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How Much Do You Think About Taxes? Estimating Attention Using Salience of the Tax Schedule

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Abstract

This paper measures the role of attention in the behavioral response to taxation. I use variation in salience of the income tax schedule in the UK to identify the fraction of attentive taxpayers. Phase-out of tax deductions and tax credits create unsalient marginal tax rates compared to the income tax bands. Building on [Saez \(2010\)](#), I develop a framework to account for inattention when estimating the elasticity of taxable income and develop four testable predictions. Analysis of the Survey of Personal Incomes (SPI) provide evidence that up to a third of UK taxpayers did not pay attention to the deduction of their personal allowance.

Keywords: taxation; behavioral; salience; bunching