

Tax evasion and inequality

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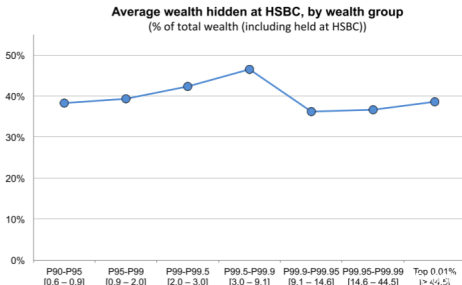
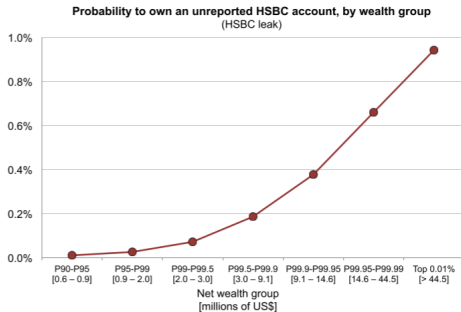
Motivation and objectives

- Tax evasion is a huge concern for tax authorities and citizens: distorts the tax system's progressivity, reduces government revenues, etc.
- 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



The distribution of offshore wealth and evasion

- TOTAL. Combining known statistics about HSBC's global liabilities on the one hand, global offshore wealth, we can conclude that Scandinavians held about \$48 billion dollars offshore, or 1.5% of their global wealth. Another method concludes to the same number.
- DISTRIBUTION OF (O) WEALTH. Assuming global offshore wealth of Scandinavians is distributed like their HSBC one and amnesty sample, one can use it to see the extremely skewed distribution of offshore wealth.
- DISTRIBUTION OF (O) EVASION. Applying a 90% rate of hiding, a 4.5% rate of return, they find that groups evade between 25% and 40% of tax liability
- OTHER EVASION. Random audits find (non-offshore) evasion 11-12% of the time. This probability also rises sharply with wealth, but the total evaded is smaller and the distribution is less extreme.

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. The size of the punishment goes in the other direction: three tiny swiss banks closed but all the large ones can continue operating.
- So increasing λ is important but increasing ϕ might be more important.

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.

