Tax Evasion and Tax Avoidance (2018)

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September 27, 2019

Motivation

- Governments in rich countries have recently taken ambitious steps to crack down on tax evasion by wealthy
- Widespread view that tax avoidance makes it hard to increase taxes on rich and maintain progressive tax system
  - Minnesota field experiment: high-income taxpayers informed that their returns would be "closely examined" paid less tax relative to control group (Slemrod et al. 2001)
- Main question: how substitutable are tax evasion and tax avoidance at the top of the wealth distribution?
- Why enhance tax enforcement at the top?
  - Liable for large fraction of total taxes
  - Share of income and wealth has increased (Alvaredo et al. 2018)
  - Particularly high evasion rates (Alstadsæter et al. 2018)

Background

- Norwegian policy initiatives to reduce offshore tax evasion in 2008
  - Around 1,500 taxpayers (around 11% of the top 0.01%) used amnesty program to disclose previously unreported foreign assets and income over 2008-2016
- Advantages of Norwegian context
  - Exogenous variation in decision to evade taxes
  - High-quality, population-wide data on wealth due to state wealth tax
  - Administrative data allows for clean measures of tax evasion and avoidance
    - Evasion: disclosures, bank transfers
    - Avoidance: holding unlisted shares, using holding corporations, emigrating, qualifying for wealth tax rebate*, paying out retained earnings to avoid dividend tax*

Empirical Strategy

- Approach: event-study framework to estimate how reported wealth, income, and tax liabilities, and tax avoidance, evolve around the time hidden assets are disclosed

$$\log(Y_{it}) = \alpha_i + \gamma_t + X_{it}'\psi + \sum \beta_k D_{it}^k + u_{it}$$

  where α - individual fixed effects, γ - calendar year dummies, D^k - dummies for year k relative to year of the event

- Include set of non-parametric controls for wealth, income, and age to ensure comparability of disclosers and non-disclosers
  - Divide sample of disclosers into ten equally sized groups based on net wealth and assign non-disclosers to these buckets
  - Compare disclosers to non-disclosers with similar wealth, income, and age

Graphical Results

Figure 2: Tax evasion around amnesty participation

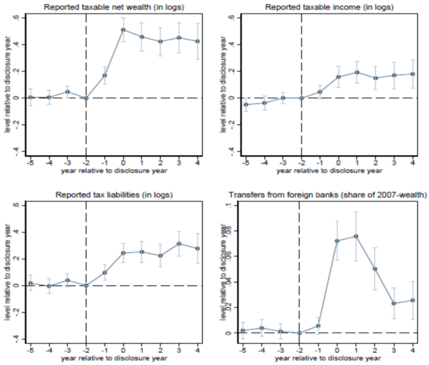
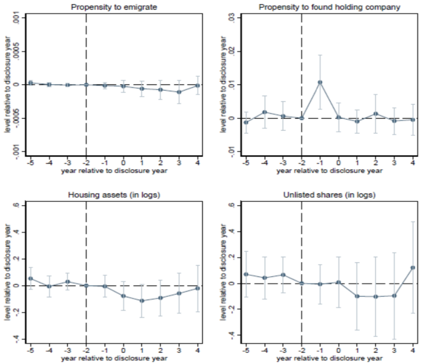


Figure 3: Tax avoidance around amnesty participation



Results

- Evasion
  - Sharp increases for disclosers relative to non-disclosers in reported wealth (65%), taxable income (20%), tax liabilities (30%)
    - Rise sustained throughout event window
  - Bank transfers imply that more than 60% of disclosed assets are repatriated in four years following amnesty participation
    - No evidence of jump in outgoing transfers for disclosers
- Tax avoidance
  - No statistically significant change in emigration and investments (housing, unlisted shares) of disclosers relative to non-disclosers
  - Statistically significant, but small increase in incorporations of holding companies by disclosers
- Scope for substitution
  - Richer people avoid more but controlling for wealth, avoidance is similar across amnesty participants and non-participants

Conclusion

- Explaining lack of avoidance
  - Wealthy have access to well-defined tax avoidance opportunities, there these are not costless
- Fighting tax evasion can be effective way to collect more tax revenue from wealthy
  - Increase progressivity of tax system and reduce inequality
- External validity for developing countries?
  - Potential barriers
    - High enforcement costs, low avoidance costs
    - Lack of leverage with key tax havens
    - Low credibility of amnesty and/or enforcement policies