Discussion
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Cross-Border Tax Evasion After the Common Reporting Standard: Game Over?

Paper

- The paper is well-motivated and relevant in the context of current debates surrounding the issue of tax evasion, base erosion and profit shifting
- It studies the impact of Common reporting Standards as a means of information exchange in a multilateral setting
- Notably, the US is not a signatory to this agreement. In fact, it provides a high level of bank secrecy and collects only limited information on foreign account holders
- So the question: is the US a beneficiary of foreign deposits of wealth and related income because it offers the attractiveness of secrecy that most other countries can no longer offer?

What is cross-border tax evasion?

- What is tax evasion and what isn't? Do we know if none of this income is reported to the home country or some fraction of it is?
- Is it legal to have bank deposits in foreign countries?
- What is a tax haven for this purpose?
- How much of this is due to individuals and how much due to companies locating taxable income in low tax jurisdictions?
- How does cross-border tax evasion tie in with the notion of unrepatriated earnings by companies? Is that also considered under the same category because deferral allows companies to store cash or reinvest earnings overseas without paying US corporate taxes?
- The tax gap in the US is primarily due to underpayments or underreporting by individuals, and especially self-employed individuals. So how does this factor into our definition of cross-border tax evasion?

Relation To Other Efforts To Curb Evasion

- The OECD BEPS project is aimed at reducing double nontaxation. Could that be a reason why companies and individuals are now locating more of their earnings and income in the jurisdictions in which they are being earned, and not simply because CRS has not been signed by the US?
  - Especially could affect ability to locate wealth and profits in tax havens
- US tax reform may have also altered incentives particularly in 2017 given that more incentives were offered to locate profits and taxable incomes in the US, and corporate tax rates were expected to be cut dramatically?
- In a recent paper that I co-authored, we show that the international provisions of US tax reform may have created incentives for companies to locate intangible investments in the US, expecially in light of the OECD's BEPS project.

Other Issues?

- Is the entire 14 percent reduction in cross-border transactions evidence of reduced evasion? Or only some fraction of it?
  - A recent NBER paper by Johanssen et al. shows that individuals who disclosed new offshore accounts often did not admit to prior noncompliance
- A report from the OECD finds that high net worth individuals are using CBI or RBI schemes to show that they are tax residents in certain jurisdictions and to circumvent the CRS. So their accounts may not be considered off-shored accounts. Is that a problem with the way the BIS estimates offshore accounts?
- Why is the FATCA not enough of a deterrent for reducing offshoring?
- How do compliance costs affect these transactions?
  - Now that banks and other institutions have more reporting requirements, could they be more likely to turn down foreign deposits?

Tax Policy Measures in Advanced and Emerging Economies: A Novel Database

Novel Contribution

- Introduces a new database of tax policy measures in 23 advanced and emerging market economies
- Can appreciate this more because we also developed an AEI international tax database with more than a 100 countries and several different tax rate measures
- But this adds more because it talks about whether the tax base was expanded as well. In our database, we constructed measures of EATR and EMTR which account for some of the base changes
- Also important because if it is simply tax switching and not ultimately a rate cut, then the implications will be very different

Relevance For Empirical Research

- Important to understand the context in which tax reform happens—a response to business conditions or just an expansionary fiscal policy at a time of good economic conditions
- Also what is the impact on deficits and revenues? Boost may be short-lived if ultimately leads to interest rate hikes
- Are the provisions temporary or permanent? Matters for how businesses and individuals respond to the changes
- Certain amount of subjectivity:
  - Reduction in brackets classified as base broadening (compliance)
  - Postponement of a rate reduction is classified as a rate increase
  - Tobacco tax hike classified as increase in base
  - Any change with an implementation lag of 90 or fewer days is considered unanticipated

Why tax bases matter

- In a majority of cases, tax rate changes accompany tax base changes. Is it the rate cut or the base changes that are driving results?
- Important to account for tax base changes so that we have a better sense of what exactly tax reform accomplished. But is that easy to do?
  - Even for something like a rate cut, do we know what the implications for tax base are? Competition across countries could play a role in deciding what impact tax changes have on the domestic economy.
  - What about international provisions?
- How do we account for behavioral impacts of tax changes?
- For instance, the TCJA has provisions for which it is tough to understand what the impact on the base will be. How do we classify those?
- Also the revenue impacts could be different in the short run vs the long run

Implications For Researchers

- Static tax base changes could be different than dynamic and long-term changes
- Tax base changes could look very different for different households/demographics
- Heterogeneous responses across companies are possible as well depending upon whether they are more affected by the base changes than the rate changes
- So depending upon the research question, we may or may not want to use these classifications

Table 7(a). Distribution for married couples filing jointly, 2018

Income group	Percent of filers	Avg tax rate, pre (%)	Avg tax rate, post (%)	Average tax change ($)
Bottom decile	2.2	4.13	3.32	-12
Second decile	2.2	-4.39	-4.82	-45
Third decile	3.2	-5.17	-5.72	-98
Fourth decile	5.4	-0.45	-1.09	-168
Fifth decile	6.8	3.64	2.78	-310
Sixth decile	9.0	6.76	5.80	-467
Seventh decile	11.7	11.39	10.24	-746
Eighth decile	15.2	15.86	14.40	-1302
Ninth decile	20.1	20.05	18.62	-1889
Next 5%	11.6	23.05	21.74	-2561
Next 4%	9.5	24.87	22.53	-7921
Top 1%	2.4	27.91	27.00	-14503
All units	100	22.01	20.57	-2121

Table 7(b). Distribution for unmarried filers, 2018

Income group	Percent of filers	Avg tax rate, pre (%)	Avg tax rate, post (%)	Average tax change ($)
Bottom decile	14.3	3.82	3.71	-3
Second decile	14.3	1.04	0.35	-72
Third decile	13.7	1.03	0.18	-150
Fourth decile	12.4	6.77	5.63	-292
Fifth decile	11.6	12.05	10.59	-521
Sixth decile	10.4	16.07	14.51	-752
Seventh decile	8.8	19.66	18.06	-1030
Eighth decile	6.9	22.18	20.83	-1181
Ninth decile	4.3	24.40	23.26	-1461
Next 5%	1.3	23.92	22.84	-2074
Next 4%	0.9	23.81	23.33	-1636
Top 1%	0.2	26.41	26.71	5027
All units	100	18.07	16.97	-469

Table D3(c). Change in after-tax income using static and dynamic approaches, 2027

	Static		Dynamic	
Income group	Percent	Average ($)	Percent	Average ($)
Bottom decile	0.10%	4	1.47%	54
Second decile	-0.24%	-38	0.78%	127
Third decile	-0.30%	-71	0.53%	128
Fourth decile	-0.20%	-67	0.61%	200
Fifth decile	-0.07%	-29	0.88%	378
Sixth decile	-0.02%	-11	1.01%	569
Seventh decile	-0.03%	-22	1.07%	772
Eighth decile	-0.07%	-69	1.10%	1039
Ninth decile	-0.06%	-72	1.19%	1556
Next 5%	0.01%	22	1.30%	2379
Next 4%	0.18%	565	1.49%	4732
Top 1%	0.23%	3447	1.66%	24398
All units	0.03%	21	1.23%	1013