

Tax Avoidance Paper: Report V47 Fixed “pen”

September 7, 2024

We report robustness check results. In counterfactual experiments, we set the pension level to be fixed at the benchmark level (so that the pension replacement rate varies). In doing so, the total amount of benefits B is fixed at the benchmark level.

1 No Avoidance Experiments

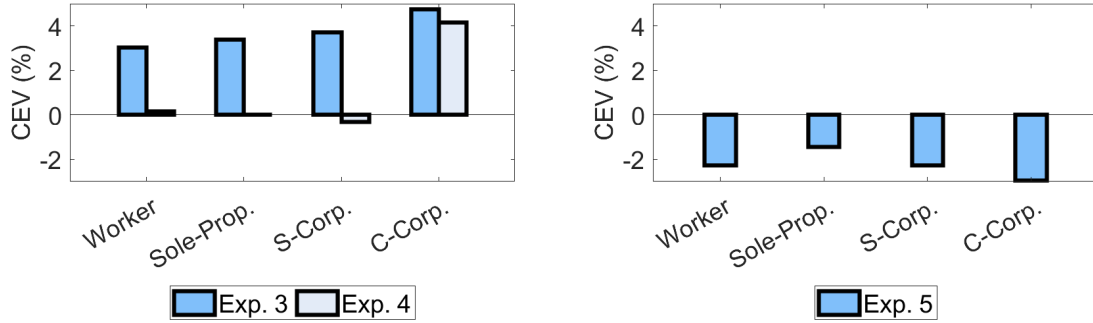
- Experiment 3: No avoidance on both margins (i.e. no income shifting and all entrepreneurs are taxed as sole-prop.)
- Experiment 4: No avoidance on both margins, and the policy function for occupational and legal form choice is fixed at the benchmark model.
- Experiment 5: All entrepreneurs are sole proprietors (same financial frictions and same taxes).

We summarize the results of the experiments in Table 1. What’s new with respect to the draft: we fixed pen and we added experiment 5.

Table 1: Summary of experiments

	Exp. 3	Exp. 4	Exp. 5
<i>Impact on prices</i>			
Interest rate (p.p.)	-0.57	-0.20	0.10
Wage (%)	3.65	1.26	-0.61
<i>Impact on aggregates</i>			
Aggregate output (%)	7.41	1.84	-2.93
Aggregate capital (%)	10.39	4.42	-2.32
Ave. entrepreneurial capital (%)	39.94	9.72	-13.96
Entre. Share of output (p.p.)	11.49	1.27	-5.06
<i>Impact on taxes</i>			
Total revenue (excl. soc. sec., %)	6.52	-1.44	-9.57
Social security contributions (%)	0.00	0.00	0.00
Social security tax rate (p.p.)	-1.30	-0.77	-0.60
<i>Impact on entrepreneurial sector</i>			
Share of entrepreneurs (p.p.)	-0.45	-0.35	0.42
Sole prop. As share of entre. (p.p.)	-35.55	-0.72	32.52
S-corp. as share of entre. (p.p.)	-24.18	-0.34	-24.18
C-corp. as share of entre. (p.p.)	59.72	1.05	-8.34

Notes: In counterfactual economies in this table, we assume all model and tax parameters as in the benchmark model. We assume that the social security budget is balanced. To highlight the effects of eliminating tax-avoidance opportunities on tax revenue, we do not adjust the income tax parameter λ_i to balance the government budget constraint. Assuming fiscal neutrality does not change the qualitative results besides total tax revenue.

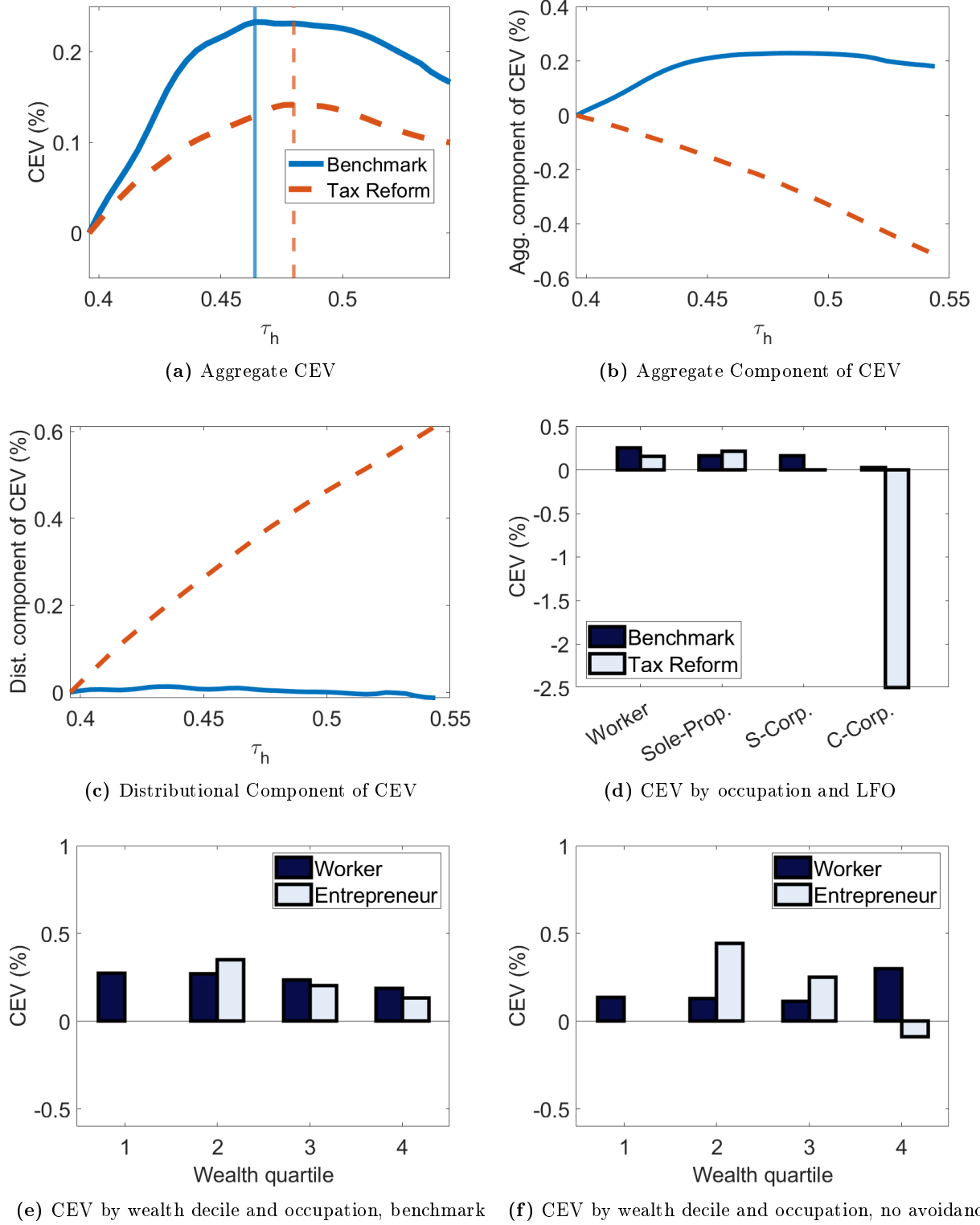
Figure 1**(a)** CEV by occupation and LFO**(b)** CEV by occupation and LFO

Notes: We assume fiscal neutrality in counterfactual economies and consider transitional dynamics. Each wealth bin contains a quarter of the young population, ordered from the poorest to the richest.

2 Welfare maximization with transition

References

Figure 2



Notes: The welfare maximizing top marginal tax rate τ_h is 0.464 in the benchmark economy and 0.480 in the counterfactual economy.