

# **Econ 133 – Global Inequality and Growth**

## **Tax Evasion and Inequality**

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## **What we've learned so far:**

- To understand wealth inequality, it is critical to pay attention to the top, because wealth is very concentrated
- Key data source on top-end wealth: tax data
- Main limitation wealth concealment and tax evasion

## Roadmap

- How big is tax evasion?
- How does that affect what we know about inequality?
- Policies that can curb tax evasion

# 1 The size of tax evasion

Key source to study tax evasion: random audits. Limits:

- Small number of rich individuals sampled
- Hard to detect complex evasion involving intermediaries (private banks, shell corp., etc.)

→ Random audits need to be supplemented with other sources to capture evasion by the wealthy

## Data capturing evasion by the wealthy:

- Macro statistics on wealth held in tax havens
- Tax amnesties
- Leaks from providers of tax evasion services: HSBC Switzerland, Mossack Fonseca (“Panama Papers”)...

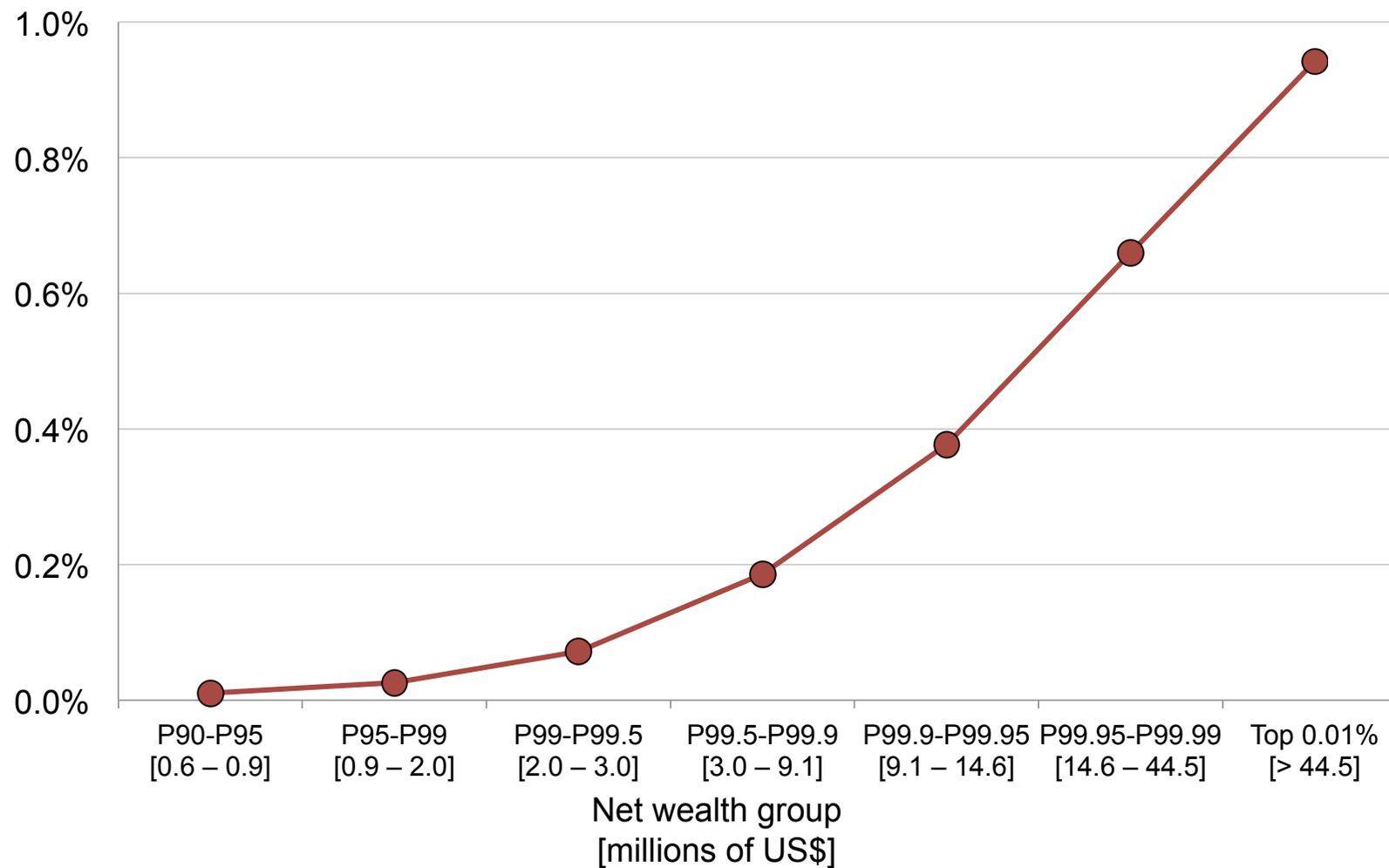
## 1.1 How offshore tax evasion works

- Shell companies
- Fake invoices
- Offshore accounts
- Disconnecting legal and beneficial ownership

## 1.2 Case study: HSBC Switzerland leak (2007):

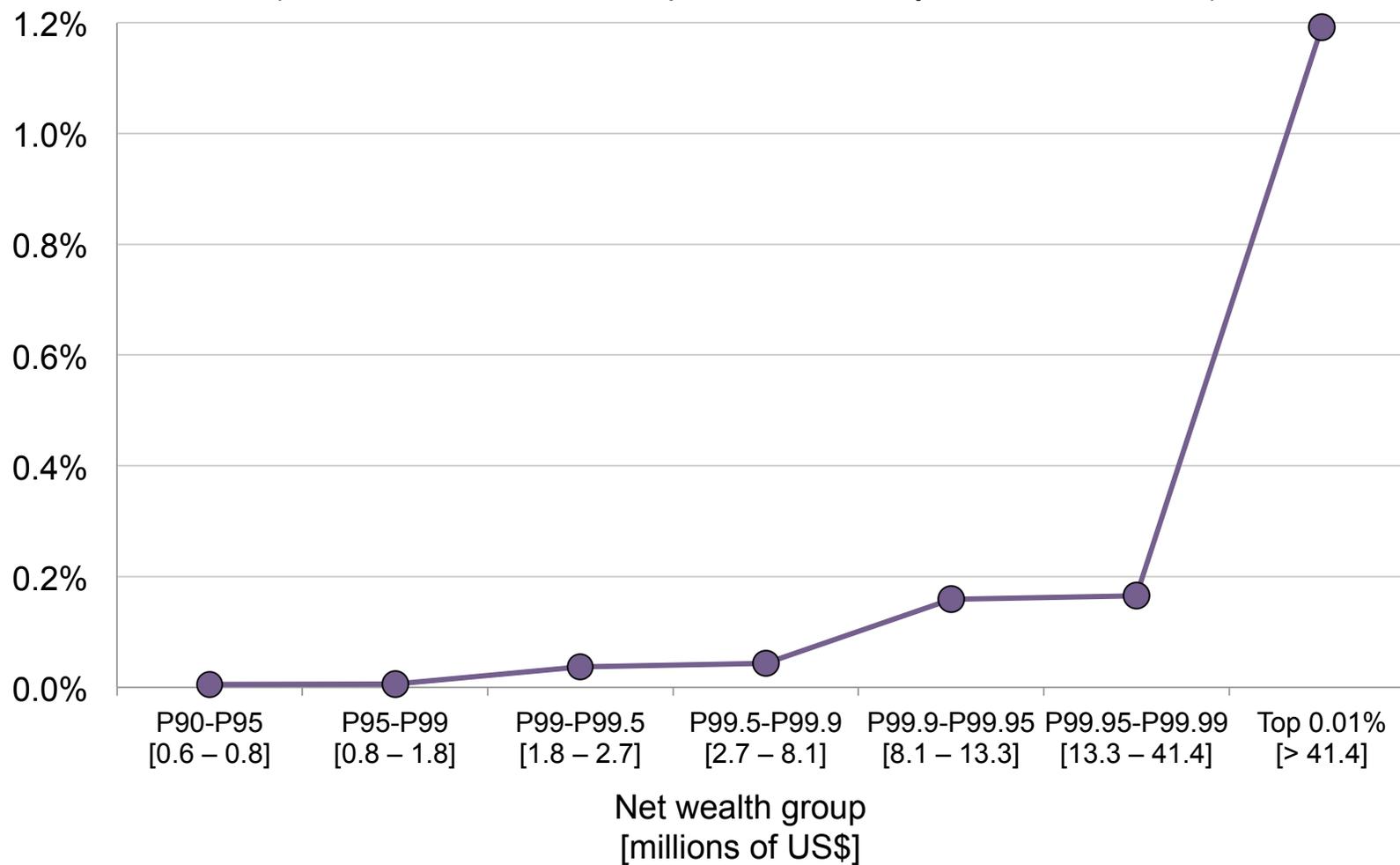
- Large bank ( $\approx 5\%$  of Swiss offshore wealth)
- Representative
- Recorded identity of beneficial owners
- Clear-cut way to identify evasion by linking to tax returns of clients (done in Scandinavia)

### Probability to own an unreported HSBC account, by wealth group (HSBC leak)



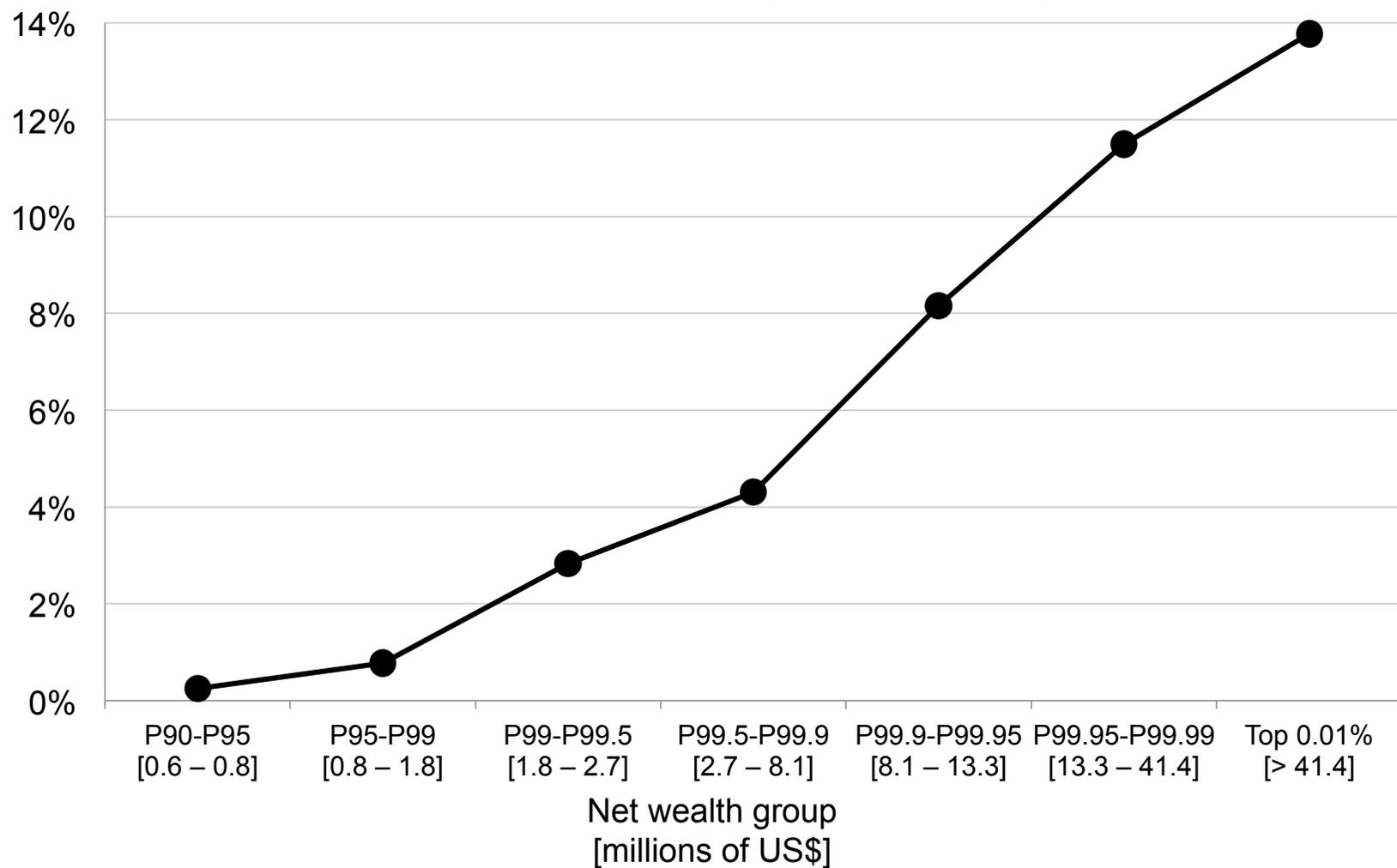
Source: Alstadsæter (2019)

**Probability to appear in the "Panama Papers", by wealth group**  
 (Shareholders of shell companies created by Mossack Fonseca)



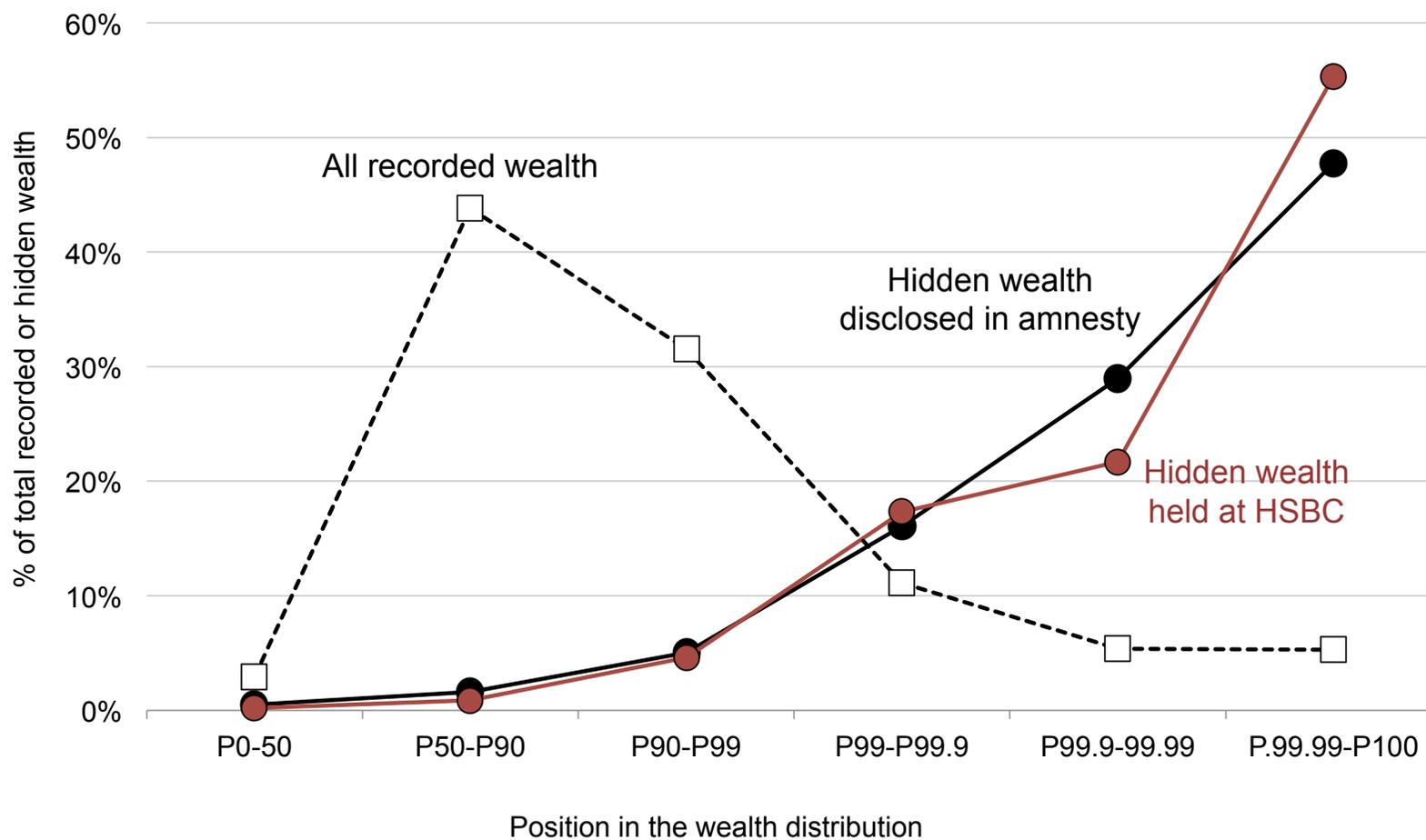
Source: Alstadsæter (2019)

**Probability to voluntarily disclose hidden wealth, by wealth group**  
 (Swedish and Norwegian tax amnesties)



Source: Alstadsæter (2019)

### Distribution of wealth: recorded vs. hidden



Source: Alstadsæter (2019)

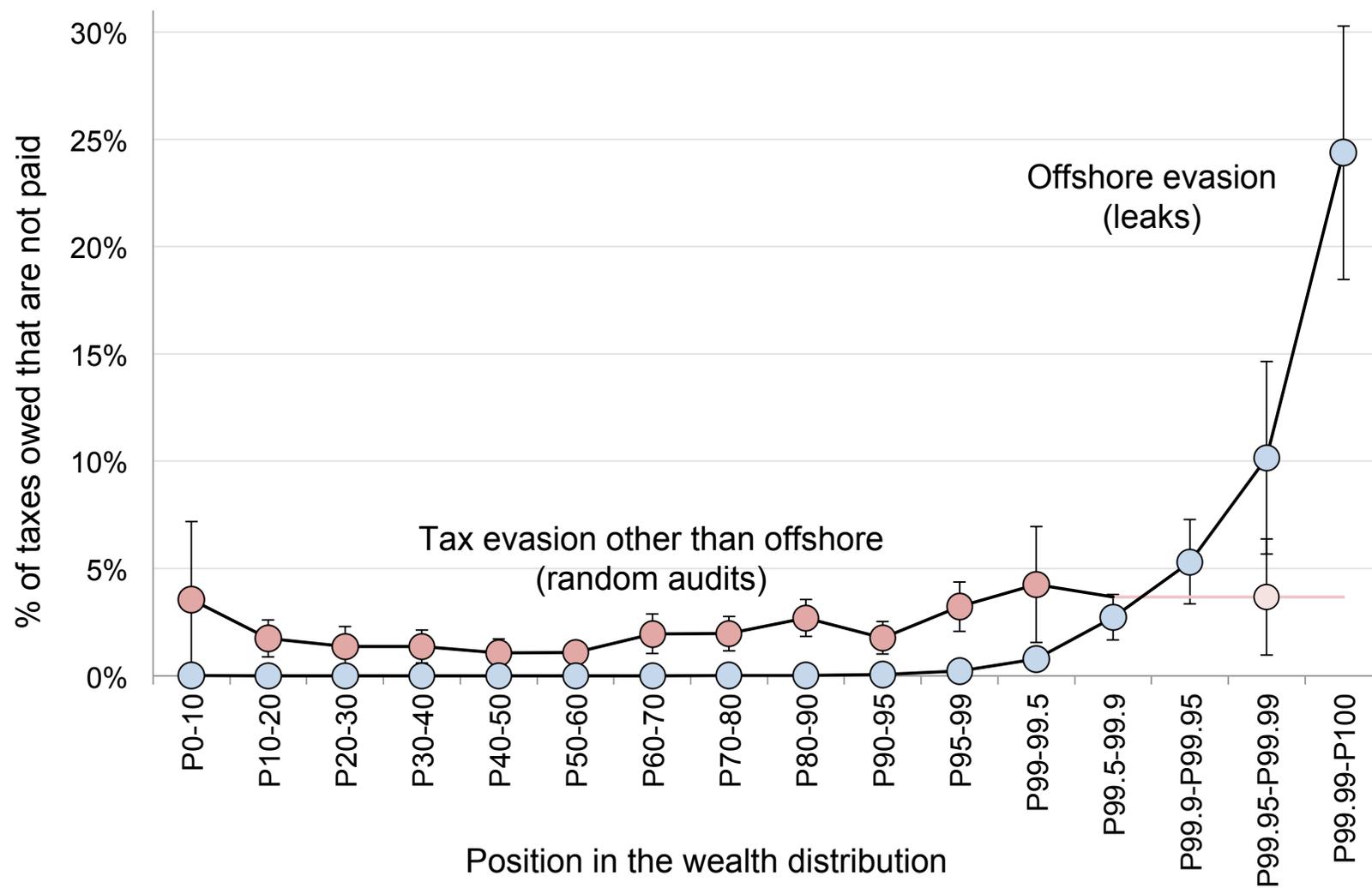
## 1.3 Macro stock of wealth held offshore

- Globally, 8% of world's household financial wealth held offshore
- As much as 30%–50% in developing countries
- 5–20% in developed countries
- But since offshore wealth is highly concentrated at the top, large evasion rates at the top

	Offshore wealth (\$ bn)	Share of financial wealth held offshore	Tax revenue loss (\$ bn)
Europe	2,600	10%	75
USA	1,200	4%	36
Asia	1,300	4%	35
Latin America	700	22%	21
Africa	500	30%	15
Canada	300	9%	6
Russia	200	50%	1
Gulf countries	800	57%	0
<b>Total</b>	<b>7,600</b>	<b>8.0%</b>	<b>190</b>

Source: Zucman (2014)

### Taxes evaded, % of taxes owed



Source: Alstadsæter (2019)

## 2 Implications for inequality

- More inequality than tax data suggest
- Stronger rise since 1980s (financial liberalization)



### 3 Policies to fight tax evasion

- Exchange of bank information
- Sanctions for territories and institutions that facilitate criminal activity
- Financial transparency (e.g., financial registry)

## 4 Summary

- About 8% of the world's financial wealth is held in tax havens globally
- Accounting for it increases wealth concentration substantially
- Tax evasion is not inevitable but can be addressed with proper policies

## References

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