

The Price of Simplicity: Evidence from Norway's tax scheme for migrant workers

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Abstract

This paper studies the behavioral impact of simplifying tax compliance for recent migrants by examining the introduction of Norway's "Pay-As-You-Earn" (PAYE) regime. Beginning in 2019, eligible foreign workers were assigned by default into a flat 25% withholding tax that eliminated the need to file a return. We evaluate how this simplification affected tax burdens and take-up behavior.

We find that PAYE compressed the distribution of effective tax rates and increased average tax liabilities. Moreover, the scheme raised taxes for many low- and middle-income earners relative to the ordinary system, making the reform regressive compared to the baseline regime. Nearly half of PAYE adopters overpaid an average 7,500 NOK (1.8% of annual income) in taxes, equivalent to a 2.2 percentage point higher tax rate.

Using a Regression Discontinuity Design around the time of arrival in the country, we find effects of the program on earnings and employment lasting up to four years and after our sample no longer remains in the simplified scheme. Our findings underscore the distributional and behavioral consequences of simplifying tax policy for migrants, and highlight how administrative reforms can shape behavior beyond traditional price margins.