

# Envelope Wages, Underreporting and Tax Evasion

By Selin Pelek and Gokce Uysal

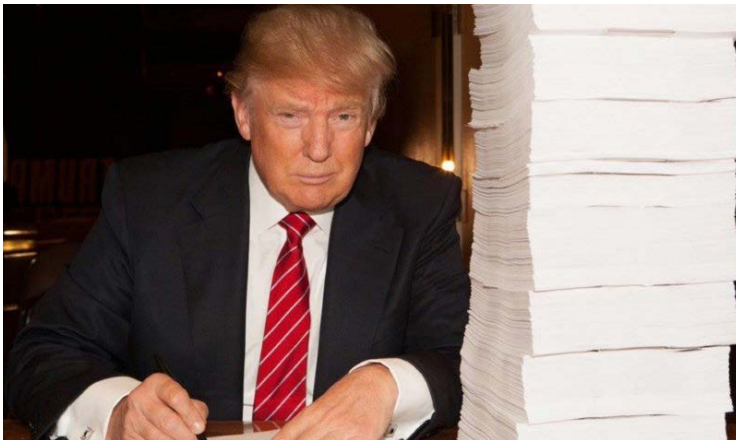
Discussion by Bruce Sacerdote

Nov 2016

# Motivation and Research Question

- This is a very nice and innovative paper
- On a first order question: namely how do we estimate extent that workers are getting paid under the table
- Clever methodology which is to compare distributions of earnings from employer administrative records (social security/ tax admin) to earnings from household surveys
- Conclusive proof of Trump's point that tax returns can't tell you anything about what a person earns

# Illustration of the Method



**CT-1040 NR/PY** **1995**

**CONNECTICUT NONRESIDENT OR PART-YEAR RESIDENT INCOME TAX RETURN**

Check here for 1995 resident status:  Nonresident  Part-Year Resident

For the year January 1 - December 31, 1995, or other taxable year ▶ beginning 1995, ▶ ending 19

<b>Label (See instructions on page 3.)</b>	<b>Your First Name and Middle Initial</b> ▶ DONALD J.	<b>Last Name</b> ▶ TRUMP	<b>Your Social Security Number</b> ▶ [REDACTED]
<b>Label (See instructions on page 3.)</b>	<b>If a JOINT return, Spouse's First Name and Middle Initial</b> ▶ MARLA	<b>Last Name</b> ▶ TRUMP	<b>Your Spouse's Social Security Number</b> ▶ [REDACTED]
<b>Label (See instructions on page 3.)</b>	<b>Home Address Number and Street</b> ▶ 721 FIFTH AVENUE		<b>DEPARTMENT USE ONLY</b>
<b>Label (See instructions on page 3.)</b>	<b>City, Town or Post Office</b> ▶ NEW YORK	<b>State</b> ▶ NY	<b>Zip Code</b> ▶ 10022
<b>Label (See instructions on page 3.)</b>	<b>Your Telephone Number</b>		

Check if you used a paid preparer and do not want forms sent to you next year. Checking this box does not relieve you of your responsibility to file .....

Check here only if you checked any of the boxes on Part I of Form CT-2210 .....

**Filing Status** (Check only one box)

▶ A.  Single

▶ B.  Married filing joint return or Qualifying widow(er) with dependent child

▶ C.  Married filing SEPARATE returns

▶ D.  Head of Household (with qualifying person) Spouse's full name \_\_\_\_\_ Spouse's Social Security Number \_\_\_\_\_

<b>Income and Tax</b>	1. Federal Adjusted Gross Income (from federal Form 1040, Line 31 or Form 1040A, Line 16 or Form 1040EZ, Line 4)	▶ 1	-915729293
	2. Additions, if any (from Schedule 1, Line 39 on the reverse)	▶ 2	1945
	3. Add Line 1 and Line 2	▶ 3	-915727348
	4. Subtractions, if any (from Schedule 1, Line 49 on the reverse)	▶ 4	62205
	5. Connecticut Adjusted Gross Income (Subtract Line 4 from Line 3)	▶ 5	-915789553
	6. Income from Connecticut sources (from Schedule CT-SI, Line 24)	▶ 6	-422943
	7. Enter the greater of Line 5 or Line 6 (if zero or less, go to Line 14 and enter 0)	▶ 7	-422943
	8. Income Tax: From Tax Table or Tax Calculation Schedule (See instructions) ALL EXEMPTIONS AND CREDITS ARE INCLUDED IN THE TAX TABLE	▶ 8	0
	9. Divide Line 8 by Line 5 (if Line 8 is equal to or greater than Line 5, enter 1.0000)	▶ 9	
	10. Allocated Connecticut income tax (Multiply Line 9 by Line 8)	▶ 10	
	11. Adjusted Net Connecticut Minimum Tax Credit (from Form CT-8801)	▶ 11	
	12. Subtract Line 11 from Line 10	▶ 12	
	13. Net Credit for income tax paid to other jurisdictions by part-year residents only (from Schedule 2)	▶ 13	
	14. Connecticut income tax (Subtract Line 13 from Line 12)	▶ 14	0
	15. Connecticut Alternative Minimum Tax (from Form CT-6251)	▶ 15	
	16. Total income tax (Add Line 14 and Line 15)	▶ 16	
	17. Individual Use Tax For the individual use tax portion of this return to be considered filed, an entry must be made. (see Instructions)	▶ 17	0
	18. Total Tax (Add Line 16 and Line 17)	▶ 18	0
	19. Connecticut tax withheld (Attach W-2s and certain 1099s. See instructions)	▶ 19	

“It shows income ... in fact, the income — I just looked today — the income is filed at \$694 million for this past year, \$694 million,” Mr. Trump said. “If you would have told me I was going to make that 15 or 20 years ago, I would have been very surprised.”

Hope Hicks, declined to answer questions about how Mr. Trump had reported his income, saying only that his disclosure form “speaks for itself.”

# http://forums.catholic.com/showthread.php?t=33173

Jan 16, '05, 2:47 am

#1

**John D.**

Observing Member

Join Date: January 16, 2005  
Posts: 2

**Getting paid "under the table"**

Hi people.  
Is getting paid under the table a venial sin?  
A mortal sin?  
A sin at all???  
Please help.. thanks.

Quote

Jan 16, '05, 3:15 am

#2

**puzzleannie**

Forum Elder

Join Date: September 7, 2004  
Posts: 37,469  
Religion: Catholic no adjectives

**Re: Getting paid "under the table"**

If this is being done to avoid paying legitimate taxes on income and for social security, it is tax evasion and illegal, as well as being a mortal sin against the 7th commandment. Personally I would be more afraid of the IRS, because God has more mercy.

Whatever the Lord pleases He does, on heaven and on earth, in the seas and all deeps. Ps. 135

Quote

# Gap in Wages Between Admin Data and Wage Survey

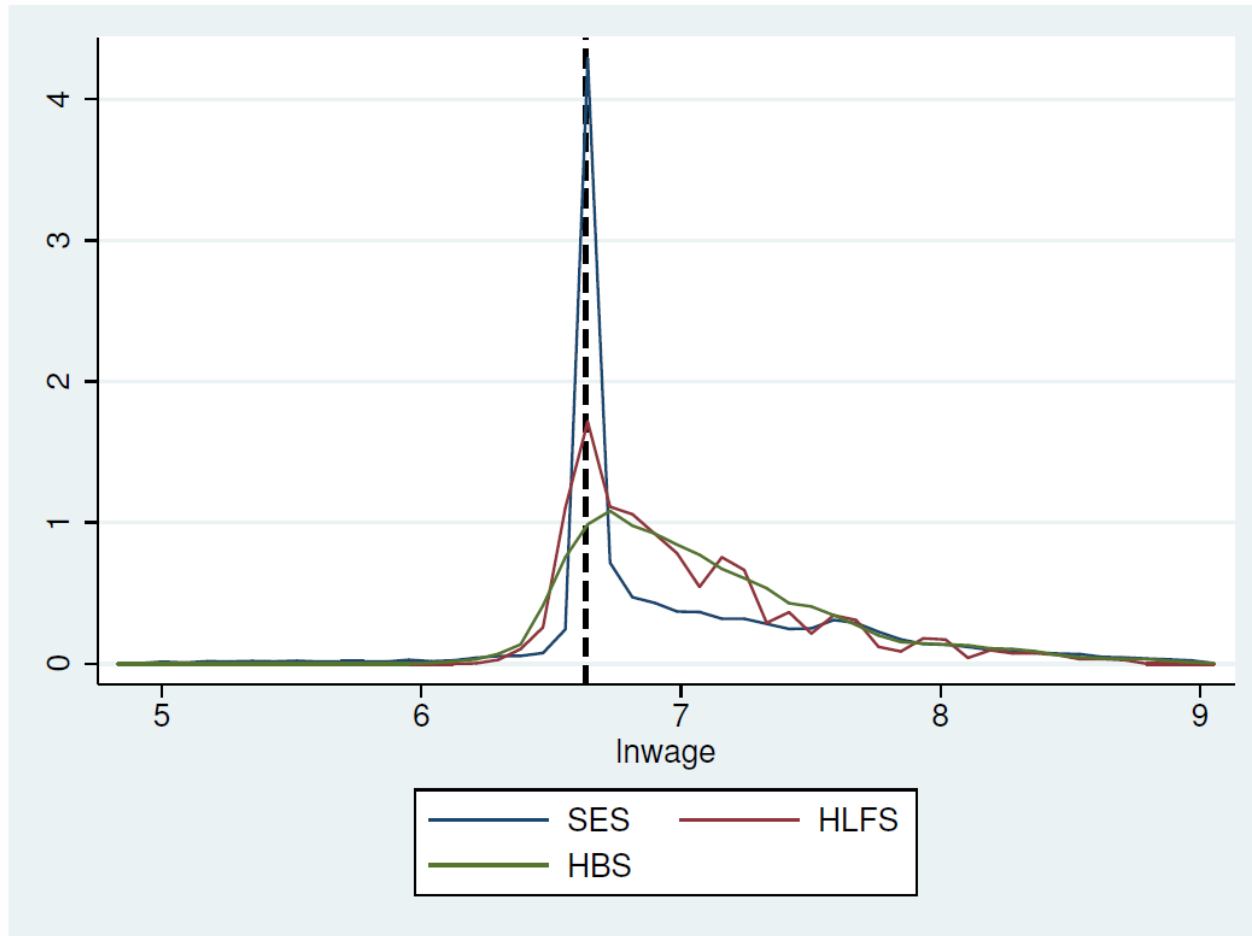


Figure 1: Kernel density plots of wages

# Methodology

- Key point: assume households report accurately/ at least unbiased..
  - firms have incentives to understate since they pay the taxes
- Run Mincerian regression in HH data, project into Firm level data, take the gap

$$\ln w_i^H = X_i^H \beta + \epsilon_i \quad (1)$$

$$\ln \hat{w}_j^F = X_j^F \hat{\beta}^H \quad (2)$$

$$\hat{u}_j = \ln \hat{w}_j^F - \ln w_j^F \quad (3)$$

# Methodology

percentiles	observed wages	estimated wages	envelope wages
10%	760	875	115
20%	760	875	115
30%	761	883	122
40%	761	890	129
50%	768	899	131
60%	840	1036	196
70%	1049	1196	147
80%	1415	1124	-291
90%	2064	1604	-460

- I would scale these right in table..what fraction of income GDP not being report/ fraction taxes not being collected...

# Other Comments Suggestions

- What about TIPS/ Gratuities...is that a legit reason why reported and HH income vary
- Do households know enough to lie when asked about earnings?
  - Could be a part of new worker orientation
- Page 2 you mention that this practice could harm employee..fewer SS taxes paid
  - But overall the “gain” can be shared by employer and employee
  - More likely to be harmful the more you think that people undersave



# Comments Suggestions (2)

- Can we translate to the US case? CPS measured in an unbiased way?
  - Should we see bigger gaps for construction, retail , home services

# Minimum Wages and Consumer Credit: Do Lenders and Borrowers Respond to Changing Policy?

By Lisa Dettling and Joanne Hsu

Discussion by Bruce Sacerdote

Nov 2016

# Quick Overview

- This is a neat paper in that it asks a new question (min wage and credit) and brings a whole host of new data sets to bear
- Min Wage  $\uparrow$  \$1  $\rightarrow$ 
  - 7% more credit card offers (mean of 1.7 credit card offers)
    - And raises credit limit on offers
  - .8 percent increase in credit cards (on mean of 1.8 cards)
    - Doubling MW leads to .10 more cards
  - Raises credit scores by .17 percent
  - Reduces cc delinquency by 8.31 percent (mean of .16)
  - 40% reduction pay day loan use
  - Reductions in rent to own and pawn shop use

# My Cat Got a Better Credit Card Offer Than Me



Font Sizes | [Print](#) | [View All](#)

By SHELBY BREMER, Credit.com



July 23, 2013



1 of 5

WHEN THE OWNER'S AWAY...



Most people start to receive their first [credit card mailings](#) when they turn 18. But sometimes these offers are a little out of the ordinary, arriving for people who are far too young, or family members that aren't even human.

Here are a few stories of people who have received some pretty strange credit card mailings.



Tiffany Hagler-Geard/ABC News

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## **A Gag Gone Awry**

While Dickler may have thrown her daughter's offer away, a woman in Aurora, Ill., had a different idea. When her then 5-year-old son Bennett [received a credit card application](#) in 2007, she had him fill it out. He wrote in his real income (\$200) and birthday (2002) and sent the forms back to Bank of America. The family thought little of their silly joke until shortly after when Bennett received a brand new credit card in his name with a \$600 limit.

# Data Employed

- Mintel Comperemedia: data on mail based solicitations for credit cards, mortgage, auto student loans
- NY Fed/ Equifax: credit reports for borrowing and payment data
- CPS Unbanked Supplement: payday loans, rent to own, pawn shops

# Main Specification

For credit card offers and use of rent to own Pawn Shop..include state and month fixed effects

$$\begin{aligned} y_{ist} = & \beta_1 \ln(\text{minwage}_{s,t-3}) * \text{minwagehousehold}_{it} \\ & + \beta_2 \ln(\text{minwage}_{s,t-3}) + \beta_3 \text{minwagehousehold}_{it} + X_{it} + \text{unemp rate}_{st} + \gamma_s \\ & + \gamma_m + \varepsilon_{it} \end{aligned}$$

Include person fixed effects

$$y_{ist} = \beta \ln(\text{minwage}_{s,t-k}) + \text{age}_{it} + \text{unemp rate}_{st} + X_{ct} + \gamma_s + \gamma_m + \gamma_i + \varepsilon_{it}$$

# Results Offers, Loans

Table 4: Minimum Wages and Credit Offers Received

	Credit Cards	Auto Loans	Other Unsecured Loans	Mortgages
Ln(MinWage <sub>t-3</sub> )*Min Wage Household	1.8334*** (0.2546)	0.0001 (0.0090)	0.1571*** (0.0324)	0.0775 (0.0961)
Ln(MinWage <sub>t-3</sub> )	-0.0142 (0.2052)	0.0024 (0.0149)	-0.0296 (0.0479)	0.6050 (0.3805)
MinWageHousehold	-5.2130*** (0.4368)	-0.0226 (0.0262)	-0.3496*** (0.0551)	-0.3272* (0.1601)
N	445201	445201	445201	445201



# Results Delinquency

Table 8: Short and Medium Run Payment Behavior

	Credit Score	Delinquent?	Delinquency by Type of Debt		
			Credit Card	Auto Loan	Mortgage
<u>Short Run</u>					
Ln(Min Wage <sub>t-3</sub> )	8.141*** (1.3248)	-0.0537*** (0.0067)	-0.014 (0.0188)	-0.0039 (0.0101)	-0.016 (0.0085)
N	5849519	7165003	697107	2138400	1475884
N (Individuals)	160238	167671	36452	93881	51375
<u>Medium Run, No New Trades</u>					
Ln(Min Wage <sub>t-12</sub> )	0.6113 (1.5045)	-0.0316*** (0.0084)	-0.0296 (0.0203)	0.0002 (0.0114)	0.0157 (0.0087)
N					
N (Individuals)					
<u>Medium Run, New Trades</u>					
Ln(Min Wage <sub>t-12</sub> )	5.9534*** (1.2483)	-0.0371*** (0.0066)	-0.043 (0.0267)	0.0419** (0.0145)	0.0063 (0.0169)
N	5523350	6589111	241855	571190	248159
N (Individuals)	154231	167668	32874	87642	47321

Notes: Data Source is CCP/Equifax. Displayed are coefficients and standard errors (in parentheses) obtained from estimating a

# Compare to Paper on UI and Mortgage Delinquency

## Delinquency

Figure 3. Changes in mortgage delinquency and maximum regular state unemployment insurance benefits (in thousands of dollars) between 1992 and 2011, by state. Only states with at least 50 observations in each period are displayed.

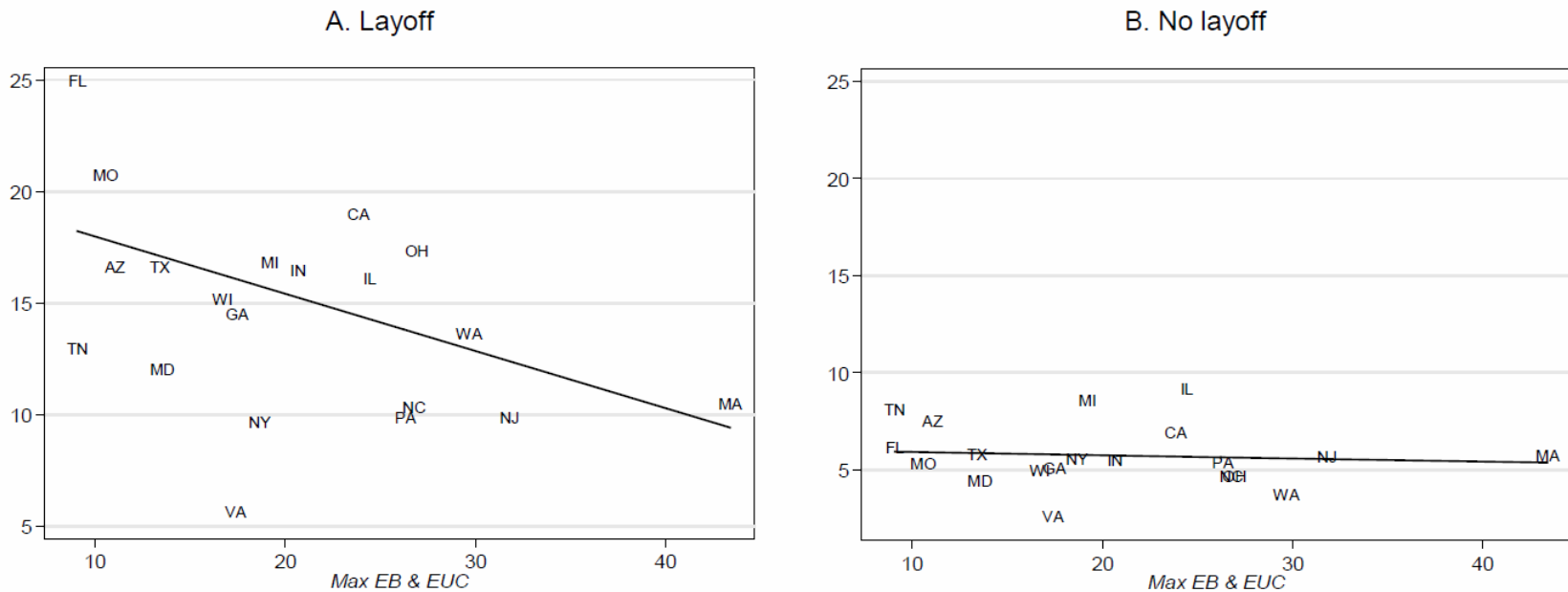


Figure 4. Mortgage delinquency and extended benefits available to eligible unemployment insurance recipients under the Extended Benefits and Emergency Unemployment Compensation programs (in thousands of dollars) in May 2009, by state. Only states with at least 50 observations are displayed.

Table II: Unemployment Insurance Generosity and Mortgage Delinquency  
(SIPP, 1991-2011)

	Dependent variable: Mortgage Delinquency		
	(1)	(2)	(3)
Max Benefit	-0.08 (0.12)	-0.03 (0.13)	
Max Benefit*Layoff		-0.23*** (0.07)	-0.25*** (0.08)
Layoff	6.51*** (0.38)	6.55*** (0.34)	6.55*** (0.35)
Observations	64,922	64,922	64,922
$R^2$	0.05	0.05	0.05
Household-level controls?	Y	Y	Y
State-year controls?	Y	Y	-
State and year FEs?	Y	Y	-
State-year FEs?	N	N	Y