

Response to referees of AER

Referee #1

1. Examine alternative outcome variables. *We now justify this more in the text, and report on an analysis with an alternative dependent variable.*
2. Do some sub-group analysis. *The last subsection before the conclusion has been expanded to address the response of certain sub-groups, including by occupation (professionals) and size of jurisdiction. We do not have the data to address all the (good) suggestions made.*
3. Extend the time period and the unit in graph. *It is problematic to extend the time period beyond 2004, because of the tax reform that happened then. We have now included graphs that show the time path of the logs; additional information about the implications of including years prior to 1997 is included.*
4. Placebo test. *We have clarified the text. We agree that the second set of original placebo tests did not have a very clear hypothesis, and so it has been removed.*
5. Tax revenue effects. *To do this accurately is very difficult, and we believe our discussion of the approximate revenue effect serves the purpose of putting our estimates in context. The text has been changed to clarify that we have estimated an effect for the whole population is calculated*
6. Provide more details about the municipalities. *We have greatly expanded our discussion and provided much more information, including about municipalities not in either the treatment or control groups.*
7. Common trend assumption. *We have expanded our discussion of this issue.*
8. Sample size. *We have now provided information about the other municipalities, and clarified that resource constraints led to the limited data collection.*
9. Specifications and the design of Section 3. *We now get more quickly to the baseline econometric specification of Eq (3) and clarified the text as needed.*
10. Tables. *We have provided more information in the tables.*
11. Propensity score matching. *We have provided more details about the technique used.*
12. More information about data searches. *This data is not obtainable, alas.*
13. Concluding sentences. *We have re-written the conclusion so that it now reflects this referee's concern.*
14. References. *This and the other suggested references have been added.*
15. Grammar and typos. *Done, thanks.*

Referee #2

1. Are the treatment and control groups otherwise identical? *We have offered further justification for our claim and provided much more data and descriptions of the municipalities.*
2. Internet spread at the municipality level. *Such data are not available.*
3. Tax office call prior to 2001. *Also not available.*
4. Reputation sensitivity professions and heterogeneity. *We have added a series of analyses of heterogeneous responses, including of professionals.*
5. Information about other municipalities. *We have added information about the municipalities in neither the control nor treatment groups, and provided more information about the industry composition.*
6. Third-party reporting. *We have now clarified that third-party reporting applies to every wage earner.*
7. Table 4. *We have clarified this and the other tables.*

Referee #3

1. Small effects and heterogeneous responses. *We have expanded our discussion of the economic implication of our estimates, and now discuss the Athey/Imbens estimator.*
2. Estimates of the degree of underreporting. *We now note that are estimates are broadly consistent with the sparse evidence from other Nordic countries.*
3. Details about the timing of the change and the Review of Section 2. *We have provided more information about the catalogue details.*
4. Timing of change. *Clarified.*
5. Problems with Eq 2. *The paper now focuses on the results of estimating Eq (3), with a brief discussion of the other specifications now in an appendix. The on-point comment about how 2003 and 2004 affects the estimates is now noted.*
6. The decline in income differences with time. *We now discuss further the developments after 2001.*
7. Control for industrial composition. *We have included industry-specific, non-parametric time trends to control for possible differences in industry trends. We have also added more information about the industry mix in the treated and control municipalities.*

8. Estimation for business owners alone. *The paper now focuses on the results of estimating Eq (3), with a brief discussion of the other specifications now placed in an appendix.*
9. Identification strategy scattered around. *By now focusing on Eq (3), the identification strategy is now clearer.*
10. Time effects. *Correct. The before-after dummy has now dropped, and fixed year effects are estimated*
11. Standard errors in the case of clustering. *We have added a clarifying footnote.*