Dear Referee,

Thank you for your very precise arguments. I received the strong impression the your first criticism, where it is stated that the "*long introduction is sometimes really useless because talking of issues only very far related to the apparent objective of the paper*", stems from the subsequent argument where it is stated that "*in a paper where you are discussing the role of tax evasion in determining the efficient level of optimal taxes if capital is mobile, you cannot represent tax evasion just as generic function of the tax rate, but I think you should add to the model some micro-economic foundation of the tax evasion activity.*"

If the aim of the paper was to propose a new framework to model "optimal" policy where differentiated rates are available to a government in an open economy with heterogeneous tax evasion, I would agree with the above remarks wholeheartedly. In this way some answers would be derived to inquire your questions: "*What happens in presence of capital mobility to tax rates in an environment with tax evasion? Should tax rates increase or decrease?*"

My aim is far more limited in scope, though. The whole paper asks what are the informational requirements a government faces when trying to levy different rates based on an inverse elasticity rule when tax evasion is observed. The way we model tax evasion behaviors is itself an unknown: should we include social custom? Or tax morale? What assumptions are acceptable for risk aversion? A government cannot do better than guess how evasion is modified by a reform of tax rates, based on historical data. This is the reason why I chose not to provide micro-foundations, but rather to broadly discuss various drivers of evasion which are then represented by a single, implicit function. Under this view, the initial, long literature review is not just an introductory section. It plays a necessary part in trying to understand the reliability of estimates of evasion elasticity to tax rates computed on past data (for example, if tax evasion behaviors are path-dependent, a government cannot directly rely on past evasion elasticities to infer modifications induced by new tax rates).

I feel this exercise could prove useful since the literature on differentiated capital income taxation is quite underdeveloped, while the literature on evasion behaviors is large but does not provide a single, agreed-upon comprehensive model (again I forward to the literature referenced in the paper). Of course I may be wrong, and different opinions are always very welcome.