Session 3. Complexity and Global Tax Administration

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Taxing Hidden Wealth: The Consequences of U.S. Enforcement Initiatives on Evasive Foreign Accounts	***Daniel Reck*** *London School of Economics*
Global Tax Administration Initiatives Addressing Tax Evasion and Avoidance	***Thomas Neubig*** *Tax Sage Network*
An Examination of Partnership Tax Return Complexity	***Erin Towery*** *University of Georgia*
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Taxing Hidden Wealth:
The Consequences of U.S. Enforcement Initiatives on Evasive Foreign Accounts

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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

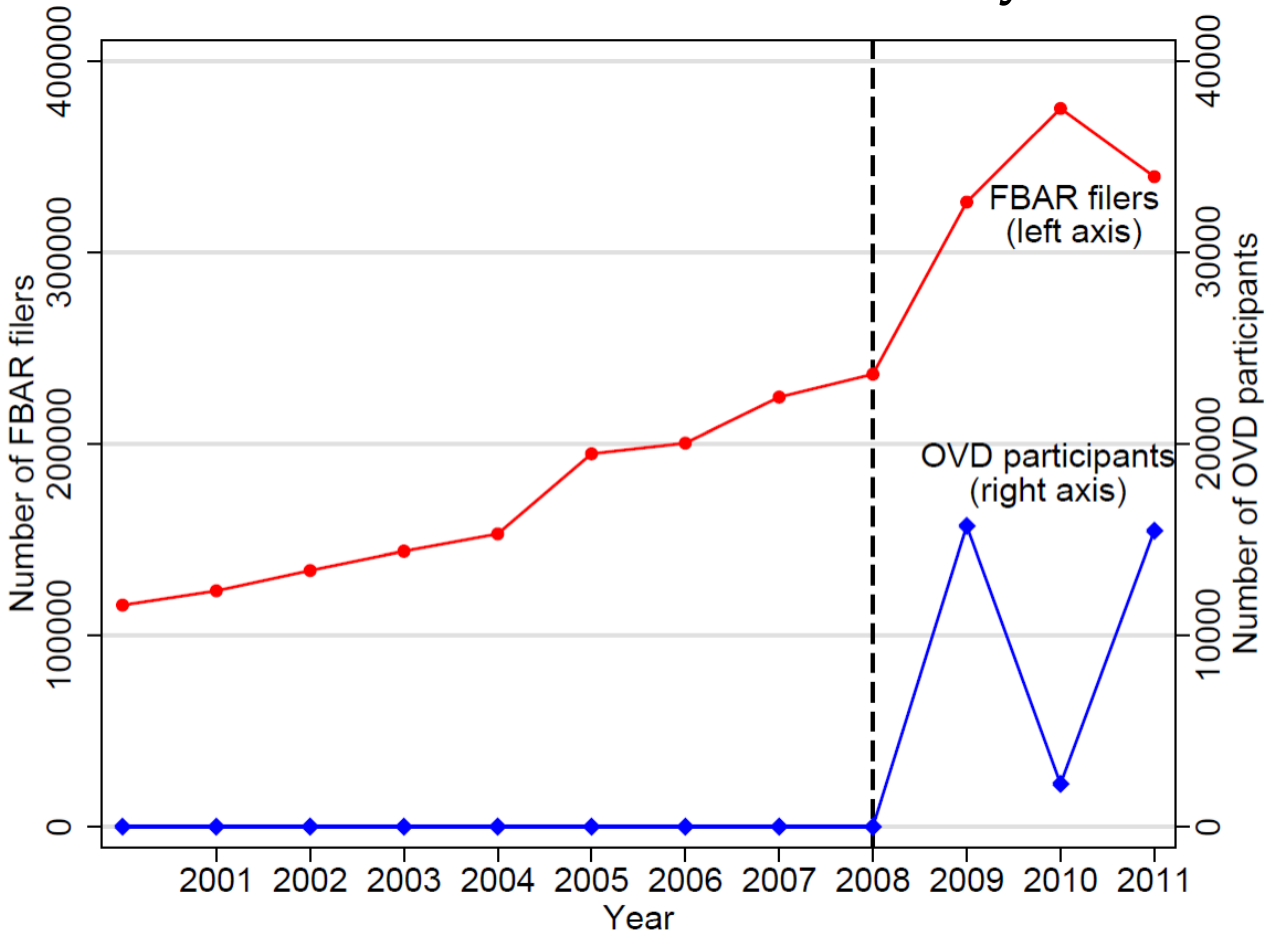
- IRS (2011, 2014)
    - 15,000 participants in 2009, $3.4 billion in taxes/penalties
    - As of 2014: 45,000 disclosures, $6.5 billion

Results Part 1: Aggregate FBAR Analysis

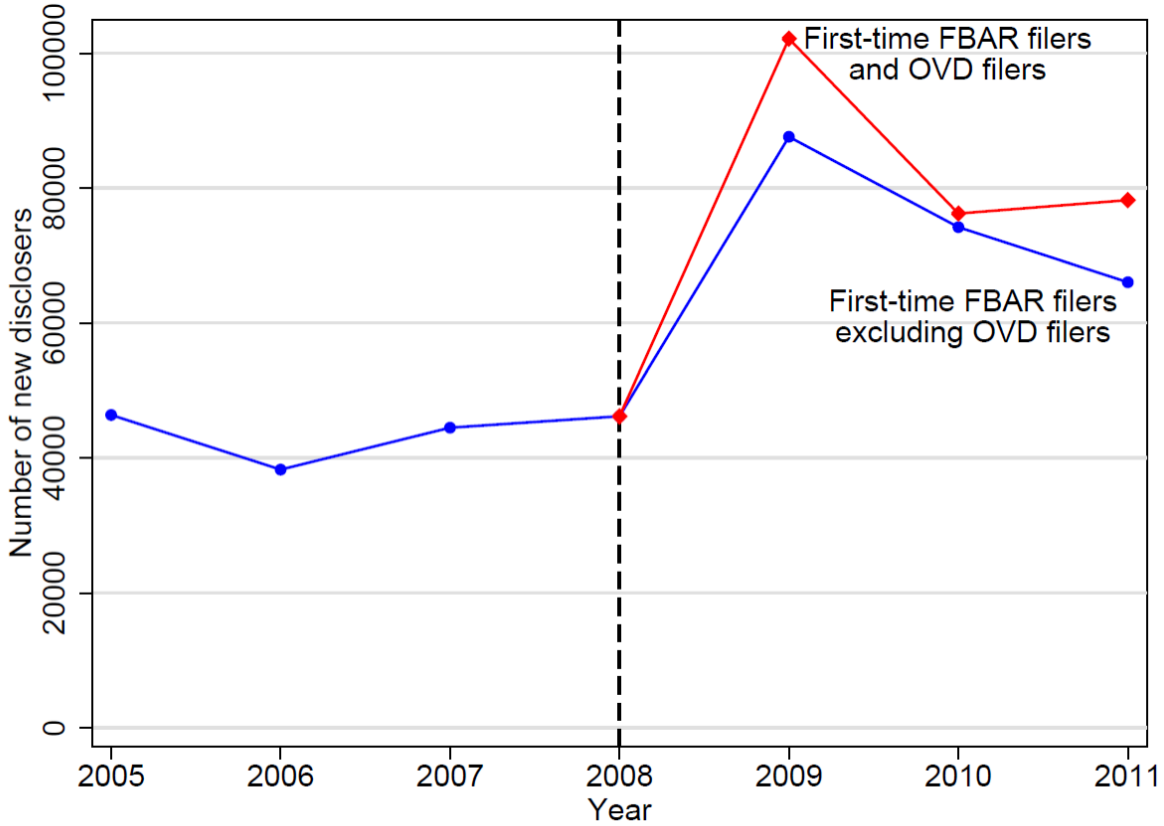
- Analyze the increase in the number of FBARs filed and number of offshore accounts disclosed occurring in 2009.

- 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

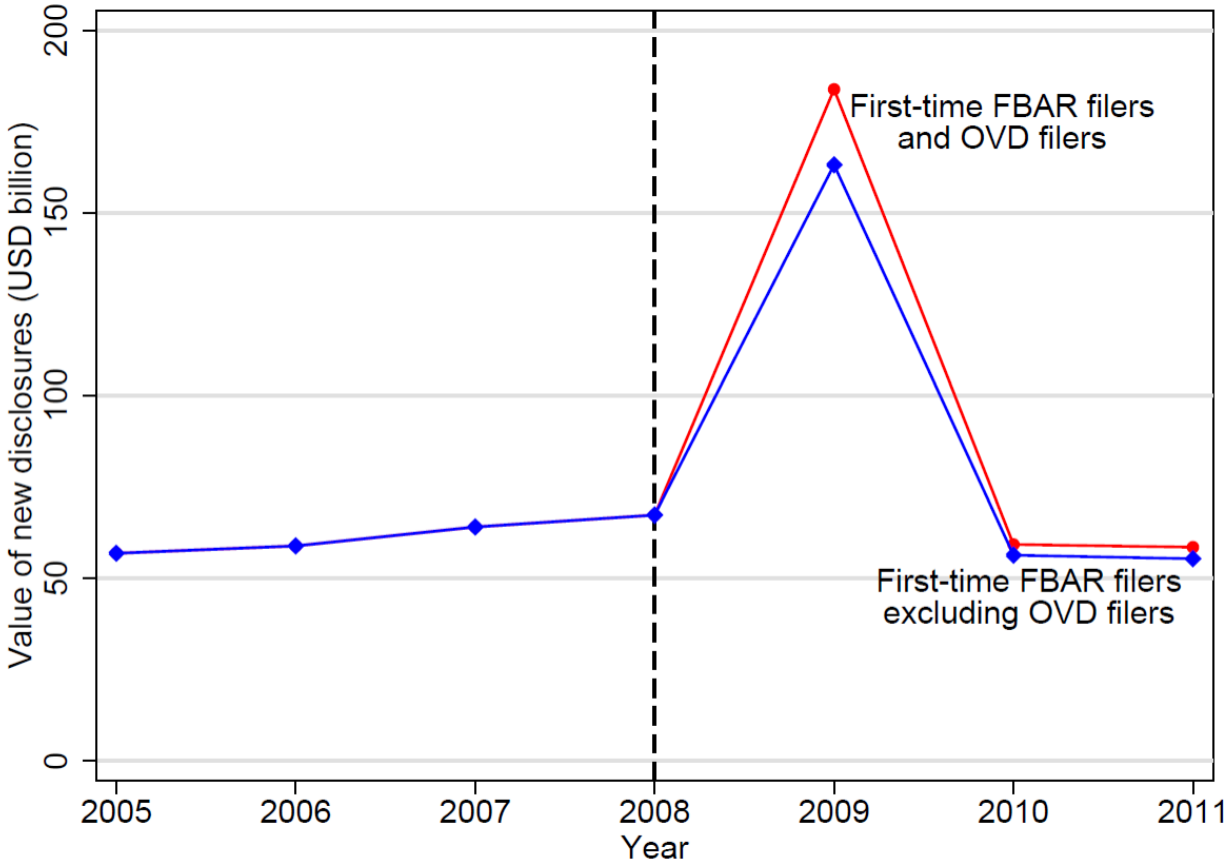


New Disclosers of Foreign Accounts

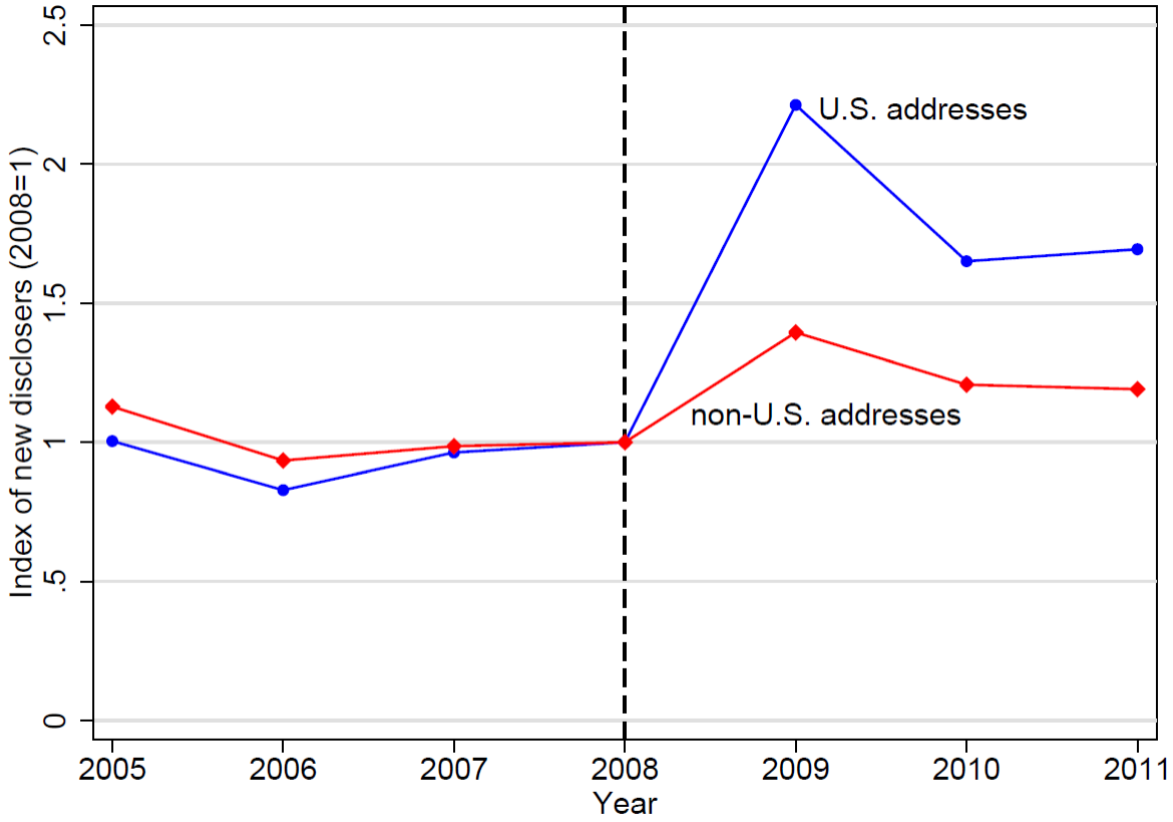


Note: First-time FBAR filers with a foreign address are excluded.

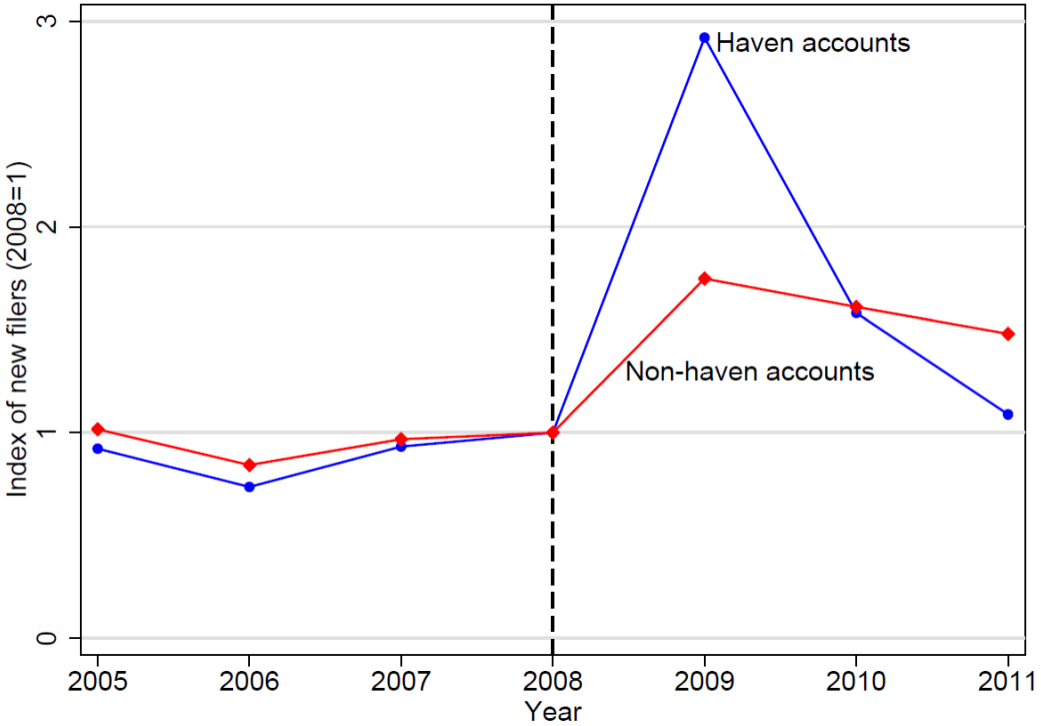
Total Value of Accounts Disclosed



First-time FBAR filers, U.S. vs non-U.S. addresses, normalized



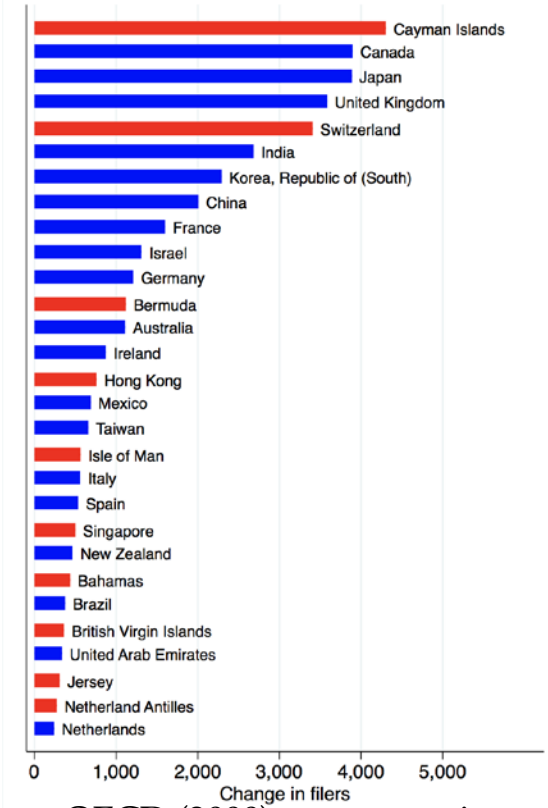
New U.S., non-OVD, FBAR Filers: Havens vs Non-Havens, Normalized



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

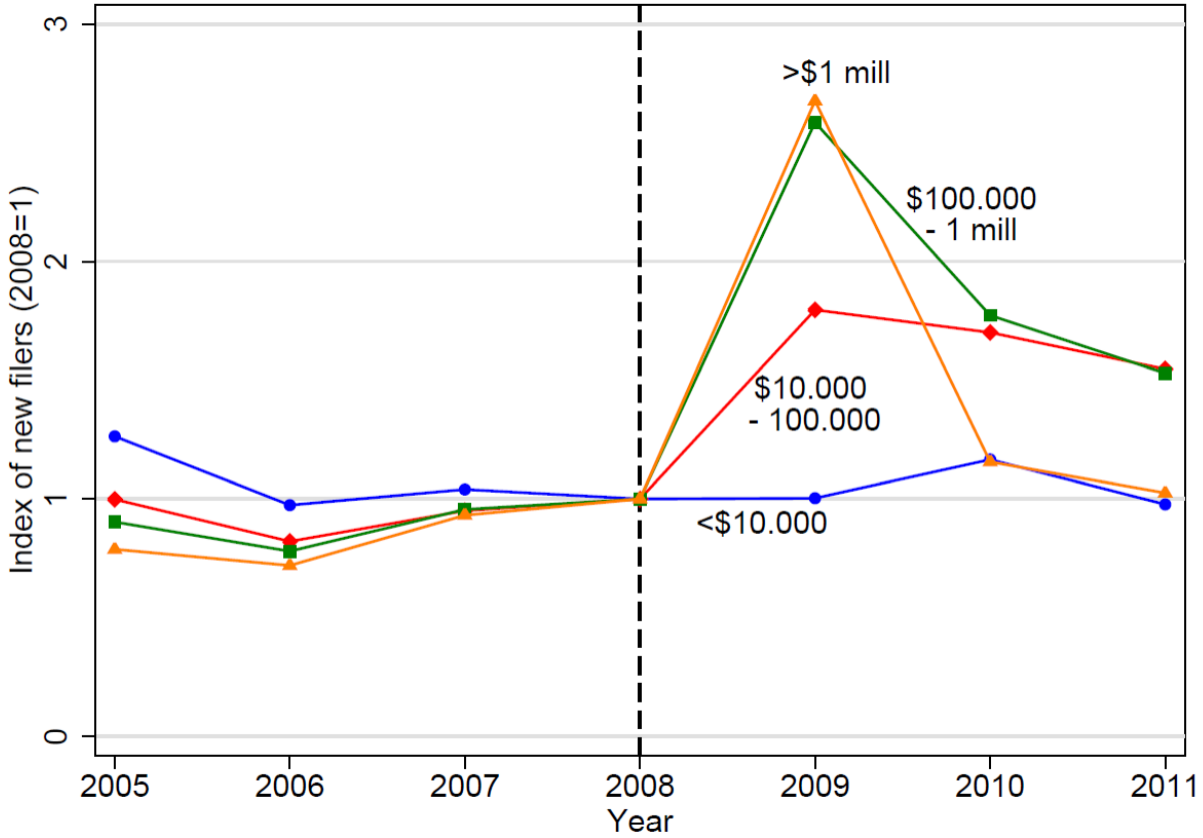
Level Difference



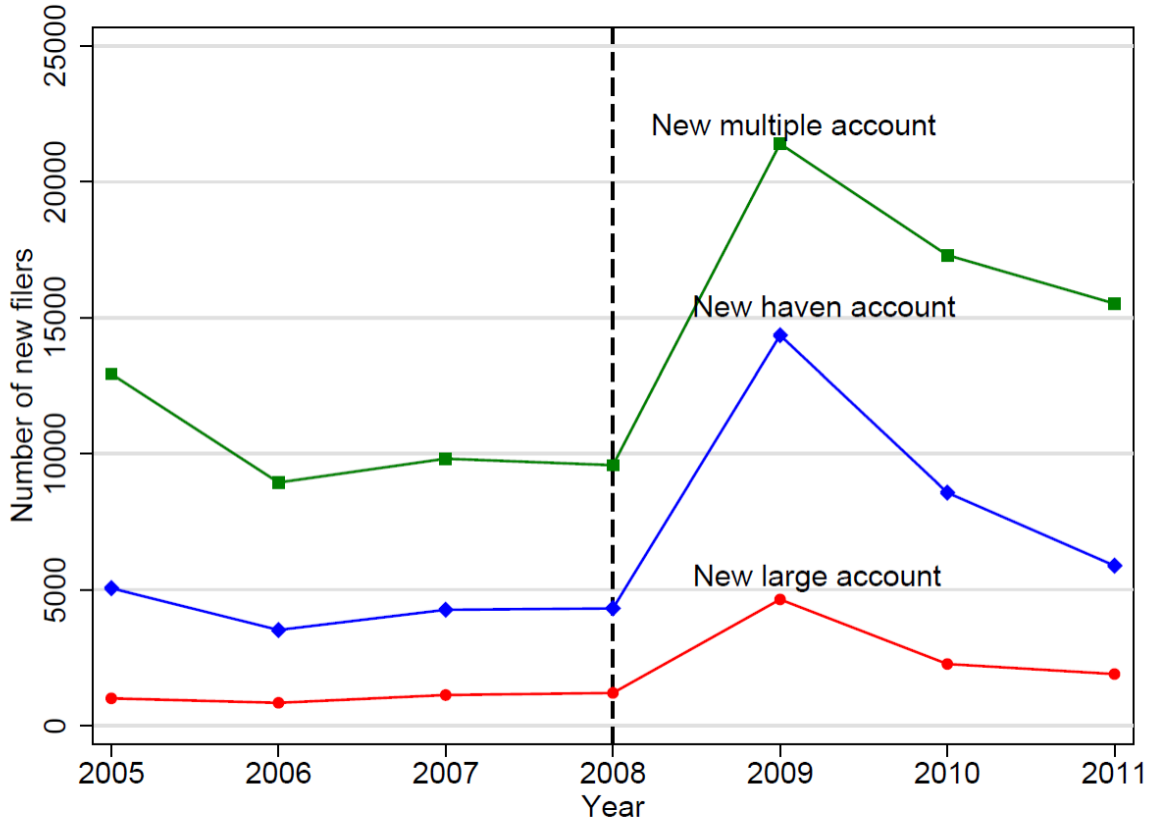
Percent difference from 2008

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 prosecuation 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

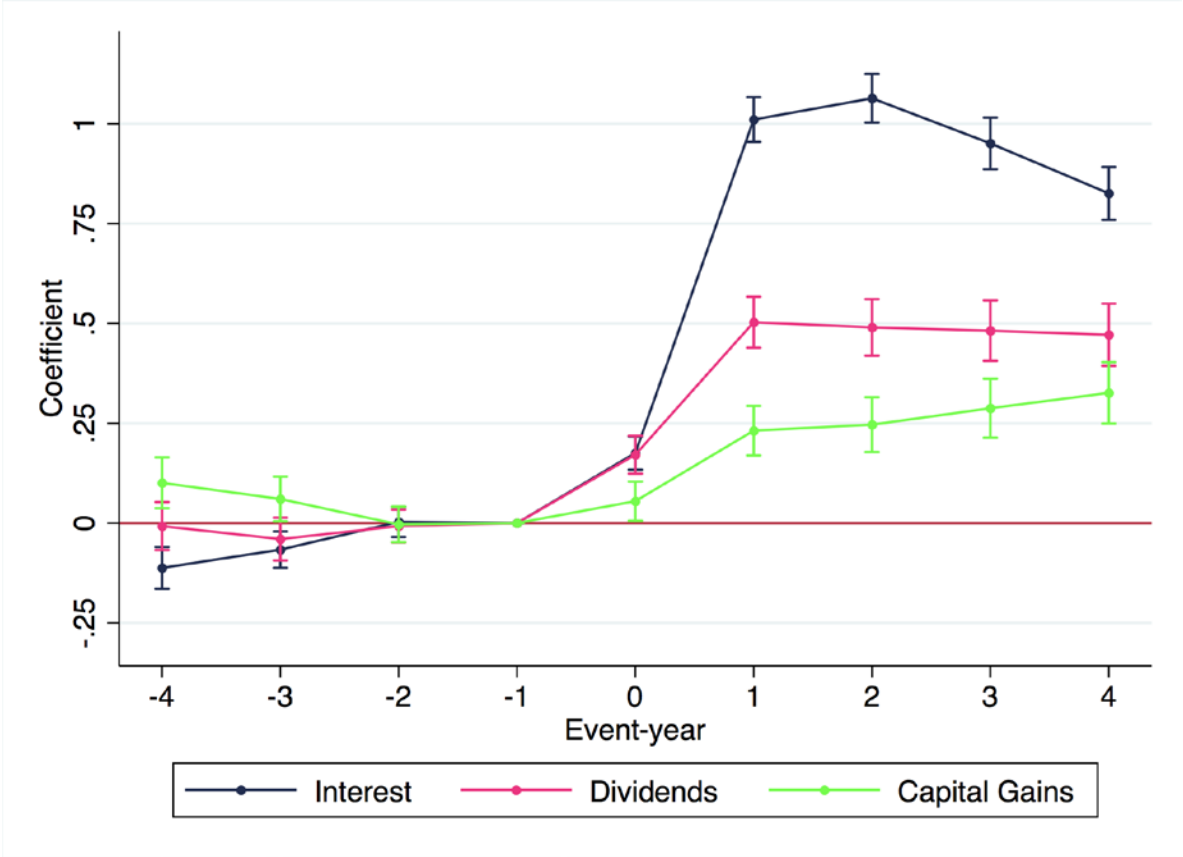
Results Part 2: Did Reported Income Increase?

- **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)

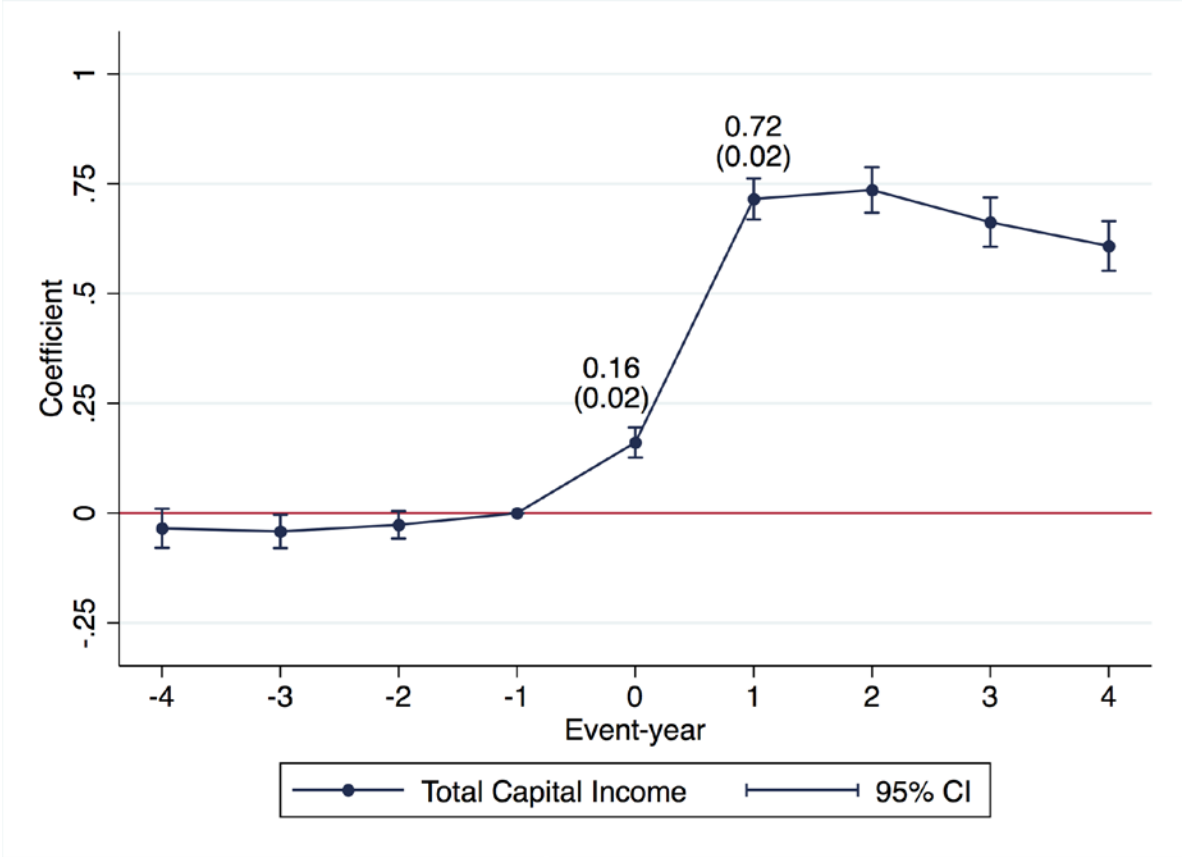
- **Two sets of results:**
  - Compliance effect *within* OVD for participants in OVD
  - Compliance effect *outside* OVD for non-participants

Event Studies: OVD Participants, Financial Capital Income

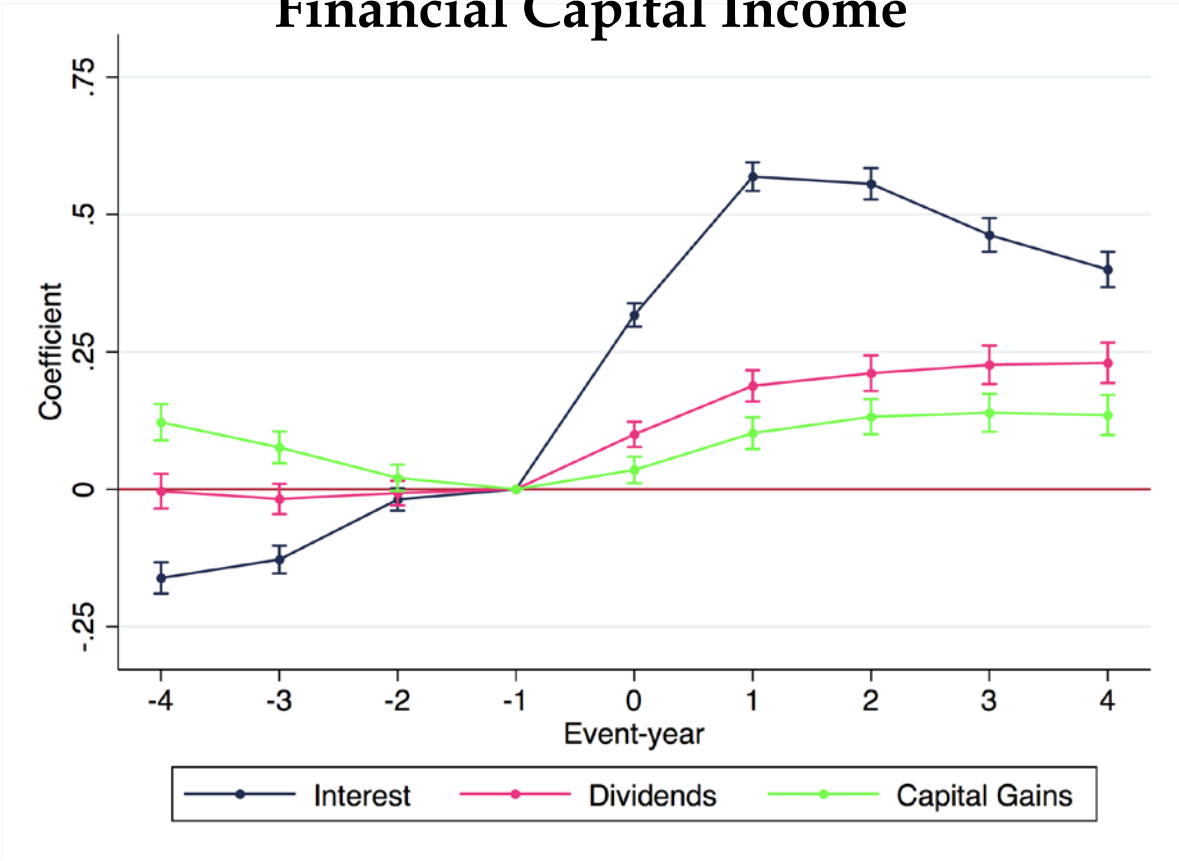


Event Studies: OVD Participants, Other Income

Event Studies: OVD Participants, Total Financial Capital Income

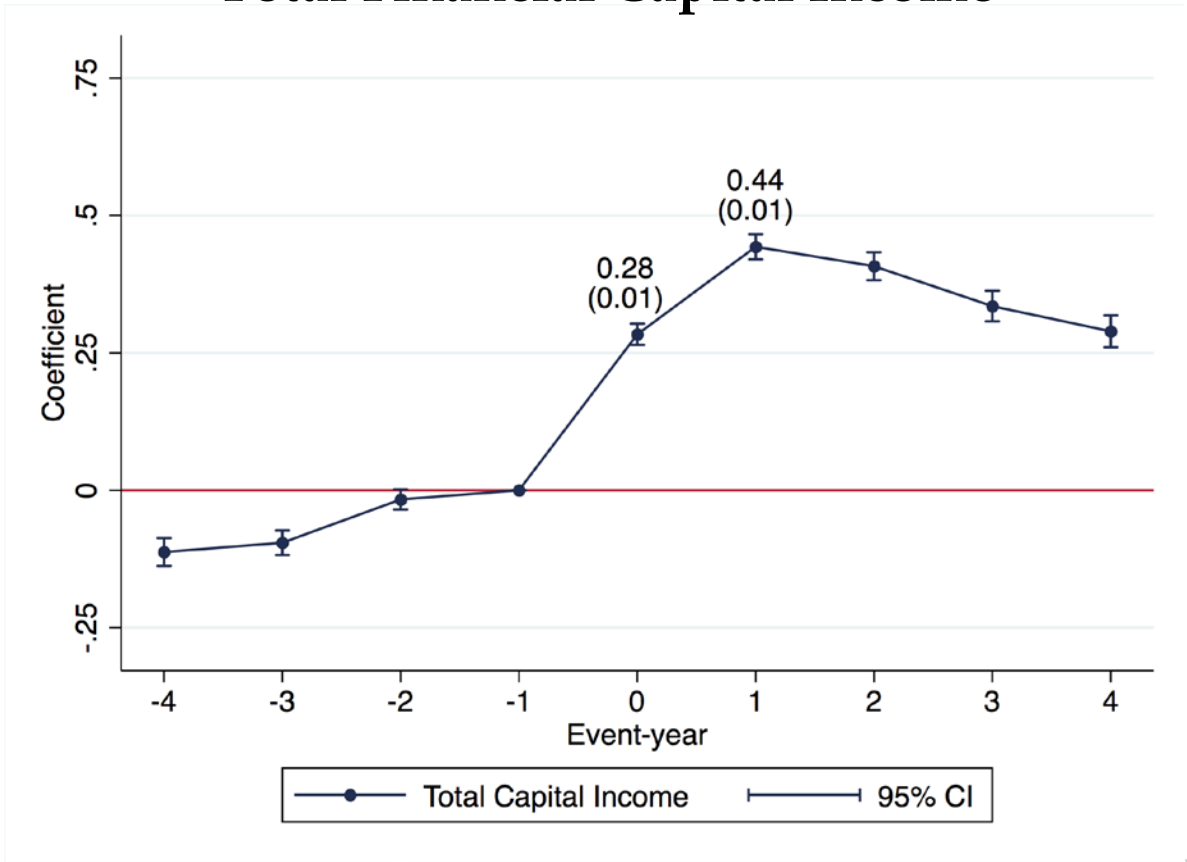


Event Studies: First-time FBAR Filers Outside OVD, Financial Capital Income

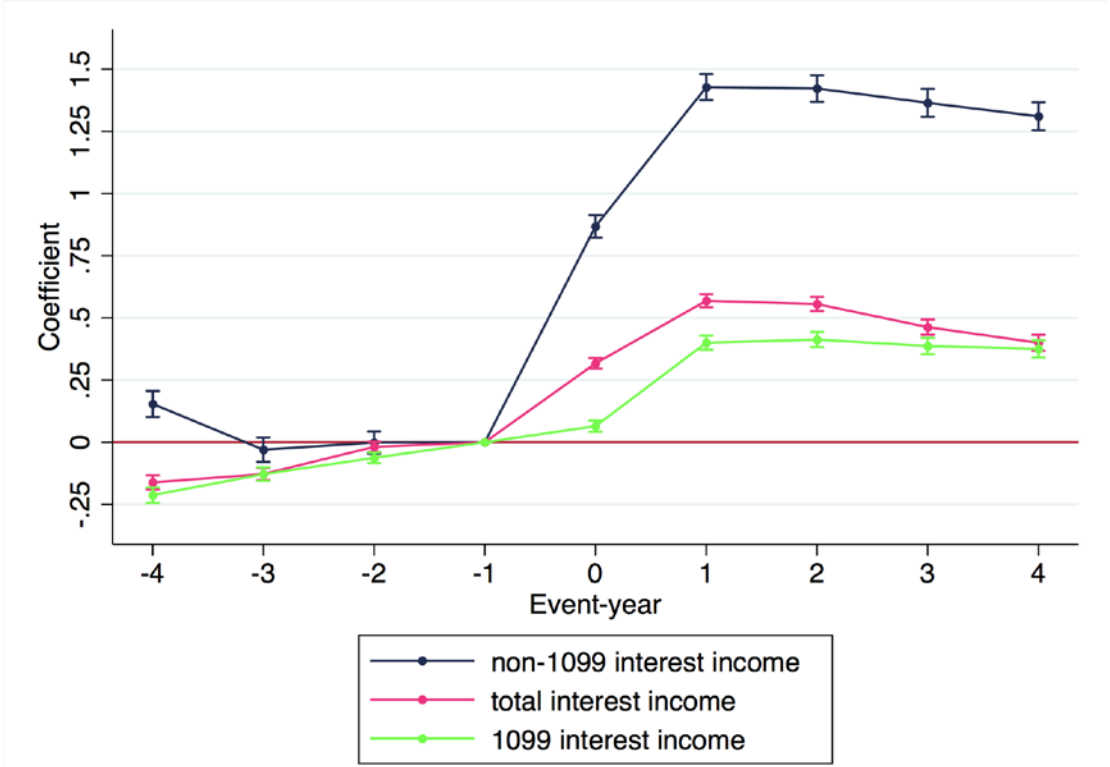


Event Studies: First-time FBAR Filers Outside OVD, Other Income

Event Studies: First-time FBAR Filers Outside OVD, Total Financial Capital Income

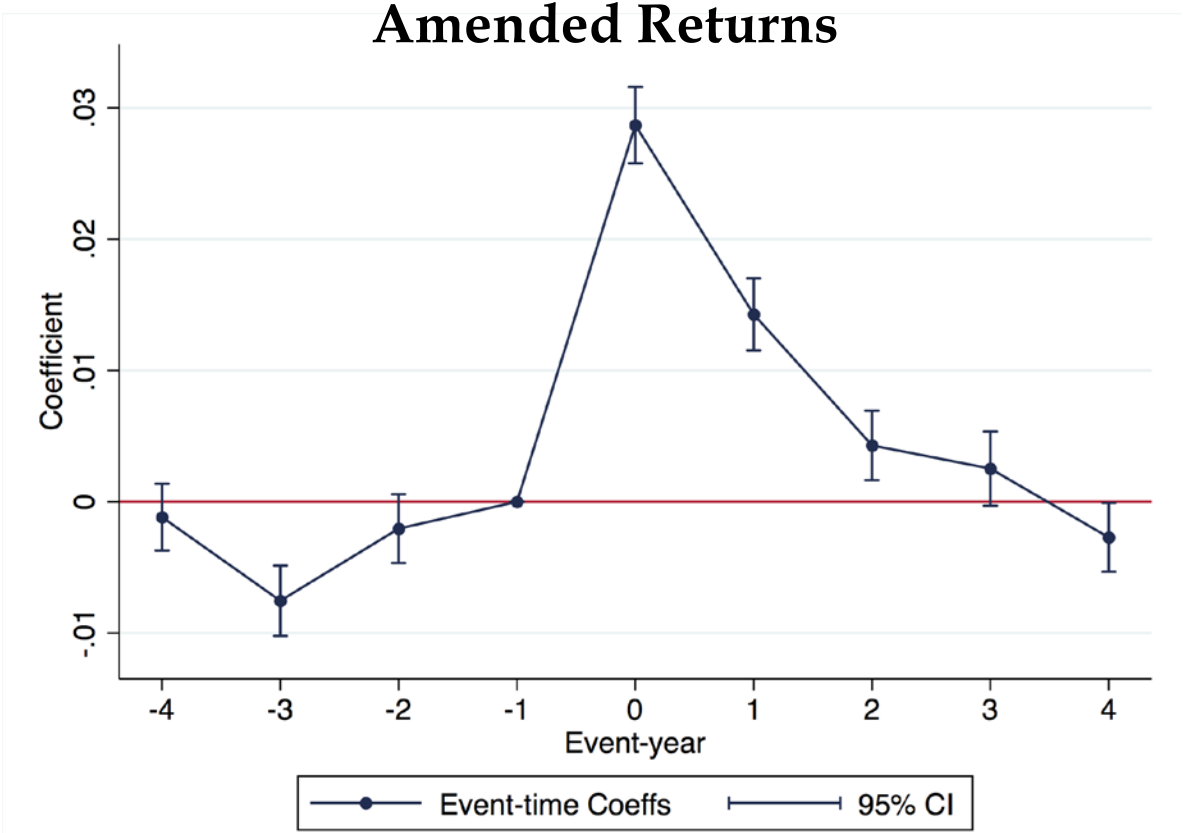


Event Studies: First-time FBAR Filers Outside OVD, Domestic vs Other Interest Income



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)	$E[d_{i*}r_i]$	$E[r_i \mid d=1]$	$Pr[d_i=1]$
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

	Change in Total Reported Capital Income (millions)	Revenue Estimate (millions)
OVD Participants		
Direct Method	597	158
Indirect Method	438	116
First-Time Filers		
Direct Method	3,275	911
Indirect Method	2,095	583
Total		
Direct Method	3,872	1,069
Indirect Method	2,533	699

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

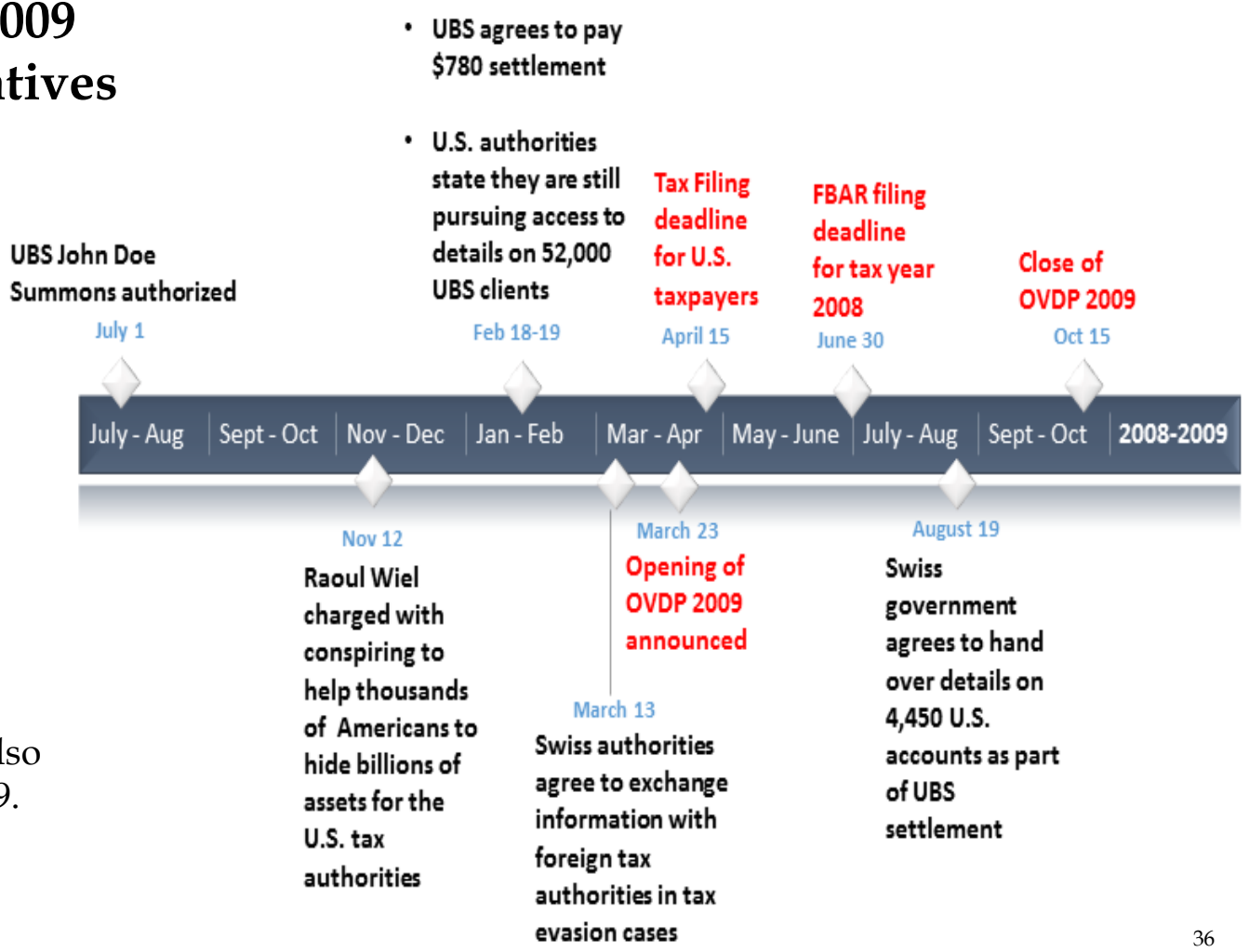
- Main finding: significant compliance responses

- 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.

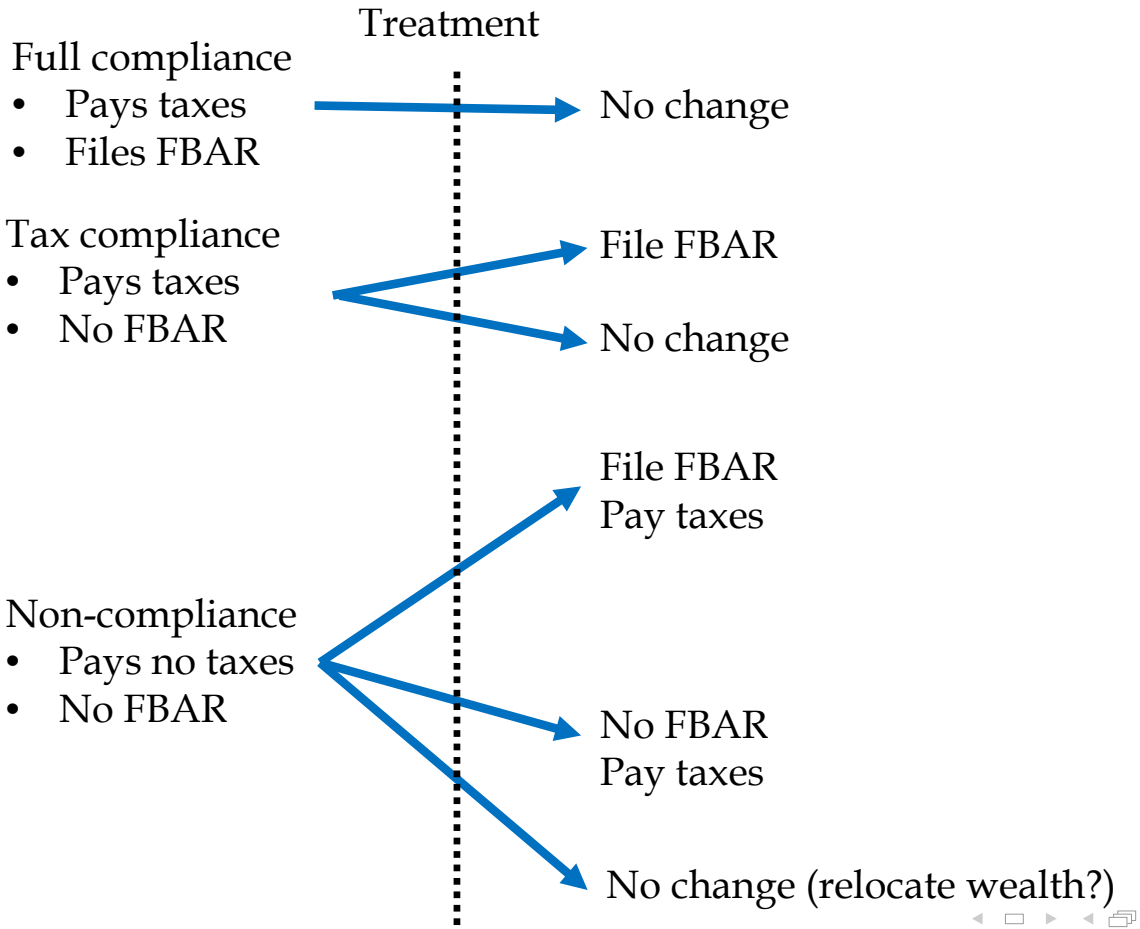
- Disclosures were accompanied by increases in reported financial capital income on tax returns.
    - $2.4-$4 billion in reported income in total.
    - $0.7-$1.0 billion in annual tax revenue.

Timeline of 2008-2009 Enforcement Initiatives

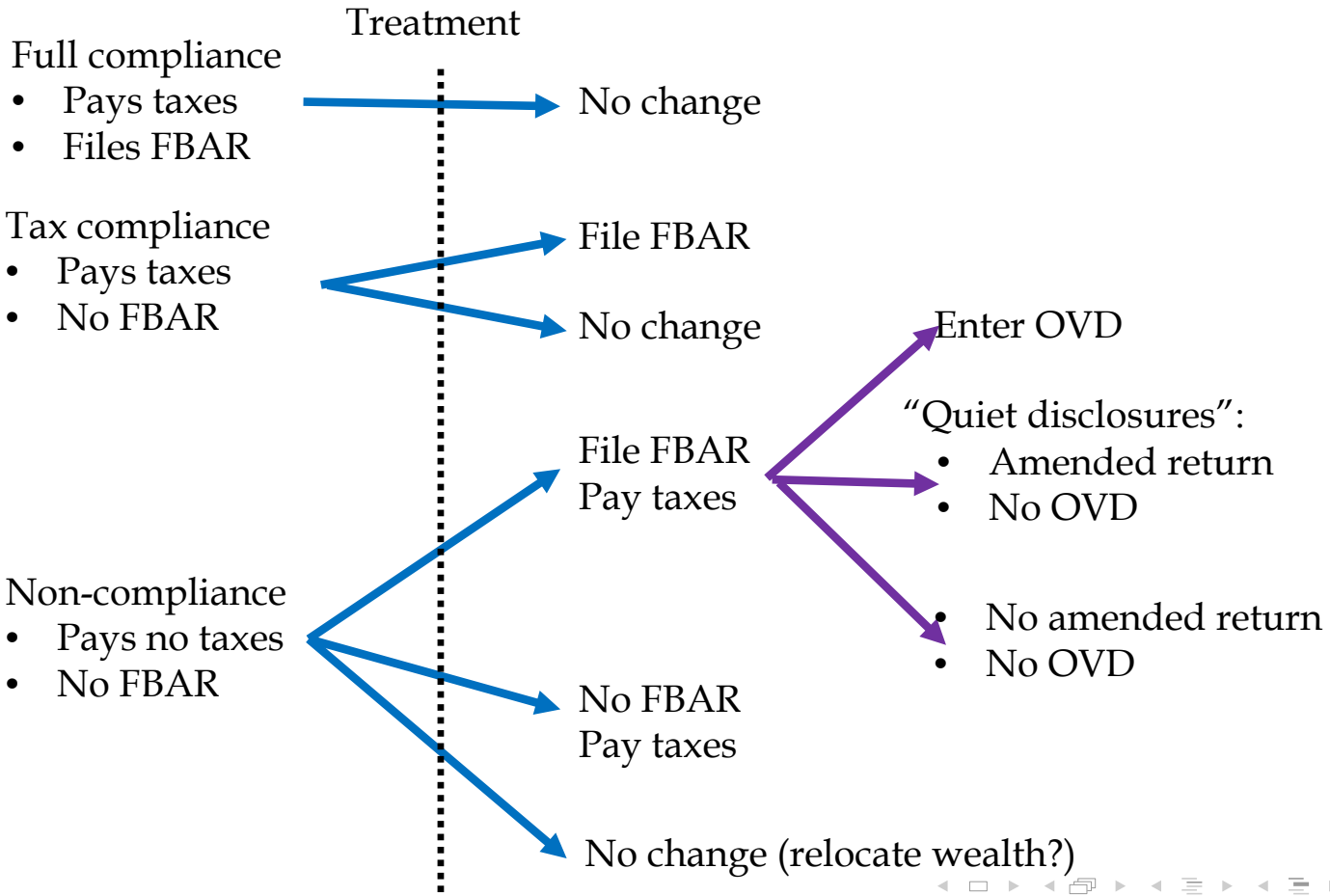
- Information exchange treaties with Malta, Liechtenstein, Luxembourg, Monaco also signed in late 2008 - 2009.



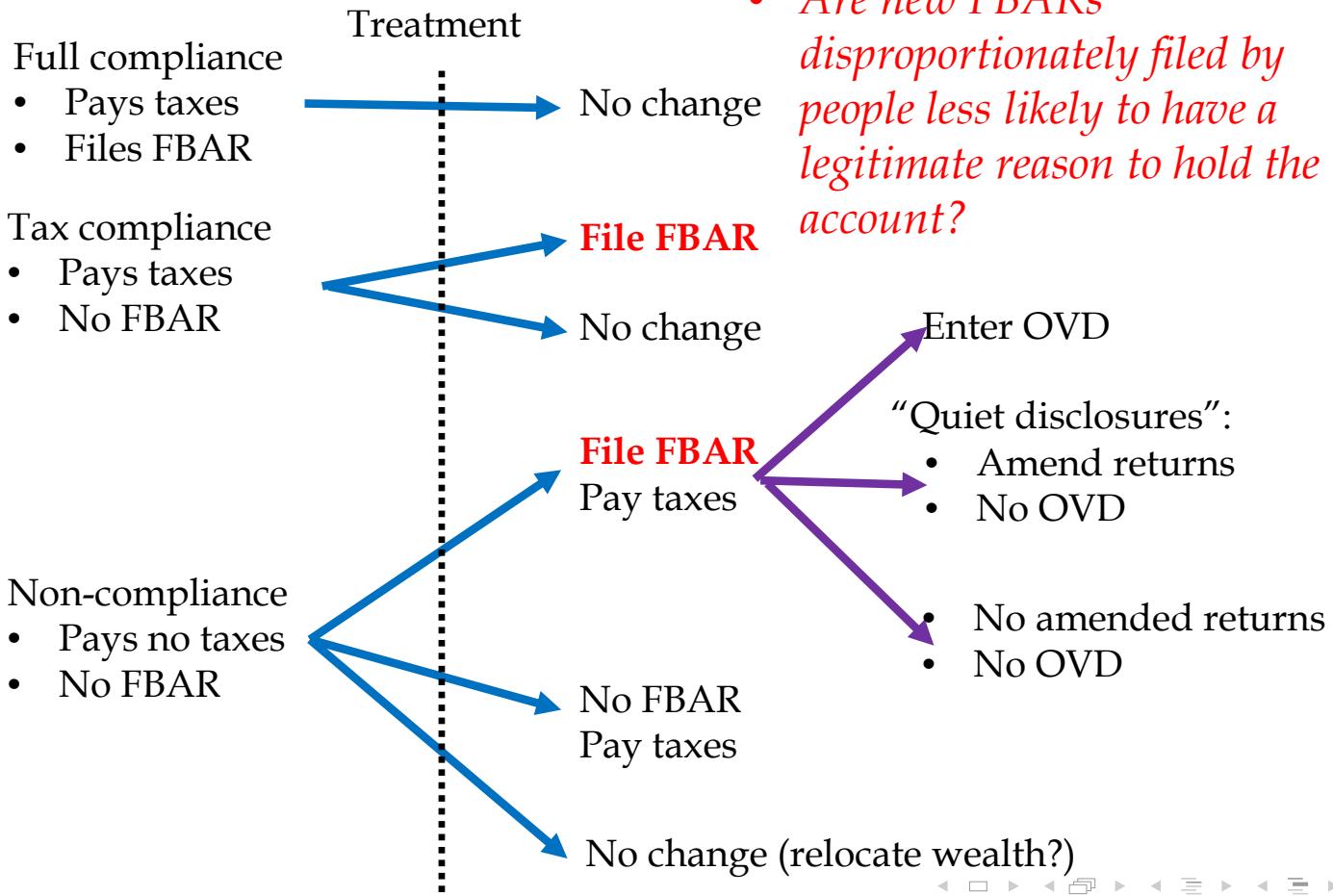
Conceptual Framework



Conceptual Framework

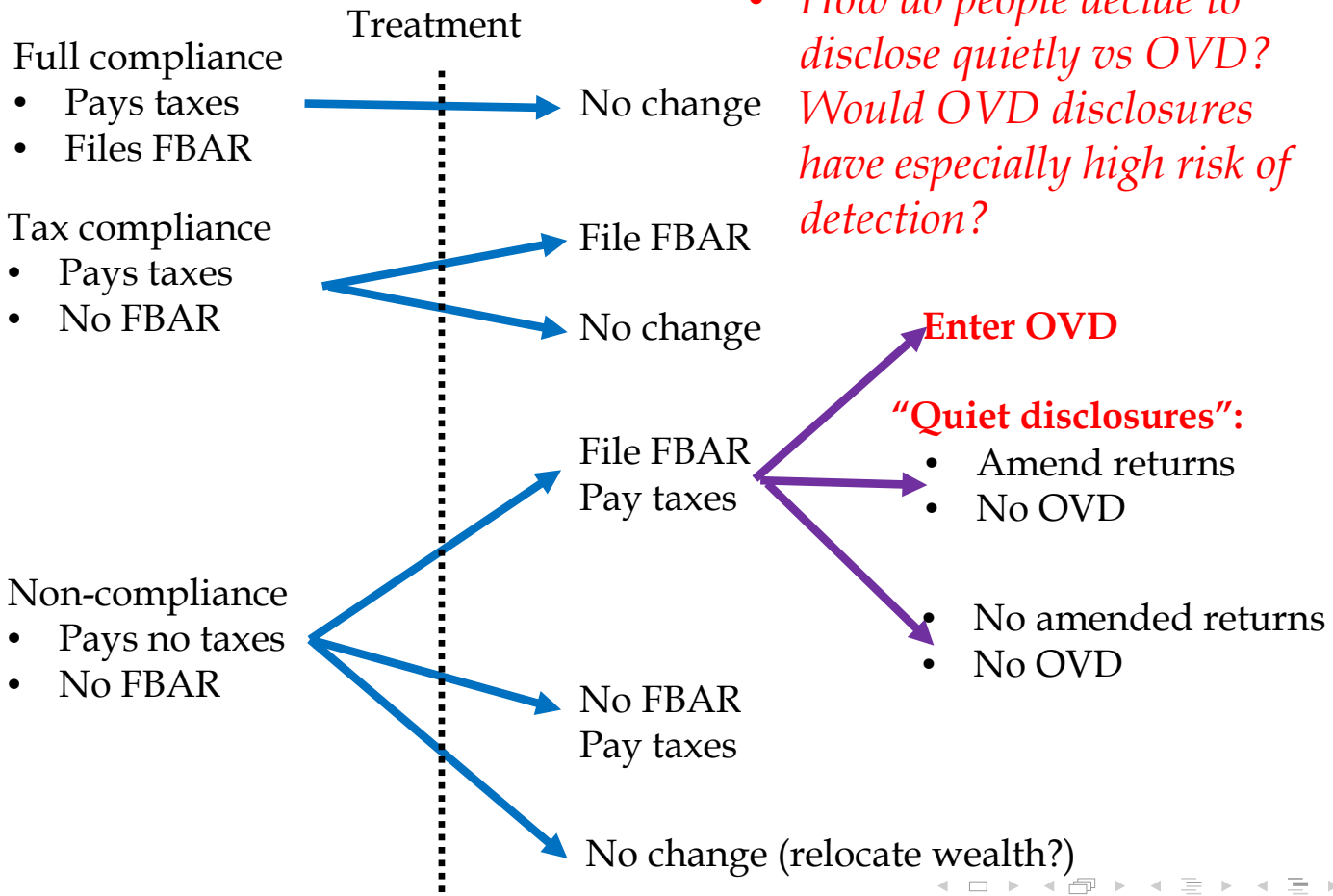


Conceptual Framework



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

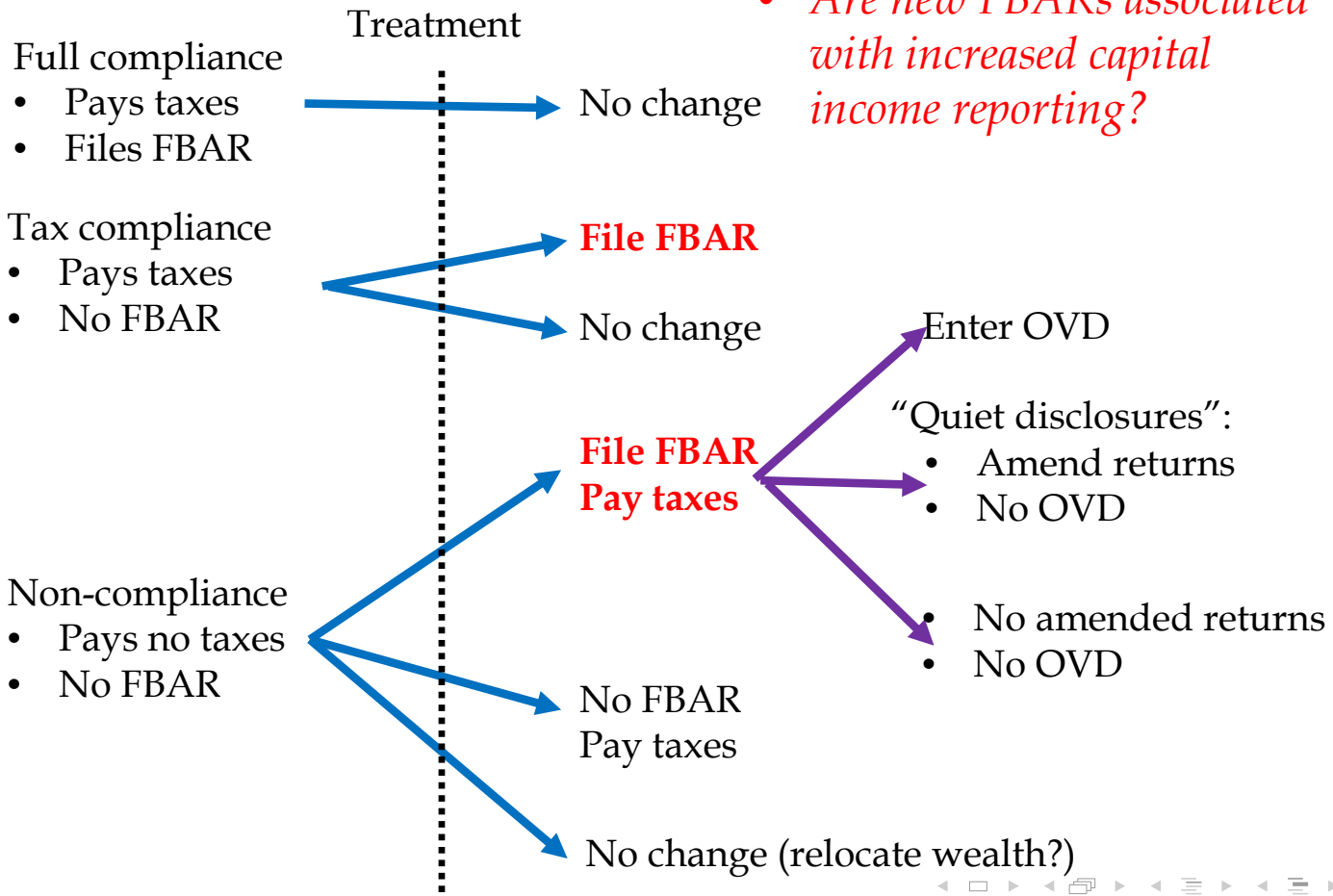
Conceptual Framework



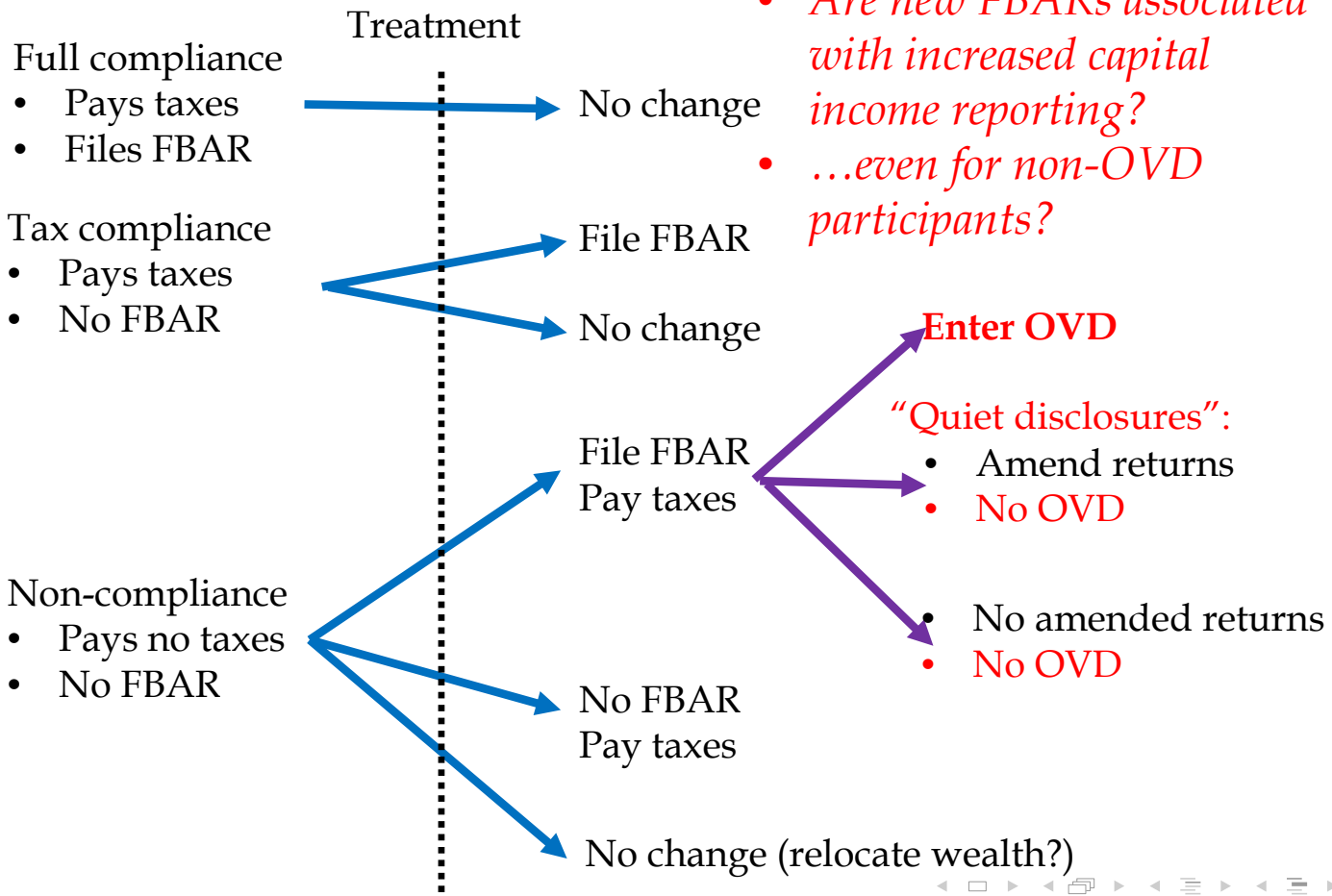
- *How do people decide to disclose quietly vs OVD? Would OVD disclosures have especially high risk of detection?*

Conceptual Framework

- *Are new FBARs associated with increased capital income reporting?*



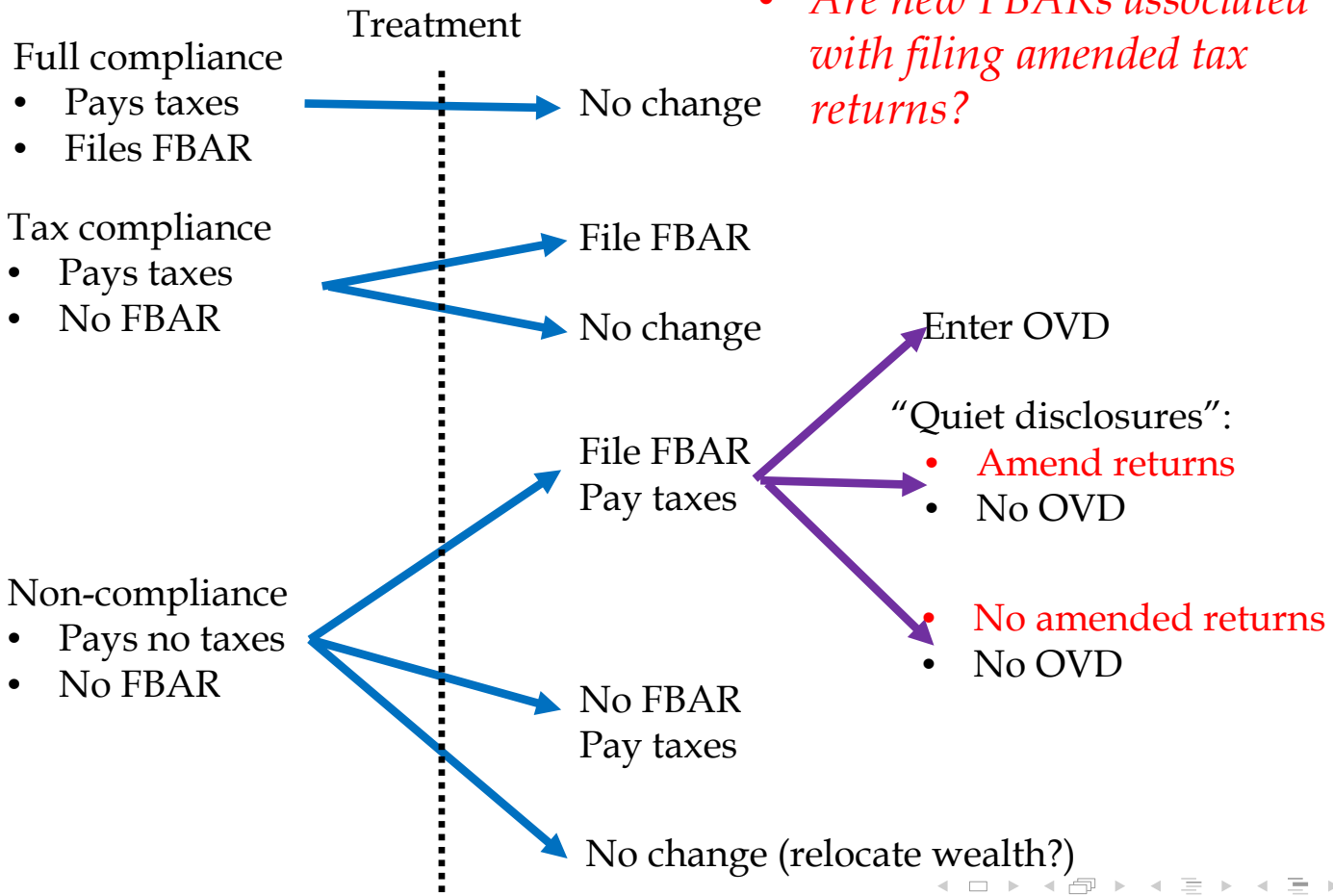
Conceptual Framework



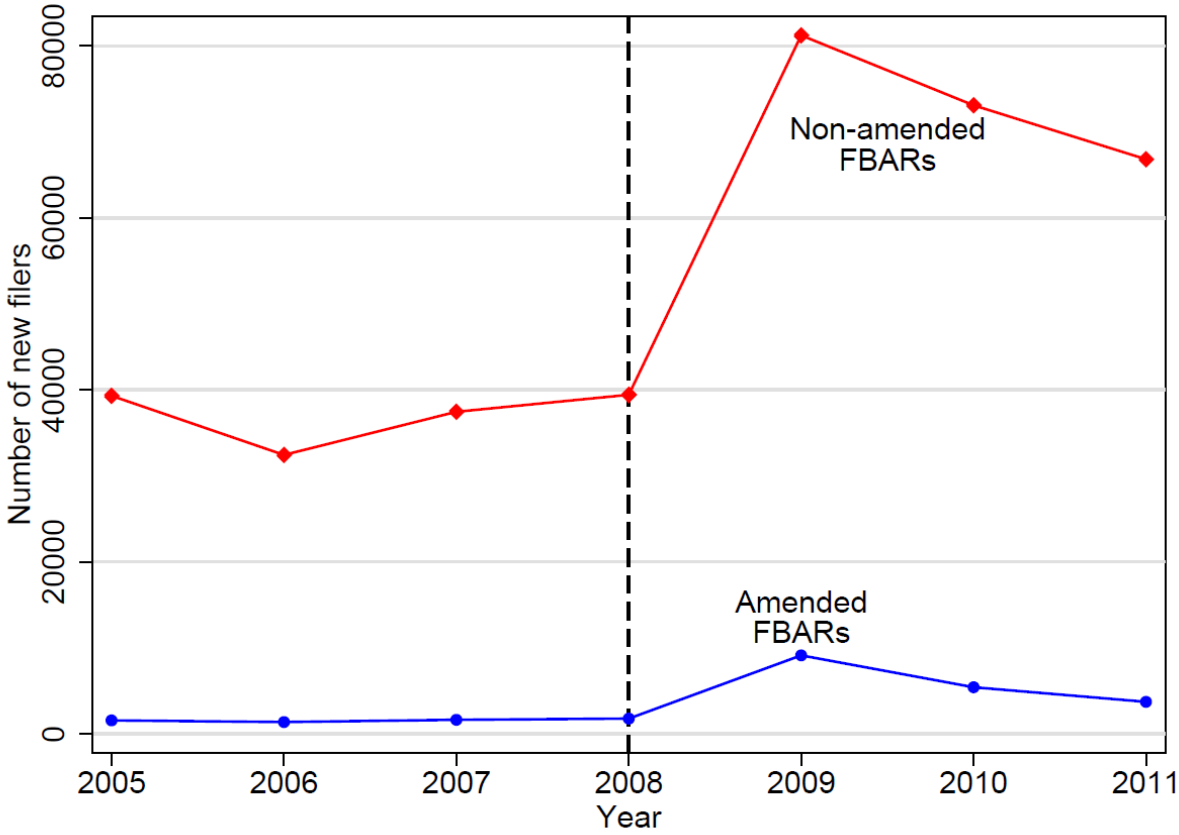
- *Are new FBARs associated with increased capital income reporting?*
- *…even for non-OVD participants?*

Conceptual Framework

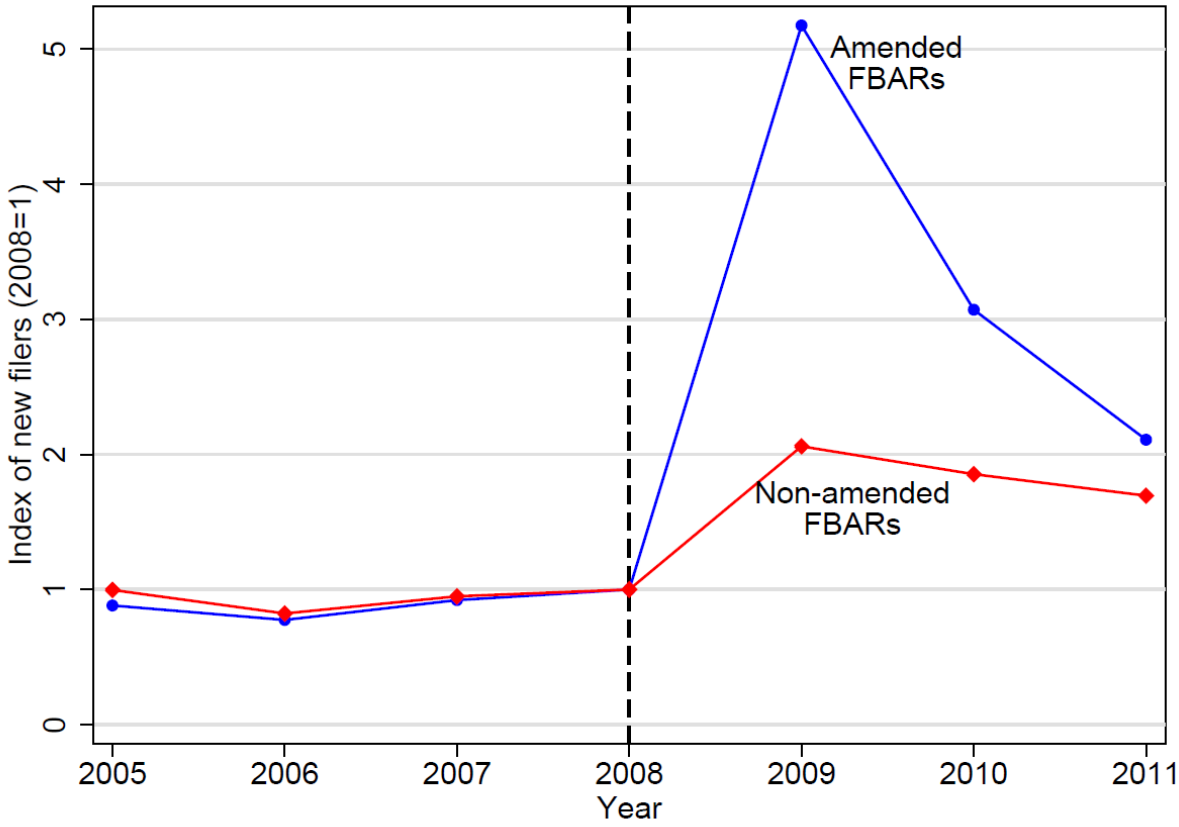
- *Are new FBARs associated with filing amended tax returns?*



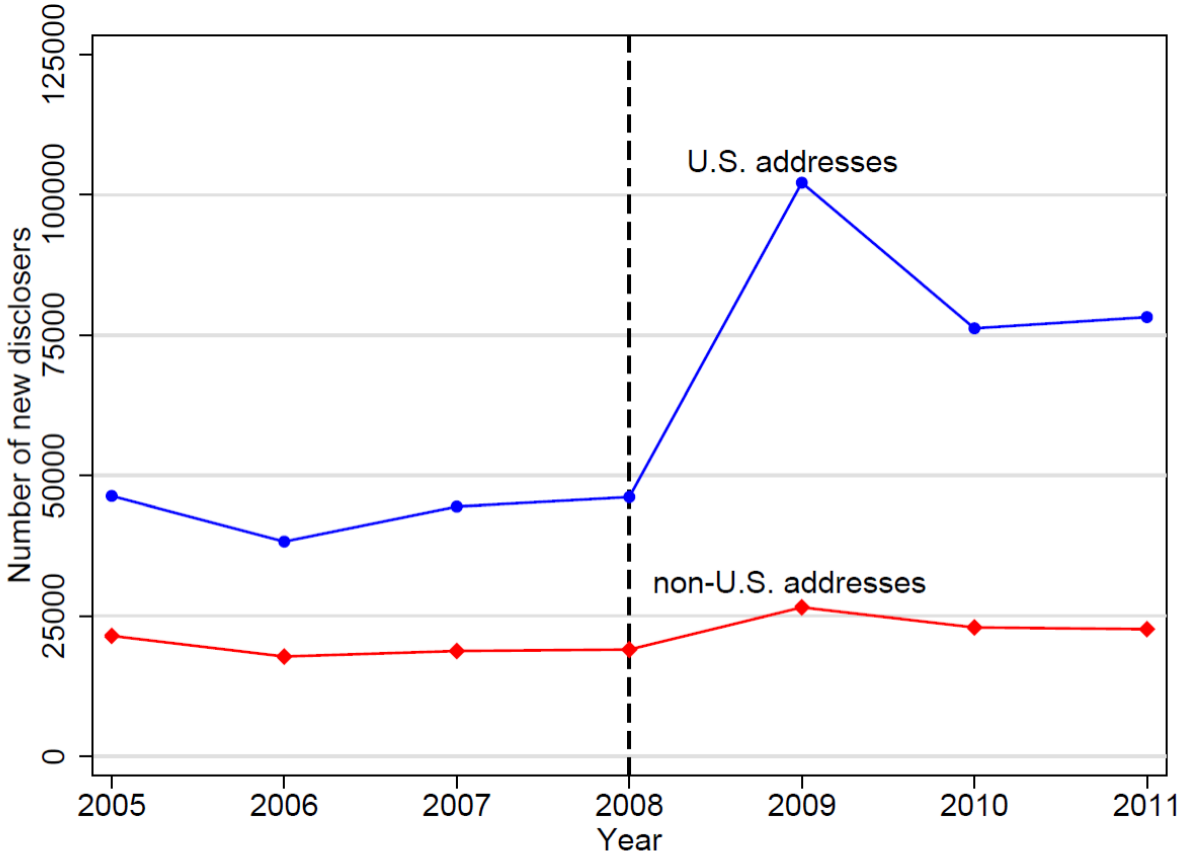
New U.S., non-OVD, FBAR Filers: Amended FBARs



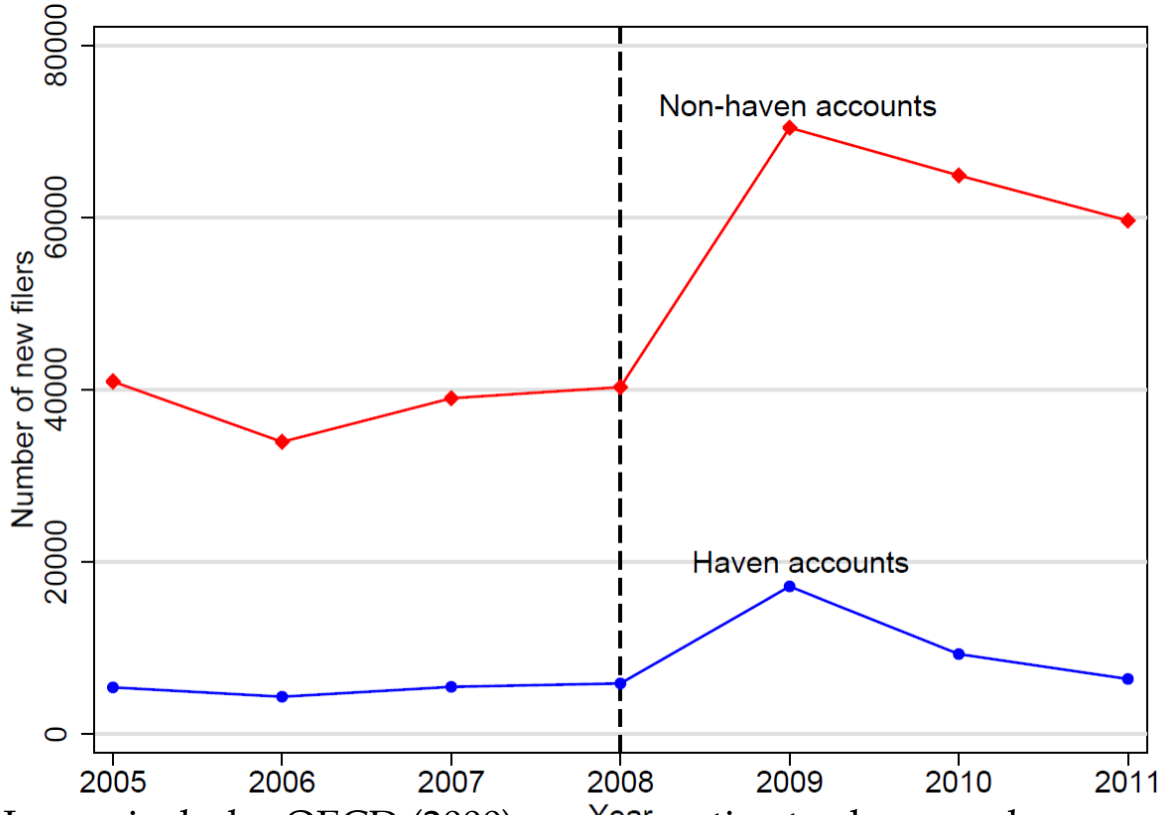
New U.S., non-OVD, FBAR Filers: Amended FBARs, normalized



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

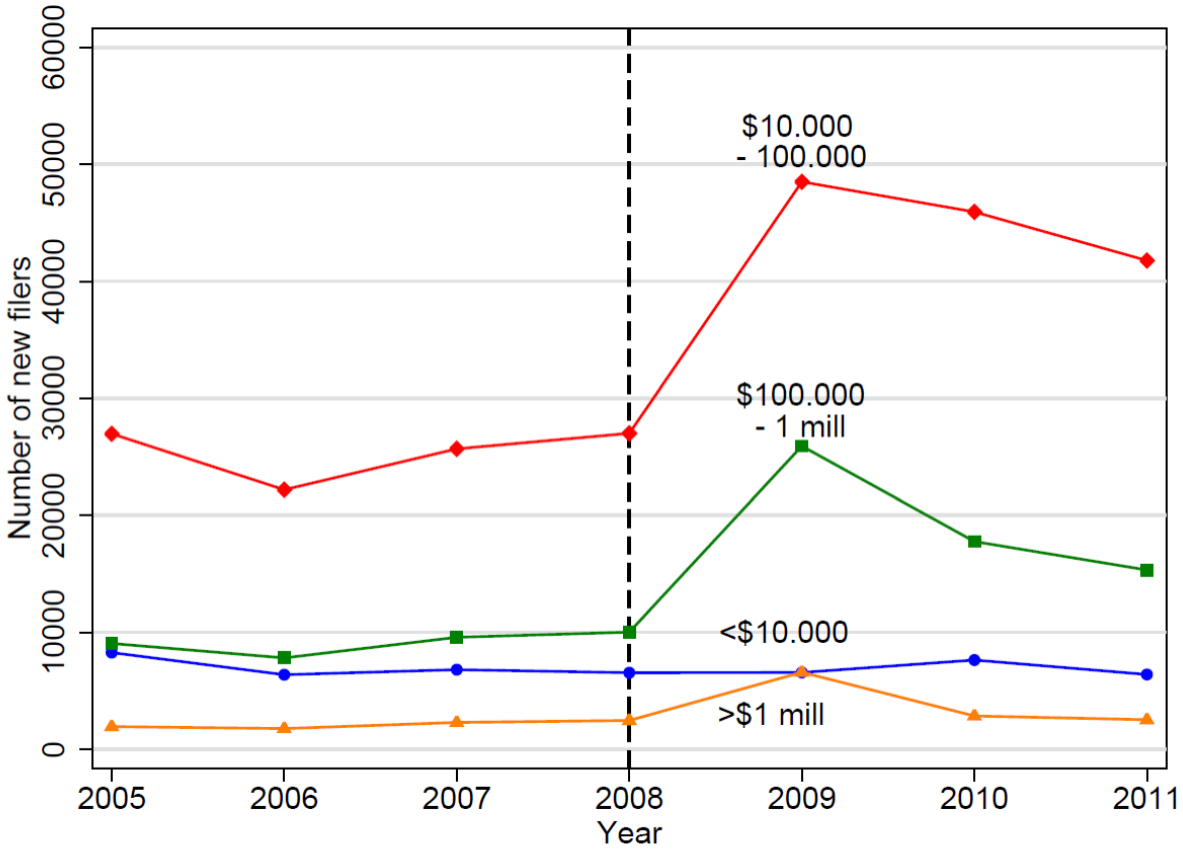


New U.S., non-OVD, FBAR Filers: Havens vs Non-Havens

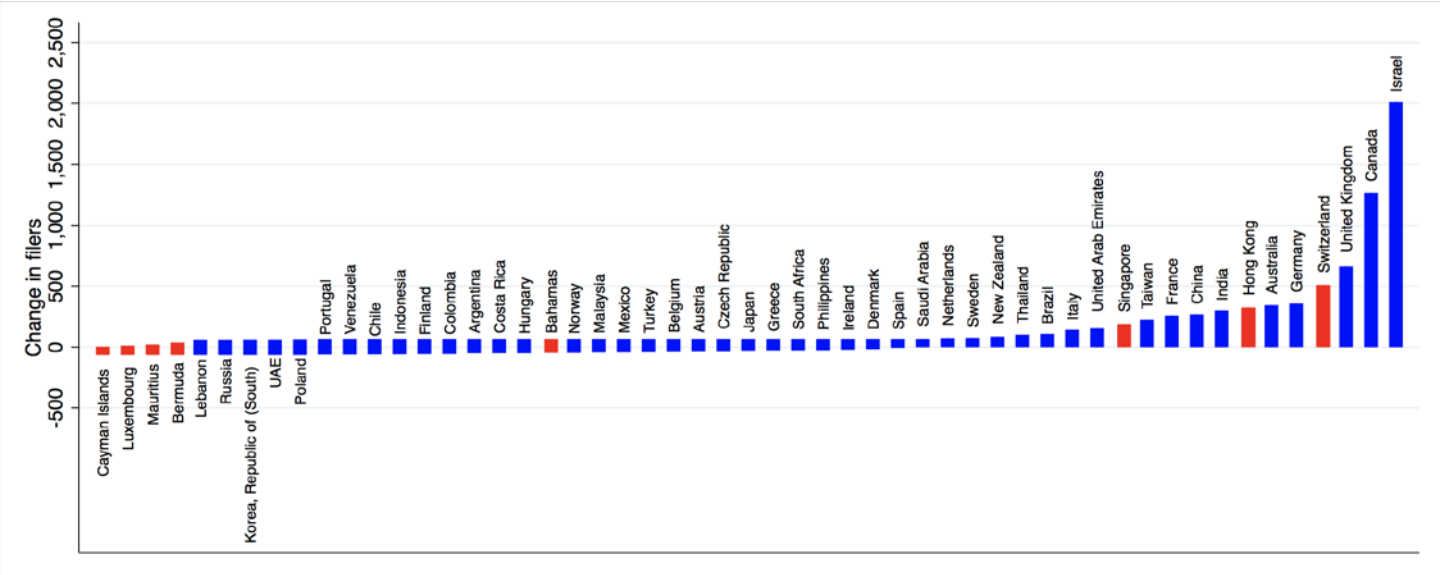


Note: Havens includes OECD (2000) uncooperative tax havens plus Switzerland, Singapore, Hong Kong and Luxembourg

New U.S., non-OVD, FBAR Filers: by Account Value



New *Same-Country* Address FBAR Filers: Change from 2008-2009 by Country



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

Quiet Disclosures versus OVD

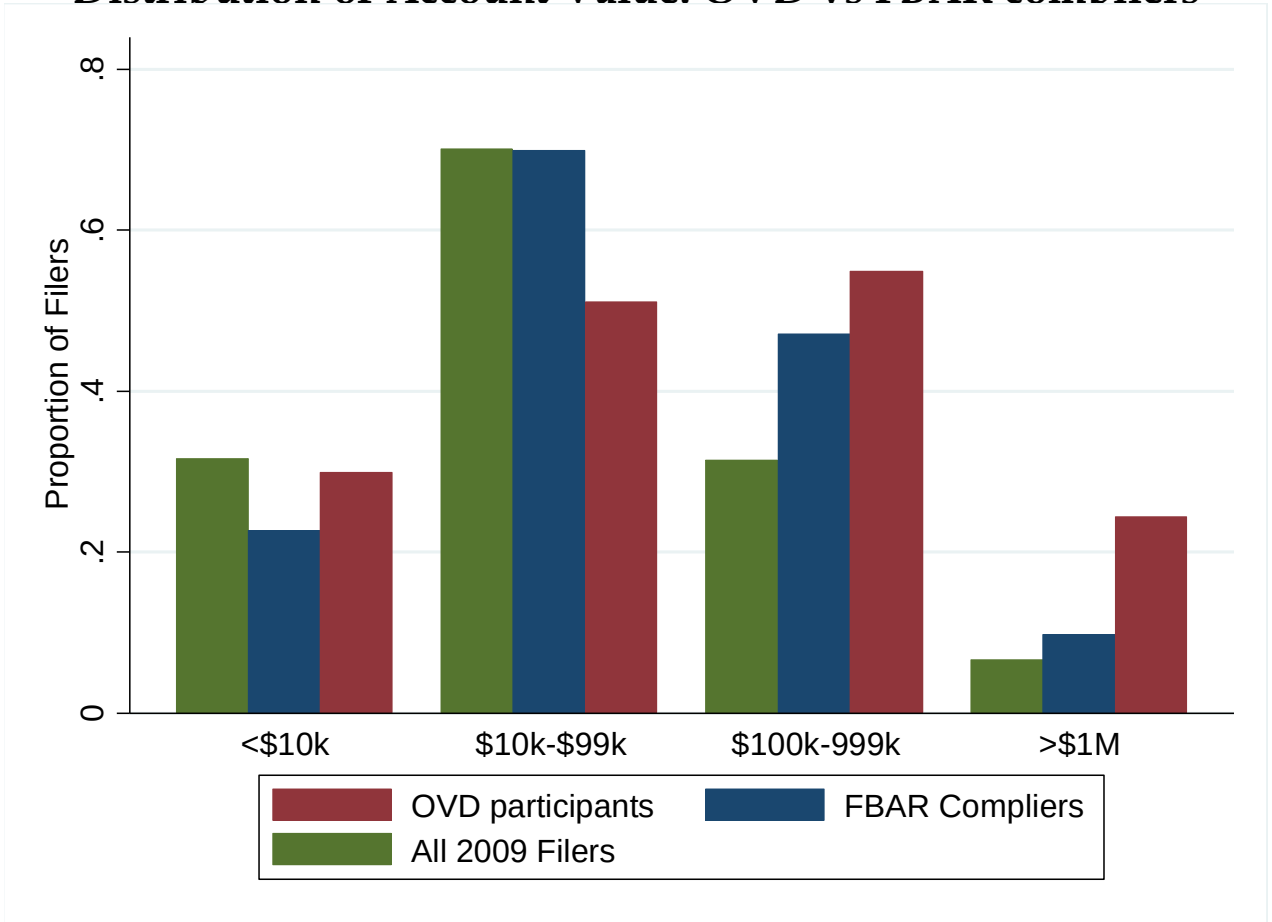
- Question: Why disclose quietly instead of via OVD?

- 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.

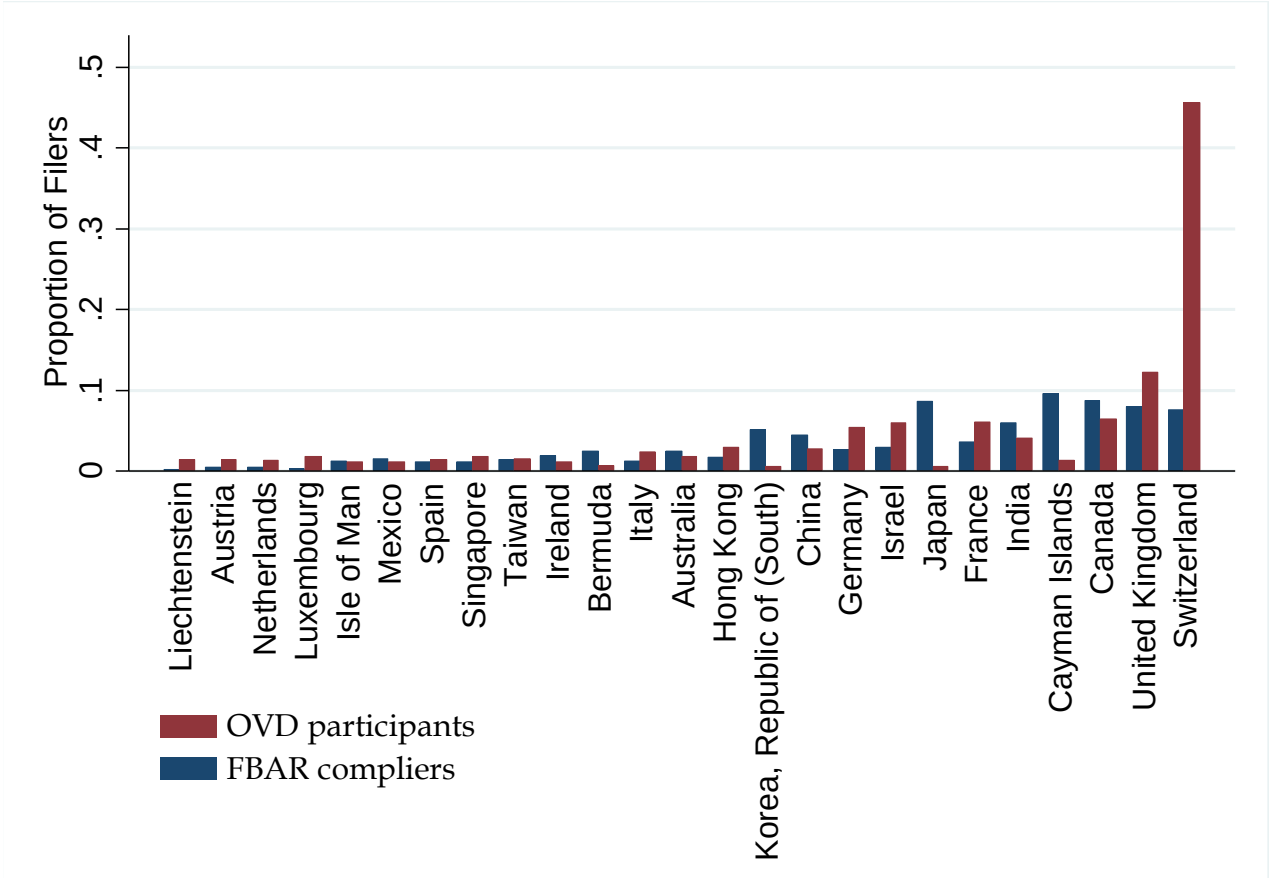
- Problem: how to get the distribution of account/taxpayer characteristics for quiet disclosures

- 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



Distribution of Account Country: OVD vs FBAR compliers



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

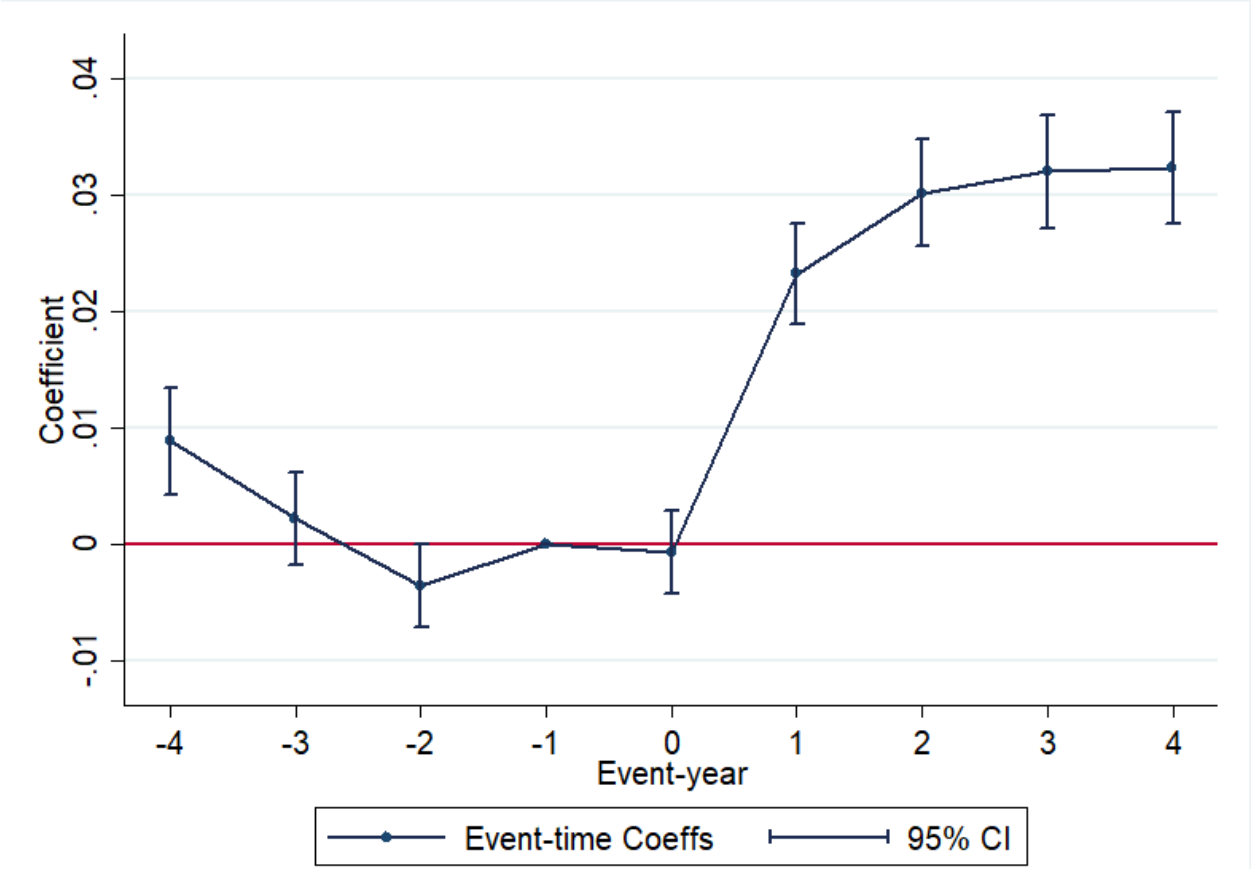
OVD Participants

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

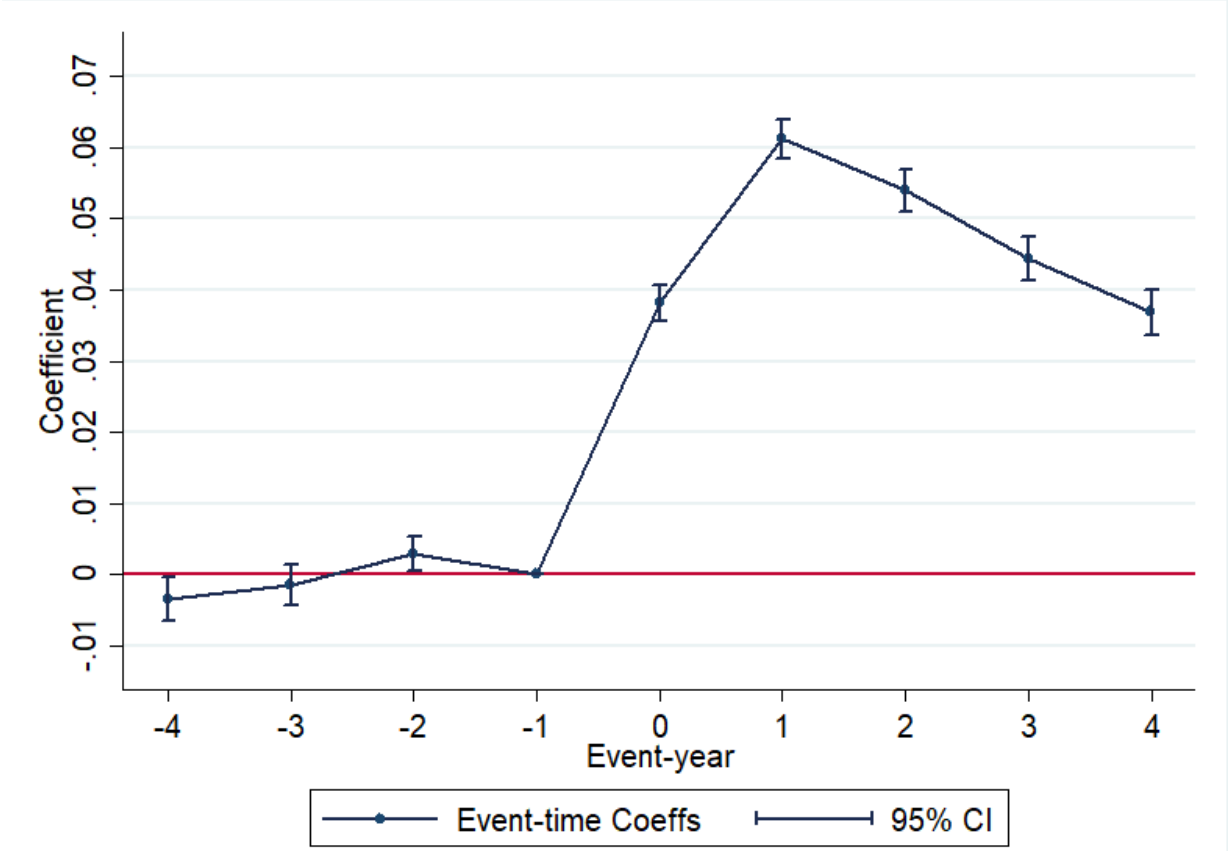
First-time Filers

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

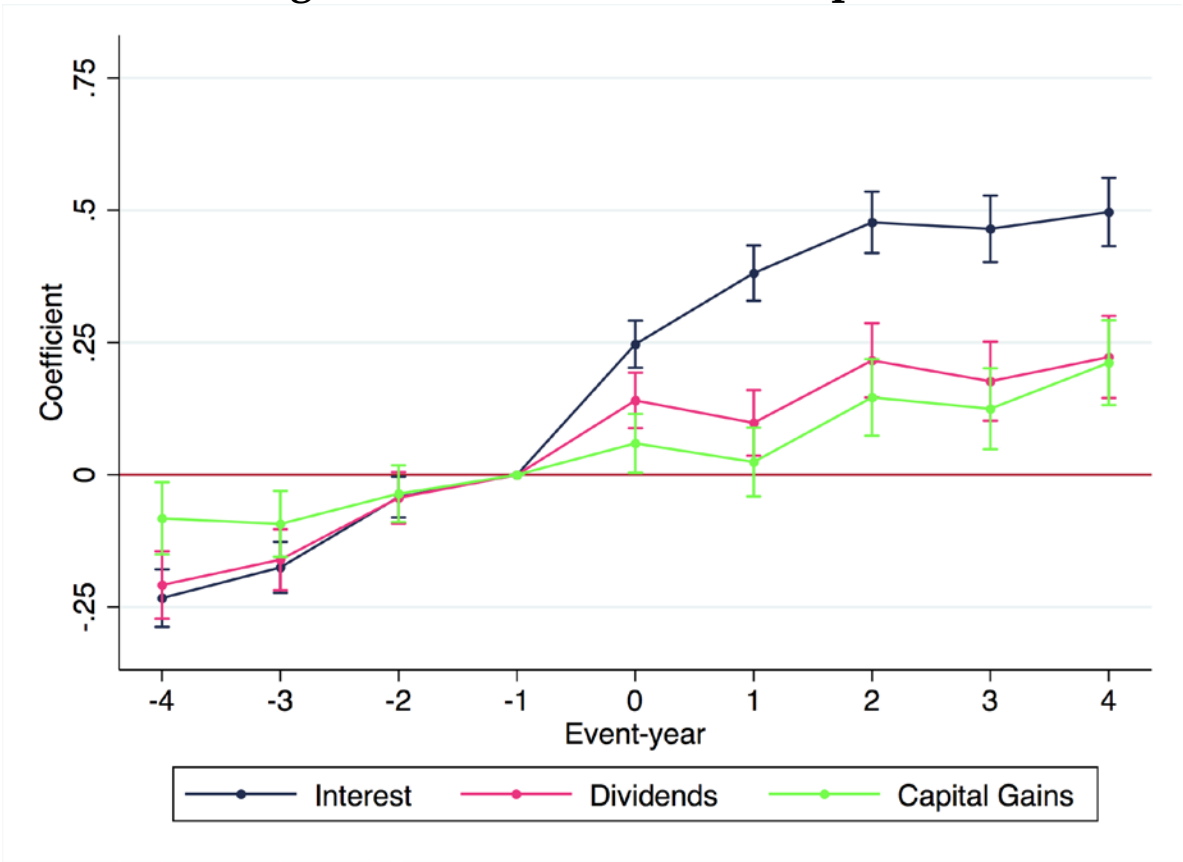
Event Studies: OVD Participants, Probability of Reporting Positive Capital Income (LPM)

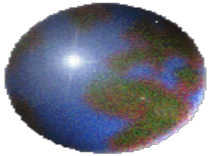


Event Studies: First-time FBAR Filers Outside OVD, Probability of Reporting Positive Capital Income (LPM)



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

		Taxable Income Elasticity	
		High	**Low**
Enforcement elasticity	**High**	Enforcement actions effective	Ambiguous
	Low	Ambiguous	Rate change effective

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])

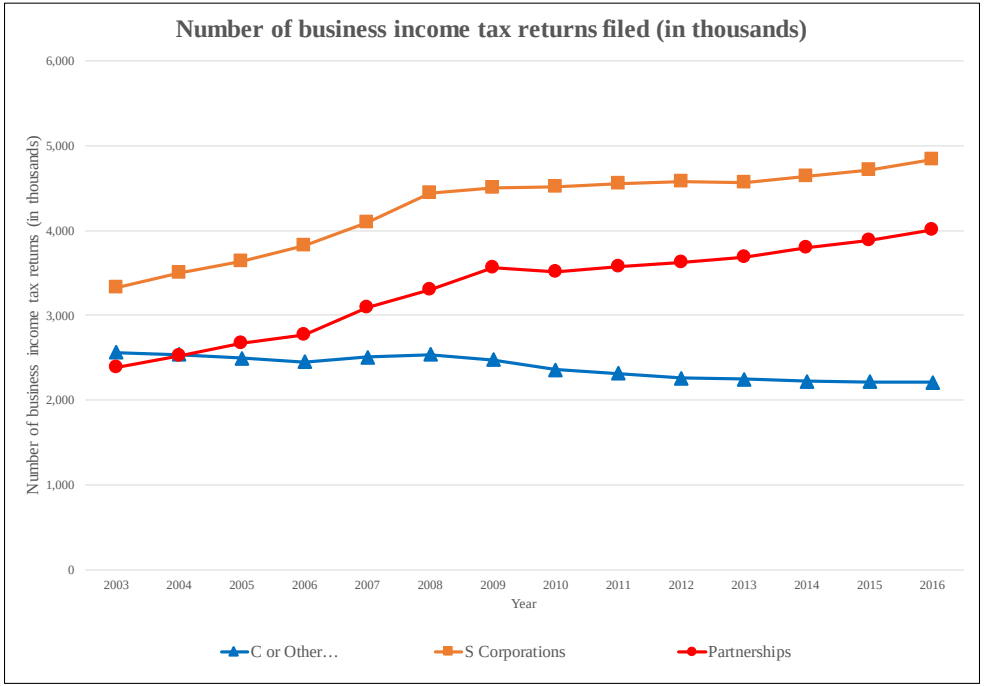
2018 IRS-TPC Research Conference

The University of Georgia
TERRY COLLEGE OF BUSINESS

Disclaimer

The views expressed in this presentation do not reflect the positions of the Internal Revenue Service.

Motivation



Source: IRS Annual Data Book Table 2

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)

The University of Georgia
TERRY COLLEGE OF BUSINESS

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 non-tax 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

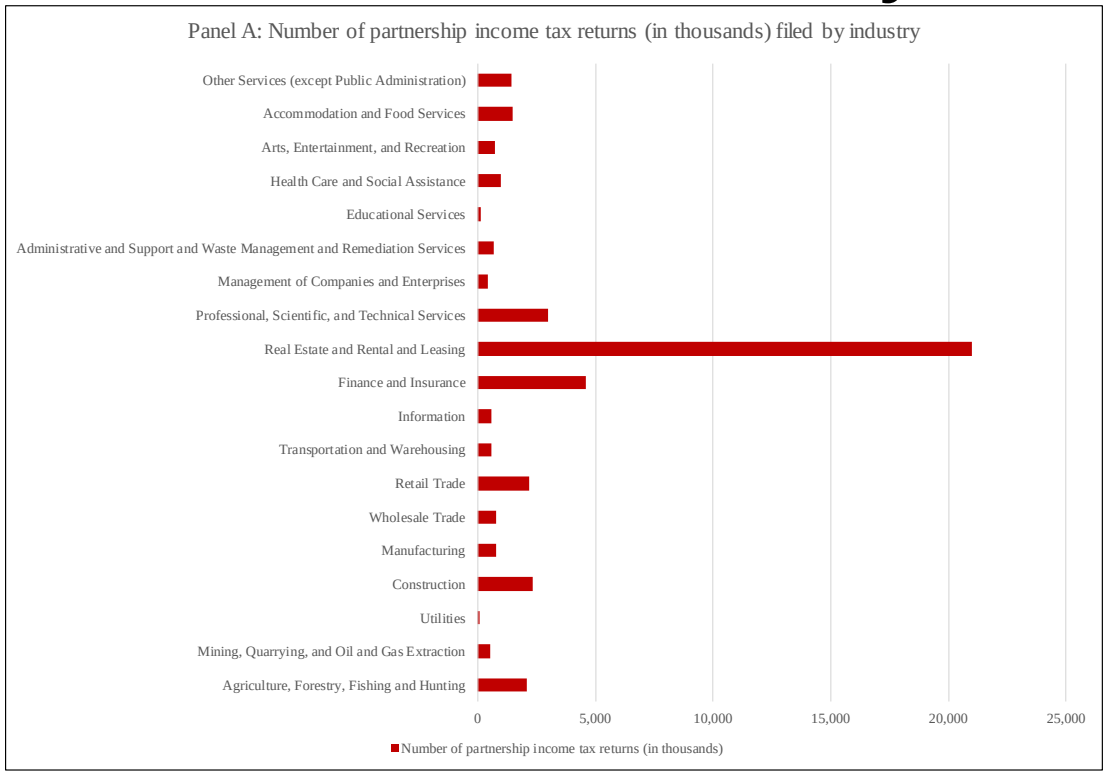
Cooper et al. (2016) estimate taxes paid by partnership owners in 2011 using administrative data

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

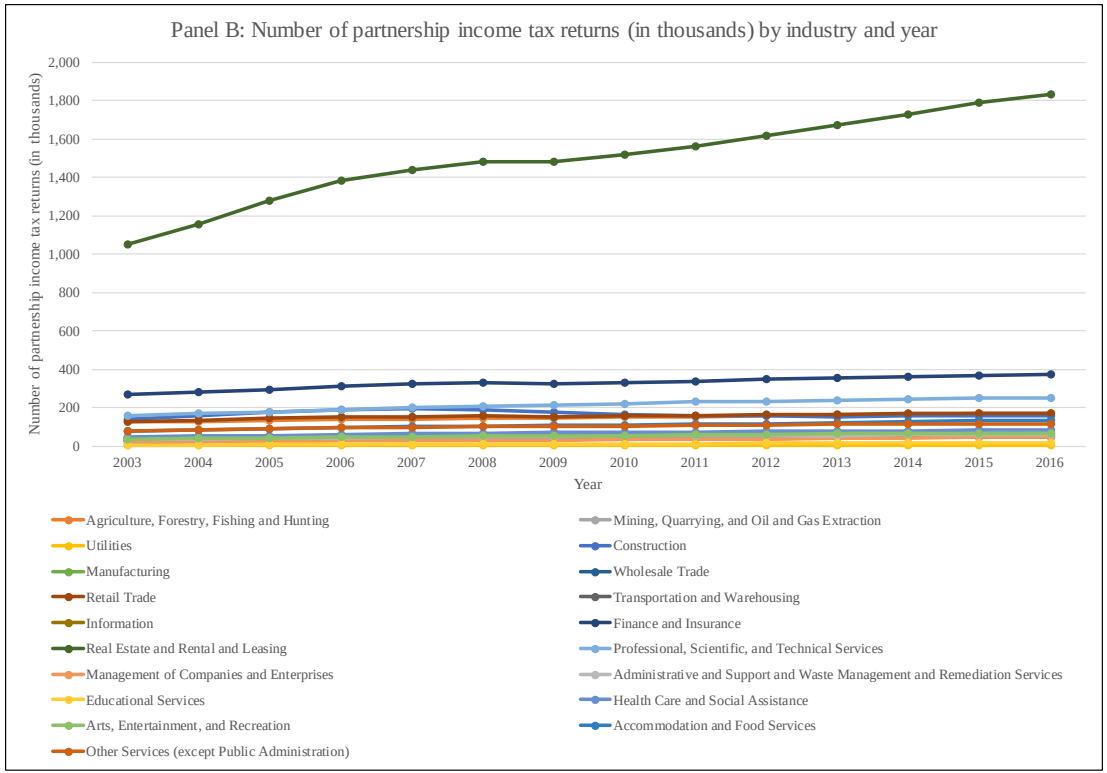
- Data stored in the IRS's Compliance Data Warehouse → unedited data from all tax returns filed with the IRS
- Form 1065 data for partnerships and Schedule K-1 data for owners
- If a taxpayer files both an original return and an amended return, we include only the amended return
- Final sample of 46,886,326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

of returns filed by industry



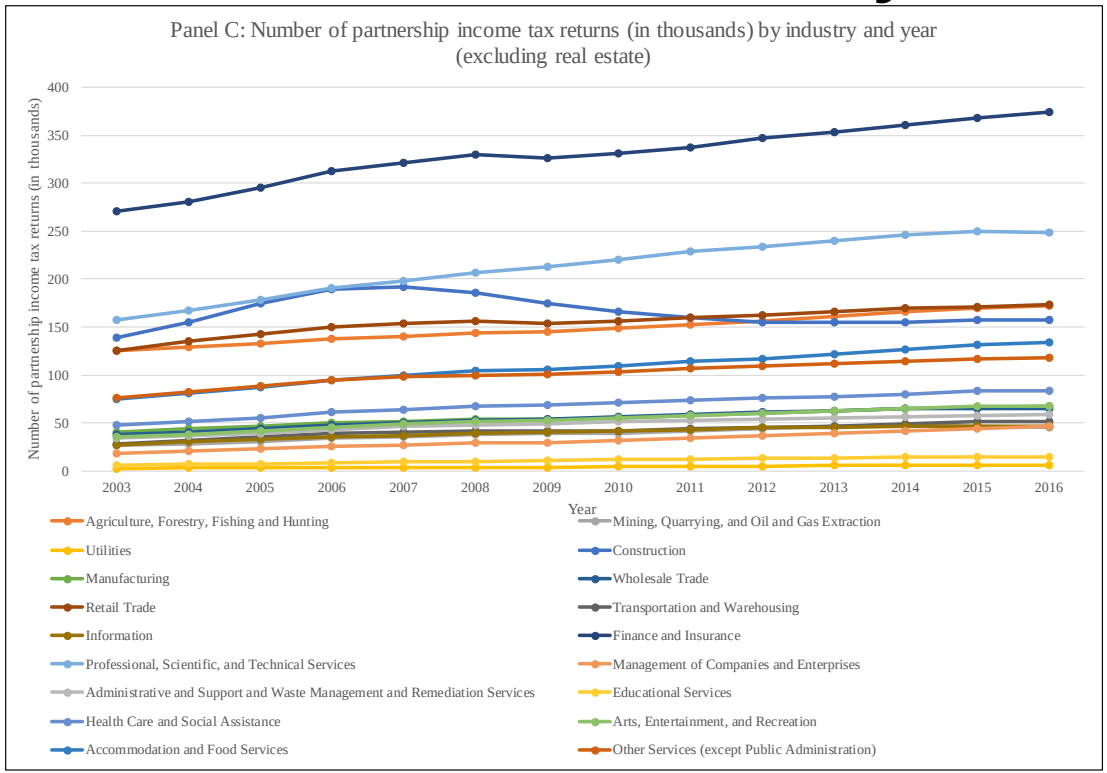
- **Partnerships in the real estate, rental, and leasing industry comprise almost 50% of the sample.**
- **Next three largest industries: finance and insurance, professional, scientific, and technical services, & construction**

of returns filed by industry



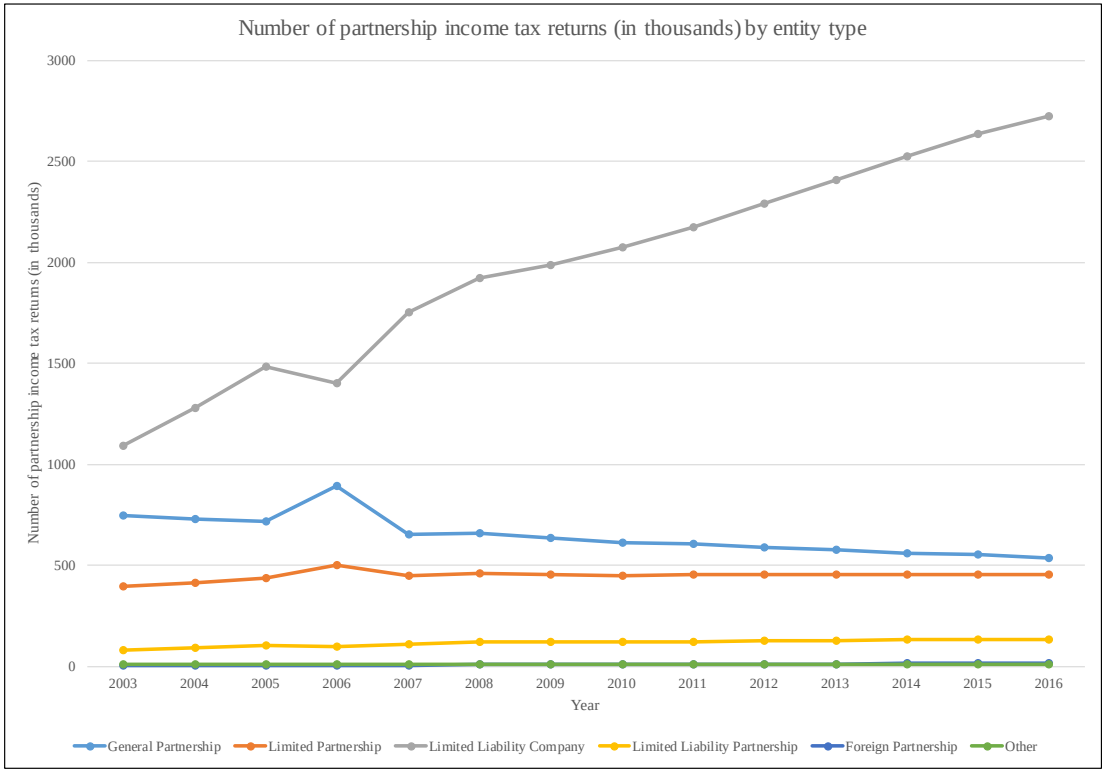
- **A substantial portion of partnership growth is attributed to a rise in real estate and leasing partnerships**

of returns filed by industry



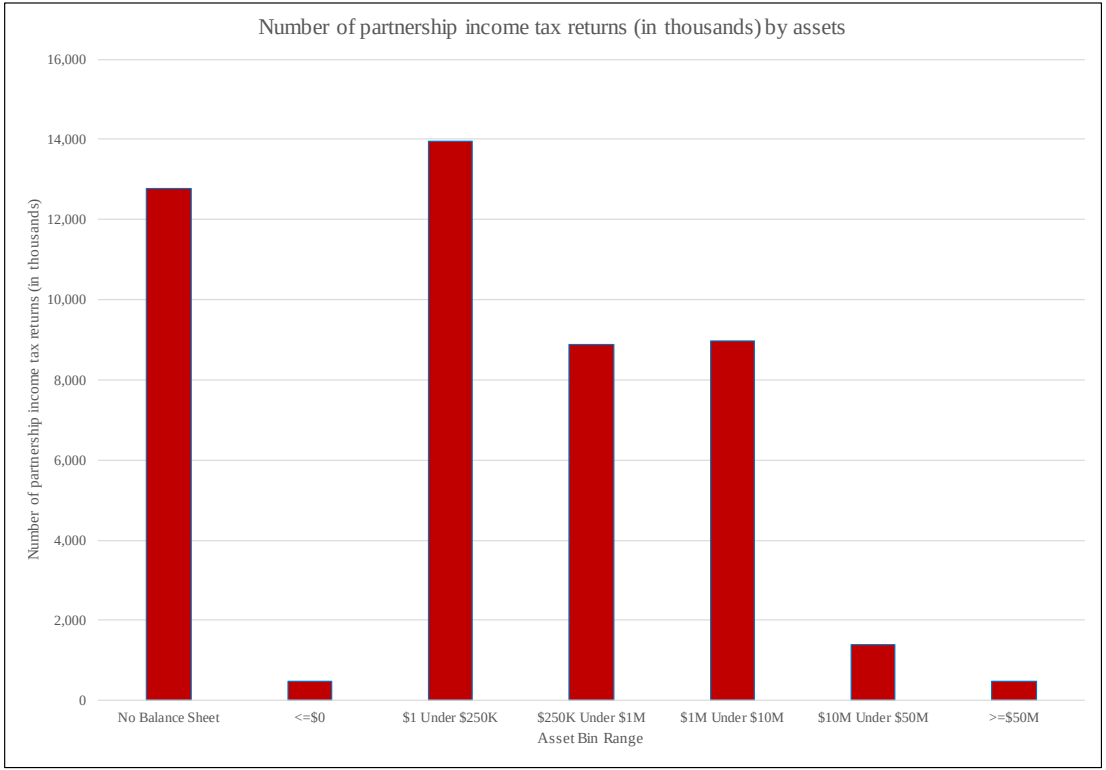
- Partnerships in most industries increasing
- The number of construction partnerships peaked in 2007 & then declined through 2013 →subprime mortgage crisis might have curtailed new construction projects and ended some existing projects

of returns filed by entity type



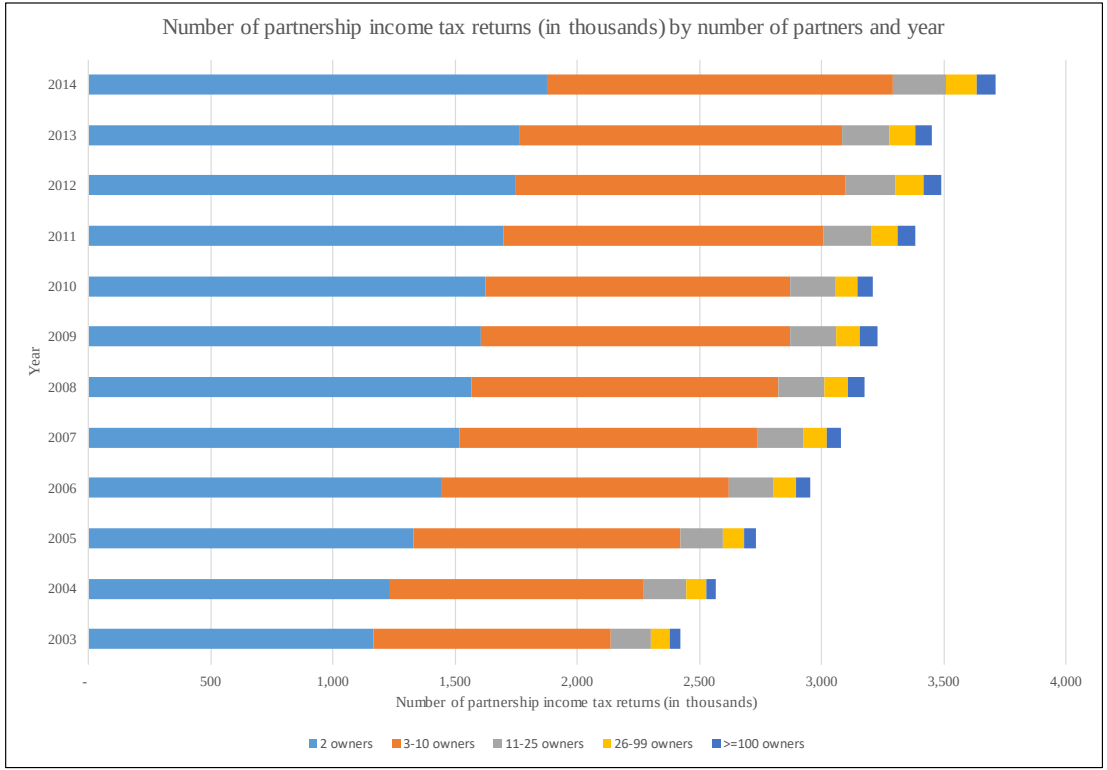
- LLCs are the most common entity type, comprising → 60% of the returns filed
- General partnerships have gradually decreased over time
- Growing preference for structures that provide limited liability for owners

of returns filed by asset size



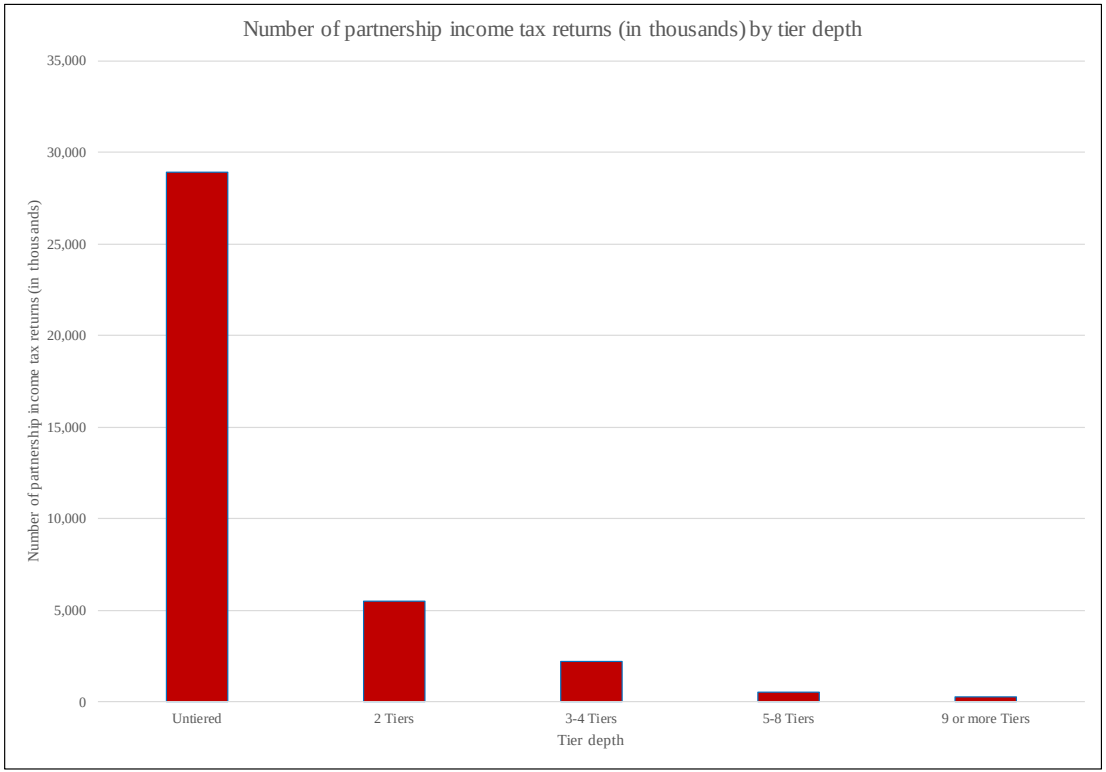
- ~27% of partnerships do not report a balance sheet
- Almost 70% report assets of $10M or less → substantial portion of partnerships fall within the purview of SBSE division
- LB&I division serves approximately 4% of partnerships

of returns filed by # of partners



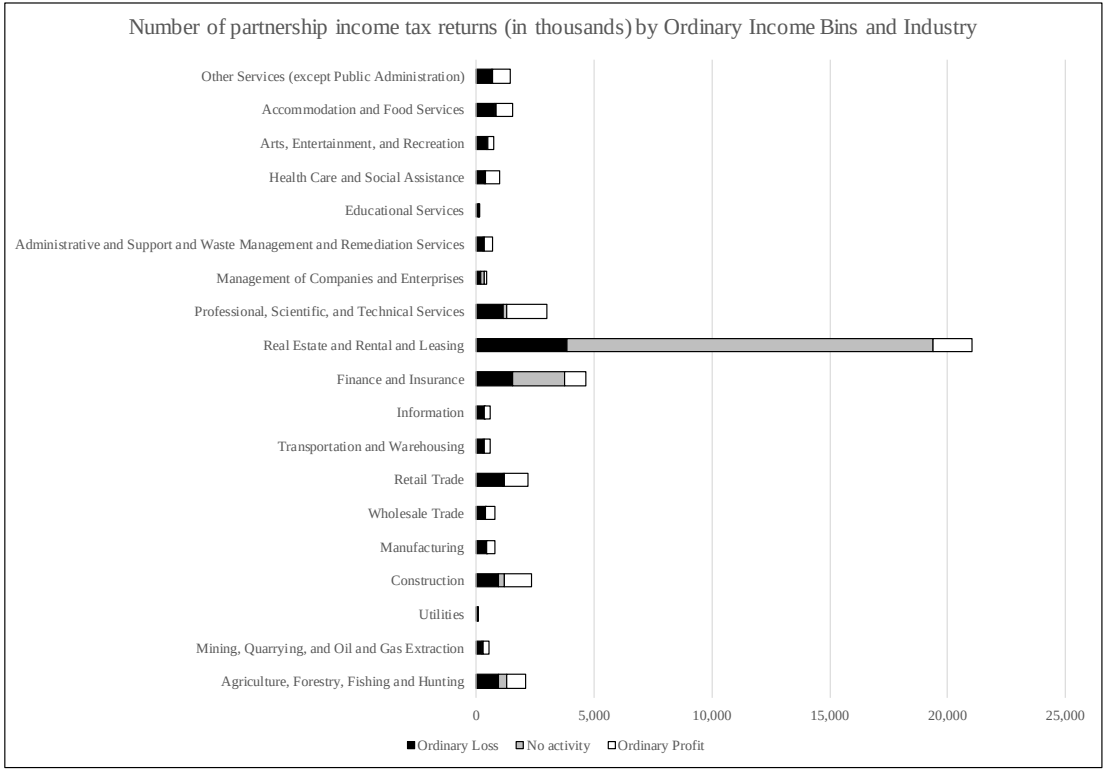
- ~ Half of partnerships have only two owners
- 2% of partnerships have at least 100 owners
- 0.7% of partnerships have more than 1,000 owners
- Wide variation in ownership structure complexity among partnerships

of returns filed by tier depth



- 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

of returns filed by ordinary income



- 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:

	Forms 8975	Schedule A
Total	1,090	27,233
1120	1,000	26,135
1065	90	1,098

Table 1. Tabulations by Foreign Country of Activity

	Tax Jurisdiction	# of CbCRs	# of CbCR sub-groups	Revenues			Profit (Loss) before Income Tax	Income Tax Paid (on Cash Basis)	Income Tax Accrued - Current Year	Stated Capital	Accumulated Earnings	Number of Employees	Tangible Assets other than Cash and Cash Equivalents	# of Entities with Main Business Activity of			
				Unrelated Party	Related Party	Total								Research and Development	Holding or Managing Intellectual Property	Purchasing or Procurement	Etc.
All Sub-Groups	Country A (headquarters)																
	Foreign jurisdictions																
	Country B																
	Country C																
Sub-Groups with Positive Profits	Country A (headquarters)																
	Foreign jurisdictions																
	Country B																
	Country C																
Sub-Groups with Negative Profits	Country A (headquarters)																
	Foreign jurisdictions																
	Country B																
	Country C																

Table 2. Tabulations by Sector

ISIC Division Code	Tax Jurisdiction	# of CbCRs	# of CbCR sub-groups	Revenues			Profit (Loss) before Income Tax	Income Tax Paid (on Cash Basis)	Income Tax Accrued - Current Year	Stated Capital	Accumulated Earnings	Number of Employees	Tangible Assets other than Cash and Cash Equivalents	# of Entities with Main Business Activity of			
				Unrelated Party	Related Party	Total								Research and Development	Holding of Managing Intellectual Property	Purchasing or Procurement	Etc.
Industry 01	Country A (headquarters)																
	Foreign jurisdictions																
	Country B																
	Country C																
Industry 02	Country A (headquarters)																
	Foreign jurisdictions																
	Country B																
	Country C																
Industry 03	Country A (headquarters)																
	Foreign jurisdictions																
	Country B																
	Country C																
.....	Country A (headquarters)																
	Foreign jurisdictions																
	Country B																
	Country C																
Industry 99	Country A (headquarters)																
	Foreign jurisdictions																
	Country B																
	Country C																

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?

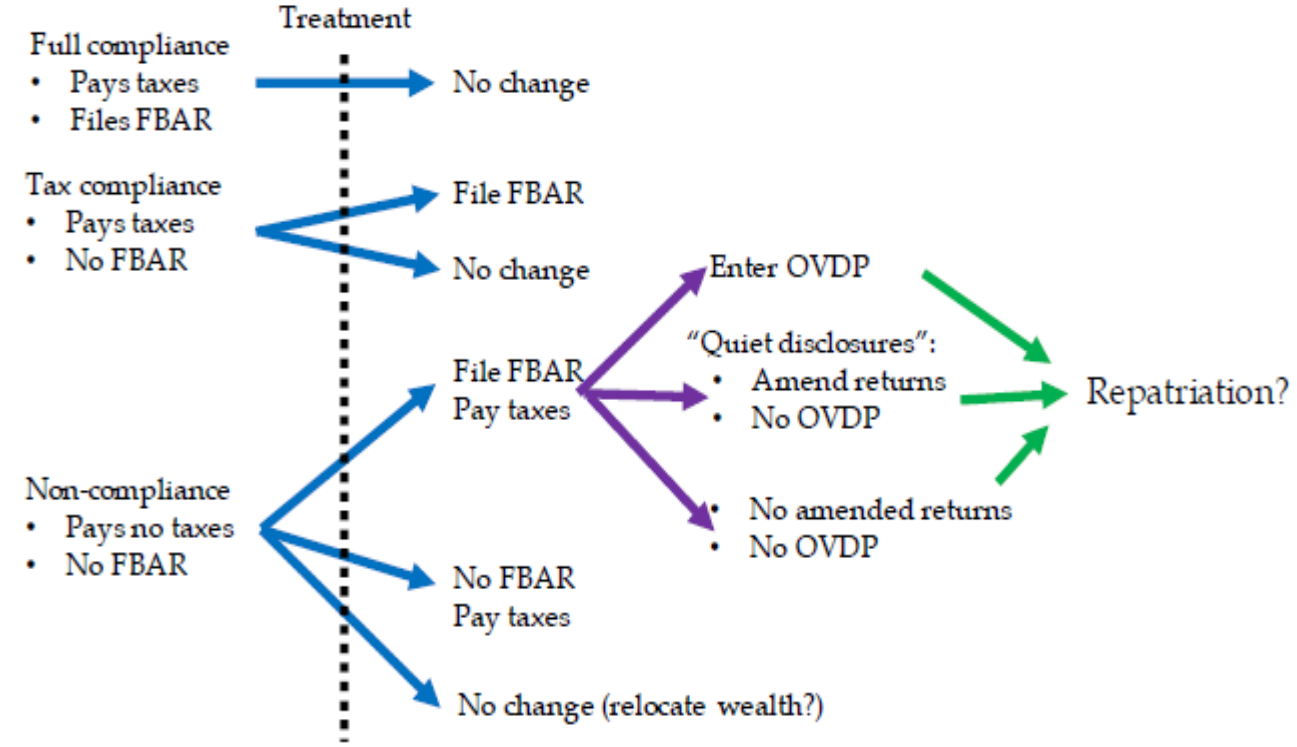
FBAR form change in 2009

- 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



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.

Recent article presents TY 2005-2014: https://www.irs.gov/pub/irs-soi/soi-a-copa-id1612.pdf

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:	***Saima Mehmood*** *IRS, Wage & Investment Division Research*
Taxing Hidden Wealth: The Consequences of U.S. Enforcement Initiatives on Evasive Foreign Accounts	***Daniel Reck*** *London School of Economics*
Global Tax Administration Initiatives Addressing Tax Evasion and Avoidance	***Thomas Neubig*** *Tax Sage Network*
An Examination of Partnership Tax Return Complexity	***Erin Towery*** *University of Georgia*
Discussant:	***Barry Johnson*** *IRS, RAAS*

Research, Applied Analytics, and Statistics

TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

8th Annual IRS/TPC Joint Research Conference on Tax Administration

Next session begins at 3:10