

# **Empirical topics in international taxation: Evasion, avoidance and enforcement**

Niels Johannessen  
University of Copenhagen  
Department of Economics

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## **Introduction**

International tax issues – notably related to tax evasion and tax avoidance – have recently attracted significant attention: investigative journalists have used data leaks (e.g. Swiss Leaks, Lux Leaks and Panama Papers) to expose the widespread use of tax havens by wealthy individuals and multinational firms and policy makers have agreed on joint action at the highest level of global governance (e.g. G20, OECD and EU).

This course will review the recent academic literature on offshore tax evasion and prepare students to conduct their own research in the field. The course has the following learning objectives:

- The study of offshore tax evasion requires some measure of institutional and legal knowledge. Students will get acquainted with the basic principles of international taxation, the most common tax evasion strategies used by wealthy individuals and multinational firms and the key policy responses by governments.
- Empirical analysis of offshore tax evasion is challenging because the behavior under scrutiny is shrouded in secrecy and often requires indirect measurement and creative use of data sources. Students will get an overview of the data sources that have been employed most frequently in the literature and those that are used on the research frontier.
- The literature on offshore tax evasion employs a wide array of empirical methods ranging from standard regression techniques to event study methods and careful descriptive analysis. Students will deepen their understanding of these generic empirical methods by studying high-quality applications in the context of offshore tax evasion.
- The literature on offshore tax evasion is still young and many important questions are still unanswered. Students will obtain an understanding of the research questions that are currently on the research frontier and develop ideas for novel research questions in the field.

The classes will take the form of lectures with a strong emphasis on student involvement and discussion.

The course has two distinct parts covering offshore tax evasion by wealthy households (Part I) and multinational firms (Part II) respectively. A detailed outline follows below.

## **Part I: Offshore tax evasion by individuals (4 lectures)**

### **Lecture 1: Background**

Why are tax havens attractive for wealthy individuals? How much private wealth is hidden in tax havens? Do tax havens play a role beyond enabling tax evasion, for instance in facilitating corruption and embezzlement?

Readings:

- Zucman, G., 2013. The Missing Wealth of Nations: Are Europe and the U.S. Net Debtors or Net Creditors? *Quarterly Journal of Economics*, p.1321-1364.
- Hines, J., 2010. Treasure Islands, *Journal of Economic Perspectives* 24(4), p. 103-126.
- Andersen, J., Johannessen, N., Lassen, D., Paltseva, E., 2017. Petro Rents, Political Institutions and Hidden Wealth: Evidence from Offshore Bank Accounts. *Journal of the European Economic Association* 15(4), p. 818-860

### **Lecture 2: The distribution of offshore wealth**

Who owns the wealth hidden in tax havens? What are the implications for inequality? Do the very wealthiest evade more or less taxes than the average?

Readings:

- Alstadsæter, A., Johannessen, N., Zucman, G., 2019. Tax Evasion and Inequality. *American Economic Review* (forthcoming)
- Alstadsæter, A., Johannessen, N., Zucman, G., 2018. Who owns the Wealth in Tax Havens? Macro Evidence and Implications for Global Inequality. *Journal of Public Economics*

### **Lecture 3: Policy evaluation**

What are the policy responses to offshore tax evasion? How effective are these responses in curbing evasion?

Readings:

- Johannessen, N., 2014. Tax evasion and Swiss Bank Deposits. *Journal of Public Economics* 111, p. 46-62.
- Omartian, J., 2016. Tax Information Exchange and Offshore Entities: Evidence from the Panama Papers. *Working Paper*
- Findley, M., Nielson, D., Sharman, J., 2015. Causes of Noncompliance with International Law: A Field Experiment on Anonymous Incorporation. *American Journal of Political Science* 59(1), p. 146-161.

### **Lecture 4: Policy evaluation**

What are the policy responses to offshore tax evasion? How effective are these responses in curbing evasion?

Readings:

- Johannessen, N., Stolper, T., 2017. The Deterrence Effect of Whistleblowing: an Event-study of Leaked Customer Information from Banks in Tax Havens. *Working Paper*
- Johannessen, N., Zucman, G., 2014. The End of Bank Secrecy? An Evaluation of the G20 Tax Haven Crackdown. *American Economic Journal: Economic Policy* 6(1), p. 65-91
- Hanlon, M., Maydew, E., Thornock, J., 2015. Taking the Long Way Home: U.S. Tax Evasion and Offshore Investments in U.S. Equity and Debt Markets. *Journal of Finance* 70(1), 257-287

## **Part II: Tax avoidance by multinational firms (3 lectures)**

### **Lecture 5: Institutional background**

What are the basic principles of taxation of multinational firms? What are the most commonly used evasion and avoidance strategies? What do governments do to counter multinational tax planning?

Readings:

- Johannessen, N., 2014. Tax Avoidance with Cross-border Hybrid Instruments. *Journal of Public Economics* 112, 2014, p. 40-52
- Hardeck, I., Wittenstein, P., 2018. Assessing the Tax Benefits of Hybrid Arrangements - Evidence from the Luxembourg Leaks. *National Tax Journal*

### **Lecture 6: Empirical identification of multinational tax avoidance**

How can we empirically detect and quantify multinational tax evasion and avoidance?

Readings:

- Christea, A., Nguyen, D., 2016. Transfer Pricing by Multinational Firms: New Evidence from Foreign Firm Ownerships. *American Economic Journal: Economic Policy* 8(3), p. 170-202.
- Davies, R., Martin, J., Parenti, M., Toubal, F., 2018. Knocking on Tax Haven's Door: Multinational Firms and Transfer Pricing. *Review of Economics and Statistics*
- Johannessen, N., Tørsløv, T., Wier, L., 2019. Are less developed countries more exposed to multinational tax avoidance? Method and evidence from micro-data. *World Bank Economic Review*, forthcoming
- Tørsløv, T., Wier, L., Zucman, G., 2018. The Missing Profits of Nations. NBER Working Paper 24701

### **Lecture 7: Counter-measures and revenue losses**

Are policy measures effective in curbing multinational tax evasion and avoidance? What is the revenue loss associated with tax avoidance?

Readings:

- Clifford, S. 2019. Taxing multinationals beyond borders: financial and locational responses to CFC rules. *Journal of Public Economics*, forthcoming
- Buettner, T., Overesch, M., Schreiber, U., Wamser, G., 2012. The Impact of Thin-Capitalization Rules on the Capital Structure of Multinational Firms, *Journal of Public Economics* 96, 930-938
- Riedel, N., Zinn, T., Hofmann, P., 2015. Do Transfer Pricing Laws Limit International Income Shifting? Evidence from Europe. *Working Paper*

## **Exam**

In the exam, I will ask the students to write the introduction of an empirical paper on offshore tax evasion while pretending that they have access to a dataset (specified by me). The introduction should specify and motivate a research question, detail the empirical strategy, report the results (invented by the students themselves) and placing the contribution of the study in the literature.

Students have 4 weeks to complete the task.