

Tax evasion and inequality

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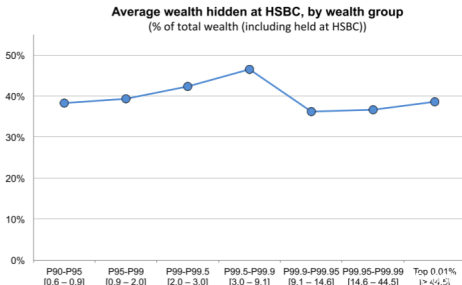
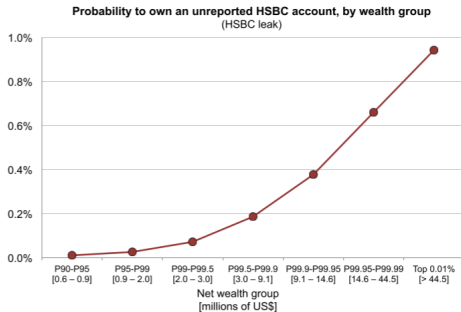
Motivation and objectives

- Tax evasion is a huge concern for tax authorities and citizens. It distorts the tax system.
- It is also a big concern for economists who construct estimate of income distribution based on tax returns, since these give a distorted view of income and wealth.
- The objective of the paper is therefore to
 - 1) Estimate the size and distribution of tax evasion performed by Scandinavian residents
 - 2) Estimate the impact of tax evasion on income and wealth distribution/inequalities

Data sources - “the” innovation

- Swiss leaks
30,412 of HSBC clients extracted in 2012, with name and amount of assets held. Matched with 520 Scandinavian resident taxpayers who evaded taxes.
- Panama papers
List of name and addresses of owners of shell companies created by Mossack Fonseca between 1995 and 2015. Matched with 165 Scandinavian taxpayers (unclear whether they evaded taxes).
- Scandinavian tax authority data
 - 1) Tax amnesty disclosures made between 2006 and 2016. 1,422 hh in Norway and 6,811 in Sweden.
 - 2) Random audit data: 2008, 2010, 2012 : 18,985 randomly audited taxpayers

Tax evasion at HSBC



Modeling tax evasion

- Innovation: to explain evasion from the point of view of suppliers of evasion, instead of the demanders.

$$\pi = \int yp(y)s(y)dy - \lambda s\phi \int ys(y)f(y)dy$$

$$\pi = \theta k(s) - \lambda s\phi k(s)$$

$$\theta = \left(1 + \frac{1}{\epsilon_k(s^*)}\right) \phi \lambda s^*$$

- Criticism: assumes that all consumers have the same willingness to pay for evasion
- Criticism: assumes larger banks are more at risk of being caught. What matters is the size of the punishment, which is not the same for all: three tiny swiss banks closed but all the large ones can continue operating.

Implications for measuring inequality

- Since a non-negligible share of top income earners hide their income and wealth from tax returns, the true distribution of income is probably more unequal than what we have thought until now.