For these cases, predicting consolidated tax rates is not possible, nor is the estimation of the cantonal tax rate. Tax rates for these cantons are therefore missing.

Marginal Tax Rates. We linearly interpolate the tax rates in steps of 1,000 CHF between the income brackets provided in the original data. For incomes above 1 million CHF we assume a constant average tax rate. Our estimates of the marginal tax rate are based on the local changes in the tax rate in steps of 1,000 CHF.

Municipality Mergers. The consolidated tax rates and tax multipliers are published in real time for each municipality as it exists in a given year. The location information we obtain from the Census data refers to the registers of municipalities as of November 2010. Since there has been an ongoing trend in mergers of small municipalities over time, it is not possible to perform a 1:1 match on the tax rate data. We therefore update the municipality codes in the tax rate data to match the municipality registers as of November 2010. Individuals living in a merged municipality, we assign the average tax rate of the merged municipalities. Individuals living in a newly created municipality, we assign the average tax rate that was applied on this territory prior to the secession.

A.2 Further Robustness Checks

Effects in the Labor Force Survey. Figure [A8](#) displays various employment outcomes using the the Labor Force Survey (SLFS): (a) employment rate, (b) earnings, (c) hours of work per week among employees, (d) average hourly earnings among employees. The sample in a given year t includes all individuals aged 20-60. For hours of work and hourly earnings, we restrict the sample to employees. We consider 3 groups of cantons. (1) 2 cantons which transitioned in 1999 with a tax holiday in 1998 or 1997-98 (in blue), (2) 20 cantons which transitioned in 2001 with a tax holiday in 1999-00 or 2000 (in green), (3) 3 cantons which transitioned in 2003 with tax holiday in 2001-02 (in brown). In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). The figure does not display any tax holiday effects on these outcomes. Given the noise in the series due to small sample size, this is consistent with our previous analysis using the much larger social security data and the wage structure survey.

Early transition cantons. In the main text, we did not analyze the early tax holiday in the cantons of Zurich and Thurgau because of lack of complete data in 1998 (see above). In Figures A6 and A14, we have examined the effect of the early tax holiday in the cantons of Zurich and Thurgau. We deal with the non-random missings in 1998 by discarding individuals that are likely to be affected by the missing data problem in 1998. To this end, we identify OASI compensation offices whose number of records is 5% lower in 1998 compared to 1997 and 1999. All individuals with records from these compensation offices are then dropped from the entire analysis.

Figure A6 displays the employment rate by year and groups of cantons from 1990 to 2010. The top panel is for men and the bottom panel for women. The sample in a given year t is all individuals aged 20-60 in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census). The employment rate is computed as the fraction of individuals in the sample with positive earnings (either from wages or self-employment) during the year. The two groups of cantons are: (1) 2 cantons which transitioned in 1999 with a tax holiday in 1999 for local taxes and 1999-00 for the federal tax (in blue), (2b) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999-00 for the federal tax (in darker green). There is no visible effect on employment rates for the early transition counties.

Figure A14 displays average wage earnings (top) and average self-employment earnings (bottom) by year and groups of cantons from 1990 to 2010. The sample in a given year t is all individuals aged 20-60 in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census) and had average annual labor earnings (wages plus self-employment) above 200,000 CHF in 1994-1996. Earnings are expressed in 1000s of 2010 CHF (adjusted for inflation). The two groups of cantons are: (1) 2 cantons which transitioned in 1999 with a tax holiday in 1999 for local taxes and 1999-00 for the federal tax (in blue), (2) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999-00 for the federal tax (in darker green). The top graph provides suggestive evidence that high wage earners responded to the early tax holidays in Zurich and Thurgau. However, in contrast with our findings in the main text, there is no evidence that high self-employment earners responded to the early tax holidays.

Substitution across years. We have seen that the tax holiday did lead to increased earnings during the tax holiday especially for the self-employed and high wage earners. We analyze whether these increased earnings come at the expense of earnings in surrounding years through intertemporal substitution. To test for this, we empirically estimate whether earnings just before or just after the tax holiday are depressed (relative to control groups). Table A4 presents estimates of the tax holiday on intertemporal income shifting based on regressions of the aggregate time series for the 3 groups of cantons on year and group dummies. The covariates of interest are a dummy equal 1 in the year in which municipal and cantonal taxes are zero, and dummies for the year immediately prior and posterior to the cantonal tax holiday. The estimation sample covers all individuals aged 20-60 and the years 1990-2010, including 1998

(dropped from the rest of the tables). We deal with the non-random missings in 1998 by discarding individuals that are likely to be affected by the missing data problem in 1998. To this end, we identify OASI compensation offices whose number of records is 5% lower in 1998 compared to 1997 *and* 1999. All individuals with records from these compensation offices are then dropped from the entire analysis. The dependent variable in column (1) is annual labor earnings per person (including 0, in 1000 CHF). The dependent variable in columns (2) and (3) are the average wage per worker and the average self-employment income per self-employed in 1000 CHF, respectively. Panel A is restricted to men aged 20–60, Panel B to women aged 20–60. Individuals are assigned to Panels C and D based on their average annual labor income in the 1994–1996 period.

Overall, while the regression estimates confirm positive earnings effects during the tax holiday, all the coefficients for the year just before or just after the tax holiday are insignificant. Furthermore, there is no tendency for the coefficients to be negative, in fact more than half of the coefficients are positive. This suggests that the extra earnings during the tax holiday do not come solely at the expense of earnings in surrounding years through short-term retiming.

Betwixt assessments. Finally, we examine whether our results depend on the cantonal practices regarding the betwixt assessments before and during the transition period. Betwixt assessments triggered pay-as-you-earn taxation in the old system when a person *permanently* started or ended a job during a tax period (see section 3.3). Cantons differed somewhat in the exact rules that they applied. Moreover, a number of cantons also slightly lowered the bar for a betwixt assessment during the tax holidays. The aim was to rule out that individuals that became unemployed during the tax-free years would be worse off.⁴⁰ This raises two questions. The first is whether there are differences in the responses to the tax holiday between cantons that handled betwixt assessments more leniently and cantons that handled them more restrictively. *A priori*, we may expect that workers residing in cantons with fewer betwixt assessments may have thought to have more possibilities to adjust their labor supply or to avoid taxes during the transition. In Panel A of Table A7, we thus examine whether the labor supply effects to the tax holiday differ between cantons with a more restrictive and a more relaxed practice regarding the betwixt assessments. We assign cantons into one of two groups based on the cantonal share of taxpayers subjected to a betwixt assessment in the tax period before the tax holidays. If anything, the results suggest that the intensive margin responses are *smaller* in the cantons with a comparatively lenient practice regarding the betwixt assessments before the tax holidays. The second question raised is whether the responses to the tax holiday are different in cantons that changed their practice regarding the betwixt assessments in the transition period. To explore this, in panel C of Table A7, we split the sample according the share of taxpayers

⁴⁰In the old system, the unemployed were taxed according to their earnings from the prior tax period. Their tax burden usually adjusted to the reduced earnings only in the next tax period. However, this was not the case during the transition: if you became unemployed in the first tax-free period, your reduced labor earnings would never form the tax base. In some cantons, individuals thus became eligible for a betwixt assessment after less than 2 years of unemployment in the transition.

with a betwixt assessment *during* (rather than before) the tax holidays. Again, the results suggest larger responses in cantons with an above-average share of betwixt assessments.

Heterogeneity. Table A5 explores heterogeneity by cantonal referendum vote (vs. legislature vote), cantonal vote date, local tax burden, language region, and local unemployment. The table examines whether the effects of the tax holiday are larger in regions that fulfill the criteria of interest in each panel. All estimations are based on regressions of aggregate time series for the three canton groups with tax holidays in 1999/2000, 2000, and 2001/2002. The dependent variable in columns (1) and (5) is the employment rate (in %). The dependent variable in columns (2) and (6) is annual labor earnings per person (in 1000 CHF, including 0). The dependent variables in columns (3) and (4) are the average wage per worker and the average self-employment income per self-employed in 1000 CHF, respectively. We use two time series per canton group if the group contains both, region for which the dummy variable of interest in each panel is 0 and for which it is 1. In Panel A, the dummy blank year is interacted with a dummy that is 1 in case a canton voted about the tax reform associated with the tax holidays. In Panel B, it is interacted with a dummy that is 1 in case a canton voted about the tax reform prior to the second blank year. In Panel C, it is interacted with a dummy that is 1 for municipalities with an average tax rate in the top 33% of municipal tax rates in 1998. In Panel D, it is interacted with a dummy that is 1 for municipalities with an marginal tax rate in the top 33% of municipal tax rates in 1998. In Panel E, it is interacted with a dummy that is 1 for French-speaking municipalities. This regression is restricted to the three cantons with both, a German- and a French-speaking region (Bern, Fribourg, and Valais). In Panel F, it is interacted with a dummy that is 1 for cantons with an above-average unemployment rate among cantons in 1998. Columns 1–4 are restricted to men aged 20–60, column 5 to women aged 20–60, and column 6 to individuals with annual income exceeding an average of 200k in 2010 CHF in 1994–1996.

Overall, we find that the interaction effects are not significant implying that a cantonal vote, the date of the cantonal vote, the local tax burden, the language of the region, and local unemployment rate had not a strong impact on the size of the estimates.

Year X	1993	1994	1995	1996	1997	1998	1999	2000
Tax base for assessment period X	Incomes realized in 1991 + 1992		Incomes realized in 1993 + 1994		Incomes realized in 1995 + 1996		Income realized in 1999	Income realized in 2000
Payment of tax liability owed for year X	During 1993 and 1994		During 1995 and 1996		During 1997 and 1998		Provisional installments 1999, final assessment in 2000	Provisional installments 2000, final assessment in 2001

Figure 1: Transition from Old to New System

Notes: This figure depicts an example of a transition from the old system of biennial retrospective taxation to the new system of annual pay-as-you-go taxation in 1999. Under the old system, in 1997 and 1998, taxes are based on the average income across years 1995 and 1996. In 1999, taxes are due on current 1999 incomes. Hence, because of the transition, incomes earned in 1997 and 1998 are never taxed creating a two-year tax holiday.

Blank years due to the tax reforms

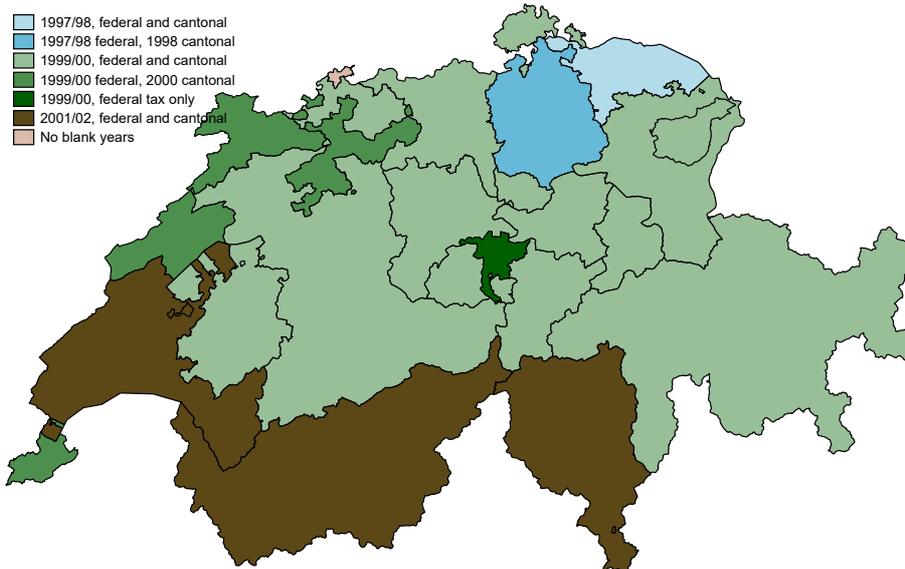


Figure 2: Tax Transition Across Swiss Cantons

Notes: This figure depicts timing of the transition across the 26 Swiss cantons. For the federal income tax, the tax holiday was either 1997/98 (cantons in blue), 1999/00 (cantons in green), or 2001/02 (cantons in brown). Generally, the tax holiday for the local (cantonal and municipal) income tax was the same as for the federal tax. However, for cantons which were using annual assessment periods (instead of biennial), the tax holiday for local taxes is only one year. These cantons are depicted in darker blue and darker green. One canton (Nidwalden in very dark green) had no local tax holiday at all because it chose a different transition tax. One canton (Basel in pink) transitioned earlier and hence had no tax holiday.

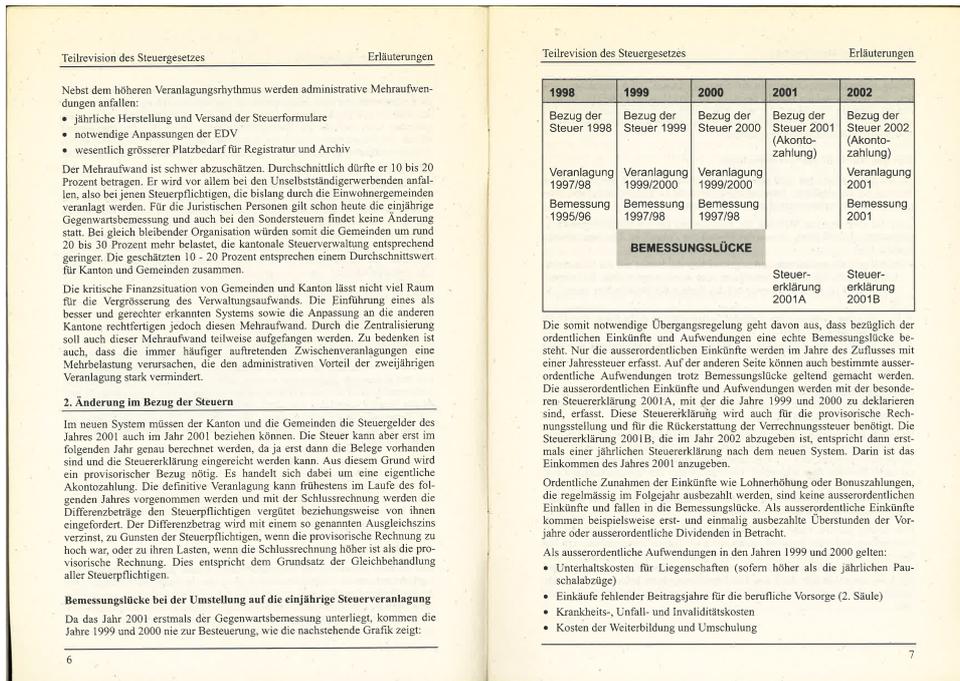


Figure 3: Explanation of the Blank Years for the Voters

Notes: The figure depicts the voting pamphlet explaining the incidence of blank years (“Bemessungslücke”) sent to voters before the tax reform referendum for the canton of Obwalden. Such voting documents were typically produced in cantons organizing a referendum for the tax transition.

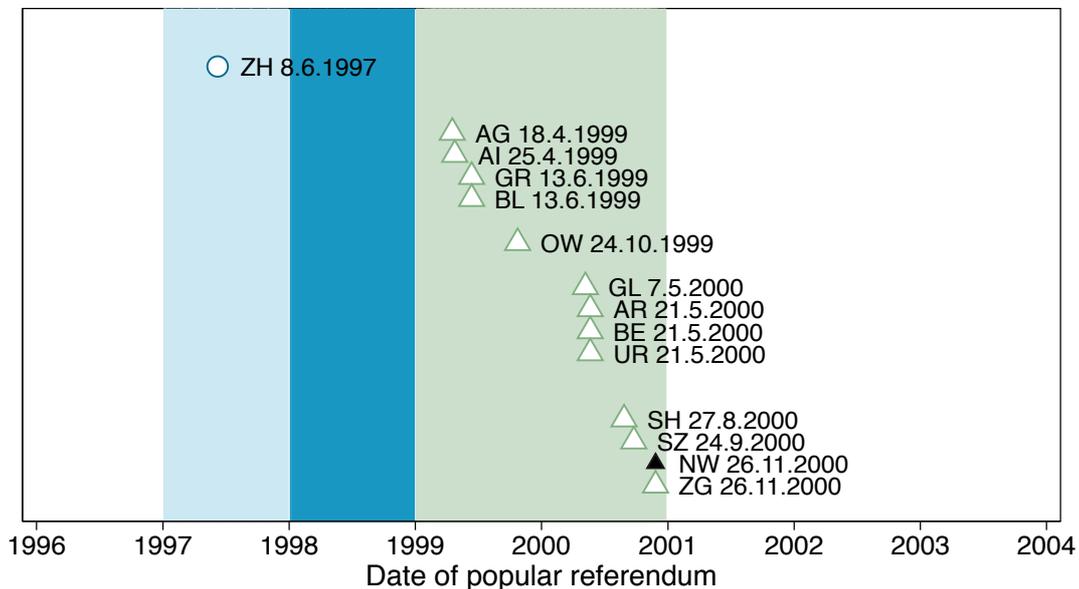


Figure 4: Dates of Cantonal Referenda

Notes: The figure depicts the dates of cantonal referenda held in each canton where the new law was put to a public vote. The colored time frames indicate periods of the federal and cantonal tax holidays applying to the cantons where a vote was held. Note that NW only had a federal holiday. The voting referendum was the very last part of the reform process.

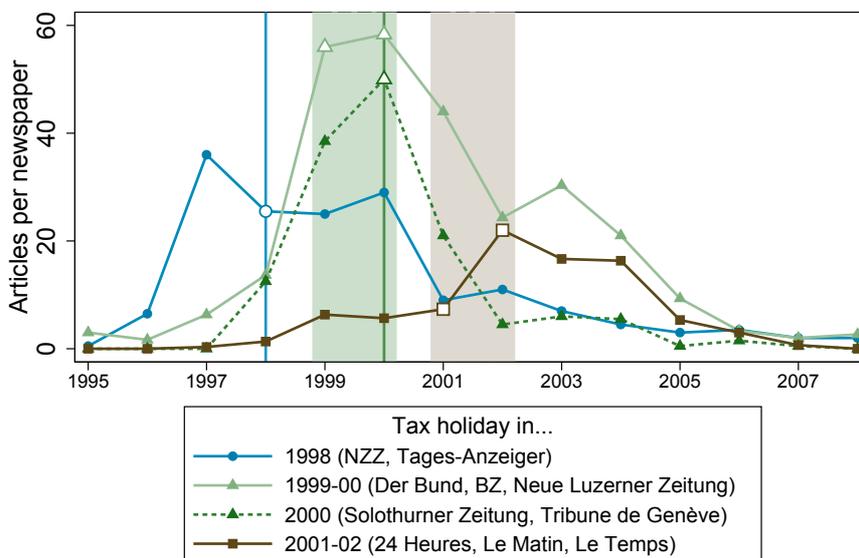


Figure 5: Press articles referring to the Tax Holiday

Notes: The top panel shows an illustration of a press article explaining the tax reform and the tax holiday it creates. The article was published in February 16, 2001 for the canton of Valais which transitioned in 2003 and hence had a tax holiday for years 2001 and 2002. Hence, as early as the beginning the first holiday year, the public was clearly informed that incomes earned in 2001 and 2002 would not be taxed. The bottom panel shows the number of press articles mentioning the word “Bemessungslücke” (blank year) and the French term “brèche fiscale”, or other expressions used to refer to the reform in German and French (Gegenwartsbesteuerung, Gegenwartsbemessung, postnumerando, pränumerando, brèche de calcul, trou de taxation, taxation bianuelle, taxation annuelle) by year and most major newspapers. The figure displays four series: (1) the series in blue is for two Zurich based newspapers, (2) the series in light green for three Bern and Lucerne based newspapers, (3) the dashed series in dark green for two Geneva and a Solothurn based newspapers, (4) and the series in brown for three Vaud and Valais based newspapers. The tax holiday for Zurich is depicted in blue, the tax holiday for Bern and Lucerne is depicted in light green, the tax holiday for Geneva and Solothurn is depicted in dark green, the tax holiday for Valais and Vaud is depicted in light brown. The figure shows that local press interest in the tax holiday typically peaked during the years when the actual tax holidays happened locally.

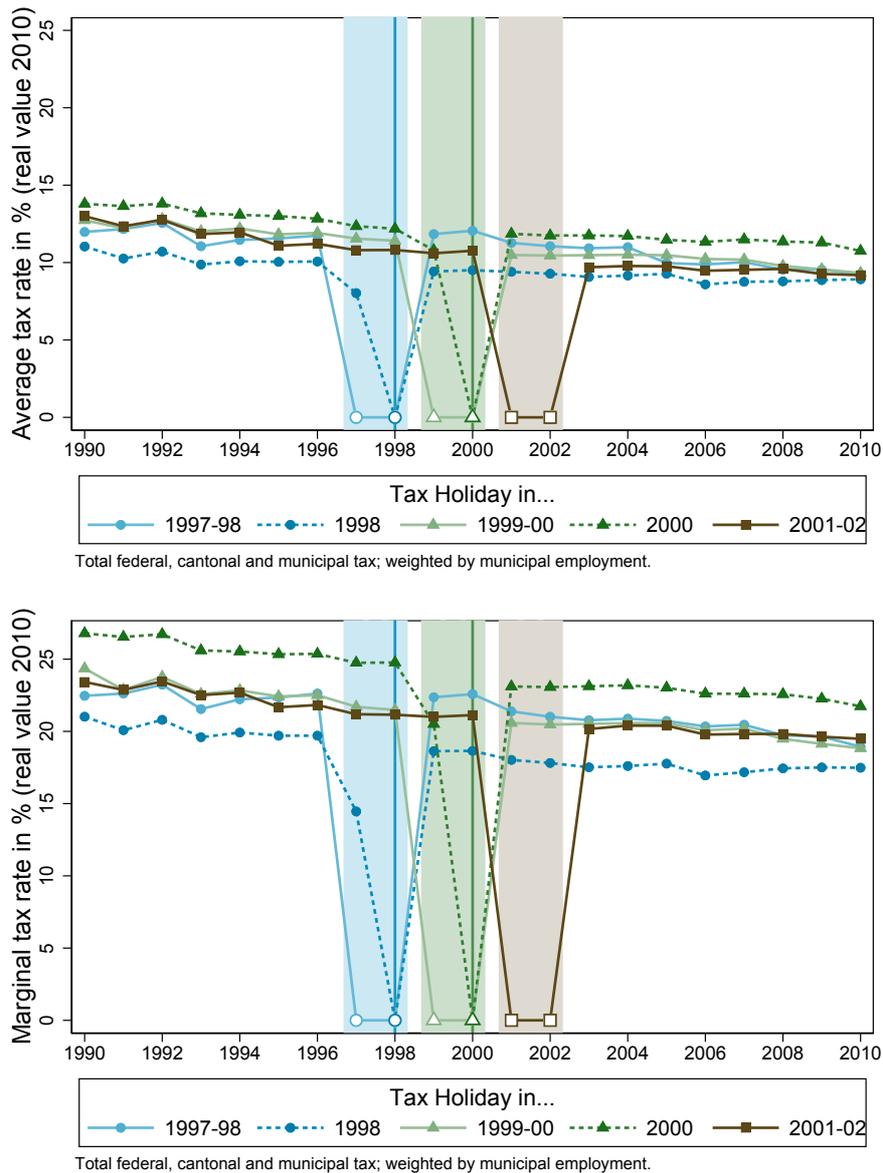


Figure 6: Effect of Tax Reform on Average and Marginal Tax Rates

Notes: This figure displays the average income tax rate (top panel) and average marginal income tax rate (bottom panel) for employed persons in our sample by year and groups of cantons from 1990 to 2010. Tax rates include federal, cantonal, and municipal income taxes. We use tax rates based on household income for married individuals with two children in case a person is married, and tax rates for singles in case a person is single. The average tax rate is the total income tax divided by gross income. Averages across municipalities and cantons are employment weighted. The cantons are divided in five groups based on when the tax holiday took place. (1a) light blue: tax holiday in 1997-98 (1 canton), (1b) dark blue dashed: tax holiday in 1998 (1 canton), (2a) light green: tax holiday in 1999-2000 (15 cantons), (2b) dark green: tax holiday in 2000 (4 cantons), (3) brown: tax holiday in 2001-02 (3 cantons). In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). Tax rates are naturally zero during tax holidays. Cantons with a single year tax holiday (groups 1b and 2b) also have a *federal* tax holiday the preceding year explaining the lower tax rate but it is a small effect as federal income tax revenue is only 1/6 of total income tax revenue. This graphical representation will be used in all subsequent reduced form graphs. For each of the groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code.

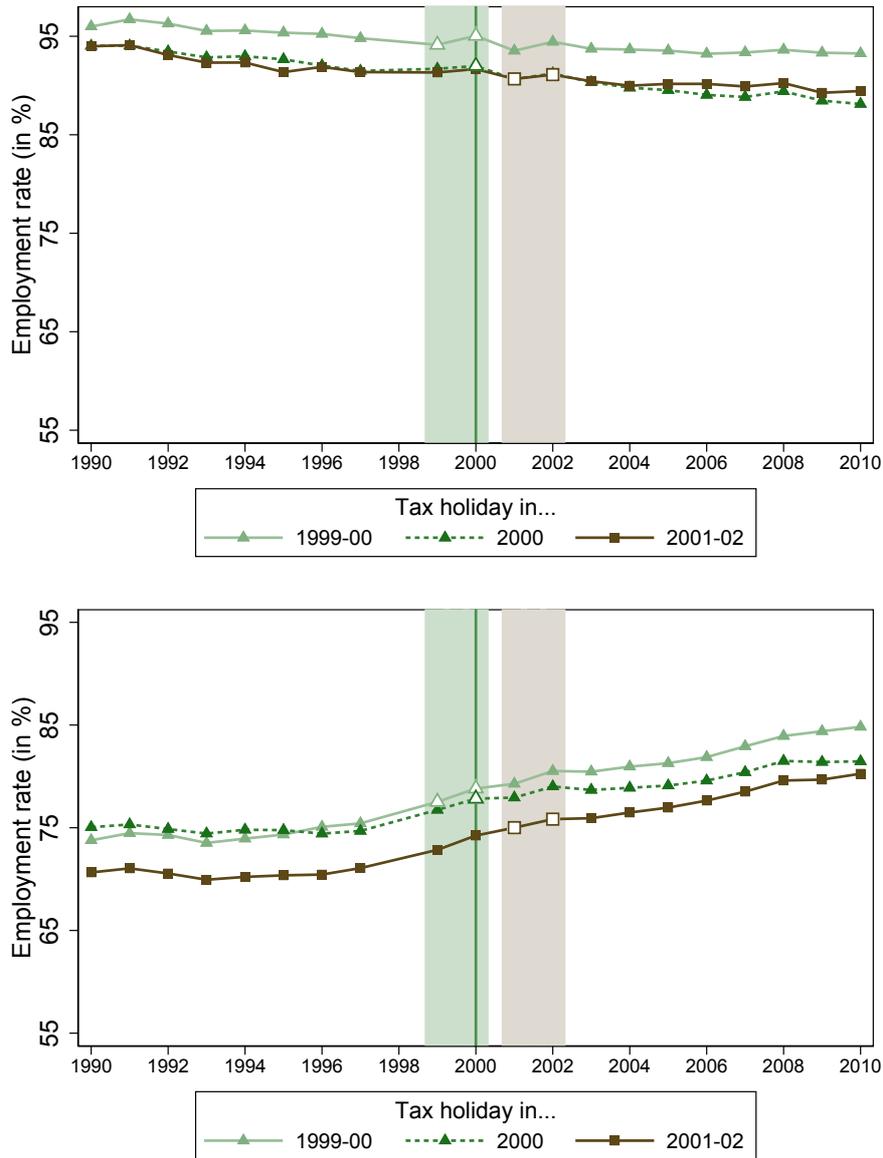


Figure 7: Effects of Tax Holiday on Employment: Males (top), Females (bottom)

Notes: This figure displays the employment rate by year and groups of cantons from 1990 to 2010. The top panel is for men and the bottom panel for women. The sample in a given year t is all individuals aged 20-60 in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census). The employment rate is computed as the fraction of individuals in the sample with positive earnings (either from wages or self-employment) during the year. The three groups of cantons are: (2a) 16 cantons which transitioned in 2001 with a tax holiday in 1999-00 for both the federal and local income taxes (in light green), (2b) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999-00 for the federal tax (in darker green), (3) 3 cantons which transitioned in 2003 with tax holiday in 2001-02 (in brown). For each of the three groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code. In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). The figure shows no evidence of employment effects.

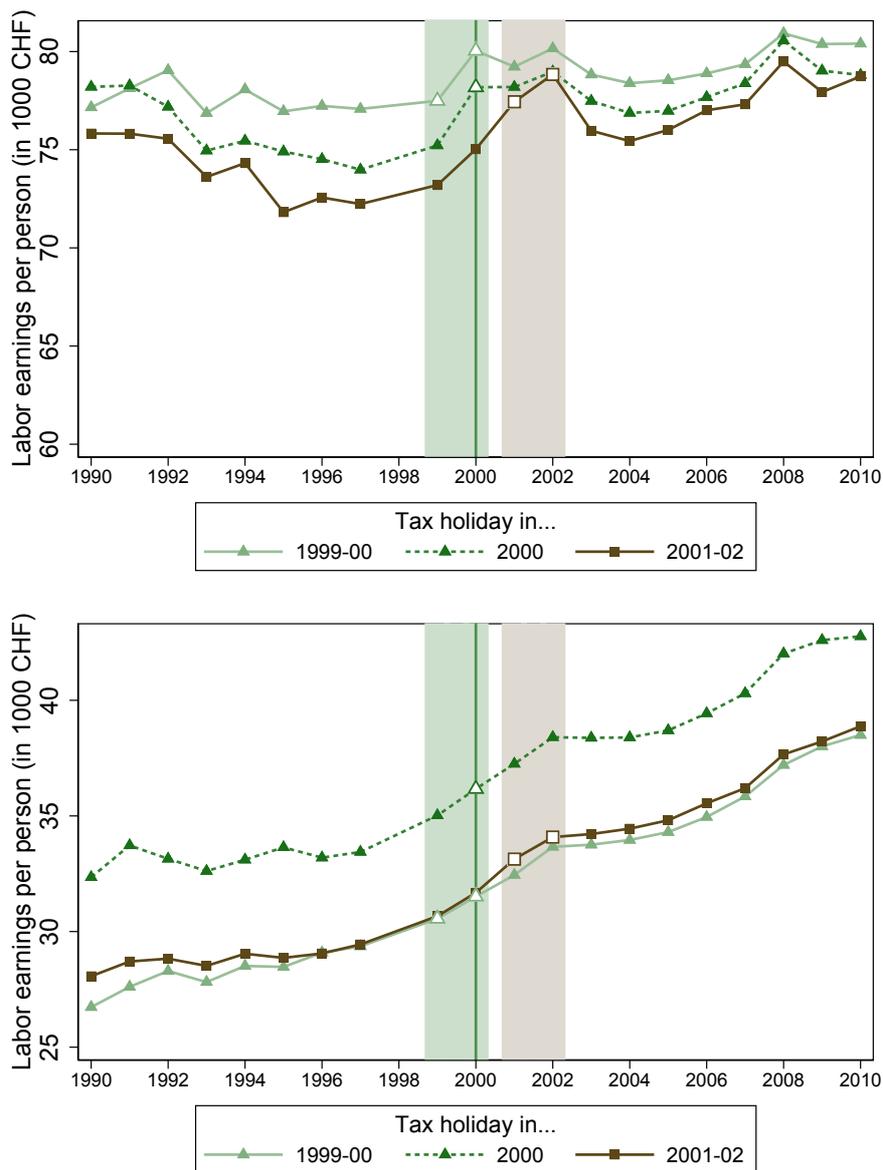


Figure 8: Effects of Tax Holiday on Earnings: Males (top), Females (bottom)

Notes: This figure displays average earnings (including non-workers) by year and groups of cantons from 1990 to 2010. The top panel is for men and the bottom panel for women. The sample in a given year t is all individuals aged 20-60 in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census). Earnings include both wage earnings and self-employment earnings and are expressed in 1000s of 2010 CHF (adjusted for inflation). The three groups of cantons are: (2a) 16 cantons which transitioned in 2001 with a tax holiday in 1999-00 for both the federal and local income taxes (in light green), (2b) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999-00 for the federal tax (in darker green), (3) 3 cantons which transitioned in 2003 with tax holiday in 2001-02 (in brown). For each of the three groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code. Both figures show no effect of the tax holiday on employment levels. In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German).

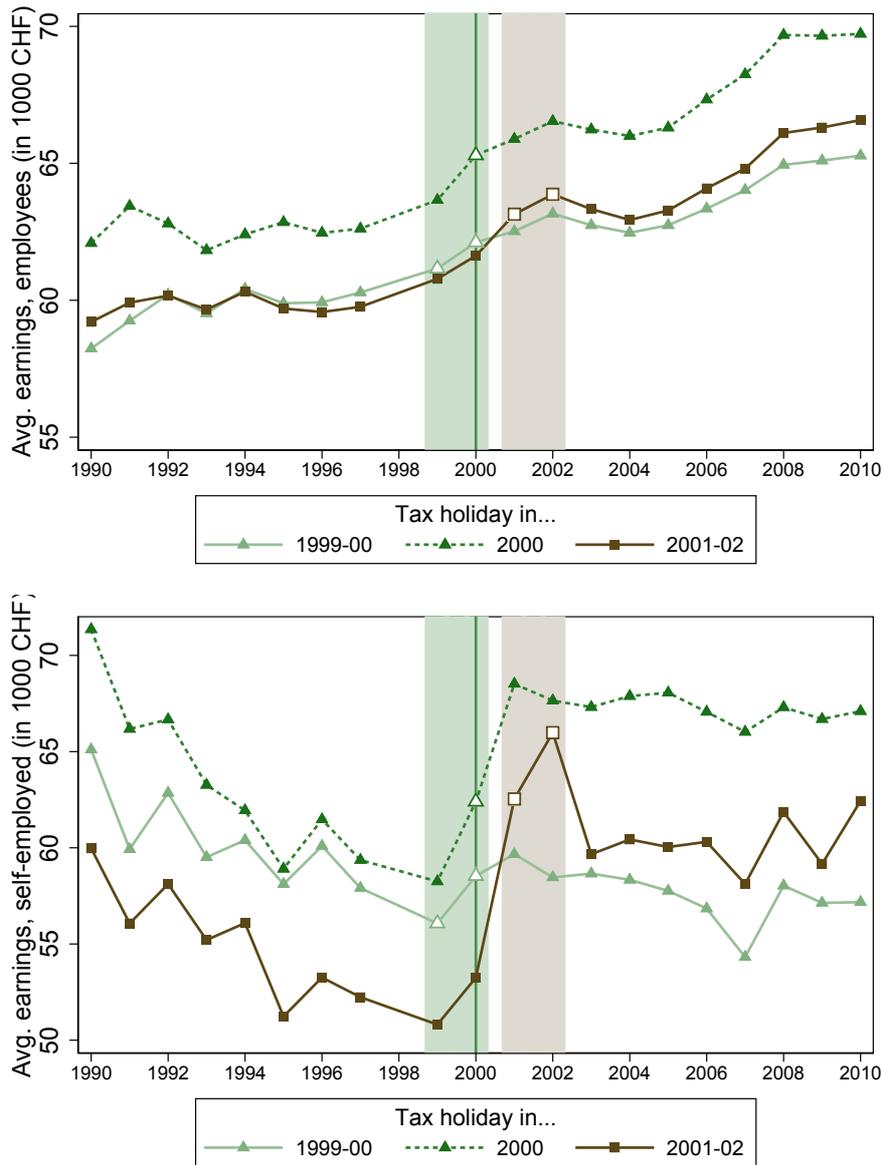


Figure 9: Effects of Tax Holiday on Wages (top) vs. Self-Employment (bottom)

Notes: This figure displays average wage earnings (top) and average self-employment earnings (bottom) by year and groups of cantons from 1990 to 2010. The sample in a given year t is all individuals aged 20-60 in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census). For the top panel on wage earnings, the sample in year t includes only individual with positive wage earnings in year t . For the bottom panel on self-employment earnings, the sample in year t includes only individual with positive self-employment earnings in year t . Earnings are expressed in 1000s of 2010 CHF (adjusted for inflation). The three groups of cantons are: (2a) 16 cantons which transitioned in 2001 with a tax holiday in 1999-00 for both the federal and local income taxes (in light green), (2b) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999-00 for the federal tax (in darker green), (3) 3 cantons which transitioned in 2003 with tax holiday in 2001-02 (in brown). In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). For each of the three groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code.

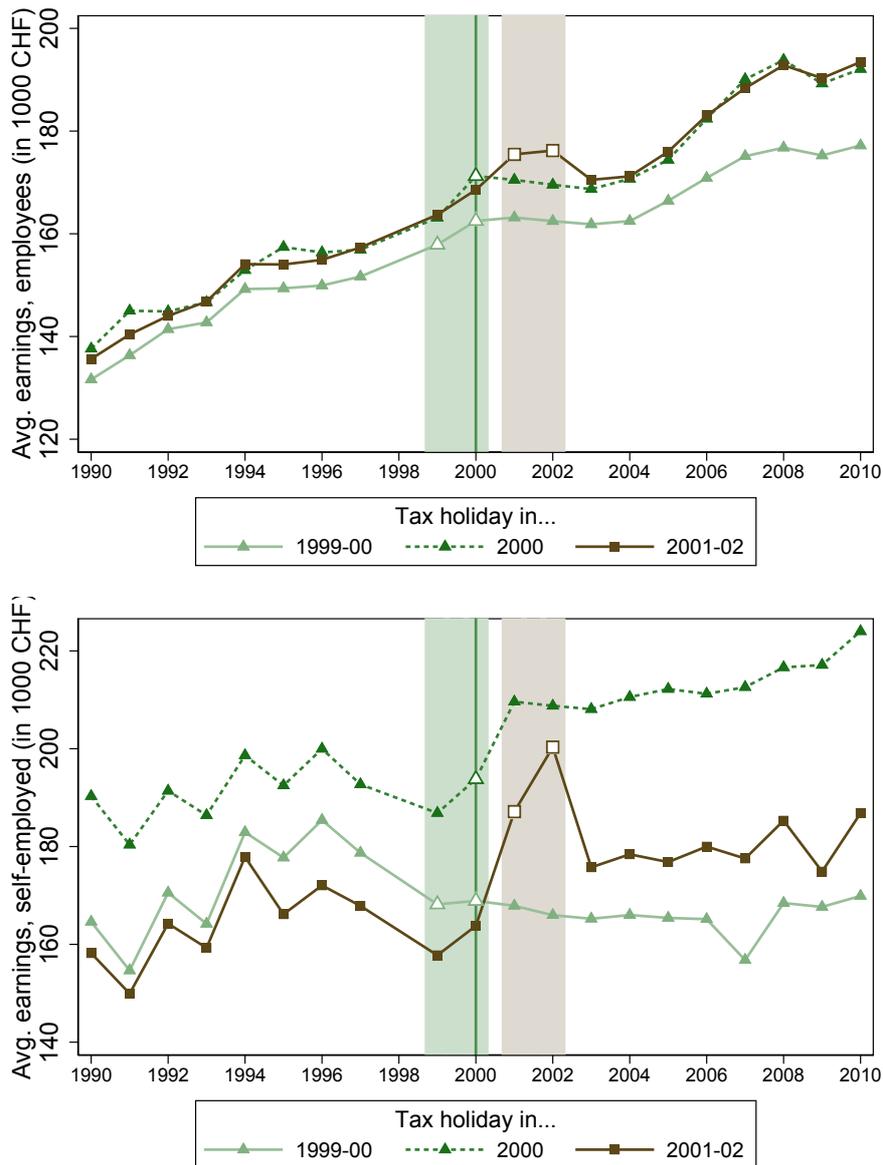


Figure 10: Effects on High Earners: Wages (top) and Self-Employment (bottom)

Notes: This figure displays average wage earnings (top) and average self-employment earnings (bottom) by year and groups of cantons from 1990 to 2010. The sample in a given year t is all individuals aged 20-60 in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census) and had average annual labor earnings (wages plus self-employment) above 200,000 CHF in 1994-1996. Earnings are expressed in 1000s of 2010 CHF (adjusted for inflation). The three groups of cantons are: (2a) 16 cantons which transitioned in 2001 with a tax holiday in 1999-00 for both the federal and local income taxes (in light green), (2b) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999-00 for the federal tax (in darker green), (3) 3 cantons which transitioned in 2003 with tax holiday in 2001-02 (in brown). In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). For each of the three groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code.

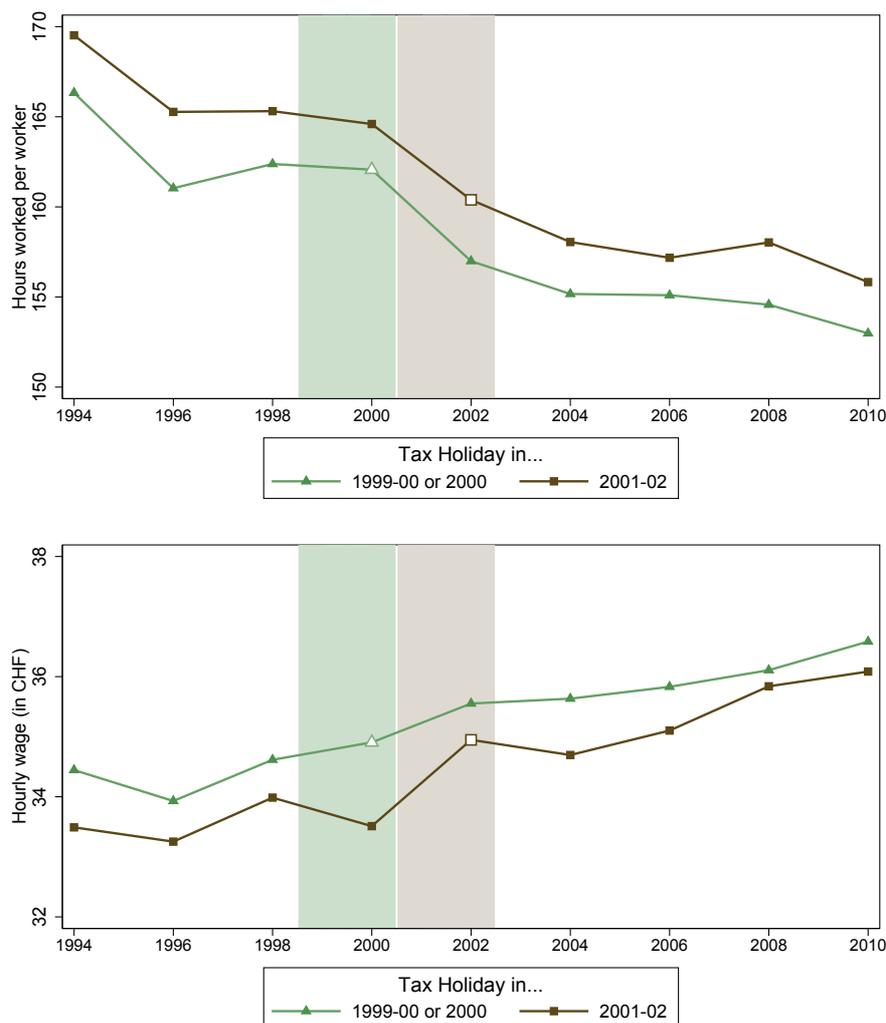


Figure 11: Effects on Hours (top) and Wage Rates (bottom) from Employer Survey

Notes: This figure uses the wage structure surveys (LSE) carried out bi-annually to depict hours of work (top panel) and hourly wage rates (bottom panel) by year and group of cantons. Hours of work and hourly wages are based on the month of October in each year. Hours worked refer to contractual (i.e. normal) hours worked for workers with monthly wages and to actual hours worked for workers paid by the hour. Wage rates incorporate regular pay but exclude overtime and variable pay components (e.g. bonuses). In both panels, the sample in each year is limited to workers aged 20–60, excluding public sector employees (workers from NACE rev. 1.2 two-digit industries 75, 80, and 85) and foreign workers that do not pay regular taxes in Switzerland (workers with resident permits with a duration of less than 10 years). We group cantons as usual by when they experienced their tax holiday. In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). Geographical information in the wage structure survey (bottom panel) is based on place of work while tax treatment is based on residence. To reduce the number of cases where a person works in one group of cantons but resides in another one, we exclude zipcodes in which more than 25% of workers live and work in different groups of cantons according to the census in 2000. The top panel shows at best a very small response of hours of work to the tax holiday while the bottom panel shows evidence of a positive response of wage rates to the tax holiday.

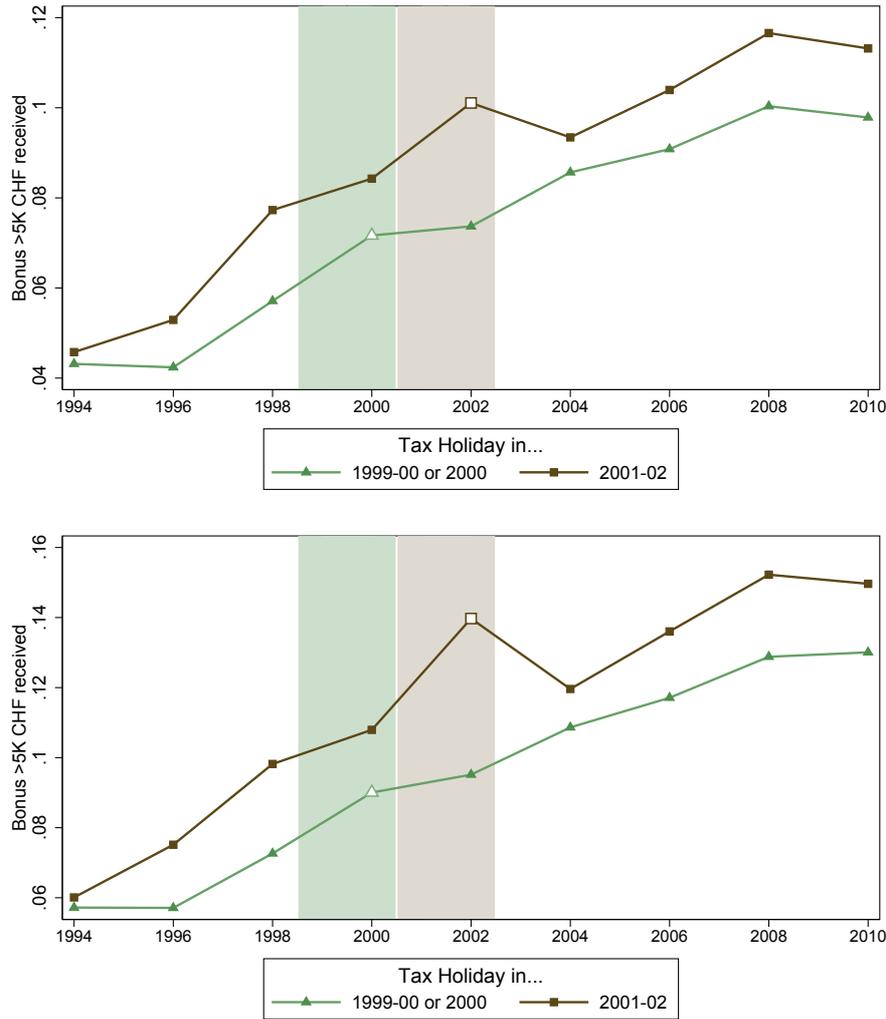


Figure 12: Effects on Bonuses: All Workers (top) and Male Workers in the Private Sector (bottom)

Notes: This figure displays the fraction of employees with bonuses above 5,000 in 2010 CHF by year and groups of cantons from 1994 to 2010 using the wage structure surveys (LSE) carried out bi-annually. The sample in a given year t in the top panel includes all employees aged 20–60, excluding public sector employees (workers from NACE rev. 1.2 two-digit industries 75, 80, and 85) and foreign workers that do not pay regular taxes in Switzerland (workers with resident permits with a duration of less than 10 years). The bottom panel is restricted to male workers in private sector firms. We consider two groups of cantons: (a) cantons which transitioned in 2001 with a tax holiday for 2000 or 1999–2000 (in green), (b) 3 cantons which transitioned in 2003 with tax holiday in 2001–02 (in brown). Geographical information in the data is based on place of work while tax treatment is based on residence. To reduce the number of cases where a person works in one group of cantons but resides in another one, we exclude zipcodes in which more than 25% workers stem from one of the other groups of cantons according to the census in 2000. In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German).

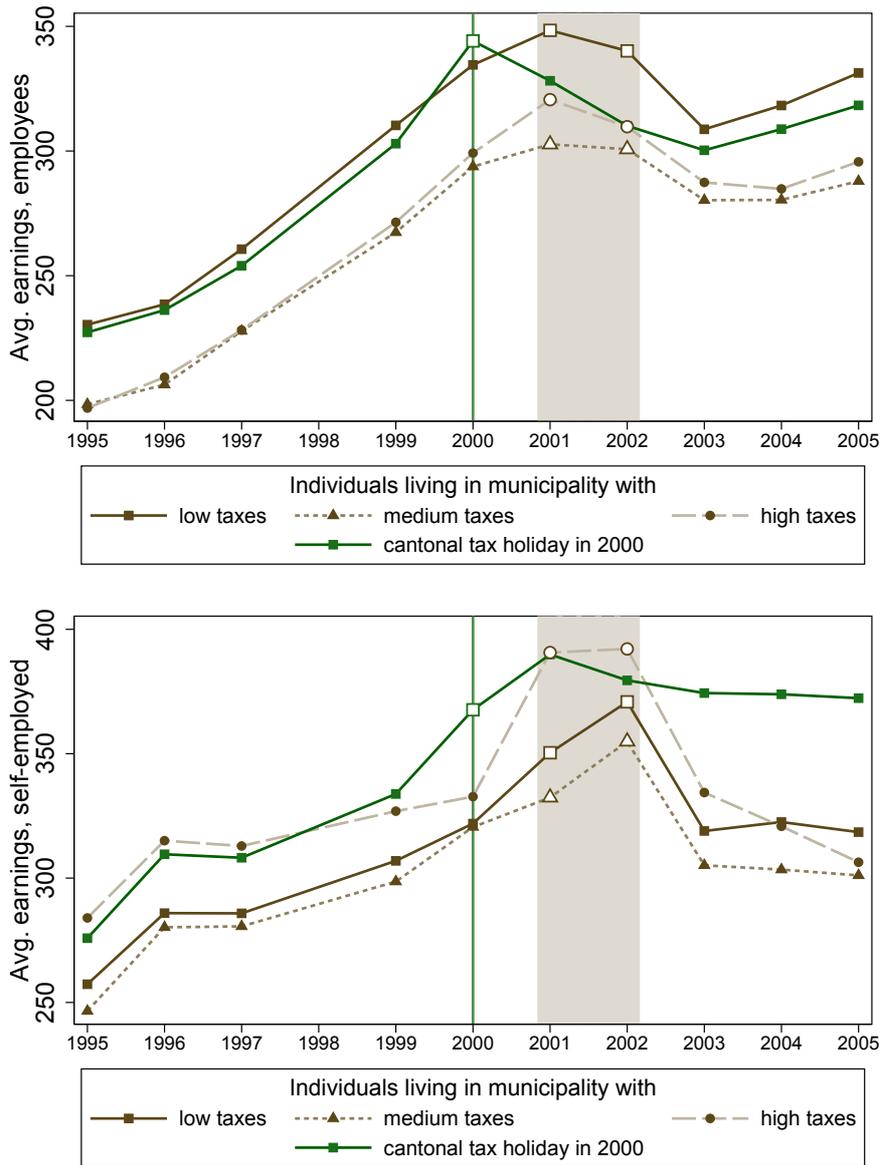


Figure 13: Effects on High Earners in Low vs. High Tax Areas: Wages (top) and Self-employment (bottom)

Notes: This figure displays average wage earnings (top) and average self-employment earnings (bottom) by year and regions from 1995 to 2005. The sample in a given year t is all individuals aged 20–60 in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census) and had average annual labor earnings (wages plus self-employment) above 200,000 CHF in 1994–1996. Earnings are expressed in 1000s of 2010 CHF (adjusted for inflation). We consider two groups of cantons: (1b) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999–00 for the federal tax (in darker green), (2) 3 cantons which transitioned in 2003 with tax holiday in 2001–02 (in brown). Group (2) is further split into three subgroups of municipalities based on the level of taxes in each area: (a) low marginal taxes in 2000 (squares, solid line), (b) medium marginal taxes in 2000 (triangles, dotted line), (c) and high marginal taxes in 2000 (circles, dashed line). In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). For each of the two groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code. The figures show somewhat larger effects of the tax holiday in high tax areas, particularly for self-employment.

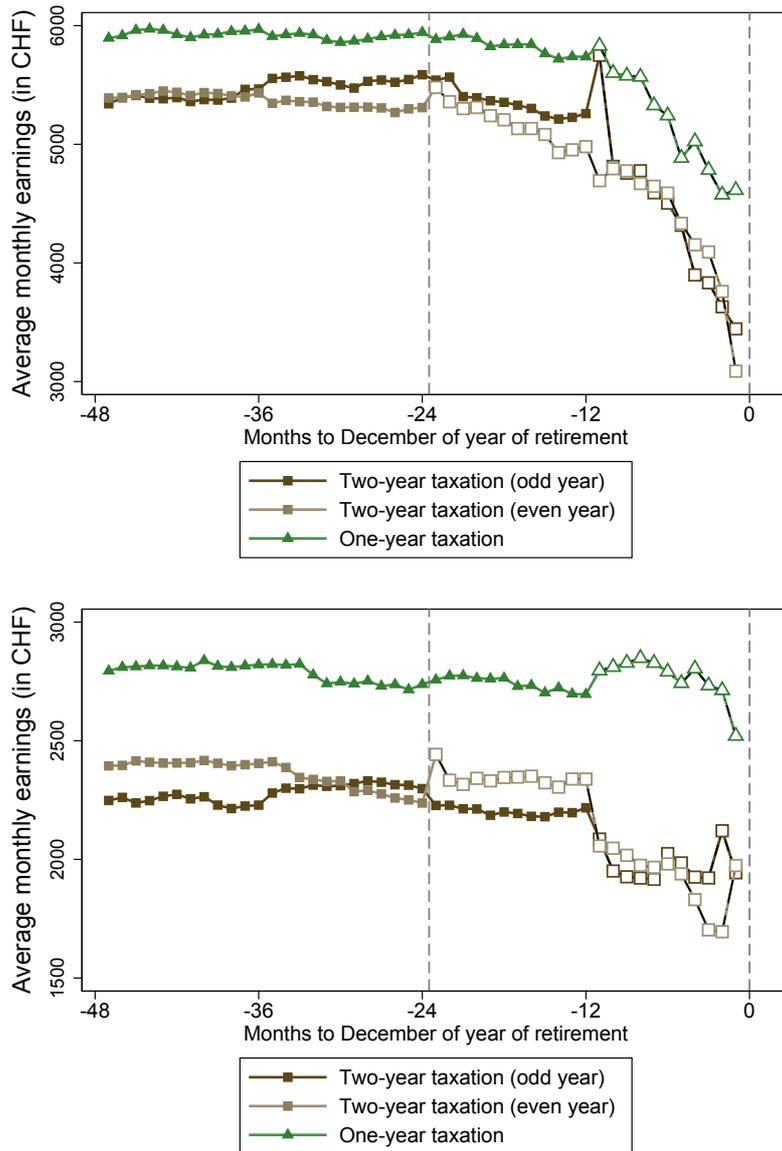


Figure 14: Earnings per Male (top) and Female (bottom) Worker Before Retirement in the Old Tax System

Notes: In the old tax system, retirement triggered a betwixt assessment, leading to tax holidays in the months before retirement. The graphs analyze whether workers responded to these tax holidays. They show average monthly wages of retirees in the months preceding retirement. The sample is male employees aged 61–69 (± 4 years around the legal retirement age of 65) and female employees and self-employed aged 58–66 (retirement age 62) that retire in the years 1993–1996. A retiree is a person that has zero labor earnings in the following 48 months. The time index is equal to zero ($t = 0$) in December of the year of retirement. We track average wages of three groups: (i) workers in cantons with two-year long tax periods that retire in an even year. Due to the betwixt assessment at retirement, their labor earnings in the year of retirement and in the year before fall into a tax holiday. (ii) Workers in cantons with two-year long tax periods that retire in an odd year. (iii) Workers in cantons with one-year tax period. For groups (ii) and (iii), only the labor incomes in the year of retirement remain untaxed. We drop all observations in which retirement occurs in December because the timing of retirement is not correctly recorded in the majority of these cases. In the series, the dots corresponding to tax holidays are bigger and are blanked out.

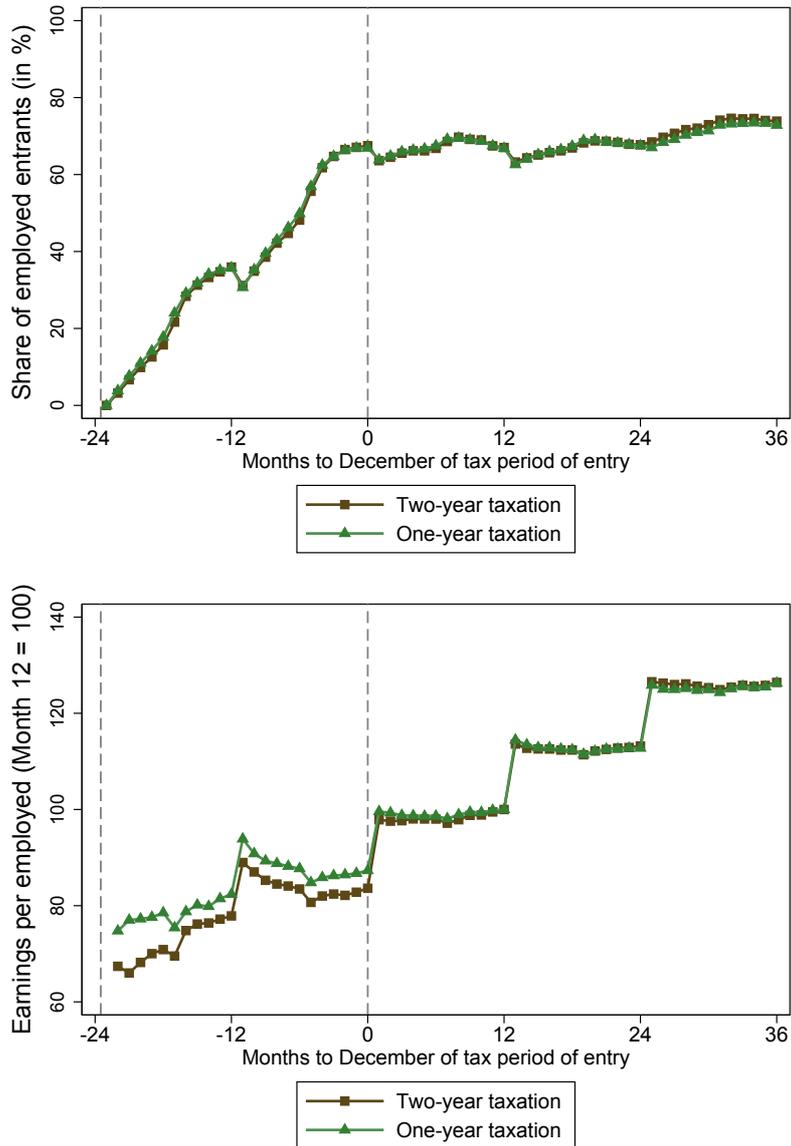


Figure 15: Employment (top) and Average Earnings (bottom) of Young Labor Market Entrants in the Old Tax System

Notes: In the old tax system, incomes earned in the first tax period formed the tax base in the first and the following tax period. The graphs analyze whether workers responded to the double taxation by entering late and/or by having low earnings in the first tax period. We focus on individuals aged 20–30 that enter the labor market in the period 1993–1996. Entrants are defined as individuals with positive earnings in a specific month that did not participate in the labor market in the prior 24 months, i.e. neither had labor earnings nor unemployment benefits. Starting to work triggered a betwixt assessment for these individuals. We differentiate between workers in cantons with one- and two-year long tax periods in the old system. The time index t is set to 0 in December 1994 for individuals entering 1993/1994 and December 1996 for individuals entering 1995/1996. The top panel shows the share of all entrants of a given two-year tax period that are employed in a given month. The bottom panel shows average earnings per entering worker, indexed to 100 in $t = 12$. We drop all observations in which entry occurs in January because the timing of entry is not correctly recorded in the majority of these cases.

Table 1: Regression Analysis of Tax Holiday Effects on Labor Supply

	(1)	(2)	(3)	(4)
	Employment rate (in %)	Earnings per person	Wage earnings per worker	Labor earnings per self employed
Panel A: Total sample				
Effect in blank year	0.002 (0.367)	0.739*** (0.255)	0.549** (0.265)	4.307*** (1.440)
% Δy	0.0%	1.4%	0.9%	7.6%
% $\Delta[1 - \tau]$	12.5%	27.6%	27.6%	27.6%
Frisch elasticity η^F	0.00	0.05***	0.03**	0.27***
SE	(0.035)	(0.017)	(0.016)	(0.092)
Panel B: Men				
Effect in blank year	-0.110 (0.302)	1.361*** (0.408)	0.996** (0.370)	5.536*** (1.577)
% Δy	-0.1%	1.8%	1.3%	8.3%
% $\Delta[1 - \tau]$	12.9%	28.6%	28.6%	28.6%
Frisch elasticity η^F	-0.01	0.06***	0.04**	0.29***
SE	(0.025)	(0.019)	(0.016)	(0.083)
Panel C: Women				
Effect in blank year	0.089 (0.479)	0.171 (0.163)	0.124 (0.175)	1.254* (0.696)
% Δy	0.1%	0.5%	0.3%	4.2%
% $\Delta[1 - \tau]$	12.0%	26.5%	26.5%	26.5%
Frisch elasticity η^F	0.01	0.02	0.01	0.16*
SE	(0.053)	(0.020)	(0.016)	(0.088)
Panel D: Married Women				
Effect in blank year	0.140 (0.556)	0.182 (0.167)	0.107 (0.174)	1.563** (0.714)
% Δy	0.2%	0.7%	0.3%	5.5%
% $\Delta[1 - \tau]$	13.6%	30.9%	30.9%	30.9%
Frisch elasticity η^F	0.02	0.02	0.01	0.18**
SE	(0.061)	(0.022)	(0.016)	(0.081)
Observations	60	60	60	60
Canton group FE	Yes	Yes	Yes	Yes
Period FE	Yes	Yes	Yes	Yes

Notes: The table presents estimates of the labor supply effects of the tax holiday based on regressions of the aggregate time series for the 3 groups of cantons on year dummies, group dummies, and an indicator which is 1 in the year in which municipal and cantonal taxes are zero. The estimation sample covers the years 1990–2010 (excluding 1998). The outcome in column (1) is the employment rate (in %). The outcome in column (2) is annual labor earnings per person (including 0 for individuals with zero earnings, in 1000 CHF). The outcomes in columns (3) and (4) are the average wage per employed worker with positive wage earnings and the average self-employment income per self-employed person with positive self-employment income in 1000 CHF, respectively. Panel A is estimated using the full sample of adults aged 20–60. Panels B and C report effects for males and females aged 20–60, respectively. Panel D reports effects for married women only. % Δy indicates the implied percent change in the outcome by dividing the estimated effect by the average level of the outcome variable in the year just before the tax holiday. The Frisch elasticity η^F is estimated by dividing % Δy by the estimated percent change in net-of-tax wage rates (% $\Delta[1 - \tau]$) due to the tax holiday for the respective group. % $\Delta[1 - \tau]$ is based on changes in average tax rates in column (1) and on changes in marginal tax rates in the remaining columns. For each individual, % $\Delta[1 - \tau]$ is computed based on hypothetical marginal or average tax rates on the actual income earned during the tax-free years in the tax system in place prior to the tax holidays.

Table 2: Labor Supply Effects by Pre-Holiday Labor Income

	(1)	(2)	(3)	(4)
	Employment rate (in %)	Earnings per person	Wage earnings per worker	Labor earnings per self employed
Panel A: 1–25k CHF				
Effect in blank year	-0.031	0.317	0.359	1.965**
	(0.516)	(0.414)	(0.718)	(0.727)
% $\Delta[1 - \tau]$	10.2%	23.4%	23.4%	23.4%
Frisch elasticity η^F	-0.00	0.07	0.06	0.44**
SE	(0.061)	(0.085)	(0.124)	(0.162)
Panel B: 25k–50k CHF				
Effect in blank year	-0.146	0.449	0.316	2.621***
	(0.239)	(0.312)	(0.437)	(0.911)
% $\Delta[1 - \tau]$	11.8%	26.9%	26.9%	26.9%
Frisch elasticity η^F	-0.01	0.04	0.03	0.26***
SE	(0.021)	(0.026)	(0.035)	(0.090)
Panel C: 50k–100k CHF				
Effect in blank year	-0.134	0.728**	0.526	4.639**
	(0.244)	(0.277)	(0.421)	(1.720)
% $\Delta[1 - \tau]$	14.3%	31.3%	31.3%	31.3%
Frisch elasticity η^F	-0.01	0.03**	0.02	0.26**
SE	(0.017)	(0.011)	(0.017)	(0.097)
Panel D: 100k–200k CHF				
Effect in blank year	0.146	4.159***	2.873**	10.795**
	(0.394)	(1.138)	(1.230)	(4.574)
% $\Delta[1 - \tau]$	21.1%	44.2%	44.2%	44.2%
Frisch elasticity η^F	0.01	0.06***	0.05**	0.20**
SE	(0.019)	(0.018)	(0.020)	(0.084)
Panel E: More than 200k CHF				
Effect in blank year	-0.183	19.068**	15.372**	21.686*
	(0.351)	(8.942)	(7.561)	(10.756)
% $\Delta[1 - \tau]$	34.1%	57.0%	57.0%	57.0%
Frisch elasticity η^F	-0.01	0.09**	0.09**	0.12*
SE	(0.010)	(0.043)	(0.044)	(0.058)
Observations	60	60	60	60
Canton group FE	Yes	Yes	Yes	Yes
Period FE	Yes	Yes	Yes	Yes

Notes: The table presents estimates of the tax holiday on labor supply based on regressions of the aggregate time series for the 3 groups of cantons on year dummies, group dummies, and an indicator which is 1 in the year in which municipal and cantonal taxes are zero. The estimation sample covers the years 1990–2010 (excluding 1998) and individuals aged 20–60. The outcome in column (1) is the employment rate (in %). The outcome in column (2) is annual labor earnings per person (including 0 for individuals with zero earnings, in 1000 CHF). The outcomes in columns (3) and (4) are the average wage per worker and the average self-employment income per self-employed in 1000 CHF, respectively. Individuals are assigned to Panels A–E based on their average annual labor income in the 1994–1996 period. Individuals with zero earnings in the entire period are dropped. The Frisch elasticity η^F is estimated by dividing % Δy (i.e. the estimated effect relative to the average level of the outcome variable in the year just before the tax holiday) by the estimated percent change in net-of-tax wage rates (% $\Delta[1 - \tau]$) due to the tax holiday for the respective group. % $\Delta[1 - \tau]$ is based on changes in average tax rates in column (1) and on changes in marginal tax rates in the remaining columns. For each individual, % $\Delta[1 - \tau]$ is computed based on hypothetical marginal or average tax rates on the actual income earned during the tax-free years in the tax system in place prior to the tax holidays.

Table 3: Effect of Tax Holiday on Earnings, Wage Rates, Hours Worked, and Bonus Payments (Wage Structure Survey)

VARIABLES	(1) Earnings	(2) Hourly wage	(3) Hours worked	(4) Bonus 5K+
Panel A: All workers				
Effect in blank year	0.090*	0.395*	0.433	0.007
	(0.045)	(0.192)	(0.434)	(0.005)
% Δy	1.5%	1.2%	0.3%	10.5%
Panel B: Individual contract				
Effect in blank year	0.136	0.540	1.232***	0.013
	(0.079)	(0.352)	(0.329)	(0.008)
% Δy	2.2%	1.5%	0.8%	13.7%
Panel C: Collective agreement				
Effect in blank year	0.028	0.173	-0.645	0.003
	(0.059)	(0.223)	(0.676)	(0.006)
% Δy	0.5%	0.5%	-0.4%	8.1%
Panel D: Examining\Advising\Attesting				
Effect in blank year	0.384***	1.794***	0.867	0.021
	(0.090)	(0.377)	(0.850)	(0.029)
% Δy	4.5%	3.9%	0.5%	7.3%
Observations	18	18	18	18
Canton group FE	Yes	Yes	Yes	Yes
Period FE	Yes	Yes	Yes	Yes

Notes: The table presents estimates of the tax holiday on labor supply and wages based on regressions of aggregate time series for two groups of cantons (cantons which transitioned in 2001 and 3 cantons which transitioned in 2003) on year dummies, group dummies, and an indicator which is 1 in the year in which municipal and cantonal taxes are zero. The estimation is based on the wage structure surveys (LSE) 1994–2010 carried out bi-annually. The dependent variable in column (1) is earnings in 2010 CHF in October of each year. Earnings include regular salaries and overtime and other variable pay components (e.g. bonuses). The dependent variable in column (2) is hourly wages, computed from October salaries in each year, excluding overtime and variable pay components (e.g. bonuses). The dependent variable in column (3) is employer-reported hours worked per worker in October. Hours worked refer to contractual (i.e. normal) hours worked for workers with monthly wages and to actual hours worked for workers paid by the hour. The dependent variable in column (4) is the fraction of employees with bonuses above 5,000 in 2010 CHF. Panel A reports results for all employees aged 20–60 with Swiss passport or residency permit C in the dataset, excluding public sector employees. Panel B is restricted to workers with individual wage contract. Panel C is restricted to workers falling under a collective (firm-, occupation-, or industry-wide) bargaining agreement. Panel D is restricted to workers in jobs with the main activities examining, advising, and attesting.

Table 4: Robustness Checks: Sample Choices and Data Construction

VARIABLES	(1) Men Employ- ment rate in %	(2) Men Labor earnings per person	(3) Men Wage earnings per worker	(4) Men Labor earnings per self employed	(5) Women Employ- ment rate in %	(6) High earners Labor earnings per person
Panel A: Baseline						
Effect in blank year	-0.110 (0.302)	1.361*** (0.408)	0.996** (0.370)	5.536*** (1.577)	0.089 (0.479)	19.068** (8.942)
Observations	60	60	60	60	60	60
Panel B: Only second year						
Effect in blank year	-0.157 (0.446)	1.693*** (0.596)	1.113** (0.545)	7.831*** (2.266)	-0.002 (0.706)	23.252* (13.153)
Observations	60	60	60	60	60	60
Panel C: No imputed						
Effect in blank year	-0.098 (0.459)	1.626** (0.758)	1.086* (0.603)	6.157*** (1.592)	0.119 (0.747)	21.082** (8.838)
Observations	60	60	60	60	60	60
Panel D: Only Swiss						
Effect in blank year	-0.133 (0.251)	1.401*** (0.398)	0.988*** (0.355)	5.877*** (1.729)	0.008 (0.415)	18.849** (9.145)
Observations	60	60	60	60	60	60
Panel E: Uncapped earnings						
Effect in blank year	-0.110 (0.302)	1.431*** (0.407)	1.041*** (0.341)	5.887*** (2.152)	0.089 (0.479)	22.465 (16.838)
Observations	60	60	60	60	60	60
Panel F: Including 1998						
Effect in blank year	-0.113 (0.311)	1.423*** (0.420)	1.050** (0.400)	5.538*** (1.591)	-0.022 (0.514)	19.312** (9.163)
Observations	63	63	63	63	63	63
Panel G: Including TG/ZH						
Effect in blank year	-0.054 (0.232)	0.879** (0.393)	0.616 (0.381)	3.773** (1.692)	0.025 (0.395)	16.764** (6.755)
Observations	84	84	84	84	84	84
Panel H: Positive Earnings (t-1)						
Effect in blank year	0.105 (0.142)	1.737*** (0.462)	1.039*** (0.377)	5.608*** (1.635)	0.202 (0.133)	21.415** (9.600)
Observations	60	60	60	60	60	60

Notes: The table illustrates the robustness of our main results. All estimations are based on regressions of aggregate time series for canton groups that contain year dummies, group dummies, and the indicator blank year for the 1990–2010 period. The dependent variable in columns (1) and (5) is the employment rate (in %). The dependent variable in columns (2) and (6) is annual labor earnings per person (in 1000 CHF, including 0). The dependent variables in columns (3) and (4) are the average wage per worker and the average self-employment income per self-employed in 1000 CHF, respectively. Columns 1–4 are restricted to men aged 20–60, column 5 to women aged 20–60, and column 6 to individuals with annual income exceeding an average of 200k in 2010 CHF in 1994–1996. Panel A presents our baseline estimates for comparison. In Panel B, the effect is only identified from the response in the second cantonal blank year, controlling for the effect in the first. In Panel C, we only use observations with known place of residence (i.e. we discard observations with imputed place of residence). Panel D is restricted to Swiss nationals, discarding foreigners. Panel E uses wage and self-employment incomes that are not capped at 2.5 Mio. in 2010 CHF. Panel F includes the year 1998 (dropped from the rest of the analysis). We deal with the non-random missings in 1998 by discarding individuals that are likely to be affected by the missing data problem in 1998. To this end, we identify OASI compensation offices whose number of records is 5% lower in 1998 compared to 1997 and 1999. All individuals with records from these compensation offices are then dropped from the entire analysis. Finally, Panel G uses the dataset from Panel F and includes a fourth time series for the cantons of Zurich (ZH) and Thurgau (TG) with cantonal tax holidays in 1998. Panel H is restricted to individuals with positive labor income in previous year.

Table 5: Effect of Tax Holiday at Retirement on Wages and Self-Employment Income

VARIABLES	(1) All men	(2) Male employees	(3) All women	(4) Female employees	(5) Married female employees	(6) Self- employed	(7) All men placebo	(8) All women placebo
Panel A: Baseline								
Untaxed months	-44.8 (58.2)	-117.4** (58.4)	130.8*** (42.8)	-17.8 (44.1)	53.6 (41.3)	1,439.5*** (227.2)	-7.7 (21.7)	-47.9 (31.0)
% Δy	-0.8%	-2.1%	5.3%	-0.7%	2.5%	40.9%	-0.1%	-1.6%
% $\Delta[1 - \tau]$	27.6%	27.9%	22.4%	22.9%	30.6%	22.5%	.	.
Frisch elasticity η^F	-0.03	-0.07**	0.24***	-0.03	0.08	1.82***	.	.
SE	[0.038]	[0.037]	[0.077]	[0.077]	[0.064]	[0.287]	[.]	[.]
Panel B: First vs. rest								
First untaxed month	382.7*** (116.7)	290.6** (118.1)	226.6** (92.9)	84.5 (95.8)	151.5* (89.6)	1,892.4*** (494.2)	-14.7 (47.4)	-73.1 (67.7)
Other untaxed months	-98.7* (55.2)	-168.8*** (55.9)	118.7*** (44.0)	-30.7 (45.3)	41.3 (42.4)	1,382.4*** (233.8)	-6.8 (22.4)	-44.7 (32.0)
% Δy 1st month	6.8%	5.1%	9.2%	3.4%	7.2%	53.8%	-0.3%	-2.5%
% Δy all other	-1.8%	-3.0%	4.8%	-1.2%	2.0%	39.3%	-0.1%	-1.5%
Observations	141	141	141	141	141	141	141	141
R-squared	1.0	1.0	0.9	0.9	0.8	0.8	1.0	1.0
Canton group FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Period FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: The table presents panel regressions of the effects of the tax holidays triggered by retirement in the old tax regime. The regressions are based on aggregate time series of average monthly earnings per worker in the four years before the year of retirement, akin to those in Figure 14. We distinguish three groups: (i) workers in cantons with two-year long tax periods that retire in an even year. (ii) Workers in cantons with two-year long tax periods that retire in an odd year. (iii) Workers in cantons with one-year tax period. Untaxed month is a dummy equal to one in all tax-free months for each group. First untaxed month is a dummy equal to one in the first tax-free month for each group. All other untaxed months is a corresponding dummy equal to one in all other tax-free months. A retiree is a person that has zero labor earnings in the following 48 months. In column (1), the sample is male employees and self-employed aged 61–69 (± 4 years around the legal retirement age of 65) that retire in the years 1993–1996. Column (2) is further restricted to male employees. The sample in column (3) is female employees and self-employed aged 58–66 (± 4 years around the legal retirement age of 62) that retire in the years 1993–1996. Column (4) is restricted to female employees, and column (5) to female employees that are married at retirement. Column (6) considers male and female self-employed. Columns (7) and (8) repeat the regressions of columns (1) and (3) for employees and self-employed that retire in the years 2003–2006. As there are no betwixt assessments in the new tax regime, we do not expect effects here. The Frisch elasticity η^F is estimated by dividing % Δy (i.e. the estimated effect relative to the average level of the outcome variable) by the estimated percent change in net-of-tax wage rates (% $\Delta[1 - \tau]$) due to the tax holiday for the respective group. % $\Delta[1 - \tau]$ is computed based on hypothetical marginal tax rates on the actual income earned in the tax-free months.

Average Tax on CHF 100,000 Gross Income

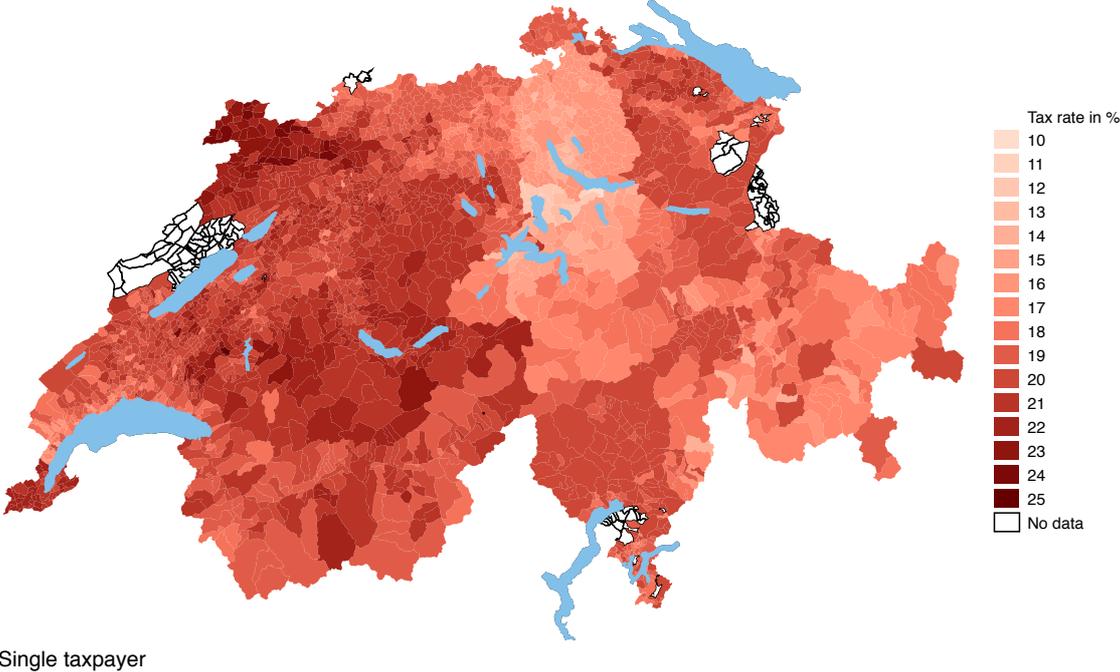


Figure A1: Average Tax Rates Across Swiss Cantons

Notes: This figure depicts the average income tax rate in 1999 across Swiss municipalities. The tax rate combines income taxes at the federal, cantonal, and municipal levels and is computed for a single taxfiler with gross income of 100,000 CHF, approximately the 90th percentile of labor earnings across all Swiss workers. The average tax rate is defined as taxes owed divided by gross income. The graph shows substantial variation in tax burdens across areas with tax rates at low at 10% and tax rates as high as 25%.

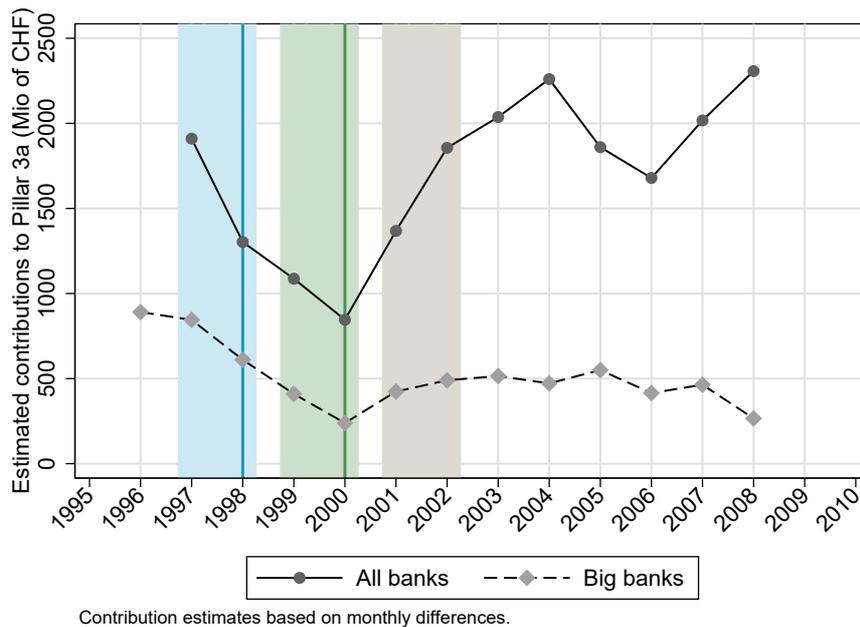


Figure A2: Effects of the Tax Holiday on Pillar 3 Pension Contributions

Notes: This figure displays pillar 3a individual pension contributions by year made through large banks and made through all banks (including the large banks). Pillar 3a pension contributions are voluntary and deductible for income tax purposes (similar to US IRA accounts). The figure shows that such contributions were significantly lower in 1999 and 2000 when most cantons had their tax holiday, consistent with a tax avoidance response whereby individuals retime their pension contributions into taxable years. Unfortunately, we do not have access to cantonal level contributions to refine this analysis. The series are produced using only information on pillar 3a balances by month since 1996. The monthly balance series show jumps in January and December implying that the vast majority of contributions are made in a lumpy way in either December or January. Hence, we estimate contributions in year t by adding the changes in balances from end of December year $t - 1$ to end of January year t and from end of November year t to end of December year t .

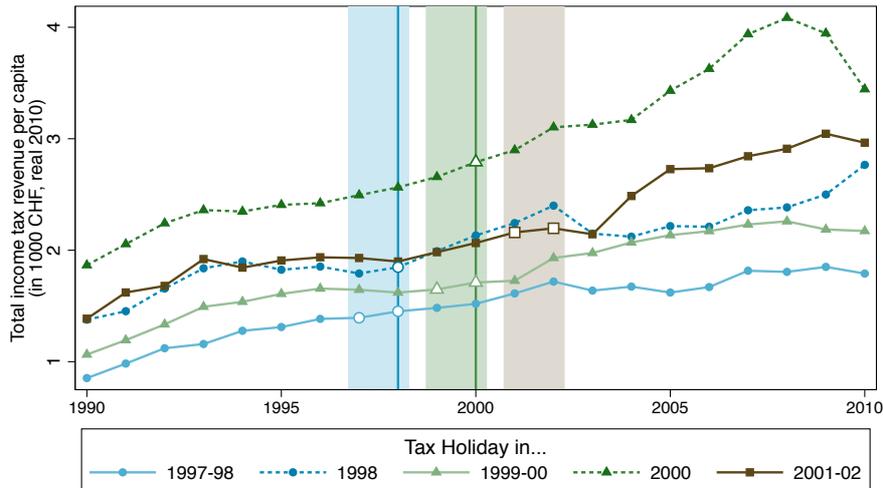


Figure A3: Individual Income Tax Collections per Capita

Notes: This figure depicts total income tax revenue per capita collected by year and groups of cantons. Amounts are expressed in thousands of 2010 CHF. The cantons are divided in five groups based on when the tax holiday took place. (1a) light blue: tax holiday in 1997-98 (1 canton), (1b) dark blue dashed: tax holiday in 1998 (1 canton), (2a) light green: tax holiday in 1999-2000 (15 cantons), (2b) dark green: tax holiday in 2000 (4 cantons), (3) brown: tax holiday in 2001-02 (3 cantons). In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). Tax rates are naturally zero during tax holidays. Before the transitions, income tax collected in a given year typically corresponded to incomes earned in prior years. After the transition, income tax collected in a given year typically corresponds to incomes earned in the current year. The figure shows that there was no visible discontinuity in income tax collections across the tax holidays (there was no double taxation nor gap in tax collection in the transition).

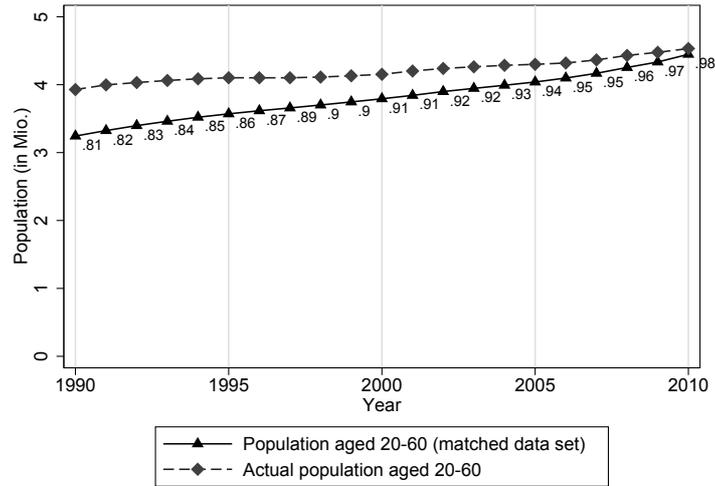


Figure A4: Sample Coverage

Notes: This figure displays the total resident population of Switzerland aged 20–60 and the total population captured by our sample aged 20–60 (which are all individuals with a social security record in any year 1990–2010 and resident in Switzerland in 2010 so that they can be matched to the Census 2010). The numbers show the fraction of individuals in our sample vs. the full population. Coverage is closer to one in recent years (due to deaths and migration).

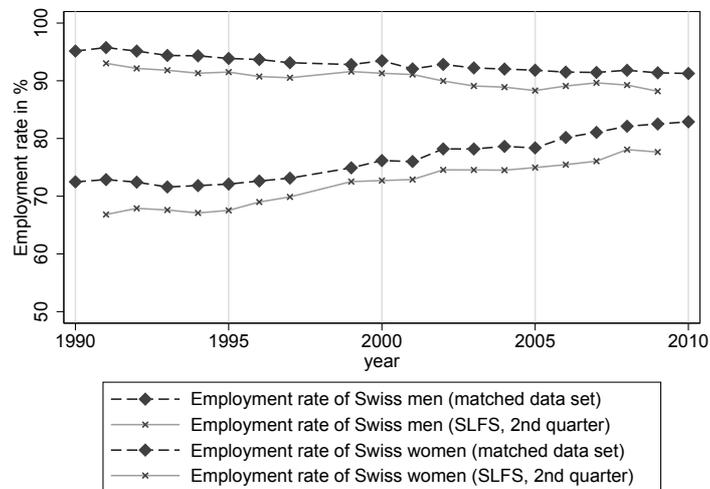


Figure A5: Accuracy of Employment Rate

Notes: This figure displays the employment rates of men and women aged 20–64 separately in our sample and in official statistics derived from the Swiss Labor Force Survey (SLFS). In our data, we count individuals as employed if they have non-zero labor earnings in a given year. The official statistics count a person as employed if she works at least one hour in the second quarter of a specific year. These differences in the measurement of employment explain the level differences between the two statistics. We omit 1998 due to the missing social security records in this year.

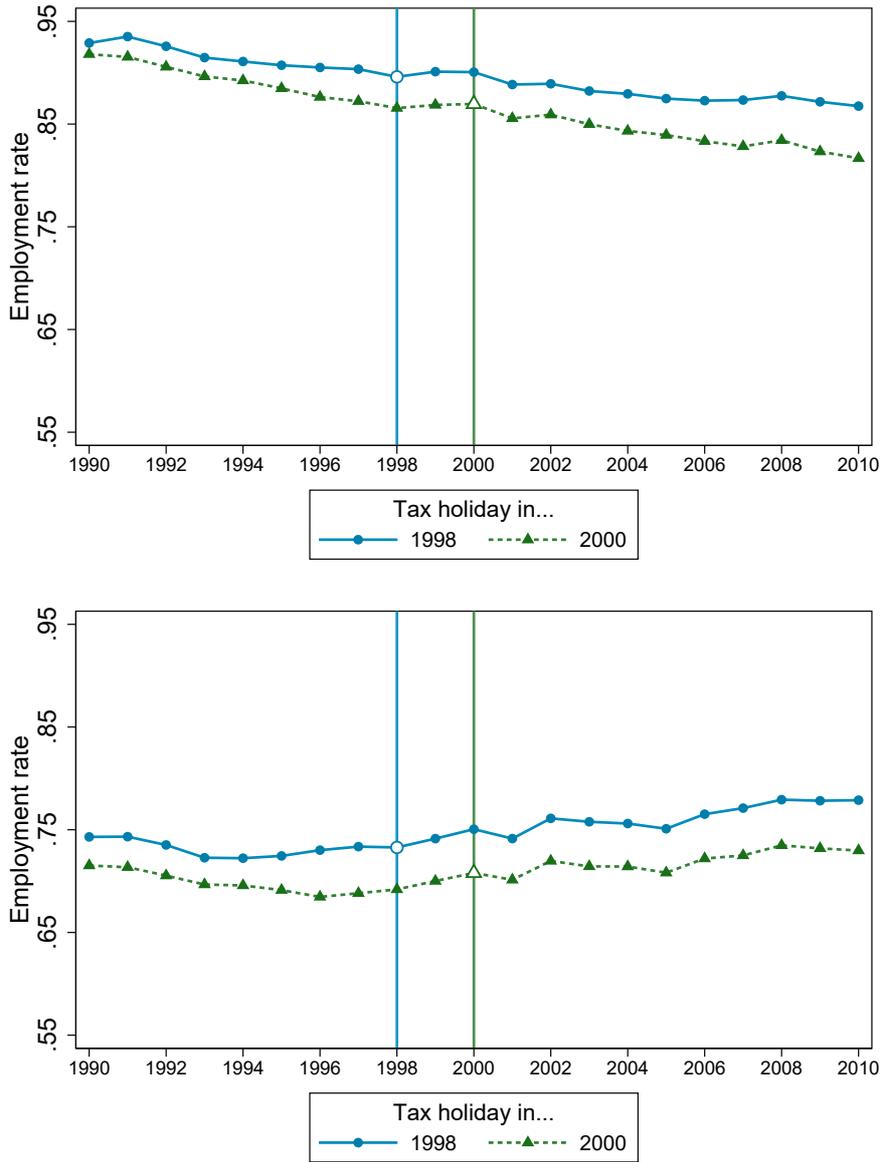


Figure A6: Effects of Early Tax Holiday on Employment: Males (top), Females (bottom)

Notes: This figure displays the employment rate by year and groups of cantons from 1990 to 2010. 1998 earnings are partly missing in the social security data and are imputed following the method described in appendix. The top panel is for men and the bottom panel for women. The sample in a given year t is all individuals aged 20-60 in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census). The employment rate is computed as the fraction of individuals in the sample with positive earnings (either from wages or self-employment) during the year. The two groups of cantons are: (1) 2 cantons which transitioned in 1999 with a tax holiday in 1998 for local taxes and 1997-98 for the federal tax (in blue), (2b) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999-00 for the federal tax (in darker green). For each of the two groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code. In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). There is no evidence of an employment response in 1998 to the early tax holiday.

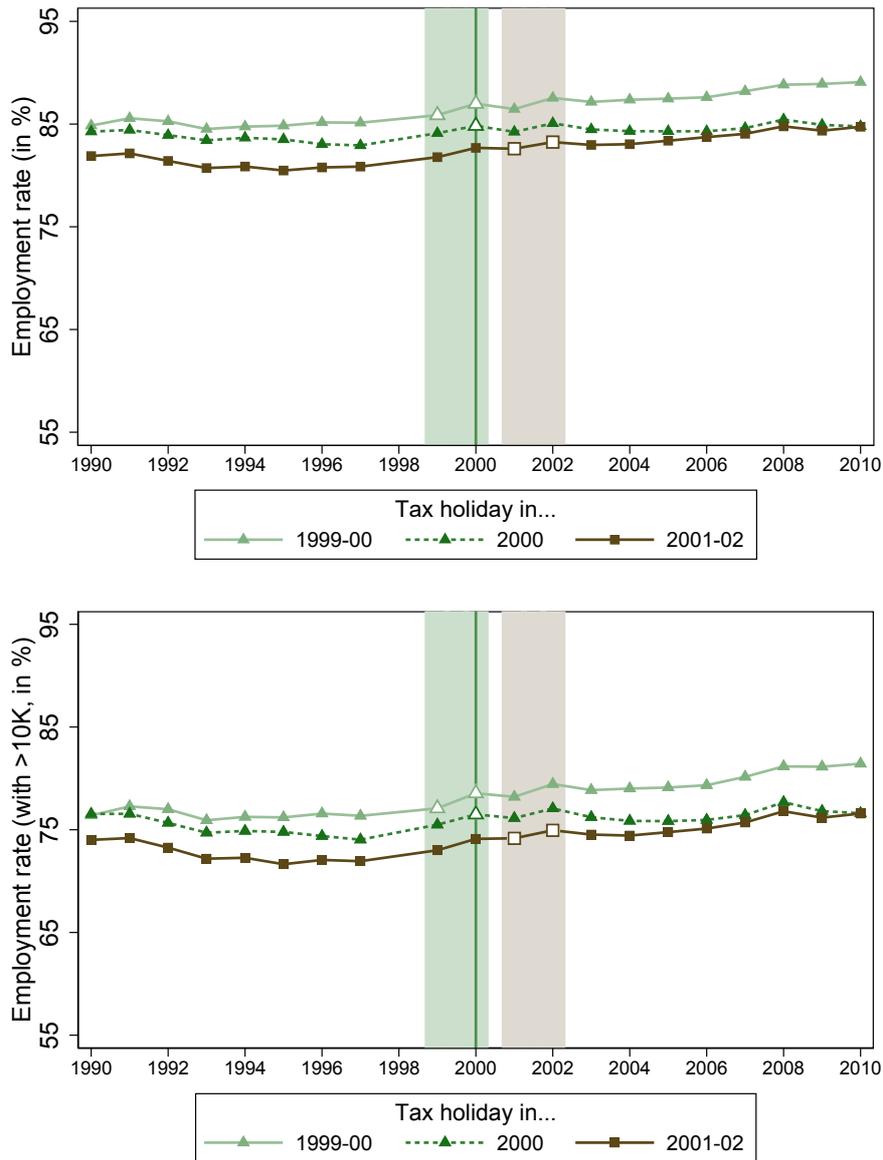
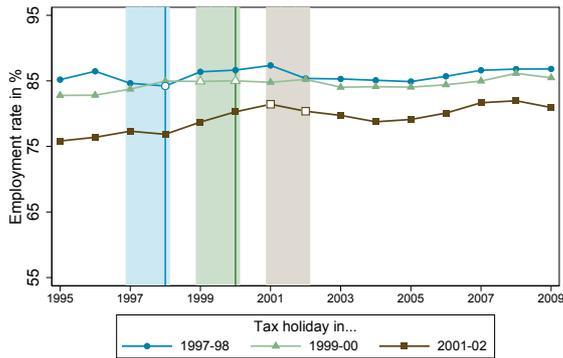
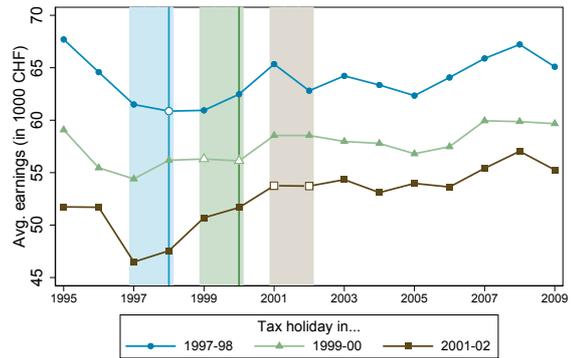


Figure A7: Robustness of Employment Effects: Benchmark (top) vs. 10,000 CHF min threshold (bottom)

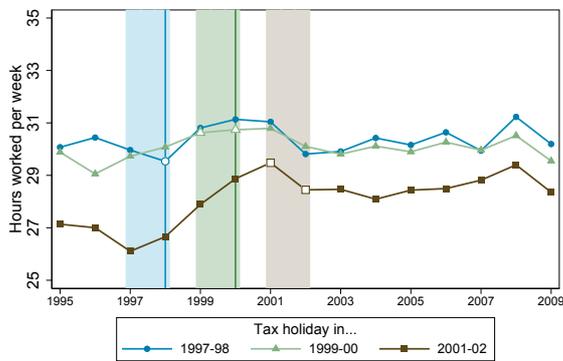
Notes: This figure depicts a robustness check on the employment effects from Figure 7. The top panel shows the employment rate (pooling together both male and females aged 20-60) where employment is defined as having any positive earnings (from wages or self-employment during the year) as in Figure 7. The bottom panel repeats the same figure but defines employment as having annual earnings above a small threshold of 10,000 CHF (instead of zero). Both panels show the same absence of employment effects of the tax holiday. Therefore, the lack of employment effects is robust to changing the minimum threshold of earnings used to define employment.



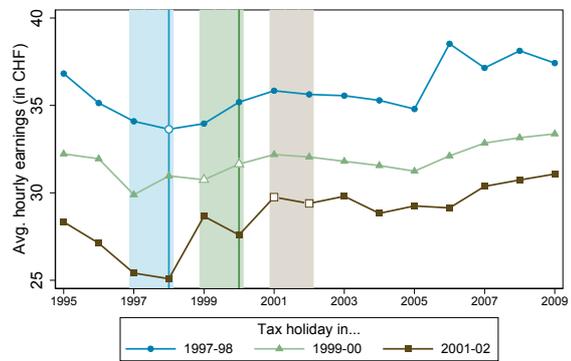
(a) Employment rate



(b) Earnings



(c) Hours of work among employees



(d) Hourly earnings among employees

Figure A8: Evidence from the Labor Force Survey

Notes: This figure displays various employment outcomes using the the Labor Force Survey (SLFS): (a) employment rate, (b) earnings, (c) hours of work per week among employees, (d) average hourly earnings among employees. The sample in a given year t includes all individuals aged 20-60. For hours of work and hourly earnings, we restrict the sample to employees. We consider 3 groups of cantons. (1) 2 cantons which transitioned in 1999 with a tax holiday in 1998 or 1997-98 (in blue), (2) 20 cantons which transitioned in 2001 with a tax holiday in 1999-00 or 2000 (in green), (3) 3 cantons which transitioned in 2003 with tax holiday in 2001-02 (in brown). In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). The figure does not display any tax holiday effects on these outcomes. Given the noise in the series due to small sample size, this is consistent with our previous analysis using the much larger social security data and the wage structure survey.

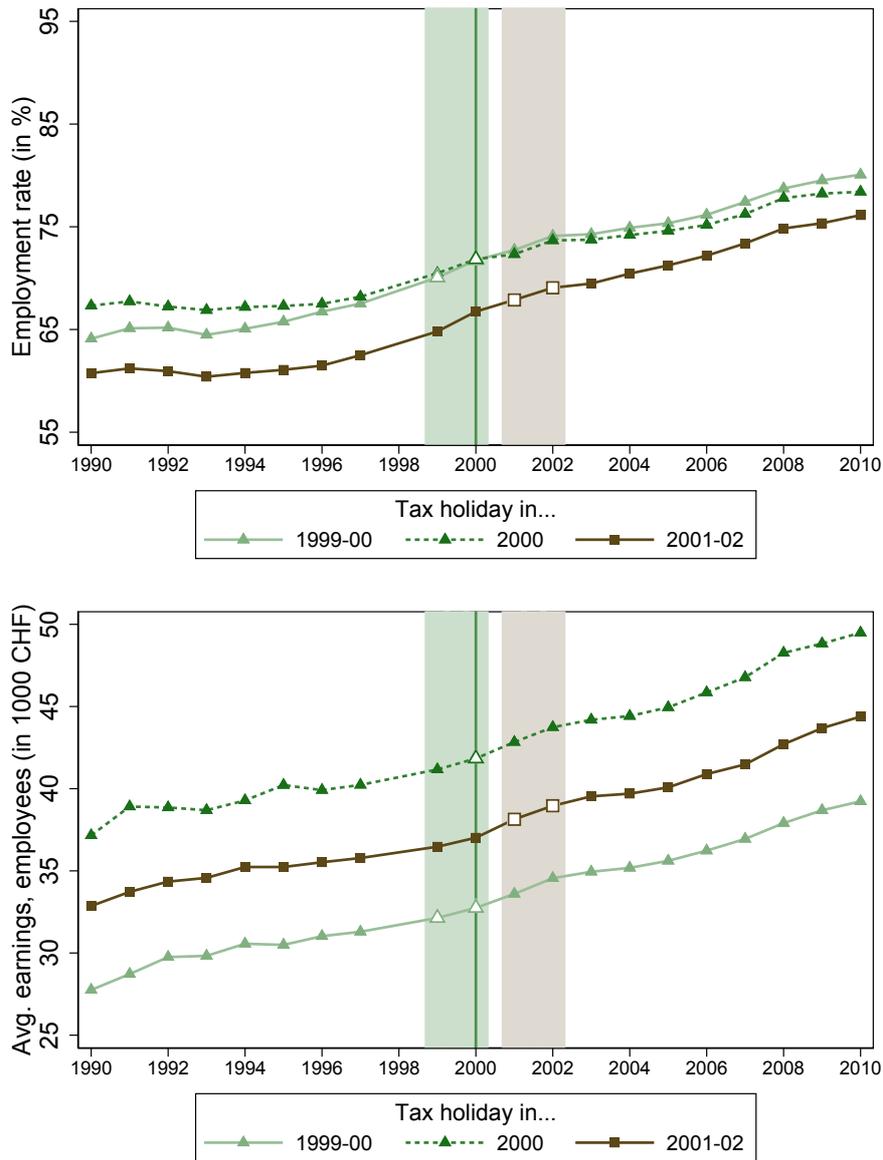


Figure A9: Effects on Married Women: Employment (top) and Earnings (bottom)

Notes: This figure displays the employment rate (top panel) and average earnings including non-workers (bottom panel) for married women by year and groups of cantons from 1990 to 2010. The sample in a given year t is all female individuals aged 20-60 in year t and married in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census). Earnings include both wage earnings and self-employment earnings and are expressed in 1000s of 2010 CHF (adjusted for inflation). The three groups of cantons are: (2a) 16 cantons which transitioned in 2001 with a tax holiday in 1999-00 for both the federal and local income taxes (in light green), (2b) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999-00 for the federal tax (in darker green), (3) 3 cantons which transitioned in 2003 with tax holiday in 2001-02 (in brown). For each of the three groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code. Married women are expected to be particularly responsive to taxes, yet, the figure does not show effects on employment or average earnings.

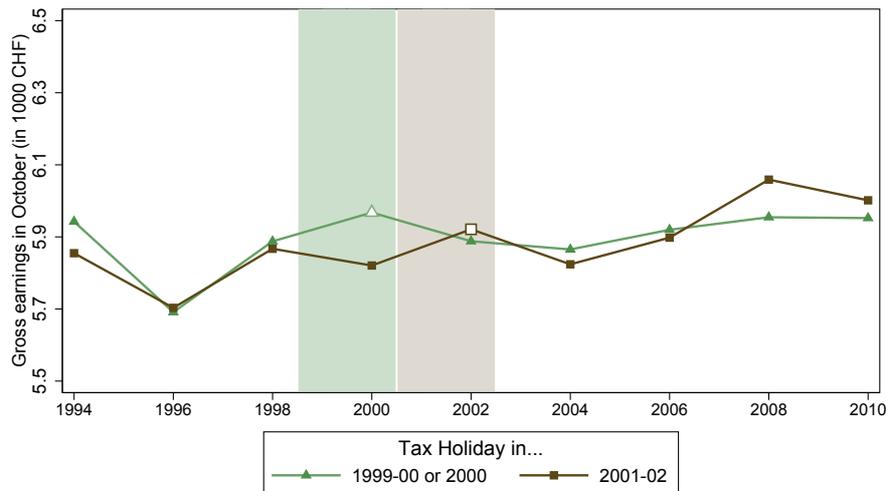


Figure A10: Effects on Monthly Earnings in the Wage Structure Survey

Notes: This figure displays monthly earnings in 2010 CHF in October for all workers by year and groups of cantons from 1994 to 2010 using the wage structure surveys (LSE) carried out bi-annually. Earnings include regular salaries and overtime and other variable pay components (e.g. bonuses). The sample in a given year t contains all workers aged 20–60 with Swiss passport or residency permit C in the dataset (excluding public sector employees) weighted to represent population averages. We consider two groups of cantons: (a) cantons which transitioned in 2001 with a tax holiday for 2000 or 1999–2000 (in green), (b) 3 cantons which transitioned in 2003 with tax holiday in 2001–02 (in brown). Geographical information in the data is based on place of work while tax treatment is based on residence. To reduce the number of cases where a person works in one group of cantons but resides in another one, we exclude zipcodes in which more than 25% workers stem from one of the other groups of cantons according to the census in 2000. In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German).

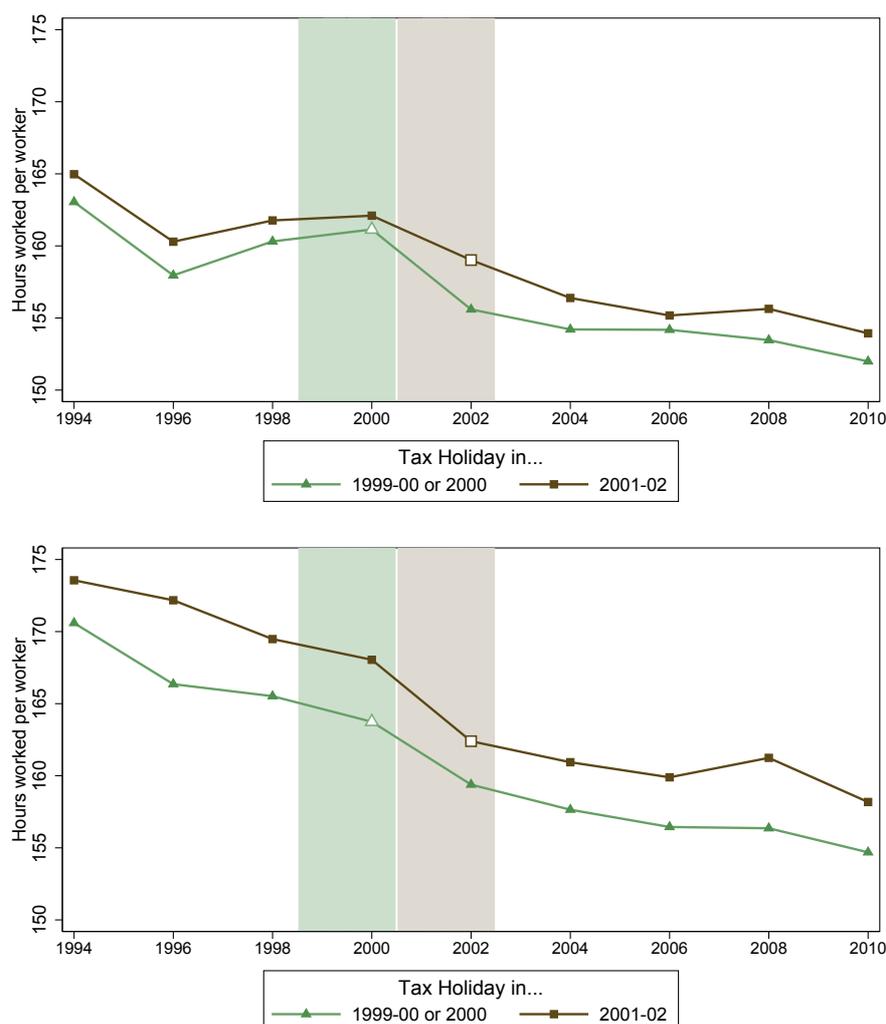


Figure A11: Effects on Employer-reported Hours Worked: Individual (top) versus Collectively Bargained Wage Contract (bottom)

Notes: This figure displays hours worked in October for all workers by year and groups of cantons from 1994 to 2010 using the wage structure surveys (LSE) carried out bi-annually. Hours worked refer to contractual (i.e. normal) hours worked for workers with monthly wages and to actual hours worked for workers paid by the hour. The top panel shows workers that have an individual-level work contract. The bottom panel contains workers falling under a collective (firm-, occupation-, or industry-wide) bargaining agreement. The information on the nature of the work contract is directly levied in the surveys. In both cases, the sample in a given year t contains all workers aged 20–60 with Swiss passport or residency permit C in the dataset (excluding public sector employees) weighted to represent population averages. We consider two groups of cantons: (a) cantons which transitioned in 2001 with a tax holiday for 2000 or 1999–2000 (in green), (b) 3 cantons which transitioned in 2003 with tax holiday in 2001–02 (in brown). Geographical information in the data is based on place of work while tax treatment is based on residence. To reduce the number of cases where a person works in one group of cantons but resides in another one, we exclude zipcodes in which more than 25% workers stem from one of the other groups of cantons according to the census in 2000. In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). The figure shows that the labor supply response to the tax holiday is concentrated among employees with individual-level work contracts with no response at all among employees under collective agreement contracts.

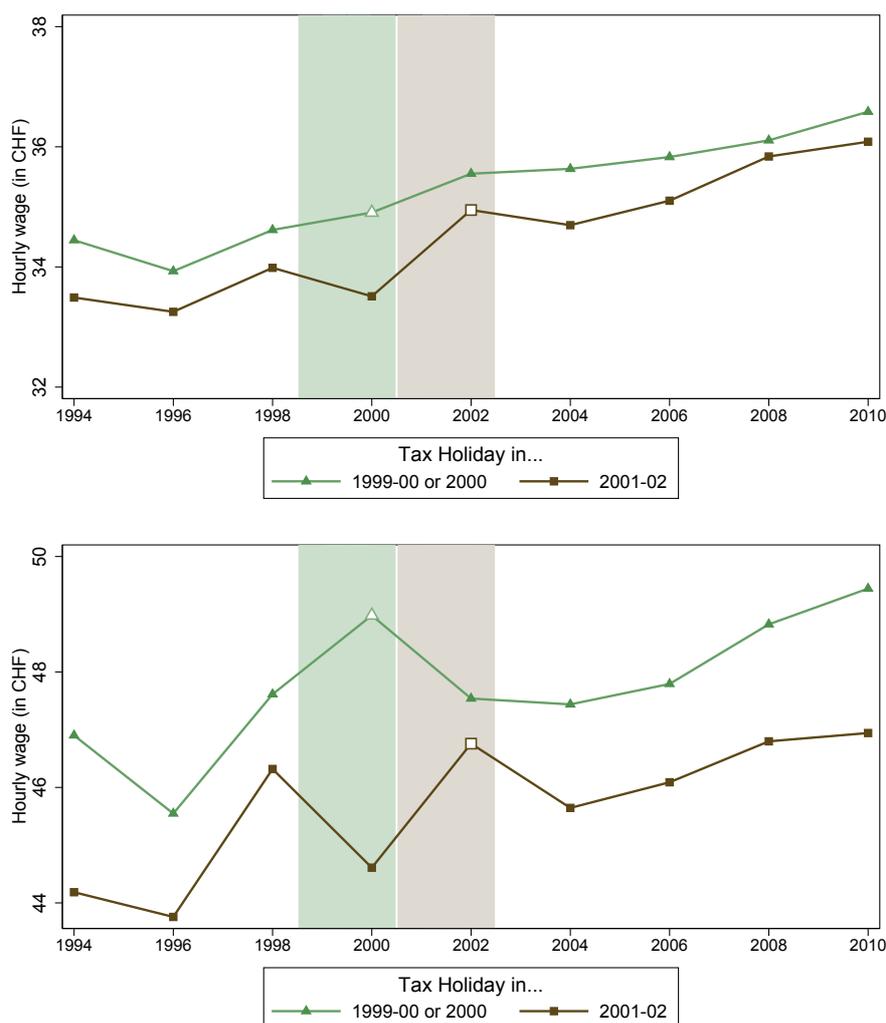


Figure A12: Effects on Hourly Wages: All Workers (top) and Workers in Job Category “Examining, Advising, and Attesting” (bottom)

Notes: This figure displays average hourly wages in 2010 CHF by year and groups of cantons from 1994 to 2010 using the wage structure surveys (LSE) carried out bi-annually. Hourly wages are computed from October salaries in each year and incorporate regular pay but exclude overtime and variable pay components (e.g. bonuses). The sample in a given year t in the top panel includes all workers aged 20–60 with Swiss passport or residency permit C in the dataset (excluding public sector employees) weighted to represent population averages. The sample in the bottom panel is restricted to workers in jobs with the main activities “examining, advising, attesting”. We consider two groups of cantons: (a) cantons which transitioned in 2001 with a tax holiday for 2000 or 1999–2000 (in green), (b) 3 cantons which transitioned in 2003 with tax holiday in 2001–02 (in brown). Geographical information in the data is based on place of work while tax treatment is based on residence. To reduce the number of cases where a person works in one group of cantons but resides in another one, we exclude zipcodes in which more than 25% workers stem from one of the other groups of cantons according to the census in 2000. In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German).

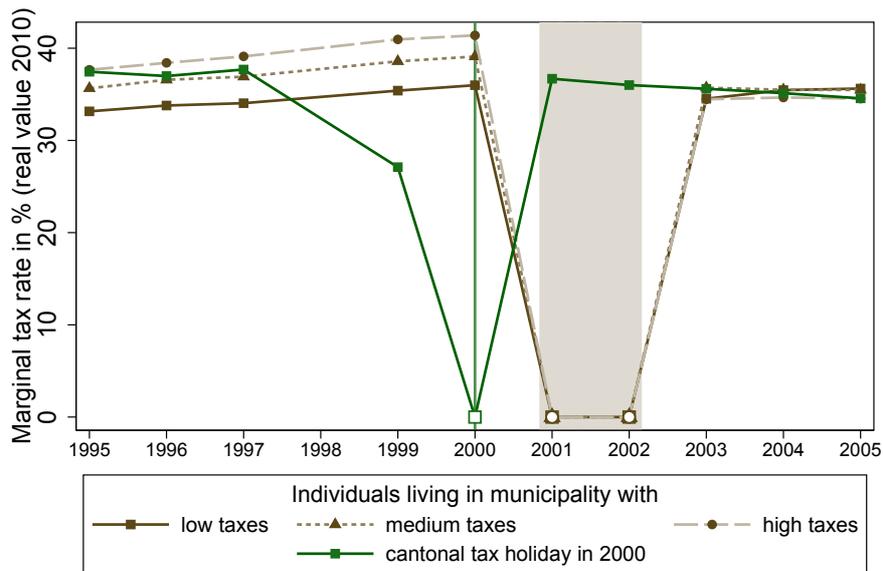


Figure A13: Marginal Tax Rates of High Earners in Low vs. High Tax Areas

Notes: This figure displays average marginal income tax rates for employed persons from 1995 to 2005 for the regions relevant in Figure 13. Tax rates include federal, cantonal, and municipal income taxes. We use tax rates based on household income for married individuals with two children in case a person is married, and tax rates for singles in case a person is single. Averages across municipalities and cantons are employment weighted. The sample in a given year t is all individuals aged 20–60 in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census) and had average annual labor earnings (wages plus self-employment) above 200,000 CHF in 1994–1996. As in Figure 13, we consider two groups of cantons: (1b) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999–00 for the federal tax (in darker green), (2) 3 cantons which transitioned in 2003 with tax holiday in 2001–02 (in brown). Group (2) is further split into three subgroups of municipalities based on the level of taxes in each area: (a) low marginal taxes in 2000 (squares, solid line), (b) medium marginal taxes in 2000 (triangles, dotted line), (c) and high marginal taxes in 2000 (circles, dashed line). In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German). For each of the two groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code.

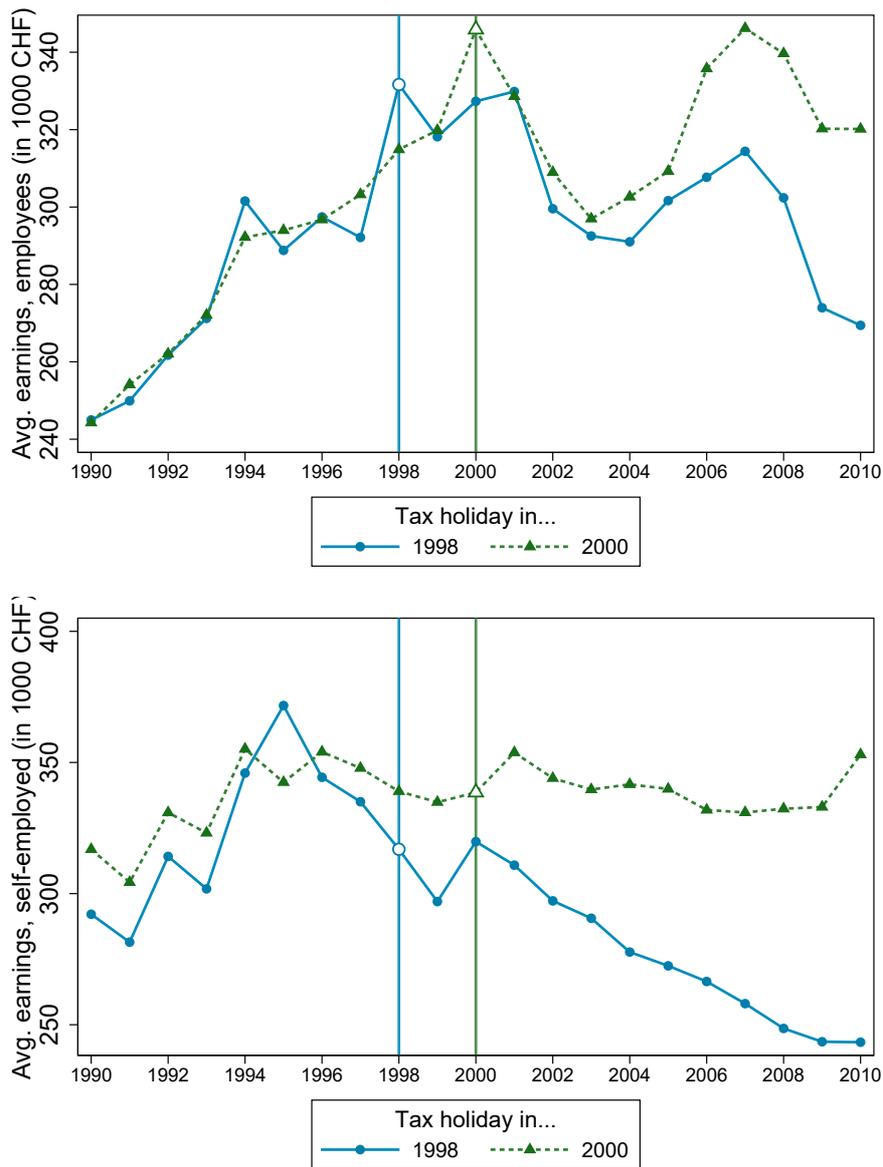


Figure A14: Effects on Early Tax Holiday on High Earners: Wages (top) and Self-Employment (bottom)

Notes: This figure displays average wage earnings (top) and average self-employment earnings (bottom) by year and groups of cantons from 1990 to 2010 for high income earners. The sample in a given year t is all individuals aged 20-60 in year t who are still alive and Swiss residents by 2010 (i.e., present in the 2010 Census) and had average annual labor earnings (wages plus self-employment) above 200,000 CHF in 1994-1996. Earnings are expressed in 1000s of 2010 CHF (adjusted for inflation). The two groups of cantons are: (1) 2 cantons which transitioned in 1999 with a tax holiday in 1999 for local taxes and 1999-00 for the federal tax (in blue), (2) 4 cantons which transitioned in 2001 with a tax holiday for 2000 only for local income taxes and 1999-00 for the federal tax (in darker green). For each of the two groups, we represent the corresponding tax holidays periods using the vertical shading and the same color code. In the series, the dots corresponding to tax holidays are bigger and are blanked out (as tax holidays are called blank years in French and German).

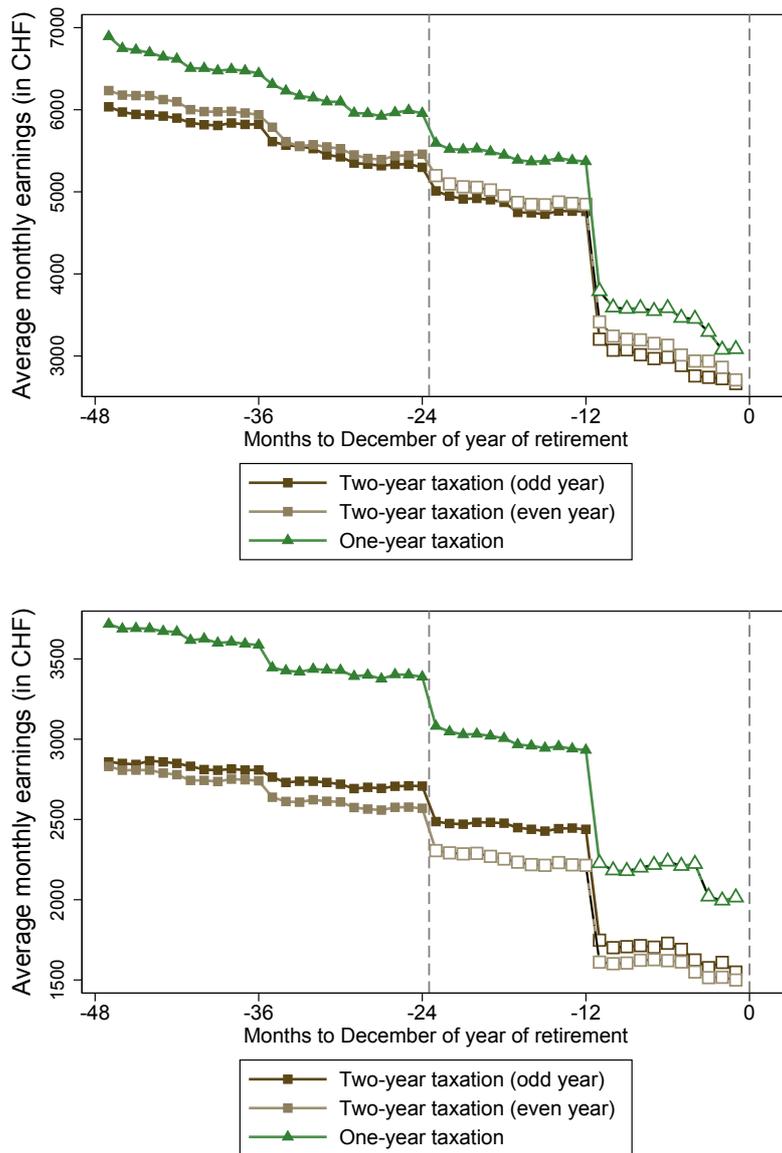


Figure A15: Earnings per Male (top) and Female (bottom) Worker Before Retirement in the New Tax System

Notes: In the old tax system, retirement triggered a betwixt assessment, creating incentives to shift labor supply and income (see Figure 14). This incentive disappeared in the new tax system. As a placebo check, the graphs show average monthly wages of retirees in the months preceding retirement after 2002. The sample is male employees and self-employed aged 61–69 (± 4 years around the legal retirement age of 65) and female employees and self-employed aged 58–66 (retirement age 62) that retire in the years 2003–2006. A retiree is a person that has zero labor earnings in the following 48 months. The time index is equal to zero ($t = 0$) in December of the year of retirement. We track average wages of three groups: (i) workers in cantons with two-year long tax periods that retire in an even year. (ii) Workers in cantons with two-year long tax periods that retire in an odd year. (iii) Workers in cantons with one-year tax period. We drop all observations in which retirement occurs in December because the timing of retirement is not correctly recorded in the majority of these cases. In the series, the dots corresponding to the placebo tax holidays are bigger and are blanked out, following the pattern used in Figure 14.

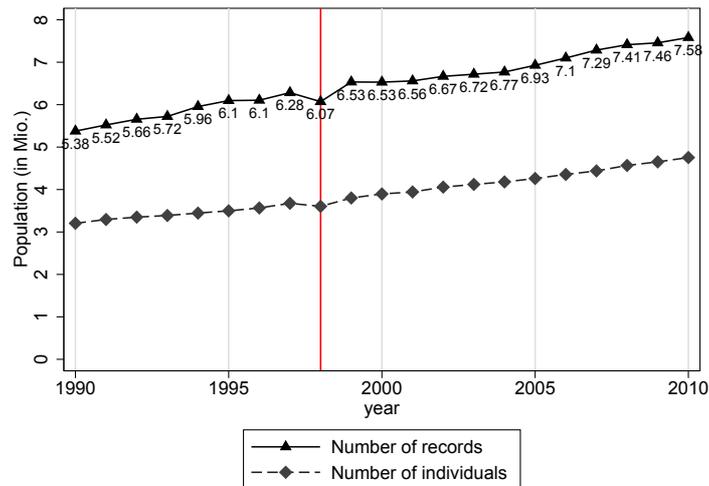


Figure A16: Missing records in 1998

Notes: This figure displays the number of records and individuals in our data by year. It illustrates the issue of missing records in 1998 due to missing social security data for that year.

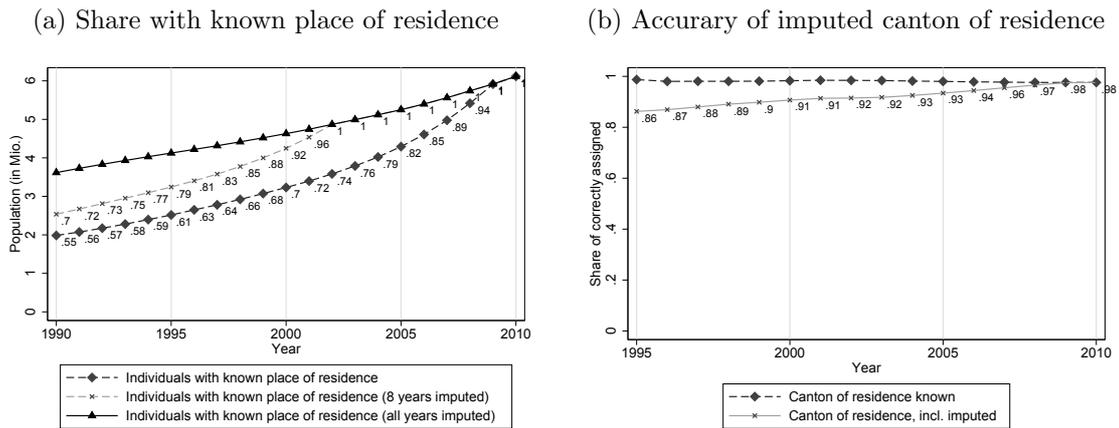


Figure A17: Imputation of municipality of residence

Notes: The figure displays statistics of the imputation of municipality of residence. The dashed line in the subpanel on the right shows the number of individuals in the SSES data set for which the place of residence is known with certainty. The second line shows the number of individuals for which the place of residence is known if we assume that individuals lived at their last known place of residence for at least 8 years. Our baseline strategy is to assign all individuals to the last known municipality (third line). The panel on the right evaluates the accuracy of our imputation for the years 1995–2010 concerning the *canton* of residence. The figure exploits that registered unemployed are assigned to cantonal agencies based on their canton of residence. The figure compares the imputed canton of residence of registered unemployed with the canton of the unemployment agency. The figure shows the share of correctly assigned cantons of residence for which we actually know the canton of residence due to the information in the census (dashed line) and for all individuals, including the imputed places of residence (straight line). The figure shows that the share of correctly assigned cantons of residences among all individuals is around 90% in 2000.

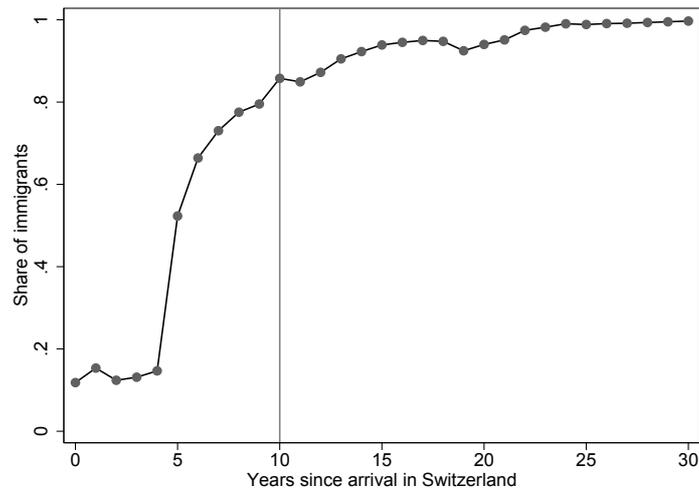


Figure A18: Share of immigrants with C permit or a Swiss passport, by duration of stay
 Notes: The figure displays the share of immigrants with C permit or a Swiss passport, by duration of stay.

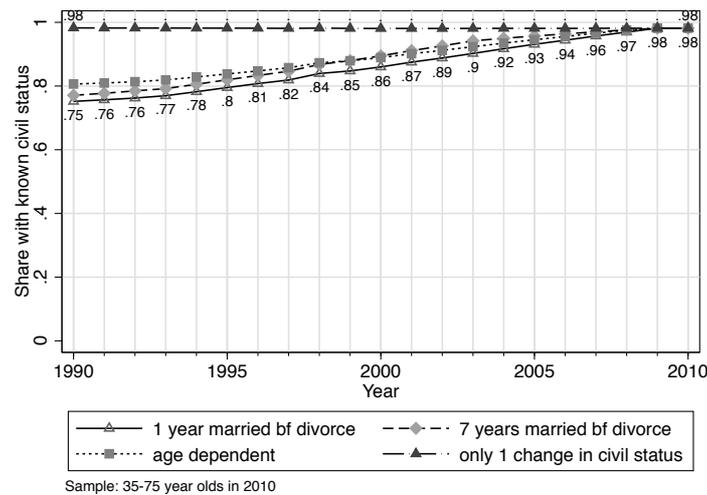


Figure A19: Marital status imputation

Notes: The figure displays the fraction of the population for which the marital status is known based on various imputation methods. We start from the population aged 35-75 in 2010. The bottom line makes the weakest assumption, assuming only that before divorce or widowhood (marriage) someone was married (single) for at least one year. According to these assumptions, the share of individuals with respect to the total population aged 35 to 75 in 2010 with known civil status lies at 86% in 2000 and increases up to 98% in 2010. In the next line this assumption is extended to having been married for at least 7 years before divorce or widowhood. In the next scenario (third line from below) we make more sophisticated, gender-specific assumptions on marriage behavior based on age at time of marriage, divorce, and dissolved same-sex partnerships. The top line finally is based on an imputation method which assumes that the change in civil status recorded in the data is the only one that ever took place allowing us to impute marital status for over 98% of the population.

Table A1: Date of Cantonal Referenda and Legislative Decisions on the Reform

Holiday	Canton	Date	Share Yes	Turnout	Notes
<i>1997-98</i>					
	TG	6/30/97			no vote
<i>1998</i>					
	ZH	6/8/97	58.85	38.4	
<i>1999-00</i>					
	AG	4/18/99	63.17	33.3	
	AI	4/25/99			*
	BL	6/13/99	65.19	47.57	
	GR	6/13/99	77.54	36.04	
	OW	10/24/99	61.91	26.93	
	GL	5/7/00			*
	BE	5/21/00	60.86	41.72	
	AR	5/21/00			*
	UR	5/21/00	67.11	45.42	
	SH	8/27/00	70.11	59.99	
	SZ	9/24/00	81.43	45.48	
	ZG	11/26/00	69.27	45.88	
	NW**	11/26/00	77.5	41.33	
	SG	4/9/98			no vote
	LU	11/22/99			no vote
	FR	6/6/00			no vote
<i>2000</i>					
	SO	6/30/99			no vote
<i>2001-02</i>					
	VD	7/4/00			no vote
	TI	7/6/01			no vote
	VS	9/13/01			no vote

Notes: Holidays refer to the cantonal (and municipal) income tax holidays. At the federal level all cantons had a two-year holiday. See text for details. In cantons where no popular vote was held, the date refers to the date when the cantonal parliament enacted the tax transition law. Popular votes or parliament votes were the very end of processes that had typically started many months earlier.

* In these cantons, votes are held at a cantonal assembly (Landsgemeinde), which is why statistics are not available.

** In NW there was no cantonal holiday.

Table A2: Effect of Tax Holiday on Months Employed, Number of Jobs, the Share of Self-Employed, and Between-Canton Migration

VARIABLES	(1) Jobs per employed	(2) Months employed per employed	(3) Self employed per person (in %)	(4) In-migrant per person (in %)
Panel A: Total sample				
Effect in blank year	0.0036 (0.0075)	0.0099 (0.0167)	-0.274 (0.177)	-0.017 (0.077)
Panel B: Men				
Effect in blank year	0.0050 (0.0090)	0.0117 (0.0139)	-0.411 (0.288)	-0.020 (0.069)
Panel C: Women				
Effect in blank year	0.0022 (0.0069)	0.0083 (0.0253)	-0.146 (0.116)	-0.014 (0.084)
Panel D: Married women				
Effect in blank year	0.0029 (0.0051)	0.0018 (0.0292)	-0.168 (0.116)	-0.003 (0.037)
Observations	60	60	60	60
Canton group FE	Yes	Yes	Yes	Yes
Period FE	Yes	Yes	Yes	Yes

Notes: The table presents estimates of the tax holiday on labor supply based on regressions of the aggregate time series for the 3 main groups of cantons on year dummies, group dummies, and an indicator which is 1 in the year in which municipal and cantonal taxes are zero. The estimation sample covers the years 1990–2010, excluding 1998. The dependent variable in column (1) is the number of jobs per person employed. Distinct jobs are identified based on the number of distinct register entries with positive labor earnings in a given year. The dependent variable in column (2) is the number of months in employment per person employed during the year. The dependent variable in column (3) is the number of self-employed as a fraction of the total population (in %). The dependent variable in column (4) is the number of persons moving into the respective canton group in a given year as a fraction of the total population (in %). Panel A reports effects for the total sample. Panel B and C report effects for males and females aged 20–60, respectively. Panel D reports effects for married women aged 20–60 only.

Table A3: Biennial income growth rates (in percent)

Blank years:	full sample		female		self-employed		high-income	
	99-00	01-02	99-00	01-02	99-00	01-02	99-00	01-02
Total labor income								
1994-95	12.96	12.18	13.92	12.87	8.76	8.79	21.01	20.52
1996-97	9.99	9.43	10.89	9.85	9.05	8.61	7.01	7.39
1999-00	14.27	14.33	14.61	14.23	9.12	10.33	6.91	7.54
2001-02	13.44	14.82	14.47	14.38	12.48	18.05	1.24	10.14
2003-04	9.29	9.01	10.32	10.20	8.61	6.05	0.18	-4.24
2005-06	10.84	10.57	11.08	10.39	9.33	9.75	4.26	6.73
Income from self-employment								
1994-95	10.40	7.75	14.68	12.22	21.01	21.68	26.16	24.57
1996-97	13.05	13.01	14.14	12.02	24.47	26.47	9.45	6.57
1999-00	7.62	9.89	7.29	9.36	25.35	27.98	-3.89	-2.70
2001-02	13.50	18.10	18.69	18.41	28.31	37.20	0.65	17.02
2003-04	8.54	4.39	8.94	7.56	21.08	18.88	4.02	-2.00
2005-06	7.89	8.39	7.73	9.16	20.23	22.26	2.06	5.21

Notes: This table displays the average biennial income growth rate of total labor income (top panel) and of income from self-employment (bottom panel). Note that the year 1998 is skipped due to missing data in that year. The full sample in a given two-year period includes all individuals aged 20-60 with total annual labor income > 10,000 CHF and present in both years of a biennial period. We subsequently restrict the sample to women, the self-employed, and those with average incomes > 200,000 over the years 1994-1996, respectively. We further split each sample into two groups of cantons: (1) 20 cantons which transitioned in 2001, with a tax holiday in 1999-00 for both the federal and local income taxes (except for 4 cantons which had only a one-year holiday at the cantonal level in 2000), (2) 3 cantons which transitioned in 2003 with tax holiday in 2001-02. Numbers in bold italic font indicate a blank year period. Growth rates are in real terms. To reduce the impact of outliers, we winsorized the top 5% of the growth rates. Differences in means are all statistically highly significant and hence omitted in the table. The table indicates that responses were strongest in the last group of cantons changing system in 2001-02, and that responses are concentrated among most responsive subgroups, namely self-employed, and high-income earners.

Table A4: Is There Missing Income in the Year Before of After the Tax Holiday?

VARIABLES	(1) Labor earnings per person	(2) Wage earnings per worker	(3) Labor earnings per self employed
Panel A: Men			
Effect in $t - 1$	-0.276 (0.556)	-0.118 (0.526)	2.508 (2.063)
Effect in blank year	1.381** (0.518)	1.152** (0.490)	7.081*** (1.923)
Effect in $t + 1$	0.248 (0.656)	0.579 (0.620)	2.339 (2.433)
Panel B: Women			
Effect in $t - 1$	-0.199 (0.205)	-0.147 (0.229)	0.605 (0.927)
Effect in blank year	0.065 (0.191)	0.109 (0.214)	1.616* (0.864)
Effect in $t + 1$	-0.051 (0.241)	0.063 (0.270)	0.468 (1.093)
Panel C: Earnings 100k–200k			
Effect in $t - 1$	-0.427 (1.539)	-0.126 (1.654)	6.125 (5.944)
Effect in blank year	3.891** (1.435)	3.083* (1.542)	14.565** (5.541)
Effect in $t + 1$	-0.825 (1.816)	0.706 (1.951)	5.361 (7.011)
Panel D: Earnings 200k+			
Effect in $t - 1$	2.810 (12.200)	0.717 (9.935)	11.564 (14.294)
Effect in blank year	20.467* (11.373)	15.530 (9.261)	25.731* (13.325)
Effect in $t + 1$	0.351 (14.391)	-0.035 (11.719)	-2.842 (16.861)
Observations	63	63	63
Canton group FE	Yes	Yes	Yes
Period FE	Yes	Yes	Yes

Notes: The table presents estimates of the tax holiday on income shifting based on regressions of the aggregate time series for the 3 groups of cantons on year and group dummies. The covariates of interest are a dummy equal to 1 in the year in which municipal and cantonal taxes are zero, and dummies for the year immediately prior and posterior to the cantonal tax holiday. The estimation sample covers all individuals aged 20–60 and the years 1990–2010, including 1998 (dropped from the rest of the tables). We deal with the non-random missings in 1998 by discarding individuals that are likely to be affected by the missing data problem in 1998. To this end, we identify OASI compensation offices whose number of records is 5% lower in 1998 compared to 1997 and 1999. All individuals with records from these compensation offices are then dropped from the entire analysis. The dependent variable in column (1) is annual labor earnings per person (including 0, in 1000 CHF). The dependent variable in columns (2) and (3) are the average wage per worker and the average self-employment income per self-employed in 1000 CHF, respectively. Panel A is restricted to men aged 20–60, Panel B to women aged 20–60. Individuals are assigned to Panels C and D based on their average annual labor income in the 1994–1996 period.

Table A5: Heterogeneity by Cantonal Vote Date, Local Tax Burden, Language Region, and Local Unemployment

VARIABLES	(1) Men Employ- ment rate in %	(2) Men Labor earnings per person	(3) Men Wage earnings per worker	(4) Men Labor earnings per self employed	(5) Women Employ- ment rate in %	(6) High earners Labor earnings per person
Panel A: Vote						
Blank year	-0.088 (0.277)	1.447*** (0.433)	0.992** (0.414)	5.581*** (1.417)	0.013 (0.461)	22.457** (9.903)
Blank year x Vote	-0.268 (0.427)	-0.096 (0.668)	0.276 (0.638)	0.205 (2.186)	0.094 (0.711)	-11.545 (15.277)
Observations	80	80	80	80	80	80
Panel B: Early vote						
Blank year	0.007 (0.296)	1.302*** (0.480)	0.817* (0.433)	4.921*** (1.475)	0.047 (0.448)	19.557** (8.228)
Blank year x Early vote	-1.307*** (0.456)	-0.385 (0.740)	0.808 (0.668)	2.441 (2.276)	0.012 (0.691)	-8.216 (12.692)
Observations	80	80	80	80	80	80
Panel C: High average tax						
Blank year	-0.255 (0.308)	0.758 (1.246)	0.503 (1.218)	4.998*** (1.880)	0.144 (0.405)	12.927 (10.589)
Blank year x High tax	0.375 (0.373)	2.440 (1.508)	1.995 (1.475)	2.239 (2.276)	-0.151 (0.491)	11.295 (12.822)
Observations	120	120	120	120	120	120
Panel D: High marginal tax						
Blank year	-0.161 (0.269)	0.881 (0.599)	0.579 (0.616)	4.483*** (1.365)	0.177 (0.393)	13.784 (9.648)
Blank year x High tax	0.169 (0.326)	1.349* (0.725)	1.112 (0.746)	2.104 (1.652)	-0.198 (0.476)	8.414 (11.683)
Observations	120	120	120	120	120	120
Panel E: French-speaking						
Blank year	0.398 (0.329)	2.041** (0.819)	1.025* (0.582)	6.082** (2.482)	0.551 (0.686)	26.368*** (7.454)
Blank year x French-speaking	-0.640 (0.393)	-1.132 (0.979)	-0.683 (0.695)	1.440 (2.967)	-0.301 (0.820)	-3.401 (8.909)
Observations	80	80	80	80	80	80
Panel F: High unemployment						
Blank year	-0.172 (0.739)	1.950* (1.108)	1.675** (0.803)	5.953*** (2.209)	0.071 (0.918)	13.670 (14.674)
Blank year x High unemployment	-0.291 (0.751)	-1.102 (1.126)	-0.892 (0.816)	0.110 (2.245)	-0.138 (0.933)	4.326 (14.908)
Observations	80	80	80	80	80	80

Notes: The table examines whether the effects of the tax holiday are larger in regions that fulfill the criteria of interest in each panel. All estimations are based on regressions of aggregate time series for the three canton groups with tax holidays in 1999/2000, 2000, and 2001/2002. The dependent variable in columns (1) and (5) is the employment rate (in %). The dependent variable in columns (2) and (6) is annual labor earnings per person (in 1000 CHF, including 0). The dependent variables in columns (3) and (4) are the average wage per worker and the average self-employment income per self-employed in 1000 CHF, respectively. We use two time series per canton group if the group contains both, region for which the dummy variable of interest in each panel is 0 and for which it is 1. In Panel A, the dummy blank year is interacted with a dummy that is 1 in case a canton voted about the tax reform associated with the tax holidays. In Panel B, it is interacted with a dummy that is 1 in case a canton voted about the tax reform prior to the second blank year. In Panel C, it is interacted with a dummy that is 1 for municipalities with an average tax rate in the top 33% of municipal tax rates in 1998. In Panel D, it is interacted with a dummy that is 1 for municipalities with an marginal tax rate in the top 33% of municipal tax rates in 1998. In Panel E, it is interacted with a dummy that is 1 for French-speaking municipalities. This regression is restricted to the three cantons with both, a German- and a French-speaking region (Bern, Fribourg, and Valais). In Panel F, it is interacted with a dummy that is 1 for cantons with an above-average unemployment rate among cantons in 1998. Columns 1–4 are restricted to men aged 20–60, column 5 to women aged 20–60, and column 6 to individuals with annual income exceeding an average of 200k in 2010 CHF in 1994–1996.

Table A6: Regression Analysis Controlling for Individual, Age, and Canton Fixed Effects

	(1)	(2)	(3)	(4)
	Employment rate (in %)	Earnings per person	Wage earnings per worker	Labor earnings per self employed
Panel A: Total Sample				
Effect in blank year	-0.020 (0.240)	0.771 (0.466)	0.616 (0.598)	3.431*** (1.138)
% Δy	-0.0%	1.5%	1.0%	6.0%
% $\Delta[1 - \tau]$	12.5%	27.6%	27.6%	27.6%
Frisch elasticity η^F	-0.00	0.05	0.04	0.22***
SE	(0.023)	(0.032)	(0.035)	(0.073)
Panel B: Men				
Effect in blank year	-0.080 (0.241)	1.332** (0.492)	0.946* (0.548)	4.489*** (1.412)
% Δy	-0.1%	1.8%	1.2%	6.8%
% $\Delta[1 - \tau]$	12.9%	28.6%	28.6%	28.6%
Frisch elasticity η^F	-0.01	0.06**	0.04*	0.24***
SE	(0.020)	(0.023)	(0.024)	(0.074)
Panel C: Women				
Effect in blank year	0.031 (0.313)	0.242 (0.496)	0.250 (0.672)	0.920* (0.495)
% Δy	0.0%	0.8%	0.6%	3.1%
% $\Delta[1 - \tau]$	12.0%	26.5%	26.5%	26.5%
Frisch elasticity η^F	0.00	0.03	0.02	0.12*
SE	(0.035)	(0.059)	(0.060)	(0.062)
Panel D: Married Women				
Effect in blank year	-0.034 (0.509)	0.194 (0.430)	0.235 (0.571)	1.226** (0.530)
% Δy	-0.1%	0.8%	0.7%	4.3%
% $\Delta[1 - \tau]$	13.6%	30.9%	30.9%	30.9%
Frisch elasticity η^F	-0.00	0.03	0.02	0.14**
SE	(0.055)	(0.057)	(0.051)	(0.060)
Observations	60	60	60	60
Canton group FE	Yes	Yes	Yes	Yes
Period FE	Yes	Yes	Yes	Yes

Notes: The table presents estimates of the labor supply effects of the tax holiday based on regressions of the aggregate time series for the 3 groups of cantons on year dummies, group dummies, and an indicator which is 1 in the year in which municipal and cantonal taxes are zero. The estimation sample covers the years 1990–2010 (excluding 1998). The difference to Table 1 is that we account for person, age, and canton fixed effects. To do this, we ran the following individual-level panel regressions for each of the outcomes y_{it} , separately by gender: $y_{it} = \gamma_i + \gamma_{canton} + \gamma_{age} + \epsilon_{it}$, where γ_i are individual fixed effects, γ_{age} are fixed effects for each year of age, and γ_{canton} are canton fixed effects. The group-level time series are averages of the residuals from these regressions. The outcome in column (1) is the employment rate (in %). The outcome in column (2) is annual labor earnings per person (in 1000 CHF, including 0 for individuals with zero earnings). The outcomes in columns (3) and (4) are the average wage per worker and the average self-employment income per self-employed in 1000 CHF, respectively. Panel A is estimated using the full sample of adults aged 20–60. The second and third panels report effects of males and females aged 20–60, respectively. See Table 1 for information on the construction of % Δy , % $\Delta[1 - \tau]$, and η^F .

Table A7: Heterogeneity by Cantonal Practice Regarding Betwixt Assessments

VARIABLES	(1) Men Employ- ment rate in %	(2) Men Labor earnings per person	(3) Men Wage earnings per worker	(4) Men Labor earnings per self employed	(5) Women Employ- ment rate in %	(6) High earners Labor earnings per person
Panel A: Betwixt share ex ante						
Blank year	-0.051 (0.366)	1.924* (0.988)	1.409 (0.975)	6.498*** (1.728)	0.085 (0.477)	20.162* (12.101)
Blank year x Few betw. ass. ex ante	-0.230 (0.443)	-1.765 (1.197)	-1.295 (1.180)	-2.952 (2.092)	-0.062 (0.577)	-6.456 (14.654)
Observations	120	120	120	120	120	120
Panel A: Betwixt share transition						
Blank year	0.016 (0.290)	1.856*** (0.534)	1.288** (0.559)	6.126*** (1.297)	0.014 (0.476)	16.311 (10.575)
Blank year x Few betw. ass. transition	-0.324 (0.352)	-1.313** (0.647)	-0.812 (0.677)	-1.876 (1.570)	0.077 (0.577)	-1.261 (12.806)
Observations	120	120	120	120	120	120

Notes: The table examines whether the effects of the tax holiday depend on the cantonal practice regarding betwixt assessments. All estimations are based on regressions of aggregate time series for the three canton groups with tax holidays in 1999/2000, 2000, and 2001/2002. The dependent variable in columns (1) and (5) is the employment rate (in %). The dependent variable in columns (2) and (6) is annual labor earnings per person (in 1000 CHF, including 0). The dependent variables in columns (3) and (4) are the average wage per worker and the average self-employment income per self-employed in 1000 CHF, respectively. In Panel A, the dummy blank year is interacted with a dummy that is 1 if the canton's share of taxpayers subject to a betwixt assessment in the year before the tax holiday is below the median of all cantons. In Panel B, the dummy is 1 if the canton's share of taxpayers subject to a betwixt assessment is below the median of all cantons during the tax holidays. Columns 1–4 are restricted to men aged 20–60, column 5 to women aged 20–60, and column 6 to individuals with annual income exceeding an average of 200k in 2010 CHF in 1994–1996.