
The Sensitivity of Estimating Taxable Income Responses

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Abstract

We estimate taxable income responses using panel data from German administrative tax records by exploiting several tax reforms between 2001 and 2008. We provide panel regression evidence as well as graphical evidence. Our results are sensitive with regard to the chosen estimation technique, income controls and sample selection. Non-tax related factors (mean reversion and heterogeneous income trends) seem to play a major role. To shed light on the influence of these factors, we conduct a Monte Carlo exercise with simulated data to compare the efficiency of each proposed instrument along with different income controls. We illustrate for each specification how the estimates are influenced depending on the income growth process.

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