

“Estimating the Elasticity of Turnover from Bunching: Preferential Tax Regimes for Solo Self-employed in Italy”¹

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Abstract

To stimulate entrepreneurship, several countries adopt size-dependent regimes that tax businesses on the basis of turnover rather than profits. This paper investigates to what extent such regimes can affect sales turnover by exploiting a discontinuity in the tax schedule of Italian solo self-employed. I consider the notch created by the eligibility cut-off of the preferential turnover tax scheme. I find substantial and significant bunching below the turnover threshold, as some solo self-employed choose the turnover tax scheme over the profit-based tax regime. The effects of the turnover tax scheme on bunching are heterogeneous across sectors, with professionals, business intermediaries and retailers having the largest observed responses. For these three sectors, I estimate the turnover tax elasticity by exploiting a new theoretical framework that fits the institutional set-up and rationalises the observed responses to it. The baseline estimates for the two most productive sectors, professionals and business intermediaries, are 0.071 and 0.058 respectively. Lower compliance costs in the turnover tax regime explain less than half of these responses, therefore highlighting the key role of low taxation for bunching behaviour in high-value-added sectors.

¹ Questo paper è il primo capitolo della mia tesi intitolata “Essays in Public Economics: Behavioural Responses to Taxes, Public Good Provision, and Social Welfare”. L’abstract qui riportato si riferisce ad una versione del paper successiva (aggiornata ad aprile 2025) rispetto a quella contenuta nella tesi.