

Global Inequality & Growth:

Tax evasion and inequality

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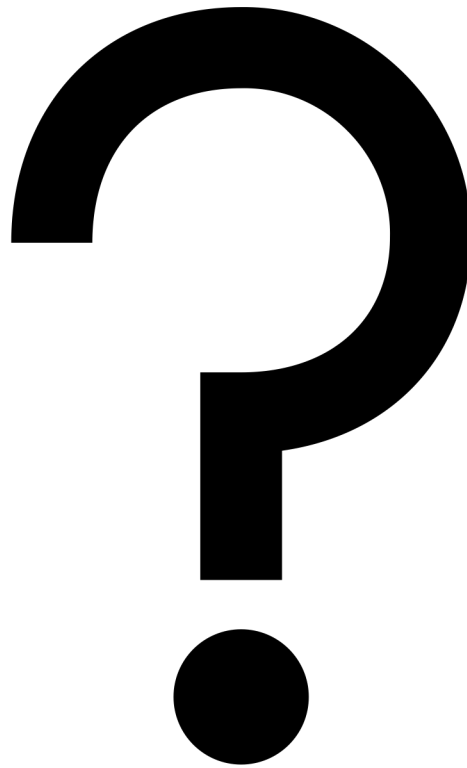
What we have learned so far:

- Taxation matters – a lot – for inequality
- Inequality measurement relies heavily on tax data

Questions for today

- How big is tax evasion?
- How does that affect what we know about inequality?
- What policies can curb tax evasion?
- How can data analytics stop tax evasion? (bonus!)

What is the difference between tax avoidance and tax evasion?



The size of tax evasion

- Key source to study tax evasion: random audits.
- Limits:
 - Small number of rich individuals sampled
 - Hard to detect complex evasion involving intermediaries (private banks, shell corp., etc.)
 - → Random audits need to be supplemented with other sources to capture evasion by the wealthy

Outcome of random audits Denmark

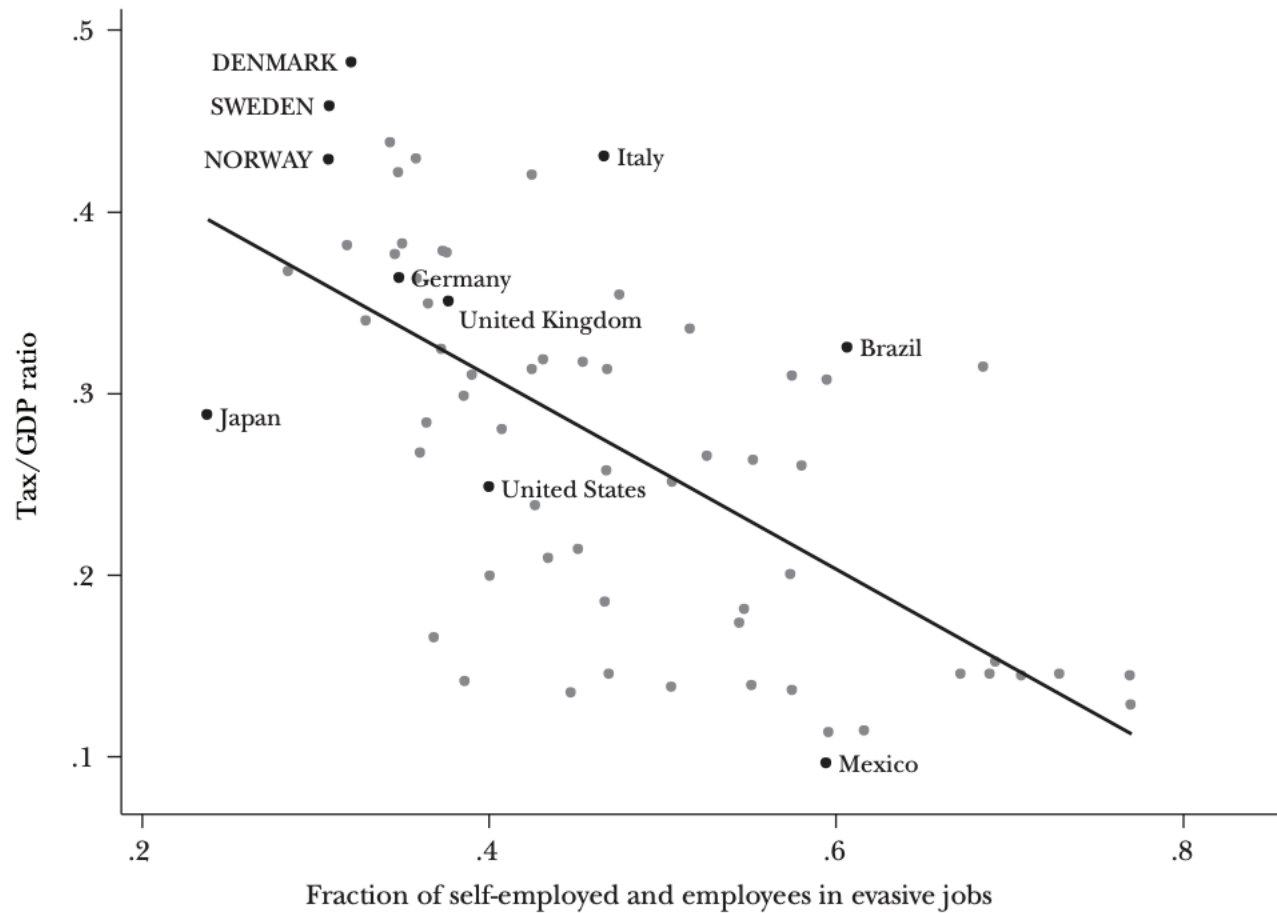
C. Income types, 3rd party information and tax evasion

	Share of total net income (%)	Evasion rate(%)
Total net income	100	2,3
Third-party reported income	95	0,3
Self-reported income	5	41,5

Kleven, H. J., Knudsen, M. B., Kreiner, C. T., Pedersen, S., & Saez, E. (2011).

Unable or Unwilling to Cheat?

B: Tax Take versus Fraction of Self-Employed and Employees in Evasive Jobs



Kleven (2014)

UNWILLING OR UNABLE TO CHEAT?

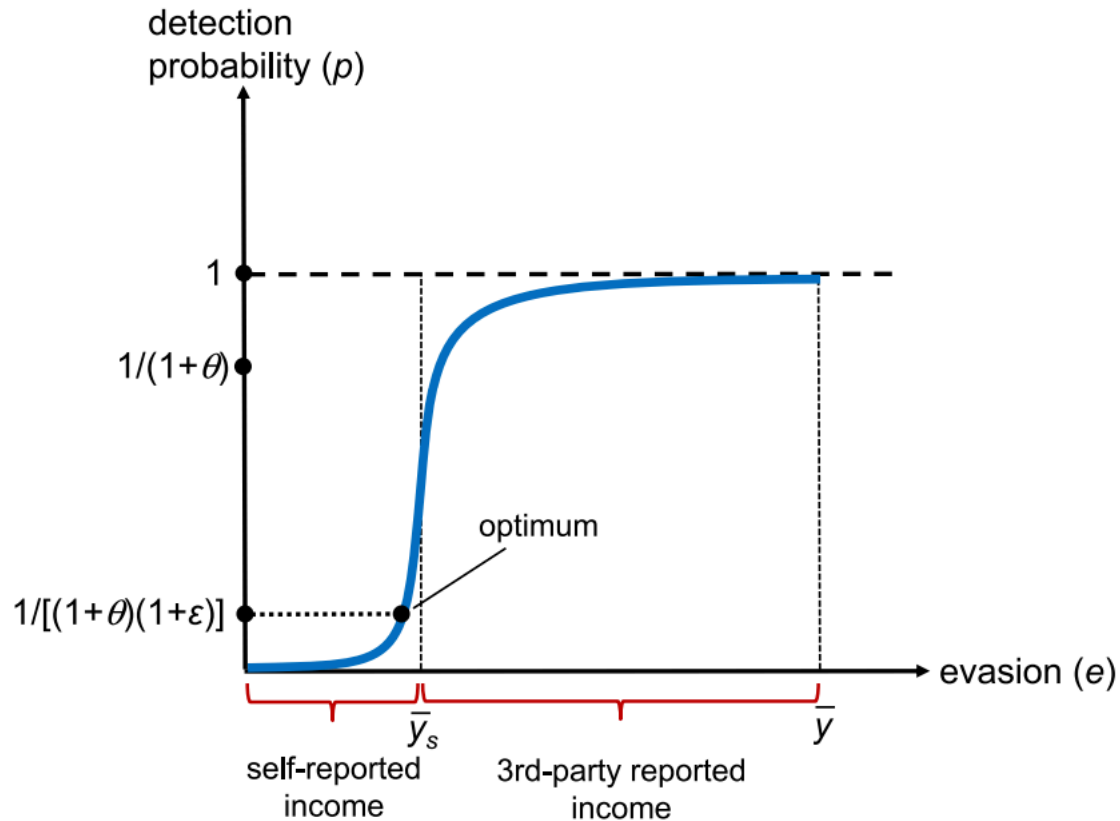


FIGURE 1.—Probability of detection under third-party reporting.

Data on tax evasion by the rich

- Macro statistics on wealth/income in tax havens
- Tax amnesties
- Leaks from providers of tax evasion services: HSBC Switzerland, Mossack Fonseca (“Panama Papers”)...

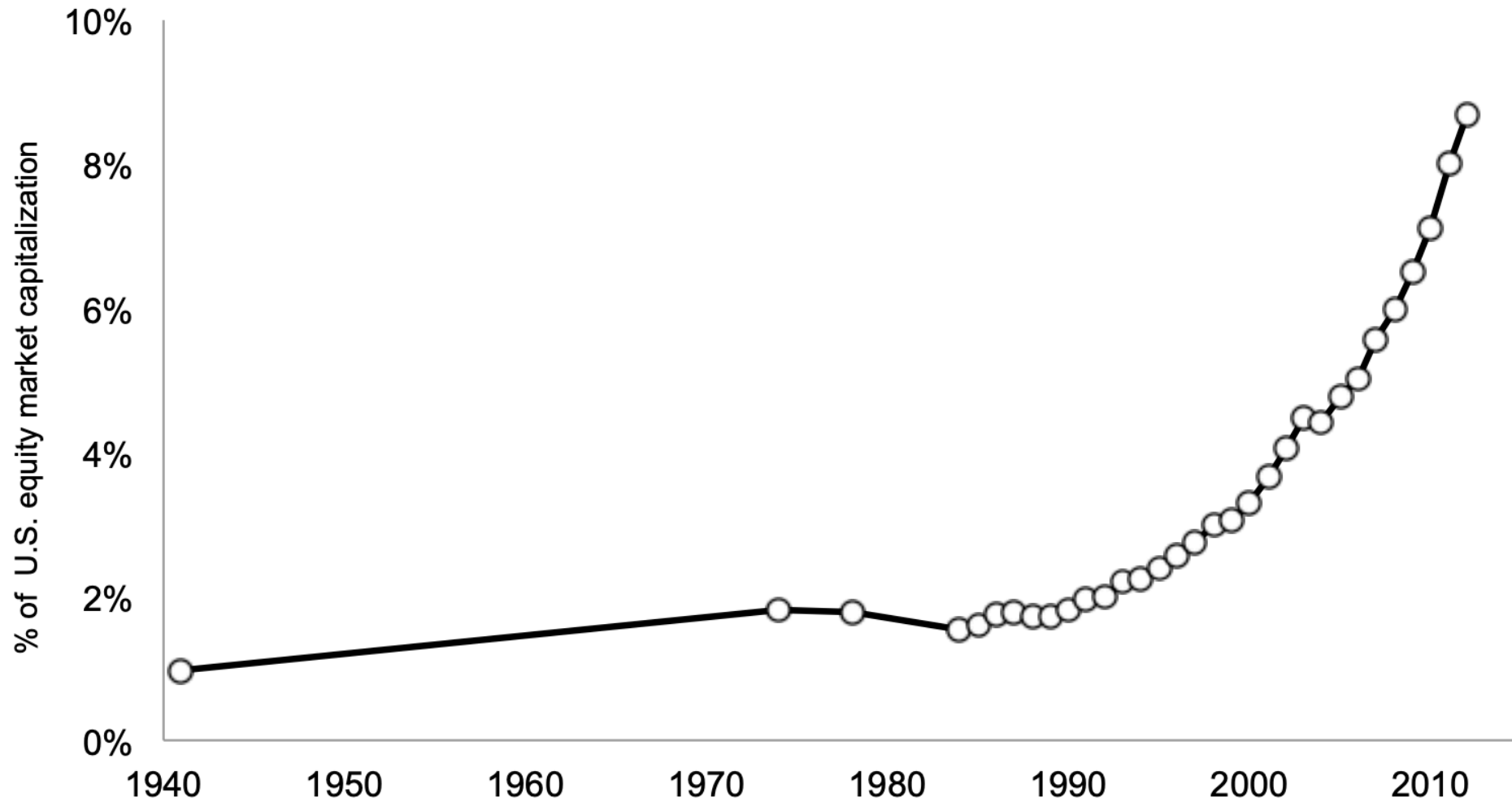
How offshore tax evasion works

- <https://www.businessinsider.com/jake-bernstein-panama-papers-offshore-banking-shell-companies-2018-2?r=US&IR=T>

How offshore tax evasion works

- Camouflage your ownership of assets (through shell companies)
- Expense large amounts to yourself and thereby underreport business income (by inserting puppet CEOs of shell companies you own that buy your stuff)

U.S. equities held by tax haven firms and individuals

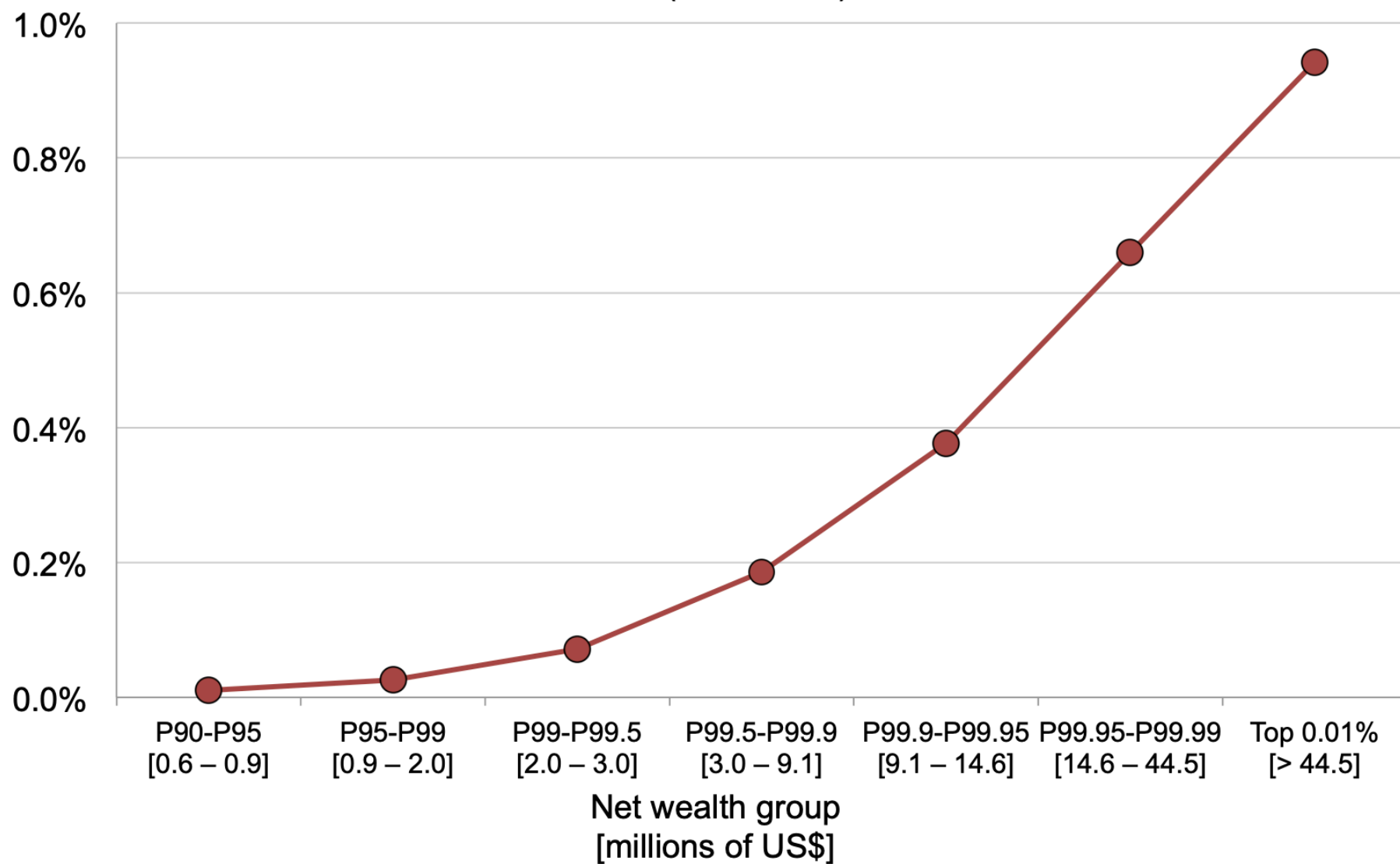


In 2012, 9% of the U.S. listed equity market capitalization was held by tax haven investors (hedge funds in the Cayman Islands, banks in Switzerland, mutual funds in Luxembourg, individuals in Monaco, etc.). Source: author's computations using US TIC data

Case study: HSBC Switzerland leak (2007):

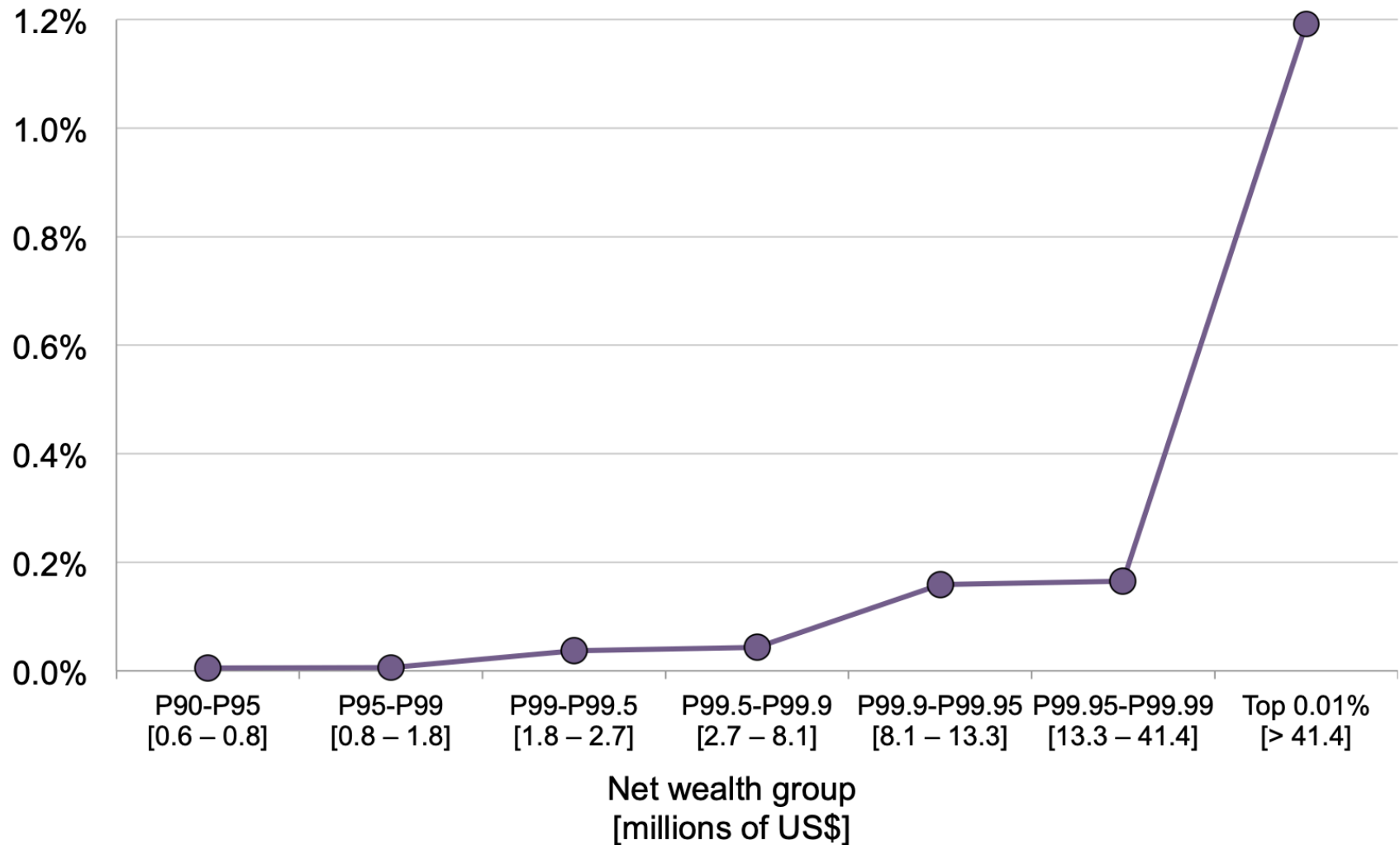
- Large bank ($\approx 5\%$ of Swiss offshore wealth)
- Representative
- Recorded identity of beneficial owners
- Clear-cut way to identify evasion by linking to tax returns of clients (done in Scandinavia)

Probability to own an unreported HSBC account, by wealth group (HSBC leak)



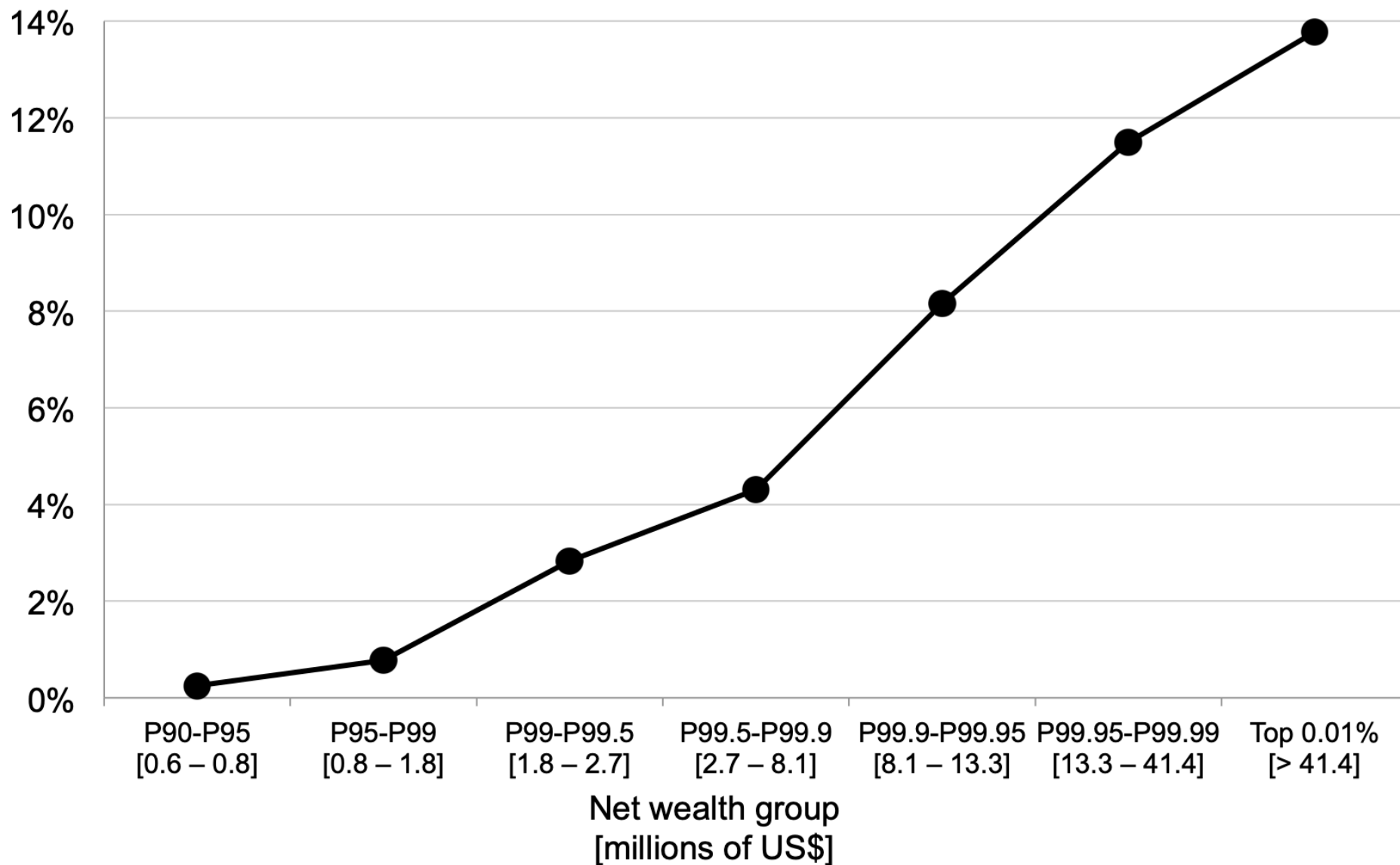
Source: Alstadsæter (2019)

Probability to appear in the "Panama Papers", by wealth group
(Shareholders of shell companies created by Mossack Fonseca)



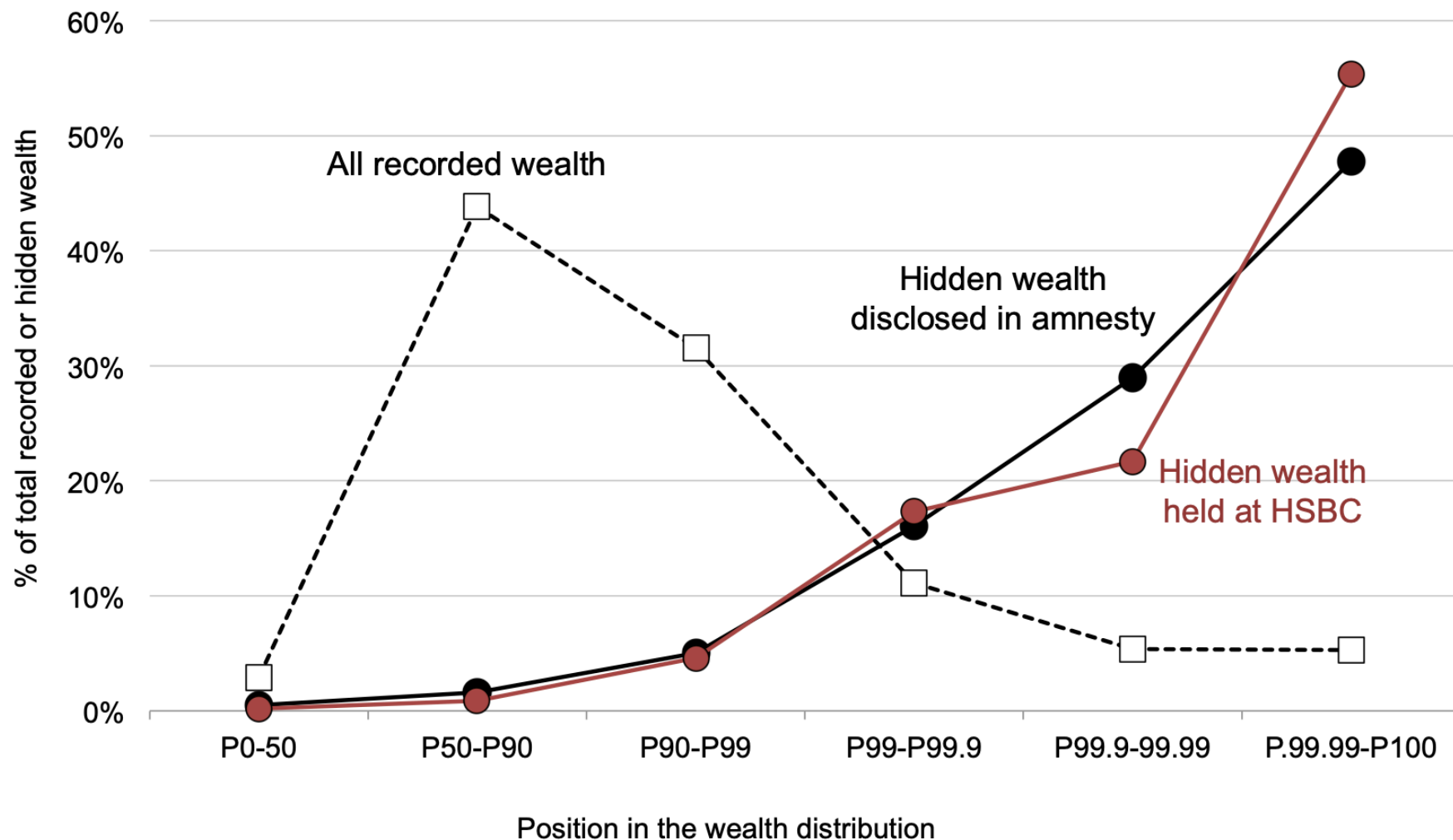
Source: Alstadsæter (2019)

Probability to voluntarily disclose hidden wealth, by wealth group
(Swedish and Norwegian tax amnesties)



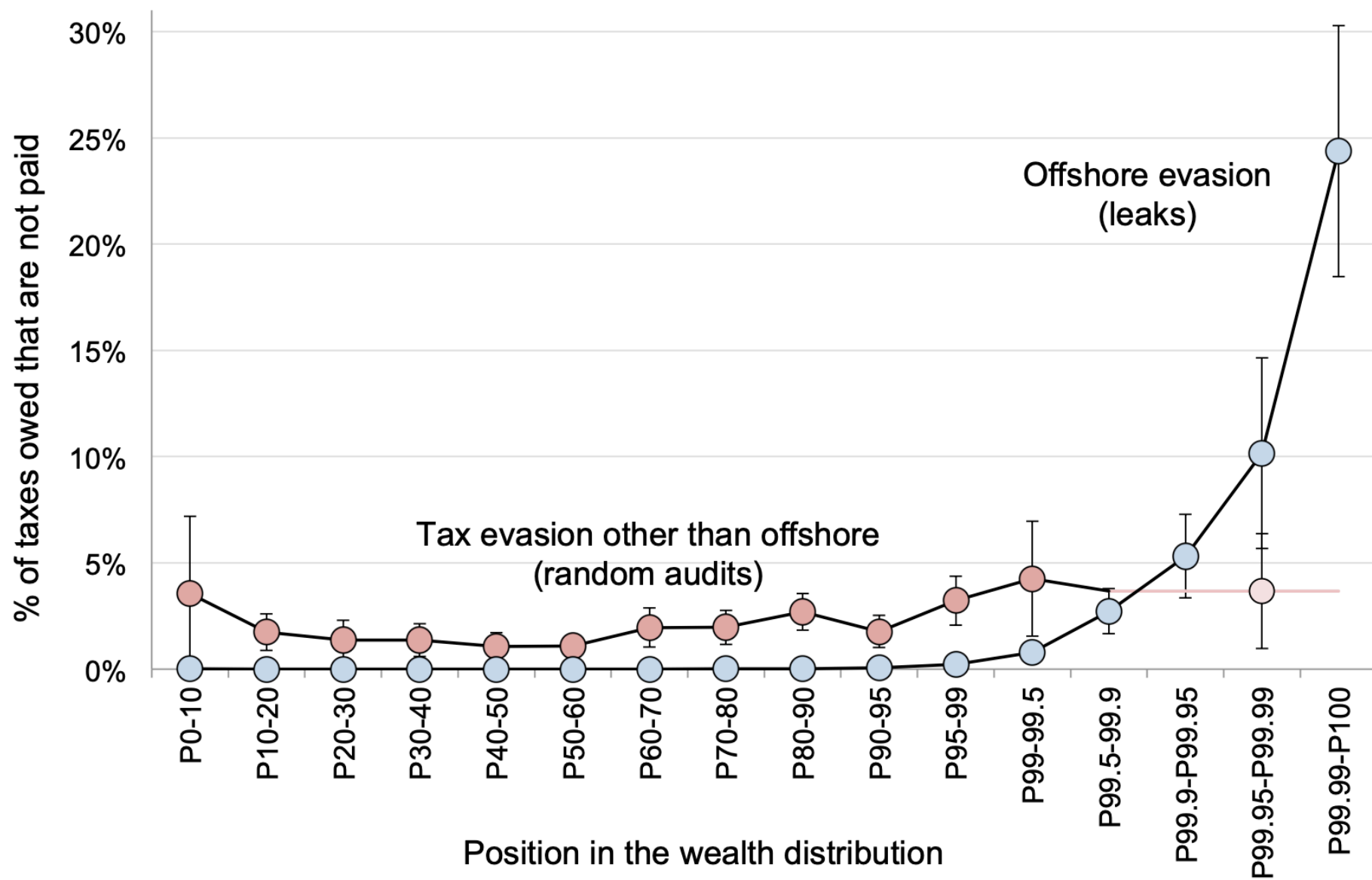
Source: Alstadsæter (2019)

Distribution of wealth: recorded vs. hidden



Source: Alstadsæter (2019)

Taxes evaded, % of taxes owed



Source: Alstadsæter (2019)

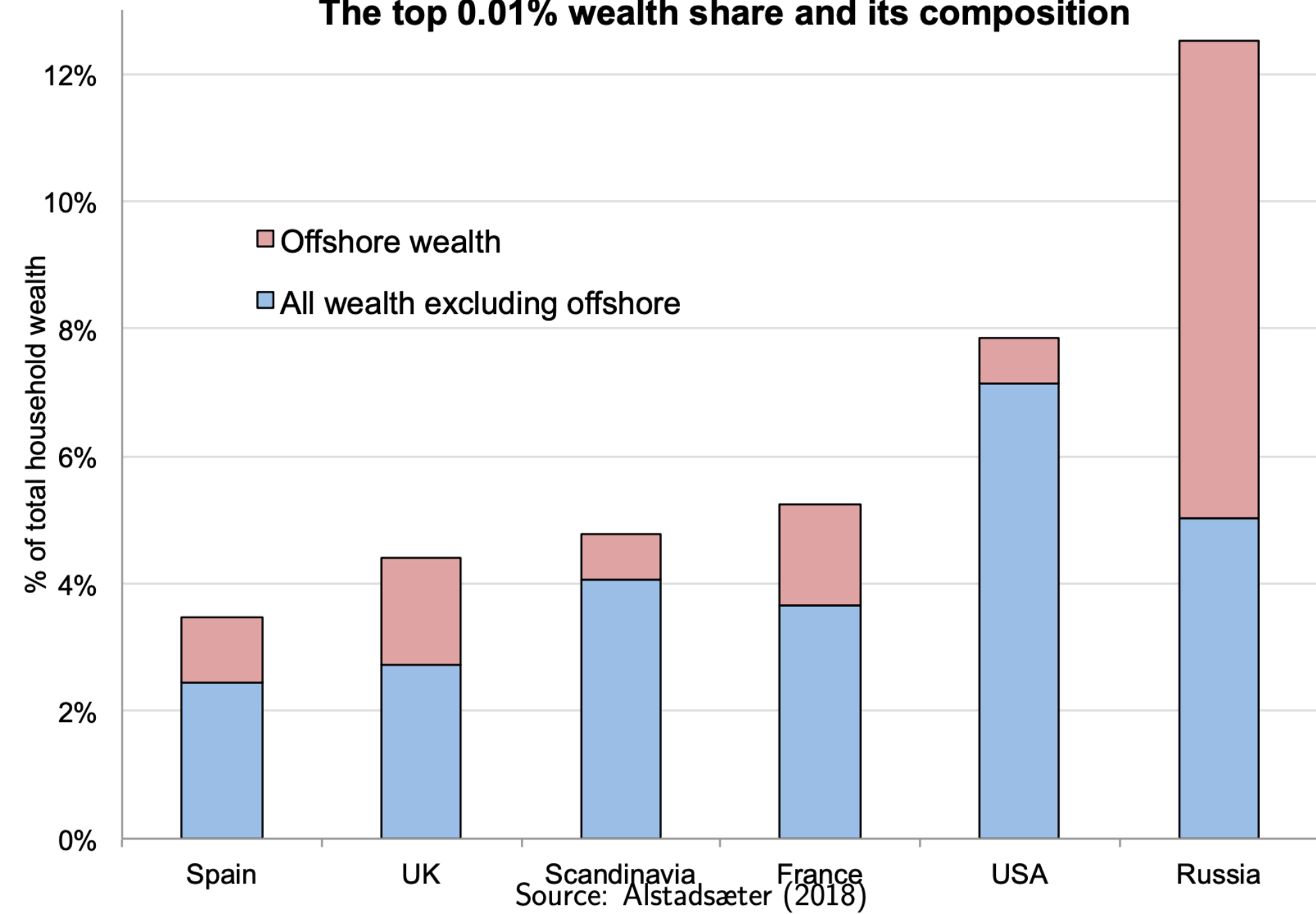
Global estimate of hidden offshore wealth

- Globally, 8% of world's household financial wealth is hidden offshore
- As much as 30%–50% in developing countries
- 5–20% in developed countries
- But since offshore wealth is highly concentrated at the top, large evasion rates at the top

Implications for inequality

- More inequality than tax data suggest
- Stronger rise since 1980s (financial liberalization)

The top 0.01% wealth share and its composition



Policies to fight tax evasion

- Exchange of bank information
- Sanctions for territories and institutions that facilitate criminal activity
- Financial transparency (e.g., financial registry)

References

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