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Tax Incentives, Minimum Capital Requirements, and the Incorporation Decision

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Abstract

What leads self-employed entrepreneurs to incorporate? I examine how tax incentives interact with the cost of incorporation to answer this question. I exploit the abolition of minimum capital requirements to set up a limited liability company in the Netherlands and compare entrepreneurs that differ in their incentive to incorporate but that are otherwise comparable. After the reform, entrepreneurs whose pre-reform taxable income was closest to a kink where marginal personal income tax rates steeply increase are more likely to start a corporation. Total tax paid by these entrepreneurs is significantly reduced, which suggests they are able to reap the tax benefits of conducting business activity as a corporation. However, there seems to be no significant impact on total business activity – at least in the short term. Finally, there appears to be no significant difference in the probability that business owners own an unincorporated business, which suggests that many entrepreneurs operate a corporation alongside an unincorporated firm.

JEL codes: H25, H26, H32

Keywords: Incorporation, Organizational form, Minimum capital requirements, Income shifting

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1 Introduction

A central margin of entrepreneurial behavior is the choice of organizational form. Whether a business is operated as an unincorporated (pass-through) enterprise or as a corporation determines not only its tax obligations, but also its access to limited liability, accounting and reporting requirements, contracting capacity, ability to raise external finance, and ease of ownership transfers (Kopczuk, 2023). These features in turn can lead to real consequences for aggregate employment and output growth (Bilicka and Raei, 2023; Chen, Qi, and Schlagenhauf, 2018). Although theoretical work has highlighted the interplay between tax incentives and the regulatory environment on legal form choice, empirical evidence remains scarce.

In many tax systems, pass-through business income is taxed under a progressive personal income tax (PIT), while corporate income is subject to the corporate income tax (CIT) and their owners are taxed at the individual level upon dividend distribution. As top PIT rates tend to be higher than CIT rates, incorporation can yield tax savings by enabling income shifting from the personal to the corporate base. Understanding the responsiveness of organizational form to tax incentives is crucial for optimal tax policy accurately measuring key economic outcomes – such as inequality and capital and labor shares – as well as for optimal tax policy (Kopczuk, 2023; Smith, Yagan, Zidar, and Zwick, 2019). At the same time, tax considerations interact with the regulatory environment – with direct effect on the costs associated with operating as a corporation or pass-through entity. Understanding this interaction is crucial: tax differentials encourage reclassification, while administrative requirements – such as minimum capital requirements for starting a company – may constrain legal-form arbitrage.

This paper provides new evidence on the interplay between tax incentives and barriers to entry by studying a major institutional change in the Netherlands. In 2012, minimum capital requirements for starting a private limited liability company (LLC) were abolished, sharply reducing the fixed cost of incorporation. This setting offers an opportunity to study whether and how self-employed individuals respond to tax incentives when a key regulatory barrier is removed.[1] Importantly, the tax incentives to incorporate remained unchanged before and after the reform. Because the personal income tax (PIT) schedule features a salient kink at which the marginal tax rate increases by 10 percentage points (pp), the tax advantage of incorporation varies with taxable income. I exploit this heterogeneity to construct treatment and control groups of otherwise similar self-employed entrepreneurs who differ in their tax incentive to incorporate due to their pre-reform location relative to the top PIT kink, but who had not incorporated prior to the reform. I then compare their behavior before and after the reform using a

[1] Throughout the paper, I use the term self-employed to refer to unincorporated business owners.

difference-in-differences (DiD) design, interpreting the removal of the capital requirement as activating an otherwise latent tax incentive.

The results show that self-employed entrepreneurs whose taxable income lies closer to the kink pre-reform are more likely to start a corporation after the reform than those whose income is further away from the threshold. Specifically, following the reform, treated entrepreneurs are 0.4 pp more likely to own shares in a LLC – which corresponds approximately to a 10 percent increase relative to the control group post-reform incorporation rate.[2] A placebo analysis using pre-reform years reveals no differential incorporation trends between treated and control entrepreneurs, supporting the parallel-trends assumption underlying the identification strategy and ruling out anticipatory effects of the policy-change. In addition, results are robust to the inclusion of additional control variables and to alternative ways of defining the treatment and control group.

The behavioral response to the reform is reflected not only in incorporation rates but also in reported outcomes: following the abolition of minimum capital requirements, overall tax payments of treated entrepreneurs decline, consistent with shifting income into the corporate entity to exploit lower effective MTRs. I investigate to what extent this may be related to changes in economic activity. I find no evidence of changes to real business activity of treated entrepreneurs relative to control entrepreneurs, as total assets and the probability of having employees across all firms (irrespective of their legal form) remain unchanged after the reform. Moreover, treated and control entrepreneurs do not differ in the probability of having a pass-through business after the reform, indicating that entrepreneurs that were most exposed to the tax incentive respond by starting a new corporation but do not close or convert the legal form of their existing venture.

Taken together, these findings show that lowering administrative barriers to entry can substantially increase the responsiveness of organizational form to existing tax incentives. This has two broader implications. First, the elasticity of incorporation is itself a policy-dependent object: incorporating becomes a viable tax-planning strategy only when institutional frictions are sufficiently low. Second, the results caution against interpreting incorporation as a straightforward proxy for entrepreneurship, as in Levine and Rubinstein (2017). Specifically, my results highlight that incorporation is endogenous to the tax system and to the regulatory costs of forming a corporation. Changes in administrative rules can shift incorporation rates without altering real business activity, implying that observed differences between incorporated and unincorporated entrepreneurs may partly reflect tax incentives and the regulatory environment rather than underlying differences in ability, innovation, or growth potential.

I contribute to several strands of the literature. The fact that heterogeneous tax treatment

[2] I use the control group post-reform incorporation rate, as the pre-reform rate is zero for both groups by definition.

across organizational forms – an issue that arise in many tax systems around the world – can induce reallocation of reported income and legal status is a longstanding insight in public finance. Empirical studies have documented incorporation responses to tax incentives (Barro and Wheaton, 2020; Berg and Thoresen, 2020; Da Rin, Di Giacomo, and Sembenelli, 2011; De Mooij and Nicodème, 2008; DeBacker, Heim, Ramnath, and Ross, 2019; Devereux and Liu, 2016; Edmark and Gordon, 2013; Elschner, 2013; Goolsbee, 1998, 2004; Gordon and MacKie-Mason, 1994; Lejour and Massenz, 2021; Liu, 2014; Luna and Murray, 2010; Mackie-Mason and Gordon, 1997; Onji and Tang, 2017; Papini, 2018; Romanov, 2006; Smart, 2021; Tazhitdinova, 2020).[3] However, most of these papers offer mainly correlational evidence, or lack micro-data connecting individuals to their firms – which implies they are often unable to identify whether new corporations are the result of occupational switches, legal form switches or new companies started by self-employed or incorporated entrepreneurs.

Two exceptions are Tazhitdinova (2020) and Papini (2018), as they explicitly study the decision of self-employed entrepreneurs to incorporate using data linking firms to their owners. Tazhitdinova (2020) uses variation in tax liability across different legal forms in the United Kingdom and fixed effects models to show that a 10 percent rise in the tax wedge increases the number of new corporations by 2.1 percent, but that half of the response is driven by income shifting of previously unincorporated entrepreneurs. However, to the extent that tax changes are implemented to curb income shifting, her estimates suffer of simultaneity bias. In contrast, I combine variation resulting from the abolition of minimum capital requirements and from the progressive Dutch PIT schedule to identify treated and control entrepreneurs and apply a DiD identification strategy.

Papini (2018) studies a Norwegian tax reform that substantially reduced incentives to incorporate, exploiting post-reform geographical variation in payroll taxation for identification. He finds that a 1 pp reduction in payroll taxes increases incorporation by about 1 percent relative to the mean rate. Over the period studied, however, starting a LLC in Norway entailed substantial fixed costs throughout the sample period – notably a minimum capital requirement of roughly $17,000 – and the reform he studies largely eliminated incorporation as a quantitatively important tax-saving strategy. As a result, estimated responses may reflect a setting in which tax incentives operate in the presence of substantial non-tax frictions, leaving open how organizational form responds when tax incentives are salient and what happens when administrative barriers are removed.

Compared to these papers, I investigate the interaction of minimum capital requirements and tax incentives for the choice of organizational form. As highlighted by Kopczuk

[3] Others have investigated whether tax incentives induce individuals to adjust on the occupational margin and become self-employed (Bosch and de Boer, 2019; Can, 2022; DeBacker et al., 2019; Fossen and Steiner, 2009; Zawisza and Klejdysz, 2024).

(2023, p.454), while there exists some evidence on responsiveness of legal form choice to tax incentives, the literature remains largely silent on the complex interactions between tax issues and other considerations. In particular we know little about how these frictions interact with tax incentives, or to what extent reductions in administrative barriers unlock latent tax-driven incorporation responses. In addition, in contrast to these studies I investigate what happens to overall tax payments made by entrepreneurs and to economic activity of their firms, outcomes that are central for assessing the fiscal and real economic consequences of organizational form responses.

Moreover, this study relates to a growing literature investigating the effect of regulation on business entry and entrepreneurship (Bacher, Fagereng, Ring, and Wold, 2025; Barwick, Chen, Li, and Zhang, 2025; Becht, Mayer, and Wagner, 2008; Branstetter, Lima, Taylor, and Venâncio, 2014; Djankov, La Porta, Lopez-de Silanes, and Shleifer, 2002; Fang, Li, Wu, and Zhang, 2023; Kaplan, Piedra, and Seira, 2011; Klapper, Laeven, and Rajan, 2006; Klapper et al., 2006; Massenz, 2025). The closest paper within this strand is Massenz (2025), who documents how the abolition of minimum capital requirements in the Netherlands coupled with changes in CIT incentives have led to the creation of new corporations among existing corporate entrepreneurs, consistent with tax-motivated firm splitting. In contrast, I study the effect of tax incentives and the abolition of minimum capital requirements on the decision of self-employed entrepreneurs to start a corporation.

Finally, this paper complements a strand of literature studying income shifting and optimization across tax bases by high income individuals or owner-managers of corporations (Alstadsæter and Jacob, 2016; Alstadsæter and Wangen, 2010; Devereux, Liu, and Loretz, 2014; Gordon and Slemrod, 2000; Harju and Matikka, 2016a,b; Kleven and Schultz, 2014; Kleven and Waseem, 2013; Massenz, 2024; Pirttilä and Selin, 2011). While these papers focus on intensive margin responses conditional on reporting income in box tax bases, I focus on the extensive margin by studying the decision to start a corporation.

The remainder of the paper is organized as follows. Section 2 discusses the institutional setting and the reform. Section 3 describes the empirical strategy and section 4 the data. Section 5 presents the results and section 6 concludes.

2 Institutional setting

In the Netherlands, firms operate either as pass-through entities – most notably sole proprietorships and partnerships – or as legal entities, including private and public LLCs, cooperatives, associations, and foundations. Profits generated by pass-through entities – which I also refer to as unincorporated businesses – are attributed to their owners and taxed under the PIT schedule. In contrast, profits earned by legal entities are subject to the CIT, while dividends distributed to individual shareholders are subsequently taxed at the personal level. Throughout the section, I focus on sole proprietors and private LLCs, as they constitute the dominant forms within each category.[4]

Until 2012, establishing a private LLC in the Netherlands required minimum paid-in capital of €18,000. This changed on 1 October 2012 with the introduction of the Flex-BV reform, which allowed incorporation with share capital as low as €0.01. The objective of the reform was to increase the attractiveness of the Dutch private limited liability form for entrepreneurs and small and medium-sized enterprises. As summarized in figure A.2, the legislative proposal for the Flex-BV was submitted to Parliament in May 2007 and secured broad support in the Lower House on 15 December 2009. A related Implementation Act followed in October 2011, and both pieces of legislation were approved by the Senate in June 2012, taking effect on 1 October 2012. Although the reform abolished minimum capital requirements, new firms still incurred other start-up expenses. Beyond paid-in capital, starting a business in the Netherlands required approximately €2,000 in set-up costs, largely driven by the notary's fee for preparing the deed of incorporation.[5] By contrast, unincorporated businesses faced neither minimum capital requirements nor substantial set-up costs. The only formal requirement is registration with the Chamber of Commerce, which entails a small administrative fee.

Taxation of business profits in the Netherlands depends on the organizational form chosen by the entrepreneur, which determines whether profits are taxed at the individual or the company level. For individuals, the PIT system allocates income to three distinct "boxes", each with its own base and rate schedule (Cnossen and Jacobs, 2022). Profits earned in pass-through entities fall into box 1 and are taxed jointly with wage income under the progressive PIT schedule. As summarized by figure 1, the first increase in marginal PIT rates τ_p is around €19,000 in 2011, while an additional 10 pp increase in taxable income kicks in at around €56,000 – above which the top MTR is 52 percent.[6] In contrast, business profits derived from corporations are taxed at the entity level under the CIT rate τ_c. The schedule is progressive, with 20 percent MTR on corporate taxable income up to €200,000 in 2011, and 25 percent MTR above that amount.[7] Dividends distributed

[4]As of the last quarter of 2023, sole proprietorships account for 88 percent of pass-through entities whereas private LLCs account for 90 percent of legal entities. Together, these two organizational forms account for 88 percent of all Dutch firms in 2023 (see figure A.1).

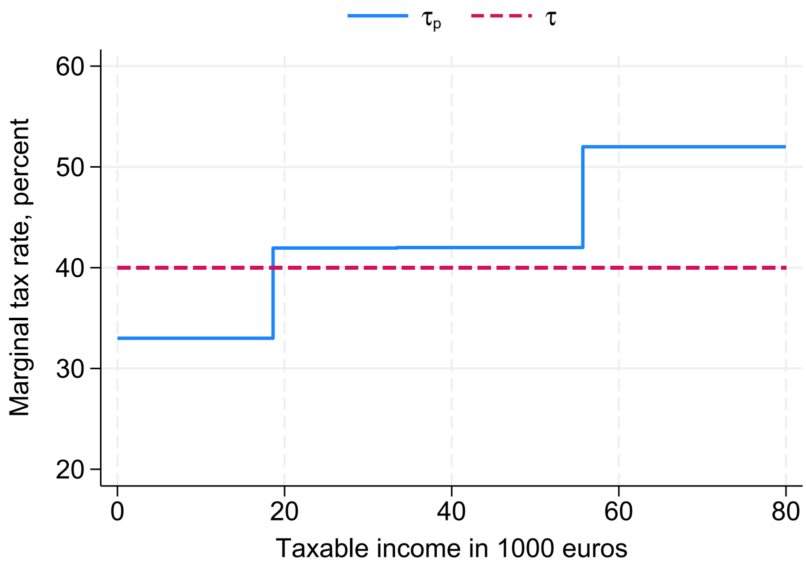
[5]World Bank (2008, p. 52). These costs remained relatively stable over 2007-2018. It is also worth noting that while set-up costs, number of procedures and time required to start a business were all below the OECD average in the Netherlands in 2008, minimum paid-in capital relative to income per capita was comparatively high (World Bank, 2025).

[6]Several deductions are allowed (e.g., mortgage interest) and taxpayers receive a general tax credit, a labour tax credit for employment and self-employment income, and additional credits linked to age or household characteristics. Self-employed individuals also benefit of two additional (unconditional) deductions – an income dependent exemption and an exemption rate (Bosch, Lafont, and Lejour, 2018).

[7]This threshold was implemented from 2009 onward, initially as a temporary measure over 2009-2010 and permanently as of 2011. The CIT kink and rates remained unchanged until 2018. See Massenz (2024) and Massenz (2025) for more details on the Dutch CIT system.

from a company in which owners have a substantial interest – i.e. own at least 5 percent of the shares – are taxed at the individual level in box 2 at a flat rate τ_d, which is 25 percent in 2011. Remaining personal capital income components above an exemption threshold – such as dividends from shareholdings below 5 percent and bank deposits – are taxed in box 3 with a *de facto* net wealth tax.[8] As shown by figure 1, for entrepreneurs with a substantial interest, the combined dividend and CIT rate is $\tau = \tau_c + \tau_d(1 - \tau_c)$ and is 40 percent for taxable income below the CIT kink in 2011.[9]

Figure 1: Personal and combined (corporate + dividend) MTRs



Notes: The figure shows how MTR changed at different levels of taxable income in 2011. τ_p indicate marginal PIT rates whereas $\tau = \tau_c + \tau_d(1 - \tau_c)$ is the combined corporate and dividend income tax rate, where τ_c is 20 percent below €200,000. If one was to consider the higher CIT rate of 25.5 percent then τ would be 43.75 percent.

The difference in MTRs on different types of income depicted in figure 1 creates an incentive for substantial shareholders to prefer paying themselves via dividend distributions rather than wages. The Payroll Tax Act constrains such behavior by obliging entrepreneurs with a substantial interest in the company and who work for the firm to remunerate themselves at least at the highest of: (i) 75 percent of the wage paid to comparable entrepreneurs in similar firms; (ii) the firm's highest employee wage; or (iii) the statutory reference wage, set at €41,000 in 2011 – well below the top PIT threshold.[10]

[8] A presumptive return is imputed and taxed at the statutory rate, yielding a *de facto* net wealth tax. See table A.1 for details on the tax rates.

[9] However, entrepreneurs can choose the timing of dividend distributions. Deferring payouts until dividend taxes decline may amplify the gap between pass-through and corporate-form taxation. This differential can widen further if owners of private corporations can consume through the firm and thereby partially avoid dividend taxation (Alstadsæter, Kopczuk, and Telle, 2014; Leite, 2024). The wedge between personal and combined (corporate and dividend) taxes is somewhat smaller but remains significant even when applying the higher CIT rate of 25.5 percent, which results in τ =43.75 percent.

[10] As shown in table A.1, the reference wage has risen over time but remains below the top PIT kink.

Entrepreneurs may set a lower wage, but must justify the deviation to the tax authorities. Bettendorf, Lejour, and van't Riet (2017) show that many entrepreneurs interpret the statutory reference wage as a legal minimum, as the distribution of owner-managers wages peaks at the reference wage. Wage payments are deductible from the corporate tax base and taxed under the progressive PIT schedule.

All in all, figure 1 shows that the incentive to start a corporation may be partly driven by tax considerations. For taxable income below the top PIT threshold, the tax differential between earning business income as a pass-through entity or as a legal entity is small, but the gap widens once this threshold is surpassed – making incorporation increasingly attractive from a tax perspective.[11] Specifically, at this kink there is a change in the relative net-of-tax saving derived from choosing the corporate form, which is driven by the change in personal MTRs.[12] Importantly, the wedge depicted in figure 1 remained stable around the enactment of the Flex-BV reform.[13]

From a theoretical perspective, the decision to start a corporation in the Netherlands entails additional considerations beyond tax liabilities and set-up costs. The main non-tax benefits of incorporation are limited liability and a legally recognized corporate personality that enables firms to own assets, enter enforceable contracts, and present a standardized, low-risk counterpart to banks in the credit markets – thereby easing access to external finance. However, starting a LLC entails stricter legal and reporting obligations, as incorporation imposes fixed obligations related to book keeping, annual accounts, public filing with the Chamber of Commerce, and the disclosure of financial statements under Dutch national financial-reporting standards. There is, however, no institutional reason to expect these features to exhibit a discontinuity around the top PIT threshold. Thus, from an institutional perspective, the only factor varying sharply around the threshold is the tax incentive to incorporate.

3 Method

As summarized by figure 1, the incentive to start a corporation is highest among those entrepreneurs who expect their taxable income to surpass the top PIT kink, while it is less pronounced for those with pre-reform taxable income further away from the threshold.

[11]At low levels of expected business profits, starting a corporation may not be beneficial from a tax perspective due to the income dependent exemption and exemption rate that are granted to pass-through legal entities (Bosch et al., 2018). In this paper, I abstract from these considerations by focusing on self-employed individuals with taxable income near the top PIT threshold, which incorporates these exemption as well as additional individual level deductions.

[12]Formally, one could write the relative net-of-tax advantage of incorporating as $(1-\tau)/(1-\tau_p)$. For self-employed entrepreneurs whose personal taxable income is at the top PIT kink this will change due to the increase in the personal MTR τ_p.

[13]Table A.1 shows that top PIT threshold and the associated MTR change at the top PIT kink were stable until 2015, with only small inflation adjustments to the threshold. After 2015, the threshold rose and the MTR gap widened.

I focus on unincorporated entrepreneurs in the pre-reform period and exploit variation in (expected) tax incentives to define treated and control entrepreneurs and assess their probability of starting a new company after the reform. Specifically, I estimate the following DiD equation:

$$Y_{it} = \alpha_i + \lambda_t + \beta(T_i \times Post_t) + \mathbf{x}_i^{'}\delta_t + \varepsilon_{it} \tag{1}$$

where subscripts i and t denote self-employed entrepreneurs and years, respectively. The main outcome variable Y_{it} is a dummy that equals one for entrepreneurs who hold shares in a corporation. I also investigate the effect of the reform on the probability of remaining a self-employed entrepreneur, on total tax liabilities and the evolution of the entrepreneurs' total assets and probability of having employees across firms. The specification includes individual fixed effects α_i and year fixed effects λ_t. Standard errors are clustered at the individual level. Post_t is a dummy that equals one in all post-reform years – that is all years after 2011 as the reform entered into effect on 1st October 2012. T_i is the individual-level treatment indicator. The term $\mathbf{x}_i^{'}\delta_t$ captures interactions between year dummies and time-invariant individual characteristics. I discuss the definition of treatment and the choice of control variables in the paragraphs below. To investigate the evolution of differences across treated and control entrepreneurs over time, I also employ a dynamic DiD specification:

$$Y_{it} = \alpha_i + \lambda_t + \sum_{s \neq 2011} \beta_s \big(T_i \times \mathbf{1}\{t = s\}\big) + \mathbf{x}_i^{'}\delta_t + \varepsilon_{it} \tag{2}$$

The individual-level treatment indicator T_i captures entrepreneurs' exposure to the abolishment of minimum capital requirements. Self-employed entrepreneurs with pre-reform personal taxable income close to the top PIT threshold faced stronger tax incentives to change their organizational structure rather than those further below the kink. Accordingly, for each year between 2007–2011 I compute the distance of entrepreneurs' personal taxable income from the top PIT kink, d_{it}. I then classify as treated those entrepreneurs for which the average distance from the top PIT kink pre-reform is comprised between −€6,500 and −€1,500, i.e. those closer to facing the higher marginal PIT rate.[14] Control entrepreneurs are those for which the average distance from the kink is comprised between −€11,500 and −€6,500. As robustness, I examine how the results vary when

[14] I exclude entrepreneurs whose average taxable income lies very close to or above the threshold, as they are substantially more likely to have faced the higher marginal PIT rate in the pre-reform period. This restriction ensures that treated and control groups have comparable pre-reform MTR exposure and differ primarily in their ex-ante proximity to the kink, which in turn should reflect differences in their ex ante probability of hitting the higher MTR in the near future. Note that yearly taxable income is not required to remain below the threshold; occasional crossings occur, but classification is based on average pre-reform distance, which captures the relevant long-run proximity to the kink.

altering the thresholds. The coefficients β_s in equation 2 capture yearly differences in outcomes between treated and control entrepreneurs relative to the baseline year.[15]

The vector $\mathbf{x}_i'$ includes time invariant information on self-employed individual and her business, which is interacted with year dummies. First, I expect the probability of starting a corporation after the reform to vary depending on the entrepreneur's current prospects as a self-employed individual. Specifically, the number of years the entrepreneur is identified as a pass-through business owner in the pre-reform period captures persistent engagement in self-employment and regular business activity, as opposed to sporadic or occasional freelance work, and is therefore correlated with both firm activity and firm age. Accordingly, I interact year dummies with a variable measuring the number of years for which the entrepreneur is identified as self-employed over 2007–2011. In addition, in some specifications I include the year in which the pass-through business is registered at the Chamber of Commerce interacted with the year dummies, and 4-digit industry-code-by-year fixed effects. These interactions flexibly account for heterogeneous dynamics among firms with different maturity and thus potentially different trajectories as well as heterogeneous dynamics among entrepreneurs operating in different sectors.[16]

4 Data

I use administrative records on individuals and firms obtained from Statistics Netherlands, and available over 2007-2018. Data is collected from multiple sources, as summarized in the Appendix. The so-called IBPV dataset contain information on all individuals with a pass-through business, while the PINKZELFST database contain information on both owners of pass-through firms and owner-managers of LLCs. I identify individuals from the Dutch resident population who own a pass-through firm in 2011 and add panel data from their personal income tax return for the entire sample period.[17]

Next, I determine treated and control entrepreneurs by looking at the evolution of their average personal taxable income over 2007–2011, as outlined in section 3. For each entrepreneur identified to be in the treatment or in the control group, I add panel data on their pass-through business, which include for instance information on the year of registration of the firm at the Chamber of Commerce, 4-digit industry code, total assets

[15] These coefficients capture intention to treat – i.e. the causal effect of the abolition of minimum capital requirements for entrepreneurs exposed to a stronger tax incentives to incorporate.

[16] The variables are used only in additional robustness tests to maximize the number of observations in the sample and to avoid including measurement error. The latter is potentially introduced as to reduce missing values I take not only pre-reform observations but also post-reform observations of these two variables, as I expect firm age and industry classification to remain relatively stable over time.

[17] Currently, I include all pass-through entrepreneurs irrespective of their legal form as well as individuals who receive income from activities that were not performed in employment, such as for instance freelance income or assisting family members. Results (available upon request) are robust to restricting the sample to sole proprietors only.

and whether they have employees. The latter is available only until 2016.

I also collect individual-level information, including total tax paid across all personal income boxes each year and the entrepreneur age. I exclude from the analysis entrepreneurs with missing age or older than 60 to avoid capturing individuals approaching retirement.[18]

Finally, I add panel data from the so-called SZOAB+ dataset, which contains information on all Dutch limited liability companies with at least one substantial shareholder, and the individual identifier of each owner. I exclude those entrepreneurs who own a LLC in any year before the reform, as I am interested in understanding behavior of those entrepreneurs who have not yet made that choice. Using information from personal tax returns, I also exclude those entrepreneurs who before the reform receive dividends from a substantial interest or owner-managers wages, as well as entrepreneurs that are classified as owner-managers of a LLC according to the PINKZELFST dataset.

The main outcome variable equals one if the entrepreneur becomes an owner of a corporation, that is if the entrepreneur is matched in a given year to any LLC in the shareholder relationship file available from the SZOAB+ dataset. From SZOAB+, I also include information on the company's total assets and taxable income, which implies I can calculate CIT due. If there are multiple corporations associated to an individual owner in a given year, I compute the company's CIT liability separately and then compute totals at the individual level. For entrepreneurs who become owners of LLCs, I compute the total tax liability by summing total CIT due to the individuals' tax liability.[19] Total taxes paid and total assets are first aggregated to the individual level and then winsorized at the 99th percentile. Finally, I also track whether post reform entrepreneurs continue to have a pass-through business following the reform by identifying individuals matched to the IBPV dataset or identified as self-employed using the PINKZELFST dataset.

Table 1 reports summary statistics for the treatment and control group over 2007–2011. The table shows that treated and control entrepreneurs are comparable in various aspects, with the main differences across groups arising from differences in average taxable income – which determines treatment allocation. In addition, control firms are slightly smaller when it comes to average total assets, but this variable is missing for many entrepreneurs. Across treated and control group, 80 percent of the entrepreneurs are considered self-employed every year over 2007-2011.

[18]The statutory retirement age in the Netherlands in 2011 was 65 years old. Results (available upon request) are overall robust to relaxing this restriction.

[19]I currently allocate the entire CIT due at the firm level to each individual owner, which should not be problematic given that most owners have only one corporation. If anything, this would create an upward bias in tax paid after opening a corporation. Allocation of CIT paid according to entrepreneurs ownership shares may be feasible in future extensions of the paper.

Table 1: Summary statistics

	Mean	SD	p1	p50	p99	N
			Control group			
Box 1 taxable income	54435	17341	2787	54364	108005	171829
Total tax paid	8718	5475	0	8150	29268	171832
Year of firm registration	1999	48	1928	2005	2011	125513
Number of years self-employed	3.964	1.456	1	5	5	171832
Self-employed	0.794	0.405	0	1	1	171832
Total assets	175703	335402	81	55166	2031432	78066
Entrepreneur has employees	0.370	0.483	0	0	1	171832
			Treatment group			
Box 1 taxable income	60475	19532	3067	60429	121158	130849
Total tax paid	11033	6011	0	10526	29637	130851
Year of firm registration	2000	29	1929	2005	2011	94359
Number of years self-employed	4.009	1.434	1	5	5	130851
Self-employed	0.802	0.398	0	1	1	130851
Total assets	183759	349339	85	58304	2031432	59535
Entrepreneur has employees	0.372	0.483	0	0	1	130851

Notes: This table reports descriptive statistics for self-employed entrepreneurs in the control and treatment groups over 2007–2008. Treated entrepreneurs are those for which average distance of personal taxable income from the top PIT kink pre-reform is comprised between −€6,500 and −€1,500, while control entrepreneurs are those for which the average distance from the kink is comprised between −€11,500 and −€6,500. Monetary values are expressed in 2015 euros and winsorized at the 99th percentile.

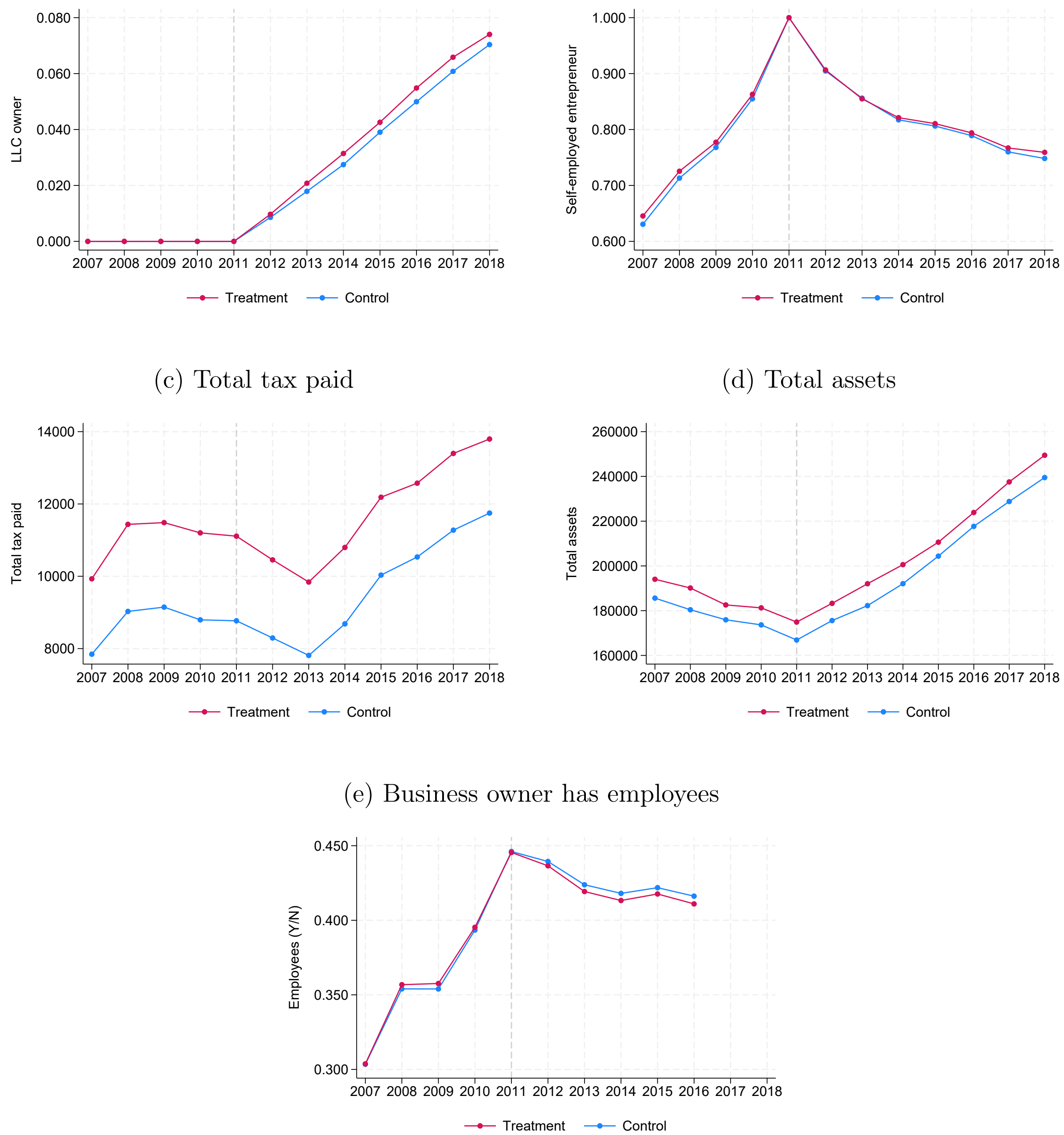
5 Results

Figure 2 plots the evolution of raw mean outcomes for treated and control entrepreneurs over 2007–2018. In the pre-reform period, the two groups exhibit parallel trends in total tax payments, employment status, and firm total assets – when observed. In addition, the figure shows that while there is no visible divergence in the probability of operating a pass-through business either before or after the reform, the likelihood of incorporation begins to diverge between treated and control entrepreneurs from 2013 onward.

Table 2 shows results obtained when estimating equation 1. It shows that following the reform, treated entrepreneurs who are more exposed to the tax incentive are more likely to be shareholders in a LLC relative to control entrepreneurs. The base specification in column (1) includes only firm fixed effects and the interaction of year dummies with an indicator for the number of years the entrepreneur is recorded as a self-employed over 2007-2011. This coefficient implies that treated entrepreneurs are 0.38 pp more likely to own shares in a LLC after the reform. Relative to the post-reform incorporation rate of 3.9 percent in the control group, this corresponds to a 9.7 percent increase in incorporation among entrepreneurs most exposed to the tax incentive.[20] The policy shock activates the

[20] I take the post reform control group rate of incorporation as the pre-reform rate is zero by definition for both treated and control entrepreneurs.

Figure 2: Average outcomes over time by treatment status



Notes: This figure reports the evolution of average outcome variables over time for treatment and control group. Treated entrepreneurs are those for which average distance of personal taxable income from the top PIT kink pre-reform is comprised between −€6,500 and −€1,500, while control entrepreneurs are those for which the average distance from the kink is comprised between −€11,500 and −€6,500. All treated and control entrepreneurs are self-employed as of 2011.

otherwise latent tax incentive.

Columns (2)-(4) of table 2 show the robustness of this result to the inclusion of additional control variables. Column (2) control for industry by year fixed effects, column (3) interacts year dummies with the year of registration of the pass-through business at

Table 2: Effect of the reform on incorporation of existing entrepreneurs

	(1)	(2)	(3)	(4)
$T_i * Post_t$	0.0038***	0.0036***	0.0057***	0.0048***
	(0.0013)	(0.0014)	(0.0016)	(0.0017)
Observations	721,571	656,198	524,343	500,130
R-squared	0.391	0.407	0.393	0.407
Firm FEs	Yes	Yes	Yes	Yes
N. of years self-employed*Year	Yes	Yes	Yes	Yes
Industry*Year	No	Yes	No	Yes
Year of firm registration*Year	No	No	Yes	Yes

Notes: The table displays results obtained estimating equation 1 over 2007-2018. Treated entrepreneurs are those for which average distance of personal taxable income from the top PIT kink pre-reform is comprised between −€6,500 and −€1,500, while control entrepreneurs are those for which the distance is between −€11,500 and −€6,500. $Post_t$ is dummy variable that equals one for all years after 2011. The dependent variable is a dummy that equals one if the entrepreneur is matched to the SZOAB+ dataset as a direct owner of a LLC. Entrepreneurs who have a LLC at any point in time before 2012 are excluded from the analysis. Standard errors are clustered at the individual level. N. of years self-employed indicates how many years over 2007-2011 the individual is recorded to be a self-employed, as measured by a match to either the IBPV dataset or the PINKZLFST dataset – excluding owner-managers of corporations. The table indicates whether 4-digit industry codes by year fixed effects or the year of registration of the business at the Chamber of Commerce interacted with the year dummies are included as additional controls. All individuals are required to be identified as self-employed in 2011, the last year before the reform.

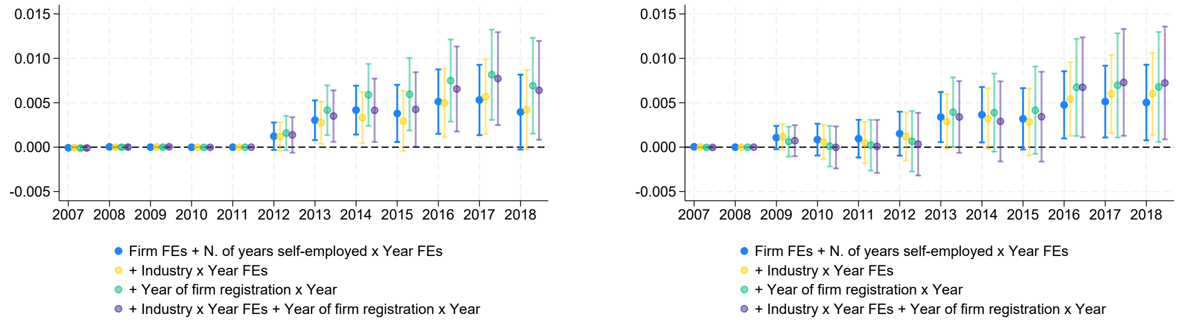
the Chamber of Commerce while column (4) includes both sets of controls. While the number of observations is reduced by the inclusion of controls, the main result is qualitatively unchanged and confirms a positive and significant effect of tax incentives on the probability of becoming an owner of an LLC following the abolition of minimum capital requirements.[21] These results are confirmed when I investigate dynamics over time by estimating equation 2. Figure 3a summarizes the results, which are also reported in table A.2 in the appendix.

Incorporation behaviour cannot be meaningfully analysed prior to the abolition of minimum capital requirements, as the sample is restricted to entrepreneurs who had not yet incorporated before the reform. Nevertheless, pre-reform comparability can be probed through a placebo test, which examines whether treated and control groups exhibit systematically different propensities to incorporate when entry barriers were high. To do so, I retain the treatment classification based on average pre-reform proximity to the top PIT kink, but restrict the analysis to 2007–2008 and designate 2008 as the placebo reform year. Because no change in the minimum capital requirements required to start a LLC occurred at that time, any estimated treatment effect in the years preceding the 2012 reform would reflect underlying differential trends between treated and control group un-

[21]Results available upon request are robust to using a sample of entrepreneurs for which all controls are observed.

Figure 3: Dynamic effect of the reform on incorporation of existing entrepreneurs

(a) 2011 reform (b) Placebo: 2008 reform



Notes: The figures display results obtained from estimating equation 2. In figure 3a, treated entrepreneurs are those for which average distance of personal taxable income from the top PIT kink pre-reform is comprised between −€6,500 and −€1,500, while control entrepreneurs are those for which the average distance from the kink is comprised between −€11,500 and −€6,500. The dependent variable is a dummy that equals one if the entrepreneur is found in the SZOAB+ dataset shareholder register after the reform. Standard errors are clustered at the individual level. N. of years self-employed indicates how many years over 2007-2011 the individual is recorded to be a self-employed, as measured by a match to either the IBPV dataset or the PINKZELFST dataset, excluding owner-managers of corporations. I indicate in the table whether the regression equation includes controls, 4-digit industry codes by year fixed effects or the year of registration of the business at the Chamber of Commerce interacted with the year dummies. Table A.2 reports the underlying coefficients. Figure 3b shows results obtained when using average taxable income in 2007–2008 to define treated and control entrepreneurs and using 2008 as the baseline year. Entrepreneurs are required to be self-employed in 2008 and those with a LLC before 2009 are excluded from the analysis.

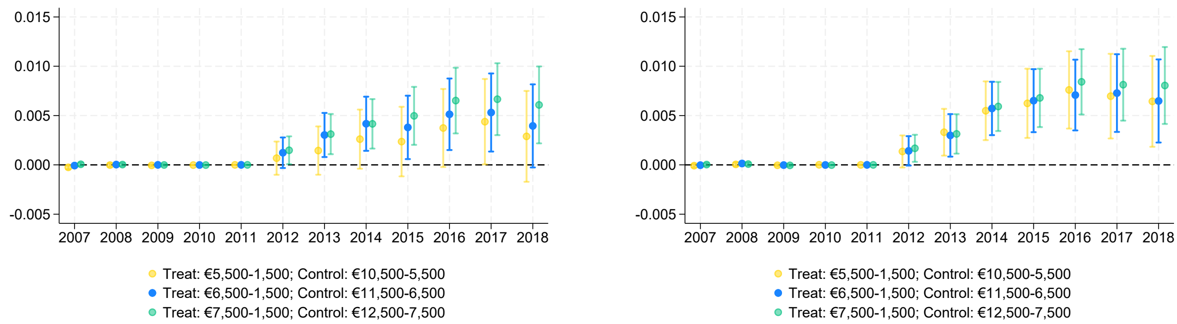
related to the policy. Conversely, a null effect supports the identifying assumption that treated and control entrepreneurs evolved in parallel prior to the actual reform. Figure 3b shows that between 2009–2012 there are no significant differences in incorporation rates between treated and control groups, despite their differential tax incentives.[22] Only once entry barriers are removed in 2012 incorporation rates begin to diverge, consistent with the policy-shock activating the latent tax incentive. In this sense, the placebo reform addresses the concern that as the tax incentive to incorporate increases with income, treated and control entrepreneurs may have differential incorporation rates before the reform. Additionally, the placebo test mitigates concerns regarding anticipatory behavioral responses that may have to do with the legislative process of the reform described in figure A.2.

Figure 4 shows the sensitivity of results to alternative definitions of treated and control groups. In the baseline specification, the average distance of personal taxable income from the top PIT kink for treated entrepreneurs is comprised between −€6,500 and −€1,500,

[22]This result is confirmed when estimating a static DiD equation. Table A.3 shows that there is no significant effect of the reform on incorporation rates when estimating the effect of the reform over 2007-2011 and defining treated and control entrepreneurs based on the 2007-2008 average distance of personal taxable income from the top PIT kink.

Figure 4: Incorporation of existing entrepreneurs, robustness to the threshold definition

(a) Average (b) Median



Notes: The figures display results obtained from estimating equation 2 over 2007-2018, but varying the definition of treated and control entrepreneurs. In the base specification, treated entrepreneurs are those for which average distance of personal taxable income from the top PIT kink pre-reform is comprised between −€6,500 and −€1,500, while control entrepreneurs are those for which the average distance from the kink is comprised between −€11,500 and −€6,500. In figure 4a I vary the cutoffs used to define the groups while in figure 4b I use the median distance from the top PIT kink and alternative cutoffs to define treated and control entrepreneurs. The dependent variable is a dummy that equals one if the entrepreneur is found in the SZOAB+ dataset. Entrepreneurs shares in a LLC before the reform are excluded from the analysis. Standard errors are clustered at the individual level. Firm fixed effects and number of years as self-employed over 2007-2011 by year fixed effects are included in the specification. The sample consists of self-employed individuals as of 2011, measured by a match to either the IBPV dataset or the PINK dataset, and excluding owner-managers of corporations.

while for control entrepreneurs it is comprised between −€11,500 and −€6,500. In figure 4a, I show that results are robust to defining treated entrepreneurs as those with average distance of personal taxable income from the top PIT kink comprised between −€7,500 and −€1,500, and between −€12,500 and −€7,500 for control entrepreneurs. The effect is diminished in power but remains mostly significant when the range is narrowed to −€5,500 and −€1,500 for the treated and −€10,500 and −€5,500 for control entrepreneurs. As an alternative measure of pre-reform proximity to the kink, I reclassify entrepreneurs using median rather than the average taxable income over 2007–2011 and report results obtained for different cutoffs in figure 4b. As the median is less sensitive to occasional yearly crossings of the threshold and to transitory income shocks, this test ensures that results are not driven by outliers or short-term volatility in pre-reform earnings. The qualitative conclusions are unchanged, suggesting that the main result is robust and, if anything, conservative when based on mean income. All in all, figure 4 suggests that results are robust to alternative definitions of the treatment and control group.

Overall, the results obtained so far suggest that legal form choice is sensitive to tax incentives, and that the removals of barriers to entry in the form of minimum capital requirements can alter the relevance of these incentives. Three questions arise following this result. First, what happens to existing pass-through firms? I investigate this by looking at the probability of being registered as a pass-through entrepreneurs. Column

(1) in table 3 shows that the probability of owning a pass-through business does not appear to change across groups after the reform. I use my preferred specification, which includes firm fixed effects and number of years as self-employed over 2007-2011 by year fixed effects. In figure 5, I explore dynamics over time and show robustness of the result to the inclusion of additional control variables – which confirm the null effect of the reform on the probability of owning a pass-through business. Taken together, this suggests that treated entrepreneurs are more likely to become owners of a LLC, but that they do not close or convert the legal form of their existing venture.

Table 3: Effect of the reform on other outcomes of existing entrepreneurs

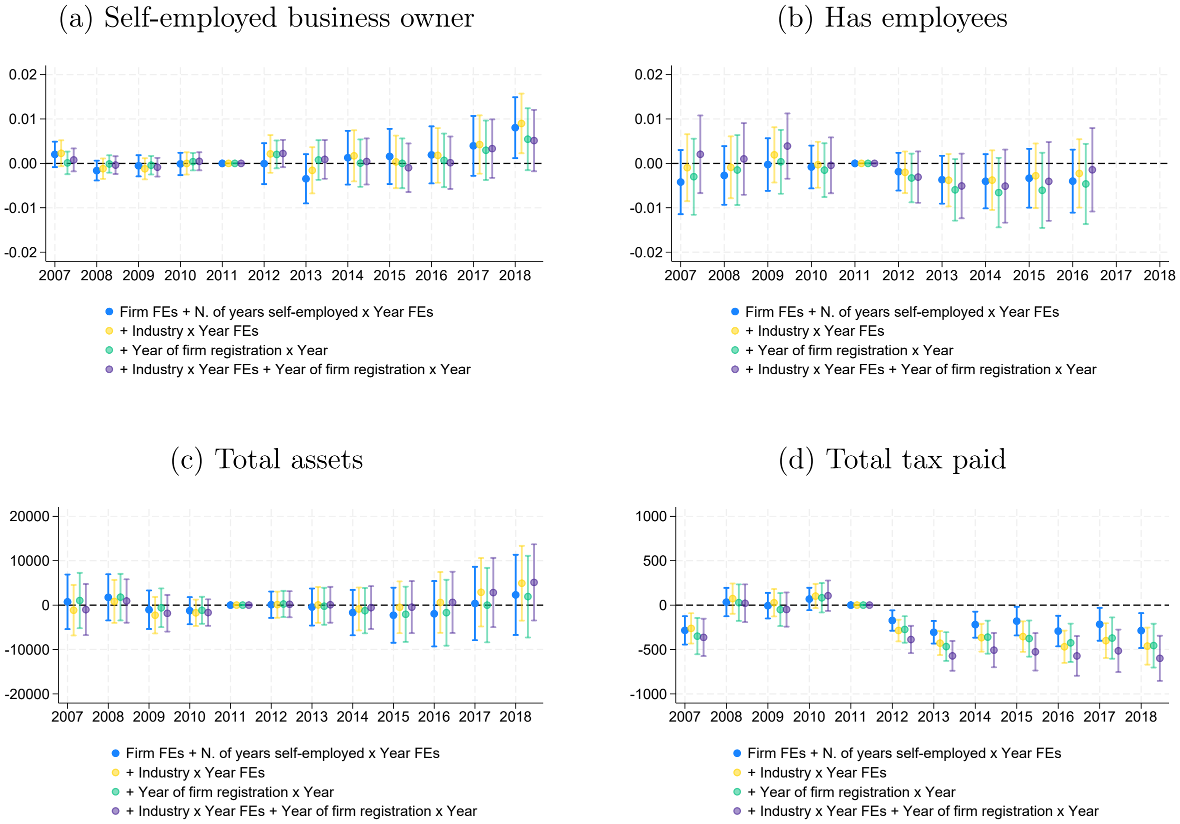
	(1) Self-employed	(2) Total assets	(3) Has employees	(4) Total tax paid
$\text{T}_i * \text{Post}_t$	0.00191	-482.88	-0.00178	-201.61***
	(0.00251)	(3,187.88)	-0.00266	(60.88)
Observations	721,571	357,189	603,011	721,571
R-squared	0.6177	0.8232	0.7079	0.3344
Firm FEs	Yes	Yes	Yes	Yes
N. of years self-employed*Year	Yes	Yes	Yes	Yes
Treat. group pre-reform mean	0.802	183,759	0.372	11,033

Notes: The table displays results obtained estimating equation 1 over 2007-2018. Treated entrepreneurs are those for which average distance of personal taxable income from the top PIT kink pre-reform is comprised between −€6,500 and −€1,500, while control entrepreneurs are those for which the distance is between −€11,500 and −€6,500. Post_t is dummy variable that equals one for all years after 2011. The dependent variable in column (1) is a dummy that equals one if the entrepreneur is matched either the IBPV dataset or the PINKZLFST dataset and recorded as self-employed. In column (2), the dependent variable is the sum of total assets owned by the entrepreneur across her firms, regardless of the legal form. In column (3), the dependent variable is a dummy that equals one if the self-employed individual or LLC owner has employees (available only until 2016). In column (4) the dependent variable is total tax paid, which is obtained by summing corporate tax liabilities to tax due at the individual level. For total assets and total tax paid negative values are trimmed and the variables are winsorized at the 99th percent level. Entrepreneurs who have a LLC at any point in time before 2012 are excluded from the analysis. Standard errors are clustered at the individual level. N. of years self-employed indicates how many years over 2007-2011 the individual is recorded to be a self-employed, as measured by a match to either the IBPV dataset or the PINKZLFST dataset, and excluding owner-managers of corporations. All individuals are required to be identified as self-employed in 2011, the last year before the reform.

Second, is the increase in incorporation rates for treated entrepreneurs accompanied by an expansion of total business activity? I investigate this by looking at total assets and the probability of having employees in columns (2) and (3) of table 3, and explore dynamics in figure 5. For total assets, I consider all firms of any legal forms owned by an entrepreneur and aggregate them at the individual level. I find no indication of an expansion of economic activity as measured in terms of total assets. Similarly, I find no evidence that the probability of having a business (of any legal form) that has employees changes after the reform. All in all, this suggests that – at least in the short term – economic activity of treated and control firms is comparable, before and after the reform.

Finally, given the observed increase in incorporation for entrepreneurs most exposed to the tax incentives, what happens to their overall tax liability after the reform? I compute total corporate income tax paid and add this liability to the individual level tax liability – calculated across all individual income boxes. Results reported in column (4) of table 3 indicate that the overall tax liability decreases by about €200, which corresponds approximately to a 2 percent drop relative to the pre-reform treatment group mean. This suggests that entrepreneurs reap the tax advantage of incorporation and shift income across tax bases.

Figure 5: Dynamic effect of the reform on other outcomes of existing entrepreneurs



Notes: This figure reports the evolution of average outcome variables over time for treatment and control group. Treated entrepreneurs are those for which average distance of personal taxable income from the top PIT kink pre-reform is comprised between −€6,500 and −€1,500, while control entrepreneurs are those for which the average distance from the kink is comprised between −€11,500 and −€6,500.

6 Conclusions

This paper examines a key question in the study of entrepreneurship and business taxation: what prompts pass-through entrepreneurs to adopt the corporate form? I analyze how tax incentives interact with administrative barriers to shape organizational form choice, exploiting the removal of minimum capital requirements for establishing an LLC in the Netherlands. The reform provides a sharp reduction in non-tax costs of incorporation, allowing for a clean assessment of how regulatory frictions affect the behavioral response to tax savings across organizational forms.

I show that self-employed entrepreneurs who stand to gain the most from the tax differential between the personal and corporate tax bases are significantly more likely to start an LLC once entry barriers are removed. Specifically, treated entrepreneurs are 0.4 pp more likely to own shares in a LLC after the reform. This corresponds approximately to a 10 percent increase relative to the control group post-reform incorporation rate.

Despite an increase in the probability of starting a corporation, the likelihood that business owners retain their pass-through business remains unchanged, suggesting that many entrepreneurs establish a corporation in addition to their existing unincorporated venture. Total tax liabilities for treated entrepreneurs significantly decline, suggesting that they succeed in capturing the tax advantages associated with operating through a corporate form. By contrast, aggregate business activity shows no statistically discernible change, at least in the short run.

In sum, the papers' results show that reducing administrative frictions increases the sensitivity of organizational form to tax incentives. This has two key implications. First, the elasticity of incorporation is not a structural parameter but depends on the institutional environment. Incorporation becomes attractive from a tax perspective only when regulatory hurdles are sufficiently low. Second, these results caution against interpreting incorporation rates as direct indicators of entrepreneurial dynamism. Because legal-form choice responds endogenously to both tax policy and administrative costs, observed differences between incorporated and unincorporated entrepreneurs may reflect institutional features rather than differences in economic fundamentals such as ability, innovation, or growth potential.

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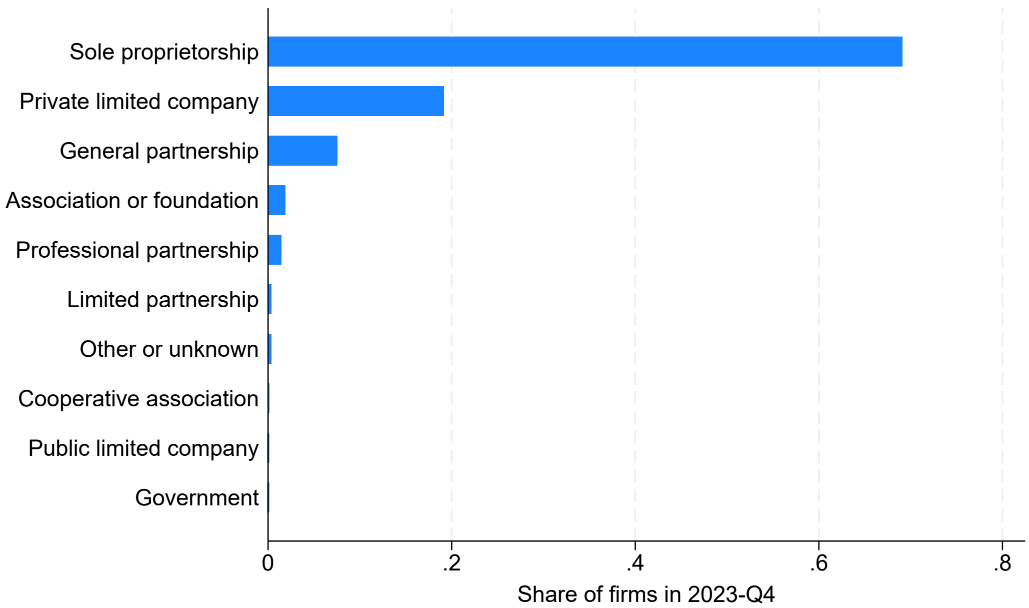
Appendix

Additional figures and tables

Figure A.1: Legal forms of Dutch firms, 2023-Q3



Source: Statistics Netherlands (2025) and own calculations. *Notes:* The figure shows the different types of legal forms in the Netherlands as a share of the total number of firms as of the 4th quarter of 2023.

Figure A.2: Timeline of the Flex-BV reform

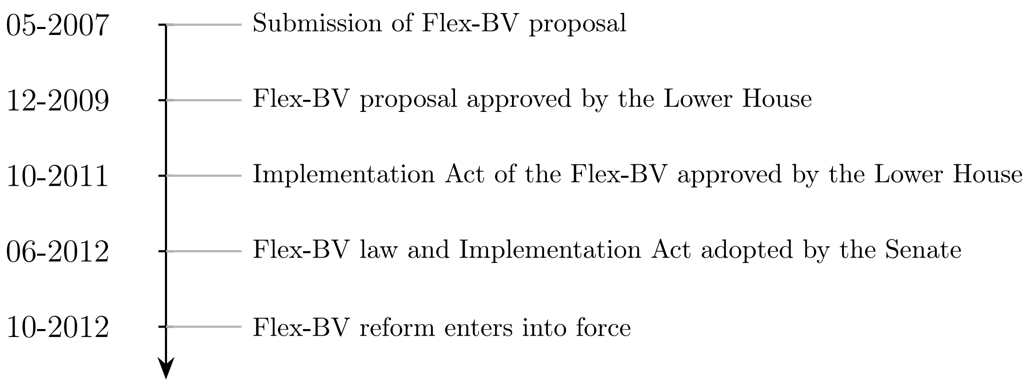


Table A.1: Dutch personal and corporate tax system, 2007–2018

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Corporate income tax												
Brackets (in euros)	25,000	275,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Medium bracket	60,000											
Tax rates												
1st bracket	20	20	20	20	20	20	20	20	20	20	20	20
Medium bracket	23.5											
2nd bracket	25.5	25.5	25.5	25.5	25	25	25	25	25	25	25	25
Personal income tax												
Box 1: labor, rental income and benefits												
Brackets (in euros)												
1st bracket	17,319	17,579	17,878	18,218	18,628	18,945	19,645	19,645	19,822	19,922	19,982	20.142
2nd bracket	31,122	31,589	32,127	32,738	33,436	33,863	33,363	33,363	33,589	33,715	33,791	33.994
3rd bracket	53,064	53,860	54,776	54,367	55,694	56,491	55,991	56,531	57,585	66,421	67,072	68.507
Tax rates												
1st bracket*	33.65	33.6	33.5	33.45	33	33.10	37	36.25	36.5	36.55	36.55	36.55
2nd bracket*	41.4	41.85	42	41.95	41.95	41.95	42	42	42	40.4	40.8	40.85
3rd bracket	42	42	42	42	42	42	42	42	42	40.4	40.8	40.85
4th bracket	52	52	52	52	52	52	52	52	52	52	52	51.95
DGA reference salary (in euros)	40,000	40,000	40,000	41,000	41,000	42,000	42,000	44,000	44,000	44,000	45,000	45,000
Box 2: Income from substantial shareholding												
Bracket (in euros)	250,000							250,000				
Low rate	22							22				
Standard rate	25	25	25	25	25	25	25	25	25	25	25	25
Box 3: Wealth												
Exemption (in euros)**	20,014	20,315	20,661	20,661	20,785	21,139	21,139	21,139	21,330	24,437	25,000	30,000
Brackets (in euros)												
1st bracket											75,000	70,800
2nd bracket											975,000	978,000
Presumed rate of return												
1st bracket	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.03	0.02
2nd bracket											0.05	0.04
3rd bracket											0.05	0.05
Tax rate	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Effective tax rate												
1st bracket	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	0.9	0.6
2nd bracket											1.4	1.3
3rd bracket											1.6	1.6

Notes: The table describes the Dutch corporate and personal income tax schedule over 2007–2018 as summarized by Massenz (2024). I abstract from reporting income-dependent tax credits and refer to Cnossen and Jacobs (2022) for a discussion. * The tax rate includes social security contributions. ** The exemption refers to a single individual; the allowance doubles for fiscal partners.

Table A.2: Dynamic DiD results, self-employed with a corporation

	(1)	(2)	(3)	(4)
T_i*2007	-0.00007	-0.00005	-0.00010	-0.00009
	(0.00010)	(0.00010)	(0.00012)	(0.00012)
T_i*2008	0.00003	0.00000	0.00000	0.00001
	(0.00009)	(0.00009)	(0.00011)	(0.00011)
T_i*2009	0.00000	0.00004	-0.00000	0.00004
	(0.00005)	(0.00005)	(0.00006)	(0.00006)
T_i*2010	-0.00001	-0.00002	-0.00002	-0.00002
	(0.00002)	(0.00003)	(0.00003)	(0.00004)
T_i*2012	0.00123	0.00118	0.00158	0.00138
	(0.00079)	(0.00083)	(0.00099)	(0.00102)
T_i*2013	0.00303***	0.00277**	0.00416***	0.00350**
	(0.00114)	(0.00121)	(0.00143)	(0.00148)
T_i*2014	0.00417***	0.00333**	0.00589***	0.00415**
	(0.00140)	(0.00148)	(0.00178)	(0.00182)
T_i*2015	0.00380**	0.00294*	0.00596***	0.00425**
	(0.00164)	(0.00173)	(0.00208)	(0.00214)
T_i*2016	0.00513***	0.00498**	0.00750***	0.00655***
	(0.00185)	(0.00196)	(0.00236)	(0.00244)
T_i*2017	0.00531***	0.00568***	0.00816***	0.00772***
	(0.00202)	(0.00215)	(0.00259)	(0.00267)
T_i*2018	0.00395*	0.00422*	0.00692**	0.00640**
	(0.00215)	(0.00228)	(0.00275)	(0.00284)
Observations	721,571	656,198	524,343	500,130
R-squared	0.39115	0.40731	0.39270	0.40705
Firm FEs	Yes	Yes	Yes	Yes
N. of years self-employed*Year FEs	Yes	Yes	Yes	Yes
Industry*Year	No	Yes	No	Yes
Year of firm registration*Year	No	No	Yes	Yes

Notes: The table displays results obtained from estimating equation 2. Treated entrepreneurs are those for which average distance of personal taxable income from the top PIT kink pre-reform is comprised between −€6,500 and −€1,500, while control entrepreneurs are those for which the average distance from the kink is comprised between −€11,500 and −€6,500. The dependent variable is a dummy that equals one if the entrepreneur is found in the SZOAB+ dataset. Standard errors are clustered at the individual level. N. of years self-employed indicates how many years over 2007-2011 the individual is recorded to be a self-employed, as measured by a match to either the IBPV dataset or the PINKZELFST dataset, and excluding owner-managers of corporations. I indicate in the table whether the regression equation includes controls, 4-digit industry codes by year fixed effects or the year of registration of the business at the Chamber of Commerce interacted with the year dummies.

Table A.3: Effect of treatment on incorporation of existing entrepreneurs, 2008 placebo

	(1)	(2)	(3)	(4)
$T_i * Post_t$	0.00104	0.00081	0.00041	0.00029
	(0.00086)	(0.00095)	(0.00114)	(0.00118)
Observations	352,801	311,794	200,112	193,560
R-squared	0.49902	0.50736	0.47942	0.48924
Firm FEs	Yes	Yes	Yes	Yes
N. of years self-employed*Year	Yes	Yes	Yes	Yes
Industry*Year	No	Yes	No	Yes
Year of firm registration*Year	No	No	Yes	Yes

Notes: The table displays results obtained estimating equation 1 over 2007-2011. Treated entrepreneurs are those for which average distance of personal taxable income from the top PIT kink over 2007-2008 is comprised between −€6,500 and −€1,500, while control entrepreneurs are those for which the average distance from the kink is comprised between −€11,500 and −€6,500. $Post_t$ is a dummy that equals one for all years after 2008. The dependent variable is a dummy that equals one if the entrepreneur is found in the SZOAB+ dataset after 2008. Entrepreneurs who have a LLC at any point before 2009 are excluded from the analysis. Standard errors are clustered at the individual level. N. of years self-employed indicates how many years over 2007-2008 the individual is recorded to be a self-employed, as measured by a match to either the IBPV dataset or the PINKZELFST dataset, and excluding owner-managers of corporations. I indicate in the table whether the regression equation includes controls, 4-digit industry codes by year fixed effects or the year of registration of the business at the Chamber of Commerce interacted with the year dummies. All individuals are identified as self-employed in 2008, the last year before the placebo reform.

Data

Table A.4 shows the building blocks of the dataset used for this project, all available via Statistics Netherlands (CBS).

Table A.4: Description of data files

Dataset	Years	Content
SZOAB+	2007–2019	Corporate tax return data and shareholder relations
SZOIBPV	2007–2018	Tax return data of firms of self-employed individuals
IIVS	2007–2018	Individual income tax return data of the Dutch population
INPATAB	2011–2019	Individual income statistics of the Dutch population
PINKZELFST	2011–2016	Statistics on individuals with entrepreneurial income

SZOAB+ contains ownership information for all Dutch firms with at least one substantial owner, i.e. an individual who owns more than 5% of the shares in a company. The dataset reports ownership shares for each individual and company exceeding the threshold, as well as financial variables such as balance sheet items and profit-and-loss statements of the firms they own. In cases where parent–subsidiary structures file a consolidated tax return as a fiscal unit, I treat the entire unit as a single firm and rely on its consolidated financial accounts.

SZOIBPV covers entrepreneurs whose firms are not legal entities (primarily sole proprietors and partnerships). Individuals are classified as self-employed if they report business profits on their PIT returns. This file contains information on the fiscal and taxable profits of these firms, as well as the deductions that these firms use.

PINKZELFST contains information on all individuals earning income from self-employment, a subpopulation of the Income Production System. Self-employed workers are classified as sole proprietors, owner-managers of legal entities, co-working spouses, or freelance self-employed. The dataset records sex, age, SIC 2008 sector of activity of their business, and the size class of the firm they own, as well as whether the firm they own has employees.

IIVS reports end-of-year income statistics for the Dutch resident population. Its core variables include taxable income in boxes 1–3. It also records gross wages and in a separate category wages received by owner-managers from their firms. The dataset also contains national insurance premia, tax-partner identifiers, and information on subsidies and deductible items in PIT returns (e.g., health-care, rent, and childcare allowances; education expenses; charitable donations; alimony; and disability-related expenses).

INPATAB covers all individuals in the Dutch resident population as of 1 January. Many variables are derived from IIVS, but the dataset augments them with additional socioeconomic and demographic information. It provides personal gross income and indicators such as marital or fiscal-partner status as well as information on the SIC 2008 economic activity of the firm(s) owned by individuals with business income.