### Session 3. Complexity and Global Tax Administration

**Moderator:** Rahul Tikekar  
>*IRS, RAAS*

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Taxing Hidden Wealth: The Consequences of U.S. Enforcement Initiatives on Evasive Foreign Accounts

Niels Johannesen, University of Copenhagen
Patrick Langetieg, Internal Revenue Service
Daniel Reck, London School of Economics
Max Risch, University of Michigan
Joel Slemrod, University of Michigan

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Disclaimer: The views and opinions presented in this paper reflect those of the authors. They do not necessarily reflect the views or the official position of the Internal Revenue Service.
Introduction

• Use of offshore accounts to evade taxes is a serious problem:
  • An estimated $7.6 trillion of financial assets concealed in tax havens (Zucman, 2013)
  • Offshore assets are largely untaxed and their ownership is highly concentrated (Alstadsæter, Johannesen & Zucman, 2017)

• Recent years: prolific policy activity
  • Evidence of shifting to avoid detection (Johannesen & Zucman, 2014; Johannesen, 2014; Omartian 2016; Simone, Lester & Markle 2017)
  • Debate over compliance costs
  • Little evidence on actual compliance effects

• Is any progress possible in the battle against offshore tax evasion?
U.S. enforcement initiatives 2008-2009

The US began multi-pronged enforcement efforts in 2008:

• Legal action against foreign banks, esp. in Switzerland. (often preceded by whistleblowers; first case against UBS starts July 2008)

• Information exchange treaties with tax havens (new wave of treaties starts 2008)

• Foreign Accounts Tax Compliance Act (FATCA) (first draft bill in October 2009; enacted March 2010; implemented 2014-2015)

• Offshore Voluntary Disclosure (OVD) Program (first program starts March 2009)

Many governments have taken similar measures.
This Project

• We use U.S. administrative data to examine the impact of the 2008-2009 enforcement initiatives on tax compliance

• Steps of the main empirical analysis:
  
  • What was the effect of U.S. enforcement initiatives on disclosures of evasive foreign accounts?

  • Did taxpayers who disclosed new foreign accounts report more capital income?

  • What was the total effect of these initiatives on reported wealth, income, and tax revenues?
Background: Reporting Obligations of Americans with Offshore Wealth

• Americans are taxed by the US on the income from their global wealth, modulo any foreign tax credits
  • Typically no third-party reporting (until FATCA)

• Americans with >$10,000 should also file a Foreign Bank Account Report (FBAR).
  • Reporting obligation based on “beneficial ownership,” looks through e.g. shell companies.
  • Disclose owner, location, and max. value of each account.

• We use data on all FBARs filed from 2000-2011
  • Linked to individual income tax returns, OVD program participation.
Background: Offshore Voluntary Disclosure (OVD) Program

- Established to allow taxpayers to come into compliance voluntarily in response to enhanced enforcement

- OVD Program launched in March 2009
  - Participants required to come clean for the past 6 years
  - Penalties: 6 years of back taxes/penalties + “offshore penalty” of 20% on value of disclosed assets
  - Renewed in 2011, 2012 with tweaks to penalty structure

- IRS (2011, 2014)
  - 15,000 participants in 2009, $3.4 billion in taxes/penalties
  - As of 2014: 45,000 disclosures, $6.5 billion
Results Part 1: Aggregate FBAR Analysis

- Analyze the increase in the number of FBARs filed and number of offshore accounts disclosed occurring in 2009.

- Decompositions of this increase suggest a large part of this effect comes from *quiet disclosures*.
  - *Quiet disclosure*: coming into compliance without admitting prior non-compliance via the OVD program.
  - Not 100%: anecdotal evidence and data suggests some “FBAR-only” compliance responses.
Number of Account Disclosures by Year

- FBAR filers (left axis)
- OVD participants (right axis)

Year:
- 2001
- 2002
- 2003
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011

Number of FBAR filers:
- 0
- 100,000
- 200,000
- 300,000
- 400,000

Number of OVD participants:
- 0
- 10,000
- 20,000
- 30,000
- 40,000
New Disclosers of Foreign Accounts

Note: First-time FBAR filers with a foreign address are excluded.
Total Value of Accounts Disclosed

Value of new disclosures (USD billion)

Year

First-time FBAR filers and OVD filers

First-time FBAR filers excluding OVD filers
First-time FBAR filers, U.S. vs non-U.S. addresses, normalized
New U.S., non-OVD, FBAR Filers: Havens vs Non-Havens, Normalized

Note: Havens includes OECD (2000) uncooperative tax havens plus Switzerland, Singapore, Hong Kong and Luxembourg
New U.S., non-OVD FBAR Filers: Change from 2008-2009 by Country

Percent difference from 2008

Note: OECD (2000) uncooperative tax havens plus Switzerland, Singapore, Hong Kong and Luxembourg in red, all others in blue.
New U.S., non-OVD, FBAR Filers: by Account Value, Normalized
"Intensive Margin" Responses: New Accounts for Prior FBAR Filers

Note: A large account is defined as an account >$1 million
Quiet Disclosures versus OVD

• Question: Why disclose quietly instead of via OVD?

• Theory: trade off risk of criminal enforcement, harsh penalties when disclosing quietly with OVD penalties
  • esp the offshore penalty = 20% of the balance in 2009 OVD.
  • When risk of prosecution for a quiet disclosure is low, quiet disclosure becomes more attractive.

• This is consistent with what we observe
  • 45% of OVD disclosures in Switzerland, where enforcement was especially targeted.
  • OVD participants disclose more wealth
Results Part 2: Did Reported Income Increase?

• Event-study design:
  • Treatment group: disclosed new foreign account in 2009
  • Control group: filed FBAR continuously from 2006-2009

• Outcome: reported income, of various types
  • Primarily use inverse hyperbolic sine transform, include 0’s
  • (behaves like log for positive values; similar results with log excluding negative/0’s)

• Two sets of results:
  • Compliance effect within OVD for participants in OVD
  • Compliance effect outside OVD for non-participants
Event Studies: OVD Participants, Financial Capital Income

![Graph showing coefficient over event-year for Interest, Dividends, and Capital Gains.]

- Interest
- Dividends
- Capital Gains
Event Studies: OVD Participants, Other Income

[Graph showing the coefficient changes over event years for Wage and Salary, Sched E, and Sched C.]
Event Studies: OVD Participants, Total Financial Capital Income
Event Studies: First-time FBAR Filers Outside OVD, Financial Capital Income

[Graph showing coefficients for Interest, Dividends, and Capital Gains over event years.]
Event Studies: First-time FBAR Filers Outside OVD, Other Income

![Graph showing coefficient changes over event-years for Wage and Salary, Sched E, and Sched C income types.](image-url)
Event Studies: First-time FBAR Filers Outside OVD, Total Financial Capital Income

Coefficient

Event-year

Total Capital Income 95% CI
Event Studies: First-time FBAR Filers Outside OVD, Domestic vs Other Interest Income

Note: 1099 interest income is reported by U.S. banks to the IRS.
Event Studies: First-time FBAR Filers Outside OVD, Amended Returns

Note: baseline 1% rate of filing amended returns in the pre-period.
Results Part 3: Total Effects

• How much extra reported income/tax revenue did 2009 enforcement cause in total?

• Heterogeneous treatment effects complicates the estimation of total effects, esp. at the top of the distribution.

• First Approach: Direct Method
  • Assume homogeneous treatment effects, calculate counterfactual, convert to $
  • Use event year 1 estimates
  • Likely an upper bound

• Second Approach: Indirect Method
  • Back out compliance-adjusted rate of return from estimates
  • Apply this to account values to calculate the total effect
The Indirect Method

- Uses as an input account values and the ATET estimate from the regression, without assuming homogeneous treatment effects
- Mechanically, change in income for a new disclosure is
  \[ \Delta y_i = d_i r_i V_i, \]
  - \( d_i \) indicates prior non-compliance
  - \( r_i \) is the (pre-tax) rate of return
  - \( V_i \) is the account value
- Dividing by baseline \( y_i \), assuming \( d_i r_i \perp V_i/y_i \), we have
  \[ E[d_i r_i] = \frac{E[\Delta y_i/y_i]}{E[V_i/y_i]} . \]
  - Numerator: event study coefficient (for total financial capital income)
  - Denominator: mean ratio of acct value to income in event year -1
Estimated Rates of Return on Foreign Assets

|                           | Total Reported Assets (millions) | Change in Total Reported Capital Income (millions) | $E[d_i \times r_i]$ | $E[r_i | d_i = 1]$ | $Pr[d_i = 1]$ |
|---------------------------|---------------------------------|-----------------------------------------------------|---------------------|-------------------|----------------|
| **OVD Participants**     |                                 |                                                     |                     |                   |                |
| Direct Method             | 21,400                          | 597                                                 | 0.028               | 0.028             | 1              |
| Indirect Method           | 21,400                          | 438                                                 | 0.020               | 0.020             | 1              |
| **First-Time Filers**     |                                 |                                                     |                     |                   |                |
| Direct Method             | 180,000                         | 3275                                                | 0.018               | 0.028             | 0.65           |
| Indirect Method           | 180,000                         | 2,095                                               | 0.012               | 0.020             | 0.57           |

• Note: last two columns are imputations based on assumptions:
  • 1) $d_i = 1$ for all OVD participants
  • 2) $E[r_i | d_i = 1]$ is the same for OVD participants and first-time filers.
### Summary of Estimates of the Total Effect

<table>
<thead>
<tr>
<th></th>
<th>Change in Total Reported Capital Income (millions)</th>
<th>Revenue Estimate (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OVD Participants</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Method</td>
<td>597</td>
<td>158</td>
</tr>
<tr>
<td>Indirect Method</td>
<td>438</td>
<td>116</td>
</tr>
<tr>
<td><strong>First-Time Filers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Method</td>
<td>3,275</td>
<td>911</td>
</tr>
<tr>
<td>Indirect Method</td>
<td>2,095</td>
<td>583</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Method</td>
<td>3,872</td>
<td>1,069</td>
</tr>
<tr>
<td>Indirect Method</td>
<td>2,533</td>
<td>699</td>
</tr>
</tbody>
</table>
Conclusion

• Our results suggest at least 45,000 individuals started disclosing accounts to the IRS in 2009 outside OVD programs
  • + over 10,000 existing FBAR filers disclosing additional accounts
  • Compare to 15,000 participants in 2009 OVD
  • About $120B in total disclosed wealth

• Many of these accounts were previously non-compliant:
  • Concentrated in tax havens
  • Disclosures associated with increased capital income reporting
  • ...and frequent amending of income tax returns

• Significant compliance response to enforcement outside of the OVD program
  • Risk of detection of a quiet disclosure was a major factor in the decision to disclose quietly versus through OVD
Going Forward...

- Important lessons for the design of enforcement policies
  - Third-party information sharing across borders
  - This type of offshore enforcement *can* improve compliance
  - Taxpayers take "calculated risks" when handling offshore wealth
  - Penalty structure in "amnesty" programs

- Total Effects: $120B disclosed, $2.5-4B in income reported
  - Large, but <15% of estimated overall offshore U.S. wealth (see e.g. Zucman, 2013; Alstadsæter, Johannesen and Zucman, 2017)
  - The regime we study was one of *targeted* enforcement
  - Can more comprehensive enforcement policy enacted later (FATCA, CRS) make a bigger dent in the overall problem?
Thank You!

Questions/comments: d.h.reck@lse.ac.uk
Additional Slides
Summary of Results

• Main finding: significant compliance responses

• Approximately 60,000 individuals disclosed accounts because of enforcement
  • $120 billion in total disclosed wealth
  • 45,000 disclosures outside of the official Offshore Voluntary Disclosure Program.
  • Concentrated in countries with strong banking secrecy.

• Disclosures were accompanied by increases in reported financial capital income on tax returns.
  • $2.4-$4 billion in reported income in total.
  • $0.7-$1.0 billion in annual tax revenue.
Timeline of 2008-2009
Enforcement Initiatives

- Information exchange treaties with Malta, Liechtenstein, Luxembourg, Monaco also signed in late 2008 - 2009.

- UBS agrees to pay $780 settlement

- U.S. authorities state they are still pursuing access to details on 52,000 UBS clients

- Tax Filing deadline for U.S. taxpayers
  - April 15

- FBAR filing deadline for tax year 2008
  - June 30

- Close of OVDP 2009
  - Oct 15

- UBS John Doe Summonses authorized
  - July 1

- Nov 12
  - Raoul Wiel charged with conspiring to help thousands of Americans to hide billions of assets for the U.S. tax authorities

- March 23
  - Opening of OVDP 2009 announced

- March 13
  - Swiss authorities agree to exchange information with foreign tax authorities in tax evasion cases

- August 19
  - Swiss government agrees to hand over details on 4,450 U.S. accounts as part of UBS settlement
Conceptual Framework

Full compliance
• Pays taxes
• Files FBAR

Tax compliance
• Pays taxes
• No FBAR

Non-compliance
• Pays no taxes
• No FBAR

Treatment

No change
File FBAR
Pay taxes
File FBAR
No change
No change
Pay taxes
No change (relocate wealth?)

Taxing Hidden Wealth
Conceptual Framework

**Full compliance**
- Pays taxes
- Files FBAR

**Tax compliance**
- Pays taxes
- No FBAR

**Non-compliance**
- Pays no taxes
- No FBAR

**Treatment**
- No change
- File FBAR
- Pay taxes
- Enter OVD
- “Quiet disclosures”:
  - Amended return
  - No OVD

- No change (relocate wealth?)
- No amended return
- No OVD

Taxing Hidden Wealth
Conceptual Framework

Full compliance
- Pays taxes
- Files FBAR

Tax compliance
- Pays taxes
- No FBAR

Non-compliance
- Pays no taxes
- No FBAR

Treatment

- No change

File FBAR
- No change

Pay taxes
- Enter OVD

“Quiet disclosures”:
- Amend returns
- No OVD
- No amended returns
- No OVD

No FBAR
- No change (relocate wealth?)

Are new FBARs disproportionately filed by people less likely to have a legitimate reason to hold the account?

Taxing Hidden Wealth
Conceptual Framework

Full compliance
• Pays taxes
• Files FBAR

Tax compliance
• Pays taxes
• No FBAR

Non-compliance
• Pays no taxes
• No FBAR

Treatment

No change

File FBAR

Pay taxes

No FBAR

Pay taxes

No change (relocate wealth?)

Enter OVD

“Quiet disclosures”:
• Amend returns
• No OVD

• No amended returns
• No OVD

• How do people decide to disclose quietly vs OVD?
Would OVD disclosures have especially high risk of detection?
Conceptual Framework

Full compliance
- Pays taxes
- Files FBAR

Tax compliance
- Pays taxes
- No FBAR

Non-compliance
- Pays no taxes
- No FBAR

Treatment

- No change

- File FBAR

- Enter OVD

- "Quiet disclosures":
  - Amend returns
  - No OVD

- No amended returns
  - No OVD

- Pay taxes

- No FBAR

- Pay taxes

No change (relocate wealth?)

• Are new FBARs associated with increased capital income reporting?
Conceptual Framework

- **Full compliance**
  - Pays taxes
  - Files FBAR

- **Tax compliance**
  - Pays taxes
  - No FBAR

- **Non-compliance**
  - Pays no taxes
  - No FBAR

**Treatment**

- No change
- File FBAR
- Pay taxes

**Enter OVD**

- "Quiet disclosures":
  - Amend returns
  - No OVD
- No amended returns
  - No OVD

- No change (relocate wealth?)

- Are new FBARs associated with increased capital income reporting?
- …even for non-OVD participants?
Conceptual Framework

Full compliance
- Pays taxes
- Files FBAR

Tax compliance
- Pays taxes
- No FBAR

Non-compliance
- Pays no taxes
- No FBAR

Treatment
- No change
- File FBAR
- Pay taxes
- No FBAR
- Pay taxes
- No change (relocate wealth?)

Enter OVD
- "Quiet disclosures":
  - Amend returns
  - No OVD
  - No amended returns
  - No OVD

- Are new FBARs associated with filing amended tax returns?
New U.S., non-OVD, FBAR Filers: Amended FBARs, normalized

Index of new filers (2008=1)

Year

2005 2006 2007 2008 2009 2010 2011

Amended FBARs

Non-amended FBARs

Taxing Hidden Wealth
First-time FBAR filers, U.S. vs non-U.S. addresses

The graph illustrates the number of new disclosures for U.S. and non-U.S. addresses from 2005 to 2011. The number of disclosures for U.S. addresses shows a significant increase in 2009, following the implementation of new filing requirements. In contrast, the number of disclosures for non-U.S. addresses remains relatively stable throughout the years.
New U.S., non-OVD, FBAR Filers: Havens vs Non-Havens

Note: Havens includes OECD (2000) uncooperative tax havens plus Switzerland, Singapore, Hong Kong and Luxembourg
New *Same-Country* Address FBAR Filers:
Change from 2008-2009 by Country

Level Difference

Note: OECD (2000) uncooperative tax havens plus Switzerland, Singapore, Hong Kong and Luxembourg in red, all others in blue.
Quiet Disclosures versus OVD

• Question: Why disclose quietly instead of via OVD?

• Theory: trade off risk of criminal enforcement, harsh penalties when disclosing quietly with OVD penalties
  - esp the offshore penalty = 20% of the balance in 2009 OVD.
  - risk of criminal enforcement is plausibly largest for very large accounts, accounts in havens, esp. Switzerland.

• Problem: how to get the distribution of account/taxpayer characteristics for quiet disclosures

• Solution: Assume the distribution of characteristics in the 2009 new filer cohort would be similar to that in the 2008 cohort in absence of compliance effect
  - distribution of characteristics and overall number of new accounts is similar for 2006-2008 cohorts.
  - use this to recover the distribution of characteristics among 2009 “FBAR compliers”
Distribution of Account Value: OVD vs FBAR compliers

- OVD participants
- FBAR Compliers
- All 2009 Filers
Distribution of Account Country: OVD vs FBAR compliers

Proportion of Filers

- Liechtenstein
- Austria
- Netherlands
- Luxembourg
- Isle of Man
- Mexico
- Spain
- Singapore
- Taiwan
- Ireland
- Bermuda
- Italy
- Australia
- Hong Kong
- Korea, Republic of (South)
- China
- Germany
- Israel
- Japan
- France
- India
- Cayman Islands
- Canada
- United Kingdom
- Switzerland

OVD participants
FBAR compliers
### Income Statistics: Reported Income in 2008, OVD participants and First-time filers

#### OVD Participants

<table>
<thead>
<tr>
<th>Income</th>
<th>mean</th>
<th>median</th>
<th>p25</th>
<th>p75</th>
<th>p90</th>
<th>p95</th>
<th>p99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>52,033</td>
<td>7,012</td>
<td>1,194</td>
<td>29,169</td>
<td>92,580</td>
<td>179,374</td>
<td>717,487</td>
</tr>
<tr>
<td>Dividends</td>
<td>47,782</td>
<td>3,945</td>
<td>184</td>
<td>20,869</td>
<td>74,557</td>
<td>156,063</td>
<td>751,403</td>
</tr>
<tr>
<td>Capital Gains</td>
<td>30,278</td>
<td>1,489</td>
<td>0</td>
<td>11,170</td>
<td>44,655</td>
<td>99,867</td>
<td>489,021</td>
</tr>
<tr>
<td>Wages</td>
<td>220,138</td>
<td>48,193</td>
<td>0</td>
<td>167,847</td>
<td>370,721</td>
<td>619,335</td>
<td>2,403,199</td>
</tr>
<tr>
<td>AGI</td>
<td>732,941</td>
<td>152,881</td>
<td>65,969</td>
<td>352,662</td>
<td>914,857</td>
<td>1,760,255</td>
<td>5,988,962</td>
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<tr>
<td>Total Tax</td>
<td>155,883</td>
<td>18,613</td>
<td>3,001</td>
<td>71,895</td>
<td>207,762</td>
<td>422,062</td>
<td>1,615,978</td>
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<tr>
<td>Sched C Income</td>
<td>23,589</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>24,000</td>
<td>93,356</td>
<td>470,614</td>
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<tr>
<td>Sched E Income</td>
<td>90,375</td>
<td>0</td>
<td>0</td>
<td>10,710</td>
<td>160,321</td>
<td>483,788</td>
<td>2,359,923</td>
</tr>
</tbody>
</table>

#### First-time Filers

<table>
<thead>
<tr>
<th>Income</th>
<th>mean</th>
<th>median</th>
<th>p25</th>
<th>p75</th>
<th>p90</th>
<th>p95</th>
<th>p99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>57,692</td>
<td>1,240</td>
<td>112</td>
<td>8,009</td>
<td>44,537</td>
<td>131,660</td>
<td>970,424</td>
</tr>
<tr>
<td>Dividends</td>
<td>57,968</td>
<td>369</td>
<td>0</td>
<td>6,442</td>
<td>49,889</td>
<td>144,004</td>
<td>850,591</td>
</tr>
<tr>
<td>Capital Gains</td>
<td>42,551</td>
<td>118</td>
<td>0</td>
<td>3,474</td>
<td>29,456</td>
<td>88,328</td>
<td>550,640</td>
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<tr>
<td>Wages</td>
<td>280,804</td>
<td>114,126</td>
<td>19,290</td>
<td>238,357</td>
<td>481,447</td>
<td>807,758</td>
<td>3,073,700</td>
</tr>
<tr>
<td>AGI</td>
<td>649,312</td>
<td>159,224</td>
<td>72,466</td>
<td>335,236</td>
<td>885,327</td>
<td>1,928,447</td>
<td>10,059,205</td>
</tr>
<tr>
<td>Total Tax</td>
<td>156,427</td>
<td>21,622</td>
<td>4,570</td>
<td>65,140</td>
<td>203,777</td>
<td>457,561</td>
<td>2,372,693</td>
</tr>
<tr>
<td>Sched C Income</td>
<td>17,865</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9,811</td>
<td>51,349</td>
<td>363,155</td>
</tr>
<tr>
<td>Sched E Income</td>
<td>123,919</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>57,866</td>
<td>333,075</td>
<td>3,033,635</td>
</tr>
</tbody>
</table>

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*Taxing Hidden Wealth*
Event Studies: OVD Participants, Probability of Reporting Positive Capital Income (LPM)
Event Studies: First-time FBAR Filers Outside OVD, Probability of Reporting Positive Capital Income (LPM)
Event Studies: Event Studies: First-time FBAR Filers Outside OVD
Disclosing >$1 Million, Financial Capital Income
Global tax administration initiatives addressing tax evasion and avoidance

Tom Neubig, TaxSageNetwork.com
IRS/TPC Joint Tax Administration Research Conf.
Washington, DC
June 20, 2018
Why global, not simply national?

- Increased globalization and technological developments
- Economic activity without physical presence, including digitalization
- Business and even household activities extend beyond national borders
- Taxation remains one of the government functions requiring geographic borders
- Yet, national tax systems can't operate alone in preventing tax evasion and avoidance
A tax systems perspective

Joel Slemrod and my 2017 article on recent global tax initiatives extend tax systems perspective to international tax issues

- Allocating taxing rights
- Information sharing about taxpayers
- Information sharing about governments
- Multilateral cooperation

Effective use of tax systems instruments, beyond simply tax rates, can protect countries’ tax sovereignty
Topics

- Recent developments in third-party reporting and information sharing
- Recent developments in other global tax administration initiatives
- Studies of global tax evasion and avoidance
- Future research opportunities
Recent developments in global info sharing

- Automatic exchange of information (AEOI) of foreign financial accounts to address evasion
  - Exchanges began Sept. 2017 for 45 countries
  - 53 more begin exchanges Sept. 2018

- Country-by-country reporting (CbCR) to address base erosion and profiting shifting (BEPS) “avoidance” by largest MNEs
  - BEPS Inclusive Framework minimum standard for 116 countries
  - Exchanges begin June 2018

- Spontaneous exchanges of gov’t advance tax rulings

- CbCR tax planning disclosures by advisors
Administration of information sharing

- **Common Transmission System**
  - First global, secure bilateral exchange system connecting tax administrations from around the world

- How information will be used by tax administrations: dimensions and measures of effectiveness

- Need to analyze and publicize the effects and results of cross-border information sharing
Other tax administration global initiatives

- **Global tax administration capacity building**
  - Platform for Collaboration on Tax (IMF, OECD, UN, WBG)
  - Tax Inspectors Without Borders

- **Reducing cross-border tax uncertainty**
  - G20 focus on improved tax certainty

- **Multilateral tax administration knowledge sharing**
  - Joint International Task Force on Shared Intelligence & Collaboration
  - Handbook on CbCR Effective Implementation

- **Tax administration analytics**
  - Federation on Tax Administration’s: Tax Administration Survey
  - Tax gap analysis: compliance and policy gaps

- **Tax administration as part of whole-of-government issues**
  - Tax and crime, National Statistical Offices
Research on tax evasion and avoidance

- Global estimates of tax evasion
  - Zucman et al. tax haven wealth
  - Lost taxes on evaded wealth and/or offshore investment income
  - Offshore voluntary disclosures

- Global estimates of tax avoidance
  - OECD/G20 BEPS Action 11
  - Potentially 10% of global corporate tax revenues

- Estimates of tax system provisions
  - AU public disclosure study
  - 2017 US tax act anti-BEPS provisions
When enforcement actions are most effective

<table>
<thead>
<tr>
<th>Taxable Income Elasticity</th>
<th>High</th>
<th>Low</th>
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<tr>
<td>High</td>
<td>Enforcement actions effective</td>
<td>Ambiguous</td>
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<tr>
<td>Low</td>
<td>Ambiguous</td>
<td>Rate change effective</td>
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When capital is highly “mobile” due to reporting or profit shifting without much if any economic substance.

Examples: “patent boxes” without “economic nexus” requirements or transfer pricing without substantive documentation.
Potential research opportunities

- New data: Country-by-country Reports:
  - “where appropriate, for economic and statistical analysis”
  - More than just template data
- New data: AEOI financial account information
  - Analyze potential leakages & substitution of non-financial assets
- Cross-country analysis of Tax Administration Survey
- More analysis of tax uncertainty, non-income taxes, withholding taxes, and effects of peer reviews on gov’t behaviors/policies
- Leverage tax administration research with qualified outside researchers (e.g. IRS a global best practice)
- Should there be a tax administration research Working Party within OECD/FTA or some other fora?
**Into the future**

- Global cooperation and coordination in tax is best practice in multilateral government efforts
  - Strengthens countries’ national tax sovereignty
  - Multilateral efforts essential to combat cross-border tax evasion and avoidance, and beggar-thy-neighbor government policies
- Greater transparency, effective intelligence gathering, and information sharing will result in fairer, more efficient, and more certain national and global tax systems
- Exciting times with both increasing opportunities and challenges (e.g. digitalization and additional tax system administration tools). Continuous improvement needed.
An Examination of Partnership Tax Return Complexity

Erin Towery, University of Georgia
(with Larry May [IRS] & Lisa Rupert [IRS])

2018 IRS-TPC Research Conference
Disclaimer

The views expressed in this presentation do not reflect the positions of the Internal Revenue Service.
Growing number of businesses are structured as partnerships → 2.4 million returns filed in 2003 and 4 million returns filed in 2016 (66.7% increase)

Source: IRS Annual Data Book Table 2
Motivation

- Assets, receipts, & net income/loss reported by partnerships have also increased [IRS/SOI Winter 2015 bulletin] → ↑ in partnership complexity
- Limited partnership research due to lack of publicly available microdata
- Current study uses confidential partnership tax return data to investigate the evolution of partnership complexity over time
- Shed new light on a prominent organizational form used by US businesses
- Important in light of new partnership audit regulations & 20% flow-through deduction
Agenda

- Brief review of prior literature
- Discuss data source
- Present findings
- Discuss future work
- Conclude
Prior literature

**DETERMINANTS OF THE CHOICE TO ORGANIZE AS A PARTNERSHIP**

Business owners consider both tax and nontax factors when choosing to organize as a partnership, although nontax factors are the more dominant motivation [Guenther 1992; Terando and Omer 1993; Gentry 1994; Ayers et al. 1996; Utke 2018].

**USE OF PARTNERSHIPS TO FACILITATE OPERATING AND/OR TAX PLANNING STRATEGIES**

SPEs organized as partnerships or trusts facilitate greater level of tax-advantaged transactions for public corporations [Feng et al. 2009, Demere et al. 2018, and Agarwal et al. 2018]

Tax & nontax motivations for the use of limited partnerships to fund R&D activity [Shevlin 1997; Beatty et al. 1995]

**USE OF ADMINISTRATIVE DATA TO EXAMINE PARTNERSHIPS**

Knittel & Nelson (2011) use administrative data to develop a methodology to identify small businesses

Cooper et al. (2016) estimate taxes paid by partnership owners in 2011 using administrative data

DeBacker & Prisinzano (2015) examine the evolution of partnerships from 1988 and 2011; increased # of partnerships and movement toward tiered structures & limited liability for owners
Data

- Data stored in the IRS’s Compliance Data Warehouse → unedited data from all tax returns filed with the IRS
- Form 1065 data for partnerships and Schedule K-1 data for owners
- If a taxpayer files both an original return and an amended return, we include only the amended return
- Final sample of 46,886,326 partnerships for the period 2003-2016
- We use YK1 database to examine prevalence of tiered structures
Partnerships in the real estate, rental, and leasing industry comprise almost 50% of the sample.

Next three largest industries: finance and insurance, professional, scientific, and technical services, & construction.
A substantial portion of partnership growth is attributed to a rise in real estate and leasing partnerships.
Partnerships in most industries increasing

The number of construction partnerships peaked in 2007 & then declined through 2013 →subprime mortgage crisis might have curtailed new construction projects and ended some existing projects
# of returns filed by entity type

- LLCs are the most common entity type, comprising \( \rightarrow \) 60% of the returns filed
- General partnerships have gradually decreased over time
- Growing preference for structures that provide limited liability for owners
~27% of partnerships do not report a balance sheet

Almost 70% report assets of $10M or less → substantial portion of partnerships fall within the purview of SBSE division

LB&I division serves approximately 4% of partnerships
- Half of partnerships have only two owners
- 2% of partnerships have at least 100 owners
- 0.7% of partnerships have more than 1,000 owners
- Wide variation in ownership structure complexity among partnerships
A large majority of partnerships have no flow-through entities as partners.

0.7% of partnerships have 9 or more tiers and the number of partnerships with 9 or more tiers has tripled over time.
We remove ordinary income/loss received from other partnerships.

~43% of partnerships report $0 ordinary income/loss → most of these partnerships are in the real estate/leasing and finance/insurance industries.

Next step: examine other types of income/loss.
Future work

- Examine other types of income/losses reported on Schedule K
  - To prevent double counting in tiered structures, we must merge the Form 1065 data with Schedule K-1 data → enables us to exclude income/losses allocated to other partnerships
- Compare information being reported on Schedule K with the sum of amounts being reported on Schedules K-1
- Further examine circular partnerships that appear to have no end owner
- Investigate situations where capital/income/loss allocation percentages do not equal
- Examine partnerships that persistently report losses
Conclusions

- Despite the growing number of business entities organized as partnerships, little is known about partnerships due to the lack of publicly available data.
- We use confidential partnership tax return data to investigate the evolution of partnership tax return complexity over time.
- These findings are helpful to both the IRS and policymakers, especially in light of recent rules requiring all tax adjustments to be assessed at the partnership level rather than the partner level and the recent 20 percent deduction for flow-through income.
- Our evidence also provides some of the first insight into the costs of partnership tax compliance.
Global Tax Administration
Initiatives Addressing Tax Evasion
and Avoidance

Thomas Neubig
Tax Sage Network
Research Opportunities

Working with qualified academic researchers in tax administration work

More analytical work on withholding taxes and FATCA data

Data for Country by Country Reporting (CbCR) under the OECD BEPS framework
  • Microdata
  • Use machine learning to glean data from additional information on related party transactions

Consider a tax administration research working party
CbCR: US Tax Form
Filed by Ultimate Parent Entity (UPE)

- 2016 CbCR filed by UPE (or surrogate parent if voluntary) of MNEs tax residence
- Total revenues exceeding $850 million
- Can report book or tax values
- Sources income to country earned

Form 8975

- Part I identifying information on reporting entity (name, EIN, address
- Part II optional, additional unstructured information – description of business operations, structure, assumptions that affect report

Schedule A -- One or more for each jurisdiction

- Part I by jurisdiction summary financial information – revenue, profit/loss, income tax paid, stated capital, accumulated earning, number of employees, tangible assets (other than cash)
- Part II each entity in a jurisdiction – Name, TIN, Activity Code (13 categories)
- Part III optional additional, unstructured information
CbCR: U.S. 2016 Data

Most data reported on electronically-filed forms.

- Paper filed forms likely for forms 1120PC, 1120L, 1065, 990
- Filing voluntary for Tax Year 2016

Statistics of Income (SOI) publishing tables U.S. providing to OECD by end of year. Filings processed for 2016:

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<thead>
<tr>
<th></th>
<th>Forms 8975</th>
<th>Schedule A</th>
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<td>Total</td>
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Table 1. Tabulations by Foreign Country of Activity

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<thead>
<tr>
<th>Tax Jurisdiction</th>
<th># of CbCRs</th>
<th># of CbCR Subgroups</th>
<th>Revenues</th>
<th>Unrelated Party</th>
<th>Related Party</th>
<th>Total</th>
<th>Profit (Loss) before Income Tax</th>
<th>Income Tax Paid (on Cash Basis)</th>
<th>Income Tax Accrued - Current Year</th>
<th>Stated Capital</th>
<th>Accumulated Earnings</th>
<th>Number of Employees</th>
<th>Tangible Assets other than Cash and Cash Equivalents</th>
<th># of Entities with Main Business Activity of</th>
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<tr>
<td>All Sub-Groups</td>
<td>Country A (headquarters)</td>
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<td>Research and Development</td>
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<td>Holding or Managing Intellectual Property</td>
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<td>Purchasing or Procurement</td>
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<td>Sub-Groups with Positive Profits</td>
<td>Country A (headquarters)</td>
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<td>Sub-Groups with Negative Profits</td>
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<td>Purchasing or Procurement</td>
<td>Foreign jurisdictions</td>
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Table 2. Tabulations by Sector

<table>
<thead>
<tr>
<th>ISIC Division Code</th>
<th>Tax Jurisdiction</th>
<th># of CbCRs</th>
<th># of CbCR sub-groups</th>
<th>Revenues</th>
<th>Unrelated Party</th>
<th>Related Party</th>
<th>Total</th>
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<th>Tangible Assets other than Cash and Cash Equivalents</th>
<th># of Entities with Main Business Activity of</th>
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<td>Industry 02</td>
<td>Country A (headquarters)</td>
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<td>Industry 03</td>
<td>Country A (headquarters)</td>
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<td>Industry 99</td>
<td>Country A (headquarters)</td>
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**Note:** For Industry 99, the table continues with similar entries for Country A (headquarters) and respective countries B and C, with the same structure as the other industries.
Taxing Hidden Wealth: The Consequences of U.S. Enforcement Initiatives on Evasive Foreign Accounts

Niels Johannesen, University of Copenhagen
Patrick Langetieg, Internal Revenue Service
Daniel Reck, London School of Economics
Max Risch and Joel Slemrod, University of Michigan
Comments and questions

It would be useful to describe available data for FBAR and OVD in the data section of the paper.

Address on Form 1040 may not always indicate where a person is living, especially for those living abroad.

Do you exclude all first-time FBAR filers or just those who disclose a single account in country of residence?

- Is there a definitional difference between “FBAR compliers” in section 5.5 and “first-time FBAR filers” in section 6.2?

FBAR form change in 2009

- Eliminated buckets for exact amounts
- Any evidence that some were under reporting (selecting the wrong category)?
- Do those who filed late report buckets or amounts?

Data all coincide with great recession, impact on results?

Looking forward to FATCA results.
Figure 1. Decision-Making over Tax Compliance with Foreign Assets and the 2008-2009 Enforcement Initiatives

Full compliance
- Pays taxes
- Files FBAR

Tax compliance
- Pays taxes
- No FBAR

Non-compliance
- Pays no taxes
- No FBAR

Treatment

No change

File FBAR

Enter OVDP

“Quiet disclosures”:
- Amend returns
- No OVDP

Repatriation?

No change

File FBAR

Pay taxes

No FBAR

Pay taxes

No FBAR

Pay taxes

No change (relocate wealth?)
Behavioral Research Community of Practice

Leverages the expertise of the cross-agency group of applied behavioral scientists and external stakeholders to translate findings and methods from social and behavioral sciences into insight that will lead to improvements in Federal policies and programs.

Behavioral insights tool kit serves as a guide for integrating behavioral approaches into tax administration – a toolkit with options and resources to use in testing and implementing Behavioral Insights approaches relevant to tax administration.

Seminars to share best practices
Lending library and SharePoint site for sharing research and resources
Community of Interest on Behavioral Insights

Forum for tax administrations to share knowledge with the goal of harnessing a growing energy in behavioural insights toward achieving more efficient and effective tax administration and greater tax compliance

Share methods and insights for applying BI in areas related to compliance, service, or operations

Share best practices on governances and risk management

Provide opportunities for cross-border validation of methods and results

50 tax officials from 23 countries

Held web conference in April, with a planned presentation on the U.S. BI Toolkit schedule for July and physical meeting in September.
An Examination of Partnership Tax Return Complexity

Larry May and Lisa Rupert
  Internal Revenue Service
Erin Towery
  University of Georgia
Comments on Current Draft

- Discuss the various types of partnerships that file the Form 1065 and the structural differences
- Develop data section
  - Data cleaning
  - Self-reported industry codes
  - Double Counting – tiered partnership assets and income may appear multiple times on 1065 of owners
  - Do you include Form 1065 B (Large partnerships)
  - Missing paper-filed K-1s
- Do more to report separately on the various types of filers: Domestic, Limited, Foreign partnerships as well as limited liability companies
- Use other data sources to give context to section by industry
Explore Statistics of Income Data

SOI Data contain more details for paper-filed returns and correct taxpayer errors

- 17 percent of returns are paper filed
- Filers often report duplicate amounts for short and long-term capital gains
- Allocate amounts grouped as other expenses for rental real estate income and expenses to the specific expense items

Available Data

- By Sector or Industry  Beginning TY1993 (some data back to 1986)
  For all partnerships, LLCs, with net income, with real estate/rental income, and income/loss allocated to partners.
- By Entity Type  Beginning 2002
  For general, limited, limited liability, and foreign
- By Size of Total Assets  - Beginning TY2002
  All, LLC, domestic, specific industries, etc.


Use to compliment population data or test robustness of future research results.
Suggested Future work

Provide analysis of Schedule M3

Providing an understanding of tiered partnerships would be a major contribution

Following the income/loss flows would compliment work Cooper et. al.

Research the impact of Bipartisan Budget Act of 2015 and Tax Cuts and Job Act on organizational structures
### Session 3. Complexity and Global Tax Administration

**Moderator:**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Presenter</th>
<th>Institution</th>
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</thead>
<tbody>
<tr>
<td>Taxing Hidden Wealth: The Consequences of U.S. Enforcement Initiatives on Evasive Foreign Accounts</td>
<td>Daniel Reck</td>
<td>London School of Economics</td>
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<tr>
<td>Global Tax Administration Initiatives Addressing Tax Evasion and Avoidance</td>
<td>Thomas Neubig</td>
<td>Tax Sage Network</td>
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<tr>
<td>An Examination of Partnership Tax Return Complexity</td>
<td>Erin Towery</td>
<td>University of Georgia</td>
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</table>

**Discussant:**

<table>
<thead>
<tr>
<th>Name</th>
<th>Affiliation</th>
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<tbody>
<tr>
<td>Barry Johnson</td>
<td>IRS, RAAS</td>
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</tbody>
</table>
8th Annual IRS/TPC Joint Research Conference on Tax Administration

Next session begins at 3:10