"Myth and Reality of Flat Tax Reform: Micro Estimates of Tax Evasion Response and Welfare Effects in Russia"
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NBER Working Paper No. 13719
January 2008

Gorodnichenko, Martinez-Vazquez, and Peter use household level data from the Russian Longitudinal Monitoring Survey to estimate the effects of Russia's 2001 tax reform on a measure of tax evasion. The paper also provides estimates of the productivity response to the flat tax reform and of the deadweight loss from personal income tax that incorporate estimates of tax evasion and consumption changes. Difference-in-difference and regression-discontinuity inspired approaches allow the authors to distinguish between changes in voluntary compliance and in tax enforcement policies as reasons for the decrease in tax evasion. Changes in voluntary compliance are found to be a more significant part of the overall decline in tax evasion. The estimates of deadweight loss imply that there is a smaller gain in efficiency from the tax reform than implied by approaches that do not account for changes in tax evasion and consumption.

The measure used as a proxy for tax evasion in the paper is the gap between consumption and income. Intuitively, this makes sense in the context of the permanent income hypothesis since the implied assumption is that people still consume out of (permanent) income they don't report. The authors do well to point out that the PIH assumption that people can freely borrow and lend to smooth consumption that may not be valid, especially in Russia. Using the consumption-income gap can still function as a measure of tax evasion assuming households consume out of cash they have on hand. The minor point about borrowing constraints being softened by intra-family transfers isn't well supported with evidence in the paper but doesn't really matter since the PIH is not strictly necessary in this context. However, estimates of the extent of intra-family transfers could be an interesting part of the story especially if these transfers can be used to evade taxes. Such transfers are counted as consumption in the framework of this paper.

Government sector employees are found to have a larger consumption-income gap than other workers. The consumption-income gap for private sector employees is estimated to decrease more after the tax reform than the gap for public sector employees because they are supposedly more likely to change their reported income. Public sector employees are given to have less motivation to change reported income because income obtained in excess of their official salary is likely to have been obtained illegally. A similar analysis is done for skilled and unskilled workers based on the incentives of firms to pay skilled workers with non-taxable means. Given estimates of the size of the shadow economy in Russia, it seems that these assumptions about the relative tendency of people to report income based on occupation could be examined further. The propensity of people to report legal versus illegal income certainly plays a role here, as does the amount of illicit income people receive. One possible way to answer these questions empirically might be through surveys. Some surveys like those used to construct corruption indices might be helpful. Surveys that target firms like the World Bank's Business Environment and Enterprise Performance Survey (hereafter, BEEPS) could also be useful in regard. The BEEPS contains information about illicit payments made to public officials as well as information about payments received and labor practices. Using additional survey data to get a feel for the relative magnitude of illicit payments and types of income in the private sector and would seem to be a useful extension of the analysis.

I also took an initial look at other countries that have had flat tax reforms as well as readily available household level surveys of income and expenditures. Latvia might be a possible country to use to extend this paper's techniques. Major tax reform legislation was first introduced in 1995. There are consumer surveys (HBS) for 1995-2003. There have also been additional rate adjustments. Most of the other countries that have pursued flat tax reform do not seem to have household level expenditure data available for the years surrounding reform. In some cases; Kyrgyzstan, Ukraine, and Mongolia for example, tax reform only occurred in the last couple of years so it might be possible to extend the analysis to these countries at some point. In other cases, flat tax reform was instituted in the 1990s but there doesn't seem to be survey data available. It might be the case that the data are just harder to find, so this is something that I plan to look into further.