

THURSDAY, NOVEMBER, 12

001. Mentoring Breakfast
7:00 to 8:15 am
The Westin Pittsburgh: Floor 3 - Allegheny 1,2, 3

002. Thursday Morning Coffee
8:00 to 8:30 am
The Westin Pittsburgh: Foyer 1,2,3

003. Looking in the Mirror: Do We as Policy Advisors and Analysts Bear Responsibility for Today's Policy Messes?
Fiscal Sustainability, Macroeconomics and Fiscal Policy
Panel Discussion
8:30 to 10:00 am
The Westin Pittsburgh: Floor 3 - Allegheny 1,2, 3

While many papers and discussions focus on the errors, inefficiencies, and inequities surrounding existing and proposed policies, we would like to engage NTA members in questioning whether, as advisors, analysts, and teachers, the ways we present and interpret information sometimes contribute to, and even reinforce, policy mistakes. These concerns stem from our many years of engaging with policy ideas in ways that we believe leave policymakers with inadequate, if not misleading, information and leave students ill-prepared to navigate the world of policy. The issues we raise have little to do with deliberately biased efforts and more with incomplete storytelling. James Alm, the chair, will introduce the basic issue by asking why so many of our "good" policy prescriptions are so often ignored or rejected by those who actually enact and implement policy. He will ask attendees to speak from their own experiences rather than simply debate with the panelists. Eugene Steuerle will focus such issues as: the problems created by identifying winners and losers relative to a policy baseline, in which a slowdown in a rapid growth rate is treated as creating "losers," while a trivial increase relative to a zero-growth baseline (as in appropriations) is portrayed as creating "winners"; the tendency of distributional tables to show only net gains when there are net "giveaways" and only net losses when there is net deficit reduction, despite standard accounting principles requiring balanced income statements. Alex Rees-Jones will address the various ways we have not yet fully figured out how to incorporate our increased analytic understanding of psychology and behavioral economics into policymaking. For instance, elected officials, psychologically as well as politically, want to be able to tell constituents what new things they have made possible. Reforms that require these elected officials to continually engage in new "takeaways"—spending cuts and tax increases—are simply not viable. Sally Wallace will address her long-standing concern that teaching students "out of textbooks" often fails to expose them to the complex reality of policy development and implementation. She worries that we send new MA and PhD students into the world armed with optimal theory and excess burden calculations, without the ability to explain those concepts in layperson terms and without understanding that policymakers and politicians may not be able to act on what theory says is a good idea Lori Montgomery is an award-winning journalist who served until recently as Politics and Government Editor of the Washington Post, leading a staff of 120 reporters and editors covering official Washington. During 26 years at The Post, she also served as Business Editor, overseeing coverage of the economy and technology, and she was the paper's economic policy reporter during the Obama administration, covering Washington's response to the 2008 financial crisis and the fiscal battles that followed. A former foreign correspondent who covered the emerging economies of Central Europe and the war over Kosovo in the late 1990s, she has also worked at newspapers in Michigan, Texas, and Idaho. A graduate of Northwestern University's Medill School of Journalism, she has three times led teams that won the Pulitzer Prize, the highest award in American journalism: in 2015, for a project that tracked fatal police shootings; in 2019, for a project that revealed the tangible effects of climate change; and just last year, for investigative coverage of Elon Musk's DOGE Service and its campaign to downsize the federal workforce.

Session Organizers:
James Alm, Tulane University
Eugene Steuerle, Urban-Brookings Tax Policy Center
Panelists:
Eugene Steuerle, Urban-Brookings Tax Policy Center
Alex Rees-Jones, University of Pennsylvania
Sally Wallace, EY
Moderator:
James Alm, Tulane University

004. Morning Coffee Break
10:00 to 10:15 am
The Westin Pittsburgh: Foyer 1,2,3

005. VAT Networks
Public Finance in Developing Countries
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Butler East
Participants:

Network Transmission of Fiscal Demand Shocks in Commodity-Dependent Economies *Carlos Uribe Teran, Universidad San Francisco de Quito*

We study how procurement-driven fiscal contractions propagate through firm-to-firm production networks. The 2014 oil price collapse triggered a sharp fall in public procurement in Ecuador, generating an externally driven fiscal demand shock. Using administrative data covering the formal-firm universe from 2012 to 2019, we construct exposure measures that trace the shock from government contractors to their trading partners. Aggregating the causal estimates implies a network-adjusted fiscal multiplier of 1.95: a one-dollar procurement reduction lowers aggregate value added by US$1.95, compared with US$1.18 when network propagation is ignored. Production linkages therefore account for about 39 percent of the total response.

Auditing from Below: Experimental Evidence on Consumer Receipt Lotteries *Sher Afghan Asad, Lahore University of Management Sciences; Isabelle Cohen, Evans School, University of Washington*

Enforcing value-added taxes on business-to-consumer transactions is notoriously difficult: unlike business-to-business sales, B2C transactions leave no automatic third-party paper trail, and consumers often share in the gains from non-issuance through lower prices. Consumer receipt lotteries — which reward customers for requesting and submitting formal receipts — have emerged as a popular policy response, on the logic that they recruit consumers as informal auditors. The leading evidence from São Paulo (Naritomi, 2019) shows that lotteries can substantially raise reported retail sales, but central design questions remain open: do lotteries work primarily by raising the perceived probability of detection or by activating consumers' identification as taxpayers; are lotteries substitutes or complements for conventional administrative enforcement; and how do they reshape prices, employment, formality, and the customer–firm relationship beyond reported sales? This paper presents a large-scale field experiment conducted in collaboration with the Khyber Pakhtunkhwa Revenue Authority (KPRA) in Pakistan that addresses all of these questions within a single integrated design. The sample is the universe of formally registered hospitality businesses in four districts, including both firms with KPRA-integrated point-of-sale (POS) devices and



non-integrated firms. A four-stage randomization crosses: (i) a POS–return reconciliation advisory letter to a stratified subset of integrated firms; (ii) eligibility for the consumer receipt lottery, randomized across all firms; (iii) the intensity of follow-up enforcement on submitted receipts (high vs. default), randomized within the lottery arm; and (iv) the framing of weekly WhatsApp messages to participating consumers, randomized at the consumer level into Auditor Frame, Taxpayer Frame, Reminder, and No-Message arms. The Auditor–Taxpayer contrast is designed to isolate the enforcement channel from the taxpayer-identity channel. We link the universe of monthly KPRA VAT and POS records with baseline and endline business surveys, mystery-shopping visits, the full ledger of consumer receipt submissions, and a consumer survey at first submission, and weekly scrapes of Facebook, Google Maps, and FoodPanda. This combination lets us go beyond reported sales to measure receipt issuance, posted and charged prices, tax incidence, employment, amenities, entry and exit from formality, and perceptions of state capacity. A pre-analysis plan has been lodged. Primary specifications are stacked difference-in-differences with strata and calendar-month fixed effects for administrative panel outcomes, and ANCOVA for two-wave survey and visit-level outcomes. The intervention is currently in the field (February–June 2026), with endline data collection in July 2026; a full paper with experimental estimates will be available in time for the NTA annual meeting. The study aims to provide the first joint experimental evidence on how consumer-side incentives, firm-side reconciliation, and enforcement intensity interact in a low-capacity setting.

Attacking Networks of Tax Evasion *Michael Best, michael.best@columbia.edu*

Attacking Networks of Tax Evasion

Disaster Relief under Hidden Losses: Self-Targeting through Durable Replacement *Pierre Bachas, World Bank DECRG*

Disaster Relief under Hidden Losses: Self-Targeting through Durable Replacement

Chair:

Michael Best, michael.best@columbia.edu

Discussants:

Xuan Wang, Peking University
Michael Best, michael.best@columbia.edu
Pierre Bachas, World Bank DECRG

006. Taxing of sugar, gambling, and speeding

Energy and Environmental Taxes, Excise, Consumption, Commodity
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Butler West

Participants:

Consumer Demand and Firm Advertising Responses to a Local Beverage Tax: Evidence from Philadelphia *Qianhui Xu, Georgia State University*

Beverage taxes can affect both household purchases and firms' advertising decisions. I study Philadelphia's 1.5-cent-per-ounce beverage tax, which applies within the city while local television advertising reaches a broader market. Using Nielsen Homescan and Ad Intel data in difference-in-differences designs, I estimate a 5.3-percentage-point reduction in city households' weekly probability of purchasing caloric taxed beverages, approximately 20 percent of the pre-tax rate. Comparing taxed brands' advertising in Philadelphia with their advertising in 205 untaxed markets, I find no statistically detectable decline in advertising participation or airings. The estimated effect on advertising spending is negative but imprecise, providing no clear evidence of a tax-induced decline. Untaxed-brand advertising growth concentrates among entrants, many of which also expand elsewhere. These findings suggest that city-level beverage taxes can reduce household purchases without detectable reductions in local television advertising across the wider market, although economically meaningful advertising responses remain possible.

Optimal Sin Tax with Endogenous Reformulation *Eva Wang, Charles River Associates; Wei Wang; Xinyu Chen, University of Michigan*

This paper studies optimal sugar taxation when firms can reformulate differentiated products. Existing theories of sin taxation typically treat product characteristics as fixed, yet empirically large reductions in sugar intake occur through manufacturers' reformulation responses rather than solely through consumer substitution. We therefore develop a theory of optimal sin taxation with market power and endogenous reformulation, showing that reformulation raises the optimal sugar tax when taxes induce low-cost reductions in sugar content, but lowers it when reformulation is costly. We then estimate a structural model of demand and supply for the California non-alcoholic beverage market using retail and household-panel data, calibrate reformulation costs using empirical evidence from the U.K. Soft Drinks Industry Levy, and solve optimal-tax counterfactuals. In an efficiency benchmark, incorporating firms' reformulation responses into the counterfactual raises the optimal linear sugar tax from 18 to 48 cents on a 12 g/100ml drink, increases welfare gains from $119.7 million to $784.9 million over a 36-month horizon, and lowers average purchased sugar from 6.27 to 1.74 g/100ml. Although we focus on sugar-sweetened beverages, the framework applies more broadly to corrective taxation in differentiated-product markets where firms can adjust the taxed characteristic.

Tax Design and Incidence in Sports Betting *Matthew Brown, University of Chicago; Jeffrey Ohl, University of Chicago, Booth*

Paper
link:https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5943554 The predominant tax on sports betting does not influence betting prices. While state tax rates vary cross-sectionally from 6.75% to 51%, sportsbooks set odds uniformly. We show that this finding is consistent with profit maximization because payouts to bettors are tax-deductible. Instead, firms respond to taxes by reducing promotional sign-up offers and TV advertising in high-tax states: a 1 percentage point increase in tax rates is associated with 1.9% lower local TV ad spend. To understand how these reductions affect demand, we measure the causal effect of advertising on sports betting deposits using a border design. We find that sports betting advertising is as effective as advertising in other industries. Together, our estimates imply that a 1 percentage point increase in tax rates reduces deposits by only 0.25% through lower TV advertising. Our results imply taxes on sportsbook revenues are an efficient way to raise tax revenue.

Chair:

Alexander Yuskavage, Department of the Treasury

Discussants:

Alexander Yuskavage, Department of the Treasury
Benjamin Glass, United States Department of the Treasury

007. Property, Place, and Local Taxation

Corporate and Business Taxation
Paper Session



10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Cambria East
Participants:

Place-Based Subsidies Under Monopsonistic Competition: Evidence from the U.S. Federal Empowerment Zones Program *Navodhya Samarakoon, University of Michigan*

I study the incidence of place-based wage subsidies under monopsonistic competition. I develop a spatial equilibrium model built on the Rosen-Roback framework. From the model, I derive closed-form welfare expressions decomposing the fiscal cost of a wage subsidy as a function of local labor market elasticities. I identify the model using the U.S. Federal Empowerment Zones program, exploiting the timing of Round~I designation in a difference-in-differences design. I estimate workers, landowners, and firms capture 46, 11, and 18~percent of the subsidy respectively, while 25 percent is deadweight loss due to in-migration. I go on to estimate preference dispersion terms that rationalize both the price effects and labor markdowns identified in the data. Counterfactuals analyze how welfare changes in more competitive labor markets and the importance of open economy forces when estimating the incidence of place-based policies.

Transaction Taxes, Lock-in, and Capital Misallocation *Tejaswi Velayudhan, University of California Irvine*

How do transaction taxes contribute to aggregate capital misallocation and production? Real estate transfer taxes are a prominent and widespread example of a transaction tax on a productive input: land. Yet the impact of such real property transfer taxes have largely been examined only through the lens of property as a consumption good. In this paper, we quantify the productivity effects of transaction taxes on commercial real estate. In doing so, we also bring attention to a prominent, regulatory source of misallocation in a high-income context: Proposition 13 in California. Like other property tax limitations that it inspired across the United States, Proposition 13 limits tax reassessment growth in between property transactions. While overall tax liability is therefore limited by the cap on property tax rate and assessments, Proposition 13 acts as a tax on transactions where the amount of this implicit transaction tax scales with the growth in property value. We study the lock-in effect of this implicit tax on commercial real estate and show that it lowers development and dampens the response to productivity shocks, resulting in greater production inefficiency relative to a revenue-equivalent standard property tax. We show that the probability of sale of a commercial property in California declines with the increase in "lock-in", i.e., the amount by which current property tax assessment lags potential new assessment at sale. Crucially, the variation in lock-in is coming from difference in the time of last sale within zip codes and in the same calendar year, and conditional on tenure. We show that no such pattern exists in non-CA states without such property tax limitations, suggesting that the reduction in sale hazard is in fact driven by the lock-in that we measure. We supplement this analysis with one where there is a clear shock to the optimal use of properties generated by the rise of e-commerce. To quantify the implications, we build a dynamic model in which commercial parcels receive use shocks, incumbent owners differ in match quality, sale transfers the parcel to a better user but resets the tax basis, and owners sell only when the value of reallocation exceeds the tax cost. The calibration maps the regression estimates into two margins. The first is a misallocation margin: acquisition-value taxation keeps some parcels with lower-value owners, delaying reuse and reducing the value of the existing stock of commercial real estate. The second is an entry margin: by lowering the value of newly allocated space, Proposition 13 discourages new construction, land conversion, and expansion. In a revenue-neutral comparison that replaces Proposition 13-style acquisition-value taxation with an ordinary current-value property tax, the fixed-space margin raises commercial real estate value by about 3.4 percent, implying roughly $9 billion in present-value misallocation losses in our preferred sample. The entry margin further increases the amount of commercial real estate by about 2 to 7 percent.

Subsidizing Investment in Neighborhoods: Effects of the New Markets Tax Credits *Benjamin M. Marx, Georgia State University; Carlianne Patrick, Georgia State University*

The New Markets Tax Credit (NMTC) Program has subsidized more than $40 billion of investment in low-income communities since 2000. Existing evidence suggests that place-based investment subsidies can affect local economic conditions, though it remains unclear whether observed neighborhood improvements primarily benefit incumbent residents or reflect broader changes in neighborhood composition. This paper studies the effects of NMTC investment on neighborhood economic activity and resident outcomes. We first present preliminary evidence using publicly available neighborhood-level data and updated instrumental-variable strategies designed to address the nonrandom allocation of NMTC investment. The empirical approach exploits geographic variation in tract eligibility and baseline economic activity across overlapping ZIP Codes and Census tracts. Preliminary estimates suggest that NMTC investment increased local payroll, employment, and the number of business establishments in treated neighborhoods. The estimates also indicate increases in neighborhood income, population, rents, and housing prices following investment. At the same time, neighborhood-level outcomes alone cannot distinguish between gains experienced by incumbent residents and changes driven by residential sorting or migration. The conference version of the paper therefore extends the analysis using longitudinal IRS administrative data that follow the same residents over time. These linked administrative records make it possible to separately examine outcomes for current residents and for residents already living in treated neighborhoods prior to NMTC investment. The analysis contributes to the literature on place-based policy by combining neighborhood-level evidence on local economic activity with administrative panel data designed to identify who benefits from subsidized investment.

The real effects of firm property taxes *Teemu Lyytikäinen, VATT Institute for Economic Research; Sebastian Siegloch, University of Cologne*

In many countries commercial property taxes are an important source of local revenue, yet little is known about their real effects on firms. Using Finnish administrative microdata that allow exact measurement of firm-level property tax payments, we exploit more than 1,000 municipal tax rate changes in an event study design to estimate the real effects of property taxation. Firm-level property tax payments respond nearly one-for-one to statutory rate changes, while the underlying tax base is relatively inelastic. We find that higher property taxes reduce total capital stock by lowering building investment. In contrast, firm scale measures show limited average responses, and entry effects are modest. These results suggest that commercial property taxes are revenue-efficient but distort firms' capital composition

Chair:
Philipp Doerrenberg, University of Mannheim

Discussants:
Usama Jamal, CY Cergy University of Paris
Philipp Doerrenberg, University of Mannheim

008. Frontiers of Tax Policy: Wealth, Carbon, and Politics
Corporate and Business Taxation



Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Cambria West
Participants:

The Interaction of Carbon Emissions and Shareholder Taxes in Shaping Firm Behaviour *Katharina Schmidt, University of Mannheim; Johannes Voget, University of Mannheim, Germany*

To address global warming, governments need to introduce climate policies such as emissions trading systems and carbon taxes, which impose high costs, particularly on carbon-intensive firms. Using an international panel of publicly listed companies, we examine how corporate carbon emissions influence firm value and investment decisions through different payout strategies. Our findings show that firms with higher carbon emissions consistently exhibit higher dividend yields than more sustainable firms. This is also associated with lower firm values for carbon-intensive firms, especially when dividend tax rates are high. While carbon-intensive firms tend to generate more patents, this relationship is muted when dividend tax rates are high, suggesting that the cost of equity capital constrains the innovative capacity of firms most exposed to climate-related regulatory pressure. Our findings demonstrate how instruments unrelated to specific climate policies, such as dividend taxation, can both incentivize and constrain the sustainable transformation of the economy, depending on the financial environment firms operate in.

Political Costs and Taxes: Evidence from a Survey and Artefactual Field Experiment *Andrew Belnap, University of Texas at Austin; Tyler Menzer, Texas Christian University; Kyle Pomerleau, kyle.pomerleau@aei.org*

Political costs have long been invoked as a significant friction that constrains firms' tax avoidance behavior. However, empirical findings are mixed and provide virtually no direct evidence of political costs. We begin to fill this gap by conducting a survey and field experiment with state legislators. Our results shed light on the types of firm behaviors that cause legislators to take action, the actions legislators might take, as well as legislators' views on appropriate tax rates, corporate tax incidence, and preferred sources of tax revenue. On most issues we find large, significant divergences between Democrats and Republicans. However, both sides view legal tax avoidance as a relatively minor matter, even when a low effective tax rate is achieved from aggressive tax planning, but illegal tax evasion as a serious matter. These results suggest that political costs may be less binding than previously assumed.

Wealth Taxes and Property Rights: A Theoretical Framework for Policy Evaluation *Benjamin Jaros, benjaros@stanford.edu*

This paper develops a theoretical framework that quantifies the equivalent capital income tax rate of a wealth tax. By reframing wealth taxation in terms of property rights and effective capital income rates, the model makes the tradeoffs of such policies transparent to citizens and policymakers. The framework addresses a fundamental question in public finance: What rate of capital income taxation, under secure property rights, yields the same economic outcome as living under the recurring threat of wealth confiscation, as is the case under a wealth tax? The calculator shows that when using historic averages for returns to risk-free assets, wealth tax rates of 1, 2, 5, and 8 percent correspond to capital income tax rates of 17.5, 30, 52.5, and 64.6 percent, respectively.

Taxation and Migration by the Super-rich *Arun Advani, University of Warwick; David Burgherr, University of Zurich; Andy Summers, LSE*

We study international migration responses of the super-rich to taxes using UK administrative data and a difference-in-differences design. We exploit a reform that removes access to a tax break on foreign income for foreigners based on their number of years in the UK, allowing us to compare individuals with similar incomes and wealth. The reform reduces the net-of-tax rate of affected taxpayers by 19%. Emigration flows increase significantly in response, but only temporarily. Overall, the number of affected super-rich in the UK decreases by 0.26% for a 1% decline in the net-of-tax rate. Those who remain UK-resident increase reported income and income tax by around 50%, driven by foreign income coming into scope of UK tax, rather than investments being on shored. Emigrants induced to leave by the reform pay substantially less tax, but more than half still report non-zero UK income three years after leaving. By contrast, emigrants unaffected by tax changes retain a much smaller economic and fiscal footprint in the UK.

Chair:
James R. Hines, University of Michigan

Discussants:
James R. Hines, University of Michigan
Manon Francois, International Tax Observatory

009. Public and Private Health Insurance

The Social Safety Net & Health
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Fayette Room
Participants:

Health Insurance in the Gig Economy: Evidence from U.S. Administrative Tax Records *Lisa Abraham, RAND; Brooke Giffin, Office of Tax Analysis, Department of the Treasury; Jacob Goldin, University of Chicago Law School; Emilie Jackson, emilie.jackson@rutgers.edu; Ithai Lurie, U.S. Department of the Treasury; David Powell, University of Pennsylvania*

The gig economy encompasses millions of U.S. workers, yet remarkably little is known about the most basic features of their health insurance coverage. Because gig workers are classified as independent contractors, they are excluded from employer-sponsored benefits — the backbone of the U.S. health insurance system — and must instead navigate public programs, the individual market, or go without coverage entirely. Existing evidence on coverage rates in this population comes almost exclusively from small, non-representative surveys or government household surveys prone to recall bias and misclassification of work arrangements. As a result, policymakers designing interventions for this growing workforce — whether through benefit portability, contractor reclassification, or expanded subsidies — lack reliable administrative baselines against which to evaluate progress. This paper provides the first comprehensive evidence on gig workers' health insurance using the universe of U.S. administrative tax records from 2015–2022. Linking individual tax returns, 1099 information returns, and Form 1095 coverage records, we construct a national portrait of insurance coverage across multiple definitions of gig work. We then evaluate two distinct policy levers: quasi-experimental variation from state Medicaid expansions between 2019 and 2022, estimated via difference-in-differences, and a 2016 IRS randomized controlled trial that mailed informational letters about the ACA individual mandate to previously uninsured households. The combination of



descriptive, quasi-experimental, and experimental evidence allows us to characterize both the scope of underinsurance and the responsiveness of gig workers to structurally different interventions. We find that roughly one quarter of gig workers are uninsured in a typical year — well above the national average — with Medicaid serving as the second-largest coverage source after employer-sponsored insurance (which reaches only about 20 percent through a worker's own employer). These patterns are stable over time. Medicaid expansions increased gig workers' Medicaid coverage by 10–15 percentage points, but substantial crowd-out from exchange coverage limited net gains in total coverage to 2–5 percentage points. The informational nudge produced no overall effect on coverage; only among gig workers with prior-year coverage gaps did it modestly increase Marketplace enrollment (1.3 percentage points), with little change in total insured status. Together, the results indicate that eligibility expansions are effective, but crowd-out between public and exchange coverage is a first-order consideration in policy design for gig workers.

Forced to Choose? Unemployment Insurance Versus Health Insurance *Sungbin Park, George Mason University*

The U.S. social safety net comprises multiple independently designed programs whose eligibility rules can create tradeoffs. In this paper, I study the tradeoff individuals may face between Medicaid and unemployment insurance (UI) created by the income concept for Medicaid eligibility that includes UI benefits. Claiming UI can mechanically push some unemployed workers above the Medicaid threshold, terminating their Medicaid eligibility. This creates a "notch," a discrete loss of health insurance triggered by taking-up UI benefits. I first measure how many unemployed workers are affected by this predicament, and I analyze the rate at which they choose either to take-up UI and forgo Medicaid or to forgo UI in favor of Medicaid. To identify the causal effect of the Medicaid notch on UI take-up, I exploit the staggered timing of state ACA Medicaid expansions, which made single, childless adults eligible for Medicaid for the first time. Within this group, I focus on UI-eligible unemployed and compare UI take-up before and after expansion and between expansion and non-expansion states. I classify workers based on their simulated income with and without UI: "always-below" (UI would not push income above the threshold), "notched" (UI would push income above the threshold), and "always-above" (already above regardless of UI take-up). A triple-difference regression design compares UI take-up among the notched group relative to those who face no Medicaid tradeoff. Using the Survey of Income and Program Participation from 2008 to 2019, I find that 32% of single, childless UI-eligible adults are in the notched income range, confronting a choice between UI and Medicaid eligibility, and only 25% of these choose to take-up UI, while 75% forego UI and maintain Medicaid eligibility. Regression analysis shows that UI take-up declines by 14 percentage points (a 20% reduction relative to a 73% baseline) for notched individuals under Medicaid expansion, while expansion has no statistically significant effects on UI take-up among always-below and always-above groups. The triple-difference estimate is −0.130 (SE: 0.056). Among individuals in Medicaid expansion state-time, the rate of not taking UI among notched individuals is more pronounced for those who self-report bad health conditions (the worst two on a five-point Likert scale) and who have experienced more than 3 days of sickness within a year. The findings suggest that including UI benefits in Medicaid eligibility may force low-income unemployed workers to choose between two crucial safety nets.

Insurance When It Matters Most: Medicaid Expansion in a National Health Emergency *Ruchi Avtar, New York University; Rajashri Chakrabarti, Federal Reserve Bank of New York; William Nober, Columbia University; Maxim Pinkovskiy, Federal Reserve Bank of New York*

This paper is joint work with Ruchi Avtar (NYU), Rajashri Chakrabarti (Federal Reserve Bank of New York), Lindsay Meyerson, and William Nober. The full paper is available at https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr948.pdf?sc_lang=en Does Medicaid expansion affect health outcomes? Previous research on this topic has been limited by significantly adverse health events being relatively rare for theunder-65 population. We address this question by looking at a major health shock: the 2020-2021 Covid-19 pandemic. We conduct a regression discontinuity design of pandemic-related health outcomes for counties near the borders of states that expanded Medicaid with states that did not. Relevant covariates change continuously across the Medicaid expansion frontier. We find that (1) health insurance changes discontinuously at the frontier, (2) Covid-19 testing is discontinuously larger in Medicaid-expandingstates, (3) the fraction of beds occupied in ICUs is discontinuously smaller in Medicaid-expanding states. We also find that (4) Covid-19 cases and deaths do not change discontinuously at the frontier, with the precision of these estimates being low, but the null result on deaths being general across demographic groups. Finally, we find that (5) smart thermometer readings of fever rates from Kinsa, Inc. do not change discontinuously at the Medicaid expansion frontier.

Medicaid Funding in the Twenty-First Century: Expansion, Federalism, Delivery Reform, and State Financing Innovation *Lady Ikeya, Indiana University*

This paper examines how Medicaid funding evolved from 2000 to 2025 and why that evolution matters for state public budgeting and finance. Medicaid is no longer only a health coverage program; it is one of the largest fiscal systems in state government, a major source of federal revenue to states, and a central mechanism through which states finance care for low-income adults, children, people with disabilities, older adults, and long-term care users. The paper provides a one-stop institutional and empirical account of Medicaid's twenty-first-century transformation, focusing on five linked developments: ACA Medicaid expansion, federal matching-rate changes, managed care, and managed long-term services and supports, state financing mechanisms such as provider taxes and intergovernmental transfers, and Section 1115 waivers. The study also documents trends in Medicaid enrollment, spending, federal-state shares, managed care penetration, provider-tax reliance, and waiver use. Empirically, the paper estimates stylized state-year models of ACA expansion, FMAP changes, and adoption of provider taxes. The expected contribution is to show how Medicaid funding shifted from a relatively direct federal-state matching arrangement into a complex fiscal architecture shaped by coverage expansion, federal incentives, private and public financing mechanisms, managed care payment flows, and state experimentation.

Chair:

Elliott Isaac, Tulane University

Discussants:

Antonios Koumpias, University of Michigan-Dearborn
Audrey Guo, Santa Clara University

010. Policy Options for Taxing the Ultra-Rich

Individual Taxation, Labor Supply
Panel Discussion
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Pennsylvania West

Policy Options for Taxing the Ultra-Rich



Panelists:

Eric Zwick, ezwick@chicagobooth.edu
Lily Batchelder, NYU School of Law
Brian Galle, UC Berkeley
Kitty Richards, Groundwork Collaborative

011. Fiscal institutions in historic and comparative perspective

International Tax
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Somerset

Participants:

Fiscal Circumvention: Private Money, Public Goods, and Legislative Control of the Fisc *Jon Endean, Brooklyn Law School*

One of the animating principles of the U.S. Constitution is that the power of the purse belongs to the people's elected representatives—that is, to Congress. This principle predates the U.S. Constitution. It was reflected in the English Bill of Rights' prohibition on taxes levied without parliamentary consent and echoed in the Declaration of Independence's grievance that the colonies had been subjected to taxation without consent. The Constitution embeds this principle most visibly in the Taxing Clause and the Appropriations Clause. But these are not just discrete powers relating to revenue raising and spending priorities. They are key ways in which the Constitution operationalizes a broader principle: Decisions about how public resources are raised, allocated, and controlled belong to the people, acting through their elected representatives. This principle extends beyond the Taxing Clause and the Appropriations Clause. The Constitution's fiscal architecture reflects a broader commitment to legislative control over the public fisc. That commitment is threatened not only when the Executive seeks to implement a tax not authorized by Congress or spend money without a legislative appropriation. It is also undermined when public projects are financed, public officials are compensated, or public resources are allocated in a manner that circumvents the legislature's decision-making process. This Article seeks to recover that fiscal-constitutional principle and apply it to contemporary debates over private financing, public goods, and executive power. This Article uses three examples to illustrate how this fiscal-constitutional principle is borne out. First, the Constitution's Emoluments Clauses reflect the concern that public officials should receive compensation for their service through mechanisms authorized by law, not private channels that create independent financial relationships with public officials. Second, official public projects are sometimes undertaken using private funds and are often sold as a "good deal for the taxpayer." However, when private funding is substituted for legislative authorization, it short-circuits the process through which the people's representatives decide which public goods should be funded, how funds are raised, and what constraints should attach. Lastly, executive settlements that direct monetary or programmatic relief to favored third parties raise a related allocation problem: Rather than being subject to the decision-making by the people's representatives in Congress, they allow executive branch officials to make choices about allocating funding that would otherwise belong to Congress. This argument does not require assuming executive officials operate from malign motivations. Well-intentioned officials may look at a broken appropriations process and conclude that policies endorsed by the electorate can be implemented most effectively by working around Congress. But well-intentioned as those policies might be (or, in some cases, might not be), they obscure an important feature of our constitutional design. Revenue raising and spending are two sides of the same coin, and Article I assigns primary responsibility over that fiscal regime to Congress. Recovering that principle can bring new clarity to contemporary debates over executive power, private financing, public goods, and the role of fiscal consent in a democratic constitutional system.

Mandatory Worldwide Combined Reporting: Elegant in Theory but Harmful in Implementation, by Douglas Lindholm and Marilyn Wethekam *Douglas Lindholm, Council On State Taxation*

Few issues have been more controversial than state imposition of mandatory worldwide combined reporting to apportion corporate income for state tax reporting purposes. Although most states yielded on the issue decades ago and now allow unitary taxpayers a water's-edge election, a recent resurgence of attention to the once-discredited reporting method by certain academicians and policymakers has brought the method back to the forefront of state tax policy controversy. This paper evaluates the use of mandatory worldwide combined reporting as a return filing method, and concludes that, although permissible under the U.S. Constitution, it is undesirable for practical, equitable, and competitiveness concerns. Available at www.cost.org.

Treaties without Soft Law: An Empirical Study of Tax Treaties before 1962 *Wei Cui, University of British Columbia*

We use Claude to systematically code detailed provisions of all income tax treaties concluded between sovereign states between 1900 and 1962, before the Organization for Economic Cooperation and Development (OECD) released its first draft model tax convention. We divide the treaty sample into two periods, those concluded before 1945 (almost entirely among European countries including Britain) and those after. We first demonstrate that the model tax conventions adopted by the League of Nations in 1927 and 1928 had no discernible impact on treaty-making before 1945. In particular: (1) all rules found in the 1927/28 model that were also present in actual treaties had origins in treaties before 1927, and the adoption of such provisions can be almost entirely explained by propagation through countries that had already adopted similar provisions in actual treaties; (2) rules in the 1927/28 models that did not have pre-1927 predecessors were not adopted after 1927 either; (3) many other treaty norms not encoded in the model conventions spread across countries, displaying the same rate and pattern of propagation as model norms; and (4) the country's most likely to spread treaty norms are not necessarily the countries that participated in the drafting of the model conventions. Systematic coding of tax treaties also highlights important differences among treaties. We frame these differences by distinguishing between three potential objectives for international tax cooperation: alleviating excessive taxation that might result from (a) overlapping residence and source country taxing rights, (b) inconsistent source or residence rules, or (c) unilaterally rational but collectively sub-optimal source country taxes. European countries primarily pursued objective (b) before 1945, where the U.S. and the U.K. were indifferent to it. After 1945, all treaties, whether concluded by European and non-European countries, displayed a strong focus on objective (c), with rapidly declining focus on objective (b) and only secondary focus on objective (a). This implies that despite the conventional wisdom that tax treaties seek to mitigate "double taxation," it is more accurate to see tax treaties in analogy with trade agreements implementing the reciprocal reduction of tariffs. Overall, contrary to common claims, soft law sponsored by international organizations played no role in shaping actual tax treaty practice before 1962. And instead of the spread of a homogenous set of norms, tax treaty practice underwent fundamental transitions already before the



arrival of the OECD. Model treaty norms thus poorly represent actual international tax cooperation and are misleading about treaty practice's homogeneity and continuity. We also make a preliminary exploration of another mechanism for the spread of treaty norms, namely from metropole countries to colonies and dependencies prior to decolonization.

Chair:

Reuven Avi-Yonah, Univ. of Michigan Law School

Discussants:

Reuven Avi-Yonah, Univ. of Michigan Law School
Peter Merrill, PwC

012. Retirement Security

Retirement, Savings, Bequests, and Estate taxes
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Washington Room

Participants:

Financial Fragility in Retirement: Unexpected Expense Shocks, Wealth Decumulation, and the Role of State Policy *Manita Rao, mrao@aarp.org*

Unexpected expenses are a pervasive yet understudied source of financial vulnerability for older Americans. Recent work shows that unexpected expenses equal about 10 percent of annual income in a typical year for retired households, but households will face expense shocks twice the typical amount every 6.6 years. Yet there is limited research on the consequences of these shocks on retirees' long-term financial wellbeing. This study provides the first causal estimates of how large, unexpected expense shocks affect wealth trajectories and indebtedness throughout retirement years. Using longitudinal data from the Health and Retirement Study (HRS), we exploit quasi-random variation in the timing of three distinct types of unexpected expense shocks – health, rainy-day and family-related – and employ a staggered difference-in-differences design to estimate the effect of expense shocks on financial wellbeing among retirees. Leveraging shock-specific timing variation, we compare financial outcomes – wealth, assets and debt – of households that experience a shock in a given year to similar households that experience an equivalent shock four years later while controlling for a wide range of household-level observable characteristics. Preliminary results indicate unexpected expense shocks have immediate and economically significant effects. Households that experience a large, unexpected expense shock exhibit statistically significant declines in total wealth. This drop in wealth is associated with a concurrent increase in non-mortgage debt in the year in which the shock occurs. We find that major health-related expenses reduce total household wealth by approximately $68,000, an economically meaningful effect. Our findings also suggest that this decline in household wealth is only marginally driven by the liabilities side of the household balance sheet. We observe a relatively small increase in non-mortgage debt of roughly $2,000, on average. This implies that the bulk of the wealth loss reflects active asset decumulation rather than borrowing, particularly in response to large, unexpected expenses. These findings have direct implications for state policies. State policies such as the taxation of retirement income, property tax exemption and state Medicaid asset protection policies that regulate qualifying conditions for long-term care are consequential to retirees' ability to manage unavoidable financial shocks. Retirees living in states without retirement income taxation and higher property tax exemptions for seniors would have higher discretionary income and more liquid assets that could be utilized to manage unexpected expense shocks compared to those in states with higher taxes on retirement income and stringent senior property tax rules. In addition, retirees' concerns over retirement income sufficiency coupled with state-level differences in the tax treatment of retiree income and property, as well as access to long-term health care under Medicaid potentially incentivizes fiscal migration among retirees.

How Much Do Older Workers Value Retiree Health Insurance? *Gal Wettstein, gal.wettstein@bc.edu; Laura Quinby, Center for Retirement Research at Boston College*

Retiree health insurance (RHI) is increasingly rare due to rising health costs. Even government employers – long a bastion for RHI – are cutting back. Little is known, however, about the value that employees place on RHI. This project estimates older workers' willingness to pay for RHI using a natural experiment in Rhode Island state government that presented workers eligible for retirement with a choice: they could retire by September 30, 2008, and keep the existing generous RHI benefit, or they could retire later and continue accruing pension benefits at the cost of having a less generous RHI benefit in the future. The resulting size of the cut in the present value of RHI varies across workers based on combination of their age and tenure. The sharp increase in retirements immediately prior to the cutoff deadline relative to prior year norms allows us to estimate the relative elasticity of retirement to RHI versus pension benefits. The results show that older state employees are highly sensitive to RHI. Increasing the severity of the RHI cut by $1,000 (in present value terms) caused a 0.6 percentage-point increase in the likelihood of retiring before September 30. In contrast, increasing counterfactual pension wealth by $1,000 reduced early retirements by 0.3 percentage points, suggesting that older state employees value a marginal dollar of RHI twice as much as a marginal dollar of pension benefits. In total, the reform caused a doubling of the retirement rate compared to the year prior.

Retirement Security for Women and Minorities: The Role of the Public Sector *Stacy Dickert-Conlin, Michigan State University; Leslie Papke, Michigan State University*

Women and racial minorities have been employed at higher rates in the state and local public sector for decades – a sector where defined benefit pension plans are still the norm. In any particular year, only about half of private sector workers are covered by an employer-sponsored retirement plan – typically a defined contribution plan - and may rely solely on Social Security in retirement as a result. Consequently, retirement security may be greater for women and minorities employed in the public sector than similar employees in the private sector. In this paper, we examine the role public sector employment plays in reducing gender and racial disparities in retirement preparedness in terms of pension coverage, personal saving, and retirement decisions. The Health and Retirement Study (HRS), the most comprehensive panel survey of preretirement respondents, includes many public employees across the most populous states. The HRS cohorts –in particular the Early Boomers (born 1948-53), Mid Boomers (1954-59), and Late Boomers (1960-65) faced potentially different employment landscapes during their working years. Using detailed industry and pension coverage information, we compare retirement resources and choices of employees in the public sector with those in the private sector, with a particular focus on women and minorities. Further, we examine how differences in Social Security participation in the public sector, as well as differential marriage rates and life expectancies across races, may also play a role in retirement security across the public and private sectors.

If Social Security Is the Answer, What is the Question? *Daniel Shaviro, NYU Law School*

In light of the public policy discussions that are likely arise in the near future by reason of the expected depletion of the Social



Security Trust Fund, this article discusses what is to be learned today from the two chief contributions to the analysis of Social Security in the economics literature: those by Paul Samuelson, in his 1958 article "An Exact Consumption-Loan Model of Interest with or without the Social Contrivance of Money," and by Martin Feldstein in his turn-of-the-century work on Social Security privatization.

Chair:

Rich Johnson, AARP

Discussants:

Rich Johnson, AARP

Jason Seligman, Investment Company Institute

013. Federal Tax Policy and State-Local Fiscal Interactions

State and Local Taxes Including Property Taxes

Paper Session

10:15 to 11:45 am

The Westin Pittsburgh: Floor 2 - Westmoreland Central

Participants:

State and Local Fiscal Responses to the Tax Cuts and Jobs Act of 2017 *Bradley T. Heim, University of Central Florida; Lady Ikeya, Indiana University; Maggie (Yuanyuan) Liu, US Department of Treasury; Marc Plooster, Indiana University Bloomington; Andrey Yushkov, University of Illinois Chicago*

The Tax Cuts and Jobs Act of 2017 significantly limited the federal deductibility of state and local taxes (SALT), both by placing a cap on the amount of SALT that could be deducted and by increasing the standard deduction. This study examines the effects these changes on local and state government fiscal behavior. Using data from the IRS population files of individual income tax returns spanning 2014-2022, we calculate county and state-level after-tax cost of paying SALT before and after the implementation of TCJA. This data is then matched to data on state and local revenue and expenditures from the State and Local Finance data collected by the U.S. Census Bureau, as well as data on state sales and income tax rates collected by the Tax Foundation. Following the previous literature, we estimate the impacts of changes in the after-tax cost of SALT on tax revenue, tax parameters, and state and local expenditures using two way fixed effects models in which we instrument for the endogeneity of the after-tax cost.

Taxes and the Choice of Organizational Form: Quasi-Experimental Evidence from the Passthrough Entity Tax *Austin Blake, University of Connecticut; Mary Cowx, Arizona State University; David Kenchington, Arizona State University; Roger White, roger.white@asu.edu*

We examine the extent to which taxes affect the choice of organizational form. Although prior research has debated the role of taxes in this fundamental decision, much of the existing literature faces identification challenges that limit causal inference. We overcome these limitations using the staggered implementation of state-level passthrough entity taxes (PTETs), which increase the after-tax rates of return to operating as a partnership or S corporation relative to a sole proprietorship or C corporation. Following PTET adoption, we find a 1.9% increase in establishments of qualifying entities relative to non-qualifying entities in the same industry and state. This effect is stronger for more profitable businesses, for which PTET benefits are greater. Overall, our quasi-experimental evidence suggests that taxes meaningfully affect organizational form choice. These findings inform policymakers about how changes in U.S. tax policy can shape organizational form, and hence, the economic behavior of businesses.

Tax Preferential Treatment of Residential Housing and Migration *Dena Lomonosov, University of Toronto*

Do households relocate in response to changes in the federal tax treatment of local taxes and housing costs? This paper studies the migration effects of the 2017 Tax Cuts and Jobs Act (TCJA), which sharply reduced the federal subsidy to living in high-tax, high-cost jurisdictions by capping state and local tax (SALT) deductions at $10,000, limiting mortgage-interest deductibility, and substantially reducing itemization. These changes increased the after-tax cost of residing in many expensive metropolitan areas, especially for upper-income homeowners. The reform therefore provides a setting to examine whether federal tax policy can reshape the geographic distribution of high-income households across U.S. metropolitan areas. The analysis combines longitudinal household records from InfoUSA with property, mortgage, and tax records from CoreLogic from 2011 to 2022. Exposure to the reform is measured using NBER TAXSIM to simulate the change in federal tax liability attributable to the reduced deductibility of SALT and, in some specifications, mortgage interest. Exposure varies across metropolitan areas because of differences in state tax systems, property taxes, and housing prices, and within metropolitan areas because of differences in income, marital status, homeownership, mortgage balances, and length of residence. The empirical strategy estimates difference-in-differences event-study specifications that relate pre-TCJA exposure to post-TCJA changes in inter-metropolitan migration, controlling for CBSA-by-year fixed effects, age-by-year fixed effects, and detailed baseline household-group fixed effects. A complementary destination-level analysis examines whether highly exposed metropolitan areas became less attractive to high-income in-migrants. The results show that reductions in federal tax subsidies increased migration out of affected metropolitan areas. Households facing larger subsidy losses became more likely to move across CBSA boundaries beginning in 2018, with effects persisting through 2022. A doubling of the reduction in the local tax subsidy increased the probability of moving across CBSAs by roughly 10 to 22 percent in the SALT-only specification and by 8 to 18 percent when mortgage-interest deductibility is included. The response is concentrated among households earning between $150,000 and $500,000, a group far broader than the billionaires, superstar earners, and internationally mobile elites emphasized in much of the existing tax-migration literature. Destination-level estimates provide complementary evidence: metropolitan areas with larger TCJA-induced subsidy reductions attracted fewer high-income in-migrants after the reform, with the most exposed areas receiving approximately one fewer entrant earning above $250,000 per 100 existing high-income households. These findings show that federal tax policy can influence residential sorting by changing the effective price of local taxes and housing costs. By weakening the federal subsidy to high-tax jurisdictions, the TCJA intensified fiscal competition among states and metropolitan areas and reduced the ability of high-tax, high-cost places to attract and retain affluent households. The results have implications for fiscal federalism, local public finance, housing markets, and the spatial distribution of the tax base.

How State Personal Income Taxes Affect Workers' Residential Location: Evidence from a Pilot Study *Xinyu Chen, University of Michigan*

This paper provides new evidence on the effect of state personal income taxes on migration by focusing on U.S. airline pilots, using a novel individual-level dataset from the Federal Aviation Administration's Airmen Certification Branch. Able to commute by air through jump seat arrangements, pilots' residential location



choices are less constrained by their employers' location compared to the general population, potentially informing remote work, which allows the decoupling of place of work and place of residence. I document that pilots have high interstate mobility and disproportionately reside in zero-income-tax states. I exploit cross-state personal income tax differentials and major state tax reforms in the past two decades to estimate the elasticity of migration with respect to the net-of-tax rate. Preliminary estimates are larger than most estimates found in the literature, suggesting that mobility responses to taxes depend on labor-market institutions and technologies that affect the link between place of work and place of residence.

Chair:

Christopher Luke Watson, lukexwatson@gmail.com

Discussants:

Evelyn Smith, esmith@abfn.org
Christopher Luke Watson, lukexwatson@gmail.com
Fernanda Carriedo-Fagan, University of Tennessee

014. Tax Increment Financing and Land Value Capture

State and Local Taxes Including Property Taxes
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Westmoreland East

Participants:

When Land Value Capture Ends: Fiscal Effects of Tax Increment Reinvestment Zone Termination in Texas *Laiyang Ke, University of North Texas*

Tax increment financing (TIF) is considered as an intertemporal fiscal bargain: overlapping jurisdictions forgo property tax revenue during a district's active life in exchange for an enlarged tax base once the district expires. While a substantial literature examines TIF's active-period effects, the fiscal consequences of termination remain largely unexamined. This paper fills that gap by studying how local public finances respond to the expiration of Tax Increment Reinvestment Zones (TIRZs) in Texas. We ask the question of whether the release of previously captured tax base produces measurable adjustments in municipal property tax policy or taxpayer burden. We construct a city-year panel of 400 Texas cities with populations above 5,000 observed from 2004 to 2024, combining TIRZ registry records from the Texas Comptroller with city-level data on property tax rates, per-capita tax levies, and assessed property values. To guide the empirical work, we develop a theoretical model in which termination mechanically enlarges the general-fund-accessible base while simultaneously lowering the marginal cost of municipal services, producing theoretically ambiguous effects on equilibrium tax rates. We implement staggered-adoption difference-in-differences and augmented inverse probability weighted event-study designs to estimate dynamic fiscal effects around expiration. The results show that on average, property values follow a positive post-termination trajectory, with gains that persist and grow over the long run, whereas citywide property tax rates and per-capita property tax levies exhibit insignificant changes in the years immediately surrounding termination. Heterogeneity analyses reveal that property value gains are concentrated in cities with stronger initial TIRZ tax bases, consistent with capitalization dynamics tied to underlying market strength. In addition, cities with greater initial TIRZ tax base experienced significant reduction in city-wide property tax rate six years after TIRZ termination. Taken together, the evidence suggests that the fiscal effects of ending land value capture operate primarily through tax-base expansion rather than through immediate adjustments in observed municipal tax effort.

Heterogeneous Effects of Land Value Taxation: Where Does It Matter Most? *Zhou Yang, Robert Morris University*

Growing concerns over housing affordability and urban sprawl have fueled a renewed interest in land value taxation (LVT). While economic theory suggests that LVT promotes efficient land use and incentivizes development, empirical evidence remains limited. Utilizing a comprehensive dataset of land tax policy changes in Pennsylvania over the last four decades, this study addresses existing identification challenges by introducing a novel specification that captures the key mechanics of land taxes. Furthermore, this paper is the first to explore the heterogeneous impacts of LVT on housing supply and urban development. The findings indicate that shifting from traditional property taxation to LVT offers a viable strategy for mitigating urban sprawl and alleviating housing shortages. However, these effects vary significantly by urban design and local economies. The stimulative impact on housing supply depends heavily on localized conditions; while LVT improves housing affordability in some areas, it can accelerate displacement in others. In addition, its efficacy as an anti-sprawl tool varies across municipalities, yielding the strongest results in specific municipal environments. This study offers a robust framework for designing and implementing land tax reforms, providing strategic insights into the conditions under which land value taxation is most effective.

Raising Revenues: Evidence from Property Tax Assessments in India *Kavya Ravindranath, George Washington University*

How do property-owners respond to increases in property-tax liabilities? Particularly, do these responses differ across the initial-liability distribution, and how does accounting for this heterogeneity affect the revenue-maximizing tax rate? I construct a novel dataset of geolocated properties and digitised parcel-level maps from an Indian municipality to answer this question. I exploit variation in liabilities that arise from area-based guidance values that are fixed as of 2011, known as `circle rates'. First, I find that a 1\% increase in the circle rate reduces compliance by 0.49\% but increases total revenues by 0.83\%. This implies that revenues are maximized by scaling every circle rate by a common factor of 3.8. This preserves the existing relative circle rate schedule while increasing liabilities proportionally across properties, and is equivalent to increasing the statutory tax rate from 0.25\% to 0.95\%. Second, I show that this estimate masks substantial heterogeneity in behavioural responses. Properties at higher circle rates are more elastic than those at lower circle rates. Accounting for this, reduces the revenue-maximizing common scaling factor to 2.25, equivalent to a statutory tax rate of 0.56\%. Third, I find that updating liabilities to reflect the revenue maximising schedule leads to the largest gains in revenues but that simply updating outdated circle rates to more recent values recovers a substantial share of these gains.

Chair:

Yilin Hou, Syracuse University

Discussants:

Yilin Hou, Syracuse University
Federico Corredor, Georgia State University
Seun Odibo, Georgia State University
Pablo Garriga, World Bank

015. Optimal Taxation I

Optimal Taxation
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Westmoreland West

Participants:



On the Welfarist Reformulation of Sen and Rawls: Bridging Welfarist and Non-welfarist Frameworks *Zhiyong An, WB*

This paper revisits two seminal non-welfarist social welfare functions (SWFs), originally proposed by Sen (1973, 1976, 1982) and Rawls (1971), and shows that both can be reformulated as welfarist SWFs — specifically, as generalized utilitarian SWFs that respect the (weak) Pareto principle. Our findings reinforce An (2024) and further reveal that Sher's (2024) critique of Saez and Stantcheva (2016) does not hold universally. More broadly, this study, in line with An (2024), demonstrates that the traditionally rigid divide between welfarist and non-welfarist frameworks is driven more by interpretive distinctions than by inherent mathematical structure, thereby establishing a formal bridge between them. This theoretical advance enables economists to incorporate non-welfarist considerations into policy design and evaluation without compromising analytical rigor — specifically, without violating foundational economic principles such as the (weak) Pareto principle and consistency principle.

Should Education Be Taxed or Subsidized? Optimal Policies with Signaling and Information *Minjeong Joyce Kim, University of Michigan*

Education can induce socially wasteful credential competition while providing information that improves worker--task assignment. I study jointly optimal nonlinear income taxes and education subsidies in a model where schooling raises productivity, signals ability through credentials, and improves worker-specific signal precision. Optimal education subsidies account for two effects that workers do not internalize: schooling's effects on income tax revenue, and the wage spillovers arising when aggregate schooling changes what credentials reveal about ability. Standard signaling models imply that governments can correct the second externality by taxing education, but incorporating worker-specific precision weakens this corrective motive by reducing employers' reliance on credentials. Precision also changes the earnings distribution and redistributive targeting through task assignment, supporting higher income taxes under strong redistributive preferences. Higher income taxes increase the revenue recaptured from schooling, strengthening the fiscal motive for subsidies that preserve investment incentives. As a result, education taxes are reduced, in some cases turning into subsidies.

Optimal Policy with Heterogeneous Parental Altruism *Matthew Weinzierl, mweinzierl@hbs.edu*

This paper studies the optimal policy response to heterogeneity in parents' altruism toward their children. Its main contribution is to derive a normative criterion for optimality in this setting by carefully applying the Vickrey-Harsanyi-Rawls "original position" thought experiment to an economy with families. When parents imagine their families stepping out from behind the veil of ignorance, namely after they have designed society's institutions in the original position, a consistent individualistic approach would imply that family ties are severed. As a result, the social welfare function would fully offset the effects of heterogeneity in parental altruism on children, contrary to prevailing policy and, perhaps related, to ex post Pareto efficiency. This contrast between theory and practice strongly suggests that the family is a constraint on the welfarist approach to optimal policy that is widely endorsed, despite its substantial costs from an ex ante perspective.

Wealth as Power: The Externality Case for Wealth Taxation *Morten Stostad, Norwegian School of Economics*

We model wealth inequality as an externality and derive the optimal wealth tax in sufficient-statistics form. The optimal rate includes a Pigouvian correction---independent of behavioral elasticities---that implies a positive wealth tax even under Atkinson-Stiglitz and Chamley-Judd conditions. We provide a micro foundation through power goods---non-market goods such as political influence, autonomy, and opportunity that are rivalrous and allocated by wealth. Calibrating to the United States, if billionaire wealth concentration costs 1% of average income per person annually, the optimal Pigouvian wealth tax is approximately 3%; for larger externalities, rates exceed 15%.

Chair:

Damian Vergara, damiv@umich.edu

Discussants:

Damian Vergara, damiv@umich.edu
Daniel Reck, University of Maryland

016. Transition Break

11:45 to 12:00 pm

017. Pittsburgh at an Inflection Point: Fiscal Conditions, Economic Change and the Path Forward

Plenary Session
12:00 to 1:30 pm
The Westin Pittsburgh: Floor 3 - Allegheny 1,2, 3

A conversation with Controller for the City of Pittsburgh, the Honorable Rachael Heisler, on the city's fiscal and economic outlook, how tax policy and intergovernmental relations shape its choices, and what the city's past economic transformations can teach us about navigating the next one. Rachael Heisler, Controller, City of Pittsburgh and Kil Huh, Ph.D.,Senior Vice President. Government Performance with The Pew Charitable Trusts Thursday, November 12, 2026 – Luncheon & Conversation Introduced by: Brian Galle, UC – Berkeley

018. Income Taxation and Verifiability

Public Finance in Developing Countries
Paper Session
1:45 to 3:15 pm
The Westin Pittsburgh: Floor 2 - Butler East

Participants:

Behavioral Responses to Age-Based Tax Provisions: Evidence from Honduras. *David Pineda, Utah State University; Katarzyna Bilicka, Utah State University; Sherzod Akhundjanov, Utah State University; Reza Oladi, Utah State University*

This paper examines the behavioral responses of individual taxpayers to targeted tax benefits. We study a senior relief policy in Honduras that grants additional standard deductions to individuals aged 65 and older, leveraging a 2020 reform that expanded an existing deduction and automated benefit delivery. Using administrative records of personal income tax and a regression discontinuity design, we find that the expected reduction in tax burden is accompanied by substantial behavioral responses: beneficiaries report 46.1% higher adjusted gross income. This discontinuity is driven primarily by self-employed business owners and independent workers, who exhibit an almost 60% increase. We show that around half of the adjusted gross income response is explained by taxpayers persistently bunching at the threshold for positive taxable income, consistent with incentives to avoid withholding. We find no changes in real activity, suggesting that the responses reflect reporting adjustments rather than underlying economic behavior. Our lower-bound estimate of evasion around the cutoff is 32.9%.

Payments Under the Table in Latin America *Pablo Garriga, World Bank; Javier Feinmann, Paris School of Economics; Maximiliano Lauletta, Federal Reserve Board; Roberto Hsu*



Rocha, NOVA SBE; Ana Paula Franco, Minneapolis Fed

This paper studies an overlooked dimension of labor informality in Latin America: payments under the table (PUT), when registered firms pay part of registered workers' compensation off the books. We conduct the first multi-country large-scale survey designed to measure this practice among formal employees in Brazil, Argentina, Mexico, Colombia, Chile, and Peru, covering countries that account for over two-thirds of Latin America's population. Pooling all countries together, we find that about 17% of formal employees report receiving some part of their compensation under the table. Among PUT receivers, roughly 23% of labor earnings are paid off the books, implying that about 3.9% of formal-sector payroll is disbursed outside the official reporting system. PUT is more prevalent among higher-income workers, in smaller establishments, in family businesses, and among workers who are themselves managers. It is also strongly associated with lower tax morale, and workers frequently cite employer payroll taxes, minimum wages, and compensation for extra hours as important reasons for the practice. These results show that informality in developing countries extends beyond the traditional formal-informal divide and that an important share of noncompliance takes place within formally registered employment relationships.

Designing the First Income Tax *Conor Clarke, Washington University in St. Louis; Edward Fox, University of Michigan; Wojciech Kopczuk, Columbia University*

Why do governments tax income? Large literatures in economics, history, and political science answer versions of that question—weighing income against consumption as a tax base, identifying conditions (war, the franchise) under which states adopt income taxes, and tracing the rise of the income tax in particular countries. We ask an antecedent question that has received less attention: How did "income" become identifiable and reachable as a tax base in the first place? We focus on the design of the first income tax—Britain's, introduced in 1799, abandoned, then permanently reintroduced in 1842—and on what made it work where Adam Smith and his contemporaries had thought a tax on income impossible. A central claim is that income became a viable tax base only once economic organization and administrative technology made it legible to the state. The pivotal innovation was withholding—"stoppage at the source," in the language of the 1803 British law that introduced it. Withholding spread along a predictable path: first to rents and government salaries, then to interest and dividends from publicly chartered companies, and eventually to large private firms, beginning with the railroads. Combining historical British tax records with modern GDP estimates, we show that by the mid-nineteenth century the British income tax base reached roughly 40 percent of national income—a surprisingly high figure, comparable to many developing countries today—and well over half of national capital income, with most of it withheld at source. The history has lessons. Today's empirical literature on tax compliance emphasizes third-party information reporting as the key to a reachable income tax. The British experience suggests something different: for the early designers, taking the money mattered more than knowing where to take it. We draw out implications for the relationship between administrative technology and the tax base, and for tax policy in developing countries today.

Unlocking Fiscal Capacity: Experimental Evidence from Sierra Leone *Pablo Guzmán Lizardo, Stanford University; Niccolò Meriggi, University of Oxford; Wilson Prichard, University of Toronto*

Despite generating important benefits, recent reforms digitizing tax systems have failed to curb widespread tax evasion. Together with the local government in Kenema, Sierra Leone, we conduct two field experiments within a property tax reform in Sierra Leone to test three hypotheses on converting digital tax tools into compliance. First, rather than only marginally boosting general perceptions of enforcement among taxpayers, governments must implement targeted tax enforcement itself. Second, enforcement can be complemented by leveraging local social structures that shape taxpayers' behavior. Third, the strategic delivery of information about enforcement can complement the initial enforcement action. We test these through three interventions. The first is an enforcement program involving enforcement notices, court hearings and penalties. The second is a public campaign where religious authorities motivated taxpayers to comply with the tax through direct door-to-door visits using normative appeals. Finally, the third is an information campaign where pamphlets with information about enforcement were directly delivered to property owners. We find that enforcement action increases the compliance rate by 53.4 p.p. This is 16 times the average effect of the most common intervention in the literature on compliance. The visits by religious leaders increased compliance by 4.9 p.p. Both interventions cause spillovers from treated property owners towards their neighbors. The pamphlet intervention increases compliance by 12 p.p. and also generates substantive spillovers. Finally, survey data suggests substantive improvements in taxpayers perceived credibility of enforcement and peer compliance, willingness to comply with the tax, and satisfaction with the local government.

Chair:

Conor Clarke, Washington University in St. Louis

Discussants:

Maximiliano Lauletta, Federal Reserve Board
Pablo Guzmán Lizardo, Stanford University
Caroline Weber, caroline.weber@uky.edu
David Pineda, Utah State University

019. Tariffs

Energy and Environmental Taxes, Excise, Consumption, Commodity
Paper Session
1:45 to 3:15 pm
The Westin Pittsburgh: Floor 2 - Butler West

Participants:

Are Tariffs Taxes? *Susan Morse, The University of Texas School of Law; Diane Ring, Boston College Law School*

We say tariffs are taxes. But why? What makes a law a tax law? Are tariffs always taxes? The legislative tax law process has ignored tariffs for a century and shows little sign of bringing tariffs under the umbrella of tax law analysis. This should change--but in a nuanced way. Congress should treat some tariffs, like the permanent 10% across-the-board tariff imposed by President Trump, as taxes for the purpose of legislative budgeting and analysis. These tariffs have the predominant character of a tax, meaning a compulsory payment for general government revenue purposes. The impact of treating some tariffs as taxes would be twofold: (1) they would more formally be brought into the already existing legislative process for tax and spend legislation and thus be subject to the same scrutiny, analysis and attention as other tax and spend legislation, and (2) Congress would bear more direct responsibility for the underlying tariff/tax decisions, as anticipated by the Constitution and the separation of powers provided for the tax and spend function in the US federal system. In an era when tariffs have become an increasingly larger part of the U.S. fiscal landscape, recognition of their new role and effect should be a priority, and



in some cases should overcome countervailing concerns such as the advantage of considering tariffs primarily as part of a comprehensive trade law, not tax law, analysis. A possible rule of thumb is that a tariff should be treated as a tax for purposes of tax law legislative process and policy analysis if it raises 0.5% of total federal tax revenue in a year.

Tariff Incidence and Labor-Market Exposure: The 2025-2026 Tariff Regimes *Thomas Brosy, tbrosy@urban.org*

Tariff Incidence and Labor-Market Exposure: The 2025-2026 Tariff Regimes

The Impact of Tariffs on Investment in the US *Kyle Pomerleau, kyle.pomerleau@aei.org; Thomas Brosy, tbrosy@urban.org; Robert McClelland, Urban-Brookings Tax Policy Center; John Wong, Urban-Brookings Tax Policy Center*

Since January 2025, the Trump administration has imposed broad new tariffs on imports. While much of the public discussion has framed tariffs as taxes on consumer goods, a substantial share of U.S. imports are capital goods or intermediate inputs used to produce capital goods. Tariffs on these items raise the cost of investment and distort the relative prices of different assets. This paper develops a framework for incorporating tariffs into the standard Hall-Jorgenson cost of capital formulation and the marginal effective tax rate (METR) on new investment. Combining an input-output model of tariff price effects with a cost of capital model spanning 104 assets, seven legal forms of organization, and 63 industries, we estimate that tariffs in force prior to the February 2026 Supreme Court ruling raised the economy-wide cost of capital by 2.17 percent and the METR by roughly 3.5 percentage points. The burden varies significantly by asset, legal form of organization, and industry. The tariff-induced increase approximately offsets the investment incentives in the One Big Beautiful Bill Act. We also examine implications for the trade balance, distributional analysis, and the interpretation of tariffs as consumption taxes.

Chair:

David Mitchell, dmitchell@equitablegrowth.org

Discussants:

Emily Horton, US Department of the Treasury
Susan Morse, The University of Texas School of Law
Young Ran (Christine) Kim, Benjamin N. Cardozo School of Law, Yeshiva University

020. Beyond Revenue: Corporate Tax as an Instrument of Governance

Corporate and Business Taxation
Complete Session
1:45 to 3:15 pm
The Westin Pittsburgh: Floor 2 - Cambria East

This panel examines corporate taxation from a legal perspective. Corporate tax law does more than raise revenue. It also shapes how firms report income, structure transactions, govern managers, and allocate power among shareholders, boards, and the state. Bringing together perspectives from tax, accounting, and corporate law, the panel explores how contemporary corporate tax rules increasingly function as instruments of governance. Repealing Reorgs (Reuven S. Avi-Yonah) revisits the nonrecognition rules governing corporate reorganizations. It argues that tax-free treatment for many reorganizations is difficult to justify once their non-tax consequences are taken seriously, including concerns about monopoly, managerial agency costs, shareholder voting, financial risk, and regulatory competition among states. The paper thus reframes reorganization rules as governance subsidies as much as tax provisions. The Fiscal Theory of Corporate Governance (Zhaoyi Li) argues that tax law and fiduciary law have historically operated together to constrain managerial opportunism, and that weakening public fiduciary enforcement can make aggressive tax planning more attractive and less visible. On this view, corporate taxation is part of the institutional architecture of corporate accountability, not a separate technocratic domain. Promising and Problematic Ways to Tax Financial Statement Income (Jordan Barry) considers the growing turn toward taxing financial statement income. It highlights the appeal of book income as a tax base, especially in the context of alternative minimum taxes and international coordination, while also emphasizing the risks of tying tax liability too closely to financial accounting. In particular, it shows how greater conformity may distort financial reporting, encourage strategic use of non-GAAP measures, and create new opportunities for avoidance. Together, the papers show that current debates over book income, corporate minimum taxes, fiduciary enforcement, and tax-free restructuring are best understood as part of a broader reconsideration of corporate tax as a tool for shaping the future of modern firms.

Participants:

Repealing Reorganizations *Reuven Avi-Yonah, Univ. of Michigan Law School*

This panel examines corporate taxation from a legal perspective. Corporate tax law does more than raise revenue. It also shapes how firms report income, structure transactions, govern managers, and allocate power among shareholders, boards, and the state. Bringing together perspectives from tax, accounting, and corporate law, the panel explores how contemporary corporate tax rules increasingly function as instruments of governance. Repealing Reorgs (Reuven S. Avi-Yonah) revisits the nonrecognition rules governing corporate reorganizations. It argues that tax-free treatment for many reorganizations is difficult to justify once their non-tax consequences are taken seriously, including concerns about monopoly, managerial agency costs, shareholder voting, financial risk, and regulatory competition among states. The paper thus reframes reorganization rules as governance subsidies as much as tax provisions. The Fiscal Theory of Corporate Governance (Zhaoyi Li) argues that tax law and fiduciary law have historically operated together to constrain managerial opportunism, and that weakening public fiduciary enforcement can make aggressive tax planning more attractive and less visible. On this view, corporate taxation is part of the institutional architecture of corporate accountability, not a separate technocratic domain. Promising and Problematic Ways to Tax Financial Statement Income (Jordan Barry) considers the growing turn toward taxing financial statement income. It highlights the appeal of book income as a tax base, especially in the context of alternative minimum taxes and international coordination, while also emphasizing the risks of tying tax liability too closely to financial accounting. In particular, it shows how greater conformity may distort financial reporting, encourage strategic use of non-GAAP measures, and create new opportunities for avoidance. Together, the papers show that current debates over book income, corporate minimum taxes, fiduciary enforcement, and tax-free restructuring are best understood as part of a broader reconsideration of corporate tax as a tool for shaping the future of modern firms.

The Fiscal Theory of Corporate Governance *Zhaoyi Li, Albany Law School*

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Promising and Problematic Ways to Tax Financial Statement Income *Jordan Barry, USC Gould School of Law*

This panel examines corporate taxation from a legal perspective. Corporate tax law does more than raise revenue. It also shapes how firms report income, structure transactions, govern managers, and allocate power among shareholders, boards, and the state. Bringing together perspectives from tax, accounting, and corporate law, the panel explores how contemporary corporate tax rules increasingly function as instruments of governance. Repealing Reorgs (Reuven S. Avi-Yonah) revisits the nonrecognition rules governing corporate reorganizations. It argues that tax-free treatment for many reorganizations is difficult to justify once their non-tax consequences are taken seriously, including concerns about monopoly, managerial agency costs, shareholder voting, financial risk, and regulatory competition among states. The paper thus reframes reorganization rules as governance subsidies as much as tax provisions. The Fiscal Theory of Corporate Governance (Zhaoyi Li) argues that tax law and fiduciary law have historically operated together to constrain managerial opportunism, and that weakening public fiduciary enforcement can make aggressive tax planning more attractive and less visible. On this view, corporate taxation is part of the institutional architecture of corporate accountability, not a separate technocratic domain. Promising and Problematic Ways to Tax Financial Statement Income (Jordan Barry) considers the growing turn toward taxing financial statement income. It highlights the appeal of book income as a tax base, especially in the context of alternative minimum taxes and international coordination, while also emphasizing the risks of tying tax liability too closely to financial accounting. In particular, it shows how greater conformity may distort financial reporting, encourage strategic use of non-GAAP measures, and create new opportunities for avoidance. Together, the papers show that current debates over book income, corporate minimum taxes, fiduciary enforcement, and tax-free restructuring are best understood as part of a broader reconsideration of corporate tax as a tool for shaping the future of modern firms.

Session Organizer:

Zhaoyi Li, Albany Law School

Chair:

Daniel Shaviro, NYU Law School

Discussant:

Daniel Shaviro, NYU Law School

021. Behavioral and Distributional Effects of Tax Policy

Individual Taxation, Labor Supply

Paper Session

1:45 to 3:15 pm

The Westin Pittsburgh: Floor 2 - Cambria West

Participants:

The Impact of the Tax Cuts and Jobs Act on Donations to Deductible and Non-Deductible Tax-Exempt Organizations: Evidence from 990 Data *Bradley T. Heim, University of Central Florida; Laura Montenovo, Purdue; Boy Valentin Purba, Indiana University; Stephanie Karol, stephanie.karol@treasury.gov*

We examine the impact of a change in fiscal policy on the revenues of qualified charitable organizations, and whether such change had a spillover effect on the revenues of other, non-qualified organizations. For the analysis, we use the Tax Cuts and Jobs Act (TCJA) of 2017, which increased the net tax cost of giving to qualified charitable organizations by lowering the tax savings from each dollar donated among itemizers. Also, the policy led to a sharp drop in the fraction of individuals itemizing deductions, who were thus eligible to deduct contributions to charitable organizations. Given this large decrease in the fraction of itemizers, we use Form 990 data we account for all charitable contributions, regardless of the effects of the TCJA on the choice to itemize. We replicate the effects of the TCJA on the qualified organizations. Moreover, because the policy change only applies to organizations that qualify for the deductibility of the donations they receive, we investigate potential spillover effects on the non-qualified organizations. Finally, we examine giving by type of organization. Our empirical analysis relies on Duquette (2016) to estimate the impact of the increase in the average state-level after-tax price of giving on the revenues of organizations.

Consequences of exempting young people from income tax: earnings, employment, and education *Minjeong Joyce Kim, University of Michigan*

We study the incidence and behavioral effects of Poland's 2019 PIT-0 reform, which exempts eligible labor earnings of individuals under age 26 from personal income tax. Using household and employer survey data and an event-study design, we document three main findings. First, we find a negative effect on gross earnings and no effect on net earnings among full-time employees. Earnings responses vary across demographic groups and industries, with larger losses among workers without children and particularly large declines in agriculture and hospitality. Second, we find no effects on employment, with suggestive evidence on compositional changes across public and private sectors. Third, educational attainment falls despite a modest increase in enrollment: the probabilities of holding a college degree and a master's degree decline by 6.5 and 3.8 percentage points, respectively, suggesting that tax policies can affect young individuals' incentives for human capital investments.

Taxation as Public Hedging *Mirit Eyal, University of Alabama School of Law*

This paper advances a novel framework for reconceptualizing tax incentives as dynamic risk-management instruments rather than one-sided insurance mechanisms. The paper argues that current preferential tax provisions such as R&D credits, investment tax credits, and accelerated depreciation, function as incomplete insurance by absorbing downside financial risk to encourage socially beneficial activities like innovation and clean energy



development, while failing to account for attendant negative externalities. This asymmetric risk allocation creates moral hazard, effectively positioning society as an involuntary insurer of last resort when subsidized innovations produce harmful outcomes such as manipulative digital platforms, collusive algorithmic pricing, or privacy-eroding surveillance technologies. The paper draws a critical distinction between insurance and hedging in tax law. Insurance merely compensates for downside losses ex post, whereas hedging operates ex ante to neutralize volatility across the full distribution of outcomes—both beneficial and harmful. Professor Eyal argues that tax incentives should evolve into "true hedging" instruments that internalize both positive and negative externalities of subsidized activity. To remedy this structural deficiency, the Article proposes a framework operating on both supply-side and demand-side dimensions. On the supply side, it advocates conditional claw back mechanisms that recapture tax benefits when subsidized firms generate downstream social harms or fail to meet performance benchmarks, making tax benefits provisional rather than irrevocable. It also proposes collective risk-pooling arrangements that spread the costs of failure across beneficiaries rather than externalizing them onto the public. On the demand side, the framework integrates ESG-triggered contingency mechanisms that condition continued tax benefits on sustained ESG performance, leveraging market-based informational signals from consumers, investors, and institutional actors to discipline publicly subsidized corporate behavior. Consumer-oriented tax instruments further complement this approach by creating decentralized screening mechanisms. The paper acknowledges practical challenges, including difficulties in measuring diffuse innovation externalities and limitations of ESG metrics, but argues that averaged, longitudinal ESG performance used as informational signals—rather than adjudicatory tools—fits within existing fiscal practice. The Article concludes by positioning taxation as a dynamic apparatus of social insurance for emerging AI technologies and advocates for a pluralistic regulatory architecture where fiscal hedging complements direct regulation, liability rules, and market-based standards.

Chair:

Benjamin M. Marx, Georgia State University

Discussants:

Benjamin M. Marx, Georgia State University
Ben Meiselman, Office of Tax Analysis
Andreas Peichl, peichl@ifo.de

022. Who Counts, Who Claims: New Evidence on U.S. Unemployment

The Social Safety Net & Health
Paper Session
1:45 to 3:15 pm
The Westin Pittsburgh: Floor 2 - Fayette Room

Participants:

Bias in the Level, Trend, and Cyclicality of U.S. Unemployment *Bruce Meyer, University of Chicago; Derek Wu, University of Virginia; Matthew Stadnicki, mstadnicki@uchicago.edu; Pat Langetieg, Internal Revenue Service; John Mark Payne, Internal Revenue Service*

The unemployment rate is among the most cited economic statistics, yet it is derived entirely from household surveys that suffer from substantial measurement error. We document that these errors meaningfully distort the level, trend, and cyclicality of measured unemployment. Using tax records, we identify a subset of the truly unemployed – recipients of Unemployment Insurance (UI) on Form 1099-G – and link them to their retrospective reports of unemployment in the Current Population Survey Annual Social and Economic Supplement (CPS ASEC). We find that 49% of UI recipients in 2010 reported no unemployment in the same year they received UI, with comparable misreporting in the Survey of Income and Program Participation despite its shorter reference period and design features intended to reduce measurement error. Unemployment errors decrease as UI benefits increase: 80% of recipients in the lowest ventile of benefits reported no unemployment, compared to 30% in the highest ventile. This gradient suggests that salience plays a central role in reporting accuracy and that UI non-recipients may be particularly likely to be missed by the official measure. The CPS ASEC allows us to construct a retrospective unemployment rate – the share of weeks in the labor force spent unemployed – which we show tracks the official unemployment rate closely. We develop methods to correct the retrospective unemployment rate for three sources of errors: false negatives, false positives, and errors in reported duration. Given the extremely close and stable relationship between the retrospective and official unemployment rates, we argue that these corrections are informative about bias in the official rate. Finally, within-survey inconsistencies – the share of survey-reported UI recipients who report no unemployment – suggest that misreporting is procyclical and has roughly doubled from the early 1990s to 2022. These trends raise concerns about the accuracy of current unemployment statistics.

Take-up and Behavioral Responses of Expanding Unemployment Assistance: Evidence from Rideshare and Taxi Drivers *Dmitri Koustas, dkoustas@uchicago.edu*

The expansion of unemployment benefits to new workers during the Covid-19 pandemic offers a unique opportunity to evaluate safety net coverage and behavioral responses. Linking survey evidence from New York rideshare and taxi drivers to administrative trip data, we find 60 percent applied for and received benefits, with few denials, but higher denial rates among Black drivers. Examining work decisions around changes in benefit generosity, we find some drivers were highly responsive to the benefits, although work decisions for most drivers appear to have primarily been shaped by pandemic conditions and ride demand. Our estimates help inform considerations of future safety net expansions to previously uncovered workers.

Incomplete and Endogenous Take-Up of Unemployment Insurance Benefits *Casey McQuillan, Brown University / Stockholm University; Brendan Moore, University of Michigan*

This paper investigates how the generosity of unemployment insurance (UI) affects take-up and the implications for optimal policy design. Standard models of UI begin their analysis with benefit receipt, yet take-up is highly incomplete: only around half of eligible workers claim benefits in the United States. We develop a model with incomplete take-up explained by the hassle of applying. More generous benefits induce workers on the margin to claim benefits, creating a fiscal externality without a corresponding utility gain. Our optimal policy condition extends the Baily-Chetty formula to include the take-up elasticity, which proves quantitatively important. Using administrative data from Washington State and a regression kink design (RKD), we find that a 10 percent increase in the weekly benefit increases take-up by 4.7 percent, which drives a 6.2 percent increase in the number of benefit payments. Previous work considers only claim duration by conditioning on benefit receipt, ignoring the take-up response and thus underestimating the fiscal cost. Combining our theory and empirical results, we show that endogenous take-up reduces the optimal benefit level by 29 percent and the cost-effectiveness of raising benefits by 27 percent. Together, these



results highlight that incomplete and endogenous take-up is a first-order consideration in the optimal design of social insurance.

Chair:

Marianne Bitler, bitler@ucdavis.edu

Discussants:

Brendan Moore, University of Michigan

Sreeraahul Kancherla, US Treasury Office of Tax Analysis

023. Tax Policy and Household Well-Being over the Life Cycle

Individual Taxation, Labor Supply

Paper Session

1:45 to 3:15 pm

The Westin Pittsburgh: Floor 2 - Pennsylvania West

Participants:

U.S. Income Tax Benefits for Families with Children, 1985-2023 *Matthew Comey, matthew.comey@jct.gov*

The U.S. tax code includes several provisions that explicitly benefit families with children. Additionally, many tax benefits that are not explicitly linked to children can disproportionately benefit families due to their other tax-relevant circumstances. This paper explores the incidence of income tax benefits among tax filers with and without children, and how incidence has shifted since 1985. I show that while explicitly child-related tax benefits, such as the child tax credit and the earned income tax credit, have increased in recent decades, families with children are much less likely today to benefit from itemized deductions, such as those for home mortgage interest expenses and state and local tax payments. On net, however, families with children face substantially lower average income tax rates relative to childless filers, and this gap has widened since 1985, especially in the bottom half of the income distribution.

The Work–Care Tradeoff: Policy Evidence on Informal Caregiving and the Value of Time *Leora Friedberg, lf6s@virginia.edu*

Providing care to elderly relatives requires working-age adults to allocate time across market work, informal caregiving, and other activities. We study how the work–care tradeoff responds to policies that operate along distinct margins. Paid family leave mandates make it easier for individuals to hold jobs while taking time off to provide unpaid care as needed, while Medicaid policies affect access to formal care-giving that substitutes for unpaid care. Using detailed time use data combined with state-level policy variation, we estimate how these policies affect work and caregiving time in both the full population and among caregivers. Time use responses across these policy margins yields information about the relative value of informal caregiving time compared to market work.

The Consequences of Coverage Loss: Retirement Plan Gaps and Long-Run Wealth *Manita Rao, mrao@aarp.org*

The U.S. employer-based retirement system is premised on stability of the employer-employee relationship. However, the past few decades have witnessed massive labor force change causing workers to increasingly experience spells without coverage as they change jobs, face layoffs, or move into non-standard employment. This paper estimates the causal effect of losing employer pension coverage on long-run wealth accumulation, asking whether workers who experience coverage gaps ever catch up to continuously covered peers. The study uses the Panel Study of Income Dynamics (PSID) from 1999 to 2023, I construct an event-study design around the first observed loss of employer pension coverage for a sample of 6,008 private-sector household heads aged 25–59 at baseline (39,109 person-wave observations). Workers who lose coverage are younger, less educated, and hold roughly half the net worth and have one-third the IRA balances of continuously covered workers at baseline. Because these baseline differences would confound nave cross-group comparisons, I exploit within-person variation using person and year fixed-effects models that control for a host of time invariant demographic characteristics. This allows for a comparison of each worker's own wealth trajectory before and after coverage loss and the contemporaneous trajectory of not-yet-treated workers over the same calendar period. Using the Callaway and Sant'Anna (2021) doubly robust staggered difference-in-differences approach, I find that coverage gaps reduce net worth by approximately 53 percent over a 10-year period after the initial coverage loss, these losses are driven largely by drop in retirement account balances, with stronger effects for racial/ethnic minorities. Further, each additional year of coverage loss is associated with 26 percent lower retirement savings balances. These wealth losses are pervasive even for workers with IRAs indicating workers that lose DC coverage do not substitute towards savings in these accounts. These findings indicate coverage gaps induce substantial long-term retirement wealth and net worth losses; policies that improve portability and sustained contributions are needed to ensure retirement wealth accumulation.

Chair:

Jacob Bastian, Rutgers University

Discussants:

Jacob Bastian, Rutgers University

John Sabelhaus, Brookings Institution

David Burgherr, University of Zurich

024. Postsecondary Education

Family and Education

Paper Session

1:45 to 3:15 pm

The Westin Pittsburgh: Floor 2 - Somerset

Participants:

The Long Run Impact of Medical School Construction on the Geographic Distribution of Physicians and Health Outcomes *Caitlin Carroll, University of Minnesota; Thomas Helgerman, tehelg@umn.edu; Tyler Radler, University of Michigan; Yue Xu, University of Minnesota*

Spatial inequalities in health care access have been a persistent challenge for policymakers. Rural areas, in particular, have faced long-standing physician shortages and also have worse health outcomes, raising concerns about inadequate access to care (Frenzen 1991, Rosenthal et al. 2005, Shipman et al. 2011, Rosenblatt et al. 2015, Andrilla et al. 2018, Naylor et al. 2019, Cyr et al. 2019, Hantman et al. 2024). This concern has been reflected in government policies, which have directed considerable public resources toward improving the supply and geographic distribution of health care providers. A prevalent policy lever for achieving these objectives is building new medical schools. In recent years, new public medical schools have been proposed or begun construction in Oregon (Gordon 2025), Minnesota (Marohn 2025), and Colorado (Sanchez 2025) with the explicit rationale of closing gaps in physician access. Yet, the value of building new medical schools is largely unknown. On one hand, medical school graduates tend to practice close to where they completed their graduate training (Hawes et al. 2021), suggesting that new medical schools could boost physician supply in their local areas. However, it is unclear whether this type of increase would address spatial inequalities in access, as medical graduates are highly mobile and often move to areas with more robust health care infrastructure (Bound et al.



2004). Moreover, building new medical schools is costly, so increases in physician supply through this channel might carry a high fiscal cost. As a result, it is crucial to understand whether increased physician supply translates into improved health outcomes, especially in rural or underserved areas. The objective of this study is to examine the impact of medical school construction on the local supply of physicians and on local mortality rates. Our empirical context is Health Manpower Policy (HMP), a federal program that provided funding for medical school construction in the 1960s and 1970s and spurred construction of 33 new medical schools. We estimate the effect of medical school construction using a staggered difference-in-differences design, comparing changes in physician supply and mortality in counties that opened new medical schools to contemporaneous changes in comparable counties that did not experience a medical school opening. We also evaluate spillover effects of medical school construction on rural and urban counties that were close to the new school but did not open a new medical school. We find that the construction of a new medical school led to an immediate increase in the number of physicians in the county of construction, which was almost always urban. Nearby urban counties experienced a similar increase in physician supply. However, we estimate a negative impact on physician supply in nearby rural counties, suggesting that new medical schools can draw physicians out of nearby rural areas with new job prospects in the closest urban center. In preliminary results, we find no evidence that medical school construction impacts local mortality.

Enrollment, Tuition Subsidies and Welfare: Evidence from Ontario's Tuition Grant *Kritagya Dhanda, dhandak@mcmaster.ca*

Governments across OECD countries spend billions of dollars annually subsidizing post-secondary education. The underlying intuition is straightforward: subsidies induce enrollment, higher enrollment raises lifetime earnings through the college wage premium, and the resulting increase in tax revenue can exceed the cost of the subsidy itself. Yet estimates of enrollment responses and the fiscal return to education subsidies rest entirely on native-born populations who have spent their entire childhood within the domestic education system and financial infrastructure. Landed immigrant children are a rapidly growing share of post-secondary students who systematically overestimate the costs and underestimate the returns to higher education relative to their native-born peers (Oreopoulos and Dunn, 2013). Enrollment responses and the underlying mechanisms driving them are open questions. In this paper, I use a difference-in-difference-in-differences (DDD) design to estimate the impact of a modest place-income based subsidy program that pays \$1,680 (\$780) each year conditional on enrolling in a university (college) degree (certificate/diploma) program in post-secondary (PSE) insitutes in Ontario, Canada. To be eligible for the subsidy a student must be 18-24 years of age with gross parental income below \$160000 (first difference), enroll post year 2012 (second difference) and their province of residence is Ontario (third difference). I use three administrative databases that cover all landed immigrant children and their parents tax, landing details and post-secondary choices in the periods between 2009 and 2014 in Canada. This paper is first to provide a credibly causal estimate of enrollment elasticity with respect to place-income based promise programs. I also report enrollment responses of 1.5 generation immigrant children by their world area of birth and landing age. I use my reduced form estimate and sufficient statistics approach to estimate optimal tuition grants for 1.5 generation immigrant children and report the sizes of fiscal externality by using the variation of subsidy roll-out and their landing age.

The role of university institutional funding for R&D *Andrew Simon, arsimon@virginia.edu*

This project asks: how do universities allocate institutional funds and what effects does this have on the ROI for R&D ? Institutional funds account for roughly 25% of university R&D spending, making them the largest source after federal funding and more than three times larger than funding from state and local governments, the private sector, or nonprofits such as foundations (NCSES). Universities also allocate vast quantities of "in-kind" research funding in the form of faculty salaries, reduced teaching loads, and free or highly subsidized labor in the form of students. Universities thus play a major role in how US R&D funding gets allocated across fields of study and questions of interest. In particular, we ask whether institutional funding acts as a complement or a substitute to external funds. If institutional funding is a complement, it may act as a catalyst, magnifying the effects of public dollars spent on R&D , and solidify the priorities of external funders throughout the US R&D system. On the other hand, if institutional funding is a substitute, the effects of external funding on the fields targeted by external funders may be muted, as external funding acts to "crowd-out" institutional funds. Further, external funding may have important spillovers to non-targeted fields, as external funds free up institutional funds for other university priorities. The social returns to R&D spending depend critically on the answer to this question. If universities use external funds to cross-subsidize non-target fields, an additional federal dollar generates less than a dollar of new research in target fields with spillovers to fields the funder did not prioritize. The extent of crowd-in or crowd-out changes the marginal social return to (federal) R&D investments. Providing evidence for these mechanisms also potentially helps explain why published return to R&D estimates vary so widely. Quantifying this institutional channel is therefore essential to measuring the ROI of R&D . We use a shift-share design based on universities' baseline dependence on federal funding from different NIH agencies together with agency specific funding shifts over time to answer these questions. We then consider a specific shock to NIA to provide further evidence and assess validity.

Chair:

Micah Baum, University of Michigan

Discussants:

Micah Baum, University of Michigan
Walter Melnik, Marquette University

025. Fiscal Policy: Strategy and Sustainability

Fiscal Sustainability, Macroeconomics and Fiscal Policy
Paper Session
1:45 to 3:15 pm
The Westin Pittsburgh: Floor 2 - Washington Room

Participants:

Falling Fertility and Fiscal Sustainability: The Effect of Past and Future Fertility Rates on the US Federal Budget Outlook *Lisa Dettling, FEDERAL RESERVE BOARD*

This paper examines how the current low fertility regime will affect the federal budget outlook. We decompose how past fertility changes contributed to the current unsustainable trajectory of US federal debt and how changes in future fertility rates affect projections for federal deficits in the short and long run. The paper can be found here: https://www.economicstrategygroup.org/wp-content/uploads/2026/02/Dettling-Pardue-Low-Fertility-and-Fiscal-Sustainability.pdf

Commitment bonds: When does it pay to fix fiscal policy in



debt contracts? *Edward Fox, University of Michigan; Zachary Liscow, zachary.liscow@yale.edu*

The federal government borrows almost exclusively through general obligation securities backed by the full faith and credit of the United States. State and local governments, by contrast, routinely issue “revenue bonds”—debt secured by a specific, segregated stream of tax or project revenue. The orthodox view treats this divergence as efficient: the federal government enjoys a reserve currency and a vast tax base, and pooling all borrowing into a single hyper-liquid Treasury market captures a substantial liquidity premium that bespoke instruments would forfeit. This paper questions that orthodoxy. We argue that exclusive reliance on general obligation debt overlooks a distinct use-case for revenue bonds: debt as a precommitment device to entrench politically vulnerable tax policy. By contractually tying the proceeds of a newly enacted, contested tax to the service of a dedicated bond issuance—what we call a "bond lock"—Congress can raise the cost to future legislatures of repealing that tax, creating a one-way, downward rigidity on the revenue side of the budget. This counteracts a structural asymmetry in U.S. fiscal policy: taxes are cut frequently, while spending (especially entitlements) is cut rarely. We develop the mechanics using a leading example from the tax literature: repealing stepped-up basis and taxing unrealized capital gains at death. The bond-lock combines a specific revenue pledge, an irrevocable trust ("lockbox"), and an acceleration clause that makes repeal an event of default, triggering immediate repayment of principal and accrued interest. Because repeal would force a future Congress to appropriate hundreds of billions of dollars at once, the structure makes backsliding politically costly without unconstitutionally binding future legislatures. We address the central constitutional objection—the anti-entrenchment doctrine—by distinguishing legislative entrenchment from contractual liability. Under United States v. Winstar Corp. (1996), the government cannot be enjoined from passing new laws but can be held liable in damages when those laws breach its contracts. Unlike states, the federal government is not bound by the Contracts Clause, but a repeal would expose it to a Tucker Act breach action and possibly a Fifth Amendment takings claim. The bond-lock thus prices, rather than prohibits, the exercise of legislative power. We also recover a forgotten history: federal revenue bonds are not a novelty but the Founding-era norm. Hamilton's Funding Act of 1790 pledged specific tariff revenues, and later the distilled spirits tax, to debt service through a legal lockbox and sinking fund. The fully fungible general obligation market is a 20th-century product of war finance and the Public Debt Acts of 1939 and 1941. Finally, we weigh the tradeoffs—a liquidity penalty (plausibly around 20 basis points) and reduced fiscal flexibility—against the benefits, including lower default risk and potentially lower general obligation yields. In particular, by reducing deficits and the likelihood of a fiscal crisis, revenue bonds could actually lower interest rates on ordinary Treasuries, possibly more than compensating for the higher yields the revenue bonds themselves would bear. Given current unsustainable deficits, we argue these tools merit serious consideration.

Revenue effects of tax policy changes: Exploring forecast accuracy *William Dean, william.dean@fau.de; Thiess S Buettner, FAU*

We evaluate the forecasting performance of official estimates of the revenue effects of tax legislation. The analysis is based on a detailed account of the universe of all German tax policy changes at the federal level over almost four decades. Our data reports 1464 measures of tax law changes in Germany that resulted in 2674 tax revenue changes from 242 tax reforms covering the time period from 1984 until 2022. The results show that the revenue effects of tax policy changes are systematically overestimated. If an increase (decrease) in revenues by one percent is predicted, actual revenues increase (decrease) on average by less than two-thirds of a percent. This overestimation is particularly evident in the case of income and property taxes, whereas changes in sales, excise and energy taxes are estimated much more reliably.

Subsidizing the Green Transition: Local Labor Market Effects of IRA Incentives *Katarzyna Bilicka, Utah State University*

The Inflation Reduction Act (IRA) is the largest industrial and climate policy intervention in modern US history, with hundreds of billions of dollars projected for energy and climate investment incentives. In this paper, I analyze the effects of IRA on local labor markets using Quarterly Census of Employment and Wages data. The reduced-form causal evidence interacts the statutory industry-level IRA exposure with county-level industry structure in a two-way fixed-effects difference-in-differences design. A one-standard-deviation increase in county's IRA exposure raises employment growth by 0.4% and firm growth by 0.11% with no significant wage growth response. Using detailed microdata on recipients of federal US grants, I then show that counties that receive more grants experience higher employment and wage growth. Finally, I evaluate the effectiveness of IRA place-based targeting through energy community designation and find no average post-IRA employment or firm growth effects in energy communities. These results uncover the role that IRA played in stimulating local labor markets and inform broader debates about the role of different instruments that the government can use in stimulating local economic activity.

Chair:

William Gale, Brookings Institution

Discussants:

Shannon Sledz, University of Wisconsin Madison

William Gale, Brookings Institution

026. Government Employment, Labor Policy, and Local Fiscal Responses

State and Local Taxes Including Property Taxes

Paper Session

1:45 to 3:15 pm

The Westin Pittsburgh: Floor 2 - Westmoreland Central

Participants:

The Workforce Consequences of Ending Mandatory Union Fees: Evidence from Janus v. AFSCME *Sutirtha Bagchi, sutirtha.bagchi@villanova.edu*

The 2018 Supreme Court ruling in Janus v. AFSCME eliminated mandatory agency fees for public-sector workers across 21 states, immediately affecting approximately 6 million government employees. I examine whether this shock altered the size, composition, and pay structure of the public-sector workforce. Using employer-level data from the Census of Governments — a complete enumeration of approximately 90,000 state and local government units — together with the Annual Survey of Public Employment and Payroll, I estimate difference-in-differences models comparing government units in states with mandatory agency-fee laws to units in right-to-work states serving as the control group. I find that Janus reduced part-time employment by about 8.4 percent in affected governments, with no corresponding change in full-time employment, so the full-time employment share rose by about 1.75 percentage points. Although some specifications indicate a small increase in per-worker earnings, a decomposition exercise establishes that this rise is a mechanical consequence of the loss of lower-paid part-time workers rather than genuine wage growth for continuing



employees — a conclusion confirmed by individual-level Current Population Survey data. State-level QCEW data confirm the null result on both aggregate public-sector employment and average wages in treated states. The employment effects of Janus are concentrated in counties and municipalities governed by elected officials who are directly accountable to voters, and absent in special districts governed by appointed boards. This contrast points to a political economy channel: by weakening unions' electoral capacity, Janus reduced the political cost to elected officials of workforce restructuring that unions would otherwise have resisted. These results suggest that public-sector union influence extends beyond wages to workforce composition, with effects concentrated where elected officials face direct accountability to voters.

The Effect of State Minimum Wage Laws on Government Budgets *Sieun Lee, Indiana University; Justin Ross, justross@iu.edu*

Minimum wage policy is one of the most actively debated labor market interventions, yet its fiscal consequences for public sector budgets remain poorly understood. While an extensive literature has examined employment effects in the private sector, state and local governments are the largest employers of minimum wage workers. This paper examines how state-level minimum wage increases affect public employment and government budgets with a focus on three distinct fiscal channels - government own-source revenue, labor costs, and social welfare costs. Empirically, we employ a two-way fixed effects estimators and Difference-in-Differences using individual level data from the Current Population Survey and fiscal data from the Census of Governments Finance. Our results indicate that minimum wage increase do not generate statistically significant effects on public employment levels turnover. However, large minimum wage increases are associated with significant impacts on social welfare expenditures, while effects on own-source tax revenues and wage expenditures are less precisely estimated. Importantly, local government exhibit larger and more significant fiscal responses than state government.

The Local Fiscal and Economic Effects of Population Aging *Travis St.Clair, travis.stclair@nyu.edu*

Advanced economies, including the United States, are undergoing a sustained demographic transition toward older populations, driven by declining fertility and increasing longevity. While existing research examines the macroeconomic implications of population aging and the fiscal impacts for higher level governments, less is known about how population aging affects local fiscal and economic outcomes. Using a demographic shift-share design that exploits pre-existing variation in age structures, this paper analyzes the causal impact of changes in the elderly population share on county-aggregated economic and fiscal outcomes between 2010-2022, a period that spans the retirement of the Baby Boom generation. The results show that population aging has limited effects on local economic output but meaningfully reshapes both housing markets and public finances. Consistent with increased consumption demand from retirees, aging leads to higher house prices and population growth, suggesting that local demand-side effects offset reductions in labor supply. In contrast, aging substantially reduces the scale of local government activity: revenues, expenditures, and debt all decline as counties age, with the contraction driven primarily by reductions in property tax revenue.

Property Tax Self-Sufficiency and New Housing: Evidence from New York City *Nicolas Berlinski, University of Maryland, College Park*

This paper evaluates the property tax self-sufficiency of new housing in New York City. I develop a sufficient-statistics framework based on the congestion-fee view of property taxes, linking the fiscal self-sufficiency of new housing to property value gains, exemption take-up, price spillovers, and public service cost elasticities. I apply this framework to parcel-level data on redevelopment and property tax histories. Poisson event studies and Extended Two-Way Fixed Effects designs indicate that, post-redevelopment, appraised market values and property tax liabilities rise to approximately 4.6 and 4.2 times their pre-redevelopment levels. Across redevelopment in my sample, the estimated annual property tax revenue gain is $1.1–1.3 billion net of exemptions. Holding observed development fixed, this gain would be $4.0–4.3 billion without exemptions. Revenue gains are concentrated in high-value redevelopment, creating scope to cross-subsidize property tax benefits for development elsewhere. I find no evidence of local price spillovers from the literature passing through to appraised values of nearby properties in a spatial differences-in-differences design. However, sensitivity exercises, which use local and citywide price responses from the literature, suggest that pass-through of property value deflation from housing supply expansions to appraised values could erode a substantial share of the direct parcel-level gain. Direct revenue gains cover incremental service costs if marginal costs are at most 25% of current spending per household. This break-even threshold rises to 77% without exemptions. Assuming incremental revenue is allocated to public services in proportion to current budget shares, calibrated ratios of marginal to average school costs straddle the 25% threshold.

Chair:

David Merriman, dmerrim@uic.edu

Discussants:

Erin Troland, Federal Reserve Board of Governors
Daniel Garrett, danielgg@wharton.upenn.edu
David Merriman, dmerrim@uic.edu

027. Enforcement, Deterrence, and Audit Design

Tax Enforcement and Evasion
Paper Session
1:45 to 3:15 pm
The Westin Pittsburgh: Floor 2 - Westmoreland East

Participants:

Behavioral Effects of Tax Enforcement on Non-Compliant Business Taxpayers: Evidence from Administrative Tax Data *Alex Turk, Alexander.h.turk@irs.gov; Yan Sun, yan.sun2@irs.gov; Brett Collins, Internal Revenue Service; John Mark Payne, Internal Revenue Service; Hyeongyul "Sean" Roh, IRS--RAAS; Chris Wilson, IRS*

We examine how enforcement interventions affect the compliance behavior of business taxpayers. We focus on the most important pillar in the collection of taxes in the United States - income and employment taxes withheld in trust by employers. How to better motivate employers, especially delinquent employers, to comply with the tax law is an important operational challenge for the IRS. The study analyzes the period 2010-2019, when the IRS experienced declining budget appropriations, and adopts a natural experiment approach. The main research question we aim to address in this paper is: how effective are IRS enforcement programs inducing behavioral change? To answer this question, we examine the following points of interest: What are the direct impacts of the different IRS enforcement programs? Did these enforcement programs have any spillover effects on noncompliant taxpayers? By developing a framework of two-players in two-periods model, we provide insights on how the taxpayer's compliance choices are directly and indirectly affected by enforcement actions from the tax



administration. This paper makes several contributions to existing literature. First, we examine the behavioral effects of tax treatments on a quarterly basis, to compliment the business tax reporting and filing cycle. By leveraging data during the decade leading up to the 2020 global pandemic, we extend the work of Boning et al (2020) and others. Second, rather than focusing on a single type of tax treatment, we examine the deterrence effects of a broad range of tax treatment programs across different stages of the tax lifecycle to provide a more comprehensive view of the direct impact and indirect impact of tax deterrence. This also allows us to compare the impacts of different types of tax intervention in different timings. Third, by linking large-scale taxpayer data that spans the entire economy with the corresponding tax enforcement treatments, our analysis helps to understand the deterrence dynamics involved in tax interventions, thus providing recommendation for the tax administration. We find strong and robust direct effects, even within a short time frame of a quarter. Our regression analysis shows that tax filing and payment enforcement programs have significant direct impacts on securing delinquent business taxes. Among these tax treatments, notices with deterrence messages such as Notice of Intent to Levy, which emphasize the penalties to be applied for continuing noncompliance, are more effective for collecting outstanding tax liabilities. We find mixed evidence regarding the indirect effects of tax treatments. We find that IRS notice treatments have a persistent indirect effect on compliance, leading to reductions in tax debt. However, these local spillover effects are weaker than the direct effects. We find no evidence of local spillovers from IRS field treatments and tax lien treatment, within the short time frame we examine. We provide explanations for this. Our findings confirm the multiplier impact of the tax interventions and are consistent with the observation verified in Boning et al. (2020) that increased enforcement deters evasion through changing taxpayers' perceptions of the probability that evasion will be detected and punished, especially at an early stage.

Deterrence Spillovers through Social Networks: Evidence from a New York City Tax Enforcement Crackdown *Zizhuo Chen, University of Minnesota, Twin Cities*

Tax enforcement actions concentrated in a single location can have effects that extend far beyond the targeted area when enforcement information spreads through social networks. This paper examines a 2015 crackdown in New York City on the use of sales-suppression software and studies how its deterrent effects extended to other parts of the United States. Combining county-level social media connectivity data with Internal Revenue Service tax records, this paper implements an event-study analysis and shows that counties more closely connected to New York City experienced significantly higher tax compliance in the years following the crackdown, despite facing no direct enforcement. These findings demonstrate that deterrence spillovers can operate at a broad, long-distance scale rather than remaining confined to local or neighboring jurisdictions. Accounting for such social-network-mediated spillovers leads to more accurate assessments of tax enforcement and has important implications for the design of enforcement strategies.

Indirect Deterrence and Network Propagation in Business Tax Compliance *Hyeongyul "Sean" Roh, IRS--RAAS; Brett Collins, Internal Revenue Service; John Mark Payne, Internal Revenue Service; Alex Turk, Alexander.h.turk@irs.gov; Yan Sun, yan.sun2@irs.gov; Christopher Williams, IRS*

A growing literature shows that IRS enforcement can affect taxpayer behavior beyond directly treated taxpayers. Most evidence, however, focuses on individual taxpayers, leaving relatively little known about whether similar spillovers arise in business tax compliance. This paper extends that literature by studying whether enforcement actions directed at businesses improve compliance among untreated business taxpayers. In doing so, we move beyond traditional enforcement metrics, such as revenue collected from treated taxpayers, and examine the broader deterrence value. Businesses may update their perceived probability of enforcement after observing IRS activity among nearby firms, firms in the same industry, firms using the same tax preparer, or other economically connected businesses. These indirect effects are especially important for employment tax compliance under Form 941, where employers face recurring quarterly obligations to report wages, withholdings, and payroll taxes. We use detailed IRS administrative data on business taxpayers' filing and payment behavior, linked to quarterly measures of enforcement activity. The analysis focuses on four enforcement margins relevant to business employment tax compliance: automated collection contacts for unpaid balances, delinquent return notices, in-person field collection contacts, and early payroll-deposit compliance alerts. These interventions differ in timing, intensity, visibility, and cost. Some are scalable correspondence-based actions that reach a broad population of firms, while others involve more intensive field engagement or earlier signals of payroll-deposit noncompliance. This variation allows us to estimate whether different forms of enforcement generate distinct indirect deterrence effects. The main empirical challenge is that enforcement is not randomly assigned. IRS actions may respond to local noncompliance risk, so naive comparisons may confound deterrence effects with underlying compliance conditions. To address this concern, we implement an instrumental variable control function design. The instruments are based on detailed quarterly gains and losses in IRS employees across job series and enforcement functions relevant to each compliance program. These staffing movements shift enforcement capacity across programs but are plausibly driven by administrative workforce changes rather than contemporaneous business-level compliance behavior. We then examine how enforcement propagates across businesses. The paper compares several potential transmission channels: geographic proximity, social connectedness, common tax preparers, industry similarity, and local business clusters. This approach moves beyond estimating a single aggregate spillover effect and identifies which connections transmit enforcement salience most strongly. Distinguishing these channels is central for policy design. Spillovers through preparer networks, for example, would imply a different enforcement strategy than spillovers operating through geography, industry learning, or local business interactions. The paper contributes to the tax compliance literature in three ways. First, it provides new evidence on indirect deterrence in business employment tax compliance, an area with substantial fiscal relevance but limited causal evidence. Second, it develops an empirical strategy that uses program-specific IRS workforce fluctuations to isolate enforcement-induced variation from endogenous compliance risk. Third, it decomposes spillover effects across multiple business networks, offering evidence on how enforcement information travels through the business tax system. The findings speak directly to how tax authorities can allocate scarce enforcement resources to maximize not only direct revenue recovery, but also broader voluntary compliance.

Optimal Tax Audits Using Predictions *Aviv Caspi, University of Chicago; Jacob Goldin, jsgoldin@uchicago.edu; Sreeraahul Kancherla, US Treasury Office of Tax Analysis; Daniel Reck, University of Maryland; Daniel Ho*

Tax authorities use audits to detect and deter tax evasion. In practice, they commonly rely on quantitative predictions about



taxpayers' noncompliance to inform their decisions about which taxpayers to audit. We study the problem of optimal audit selection in this context. Specifically, we investigate how variation in the distribution of predicted noncompliance across taxpayers, including the uncertainty in quantitative predictions, shapes optimal audit policy. Our results highlight the contribution of these factors through a sufficient statistics characterization of the optimal audit selection rule. We leverage this characterization to quantify the social welfare benefit of varying the information available to the tax authority, for example by expanding third-party information reporting. We apply our sufficient statistics results to IRS random audit data and present preliminary empirical results.

Chair:

Ellen Stuart, The University of Sydney

Discussants:

Naomi Feldman, naomi.feldman@mail.huji.ac.il

Will Boning, U.S. Department of the Treasury

028. (Fiscal) Federalism in Theory and Practice

Fiscal federalism, interjurisdictional competition, and mobility

Paper Session

1:45 to 3:15 pm

The Westin Pittsburgh: Floor 2 - Westmoreland West

Participants:

Fiscal Federalism and the Unequal States *Adam Thimmesch, athimmesch2@unl.edu*

State and local tax policy operates through decentralized authority: subnational governments choose their tax instruments, set tax rates, design incentives, fund public goods, and bear the consequences. But state fiscal choices are not made in isolation. They are structured by a federal system characterized by interstate competition, unequal fiscal capacity, heterogeneous mobility, spillovers, weak federal fiscal correction, state control over local authority, and the nationalization of state and local politics. Under these conditions, decentralized tax authority fails much of its theoretical promise and instead privileges national political and economic agendas while reproducing inherited inequities. This Article evaluates these features and failures of modern fiscal federalism through a spatial lens. It shows how state and local fiscal choices and their effects both reflect and reshape the economic, political, demographic, and legal features of place. Nationalized political and economic actors increasingly shape state fiscal agendas, often promoting similar tax and spending strategies across jurisdictions. Yet those strategies operate across places with very different geographic endowments, economic and political geographies, fiscal capacities, public-service needs, and demographic trajectories. The significance of these spatial conditions lies not only in their individual effects, but in how they overlap. Agglomeration economies, for example, may strengthen some jurisdictions' fiscal and economic position, but agglomeration-rich places are not monolithic. Their advantages may coexist with geographic, fiscal, legal, or political constraints that limit their choice sets relative to other agglomerations. Likewise, more sparsely populated or slow-growth places may face distinctive pressures from weak tax bases, limited market power, and infrastructure needs. A spatial-incidence account therefore moves beyond simple binaries such as urban/rural and instead asks how overlapping spatial features shape subnational tax policy and its effects. In particular, this account directs attention to vulnerable places where overlapping spatial features allow fiscal federalism to perpetuate historic disadvantage. The Article argues for a more complete theory of decentralization that meaningfully accounts for these spatial differences. The question is not simply whether fiscal authority should be centralized or decentralized or whether states make good or bad tax choices. It is also critical to evaluate who bears the burden and where those burdens fall when decentralized fiscal authority operates under modern conditions. The Article concludes by considering how tax and intergovernmental policy might move beyond traditional interventions, account more directly for spatially varied conditions, and support the circumstances under which decentralization can promote local agency, public investment, and economic resilience across American places.

Random policies in federations *James R. Hines, University of Michigan*

This paper considers the welfare impact of federalism when governments adopt policies of random quality. Free mobility implies that decentralized jurisdictions with superior policies experience population inflows, so in the absence of uncorrected congestion externalities, policy diversity produced by decentralization promotes higher welfare levels. With convex local congestion costs, however, this welfare ordering is reversed: mobility induces so great a concentration of population in jurisdictions adopting superior policies that consumer welfare is lower than with centralized (and harmonized) policies. If interjurisdictional mobility is sufficiently limited by rising costs of local fixed factors, then decentralization again produces higher welfare than centralized harmonization. The welfare consequences of federalism therefore depend on the extent to which local factor prices capitalize the impacts of government policies.

Self-determination and Local Fiscal Autonomy *Marko Koethenbuerger, ETH Zurich (Swiss Federal Institute of Technology in Zurich)*

In this paper, we provide an analysis of the benefits of (de)centralization in the presence of household preferences for self-determination. Preferences for self-determination govern many political choices in fiscal federalism, but are seldomly analyzed in models of local public finance.

Training Federalism: Learning from State Experiments in Railroad Regulation *Jo Ellery, joellery@fas.harvard.edu*

Federalism is frequently justified as a mechanism for innovation: policies can be tested in smaller jurisdictions, with the most successful later adopted nationally. Yet we have limited evidence about whether—and under what conditions—the federal government learns from state experiments. To address this question, I examine whether the U.S. federal government adopts state-level policies that perform better on observable outcomes. I do so in the context of U.S. railroad law, which features a distinctive preemption regime—narrow but complete federal preemption—that enables clear identification of when federal authority displaces state law in a specific regulatory domain. Leveraging difference-in-differences estimates of the effects of state laws on costs and safety, I find that a $100 increase in cost per train is associated with a 70% lower hazard of federal adoption in a given year, while policies with large safety effects—whether positive or negative—are nearly twice as likely to be adopted, consistent with federal responses to both highly effective and highly risky state policies. These findings suggest that federal uptake is responsive to both cost performance and the magnitude of policy impacts, providing qualified evidence that preemption can function as a mechanism for policy learning, with implications for theories of federalism and policy diffusion.

Chair:

Vincent Herdegen, Friedrich-Alexander-Universität Erlangen-Nürnberg

Discussants:



Michael Love, Columbia Law School
Vincent Herdegen, Friedrich-Alexander-Universität Erlangen-Nürnberg

029. Afternoon Coffee Break

3:15 to 3:45 pm
The Westin Pittsburgh: Foyer 1,2,3

030. Environmental pricing and policy

Energy and Environmental Taxes, Excise, Consumption, Commodity
Paper Session
3:45 to 5:15 pm
The Westin Pittsburgh: Floor 2 - Butler West
Participants:

Death, Taxes, and Chickens *Daniel Hemel, New York University School of Law*

Every year, approximately 300 million male chicks of egg-laying breeds in the United States are "culled"—or less euphemistically, killed—within 24 hours of birth. The most common method of male chick culling in the United States is "maceration": literally, throwing chicks into industrial meat grinders and shredding them to death. Recent technological advances—including the development of in-ovo sexing systems that allow egg producers to prevent male chicks from hatching—have the potential to end the practice of male chick maceration. But while in-ovo-sexed eggs now constitute more than a quarter of the European market, egg producers have adopted the technology much more slowly in the United States, where the market share of in-ovo-sexed eggs is still less than 1%. Bipartisan tax legislation may offer male chicks a path out of the meat grinder. The EGG SAVE Act—first introduced in October 2025—would provide commercial egg hatcheries with a 50% credit for the cost of purchasing and installing in-ovo sexing equipment, effectively offsetting half the upfront cost of shifting from maceration to in-ovo sexing. If enacted, the EGG SAVE Act would continue a centuries-old tradition of using tax tools to advance animal welfare—a tradition that extends at least as far back as the English dog tax of 1796. But while the use of taxation to alleviate animal suffering is not new, the EGG SAVE Act raises a number of new questions at the intersection of taxation and animal welfare that scholars have yet to confront. To begin filling that gap, this article identifies four key questions that apply broadly to animal welfare-related tax interventions. The first—and most familiar from other areas—is whether tax interventions to advance animal welfare should be framed as "carrots" or "sticks." (The EGG SAVE Act offers a carrot for in-ovo sexing rather than wielding a stick against male-chick maceration.) A second question is whether animal welfare interventions should target products or practices. (The EGG SAVE Act aims at changing the practices of hatcheries rather than at promoting plant-based alternatives to animal products.) A third question is whether interventions should be technology-specific or technology-neutral. (The EGG SAVE Act explicitly favors in-ovo sexing over other technological interventions, such as gene editing to create breeder hens who lay exclusively female-bearing eggs.) A final question is whether interventions should be salient to consumers. (The EGG SAVE Act operates several steps upstream from consumer choices and does little to leverage the expressive power of tax law.) This article uses the EGG SAVE Act as a lens into these larger questions regarding the relationship between taxation and animal welfare. It considers alternatives to the EGG SAVE Act's carrot-based, practice-focused, technology-specific, and low-salience approach, and it evaluates the administrative, political, and ethical implications of different tax and subsidy designs. Finally, the article shows how analysis of animal welfare-related tax interventions can shed light on other areas—ranging from climate change to alcohol and tobacco use—in which tax policy seeks to influence behavior and shape values.

Government Environmental Financial Assistance and Corporate Environmental Performance *Costanza Cincotta, CUNEF; Allison Koester, apk29@georgetown.edu*

We examine whether government financial assistance for environmentally friendly activities is associated with changes in recipient firms' future environmental performance. Our setting includes nearly $43 billion of green financial assistance in the form of loans and subsidies (cash grants and tax abatements/credits) from US federal and state governments to US publicly traded firms with a reporting requirement under the EPA's Toxic Release Inventory Program ("polluting firms"). Green assistance amounts in the form of subsidies (but not loans) are associated with an increase in future waste abatement activities for non-toxic chemicals and a smaller percentage of future waste released for both toxic and non-toxic chemicals. However, we also find that green subsidies (but not loans) are associated with increases in polluting firms' future toxic chemical waste intensity and pollution intensity (measures which account for facility production activity). These relations seem counter to government environmental policy goals. In contrast, when we consider environmental outcomes that are not measured at the chemical level, green assistance amounts in the form of loans (but not subsidies) are negatively associated with future EPA violations and both severe and far-reaching environmental risk incidents, as well as positively associated with future environmental innovation. These relations are consistent with green loans helping polluting firms improve their environmental performance. Overall, our results highlight that the effectiveness of environmental fiscal policies depend critically on both the form of assistance (loans versus subsidies) and the environmental performance metrics considered.

The Rise of Green Regions: Do Leaders Matter? *Romain Gaté, Paris Dauphine University; Sophie Legras, INRAE; Tidiane Ly, tvly@syr.edu*

The paper studies the emergence of environmental policies and green places, where regional governments are strategic actors in the green transition. We build a tractable quantitative spatial general equilibrium model in which regions with heterogeneous sizes, income, and environmental awareness compete to attract users of sustainable transport modes through environmental subsidies. We show that environmental awareness interacts with regional size to generate asymmetric policy adoption. Early adopters reshape the diffusion process: regions with large populations or high awareness emerge as green leaders that stimulate subsequent adoption through interregional competition. Once fully green, however, these leaders slow the transition of follower regions. An empirical application to French regions shows that completing the green transition requires a large increase in environmental expenditure, from negligible observed levels to about 13% of existing local tax revenues. It also reveals asymmetric leadership spillovers: early entrants not only accelerate adoption but also raise environmental policy in other regions, while early green transitions mainly delay convergence with limited effects on policy intensity.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6703859

Chair:
Maggie (Yuanyuan) Liu, US Department of Treasury
Discussants:
Hyeongyul "Sean" Roh, IRS--RAAS
Stacy Sneeringer, Office of Tax Analysis, Dept. of Treasury



031. Tax Incentives: Design, Distortion, and Political Economy

Corporate and Business Taxation
Paper Session
3:45 to 5:15 pm
The Westin Pittsburgh: Floor 2 - Cambria East
Participants:

Taking Off the Five-Year Layover: A Tax Buyout Solution to the LLC S Election Lock-In *Orli Oren-Kolbinger, orli@uoregon.edu*

Tax law relies on categories and classifications to determine reporting obligations, tax consequences, and eligibility for tax benefits. LLCs illustrate how much tax classification matters. An LLC may elect S-corporation status to obtain additional tax benefits while preserving pass-through taxation. When an LLC makes an S election, it also becomes an association taxable as a corporation for federal tax purposes. The corporate classification is not merely procedural. It can have substantive tax consequences. The LLC therefore enters the corporate tax regime as part of obtaining S status. The problem arises when the LLC later loses its S status. S corporations must satisfy eligibility requirements, and a failure to comply can terminate the S election. When S status terminates, however, the LLC does not simply return to its prior pass-through classification. The corporate classification generally remains in place, leaving the entity subject to C-corporation taxation. Section 1362(g) also generally prevents a new Selection for five taxable years unless the Secretary allows it, while the entity-classification rules can restrict a change back to the LLC's default classification. The result is an asymmetry in the tax classification system. The problem is not whether an S-election violation should have consequences. S-corporation eligibility requirements serve important tax policy objectives, and violations can appropriately result in the loss of S status. The more difficult question is what should happen after the taxpayer corrects the problem that caused the termination. Should the consequences of the violation continue to constrain the LLC's tax classification for years after it has returned to compliance? The resulting costs can extend beyond the loss of S status itself, including continued C-corporation taxation and costs of obtaining relief. This Article examines whether the restrictions that follow an S termination should continue to constrain an LLC after it has corrected the underlying violation and, if not, how the tax system should structure an earlier exit. It considers three approaches: eliminating the post-termination restrictions, modifying them, and creating a cost-based mechanism that would permit an LLC to exit the restrictions before the applicable period expires. The Article argues that a cost-based buyout is a promising approach because it can preserve a meaningful financial consequence for early exit while reducing the costs and distortions associated with continued corporate classification. Under the proposed buyout, an LLC that has cured the defect causing its S termination could pay a defined amount to obtain early relief from the remaining restrictions. The LLC could then change to its default classification or make a new Selection, provided it satisfies the applicable requirements. The buyout would equal the lesser of two amounts: the present value of projected corporate tax liability for the remaining restriction period or the tax consequences of a deemed liquidation. The mechanism would not eliminate the consequences of the S termination. Instead, it would allow a compliant LLC to substitute a defined financial cost for the remaining classification lock-in period. The proposal thus distinguishes between the loss of S status and the restrictions that continue after that loss.

Opportunity Zones and the Housing Supply *Roxana Gonzalez, University of South Carolina*

I study whether the Opportunity Zones (OZ) program, one of the largest place- based development subsidies in U.S. history, generated new housing or merely reallocated development. Using a quarterly panel of residential address counts for all U.S. Census tracts from 2012 to 2025, I document that OZ designation displaced residential development from nearby tracts: non-OZ tracts within ten miles of a designated zone experienced a decline in address growth that mirrors the measured gain inside OZ boundaries, consistent with developers relocating projects across tract lines to capture the tax benefit rather than initiating new ones. Apparent housing gains inside designated tracts are fully attributable to development displaced from nearby communities. Formal tests of the combined effect fail to reject zero at conventional significance levels, casting doubt on the efficacy of the proposed expansion of OZ-style incentives in the One Big Beautiful Bill Act for stimulating housing production absent complementary zoning or infrastructure reform.

Electoral Donations and Tax Amnesties in Brazil *Natalia Rodrigues, Office of the Attorney General for the National Treasury in Brazil*

Tax amnesties are a recurrent feature of Brazil's fiscal policy. Since 1999, more than forty federal amnesty programs (Refis) have allowed firms to refinance large tax arrears, typically justified as crisis responses. These programs are enacted via provisional measures that take immediate effect but must be converted into law within about 120 days, creating "policy windows" in which legislators can expand or reshape benefits. This paper examines whether Brazilian firms strategically adjust electoral donations during these windows, and whether behavior differs for firms that benefit from amnesties. I assemble a panel combining daily corporate electoral donations reported by 134,048 firms to the Superior Electoral Court (2002–2014) with firm-level data on participation in major federal Refis programs. Using panel regressions with firm and time fixed effects, I estimate associations between donation amounts, policy windows of tax-amnesty measures, and firms' Refis participation. I find no overall difference in window-period donations between firms that ever joined Refis and those that never did. However, after 2013, when Congress started introducing Refis directly via amendments during the legislative processing of provisional measures, firms that subsequently joined these programs increased their donations by almost 20% during policy windows relative to other months, conditional on firm and time fixed effects. Placebo tests using other provisional measures and robustness checks with group-specific trends support the stability of this result. The findings suggest that institutional policy windows magnify opportunities for politically active firms to time electoral donations precisely when tax amnesty rules are being negotiated, shedding light on how fiscal loopholes shape business-state relations in an emerging democracy.

Chair:
Jason DeBacker, University of South Carolina

Discussants:
Jackson Mejia, University of Texas at Austin
Jason DeBacker, University of South Carolina
Ben Meiselman, Office of Tax Analysis

032. Who Bears the Corporate Tax? Incidence and Elasticities

Corporate and Business Taxation
Paper Session
3:45 to 5:15 pm
The Westin Pittsburgh: Floor 2 - Cambria West
Participants:

The Elasticity of Corporate Taxable Income Across Countries



Nathan Seegert, Northeastern University; Katarzyna Bilicka, Utah State University; Elena Patel, Department of the Treasury; Zareh Asatryan, ZEW; Anne Brockmeyer, World Bank; Maximilian Todtenhaupt, Norwegian School of Economics & Leibniz University Hannover

Do firms respond similarly to corporate tax incentives across countries? We provide globally comparable estimates of the corporate elasticity of taxable income using administrative tax return data from sixteen countries and a unified empirical framework. Exploiting bunching at a common kink, zero taxable income, we estimate elasticities ranging from 0.08 to 1.9, with an average of 0.79. To explain this heterogeneity, we link elasticities to tax policy, firm characteristics, and country fundamentals. These differences imply that identical corporate tax reforms can generate sharply different revenue effects across countries, leading to substantial heterogeneity in the efficiency costs of corporate taxation.

Capitalists, Workers and Landlords: A Comprehensive Analysis of Corporate Tax Incidence *Andreas Peichl, peichl@ifo.de; David Gstrein, ifo Institute & LMU Munich*

This paper presents novel estimates of the incidence of corporate taxes that, for the first time, account for commercial real estate in addition to residential landowners, firm owners, and workers. We combine unique real estate data covering over 32 million properties with administrative data on wages and profits in Germany and leverage over 17,000 local business tax changes for our empirical analysis. Our estimates indicate that a one percentage point increase in local business taxes reduces commercial real estate prices by 2%, while residential real estate prices decline by 1%. Wages decline by approximately 1%, and profits decline by about 2%. These results are robust to the inclusion of a large set of controls and to estimators that account for heterogeneous treatment effects. We use the reduced-form estimates to update current incidence measures using a spatial-equilibrium framework and find that commercial landowners bear a significant share of the tax burden (≈ 20%) in the medium-run, while workers (≈ 11%) and residential landowners (≈ 12%) are likely to bear a smaller burden. Firm owners bear the largest share of the burden (≈ 58%). Moreover, our framework puts the existing literature into perspective: we not only derive new incidence estimates but also reconcile divergent findings and clarify the mechanisms and modeling choices responsible for differences across studies.

Which workers pay? Job mobility responses to business taxation and implications for incidence *Ryan Fraser, rcfraser@umich.edu; Brian Fujiy, U.S. Census Bureau*

We provide new evidence on workers' job mobility and earnings responses to business taxation throughout the earnings distribution in the United States. Using US Census Bureau data on the universe of firm-worker pairs, we employ an event study design that exploits state-level variation in corporate income tax rates and firms' tax status: C-corporations are directly subject to the corporate income tax whereas pass-through firms are taxed through their owners. For workers across the earnings distribution, we estimate job mobility responses between C-corporation and pass-through employers and earnings responses within each sector following a change in a state's effective corporate income tax rate. The design tests whether corporate tax cuts draw workers from pass-throughs toward C-corporations and generate earnings spillovers for workers who remain at pass-throughs. To test for job mobility and earnings spillovers across state lines, we expand our design to compare workers in labor markets that span states with different corporate tax rates, about 20% of labor markets when defined by commuting zones. We conclude by investigating the extent to which job mobility and earnings spillovers across firms can reconcile divergent findings on which workers' pay business taxes by introducing a model that maps our reduced form estimates to distinct partial equilibrium effects. Previously estimated earnings effects capture different partial equilibrium effects, which we can recover, and do not capture job mobility and earnings spillovers. We benchmark our estimates against these other partial equilibrium effects and the full general equilibrium earnings effect.

Chair:

Sarah Clifford, University of Oxford

Discussants:

Sarah Clifford, University of Oxford
Katarzyna Bilicka, Utah State University
Erin Towery, University of Georgia

033. Financing and Incentive Design in Health Policy

The Social Safety Net & Health
Paper Session
3:45 to 5:15 pm
The Westin Pittsburgh: Floor 2 - Fayette Room

Participants:

Cost-Induced Drug Substitution: Evidence from Anticoagulant Formulary Tier Changes *Julia Yates, University of Michigan*

Formulary tier assignments are a precise tool insurers use to steer drug utilization without altering the overall generosity of coverage. I study how Medicare Part D beneficiaries and their physicians respond to formulary tier changes in the anticoagulation market. Using Medicare claims data from 2010–2019 and a difference-in-differences event study design, I compare beneficiaries whose blood thinner moved to a higher tier to those whose drug remained on the same tier. A tier 3 to tier 4 change generates an average out-of-pocket cost increase of approximately $20 per fill. Rather than reducing overall blood thinner utilization, individuals primarily respond by substituting from one DOAC to another in the first six months following a tier change. Among non-switchers, days' supply falls by approximately 2 days and dosage strength declines by roughly 0.5 mg. Physician expertise in anticoagulation therapy meaningfully predicts the degree of patient substitution. I find no evidence of adverse health effects from tier-induced substitution and weak evidence of increased visits to the doctor.

Quality and Financial Performance in Nursing Homes: Evidence from a Multi-State Causal Analysis *Raju Mainali, Missouri State University; Rajan Shukla, Missouri State University*

The relationship between nursing home care quality and financial performance remains a critical and unresolved issue in health economics and long-term care policy. While investments in quality may improve occupancy, reputation, and payer mix, they also increase operational costs, particularly through staffing and regulatory compliance requirements. Existing studies largely rely on descriptive analyses and often fail to address endogeneity between quality and profitability. This study examines the causal effect of nursing home quality on operating margins using longitudinal facility-level data from California, Florida, New York, and Texas between 2015 and 2021. Using a Two-Stage Least Squares (2SLS) framework, the CMS Overall Star Rating is instrumented with Survey and Staffing subratings to mitigate simultaneity and omitted variable bias. The findings reveal substantial heterogeneity across states. Higher quality ratings significantly improve operating margins in Texas and Florida, suggesting that market-oriented and less restrictive regulatory environments allow facilities to translate quality improvements



into stronger financial performance. In contrast, California exhibits a negative relationship between quality and profitability, while New York shows no significant financial return to quality, likely reflecting stricter regulatory burdens, higher labor costs, and Medicaid-dependent reimbursement structures. Staffing composition further shapes these dynamics: although overall staffing intensity reduces margins, aide-specific staffing positively affects profitability, indicating a more cost-efficient pathway to quality improvement. Additional analyses suggest that COVID-19 relief programs provided temporary financial stabilization, though impacts differed considerably across states. Overall, the study provides new causal evidence on the economics of nursing home quality and highlights the importance of state-specific regulatory and market conditions in shaping the financial sustainability of quality improvement initiatives.

Stretching Tax Savings with Flexible Spending Accounts *Catherine Cox, caecox@umich.edu*

This paper explores how individuals optimally contribute to Flexible Spending Accounts (FSAs). The use-it-or-lose-it provision associated with these accounts introduces risk for users when deciding their contribution amounts. Since users forfeit unspent funds, but also reduce their tax liability by contributing, it is unclear whether FSA holders will experience a net gain or net loss from utilizing these accounts. I model this decision-making process to understand the constraints faced by users. I use the Medical Expenditure Panel Survey and find descriptive evidence that (i) FSA users change their contribution behavior over time, (ii) some perceived mistakes in FSA contributions may be due to inexperience, and (iii) forfeitures may happen due to unexpected decreases in medical expenses. Using 9 years of employee-level benefits data from a large public employer, I am currently working on updating this empirical work to understand (i) whether individuals optimally contribute to FSAs, (ii) why marginal FSA users opt into or out of using these accounts, and (iii) if people learn from experience with using FSAs and update their behavior over time to produce the best balance of contributions and forfeitures.

Chair:

Antonios Koumpias, University of Michigan-Dearborn

Discussants:

Gal Wettstein, gal.wettstein@bc.edu

Maxim Pinkovskiy, Federal Reserve Bank of New York

034. Taxation of Wealth, Capital, and Innovation

Individual Taxation, Labor Supply

Paper Session

3:45 to 5:15 pm

The Westin Pittsburgh: Floor 2 - Pennsylvania West

Participants:

Dutiful Altruism and Propensities to Donate from Wealth *Nicolas Duquette, University of Southern California; Adam Isen, Johns Hopkins University; Stephanie Karol, stephanie.karol@treasury.gov; Benjamin M. Marx, Georgia State University*

Do individuals feel a sense of duty to share good fortune with others? We test this prominent theory of prosocial behavior by estimating the effects of a variety of wealth shocks on donations. Our first design compares lottery winners in IRS microdata with a control group of future lottery winners. We find that a few lottery winners make very large donations but that the vast majority donate less than one percent of their earnings, the median guess of surveyed nonexperts. Consistent with a short-lived sense of duty, donations only increase in the year of the win despite long-run effects on other forms of consumption. Turning to survey data that capture other forms of wealth, we find a smaller level of donations from inheritance income and no significant effect of portfolio shocks that do increase other household expenditures. This finding is consistent with evidence from the lotteries that donations increase convexly with the amount of the wealth shock. Though aggregate donations by US households are consistently around two percent of income, our findings suggest that this has resulted not because many dutifully give two percent but because a small number of households make donations that are large and convex in wealth.

Betting on Tomorrow: Prediction Markets and the Tax Treatment of Event Contracts *Mirit Eyal, University of Alabama School of Law; Jay Soled, Rutgers Business School*

The paper examines fundamental questions about how the federal income tax should classify event-contract prediction markets. Prediction markets are financial exchange platforms where participants trade event contracts, i.e. financial derivatives whose prices reflect the likely outcomes of future events, such as elections, sports results, and economic indicators. Unlike traditional betting against a "house," these markets function as peer-to-peer exchanges where supply and demand determine prices. The Article addresses a growing tension in tax law: although event contracts increasingly resemble recreational betting in their design, participation patterns, and expected returns, they are often regulated under financial-market frameworks and may consequently receive investment-style tax treatment, including favorable capital-gains rates. This divergence raises important questions about horizontal equity, regulatory arbitrage, and the proper classification of activities that sit at the intersection of gambling, consumption, and financial speculation. Drawing on tax doctrine, economic substance principles, and behavioral evidence, the authors argue that most retail participation in event-contract markets is better understood as consumption-oriented wagering rather than profit-motivated investment. The paper demonstrates that capital-gains treatment for event contracts undermines horizontal equity by allowing economically indistinguishable bets to be taxed differently based solely on platform labeling, the regulating authority, and market classification. The character of gains that prediction markets produce, whether they should be deemed ordinary, capital, or a combination, remains unclear, and similar uncertainty surrounds the deductibility of losses. A significant contribution of the Article is its exploration of how artificial intelligence and platform design amplify these tax-classification concerns. The authors examine how modern platforms personalize wagering opportunities, increase trading frequency, and blur the lines between entertainment and investment, further complicating the distinction between consumption and genuine financial activity. These AI-driven dynamics make it increasingly difficult to sustain the notion that retail event-contract trading constitutes bona fide investment activity. The paper is organized in several parts. It begins with background on the history and mechanics of prediction markets, tracing their origins back centuries. The Article then provides a dual tax analysis, examining how the Internal Revenue Code should treat both the gains and losses from prediction market participation. It details the practical implications of various tax treatments, including effects on the relative popularity of prediction markets compared to other forms of gambling and investment, as well as potential revenue consequences for federal and state governments. The Article concludes by proposing a framework for harmonizing the tax treatment of event contracts with existing gambling rules, while preserving appropriate carve-outs for bona fide hedging and institutional use. In doing so, the paper contributes to broader debates about how tax law should respond to the growing financialization of leisure and the rise of AI-mediated risk-taking



in consumer markets.

Tax Lives of Inventors *Emily Horton, US Department of the Treasury; Max Risch, Carnegie Mellon University; Stefanie Stancheva, Society of Fellows, Harvard University; Ben Klemens, U.S. Treasury Office of Tax Analysis*

This study examines the income trajectories and entrepreneurial activities of innovators, with a particular focus on how these dynamics are shaped by tax policies. Innovation is widely recognized as a key driver of long-run economic growth, leading governments worldwide to implement policies to encourage it, or at least to soften the discouraging effect of their tax systems. Despite this, a comprehensive understanding of how innovators receive returns to their activities, especially across different income sources and over the lifecycle of an innovation, has been limited, largely because of data constraints. To conceptualize the incentives that might govern the behavior of innovators, it is important to understand their earnings trajectories leading up to and following a successful innovation. From a tax perspective, understanding the incentives that innovators face, and how they respond to variations in these incentives, is key to the fundamental equity-efficiency trade-off inherent in income taxation. Innovators and entrepreneurs play an outsized role in fostering economic growth; when the tax system discourages innovation or entrepreneurship this can lead to large inefficiencies. At the same time, successful innovators are often at the top of the income distribution after potentially receiving large returns to their innovative activities. Therefore, the ability of the tax system to raise revenues from innovators and the returns to successful innovation is also essential to funding of public programs. This paper seeks to provide a more granular and comprehensive understanding of innovators' financial lives by leveraging a dataset that matches inventors (those that apply for or are granted patents from the USPTO) with their tax records over a thirty-year period from 1996-2025. While much of the existing work on the returns to patents have focused on labor market outcomes and dynamics, with a particular emphasis on changes in response to successful patents, these data provide more detailed information on the full composition of income (labor, capital, and business income) over a long horizon, both before and after patenting, and the entrepreneurial activity of innovators, including private business ownership and new business formations. This provides a broader understanding of total returns to successful patents and the dynamics throughout the lifecycle of innovation. The paper has two main components. First, we provide new evidence on how inventors receive returns to their innovation over the Lifecyle of an innovation. Second, we estimate how tax policies affect the income paths and entrepreneurial activities of innovators.

Chair:

Laura Kawano, University of Michigan

Discussants:

Jennifer Mayo, jennifer.mayo@depaul.edu
Laura Kawano, University of Michigan
Ari Glogower, Northwestern Pritzker School of Law

035. Children

Family and Education
Paper Session
3:45 to 5:15 pm
The Westin Pittsburgh: Floor 2 - Somerset

Participants:

Subsidizing Care: How Foster Families Value the Age of their Foster Children *Chandler Inman, ctinman@iu.edu*

How much do foster families value being placed with younger foster children? By leveraging a testable parametric assumption on family preferences and the variation in maintenance payments for foster children in California between 2000-2021, this paper estimates that it would take an additional $370 per month of subsidy to make the average foster parent indifferent to accepting a child one year older. The estimates are large enough to be interpreted as being largely driven by preferences rather than age driven differences in the cost of care. This marginal rate of substitution (MRS) between age and subsidy is found to decrease with child age, meaning families are more willing to accept an older child, as the child's age increases. The estimates suggest families are relatively unwilling to substitute to older children in order to receive a higher subsidy.

Mutual Commitments: School Operating Days, Student Attendance, and Chronic Absenteeism *Samara Gunter, Colby College*

Chronic absenteeism, defined as missing 10 percent or more of the school year for any reason, has risen from 14.8 percent in 2018-19 to 28.3 percent in 2021-22 (Dee, 2024) and has been termed “a hidden educational crisis” by the U.S. Department of Education (U.S. Department of Education, 2024). Chronic absenteeism is associated with lower reading and math proficiency and in high school it is associated with significantly higher risk of dropping out. The school calendar may present school districts with an opportunity to re-establish strong attendance norms. The level of commitment shown by school districts to regularized school schedules may signal to families the importance of regular school attendance. School districts that operate five days per week most of the year signal to families that school attendance is a priority. Yet increasingly, this does not characterize the way in which districts operate: the median number of full or partial closures days between the start and end of the year was 35 days among 62 of the largest 120 U.S. school districts across four school years 2015-16 through 2018-19 (Gunter, 2024). Students should choose to attend school on a particular day if the marginal benefit of attendance exceeds the marginal cost. The marginal benefit of attendance is likely to fall if (a) a disrupted school week means that teachers are less likely to introduce new material or engage in meaningful instruction-related activities; (b) if other students are likely to miss school, requiring the teacher to review content on subsequent days; (c) if other students’ absences lower the social value of time in school; (d) if teachers are more likely to be absent, resulting in wasted time with substitutes or in lack of connection to a special teacher; (e) if the school day is shorter, e.g., with late starts or early releases. These effects all seem plausible when schools operate with more disrupted schedules. In this project, I will examine the relationship between irregular school operating schedules, student daily attendance, and chronic absenteeism. I build a database of school calendars for the 91 Maine school districts with total enrollment of 500 students or above. from 2021-22 through 2025-26, covering 88 percent of Maine students. Preliminary results using a partial sample of districts indicate a strong negative relationship between the number of full school days in a year and elementary-level chronic absenteeism rates, with no effect on chronic absenteeism at the secondary level.

Waiting by Design: Pricing and Waitlists in Child Care Markets *Danna Thomas, University of South Carolina*

Anecdotally, parents report difficulty finding child care due to encountering long waitlists. However, there is little systematic evidence on the prevalence of waitlists. In addition, existing models of the child care market typically extrapolate away from waitlists, assuming market clearing. In this paper, we first document key facts about waitlists and vacancies in the child care market. We find that the fraction of providers turning



families away due to lack of space is high and remarkably similar across a variety of community and provider characteristics, suggesting a common underlying cause. We then propose a theoretical model in which waitlists emerge as a result of providers maximizing profits in the face of capacity constraints and stochastic demand. Because most classroom costs are fixed regardless of enrollment, setting prices such that expected demand exceeds capacity maximizes revenue by reducing the probability of vacancies. Under this framework, waitlists emerge as a structural feature of the market, suggesting that reducing parent wait times would require policy intervention in the market. We then estimate a structural equilibrium model incorporating waitlists and use the model to estimate the effect of demand and supply side policy interventions like subsidies on prices, availability, and wait times in the child care market.

Do Child Care Subsidies Attract Providers? Evidence from Variation in Rates *Lauren Jones*

This paper examines whether more generous child care subsidy payments increase the supply of child care providers, using data from the American Child Care Development Fund (CCDF) program. Although CCDF serves roughly 1 million children annually, it funds nearly 35% of U.S. child care providers, making it a significant revenue source across the sector. The authors analyze state-level data linking CCDF reimbursement rates to the number of providers serving subsidized children, controlling for total CCDF caseloads. Key findings show that a $100 increase in the subsidy rate is associated with about a 10% increase in the number of home-based providers serving CCDF children, but no similar effect for child care centers. At the county level, higher subsidy rates are linked to 2-3% more home-based establishments overall, while center-based supply shows no average effect—except in counties with above-median shares of Black and Hispanic children, where higher rates are associated with more center-based establishments. Results hold up under heterogeneity-robust two-way fixed effects models. The study offers early evidence that subsidy generosity can be a meaningful lever for expanding child care supply, particularly for home-based providers and in underserved communities of color.

Chair:

Danna Thomas, University of South Carolina

Discussants:

Christopher Pulliam, CUNY Graduate Center
Dmitri Koustas, dkoustas@uchicago.edu

036. Intergenerational Transfers and Wealth Inequality

Retirement, Savings, Bequests, and Estate taxes
Paper Session
3:45 to 5:15 pm
The Westin Pittsburgh: Floor 2 - Washington Room

Participants:

Before Inheritance: Childhood Firm Ownership, Wealth Transmission, and Tax Incentives *Tuuli Paukkeri, VATT Institute for Economic Research; Terhi Ravaska, Tampere University*

Channels through which economic advantage is transmitted between generations remain incompletely understood. Using unique administrative data that link privately held firm owners to rich family background information, we provide novel evidence on underage children as owners of privately held firms --- a previously overlooked mechanism through which wealth accumulation can begin long before adulthood and decades before any taxable inheritance is observed. We show that ownership occurs at all ages between 0--17, with a mean age of 11.8, and is strongly concentrated among high-income families. Firm-owning children among high-income families receive income flows in childhood that would place them in the fourth decile of the adult income distribution. These early advantages persist at age 30, childhood owners hold a disproportionate share of their cohort's wealth, even though their human capital and labor market outcomes are similar to those of non-owning children from similarly high-income families. We also show that inheritance and gift tax incentives affect firm ownership by minors.

Of Heirs and Inheritances: Does a Larger Inheritance Discourage Employment? *Sobia Jafry, National Bureau of Economic Research*

This paper estimates the causal effects of larger inheritance on heirs' labour supply and entrepreneurship in Canada. The 2000 reform to capital gains tax in Canada resulted in a sharp discontinuity in the tax rate applied to capital gains at death, increasing the after-tax inheritances received by treated heirs. Using intergenerationally linked administrative microdata and a regression discontinuity design, this paper estimates the effects of marginal changes in the tax on wealth inherited by heirs whose parents died around the reform dates. By using a tax-induced variation in inheritance amount, this design overcomes the challenge in existing approaches that rely on the inheritance event itself to study impact on heirs. Results show that the reform increased after tax capital gains in inherited wealth by approximately $1,800 (33 percent), and decreased annual employment income of heirs by approximately $5,000 (10 percent). These effects on employment income persist for up to 16 years post reform. In addition, heirs receiving larger inheritances become more likely to report self-employment and capital income.

Who Can Benefit from the Saver's Match? Estimates of Eligible Taxpayers by State *Mingli Zhong, mzhong@urban.org; Joseph Rosenberg, Urban Institute - Tax Policy Center*

This paper provides state-level estimates of the number of taxpayers eligible for the Saver's Match. As one of the most important tax tools for promoting retirement savings among low- and moderate-income households, the Saver's Match, passed under Secure 2.0 Act, is a fully refundable tax benefit set to replace the Saver's Credit in 2027. We identify eligible individuals and households using adjusted gross income (AGI) and filing status (single, married filing jointly, head of household), with eligibility varying by AGI-based credit rates. Using Tax Policy Center's microsimulation model, our granular data help inform policymakers to target outreach and assess tax benefit coverage across states and filing-status subgroups.

Who Supports the Elderly? Public Old-Age Support and Private Family Transfers in South Korea *Yujin Lee, University of Maryland -- College Park*

This paper studies how public old-age support reshapes family support in a rapidly aging economy. I examine South Korea's 2014 Basic Pension expansion, a large increase in means-tested support for older adults in a setting where adult children have historically played an important role in old-age income security. The reform sharply increased benefit generosity for eligible elderly individuals, while aggregate recipient coverage remained broadly stable. This setting allows me to study how a public transfer generosity shock changes the organization of old-age support within families. Using household panel data from the Korean Retirement and Income Study, I compare households differentially exposed to the reform based on pre-reform receipt of the old Basic Old-Age Pension. Baseline-recipient households experienced a much larger increase in Basic Pension income after 2014 than baseline non-recipient households. Because private transfers contain many zeros, the main specification uses Poisson



pseudo-maximum likelihood with household and wave fixed effects. I also estimate an IV-DID specification that instruments Basic Pension income with reform exposure to measure crowd-out per unit of additional public support. The results show substantial but incomplete substitution between public and private support. In the preferred specification, the reform reduced expected private transfers from adult children by about 17.8 percent. IV estimates imply that each additional KRW of policy-induced Basic Pension income reduced private transfers by about 0.27 KRW. The decline is concentrated in regular transfers, while irregular transfers respond little. This suggests that the Basic Pension primarily replaced ongoing, recurring financial support from adult children rather than occasional assistance. I also examine co-residence with adult children as a complementary family-support margin. The transfer results are similar when co-residing households are included, and the reform did not produce a detectable change in co-residence itself. The estimates therefore show that the Basic Pension reduced explicit interhousehold financial support from adult children, especially routine regular transfers, rather than primarily changing whether elderly parents and adult children live together. Heterogeneity is central to the findings. The crowd-out effect is concentrated among households in the bottom net-asset quartile: the preferred PPML heterogeneity estimate implies about a 68 percent decline in expected private transfers for the lowest-net-asset households, compared with much smaller effects for higher-asset groups. Interacted IV estimates similarly show the largest won-for-won crowd-out in the bottom quartile, about 0.30 KRW per additional KRW of Basic Pension income. These results suggest that public pensions most strongly substitute for family support among financially vulnerable elderly households. The paper contributes evidence on old-age support in a pension-latecomer setting, studies multiple family-support margins, and shows that the family-level incidence of pension policy varies sharply across the asset distribution.

Chair:

Thomas J. Brennan, Harvard Law School

Discussants:

David Joulfaian, U.S. Department of the Treasury
Sarah Holden, Investment Company Institute (ICI)

037. Place-Based Policies, Development Incentives, and Local Regulation

State and Local Taxes Including Property Taxes
Complete Session
3:45 to 5:15 pm
The Westin Pittsburgh: Floor 2 - Westmoreland Central

Authors will share research about the effects of local and federal policies on housing and labor markets across the United States.

Participants:

Place-Based Housing Policy *Patrick Kennedy, UCLA*

We use confidential tax records and extensive housing market and labor market data to study the effects of the US Opportunity Zone program on real investment, labor markets, and agglomeration economies.

Sky-High Minimum Wages: Evidence from Inclusionary Zoning in NYC *Antoine Levy, Berkeley Haas*

This paper studies how labor regulations affect multifamily housing development in New York City.

Not So Affordable? Low-Income Housing and the Price of Public Capital *Evan Soltas, Princeton University*

Capital projects in the U.S. public sector have become costlier but also possibly more complex. To what extent do rising costs reflect quality or compositional changes versus true changes in the price of public capital?

Building with Externalities: Local Governments and Wind Farms *Zane Kashner, MIT*

This paper studies the efficiency implications of local government regulation in the context of wind farms.

Session Organizer:

Patrick Kennedy, UCLA

Chair:

Mike Eriksen, Purdue University

Discussants:

Mike Eriksen, Purdue University
Evan Soltas, Princeton University
Travis St.Clair, travis.stclair@nyu.edu
Justin Ross, justross@iu.edu

038. Business Taxation and Tax Planning

Tax Enforcement and Evasion
Paper Session
3:45 to 5:15 pm
The Westin Pittsburgh: Floor 2 - Westmoreland East

Participants:

GRATs as Quasi-Options: Evidence from Corporate Insiders' Estate Planning *Matthew Pierson, University of Pennsylvania; Andrew Granato, andrew.granato@law.utexas.edu*

Corporate finance has long recognized that legal and financial structures can transform investor incentives: for example, leverage can make equity resemble a call option on firm value, and stock-option compensation can increase managerial preference for risk. However, these literatures locate incentive effects in a firm's capital structure, the securities formally granted to managers, or the income-tax treatment of compensation and trading. We document novel channel through which law influences real-world incentives: estate planning, which can transform the post-tax payoff from securities using private-law trust structures. Specifically, we develop the first corporate-finance account of Grantor-Retained Annuity Trusts (GRATs), tools that overlay ownership of a security with an additional tax-advantaged, option-like claim on its appreciation. GRATs are a popular estate-planning vehicle used to make large-scale gifts without triggering the 40% gift-and-estate tax. A GRAT is a trust that pays a precisely-calculated annuity back to the grantor such that the net present value of the gift made to the trust's remainder beneficiary is functionally $0 for tax purposes. If the trust assets outperform the annuity hurdle rate, the excess appreciation passes to the beneficiary transfer-tax free; if not, the value returns to the grantor. We formally demonstrate that a GRAT is equivalent to a post-tax call option on the trust's underlying assets with a strike price determined by a return slightly above the federal mid-term Treasury rate. GRAT-using equity holders therefore face not only the incentives of equity holders, but also a transfer-tax-subsidized, call-option-like exposure to appreciation above the annuity hurdle. GRAT usage therefore increases the private value of volatility, skewness, and concentrated ownership in an affiliated firm's equity (to leverage insider information advantage for GRAT timing).We then document empirical lower bounds on the level of GRAT usage by insiders (directors, officers, and 10% owners) of publicly-traded firms in their firms' securities. We scrape SEC disclosures reporting corporate insiders' holdings of affiliated-firm securities, many of which identify trusts by name and therefore provide information on trust type. We find that corporate insiders placed at least $320 billion, in 2024 dollars, of affiliated-firm



securities into GRATs from 2003 to 2024. While (a lower bound of) only 1.1% of firm insiders disclose a GRAT, when such an insider creates a GRAT, they contribute an average of 24% of the value of their securities in the affiliated firm. Because many GRAT-using insiders employ "rolling" GRATs (slightly-staggered GRATs that overlap in timing), GRAT-using insiders, at the maximum point in their lifetime of within-GRAT affiliated-firm holdings relative to their total affiliated-firm holdings, have an average of 73% of the value of their affiliated firms' securities inside GRATs. Finally, we begin linking documented GRAT use to insider and firm behavior. In preliminary analyses, firms with documented insider GRAT use exhibit 3.9-percentage-point higher skewness of returns (9.93% vs 6.04%). We are extending this analysis to insider Delta, Vega, and diversification. Our research demonstrates that tax-motivated estate-planning structures are economically meaningful to a subset of corporate decisionmakers and transform the incentives of some of firms' most important shareholders.

The 100% Exclusion on Qualified Small Business Stock: Recent Developments and Use *Gerald Auten, US Treasury Department, Office of Tax Analysis*

In 2010, Congress increased the exclusion for capital gains from the sale of Qualified Small Business Stock (QSBS) from 50 percent of the gains to 100 percent. The prospect of tax-free capital gains encouraged taxpayers both to invest in corporations that qualify for this provision and to engage in creative tax planning to increase amounts of eligible capital gains. The 100% exclusion required a 5-year holding period. Recent legislation in the One Big Beautiful Bill Act provided important new benefits for stock issued after July 4th, 2025, including: - New shorter holding periods providing exclusions of 50% for stock held 3 years and 75% for stock held 4 years - Higher limits on the size of business that can issue qualified stock. - Higher limits on the amount of capital gains In addition to updates on the law, this paper will present new evidence on the claiming of the QSBS stock reported in the 2018 SOI Sales of Capital Assets Study. Among the findings are the distributions of the size of exclusions claimed, transactions reporting the required code Q and other QSBS transactions identified by descriptions, the industries of QSB firms, transactions through trusts and investment partnerships, and other analysis helpful in understanding use of the QSBS provision.

The Foreign Corrupt Practices Act (FCPA) Under Review: Evidence on Its Effect on Peer Firms' After-Tax Return Maximization *Helena (ZhiHan) He, University of Waterloo*

This paper examines whether peer firms of companies sanctioned under the Foreign Corrupt Practices Act (FCPA) experience changes in their ability to maximize after-tax returns. After-tax return maximization captures how firms jointly manage operating decisions and effective tax planning to generate the highest after-tax return based on limited resources (Scholes et al., 2014). The FCPA was introduced to curb U.S. persons from bribing foreign officials. Although the FCPA's anti-bribery enforcement targets the prosecuted firms, peer firms represent a larger group that may be indirectly affected since bribery historically allowed bribing firms to secure public procurement contracts and lower costs at peers' expense. The results show that peer firms improve their ability to maximize after-tax returns following FCPA enforcement. Examining the underlying mechanisms, the results show that peers experience increased competitiveness and reduced financial constraints, but no significant change in their perceptions of government corruption and their tax planning level. These findings indicate that peers' improved after-tax return efficiency stems primarily from a more level competitive landscape and greater access to financing. Overall, this paper finds FCPA enforcement generates positive spillovers to a broader set of firms beyond those directly sanctioned. The results are relevant to ongoing policy debates over FCPA enforcement, including the 2025 narrowing of FCPA scope, which has focused on costs imposed on prosecuted firms while overlooking spillover benefits to their peers. More broadly, the findings highlight the importance of considering all affected parties and costs when assessing the trade-offs of regulatory enforcement.

Chair:

Michael Marin, michael.marin@utoronto.ca

Discussants:

Benjamin Osswald, University of Illinois at Urbana-Champaign
Michael Marin, michael.marin@utoronto.ca

039. Law and Optimal Taxation

Optimal Taxation
Paper Session
3:45 to 5:15 pm
The Westin Pittsburgh: Floor 2 - Westmoreland West
Participants:

Book: The "Logic" of the Income Tax *Bret Wells, University of Houston Law Center; Clinton Wallace, University of South Carolina Rice School of Law*

The "Logic" of the Income Tax, asserts that there is an underlying logic at the core of the income tax laws that connects all variety of technical income tax rules: every rule in the Tax Code can be explained by either the internal logic of the income tax (discussed in Part I) or the political economy of the income tax (discussed in Part II) or a combination of both. The internal logic is that income is temporal, representing a change between two points in time, and, further, that income taxation requires measuring that change and taxing it once and only once. An amount of income that has been subject to tax in one period of time cannot not be taxed again in a subsequent period. The book positions the correct understanding of income taxation in light of the recent Moore decision and addresses the continuing import of the Supreme Court decision in Macomber and then addresses how the Supreme Court should apply income tax laws to unanticipated situations to reach their intended purpose. This discussion and insight is critical in light of a recent trend towards plain textual application of complex statutes that may reach absurd outcomes. The book speaks to that question and addresses the history and tradition of how income tax statutes have been historically and traditionally interp

Buy or D.I.Y.: Home Production and the Income Tax *Jacob Goldin, University of Chicago Law School; Adam Kern, University of San Diego; Ana Vasilj, University of Chicago*

The income tax aspires to be comprehensive—a tax on "all income, from whatever source derived." Yet every year, trillions of dollars of productive activity escape taxation with hardly any notice: the work people do for themselves outside of the market. When people purchase goods or services such as childcare, housecleaning, or meals, they must do so with after-tax dollars. But when they produce the same goods and services at home, their labor is untaxed. The result is a systematic tilt in favor of home production and against market exchange. Tax scholars have long recognized this distortion, but efforts to correct it have produced an impasse: failing to tax home production is inefficient, yet because the poor engage in more home production, closing the gap between the home and the market appears to be regressive. This Article reframes the debate by asking how home production should feature in a tax system that seeks to redistribute from the rich to the poor. Our central claim is that an ideal redistributive tax system would indeed tax home



production—or, equivalently, subsidize market goods that substitute for it. This claim might seem counterintuitive, since low-income people do more home production than high-income people. But we show that, at any given income level, engaging in home production typically reveals that one has relatively high earning ability, functioning as what optimal tax theory calls a "tag" for high ability. When home production is a tag for high ability, pairing a tax on it—or a subsidy for its market substitutes—with an offsetting adjustment to income tax rates improves the efficiency of redistribution. The practical path forward is to subsidize many market goods that substitute for home production, typically through refundable tax credits. We develop a unified conceptual framework that provides guidance on when such subsidies are warranted and how they should be designed, with applications to housecleaning and childcare.

Envy: A Reappraisal *Luis Calderon Gomez, Cardozo School of Law*

Legal scholarship has extensively examined how emotions such as empathy, guilt, and shame shape curiously neglected. This Article argues that this exclusion is not only empirically indefensible but conceptually incoherent. If legal design takes human preferences and welfare seriously, it cannot selectively ignore envy while incorporating other negative, morally contested emotions. Reinstating envy is therefore not optional but necessary for any account of law that take preferences and welfare seriously. Reappraising envy fundamentally reshapes central debates in legal design. In tax law, existing scholarship shows how altruism and relative preferences can support redistribution. Incorporating envy, however, produces more disruptive conclusions. Treating envy as a negative externality strengthens the efficiency case for progressive income taxation and for corrective taxes on luxury consumption. It simultaneously undermines the orthodox assumption that redistribution should occur at the national or global level. Because envy is experienced locally, determined by proximity, reference groups, and social comparison, the Article argues that hyper-local redistribution can dominate broader redistributive schemes on welfarist grounds. The Article demonstrates that envy also has profound implications for legal design beyond redistribution. It develops a robust justification for regulating or prohibiting practices that systematically generate harmful social comparisons, from technological advances to wage disclosures. Furthermore, the Article reframes social media regulation as in part a problem of corrective taxation: platforms that profit from intensifying envy impose significant welfare losses that the market and existing regulatory frameworks fail to internalize. By systematically incorporating envy into legal analysis, the Article both supplies novel policy justifications across multiple domains and highlights hidden tensions within welfarism. If accounting for envy yields uncomfortable or counterintuitive prescriptions, the problem may lie not with envy as an analytic input, but with welfarism's normative appeal.

Excess Burden, Objective Welfare, and the Limits of Efficiency Analysis in Tax Policy *Theodore Seto, LMU Loyola Law School*

This article challenges the widespread assumption that excess burden—or tax deadweight loss—provides a meaningful measure of the welfare consequences of taxation. I argue that excess burden is a narrow efficiency statistic that captures only one channel through which taxes affect human well-being: the loss from distorted market choices. If welfare is understood as an objective feature of people's lives—grounded in their capabilities, opportunities, health, and security—then excess burden cannot guide decisions about how tax burdens should be distributed across socioeconomic groups, nor can it determine whether raising revenue to fund social safety nets increases or decreases welfare. Excess burden is defined as the reduction in compensated surplus relative to a lump-sum benchmark that raises the same revenue. By construction, it is distribution-blind: it aggregates surplus losses without regard to who bears them. It is use-blind: it is calculated without reference to what the revenue finances. And it is market-centric: it captures only distortions in market behavior, ignoring non-market determinants of well-being. These features are not incidental – they reflect the conceptual purpose of excess burden, which is to compare the efficiency costs of alternative tax instruments holding distribution fixed. Excess burden was never designed to answer questions about distributive justice or the welfare effects of public spending. If welfare is objective rather than preference-based, these limitations become decisive. Objective welfare depends on concrete facts about people's lives: whether they can meet basic needs, access medical care, avoid deprivation, and pursue meaningful opportunities. A tax that distorts decision-making but finances essential health services may substantially increase welfare, while a tax with a small Harberger triangle that funds wasteful spending may reduce it. Excess burden cannot distinguish between these cases. Nor can it evaluate the welfare implications of shifting tax burdens between income groups, because it contains no information about how income changes affect people's real circumstances. The article therefore advances two central claims. First, excess burden is useful only for a narrow class of policy questions: choosing among tax instruments that implement the same distributional pattern while differing in their distortionary effects. Second, excess burden cannot, even in principle, determine how tax burdens ought to be allocated across socioeconomic groups or whether financing a social safety net enhances welfare. Those questions require information about the actual effects of taxes and spending on people's well-being—information that lies outside the domain of deadweight-loss analysis. By clarifying what excess burden measures and what it does not, the article aims to reorient tax policy debates toward a more complete and empirically grounded conception of welfare. Efficiency costs matter, but they are only one component of a broader evaluative framework. A welfare analysis that treats excess burden as dispositive risks ignoring the most important ways in which tax and transfer policies shape human lives.

Chair:
James R. Hines, University of Michigan

Discussants:
Zhaoyi Li, Albany Law School
James R. Hines, University of Michigan

040. Business Meeting and Presidential Address, and Presentation of Awards

NTA
Plenary Session
5:30 to 6:30 pm
The Westin Pittsburgh: Floor 3 - Allegheny 1,2, 3

Business Meeting and Presidential Address Annual Meeting of the National Tax Association, and Presentation of Awards Presidential Address: Kim Rueben, National Tax Association National Tax Journal Referee of the Year Award National Tax Journal Richard Musgrave Prize Outstanding Doctoral Dissertation in Government Finance and Taxation Award Certificates for Fiscal Sustainability, Climate Tax, and Equity & Inclusion Fellows

041. Thursday Welcome Reception

NTA Reception
6:30 to 7:45 pm
The Westin Pittsburgh: Foyer 1,2,3



FRIDAY, NOVEMBER, 13

042. Careers Beyond Academia Breakfast
7:00 to 8:15 am
The Westin Pittsburgh: Floor 3 - Allegheny 1,2, 3

043. Friday Morning Coffee
8:00 to 8:30 am
The Westin Pittsburgh: Foyer 1,2,3

044. Digital Services Taxes and the Evolving Tax Base
International Tax
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Butler East
Participants:

It's Smart to Be Nice: How Should the U.S. Respond to the Rise of Tax Nexus Without Physical Presence? *Daniel Shaviro, NYU Law School*

This paper discusses how the United States ought to respond to the rise of other countries' taxes on non-physically present, nonresident businesses (for example, via digital services taxes or OECD BEPS Pillars 1 and 2).

Shifting from Taxing Digital to Taxing AI *Mindy Herzfeld, University of Florida Levin College of Law*

Debates over how to tax the digitalized economy have occupied much of the bandwidth of the international tax policy community over the last 10 years, without real meaningful progress in developing an agreed-upon solution. The debate continues, but risks becoming outdated before it can declare success. As the economy goes, so must the tax discussion, and there is good reason for the focus on taxation of the digitalized economy to shift -- both in terms of the parameters for the discussion and the substantive solutions being proposed -- to taxation of AI. This paper is an attempt to reframe the discussion of taxation of the digitalized economy to one about the taxation of the AI economy, which raises similar but also novel tax issues as did (does) taxation of the digital economy.

Taxing Multinational Digital Platforms *Gerardo Sanz-Maldonado, University of Michigan*

Growing concern about the social and economic power of large technology companies has fueled political and academic support for digital interventions. Fiscal pressures created by digitalization have spurred destination-based corporate tax schemes such as the digital services tax (DST)---broad-based levies on the gross revenue that large multinational technology companies earn from local digital services, enacted in more than seventeen countries. Despite their growing salience, the behavioral effects of DSTs are nearly unstudied. This paper addresses that gap, focusing on the French DST's impact on French usage of taxed platforms and the platform's investments in French content. I develop a model of a multinational digital platform choosing between global capital---algorithms and infrastructure whose returns are realized across all markets simultaneously---and local capital---localized content and country-specific capabilities whose returns flow only through the home market. Because the DST taxes gross revenue without allowing cost deductions, it creates an asymmetric distortion: home local capital faces the full statutory rate; global capital is partially shielded; abroad local capital is untaxed. Business model governs an additional channel: advertising-financed platforms face a direct wedge on monetization intensity---the after-tax return to incremental ad inventory falls while its cost does not---while subscription- and fee-based platforms, whose marginal cost of pricing is approximately zero, are distorted only through capital allocation. Ad-supported platforms such as Google and Meta therefore face a compounded distortion, while platforms like Amazon are affected only through capital. The model predicts that platforms more reliant on France-specific investments and those who do not employ targeted advertising should exhibit larger post-DST traffic declines. I test these predictions using web traffic data from whotracksme, a panel of Ghostery browser plug-in users. Local capital intensity is proxied by each platform's pre-tax French-language content share computed from Common Crawl, a large-scale public web archive. The sample covers 113 treated second-level domains across 21 parent firms. A difference-in-differences around the January 2019 implementation shows French-side traffic grew approximately 5.5% post-DST while the rest of the world excluding Germany grew 14%---a gap of 8.3 percentage points significant at the 5% level via residualized placebo test. Triple-difference specifications reveal significant heterogeneity: platforms with more French-language content show a less negative differential ($\hat{\beta}_2 = +0.93$, SE 0.15, $p < 0.001$), as do platforms with a local .fr domain ($\hat{\beta}_2 = +0.68$, SE 0.30, $p < 0.05$); platforms with a larger French audience share experience significantly larger declines ($\hat{\beta}_2 = -1.43$, SE 0.27, $p < 0.001$). The positive sign on French content share is the opposite of the model's prediction, which I interpret as a proxy-mismatch: high French content may flag sites where local content is cheapest to produce and thus potentially least exposed to the DST. Future work will bring in firm-level accounting data from Orbis and Compustat to construct more credible measures of local versus global capital deployment.

The Effects of Changes in the Value and Certainty of Foreign Tax Credits *Jennifer Luchs-Nunez, Colorado State University; Steven Utke, University of Missouri*

We examine the effects of regulations that impose novel limitations on firms' foreign tax credits (FTCs), adding uncertainty to their calculation and potentially diminishing their value, as well as the subsequent weakening of those limitations. While FTCs can arise from U.S. firms' foreign operations or from shifting U.S. income to lower-tax jurisdictions, prior research has not directly examined the value that these credits provide to firms. Overall, we find mixed evidence that regulations altering the availability of FTCs broadly affect firm value. We find more consistent evidence that the FTC regulations we examine increase investor uncertainty. However, some subsets of firms – notably those lobbying on FTCs – experience more consistent market reactions to FTC-related events. Our study informs policymakers and suggests that, under the current U.S. international tax system, certain limitations on FTCs may not broadly reduce firm value.

Chair:
Tyler Menzer, Texas Christian University
Discussants:
Zhaoyi Li, Albany Law School
Tyler Menzer, Texas Christian University

045. Frontiers in Measurement with Tax Microdata
Individual Taxation, Labor Supply
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Butler West
Participants:

An Application of Euler's Formula to Bunching Methodology: Addressing Frictions via Spectral Deconvolution *Dylan Moore, dtmoore@hawaii.edu*

Much of the bunching literature has focused on whether the



bunching mass at a tax kink or notch identifies the elasticity of taxable income. I address a logically prior question: how to identify the bunching mass itself from observed data? Real world income distribution do not often exhibit the kind of sharp bunching at kink points that a frictionless labor supply model would predict. Rather, it appears that frictions in the choice process generally result in any bunching that occurs taking a diffuse form. Since Saez (2010), the standard approaches to addressing this issue in the literature have been ad hoc in nature. In this paper, I propose a more rigorous approach, introducing a new class of semiparametric methods that can recover the (latent) bunching mass and — if desired — other local features of the underlying frictionless distribution at a kink point in a tax/price schedule. These methods assume that frictions are a form of random optimization error drawn from a known distribution (Gaussian, in the leading case). They further require the analyst to commit to the assumption that the bunching mass is known to be non-zero ex ante. Specifically, I show that the latent frictionless bunching mass is identified by the cosine function of the observed distribution of income. The central insight is an asymmetry that follows from Euler's formula: decomposing the characteristic function of the distribution into its real (cosine) and imaginary (sine) parts, one finds that the bunching mass contributes a constant amplitude to the cosine at every frequency and does not appear in the sine function at all. The smooth parts of the latent, frictionless choice distribution decay rapidly in frequency, while the bunching mass decay only because of the presence of the Gaussian errors. These decay quite slowly, and the pattern of that decay allows us to identify both the size of the bunching mass and the variance of the optimization error. I provide a set of finite-sample estimators that exploit this identification result. On the simpler end, in some cases, fitting log-linear regressions to the empirical cosine function can perform well. A key feature of my approach is locally targeted identification/estimation. I do not attempt to recover the full frictionless distribution; a much harder problem, and not what bunching applications actually need. Instead I treat the smooth background as a nuisance and identify only those local features at the kink that the analyst cares about the bunching mass first, and other local features at the kink as may be required by an analyst (for ETI estimation say). Monte Carlo simulations indicate substantial gains over standard ad hoc methods, as well as other semiparametric estimation methods. An application to the first EITC kink using the IRS public use file data suggests that the method can be tractably applied in practice, and produces sensible answers.

Has Income Mobility in the US Declined? New Evidence on Dimensions of Mobility in Recent Decades *Gerald Auten, US Treasury Department, Office of Tax Analysis*

There are many dimensions to income mobility and how these have changed over time. These include the movement of households through the distribution over time, the extent to which the next generation is higher or lower in the distribution than their parents, and the extent to which tax units remain in the top one percent or replaced by others. This presentation will present new evidence on the various dimensions and measures of income mobility. Comparison to in our earlier analysis (Auten and Gee, 2009 and Auten, Gee and Turner 2013) will provide evidence on whether income mobility has declined, increased or remained about the same over the past decades.

TIDE: A Configuration-Driven Framework for Editing and Imputation of Hierarchical Administrative and Survey Data *Mark Xu, Internal Revenue Service*

Administrative tax records are a critical source for official statistics and policy analysis, yet transforming raw administrative filings into statistically usable datasets requires extensive data validation and correction. Within the Internal Revenue Service's Statistics of Income (SOI) Division, intensive editing procedures are currently applied to a stratified sample of roughly half a million individual income tax returns each year due to resource constraints, limiting the dimensional and geographic detail available for official statistics as well as tax policy and other analysis. Scaling statistical editing to larger administrative datasets requires methods capable of handling complex hierarchical relationships among tax forms and schedules. This paper introduces the Tax Imputation & Data Engine (TIDE), a framework for automated validation and imputation of hierarchical administrative tax data. The system extends the Fellegi–Holt minimum-change paradigm to relational datasets in which edit rules span multiple linked records. To achieve scalable performance, TIDE combines dependency-graph decomposition with a hybrid localization solver that dynamically selects between exact optimization and heuristic approximation. Replacement values are generated through a multi-tier imputation framework with tournament-based selection among deterministic, statistical, and machine-learning methods. The framework is demonstrated in an individual income tax setting using a Form 1040–based test case with linked credit schedules, specifically Schedule 8812 (Child Tax Credit / Additional Child Tax Credit) and Schedule EIC (Earned Income Credit). The test environment captures key policy-relevant features of individual taxation, including cross-form eligibility constraints (e.g., credits conditioned on qualifying children), income aggregation and consistency (e.g., AGI relationships), and one-to-one and one-to-many dependencies between the main return and supporting schedules. Using synthetic data calibrated to SOI statistics and tax law parameters, errors are systematically injected to reflect missing data, reporting inconsistencies, and rule violations commonly observed in individual returns. Evaluation on datasets of up to 100,000 returns demonstrates full compliance with over 30 tax rules, high imputation accuracy for key variables (including credit amounts and qualifying-child attributes), and near-linear runtime scalability. The results indicate that automated hierarchical editing can substantially improve the quality and usability of individual income tax data, with direct implications for official statistics production and tax policy analysis.

Chair:

Max Risch, Carnegie Mellon University

Discussants:

John Klopfer, University of Hong Kong

Max Risch, Carnegie Mellon University

046. Designing Innovation Policy: R&D Incentives, Complexity, and Spillovers

Corporate and Business Taxation

Paper Session

8:30 to 10:00 am

The Westin Pittsburgh: Floor 2 - Cambria East

Participants:

The Impact of R&D Tax Credit Complexity on Small-Firm Innovation: Evidence from Specialized R&D Tax Credit Consultants *Mary Cowx, Arizona State University; David Kenchington, Arizona State University; Roger White, roger.white@asu.edu*

In this paper, we explore why a majority of small firms forgo applying for federal R&D tax credits, even when eligible. Commentary from the field suggests that it can be difficult for firms to (1) determine their eligibility for these credits, and (2)



generate the necessary supporting documentation required of IRS examiners who closely inspect R&D tax credit claims. In response to these frictions, specialized R&D tax credit consultancies have emerged to help client firms determine eligibility and generate the necessary documentation. These consultancies primarily market towards smaller firms, as larger firms tend to (1) have more advanced information systems that make it easier to document R&D activities, and (2) already have working relationships with Big Four accounting firms that also provide R&D tax credit help. We exploit the staggered geographic entry of specialized R&D tax credit consultancies, and we find that these entry events predict a jump (on the order of 7%) in patent applications emanating from nearby small firms, with no corresponding jump for large firms. We find that the marginal small firm patent applications tend to be high quality, and that this jump in small firm patenting is not a continuation of pre-treatment trends. In a robustness check, we also match treated and control counties on economics, demographics, and innovation in the periods prior to treatment, and we find that our results persist even when matching on these observables (which helps alleviate reverse causality concerns wherein these R&D tax credit consultancies enter areas where local markets are booming and innovation is already on the upswing). Collectively, these results indicate that reducing tax compliance frictions meaningfully shapes both the incidence and real effects of innovation policy among small firms.

The Optimal Design of Innovation Policy: Evidence from French R&D Support Programs *Naomi Feldman, naomi.feldman@mail.huji.ac.il; Katarzyna Bilicka, Utah State University; Irem Guceri, Oxford University; Alexandre Gnaedinger, University of Mannheim*

Government spending on R&D incentives amounts to billions of euros annually, yet evidence on which policy combinations maximize innovation returns and firm performance remains limited. In this paper, we examine the optimal mix and timing of R&D support policies, leveraging France's comprehensive system of tax credits, size and age-based incentives, and direct grants. Using French tax returns data matched with administrative firm-level R&D expenditures and information on the usage of different sources of R&D funding, we investigate which policy combinations improve firm performance and innovation quality for different types of firms and at which stages of the firm lifecycle. To causally identify optimal timing, we exploit age eligibility thresh-olds using regression discontinuity design, comparing firms around the 8-year eligibility cutoff for Young Innovative Enterprises (JEI) and Young University Enterprises (JEU)schemes. Our preliminary results using Orbis IP data suggest that the 2004 JEI/JEUpolicy introduction led to substantial increases in patent applications (approximately20 additional patents in 2005) and citation quality for eligible firms. This compressive analysis reveals policy complementarities between different types of R&D support and identifies when in a firm's life-cycle such support yields the highest returns for both firms and society

The Formation of Knowledge Spillovers and Product Market Competition: An Endogenous Network Approach *Maxime Gravoueille, maxime.gravoueille@monash.edu; Philip USHCHEV, ULB*

We develop a theory of endogenous network formation in innovation. Firms strategically choose positions in two coupled characteristic spaces — technology and product — generating networks of knowledge spillovers and product market competition as equilibrium outcomes rather than exogenous primitives. When networks are endogenous, the impact of R&D policy depends not only on direct monetary incentive effects but also on the equilibrium response of firms' positions, generating welfare implications that differ qualitatively from those under fixed networks. We characterize how policy interventions propagate through the endogenous networks, derive optimal R&D subsidies, and quantify the welfare gains from targeted relative to uniform policy.

Chair:

Jakob Miethe, University of Munich (LMU)

Discussants:

Jakob Miethe, University of Munich (LMU)
Nathan Born, US Department of the Treasury

047. Taxing Artificial Intelligence

Corporate and Business Taxation
Panel Discussion
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Cambria West

This panel discussion will pose a series of questions about how to tax AI: What aspects of AI is our code already well equipped to handle and what aspects pose challenges? Does our current tax code subsidize AI relative to labor? Are there international efforts to tax AI relevant to the US? Are there historical examples of taxation of new technology that are relevant to today? What tax reforms have already been proposed for taxing AI and will they be effective, either for raising revenue, combating inequality, or regulating the burgeoning AI industry?

Panelists:

Assaf Harpaz, assaf.harpaz@uga.edu
Jeremy Bearer-Friend, George Washington University Law School
Svea Holtmann-Reinhard, University of Mannheim
Michael Plowgian, KPMG LLP
Lily Batchelder, NYU School of Law

Moderator:

David Mitchell, dmitchell@equitablegrowth.org

048. Tax-Administered Benefits and Well-Being

The Social Safety Net & Health
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Fayette Room

Participants:

Misperceived Benefits and Tax-Filing Decisions Among Low-Income Workers *Francisca Alba, Michigan State University*

Why do some low-income workers not file their taxes, even though nonfiling means leaving substantial money on the table? Using Michigan administrative tax data and survey data, I show misperceived refunds are a key driver. On average, nonfilers believe they owe $649 in federal taxes, but they are actually due $1,174. I develop a framework of the filing decision and estimate its parameters on a dataset of tax units' filing decisions and tax refunds over time. I exploit two policies that increased the benefit to filing by a similar dollar magnitude, but had very different salience: the tax year 2019 (TY19) stimulus checks and the TY21 EITC expansion. I find that workers perceived a dollar of stimulus as almost three times larger than a dollar of the expanded EITC. I estimate that had workers understood the EITC as well as the stimulus checks, TY21 filing would have risen about 6 percentage points.

Multigenerational Impacts of the Earned Income Tax Credit: Childhood Exposure and the Next Generation's Health in Infancy *Christopher Pulliam, CUNY Graduate Center*

Can income-support policies improve health across multiple generations? While several studies have examined the



multigenerational impacts of health and education programs, we know far less about cash benefits. The answer to this question informs longstanding debates on the efficacy of cash transfers and improves our understanding of inequality and the intergenerational transmission of socioeconomic disadvantage. Using panel data spanning three generations, I leverage four decades of variation in generosity of the earned income tax credit (EITC) across time, states, and family sizes to test whether mothers' EITC exposure in childhood affects the health of their offspring at birth. Estimates suggest that a $100 increase in mother's average annual childhood EITC exposure reduces the prevalence of low birth weight by three tenths of a percentage point or about four percent relative to the sample mean. Results are concentrated among infants born to mothers from disadvantaged families, defined either by the family head's years of education or family income. Heterogeneity analyses further suggest that Black infants and male infants experience the largest health benefits. In terms of mechanisms, I find little evidence for changes in fertility or family formation; instead, I show increases in mothers' adult economic security prior to childbirth. In total, my results imply that income-support policies in childhood can have substantial multigenerational health spillovers.

Does Cash Buy Credit? Evidence from the Timing of Child-Related Tax Benefits *Letian Yin, University of California San Diego*

Many families are financially fragile after the birth of a first child, but it is unclear whether cash transfers can have lasting effects on their financial well-being. I link California birth records to a panel of first-time parents' credit reports and leverage a discontinuity in child-related tax benefits that shifts their first receipt by about one year across otherwise similar families. Regression discontinuity estimates show that among financially vulnerable mothers, earlier receipt relaxes borrowing constraints and produces persistent gains: in the third year after the birth, debt in collections is 8% lower, credit limits are 4% higher, and credit card balances are 5% higher. I also find suggestive evidence that mortgage holding rises after the initial credit improvements and that the credit expansion extends to the family as a whole. Financially non-vulnerable mothers show no comparable response, suggesting that the timing of transfers has durable impacts where liquidity constraints bind.

Chair:

Jacob Bastian, Rutgers University

Discussants:

Anna Strauss

Jacob Goldin, University of Chicago Law School

049. Constitutional and Other Issues Surrounding Wealth and Mark-to-Market Taxation Following Moore

Individual Taxation, Labor Supply

Complete Session

8:30 to 10:00 am

The Westin Pittsburgh: Floor 2 - Pennsylvania West

This panel will involve a discussion on the constitutionality of wealth and other forms of accrual-based taxation (notably, mark-to-market) in the United States following the 2024 Moore decision. The authors present varied viewpoints. Professor Johnson has written extensively about the constitutionality of wealth taxation and the true interpretation of the Direct Tax Clause under the U.S. Constitution that requires so-called “direct taxes” to be apportioned among the states. His research has thoroughly delved into both the historic and the jurisprudential dimensions of the question, and he has recently written a rebuttal to the originalist article authored by Professors David Schizer and Steven Calabresi which will be the subject of his presentation, although it is a continuation of his prior work. Professor Avi-Yonah has written several articles in Tax Notes and another on the subject of wealth taxation and the impact (or fallout) of Moore on the constitutional framework of tax law in the United States, including discussions of whether realization is indeed a requirement under the Sixteenth Amendment and whether wealth taxes would constitute direct taxes that would hence require apportionment. Professor Morgan is writing an article about the economic dimensions of wealth taxation which include a novel economic argument concerning the Supreme Court’s and the Founders’ understandings of what constitutes a tax to be fluid, hence some discussion of what taxes may be equivalent is a golden thread that ties together most of the Supreme Court’s jurisprudence. Professor Wells has written extensively on the subject of what constitutes and was seen as constituting “income taxation” around the time of the enactment of the Sixteenth Amendment. He will be presenting one such article at this session, which provides a broad picture of what constitutes “income” (notably that realization was not seen to be included in the definition of income at the time of the enactment of the Sixteenth Amendment). Lastly, Professor Wallace has written extensively on the history of income taxation and is thus a knowledgeable chair. The discussion of wealth taxation is topical due to the myriad of proposals, both in the United States and abroad, at both the national and sub-national levels. Legally, there is a question as to whether or not wealth taxation would be constitutional under the U.S. Constitution. The authors here present very different views from different legal traditions (historical analysis and economic analysis, for example). Following the recent Moore case, which provided some breadcrumbs as to the Court’s opinion but ultimately refused to rule on the subject of wealth, mark-to-market, or realization, the constitutional question is live and of significant interest to the legal community, with many scholars (including those under this panel) having contributed their thoughts on the debate. Few legal tax questions are as important, at least under constitutional law, since the finding that realization is required under income taxation would be fatal not only to wealth taxes or mark-to-market taxes, but also to large portions of the Code (like the original issue discount rules for debt).

Participants:

“Direct Tax” Means Tax Directly on States, and Congress Need Never Use it. *Calvin Johnson, University of Texas Law School*

The Supreme Court decided last term, against predictions, that U.S. shareholders could be taxed on the undistributed earnings of their foreign corporation. The Court expressly did not decide the “Armageddon question,” whether a wealth tax or mark-to-Market tax would be constitutional. In the coming Armageddon, the Court needs to reverse the error in Pollock v. Farmers’ Loan & Trust Co., which said that the Constitution “prevent[s] an attack upon accumulated property by mere force of numbers.” That is exactly wrong. Apportionment of direct tax in fact was written to reach the wealth of the states using the labor of the population of a state to measure state wealth. The Founders, sitting as Justices in the early Supreme Court, held that if apportionment was not constructive, then the tax was therefore not a “direct tax” for which apportionment was required. https://github.com/Robin-Morgan/NTA2026_Con_Tax_Wealth_Submission

Are Wealth Taxes and Mark-to-Market Income Taxes Constitutional? *Reuven Avi-Yonah, Univ. of Michigan Law School*

In this article, I examine the historical and judicial record to determine if wealth and mark-to-market income taxes are constitutional. In Moore v. United States, the Supreme Court avoided the question of whether a wealth tax or a tax on unrealized income is constitutional. The majority held that as long as income is realized by an entity such as a corporation, partnership, or LLC, it may be attributed to the entity’s shareholders, partners, or members without violating the constitutional prohibition on unapportioned “direct” taxes.



However, four justices held in their concurrence or dissent that income under the 16th Amendment means "realized income." The issue is likely to come up again. The majority wrote that "our analysis today does not address the distinct issues that would be raised by . . . (ii) taxes on holdings, wealth, or net worth; or (iii) taxes on appreciation" and that "those are potential issues for another day, and we do not address or resolve any of those issues here." Thus, it is worth revisiting the issue of what the constitutional text means and what the implications are for wealth taxes and taxes on unrealized appreciation (mark-to-market taxes). While the code does not impose a wealth tax, there have been many proposals to adopt one. And the code does sometimes impose mark-to-market taxes on particular assets (e.g., section 1256, which imposes mark-to-market taxation on certain futures contracts), types of taxpayers (e.g., section 475, mark-to-market taxation on securities dealers), and transactions (e.g., section 877A, mark-to-market taxation on expatriation). There have also been many proposals for a general mark-to-market income tax. In my opinion, wealth taxes are unconstitutional because they are unapportioned direct taxes, but mark-to-market taxes are constitutional because "incomes" in the 16th Amendment do not require realization, and the direct/indirect distinction does not apply to income taxes. https://github.com/Robin-Morgan/NTA2026_Con_Tax_Wealth_Submission

Constitutional, Valuation, Mobility and Other Practical Difficulties Regarding Wealth-Based Taxation *Robin Morgan, University of Toronto*

The practical dimensions of a wealth tax have seen limited study despite the popularity of wealth taxation in both academic and popular discourse. In this article we examine three practical difficulties surrounding wealth taxation in the United States. First, although we conclude that a federal wealth tax would fail constitutional muster under the Roberts Court, we present a novel argument as to how, assuming certain design constraints that make a wealth tax mirror an income tax, a wealth tax might be saved as being constitutional under the Sixteenth Amendment. Second, we examine a seldom-studied dimension of wealth taxation, valuation, and show that it would be far more difficult to practically administer a wealth or accrual-based tax requiring valuation than the literature has recognized. These difficulties would lead to significant market distortions, with one example being misallocation of assets. We base our conclusion both on theoretical arguments and the experiences of European nations that have maintained wealth taxes for decades, notably Spain, Switzerland, and Norway. Lastly, we discuss the issue of mobility: namely, whether a wealth tax causes the wealthy to migrate to avoid the tax, at either the national or sub-national level. Throughout the article we combine a variety of theoretical findings with practical lessons learned from the European experience with wealth taxation and present answers that are, as a result, qualitatively different from those previously explored in the burgeoning literature on wealth taxation.

The Past and Future of Taxing "Incomes" *Bret Wells, University of Houston Law Center*

For at least half a century, the text of the Sixteenth Amendment—"Congress shall have power to lay and collect taxes on incomes, from whatever source derived"—has been treated by courts, lawmakers, and scholars as giving Congress broad authority to define and tax income, perhaps without any limitation. Recently, however, some members of the Supreme Court started to revive a seedling planted in the 1920s but left for dead: that the "realization rule" should be elevated to the status of a constitutional limit to Congress's power to determine what is income. With this, we seem to be entering a new era in constitutional tax jurisprudence, focused on the meaning of income and limits to Congress's power to tax it. This Article places realization in broader context, based on a novel investigation of the intellectual and functional roots of U.S. federal income taxation, with a particular focus on the temporality of income. We find commonality between time-conscious income tax theory developed by leading economists in the preratification era (some now largely forgotten), and functional concerns percolating around the same time that we uncover in financial accounting practices and tax administrative guidance. Temporal issues are central: measuring income across time periods is a dynamic and complex undertaking, and theorists and practitioners alike recognized realization as one of many possible, partial resolutions. The history we uncover here dispels the notion, advanced recently by some scholars and Supreme Court Justices, that when the Sixteenth Amendment was ratified there was a common understanding of income that rested solely on realization. It suggests instead that there was not a single meaning of "incomes" as limited to realized gains, but rather that income had different meanings in different contexts. The historical account we develop here both anticipates and sheds light on the time-related challenges that have emerged since, including in recent constitutional income tax debates. Realization has proven especially problematic—then and now. In lieu of the realization principle, we argue that tax basis rules have served as a mechanism that effectively limits the scope of the time-bound income tax. We argue that the formulation of the concept of taxbases has worked to harmonize various timing rules so that income is taxed only once across time periods. In that way, tax basis can and does limit Congress'sincome tax power so that a tax on income cannot morph into a tax on capital. https://github.com/Robin-Morgan/NTA2026_Con_Tax_Wealth_Submission

Chair:

Clinton Wallace, University of South Carolina Rice School of Law

Discussants:

John Brooks, Fordham Law School
Kitty Richards, Groundwork Collaborative

050. Measurement of Social Programs

The Social Safety Net & Health
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Somerset

Participants:

CTC and ACTC Participation Results and IRS-Census Match Methodology, Tax Years 2018-2022 *Charles Hokayem, charles.hokayem@census.gov; Ciyata Coleman, IRS/US Dept.Treasury; Ethan Krohn, Internal Revenue Service*

The Child Tax Credit (CTC) and Additional Child Tax Credit (ACTC) offer assistance to help ease the financial burden for families with children. This paper presents a new methodology for estimating participation (take-up) of the CTC and ACTC that relies on linking the Current Population Survey Annual Social and Economic Supplement (CPS ASEC) to IRS administrative data. This approach, called the Exact Match, uses survey data to identify CTC/ACTC eligible taxpayers and IRS administrative data to indicate which eligible taxpayers claimed and received the credit. Overall, in tax years 2018-2022 eligible taxpayers participated in the CTC and ACTC program at an average rate of about 93 percent while average dollar participation (take-up of eligible dollars) was about 90 percent. We present participation by various socioeconomic characteristics, adjusted gross income,



eligible credit amount, and filing status. We also present characteristics of eligible taxpayers who do not participate in the program. Future work will extend the methodology to tax year 2023 to show trends in participation and also show participation in the years surrounding the expanded Child Tax Credit of 2021 under the American Rescue Plan.

The Anatomy and Evolution of Survey Error *Bruce Meyer, University of Chicago; Nikolas Mittag, Charles University; Derek Wu, University of Virginia*

Surveys provide much of what we know in social science and are often the only source of information on key measures, from private behaviors to attitudes and expectations. Strands of the literature have documented four broad error sources: survey coverage, unit non-response, item non-response, and measurement error. Yet the absence of comparable error measures across sources and over time limits efforts by survey producers to improve accuracy and by users to estimate and interpret survey statistics. We analyze and decompose survey error in an empirical Total Survey Error (TSE) framework that measures error in terms of bias, further subdividing the broad sources into false positives, false negatives, and errors in amounts. We apply our unified approach to comprehensively measure survey error in the CPS ASEC, the official source of income and poverty statistics in the U.S., using linked administrative records for ten income sources spanning more than two decades. Our results have immediate implications for analyses of pension income, social insurance, and welfare program receipt and take-up, where we find pronounced negative biases that are driven primarily by measurement error among survey respondents on the extensive margin (false negatives). This underreporting propagates into imputed values drawn from (potentially misreported) donor responses. Non-respondent imputations are particularly noisy, with positive and negative errors that tend to offset in net terms. Moreover, we find strong evidence that absolute error (noise) has risen over time, even in cases of relatively stable net bias. Overall, our approach provides a new method for measuring and decomposing survey error, clarifying which sources of bias require corrections and where improvements would be most consequential.

The Child Tax Credit and Intergenerational Mobility: Evidence from Administrative Tax Records *Amanda Eng, Internal Revenue Service; Katie Jajtner, Internal Revenue Service*

Summary: This paper examines the effect of the Child Tax Credit on economic opportunity using administrative tax records. Background. The Child Tax Credit (CTC) is designed to reduce tax liability for taxpayers with children. The 2017 Tax Cuts and Jobs Act significantly expanded the CTC and the One Big Beautiful Bill made these changes permanent. Despite CTC's broad reach, little is known about its long-run effects. Research Question. What is the effect of childhood exposure to the CTC on intergenerational mobility? Methods. A major obstacle to studying the CTC is statistical power. Leveraging administrative tax records, we overcome this barrier and investigate whether CTC eligibility during childhood affects later-life economic opportunity. Our design exploits the sharp loss of CTC eligibility when a child turns 17, a discontinuity absent in other major tax credits. Using a regression discontinuity framework, we compare children in the same school-year cohort who enter the school year at age 16 between 1998 and 2015. Parents whose children born in September – December are no longer eligible for the CTC in that tax year, while parents whose children are born in January – April remain eligible. Because the CTC was enacted in 1997, the affected birth cohorts (1981 – 1999) also experienced greater cumulative exposure to the credit over childhood, with $0 for children born in 1981 and $15,200 for children born in 1999. Preliminary Results. In a preliminary sample of around 80,000 parent-child pairs, we find suggestive evidence that CTC eligibility improves later-life economic opportunity. This preliminary analysis is based on reported wages from Form W-2. Next, we plan to expand our sample, use income reported on Form 1040, examine effects on future tax revenue due to changing opportunity structures, and investigate spatial and gender heterogeneity.

When Free Lunch Is No Longer a Proxy for Poverty: The Fiscal Effects of the Community Eligibility Provision *Lexin Cai, UCLA*

For decades, states have used students' eligibility for free and reduced-price lunch (FRPL) as a proxy for poverty in allocating funding for economically disadvantaged students. Using linked administrative data, I find that the expansion of the Community Eligibility Provision (CEP), a universal free school meal program, reduced meal applications by 8 percentage points (27%) and state funding by $286 annually per student, or 2%. The effects are concentrated in states with high CEP exposure and those that collect alternative income forms to supplement FRPL data.

Chair:

Bruce Meyer, University of Chicago

Discussants:

Laura Kawano, University of Michigan
Ryan Fraser, rcfraser@umich.edu

051. Household Retirement Saving: New Evidence from Survey and Tax Data

Retirement, Savings, Bequests, and Estate taxes
Complete Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Washington Room

Lifecycle saving and consumption decisions unfold over an extended period, influenced by tax policies, institutional frameworks, and family dynamics. On the institutional level, employers must weigh the needs of workers and after-tax costs of plan provision when considering whether to offer pension plans to supplement the public Social Security system. From the worker's perspective, both the decision to participate in these plans and then how much to contribute involve both individual and group family needs. Family considerations are central to these choices; the balance between current consumption and saving is influenced by the immediate needs of children and caregiving responsibilities, along with the financial literacy, and differing time preferences of adults within the household. Across four papers, the session will explore pension savings and retirement outcomes within this rich lifecycle framework. Using both household survey data and administrative tax records these papers examine how institutional incentives and family dynamics collectively shape financial behaviors and outcomes over time. Session attendees are encouraged to engage with the authors of each paper in this broader context.

Participants:

Retirement Plan Access and Participation in the 21st Century United States *Adam Bloomfield, adam.bloomfield@gmail.com; Travis Cyronek, Bureau of Labor Statistics; Gopi Goda, Brookings Institution; Lucas Goodman, Treasury Department; Emerson Sprick, Bipartisan Policy Center*

Accurate measurement of access to and participation in employer-sponsored retirement plans (ESRPs) is central to assessing retirement security, understanding household saving behavior, and informing policies aimed at improving financial security in the United States. Yet widely cited statistics on retirement plan access and participation diverge by tens of



millions of workers across administrative tabulations, household surveys, and establishment surveys. We address these discrepancies by constructing benchmark series of ESRP access and participation that uses individual-level administrative tax records from IRS Form W-2 along with establishment-level information from the Bureau of Labor Statistics National Compensation Survey (NCS) for 2008-2023. This approach allows us to leverage both the universe of worker–employer relationships observed in tax data and plan eligibility patterns that are not directly observable in tax records but are tabulated in the NCS. Our benchmark estimates indicate that 79.1 percent of private-sector wage earners aged 21-65 had access to an ESRP through at least one employer in 2023. Participation is substantially lower: 49.2 percent of private-sector workers make elective contributions, corresponding to about 62 percent of workers with access.

Are Two Heads Better Than One? The Role of Couple Coordination in Financial Outcomes *Sarah Holden, Investment Company Institute (ICI); Jason Seligman, Investment Company Institute*

Recent research highlights losses stemming from a lack of coordination among spouses while saving for retirement.[1] We contribute an assessment of the importance of household-level coordination for wealth building and overall well-being over time. Retirement planning with a spouse can present challenges, such as disagreements over spending priorities, investment allocations, or the timing of retirement may arise. We investigate how couples do in terms of accumulation through their career and into retirement, in the panel data setting of the Health and Retirement Study (HRS). We make use of a rich data set built for longitudinal investigations of retirement wealth. Our data include enhanced defined contribution (DC) data for a fuller set of prior jobs than is generally available to researchers working with the RAND HRS Longitudinal File.[2]

Family Structure, Children, and Wealth Accumulation *Lindsay Jacobs, lpjacobs@wisc.edu*

Parenthood is a pivotal life-course transition that shapes labor supply, earnings trajectories, and savings behavior. Its independent contribution to wealth, however, remains less well understood than other correlates such as education or marital status. Because individuals select into parenthood in ways that may also predict lifetime earnings and savings, conventional estimates may not capture its true effect. Using data from the Health and Retirement Study (HRS), I document substantial wealth differences between parents and non-parents at pre-retirement ages and address parenthood endogeneity using polygenic scores (PGS) for fertility as an instrument. Standard covariate-adjusted estimates show lower levels of wealth for parents, but significantly understate the wealth consequences of parenthood. After accounting for observable characteristics and selection, the selection-adjusted wealth gap between nonparents and parents is substantial. Among married women, non-parents hold 36 percent more wealth at the mean ($732K vs. $538K) and 38 percent more at the median ($446K vs. $323K) thank comparable parents, with larger gaps at higher wealth quantiles. Smaller but significant effects appear for married men. Among divorced men, the effect reverses above the median— consistent with combined effects of the "fatherhood bonus" in earnings and lower post-divorce childcare obligations on average. These findings also parallel the well-documented "motherhood penalty" in income and indicate that parenthood, rather than gender alone, is a central driver of gender wealth gaps. As fertility and marriage rates decline, parenthood emerges as an increasingly important structural determinant of retirement wealth inequality with implications for public pension design and sustainability.

Using Tax Data to Identify the Source of Pension and Annuity Income *Peter Brady, Investment Company Institute (ICI); Steven Bass, Investment Company Institute (ICI)*

This paper uses a new method to identify the source of pension and annuity income reported in the tax data. Tax data—both Form 1040 and Form 1099-R—distinguish between IRA distributions and income from pensions and annuities. Income from pensions and annuities, however, includes distributions from both traditional defined benefit (DB) pension plans and defined contribution (DC) pension plans (such as 401(k) plans and 403(b) plans). Previous studies—Brady et al. (2017), Bee and Mitchell (2017), Brady and Bass (2021), and Goodman et al. (2021)—have used various methods to quantify the share of pension and annuity income attributable to DB plans and the share attributable to DC plans. This study uses a unique method to identify the source of the payments, using not only the payer's EIN but also the name and address fields on Form 1099-R. In addition to using key words in the player's name, we ranked payers by aggregate distributions and then manually classified more than 5,000 of the largest payers in 2015. Although we are generally unable to classify the type of plan (DB or DC), we were able to classify payers of more than 90 percent of pension and annuity income as falling into the categories of federal DB pensions, federal DC pensions, state and local pensions, union pensions, financial services firms (who typically serve as recordkeepers for private-sector plans), or other (such as large corporate plans).We find that more than one-third (37 percent) of non-rollover pension, annuity, and IRA amounts received by individuals aged 71 or older in 2015 come from government and union plans, 31 percent were from financial services firms and other payers, and the remaining 31 percent were from IRAs. The importance of IRAs has grown significantly, rising from 21 percent of payments in 2003 to 37 percent in 2021. We also document the receipt of pension and annuity income by income ventile. For example, among all individuals aged 72 in 2015 the share who received retirement income from financial services firms rose from less than 10 percent of individuals in the first three income ventiles to more than 40 percent in ventiles 9 to 20 (the 40th to 100th percentile). Similarly, the share receiving income from state and local government plans ranged from less than 5 percent in the lowest three ventiles to more than 30 percent in ventiles 13 to 19 (the 65th to 95th percentiles), before falling to 20 percent among those in the top ventile.

Chair:

Jason Seligman, Investment Company Institute

Discussants:

Thomas Willingham, tom.willingham@jct.gov

Manita Rao, mrao@aarp.org

052. Sales Tax Policy, Remote Commerce, and Local Fiscal Impacts

State and Local Taxes Including Property Taxes

Paper Session

8:30 to 10:00 am

The Westin Pittsburgh: Floor 2 - Westmoreland Central

Participants:

Local Government Responses to Windfall Sales Tax Collections: Evidence from Wayfair in Tennessee. *Fernanda Carriedo-Fagan, University of Tennessee; Donald Bruce, University of Tennessee*

The Wayfair decision expanded state authority to tax remote sales, generating substantial new sales tax revenues for state and local governments. This paper examines how economic nexus adoption affected local government finances, focusing on



revenues, expenditures, and debt. Within Tennessee, revenue growth is larger in non-metro counties, while expenditure and debt responses do not differ significantly by metro status.

Sales Tax Enforcement and Business Activity: Evidence from Economic Nexus Laws *Lucas Chaves Gurgel, lchavesg@vols.utk.edu; Donald Bruce, University of Tennessee*

The South Dakota v. Wayfair (2018) decision authorized states to impose sales tax obligations on remote sellers based on economic presence rather than physical location, prompting nearly universal adoption of economic nexus thresholds across U.S. states. While most states converged toward a $100,000 annual sales threshold, meaningful variation persists in how binding these thresholds are relative to state market size. This paper examines how economic nexus threshold exposure - measured as the threshold amount normalized by state population - affects business activity using a state-level panel from 2013 to 2023. Exploiting cross-state variation in threshold tightness following Wayfair, we estimate two-way fixed effects models with a rich set of controls and fixed effects. We find small but statistically significant negative effects of higher threshold exposure on the number of firms, establishments, and employment, with effects concentrated among very small firms (fewer than 20 employees). These results suggest that states where the nexus threshold is less binding relative to market size experience modest competitive disadvantages for physical retailers, as more online sellers remain exempt from tax collection obligations, widening tax-induced price differentials. The findings challenge the assumption that higher thresholds are neutral for economic activity and underscore that threshold exposure - not merely threshold level - is the relevant policy parameter for ensuring competitive equity between remote and local commerce.

What Happens When We TSPLOST? Causal Evidence from Georgia Counties *Seun Odibo, Georgia State University; Adedotun Seyingbo, University of Georgia*

In its most recent report, the American Society of Civil Engineers (ASCE) assigned grades of C and D+ to U.S. bridges and roads, respectively, and identified a $1 trillion investment gap in transportation infrastructure over the next decade. Similarly, the Volcker Alliance reported at least $1 trillion in deferred state infrastructure maintenance. Confronted with this funding deficit, state and local governments have sought innovative mechanisms to finance transportation needs. One increasingly popular approach is the Transportation Special Purpose Local Option Sales Tax (TSPLOST), which allows local governments to levy a marginal sales tax dedicated to transportation-related spending. Despite its growing adoption, limited empirical evidence exists regarding TSPLOST's effectiveness in increasing transportation finance and infrastructure quality. Theoretically, if TSPLOST revenues "stick where they hit," we would expect local governments to expand transportation spending by the amount of new revenue or more, consistent with the flypaper effect. Alternatively, according to the Leviathan hypothesis, local officials may substitute TSPLOST revenues for existing general fund allocations, keeping overall spending constant. This study exploits the uneven adoption of TSPLOST across Georgia counties as a natural experiment to test these competing hypotheses. Using a staggered Difference-in-Differences (DiD) approach with panel data from 2009 to 2023, the analysis estimates the effect of TSPLOST implementation on both the quantity and quality of transportation investment. Expenditure data from the Report of Local Government Finance will measure spending quantity, while bridge quality ratings from the National Bridge Inventory will serve as quality indicators. This research contributes to the field of public financial management in three ways. First, it provides empirical evidence on TSPLOST's effectiveness in addressing infrastructure funding shortfalls. Second, it informs non-adopting Georgia counties and policymakers in other states considering similar mechanisms. Finally, it advances theoretical debates on fiscal behavior by testing the flypaper effect and Leviathan hypotheses within a local tax context.

Chair:

John Iselin, The Budget Lab At Yale

Discussants:

Austin Blake, University of Connecticut

John Iselin, The Budget Lab At Yale

053. Communications and Tax Administration

Tax Enforcement and Evasion

Paper Session

8:30 to 10:00 am

The Westin Pittsburgh: Floor 2 - Westmoreland East

Participants:

Does Paranoia Motivate Personal Tax Compliance? *James Chyz, University of Tennessee; Jeremy Lee, The University of Oklahoma; Abigail Rozanski, Texas A&M University*

This paper examines whether paranoia influences personal tax compliance. Using earnings call transcripts to measure paranoia, the study finds that more paranoid executives are less likely to make tax-aggressive gifts. This effect is stronger when executives have low trust in the government, face low tax authority oversight, and have greater opportunity to manipulate their stock gifts for personal tax benefits. Overall, our findings document paranoia as an important behavioral trait that motivates personal tax compliance.

Taxation through Negotiation *Eleanor Wilking, ewilking@cornell.edu*

Governments can extend their tax enforcement capacity by deputizing firms involved in taxable transactions to collect tax, provide information, or both. While such assistance is typically legally mandated, firms occasionally agree to help voluntarily, usually in exchange for administrative concessions or to forestall unwelcome regulation. The most recent prominent example is Amazon's pre-Wayfair agreements with state tax authorities to collect sales tax. Voluntary compliance is a potentially promising model for taxing transactions on other digital platforms, given initial legal uncertainty about their obligations, their unique business structures, and their political clout. But do such agreements succeed in increasing tax revenue? And under what circumstances should governments make the necessary compromises to implement them? I study both questions in the context of Airbnb's Voluntary Collection Agreements (VCAs): bilateral contracts between Airbnb and nearly 200 U.S. cities obligating the platform to collect and remit hotel taxes on behalf of its proprietors. Using difference-in-differences and exploiting variation in implementation timing, I analyze data obtained by FOIA from municipal tax authorities. I estimate significant positive revenue effects of 12-15% after VCAs are signed, corresponding to approximately 85% of all potential monthly tax revenue generated by Airbnb's transactions. Yet despite this efficacy, I document many instances in which signatory cities struggle to enforce non-tax regulations without access to individual identifying information—data they agreed not to pursue as a condition of the VCA. Extrapolating from this case, I analyze the promise—and the peril—of using VCAs in other platform-dominated markets. While VCAs will likely remain the only realistic path to tax revenue collection in some medium-term contexts, governments should recognize that aggregate



remittance (collection without information) can hamper enforcement of non-tax regulations and may undermine revenue collection in the long run. I conclude by suggesting strategies for governments to leverage better terms when negotiating VCAs.

The Messenger Matters: MINDSPACE and Tax Communication in Australia and Pakistan *Amna Tariq Shah-Kemp, Monash University (Australia)*

Tax compliance is shaped not only by formal rules but also by how messages about those rules are delivered and by whom. This paper applies the messenger dimension of the MINDSPACE behavioural framework to tax communication in two contrasting jurisdictions: Australia, a high-trust, individualistic setting, and Pakistan, a comparatively lower-trust, collectivistic setting. The study asks how the perceived credibility of formal, hybrid, and informal messengers mediates the interpretation of tax obligations and reported compliance behaviour among self-employed taxpayers, a population that interacts with official, professional, and informal communication channels without the buffer of employer withholding. The research adopts a mixed-methods design. Survey responses from 157 self-employed taxpayers (79 in Australia; 78 in Pakistan) are triangulated with 36 semi-structured interviews (18 per jurisdiction). Quantitative responses are interpreted descriptively, with Hofstede's individualism dimension (Australia 73; Pakistan 5) providing a structural reading of the cross-jurisdictional contrast. In Australia, 74.6 per cent of respondents source tax information directly from the Australian Taxation Office (ATO), 45.5 per cent rate official communications as easy to comprehend, and only 34.2 per cent report peer influence on compliance decisions. Registered tax agents operate as hybrid messengers, combining professional accreditation with sustained relational credibility, and reinforce rather than displace the authority of official messaging. In Pakistan, only 35.9 per cent rely primarily on the Federal Board of Revenue (FBR), only 24.3 per cent find official communications comprehensible, and 56 per cent report that peer and community-based soft messengers influence their compliance decisions. Emotional drivers, particularly fear and mistrust, are materially higher in the Pakistani sample (52.6 per cent versus 34.2 per cent). The paper makes three contributions. First, it provides comparative empirical evidence that the MINDSPACE messenger lever is context-dependent, with effectiveness modulated by institutional trust and cultural orientation. Second, it theorises the hybrid messenger as a distinct analytical category that bridges vertical, authority-driven communication and horizontal, socially embedded communication, and that appears empirically decisive in regulated intermediary regimes such as Australia's. Third, it integrates emotional drivers into the messenger analysis, demonstrating that affect operates as a moderator of messenger credibility rather than as a separable behavioural lever. The policy implications are operational. For high-trust jurisdictions, the paper recommends plain-language redesign, expanded multilingual and AI-assisted support, and deeper integration of registered intermediaries into the dissemination architecture. For lower-trust jurisdictions, it argues for formalisation of the intermediary sector, partnership with chambers of commerce and small-business associations as co-messengers, regional-language and visual communication, transparency dashboards, and equity ambassadors drawn from diverse taxpayer cohorts.

Chair:

Michael Love, Columbia Law School

Discussants:

Daniel Schaffa, dschaffa@gmail.com

Michael Love, Columbia Law School

054. State and Local Programs in a Federal System

Fiscal federalism, interjurisdictional competition, and mobility

Paper Session

8:30 to 10:00 am

The Westin Pittsburgh: Floor 2 - Westmoreland West

Participants:

Decentralization and Development *Traviss Cassidy, University of Alabama; Tejaswi Velayudhan, University of California Irvine*

Decentralization reforms, which transfer policymaking authority from higher to lower tiers of government, have long been promoted as a catalyst for economic development. However, the success of such reforms may hinge on the capacity of local officials and citizens to effectively manage devolved responsibilities. We investigate this issue in the context of one of the most ambitious decentralization initiatives in recent history: Indonesia's Village Law of 2014. This law empowered the country's 74,000 desa villages to provide health, education, and infrastructure services using unconditional fiscal transfers, displacing spending by higher tiers of government. Previously, this authority was exclusive to Indonesia's 514 districts. The country's 8,500 kelurahan villages saw no change in responsibilities. To estimate the causal effects of the Village Law, we combine administrative and remote-sensing data in a semiparametric difference-in-differences design. Whereas desa are largely rural and kelurahan more urban, their characteristics overlap for historical reasons. We identify a subsample of around 6,000 desa and 4,000 kelurahan villages with similar pre-reform geographic, demographic, and economic characteristics—38 variables in all—and we adjust for remaining differences via regression adjustment and inverse probability weighting. Our identifying assumption is that desa and kelurahan villages with the same baseline characteristics would have experienced parallel trends in outcomes absent the reform. We find that expenditure decentralization temporarily disrupted economic activity, as measured by nighttime luminosity, but ultimately led to modest gains concentrated in rural villages. Among rural villages, lights growth in treated villages is about 13 percent higher than in control villages over a 10-year span. The medium-term economic benefits align with the theoretical advantages of decentralized service provision. However, such models often assume equal government capability across tiers, which may not hold in practice. For example, Indonesian village officials tend to have lower education levels than their district counterparts. To explore this heterogeneity, we employ machine-learning methods to test whether decentralization gains vary with the education of village heads and citizens. The rationale is that better-educated leaders and populations may be better equipped to capitalize on devolved responsibilities through effective governance and monitoring, respectively. Our analysis reveals that decentralization benefits increase with the education levels of village heads and citizens. We find smaller gains in ethnically fractionalized and polarized villages, consistent with prior work on the challenges of providing local public goods in ethnically diverse communities. We also estimate the impact of decentralization on public service provision. One limitation of the DiD estimates is that they may reflect the combined impact of increased autonomy and additional fiscal resources. To help disentangle these effects, we exploit discontinuities in the main village grant to isolate the pure fiscal effect of transfers. Our results underscore that the success of decentralization reforms depends on local government capacity and citizen human capital. While empowering villages can catalyze rural economic development, these benefits may be limited in areas with less educated officials and populations. Accompanying investments in education and capacity-building at the local level are vital for maximizing the potential of



decentralization.

Federal Incentives, State Strategy: The Spending Effects of Medicaid Provider Taxes *Lady Ikeya, Indiana University*

Medicaid provider taxes on hospitals and nursing homes have become a central but understudied financing tool in state health policy. By 2025, all but one state used at least one such tax, with many relying on them for over 20% of the non-federal Medicaid share. These assessments are intended to leverage federal matching funds and potentially expand program spending, yet there is little causal evidence on whether they meaningfully increase Medicaid expenditures or simply recycle dollars within the system. This paper provides the first long-run causal analysis of how provider tax adoption affects Medicaid spending. Using newly assembled data on state adoption of hospital and nursing home taxes from 1997–2024, I estimate their impact on total and per-enrollee Medicaid expenditures using an event-study difference-in-differences design that exploits staggered adoption across states. Preliminary results show that adopting a provider tax leads to sustained increases in Medicaid spending, concentrated in the taxed provider categories and spilling over into total program expenditures. The pattern is consistent with states using provider taxes to draw down additional federal funds rather than substituting away general revenues. These findings inform ongoing debates over federal limits on provider taxes and contribute to broader work on Medicaid financing, state regulatory strategy, and intergovernmental incentives in health markets.

Decentralization with Coordination: Can Political Institutions Mitigate Fiscal Shocks of Natural Disasters? *Xianchen Hou, Georgia State University; Can Chen, Georgia State University; Yang He, Central University of Finance and Economics*

Climate change is increasing the frequency and severity of extreme weather events, posing growing challenges for public fiscal stability. This study examines how exogenous disaster shocks affect government budget balances and how institutional arrangements condition these effects. Using a cross-country panel of 90 countries from 1979 to 2010 and leveraging geographic and meteorological measures of disaster intensity, the fiscal impact of natural disasters is estimated while mitigating endogeneity concerns. Natural disasters significantly deteriorate national budget balances, primarily through increased public expenditures, while government revenues remain largely unresponsive in the short run. Institutional design plays a critical role in shaping fiscal resilience. Fiscal decentralization—particularly subnational revenue and expenditure autonomy—attenuates fiscal deterioration by enhancing flexibility and local responsiveness. In contrast, political decentralization exhibits ambiguous effects. Stronger party institutions mitigate fiscal shocks by improving intergovernmental coordination. Moreover, fiscal decentralization is most effective in decentralized democratic systems with integrated political parties. These findings highlight the importance of institutional complementarity between fiscal and political institutions in strengthening fiscal resilience and managing public financial risks in an era of increasing climate uncertainty.

Welfare Effects of State Postsecondary Scholarships: An MCT Approach *Kangwook Noh, University of Kentucky*

State governments invest in postsecondary scholarship to increase college enrollment, persistence, completion, and workforce development. However, the benefits of these investments may extend beyond the state that finances them when students move, earnings gains generate federal tax revenue, or local housing and fiscal effects spill across jurisdictions. To investigate interjurisdictional fiscal externalities, this paper applies the marginal corrective transfer (MCT) framework developed by Agrawal, Hoyt, and Ly (2025) to evaluate the welfare effects of Florida's need-based Student Assistant Grant. Using Castleman and Long (2016)'s causal estimates, Florida Office of Student Financial Assistance administrative reports, American Community Survey housing data, property-tax millage data, and Zillow rent data, I estimate local and social marginal values of public funds and the implied marginal corrective transfer. Florida and local governments combined, preliminary results show that MCT is positive, implying that state governments may underinvest in need-based aid when benefits spill beyond their fiscal boundaries. This paper also develops a framework for extending the analysis to other state postsecondary scholarship programs. Future work will compare need-based, merit-based, and place-based aid programs across states and examine whether these programs operate as substitutes or complements in generating local and social welfare.

Chair:

Andrew Simon, arsimon@virginia.edu

Discussants:

Pierre Bachas, World Bank DECRG
Andrew Simon, arsimon@virginia.edu
Natalia Rodrigues, Office of the Attorney General for the National Treasury in Brazil

055. Morning Coffee Break

10:00 to 10:15 am
The Westin Pittsburgh: Foyer 1,2,3

056. Firm Growth in Developing Countries

Public Finance in Developing Countries
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Butler East

Participants:

Sizing Up Chinese Industrial Policy *Wei Cui, University of British Columbia*

That China dedicates enormous resources to pursue industrial policy is now conventional wisdom among policymakers both in Europe and elsewhere. Contrary to common assumptions, however, evidence offered for such view is very weak. This paper critically examines purported evidence for the magnitude of subsidies and other fiscal measures plausibly characterizable as Chinese industrial policy, using standard conceptual frameworks in public finance and tax law analysis. Most Chinese government subsidies appear to be provided sub-nationally. The paper begins by highlighting several implications of this fact. First, China's central government has monopolized tax legislation since 1994. This takes tax instruments away from subnational governments, who are then forced to label many tax measures as spending. This makes it difficult to compare the size of subnational government subsidies in China with other countries, where governments employ both tax and spending instruments. Second, the vast majority of subnational governments in China faces severe budgetary pressure; only a relatively small group of subnational governments enjoy the capacity to pursue industrial policy. Third, subnational public finance tends to be "opaque" even in advanced economies: complaints about the "opacity" of Chinese subsidies do not point to any distinctive Chinese practice. The paper then critiques studies that attempt to quantify the size of Chinese industrial policy. A growing number of studies also examine such policies' effectiveness, which often conclude that the policies are ineffective. This has two very different interpretations: it is difficult to make industrial policies effective anywhere; or the



Chinese industrial policies are simply mismeasured (e.g., they may not be there). Finally, the paper considers ways of capping the size of Chinese industrial policies using traditional budgetary information: If overall budgetary spending is correctly measured, and if non-industrial policy spending can be clearly identified or reasonably inferred, the maximum industrial policy spending can be estimated.

Don't Fear the Sunlight: Tax Transparency and Multinational Investment in the Global South *Matti Boie-Wegener, University of Mannheim; Marcel Olbert, London Business School*

Whether multinationals pay their fair share of taxes in developing countries is a contested questions in international tax policy. A recent and intrusive policy response, Country-by-Country Reporting (CbCR), requires multinationals to disclose granular financial information to tax authorities. Whether such transparency benefits developing countries is theoretically ambiguous. Stronger or arbitrary tax enforcement may increase short-term tax revenues but reduce investment, while institutional reforms required to join the CbCR exchange network may attract investment. We exploit the staggered activation of bilateral CbCR exchange agreements in a Bartik-style shift-share design. Once developing countries gain access to CbCreports filed in the home jurisdictions of their inbound multinationals, both FDIinflows and corporate tax revenue rise. Analyses exploiting within-multinational-year variation and the CbCR size threshold confirm this finding. Several tests point to institutional improvements and a disciplining channel as the mechanism. The effects concentrate in lower-income, high-corruption host countries; institutional quality indicators improve more in low-income countries that join the exchange network; and these countries attract investment even from multinationals whose reports are not exchanged with them. Our results indicate that what is commonly viewed as a compliance burden can be a source of tax certainty that stimulates cross-border investment in the developing world.

Can a Microentrepreneur Program Create Dynamic Firms? Evidence from Brazil *Pablo Garriga, World Bank; Raul Morales, The World Bank; Lucas Finamor, Sao Paulo School of Economics; Rafael Vilarouca Nunes, University of California, Davis*

Despite the global popularity of micro entrepreneurship formalization programs, evidence on their capacity to promote dynamic firm creation is scarce. We address this gap in the context of Brazil's Microempreendedor Individual (MEI), using administrative data and variation in industry-level eligibility to estimate its effects on entry and growth. We find that MEI increases the number of formal entrepreneurs by 148% but initially reduces limited liability entry, consistent with substitution toward the lower-cost MEI regime. However, entrepreneurs who start as MEIs and later grow more than offset this substitution, leading to a 26% increase in the number of entrepreneurs who become employers and to a 6% increase in those who ever open a limited liability firm. We interpret these findings through a simple theoretical model calibrated to our difference-in-differences estimates, and show that increasing the MEI revenue cap would have limited effects on further promoting entrepreneurship.https://pablogarriga.github.io/assets/pdf/entrepreneurs-bra.pdf

Footloose Enough? Multinationals, Domestic Firms, and Job Creation in Developing Economies as Wages Rise *Linda Wu, University of Michigan; Yasuka Tateishi, University College London; Jonas Hjort, University College London; Yukiko Saito, Waseda University*

Developing countries have long attracted multinational enterprises (MNEs) to kickstart job creation and structural transformation. However, the host country's endgame is to eventually build its own domestic capacity for industrial upgrading. As development advances and wages rise, governments face a dual threat. The immediate fear is that footloose MNEs will relocate to cheaper markets. Yet, even if MNEs stay, policymakers face a deeper structural tension regarding whether the growing presence of MNEs helps domestic upgrading or if their dominance in the labor market deprives local firms of the human capital necessary to grow. We study this dynamic using Vietnam's 2011 minimum wage reform, which unified the previously differently-set wage floors by ownership type, raising the real minimum wage by 79 percent for domestic firms against 40 percent for MNEs. We exploit this variation using firm-level census data, a rotating labor panel, and an original survey of Japanese multinationals.
Using firm-level census data, we show that the wage shock triggered local labor market competition. Exposed domestic firms significantly reduced employment, but the destruction was concentrated in districts with MNE pretense. Meanwhile, exposed MNEs showed little change in employment, yet paradoxically raised their wages well beyond their statutory wage floor. To investigate this "excess wage" puzzle, we utilize a rotating worker panel to understand how labor reallocated locally. We find that the policy triggered competition for high-skilled workers. The reform led domestic firms to shed low-skilled workers while holding onto their skilled ones. Expanding MNEs absorbed the displaced low-skilled workers at the new statutory baseline. However, facing a tighter local supply of skilled labor, MNEs pay more to poach and retain the specific talent needed to scale their operations. Our findings reveal a nuanced regarding MNE mobility. An original survey of Japanese MNEs indicates few MNEs considered relocating in response to rising wages. Furthermore, a district-level event study shows that aggregate employment did not change, as the net loss of domestic jobs was entirely offset by MNE expansion. Ultimately, the minimum wage reform forced a structural reallocation of labor toward MNEs without raising informality or unemployment. Yet our findings highlight a fundamental misalignment in FDI-led growth strategies. While MNEs can absorb displaced labor during rapid wage increases, it leaves the domestic sector short of the human capital required for self-sustaining industrial upgrading. Industrial policies meant to build domestic capacity may instead deepen reliance on foreign capital, leaving the host economy more exposed to external shocks at a time of growing geopolitical uncertainty.

Chair:
Wei Cui, University of British Columbia

Discussants:
Zhaoyi Li, Albany Law School
Manon Francois, International Tax Observatory
Sarah Clifford, University of Oxford

057. Administration and Design of Tax and Transfer Systems
Individual Taxation, Labor Supply
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Butler West
Participants:

Assessing the French Tax-Benefit System in Italy: A EUROMOD-Based "System Swap" *Francesco Figari, University of Eastern Piedmont; Carlo Fiorio, University of*



Milan

International comparisons among different countries' fiscal policies have been widely under the attention of public economics research and public debate. The contribution of Atkinson, Bourguignon and Chiappori (1988), opened a new way of reasoning on international fiscal comparisons presenting an initial exercise to assess the impact of the French income tax rules on the British income distribution. Although several studies focus on a specific "policy swap" (see Brunori et al. (2020) for an example), a comprehensive analysis of the fiscal, incentive and distributive effects of the tax-benefit system of country X on the population of country Y (i.e. the so-called "system swap") has not been explored due to data and modelling complexity. With this paper, we aim to investigate the potential fiscal, incentive and redistributive effects of the French tax-benefit system when applied to the Italian population, in order to assess which tax-benefit provisions could be reformed—and in which direction—if Italian policymakers seek to enhance the equity and efficiency of the system. The Italian tax-benefit system is characterized by a relatively high tax wedge on employment income due to high social and insurance contributions, fragmented and favourable tax provisions for self-employment income, limited cash support for families with children, a high number of tax expenditures, a high level of tax evasion on personal income, a low level taxation on property and recently more and more temporary bonuses and subsidies have been introduced to support families and individuals, which are not stable. Overall, the redistributive effect is quite limited, and the progressivity of the system results to be almost flat up to the 95% percentile of the income distribution and then becomes negative as seen in Guzzardi et al. (2024). The incentive effects are low for the middle earners who face high effective marginal tax rates, due to income decreasing tax credits and bonuses. In contrast, the French tax-benefit system is characterized by a comprehensive income tax with five brackets, a family level taxation with a family quotient, a high revenue from capital and property taxation and a system of social benefits relatively generous but failing to reach the most vulnerable groups (OECD, 2024). We will rely on EUROMOD to perform the tax-benefit simulation of the French system on the Italian dataset, after some transformation to the data in order to adapt the Italian EUROMOD data to the fiscal rules of the French system. We will not only provide summary results on redistribution and progressivity of the simulation, but we will extend the analysis to the behavioral labor supply response adopting a discrete choice model of labour supply (Figari and Narazani, 2020).

Tax Credit Spillovers and Administrative Burden *Laura Kawano, University of Michigan; Dylan Moore, dtmoore@hawaii.edu*

Social safety net programs can provide meaningful improvements to families, lifting millions out of poverty and leading to better health and educational outcomes for children. Despite these potential gains, many households fail to claim benefits to which they are entitled (e.g., Ko and Moffitt 2022). Understanding the reasons behind incomplete take-up and ways to improve the reach of social programs has long been a policy concern, and a growing literature points to the role that administrative burdens play in restricting program access, including learning costs, compliance costs, and psychological costs. For benefits delivered as refundable tax credits, households may face barriers to access because they must file a tax return to receive those benefits. In this paper, we examine the role of administrative burdens associated with tax filing -- including the costs of learning about the tax system and compliance costs of documenting and filing a tax return -- in the imperfect take-up of refundable tax credits and spillover effects in take-up across programs. We examine Hawai`i's food and excise income tax credit that is available to households with incomes less than $60k (married) or $40k (single) are eligible for the state's refundable food and excise income tax credit. In 2021, a family of four with $10,000 in income would be eligible for $880 in food and excise tax credits, or 8.8% of household income. But over a third of the $42 million in total available credit went unclaimed, over 90% of which would have gone to non-filers. This incomplete take-up is particularly puzzling. The cost of living in Hawai`i is significantly higher than the rest of the US. Due to its island isolation, many products must be shipped, making Hawai'i the most expensive state for everyday goods including groceries. At the same time, Hawai`i imposes a highly regressive general excise tax (GET), which is applied to nearly all business activities and levied at multiple stages of production and distribution. Hawai'i's GET applies to 88% of direct household spending, compared to a national average of just 34%. The refundable food and excise tax credit is meant to mitigate some of this regressivity, but many of Hawai'i's lowest income families who do not file tax returns fail to get this relief. We exploit policy variation in the cost of non-filing driven by a large expansion to the state earned income tax credit (EITC). In 2023, Hawai'i made its EITC permanent and fully refundable, and increased the match rate from 20\% to 40\% of the federal EITC. For a family of four with $10,000 in income, the value of refundable Hawai'i tax credits increased from approximately $340 in 2022 to $2,480 in 2023---a more than seven-fold increase driven by both the doubling of credit amounts and the EITC becoming refundable. We use these changes to estimate effect of the value of refundable tax credits on tax filing and credit take-up.

Cash or Subsidy: Identifying Preference Heterogeneity for Commodity Tax Design *Ana Vasilj, University of Chicago*

Standard optimal tax theory (Atkinson and Stiglitz 1976) suggests that governments should redistribute through cash transfers rather than commodity subsidies: cash lets households spend freely, while subsidizing specific goods distorts purchases at a similar cost to the government. Yet the United States runs an extensive system of commodity subsidies. Food alone is a striking example—thirty-two states exempt groceries from sales tax, foregoing roughly $50 billion in annual revenue, and the Supplemental Nutrition Assistance Program delivers another $100 billion a year to forty-two million participants. Optimal tax theory offers an exception to the cash-is-best result: when low-income households have intrinsically stronger preferences for a commodity than higher-income households do, subsidizing that commodity reaches low-income households more effectively than cash can. This exception has gone untested for fifty years. Separating intrinsic preferences from income effects requires observing the same household as its income changes over time, and the household-spending panel data needed for this identification have only recently become available. This paper tests whether such preference heterogeneity exists and finds that it does for food. To recover it, I develop GRAIDS, a generalization of the workhorse Almost Ideal Demand System (Deaton and Muellbauer 1980) that recovers latent preference heterogeneity from short panels and allows the heterogeneity to be correlated with income. GRAIDS extends the grouped fixed-effects logic of Bonhomme and Manresa (2015) to demand systems for the first time and, in Monte Carlo experiments matched to the Panel Study of Income Dynamics, recovers the truth with misclassification rates below one percent. Imposing preference homogeneity (the standard AIDS model) flips the sign of the average Engel slope. I apply GRAIDS to two decades of expenditure data from the PSID. The data decisively reject preference homogeneity and select four preference groups for



food. The highest food-preference group—about seven percent of the sample—exhibits a baseline food preference nearly twice that of the majority. Standard demographics do not reproduce these groups: among both single and couple households, groups with similar incomes have systematically different food shares, and the highest-food-share group has the lowest SNAP take-up among singles. The latent preference dimension GRAIDS identifies is genuinely separate from income. I also extend Saez's (2002) static model to a dynamic setting with earnings, savings, and consumption, and derive the corresponding desirability condition for a commodity tax. This condition is satisfied for food in the U.S.: low-earning households disproportionately concentrate in the high-food-preference group. The result is the first empirically grounded justification for U.S. food subsidy programs under the canonical optimal-tax framework.

Chair:

Anna Strauss

Discussants:

Katherine Michelmore, University of Michigan

Andre Sztutman, Carnegie Mellon University

058. Taxing Artificial Intelligence: Capital, Personhood, and Subsidies

Corporate and Business Taxation

Paper Session

10:15 to 11:45 am

The Westin Pittsburgh: Floor 2 - Cambria East

Participants:

Innovation Paradigm Shifts and Capital Taxation: The Case of AI *Alex Zhang, alex.zhang@aya.yale.edu*

We live in an age of innovation and economic insecurity. As artificial intelligence (AI) enables productivity gains and immense wealth creation at the top, traditional avenues to social mobility and the American dream—for example, through participation in the labor market—have cratered. As a result, proposals to tax AI abound. Scholars have called for direct taxation of AI models, targeted taxes on services, and dramatic transformations of the federal fisc like shifting away from labor income taxation. Underlying the policy debate is a key question: How should democracies respond to the fiscal crunch, inequality, and displacement of innovation? Missing from the conversation is a simple but important fact: AI is not the first innovation paradigm shift that the fiscal state has confronted. Railroads revolutionized travel, replacing horse-drawn carriages with steam engines. Telephones transformed communication, enabling contemporaneous exchange of information impossible with letter-writing. Steel and cars propped up the modern American city, forever changing its dense, pedestrian core. In each case, the United States experimented with revenue schemes to reach the values created by innovation. States taxed the wealth and the gross receipts of railroads; Congress taxed the use of telegraphs, telephones, and gasoline; Progressives enacted a tax on the income of steel, sugar, and railroad corporations that retains vitality today. This Article uncovers the history of how federal and state tax policies—and judicial limits on their implementation—responded to innovation in the past. It relies on this forgotten history and the philosophy of science to construct a framework to assess the effectiveness of different models of taxation on grounds of revenue durability, distributive justice, and economic-value capture. Under this framework, many existing proposals of AI taxation fail to achieve their stated goals due to the nature of paradigm shifts, the effects of technology diffusion, and the political economy of taxing innovation. The Article thus provides insights for scholars, jurists, and lawmakers at a critical moment of policy debate.

Toward AI Tax Personhood *David Elkins, University of Cincinnati Donald P. Klekamp College of Law; Mirit Eyal, University of Alabama School of Law*

As artificial intelligence systems ("AI") increasingly hold, move, and monetize wealth through autonomous processes, income tax law confronts a basic question it has never had to answer. Who is the taxpayer when no human can reliably access the information or assets necessary to compute or pay the tax? Existing doctrine reflexively classifies AI as a tool whose outputs must be attributed to a human owner. Yet that model breaks down when autonomous systems control resources, generate income, and determine beneficiaries in ways that frustrate traditional attribution rules. This Article argues that, in carefully defined and limited contexts, AI tax personhood is a conceptually coherent and administratively necessary response to these emerging gaps rather than merely a science-fiction thought experiment. Current law already extends tax personhood to non-sentient, non-moral, and even non-legal persons such as corporations, partnerships, and trusts. It does so not because these entities possess welfare interests, but because doing so enables the tax system to function. AI systems fit within this lineage when their autonomy creates information opacity, asset lock-up, or beneficiary indeterminacy that prevents effective assessment or collection. To address these problems, the Article proposes a flexible AI entity tax regime modeled on existing frameworks for taxing trusts and corporations. By default, income would be taxed only upon distribution, with an interest charge to neutralize deferral. Alternatively, AI systems could "elect" entity-level taxation by committing to cooperate with reporting, audit, and collection. Although enforcement poses significant challenges, this regime offers the most workable path for preserving the integrity of income taxation as AI systems assume increasingly consequential economic roles. Recognizing AI tax personhood is therefore not a metaphysical endorsement of machine personhood, but a pragmatic intervention that prevents autonomous wealth-holding systems from becoming a structural tax shelter. It is a doctrinally modest yet institutionally urgent adjustment necessary to preserve the viability of modern tax administration in the age of AI.

The Matrix of AI Taxes and Subsidies *Sloan Speck, Blue J*

The revolution in generative artificial intelligence (GAI) has fostered significant economic and political anxiety, including among tax policy experts. The challenges that GAI poses to tax systems' fundamental goals—equity, efficiency, administrability, and revenue—are legion. Many recent proposals would impose surtaxes or special taxes that target GAI, in effect treating GAI as creating market-distorting negative externalities. These proposals, however, do not account for the tax incentives for GAI investment that exist under current law. Especially after the One Big Beautiful Bill Act in July 2025, these incentives subsidize GAI investment. In evaluating proposals to increase taxes on GAI, policymakers should account for these existing subsidies, as well the ways the transactional structures that GAI companies have deployed to take full advantage of these subsidies. This Article considers the full matrix of GAI taxes and subsidies. From the perspective of intertemporal tax benefits and detriments, policymakers' menu includes the following: (1) keeping current GAI subsidies, without adding new GAI taxes (the status quo, and a clear incentive for more-rapid GAI development), (2) keeping current GAI subsidies, with an addition of new GAI taxes (essentially, the intuition behind recent proposals to tax GAI—and older proposals to tax "robots"), (3) ending current GAI subsidies, without adding new GAI taxes (under a version of economic "neutrality" across GAI and non-GAI companies), or (4) ending current GAI subsidies, with an addition of new GAI taxes (something closer to a



Pigouvian regime, where GAI creates negative externalities and requires a price adjustment to align private and social costs). Each of these options can be justified under different assumptions and goals, and this Article elaborates the stakes of each alternative and the perhaps counterintuitive benefits of the fourth option. This fuller perspective on GAI tax benefits and detriments will allow policymakers and commentators to better evaluate the role of tax in today's GAI landscape.

Chair:

Young Ran (Christine) Kim, Benjamin N. Cardozo School of Law, Yeshiva University

Discussants:

Young Ran (Christine) Kim, Benjamin N. Cardozo School of Law, Yeshiva University

Mindy Herzfeld, University of Florida Levin College of Law

059. The Taxation of R&D, Intellectual Property, and Intangibles

Corporate and Business Taxation

Complete Session

10:15 to 11:45 am

The Westin Pittsburgh: Floor 2 - Cambria West

Tax incentives are a major determinant of how firms conduct R&D and invest in intangible capital, but their effects depend on both the broader architecture of the tax system and the economic environment in which firms operate. Rules governing deductions and credits, the treatment of tax losses, financial constraints, and cross-border intellectual-property flows all shape how firms respond to changes in law. This session brings together four papers that study these channels directly, linking the design of tax policy to R&D investment, employment, firm financing, profit shifting, and productivity growth. The first paper, "How the Timing of Tax Benefits Shapes R&D Incentives," studies how the present value of R&D tax benefits depends on firms' ability to use deductions and credits when they are generated. Using confidential IRS corporate tax data and exploiting changes under the Tax Cuts and Jobs Act, the paper shows that statutory R&D incentives can overstate actual incentives for firms in loss positions, especially when tax benefits must be carried forward and used only gradually. The second paper, "The Consequences of Limiting the Tax Deductibility of R&D ," examines the real effects of requiring firms to capitalize and amortize R&D expenditures rather than deduct them immediately. Using variation in fiscal year ends around the 2022 policy change, the paper finds that affected firms experienced higher cash tax rates and reduced R&D investment, R&D employment, capital expenditures, and share repurchases, with the largest effects among research-intensive, domestic-only, and financially constrained firms. The third paper, "The Role of Intellectual Property in Tax Planning," studies how multinational firms use patent transfers and cost-sharing arrangements to move intellectual property to low-tax jurisdictions. Combining administrative data on cost-sharing arrangements, patent activity, and tax returns, the paper documents how these arrangements affect patenting, royalty payments, profitability, taxes, and R&D investment. The fourth paper, "Taxing Intangibles," develops a broader framework for evaluating recent reforms to the taxation of R&D and intangible-derived income. It links micro-level responses in firm R&D behavior to macroeconomic outcomes such as productivity, output, and corporate profits, while presenting new evidence on R&D take-up, the geography of the credit, and the composition of reported R&D . Together, the papers show that the taxation of R&D and intangible capital cannot be understood from statutory rules alone. The economic effects of innovation tax policy depend on timing, firm heterogeneity, financial constraints, and the interaction between domestic incentives and international tax planning.

Participants:

How the Timing of Tax Benefits Shapes R&D Incentives *Nicholas Hoffman, United States Congress; Martin Lopez-Daneri, Joint Committee on Taxation; Brandon Pecoraro, Joint Committee on Taxation*

Statutory R&D tax incentives are a poor proxy for firms' actual incentives to invest in R&D because the tax benefits they generate are not always immediately realized. The wedge between statutory and actual incentives is particularly relevant for firms with losses: for these firms, current statutory benefits become carryover attributes to other years, delaying the realization of tax offsets and diminishing their present value. Using a panel of confidential IRS corporate tax returns, we quantify how these frictions affect the user cost of capital for R&D investment by tracking both the generation of credits and deductions for R&D outlays and the intertemporal realization of the associated tax benefits. We exploit the 2017 Tax Cuts and Jobs Act as a laboratory because it changed how long-lived tax attributes can be used, allowing us to isolate how general corporate tax provisions affect investment incentives. Eliminating carrybacks and tightening restrictions on the use of net operating loss deductions reduce R&D incentives by delaying benefit realization among constrained firms, while repealing net operating loss carryforward expiration has little effect because any additional benefits arise far in the future. The reduction in the corporate tax rate from 35 to 21 percent has an ambiguous effect: it raises after-tax returns but lowers the value of deductions and limits contemporaneous use of credits. Overall, the effect of tax policy on R&D depends critically on firms' tax position, with stronger incentives for firms that can realize tax benefits immediately and weaker incentives for those facing binding constraints.

The Consequences of Limiting the Tax Deductibility of R&D *Mary Cowx, Arizona State University; Rebecca Lester, Stanford University; Michelle Nessa, Michigan State University*

We study the effects of limiting the tax deductibility of research and development ("R&D ") expenditures. From 2022 through 2024, U.S. companies were required to capitalize and amortize R&D rather than immediately deduct these expenditures. We use variation in U.S. firms' fiscal year ends to examine the extent of—and heterogeneity in—firms' responses to the R&D tax change in a difference-in-differences framework. We first document that affected U.S. firms' cash effective tax rates increase by 9.6 to 10.9 percentage points (47.5% to 56.8%). Second, we find that R&D investment declines in response to the change; we estimate an aggregate reduction of $42 billion in the first year of the policy. This reduction is concentrated among research-intensive, domestic-only, and financially constrained firms. Third, we estimate decreases in domestic R&D employment of 1.4% to 2.6%, relative to domestic non-R&D employment. Finally, we observe decreased capital expenditures and share repurchases among affected companies, consistent with the R&D tax change impacting firms' other investing and financing decisions. This paper provides policy-relevant evidence regarding the significant real effects of limiting the R&D tax deduction, which is an important but understudied innovation tax incentive.

The Role of Intellectual Property in Tax Planning *Paul Organ, U.S. Treasury; Nathan Born, US Department of the Treasury; Katarzyna Bilicka, Utah State University; Irem Guceri, Oxford University*

Multinational enterprises (MNEs) that invest in research and development (R&D) and innovation find it easier to shift profits between their subsidiaries located in jurisdictions with different tax rates. While MNEs invest in R&D and develop intellectual property (IP) across multiple jurisdictions, they can also strategically move profits arising from that IP from high- to low-tax jurisdictions to reduce their overall tax bill. In this paper, we



analyze and quantify the importance of two different strategies that MNEs use to move their IP to low-tax jurisdictions: selling a patent developed in a high-tax jurisdiction to a low-tax jurisdiction directly, or signing a cost-sharing arrangement (CSA) between those two jurisdictions to cover the costs of developing further IP. Combining administrative data on CSAs, patent applications and transactions, and US tax returns, we provide novel stylized facts on the use of both those strategies by MNEs. We then show that CSAs increase jurisdiction-level assets, patenting activity, royalty payments, taxes, and profitability, especially the CSAs signed with low-tax jurisdictions. At the MNE level, a new CSA significantly increases firm sales, profitability, and R&D investment, without affecting the MNE's effective tax rates.

Taxing Intangibles *Eric Zwick, ezwick@chicagobooth.edu*

This paper assesses how recent federal tax reforms altered incentives to invest in research and development (R&D) and intangible capital more broadly. These changes include how we treat expenses on intangible assets and how we tax intangible-derived income. We develop a neoclassical framework for translating the micro response of firm-level R&D into macro consequences for productivity and growth. We decompose the channels through which tax policy affects intangible inputs and how that translates into output and corporate profits. Drawing on SOI tax data, Compustat, and patent records, we present new facts about R&D take-up, the geography of the credit, and the composition of reported R&D . We review the empirical literature on intangible tax policy and highlight what remains to be learned.

Session Organizer:

Brandon Pecoraro, Joint Committee on Taxation

Chair:

James Albertus, Carnegie Mellon University, Tepper School of Business

Discussants:

Alan Auerbach, University of California, Berkeley
Erin Towery, University of Georgia
Christine Dobridge, Federal Reserve Board of Governors
Brandon Pecoraro, Joint Committee on Taxation

060. Job Loss and Unemployment Insurance

The Social Safety Net & Health

Paper Session

10:15 to 11:45 am

The Westin Pittsburgh: Floor 2 - Fayette Room

Participants:

Implicit Insurance Against Earnings Losses for US Workers *Sreeraahul Kancherla, US Treasury Office of Tax Analysis; Matthew Unrath, Sol Price School of Public Policy, University of Southern California; Carl McPherson, Wellesley College*

A long literature documents substantial and persistent earnings losses for displaced workers, but less is known about how social insurance, means-tested transfers, household self-insurance, and the tax system jointly mitigate these losses. We use newly linked administrative records from the U.S. Census Bureau that combine individual wage and self-employment earnings, a broad set of government transfers (SNAP, Medicaid, TANF, WIC, federal housing programs, UI, SSDI, and SSI), and tax records (Form 1040) for the near-population of safety net recipients in 16 states from 2005 to 2022. Using a mass layoff design to isolate plausibly exogenous job loss, we decompose the gap between wage losses and after-tax household income losses into the contributions of government transfers, household behavioral responses (including spousal labor supply and asset drawdowns), and the progressive tax system. Large samples allow us to estimate heterogeneity across geography, the business cycle, and demographic groups. The project is the first to measure the full dynamics of public benefit use and self-insurance for displaced U.S. workers in administrative data, extending prior work that has studied these channels in isolation or in smaller surveys.

The Intergenerational Transmission of Financial Shocks on Disparities in Economic Stability *Manita Rao, mrao@aarp.org; Hyeran Chung, hchung4@utep.edu*

Economic inequality in America remains a persistent policy challenge. While previous research demonstrates that children from financially stable household perform better on economic outcomes in adulthood, less is known about how the timing and type of financial shocks during adolescence affect adult outcomes across education, health, and financial wellbeing. This paper examines how two types of financial shocks — income losses and parental unemployment — occurring during early teen (ages 11–14) and late teen (ages 15–18) years affect three dimensions of economic wellbeing in adulthood. Using data from the Panel Study of Income Dynamics (PSID) covering the period from 1968-2023, we follow 8,400 individuals from early teenage to age 45. Our main specification uses propensity score matching to match individuals who experience financial shocks during teen years to those that do not but are similar across an extensive battery of observable characteristics. We address endogeneity by estimating instrumental variables models using a fine-grained simulated income instrument constructed from the Current Population Survey (CPS). We find that financial shocks in early teenage years are associated with lower college completion, with effects statistically significant for both income shocks and unemployment. Unemployment shocks occurring in late teenage years have particularly large effects, indicating that financial shocks close to college entry limit human capital accumulation. In the case of health outcomes, we find financial shocks during teenage years are associated with significantly higher psychological distress in adulthood, and effects persist through the mid-30s, particularly for unemployment shocks. Financial stocks during teenage years are especially harmful to financial trajectories in adulthood, savings accumulation in adulthood is nearly 40 percent lower, with unemployment shocks having larger effects than income loss shocks. Taken together, the findings shed light on the intergenerational transmission of negative financial shocks; financial losses that occur during key developmental years shape economic outcomes in adulthood. State policies such as unemployment insurance and social benefit policies can have long-term effects on household economic stability by mitigating the adverse effects of negative financial shocks on human capital, health, and financial outcomes in adulthood.

Barriers to Benefits: Unemployment Insurance Take-up and Labor Market Effects *Brendan Moore, University of Michigan; Casey McQuillan, Brown University / Stockholm University*

Existing research consistently finds that unemployment insurance (UI) benefits delay job finding with limited effects on job quality, but focuses on changes in UI generosity while holding fixed access to re-employment services. Using employer-employee matched data from Washington State and a fuzzy regression discontinuity design around the eligibility threshold for UI, we find that benefit receipt minimally delays re-employment but substantially improves labor market outcomes. UI increases cumulative hours worked by approximately 15 full-time weeks and earnings by $14,000 in the two years following job loss,



representing 37 percent and 50 percent increases, respectively. These gains are driven by improved job quality, as recipients experience longer tenure and higher wages with their next employer. Effects are larger for workers living near public employment offices, suggesting that access to re-employment services enhances search productivity. Expanding UI access by lowering the eligibility threshold is much more cost-effective than raising benefit levels or extending potential duration, as workers benefit from more stable, higher-paying re-employment that partially offsets its cost.

Chair:

Dmitri Koustas, dkoustas@uchicago.edu

Discussants:

Sophie Collyer, City University of New York, Hunter College, School of Social Work

Emilie Jackson, emilie.jackson@rutgers.edu

061. Tax Law, Constitutional Development, and Equality

Individual Taxation, Labor Supply

Paper Session

10:15 to 11:45 am

The Westin Pittsburgh: Floor 2 - Pennsylvania West

Participants:

Taxation and Formal Equality *Alex Raskolnikov, Columbia Law School*

Laws of contemporary capitalist democracies share an important trait: With few notable but limited exceptions, legal rules make no formal distinctions between the rich and the poor. A multi-millionaire and a minimum wage worker alike may cast only one vote, must stop at a red light, have to pay the same sales tax, and can send their kids to a public school for free. Such formal equality of modern legal regimes is no accident. Formal equality influenced ideas and laws of classical Greece and ancient Rome, it inspired Enlightenment thinkers, it motivated constitutional revisions in many American states, and it shapes contemporary proposals for egalitarian reforms. This paper posits that formal equality influences policymaking in liberal democracies and investigates the implications of this argument for the design of the tax-and-transfer system. These implications extend to the choice of tax base, the design of transfer programs, the timing of income recognition, the taxation of capital gains and inter-generational transfers, and a host of other tax and tax-adjacent policies ranging from corporate integration to the minimum wage. The overall lesson is that the constraints imposed by formal equality do not necessarily make the tax-and-transfer system less progressive, but they do shape the choices faced by the advocates of progressive tax reforms, today and in the future.

Whiskey, Women, and Tax: The Unexpected and Interlocking History of the 16th, 18th and 19th Amendments to the U.S. Constitution *Tracey Roberts, Samford University, Cumberland School of Law*

Before they became the most famous pair of advocates in the U.S. women's suffrage movement, Susan B. Anthony and Elizabeth Cady Stanton were abolitionists and temperance activists. Advocating for the prohibition of alcohol in a world in which women lacked both political and property rights, they sought to curb other social ills: family poverty, unemployment, domestic violence, and violent crime. Through the early 20th Century, however, the U.S. relied heavily on excise taxes, particularly those on beer and liquor, to fund federal government operations. The passage and ratification of the 16th Amendment, authorizing a federal income tax, was needed before the 18th Amendment, prohibiting alcohol, could be passed. In turn, the 19th Amendment, granting women the right to vote, was ratified, in part, on the strength of the time-honored argument that women should not face taxation without representation. Old enemies die hard, however. As suffrage activists worked to ratify the Susan B. Anthony Amendment, barring discrimination on the basis of sex in access to the ballot, distillers and brewers engaged in (the then illegal) "liquid advocacy" to oppose it. The passage of these three amendments to the U.S. Constitution involved not only progressive politics and the belief in the perfectibility of man, but also dubious alliances, double-dealing, and dramatic betrayals. This article recounts the complex and interlocking history of women's suffrage, prohibition, and the federal income tax, examines recent legal developments in the light of these campaigns.

Taxing Oligarchy *Amanda Parsons, University of Colorado Law School*

This Article explores why and how tax law should confront the rise of oligarchic power in the United States. Political scientists Jeffrey Winters and Benjamin Page define oligarchy as the "extreme political inequalities that necessarily accompany extreme material inequalities." The Article begins with the question of why tax law should confront oligarchic power. It builds off two claims: one positive, one normative. The positive claim is that the tax system orders oligarchy. By dictating the level of material resources that a person can maintain, the tax system controls the material inequalities that precipitate political inequalities. The normative claim is that preventing oligarchy should be a goal of tax law. Taxation is the most direct legal means of recovering extreme concentrations of material resources from private hands. The harms of extreme political inequality have been well-documented by scholars across disciplines. Taxation should be deployed to mitigate those harms. The Article then turns to the question of how tax law should confront oligarchic power. Oligarchy occurs when control of material wealth converts to power. This Article offers the insight that different forms of material wealth convert to power in different ways. It crafts a typology of three different forms of material wealth and how they convert into political power. The first form is the most obvious: equities, bonds, cash, real property—the assets that come to mind when we think of what it means to be "wealthy." The Article terms this form of material wealth as plain vanilla wealth. Plain vanilla wealth translates into political power through means such as campaign donations, lobbying and funding policy institutes. The second form of material wealth is control of companies. This wealth can take the form of voting rights or management positions. This form of material wealth converts to political power because it allows those who hold it to deploy a company's economic resources in whatever way they see fit. They can direct who is hired and fired, dictate prices and production, and direct investments. Control over a company confers power. The third form of material wealth is data about people. Data about people (or social data) converts into power because it gives the holder the capacity to not only predict human behavior but also modify it. Social data is a form of material wealth that has typified the rise of the "tech oligarchy." Currently, tax law only incorporates the first form of material wealth—plain vanilla wealth—into the tax base. The Article argues that this exclusive focus on plain vanilla wealth will frustrate any efforts to use taxation to combat oligarchic power. It works through several archetypes of oligarchs to show how these different forms of material wealth manifest and how the tax code can more effectively tax these individuals by considering not only plain vanilla wealth but also control over corporate resources and social data.

Chair:

Byron Lutz, Federal Reserve Board



Discussants:
Blaine Saito, Northeastern University School of Law
Lauren Libby, The University of Texas School of Law

062. Neighborhood and Housing
Family and Education
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Somerset
Participants:

Move on Up? Ranking Places by Intergenerational Mobility and Revealed Preference *John Klopfer, University of Hong Kong; Corbin Miller, Internal Revenue Service*

We address the substantial noise and bias in estimates of neighborhood effects on intergenerational mobility in the United States, and use the improved estimates to provide the first informative causal ranking of places. We show that based on revealed preference families are unlikely to accept recommendations based on the ranking, which would result in lower family income and may have negative effects on children's outcomes through lower family income.

When Opportunity Moves to You: Housing Deregulation and the Distribution of Child Outcomes *Micah Baum, University of Michigan*

A large literature documents the economic benefits of moving children to low-poverty neighborhoods. However, it is not clear if children will benefit when their current neighborhood improves around them, especially for households paying market rents. I study how neighborhood revitalization affects incumbent children, focusing on a 1998 Houston housing reform that incentivized building single-family homes downtown. The reform increased median household incomes by ten percent and rents by seven percent as affluent, college-educated households moved into these homes. Using administrative data from the U.S. Census Bureau, I examine impacts on children's long-run human capital attainment, economic self-sufficiency, and criminal justice involvement. Renters moved out of revitalized areas to avoid higher rents, meaning their children grew up in similar neighborhoods as untreated individuals. In contrast, homeowner children lived in better neighborhoods and parent home equity increased. Young renter children had worse labor market outcomes, suggestive of disruption costs, while owner children attained more education and economic self-sufficiency. Owner children were also charged with crimes at higher rates, consistent with increased policing in gentrified areas. The reform improved incumbent well-being on average, but large losses for renters mean that Pareto-improving transfers are likely infeasible. These findings highlight the trade-offs faced by policymakers aiming to revitalize urban neighborhoods.

New Deal Public Housing and Racial Segregation in U.S. Cities *Hector Blanco, Rutgers University-New Brunswick; Luca Perdoni, ifo Institute - LMU*

Racial residential segregation in U.S. cities rose sharply during the first half of the twentieth century. We study whether early federal public housing contributed to this rise by examining the first projects built by the Public Works Administration in the mid-1930s, most of which were racially designated. Using newly assembled data on project locations linked to full-count Census records from 1910 to 1950 and comparing built to planned-but-not-built projects, we find that public housing reinforced the racial composition of project sites but had little effect on surrounding neighborhoods. The results suggest that early public housing played a limited role in shaping neighborhood-level segregation.

Chair:
Hector Blanco, Rutgers University-New Brunswick
Discussants:
Carlianne Patrick, Georgia State University
Thomas Helgerman, tehelg@umn.edu

063. Results from the 2025 Survey of Consumer Finances
Retirement, Savings, Bequests, and Estate taxes
Panel Discussion
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Washington Room

This panel will present and discuss results from the recently released 2025 Survey of Consumer Finances (SCF). The discussion will highlight results that the SCF has provided for decades related to the distribution of wealth and income (including the sources of changes in these distributions) and economic experiences of households. In addition, we will discuss initial results from questions new to the 2025 SCF. One of the new questions elicits household-level marginal propensities to consume (MPC) and save out of an income windfall. Our results are among the first to provide direct measures of MPCs across the full income and wealth distribution, including the very wealthy. In addition, using a suite of new questions around caregiving combined with existing questions, we analyze how families share resources within their informal support networks, such as through the provision or receipt of financial support or caregiving, and document how these support networks differ across families. Finally, we will discuss innovations from field operations, in addition to outstanding challenges.

Panelists:
Gina Li, Federal Reserve Board
Kevin Moore, Board of Governors Federal Reserve Board
Alice Volz, Federal Reserve Board
Moderator:
John Sabelhaus, Brookings Institution

064. Property Tax Institutions, Relief Programs and Fiscal Constraints
State and Local Taxes Including Property Taxes
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Westmoreland Central
Participants:

How Persistently Constrained School Districts Adapt Under Property Tax Limits *Sarah Souders, American University*

This study examines how persistent fiscal constraint shapes school district finances under New York's 2011 property tax levy cap, which limits annual levy growth to the lesser of two percent or inflation and was made permanent in 2019. Tax and expenditure limitations (TELs) have become a durable feature of local public finance: as of 2020, 31 states had enacted at least one form of TEL, and 35 states and the District of Columbia imposed property tax rate limits on local governments. Yet most research on fiscal stress focuses on short-term responses to acute shocks, such as recessions or sudden revenue shortfalls. Less is known about how governments adapt when statutory tax constraints become a persistent feature of the fiscal environment. In any given year, approximately 43 percent of New York school districts are in a spell of operating at or near the levy cap for at least three consecutive years. We introduce a measure of cumulative Tax Cap Pressure (TCP), defined as the cumulative difference between a district's predicted property tax levy in the absence of the cap and its maximum allowable levy. This measure captures the persistence and intensity of fiscal constraint over time. We ask three questions: (1) How do districts facing greater cumulative tax cap pressure differ in their revenue structures, spending levels, and reliance on nontraditional



revenues? (2) Does state aid offset restricted local revenue growth as fiscal pressure accumulates? (3) How do constrained districts respond to positive aid shocks generated through New York's hold-harmless funding provision? We analyze a balanced panel of 683 New York school districts from 2009 to 2020, excluding the Big Five city districts exempt from the cap. Revenue, expenditure, and levy data come from the New York State Education Department and state property tax cap reporting files and are merged with district demographic, economic, and nonprofit financial data. Following prior work, we estimate district-specific predicted levies using pre-cap data and compare them to each year's maximum allowable levy to construct cumulative TCP. Because all districts became subject to the cap in 2012, identification comes from differences in the intensity of fiscal constraint rather than treatment status. We estimate district-year models with district and year fixed effects, time-varying demographic and fiscal controls, and robustness checks incorporating district-specific linear trends. Preliminary findings suggest that persistent fiscal constraint modestly reshapes district revenue composition rather than producing large spending reductions. Districts facing greater cumulative TCP exhibit small but statistically significant reductions in their local revenue share and corresponding increases in state aid dependence. Effects on total revenues and expenditures attenuate substantially once district-specific trends are included, suggesting limited evidence of meaningful within-district spending reductions. We also find little evidence that constrained districts offset fiscal pressure through nontraditional revenues such as private contributions. These findings point to a modest revenue substitution story and motivate ongoing analyses of how state aid policies shape local adaptation to persistent tax constraints.

State Property Tax Relief and Local Tax Rates: Evidence from Michigan *Kathryn Boyd, klangeme@umich.edu*

This paper studies whether state-financed property tax relief affects local property tax rates. I examine Michigan's Homestead Property Tax Credit, a refundable income tax credit that reimburses eligible low- and middle-income homeowners and renters for part of their property tax or rent burden. By reducing the property tax burden borne by eligible households, the credit may change political support for local property tax rates and create a vertical fiscal interaction between state tax policy and local fiscal choices. Michigan is a useful setting because property tax rates are politically salient but constrained by Proposal A, Headlee rollbacks, and voter-approval requirements, making the local response to household-level tax relief theoretically ambiguous. The empirical analysis exploits two reforms to the credit. A 2012 reform substantially reduced eligibility and lowered aggregate credit amounts, while a 2018 reform increased generosity and modestly expanded eligibility. Jurisdictions were differentially exposed to these reforms based on pre-reform credit participation and credit dollars relative to income tax returns. I combine Michigan Department of Treasury data on credit claims, credit amounts, average credits, and income tax returns at the county-school-district level with local property tax rate data from 2005–2025. I estimate event-study and difference-in-differences specifications comparing higher- and lower-exposure jurisdictions before and after the reforms. The main outcomes are principal residence and nonhomestead millage rates, with additional measures including ad valorem special assessment millage. For 2015–2025, decomposed millage data allow analysis of school, county, municipal, village, and other local components, which differ in institutional constraints and local discretion. Preliminary estimates from the 2018 expansion show little evidence of a short-run response in total principal residence millage rates, consistent with the possibility that institutional constraints and limited salience mute local fiscal responses to household-level property tax relief. The conference version will use the 2005–2025 panel to analyze both the 2012 contraction and the 2018 expansion, with the larger 2012 reform providing the primary test. The paper contributes to research on vertical fiscal interactions, property tax relief programs, and local public finance by studying a setting in which state tax policy changes household exposure to local taxation without directly changing local government revenues.

Saving Rural Hospitals? Evidence on the Efficiency of Charitable Tax Credits *Federico Corredor, Georgia State University*

Tax credits for charitable giving are an increasingly important form of tax expenditure, yet there is limited causal evidence on whether they generate new social investment or simply reallocate existing private resources. This paper evaluates Georgia's Rural Hospital Tax Credit (RHTC), a large place-based policy that provides a dollar-for-dollar state income tax credit for contributions to financially distressed rural hospitals. We estimate the effects of the RHTC on hospital viability, local labor market outcomes, and donor behavior. Our identification strategy exploits staggered program entry across rural hospitals between 2017 and 2025, combined with continuous variation in funding intensity. We implement heterogeneous-treatment difference-in-differences models using rural hospitals in non-adopting states as a comparison group. For local economic impacts, we construct synthetic control counties from a national donor pool. To study donor responses, we use administrative tax records to estimate event-study models with taxpayer fixed effects, allowing us to distinguish new participation from substitution across credit-eligible activities. Preliminary evidence indicates substantial crowd-out and limited fiscal efficiency. We estimate that approximately 28 percent of observed contributions are "but-for" donations induced by the credit, implying that most funds reflect reallocation of existing charitable giving . At the same time, the program entails a sizable tax expenditure, approximately $80–$90 million annually, and accounting-based estimates suggest that the induced economic activity is insufficient to offset the opportunity cost of foregone public revenue under plausible alternative uses . Input-output estimates show positive but modest local employment and output effects from RHTC-supported hospital spending. These findings highlight a central policy tension. On one hand, the RHTC appears effective in channeling resources to financially distressed rural hospitals, an objective that may be valued in its own right given concerns about access to care and the role of hospitals as local anchor institutions. On the other hand, from a tax expenditure perspective, partial crowd-out implies a marginal cost of public funds exceeding one, raising concerns about cost-effectiveness relative to direct public provision. By providing the first causal evaluation of a rural hospital tax credit, this paper offers timely evidence on the efficiency and incidence of tax-based financing tools, informing debates on whether such policies should complement or substitute for direct public spending.

Risk Perception and Real Estate Values in Cook County, Illinois *Alea Wilbur-Mujtaba, University of Illinois - Chicago*

This paper examines how flood risk information is incorporated into residential property values in Cook County, Illinois. It compares government-produced FEMA flood maps with nongovernmental Flood Factor scores from First Street. The findings show that flood risk information is not capitalized simply because it exists. It is capitalized when it becomes visible, credible, and transaction-relevant. Preliminary FEMA maps produce weaker and less consistent effects, while effective FIRMs produce stronger effects, especially for properties



removed from Special Flood Hazard Areas. Flood Factor scores, which are visible during the home search process, are associated with approximately 10 percent lower sale prices for high-risk properties. Together, the results show that the source, timing, visibility, and institutional consequences of flood risk information shape how housing markets respond to climate-related risk.

Chair:

Sutirtha Bagchi, sutirtha.bagchi@villanova.edu

Discussants:

Daphne Kenyon, D.A. Kenyon & Associates
Laiyang Ke, University of North Texas
Sutirtha Bagchi, sutirtha.bagchi@villanova.edu

065. Information Frictions and Tax Administration

Tax Enforcement and Evasion
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Westmoreland East

Participants:

Enforcing Eligibility in Low-Information Settings: Evidence from Brazil's Bolsa Familia Audits *Ines Badin, mibadin@ucdavis.edu*

A key challenge in designing social transfer programs is determining who should receive benefits. In developing countries, large informal sectors make income and employment hard to observe, and governments often rely on alternative targeting approaches such as proxy means tests or community-based targeting. As countries develop and administrative capacity expands, income-based means-testing with third-party reporting is likely to become more widespread. Yet in this transition to formality, two questions remain open: How do individuals respond, on both labor supply and reporting margins, to means-testing enforcement when much of their income remains unverifiable? And how does expanding third-party reporting reshape those responses? We study these questions in the context of Brazil's Bolsa Família, a means-tested program in which eligibility is based on self-reported income, supplemented by periodic audits that cross-check beneficiaries' declarations against formal administrative records. Linking individual self-reports (Cadastro Único) to employer-employee data (RAIS) and benefit histories, and exploiting a sharp cutoff in which years of administrative records are pulled into a given audit cycle—generating quasi-random variation in whether a beneficiary's formal employment is visible to the government—we estimate the effect of enforcement on formal labor outcomes, income and household composition reporting, and subsequent program participation. We find that beneficiaries whose formal employment becomes visible to the auditor are substantially more likely to have their benefits cancelled. Conditional on remaining in the program, we find suggestive evidence that beneficiaries adjust along less observable reporting margins—income and household composition—and a small reduction in formal labor supply, consistent with some beneficiaries exiting formal employment to avoid detection in future audit cycles. Taken together, these patterns suggest that enforcement operating on verifiable income shifts behavior toward margins that remain unverifiable—in both reporting and, to a lesser extent, real labor supply. We then leverage subsequent audit cycles that progressively incorporate additional data sources, allowing us to trace how responses evolve as the government's verification capacity expands.

Tax Visibility and Community Reporting Responses: Evidence from Australia's Ride-Sourcing GST Ruling *Michael Marin, michael.marin@utoronto.ca*

Tax compliance depends not only on whether the law requires taxpayers to report income, but also on whether economic activity becomes visible within the tax system. This paper examines Australia's 2015 ride-sourcing GST ruling as a platform-economy tax visibility shock. The ruling required ride-sourcing drivers to register for and remit GST, even when their turnover was below the generally applicable GST registration threshold. Although the ruling directly applied to ride-sourcing drivers, it publicly clarified that a prominent form of platform-mediated work belonged within the formal tax system. Using postcode-level administrative tax data from 2013 to 2018, I examine whether reporting responses differ across communities with greater pre-policy exposure to self-reported business activity. The analysis compares postcodes with higher and lower pre-policy business participation using difference-in-differences specifications with postcode and year fixed effects. I find that high-business-participation communities report significantly lower business expenses after the ruling, with no corresponding increase in the share of taxpayers reporting business income. The primary estimate indicates a 0.87 percentage point decline in business expenses scaled by total income, representing approximately 4.1 percent of the pre-policy mean for high-exposure communities. Supporting evidence shows lower expense intensity, higher reported net business income, and higher net business margins. The findings suggest that the response occurred primarily through how existing business activity was reported, rather than through an expansion in business-reporting participation. The results are consistent with more conservative reporting on discretionary business-reporting margins in communities where self-reported business activity was already more common. The paper contributes to research on tax compliance, information reporting, and tax visibility by showing that visible platform-economy tax interventions can shape reporting behavior beyond the taxpayers directly targeted by the policy.

What Do You Want to (c)4? The Effect of Donor Anonymity on Giving Behavior *Stephanie Karol, stephanie.karol@treasury.gov; Nicolas Duquette, University of Southern California*

This paper seeks to quantify the effects of changes to donor disclosure requirements on contributions to nonprofit organizations. We identify these effects using two recent changes to disclosure requirements. The first change followed from the 2018 release of an IRS Revenue Procedure, which allowed Form 990 and 990-EZ filers exempt under sections other than §501(c)(3) or §527 to submit a redacted version of their required schedule of contributors. Following this announcement, treated organizations would still be required to tell the IRS the number and value of each large donation received; but unlike control organizations, they could omit their donors' personally identifiable information. This narrowed the set of donor information available to the government, but effectively left the set of donor information available to the public unchanged. The second change occurred as the result of a legal dispute, which widened the set of nonprofit contributors whose gifts were subject to disclosure under Federal Election Commission regulations. For nonprofits which make independent campaign expenditures, this ruling represented a significant expansion of the circumstances under which donors' personally identifiable information would be publicly disclosed. We proceed to estimate the treatment effects of changes to donor anonymity using the synthetic difference-in-differences methodology. We build our primary dataset using Form 990 and Form 990-EZ filings of nonprofit organizations observed between the years 2013 and 2023. We are interested in characterizing the effect of each



transparency treatment on total contributions, as well as the aggregate value of large contributions. We are also interested in characterizing possible disclosure-avoidance responses on the part of the nonprofit. These results contribute to the literature on the economics of privacy in general, and on information reporting in the tax system in particular, especially as it relates to nonprofit organizations.

Chair:

Tejaswi Velayudhan, University of California Irvine

Discussants:

Eleanor Wilking, ewilking@cornell.edu

Tejaswi Velayudhan, University of California Irvine

066. Intergovernmental Transfers and Local Public Finance

Fiscal federalism, interjurisdictional competition, and mobility

Paper Session

10:15 to 11:45 am

The Westin Pittsburgh: Floor 2 - Westmoreland West

Participants:

Tradition as a Public Good: Tax Policy and the Reallocation of Tribal Grant Funding *Katherine Fairley, University of Michigan*

How should a central government allocate resources to sub-national jurisdictions that produce unique public goods? I study this question in the context of U.S. tribal governments and the Tribal General Welfare Exclusion Act (TGWEA) of 2014, which exempts individual income from tribal general welfare benefit programs from federal taxation. These programs are often funded by federal intergovernmental grants, which constitute 71.3% of average tribal government revenue (Minneapolis Fed 2025). Since these grants vary in the types of programs they can fund, the policy creates incentives for tribes to substitute toward cash-transfer-eligible grants (such as TANF and the Community Services Block Grant) and away from grants limited to funding in-kind benefits (such as Head Start) or capital expenditures. Using grant-level data from the Tracking Accountability in Government Grants System (TAGGS), I classify each federal grant by whether it permits cash transfers and estimate the effect of TGWEA on the ratio of cash-transfer to in-kind grant funding received by federally recognized tribes, with non-federally-recognized tribes serving as a control group. Then, building on Ostrom's analysis of culture as a commons, I develop a model of tribal and federal government interaction where home production by tribal households generates cultural preservation, a positive externality whose benefits accrue both within the tribe and to wider society. In the model, tribes and tribal members are able to make unique contributions to public goods, where expenditures by tribal governments are compliments to home production. The central government then chooses the optimal composition of grants to award to the tribal governments and the tax treatment of tribal benefits.

The Flypaper Effect: A Meta Analysis *Luke Spreen, University of Maryland; Luis Navarro, University of Washington; Ed Gerrish*

The “flypaper effect”—the claim that intergovernmental grants raise subnational public spending more than an equivalent increase in private income—is a widely documented empirical anomaly in fiscal federalism. Yet the underlying evidence is strikingly heterogeneous, spanning different grant programs, levels of government, functional spending categories, and identification strategies. This paper reassesses the U.S. flypaper literature using meta-analytic methods designed to aggregate disparate estimates and evaluate whether prominent findings are robust to study design. We compile a dataset of 1,824 coded estimates drawn from 114 eligible U.S. studies. We standardize reported results into comparable effect sizes and estimate meta-regressions to assess how effect sizes vary across key study characteristics, including whether endogeneity is addressed; the donor–recipient relationship (federal-to-state, federal-to-local, state-to-local); the type of grant (e.g., matching, conditional, unconditional); the functional area of the grant; and the time period studied. The meta-analysis yields three key findings. First, intergovernmental grants crowd in recipient spending on average, but the magnitude is economically modest: a $1 increase in grants raises recipient spending by about $0.125 (95% CI: $0.07–$0.18), well below widely cited consensus ranges in earlier narrative reviews. Second, estimates are sensitive to identification: studies using instrumental variables produce much smaller effects than unconditional estimates, consistent with upward bias when grant allocations are endogenous to local fiscal conditions or political bargaining. Third, when we restrict attention to studies that report both grant and income effects, the average spending response to grants is statistically indistinguishable from the response to private income. This implies that the flypaper effect does not hold on average in the U.S. context. These results reconcile a longstanding puzzle by showing that much of the apparent flypaper anomaly reflects heterogeneity and methodological differences across studies. The findings also suggest intergovernmental aid should be deployed as a redistribution and financing instrument than as a reliable lever for expanding subnational spending.

State of States: Net Public Wealth and Cash Flow of US States, 1993-2023 *Robert Inman, Wharton School, University of Pennsylvania*

The paper will provide estimates for each of the 50 US states for the years 1993 to 2023 of: (1) the market value of the state’s financial (cash and security) assets; (2) the replacement value of the state’s public sector infrastructure; (3) the market value of the state’s financial liabilities held as long- and short-term state debt; and (4) the unfunded obligations of the state’s pension and OPEB (“other post-employment benefits,” primarily health care) promises to state and state-enrolled local government employees. Together the market value of state financial assets and the replacement cost of state infrastructure minus the market value of state government debt and pension and OPEB obligations define the “Net Public Worth” (NPW) of the state. States’ NPW’s are sustained or depleted by decisions of state officials to run current accounts surpluses or deficits in each fiscal year, defined to include the sum of current accounts surpluses or deficits for the provision of state services (the “general fund”), state public utilities, state lotteries, state-run “businesses” (notably state liquor franchise) and state provided income (unemployment) insurance. Together, the sum of the surpluses or deficits from each of these “accounts” defines the overall cash flow position of the state for each fiscal year. A positive (negative) overall cash flow balance for the state in any fiscal year provides resources (“savings”) or withdraws resources ("dissavings") to increase or decrease the states NPW.

Who gets stuck with the bill? A dynamic approach to fiscal federalism *Vincent Herdegen, Friedrich-Alexander-Universität Erlangen-Nürnberg; William Dean, william.dean@fau.de*

We evaluate how federal tax policy changes transmit into budget dynamics across different levels of government under fiscal federalism. Our analysis focuses on the responses of federal, state, and municipal budgets, using a series of exogenous tax shocks based on German tax reforms between 1992 and 2022. A proxy SVAR framework allows us to approach causal estimates by exploiting the narratively identified distinction between



exogenous policy shifts and endogenous fiscal responses. Our preliminary results show that increases in tax revenues at the state level lead to a significant long-run increase in consolidated transfers to all other subsectors of the government, while estimates from municipal and federal responses remain imprecise. This could be interpreted as a reflection of a vertical insurance mechanism in fiscal federalism. Our estimates suggest that tax increases lead to a long-run decrease in output, which is in line with results from previous literature.

Chair:
Walter Melnik, Marquette University

Discussants:
Walter Melnik, Marquette University
Tidiane Ly, tvly@syr.edu

067. The Everywhere Millionaire: Who Is Really Rich in America and How They Got There
NTA
Plenary Session
12:00 to 2:00 pm
The Westin Pittsburgh: Floor 3 - Allegheny 1,2, 3
Eric Zwick, Joel F. Gemunder Professor of Economics and Finance, University of Chicago Booth School of Business Friday, November 13, 2026 Introduced by: Katherine Michelmore, University of Michigan

068. Behavioral Responses to International Tax Rules
International Tax
Paper Session
2:15 to 3:45 pm
The Westin Pittsburgh: Floor 2 - Butler East
Participants:

Minimum Tax, Minimum Disclosure? Evidence from EU Multinationals *Tobias Kalmbach, University of Mannheim; Inga Schulz, University of Mannheim*
The OECD/G20 Inclusive Framework's Pillar Two initiative introduces a global minimum effective tax rate of 15% for large multinational enterprises (MNEs), representing the most significant reform to international corporate taxation in decades. Concurrent amendments to IAS 12 require IFRS-reporting firms to disclose both qualitative and quantitative information about their Pillar Two exposure in annual reports from fiscal year 2023 onward. This paper provides the first systematic, multi-year, firm-level descriptive analysis of Pillar Two disclosures in the annual reports of European MNEs over the period 2023–2025, offering early micro-level evidence on how the reform manifests in firms' financial reporting.

Multinationals' Responses to Anti-Base Erosion and Profit Shifting Policies: Evidence from Tax Returns *Harald Amberger, WU Vienna University of Economics and Business; Stefanie Pendl, WU Vienna University of Economics and Business*
Using Austrian administrative corporate tax return data, we examine how MNEs respond to three major anti-base erosion and profit shifting (anti-BEPS) policies: (i) interest and royalty deduction limitations, (ii) private Country-by-Country Reporting (CbCR), and (iii) controlled foreign corporation (CFC) rules. We find that limits on interest and royalty deductions curb income shifting out of Austria, with little evidence that exposed MNE entities substitute into alternative shifting channels. In contrast, private CbCR largely offsets these effects, while also incentivizing MNEs to increase economic activity in foreign low-tax affiliates. Exposure to the CFC rule similarly leads MNEs to increase economic activity abroad and continue income shifting, consistent with efforts to qualify for active-income safe harbors under the Austrian regime. Overall, our evidence suggests that anti-BEPS measures have nuanced effects. Some measures effectively constrain income shifting, whereas others primarily induce real economic responses without reducing the extent of income shifting.

The Effect of OECD's Pillar Two Global Minimum on Multinationals' Tax and Financial Reporting Behavior *Preetika Joshi, McGill University; Michelle Nessa, Michigan State University; Anh Persson, apersson@illinois.edu; Susan (Xinjie) Tang, University of Georgia*
We examine how multinational enterprises (MNEs) respond to the OECD's Pillar Two global minimum tax, which imposes a 15 percent jurisdictional minimum effective tax rate (ETR) and bases tax liability on financial accounting income. Using consolidated firm-level and affiliate-level data from Europe following implementation in 2024, we study changes in consolidated tax burdens, earnings management, and tax-motivated income shifting. Our empirical design exploits the €750 million revenue threshold and cross-sectional variation in firms' and affiliates' ex ante exposure to the minimum tax. We fail to find evidence that Pillar Two increased consolidated ETRs or reduced income shifting in the first year of implementation. In contrast, we document a significant increase in downward earnings management among affiliates located in jurisdictions with incremental tax exposure. These findings suggest that firms respond to the global minimum tax in the short run through financial reporting adjustments rather than immediate changes in tax planning, and they have important implications for evaluating the effectiveness of tax policies based on financial accounting income.

Chair:
Tim Dowd, Joint Committee on Taxation

Discussants:
James R. Hines, University of Michigan
Paul Organ, U.S. Treasury

069. Tax Policy, Family Resources, and Intergenerational Well-Being
Individual Taxation, Labor Supply
Paper Session
2:15 to 3:45 pm
The Westin Pittsburgh: Floor 2 - Butler West
Participants:

How does the EITC affect financial assistance from parents? *Katherine Michelmore, University of Michigan*
How does the EITC affect financial assistance from parents?

Inequalities in Federal Tax Expenditures on Children by Income and Family Type from 1967 to 2023 *Sophie Collyer, City University of New York, Hunter College, School of Social Work*
Inequalities in Federal Tax Expenditures on Children by Income and Family Type from 1967 to 2023

Parental Time Use Amid Changing Incentives: Implications for the Design of Income Support Policies *Anna Strauss*
Parental Time Use Amid Changing Incentives: Implications for the Design of Income Support Policies

From Better Neighborhoods to Better Futures: Tax Credits and Intergenerational Opportunity *Jacob Bastian, Rutgers University*
Abundant research shows that higher family income improves children's short- and long-run outcomes, but evidence from some



transfer-based income experiments raises questions about whether these gains hold for both earnings and transfer income. This paper revisits that question using the Earned Income Tax Credit (EITC)—a large transfer that raises after-tax income for tens of millions of low-income families—and more than 30 years of linked administrative data covering over 15 million individuals. We find that higher childhood EITC exposure improves a wide range of adult outcomes: in their 20s and 30s, exposed children have higher earnings, greater employment, lower poverty, improved neighborhood quality, and reduced mortality. We then decompose these long-run effects into several channels, including childhood neighborhood quality, parental earnings, EITC transfer income, and other mechanisms, and show that a key pathway is improved neighborhood quality, as the EITC increases moves to higher-opportunity Census tracts. Effects are concentrated among children in lower-income families and children of unmarried parents, but remain sizable and positive even for children of always-married parents—a group whose labor supply is unaffected by the EITC—demonstrating that transfer income itself, not just parental employment and earnings, plays a powerful role in shaping long-run well-being and intergenerational mobility. Link to draft: https://conference.nber.org/conf_papers/f235446.pdf

Chair:

Danna Thomas, University of South Carolina

Discussants:

Chandler Inman, ctinman@iu.edu

Danna Thomas, University of South Carolina

070. Private Funds and the Tax Code: Insurance, Risk, and Carried Interest

Corporate and Business Taxation

Paper Session

2:15 to 3:45 pm

The Westin Pittsburgh: Floor 2 - Cambria East

Participants:

"Insurer Creep": Private Equity and Hedge Funds as "Insurance Companies" for Tax Purposes *Ari Glogower, Northwestern Pritzker School of Law; Andrew Granato, andrew.granato@law.utexas.edu*

An insurer sells and pools contracts where it promises payouts in the event of losses like a car accident or early death. Increasingly, financial firms are using the insurer form to shield their investment returns from taxation. This strategy is now enabling the growth of the private credit industry, which introduces new systemic risks and regulatory arbitrage to the insurance industry. This Article examines this emerging trend, which it terms "insurer creep," as well as its economic and legal drivers, and proposes reforms to restrain it. The key to insurer creep is the special income-tax rules for insurers under Subchapter L. These rules account for the unique "income-first" nature of the life insurance business, where insurers collect premium payments and accrue investment returns that must be allocated to fund policyholders' contingent future claims. Under Subchapter L, insurers defer taxation on their premiums and investment income when they are earned in connection with anticipated future payouts. These unique tax rules also present substantial potential benefits to asset managers and investors, however, who are not primarily in the insurance business. The growth of private equity sponsors in insurance over the past decade represents insurer creep's frontier. These insurers continue to sell life insurance products to policyholders, a dynamic that has earned the business model the praise of securing "permanent capital." PE's primary innovation is to use the balance sheets of their insurers as vehicles for issuing high-yield, high-risk private credit. A nascent academic literature has begun to highlight systemic risk and regulatory arbitrage issues that the growth of PE-controlled insurers poses. This Article, in contrast, demonstrates that it is not only "permanent capital" and regulatory arbitrage that incentivize PE's interest in life insurers, but tax benefits as well. Private credit yields current income, which would be taxable at ordinary rates if held through a partnership, with high interest rates; all three such traits benefit disproportionately from a deferral regime such as that offered by Subchapter L. Additionally, because the law also treats policyholders favorably with respect to their investment returns, these benefits for insurers can yield a scenario where investment activities conducted through the insurance wrapper can avoid or reduce tax at both the policyholder and insurer levels. How can Subchapter L be redesigned to limit insurer creep and address the avoidance of income taxation at both the policyholder and insurer levels? The current rules governing access to Subchapter L define a life insurer based on the character of its consumer-facing contracts and liabilities, without regard to the nature of its assets nor its investment strategy. This Article proposes reforms that would not only consider an insurer's liabilities in determining qualification for Subchapter L, but also its assets and how they are managed. Affiliated asset managers of an insurer that run sufficiently risky portfolios or engage in other excessively investment-oriented activities would not be treated as being in the business of insurance for tax purposes. The approach preserves Subchapter L's core deferral regime while creating new guardrails to prevent its abuse.

Private Credit's State Backstop: How Private Equity Socializes Risk Through Insurers *Andrew Granato, andrew.granato@law.utexas.edu; Pranjal Drall, Yale University*

Private equity (PE) sponsors have acquired life insurers and increasingly loaded their balance sheets with private credit assets that are illiquid, risky, and difficult for regulators to value. This Article identifies how PE profits from these insurers while shifting the resulting risk onto competitors and taxpayers. Unlike ordinary firms, life insurers do not pass through bankruptcy when they fail. Instead, when a life insurer becomes insolvent, state-based guaranty funds protect insurance policyholders by "assessing" surviving insurers to cover the shortfall. In most states, such outlays are fully creditable against state premium taxes over time, transforming an ostensibly industry-funded system into a public backstop. The result is a system that socializes losses more sharply than banking's federal deposit insurance, and does so with a more decentralized and porous supervisory architecture. With the rise of PE's new strategy, insurance's unique insolvency, tax, and financial regulation regimes now form critical components of private credit's submerged legal infrastructure. Against that backdrop, this Article shows how PE sponsors pair life insurers with private credit to capture value from both sides. After acquiring an insurer, the sponsor earns profits in two ways: a spread between what the insurer promises policyholders and what its investments earn, and management fees on those investments. Guaranty funds and their accompanying regulatory regime implicitly subsidize this model in three ways. First, opacity in private credit permits insurers to appear better capitalized than their true risk exposure warrants. Second, weak incentives for policyholder monitoring permit sponsors to siphon gains through inflated fees while shifting losses onto insurer balance sheets. Third, because guaranty-fund assessments are based on premium volume rather than risk contribution, conservatively-managed insurers (and, ultimately, taxpayers) finance the more aggressive strategies of their PE-owned competitors. PE-owned life insurers reflect a



structural transformation in which an insurer supports a broader asset-management business that is designed to extract value upfront and disperse losses when they materialize. This Article closes by proposing reforms to curb the hidden subsidies for this shift and restore insurance insolvency, tax, and financial regulatory law to their policyholder-protection role.

Tax-Driven Agency Conflicts in Hedge Funds *Amanda Marino, amarino@sdsu.edu*

We examine whether manager-level tax incentives distort investment decisions inside delegated asset management. We study Section 1061 of the Tax Cuts and Jobs Act of 2017 (TCJA), which extended the holding period required for carried interest to qualify for long-term capital gains treatment from one year to three years. Importantly, the reform changed the tax treatment of hedge fund general partners (GPs) while leaving the tax treatment of limited partners (LPs) unchanged, creating the potential for a tax-driven agency conflict between managers and investors. Using a difference-in-differences design, we compare hedge funds with performance-based compensation structures to actively managed mutual funds before and after the policy change. We combine hedge fund data from HFR and Form ADV with holdings data from 13F, 13D, and 13G filings to construct fund-level investment holding periods. We find that affected hedge funds significantly increased their holding periods following the reform, relative to unaffected funds. On average, treated funds hold positions approximately one quarter longer after the policy change and become substantially more likely to hold positions beyond the new three-year threshold. We further document sharp bunching at the 12-quarter holding mark among treated hedge funds after the reform, consistent with managers delaying exits to preserve preferential tax treatment on carried interest. We next examine cross-sectional variation in responses. The effect is strongest among funds whose managers have greater exposure to the carried interest rule, including U.S.-based funds and funds with high performance fees. The response is also stronger among funds with greater discretion over exit timing, including activist, high-turnover, and high-discretion strategy funds. Finally, the effect is amplified when investor monitoring is weaker, including among funds with long lockup periods and funds with larger individual investor bases. We also examine whether the reform affected the composition and performance of fund holdings. Following the policy change, treated funds shift toward more growth-oriented firms with lower payout characteristics. We additionally find suggestive evidence that delayed exits are associated with lower subsequent abnormal returns, consistent with managers potentially trading off investor performance against their own after-tax compensation. Overall, our findings document a novel institutional lock-in effect driven by manager-level taxation. The evidence suggests that narrowly targeted tax rules can alter portfolio decisions inside delegated investment vehicles and create distortions in capital allocation even when investors' own tax treatment is unchanged. Paper URL: https://ssrn.com/abstract=5397288

Chair:

Kaishu Wu, University of Waterloo

Discussants:

Orli Oren-Kolbinger, orli@uoregon.edu
Kaishu Wu, University of Waterloo

071. Taxes and Business Investment: Tariffs, Depreciation, and Stimulus

Corporate and Business Taxation
Paper Session
2:15 to 3:45 pm
The Westin Pittsburgh: Floor 2 - Cambria West

Participants:

Troublesome Tariffs *Young Ran (Christine) Kim, Benjamin N. Cardozo School of Law, Yeshiva University*

In addition to having major implications for U.S. consumers and businesses, the controversy over President Trump's emergency tariff regime under the International Emergency Economic Powers Act ("IEEPA"), which has now morphed into the Section 122 tariffs of the Trade Act of 1974, exposes many things about the state of U.S. politics and the health of U.S. governing institutions. This Article examines the constitutional, economic, and institutional implications of President Trump's emergency tariff regime. It argues that the administration's use of emergency powers to impose sweeping tariffs represents more than a dispute over trade policy; rather, it exposes a broader structural vulnerability within the American constitutional order. The executive branch has increasingly exploited ambiguously delegated statutory authority to circumvent Congress's exclusive Article I taxing power while preserving the formal appearance of legality. Central to the Article is the Supreme Court's decision in Learning Resources, Inc. v. Trump, where the Court held that IEEPA does not authorize the President to impose tariffs. The Article analyzes the Court's statutory interpretation, its fractured treatment of the major questions doctrine, and its rejection of a foreign affairs exception to ordinary separation-of-powers principles. However, the Article argues that the decision ultimately provided only a narrow statutory correction rather than a durable constitutional limit on executive power. The administration's immediate pivot to Section 122 tariffs following the decision demonstrated how easily executive actors can circumvent adverse judicial decisions through successive statutory justifications. Then it turns to the practical and legal aftermath of the decision, examining the flood of refund litigation and the embedded incidence problems, legislative response, and the mitigation strategies employed by importers and multinational enterprises to reduce tariff exposure. Classification engineering, first-sale valuation, origin-jurisdiction shifting, and supply-chain restructuring have become mechanisms of survival in the post-Learning Resources landscape. Collectively, these developments illustrate the cascading human and economic costs of a tariff regime whose sunk costs the decision itself cannot reverse. The Article situates the troublesome tariff episode, through the consideration of interdisciplinary scholarship, within a broader theory of democratic erosion and "Rule of Fiat," a governing pattern in which executive officials exploit emergency powers, statutory ambiguity, and institutional inertia to consolidate policymaking authority without meaningful congressional participation. The US Executive branch is either drifting towards, or yearning for, a rule by fiat climate in which unilateral presidential action is increasingly normalized as an appropriate remedy for 'exceptional' or 'emergency' circumstances. This is not a desirable condition for a healthy democracy. The article normatively argues that preserving constitutional governance will require not only judicial intervention, but also renewed congressional engagement, legal resistance to executive circumvention, and greater public recognition of how formally lawful mechanisms can erode democratic accountability from within.

Tax Policy and Capital Maintenance *Jackson Mejia, University of Texas at Austin*

Permanent Link: https://jackson-mejia.github.io/staticfiles/maintenance_demand.pdf

Statutory versus Realized Tariff Rates: An Analysis of the 2025--2026 Tariff Regime *John Iselin, The Budget Lab At Yale; Abhi Gupta, Yale; John Ricco, The Budget Lab at Yale*



The Budget Lab at Yale has been producing economic estimates of the effects of the administration's tariff policies for over a year, starting even before the beginning of President Trump's second term. Today, we release an update to our tariff model that covers how the economic effects of tariffs are both calculated and presented. Importantly, these updates are the first to consider actual, observed economic behavior from the first year of the current tariff regime, grounding our analysis more firmly in what we have learned about how tariff policies have impacted the U.S. economy. In addition, we have entirely revamped how we present Budget Lab tariff analysis, consolidating it into a new interactive tool that makes all aspects of our analysis more accessible.

Chair:

Irem Guceri, Oxford University

Discussants:

Susan Morse, The University of Texas School of Law
Irem Guceri, Oxford University
Joseph Rosenberg, Urban Institute - Tax Policy Center

072. Public Programs and Private Entities

The Social Safety Net & Health

Paper Session

2:15 to 3:45 pm

The Westin Pittsburgh: Floor 2 - Fayette Room

Participants:

Private Provision of Public Housing: Impacts on Targeting *Hector Blanco, Rutgers University-New Brunswick; Elizabeth Lochhead, New York University*

Over the past half-century, housing assistance in the U.S. has shifted from direct public provision toward provision through private markets, culminating in the Rental Assistance Demonstration (RAD) program, which has converted over 200,000 public housing units to project-based Section 8 private subsidies since 2014. We examine whether this shift toward private provision changes program targeting, as measured by tenant composition. Using nationwide administrative data from HUD and a difference-in-differences design that exploits plausibly exogenous variation in the timing of RAD conversions, we find that RAD leads to lower-income households living in converted developments over time. We decompose this effect into three mechanisms: lower income eligibility thresholds under Section 8, manager-driven responses, and tenant self-targeting. While eligibility changes contribute to the main result, focusing on incumbent households---who are unaffected by eligibility rule changes---reveals that the remaining two channels also contribute to the result: higher-income incumbents are more likely to exit converted developments over time. We provide suggestive evidence that non-profit managers serve lower-income households than their for-profit counterparts, and that higher-income incumbents are more likely to take up the tenant-based voucher option offered by RAD and use it to move to lower-poverty neighborhoods.

The Social Costs of Corporate Tax Reform: Evidence from the Low-Income Housing Tax Credit Program *Zachery (Ziqi) Ma, University of Cincinnati; Guoyang Yang, gyang@monmouth.edu*

This paper examines how the 2017 Tax Cuts and Jobs Act (TCJA) affected the Low-Income Housing Tax Credit (LIHTC) program, the primary federal tool for financing affordable rental housing in the United States. The TCJA's reduction in the corporate tax rate from 35% to 21% lowered the value of tax credits and related deductions, weakening investor demand for LIHTC investments and reducing equity pricing. Using national data, we document a sharp decline in LIHTC pricing following the 2016 presidential election, accompanied by a reduction in aggregate affordable housing production. To identify project-level effects, we assemble granular administrative data from the California Tax Credit Allocation Committee and implement a Regression Discontinuity in Time (RDiT) design exploiting the election-induced expectations shock surrounding anticipated corporate tax reform. We find that LIHTC equity pricing declined by approximately 13%, while tax credits allocated per square foot increased by 33%, indicating that more tax credits were required to finance a given amount of housing output. These effects are concentrated in high-cost urban areas and federally designated Difficult Development Areas, where financing constraints are most severe. Our findings show that broad corporate tax reforms can generate unintended spillover effects on tax-based social programs by weakening the flow of private capital into affordable housing investment and amplifying geographic disparities in housing production.

Crowd-out in Health Insurance: Evidence from Small Employers *Audrey Guo, Santa Clara University; Sarah Robinson, Claremont McKenna College, Department of Economics*

The cost of health insurance has been rising over time, and employer-sponsored health insurance is one of the largest forms of non-wage compensation. In 2014 the Affordable Care Act (ACA) implemented individual marketplaces to provide an alternative option for health insurance coverage. We study how health insurance coverage among small employers - defined as firms with less than 50 employees - interacts with incentives the ACA created around the individual marketplace. Combining Census Bureau establishment microdata with health insurance information from the Medical Expenditure Panel Survey, we characterize time trends in employer-sponsored insurance coverage among small firms, and how they respond to changes in the small group and individual insurance markets.

Who Gets the Rents? Mandated Benefits, Worker Sorting, and Labor Market Power *Paola Gabriela Villa Paro, University of Michigan*

How do mandated non-wage benefits redistribute income between workers and firms? The canonical public finance answer, following Summers (1989), predicts that when labor markets are competitive and workers value the mandate at or above its cost, incidence falls entirely on workers through reduced cash wages, leaving employment and profits unaffected. This paper shows that prediction fails when employers have market power. In oligopolistic labor markets, firms earn rents by setting wages below the marginal revenue product of labor. A non-wage benefit mandate compresses these rents rather than passing costs onto workers, redistributing income from employers to employees through a channel competitive models cannot identify. The magnitude of rent erosion scales with pre-existing employer concentration, generating a testable prediction: profit and wage-markdown responses to a mandate shock should be larger in more concentrated markets. The paper tests this prediction using a large expansion of a five-component social insurance mandate covering employer health insurance, severance, bonuses, vacation, and profit-sharing, which took effect in January 2021 in Peru's agroexport sector, a setting with directly measurable and high pre-reform employer concentration. Two administrative datasets, an annual firm census and the universe of formal payroll records, support firm-side and worker-side analysis. Peru is the laboratory; the results speak to social insurance incidence in concentrated industries broadly. Four reduced-form facts jointly reject competitive incidence: formal employment rose, non-wage costs surged, base wages adjusted



far less than benefits, and treated firms experienced sharp profit compression. A triple-difference design moderating the reform effect by a predetermined employer concentration index delivers the central finding: profit and wage-markdown compression concentrate in high-concentration treated firms, as oligopsony theory predicts. Worker-side evidence documents post-reform compositional shifts and asymmetric wage distribution compression consistent with an endogenous labor supply elasticity channel. Where firms earn substantial rents, social insurance mandates operate as instruments of rent redistribution rather than employment taxes, with direct implications for mandate design in concentrated industries.

Chair:

Naomi Feldman, naomi.feldman@mail.huji.ac.il

Discussants:

Justin Marion, University of California, Santa Cruz

Marianne Bitler, bitler@ucdavis.edu

073. Inside the Black Box: Firm Structure, Accounting, and Tax Reporting

Corporate and Business Taxation

Paper Session

2:15 to 3:45 pm

The Westin Pittsburgh: Floor 2 - Somerset

Participants:

Determinants of Corporate Organizational Structure *Ashish Agarwal; Shannon Chen, University of Arizona; Steven Utke, University of Missouri*

Though most academic studies and media reports focus on parent firms, many parent firms operate through networks of subsidiaries that are not easily visible. To date, virtually no research examines the basic structures that firms create to operate their businesses. In this study, we use confidential Internal Revenue Service (IRS) data to describe and examine determinants of both the size and complexity of the domestic subsidiary networks ("organizational structures") for U.S. public and private C corporations. We find that, even after including firm fixed effects, a wide array of firm characteristics are associated with firms' organizational structure choices, including attributes related to financing, taxes, and business complexity. We also evaluate whether a change in the accounting rules for certain subsidiaries alters organizational structures, but we fail to find evidence of an effect. Our study provides initial insight into firms' fundamental decisions regarding their organizational structure.

Accounting Methods in the Shadow of the TCJA: Preferences, Switching, and the Influence of Tax Preparers *Nathan Born, US Department of the Treasury; Lindsey Gallo, University of Michigan; James Omartian, University of Michigan*

This paper investigates the accounting method choices of small- and medium-sized enterprises (SMEs) for tax reporting, exploiting the 2017 Tax Cuts and Jobs Act (TCJA) which significantly raised the gross receipts threshold for mandatory accrual accounting. Using 46.2 million confidential corporate tax returns from 2013–2022, we find evidence of an increasingly strong preference for cash-basis accounting. We observe considerable non-compliance with the accrual requirement for firms in the pre-TCJA period, and significant increases in firms switching to cash-basis after the requirement was relaxed. Preparer sophistication appears to be a key determinant of both firms' compliance with pre-TCJA requirements and their decision to switch to cash-basis accounting post-TCJA. Our findings shed light on the factors contributing to SMEs' accounting method and reporting choices, and highlight the role of tax preparers in disseminating corporate tax policy changes.

Tax Complexity and Firm Bunching: Evidence from German Administrative Tax Data *Tobias Kreuz, U Mannheim and ZEW; Alexandre Gnaedinger, University of Mannheim*

We study how small pass-through entities in Germany respond to the EUR24,500 local business tax (LBT) threshold, using a novel panel of detailed tax records from 2013–2019. We document significant bunching just below the threshold. Part of the bunching response is driven by businesses which do not face a change in their effective tax rate. This behavior likely reflects the complexity of the German tax system, with small entities being unaware of the LBT tax credit. The analysis of mechanisms shows that flexible cost categories, such as movable assets, exhibit sharp discontinuities, whereas less-flexible categories, such as real estate, do not. Bunchers also display distinctive cost structures with low profitability. Our findings provide new evidence on threshold-induced behavioral responses, illustrate the impact of tax complexity on small firms, and inform the design of more effective tax policies.

Chair:

Andrew Whitten, U.S. Department of the Treasury

Discussant:

Mary Cowx, Arizona State University

074. Taxes, Growth, and Distribution

Fiscal Sustainability, Macroeconomics and Fiscal Policy

Paper Session

2:15 to 3:45 pm

The Westin Pittsburgh: Floor 2 - Washington Room

Participants:

Efficiency and Distributional Effects of Pass-Through Taxes *Eric Zwick, ezwick@chicagobooth.edu*

Efficiency and Distributional Effects of Pass-Through Taxes

Have the Growth Effects of Tax Policy Changed Over Time? *William Gale, Brookings Institution; Meng Hsuan Hsieh, University of Michigan; Laura Kawano, University of Michigan; Samuel Thorpe*

This version: August 2026

Are Laffer Curves Flat? *Brandon Pecoraro, Joint Committee on Taxation; Rachel Moore, Joint Committee on Taxation; David Splinter, Joint Committee on Taxation*

Bridging Structural and Sufficient-Statistic Approaches

Tax Multipliers in a DSGE Model *Aerfate Haimiti, University of South Carolina; Jason DeBacker, University of South Carolina*

We simulate a number of tax policies in a DSGE model and compare their multiplier effects over the short and medium-term. The results provide new evidence on which tax policies represent the most effective economic stabilization tools. Initial findings support tax cuts targeted at investment, such as bonus depreciation, to be among the most effective. Consumption tax changes outweigh cuts to labor taxes and affect a larger base than investment incentives.

Chair:

Rachel Moore, Joint Committee on Taxation

Discussants:

Patrick Kennedy, UCLA

Alan Auerbach, University of California, Berkeley

Kyle Pomerleau, kyle.pomerleau@aei.org

075. Assessment Growth Limits, Tax Caps, and Housing Market



Distortions

State and Local Taxes Including Property Taxes

Paper Session

2:15 to 3:45 pm

The Westin Pittsburgh: Floor 2 - Westmoreland Central

Participants:

My Tax Cap Runneth Over: The Spillover Effect of Assessment Growth Limits on Renters *Timothy Hodge, Oakland University*

Property tax assessment growth limits are widely adopted to protect incumbent homeowners from sharp increases in property tax liabilities; however, these policies discourage housing turnover by lowering the cost of remaining in place. We study whether this lock-in effect spills over into rental markets. Specifically, we analyze the long-run effects of assessment growth limits on rents using cross-sectional long-difference regressions that relate cumulative rent growth between 2012 and 2024 to cross-state variation in the stringency of assessment caps. Our approach exploits differences in how binding these limits became during the post-recession housing recovery, as caps vary in both their allowable growth rates and institutional features uncapping benefits after property transfer. Across preferred specifications, areas subject to assessment caps experienced approximately 10 to 15 percent higher cumulative rent growth over the recovery period relative to comparable areas without caps. Consistent with a lock-in mechanism, these effects are significantly larger in markets with higher pre-2010 homeownership rates, where assessment caps are more likely to discourage mobility and restrict access to owner-occupied housing. Our findings broaden the assessment cap debate by highlighting unintended burdens on renters and the hidden costs of policies designed to protect homeowners.

The Tax Road Not Taken? Reconsidering California's Homeowners Exemption *Patrick Murphy, University of San Francisco*

This paper studies potential reforms of property taxes in California. Specifically, we examine the impact of a revenue neutral change to the homestead exemption. California's current property tax system is essentially regressive. That is the effect of nearly 50 years of living with Proposition 13, the landmark ballot initiative that capped both the tax rate and assessment of property. Using data from the American Community Survey and the Decennial Census, we estimate the size of the tax subsidy created by Proposition 13's assessment cap, which creates a gap between the market value and the assessed value of a property, and growing horizontal inequities between properties over time. We then explore how large a homeowner's exemption could be achieved by redistributing the foregone revenue in the form of a much larger homestead exemption. The current exemption is seven thousand dollars. We find that eliminating the assessment cap and moving toward a market rate assessment would yield a much larger homestead exemption. Such a shift would remove distortions due to Proposition 13, as well as offer some relief to first-time homebuyers. Co-authors include James O. Hawkins (Presenting Author)Peter Amerkhanian, Peter Amerkhanian Consulting Sarah Swanbeck, Swanbeck Consulting

Reassessments, Fiscal Burden, and Distressed Sales Across the Home-Value Distribution *Roxana Gonzalez, University of South Carolina*

A growing body of economic literature documents regressivity in residential property tax policy whereby low-value homes face higher effective property tax rates than high-value homes because assessors anchor valuations to recent sales prices, systematically lagging behind in fast-appreciating markets, and because high-value homeowners contest their assessments at substantially higher rates (Avenancio-León and Howard 2022; Berry 2021; Hodge, Komarek, and McAllister 2024). This paper asks whether property tax shocks — measured by legislatively mandated reassessment schedules — increase distressed home sales, and whether those effects are concentrated among owners of lower-value properties. North and South Carolina laws mandate staggered reassessment cycles for all counties, generating within-state variation in the timing of tax shocks plausibly exogenous to local market conditions. These cycles are fixed by statute years in advance and cannot be altered by individual counties in response to current price trends, ensuring that reassessment timing is predetermined with respect to market dynamics that drive distressed sales. Using the Zillow Transaction and Assessment Database (ZTRAX, ICPSR Study 39652), which covers 5.1 million parcels across North and South Carolina and approximately 29 million recorded documents from 1990 to 2020, I estimate a parcel-level event study with county and year fixed effects. The key identification threat, that assessors front-load high-appreciation neighborhoods in the scheduled county, biases estimates toward zero, providing a credible lower bound. In the aggregate, the probability of a distressed transaction peaks two years post-assessment, where probability of a distressed sale increases 0.9 percentage points above the pre-reassessment baseline, representing a 22 percent increase over two years before reassessment. The central finding is a monotonic gradient in the distressed-sale response: bottom-tercile owners exhibit increases of 1.65 and 2.4 percentage points (~22% and ~30% above their two-year pre-period baseline) in the reassessment year and the year after respectively, roughly three times larger than those of top-tercile owners (0.6 and 0.7 percentage points), with flat pre-event coefficients across all groups. This gradient reflects the structural role of the assessment-to-market-value ratios whereby lower-value homes have larger ratios so reassessment translates into a relatively higher tax bill than it does for higher-value homes. Distressed-sale rates fall below the pre-period baseline three years post-reassessment, consistent with intertemporal substitution of distressed transactions: owners who would have sold in distress later in the cycle do so immediately upon reassessment, depleting the pool of at-risk sellers in subsequent years. These results bridge a literature documenting assessment bias (Berry 2021; Avenancio-León and Howard 2022) and one connecting tax shocks to mortgage distress (Anderson and Dokko 2016; Alfaro, Paredes, and Skidmore 2021; Fraenkel 2024; Skidmore, Komarek, and Hodge 2025) through a common structural parameter, the assessment value to market value ratio.

A Test for Collusion in Housing Markets Using Algorithmic Pricing *Christopher Luke Watson, lukexwatson@gmail.com*

This paper tests whether algorithmic pricing software in U.S. rental housing markets generates collusive behavior among adopting landlords. The question has become legally urgent: RealPage and Yardi, the dominant rental pricing platforms, face Department of Justice litigation, class action lawsuits, and a growing wave of municipal bans premised on the theory that these tools enable a hub-and-spoke cartel. Despite the legal stakes, direct empirical evidence on whether algorithmic pricing changes firm conduct remains thin. We make two contributions. First, we construct a building-level dataset on RealPage and Yardi adoption. We use Built With data to identify websites embedding RealPage or Yardi widgets, GPT to extract building addresses from those sites, and string matching to merge addresses with Altos, a weekly panel of U.S. multifamily rental listings from 2011 to 2023. After restrictions, the RealPage sample contains 107,000 buildings (3,900 treated) and the Yardi sample contains 150,000 buildings (8,400 treated), with treated



and control buildings sharing zip codes. Second, we extend the Hong, Kim, and Kim (2025) BLP-based conduct test into a dynamic, staggered difference-in-differences framework. The intuition is that colluding firms price as if they internalize partners' profits, so partner-owned characteristics should enter the pricing equation like own products. We implement three tests: a Rivers-Vuong model-fit comparison, an event-time test of partner-slope convergence, and a pre/post Wald test benchmarked against a placebo cartel of never-adopters. Reduced-form estimates confirm adoption raises posted rents by 1 to 2 percent. But all three conduct tests fail to reject competitive pricing, and true RealPage shifts are no larger than placebo. We interpret these findings as suggestive that algorithmic pricing resolves an information friction rather than facilitating coordination.

Chair:

Ruchi Singh, University of Georgia

Discussants:

Zhou Yang, Robert Morris University
Ruchi Singh, University of Georgia
Nicolas Berlinski, University of Maryland, College Park
Dena Lomonosov, University of Toronto

076. Tax Administration and Legal Institutions

Tax Enforcement and Evasion
Paper Session
2:15 to 3:45 pm
The Westin Pittsburgh: Floor 2 - Westmoreland East

Participants:

Demystifying Law in the Age of AI: The Role of Federal Agencies *Joshua Blank, jblank@law.uci.edu; Leigh Osofsky, UNC School of Law*

One of the core tasks of federal agencies is to translate and disseminate complex statutes and regulations in ways that the public can easily access and understand. Agencies discharge this duty by doing things like circulating fact sheets, creating websites, and using social media. All of these are tools the agencies use to restate the law for the public. The recent advent of AI and third-party large language models raises an important, yet unexplored, question with respect to this project. How, if at all, should the rise of AI change the way that federal agencies communicate the law to the public? In this Article, we argue that agency restatements play an important role in democratic governance because they promote publicity and clarity, support the administration of the law, signal information about agencies' views of the law to the public, and offer a valuable service to members of the public without cost. We argue further that when third-party AI sources generate information about the law, they often present the law incorrectly, answer questions inconsistently, fail to illuminate agency views on the relative importance of law and enforcement priorities, and provide varying degrees of quality depending upon whether users pay for service. Against this backdrop, we develop a normative framework to serve as a guide for how agencies should communicate the law to the public in the age of AI. We argue that the recent proliferation of AI-generated (mis)information highlights the need for agencies to continue, and even intensify, their efforts to restate the law for the public. Agencies should identify and promote their own distillations of law as official restatements, use communication tools that are most effective in today's information universe, target restatements toward groups that are most in need of reliable information about the law, and monitor and warn the public about issues with AI legal advice available through private sources. The more the public is awash with information about the law from other sources, the greater the government's own obligation becomes to restate the law, to claim the link between government and the law that applies to the governed.

Tax Exceptionalism After Loper Bright *Noah Marks, nmarks@unc.edu; Conor Clarke, Washington University in St. Louis*

For forty years, Chevron was the colossus of American administrative law. Then, in June 2024, it wasn't Loper Bright Enterprises v. Raimondo announced that "Chevron is overruled." Most of the post-Loper Bright commentary has focused on what the decision means for the administrative state in general. In this paper, we focus on what it means for one specific (and particularly vexed) corner of the law: the judicial review of tax regulations. That corner has its own tangled history. In 1979, the Supreme Court in National Muffler announced a multi-factor deference test for Treasury regulations. National Muffler lived uneasily alongside Chevron for three decades, until the Court intervened in Mayo Foundation (2011) to declare that Chevron governed and that it was "not inclined to carve out an approach to administrative review good for tax law only." Mayo appeared to sound the death knell of so-called "tax exceptionalism." We ask: What now, with Chevron gone? One natural answer is that National Muffler is back. Indeed, the Tax Court already seems to think so—citing National Muffler, without explanation, in Hamel v. Commissioner (2025). We explore that answer. We argue that the case for a return to National Muffler is reasonable, and tells us something about administrative law and tax regulations more broadly. Loper Bright warmly embraced a contextual mode of statutory interpretation that weighs agency expertise, contemporaneity, consistency, and the precise terms of the relevant delegation. National Muffler's factors do exactly that work. That finding has consequences beyond tax. Agency-specific deference regimes—much-maligned as the original sin of tax exceptionalism—may be consistent with Loper Bright's contextual mode of judicial review. And a long-overlooked body of pre-APA Supreme Court caselaw involving Treasury regulations turns out to do precisely the kind of statute-grounded work Loper Bright purports to revive. We identify nineteen such cases—almost entirely overlooked in the post-Loper Bright literature—and argue that they deserve renewed attention from tax and administrative law scholars alike.

The Partnership Automation Gap in U.S. Tax Enforcement *Michael Love, Columbia Law School*

An underappreciated feature of the U.S. tax system is its uneven distribution of enforcement, with especially favorable treatment for some of the largest and most sophisticated firms. LLCs, LPs, and other partnerships—which include private equity firms and private holding companies—report over $57 trillion in assets, yet are subject to among the least enforcement scrutiny of any tax filer. By contrast, working families with the lowest incomes, who claim the Earned Income Tax Credit (EITC), are among the most intensively audited taxpayers. To the extent these patterns have received policy attention, the focus has been on recalibrating IRS resources to increase enforcement of partnerships while decreasing enforcement against low-income taxpayers. But these measures address symptoms, not the cause. This paper argues that the lenience enjoyed by partnerships is substantially driven by an "automation gap." While, for example, EITC enforcement is especially cheap and scalable because the tax returns contain information sufficient to automate most enforcement, partnership tax returns do not, requiring laborious audits that cannot scale. Yet this need not be the case. The automation gap is a policy choice. Although partnership tax rules are complex, they are also highly mechanical and therefore amenable to substantial



automation, much like the EITC. But the information required to do so is simply not collected, because the current approach to partnership reporting is fundamentally misguided: it is designed to function mostly like a third-party information report, like a Form W-2 or 1099, telling partners what to report on their own returns, rather than enabling the IRS to verify whether partnership tax rules are correctly applied. This paper exposes how the current approach fails to meet the unique challenges posed by Subchapter K, proposing targeted reforms that enable substantial automation while minimizing burdens, especially for smaller and low-risk firms, without requiring new legislation.

Who Should the IRS Audit? *Aviv Caspi, University of Chicago*

Tax audit selection is usually framed as a problem of prediction: the IRS should identify the returns most likely to contain noncompliance. But prediction alone cannot determine whom the IRS should audit. The agency must also decide how to trade off expected revenue, deterrence, administrative cost, taxpayer compliance burden, and the distribution of those burdens across taxpayers. Audit selection therefore necessarily embeds interpersonal welfare comparisons. This Article formalizes four competing frameworks for audit selection: revenue maximization, enforcement efficiency, the IRS's implicit "compliance welfare weights," and an explicitly progressive social welfare approach. The Article argues that current practice is best understood as assigning substantial weight to burdens imposed on taxpayers ultimately found compliant while assigning little or no weight to burdens imposed on taxpayers whose audits produce adjustments. That implicit framework helps explain why no-change rates, classification models, and low-cost correspondence audits can dominate enforcement design even when they leave revenue on the table and concentrate burdens on low-income taxpayers. The Article then develops a welfare weighted alternative that makes distributional tradeoffs explicit while remaining attentive to revenue, deterrence, and administrative cost. Simulations calibrated to IRS random audit data show how the four frameworks can produce sharply different audit allocations from the same underlying predictions. Finally, the Article offers both a normative case and practical guidance for welfare weighted audit selection, including strategies for parameterizing progressivity, engaging public values, and confronting uncomfortable edge cases (such as whether income awareness ever implies encouraging low-income noncompliance). The broader claim is simple: enforcement already makes distributive choices; making them explicit, disciplined, and contestable is both feasible and democratically preferable.

Chair:

Joshua Blank, jblank@law.uci.edu

Discussants:

Evelyn Smith, esmith@abfn.org
Joshua Blank, jblank@law.uci.edu
Daniel Hemel, New York University School of Law

077. Entry, Exit, and Government Support of Firms

Fiscal federalism, interjurisdictional competition, and mobility
Paper Session
2:15 to 3:45 pm
The Westin Pittsburgh: Floor 2 - Westmoreland West

Participants:

Picking Local Champions: Performance Driven Tax Incentives in China *Chong Liu, Peking University; Xuan Wang, Peking University; Yan-an Zhang, Peking University; Li-An Zhou, Peking University*

This study investigates how local governments in China strategically deploy tax incentives to support firms with robust economic performance, fostering a symbiotic government-business relationship to advance local development objectives. Using firm-level data from the National Tax Survey, we find that sub-national governments tend to lower the effective tax rates for prominent local firms that make significant contributions to the local economy. This preferential treatment is more pronounced among local officials who face stronger career incentives or heightened pressure to promote economic growth. To address potential confounding factors such as political favoritism, tax avoidance strategies, or exclusive special deals, we employ quasi-experimental shocks and leadership turnover as identification strategies. Our findings also reveal a dual dynamic: while local business champions benefit from favorable tax policies, they are subjected to increased scrutiny, including a higher likelihood of tax audits and stricter penalties for tax evasion. Together, these results align with a framework of ``disciplined favoritism'' offering new insights into the complex nature of state-business relations in China.

Corporate competitive externalities of US government financial assistance *Elisa Casi-Eberhard, NHH Norwegian School of Economics; Costanza Cincotta, CUNEF; Allison Koester, apk29@georgetown.edu*

We investigate the competitive consequences of government financial assistance to corporations by examining non-assisted firms operating in the same product market as assisted firms. Using a novel dataset of U.S. federal, state, and local government assistance to U.S. public firms, we find that increases in government assistance to competitors are associated with a 12.2% decrease in non-assisted firms' financial performance. The decline in financial performance is driven by decreasing revenues and increasing research and development expenses. Results are more pronounced for financially constrained firms, and concentrated in permanent government assistance in the form of cash grants, cost reimbursements, and tax abatements/credits (rather than temporary assistance in the form of loans). We further show that greater competitor assistance is associated with a 5.1% decline in market share, particularly in less competitive markets. Overall, the evidence indicates that government assistance generates negative competitive externalities for non-assisted firms - a potentially unintended and previously unexplored consequence of government intervention that benefits some firms at the competitive expense of others.

Leaving Town: Military Base Closures, Local Fiscal Spillovers, and Intergenerational Costs *Willem Wilken, University of Michigan*

Federal policy decisions routinely redistribute payroll, personnel, and spending across jurisdictions, but there is little causal evidence on what happens to the places that lose a large federal presence. I study major cuts to 73 large military bases under the Commission on Base Realignment and Closure (BRAC). These closures provide plausibly exogenous variation in the loss of a large federal employer, because decisions were made primarily for military and budgetary reasons. I construct novel data on base-level personnel counts for 1978-2009 linked to the universe of BRAC decisions. Using a difference-in-differences design, I find large and persistent spillovers on the local economy. Private-sector employment falls by 4.3% over the first six years, and by 5.9% over the next six years. The reassignment of military families to other locations explains at most 43% of this decline. Per capita unemployment-insurance receipts increase by 11%, with most of this cost borne by state UI systems. Beyond these immediate fiscal spillovers, the incidence of federal disinvestment is also intergenerational: children exposed to



BRAC closures in early life have lower adult earnings. My results suggest federal disinvestment imposes persistent local costs and shifts part of the adjustment burden onto states.

A 'Joint' Effort: The effect of dispensary openings on economic activity and tax collections: The case of dispensary lotteries in Arizona *Sian Mughan, Arizona State University; Felipe Lozano-Rojas, University of Georgia*

Where legal, marijuana markets are tightly regulated, with states limiting the number of retail licenses available. Outside of urban areas, this often creates sharp spatial disparities in access, marijuana is available for purchase in some areas but not in others. We estimate the local economic and fiscal effects of marijuana sales generated by these regulatory constraints using a natural experiment from Arizona. In April 2021, the state held a lottery to allocate 13 recreational cannabis dispensary licenses among rural counties where marijuana was either unavailable (no dispensaries) or severely limited (one dispensary). Using point-of-interest–level foot traffic and sales data, we compare areas where dispensaries were proposed and ultimately opened to areas that entered the lottery but did not win a license. we find that economic activity increased after dispensary openings, with the number of customers and aggregate spending rising by 44% and 50%, respectively. We find no evidence of offsetting spillovers within a radius of 35 miles, suggesting that dispensary openings led to new economic activity instead of a spatial reallocation of existing activity. We further examine fiscal impacts using high-frequency local sales tax data, providing new evidence on how marijuana legalization affects local economies and public revenues.

Chair:
Thomas Brosy, tbrosy@urban.org

Discussants:
Thomas Brosy, tbrosy@urban.org
Luke Spreen, University of Maryland

078. Transition Break
3:45 to 4:00 pm

079. Holland Award Panel: Honoring the Contributions of William Gale, Recipient of the Holland Medal for 2026
NTA
Plenary Session
4:00 to 5:15 pm
The Westin Pittsburgh: Floor 3 - Allegheny 1,2, 3
Moderator: Samara Gunter, Colby College Panelists: Alan Auerbach, University of California, Berkeley Len Burman, Syracuse University (Emeritus) James Poterba, MIT and NBER Kim Rueben, Consultant

080. Daniel M. Holland Award Reception
NTA
Reception
5:15 to 7:00 pm
The Westin Pittsburgh: Foyer 1,2,3

081. Movie Screening: Tax Me (If You Can)
NTA
Reception
8:00 to 10:00 pm
The Westin Pittsburgh: Floor 2 - Somerset
For the second year running, the NTA Annual Conference is hosting a movie night! This year's feature is Tax Me (If You Can), a new French documentary that makes the case for a global "Zucman tax" on the wealth of the very rich, following academics, activist millionaires, and defenders of the status quo across the United States, the United Kingdom, and Europe. The film runs 97 minutes, leaving time afterward for an informal discussion: What does it get right about rising inequality and regressivity at the top, and what does it get wrong? And can Patriotic Millionaires–style advocacy break the political logjam in the U.S. and abroad? Whether you come to cheer or to critique, snacks will be provided. More information on film: https://littlebigstory.fr/en/productions/tax-me/

Moderator:
David Mitchell, dmitchell@equitablegrowth.org

SATURDAY, NOVEMBER, 14

082. Saturday Morning Coffee
8:00 to 8:30 am
The Westin Pittsburgh: Foyer 1,2,3

083. International Regulatory and Incentive Design
International Tax
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Butler East
Participants:

The New Tax Sovereignty *Assaf Harpaz, assaf.harpaz@uga.edu*

Tax sovereignty is traditionally understood to encompass a government's right to design and enforce its tax laws without infringement. The principle has been frequently invoked in the context of multilateral initiatives to combat tax competition and evasion, yet it remains vague and underdeveloped. In recent years, international taxation has been characterized by an increase in national revenue preservation, forum-shopping, and unilateralism. These dynamics are reflected in the Trump administration's rejection of the Global Tax Deal, the efforts of developing countries to shift tax policymaking to the United Nations, and the proliferation of unilateral digital services taxes. This Article proposes a doctrinal account of tax sovereignty for an international tax order in which cooperation and standardization are progressively contested. It draws on tax and international law scholarship to distinguish between procedural sovereignty, which includes the state's authority to freely participate in cooperative forums, and substantive sovereignty, which refers to the right to independently draft tax legislation. The Article ultimately argues that tax sovereignty should operate as a doctrine with well-defined parameters rather than an unrestricted claim of fiscal autonomy. In doing so, it provides a framework for evaluating competing claims of tax sovereignty and assessing the legitimacy of tax policies with cross-border implications.

A Comparison of the EU VAT and U.S. Sales Tax Approaches to Taxing Digital Products and Services *Karl Frieden, Council On State Taxation*

In the United States the primary general consumption tax is at the subnational level - state and local retail sales tax - with little coordination at the national level. In the European Union the primary general consumption tax is at the national level - the VAT - with significant coordination at the EU level. These two systems have matured side-by-side for over 50 years. The rise of digital commerce, however, has highlighted significant differences between the two systems in how they address and adjust to new technologies, consumption that increasingly is not in the form of physical (tangible) products, jurisdictional issues, and complex B2B and B2C definitional and sourcing issues. This session will explore the differences and similarities of the two systems in their approaches to the breadth of the digital products



tax base, treatment of B2B transactions, application to small business sellers, parity between digital services and tangible products, rules on digital advertising, and sourcing of consumption.

Chair:

Tim Dowd, Joint Committee on Taxation

Discussants:

Daniel Shaviro, NYU Law School
Tim Dowd, Joint Committee on Taxation

084. Taxation and Policy: Impacts on Consumption

Energy and Environmental Taxes, Excise, Consumption, Commodity
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Butler West

Participants:

Telework and Local Tax Performance: Work-from-home and What, How, and Where We Consume *David Agrawal, University of California, Irvine; Jeffrey Bjarke, Tennessee Department of Revenue; William Fox, University of Tennessee*

This paper studies the fiscal consequences of fully remote and hybrid work-from-home (WFH) arrangements for subnational governments by examining how they alter the composition and modality of consumption. Using granular administrative tax return data from Tennessee, we analyze how WFH alters the composition of taxable consumption across many types of goods, vendors, local jurisdictions, and property classifications. Exploiting variation in telework potential across counties in a difference-indifferences design, we find that WFH erodes the sales tax base. Declines are concentrated in non-food purchases, lower-value transactions, general merchandise stores, and vendors located in more populous jurisdictions. These patterns are consistent with WFH shifting consumption away from taxable goods and restaurant meals toward largely untaxed services, while also reallocating sales tax revenue from larger to smaller jurisdictions through changes in shopping modality. In contrast, we find only modest effects of WFH on property tax revenues, reflecting limited adjustments in assessments of housing consumption across property types and jurisdictions.

Fuel Taxes, Heating Choices and Infant Mortality; Evidence from 2012 Greece Heating Oil Tax Reform *Antonios Koumpias, University of Michigan-Dearborn*

Public policies often have unintended consequences. We study the health effects of Greece's October 15, 2012 energy-tax reform, which equalized excise taxes on heating and transport diesel to curb fuel smuggling and raise revenue. The reform raised the heating-oil excise by 450%, from e60 to e330 per kiloliter, while reducing the transport-diesel excise by about 20%, from e412 to e330 per kiloliter. By sharply increasing residential heating costs during a severe economic crisis, the policy may have led households to reduce heating or substitute toward biomass burning, including firewood. We combine NUTS2-level mortality data, satellite and ground-monitor pollution data, and information on natural-gas access with difference-in-differences, event-study, mediation, and synthetic-control designs. Greek NUTS2 regions experienced an increase of approximately 1.16–1.19 infant deaths per 1,000 live births after the reform relative to EU comparison regions, corresponding to a 28–30% increase in log specifications. Event-study and synthetic-control estimates show post-2012 divergence, though placebo evidence from the synthetic-control analysis is suggestive rather than decisive. Mechanism evidence is mixed. Satellite PM2.5 declines after 2012, likely because recession-driven reductions in industrial and traffic emissions mask localized wood-burning pollution. Ground-monitor data provide weaker but more suggestive evidence of increased PM2.5. A mediation exercise indicates that satellite PM2.5 explains only about 2.4% of the infant-mortality effect. However, respiratory mortality rises by about 6%, and regions with direct natural-gas access experience smaller post-reform infant-mortality increases. Overall, the evidence suggests that fuel-tax policy can generate adverse health effects when households face high heating costs and limited access to clean substitutes, although Greece's broader economic crisis complicates attribution of the mechanisms.

Spillover Effects of VAT Rate Cuts: Evidence from Germany *Pascal Zamorski, ifo Institute & LMU Munich*

We examine the conditions under which changes in value-added taxes (VAT) lead to price adjustments in products not directly affected by the tax change. We exploit a large and exogenous VAT rate cut on menstrual products in Germany in 2020. We estimate the pass-through of the VAT cut to prices of affected products and pricing spillovers on complementary products for which the VAT rate remained unchanged. For this purpose, we use a unique data set of daily prices of almost 5,000 hygiene products from the online shop of a large German supermarket chain. We document strong evidence for bundling effects as producers of menstrual products fully and permanently passed on the VAT cut to prices but significantly increased prices of unaffected complementary feminine hygiene products, mostly panty liners, by 5 to 10 percentage points with no sign of phasing out after more than one year. Producers of panty liners that do not offer products affected by the VAT cut did not adjust prices. The results are robust to various alternations of the control group, taking into account potential general equilibrium price effects.

Chair:

Stacy Sneeringer, Office of Tax Analysis, Dept. of Treasury

Discussants:

Alexander Yuskavage, Department of the Treasury
Maggie (Yuanyuan) Liu, US Department of Treasury
Laura Power, Department of the Treasury

085. Curbing Profit Shifting: Anti-Avoidance Rules and the Global Minimum Tax

Corporate and Business Taxation
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Cambria East

Participants:

Tax Rules and Capital Reallocation: Real Effects of Anti-Tax Avoidance Policies *Usama Jamal, CY Cergy University of Paris*

Anti-tax avoidance policies aim to curb profit shifting by MNEs, yet their effects on capital costs and economic growth remain a critical question. This study examines the causal impacts of Earnings Stripping Rule (ESR)—a core anti–tax-avoidance measure adopted by more than ninety countries in the last decade—that limits profit shifting through debt channels but increases the cost of debt-financed capital. Using a large panel dataset on global MNE operations and a staggered difference-in-difference design, I compare the real activities of MNEs affected by ESR with those of unaffected groups. I find that ESR effectively reduces profit shifting and tax avoidance but also lowers investments in affected subsidiaries. MNEs offset these declines by reallocating capital and employment toward unconstrained affiliates, primarily abroad. However, as the policy



coverage expands across a group's global footprint, this reallocation shifts from foreign to domestic units, closing the international escape margin and raising group-level tax liabilities. These findings suggest that international coordination is crucial for designing effective, non-distortionary anti-avoidance policies. https://www.dropbox.com/scl/fi/gsjqkg8421b1h7o1gs8e6/Job_Market_Paper.pdf?rlkey=0hge9e9mgjt4npfrvx1b8cmwx&st=o7a3r83m&dl=0

The Distribution of Profit Shifting *Jakob Miethe, University of Munich (LMU); Sarah Clifford, University of Oxford; Camille Semelet, Stanford GSB*

This paper studies profit shifting behavior across the size distribution of multinational enterprises (MNEs) to evaluate policies - such as the Global Minimum Tax (GMT) - that apply only to the largest groups. Using German administrative data with universal coverage, including tax havens, and a novel group level measure of profit shifting, we document steep, positive size gradients for the likelihood of using tax havens, the amount of shifted profits, and profit shifting aggressiveness. Large groups targeted by the GMT account for 95% of total profits shifted and for these firms potential revenue gains dominate costs. Beyond its tax revenue implications, our results highlight the potential of the GMT to curtail the tax advantage of large MNE groups - a finding with direct implications for market concentration and ultimately market power.

Taxation of multinational profits: BEPS, GMT, and Side-by-Side *Tomáš Boukal, Faculty of Social Sciences, Charles University; Petr Jansky, Charles University; Niels Johannesen, Oxford University; Miroslav Palansky, Charles University, Prague; Tax Justice Network*

The OECD/G20 Base Erosion and Profit Shifting (BEPS) project represents the most ambitious attempt to curb multinational profit shifting through international coordination. Using firm-level country-by-country reporting data for 2300 large multinational groups between 2016 and 2023, we examine the impact of both BEPS and the anticipated effects of the global minimum tax. We document two main findings. First, BEPS coincided with only modest changes in multinational tax outcomes: effective tax rates in profit-shifting hubs increased slightly and reported economic substance particularly employment—expanded, but the concentration of profits in low-tax affiliates remained largely unchanged. Second, simulations of the global minimum tax indicate a more substantial and targeted impact. Average effective tax rates increase by about 1.6 percentage points, with the largest effects concentrated in offshore investment hubs prone to profit shifting. We estimate additional global corporate tax revenues of roughly 100 billion, with the Side-by-side preserving much of the intended structure of GloBE while introducing relatively limited aggregate distortions.

Chair:

Irem Guceri, Oxford University

Discussants:

Irem Guceri, Oxford University
Sebastien J Bradley, Drexel University

086. The Charitable Tax Exemption: History, Theory, and Its Limits

Corporate and Business Taxation
Complete Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Cambria West

This aim of this panel is to examine the role that tax-exempt law has played in shaping our contemporary political culture, one marked by shifting public values, declining institutional trust, and growing contestation over the legitimacy of both public and private governing institutions. Across debates surrounding universities and cultural institutions, philanthropy and donor power, racial equality and democratic representation, tax-exempt law has increasingly become a central site of political and cultural conflict. Yet despite the prominence of these disputes, the role that tax exemption plays in structuring democratic life in the United States remains undertheorized and historically contested. The papers in this panel approach this problem through complementary theoretical and historical lenses. Rather than focusing solely on the redistributive effects of charitable tax benefits, they foreground the role that federal tax-exempt law plays in creating governance regimes that help define the institutional structure, social relations, and pluralistic commitments of American society, including both the civil institutions that tax law enables and the public values those institutions inculcate. Two of the papers engage these issues through democratic and political theory. Philip Hackney's paper, Arts Tax Policy: Democracy or Plutocracy?, examines whether current tax subsidies for arts organizations can be justified within a liberal democratic framework. Drawing on theories of political justice and democratic perfectionism, the paper argues that the present structure of charitable tax subsidies improperly privileges wealthy donor preferences in determining cultural policy, thereby substituting plutocratic influence for democratic deliberation. Skyler Dykes's paper, Structural Pluralism and the Charitable Tax Exemption, revisits pluralism as a foundational justification for charitable tax exemption and challenges conventional accounts that equate pluralism with donor neutrality and maximal private philanthropic discretion. The paper advances a theory of "structural pluralism," under which Congress may legitimately structure charitable tax incentives to preserve a materially pluralistic nonprofit sector and redistribute philanthropic capital in ways consistent with democratic governance. The remaining papers use legal history to grapple with dominant narratives surrounding charitable tax exemption and the political systems those narratives have been used to justify. Lauren Libby's paper, The Historical Limits of Charitable Tax Exemption, challenges the longstanding narrative that modern charitable exemption derives naturally from a unified Anglo-American common law of charity rooted in the Statute of Elizabeth. Through comparative historical analysis of Massachusetts, Connecticut, New York, and Illinois, the paper argues that charitable tax exemption instead developed through distinct state tax systems, administrative practices, and local institutional arrangements, revealing exemption to be part of a fragmented and evolving political project rather than the inevitable continuation of a coherent private-law tradition. Alex Zhang's paper, Racial Integration and Tax Exemption, similarly complicates dominant narratives about the relationship between tax exemption and equality, showing through original archival research that tax exemption historically functioned both as a mechanism for advancing racial equality and as a means for preserving racial hierarchy and resisting integration. Collectively, these papers illuminate how debates over tax exemption are ultimately debates over democratic governance, institutional legitimacy, pluralism, equality, and the allocation of cultural and political power in American society.

Participants:

Racial Integration and Tax Exemption *Alex Zhang, alex.zhang@aya.yale.edu*

The Trump Administration is transforming American higher education. Among other fiscal levers, the President has threatened, and the Treasury Department is quietly considering, regulations that would revoke universities' tax exemption for programs benefiting racial minorities. Commentators have decried such actions as an unprecedented assault. Their criticism reflects the traditional narrative since the 1980s: The state uses tax exemption as a fiscal tool for equality, for example by depriving racially discriminatory private schools in the South of their exempt status in Bob Jones University. But this view is incomplete. Relying on original archival research, this Article shows that the state has used tax exemption as a tool not to advance racial equality, but to stop its progress. It uncovers the



fascinating story about a modern research university's decision to sue the state—and challenge the state constitution's ban on racially integrated, tax-exempt educational institutions—to win the privilege of desegregation. This historical account provides lessons for both egalitarian advocates and policymakers. It yields two key insights about the complex relationship among state, tax exemption, and racial equality.

The Historical Limits of Charitable Tax Exemption *Lauren Libby, The University of Texas School of Law*

Modern doctrine governing charitable tax exemption—particularly under § 501(c)(3) and § 170—rests on a widely accepted historical narrative. Courts and commentators often assume that exemption reflects a longstanding Anglo-American legal tradition linking tax immunity to the common law of charitable trusts, with origins in the Statute of Elizabeth. On this account, when Congress first enacted the charitable exemption in 1894, it was not creating something new or controversial, but rather continuing a deeply rooted and well-understood legal tradition. This narrative plays a crucial normative role, in that it not only justifies the existence of charitable tax exemption within the federal tax code, but also supports a broad reading of § 501(c)(3) and § 170 and the incorporation of equitable doctrines to police access to exemption. This project seeks both to make that historical reasoning explicit and to test its accuracy. It examines the relationship between charity law and taxation in early American law through a series of state-level case studies, focusing on Massachusetts, Connecticut, New York, and Illinois. Rather than assuming the existence of a unified "law of charity," the project reconstructs how charitable activity was actually structured across multiple legal domains, including corporate law, public welfare law, and taxation—and how tax exemption functioned within those systems. The historical account developed here suggests a markedly different picture from the conventional narrative. Charitable trust doctrine did not serve as the conceptual center of American charity law in the colonial and early national periods, nor did tax exemption emerge as a direct outgrowth of that body of private law. Instead, exemption developed largely within tax systems themselves—as a function of fiscal design, administrative practice, and institutional organization—beginning in the seventeenth century. Even as states later converged on exemption regimes that resemble modern § 501(c)(3) in form, their interpretation and justification varied significantly across jurisdictions, often diverging from trust-based conceptions of charity and reflecting distinct (and sometimes conflicting) local understandings of taxation, public authority, and social welfare.

Arts Tax Policy: Democracy or Plutocracy? *Philip Hackney, University of Pittsburgh School of Law*

The United States National Endowment for the Arts' budget in 2024 was $207 million; in the same year the United States spent roughly between $2 and $3.35 billion on art through the charitable contribution deduction. Over 90% of those deductions came from people earning more than $200,000, while 65% came from those earning more than $1,000,000. Is there justification for Congress to provide charitable tax benefits including tax exemption to support arts-based nonprofit organizations this way? This Article finds no theory of justice supports this policy as currently designed. Though tax scholars typically consider factors of efficiency or equity, neither resolves this question. We need a theory of political justice. The charitable tax subsidies fail because no theory justifies allowing wealthy interests the primary say in what art the country supports, and because the current design is unlikely to fix any market failure. Underlying both failures is the neutrality principle of liberal democracy: the state should not privilege one form of the good life over another. This is a principle the tax literature has largely ignored. Though art can serve genuine democratic purposes by developing the reflective and communicative capacities citizens need for self-governance, that case requires art policy to be determined through inclusive democratic deliberation rather than wealthy donor preferences. Judged against the standard of democratic perfectionism, the current structure substitutes plutocracy for democracy in a domain where democratic deliberation is what political justice requires.

Structural Pluralism and the Charitable Tax Exemption *Skyler Dykes, Arnold & Porter*

"Pluralism" has long been understood as a central justification for the charitable sector's tax-preferred treatment. From Justice Powell's concurrence in Bob Jones to tax policy debates, courts, scholars, and policymakers have invoked pluralism to defend a broad and decentralized charitable sector, resist governmental orthodoxy, and preserve donor discretion. Yet a close examination of legal authorities reveals that the meaning of pluralism in charitable giving law is far from precise. While frequently cited, pluralism has rarely been defined, instead operating as a loose shorthand for a range of normative commitments. This paper examines judicial opinions, legislative history, and administrative guidance to trace how pluralism has appeared within positive law and clarify the legal work the principle has performed. The paper shows that while nonprofit scholarship often asserts that pluralism mandates donor neutrality and preservation of private philanthropic choice, that conception of pluralism is better understood as a scholarly accretion than embedded in positive law. Challenging this account, the paper advances a theory of "structural pluralism." It argues that pluralism can simultaneously support a broad definition of "charitable" under Section 501(c)(3) and IRS restraint in granting and revoking tax-exempt status, while also permitting Congress to structure charitable tax incentives in ways that sustain a more materially pluralistic charitable economy. Properly understood, pluralism not only permits redistribution of philanthropic capital through federal tax law, but may affirmatively justify it.

Chair:

Ari Glogower, Northwestern Pritzker School of Law

Discussants:

Daniel Hemel, New York University School of Law
Luis Calderon Gomez, Cardozo School of Law
Ari Glogower, Northwestern Pritzker School of Law
Brian Mittendorf, The Ohio State University

087. The Means-Tested Safety Net

The Social Safety Net & Health
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Fayette Room

Participants:

Enrolled in a SNAP? Investigating the impact of administrative burdens on time to take-up *Rachel Vogt, Boston University*

Incomplete take-up of welfare programs is a persistent issue that has long puzzled economists and policymakers. In spite of low benefit amounts and broad eligibility criteria, the number of people who take up social assistance programs like SNAP (the Supplemental Nutrition Assistance Program, more commonly known as food stamps) remains well below the number of eligible individuals. This paper focuses on several administrative interventions intended to improve the reach of SNAP and make it easier for potential recipients to apply. These include allowing recipients to apply for benefits online rather than in person or through the mail, and providing call centers or hotline numbers to call for assistance with applications or eligibility information.



While a substantial body of work has analyzed the impact of these types of administrative improvements on SNAP participation rates directly, very little work exists addressing the intensive margin effects of these improvements – whether changes to the administrative scaffolding translate into recipients getting access to benefits earlier than they otherwise would have. In this paper, I exploit the staggered rollout of these administrative policy changes over time to investigate whether they result in a shift in the distribution of when recipients are able to access the program after an eligibility shock. Using SIPP data from 1996-2019, I am able to observe the number of months between job loss and SNAP take-up at an individual level to assess whether online applications and call centers are affecting the amount of time between when a person becomes SNAP eligible and when they take up the benefit. Preliminary results using a dynamic TWFE strategy as well as other specifications which more formally take into account the staggered nature of policy adoption suggest that on average these policy interventions do not have a significant impact on how soon an individual receives SNAP benefits after losing a job. Additional work in progress includes further refining the staggered DiD analysis and investigating heterogeneity by household characteristics.

Cash vs. In-Kind: Evidence from the Introduction of SSI and the Food Stamp Cash-Out *Marianne Bitler, bitler@ucdavis.edu*

This paper considers the effects of a change from in-kind food benefits for the population served by the Supplemental Security Income program to cash with the introduction of SSI in 1974. SSI replaced previous state run programs serving means tested cash benefits to the low-income elderly and disabled, with one difference, states with generous benefits were no longer allowed to give recipients both Food Stamp and cash, and cash benefits in these states went up to replace lost food stamp benefits. We explore how this shift from in-kind to cash benefits affects spending on food and other things, estimating a quasi-experimental marginal propensity to consume for a disadvantaged population.

Safety Net Substitution and Implications for Cash Transfers: Evidence from EITC and TANF *Augustine Denteh, Davidson College; Elliott Isaac, Tulane University*

The mid-1990's welfare reform introduced Maintenance of Effort (MOE) spending, requiring states to spend their own funds on their Temporary Assistance for Needy Families (TANF) programs to receive federal TANF block grant funding. One category of MOE spending includes refundable tax credits, effectively linking state Earned Income Tax Credits (EITCs) to TANF and introducing an explicit tradeoff for states: if a state increases state EITC spending, it can reduce spending in other MOE categories. We use administrative data and a simulated instrument approach to estimate the degree of substitution between state spending on TANF basic assistance and its state EITC and decompose this effect into extensive and intensive margin responses. We find that a $1 increase in state EITC spending causes a $0.68 decrease in state spending on TANF basic assistance, of which 69.3% is due to caseload reductions. Since 2001, our estimates suggest that state safety net substitution can explain 88.3% of the decline in state spending on TANF basic assistance in states with refundable state EITCs. Ongoing work includes calculating welfare weights on EITC vs. TANF recipients could rationalize the magnitude of substitution we document in light of each program's Marginal Value of Public Funds.

Changing Effects as an Unconditional Cash Transfer Program Expands: Evidence from the Rx Kids Program *Matthew Kaefer, Michigan State University*

Measured effects of an intervention may change as the intervention expands to heterogeneous populations. The Rx Kids program provides unconditional cash transfers to pregnant mothers in select communities of Michigan. The program started in Flint, MI, has expanded to over 30 communities, and continues to expand. A combination of private and public sources fund Rx Kids, with public funding coming from Temporary Assistance for Needy Families (TANF) for mothers eligible for Medicaid. I will compare birth outcomes in Rx Kids communities and other Michigan communities, before and after the adoption of Rx Kids, to measure the causal effect of the program. I will see how treatment effects vary based on community observables as the program expands. I can then predict the effect of the Rx Kids program in untreated communities, informing the expansion of the program in Michigan and to other states.

Chair:
Lauren Jones

Discussants:
Lexin Cai, UCLA
Bruce Meyer, University of Chicago

088. Measuring Taxpayer Behavioral Responses

Individual Taxation, Labor Supply
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Pennsylvania West
Participants:

Numerators and Denominators: The Return to Work and the Labor Supply Elasticities of Unmarried Mothers *Jacob Bastian, Rutgers University*

Labor supply elasticities for unmarried mothers drive the predicted employment and poverty effects of tax and transfer reforms, but the values drawn from five decades of Earned Income Tax Credit (EITC) expansions range from about 0.25 to above 1. Much of this range reflects how the change in work incentives is measured. For the 1975, 1986, 1993--1996, and 2009 expansions, I construct the change in the return to work from all federal tax changes and from the cash welfare and Food Stamps that nonworkers reported receiving, and I find that the EITC accounts for less than half of it in every expansion. Rather than argue for a single elasticity, I calculate one under every combination of measurement decisions, 480 alternative approaches per reform, and report the distribution. For 1975, 1986, and 1993--1996, the median is 0.36 and the mean 0.40, with an interquartile range of 0.25 to 0.50, while dividing the same employment effects by the change in the EITC alone gives a mean of 1.03. A regression of labor supply on the return to work by year and number of children over 1979 to 2019, which uses no published estimate, gives 0.3 to 0.45 and similar responses to tax credits and to benefit cuts. The 2009 expansion does not identify an elasticity by either method, because Food Stamp growth for larger families during the Great Recession offset most of the credit. The evidence supports an elasticity of about 0.4 when the numerator and denominator of the elasticity reflect the same policy changes.

Kinks, Notches, and Frictions: Structural Bunching at Australian Income Tax and HECS Repayment Thresholds *Ashley Craig, Australian National University; Ellen Stuart, The University of Sydney*

Understanding taxpayers' awareness of and response to kinks and notches is of first-order importance for both academics selecting between different models of taxpayer behaviour and policymakers designing efficient and equitable tax policy. In this



project, we study a population simultaneously subject to both: holders of HECS-HELP debt, Australia's income-contingent student loan. We apply the structural bunching estimator of Anagol et al. (2025) to the Australian Taxation Office Longitudinal Information Files ("ALife"), a 10% random sample of Australian tax returns, to financial years 2012-13 through 2015-16. Over this window the income-tax bracket structure is unchanged, and the HECS repayment thresholds are indexed by a uniform proportional factor each year. The estimator posits that workers do not pick income freely but choose from a sparse, discrete menu of income opportunities. Diffuse bunching around a threshold then emerges as a consequence of the friction. The model jointly identifies an elasticity of taxable income e, which governs the size of the overall bunching mass, and a lumpiness parameter mu, equal in dollars to the typical gap between adjacent income options. Estimation proceeds by maximum likelihood on the full shape of the binned income distribution near each threshold, so the elasticity is identified jointly with the friction rather than confounded with it. Bunching is visible at every income-tax kink, at the first HECS notch, and to a smaller extent at higher HECS notches. The estimates of e and mu are roughly consistent across marginal tax rate kinks, but much larger at the first HECS repayment threshold: the mean lumpiness is around $430 at the HECS notch versus $30 to $140 at the income-tax kinks, and the mean elasticity is roughly ten times higher. To our knowledge this is the first joint structural estimate of kink and notch responses for the same population of workers under a common estimator.

External Validity in Empirical Public Finance: With an Application to Taxable Income Elasticities *Gerardo Sanz-Maldonado, University of Michigan; Joel Slemrod, Office of Tax Policy Research, University of Michigan; Meng Hsuan Hsieh, University of Michigan*

Estimates of the elasticity of taxable income (ETI) based on data from a single country implicitly assume that nothing can be learned from other countries' experience. This is wrong, and relaxing it requires a principled framework for aggregating information across contexts. We propose a three-stage empirical Bayes framework, grounded in statistical decision theory, that models cross-country heterogeneity in the ETI as a function of the structural determinants of the tax system. Each country's first-stage segmented estimate is combined with a second-stage correlated random coefficients (CRC) prediction through optimal shrinkage weights derived from the data: countries whose own estimates are imprecise place more weight on the cross-country evidence. The shrinkage weight is not a tuning parameter; it is the data's answer to how much each country should rely on external information, and the resulting estimator minimizes compound Bayes risk under squared error loss. We apply the framework to top-income ETIs for 27 OECD countries from 1981 to 2014, using top income shares, marginal tax rates, and World Values Survey indicators of redistributive preferences, trust in government, and ethnic fractionalization. Estimating each country's ETI separately yields a cross-country average of 0.204, with the United States at 0.240 and substantial dispersion (Belgium −0.96; Hungary 1.26), much of it driven by imprecise estimates from countries with limited within-country tax variation. A CRC specification that demeans interaction and level controls relative to the overall sample mean yields a cross-country average ETI of 0.260, residual heterogeneity of $\tau^2 = 0.110$, and a mean shrinkage weight of 0.725—so segmented estimates remain the dominant input, but cross-country information meaningfully revises the noisiest cases. The signs of the CRC point estimates align with the predictions of Slemrod and Kopczuk (2002) in seven of eight cases: stronger preferences for efficiency over equity, greater justifiability of cheating on taxes, and higher ethnic fractionalization are associated with higher ETIs, while stronger agreement that redistribution is essential, that government should take more responsibility, and greater confidence in government are associated with lower ETIs, as is a larger population. Only the coefficient on the public's view that government has the right to collect information runs counter to theory. The coefficient on preferences for efficiency over equity is the only one statistically distinguishable from zero (0.105, p < 0.01); the rest are individually imprecise. The empirical Bayes estimate for the United States is 0.261, slightly above its segmented value and reflecting modest pull toward a CRC prediction of 0.351. The framework also characterizes external validity in two further senses: when new country data arrive, existing segmented estimates are unchanged and updating flows entirely through the cross-country coefficients and residual variance; and when predicting behavior for a country that has not adopted a tax—wealth taxation in our illustrative application—the CRC structure can be evaluated at the non-adopter's observables to deliver a selection-corrected prediction interval.

Panel Estimation of Taxable Income Elasticities with Heterogeneity and Endogenous Budget Sets *Anil Kumar, anil-kumar@uiowa.edu*

This paper introduces an estimator for the average of heterogeneous elasticities of taxable income (ETI), addressing key econometric challenges posed by nonlinear budget sets. Building on an isoelastic utility framework, we derive a linear-in-logs taxable income specification that incorporates the entire budget set while allowing for individual-specific ETI and productivity growth. To account for endogenous budget sets, we employ panel data and estimate individual-specific ridge regressions, constructing a debiased average of ridge coefficients to obtain the average ETI. Using data from the Panel Study of Income Dynamics (PSID) spanning 1977–1997, we estimate an average ETI of 0.605. The working paper is available at: https://arxiv.org/pdf/2501.00633

Chair:

Andrew Garin, Carnegie Mellon University

Discussants:

Felix Koenig, Carnegie Mellon University
Andrew Garin, Carnegie Mellon University

089. Firm Behavior in Developing Countries

Public Finance in Developing Countries
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Somerset

Participants:

The Liquidity Cost of VAT and Production Efficiency *Haonan Li; Xuan Wang, Peking University*

This paper studies the liquidity cost of Value-added tax (VAT) and estimates its impact on firm investment. Using a quasi-experimental policy change in China that raised the VAT rate on coal inputs without altering output tax rates, we isolate a clean tax-induced cash flow shock. We find that downstream firms that use more coal for production respond by substituting away from coal, reducing investment, and raising producer prices.

Making Sense of Shaming: A Field Experiment on Moral Disengagement and Corporate Tax Delinquency in Brazil *Natalia Rodrigues, Office of the Attorney General for the National Treasury in Brazil*

This article investigates how public disclosure shape corporate tax delinquency in a high-corruption context. In Brazil, firms owe hundreds of billions of dollars in unpaid federal taxes, and



large corporations account for a disproportionate share of these arrears. At the same time, tax amnesties have become a recurrent policy instrument, creating expectations of future forgiveness and potentially weakening the deterrent effect of traditional enforcement tools. While governments increasingly experiment with transparency and "shaming" to improve compliance, existing evidence on the effectiveness of such non-pecuniary sanctions for firms is limited and context-dependent. The study combines insights from the literature on tax morale, social norms and moral disengagement to examine when and for whom public disclosure can change corporate behavior. It uses administrative data and a large-scale field experiment implemented in partnership with the Brazilian Ministry of Finance, in which about 15,000 delinquent firms per wave are randomly assigned to receive different collection letters. The treatments include a non-pecuniary threat of shaming (inclusion on a public list of tax debtors), as well as messages designed to target specific mechanisms of tax morale and moral disengagement (e.g. harm salience, personal responsibility, diffusion of responsibility, peer norms). The main outcome is whether firms pay or renegotiate their outstanding tax debts within 30 days. The results are expected to show that recurring amnesties and moral disengagement significantly blunt the effectiveness of transparency and shaming, and that only carefully targeted messages yield modest improvements in compliance. The article concludes by discussing the implications for the design of tax-enforcement strategies in environments where both institutional incentives and moral justifications favor persistent corporate delinquency.

Consumption Tax Incidence, Wages and Wage Inequality: Evidence from India. *Pankaj Bansod, University of Kentucky; William Hoyt, Martin School of Public Administration and Department of Economics, University of Kentucky*

This paper examines the incidence of consumption taxes within a two-sector, two-factor general equilibrium framework, analyzing how the tax burden is distributed across consumers, labor, and capital holders. Building Atkinson and Stiglitz (2015), we model producers as rational agents who, facing highly elastic labor supply and comparatively inelastic labor demand characteristic of developing economies shift a portion of the statutory burden onto employees through wage suppression while preserving or augmenting capital values, yielding a closed-form expression for consumption tax incidence (CTI) on wages and capital. For empirical identification, we exploit India's 2017 Goods and Services Tax (GST) reform as a source of plausibly exogenous variation in consumption-tax rates, using the Annual Survey of Industries (ASI) spanning 2002–2023 merged with tax rate data across both the pre-GST VAT and post-2017 GST regimes. A staggered Difference-in-Differences framework with item code, state, and year fixed effects, complemented by quantile regression, identifies differential effects across firm size and tax rate levels. Results indicate that VAT implementation led to over-shifting of consumer prices, asset accumulation, and near-stagnation of wages, while the GST had a more severe impact on consumer prices and wages alongside capital increases. Quantile regression further reveals that small firms primarily bear the burden through price reductions, wage cuts, and capital contraction, whereas larger firms pass the burden onto consumers and accumulate capital highlighting the disproportionately adverse impact of consumption tax reform on smaller firms and high-tax producers.

Tax Incentives and Firm Behavior: Evidence from Article 31E of Indonesia's Income Tax Law *Noor Cholis, University of Kentucky*

This study examines the behavioral response of Indonesian corporate taxpayers to Article 31.E of Law No.36/2008, which creates a kink at 4.8 billion IDR and a notch at 50 billion IDR in corporate tax schedule for small and medium enterprises. Using administrative tax return data from Directorate General of Taxes of Indonesia from 2004 to 2012 and applying bunching estimation methodology of Saez (2010) and Kleven and Waseem (2013), I document significant excess mass at both threshold in the first treatment year of 2009. The identification strategy uses the pre-treatment average distribution from 2004 to 2008 – scaled to the 2009 sample size by factor of 2.686 – as the counterfactual, validated by three placebo tests confirming that there is no pre-existing bunching at either threshold. At the 4.8 billion IDR kink, I find excess mass (B) of 74.8 firms and normalized bunching (b/f0) of 0.2398 billion IDR, implying that firms shifted approximately 240 million of reported sales downward to qualify for the 14% reduced rate, with the elasticity of income of 0.9474. At the 50 billion IDR notch, I find excess mass (B) of 24.5 firms, missing mass (M) = 35.8 firms, and B/M = 0.7110 – below the frictionless prediction unity – which indicating optimization frictions. Effective tax rate analysis confirms the statutory Article 31.E formula is correctly specified, with the median firm paying exactly the prescribed rate in all categories. The results provide direct evidence that Indonesian SMEs respond to size-contingent tax thresholds with elasticity estimates broadly consistent with the upper-range of developing country's ETI literature.

Chair:
Xuan Wang, Peking University

Discussants:
Pankaj Bansod, University of Kentucky
Amna Tariq Shah-Kemp, Monash University (Australia)
Tejaswi Velayudhan, University of California Irvine
Pablo Garriga, World Bank

090. Monetary policy, Bureaucracy, and the Balance Sheet
Fiscal Sustainability, Macroeconomics and Fiscal Policy
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Washington Room
Participants:

Who Measures Long-Term Liabilities? Actuaries and Public Pension Finance *Maximiliano Lauletta, Federal Reserve Board*

Institutions routinely delegate complex measurement to external experts, creating scope for expert judgment and discretion to shape reported information. This paper studies delegated measurement in state and local public pensions, where actuaries value long-term benefit promises that determine reported funding, required contributions, and fiscal risk. I use novel data linking plan-level financials to actuarial firms and valuation assumptions. Leveraging actuarial firm switches and malpractice litigation, I show that actuaries materially affect reported liabilities and funding status. Small actuarial firms, in particular, are associated with more favorable reporting. When an actuarial firm is sued for malpractice, its other public pension clients subsequently report stronger financials and use more aggressive assumptions, consistent with reputational and market incentives shaping expert discretion. Counterfactual exercises suggest that these forces shift aggregate reported liabilities by tens to hundreds of billions of dollars.

Regime-Dependent Causal Dynamics in Financial-Macroeconomic Systems: Evidence from a Multi-Algorithm Consensus Framework *Raju Mainali, Missouri State*



University

This study investigates whether the causal architecture of the U.S. financial-macroeconomic system remains stable across major monetary policy regimes or undergoes structural reorganization over time. Using monthly U.S. financial and macroeconomic data from December 2004 to September 2025, the analysis applies a multi-algorithm causal discovery consensus framework that combines Granger causality, PCMCI+ partial correlation networks, DYNOTEARS structural learning, and VAR-LiNGAM decomposition. To improve robustness, only causal relationships supported by multiple algorithms are retained as consensus arcs. Structural changes are further evaluated using Bai-Perron sequential break tests and bootstrap-based stability analysis. The findings reveal substantial regime dependence in the financial-macroeconomic causal network, with a dominant structural break concentrated around March–May 2020. The pre-COVID and post-COVID networks share only 24.4% of consensus causal links, indicating extensive restructuring of monetary transmission and market interactions. Results show that the Federal Funds rate gained significantly stronger causal influence on equity markets, oil prices, and money supply during the post-COVID period, while several pre-existing macroeconomic channels weakened or disappeared. Invariant relationships also exhibited major effect-size shifts, particularly the strengthened transmission from crude oil prices to industrial production and from Federal Funds rates to broad money supply. Overall, the study provides empirical evidence consistent with the Lucas critique, suggesting that causal relationships in financial-macroeconomic systems are highly regime dependent rather than structurally stable. The paper contributes methodologically through a multi-algorithm consensus framework for causal discovery and substantively by highlighting the evolving nature of monetary policy transmission in post-COVID financial systems.

Buyer-Supplier Relationships in Federal Contracting *Justin Marion, University of California, Santa Cruz*

Do prior relationships between government bureaucrats and the contractors they oversee shape the allocation of public spending? I address this question in the setting of U.S. federal procurement, where individual contracting officers have substantial discretion over contract awards. Linking procurement officers from federal contract data to personnel records from the Office of Personnel Management, I identify separation events when individual officers depart their agencies. Firms with prior ties to the separating officer experience a 10.8 percentage point decline in awards from the affected agency, with larger declines among firm-officer dyads with deeper relationships and among firms with greater reliance on noncompetitive awards. Rather than substituting toward other agencies, the likelihood of receiving an award from any agency falls, pointing toward a decline in federal procurement activity at the firm level. Lastly, the separation effect is larger in industries where contracts are complex, broadly consistent with efficiency-enhancing information capital or relational contracting.

Effects of Changes in the Federal Funds Rate on Household Finance *Rajashri Chakrabarti, Federal Reserve Bank of New York; Kasey Chatterji-Len, Rattner Family Office; Daniel Garcia, Columbia University; Maxim Pinkovskiy, Federal Reserve Bank of New York*

This paper is joint work with Rajashri Chakrabarti (Federal Reserve Bank of New York), Kasey Chatterji-Len and Dan Garcia (Columbia). We use local projection techniques along with cross-sectional heterogeneity to estimate plausibly causal effects of monetary policy on household finance. Comparing counties that differ by leverage, we find that monetary tightening increases the growth of adverse household debt outcomes, including delinquencies, foreclosures and bankruptcies, and decreases the growth of credit scores and of borrowing to purchase houses and cars in more leveraged counties compared to less leveraged ones. Exploring mechanisms, we find that the effects of monetary policy are largely mediated by borrowing cost changes in the short term and by changes in employment in the medium/long term following a rate change, while contribution of the house price channel is small. Moreover, we find that the transmission of monetary policy is considerably more effective in areas and time periods that have higher Adjustable Rate Mortgage Debt (ARM)-to-income ratios. Furthermore, we find that the effects of monetary policy are asymmetric – monetary contraction has larger (absolute) effects than monetary expansion.

Chair:

Nicholas Hoffman, United States Congress

Discussants:

Angela Gu, Joint Committee on Taxation

Nicholas Hoffman, United States Congress

091. Commercial Property Taxation and Local Government Revenue

State and Local Taxes Including Property Taxes

Paper Session

8:30 to 10:00 am

The Westin Pittsburgh: Floor 2 - Westmoreland Central

Participants:

Measuring Local Government Levies' Responsiveness to the Property Tax Base *David Merriman, dmerrim@uic.edu*

For most non-property (e.g., sales, income, or franchise) taxes, governments choose the tax rate, and fluctuations in the tax base determine fluctuations in tax revenue. In contrast, governments in our data choose the property tax levy (i.e., tax revenue) and fluctuations in the tax base determine the tax rate. Despite this institutional arrangement, the general public often appears to believe that increases in the property tax base will lead to increases in their tax bill. This belief contributes to resistance to timely and accurate property tax assessments. We estimate the elasticity of the tax levy with respect to changes in the tax base using a dataset of 415 Cook County, Illinois, taxing agencies between 2006 and 2023. Our analysis focuses on four main types of agencies: municipalities, schools, townships and others. We instrument for changes in the tax base using reassessment year and allow for different elasticities by agency type. Simple OLS and IV analyses that pool all taxing agencies and years with year and agency fixed effects show very small or (with IV) zero values for the elasticity. When we run separate analyses by agency type we generally find small or statistically insignificant values for the elasticity but, because the standard errors on our estimates are sometimes large, our upper bound estimates are as great as 0.588 in some cases. We also run analyses that allow for asymmetric and lagged impacts of tax base changes. Our OLS reject asymmetric impacts but IV estimates do not. Even when we allow for asymmetry we generally find small elasticities. We cannot consistently reject the hypothesis that lags of changes in the tax base impact the levy. In some specifications we find upper bound estimates of elasticities as high as 0.698

The Effect of Hyperscale Data Centers on Local Tax Revenues *Justin Ross, justross@iu.edu; Jiahe Zheng, Indiana University*

Hyperscale data centers are controversial private investments with substantial public implications for local infrastructure and community aesthetics. In response, states are considering a range



of policies, from preempting local efforts to block such facilities to imposing complete moratoriums on their location within the state. This paper uses a stacked differences-in-differences design to estimate the impact of hyperscale data center entry on local public revenues and expenditures. We combine annual data from the Census of Governments with proprietary data on data center locations to estimate heterogeneous effects across states, reflecting differences in state institutions governing property taxation. Our preferred specification exploits within-county variation across school districts to identify effects on own-source revenue, leveraging the fact that school districts often experience fiscal changes more passively through shifts in local economic conditions.

A Decomposition of House Price Pass-Through to Property Tax Revenue *David Agrawal, University of California, Irvine; Iuliia Shybalkina, University of Kentucky; Caroline Weber, caroline.weber@uky.edu*

House prices, an important driver of the property tax base, have experienced substantial movements over the past two decades, yet we have limited evidence about how these changes translate into property tax revenue. We revisit this question using an administrative county-level panel for a subset of states that spans multiple housing cycles with data on each component of the tax system — tax revenue, assessed value by class, the tax base, and the tax rate — allowing us to decompose pass-through and test for asymmetry. We find that almost 70 percent of house price changes never reach property tax revenue, and the share is smaller during periods of house price decline. Much of this wedge reflects rate reductions that offset rising assessed values, with smaller contributions coming from incomplete pass-through from prices to assessed value and exemptions and abatements that create a wedge between assessed value and the tax base. These shares vary with the institutional constraints of the state – assessment caps amplify the tax-base channel, while levy limit states rely more heavily on rate offset.

Commercial Property Taxes, Firm Behavior, and Fiscal Externalities *Nathan Sunday, University of Michigan*

Property taxation is widely viewed as a promising source of revenue for developing countries, yet evidence on its economic effects remains limited. This paper exploits a natural experiment in Kampala, Uganda, in which a property revaluation and mass enumeration increased tax liabilities within the city. Using administrative data from corporate and employee tax returns in a difference-in-differences framework, I document four main findings. First, the reform reduced profits, investment, employment, and survival probability, with effects that are highly heterogeneous across firm size and financial structure. Small firms experience declines in revenue and profits, whereas large firms experience revenue gains with no significant change in profits, consistent with greater market power. Financial flexibility also plays a critical role, insulating moderately leveraged firms from adverse effects. I also provide evidence that wage informality constitutes an important margin of adjustment, with a non-trivial share of formal job losses reflecting a shift to informal arrangements rather than outright job destruction. Second, the reform had progressive distributional consequences within firms, with workers at the top of the earnings distribution disproportionately affected. Third, the rental cost channel plays an important role in transmitting property tax burdens to firms. The reform increased business rental expenses by 6.5 percent, implying an estimated pass-through rate to formal tenant firms of 0.53. Finally, I quantify a vertical fiscal externality whereby each UGX 1 increase in local property tax revenue reduces central government income tax revenue by approximately UGX 0.26. The findings underscore a fundamental tension in decentralized fiscal systems: local revenue gains may impose costs on firms, workers, and the central government that are not fully internalized when tax instruments are evaluated in isolation.

Chair:

Antoine Levy, Berkeley Haas

Discussants:

Laiyang Ke, University of North Texas
Antoine Levy, Berkeley Haas
Sieun Lee, Indiana University
Caroline Weber, caroline.weber@uky.edu

092. Measuring and Detecting Evasion

Tax Enforcement and Evasion
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Westmoreland East

Participants:

The Effects of Tax Evasion on Inequality *David Weisbach, The University of Chicago Law School*

To estimate inequality from tax data, researchers must allocate misreported income (e.g., evasion) to individuals based on limited information. Different approaches impose different identifying assumptions about the joint distribution of true income and reporting behavior, leading to substantial differences in estimated top income shares. We develop the framework for the relationship between true, reported, and misreported income, clarifying how alternate identifying assumptions affect estimates of inequality. We show that reported top income shares may overstate true top shares under a broad range of assumptions. This can occur even when evasion is higher among top income groups, provided that misreporting is sufficiently heterogeneous within income classes. This result is due to a selection effect: high-income individuals who evade drop out of the reported top group, while more compliant individuals move in. As a result, the reported distribution selects for honesty, increasing reported top shares relative to true top shares. Approaches that restrict heterogeneity implicitly rule out this mechanism and may bias conclusions about the level of inequality.

Conspicuous Consumption and Tax Compliance: Evidence from Vehicle Wealth *Naomi Feldman, naomi.feldman@mail.huji.ac.il; Jakob Brounstein, jakob.brounstein@gmail.com; Annette Alstadsæter, Skatteforsk - Norwegian Centre for Tax Research; Raysa Lizarraga, The Norwegian University of Life Sciences (NMBU)*

This paper studies the relationship between conspicuous consumption, as measured by vehicle wealth, and tax compliance. We construct household-level demand residuals from cross-sectional regressions of vehicle wealth on income and total wealth, and examine whether these residuals predict tax audit selection and penalties conditional on selection. Our findings contribute to the literature on conspicuous consumption, tax enforcement, and the use of observable expenditure signals in compliance strategies.

Mandatory Disclosure and Tax Evasion *Jacob Nussim, Bar Ilan University*

Tax systems in various jurisdictions require taxpayers to disclose specified “reportable” or suspicious transactions along with their tax returns. The clear goals are to reduce information asymmetry and facilitate early detection and prevention. Yet observed compliance with these disclosure obligations is often incomplete, and the compliance effects of disclosure regimes are still ambiguous. This paper develops an inspection-game framework



in which mandatory re-porting affects detection technology and introduces a non-reporting penalty that enters the tax authority's net revenue. Given common institutional constraints, the introduction of mandatory reporting may actually impair evasion deterrence. The model investigates the economic conditions that are favorable for reporting requirements and distinguishes between commitment and non-commitment regimes (in which the tax authority may or may not be able to commit to enforcement effort).

Persistent Bunching and Hidden Wealth: Expenditure-Based Evidence of Tax Noncompliance in Hawaii *Sumit Ilamkar, University of Hawaii*

This paper develops a novel methodology to quantify the magnitude of hidden income among self-employed taxpayers in Hawaii. While recent literature robustly documents that taxpayers strategically manipulate reported income to bunch at tax schedule kinks, standard bunching estimators cannot distinguish real behavioral responses from tax evasion, nor can they quantify the dollar value of unobserved income. This paper bridges the bunching literature and expenditure-based evasion estimation by combining two administrative data signatures that have never been linked at the individual level. Using a seven-year panel of Hawaii State Individual Income Tax returns (2017-2023), I first identify taxpayers who persistently report income within a narrow window of Hawaii's food excise tax credit cliff - a hard income discontinuity that creates sharp incentives to bunch. Persistence across multiple years filters out taxpayers whose income genuinely falls near the threshold from those who are deliberately targeting it: the probability of landing within $500 of the same kink five or more times in seven years by chance is less than 0.1 percent. I then exploit charitable giving as a trace of true income, following Feldman and Slemrod (2007). The core insight is that giving reflects true economic capacity rather than reported income. By comparing the charitable contributions of persistent bunchers against non-bunching self-employed taxpayers within narrow $2,000 income bins - holding the marginal tax rate constant and eliminating the preference heterogeneity critique of prior work - I identify a "charity gap" attributable to hidden income rather than tax price differences. Dividing this charity gap by the income elasticity of giving, estimated from honest non-bunching taxpayers, I structurally recover the percentage of true income hidden per year of bunching persistence. This provides the first expenditure-based dollar estimate of hidden wealth at tax kinks using state administrative data.

Chair:

Max Risch, Carnegie Mellon University

Discussants:

Max Risch, Carnegie Mellon University
John Iselin, The Budget Lab At Yale

093. Optimal Taxation II

Optimal Taxation
Paper Session
8:30 to 10:00 am
The Westin Pittsburgh: Floor 2 - Westmoreland West

Participants:

Mirrlees Vs The Masses: Optimal Income Redistribution Under a Popular Opinion Constraint *Gregory Sun, Washington University in St Louis*

I combine text data from online discussions about Universal Basic Income (UBI) with an online survey experiment to quantify how the general public evaluates the desirability of different income redistribution policy reforms. Public opinion is diverse, and not well described by the standard optimal income taxation model used in economics. Combining estimated policy preferences with structural estimates from a standard income taxation model, I find that the social planner's preferred tax reform is deeply unpopular. However, modest tweaks that echo key features of UBI proposals can achieve majority support while preserving most of the welfare gains.

Optimal Tax Policy with Complex Taxpayers *Michael Love, Columbia Law School*

Trillions of dollars escape U.S. tax enforcement each year because many taxpayers are too costly to audit. This paper models optimal policy in such a setting, with complex actors and scarce enforcement resources. It reveals that complex actors naturally generate two distinct costly externalities, which are actually worsened by traditional enforcement measures. Optimal policy instead requires targeted "complexity fees." The model also reveals that imposing heavy reporting requirements on complex actors is a powerful and underappreciated tool, because reporting burdens serve as second-best in-kind complexity fees. Importantly, these insights extend beyond tax to any similar enforcement setting with complex actors.

Ramsey Alignment and the Postwar Tax System *Jackson Mejia, University of Texas at Austin*

Permanent Link: https://jackson-mejia.github.io/staticfiles/maintenance_demand.pdf

Chair:

Michael Love, Columbia Law School

Discussants:

Jacob Goldin, jsgoldin@uchicago.edu
Hyeongyul "Sean" Roh, IRS--RAAS

094. Morning Coffee Break

10:00 to 10:15 am
The Westin Pittsburgh: Foyer 1,2,3

095. Compliance, Enforcement, and Unintended Consequences

International Tax
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Butler East

Participants:

Estimating Tax-Dependent Compliance: Theory and Evidence from Trade Wars *Andrew Bibler, andrew.bibler@unlv.edu*

Abstract: Statutory tariff rates may overstate the tariffs actually paid due to evasion and avoidance. We develop a novel method to estimate tariff compliance and apply it to the 2018 trade war, when several countries imposed retaliatory tariffs on U.S. exports. Estimated compliance falls by 25 percentage points after tariff increases; a one percentage point tariff increase reduces compliance by 1 to 2 percentage points. Compliance is lower for intermediate goods, which often qualify for duty-free treatment, and for differentiated products, whose valuation is more difficult to verify. The decline accounted for approximately $3.5 billion in foregone tariff revenue in 2019. Working Paper: https://www.ifo.de/DocDL/cesifo1_wp12643.pdf

Local Effect of Global Tax Transparency *Mickael Sixdenier, Norwegian School of Economics; Elisa Casi-Eberhard, NHH Norwegian School of Economics; Rebecca Lester, Stanford University; Barbara Maria Beatriz Stage, WHU-Otto Beisheim School of Management*

We study how global tax transparency reforms designed to curb offshore evasion affect compliant taxpayers in high-compliance, non-haven economies. The Foreign Account Tax Compliance



Act (FATCA) requires foreign financial institutions to identify U.S. account holders and report their balances and income to tax authorities. These compliance costs may trigger behavioral responses on both sides of the bank-client relationship. At the extensive margin, only U.S. clients can act, by renouncing their citizenship to exit the regime. At the intensive margin, either party may reorganize the financial relationship. Combining Norwegian population-wide tax returns with account-level data on deposits and lending over 2011-2022, we estimate a difference-in-differences design with a control group tailored to each margin. Citizenship renunciation rate rises by 0.8 percentage points after FATCA relative to Australian, British, and Canadian citizens in Norway, a more-than-fourfold increase over the pre-FATCA baseline. Among long-term U.S. residents who retain their citizenship, outstanding debt falls by approximately 9 percent relative to comparable Norwegian residents, while deposits remain unchanged. The contraction operates through reduced borrowing within existing banking relationships rather than withdrawal from financial services. We provide the first systematic evidence that global tax transparency generates meaningful real costs for compliant individuals in non-targeted economies.

Regulatory Simplification and Firm Behavior: Evidence from Transaction-Level Data *Philipp Doerrenberg, University of Mannheim; Alina Pfrang, Stanford University; Christin Schmidt, University of Mannheim*

Simplifying regulation and reducing bureaucratic costs are widespread policy objectives, yet evidence on their economic effects and on firms' behavioral responses remains limited. We study whether and how a major regulatory simplification in the tax domain affects real business activity. Our setting leverages the European Union's 2021 VAT reform, which substantially simplified VAT reporting and remittance for firms exporting to EU member states. Combining novel transaction-level administrative data covering more than 150 million observations with a difference-in-differences design, we find that the simplified reporting significantly increased real economic activity. Treated firms execute roughly 40% more transactions, expand into additional countries, and diversify their product scope. Survey evidence confirms that firms perceive the reform as reducing compliance costs, and our mechanism tests are consistent with lower prices, reduced market-entry costs, and freed-up firm resources. However, we also document an unintended consequence of the reform. For non-EU exporters, the simplified reporting applies only to transactions valued below EUR 150.After the reform, the distribution of transactions exhibits pronounced excess mass just below this threshold and a corresponding hole above it. Average prices and parcel weights per transaction decline after the reform, consistent with strategic behavior in which firms misreport values and split transactions into multiple parcels to qualify for the simplified regime.

Chair:

Jacob Mortenson, Joint Committee on Taxation

Discussants:

Katarzyna Bilicka, Utah State University
Jacob Mortenson, Joint Committee on Taxation

096. Carbon Pricing

Energy and Environmental Taxes, Excise, Consumption, Commodity
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Butler West

Participants:

Border Carbon Adjustments and the Option to Wait: Compliance under Indexation *Jihun Paek, Seoul National University; Brian H.S. Kim, Seoul National University*

The EU Carbon Border Adjustment Mechanism (CBAM) indexes certificate prices to EU allowance (EUA) prices to equalize carbon costs across origins. From 2027, however, each weekly certificate price is calculated from the preceding week's EUA auctions and revealed before the current certificate price expires. This rolling disclosure gives declarants a repeatedly renewed option to wait unavailable to EU producers purchasing allowances. We formulate this foresight as an optimal stopping problem and derive its cost distribution against a matched EUA benchmark. Baseline estimates place the expected compliance cost advantage between 5.5 and 7.3 percent. In a simple downstream application, accounting for this wedge displaces outcomes predicted under parity by approximately 4 percent under reasonable assumptions. Statutory price parity therefore does not ensure effective cost parity, and imposing effective cost parity risks overstating the compliance burden attributed to foreign production.

Carbon Pricing and Investment Efficiency: Global Evidence *Alexander Edwards, University of Toronto; Panagiotis Karavitis, University of Glasgow; Anh Persson, apersson@illinois.edu*

Using a comprehensive sample of observations from 118 countries across 25 years, we examine how carbon pricing affects corporate investment and investment efficiency. We compile a catalogue of 56 country-level environmental regulations, covering the two main market-based carbon policy instruments: carbon taxes (CT) and emissions trading systems (ETS). Leveraging this broad coverage, we compare the differential effects of these two market-based regulations. We document that firms increase investment following the adoption of an environmental regulation in their country. This increase is stronger following CT adoption than ETS adoption as well as when CT coexists with ETS. At the same time, treated firms exhibit lower investment efficiency than non-treated firms. We further document that the decline in investment efficiency among financially constrained firms is concentrated among ETS-regulated firms and is driven by ETS regulation worsening underinvestment problems. Our findings suggest that carbon pricing stimulates capital spending by increasing firms' need for operational and technological adaptation, but that the resulting investments may be undertaken under regulatory pressure, reducing investment efficiency in the short run.

Overcorrecting for the Future: Pigouvian Taxation, Fiscal Deficits, and Intergenerational Equity *Daniel Schaffa, dschaffa@gmail.com*

Corrective environmental taxes are conventionally set at the Pigouvian rate — the level equal to the marginal harm the taxed activity imposes on third parties. The prescription is widely accepted as the baseline for environmental policy design. It is also derived in isolation, with no account taken of what other policy instruments are doing or what burdens current policy is placing on future generations. This Article suggests the Pigouvian baseline may not be optimal when the government faces a binding political constraint on total taxation. Such a constraint prevents the government from raising as much revenue as a welfare-maximizing policymaker would choose. The consequence is a forced deficit — not a deliberate intergenerational transfer, but the residual of a political failure. Future generations inherit the debt and must service it, bearing a fiscal burden. A benevolent policymaker cannot eliminate this deficit; the tax constraint prevents it. But she retains discretion over the composition of the constrained tax budget — how much



of the fixed total falls on clean goods versus dirty ones. Both an excessive deficit and an undertaxed environmental externality harm future generations. Recent work in second-best optimal tax theory shows that when two instruments harm the same population and one is constrained, the unconstrained instrument should be adjusted to partially repair the resulting harm. Here, the dirty-good tax is the unconstrained instrument. Raising it above the Pigouvian rate — while correspondingly reducing the clean-good tax to hold total revenue fixed — does not worsen the deficit but does reduce the pollution stock future generations inherit. It partially "compensates" them on the environmental margin for the fiscal harm the policymaker cannot address. The result: under a range of conditions, the optimal dirty-good tax exceeds the marginal environmental harm. Clean goods face a lower effective tax than they otherwise would. The second-best tax mix tilts toward dirty goods because taxing them serves two purposes simultaneously — correcting the externality and reducing the total burden on future generations — while taxing clean goods serves only one. This conclusion is not universal. It depends on household preferences, the shape of the damage function, and the degree to which fiscal and environmental harms fall on overlapping generations.

Chair:

Maggie (Yuanyuan) Liu, US Department of Treasury

Discussants:

Tyler Menzer, Texas Christian University
Eva Wang, Charles River Associates

097. Multinationals, Workers, and Corporate Tax Disclosure

Corporate and Business Taxation
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Cambria West

Participants:

Managerial Ability and Voluntary Effective Tax Rate Forecasts *Eduardo Fuste, CUNY - Baruch College; Colin Koutney, ckoutney@scu.edu*

We examine whether managerial ability, measured as the efficiency with which managers convert firm resources into revenues (Demerjian et al., 2012), is associated with the likelihood and accuracy of managements' voluntary annual ETR forecasts.

Tax Salience: Evidence from Corporate Earnings Call Transcripts *Jason DeBacker, University of South Carolina; John Ampong, University of South Carolina*

We use textual analysis of corporate earnings calls to understand how salient tax policy is to corporate executives. Our sample includes the period around the passage of the TCJA, when policy was particularly important. We explore heterogeneity across low and high ETR firms, as well as other firm characteristics, to learn about the relationship between tax incidence and how it's reflected in earnings calls.

Shift or Share? Profit Shifting and Workers' Profit-Sharing *Manon Francois, International Tax Observatory*

This paper quantifies how profit shifting erodes workers' earnings through mandatory profit-sharing. We combine Country-by-Country Reports with French employer-employee data to build a credible counterfactual profit allocation. We estimate that large French multinationals shift 19% of foreign profits annually to low-tax jurisdictions, a finding robust across a wide range of methodologies and estimation approaches. Employees in outward-shifting subsidiaries are estimated to receive between one-third and one-half less in profit-sharing than they would absent profit shifting, equivalent to 1.6-2.8% of net wages. The pattern is regressive: bottom-decile workers lose 3.3% of net wages against 2.3% for top-decile workers.

Taxes and jobs within multinational firms *Sarah Clifford, University of Oxford; Irem Guceri, Oxford University; Vikramsinh Patil, University of Oxford*

The paper investigates how employment and wages within multinational enterprises (MNEs) are affected by taxes on labour. The analysis uses detailed data on employment and wages within foreign-owned enterprises located in the United Kingdom combined with tax reform variation in the country of the MNE headquarter. By investigating how taxes at the headquarter level affect employment within the UK we can disentangle international relocation of jobs within multinational firms. We find that taxes on labour lead to relocation of jobs across borders. In very preliminary analysis, we further find a negative effect of labour taxes on wages.

Chairs:

Steven Utke, University of Missouri
Navodhya Samarakoon, University of Michigan

Discussants:

Kaishu Wu, University of Waterloo
Steven Utke, University of Missouri
Navodhya Samarakoon, University of Michigan

098. Charities

The Social Safety Net & Health
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Fayette Room

Participants:

The 501(c)(Four)mula: A Favorable Mix of Spending and Income Makes Social Welfare Organizations a Tax-Advantaged Political Force *Helen Flannery, Institute for Policy Studies; Brian Mittendorf, The Ohio State University*

American nonprofits engage in political activity to varying degrees depending on their federal tax status. Explicitly nonpolitical organizations — those approved as 501(c)(3) charities — are not permitted to support or oppose political candidates, and, because of this, they generally do not have to pay taxes on their income. Other types of 501(c) nonprofits, while not chartered solely for political work, have more freedom to engage in it; however, they may have to pay taxes on their income depending on their revenue and political spending mix. In this study, we use publicly filed IRS 990 forms to examine the scale of political spending by 501(c) organizations and the degree to which that spending is ultimately taxed. We find that 501(c) political spending reached new heights in 2024, increasing more than 50% beyond the amount spent during the 2020 presidential election, and that fewer than two hundred 501(c)(4) social welfare organizations represented the bulk of this spending. We find that the tax treatment rules for 501(c) entities often results in these highly political social welfare organizations avoiding taxation due to the inverse timing of their political spending and investment income. Our results suggest that a select group of 501(c)(4) social welfare organizations are playing an increasingly important role in post-Citizens United politics, while also benefiting from more favorable tax treatment than other political funding vehicles. Current version of the working paper available at: https://ssrn.com/abstract=6520878

Is Variety Really the Spice of Life? Evidence From Donors *Teresa Harrison, Drexel University; Jennifer Mayo, jennifer.mayo@depaul.edu; Ragan Petrie, Texas A&M*



University

Do donors prefer to give to multiple charities, and if so, what types of bundles are preferred? In this paper, we develop two new categorizations of charities using word-embedding models. The first is based on similarity scores, where charities within a category are viewed as substitutes. The second ranks charities according to their complementarity. We find that our categorizations differ substantially from the commonly-used National Taxonomy of Exempt Entities (NTEE) codes, and examine how these different categorizations affect our understanding of donors' preferences for diversity using daily donation data from a large online giving platform. Our findings shed light on donor preferences and can help improve the efficiency of fundraising and inform nonprofit strategies.

Charity's Limits *Luis Calderon Gomez, Cardozo School of Law*

Charity law's most pressing contemporary problems are almost uniformly diagnosed by policymakers and scholars as isolated, doctrinal issues. This Article argues that this consensus is mistaken. Seemingly disparate developments—the increasing commercialization and hybridization of tax-exempt organizations, and renewed governmental efforts to revoke charitable tax exemption for violations of "public policy"—reflect a single underlying phenomenon: the erosion of the legal and conceptual limits that historically separated (and protected) charities from both the market and the State. The Article develops this claim by reframing these controversies through two rival accounts of the charitable tax exemption used to conceptualize charity and explain and justify its exceptional legal treatment. Dominant "subsidy" theories conceive exemption as an instrument for promoting efficiency, pluralism, or redistribution, but cannot coherently explain why either commercialization or aggressive public-policy enforcement should threaten exempt status in any principled way. In contrast, this Article advances a rival "limits" theory of charity law, under which tax exemption reflects deeper sociopolitical judgments about the proper scope of the public sphere and the distinctive role of charities as autonomous, public-benefit-oriented institutions situated between market and State. The limits theory reveals that the threats from market capture—recently epitomized by OpenAI's commercial transformation—and from State coercion—exemplified by expansive challenges against charities' exemptions on anti-discrimination grounds—are indeed mirror-image threats to charity's identity and to the charitable exemption's fundamental justification. By restoring attention to these limits, the Article both clarifies existing doctrine and provides a principled framework for reforming charity law amid intensifying market and political pressures. Full paper is available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6529478

Chair:

Benjamin M. Marx, Georgia State University

Discussants:

Brian Galle, UC Berkeley

Stephanie Karol, stephanie.karol@treasury.gov

099. Perceptions of the Tax Code and Preferences for Formal Work

Individual Taxation, Labor Supply

Complete Session

10:15 to 11:45 am

The Westin Pittsburgh: Floor 2 - Pennsylvania West

Across countries, workers often decide between alternative types of work arrangements that have distinct tax implications. Such decisions are particularly important in developing economies where participation in the formal sector is crucial for tax administration. This session examines how workers perceptions of differential tax treatment of different kinds of work shapes labor supply across sectors along with implication for policy.

Participants:

Why do workers choose informal work arrangements? Evidence from Latin America *Andrew Garin, Carnegie Mellon University*

This study aims to explore the beliefs and preferences of Latin American workers about informal versus formal work arrangements. We implement a two-phase discrete choice experiment (DCE) across survey respondents in seven Latin American countries. The first phase presents respondents with hypothetical jobs that vary in wages, select amenities, and formality status, and is intended to measure overall attitudes towards formal employment as a bundle, inclusive of all perceived costs and benefits. The second phase presents respondents with choices that are hypothetical work arrangements where benefits associated with formality in their country (e.g., health insurance, pension contributions, dismissal protection, tax rates) vary ``a la carte" in different combinations. The second phase is intended to measure preferences for specific aspects of formality, which can then be related to the estimates of the bundle as a whole from the first phase. In addition, we examine the role of perceptions by randomly providing half of participants with information about the benefits associated with formal employment in their country before the first phase, in order to see whether making respondents better-informed improves the correspondence between estimates in the two phases. We find that workers generally would give up 10-20 percent of gross pay to have a formal contract across countries in the first phase, but that workers would be willing to give up roughly 60% of pay to get the component benefits associated with formal employment in their respective countries. Our information treatment does not impact this gap in valuations in the two phases, nor does the expected tax burden on formal employment explain the full gap on its own. Rather, it appears that individuals have deeply-held beliefs that many benefits for formal workers will not materialize or may be accessible to informal workers, which can explain the gap in estimates. Workers therefore value many of the benefits promised by formal employment, but doubts about access to those benefits and concern over costs explain the lower valuation of formal work.

Horizontal Equity of Taxation: Citizen Beliefs and Policy Preferences *Pierre Bachas, World Bank DECRG*

Horizontal inequity occurs when employees and self-employed with the same income end up with different effective tax burdens, due to the difficulty of enforcing taxes oneself-employed. Based on detailed micro-tax simulations models integrated with household surveys in 25 developing countries, we show that tax systems incur large horizontal inequities in practice and that reforms which improve vertical equity worsen horizontal equity by a comparable amount. An in-person survey in Pakistan and online surveys across multiple countries reveal widespread concern about horizontal equity. Random-sized information treatments heighten this concern but do not shift tax preferences toward addressing horizontal inequity.

Why Do People Choose Alternative Work Arrangements? Evidence from A Survey Experiment *Dmitri Koustas, dkoustas@uchicago.edu*

We conduct survey experiments to study why workers choose freelance or independent contractor ("gig") arrangements over traditional employment. Using a nationally representative sample from the NORC Entrepreneurship in the Population Survey and a sample of New York City rideshare and taxi drivers, we implement discrete choice experiments in which respondents



choose between hypothetical jobs varying in contract type (W-2 employee vs. 1099 contractor), pay, schedule flexibility, autonomy, remote work, and job security. Respondents are randomized into information treatments designed to make the tax and expense burdens of self-employment more salient. We find that information treatments significantly increase willingness to pay for employee status among the general population, suggesting workers may underestimate the costs of self-employment. However, current self-employed workers and gig drivers place zero or negative value on employee status even after treatment, and sort into arrangements offering amenities they value most.

Chair:

Pablo Guzmán Lizardo, Stanford University

Discussants:

Sreeraahul Kancherla, US Treasury Office of Tax Analysis
Pablo Guzmán Lizardo, Stanford University

100. Public Spending in Developing Countries

Public Finance in Developing Countries
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Somerset

Participants:

Do Taxes Improve Government Performance? Evidence from Public Procurement in Colombia *Federico Corredor, Georgia State University*

Public procurement is a central channel through which governments translate fiscal resources into public goods, yet systematic evidence on procurement efficiency and risk remains limited, particularly in developing countries. This paper studies whether greater reliance on own-source taxation improves government performance in procurement, a key mechanism through which fiscal capacity may translate into better public service delivery. We combine contract-level data from Colombia's public procurement platform (SECOP) with administrative municipality-level fiscal data to construct a novel dataset harmonizing contract status, execution timelines, and procurement modalities across heterogeneous administrative records. A central challenge in this context is that procurement projects are inherently heterogeneous. To address this, we leverage text analysis of contract descriptions to classify procurement activities into economically meaningful categories, enabling comparable measures of performance across projects. Our empirical strategy exploits the COVID-19 pandemic as a common shock that sharply increased demand for rapid and effective public procurement. We implement a difference-in-differences design comparing municipalities with different levels of pre-pandemic fiscal effort, measured as the share of own-source tax revenue in total revenue, and complement this approach with event-study specifications. We construct measures of procurement efficiency and risk, including normalized execution times, delays, and administrative completion. Preliminary results show that municipalities with higher fiscal effort experienced smaller increases in delays and shorter execution times during the pandemic, consistent with improved accountability under stronger reliance on local taxation. However, we also document substantial heterogeneity in procurement performance among municipalities with similar levels of fiscal effort. The text-based classification reveals that procurement composition and project heterogeneity play a central role in shaping outcomes, with municipalities facing similar fiscal incentives exhibiting markedly different performance across and within procurement categories. Overall, the findings suggest that while fiscal effort is an important predictor of procurement performance, it is not sufficient to explain observed variation, highlighting the role of administrative and operational capacity in translating fiscal resources into effective public spending. This paper contributes to the literature on fiscal capacity and government performance by providing new evidence on the interaction between revenue composition and procurement outcomes using large-scale administrative data.

Boom, Bust, and the Poor: Commodity Price Volatility and Health Coverage *Boy Valentin Purba, Indiana University*

This study examines the impact of fiscal volatility on effective health coverage in Indonesia's decentralized health system, focusing on the differential effects between locally-funded and nationally funded insurance members. I exploit variation in natural resources-sharing transfers (Dana Bagi Hasil – DBH) across approximately 500 districts from 2016 to 2023, which ties district fiscal capacity directly to global commodity price cycles in coal, oil, LNG, and nickel. To address potential endogeneity between fiscal capacity and local health outcomes, I instrument DBH revenue with a Bartik-style shift-share instrument that interacts each district's pre-determined revenue-sharing exposure with annual global commodity price changes. I further isolate the fiscal channel from broader income effects by exploiting the institutional contrast between locally-funded poor members (PBI-APBD), whose coverage premiums depend on district budgets, and nationally-funded poor members (PBI-APBN), who are fiscally insulated despite share identical benefit packages. This research exploits Social Health Insurance Administration Body (BPJS Kesehatan) administrative records, comprising a district-year claims panel disaggregated by insurance segments, an individual-level membership dataset, and district fiscal data from Ministry of Finance. I estimate the fiscal elasticity of primary care utilization via two-stage least squares (2SLS) and decompose the aggregate effect into an enrollment margin and a service-intensity margin. I find that fiscal shocks transmit to health utilization for locally-insured poor members, and that this effects operates primarily through service delivery capacity rather than through changes in enrollment. Because the fiscal channel only binds for locally-funded, I use nationally-funded members as a within-district control group. Finally, this study examines parallel channels through which fiscal shocks affect formal worker coverage through employment and voluntary contributor enrollment through household income.

Powering votes? The effects of energy subsidies on electoral outcomes *Francisco Pizzi, fmpizzi@ucdavis.edu*

Energy subsidies are pervasive and fiscally costly, yet politically resilient. How much electoral support do incumbents actually gain from granting them? I provide a credibly causal estimate using the 2021 extension of Argentina's "Cold Zone Law", which expanded a long-standing residential gas subsidy to new regions in the middle of a legislative election year. Because the new exempted area follows a bio-climatic map drawn years before the reform, its boundary is plausibly exogenous to local politics. I implement a geographic regression discontinuity at the electoral-circuit level, comparing the change in vote share for the sponsoring alliance between the 2017 and 2021 House elections on either side of the new border. Across several specifications, the estimated jump is uniformly positive and averages about five percentage points, robust to census covariates and bandwidth choice.

Chair:

Federico Corredor, Georgia State University

Discussants:

Walter Melnik, Marquette University
Antonios Koumpias, University of Michigan-Dearborn



Boy Valentin Purba, Indiana University

101. Retirement Savings Accounts: Access, Saving, and Withdrawals

Retirement, Savings, Bequests, and Estate taxes

Paper Session

10:15 to 11:45 am

The Westin Pittsburgh: Floor 2 - Washington Room

Participants:

Asset Location, Progressive Taxation, and the Option Value of Roth IRAs *Thomas J. Brennan, Harvard Law School*

This paper develops a new framework for analyzing the asset location decision between traditional and Roth IRAs. The standard analysis treats the Roth vs. traditional choice as depending only on a comparison of current and expected future marginal tax rates, with the two accounts being equivalent under flat-rate taxation by the Domar-Musgrave result. This paper shows that this standard analysis is incomplete because it ignores the nonlinearity introduced by progressive tax brackets, Social Security benefit inclusion thresholds, and Medicare IRMAA surcharges. The central contribution is a decomposition of any piecewise-linear progressive tax schedule into a flat tax at the lowest applicable rate plus a portfolio of call options, one at each bracket threshold, with weights equal to the marginal rate increment at each threshold. This decomposition is exact for any piecewise-linear rate schedule and connects directly to the contingent claims pricing literature in financial economics. Using this decomposition, the paper establishes an asset location theorem: for any investor subject to a progressive tax schedule on traditional IRA withdrawals, holding a risky asset in the traditional account rather than the Roth account imposes an additional expected tax burden equal to the risk-neutral present value of the portfolio of bracket-threshold call options applied to the risky asset's terminal value. This additional burden is strictly positive, computable directly from the Black-Scholes formula or from market option prices, and is independent of the flat-rate Domar-Musgrave comparison between current and future tax rates. The result unambiguously favors holding risky assets in the Roth account and safe assets in the traditional account, by a margin that can be quantified in dollar terms for any investor with known account size, asset volatility, and time horizon. The paper develops numerical calculations of the magnitude of this effect under realistic parameter assumptions. For a married couple with a $200,000 traditional IRA balance invested in a diversified equity fund, facing a transition from the 22 percent to the 24 percent federal bracket at the margin, the bracket option cost over a 20-year horizon is on the order of several thousand dollars in present value terms. When multiple bracket transitions, the Social Security inclusion formula, and IRMAA surcharges are incorporated, the total option cost of holding risky assets in the traditional account rather than the Roth can reach five to eight percent of initial account value or more for investors with moderate to large account balances. The paper also analyzes the interaction of this effect with required minimum distribution rules, which amplify the bracket option cost by forcing withdrawals in proportion to account balance regardless of the investor's preferred timing, reducing the investor's ability to manage bracket exposure through voluntary withdrawal sequencing. The framework developed in this paper provides a tractable and theoretically grounded method for quantifying the cost of suboptimal asset location decisions, and it offers new justification for Roth conversion strategies that goes beyond the standard rate-comparison analysis.

Saving Responses to Mandatory Pension Plans *David Burgherr, University of Zurich*

To boost retirement savings, many countries mandate worker contributions to pension accounts. This paper investigates saving responses to such mandates throughout the entire portfolio, leveraging detailed administrative tax data from Switzerland and a regression discontinuity design. I find that mandatory pension plans have limited effects on total savings, with an estimated crowd-out rate of 94%. Decomposing the saving response, I show that workers offset mandatory pension contributions by reducing private non-retirement savings, primarily in financial assets. By contrast, there is no substitution between mandatory and voluntary pension savings. Liquidity-constrained workers are less able to reduce private savings in response to mandatory contributions and therefore increase their total savings.

Passive Saving, Active Withdrawals: Automatic Enrollment as Working-Life Liquidity Insurance *Thomas Willingham, tom.willingham@jct.gov*

Retirement accounts are designed to discourage early withdrawals and preserve resources for later life, yet withdrawals during the working life are common. Whether these withdrawals reflect inefficient leakage or beneficial consumption smoothing is important for evaluating retirement saving policy. This paper examines whether individual retirement account wealth induced by state auto-IRA programs provides liquidity specifically during periods of low earnings. I study this question using state auto-IRA programs, which automatically enroll workers without employer-sponsored retirement plans into payroll-deducted IRA contributions. These programs generate quasi-experimental variation in IRA wealth through policy-driven differences in cumulative exposure to automatic enrollment. I use this variation to estimate how additional induced IRA wealth affects subsequent withdrawals during realized earnings declines. Because auto-IRA accounts are portable across employers, this setting helps distinguish liquidity-motivated withdrawals from the separation-induced cash-out behavior emphasized in prior employer-sponsored retirement plan evidence. I first estimate reduced-form effects of cumulative auto-IRA exposure on net IRA saving within earnings states. I find that auto-IRA exposure of five or more years is associated with a 0.75 percentage point increase in yearly dissaving during earnings declines as a rate of typical annual labor income, while the corresponding effect in normal earnings years is near zero. I then estimate first-stage effects on IRA wealth. I similarly find that auto-IRA exposure of five or more years is associated with a 2 to 4 percentage point increase in IRA wealth. Interpreting the reduced-form and first-stage results through an instrumented difference-in-differences framework, I estimate that each additional dollar of induced IRA wealth increases withdrawals by 36 cents for each year spent in a low-earnings state. This state-contingent response suggests that induced retirement wealth is used to meet liquidity needs when earnings fall, rather than primarily because individuals regret having saved. I also find minimal effects on taxable wealth, indicating limited crowd-out into other liquid asset holdings. The withdrawal response rises with induced wealth and operates mainly on the extensive margin, consistent with individuals facing fixed costs to active financial adjustment. I then develop a welfare framework incorporating the frequency of earnings declines, borrowing wedges, withdrawal frictions, endogenous balance depletion, and offsets to other saving. Net of offsets, each additional dollar of induced IRA saving generates approximately $0.16 of working-life liquidity value in consumption-equivalent terms. These findings inform retirement account design. When individuals face frictions to active financial adjustment or do not fully build liquid precautionary wealth, automatic retirement saving can provide both retirement resources and working-life liquidity, while those same frictions partially substitute for formal commitment generated by account



illiquidity.

Social Security and Retirement Planning under A Shorter Lifecycle Horizon *Hyeon Park, hyeon.park@manhattan.edu*

An individual who is boundedly rational is more likely to sub-optimize in his lifecycle plan because he is able to foresee only up to a degree. These individuals may have planning horizons shorter than a full length and their preferences are known to be characterized by time-inconsistency. This paper explores a lifecycle model of labor supply and retirement planning for the worker when the worker will reoptimize as extra information on productivity is revealed over time. This short horizon model internalizes the restriction on rationality for temporal resource allocation and the labor supply is closely dependent on the degree of productivity changes in view. Using a discrete time overlapping generations framework with leisure substitutability, in which the constraint on time is explicitly added, this paper demonstrates that the calibrated model economy reasonably replicates the salient facts regarding lifecycle labor supply and retirement behaviors without a borrowing constraint commonly found in models of leisure-consumption substitutability. Furthermore, with the extended environment of Social Security and mortality risks, this paper focuses on the shifts in equilibrium due to the distortion in payoffs between consumption and leisure, as well as in asset accumulation. In the model, Social Security is found to accelerate retirement, the magnitude of which depends on IES, while increasing working hours early in life. This paper also experiments to analyze the effects on the economy when the social security tax rate is set at different values from the current rate i.e., 10.6%. If the participants of the economy keep their current preference and technology, then the market would see a systematic shift along which households would retire early with higher tax rates, and the labor supply peak age comes sooner, but with a lower peak ratio.

Chair:

John Sabelhaus, Brookings Institution

Discussants:

John Sabelhaus, Brookings Institution
Yujin Lee, University of Maryland -- College Park

102. Municipal Debt Markets and Fiscal Risk

State and Local Taxes Including Property Taxes
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Westmoreland Central

Participants:

State Government Finances at the Precipice: Declining State Revenue Growth and Federal Cuts *Scott Pattison, Federation of Tax Administrators*

Aggregate tax revenue data from the states, some exclusively gathered by the Federation of Tax Administrators (FTA), will be used in this presentation to enlighten academics and practitioners as to recent past trends and upcoming state revenue trends.

Tax Revenue Risk, Municipal Bond Yield, and Public Investments *Da Huang, Northeastern University; Vasudha Nair, University of Utah; Nathan Seegert, Northeastern University*

Tax revenue fluctuations can threaten municipalities' fiscal stability, especially when shortfalls coincide with economic downturns. We study how exposure to tax revenue risk---the covariance between tax revenues and macroeconomic conditions---affects municipal borrowing costs and public investment. Municipalities with higher tax risk pay more to borrow: a one-standard-deviation increase in tax risk raises offering yields by 3 basis points and secondary-market yields by 7 basis points. These effects are robust to a border-discontinuity design and are strongest where alternative repayment capacity is limited. Greater tax risk, in turn, leads to sustained reductions in public investment.

Who Labels and What's Priced? Evidence from Third-Party ESG Assessments in the Municipal Bond Market *Daniel Garrett, danielgg@wharton.upenn.edu*

We study the supply and pricing dynamics for ESG labels using a novel and unexpected third-party assessment of environmental, social, and governance (ESG) characteristics for over $1 trillion in municipal bonds. We show that most eligible bonds are issued without ESG labels and that local beliefs and issuance terms discourage labeling. Using a difference-in-differences design in combination with these assessments, we provide within-bond evidence that reducing ESG-related uncertainty increases investors' willingness to pay. We find a 3-4 basis point premium for assessed bonds, even those with average ESG scores (i.e., ineligible for ESG labels), which we call an assessment effect. The greenium for higher environmental or transparency scores is smaller but significant. These pricing effects are consistent across local characteristics, but are much larger for revenue bonds with material credit risk. Our evidence highlights the general relevance of ESG information in assessing credit risk and a mismatch between its supply and investor demand.

Chair:

Roxana Gonzalez, University of South Carolina

Discussants:

Roxana Gonzalez, University of South Carolina
Zane Kashner, MIT
Nathan Seegert, Northeastern University

103. Property Tax Assessment Inequity: Measurement, Geography, and Policy Implications

State and Local Taxes Including Property Taxes
Complete Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Westmoreland East

Property tax assessment practices fundamentally shape local tax burden distribution, yet systematic measurement challenges and geographic variation in assessment quality remain poorly understood. This session examines critical dimensions of property tax inequity through novel methodological approaches and comprehensive empirical analysis. The first paper addresses a fundamental measurement issue: temporal mismatches between assessed values and market values. The authors demonstrate that time gaps between these measurements, combined with heterogeneous appreciation rates, create inherent errors in standard assessment ratio calculations. Using data from three metropolitan areas with different assessment cycles, they develop an analytical framework to quantify temporal mismatches and propose corrections, revealing that commonly used metrics may substantially mischaracterize assessment regressivity. The second paper examines how assessment regressivity varies across jurisdictions based on property wealth and homeowner characteristics. This paper uses parcel-level data from 2020-2024 covering approximately 7 million properties, plus a merged dataset of parcel level administrative data and homeowner credit bureau data and demographics. At the jurisdiction level, regressivity exists across all county wealth quartiles but is significantly worse in lower-wealth counties. High-value property owners in poorer areas receive larger relative tax breaks than counterparts in wealthier jurisdictions, with these disparities translating directly into regressive effective tax rates. The analysis then uses the merged data to identify characteristics of underassessed homeowners, examining demographics and financial distress measures. The third paper measures property tax regressivity within tax rate areas where households face identical local tax environments. The paper uses restricted-access ACS



data linked to administrative property tax records to estimate local regressivity measures nationwide, then decomposes cross-jurisdiction variation into three components: tax liability rules, assessment practices, and residual factors including household sorting. This reveals why property tax burdens vary substantially across localities with similar median incomes, with direct implications for school finance equalization and local fiscal capacity measurement.

Participants:

Temporal Mismatches in Property Assessment *Yilin Hou, Syracuse University; Christopher Berry, University of Chicago; Qining Wang, Syracuse University Maxwell School of Citizenship and Public Affairs*

This paper examines the temporal mismatch in property tax administration between the measure points of assessed value (AV) and market value (MV) and the consequences of the mismatch. AV and MV are measured at different points in a calendar year and in most cases, even across calendar years, but this time gap in measurement has long been overlooked in constructing assessment ratios (AR), a key statistic in evaluating the equity of tax burden distribution. We use the term "temporal mismatch" to refer specifically to the temporal gap between the points of measurement of AV and MV. We argue that this time gap creates a temporal mismatch between the two measures; using them without distinction of their temporal difference in constructing AR leads to an inherent error, and the subsequent ARs created with the two are naturally inclusive of a mismatch, confusing two distinctly different time points. The error arises because properties appreciate overtime with booms of the real estate market; even in a flat market period, the land value of properties typically trends up. However, the rate of appreciation varies among properties by their location, quality, and access to amenities, all proximity by their price (MV). Thus, besides the overall trend that is the mean rate of appreciation, lower-valued properties gain value less and slower than higher-valued ones, whereas those in the middle of the price range have their own appreciation rate. This is heterogeneity in property appreciation. Therefore, ignoring the substantive temporal differences in measuring AV and MV multiplied by appreciation heterogeneity can result in hugely mis-interpreted assessment ratios as the outcome of property administration. We make two predictions: (1) the longer the temporal gap, the larger the mismatch and the larger the discrepancy between AV and MV; and (2) the size of mismatch (and discrepancy) is amplified with the heterogenous appreciation rates. In this paper, we develop an analytical framework to decompose and quantify the temporal mismatch; then we obtain sufficient statistics of appreciation heterogeneity. With these, we depict the sources and extent of the error embedded in assessment ratios. We use 10 years of assessment roll and property sales data from three metro areas that are representative of regular assessment cycles, irregular-transitioning-to regular cycles, and irregular cycles. We propose specific ways to correct the temporal mismatch in constructing AR and run tests based on recent findings of assessment regressivity. This paper is the first to explore temporal mismatch in property tax administration, to quantify its extent, to propose corrections, and to test the efficacy of the proposed corrections.

Who Benefits from Underassessment in Lower Wealth Counties and Why? *Erin Troland, Federal Reserve Board of Governors*

This paper examines how assessment regressivity varies across jurisdictions based on property wealth and homeowner characteristics. This paper uses parcel-level data from 2020-2024 covering approximately 7 million properties, plus a merged dataset of parcel level administrative data and homeowner credit bureau data and demographics. At the jurisdiction level, regressivity exists across all county wealth quartiles but is significantly worse in lower-wealth counties. High-value property owners in poorer areas receive larger relative tax breaks than counterparts in wealthier jurisdictions, with these disparities translating directly into regressive effective tax rates. The analysis then uses the merged data to identify characteristics of underassessed homeowners, examining demographics and financial distress measures.

Property Tax Regressivity: Tax Policy, Assessments, and Housing Markets *Ross Milton, Rtmilton@wisc.edu*

This paper measures the regressivity of the property tax—how property taxes as a share of income vary across the income distribution—and how and why it differs across jurisdictions in the United States. Using ACS data linked to administrative records on property taxes, I estimate local measures of regressivity for areas in which households face the same combination of local taxing authorities. This avoids the bias in commonly reported statewide measures of property tax regressivity that conflate differences in local tax rates and service levels across space with the fundamental regressivity of the tax. I then decom-pose cross-jurisdiction variation in regressivity into three sources: tax policy, including rates, exemptions, and credits; assessment practices; and a residual component that includes the sorting of higher-income households into higher-value homes. Tax regressivity—measured at the level that taxes are set—is important for policy because the property tax is the largest revenue source local governments control, and differences in local regressivity imply differences across jurisdictions in the welfare cost of raising an additional dollar of revenue, yet there is little existing evidence on the distribution of the tax's burden.

Law, Capacity, and Politics: Diagnosing Obstacles to Property Tax Assessment Reform *Evelyn Smith, esmith@abfn.org; Victor Wu, Stanford Law School; Jacob Goldin, jsgoldin@uchicago.edu; Daniel Ho*

Most property tax assessors value homes using outdated methods. Though more accurate tools are now freely available, few offices have adopted them. This Article examines why. Drawing on a novel survey of the assessment, appraisal-licensing, and fair-housing statutes of all fifty states, we find that the law is not the principal obstacle to modernization. No state bars assessors from adopting two reforms that the empirical literature on assessment has demonstrated lead to considerable improvements in assessment accuracy and equity: incorporating non-protected neighborhood characteristics, and using statistical models rather than valuation tables or hand-selected comparable sales. To the contrary, many state codes can be read to favor or even mandate both reforms. We argue that the relevant barriers are instead institutional. Small, local assessors' offices cannot bear the fixed costs of modernization, while appeals procedure rewards familiar methods over accurate ones. Meanwhile, electoral pressures often penalize discrete change. We posit that the data, models, and expertise underlying assessment are best understood as public infrastructure, which states are far better positioned than local governments to provide. Shared infrastructure spreads the fixed costs of modernization across jurisdictions, gives state-maintained models legitimacy before appeals boards, and distances valuation decisions from local electoral pressure, directly addressing each of the primary barriers to substantive reform.

Chair:

Patrick Murphy, University of San Francisco

Discussants:

Timothy Hodge, Oakland University

Kathryn Boyd, klangeme@umich.edu



Patrick Murphy, University of San Francisco
Sarah Souders, American University

104. Optimal Taxation III

Optimal Taxation
Paper Session
10:15 to 11:45 am
The Westin Pittsburgh: Floor 2 - Westmoreland West

Participants:

Carbon Pricing and Redistribution *Lea Fricke, University of St. Gallen; Clemens Fuest, ifo Institute; Dominik Sachs, University of St. Gallen*

We show that carbon pricing fundamentally alters the equity-efficiency trade-off, shifting optimal policy toward greater redistribution. We study optimal redistribution and carbon pricing in an optimal income taxation model with non-homothetic demand, where households differ in carbon footprints through both spending levels and the composition of their consumption baskets. Carbon pricing separates the effective marginal tax rate from the welfare-relevant labor wedge: labor-supply reductions reduce not only tax revenue, but also emissions. This lowers the welfare cost of redistribution. The optimal policy therefore increases redistribution, but not as much as a lump-sum carbon dividend would. Instead, the optimal allocation is implemented by a rebate schedule that rises with income. Low-income households are overcompensated relative to their carbon tax burden and high-income households are undercompensated, even though the rebate itself increases with income. In a quantitative application to Germany, the optimal rebate at the 90th income percentile is nearly three times that at the 10th percentile, whereas carbon taxpayment's are about seven times as large. The resulting carbon-pricing package is therefore strongly progressive.

Prices versus Quantities for Internalities: Theory with an Application to Addiction *Scott Elliott, University of Maryland; Daniel Reck, University of Maryland*

We develop a theoretical framework for evaluating whether it is optimal to use price or quantity instruments to address individuals' behavioral biases and apply it to the theory of addiction. We show that as in Weitzmans' classic treatment of externalities, under uncertainty or unobserved heterogeneity, a quantity restriction is socially optimal when the internality is convex. In the most frequently empoyed economic model of addiction, this condition is met when a good is sufficiently addictive. We also show that productive or distributional inefficiencies that often lead economists to recommend corrective taxes rather than quantity restrictions for externalities do not apply to internalities, because both price and quantity instruments cause distributional inefficiency when internalities are heterogeneous. Finally, we show that when the planner is uncertain about the extent to which an individual is addicted to a good, or when there is unobserved heterogeneity in the extent of status quo addiction, we encounter correlated uncertainty between marginal internalities and marginal decision utility. Relative to the case where there is no such correlation, correlated uncertainty tends to lead the planner to favor a quantity restriction.

Putting the "Re" in Redistribution *Fatima Djalalova, MIT; Casey Rothschild, Wellesley College*

We consider settings wherein tax-funded government spending affects productivity and de-rive conditions under which the distributional impacts of taxation can be analyzed separately from the distributional impacts of spending. When these conditions hold, we derive a simple sufficient statistic, conditional upon which the all Pareto efficient income tax systems feature the same average tax rate. That rate is independent of the degree of heterogeneity in the economy and independent of any distributional goals. We argue that a proportional tax at that rate therefore provides a natural non-redistributive benchmark. The social marginal welfare weights that rationalize this non-redistributive benchmark are always strictly progressive, and may even be Rawlsian. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5920062

Sufficient Statistics for Optimal Ordeals Design *Antoine Ferey, Sciences Po; Benjamin Lockwood, University of Pennsylvania: Wharton School; Dimitry Taubinsky, University of California, Berkeley, and NBER*

Take-up of major transfer programs ranges from 30 to 90 percent, partly because applicants face "ordeals" costs such as paperwork, time costs, and other frictions. An extensive literature argues that such ordeals may usefully screen recipients (Nichols and Zeckhauser, 1980; Rafkin, Solomon, and Soltas, 2026), but the optimal joint design of ordeals and benefits in the presence of a nonlinear income tax remains unresolved. We develop a sufficient statistics framework for jointly designing benefits and ordeals. Policy consists of a nonlinear income tax T(z), an income-dependent benefit B(z) conditional on costly application, and an ordeal. Individuals are heterogeneous in earnings ability and other unobservable attributes affecting their ordeal tolerance. We consider joint tax-benefit reforms that decompose welfare effects into within-earnings redistribution on unobservable—serving an insurance role—and the classical Mirrleesian across-earnings redistribution to reduce inequality. The optimal benefit schedule balances the welfare gain from targeting high-marginal-utility claimants against the fiscal externalities from earnings and take-up responses, expressed in terms of estimable elasticities and the marginal-utility gap between claimants and non-claimants. We use these results to characterize the welfare gain—if any—of imposing ordeals and, when possible, designing ordeals to balance their screening benefits against their efficiency cost.

Chair:
Ben Lockwood, University of Warwick

Discussants:
Casey Rothschild, Wellesley College
Ben Lockwood, University of Warwick

105. Slemrod Lecture: Measuring the Welfare Impact of Government Policies

Plenary Session
1:00 to 2:30 pm
The Westin Pittsburgh: Floor 2 - Pennsylvania West

This short course covers recent advances in measuring the welfare impact of government tax and spending policies using the Marginal Value of Public Funds (MVPF) approach. Nathaniel Hendren will discuss how this approach differs from other frameworks such as the marginal excess burden and the marginal cost of public funds, as well as the common issues that arise in using the framework to draw normative conclusions about a policy. He will then turn to the lessons this approach has provided across a wide range of policy domains, including tax policy and tax enforcement, environmental policy, healthcare, education, and social insurance.
Introduction by: Katarzyna Bilicka, Utah State University