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20th to 22nd August 2025

81st Annual Congress of the International Institute of Public Finance

THEME: PUBLIC SECTOR CAPACITIES

Conference Agenda

Session Overview

Date: Tuesday, 19/Aug/2025

3:00pm - 6:00pm	**Board I: IIPF Board meeting I (on invitation)** Location: **SHSS Boardroom**
5:00pm - 7:00pm	**Registration**
6:00pm - 9:00pm	**Board Dinner: IIPF Board dinner (on invitation)**

Date: Wednesday, 20/Aug/2025

8:00am - 9:00am	**Registration desk opens**
9:00am - 9:30am	**Opening** Location: Main Auditorium
9:30am - 10:30am	**Plenary I: Keynote Ravi Kanbur (Cornell University): "New Developments in the Theory and Practice of Targeting for Poverty Reduction"** Location: Main Auditorium Session Chair: **Jennifer Nyakinya**, NIERA
10:30am - 11:00am	**Coffee Break I** Location: SHSS Rooftop
11:00am - 1:00pm	**A01: Tax Audit** Location: SS4 Session Chair: **Jukka Pirttila**, University of Helsinki Discussant 1: **Giovanni Occhiali**, Institute of Development Studies Discussant 2: **Zehra Farooq**, Tulane University Discussant 3: **Jukka Pirttila**, University of Helsinki Discussant 4: **Keshav Choudhary**, Max Planck Institute for Tax Law and Public Finance

Third Party Audit and Tax Compliance of Firms - Evidence from India

Keshav Choudhary[1], **Bhanu Gupta**[2]
[1]Max Planck Institute for Tax Law and Public Finance, Germany; [2]Ashoka University, Sonepat, India

Traditional tax audits are effective at raising revenue but are costly to scale. Can third-party auditors enhance compliance, or are they prone to collusion due to inherent conflicts of interest? We study a policy reform in India that introduced unanticipated changes in the revenue threshold for mandatory third-party audits. Using a combination of bunching and difference-in-differences methods on administrative data, we estimate that third-party audits can increase tax payments by around 45\%, on average. However, firms with income or expenses already subject to third-party reporting exhibit smaller responses to private audits, reflecting a lower scope for manipulation. Our findings suggest that extending third-party audit requirements to smaller firms below the current threshold may be a cost-effective approach to increasing compliance in low state capacity settings.

What Impacts Do Tax Agents Have on Taxpayers' Compliance in Uganda? Evidence from Tax Administrative Data

Giovanni Occhiali[1], **Fredrick Kalyango**[2]
[1]Institute of Development Studies, United Kingdom; [2]Uganda Revenue Authority, Uganda

The compliance effect of tax agents in low-income countries has received little attention in the literature. This study asses their impact through matching analysis of the universe of CIT and VAT returns submitted in Uganda between 2019 and 2023. Tax agents' impact, proxied by the presence of audit expenses, is confirmed as broadly positive. CIT returns prepared by agents show no difference in declared liabilities in the aggregate, and higher declared CIT liabilities in the case of small and medium taxpayers. Significant but small increases in total VAT declared are mediated by increases in reported input and output VAT. Taxpayers relying on agents' services are also less likely to nil-file and more likely to file late, while a higher likelihood of audit selection does not lead to significant differences in audit adjustments. These results are robust to different specifications and an alternative definition of agents' use based on survey data.

Static and Dynamic Effects of Tax Audits on Corporate Tax Evasion, Indirect Tax Evasion, and Tax Non-Compliance

Zehra Farooq
Tulane University, Pakistan

I estimate the effects of tax audits on firm direct and indirect tax evasion as well as non-compliance in Pakistan using the universe of tax returns filed by registered firms between TY2008-TY2021. I leverage 7 years of natural experiments, during which time Pakistan varied audit eligibility policies between full eligibility, in which all firms are eligible; parametric eligibility, in which only evasive firms are targeted and eligible; and risk-based eligibility, in which only non-compliant firms are targeted and eligible. Despite changes in audit eligibility, each policy retained random audit selection conditional on eligibility, which I leverage for identification. This context allows me to estimate the static and dynamic effects of tax audits on different populations of firms (i.e., evasive firms and non-compliant firms) and estimate heterogeneous effects of tax audits based on the size of firms. Additionally, I provide evidence on the effect of simply being eligible for an audit.

One and Done or Repeat Inspections? The Differential Effect of Multiple Tax Audits

David Henning[2], **Christos Kotsogiannis**[3], **Jukka Pirttila**[1], **Luca Salvadori**[4]
[1]University of Helsinki, Finland; [2]UCLA; [3]University of Exeter; [4]Autonomous University of Barcelona

Making use of a rich administrative dataset on Ugandan firms' tax filings covering the period 2013–2021, this paper investigates the impact of tax audits on voluntary compliance, contrasting the effect of one versus multiple audits. Using a matched Difference-in-Differences approach with similar unaudited firms as controls, and a stacked design to address staggered treatment timing, the analysis shows that among firms that consistently file taxes over the study period, audits induce higher value-added tax (VAT) liabilities. Crucially, this is entirely driven by firms receiving multiple audits, underlining the importance of repeated interactions with the tax authority for fostering compliance among this set of taxpayers.

11:00am - 1:00pm	**A02: Corporate Income Tax Reforms** Location: SS5 Session Chair: **Shafik Hebous**, International Monetary Fund IMF Discussant 1: **Lucía Contreras**, University of Manchester Discussant 2: **Biniyam Gezahegn Worku**, University College Dublin Discussant 3: **Shafik Hebous**, International Monetary Fund IMF Discussant 4: **Kristoffer Berg**, University of Cambridge

Taxing Corporate or Shareholder Income: A Sufficient-Statistics Approach

Kristoffer Berg[1,2,3]
[1]Trinity College, University of Cambridge; [2]Centre for Business Taxation, University of Oxford; [3]Norwegian Fiscal Studies, University of Oslo

As tax competition and profit shifting have put pressure on corporate income tax rates across the world, the role of other capital taxes becomes more important. This paper studies the choice between income taxation at the corporate and shareholder level. I develop a tractable sufficient-statistics framework to determine optimal corporate and shareholder income taxes. The main result is that when the incidence of the corporate income tax on workers is higher than that of shareholder income taxes, lower tax rates on corporate relative to shareholder income are typically optimal. In a policy application, I derive optimal reform directions for corporate and shareholder income taxes for a large economy, the United States, and a small open economy, Norway.

Behavioural Responses To Tax Systems: Evidence From Costa Rica's Corporate Tax Reform

Lucía Contreras[1], **Jonathan Garita**[2]
[1]University of Manchester, United Kingdom; [2]Central Bank of Costa Rica, Costa Rica

This paper examines firms' behavioural responses to Costa Rica's 2019 corporate tax reform, which reduced distortions in the tax system but decreased its simplicity. Using 2016–2023 corporate tax return data and a difference-in-differences design, we analyse how firms adjusted to the reform's rich variation in marginal and average tax rates. Our descriptive analysis suggests the reform reduced revenue and cost manipulation, previously evident in bunching around revenue thresholds and profit margin discontinuities. Our causal findings reveal two main patterns. First, firms responded asymmetrically, reacting more strongly to tax cuts than to tax increases. This likely reflects the removal of growth barriers for small firms, or the downward stickiness of reported profits driven by evasion costs. Second, firms responded to marginal but not average tax rates, contrasting with evidence that individuals simplify tax schedules. These findings suggest that well-communicated reforms can improve efficiency without increasing compliance errors.

Do Special Economic Zones Foster Economic Development? Evidence from South Africa

Matthew Amalitinga Abagna[1], Ronald Davies[2], Nadine Riedel[3], Nora Strecker[2], Biniyam Gezahegn Worku[2]
[1]Tax Justice Network; [2]University College Dublin, Ireland; [3]University of Münster

Special Economic Zones (SEZs) have become an increasingly popular policy tool for promoting economic development and countries provide preferential tax incentives to attract firms into SEZs. Using unique South African administrative data—firm-level corporate tax returns merged with worker-level income tax returns—we propose an alternative method for identifying SEZ firms beyond self-reported data, based on tax payments and employee location. Additionally, we will examine how the establishment of SEZs changes the behaviour of firms within SEZs. We contribute to the literature by identifying firms that exploit preferential tax incentives of SEZs firms to avoid tax payments, despite not being entitled to such benefits, while also enhancing our understanding of the impact of SEZs in a developing country context.

Distributed Profit Taxes: Theoretical Insights and Empirical Implications

Mitali Das[1], Ruud De Mooij[2], Shafik Hebous[3,5], Charles Vellutini[4]
[1]International Monetary Fund IMF, United States of America; [2]International Monetary Fund IMF, United States of America; [3]International Monetary Fund IMF, United States of America; [4]International Monetary Fund IMF, United States of America; [5]CESifo

The Distributed Profit Tax (DPT)—a system under which corporate taxes are deferred until profits are distributed to shareholders—has emerged as a prominent alternative to the traditional corporate income tax (CIT). This paper provides a comprehensive analysis of the DPT, evaluating its theoretical foundations and empirical effects in five countries. We delineate the theoretical distinctions between the DPT, the S-based cash-flow tax, and the CIT, noting that the DPT's implications for investment and financial structure are theoretically ambiguous. Our empirical analysis indicates that the adoption of DPTs is associated with a significant decline in profit tax revenue—approximately 1 percent of GDP, on average—alongside increased profit retentions and modest reductions in debt-to-asset ratios. In contrast, the effects on investment are statistically insignificant.

11:00am - 1:00pm

A03: Subnational Public Finance

Location: SS6
Session Chair: **Thiess Buettner**, FAU
Discussant 1: **Oliver Märtz**, German University of Administrative Sciences Speyer
Discussant 2: **Renjith PS**, Gulati Institute of Finance and Taxation (GIFT)
Discussant 3: **Thiess Buettner**, FAU
Discussant 4: **Alessandro Sovera**, Tampere University

Decoding Local Public Finance: The Interplay Of The Legislature And The Executive

Alessandro Sovera
Tampere University, Finland

This paper examines the interaction between the executive and legislature in public finance, using unique data from Italian municipalities. Utilizing a generalized difference-in-difference strategy, it finds that a larger presence of executive politicians leads to increased expenditures, primarily driven by higher investments financed through capital transfers, while a larger number of councilors constrains public spending. These patterns reflect specialization within a larger executive body and political fragmentation within the council. Voters respond positively to the additional spending by the executive, supporting upward career movements for the mayor and reappointment of executive board members, whereas councilors do not benefit from their spending behavior. This research enhances understanding of the complex relationship between political class size and state finances, which has been found ambiguous in existing literature.

Outsourcing Fiscal Consolidation: Evidence From German Municipalities

Désirée I. Christofzik, Oliver Märtz
German University of Administrative Sciences Speyer, Germany

We examine how municipalities in the German state of North Rhine-Westphalia respond to the requirement of supervisory approval in the budgeting process when facing fiscal imbalances. Using an event-study design with staggered treatment adoption, we find that municipalities increase local tax rates on property and business profits, but only property tax hikes translate into higher revenues. Additional revenue gains arise through higher transfers from the state via the fiscal equalization system. Beyond the core budget, we document a novel adjustment margin: net expenditures for enterprises under municipal control rise following supervision. These results suggest that extended fiscal oversight affects not only municipal budgetary decisions but also the financial behavior of municipally owned enterprises.

Public Debt Sustainability and Threshold Levels: A Federal Perspective

Renjith PS
Gulati Institute of Finance and Taxation (GIFT), India

This study assesses the sustainability and threshold levels of public debt in India's federal system using data from 1990-91 to 2024-25, applying fiscal policy response functions and threshold regression. The results indicate that central government debt is weakly sustainable with a threshold of 52.16%, while state government debt is strongly sustainable with a threshold of 22.24%. As current debt levels constrain growth, fiscal discipline is crucial. Debt simulations suggest that maintaining 12% nominal GDP growth and a fiscal deficit of 3% for the Centre and flexible, state-specific targets averaging 2.5% from 2025-26 onwards would ensure sustainability. Under these conditions, the Centre could meet its target before the Viksit Bharat 2047 deadline and support States through on-lending, low-interest loans, targeted grants, or debt consolidation, without undermining development priorities. The study also underscores the need for revenue augmentation and rationalised spending, particularly by cutting unproductive subsidies, to safeguard long-term fiscal stability.

Debt Issuance and Debt Limits: Exploring US Municipal Debt Policy

Thiess Buettner[1,2], Timm Schaerfke[1]
[1]FAU, Germany; [2]CESifo

This paper explores the effects of formal limits on US municipal debt. Based on a theoretical analysis of fiscal policy under uncertainty, we argue that governments facing a debt limit may take precautions, in order to keep budget flexibility if adverse shocks are realized. To test this prediction, we use a panel of US municipalities and exploit institutional variation in existence and height of state-imposed debt limits. Our preliminary results suggest that US municipalities follow a prudent debt policy and plan for lower levels of debt when facing debt limits. When we look at total debt rather than the type of debt that is regulated by the statutory debt limit, the effect of the debt limit appears much weaker, which raises doubts about its overall effectiveness.

11:00am - 1:00pm

A04: Intergenerational Wealth Transmission

Location: SS7
Session Chair: **Isabel Martínez**, KOF Swiss Economic Institute at ETH Zurich

(Un)Free Wills: A Statistical Analysis of Testator Preferences

Marius Brülhart, Laia Soler
University of Lausanne, Switzerland

Intra-family wealth transmission has been shown to reinforce inequality and dynastic privilege. So far, researchers have focused exclusively on taxation as the policy tool for dispersing private wealth. We instead consider inheritance law. Many countries force testators to leave certain minimal estate shares to direct descendants. Relaxing such constraints could allow wealth to be spread more widely. We explore this possibility in a unique dataset on 16,933 wills established online before and after a reform of inheritance law in Switzerland. Applying a difference-in-differences estimation strategy, we find that lower minimum shares for direct descendants were used primarily for increasing the shares given to spouses and life partners. Estate shares flowing to heirs outside of the core family barely increased. We infer that intra-family bequest motives remain so strong that greater testator freedoms are an ineffective tool for increasing the dispersion of wealth at the time of transmission.

Behavioral Responses to Inheritance Taxes: Evidence from Brazil

Gedeão Locks
DIW Berlin, Germany

I examine behavioral responses to inheritance and gift taxes in a setting where individuals knew the tax would increase three months before the new tax code took effect. Using tax microdata from Brazil, I employ bunching and difference-in-differences (DD) methods and find that individuals significantly retime their wealth transfers to avoid taxes. Retimed gifts resulted in smaller inheritances for nearly three years. Moreover, I find that responses are sensitive to changes in top gift marginal tax rates and tax design (flat rates vs progressive brackets). Finally, the number of declared bequests decreased in the medium run in reform states, particularly among small inheritances.

House Price Booms and Social Mobility

Peter Levell[1], David Sturrock[1,2]

[1]Institute for Fiscal Studies, United Kingdom; [2]University College London

We study the impact of the UK house price boom on the intergenerational persistence of homeownership, housing wealth, location and earnings. Increases in local house prices have a negative effect on homeownership and increase the intergenerational persistence of housing wealth. We show that by age 28 to 27 around 10\% to 20\% of parental housing wealth gains are passed through to children's housing wealth. This effect on housing wealth inequality is explained not by higher homeownership rates but by the children of wealthier parents being more likely to move to and own a home in London. Moving to this high house price and high earning part of the country comes alongside an effect of parental wealth on occupation choice and earnings.

Earnings Responses to Sudden Wealth over the Life Cycle

Marius Brülhart[1], Aurélien Eyquem[1], Isabel Z. Martínez[2], Enrico Rubolino[1]

[1]University of Lausanne, Switzerland; [2]KOF Swiss Economic Institute at ETH Zurich, Switzerland

We study individual earnings responses to positive wealth shocks from bequests and lotteries. In a life-cycle model, we show how responses may differ depending on the age of the recipient. Tracking earnings responses to 269,000 positive wealth shocks in Swiss individual-level tax records, we confirm the qualitative predic- tions of the model: irrespective of the source of the wealth shock, average earn- ings responses are consistently negative. The strongest responses are found for older workers – partly through early retirement –, and for women. Conditional on age, inheritance triggers weaker earnings responses than lottery winnings, which is consistent with anticipation effects. We use the calibrated model to simulate the effects of inheritance taxation and of shifting the age distribution of intergenera- tional transfers, e.g. via incentivizing inter-vivos gifts.

11:00am - 1:00pm

A05: Public Infrastructure

Location: SS8
Session Chair: **Rafael Serrano-Quintero**, University of Barcelona
Discussant 1: **Divya Kannan K R**, Gulati Institute of Finance and Taxation
Discussant 2: **Rafael Serrano-Quintero**, University of Barcelona
Discussant 3: **Vincent Leyaro**, University of Dar es Salaam

Public Infrastructure, Private Capital Formation and Growth in Tanzania

Vincent Leyaro

University of Dar es Salaam, Tanzania

This study investigates the impact of public investment in infrastructure into private capital formation and economic growth in Tanzania using time series data over thirty years' period (1990-2020) and applying vector autoregressive (VAR) model. The findings show that increasing public investment in infrastructure negatively affects private capital formation in the short run due to the dominance of the crowding-out effect. However, the effect turns positive and significant in the medium term due to the dominance of crowding-in effect; but are short-lived as they die in the long term. The impact of increased public capital stock in infrastructure on private capital stock is positive, implying both private capital formation and private capital stock positively affect real GDP growth, implying crowding-in effects of public capital stock in infrastructure, and the complementarity effect between the two. The low magnitude and short-lived effects are reflective of the unfavorable environment for private investment in Tanzania.

Can Public Infrastructure drive Regional Manufacturing Performance? Evidence from Indian States

Divya Kannan K R[1], Kiran Kumar Kakarlapudi[2]

[1]Gulati Institute of Finance and Taxation affiliated to Cochin University of Science and Technology, India; [2]Gulati Institute of Finance and Taxation affiliated to Cochin University of Science and Technology, India

In India, there is significant divergence in industrial performance across states, especially after the economic reforms. In this context, this study analyses manufacturing performance at the sub-national level and the role of the state therein. The changing role of the state is particularly important considering the policy shift towards a market-led economy. This study focuses on the role of public infrastructure in explaining the divergence in manufacturing performance.

Public infrastructure is a multidimensional concept, and we constructed three sub-indices physical, social, and financial infrastructure to measure its impact on manufacturing performance. The study considers only the registered manufacturing sector and 16 major states in India due to their significant contribution to manufacturing value added. Panel regression techniques were used for the econometric analysis, highlighting significant disparities in both physical and social infrastructure across states. The study found that regional disparities in infrastructure availability are a major determinant of manufacturing disparity across Indian states.

Spatial Misallocation of Complementary Infrastructure Investment: Evidence from Brazil

Fidel Pérez-Sebastián[1], Rafael Serrano-Quintero[2], Jevgenijs Steinbuks[3]

[1]University of Alicante, Spain; [2]University of Barcelona, Spain; [3]The World Bank

We develop a novel quantitative spatial equilibrium model that endogenizes the government's decision to invest in transport and electricity networks. Electricity quality influences local sectoral productivities, while road quality affects trade costs. We show that network complementarities in general equilibrium are primarily shaped by trade routes and the elasticity of substitution between consumption products. Our calibrated model for the Brazilian economy indicates significant welfare gains from reallocating infrastructure investment, with spatial complementarities in heterogeneous infrastructure provision accounting for a substantial portion of these gains. Our results demonstrate that lack of coordination and budget sharing between different line ministries are important sources of misallocation.

11:00am - 1:00pm

A06: Portfolio Choice and Invesment Plans

Location: SS9
Session Chair: **Francesca Parodi**, University of Milan
Discussant 1: **Maik Sattelmaier**, University of Mannheim
Discussant 2: **Sk Md Azharuddin**, National Institute of Public Finance and Policy (NIPFP)
Discussant 3: **Francesca Parodi**, University of Milan
Discussant 4: **Raphael Abiry**, Bank of England

Idiosyncratic Asset Return Risk and Portfolio Choice - When does Social Security lead to Crowding IN of Capital?

Raphael Abiry[1,2]

[1]Bank of England, United Kingdom; [2]Goethe University Frankfurt, Germany

When studying the welfare effects of pay-as-you-go social security systems, efficiency gains due to risk-sharing are contrasted to welfare losses due to distortions. In related literature distorted saving decisions leading to crowding out of capital are identified as a major source for welfare losses. Many studies find that the costs of introducing social security outweigh the benefits.

But to my knowledge the literature so far disregards positive welfare effects of social security due to shifts in the asset portfolio of households. I study an overlapping generations model featuring idiosyncratic asset return risk and portfolio choice and find that social security benefits stipulate households to shift their savings to riskier assets with higher returns. Whether we encounter crowding in or out depends on the level of the risk-free rate and its elasticity with respect to changes in the quantity of the safe asset.

The Effect Of Tax Uncertainty On Firm Decision-Making

Philipp Dörrenberg[1,2,3,4], Fabian Eble[1], Davud Rostam-Afschar[1,3,5], Maik Sattelmaier[1], Johannes Voget[1,4]

[1]University of Mannheim, Germany; [2]CESifo; [3]IZA; [4]ZEW; [5]GLO

We investigate the influence of different levels of profit tax uncertainty of firms on their investment plans in Germany. To isolate this effect, we conduct a surveybased randomized control trial with tax uncertainty treatments. First, profit tax forecasts by scientific tax experts are used to fix the first moment of future profit tax uncertainty across all treatment arms. Firms are then randomly assigned to receive one of two tailored information treatments that vary in the level of uncertainty about the first moment. Our empirical analysis reveals that increased perceived tax uncertainty leads to reductions in planned investments in both capital expenditures and intangible assets over the subsequent periods.

Determinants of Effective Tax Rates for Indian Manufacturing: A Segregated Industry Level Analysis

R. Kavita Rao, Sk Md Azharuddin
National Institute of Public Finance and Policy (NIPFP), India

The study integrates two distinct datasets concerning the Indian economy: effective tax rates sourced from the union receipt budget and gross value added from national account statistics. Employing panel regression with Driscoll-Kraay standard errors on the merged data spanning from 2011-12 to 2020-21, the research examines the determinants of effective tax rates within segregated manufacturing industries. Notably, the study underscores that existing regulations or tax structures may impede effective tax rates for Indian manufacturing industries. Additionally, it reveals a non-linear inverted U-shaped relationship between industry size and effective tax rates, suggesting that industry expansion beyond a certain threshold leads to a decrease in effective tax rates. Furthermore, the study posits that an effective and corruption-free government can enhance effective tax rates for Indian manufacturing industries at segregated levels. It also highlights how the availability of optional lower tax rates serves as an incentive for these industries to opt for this tax-saving opportunity.

Subjective Survival Beliefs, Cognitive Skills and Investments in Risky Assets

Francesca Parodi
University of Milan, Italy

Financial resilience in old age is a major challenge in rapidly aging societies. In this paper, we study the role that subjective life expectancy plays in the decision to save and participate to the financial market among the elderly and how it interacts with financial literacy. We empirically show that the discrepancy between subjective survival beliefs and objective survival rates affects the decision to save and participate in the stock market and we document that this discrepancy is correlated with financial literacy. We then set up a quantitative life-cycle model to simulate alternative policy interventions. We find that survival literacy interventions informing individuals about their objective survival chances attenuate the longevity risk by encouraging wealth accumulation. Financial literacy policies lowering the costs of participating to the stock market incentivize investment in risky assets, but they benefit wealthy households more.

11:00am - 1:00pm

A08: Subsidies

Location: SS11
Session Chair: **Sonia Laszlo**, McGill University
Discussant 1: **Nikolai Stähler**, Deutsche Bundesbank
Discussant 2: **Abhijeet Singh**, Stockholm School of Economics
Discussant 3: **Sonia Laszlo**, McGill University
Discussant 4: **Anastasia Terskaya**, University of Barcelona, IEB

How do Labels and Vouchers Shape Unconditional Cash Transfers? Experimental Evidence from Georgia.

Anastasia Terskaya[1], Jaime Millan[2], Miguel Angel Borrella[2]
[1]University of Barcelona, Spain; [2]University of Navarra, Spain

How can unconditional welfare transfers encourage households to allocate more resources to children? We conducted a nationwide randomized controlled trial in Georgia to test two approaches: providing food vouchers instead of cash and labeling cash transfers to promote child-related spending. Compared to cash alone, we find that labeling transfers significantly increases the share of household expenditure on children. By contrast, infra-marginal food vouchers reduce overall household consumption without altering its composition. This reduction likely stems from the higher shopping costs at voucher-accepting stores. Our findings suggest that subtle

interventions like labeling can avoid the drawbacks of more restrictive, paternalistic policies.

Transfers or Subsidies? Comparing Mitigation Strategies for Energy Price Shocks in a Production Network Model

Natascha Hinterlang[1], Marius Jäger[2], Nikolai Stähler[1], Johannes Strobel[1]
[1]Deutsche Bundesbank, Germany; [2]Deutsche Bundesbank & Uni Freiburg, Germany

The dependency on imported essential production inputs poses a threat of abrupt price hikes and shortages, potentially triggered by political events. The energy crisis resulting from the Russian war of aggression is an example. This paper investigates whether governments should bolster production via transfers or cost subsidies in the event of a crisis, utilizing a dynamic multi-sector economic model that is calibrated to Germany and incorporates endogenous firm entry and exit. Our findings suggest that subsidizing production costs is more beneficial for economic activity and welfare, provided the energy demand due to the subsidy does not significantly influence the price of the essential production input. If it does, this approach could become exceedingly expensive. In such scenarios, it is economically more efficient to provide lump-sum transfers to firms. The effectiveness of these policies ultimately hinges on their impact on the price of the imported input.

The Incidence of Affirmative Action: Evidence from Quotas in Private Schools in India

Mauricio Romero[1], Abhijeet Singh[2]
[1]ITAM, Mexico; [2]Stockholm School of Economics, Sweden

We examine the impact of a 25% quota in Indian private schools for disadvantaged students, one of the world's largest education equity programs. Lottery-based estimates show that benefiting students attend more preferred and expensive schools, but program benefits are highly regressive: only 7.4% of spending reaches the poorest quintile, while 24.3% goes to the wealthiest. Low application rates among poorer students are not due to preferences or beliefs but stem from information gaps and application barriers. A randomized intervention confirms these frictions, showing that easing a single constraint, like information, does not necessarily reduce regressivity. Our findings highlight how such barriers can undermine redistributive policies, emphasizing the need for comprehensive interventions designed to address the joint incidence of multiple constraints to applying.

Childcare Subsidies, Working Mothers, and Children's Health in a Kenyan Informal Urban Settlement

Sonia Laszlo[1], Shelley Clark[1], Patricia Wekulo[2]
[1]McGill University, Canada; [2]African Population Health Research Center

We consider the effect of childcare attendance and maternal employment on the health outcomes of young children in a low-income setting. We exploit exogenous variation introduced by a randomized childcare subsidy program in an urban informal settlement in Kenya which provided mothers of 1 to 3 year-olds with vouchers for 12 months of fully subsidized childcare. We find small, weakly significant, effects of increased childcare attendance on reporting symptoms of communicable illness. Findings suggest the income effect from the subsidy offsets this negative effect. We find little effect of maternal employment on child health. The intervention included a quality enhancement arm, where randomly selected childcare centres received early childhood development training, but we find little evidence of any effect on measured outcomes. We conclude that subsidizing childcare remains a viable policy option for encouraging maternal employment, but caution that increased exposure to communicable illness may be a factor.

11:00am - 1:00pm

A09: Labor Supply and Impacts of Job Loss

Location: SS12
Session Chair: **François Gerard**, University College London
Discussant 1: **Davud Rostam-Afschar**, University of Mannheim
Discussant 2: **Gabriel Leite Mariante**, London School of Economics
Discussant 3: **François Gerard**, University College London
Discussant 4: **Nicholas Lacoste**, Tulane University

Estimating the Welfare Cost of Labor Supply Frictions

Katy Bergstrom[1], William Dodds[1], Nicholas Lacoste[1], Juan Rios[2]
[1]Tulane University, United States of America; [2]Pontifical Catholic University of Rio de Janeiro

This paper quantifies how much people would be willing to pay to remove frictions that prevent them from working their ideal number of hours using two sufficient statistics: (1) the percentage difference between ideal and actual hours and (2) the Hicksian elasticity of ideal hours with respect to the after-tax wage rate. We estimate willingness-to-pay to remove these frictions in the U.S. and Germany. Three core findings emerge: (1) adjustment frictions—including fixed costs, discrete choice sets, and search costs—are costly for any reasonable value of the Hicksian elasticity, even when accounting for endogenous wages, multiple labor supply decisions, and dynamics; (2) the cumulative cost of adjustment frictions and tax misperceptions is even larger, with individuals willing to pay at least 10% of their income on average to remove both; and (3) adjustment frictions are much costlier than tax misperceptions.

Automation and Demand for Labor Experimental Evidence from White Collar Jobs

Eduard Brüll[1], Samuel Mäurer[2], Davud Rostam-Afschar[2]

[1]ZEW Leibniz Centre for European Economic Research; [2]University of Mannheim, Germany

We provide experimental evidence on how employers adjust expectations to automation risk in high-skill, white-collar work. Using a randomized information intervention among tax advisors in Germany, we show that firms systematically underestimate automatability. Information provision raises risk perceptions, especially for routine-intensive roles. Yet, it leaves short-run hiring plans unchanged. Instead, updated beliefs increase revenue and profit expectations without wage adjustments, implying limited rent-sharing. Employers also anticipate new tasks in legal tech, compliance, and AI interaction, and report higher training and adoption intentions. Our findings reveal how employer beliefs shape anticipatory responses to technological change.

Cash Transfers and Women's Labour Supply: Evidence from the World's Largest Programme

Gabriel Leite Mariante
London School of Economics, United Kingdom

Cash transfers are the world's most common poverty alleviation policy. While effective at short-term poverty alleviation, the standard economic view is that they reduce incentives to work, and thus increase long-run poverty. I study this trade-off by measuring the effect of an exogenous increase in Brazil's main cash transfer on the labour supply of men and women. I find no effect for men, while women increase their labour supply by 7.4%. This is driven by mothers, for whom the transfer relaxes childcare constraints, enabling them to join the labour force. Leveraging discontinuities on the allocation of education funds to Brazil's 5570 municipalities, I find that the effect is stronger in areas receiving more education funds. Overall, my paper illustrates that there is no trade-off between short-term relief and long-term poverty reduction. Rather, cash transfers encourage women's labour force participation, particularly when complementary public goods, such as educational facilities, are available.

Mitigating the Consequences of Job Loss in Low-Income Countries: Evidence from Ethiopia

Lukas Hensel[1], Girum Abebe[2], François Gerard[3], Stefano Caria[4]
[1]Peking University, China; [2]The World Bank; [3]University College London, United Kingdom; [4]University of Warwick, United Kingdom

We provide evidence on the impacts of job loss among female factory workers in Ethiopia and on how these impacts can be mitigated. We leverage quasi-experimental variation in job loss, experimental variation in job-loss support payments, and high-frequency data spanning a period of 13 months after displacement. We find that job loss is a persistent shock that reduces employment and consumption spending for longer than one year, and almost doubles the rate of poverty. An additional lump-sum payment encourages early spending and reduces both overall and manufacturing employment. In contrast, providing an equivalent amount in monthly tranches -- a payment modality preferred by a majority of workers -- enables workers to better smooth consumption expenditures without negative employment effects. We show that workers have high willingness to pay for additional job-loss insurance, but also heterogeneous preferences over the payment modality. This generates a key trade-off between workers' private welfare and the government industrialization objectives.

11:00am - 1:00pm

A10: Fiscal Policy in Africa

Location: SS13
Session Chair: **Matthew Amalitinga Abagna**, Tax Justice Network
Discussant 1: **Adama Ouedraogo**, University of Clermont Auvergne
Discussant 2: **Jesse Joonas Juhani Lastunen**, UNU-WIDER
Discussant 3: **Matthew Amalitinga Abagna**, Tax Justice Network
Discussant 4: **Kefa Maunda Simiyu**, Economics Scholar/ University of Nairobi/ KESA

Indebtedness is Injustice: Revisiting the Sovereign Debt- Inequality Nexus in East Africa

Kefa Maunda Simiyu[1,3,4,5], Fellah Wanjiru[2]
[1]Economics Scholar Panel; [2]Kenya School of Law; [3]University of Nairobi; [4]The Continental Pot; [5]Economics Students Association of Kenya

As the world enjoys greater financial globalization, developing countries continue to accumulate sovereign debts. Despite the promise of sovereign debt to raise national output, and improve the lives of the “have-nots”, income inequality has widened and continues to rise within and among countries. This is suggestive of debt that undermines justice in the distribution of incomes. This essay analyzes the extent to which accumulation of sovereign debt affected income inequality in the East African region. The global financial crisis evidenced in the year 2008 serves as a benchmark. The analysis covers the period from 1996 to 2022. The system generalized method of moments reveals that accumulation of debt was overbearing among the poorest 10percent. Income inequality rose as debt increased, suggesting that as the stock of debt rose, incomes among the poorest decile decayed faster than incomes among the richest 10percent. This effect was dampened by the global financial crisis.

International Tourism And Tax Revenue Mobilization In African Countries

Adama Ouedraogo[1], Yvan Arnold Tegui[2]
[1]CERDI, University of Clermont Auvergne, France; [2]University of Perpignan Via Domitia (UPVD), CRESEM

This paper examines the impact of international tourism on tax revenues in African countries using data from 1990 to 2020 and an instrumental variable fixed effects model. The study finds that tourism receipts have a positive and significant effect on nearly all tax revenues, except personal income tax. Additionally, this impact is influenced by factors such as income level, institutional stability, and the presence of a coastline, indicating that advanced economies with stable institutions and coastal access benefit more from tourism. The results suggest that African governments should implement clear tourism development strategies to enhance infrastructure and destination competitiveness. Furthermore, strengthening tax administrations is recommended to fully capture the economic benefits of tourism. Overall, international tourism is portrayed as a vital tool for diversifying African economies, creating jobs, and reducing the size of the informal sector.

Administrative Costs of Social Protection in Sub-Saharan Africa and Latin America: A Microsimulation Study

Jesse Lastunen, Anna Zasova, Pia Rattenhuber
UNU-WIDER, Finland

This paper evaluates the administrative costs of delivering social protection programmes in Sub-Saharan Africa and Latin America, integrating real-world estimates into SOUTHMOD tax-benefit microsimulation models. We focus on five programme types—means-tested, proxy-means-tested, non-means-tested, and in-kind benefits as well as public works—and assess how administrative costs shape total spending and reduce the effectiveness of poverty reduction efforts. Our findings show that, even with large overhead, means-tested cash benefits achieve the greatest gains in lowering poverty per budget dollar. Meanwhile, programmes with more complex delivery, namely in-kind transfers, tend to incur higher administrative expenses that diminish their cost effectiveness. Public works initiatives also face overhead but can deliver robust results. Non-means-tested cash benefits are simpler to administer but frequently reach broader population groups than intended. By including administrative costs, policymakers can form clearer budget plans that balance programme design choices against their real impact on fiscal sustainability and social goals.

Place-based Policies and Household Wealth in Africa

Matthew Amalitinga Abagna[1], Cecília Hornok Hornok[2], Alina Mulyukova Mulyukova[3]
[1]Tax Justice Network, Ghana; [2]Kiel Institute for the World Economy, Kiel Centre for Globalization, Germany; [3]Kiel Institute for the World Economy, University of Kiel, Germany

This paper provides novel evidence on the impact of a prominent place-based policy - Special Economic Zones (SEZs) - on the economic well-being of African households. Exploiting time variation in SEZ establishment on a dataset of repeated cross-sections of households in 10 African countries during 1990-2020, we show that households living near SEZs become wealthier relative to the national average after SEZ establishment. The effect accrues mostly within 10 km of SEZs, is not driven by selective migration, and is accompanied by improved access to household utilities, higher consumption of durable goods, increased educational attainment and a shift away from agricultural activities.

1:00pm - 2:15pm

Lunch I

Location: SHSS Rooftop

1:00pm - 2:15pm

Panel I: Panel discussion on the topic “How to Build Successful Research Collaborations with Government Agencies”

Location: SHSS Rooftop
Chair:
• Miguel Almunia (CUNEF Spain)
Panelists:
• Rema Hanna (Harvard, US)

• Benard Kipyegon Kirui (Privatization Commission, Kenya)
• Laban Simbeye (Zambia Revenue Authority)

2:15pm - 4:15pm

B01: Property Values and Mobility

Location: SS4
Session Chair: **Georg Thunecke**, Max Planck Institute for Tax Law and Public Finance
Discussant 1: **David Jia-Hui Streich**, Catholic University Eichstaett-Ingolstadt
Discussant 2: **Elisabet Viladecans-Marsal**, Universitat de Barcelona
Discussant 3: **Georg Thunecke**, Max Planck Institute for Tax Law and Public Finance
Discussant 4: **Greta Giulietta Fredriksson**, Uppsala University

Property Prices and Information on Flood Risks

Greta Giulietta Fredriksson
Uppsala University, Sweden

In this paper, I estimate the valuation of flood risks in Sweden by looking at property sales. A hedonic price model combined with a distance defined difference-in-differences method is used to estimate the marginal change in property prices following increased salience in information regarding flood risks. The results reveal a robust effect on properties close to predicted floods from the sea. The willingness to pay for increasing the distance to the predicted flooded area is estimated to be between 0.1 and 0.2% per meter using a linear specification. When allowing the marginal effect to differ depending on the distance fo the risk area it goes from no effect inside and close to the risk area to 1% at a distance of 100 meters. This implies that the effect is driven by the sales of properties that have some distance, but are still very close, to areas at risk of flooding

Commuting Costs And Housing Prices

Jörg Claussen[1], David Jia-Hui Streich[2]
[1]Ludwig Maximilian University, Munich; [2]Catholic University Eichstaett-Ingolstadt, Germany

We study the effect of the introduction of the Deutschlandticket (DT), a large-scale German policy intervention that substantially decreased the costs of commuting by public transport, on housing prices. We use the introduction of the DT and cross-sectional variation in the reduction of commuting costs (by commuting distance) in a continuous-treatment difference-in-differences (DiD) setting. Our analyses are based on detailed data on commuting patterns on a municipality-pair level and extensive data on rental offerings from three large online platforms for our analyses. We document a small increase in relative rents in municipality pairs with higher cost savings from the DT. The effect is driven by smaller apartments and by municipality pairs with more feasible public transport commutes. Further heterogeneity results suggest that commuters use the cost savings to pay higher rents in more attractive housing locations, which aggravates existing housing market pressure in urban areas.

When Developers Hold Office: Shaping Housing Supply Through Local Politics

Albert Solé-Ollé[1], Ghilzen Ouasbaa[2], Elisabet Viladecans[1]
[1]U. of Barcelona, Spain; [2]U. Pompeu Fabra

We examine the impact of city council members with real estate backgrounds on housing supply in California between 1995 and 2019. Using candidate occupation data and a close-elections regression discontinuity design, we find that electing a developer increases approved housing units by 68% during their term, especially for multifamily projects. The effect operates primarily through discretionary zoning approvals and does not persist beyond the developer's term, suggesting limited impact on broader regulatory reform. These findings offer new causal evidence on how policymakers' professional backgrounds shape land-use decisions and contribute to a long-standing debate on the political origins of housing supply constraints.

Property Taxation and Housing Supply

Stefanos Lagios[1], Georg Thunecke[2]
[1]Technical University Munich; [2]Max Planck Institute for Tax Law and Public Finance, Germany

This study investigates the impact of property taxation on housing supply using a comprehensive dataset of 22,913 property tax rate changes across German municipalities. Leveraging an event study approach, we identify significant negative effects of property tax increases on the property tax base, housing supply, and local population growth, with the strongest impacts observed in small and West German municipalities. Our findings underscore the distortive effects of property taxation on housing markets, indicating that higher property taxes may exacerbate housing shortages. Notably, as taxable property values in Germany remain fixed and independent of tax rates, our analysis isolates the extensive margin response of the property tax base—manifested through changes in housing supply—in reaction to tax hikes.

2:15pm - 4:15pm

B02: Minimum Corporate Tax and Firm Behavior

Location: SS5
Session Chair: **Jakob Miethe**, University of Munich
Discussant 1: **Dave Goyvaerts**, Ghent University
Discussant 2: **Camille Semelet**, ifo institute
Discussant 3: **Jakob Miethe**, University of Munich
Discussant 4: **Tomas Boukal**, Charles University, Faculty of Social Sciences

Leveling Playing Field: Analysis Of Firm-Level Responses To The Introduction Of Global Minimum Tax

Tomas Boukal[1], Petr Janský[1], Niels Johannesen[2], Miroslav Palanský[1,3]
[1]Charles University, Faculty of Social Sciences, Czech Republic; [2]Saïd Business School, Oxford University; [3]Tax Justice Network, London, United Kingdom

We propose a methodology to estimate the impact of the 2024 global minimum tax on the effective tax rates of multinational enterprises. Using a dataset of 1,300 multinationals operating in Czechia from 2017 to 2022 (nearly 300,000 firm-country observations), we assess three main objectives of this reform: (i) increasing tax contributions, (ii) reducing profit shifting, and (iii) decreasing tax rate disparities. Our findings suggest that effective tax rates will rise significantly, increasing the average tax rate by approximately 4 percentage points and generating an additional €200 billion in revenue. This will also narrow intra-firm tax rate disparities, particularly affecting 'internal profit centers'—affiliates with a high share of intra-firm revenue. Finally, by reducing tax rate differences across firms, the reform would result in a more equitable tax system, limiting profit-shifting opportunities for large multinationals and aligning their tax burdens more closely with smaller firms.

Investor Expectations For The Pillar 2 Global Minimum Tax

Dave Goyvaerts
Ghent University, Belgium

In 2021, the OECD announced that over 130 jurisdictions supported its "Pillar 2" proposal for a 15 percent global minimum effective tax rate for large multinational enterprises. This proposal has since been adopted unanimously by the European Union, and has come into force on 1 January 2024. We employ an event study methodology using daily 2021 stock market returns of 1.782 EU and US firms to determine how Pillar 2 announcements affected the value of firms subject to the global minimum tax, and that of their competitors. We find a significant negative impact on the stock market returns of directly affected US firms, while the impact on EU firms appears to be limited, suggesting investors in EU are less worried about the impact of future anti-tax avoidance regulations. In our current specifications, we find no conclusive evidence of a causal effect on the stock market returns of their competitors.

Tax Reform, Foreign Investment, and Minimum Tax

Camille Semelet[1,2,3]
[1]ifo institute; [2]LMU; [3]World Bank

This paper examines the impact of the 2017 US Tax Cuts and Jobs Act (TCJA) on the investment behavior of US multinational corporations (MNCs) in Germany. The TCJA introduced substantial corporate tax changes, including a reduction in the US corporate tax rate, full expensing of certain capital expenditures (bonus depreciation), and the Global Intangible Low-Taxed Income (GILTI) provision, which altered incentives for foreign investment. Using a triple difference-in-differences framework and firm-level data on foreign-owned subsidiaries in Germany, this paper investigates whether US MNCs reallocated investment towards the US or increased tangible investment in Germany in response to the tax cut and GILTI. The findings shed light on the trade-offs between tax-motivated profit shifting and real economic activity in high-tax jurisdictions.

Who Faces the Global Minimum Tax? Group Size, Profit Shifting, and Policy Thresholds

Jakob Miethe[1], Sarah Clifford[2], Camille Semelet[3]
[1]University of Munich, Germany; [2]University of Oxford; [3]ifo institute

This paper characterizes profit shifting behaviour across the size distribution of multinational firms to evaluate the appropriate targeting of the recently introduced Global Minimum Tax (GMT). We document that the propensity to use tax haven subsidiaries increases substantially with group size. Second, we introduce a new methodology to estimate shifted profits at the group level and find an exponential group size gradient in profits shifted to tax havens. Lastly, we relate the potential tax revenue gains from the GMT to the compliance costs of MNEs and conclude that revenue gains clearly dominate compliance costs for large groups currently covered by the GMT and that potential net revenue gains from lowering the threshold are modest.

2:15pm - 4:15pm

B03: Migration

Location: SS6
Session Chair: **Panu Poutvaara**, ifo Institute and University of Munich
Discussant 1: **Yogam Kom Tchokni**, DIW - German Institut for Economic Research
Discussant 2: **Luciana M. Galeano**, University of Michigan
Discussant 3: **Panu Poutvaara**, ifo Institute and University of Munich
Discussant 4: **Jan Gromadzki**, Vienna University of Economics and Business

Exclusionary Government Rhetoric and Migration Intentions

Jan Gromadzki[1], Pawel Adrjan[2]
[1]Vienna University of Economics and Business, Austria; [2]Indeed Hiring Lab

In 2019, almost 100 local governments in Poland voted to declare their localities “free from LGBTQ ideology,” providing a unique setting in which government narratives suddenly changed, but the legal situation of targeted minorities remained the same. We study the impact of these resolutions on migration intentions using novel data on domestic and international job search from a large global job site. Comparing counties with anti-LGBTQ resolutions to neighboring counties in a difference-in-differences design, we find that the resolutions increased domestic out-of-county job search by 12 percent and international job search by 15 percent. The shock to beliefs about local social norms likely drives our results, as we find the largest effects in counties with relatively low prior support for far-right parties. We also present suggestive evidence that the rise in job search translated into actual migration, with the treated counties losing nearly one percent of their young adult population.

Migration Aspirations and Knowledge About Legal Migration Opportunities

Yogam Tchokni[1], Tobias Heidland[2], Jens Ruhose[3], Bernd Beber[4], Mame Mor Anta Syll[6], Stefan Leopold[5]
[1]DIW - German Institut for Economic Research, Germany; [2]Kiel Institute for the World Economy (IfW); [3]Kiel University; [4]RWI – Leibniz Institute for Economic Research; [5]Kiel University; [6]Université Gaston Berger

Despite economic disparities, migration from developing to advanced economies remains low because people do not know whether and how they can migrate, are not allowed to migrate, do not want to migrate irregularly, or cannot afford to migrate. This paper examines how informing individuals about legal migration pathways affects aspirations for mobility and qualifications. We conduct an experiment in rural Senegal, providing information and basic assistance on the U.S. Diversity Visa Lottery, which offers medium- and high-skilled migrants access to permanent residence. The intervention significantly increases migration intentions and shifts preferences toward legal pathways. However, ineligible individuals, particularly those already contemplating irregular migration, show increased interest in irregular migration, which may be seen as an unintended consequence. Education aspirations increase only weakly at high baseline aspirations. Aspirations already surpass the visa policy requirements for most respondents, but participants lack the capabilities to achieve them.

Addressing Regional Tax Distortions with a Place-Based Policy

Luciana M. Galeano
University of Michigan, United States of America

This paper studies a place-based tax cut in Patagonia, Argentina, implemented to correct a distortion from national income tax policy interacting with regional labor institutions. Using employer-employee panel data and firm-level analysis, I examine the policy's effects on wages and the spatial reallocation of workers and firms. While aggregate worker migration does not increase, the policy creates opposing wage effects: the premium rises for workers moving to Patagonia but falls for those switching jobs within the region. Firm-level analysis shows evidence of spatial reallocation, with accelerated growth among firms operating across both regions. These findings reveal a segmented labor market with opposing wage effects, a pattern difficult to reconcile with simple competitive models and points toward the importance of bargaining dynamics and firm heterogeneity.

What Drives Refugees’ Return After Conflict? Evidence From a Conjoint Experiment Among Ukrainian Refugees

Joop Adema, Lasha Chargaziia, Yvonne Giesing, Sarah Necker, Panu Poutvaara
ifo Institute and University of Munich, Germany

Refugees’ decisions about returning are of great importance to both their origin and host countries. We examine whether geopolitical factors and international alliances directly influence return decisions. To derive causal estimates of how the post-war security situation and economic prospects affect return decisions, we conducted a conjoint experiment among Ukrainian refugees in 30 European countries. In the experiment, respondents were asked how likely they are to return to Ukraine under different scenarios. Territorial integrity and security guarantees are crucial, but economic prospects and combating corruption also play an important role. We estimate that, in the most optimistic scenario, half of Ukrainian refugees expect to return, while,

in the most pessimistic scenario, only 3% expect to return.

2:15pm - 4:15pm

B04: Taxing Business Owners

Location: SS7
Session Chair: **Wojciech Kopczuk**, Columbia University
Discussant 1: **David Gstrein**, ifo Institute & LMU Munich
Discussant 2: **Miko Tapio Ensio Hallikainen**, Tampere University
Discussant 3: **Wojciech Kopczuk**, Columbia University
Discussant 4: **Dirk Foremny**, Universitat de Barcelona / IEB

Avoidance Responses to Dual Income Taxation: Income Shifting through Owner-Controlled Corporations

Dirk Foremny, Darío Serrano-Puente
Universitat de Baqrcelona / IEB, Spain

This paper provides evidence on the strategic use of owner-controlled firms as a means of tax avoidance under dual personal income taxation. Taxpayers with sufficiently high income levels have incentives to shift income toward corporations, as the combined tax burden of corporate and capital income taxes is lower than that of labor income taxation. We exploit linked micro-data from personal income tax returns and various other sources, leveraging multiple tax reforms in Spain that introduced variation in these incentives across taxpayers and over time. This approach allows us to causally identify the magnitude of income shifting behavior. We find significant tax-motivated responses among business owners, with a semi-elasticity of 0.26 with respect to potential tax savings from incorporating. However, this number varies significantly between types of tax reforms and across tax payers, showing that substantial change of the tax code are more relevant than simple rate changes.

Cashing Out and Moving On: The Taxation of Business Sales

David Gstrein[1,2]
[1]ifo Institute for Economic Research; [2]LMU Munich

This paper examines how capital gains tax legislation shapes business sales in Germany. Using detailed income tax data on a representative sample of German business owners, the paper documents the characteristics of sellers and analyzes their post-sale behavior. A regression discontinuity design provides evidence of a substantial jump in the number of transactions around a discontinuity in the capital gains tax rate, suggesting that lock-in effects play a significant role. Entrepreneurs with larger capital gains and worse outside options respond particularly strongly to the discontinuity. The results have implications for our understanding of how capital gains tax provisions affect entrepreneurial decisions and broader economic outcomes.

The Impact of Succession Taxes on Family Firm Performance and Composition

Miko Hallikainen[1,2], Ella Mattinen[1,2]
[1]Tampere University, Finland; [2]Finnish Centre of Excellence in Tax Systems Research

Inheritance and gift taxes may induce liquidity-constrained family-owned businesses to discontinue, as meeting tax liabilities potentially worsens performance. Thus, preferential tax treatment for intra-family transfers is often considered appealing policy. This paper studies the impact of such treatment using a 2004 Finnish reform that sharply reduced gift and inheritance taxes for family business transfers. We construct a repeated cross-section of

firms from 1999 to 2010 and classify them as dynastic or non-dynastic based on the presence of the owner's child on the board prior to succession. We compare trends before and after the reform to assess whether it influenced firms' decisions to sell, retain ownership within the family, or liquidate. We also examine precautionary behavior prior to succession and key indicators of firm performance. Our estimates show that family succession rises immediately after the reform, with clear anticipatory behavior, but we detect no significant effects on behavioral or financial outcomes.

Business Organization and Taxation of High-Income Professionals: Evidence from Canadian Doctors

Wojciech Kopczuk[1], Terry S. Moon[2], Michael Smart[3]
[1]Columbia University, United States of America; [2]University of British Columbia, Canada; [3]University of Toronto, Canada

We assess tax and real economic implications of facilitating the option to incorporate by physicians in Canada, by exploiting the 2006 reform in Ontario which allowed family members to own shares in these businesses. The administrative tax data allows us to trace individual and businesses incomes, both corporate and unincorporated, and taxes for as many as 12 years after the reform. We use a triple-differences design, comparing the outcomes of physicians in Ontario with other high-income professionals and other provinces. The reform stimulated incorporation. Pre-tax personal income and taxes paid (aggregated at the family level) significantly decrease, while their pre-tax business income and corporate taxes substantially increase. The overall income (personal and corporate combined) increases while the average effective tax rate decreases after the reform. Taken together, these results are consistent with both tax avoidance through a corporation and real response via business expansion after incorporation.

2:15pm - 4:15pm

B05: Inheritance Taxation and Intergenerational Mobility

Location: SS8
Session Chair: **Philipp Doerrenberg**, University of Mannheim
Discussant 1: **Laurence O'Brien**, Institute for Fiscal Studies
Discussant 2: **Arttu Johannes Kauhanen**, University of Helsinki
Discussant 3: **Philipp Doerrenberg**, University of Mannheim
Discussant 4: **Pascal Zamorski**, ifo Institut & LMU Munich

Inheritance Rules and Intergenerational Mobility: Evidence from France

Tommaso Giommoni[1], Gabriel Loumeau[2], Andreas Peichl[3,4], Pascal Zamorski[3,4]
[1]University of Amsterdam; [2]Vrije Universiteit Amsterdam; [3]ifo Institut; [4]University of Munich

This paper examines the long-term effects of inheritance rules on economic development and intergenerational mobility. We exploit a historical natural experiment in pre-revolutionary France, where inheritance customs varied sharply: some regions mandated equal division among heirs, whereas others allowed inheritance favoritism. Using a spatial regression discontinuity design and a rich dataset spanning up to 600 years, we estimate the causal effect of inheritance regimes on long-run economic outcomes. Our analysis relies on detailed genealogical records of over six million individuals born between 1400 and 1900 near the inheritance border. We find that historically egalitarian areas exhibit higher income, lower poverty, and reduced inequality today, even more than two centuries after these rules were abolished. Additionally, we show that the positive effects of equal inheritance on life expectancy already emerged for generations born before the French Revolution.

How Do Wealth Transfers In Early Adulthood Affect Savings And Income Trajectories?

Arjan Lejour[1,2], Laurence O'Brien[3,4], Kate Smith[3,5], David Sturrock[3,4]
[1]Tilburg University; [2]CPB Netherlands Bureau for Economic Policy; [3]Institute for Fiscal Studies, United Kingdom; [4]University College London; [5]London School of Economics

We provide new evidence on the impact of inheritance receipt in early adulthood on a range of economic outcomes. We use rich administrative data from the Netherlands and an empirical strategy that exploits randomness in the timing of parental and grandparental death. We show that a euro of inheritance leads to an initial increase in wealth of 40¢, which shrinks by half over the following seven years. Half of this initial increase comes from a rise in property assets, which is much more persistent than the increase in other assets. Each euro inherited also leads to a 2¢ fall in annual labour income, with larger falls for younger individuals. There is a small positive effect on business income for recipients with low wealth before inheritance receipt, suggesting that inheritances alleviate credit constraints for some. Our results have important implications for the design of policies such as inheritance and gift taxation.

The Impact of Childhood Neighborhoods on Intergenerational Mobility in Finland

Arttu Johannes Kauhanen
University of Helsinki, Finland

In this work, I find significant exposure effects of childhood neighborhoods on intergenerational income mobility and on the probability of matriculating from high school. However, these effects disappear when controlling for family fixed effects, suggesting differential selection of families on age at move of the child.

I conclude that the differences between regions are likely to stem from sorting rather than from causal effects of neighborhoods. My results demonstrate that the studies conducted in the United States are not necessarily generalizable to the contexts of different societies such as the Nordic welfare state.

The Real Effects of Job Protection Legislation on Firm Performance -- Evidence From German Inheritance Tax

Philipp Doerrenberg, Richard Winter, Jan Zental
University of Mannheim, Germany

This paper examines the real effects of employment protection measures on firm performance by leveraging a unique feature of German inheritance and gift tax law. Specifically, we exploit the preferential tax treatment granted to gratuitous business transfers, which is contingent on meeting minimum holding periods and payroll sum requirements. To study these effects, we identify firm ownership changes triggered by the death of the owner, utilizing Orbis ownership data and publicly available death records. We merge this data with administrative employment data and employ a stacked difference-in-differences design, exploiting a size-dependent applicability threshold. By comparing firms subject to payroll-sum requirements to those exempted, we isolate the causal impact of these provisions, as both treatment and control group undergo an exogenous succession event. Our preliminary findings indicate that the minimum-employment requirements significantly reduce employment growth, with affected firms experiencing up to 20\% slower growth relative to the control group.

2:15pm - 4:15pm

B06: Pension Reforms

Location: SS9
Session Chair: **Kathleen McKiernan**, Vanderbilt University
Discussant 1: **Juan Rios**, PUC Rio de Janeiro
Discussant 2: **Qquillaccori García López**, Norwegian School of Economics
Discussant 3: **Kathleen McKiernan**, Vanderbilt University
Discussant 4: **Heidi Karjalainen**, Institute for Fiscal Studies

Decumulating Defined Contribution Pensions in Retirement: Evidence on Lump Sum Withdrawals in the United Kingdom

Jonathan Cribb, Heidi Karjalainen
Institute for Fiscal Studies, United Kingdom

In the US and UK in particular, new retirees make complex decumulation decisions regarding defined contribution pension wealth. We use detailed data on wealth portfolios of people aged 50-64 in the UK to understand how people access DC pensions. Accessing pensions by making (taxable) lump-sum withdrawal is most common, and is associated with impatience but not with financial literacy. Some individuals use liquidity of DC wealth to pay off formal loans. Finally, many seem unprepared for their decumulation decisions: over 40% of 50-64 year olds do not know how they plan to access their DC wealth, particularly women and those with lower levels of wealth.

Financial Incentives, Pension Claiming, And The Value Of Early Retirement Benefits

Gabriel Thomas Da Justa Lemos, Juan Rios, Gustavo Gonzaga
Pontifical Catholic University of Rio de Janeiro, Brazil

This paper examines the welfare effects of pension reforms that increase financial incentives to delay claiming. We leverage the 2015 Brazilian pension reform, which allowed workers past an individual-specific threshold to claim early retirement benefits with full replacement rate - a 30% increase at the discontinuity. Using novel administrative records on early retirement claims and labor market data, we estimate the substitution elasticity of pension claiming and the income elasticity of retirement. We extend the model by Kolsrud et al. (2024) to show that these elasticities,

along with the income elasticity of claiming, are sufficient statistics for welfare analyses whenever claiming and labor market exit are separate decisions. Lastly, we evaluate whether informational channels are behind the lack of responsiveness to incentives. We show that easier access to social security offices does not have a significant impact, but that local knowledge of social security rules can affect responsiveness to financial incentives.

Closing the Gender Gap in Pensions? Pension Accrual for Unpaid Care Work and Household Behavior After Retirement

Qquillaccori García López
Norwegian School of Economics

I provide a comprehensive analysis of the impact of a pure change in pension wealth on retirement behavior. I exploit a 2010 Norwegian policy reform that retroactively extended childcare-related pension credits to mothers of children born between 1967 and 1991. I quantify the resulting increase in pension benefits and assess the policy's potential to narrow the gender pension gap, along with any distortionary effects on labor supply and pension claiming. Using population-wide administrative data from Norway, I estimate pension benefits for all beneficiaries had the policy not been adopted and implement a difference-in-differences design, leveraging the variation in the credits' impact on final pension benefits. My findings show that the policy increased pension benefits by an average of 2.5%, contributing to a 1.5pp reduction of the gender gap in lifetime pension benefits. I find small, negative effects on employment, earnings, and take-up of other benefits with spillovers to the partners.

Incentives for Early Retirement and Pension Reform

Kathleen McKiernan
Vanderbilt University, United States of America

The share of retirees and the size of benefits paid are critical to determine an economy's aggregate pension spending. Increasing the statutory retirement age is a popular policy proposal to decrease the burden of aging populations on pension systems by decreasing the share of households eligible for pension benefits. However, in a system in which pension benefits are a function of lifetime earnings, changes in both the extensive and intensive margins of labor supply in response to a reform impact pension costs. Using a heterogeneous-agent OLG model with endogenous retirement choice and pension benefits, I study a 2019 Brazilian pension reform which increased the retirement age. I find that while the reform decreases aggregate pension costs, it leads to welfare losses for high-income households. Moreover, I find that a policy limiting the link between intensive margin labor supply and benefits leads to higher aggregate pension costs than the 2019 reform.

2:15pm - 4:15pm

B07: Behavioral Responses to Personal Income Taxation

Location: **SS10**
Session Chair: **Andreas Peichl**, ifo Institute & LMU
Discussant 1: **Reetta Varjonen-Ollus**, University of Helsinki
Discussant 2: **David Garces Urzainqui**, University of Copenhagen
Discussant 3: **Andreas Peichl**, ifo Institute & LMU
Discussant 4: **Jacob E Bastian**, rutgers university

Evaluating the Impact of Expanded Tax Credits on the Wellbeing of Puerto Rican Families

Jacob E Bastian
rutgers university, United States of America

This paper investigates how recent expansions to the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) in Puerto Rico shape labor force participation, household income, and overall well-being. Employing data from the Puerto Rico Community Survey and a difference-in-differences framework, it finds that greater credit generosity correlates with higher employment rates, increased earnings, and reductions in poverty. Because these tax credits link benefits directly to earned income, they especially help low-income and female-headed families, long excluded from key federal tax provisions. Results also suggest that these policies reduce reliance on traditional welfare programs and boost household financial stability. By situating Puerto Rico's policy shifts within broader U.S. and global tax credit experiences, this study informs policy decisions aimed at mitigating persistent poverty and stimulating economic mobility on the island. Overall, expanded EITC and CTC appear to be critical tools for improving the economic well-being of Puerto Rican families.

Behavioural Effects of a Top Marginal Income Tax Rate Increase

Reetta Varjonen-Ollus
University of Helsinki, Finland

This paper estimates the elasticity of taxable income (ETI) for the highest 1% labour-income earning individuals, utilizing a change in taxation in 2013, when a new top tax bracket was added to the earned income tax schedule in Finland. There are not many estimates for the top income elasticity in the literature, even though their response is crucial in determining the income-maximizing level of top income taxation. This study contributes to the top income ETI literature by employing a triple-differences method comparing changes in income within the same income groups for different time periods. The results suggest that the ETI for top earners (0.5) may be higher than found in the previous population estimates. This finding is primarily driven by individuals experiencing fewer labour market frictions, such as those who have changed employer or have had multiple employers during the studied period.

Assessing The Impact Of Personal Income Tax Reform In Kenya With Administrative Data: Behavioral Responses and Distributional Implications

David Garces Urzainqui[1], Jane Kanina[2], Josephine Mugure[2], Peter Fisker[1], Jacob Nato[3]
[1]University of Copenhagen, Denmark; [2]Kenya Revenue Authority; [3]KIPPRA

This paper leverages administrative tax data from Kenya to make several contributions to our understanding of personal income taxation in developing countries. First, we exploit recent tax reforms to credibly estimate the elasticity of income to changes in marginal tax rates from a taxpayer panel with state-of-the-art methods, a novelty in the context of Sub-Saharan Africa. We find a value of 0.3 for our sample of 'middle-class' individuals, which conceals large disparities between inelastic public workers and a rather elastic private sector. Second, we combine administrative tax data with household survey data to properly measure income inequality and assess the success of personal income taxes in reducing it under the current structure and several potential reforms. We also combine these data sources to quantify the compliance gap at around 20% to 25% of potential revenue, mainly attributable to self-employed workers.

Pareto-Improvements, Welfare Trade-Offs and the Taxation of Couples

Andreas Peichl, Felix Bierbrauer, Pierre Boyer, Daniel Weishaar
ifo Institute & LMU, Germany

We develop a theory of tax reforms for a setting with multi-dimensional heterogeneity amongst taxpayers and multiple economic decisions that are all subject to fixed and variable costs. The theorems in this paper provide a complete characterization of the conditions under which Paretoor welfare-improving tax reforms exist. We focus on one application, the taxation of couples, and present a detailed analysis of the behavioral responses to taxation in this setting. Squaring the theorems with this analysis yields sufficient statistics for the existence of Pareto- or welfareimproving tax reforms. In the empirical part, we apply them to US data. Our findings include the following: Tax rates on secondary earnings are inefficiently high when secondary earnings are close to primary earnings. Also, reducing the tax system's degree of jointness is not Paretoimproving. Whether it raises welfare depends on a trade-off between poverty alleviation and gender balance.

2:15pm - 4:15pm

B08: Informality

Location: **SS11**
Session Chair: **Anne Brockmeyer**, World Bank
Discussant 1: **Luciano Greco**, University of Padua
Discussant 2: **Kwabena Adu-Ababio**, UNU-WIDER
Discussant 3: **Anne Brockmeyer**, World Bank
Discussant 4: **Maximiliano Lauletta**, Federal Reserve Board

The Role of Cash in Illegal Labor Market Practices: Evidence from Uruguay

Maximiliano Lauletta[1], Javier Feinmann[2], Marcelo Bergolo[3]
[1]Federal Reserve Board, United States of America; [2]University of California Berkeley; [3]IECON-UDELAR

This paper studies the effect of prohibiting the use of cash for wage disbursements on labor markets in developing countries. We study a reform in Uruguay that mandated wage payments to be disbursed using electronic methods. Using a difference-in-differences approach based on pre-reform sector-level cash intensity, our results indicate that firms in high cash intensity sectors are significantly more likely to discontinue formal activities post-reform. Active firms show a slight reduction in the number of employees and an increase in reported wages. These results are driven by low productivity firms. Complementary results using survey data indicate an increase in informal

employment and a decrease in collusive underreporting of earnings partially explain these results. Overall, results suggest that, while eliminating cash for wage payments enhances tax compliance among formal workers, it may also shift some economic activity into full informality, offsetting the revenue gains from improved payroll tax compliance.

Bunching at Kink Points with Informal Economy: a Tax-Benefit Approach

Luciano Greco[1], Enlinson Mattos[2], Armando Barros[3]
[1]University of Padua, Italy; [2]Sao Paulo School of Economics (EES; [3]Vancouver School of Economics

This paper examines bunching responses at kink points in the effective marginal tax-benefit schedule, capturing the interaction of income taxation, social security contributions, pension benefits, and informality. Using Brazilian matched employer-employee administrative data, we proceed in three steps. First, we identify workers who bunch at the kink created by the pension-benefit cap, documenting how intensity varies across worker types, sectors, and firm sizes. Second, we assess the impact of payroll tax reductions on bunching, quantifying how lower labor taxes shape worker responsiveness. Third, we investigate whether transitions to the simplified Simples tax regime affect bunching independently of social security incentives, isolating the role of tax simplification. Theoretically, we extend Saez (2010) and Chetty et al. (2011) by incorporating the discounted value of pension benefits into effective marginal tax-benefit rates and showing analytically how access to informal income amplifies bunching at kinks.

Minimum Wage and Tax Kink Effects in the Formal and Informal Sector in Zambia

Kwabena Adu-Ababio
UNU-WIDER, Finland

We explore the effects of a minimum wage hike in 2018 and an upward revision in the first kink in the progressive income tax schedule in 2017 in Zambia, to compare their impacts on wages in both the formal and informal sectors. We show that the minimum wage effects spill over into the informal sector despite being targeted at the formal sector. We propose and show a new lighthouse effect, where tax kinks are a reference point for wage setting in the uncovered informal sector. Results show that the minimum wage increases informal wages by 0.4%. Additionally, a hike in the first tax kink produces similar distributional effects and reduces real wages just above the revised kink of both formal and informal workers. With the informal sector's persistence on new bunchers driving our results, we confirm that the new lighthouse effect is relevant in the case of a developing country.

Formal Labor Market Dynamics in Developing Countries

Anne Brockmeyer[1], François Gerard[2], Gabriel Ulyssea[2], Linda Wu[2]
[1]World Bank, United States of America; [2]University College London

We study the dynamics of formal employment, using matched employer-employee panels from ten countries at different income levels, and from across states in Brazil and Colombia. We show that increases in formality rates with development are driven by the extensive rather than the intensive margin of formal employment. Countries and regions with higher formality exhibit a higher rate of job-to-job switches and higher returns to tenure. As a result, formal workers in these regions experience higher life-cycle wage growth.

2:15pm - 4:15pm

B09: Microsimulation and Benefits

Location: SS12
Session Chair: **Snorre Skagseth**, Statistics Norway
Discussant 1: **Takeshi Miyazaki**, Kyushu University
Discussant 2: **Snorre Skagseth**, Statistics Norway
Discussant 3: **Timo Meiendresch**, Fraunhofer FIT

Unclaimed Benefits: Non-Take-Up of German Means-Tested Benefits

Timo Meiendresch[1,2]
[1]Fraunhofer FIT, Germany; [2]University of Freiburg, Germany

This study estimates non-take-up rates for three German means-tested benefits and examines their determinants. While prior research has largely focused on basic income support, less is known about housing allowance ("Wohngeld") and supplementary child benefits ("Kinderzuschlag"), despite their rising importance and related nature. Employing a microsimulation model based on official Mikrozensus data that replicates the German tax and benefit system, the analysis reveals higher non-take-up rates for housing allowance and supplementary child benefits compared to basic income support. Moreover, cross-benefit analysis indicates that participation in one scheme may affect engagement in others, while regression results offer novel insights into access barriers.

Redistributive Effects of Consumption Tax and Income Tax: Evidence from Household Level Data

Takeshi Miyazaki, Liang Shuyi
Kyushu University, Japan

This paper examines the impact of Japan's consumption taxes on the income distribution from 1989 to 2014. Using micro-level data from the National Survey of Family Income and Expenditure (NFSIE), we apply statutory tax rates to calculate exact consumption tax burdens for each household and measure its redistributive effect by Reynolds-Smolensky index. The results suggest that consumption taxes in Japan are regressive and thus increasingly offset the redistribution efforts made by income taxes. The fixed income and consumption approach further confirms that changes in household spending and saving patterns have magnified this anti-redistributive effect. The findings underscore the need for targeted policy measures to reduce the burden on low-income groups.

Predicting Behavioral Effects of Tax Policy by External Evidence

Snorre Skagseth[1], Zhiyang Jia[1], Thor O. Thoresen[1,2], Trine E. Vattø[1]
[1]Statistics Norway, Norway; [2]Norwegian Fiscal Studies (University of Oslo)

Behavioral microsimulation models can be used to supplement results from non-behavioral tax-benefit models in policy-making. However, the policy analyst may not always have access to a fully developed behavioral simulation model for the policy issue in question. Here we draw attention to an alternative, which implies describing behavioral effects by using response estimates from other studies. We refer to this approach as "using external evidence". We illustrate how tax revenue and distributional effect estimates can be derived by integrating external tax elasticity estimates into a non-behavioral tax-benefit model. The framework is illustrated using two examples from Norwegian tax policy.

2:15pm - 4:15pm

B10: Cross-Border Trade

Location: SS13
Session Chair: **Nora Strecker**, University College Dublin
Discussant 1: **Abiodun Adewale Adegboye**, West African Tax Administration Forum
Discussant 2: **Nikolai Stähler**, Deutsche Bundesbank
Discussant 3: **Nora Strecker**, University College Dublin
Discussant 4: **Mehmet Serkan Tosun**, University of Nevada, Reno

Tax Elasticity of Border Sales: A Meta-analysis

Dat Huynh, Anna Sokolova, Mehmet Serkan Tosun
University of Nevada, Reno, United States of America

When nearby regions have different tax rates, residents may travel to shop in the lower tax rate region. The extent of this activity is captured by the tax elasticity of border sales (TEBS). We collect 749 estimates of TEBS reported in 60 studies, and conduct the first meta-analysis of this literature. We show that the literature is prone to selective reporting: positive estimates are systematically discarded. Sales of food, retail and fuel are more elastic compared to sales of tobacco and other individual 'sin' products. Cross-border shopping is more prominent in the US—compared to Europe and other countries.

Revenue Administration Capacity Requirements In The African Continental Free Trade Area: Evidence From West Africa

Abiodun Adewale Adegboye[1], Dotsevi Wolali Nyatefe[2], Francis Chinedu Ezeji[2]
[1]Obafemi Awolowo University, Nigeria, Nigeria; [2]West African Tax Administration Forum

The relationship between taxation and trade is complex, with far-reaching implications. This paper explores strategies to support tax administration in West Africa. By combining micro and macro data, we found that trade integration can impact tax revenue, consistent with existing economic integration literature. However, our analysis also revealed weak institutional collaboration in managing trade-tax complexities. Notably, domestic tax departments in sampled West African countries showed limited understanding of the African Continental Free Trade Area (AfCFTA), whereas customs departments demonstrated greater awareness and capacity. To address these challenges, capacity-building strategies for revenue and trade officials should include training on optimal tax and

trade policy design.

America First? The Macroeconomic Effects Of Punitive Tariffs

Anne Ernst[1], Natascha Hinterlang[1], Marius Jäger[1,2], Nikolai Stähler[1]
[1]Deutsche Bundesbank, Germany; [2]Albert-Ludwigs-University Freiburg, Germany

This paper examines the macroeconomic and welfare impacts of various tariff scenarios using a four-region dynamic general equilibrium model with a multi-sectoral production network. The scenarios include unilateral US tariffs, coordinated US-EU tariffs, Chinese retaliation, Europe's non-participation, and sector-specific versus broad tariffs.

Our results show that tariffs initially boost domestic output by making local goods cheaper. While consumption increases permanently, the output benefits are short-lived. Increased production costs and reduced global income negate the output gains over time. China has an incentive to retaliate and when it does so, welfare losses deepen for the affected partners. Additionally, the rest of the world suffers from reduced aggregate income regardless of direct involvement in tariff conflicts. Sector-specific tariffs are found to be less effective than broad tariffs by failing to protect non-targeted industries. Overall, tariffs appear inefficient for economic protection due to the high possibility of retaliation.

When Two Quarrel, The Third Rejoices: The Third-party Impact Of EU-Russia Trade Sanctions In South Africa

Lisa Scheckenhofer[1], Nora Strecker[2], Georg Thunecke[3]
[1]Ifo Institute for Economic Research; [2]University College Dublin, Ireland; [3]Max Planck Institute for Tax Law and Public Finance

The European Union's sanctions against Russia following the Ukraine invasion have reshaped global trade dynamics. While direct effects on sanctioning and sanctioned countries are intuitive, little is known about the effects on neutral third-party nations like South Africa. This study examines trade diversion and round-tripping of sanctioned products to and through South Africa using detailed administrative trade data. Moreover, we explore the effects of such trade at the firm and worker level via linked employer-employee data. Using a series of event studies, we analyze monthly transaction-level 6-digit product-level trade flows, revealing shifts in import and export patterns in South Africa and direct and indirect sanction parties.

2:15pm - 4:15pm

B11: Transfer Pricing and Thin-Cap Rules

Location: SS14
Session Chair: **Dr. Andreas Oestreicher**, Georg-August-Universität Göttingen
Discussant 1: **Julia Spix**, ZEW – Leibniz Centre for European Economic Research
Discussant 2: **Dr. Andreas Oestreicher**, Georg-August-Universität Göttingen
Discussant 3: **Simon Loretz**, Austrian Institute of Economic Resarch

Targeted Corporate Tax Reforms And Anti-avoidance Regulations In The Forward-looking Effective Tax Rate Framework

Simon Loretz
Austrian Institute of Economic Resarch, Austria

This paper extends the forward-looking effective tax rates of Devereux and Griffith (1998) to model targeted tax reforms and anti-avoidance measures. To implement tax reforms or tax measures which depend on firm-characteristics the effective tax rates are calculated using firm characteristics like in Egger et al. (2009). The propsed extensions aim to model interest barriers, thin capitalisation and CFC rules as well as considering loss consoldiation and loss carry forward. Comparing the results to the standard bilateral effective tax rates shows that considering firm-variation can substantially alter the ranking of the bilateral tax burden.

Transfer Pricing Regulation and Risk Allocation within Multinational Firms

Katharina Nicolay[1], Julia Spix[1,2], Sophia Wickel[1,2]
[1]ZEW – Leibniz Centre for European Economic Research, Germany; [2]University of Mannheim

This paper investigates how multinational enterprises (MNEs) strategically reallocate risk among their affiliates in response to the introduction of transfer pricing regulations, using the implementation of transfer pricing documentation rules in France in 2010 as a quasi-natural experiment. Using administrative data, we examine the shifting of several risk types outlined in the OECD Transfer Pricing Guidelines, including market risk, credit risk, and R&D risk. Our analyses suggest that affected MNEs allocate less market and credit risk to French affiliates and consequently more risk to affiliates in low-tax countries after the reform. As risk allocation goes hand in hand with shifting of real activity, we find a decrease in the value of fixed and intangible assets in France following the reform. Our study provides insights into the effectiveness of transfer pricing regulations and sheds light on how MNEs adapt their corporate structures to facilitate profit shifting through transfer pricing mechanisms.

Do Transfer Pricing Arbitration Clauses Affect Direct Investment And The Pricing Of Intercompany Trade?

Matti Boie-Wegener, Form-Braz Annalena, Dr. Andreas Oestreicher
Georg-August-Universität Göttingen, Germany

Using a stacked difference-in-differences design, we look into the profit shift-ing responses of multinational entities (MNEs) on double taxation treaties' (DTT) arbitra-tion clauses. Based on bilateral data on MNE financials, trade flow, and foreign direct in-vestment (FDI), we find that the introduction of an arbitration clause in existing DTTs has, on average, a significant impact on profit shifting. In line with this, the introduction of arbitration leads to an increase in the trade value-added for affiliates in low-taxed coun-tries. The effect is stronger for affiliates in countries having a larger exposure to tax avoid-ance and lower statutory tax rates. In contrast, the introduction of an arbitration clause weakens the inflow of FDI into lower-taxed affiliated companies and increases profit dis-tributions. A series of additional tests suggest that our results are robust

2:15pm - 4:15pm

B12: Tax Morale and Governance

Location: SS15
Session Chair: **Abdul Malik Iddrisu**, Institute for Fiscal Studies
Discussant 1: **Guylaine Nouwoue N D Epse Tchakounte**, University of Exeter
Discussant 2: **Abdulfatai Adekunle Adedeji**, Centre for the Study of Economies of Africa (CSEA)
Discussant 3: **Abdul Malik Iddrisu**, Institute for Fiscal Studies
Discussant 4: **Nomonde Tshabalala**, Nelson Mandela University

Public Finance In South Africa: Tax Compliance And Behavioural Responses To Tax Increases

Syden Mishi, Nomonde Tshabalala
Nelson Mandela University, South Africa

The study focused on assessing the level of tax compliance in South Africa and what factors explain the level of compliance.World Values Survey data on South Africa were used to assess the tax side of fiscal policy, how taxpayers' response to the policy affects compliance and what matters for compliance.Descriptive statistics and an ordered logistic model were employed on longitudinal data.The study revealed that the perceptions, attitudes and behaviours of South African taxpayers have generally shifted from a society that values tax compliance to a nation that justifies tax evasion. The main factors that shape perception and behaviour towards tax compliance are demographic factors, the level of confidence in the government and patriotism. The study recommends considering cognitive and behavioral factors when designing and communicating tax policies to better fit South Africa's unique socio-economic landscape and finance public service delivery.

Can Tax Classes Build the Compliance Culture? Evidence from Randomized Survey Experiments in Cameroon

Guylaine Nouwoue N D Epse Tchakounte, Marc Ateba, Miguel Fonseca, Jannesquin Royer
University of Exeter, United Kingdom

We explore how teaching basic taxes to future taxpayers helps build the tax culture under low capacity. We use novel randomized survey experiments embedded into a large tax awareness campaign towards young adults in Cameroon. We randomly assigned 1962 public and private secondary school students from 42 classes to tax informational treatments. We provide causal evidence of significant effects on basic tax knowledge and compliance attitudes with differential treatment effects across gender, risk attitudes and family background. Our results also indicate strong effects of the informational treatments for cohorts of students at both tails of the knowledge and tax morale distributions. Interestingly, our findings highlight the high potential for scalability and offer a new perspective on the political economy of tax educational reforms for improved compliance norms towards complying with taxes among younger and potentially entrepreneurial populations.

	Governance quality and Tax revenue mobilisation in Africa: Evidence from Micro-Level Data **Abdulfatai Adekunle Adedeji[1], Ayodotun Ayorinde[2], Omolola Mary Lipede[3]** [1]Centre for the Study of Economies of Africa (CSEA), Nigeria; [2]Youth Impact; [3]University of Ibadan This paper examines the effect of governance quality on tax revenue mobilisation in Africa using instrumental variables (IV) estimation to address endogeneity concerns. The findings reveal that higher levels of political participation, such as freedom to join political parties, voting, and democratic preference, are significantly associated with increased tax revenue. Tax compliance, captured by trust in tax authorities and the perceived difficulty of avoiding taxes, also enhances revenue mobilisation. While difficulty in accessing education and security services is linked to lower tax revenue, the effect of healthcare access is less consistent. Additionally, institutional trusts correlate positively with tax revenue, suggesting that credible institutions foster voluntary tax compliance. These results highlight the importance of strengthening governance quality to support effective tax policy and improve revenue outcomes. Policymakers should focus on enhancing civic engagement, improving public service delivery, and building institutional trust to bolster domestic resource mobilisation across African countries. **On the Relationship Between Corruption Perception and Tax Morale: Does Natural Resource Abundance Matter?** **Abdul Malik Iddrisu** Institute for Fiscal Studies, London, United Kingdom Using data from the latest wave of the Afrobarometer surveys, we examine the heterogeneous effect of corruption perception on tax morale across resource-rich and -poor countries in Africa. We find that perceived levels of corruption among public officials reduces the intrinsic willingness of individuals to pay taxes to the state and the effect is heterogenous across resource-rich and -poor countries in Africa. Specifically, the availability of natural resources (and their exploitation) in a country attenuates the tax morale-reducing effect of corruption perception in Africa. This implies that policies to deepen domestic revenue mobilisation must be context specific.
4:15pm - 4:45pm	**Coffee Break II** Location: **SHSS Rooftop**
4:45pm - 5:45pm	**Plenary II: Keynote Rema Hanna (Harvard University): "Strengthening State Capacity Through Research Engagements"** Location: **Main Auditorium** Session Chair: **François Gerard**, University College London
5:45pm - 6:45pm	**General Assembly of Members** Location: **Main Auditorium**
6:45pm - 7:15pm	**shuttle to reception: transport shuttle for participants, start at USIU**
7:15pm - 9:00pm	**Social Program I: Welcome Reception** Location: **Safari Park Hotel**

Date: Thursday, 21/Aug/2025

6:00am - 8:00am	**shuttle to excursions: transport shuttle for participants, start at USIU, 2nd pick-up at Safari Park Hotel**
8:00am - 12:00pm	**Social Program II: Excursions**
12:00pm - 1:00pm	**Plenary III: Keynote Niels Johannesen (Oxford University): "Tax Enforcement with Imperfect Information"** Location: **Main Auditorium** Session Chair: **Shafik Hebous**, International Monetary Fund IMF
1:00pm - 2:00pm	**Lunch II** Location: **SHSS Rooftop**
2:00pm - 4:00pm	**C01: Demography** Location: **SS4** Session Chair: **Jun-ichi Itaya**, Hokusei Gakuen University Discussant 1: **Hyun-A Kim**, Korea Institute of Public Finance Discussant 2: **Ashkar K**, Gulati Institute of Finance and Taxation Discussant 3: **Jun-ichi Itaya**, Hokusei Gakuen University Discussant 4: **Majken Alexandra Stenberg**, Uppsala University

Aging and the Housing Market

Majken Alexandra Stenberg
Uppsala University, Sweden

As populations age, the demand for housing is changing. In urban areas with a relatively fixed housing supply, older households "aging in place" can exacerbate housing shortages for younger families. This paper examines the impact of an aging population on the distribution of housing in Stockholm's housing market. Using Swedish administrative data, I am developing an equilibrium model of the housing market where households exhibit heterogeneous preferences for housing characteristics and face mobility frictions. I will recover households' willingness to pay for different characteristics and simulate counterfactual scenarios to quantify how an aging population affects the housing market. I will also assess whether elderly households remain in their homes due to their costs of leaving outweighing their costs of staying or a lack of suitable alternatives. Finally, I will evaluate policy interventions to improve the match between family and house size.

Fertility Rate and Intergovernment Fiscal Policy in Korea

Hyun-A Kim
Korea Institute of Public Finance, Korea, Republic of (South Korea)

This paper analyzes how structural factors in Korean society influence birth rates using local government data. High private education and housing costs negatively impact birth rates, while rising public property values suggest income polarization affects childbirth. Over the past 20 years, efforts to boost household income—mainly through maternal employment—have also lowered birth rates, indicating a lack of synergy between work and family life.

To address this, the paper proposes a dual policy approach: The central government should focus on structural reforms, such as reducing income inequality and restructuring the labor market, to improve socio-economic conditions. Meanwhile, local governments should implement autonomous fertility support policies to attract residents and invest in employment and education infrastructure to curb population decline. This combined strategy aims to tackle both short-term and long-term challenges in South Korea's fertility decline.

Population Ageing And Its Impact On Public Expenditure, A Study Of Indian States.

Ashkar K
Gulati Institute of Finance and Taxation, affiliated to Cochin University of Science and Technology, India

This study examines the intricate relationship between population aging and public expenditure, focusing on Indian states. The findings confirm that as elderly population expands, the demand for healthcare services, pensions, and welfare programs intensifies, placing a growing fiscal burden on state governments. However, the fiscal impact of aging is not uniform across states; it is most pronounced in demographically advanced regions experiencing accelerated aging transitions. These states face the dual challenge of rising expenditure obligations alongside constrained revenue-generation capacities, exacerbating fiscal imbalances within India's federal structure. The study highlights the urgent need for targeted fiscal policies and institutional reforms to address these challenges. Key strategies include revisiting intergovernmental fiscal transfer mechanisms to account for demographic disparities, enhancing the efficiency of public health and social security systems, and fostering economic growth to counteract the effects of a shrinking workforce.

Family Structure, Population Change and Long-run Growth

Atsue Mizushima[1,2], Junichi Itaya[3], Kazuo Mino[4]
[1]Osaka University of Economics, Japan; [2]Osaka University, Japan; [3]Hokuei Gakuen University, Japan; [4]Kyoto University, Japan

We consider two types of family model, rather than a representative agent setting, in the semi-endogenous growth model of Jones (2022). The paper provides an economic explanation for why birthrates are declining. We show that in an economy consisting of non-cooperative families, the partners have a free-riding incentive when considering the supply of child-rearing effort and thus the growth rate of the population is smaller than that in an economy consisting of cooperative families. This makes family size smaller and reduces the growth rate of the economy. We find that the competitive equilibria of either type of economy cannot internalize the population externalities on technological progress. The socially-efficient solution internalizes population externalities, enhancing technological progress, but labor effort for child-rearing is greater than the competitive equilibrium solutions. Hence, child-rearing should be subsidized to realize the first-best population growth rate which internalizes externalities arising from technological progress.

2:00pm - 4:00pm	**C02: Profit Shifting, Anti-Avoidance, and Developing Countries** Location: **SS5** Session Chair: **Mazhar Waseem**, University of Manchester Discussant 1: **Alice Chiocchetti**, Paris School of Economics Discussant 2: **Matthew Amalitinga Abagna**, Tax Justice Network Discussant 3: **Mazhar Waseem**, University of Manchester Discussant 4: **Andreas Möller**, University of Bonn

Tears in Haven? Evidence from South Africa on Multinational Tax Avoidance and the Effects of Anti-Profit Shifting Measures

Andreas Möller[1], Riedel Nadine[2], Valeria Merlo[3], Georg Wamser[3]
[1]University of Bonn, Germany; [2]University of Münster; [3]University of Tübingen

Over the past two decades, governments have introduced measures to curb multinational tax avoidance, yet evidence from low- and middle-income countries remains scarce. This paper presents new findings from South Africa, linking administrative trade and corporate tax data to assess the effects of key anti-avoidance reforms. We examine two OECD BEPS initiatives, Country-by-Country Reporting and enhanced transfer pricing documentation, alongside the domestic implementation of an earnings-stripping rule that restricts interest deductibility.Using difference-in-differences estimators, we find that BEPS reforms significantly reduced transfer mispricing, lowering intra-firm prices and traded quantities with tax havens. Similarly, the debt-related reform resulted in a measurable reduction in the use of debt financing, while we do not observe any negative real effects for treated firms. Our findings offer novel evidence on the effectiveness of international tax reforms in reducing profit shifting in a developing country context.

The Global Allocation of Extractive Windfalls

Ninon Moreau-Kastler[1,2], Alice Chiocchetti[1,2]
[1]Paris School of Economics, France; [2]EUTax Observatory

Using a newly available exhaustive and granular dataset on the worldwide activity of multinational firms matched with oil, gas & mining production data at the country and firm level, we find evidence that windfall profits of multinational firms are excessively booked in low-tax countries. To identify the effect of price shocks on worldwide profit allocation, we exploit the heterogeneity in commodity price changes across mining and oil & gas products and use the fact that extractive firms specialize in different commodities. We find that a one percent increase in commodity prices leads to a 0.7pp excess increase in profits of subsidiaries located in tax havens.

Detecting Profit Shifting in Administrative Data: A South African Perspective

Matthew Amalitinga Abagna[1], Ronald B Davies[2], Miroslav Palansk·[3]

[1]Tax Justice Network, Ghana; [2]University College Dublin, Skatteforsk; [3]Tax Justice Network, Charles University Prague

How can tax authorities in low-income countries identify multinational enterprises (MNEs) engaged in profit shifting? In this project, we introduce a low-cost, data-driven methodology to identify profit-shifting MNEs using administrative data readily available to tax authorities in South Africa. By applying panel regression analysis and probabilistic detection methods, the method generates a variety of "red flags" for firms involved in suspicious activities, enabling tax authorities to prioritize high-risk cases for further auditing within their existing resource constraints. This approach empowers resource-limited tax authorities to target high-risk profit-shifting cases, supporting South Africa's broader revenue mobilization and fiscal sustainability goals. We contribute to the literature on profit shifting by presenting a novel method for identifying profit-shifting behaviours, which can be adapted by other low-income countries facing similar challenges.

Intended and Unintended Consequences of Anti-Avoidance Rules: Evidence from Uganda

Mazhar Waseem[1], Muhammad Bashir[2], Usama Jamal[1], Kyle McNabb[3]

[1]University of Manchester, United Kingdom; [2]University of California, Berkeley; [3]World Bank

Aggressive profit shifting by MNEs is a growing concern for domestic resource mobilization in developing economies. This paper evaluates the revenue and welfare consequences of a flagship anti-avoidance rule that has been implemented in morethan45countries to prevent profit shifting by MNEs through the debt channel. Our focus is Uganda, a representative developing country which implemented the rule in 2018. Exploiting admin data comprising the universe of corporate tax returns, we find that the rule does not significantly increase profits reported by MNEs in Uganda or tax remitted by them in Uganda. As an unintended consequence, however, the implementation of the rule leads to a contraction in real economic activity, reducing the turnover, employment, and trade of treated MNEs. We highlight the limited targeting efficiency of the rule, questioning its overall effects on welfare.

2:00pm - 4:00pm

C03: Wealth, Inequality, and Taxation

Location: SS6
Session Chair: **Tsvetana Spasova**, University of Applied Sciences and Arts Northwestern Switzerland FHNW
Discussant 1: **Olle Hammar**, Linnaeus University
Discussant 2: **Jan Žalman**, Charles University, Prague
Discussant 3: **Tsvetana Spasova**, University of Applied Sciences and Arts Northwestern Switzerland FHNW
Discussant 4: **Johan Sæverud**, University of Copenhagen

Taxing the Wealth of the Poor: Evidence from the Danish Old-Age Support Asset Test

Johan Sæverud[1], Niels Johannesen[1,2], Emmanuel Saez[3]

[1]University of Copenhagen, Denmark; [2]University of Oxford; [3]University of California, Berkeley

This paper provides evidence that asset testing of social transfers substantially depresses the liquid wealth of the poor. Using administrative data on income and wealth for the full population, we estimate the effects of the asset test for an old-age support program in Denmark. We document that the density distribution of liquid wealth exhibits large but diffuse excess mass below the threshold for the low-income elderly relative to control groups of comparable but ineligible individuals. Analyzing high-frequency bank data on assets, spending and cash withdrawals shows that the excess mass largely reflects permanently lower liquid wealth rather than temporary responses.

The Global Distribution of Human and Nonhuman Wealth

Olle Hammar[1], Daniel Waldenström[2]

[1]Linnaeus University, Sweden; [2]Research Institute of Industrial Economics (IFN), Sweden

In this paper, we introduce novel estimates of wealth inequality, integrating the standard household wealth concept with newly assessed individual human capital. Using microdata and national accounts from numerous countries since 1979, we explore the distribution across age, gender, education, and occupation. Our analysis reveals two key findings: human capital is more evenly distributed than financial capital, and total wealth, the sum of human and financial capital, is significantly more equal than financial wealth alone. This study offers a groundbreaking perspective on global wealth dynamics, emphasizing the critical, yet often overlooked, role of human capital in wealth distribution.

Taxing Extreme Wealth of the Super-Rich

Miroslav Palanský[1,2], Alison Schultz[2], Jan Žalman[1]

[1]Charles University, Prague; [2]Tax Justice Network

The concentration of wealth among the ultra-rich has renewed debates over using wealth taxes to reduce inequality and finance public investments. Traditional measures based on tax records and surveys understate top wealth due to offshore assets, complex holdings, and underreporting. We address this by combining extrapolations from the Wealth Inequality Database (WID) with real-time Forbes billionaire rankings, thereby recalibrating estimates to better capture ultra-wealth. Using Spain's progressive wealth tax framework as an empirical benchmark, our analysis indicates that a 1.7–3.5% tax on net wealth above the top 0.5% threshold could generate approximately $2.3 trillion annually—roughly 8% of global central government revenues. We also address concerns about behavioral responses; even under scenarios such as billionaire migration, estimated revenues remain robust at $2.2 trillion (7.7% of revenues). Our findings suggest that wealth taxes offer a promising tool to mitigate inequality and fund critical public priorities.

Global Capital Flows and Inequality: A Dynamic Empirical Analysis Across Economies

Stefan Avdjiev[1], Tsvetana Spasova[2]

[1]Bank for International Settlements (BIS); [2]University of Applied Sciences and Arts Northwestern Switzerland FHNW, Switzerland

We conduct a comprehensive empirical investigation of the link between inequality and financial openness. We document that the relationship varies considerably not only over time, but also across the main components of total external liabilities, which have been largely overlooked by the existing literature. In emerging market economies (EMEs), an increase in a country's external liabilities is associated with an initial rise and a subsequent fall in inequality. This appears to be driven by the fact that the channels through which financial openness increases inequality tend to be active immediately, while the inequality-decreasing channels tend to operate with a lag. The link between financial openness and inequality tends to be substantially weaker in advanced economies than in EMEs.

2:00pm - 4:00pm

C04: Fiscal Austerity and Reforms

Location: SS7
Session Chair: **Matthias Schön**, Deutsche Bundesbank
Discussant 1: **Prasanth Chalambetta**, Vinayaka Missions' Research Foundation (Deemed to be University)
Discussant 2: **David Chagoyen Neumann**, University of Michigan - Ann Arbor
Discussant 3: **Matthias Schön**, Deutsche Bundesbank
Discussant 4: **Willem Sas**, University of Stirling

Who Cares? Attitudes Towards Redistribution and Fiscal Austerity

Willem Sas[1], Mirko Moro[1], Sarah Brown[2], Alberto Montagnoli[2]

[1]University of Stirling, United Kingdom; [2]University of Sheffield

We present new evidence showing that fiscal austerity strengthens support for redistribution, especially for the relatively well-off. Our theoretical model proposes two mechanisms to explain this heterogeneity in support for redistribution: 'altruism' and 'appreciation'. We test our theoretical model's predictions by matching attitudes reported in the British Social Attitudes Survey with local area-level spending cuts in England over the period 2010 to 2015. We exploit the spatial and temporal variation in spending cuts at the Local Authority level to compute a plausibly exogenous measure of the austerity shock. We find evidence for these two channels.

Evaluating the Impact of Change in Macroeconomic Policies on Debt Sustainability Indicators: A Macroeconometric Approach

Prasanth Chalambetta[1], Gopakumar KU[2], Joseph TJ[3]

[1]Vinayaka Missions' Research Foundation (Deemed to be University), India; [2]School of Liberal Arts, Indian Institute of Technology Jodhpur, Rajasthan, India; [3]Department of Economics, Central University of Kerala, India

Public debt sustainability has garnered importance in the macroeconomic policy making of India, especially since the 1980s. This paper discusses the effectiveness of macroeconomic policies, viz. fiscal policy and monetary policy, to

tackle the issue of debt sustainability considering the inter-dependencies between various macroeconomic indicators under the four sectors of the economy. To this end, we estimate a structural equation model with 14 equations which is further incorporated into the debt sustainability analysis using an indicator-based approach. The structural equations are estimated using the Generalised Method of Moments and the data covers annual samples for central government finances from 1981-82 through 2019-20. The simulation exercises reveal that fiscal policy is more effective than monetary policy in improving the debt sustainability indicators of India. Further, fiscal policy through changes in capital expenditure is found to outperform policy action through changes in revenue expenditure.

Effect of IMF Austerity Programs on Voluntary Tax Compliance

David Chagoyen-Neumann[1], Denvil Duncan[2], Antonios Marios Koumpias[3], Jorge Martinez-Vazquez[4]
[1]University of Michigan; [2]Indiana University Bloomington; [3]University of Michigan-Dearborn; [4]Georgia State University

Tax compliance is vital for public revenue, especially in developing countries under IMF austerity programs. This study investigates how these programs influence voluntary tax compliance, analyzing data from the World Values Survey and IMF Monitoring of Fund Arrangements from 1980 to 2020. Using treatment effects and a difference-in-differences strategy, we find that IMF interventions negatively affect tax morale when cultural and trust factors are included. These programs may erode public trust and perceptions of fairness, reducing intrinsic motivations for compliance. The study emphasizes the need for IMF policies that consider socio-psychological elements and adapt to specific cultural contexts to improve tax compliance. Recommendations include tailoring IMF measures to enhance social development alongside economic stability, thus fostering sustainable growth. This approach could mitigate the negative impacts on tax morale and strengthen fiscal sustainability in developing nations.

Tax Burden Shifts and Their Macroeconomic Implications: Insights from an Open Economy Overlapping Generations Model

Matthias Schön, Nikolai Stähler
Deutsche Bundesbank, Germany

This paper investigates the macroeconomic implications of a proposed tax reform that shifts the burden from labor income to capital income taxation within developed economies. As social insurance systems face sustainability challenges, this reform aims to broaden the tax base while enhancing economic efficiency and international competitiveness. Utilizing a two-region general-equilibrium model with overlapping generations, we analyze both short-term and long-term effects of this tax shift. Our findings indicate that reducing labor taxes can stimulate employment and increase net wage income, while simultaneously altering household savings behavior and capital accumulation dynamics. The model reveals a significant increase in domestic savings and a notable rise in net foreign assets, leading to a decrease in global interest rates. However, the transition may adversely affect retirees reliant on savings income, highlighting critical distributional consequences. Overall, the study underscores the complex interplay between tax policy, labor market dynamics, and household welfare.

2:00pm - 4:00pm

C05: Tax Incentives and Innovation

Location: SS8
Session Chair: **Michael Devereux**, Oxford University
Discussant 1: **Nico Marienfeld**, Leibniz University Hannover - Institute of Public Finance
Discussant 2: **Mateusz Kopyt**, University of Warsaw
Discussant 3: **Michael Devereux**, Oxford University
Discussant 4: **Matti Boie-Wegener**, University of Goettingen

Closing Pandora's IP Box: The Impact of the Nexus Approach on Patent Shifting and Innovative Activity

Matti Boie-Wegener
University of Goettingen, Germany

This study investigates the impact of the nexus requirement on entities' location decisions for intellectual property and investments. The nexus requirement links the preferential IP Box taxation to domestic research activity, aiming to reduce cross-border patent shifting. Using a stacked difference-in-differences design on a sample of European entities, I analyze whether entities alter their location decisions for investments and intellectual property after the nexus requirement applies. Analyses reveal that the nexus requirement is effective in reducing entities' patent shifting to IP Box entities. Additional results suggest that multinational entities reallocate capital and labor investment from non-IP Box entities toward IP Box entities to meet the nexus requirement and retain the IP Box tax benefit. While substance requirements were intended to prevent IP and profit outflows from high-tax countries without IP Boxes, they have instead led entities to reallocate investments and innovative activity from these countries to countries offering IP Boxes.

Compliance Costs Of Corporate R&D Tax Incentives

Nico Marienfeld, Maximilian Todtenhaupt
Leibniz University Hannover - Institute of Public Finance, Germany

This study estimates compliance costs of applying for corporate R&D tax credits. Using representative firm-level data on R&D expenditure and applications for R&D tax credits from Germany, we estimate compliance costs as foregone tax benefits. For this purpose, we compute potential benefits from applying for the German R&D tax credit and then examine whether or not firms applied for this incentive. Compliance costs are signficiant and constitute on average 10% of expected benefits per firm. The costs are larger for firms of micro and small size and smaller in the chemical and pharmaceutical sector.

The Impact Of Innovation Tax Incentives On The Development Of Entrepreneurship: A Territorial Analysis

Agnieszka Kopańska, Anna Białek-Jaworska, Mateusz Kopyt, Emilia Pawlos
University of Warsaw, Poland

Our study assesses the impact of state tax policies on entrepreneurship in Poland, focusing on innovative industries. We analyze the creation and closure of self-employed enterprises from 2016 to 2022 across approximately 2,400 municipalities. Our findings reveal a positive spatial autocorrelation in the density of self-employed enterprises utilizing innovation-related tax relief, particularly in and near large cities. However, many small firms did not take advantage of these reliefs. Notably, municipalities with self-employed enterprises benefiting from R&D tax breaks experienced fewer closures. In contrast, the presence of IP Box users was linked to fewer new establishments, especially in manufacturing. Both types of relief positively influenced innovative sectors like Information and Communication, and Professional, Scientific, and Technical activities.

IP Boxes v Tax Credits:

Michael Devereux[1], Benjamin Lockwood[2]
[1]Oxford University, United Kingdom; [2]University of Warwick

We analyze the relative cost effectiveness of R&D tax credits and IP boxes as instruments for stimulating R&D. We set up a model in which there are three types of market failures, all of which lead to under-investment in R&D in the absence of government intervention. Assuming that the marginal cost of public funds exceeds 1, then in the absence of any unobservable input to R&D firms, we unambiguously find that tax credits are more cost effective than IP boxes in achieving the same impact on the level of R&D. We consider two cases in which there is an unobservable input for the R&D firms: in both cases, the tax credit remains more cost effective.

2:00pm - 4:00pm

C06: Digitalization and Tax Compliance

Location: SS9
Session Chair: **Shunichiro Bessho**, Waseda University
Discussant 1: **Balint Van**, ODI Global
Discussant 2: **Maria Emilia Jouste**, UNU-WIDER
Discussant 3: **Shunichiro Bessho**, Waseda University
Discussant 4: **Fabrizio Santoro**, Institute of Development Studies

Electronic Services And Tax Compliance: Evidence From Medium And Small Businesses In Burkina Faso

Jule Kaini Tinta[1], Mouhamed Zerbo[1], Fabrizio Santoro[2], Awa Diouf[2]
[1]CERDI, France; [2]International Centre for Tax and Development, UK

African governments are increasingly digitalizing their tax systems to enhance revenue collection. This study examines the adoption and impact of electronic tax services on SMEs in Burkina Faso, using survey and administrative tax data. It focuses on three indicators: registration on eSINTAX, e-filing, and digital tax payment. Findings show that eSINTAX adoption is driven by factors such as SARL legal status, electronic billing, and higher tax knowledge. Digital tax payment improves perceptions of transparency and reduces perceived corruption.

Registration and e-filing increase declared tax amounts. Digital payment leads to higher actual tax payments. The study recommends: Targeted awareness campaigns and practical training to encourage adoption. Investments in digital infrastructure to boost trust and reliability. Strengthening e-payment security to enhance taxpayer confidence. These measures are essential for the successful digitalization of tax systems across African economies.

Digitalization Against Tax Evasion: Evidence on the Role of Company Size

Balint Van[1], Gabor Lovics[2], Csaba Toth G.[3], Katalin Szoke[4]
[1]ODI Global, Rwanda; [2]Hungarian Central Statistical Office; [3]HUN-REN Centre for Economic and Regional Studies; [4]Central Bank of Hungary

To reduce tax evasion, in 2013 and 2014 the Hungarian government introduced mandatory online cash registers (OCR) in some sectors. As a result, almost 200,000 OCRs have been installed by 100,000 enterprises. We assume that OCR installation does not change the company's operating model, so the increase in reported turnover around the installation date reflects a reduction in tax evasion. In this paper, we use microdata to estimate the effect of OCR introduction on reported turnover and tax liabilities using fixed-effects panel and event study models. We identify strong size-related heterogeneity in the retail and the accommodation and food services sectors: smaller companies increased their reported turnover more than larger ones. Since large companies pay the dominant part of value-added tax, the effects on the payment of this tax were mitigated. We find significant spillover effects to suppliers in both sectors, which are slightly stronger among larger companies.

Enforcing The VAT Through Electronic Invoicing In Uganda

Adrienne Lees[2,3], Maria Emilia Jouste[1], Nicholas Musoke[4], Joseph Okello[4]
[1]UNU-WIDER; [2]Department of Economics, University of Sussex; [3]International Centre for Tax and Development, Institute of Development Studies; [4]Uganda Revenue Authority

The digitalisation of tax administration promises improved efficiency and increased tax revenues. In recent years, the real-time information trail of the VAT has been digitalised in many developing countries. We evaluate the impact of introducing an e-invoicing system in Uganda by utilizing administrative tax data. The intervention mandated all VAT-registered taxpayers to issue e-invoices for all sales from January 2021. We show that the intervention has been successful, with over 95 percent of VAT taxpayers registered. The introduction of e-invoicing system has led to a significant increase in the monthly VAT declarations, suggesting improved perceptions of evasion detection. However, only about 60 percent of VAT taxpayers issue invoices regularly. The total sales recorded through e-invoicing system align closely with VAT returns. While total sales haven't shifted significantly, there has been a reduction in VAT due, likely due to more firms claiming input VAT, resulting in more negative VAT liabilities.

Electronic Tax Filing, Compliance Costs And Tax Evasion: Evidence From Japanese Corporations

Yusuke Hoshiai[1], Shunichiro Bessho[2]
[1]Mitsubishi Research Institute, Inc.; [2]Waseda University, Japan

With the rapid progress of information and communication technology, the digitalization of administrative processes by governments has gained much attention.This study investigates its effect on tax compliance costs and tax evasion using a reform that mandates large corporations to adopt electronic filing in Japan. The mandatory electronic filing reduced amendment submissions by one-third, and the effects are larger for corporations that were more likely to file amended returns before and those located in a large city. We detected no effects on tax evasion or tax payments in this country where tax administration and morale are developed.

2:00pm - 4:00pm

C07: Education and Inequality

Location: **SS10**
Session Chair: **Georgia Kaplanoglou**, National and Kapodistrian University of Athens
Discussant 1: **Javier Feinmann**, University of California Berkeley
Discussant 2: **Justin Smith**, Wilfrid Laurier University
Discussant 3: **Georgia Kaplanoglou**, National and Kapodistrian University of Athens
Discussant 4: **Olof Johansson-Stenman**, University of Gothenburg

Predistribution, Redistribution, and the Education of the Joneses

Thomas Aronsson[1], Olof Johansson-Stenman[2], Luca Micheletto[3]
[1]Umeå University; [2]University of Gothenburg, Sweden; [3]University of Bocconi

Despite a well documented signaling and status motive behind higher education, the implications thereof for optimal redistributive taxation remain largely unknown. This paper deals with education policy in a very general continuous type model of optimal redistributive taxation, in which individuals are concerned with their relative standing in both education and consumption. We show how concerns for relative education may reduce the optimal marginal eduction subsidies subsantially, as well as how these marginal subsidies relate to the marginal income tax structure. More specifically, we illustrate when optimal eduction subsidies contribute to decrease versus increase consumption inequality.

Social Mobility and Higher Education in Brazil

Javier Feinmann, Roberto Hsu Rocha
University of California Berkeley, United States of America

We follow high school graduates through college and the labor market to study income segregation and intergenerational mobility across colleges in Brazil, a unique context where admissions are mostly determined by exam scores and public institutions are free and of high quality. We show that public college admissions are income neutral once controlling for grades, but elite public colleges are composed mostly of higher-income students, as they have higher exam scores. Intergenerational mobility rates in elite public colleges are low, but higher than in comparable private institutions. We develop a general framework to evaluate affirmative action in public colleges and subsidized loans for private institutions. Both policies increased the mobility of low-income students, but subsidized loans have a larger effect. While AA increases the representation of disadvantaged students in elite schools and subsidized loans do not, the latter policy reallocates an overall larger number of students to better college tiers.

The Long Term Effects of Rank in Elementary School: Evidence from Canada

Elizabeth Dhuey[1], Abigail Payne[2], Justin Smith[3]
[1]University of Toronto, Canada; [2]University of Melbourne, Australia; [3]Wilfrid Laurier University, Canada

Educational and labor market outcomes are influenced not only by academic ability but also by a student's relative rank among peers—a phenomenon known as the "big fish, little pond effect" (BFLPE). Using linked administrative data from British Columbia's Elementary and Labour Market Longitudinal Panel (ELMLP), we track students from elementary school through adulthood to examine the effects of rank in grade 7 on long-term outcomes. We find that higher math rank significantly increases income relative to the median, with top-ranked students earning up to 5% more and lower-ranked students earning up to 7% less. In contrast, reading rank has no effect on income but influences educational attainment. These findings suggest that rank plays a key role in shaping success. Our results have implications for education policy, highlighting the need for targeted interventions to support lower-ranked students and the importance of fostering quantitative skills for long-term economic benefits.

Education and Reproduction of Inequality: the Case of Greece

Georgia Kaplanoglou, Violetta Dalla, Dimitrios Pantazis
National and Kapodistrian University of Athens, Greece

In this paper, a multilevel analysis is applied to the OECD-PISA 2018 data for Greece with the aim to identify the multiple mechanisms that produce adverse child outcomes, at least as captured by poor school performance. At the student level, gender, immigration status, early-childhood education attendance and the cultural aspects of family socioeconomic status play an important role. At the school level, the private-public divide seems to be the strongest favoring private schools. Its direction is however reversed once school mean family socioeconomic background is taken into account, suggesting that the way students and schools are matched affects how family background effects are reproduced. Educational inequalities are further compounded in upper secondary education where differences in family investment in private education and tutoring are huge among children of unequal economic status. The paper provides important insights for policymakers in order for society to tackle inequalities and properly invest in its human capital potential.

2:00pm - 4:00pm

C08: Subnational Budgeting and Finance

Location: **SS11**
Session Chair: **Akinobu Ogawa**, Niigata University
Discussant 1: **Julian Koller**, ETH Zürich
Discussant 2: **Akinobu Ogawa**, Niigata University

Discussant 3: **Martin Mosler**, University of Lucerne

Balancing the Books: Empirical Evidence on Fiscal Reactions to Equalization Transfers from Swiss Cantons

Martin Mosler, Lukas Mair, Christoph Schaltegger
Institute for Swiss Economic Policy at the University of Lucerne, Switzerland

We examine how the fiscal equalization system influence the fiscal reactions of Swiss cantonal governments from 2008 to 2020. Using the common correlated effects mean group estimator, we find that a 1 percentage point increase in the debt-to-GDP ratio in the previous year correlates with a 0.1 to 0.2 percentage point increase in the total primary surplus-to-GDP ratio in the current year. Excluding resource equalization payments from the primary surplus measure weakens the fiscal adjustment by 40 percent, however. A sample split between constant net contributing and recipient cantons shows that the fiscal response of recipient cantons depends on the transfers. Our results indicate that equalization transfers affect cantonal fiscal responsiveness to debt and highlight the importance of designing equalization frameworks that balance equitable distribution with incentives for fiscal prudence at the sub-federal level.

Optimal Rollover Policy with Multi-Period Budgets

Julian Koller
ETH Zürich, Switzerland

In many organizations, agents operate on a fixed budget and allocate funds across sub-periods of the fiscal year. Commonly, unspent budget must be returned to the principal at year-end to prevent policy drifts. However, this savings constraint may induce inefficient spending patterns, such as expenditure surges before the budget expires. This study characterizes optimal budget rollover policy in a model which captures this trade-off. Applying it to Swiss federal consulting spending, I show that substantial welfare gains are possible by allowing agencies to retain one third of unspent funds. I verify the model's predictions exploiting a staggered reform liberalizing rollover.

The Impact of Accrual Accounting on the Cost Efficiency of Municipally Controlled Enterprises: Evidence from the Japanese Municipal Sewerage System

Akinobu Ogawa[1], Haruo Kondoh[2]
[1]Niigata University, Japan; [2]Seinan Gakuin University, Japan

In recent decades, the global trend has been moving toward the adoption of accrual accounting in the public sector. However, quantitative analysis regarding its fiscal effects is still in its infancy. Thus, this study examines the impact of accrual accounting on municipally controlled enterprises, with specific focus on the Japanese municipal sewage system. For this purpose, it employs a combination of instrumental variables as well as stochastic frontier analysis to quantitatively determine the fiscal effects from the perspective of cost efficiency. Based on the results, the transition from cash- to accrual-based accounting has led to improvements in overall cost efficiency. These findings also provide new quantitative evidence for future discussions on fiscal discipline, which is a key area in the field of public economics. Moreover, to test the robustness of the results based on the above estimation, we adopt nonparametric fuzzy regression discontinuity design in Appendix.

2:00pm - 4:00pm

C09: Crime and Enforcement

Location: **SS12**
Session Chair: **Aaron James Payne**, The Wharton School at the University of Pennsylvania
Discussant 1: **Lukas Rodrian**, University of Zürich
Discussant 2: **Eva Davoine**, UC Berkeley
Discussant 3: **Aaron James Payne**, The Wharton School at the University of Pennsylvania
Discussant 4: **Leander Andres**, ifo Institute & LMU

Does Birthright Citizenship Impact Juvenile Crime?

Leander Andres[1], Stefan Bauernschuster[2,3,4], Helmut Rainer[1,4,5], Simone Schüller[3,4,6,7]
[1]ifo Institute & LMU, Germany; [2]University of Passau, Germany; [3]IZA, Institute for the Study of Labor, Bonn, Germany; [4]CESifo, Munich, Germany; [5]University of Munich (LMU), Germany; [6]German Youth Institute (DJI), Germany; [7]FBK-IRVAPP, Trento, Italy

This paper estimates the intent-to-treat (ITT) effect of Germany's 2000 introduction of conditional birthright citizenship on juvenile crime in the federal states of Baden-Württemberg and Hesse. We utilize administrative police data on suspects involved in multiple incidents and/or serious offenses and, employing a difference-in-differences approach, find that the policy (i) decreased the number of incidents for suspects born between the first six months after the enactment of the reform by approximately 9%, (ii) led to a larger (-11% vs. -7%) and more significant decrease of incidents in regions with high vs. low treatment intensity, (iii) is associated with a crime decrease for boys (-11%), but with an increase for girls (+9%), and (iv) has reduced the number of incidents (intensive margin) linked to suspects, but not the number of suspects involved in multiple incidents and/or serious offenses (extensive margin).

Violation And Enforcement Of Labor Regulations: Evidence From Mexican Firm Inspections

Agustina Colonna[1], Jorge Pérez Pérez[2], Lukas Rodrian[1]
[1]University of Zürich, Switzerland; [2]Banco de México

This paper studies firms violating labor regulations and the impact of enforcement on firms and workers. A model of monopsonistic firms that set both wages and working conditions shows that labor market power can lead to poor working conditions, and enforcement of minimum conditions can raise employment through higher labor supply. We link inspection records to survey and administrative employer-employee data for large Mexican manufacturing firms to test the model predictions. Violating firms invest less in worker training, have lower productivity, employ fewer women, and hold greater labor market share. We show that stratified random inspections tend to increase regulatory compliance and causally estimate these inspections raise total firm employment by 4–7% within one year. Firm wages decrease by less than 2%, driven by compositional changes rather than wage setting. Altogether, enforcing labor regulation compliance among large manufacturing firms can improve working conditions, mitigate labor market power, and increase employment.

The Political Costs of Taxation

Eva Davoine[1], Joseph Enguehard[2], Igor Kolesnikov[1]
[1]UC Berkeley, United States of America; [2]ENS de Lyon & University of Bologna

We examine the political costs of taxation in early modern France. We focus on efforts to enforce the salt tax, the rate of which varied across regions. Using a spatial difference-in-discontinuities design, we compare municipalities just inside the high-tax region with those just outside, before and after a reform aimed at curbing illicit salt smuggling. We find that tax enforcement led to a twenty-fold increase in conflicts between taxpayers and the state in municipalities in the high-tax region. This effect persists until the French Revolution, supporting the view that enforcing the salt tax incurred significant political costs. Finally, we document that the likelihood of conflict increases with tax differences between neighboring regions, which we use to derive an upper bound on the political costs of increased tax enforcement in this historical period.

Should Criminal Fines Be Income-Dependent? Theory, And Evidence From Finnish Speeding Fines

Aaron James Payne[1], Martti Kaila[2]
[1]The Wharton School at the University of Pennsylvania, United States of America; [2]Adam Smith Business School at the University of Glasgow

Should criminal fines be income-dependent? We explore this question in the context of the Finnish speeding fine system, which exhibits income-dependence. Building on the optimal commodity tax literature, we construct a model of optimal fine determination in which the planner uses fines and income taxes to mitigate speeding externalities and redistribute resources across individuals. At the optimum, fines will be income dependent if either (1) the marginal social cost of speeding is correlated with the income of the offender (the efficiency motive) or (2) preferences for crime are correlated with income (the redistributive motive); fine elasticities govern the relative importance of these two forces. To estimate these forces empirically, we draw on linked income tax returns, accident reports, and crime report data from Finland. However, statutory motivations for income-dependent fines typically cite "equality-before-the-law," rather than redistributive or efficiency-based rationales; we therefore plan to measure fairness preferences using a survey.

2:00pm - 4:00pm

C10: Optimal Personal Income Tax

Location: **SS13**
Session Chair: **Alfons J. Weichenrieder**, Goethe University Frankfurt
Discussant 1: **Juan Rios**, PUC Rio de Janeiro

Discussant 2: **Ana Gamarra Rondinel**, University of Melbourne
Discussant 3: **Alfons J. Weichenrieder**, Goethe University Frankfurt
Discussant 4: **Michael Smart**, U of Toronto

Is the Elasticity of Taxable Income Mostly An Income Effect?

Michael Smart[1], Xavier Dufour[2], Pierre-Carl Michaud[2]
[1]U of Toronto, Canada; [2]HEC Montreal, Canada

We use variation in marginal tax rates and in tax bracket thresholds at which they apply in order to identify the substitution and income effects of tax reforms. We use a triple-difference estimator that exploits variation from subnational tax reforms, for which behavioral responses to taxes are identified even in the presence of unobservable shocks to the income distribution. While high-income taxpayers respond more to tax changes, our results suggest this reflects much more the income or salience effects of tax reforms, rather than inherent heterogeneity in substitution effects. We discuss the implications for optimal redistributive tax policies.

Optimal Policy Reforms

Juan Rios[1], Katy Bergstrom[2], William Dodds[2]
[1]PUC Rio de Janeiro, Brazil; [2]Tulane University

This paper develops a general framework to construct optimal policy reforms starting from a status quo set of policies. We show that if a policymaker can control how fiscal externalities are spent, then the welfare-weighted marginal value of public funds (WMVPF) is the relevant sufficient statistic for determining optimal policy reforms. If a policymaker cannot control how fiscal externalities are spent, then the welfare-weighted net social benefit (WNSB) is the relevant sufficient statistic. If a policymaker can control how a fraction of fiscal externalities are spent, then the relevant sufficient statistic is an "augmented internal WMVPF" consisting of an "internal WMVPF" plus an "external correction" term. We provide a number of stylized examples to illustrate how and when in practice to use the WMVPF versus the WNSB to determine optimal policy reforms.

Tax Reform and the Laffer Curve

Ana Gamarra Rondinel[1], James R. Hines Jr.[2], Jose F. Sanz-Sanz[3]
[1]University of Melbourne; [2]University of Michigan and NBER; [3]Universidad Complutense de Madrid

This paper evaluates Laffer curves produced by reforms to nonlinear income taxes, focusing on individual taxpayers. A reform puts a taxpayer on the “wrong” side of the Laffer curve if it increases their tax burden while reducing tax payments. There always exist potential reforms with this property – and in particular, tax increases restricted to high-income taxpayers are guaranteed to consign some to the wrong side of the Laffer curve. The original design of the 2024 Australian tax reform would have put 15% of the taxpaying population on the wrong side of the Laffer curve, though subsequent modifications reduced this to 5%. Standard tax progressivity measures that ignore the endogeneity of taxable income generally understate the redistributive impact of progressive tax reforms.

Optimal Redistribution with Labor Supply Dependent Productivity

Eren Gürer[2], Alfons J. Weichenrieder[1]
[1]Goethe University Frankfurt, Germany; [2]Middle East Technical University

This study examines optimal government redistribution in a Mirrleesian framework, accounting for a negative effect of longer working hours on productivity. A government ignoring this effect perceives labor supply as insufficient and sets lower marginal income taxes to encourage work. In contrast, a government recognizing the endogenous relationship between productivity and labor supply redistributes more. However, the resulting marginal taxes are still lower than those predicted by standard models where productivity is independent of working hours.

2:00pm - 4:00pm

Side event: Event for local students and mentors (on invitation)
Location: **Main Auditorium**

4:00pm - 4:30pm

Coffee Break III
Location: **SHSS Rooftop**

4:30pm - 6:30pm

D01: Minimum Tax, Digital Tax, and Welfare
Location: **SS4**
Session Chair: **Andreas Haufler**, LMU Munich
Discussant 1: **Dirk Schindler**, Erasmus University Rotterdam
Discussant 2: **Maarten Van T Riet**, CPB Netherlands Bureau for Economic Policy Analysis
Discussant 3: **Andreas Haufler**, LMU Munich
Discussant 4: **Jonathan Pycroft**, European Commission

A – Potentially Positive – Welfare Assessment of the Global Minimum Tax

Lidia Brun[1], Jonathan Pycroft[1], Daniel Stöhlker[1], Maarten van 't Riet[2]
[1]European Commission, Spain; [2]CPB, Netherlands

We evaluate the welfare effects of the Global Minimum Tax (GMT) on corporate income using a multi-country macroeconomic model. The GMT aims to reduce harmful tax competition and profit shifting. While it can boost welfare by increasing tax revenues, it may also raise firms' capital costs, potentially contracting the economy. Our model, which includes 27 EU Member States, the US, the UK, Japan, and a tax haven, provides a quantitative welfare assessment of a 15 percent GMT implementation. We explore two scenarios: In the first, additional corporate income tax (CIT) revenues are distributed to households, resulting in mixed welfare outcomes across countries and a slightly positive global impact. In the second, revenues are returned to firms through lower CIT rates, enhancing economic activity by reducing capital costs. This scenario generally improves welfare, increasing global welfare. A 16 percent GMT rate is found to maximize global welfare.

The Digital Service Tax and Multisided Platforms

Hans Jarle Kind[2], Dirk Schindler[1], Guttorm Schjelderup[2]
[1]Erasmus University Rotterdam, Netherlands, The; [2]NHH Norwegian School of Economics

This paper explores how the Digital Service Tax (DST) affects a digital platform serving two customer groups linked by a network effect. The platform maximizes after-tax revenues from three sources: retail sales, advertising, and profit shifting. The DST falls on advertising revenue and prompts the platform to focus on the untaxed side of the market (retail) by raising the transfer price on the retail good. This dampens competition in the retail market and raises consumer prices while lowering ad prices. More profits are also shifted in response to the DST. However, we show that if the network externalitiy is sufficiently strong, these results may be reversed.

Developing Countries, Tax Treaty Shopping And The Global Minimum Tax

Maarten Van T Riet, Arjan Lejour
CPB Netherlands Bureau for Economic Policy Analysis, Netherlands, The

Analysis of the international network of double tax treaties reveals a large potential for tax avoidance. Developing countries are, on average, not more likely to suffer from tax revenue losses than other countries. Yet, this average masks the fact that several countries, such as Bangladesh, Egypt, Indonesia, Kenya, Uganda and Zambia, are vulnerable to substantial potential losses of withholding tax revenue by treaty shopping. The analysis combines tax parameters of more than a hundred countries with an algorithm from network theory, which simulates the tax minimizing behaviour of multinational enterprises. We introduce the notion of potentially aggressive tax treaties. These are the key treaties in treaty shopping routes, that may lead to substantial tax revenue losses in developing countries. Moreover, the treaty partners are often in a prime position to top-up tax undertaxed profits of developing countries that offer tax incentives to attract investment, thus nullifying the incentive effects.

Will The Global Minimum Tax Hurt Developing Countries?

Andreas Haufler[1], Hirofumi Okoshi[2], Dirk Schindler[3]
[1]LMU Munich, Germany; [2]Okayama University, Japan; [3]Erasmus University Rotterdam, Netherlands

The paper focuses on the effects that the introduction of the Global Minimum Tax (GMT) has from the perspective of developing countries. We introduce a model with two asymmetric host countries for FDI that compete with each other for the location of multinational firms, and simultaneously fight profit shifting to a tax haven. The low-income country has the weaker enforcement technology to fight profit shifting. It therefore loses more revenue from profit shifting, but also becomes a more attractive location for multinationals. The GMT reduces both profit shifting and the location advantage of the low-income country. If tax competition for real investment is sufficiently severe, the introduction of the GMT reduces tax rates and tax revenues in the low-income country while tax revenues in the high-income country rise. Our results help explaining the reservations that several developing countries hold towards the GMT.

4:30pm - 6:30pm

D02: Taxpayer Mobility and Evasion

Location: SS5
Session Chair: **Dirk Foremny**, Universitat de Barcelona / IEB
Discussant 1: **Salla Mari Annika Kalin**, University Of Helsinki
Discussant 2: **Dirk Foremny**, Universitat de Barcelona / IEB
Discussant 3: **Hannah Gundert**, ZEW Mannheim

Free to Roam, Hard to Tax? Assessing the Tax Implications of Digital Nomad Visas in the EU

Hannah Gundert[1,2], Julia Spix[1,2]
[1]ZEW Mannheim, Germany; [2]University of Mannheim

Digital nomad visas (DNVs) offer digital nomads a cost-effective way to strategically choose their tax residence country, in addition to providing other direct tax incentives. This paper examines the effective tax burden of digital nomads under these visas in the EU in a simulation analysis. Our preliminary findings indicate that digital nomads with a taxable nexus in the United States or the United Kingdom can achieve a lower effective personal income tax burden by working from EU countries that offer DNVs. Moreover, we employ travel data of digital nomads to gain insights into their movement patterns and the resulting tax revenue implications. Consistent with the tax advantages associated with these visas, we find that destinations offering DNVs attract digital nomads more frequently than those without such a visa.

Pensioners Without Borders: Agglomeration and the Migration Response to Taxation

Salla Mari Annika Kalin[1,2], Antoine Levy[3], Mathilde Muñoz[4]
[1]University Of Helsinki, Finland; [2]The Labour Institute for Economic Research; [3]UC Berkeley Haas; [4]UC Berkeley

This paper investigates whether and why pensioners move across borders in response to tax rate differentials. In 2013, retirees relocating to Portugal became eligible to a full tax exemption of foreign-source pensions. Contrary to the broadly held belief that seniors "age in place", we find substantial international mobility responses to the reform, concentrated among wealthy and educated pensioners in higher-tax origin countries. The implied migration elasticity of the stock of foreign pensioners to the net-of-tax rate is large (between 1.5 and 2) and increases at longer horizons. Tax-induced retirement migration clusters in space, and exhibits peer effects, amplification, and hysteresis patterns consistent with agglomeration through endogenous amenities. We show such forces theoretically and empirically have significant implications for optimal tax rates, and for the limited efficacy of unilateral policy responses to tax competition, like the source-based taxation of pensions.

Golden Visas and Real Estate Markets

Dirk Foremny[1], Zhengming Li[2], Clara Martínez-Toledano[2], Mariona Segú[3]
[1]Universitat de Barcelona / IEB, Spain; [2]Imperial College London; [3]CY Cergy Paris Université

This paper studies the impact of investor citizenship and residence schemes on local real estate markets. We do so by examining the Spanish golden visa programme that was introduced in 2013 and grants visas and full residence rights to foreign investors who invest at least 500,000 Euro in the Spanish real estate market. First, the number of real estate transactions above the threshold increased by 43% more for non-EU relative to EU and Spanish investors after the introduction of the programme. Second, non-EU investors appear to pay a premium of 11,421 Euro around the threshold relative to EU and Spaniards. Finally, we find that the programme had spillover effects on the real estate market. The average increase in golden visa exposure increases overall real estate transaction prices on average by 0.19% after the introduction of the scheme.

4:30pm - 6:30pm

D03: Identity and Fairness in Taxation

Location: SS6
Session Chair: **Joel Slemrod**, University of Michigan
Discussant 1: **Heikki Matias Palviainen**, Tampere University
Discussant 2: **Conor Clarke**, Washington University in St. Louis
Discussant 3: **Joel Slemrod**, University of Michigan
Discussant 4: **Thor O. Thoresen**, Statistics Norway

How Much Does Responsibility Matter in Fairness Measurement?

Laurence Jacquet[1], Zhiyang Jia[2], Thor O. Thoresen[3]
[1]CY Cergy Paris Universite and THEMA; [2]Statistics Norway; [3]Statistics Norway and Norwegian Fiscal Studies, the Department of Economics, University of Oslo

Empirical evidence suggests that social acceptance of redistribution depends on whether income differences result from individual responsibilities or from circumstances. Acceptance is limited when differences stem from

preferences, but greater when they result from circumstances. We propose a method based on compensating variation (CV) that accounts for this distinction in order to assess the distributional effects of a tax reform. It relies on estimation of a structural labor supply model which allows us to neutralize preference heterogeneity. We apply our method to evaluate the welfare effects of changes in labor income taxation introduced by the Norwegian tax reform of 2013–2019. We find that the estimated measure of CV when preference heterogeneity is neutralized displays distributional effects that are very similar to those observed with the measure of CV with heterogeneous individual preferences, themselves being very similar to those observed with the well-known CE criterion.

The Nordic model. Still the same?

Heikki Matias Palviainen[1], Markus Jäntti[2], Jani-Petri Laamanen[3]
[1]Tampere University, Finland; [2]Stockholm University, Sweden; [3]Tampere University, Finland

Nordic countries have been exceptional in their ability to combine equality and strong social protection with high taxes and dynamic economies. This paper studies the long-term evolution of Nordic tax-bene t policies and the Nordic model. We include the behavioral employment effects of tax-bene t changes by estimating participation elasticities. There has been a tendency to aim at efficiency over equality in the labor market. The employment effects of lower taxes and benefits do not o -set the increased inequality. The results show weakening social protection in Nordic countries.

What Made Income Taxes Possible?

Conor Clarke[1], Edward Fox[2], Wojciech Kopczuk[3]
[1]Washington University in St. Louis, United States of America; [2]University of Michigan; [3]Columbia University

Adam Smith considered a tax on income to be an ideal form of raising revenue that was administratively impossible. What changed? I study the intellectual history of the income concept and suggest hypotheses for when and why income became an administratively feasible tax base that was legible to the taxing state. I suggest a role for the rise of new accounting technology and the rise of wage earners---both connected the rise of the firm.

Taxing Identity

Joel Slemrod
University of Michigan, United States of America

Taxation based on identity has a long, sordid history, and persists to this day, usually in implicit ways. It is a relatively tame cousin of the blatant, violent, and genocidal policies that have targeted people of certain religions, races, and genders for millennia. Tax based on identity is difficult, although not impossible, to justify within standard optimal tax analysis, because in that framework the policy objective is usually framed as being anonymous (impartial) and eschews basing policy on disparate preferences. The most promising justification seems to be if, for example, race is systematically correlated with the failure of income to represent ability to pay. It then acts as a tag that can help achieve the desired allocation of tax burden at minimal efficiency cost. For unjustified identity-based tax policy, analysis can help to spot its existence and quantify its welfare cost.

4:30pm - 6:30pm

D04: Accountability and Subnational Governments

Location: SS7
Session Chair: **Linda Gonçalves Veiga**, University of Minho
Discussant 1: **Salvatore Barbaro**, Johannes-Gutenberg University Mainz
Discussant 2: **Niccolo Meriggi**, University of Oxford
Discussant 3: **Linda Gonçalves Veiga**, University of Minho
Discussant 4: **Jan Kemper**, ZEW/ University of Mannheim

Accountability and Long Term Investments: Evidence from Reducing Mayor's Tenure Length

Jan Kemper
ZEW/ University of Mannheim, Germany

In this paper, I analyze the effects of government tenure on public investments. Particularly, long term investments incur short-term costs and the benefits will be reaped in the future. Who will politically benefit from these investments is often not clear apriori. When politicians stay longer in office the likliohood is higher that benefits start to pay-off during their term in office. Hence, the tenure length of politicians might affect public investment activities. To test this hypothesis, I examine a reform in the German state of Lower-Saxony where mayors tenure length was reduced from 8 to 5 years. Exploiting exogenous variation generated by asynchronous elections, I apply a Difference-in-Difference approach to compare treated and not yet treated municipalities. I find preliminary evidence that shorter term periods reduce the level of public investments. Reform induced changes in political selection are unlikely to be the driver of the reform.

Autonomy and Accountability: Strategic Behavior of German State Leaders During the COVID-19 Pandemic

Salvatore Barbaro, Reyn van Ewijk, Julia Maria Rode
Johannes-Gutenberg University Mainz, Germany

The COVID-19 pandemic presented governments with unprecedented challenges, requiring decisions that balanced public health measures against substantial social and economic impacts. This study examines the strategic and opportunistic behaviors of regional officials in Germany during the pandemic. Using a comprehensive empirical analysis based on hundreds of statements from state incumbents, we shed light on the dynamics of state level political behavior.

Our findings reveal that German regional leaders emphasized their autonomy when performance metrics were favorable but strategically shifted responsibility when outcomes were less favorable. This behavior underscores the dual potential of federal systems as both laboratories of democracy and breeding grounds for responsibility-avoiding (opportunistic) behavior.

Participation, Legitimacy And Fiscal Capacity In Weak States: Evidence From Participatory Budgeting

Niccolò Francesco Meriggi[1], Kevin Grieco[2], Julian Michel[2], Abou Bakarr Kamara[3], Wilson Prichard[4]
[1]University of Oxford, United Kingdom; [2]University of California Los Angeles, USA; [3]International Growth Centre, Sierra Leone; [4]University of Toronto, Canada

Building durable fiscal capacity requires that the state obtains compliance with its tax demands, a struggle for weak states that lack enforcement capacity. One potential option for governments in weak states is to enhance their legitimacy and thereby foster voluntary compliance. In this study, we report results from a participatory budgeting policy experiment in Sierra Leone that attempted to increase legitimacy and tax compliance by inviting public participation in local policy decision-making. In phone based town halls, participants shared policy preferences with neighbors and local politicians and then voted for local public services that were subsequently implemented. We find that the intervention durably increased participants' perceptions of government legitimacy. However, against influential models of tax compliance, we find a robust null effect on tax compliance behavior. In exploratory analyses, we document that partisan affiliation strongly conditions the interventions' effects on tax compliance and attitudes towards paying taxes.

Partisan Alignment And The Allocation Of Intergovernmental Grants

Linda Gonçalves Veiga, Francisco José Veiga
University of Minho, Portugal

This paper analyses how partisan alignment shapes the allocation of intergovernmental grants. Two-Way Fixed-Effects (TWFE) and Regression Discontinuity (RD) estimations are applied to a sample comprising all 308 Portuguese municipalities from 1998-2022. TWFE results indicate that municipalities led by mayors politically aligned with the national government receive more national non-formula-determined grants, on average, and in local and national election years. Preliminary RD results are consistent with those of TWFE estimations, being also suggestive of partisan effects. Further tests are necessary to more thoroughly check for a causal effect of partisan alignment on the allocation of intergovernmental grants to Portuguese municipalities.

4:30pm - 6:30pm

D05: Offshore Assets and Taxing High-Income Earners

Location: SS8
Session Chair: **Miroslav Palansky**, Charles University, Prague; Tax Justice Network
Discussant 1: **Shigeki Kunieda**, Chuo University
Discussant 2: **Miroslav Palansky**, Charles University, Prague; Tax Justice Network
Discussant 3: **Amelie Grosenick**, LMU Munich

Trusts and International Wealth Management. Direct and Indirect Ownership of Real Estate in Britain.

Amelie Grosenick, Jakob Miethe
LMU Munich, Germany

In this paper, we document the role of the trusts in British real estate investment. We analyze the direct and indirect market both for domestic and foreign trusts. Building on detailed property level ownership and price data, we establish international ownership chains using Orbis ownership data to detect structures. We focus on trusts either as the nominal owner of properties or as upstream owners of other nominal owners. The main mode of investment in British real estate is transparent with short ownership chains that links to a natural person. When ownership chains become complicated, however, they become very complicated and more likely to include trusts. We document a high share of indirect investments through foreign trusts in more complicated chains. We provide a number of novel descriptive results on both direct and indirect trust ownership characterizing their investment into very high price properties and a geographic focus on urban agglomerations.

A Tax-Data Based Analysis of High-Income Earners and the Optimal Income Tax in Japan

Shigeki Kunieda
Chuo University

This study examines income distribution among Japanese high-income earners using micro tax data provided by the National Tax Agency, a first for Japan. Our analysis reveals several key findings. While wage income is the primary source of income for most high-income earners, stock capital gains are the dominant source for the top income earners. The Pareto coefficient for total income in Japan is approximately 1.45 for 2020, significantly lower than the previous estimates. Unlike existing studies that exclude capital gains, our lower estimate indicates a greater concentration of income among Japan's superrich. Additionally, effective average tax rates rise with income up to around 100 million yen, after which they decline. This regressivity is due to the Japanese income tax system, which imposes lower taxes on capital income. Using this result, we also derive the optimal marginal tax rates in Japan and find some support for raising the top marginal tax rates.

Hide-Seek-Hide? The Effects of Financial Secrecy on Cross-Border Financial Assets

Petr Janský[1], Tereza Palanská[1], Miroslav Palanský[1,2]
[1]Charles University, Prague; Czechia; [2]Tax Justice Network

Excessive financial secrecy facilitates illicit financial flows, including via anonymous ownership of cross-border financial assets. We study the reaction of such investment to recent increases in financial transparency using a new dataset of financial secrecy for 2011---2019. We find that investors reacted by relocating their assets to jurisdictions that remain, or have recently become, relatively more financially secretive than other countries. These effects are highly non-linear and stronger for assets originating from lower-income countries. Our results suggest that recent advances in information exchange are toothless if not accompanied by improved information collection and full corporate beneficial ownership transparency.

4:30pm - 6:30pm

D06: Macro-Fiscal Policy

Location: SS9
Session Chair: **Prasanth Chalambetta**, Vinayaka Missions' Research Foundation (Deemed to be University)
Discussant 1: **Franky Brice Kogueda Afia**, University of Douala
Discussant 2: **Klaas Staal**, Mainz University
Discussant 3: **Prasanth Chalambetta**, Vinayaka Missions' Research Foundation (Deemed to be University)
Discussant 4: **Mohammad Vesal**, Sharif University of Technology

Rewarding Nominal Growth: Unintended Impacts of Tax Cuts in Iran

Mohammad Javad Dashtimanesh, Mohammad Vesal
Sharif University of Technology, Iran, Islamic Republic of

We study a policy in Iran that grants tax cuts to firms experiencing growth above a specified threshold. Using the universe of Iranian corporate tax returns from 2013 to 2022, we employ the bunching method and find that firms increase their reported taxable income growth by 1.17 percentage points for every 1 percentage point reduction in the corporate tax rate. Additionally, event-study results show that this growth corresponds with a reduction in the share of reported exemptions by firms. Evidence suggests that the increase in reported growth is driven by over-reporting of income and inter-temporal income shifting to maximize tax reductions. We further document evidence of information frictions: firms with ownership links are significantly more likely to coordinate their bunching behavior, suggesting that information about optimal tax responses diffuses through business networks. These patterns point to informational barriers as an important constraint on firm-level optimization in response to tax policy.

Musgravian Public Sector Performance in Sub-Saharan Africa: The Role of Government Size

Franky Brice Kogueda Afia, Honoré Bidiasse, Laurent-Fabrice Ambassa
University of Douala, Cameroon

The objective of this article is to analyze the impact of government size on the Musgravian performance of Sub-Saharan African countries. The Generalized Moments Method (GMM) in a system is applied to a sample of 40 countries over the period from 2006 to 2021. The results obtained show that the size of government significantly affects public performance in all three dimensions of Musgrave. First, it has a positive effect on government stability. Secondly, it reduces the income allowance and promotes employment. Finally, it reduces the share of the population living below the minimum income. Therefore, rather than increasing the size of government, it is recommended to accelerate the digitalization of public administrations in order to improve the quality of institutions and reduce corruption. As a result of this investigation, we note that the problem of sub-Saharan governments is not the quantity of the rulers, but the quality of their actions.

Financial Intermediation and Economic Growth in North Africa: Testing for Granger Causality

Ikraan Hassan[2], Khali Mohamed[2], Klaas Staal[1,2]
[1]Mainz University, Germany; [2]Karlstad University, Sweden

We investigate the impact of financial intermediation on economic growth in four North African countries (Algeria, Egypt, Morocco, and Tunisia). Based on a Principal Component Analysis to construct an index that measures financial intermediation and using Granger causality tests we analyze whether financial intermediation influences economic growth. Using data from 1990 to 2018, we show that financial intermediation does not Granger cause economic growth in these North African countries. This contrasts with the findings in similar but older studies for the East African Community (EAC) countries. We also show that inflation has a significant short-run impact on growth in the North African countries.

The Term Structure of Interest Rates in India: Analysing the Post-Pandemic Monetary Policy Stance

Prasanth Chalambetta[1], Lekha Chakraborty[2], Nehla Shihab[2]
[1]Vinayaka Missions' School of Economics and Public Policy, Vinayaka Missions' Research Foundation (DU), India.;
[2]National Institute of Public Finance and Policy, New Delhi, India.

Against the backdrop of the new Monetary Policy Committee (MPC) decisions to maintain the status quo policy rates, we analyse the post-pandemic monetary policy stance in India. Using high-frequency time series data spanning from January 2020 to July 2023, the term structure of interest rate is analyzed by incorporating monetary aggregates, fiscal deficit, inflation expectations, and capital flows, employing the ARDL (Autoregressive Distributed Lag) model. The results revealed that the fiscal deficit does not significantly determine interest rates in India's post-pandemic monetary policy stance. While the long-term interest rates were strongly influenced by the short-term interest rates (reinforcing the operation of term structure in India), capital flows, and inflation expectations, the money supply inversely impacted it. These inferences have policy implications on the fiscal and monetary policy coordination in India, where it is crucial to analyse the efficacy of a high interest rate regime on public debt management.

4:30pm - 6:30pm

D07: VAT Registration Threshold

Location: SS10
Session Chair: **Miguel Almunia**, CUNEF Universidad
Discussant 1: **Ross James Warwick**, International Monetary Fund
Discussant 2: **Tobias Kreuz**, ZEW Mannheim
Discussant 3: **Miguel Almunia**, CUNEF Universidad
Discussant 4: **Mazhar Waseem**, University of Manchester

Size-Based Policies and Firm Growth: Evidence from Pakistan

Mazhar Waseem[1], Muhammad Bashir[2], Zehra Farooq[3], Usama Jamal[1]
[1]University of Manchester, United Kingdom; [2]University of California, Berkeley; [3]Tulane University

Size-based regulations and taxation are ubiquitous. In this paper, we examine the impact of size-based taxation on firm growth by exploiting a large and permanent tax reform from Pakistan, where the VAT threshold was raised from PKR 5 million to PKR 10 million. Using a difference-in-differences framework and rich administrative data, we estimate the causal effects of this reform on firms whose growth was previously constrained by the size threshold. Our findings reveal substantial growth effects: treated firms saw their revenue increase by 32 log-points, costs by 19 log-points, and gross profits by 13 log-points. These effects are driven by real economic activity, as third-party reported outcomes, such as wages and imported inputs, also grew by similar margins. Treated firms paid higher taxes across various measures, highlighting their strong willingness to pay to get rid of the size-based taxation.

Tax Payments Or Tax Processes? Firm Responses To A VAT Registration Threshold In India

Ross James Warwick[1], Tushar Nandi[2]
[1]International Monetary Fund, United States of America; [2]IISER Kolkata, India

Value-added tax is commonly the most important source of tax revenue for governments in developing countries but little is currently understood about how firms respond to the tax. Using administrative tax data from West Bengal in India, we study the behavioural response induced by a turnover threshold for compulsory VAT registration. Exploiting variation in the tax discontinuity at the registration threshold across firms and over time, we show that it is tax liabilities rather than compliance costs that explain the bunching of firms below this threshold, and the associated revealed preference for a simplified tax scheme. The limited role for VAT compliance costs in business decisions has important implications for the welfare gains from the tax and for the optimal level of VAT registration thresholds.

How Do Businesses Bunch? Evidence on SMEs Using Novel German Administrative Tax Data

Tobias Kreuz[1,2], Alexandre Gnaedinger[1,2]
[1]ZEW Mannheim, Germany; [2]University of Mannheim

This paper examines how small and medium-sized businesses respond to a size-based tax and reporting threshold in the German local business tax. Using novel administrative tax return data covering the vast majority of German businesses, we document significant bunching at the tax allowance threshold while reporting requirements play a minor role. Following a cohort-based difference-in-differences approach we show how businesses manage their profits to stay below the tax allowance threshold. The bunching response is driven by a reduction in reported revenue and an increase in costs with some expenditure items potentially reflecting private consumption channeled through the firm.

Firm Networks and Tax Compliance: Experimental Evidence from Uganda

Miguel Almunia[1], David J. Henning[2], Justine Knebelmann[3], Dorothy Nakyambadde[4], Lin Tian[5]
[1]CUNEF Universidad, Spain; [2]UCLA, USA; [3]Sciences Po, France; [4]Uganda Revenue Authority, Uganda; [5]INSEAD, Singapore

How do tax enforcement interventions diffuse through firm-to-firm networks? We explore this question with a randomized trial in Uganda. Using transaction-level VAT data, we map seller-buyer networks and identify discrepancies in the amounts reported by trading partners. Enforcement letters highlighting these discrepancies are sent to either the seller, the buyer, or both. The correction rate in the treatment group is 23.8%, fourteen times higher than in the control group. This response is asymmetric: corrections are primarily made by sellers, even when only buyers receive letters, providing novel evidence that firms can induce changes in their partners' tax reporting. Spillover effects extend to transactions not listed in the letters, including those involving other trading partners. The intervention also results in sustained improvements in reporting behavior over subsequent months. Our study sheds light on firm-to-firm communication within networks and offers policy-relevant insights for fighting tax evasion.

4:30pm - 6:30pm

D08: Education Policy

Location: SS11
Session Chair: **A. Abigail Payne**, University of Melbourne
Discussant 1: **Ben Waltmann**, Institute for Fiscal Studies
Discussant 2: **Mikayel Tovmasyan**, Catholic Unversity Eichsaett-Ingolstadt
Discussant 3: **A. Abigail Payne**, University of Melbourne
Discussant 4: **Eric A. Hanushek**, Stanford University

Balancing Federalism: The Impact of Decentralizing School Decision Making

Eric A. Hanushek[1], Patricia Saenz-Armstrong[2], Alejandra Salazar[3]
[1]Stanford University, United States of America; [2]WGU Craft, United States of America; [3]American Institutes for Research, United States of America

Education policy in the United States, while primarily the responsibility of the state governments, involves complicated decision making at the local, state, and federal levels. Federal involvement dramatically increased under the No Child Left Behind Act of 2001 (NCLB). But, reflecting resistance to various parts of this law, the involvement of federal policy making was substantially reduced when Congress passed the Every Student Succeeds Act (ESSA) in 2015. This change in policy allows estimation of the impact of altered federalism. By looking at how states reacted to their enhanced decision-making role, we see a retreat from the use of output-based policy toward teachers, and this retreat was associated with significantly lower student achievement growth. The snapshot of federalism impacts here is a lower bound on the effects as more states will very likely react to the flexibility of ESSA and as more school districts change their teacher force.

The Short- and Long-run Effects of Paying Disadvantaged Teenagers to Go to School

Jack Britton[1,2], Nick Ridpath[1], Carmen Villa[1,3], Ben Waltmann[1]
[1]Institute for Fiscal Studies, United Kingdom; [2]University of York; [3]University of Warwick

We evaluate the Education Maintenance Allowance, a large conditional cash transfer that paid teenagers from lower-income families in England to remain in full-time education after age 16. Leveraging variation from the staggered roll-out and using linked administrative data, we find no improvement in labor market outcomes by age 31. If anything, the policy slightly reduced cumulative earnings and increased benefit receipt, driven by delayed labor market entry among higher-attaining students and weaker labor force attachment among lower-attaining students who stayed longer in education without gaining qualifications. However, it did reduce crime among lower-attaining students, suggesting some social benefits, though these were likely outweighed by the program's considerable costs.

The Education Gambit: Chess, Cognitive Skills, And A Natural Experiment In Armenia

Mikayel Tovmasyan
Catholic Unversity Eichsaett-Ingolstadt, Germany

This paper examines whether a nationwide policy mandating chess instruction in Armenian elementary schools since 2011 enhances students' cognitive skills and academic performance. Using Triple Differences identification strategy and student-level data from the Kangaroo International Math Competition (2009–2019), I compare cohorts exposed to early chess training with those who were not. My findings reveal a meaningful and statistically significant positive effect on math test scores, estimated at 1.4 points (a 4% improvement relative to the median). Students from rural areas benefit twice as much from chess instruction, whereas students from public schools do not significantly benefit relative to private schools. The results align with mixed evidence on the far-transfer benefits of cognitively demanding activities. These findings provide practical insights for policymakers considering the inclusion of chess in school curricula, in terms of its cognitive impact and cost-effectiveness.

To Enrol or Not to Enrol in University: The Role of Universities in a Context of Government Regulation, Income Contingent Loans, and Variable Tuition Rates

Katherine Cuff[2], Ana Gamarra Rondinel[1], A. Abigail Payne[1]
[1]University of Melbourne, Australia; [2]Mcmaster University, Canada

This paper considers the role universities play in determining their enrollment when faced with government regulated domestic tuition. Our theoretical framework posits that domestic student enrollment increase and international student enrollment decrease or remain unchanged when domestic tuition increases. Using 30 years of data, we find higher tuition increases domestic enrollment, mediated by an expectation that students may respond negatively to increased tuition. Universities shift enrollment toward higher-revenue fields. The results for international student enrollment is mixed, depending on the research intensity of the university.

4:30pm - 6:30pm

D09: Intermunicipal Cooperation and Finance

Location: SS12
Session Chair: **Agnieszka Kopańska**, University of Warsaw
Discussant 1: **Alessandro Sovera**, Tampere University
Discussant 2: **Manish Gupta**, National Institute of Public Finance and Policy
Discussant 3: **Agnieszka Kopańska**, University of Warsaw
Discussant 4: **Albert Solé-Ollé**, U. of Barcelona

'Not Without My Friends': Partisanship and Intermunicipal Cooperation

Albert Solé-Ollé[1], Jaume Magre[2], Toni Rodón[3]
[1]U. of Barcelona, Spain; [2]New York U., US; [3]U. Pompeu Fabra, Spain

Voluntary intermunicipal cooperation can address inefficiencies from local government fragmentation without politically costly mergers, but trust deficits often hinder collaboration. This paper explores whether partisanship can facilitate cooperation by building trust and aligning preferences. We contribute to research on local cooperation and political alignment using data from Spanish municipal associations and a novel administrative dataset covering four decades. We examine (1) whether founding municipalities in associations are more similar in partisanship than later joiners, (2) whether alignment increases the likelihood of joining, and (3) apply a Regression Discontinuity Design to assess causal effects. We find that founding members are more alike in partisanship and other traits; aligned municipalities are 60% more likely to join an association; and our RDD confirms a causal relationship. Our findings highlight how partisan alignment can overcome coordination barriers in fragmented governance in low-trust settings but exacerbate conflict in high polarized ones.

When Integration Backfires: Examining The Effects Of Inter-Municipal Cooperation On Local Housing Markets

Alessandro Sovera
Tampere University, Finland

This study explores whether the advantages of larger local governments outweigh the inefficiencies associated with consolidation. Specifically, it examines an Italian policy reform that required small municipalities to engage in inter-municipal cooperation for the provision of shared services. The analysis assesses the impact of this reform on local real estate prices, revealing a significant decline in house prices in the affected municipalities. This decrease suggests a deterioration in the quality of public goods provision. Furthermore, we find no evidence supporting alternative explanations, such as changes in taxation or housing supply, for these price fluctuations. Ultimately, the results indicate that the joint management of municipal functions may be harmful to both local governments and their residents, raising critical questions about the overall effectiveness of consolidation efforts.

Analysis Of Public Sector Borrowing Requirements Of Select Indian States: Issues And Challenges

Manish Gupta[1], Sk Md Azharuddin[2], Malvika Mahesh[3]
[1]National Institute of Public Finance and Policy, India; [2]National Institute of Public Finance and Policy, India;
[3]National Institute of Public Finance and Policy, India

The paper estimates public sector borrowing requirement (PSBR) for select Indian states. In doing so it quantifies their off-budget borrowings and examines guarantees given by them as per their fiscal responsibility legislations. To the best of our knowledge this is the first study of its kind for India and covers period from 2015-22. Seven states were selected based on their fiscal performance. It highlights the challenges in deriving estimates of components of PSBR. The study stresses on fiscal transparency which is critical to good governance and policy making and is of the view that instead of focusing on narrow definition of fiscal indicators like debt/ deficit, a broader definition encompassing activities of public sector would make fiscal policy realist and effective. It examines factors that influence PSBR for Indian states and finds it to be positively related to per capita GSDP and fiscal-deficit-to-GSDP ratio and inversely to states' own-tax-revenue-to-total-expenditure ratio.

How Treasurers Reputation influence Local Government Finance?

Agnieszka Kopańska
University of Warsaw, Poland

The study investigates how the reputation of a treasurer—based on their tenure compared to that of the mayor—affects financial outcomes in Polish local governments. It employs the Inverse Probability Weighted Regression Adjustment (IPWRA) method to analyze two groups of local governments: those where the treasurer was appointed by the incumbent mayor and those where the treasurer has held the position longer than the current mayor. The findings indicate that treasurers with a strong reputation lead to better financial results for local governments. This includes lower expenses, higher tax revenues, and reduced deficits and debt. Conversely, local governments with treasurers who have a weaker reputation tend to have higher current expenditures, lower investment expenditures, and increased debt issuance

4:30pm - 6:30pm

D10: Climate Change Mitigation

Location: SS13
Session Chair: **Dina Deborah Pomeranz**, University of Zurich
Discussant 1: **Ilias Matterne**, Ghent University
Discussant 2: **Vedanth Nair**, Institute for Fiscal Studies
Discussant 3: **Dina Deborah Pomeranz**, University of Zurich
Discussant 4: **Thomas Michael Lloyd**, University of Michigan

Does It Matter That Carbon Taxes Are Regressive?

Ashley Craig[2], Thomas Lloyd[1], Dylan Moore[3]
[1]University of Michigan; [2]Australian National University; [3]University of Hawai'i

We ask how externalities should be taxed when redistribution is costly. In our model, the government raises revenue using distortionary income and commodity taxes. If more or less productive people have identical tastes for an externality-generating activity, the government optimally imposes a Pigouvian tax equal to marginal damage from the externality, regardless of whether the tax is regressive. But if regressivity partly reflects different preferences across incomes, the tax optimally deviates from the Pigouvian benchmark to help redistribute income efficiently. The overall tax may be higher or lower, and may even reverse sign relative to the externality. We derive sufficient statistics for optimal policy and use them to study carbon taxation in the US. Throughout most of the income distribution, our empirical results imply an optimal carbon tax below marginal damage, but this reverses for high earners. Allowing heterogeneity within and across incomes attenuates schedules toward the Pigouvian benchmark.

Assessing The Impact Of Carbon Taxation On Innovation: A Computable General Equilibrium Analysis For Belgium

Ilias Matterne, Annelies Roggeman, Isabelle Verleyen
Ghent University, Belgium

This study examines the potential impacts of carbon taxation on Belgium's economy, focusing on emissions reduction and fostering innovation. As a strong EU innovator, Belgium has yet to implement a carbon tax, despite falling short of its climate targets. Using a computable general equilibrium (CGE) model calibrated with a detailed Social Accounting Matrix (SAM) for Belgium, the research explores varying carbon tax levels and revenue recycling strategies, including innovation subsidies and labour tax reductions. The model captures the dynamic interplay between economic activity, sectoral transitions, emissions, and R&D investments. By integrating innovation dynamics into the CGE framework, this study offers a forward-looking analysis of how carbon taxes can support technological progress and economic resilience. The results aim to provide actionable insights for policymakers designing equitable environmental policies that balance decarbonization with economic competitiveness.

How Do Sub-Saharan African Countries Tax Fuel And Vehicles? Evidence From A New Database

Vedanth Nair
Institute for Fiscal Studies, United Kingdom

Fuel and vehicle taxes are key revenue sources in sub-Saharan Africa (SSA) and play a role in addressing externalities such as congestion, air pollution, and road damage. This paper draws on a new database covering fuel and vehicle taxes in 38 SSA countries, tracking reforms since 2014. The findings show that these taxes are poorly aligned with environmental objectives: most revenue comes from up-front vehicle purchase taxes, which are least effective at targeting externalities from vehicle use. Since 2014, purchase taxes have grown in importance as fuel taxes have lagged behind inflation. While some purchase taxes include environmental elements—such as higher rates for vehicles with larger engines—most countries tax expensive but cleaner vehicles more than cheaper, dirtier ones. Cars face much higher taxes than buses and trucks, creating loopholes for vehicles on the boundary, such as pickup trucks.

Decreasing Emissions by Increasing Energy Access? Evidence from a Randomized Field Experiment on Off-Grid Solar Lights

Adina Rom[1], Dina Pomeranz[2], Isabel Günther[1]

[1]ETH Zurich; [2]University of Zurich

Climate change and energy poverty in low- and middle-income countries are global challenges that are sometimes in tension with each other. This paper analyzes a randomized intervention that addresses both: distribution of solar lights to replace kerosene lamps. The solar lights strongly reduce carbon emissions from kerosene by half, while at the same time lowering household expenditures and improving health and subjective wellbeing. Providing lights for free, rather than charging a co-pay, boosts take-up without lowering usage. Access to solar lights can therefore be a highly cost-effective climate intervention, which at the same time increases the welfare of the poor.

Date: Friday, 22/Aug/2025

8:15am - 9:30am	**Board II: IIPF Board meeting II (on invitation)** Location: SHSS Boardroom
9:30am - 10:30am	**E: Mentoring I: Mentoring session: Preparing for and navigating the job market** Location: SS4 With: • Michael Devereux • Wojciech Kopczuk • Clara Martinez-Toledano • Juan Rios
9:30am - 10:30am	**E: Mentoring II: Mentoring session: Navigating the first few years as an assistant professor** Location: SS5 With: • Erika Deserranno • Abigail Payne • Dina Pomeranz • Mazhar Waseem
9:30am - 10:30am	**E: Mentoring III: Mentoring session: Rewarding careers outside academia** Location: SS6 With: • Isabel Martinez • Fayçal Sawadogo • Thor Olav Thoresen • Ben Waltman
9:30am - 10:30am	**E: Mentoring IV: Mentoring session: Publishing in economics journal** Location: SS7 With: • Marianne Bitler • Claus Th. Kreiner • Sara LaLumia • Joel Slemrod
10:30am - 11:00am	**Coffee Break IV** Location: SHSS Rooftop
11:00am - 1:00pm	**F01: Climate Policy** Location: SS4 Session Chair: **Emanuele Massetti**, International Monetary Fund Discussant 1: **Michael R Carter**, University of California, Davis Discussant 2: **Raphael Abiry**, Bank of England Discussant 3: **Emanuele Massetti**, International Monetary Fund Discussant 4: **Pia Rattenhuber**, UNU-WIDER

Fuelling The Green Transition - The Direct And Indirect Effects Of Fuel Subsidy Reforms In The Andean Region

Pia Rattenhuber[1], H. Xavier Jara[2], David Rodriguez[3], Johana Silva[3]
[1]UNU-WIDER, Finland; [2]International Inequalities Institute, London School of Economics, London, UK; [3]Facultad de Economía, Universidad Externado de Colombia, Bogotá, Colombia

This paper analyses the distributional effects of fuel subsidy reforms in four countries of the Andean region: Bolivia, Colombia, Ecuador and Peru. We combine tax-benefit microsimulation techniques with input-output analysis to estimate the direct and indirect distributional effects of reducing to the point of fully removing such subsidies, and explore how recycling the proceeds towards greater social protection can alleviate the burdens placed on society. Our results shows that the removal of fuel subsidies has a negative impact on household income, particularly for those at the bottom of the distribution which increases poverty. Recycling the revenue saved from the removal of subsidies to enhance the generosity of existing social protection programs mitigates the increase in poverty but to different extents across countries. The latter reflects differences in targeting of current social protection programmes in the countries under study.

The Economics of Sovereign Parametric Insurance in Low and Middle Income Countries

Michael R Carter[1,2,3], Marcos Martinez-Sugastti[1]
[1]University of California, Davis, United States of America; [2]NBER; [3]University of Cape Town

The increase in natural disasters has spawned the creation of multilateral risk management facilities that offer sovereign parametric insurance contracts that provide governments with budgetary support for infrastructure replacement and excess social protection payments that accumulate in the wake of hurricanes and droughts. While the argument for pre-arranged financing is compelling, there is a paucity of economic analysis concerning how much coverage a government should optimally purchased taking into account the fact that parametric insurance may over- or under-predict true losses. Using a formal model, we show that optimal insurance coverage is sensitive to the predictive accuracy of the parametric disaster index and the pricing of the insurance relative to its actuarially fair level. Using realistic parameters drawn from a scheme designed to insure Kenya's social protection program for its drought-prone regions, we further show that while the optimal amount of insurance is positive, it is lower than typically imagined.

The Impact of the Net-Zero Transition on UK Productivity: A Conceptual Framework and New Evidence

Raphael Abiry[1,2], Maren Freomel[1], Philip Schnattinger[1], Prachi Srivastava[3], Ivan Yotzov[1]
[1]Bank of England, United Kingdom; [2]Goethe University Frankfurt, Germany; [3]University College Dublin, Ireland

The UK's Climate Change Act mandates an 80% cut in CO2 emissions by 2050 relative to 1990. Although emissions have already fallen by about 45%, further structural changes are essential for decarbonising the UK economy. This study examines the impact of this transformation on labour productivity, firm demographics and energy consumption. We assess the implications of the transition so far, as well as of the transformation ahead of us. Our investigation employs both empirical and structural approaches. The empirical strategy involves analysing aggregate data, progressing to the division level, and concluding with an examination of individual firm behaviour.

Results indicate that two sectors drove the decarbonisation so far, electricity production and manufacturing. Shifting from coal to gas and renewables reduced emissions in electricity production, while the shrinking of the manufacturing sector reduced emissions in the latter. Reductions in energy intensity and increases in energy efficiency broadly balanced each other out.

Economic Principles for Integrating Adaptation to Climate Change into Fiscal Policy

Matthieu Bellon, Emanuele Massetti
International Monetary Fund, United States of America

This paper argues that adaptation to climate change should be part of a holistic development strategy involving both private and public sector responses. Governments can prioritize public investment in adaptation programs with positive externalities, address market imperfections and policies that make private adaptation inefficient, and mobilize revenues for, and distribute the benefits of, adaptation. Although the choice of what should be done and at what cost ultimately depends on each society's preferences, economic theory provides a useful framework to maximize the impact of public spending. Cost-benefit analysis, complemented by the analysis of distributional effects, can be used to prioritize adaptation programs as well as all other development programs to promote an efficient and just transition to a changed climate. While compensations may be needed to offset damages that are either impossible or too expensive to abate, subsidies for adaptation require careful calibration to prevent excessive risk taking.

11:00am - 1:00pm	**F02: Quantifying Profit Shifting** Location: SS5 Session Chair: **Ron Davies**, University College Dublin Discussant 1: **Johannes Kochems**, University of Cologne Discussant 2: **Jakob Brounstein**, Institute for Fiscal Studies Discussant 3: **Ron Davies**, University College Dublin Discussant 4: **Ruby Doeleman**, WU Vienna University of Economics and Business

Matching Tax Returns and Financial Statement Data to Measure Income Shifting

Harald Amberger, Ruby Doeleman, Stefanie Pendl
WU Vienna University of Economics and Business

We match corporate tax return data with financial statement data to estimate tax-motivated cross-border income shifting in Austria. Our baseline estimate indicates a tax semi-elasticity of taxable income reported on corporate tax returns of -0.9. In contrast, we find little evidence of income shifting when using financial statement profits to proxy for taxable income -- a common approach in prior research. However, adjusting financial statement profits for tax-exempt dividend income yields estimates consistent with our main findings. Additional tests indicate that failing to account for dividend income can distort inferences about the relevance of specific income-shifting strategies. Our findings highlight that using financial statement data to approximate taxable income can affect the reliability of income-shifting estimates.

Local Tax Havens

Johannes Kochems

University of Cologne, Germany

This paper analyzes the fiscal impact of corporate profit shifting to local business tax havens in Germany. Similar to international tax havens, municipalities in Germany have an incentive to reduce their local business tax (LBT) rate to attract corporate profits. I define local tax havens as low-tax municipalities close to large agglomeration areas. I use synthetic difference-in-differences methods together with administrative data sources to estimate the amount of profit shifting to local tax havens. Between 2013 and 2019, around 74 billion Euros were shifted to local tax havens. The results are driven by a small number of large firms that offer business and financial services. The fiscal cost to non-tax haven municipalities amounts to roughly 11 billion Euros.

The Three Body Problem: Ecuador's Tax On Tax Haven Ownership

Pierre Jean Bachas[1], Jakob Brounstein[2], Alex Bajaña[3]

[1]World Bank; [2]Institute for Fiscal Studies; [3]Servicio Renta Interna Ecuador

Can a country reduce its exposure to tax havens, and what are the consequences? We analyze the effects of Ecuador's corporate tax surcharge for firms with owners in tax havens. The reform was made possible by the prior establishment of an ownership registry. Comparing the behavior of firms with tax-haven owners at baseline (exposed firms), versus other foreign-owned firms, we find that the reform induced 12 percent of exposed firms to reduce tax haven ownership to zero. Exposed firms report owners in non-haven countries that tend to be individuals rather than firms, thus raising beneficial ownership transparency. Exposed firms also increase tax payments by 15%, without reducing employment and investment in Ecuador. Yet, transactions between exposed firms and tax haven parties did not fall. Overall, the policy which combined a "flashlight" (the ownership registry) and a "stick" (the tax surcharge) seemed effective at raising transparency and mitigating tax erosion.

Identifying Profit Shifting from Administrative Data

Gerald Agaba[2], Ron Davies[1,4,5], Kyle McNabb[3], Miroslav Palanský[5,6]

[1]University College Dublin, Ireland; [2]Uganda Revenue Authority; [3]ODI, London; Center for Tax Analysis in Developing Countries; [4]Skatteforsk; [5]Tax Justice Network; [6]Charles University

It is well-known that some multinationals shift profits to tax havens. By manipulating the cost of intra-firm transactions, these firms artificially lower their tax base and the reduce the effectiveness of the tax authority. While this can be countered by monitoring and audits, such efforts are costly. Here, we present a data-driven approach to identifying potential profit shifters to better target limited audit resources. By comparing actual data from individual firms' tax returns in Ugandan administrative to broader industry trends, the method identifies when a given firm's behaviour seems unlikely in the absence of profit shifting. The method indicates that fewer of 3% of multinationals in Uganda exhibit such behaviour with four firms making up over 90% of potentially lost tax revenues. Thus, our methodology is a feasible and low cost method of targeting audits.

11:00am - 1:00pm

F03: Public Choices and Private Incentives

Location: SS6
Session Chair: **Erika Deserranno**, Bocconi University
Discussant 1: **Jacob E Bastian**, rutgers university
Discussant 2: **Beatrice Mbinya**, Univeristy of Nairobi
Discussant 3: **Erika Deserranno**, Bocconi University
Discussant 4: **Salvatore Barbaro**, Johannes-Gutenberg University Mainz

On the Prevalence of Condorcet's Paradox

Salvatore Barbaro[1], Anna-Sophie Kurella[2]

[1]Johannes-Gutenberg University Mainz, Germany; [2]University of Mannheim, Germany

The Condorcet paradox has been a significant focus of investigation since Kenneth Arrow rediscovered its importance for economic theory. Recent research on this phenomenon has oscillated between simulation studies, probability calculations based on hypothetical voter preferences, and empirical analyses often limited by unsatisfactory data. This paper presents the first comprehensive evaluation of 253 electoral polls conducted across 59 countries. Our findings demonstrate that the Condorcet paradox has virtually no empirical relevance: with only one exception, we find no evidence of cyclical majorities in any of the 253 elections. This result remains robust after statistical inference testing. Furthermore, this study provides insights into which parties are particularly likely to emerge as Condorcet winners and explores how these Condorcet winners assert themselves after elections.

The Impact of the 2021 Expanded Child Tax Credit on U.S. Consumer Sentiment

Jacob E Bastian

rutgers university, United States of America

While consumer sentiment is a key macroeconomic indicator tied to employment and inflation, its response to targeted government policies remains less understood. This study addresses that gap by examining the causal link between fiscal interventions and household confidence, using the 2021 Child Tax Credit (CTC) expansion as a natural experiment. The CTC provided monthly payments that lifted incomes—particularly for lower-income families—until it abruptly expired in early 2022. Drawing on microdata from the University of Michigan's Consumer Sentiment Survey, we show that removing this crucial support triggered a pronounced drop in economic confidence, most severe among lower-income households and those with multiple children. In contrast, higher-income families saw no substantial change in sentiment. Our findings demonstrate that government policies like the CTC can have significant effects on consumer sentiment, underscoring their vital role for vulnerable populations who rely heavily on such financial support to maintain economic stability.

Tax and Outcomes on Betting: Directing Pro-Poor Policy in Nairobi, Kenya

Beatrice Mbinya[1], Kefa Maunda Simiyu[2]

[1]University of Cape Town; [2]University of Nairobi

This study explored how financial access, tax perceptions, parental behaviors, and gambling activity influenced gambling propensity, intensity, and related financial outcomes, including indebtedness, among low-income individuals in Kenya. Utilizing a cross-sectional Financial Access dataset (2024) by Financial Deepening Sector (FSD), Kenya National Bureau of Statistics, and Central Bank of Kenya, Logistic, Ordered Probit, and Multinomial Logit regressions analyzed these relationships. Findings reveal parental gambling history significantly increased gambling propensity, while mobile money and formal credit access facilitated higher gambling intensity. Crucially, both gambling propensity and intensity significantly heightened "missed," "less," and "late" loan payments, strongly supporting the "no-profitability" hypothesis. Formal credit access emerged as a "double-edged sword," though financial literacy was protective and positive tax perception showed only minor impact. This research contributes granular empirical insights into gambling-to-debt pathways in a low-income Kenyan context. Policy recommendations include progressive gambling taxation and hypothecating revenues for financial literacy and debt counseling programs.

Balancing the Books and Morale: The Impact of Pay Systems and Job Rotation on Worker Turnover

Erika Deserranno[1], Julia Salmi[2], Miri Stryjan[3], Lame Ungwang[4]

[1]Bocconi University, Italy, Northwestern University; [2]University of Copenhagen; [3]Aalto University School of Business; [4]ISDC

We conduct a randomized experiment comparing individual- and team-based performance pay among credit officers at a microfinance institution in Uganda. We find that tying rewards to individual or team performance has no significant effect on job performance (loan outcomes). However, turnover is substantially higher under individual incentives, with twice as many employees leaving compared to the team-based scheme. Survey data also reveals lower job and workplace satisfaction under individual incentives. Importantly, when individual incentives are combined with a portfolio rotation policy — which more equitably distributes opportunities for bonuses — the negative effect on turnover is mitigated. These results highlight the risks of individual incentive pay, which can reduce satisfaction and increase turnover. Introducing complementary policies like portfolio rotation can help address these unintended consequences and support better retention under individual-based incentive systems.

11:00am - 1:00pm

F04: Optimal Redistribution and Enforcement

Location: SS7
Session Chair: **Claus Thustrup Kreiner**, University of Copenhagen
Discussant 1: **Ana Franco**, University of Michigan
Discussant 2: **Dylan T. Moore**, University of Hawai'i at Mānoa
Discussant 3: **Claus Thustrup Kreiner**, University of Copenhagen
Discussant 4: **Jukka Pirttila**, University of Helsinki

Optimal Tax Administration and Redistributive Policy

Sebastian Castillo Ramos, Jukka Pirttila
University of Helsinki, Finland

Redistributive policies are crucial in tax design but often overlooked when examining optimal tax administrative policies to fight tax evasion. This paper extends the Keen and Slemrod (2017) framework to analyze how redistributive concerns and inequality aversion affect tax administration. The rule for the optimal redistributive tax has the same structure as in a model without tax evasion, but the efficiency concerns depend on the elasticity of reported incomes, not solely on the elasticity of labour supply. Optimal tax enforcement strategies depend on the connection between private compliance costs and inequality aversion. With social marginal welfare weights falling in income, society chooses less strict enforcement and larger implied optimal tax gap if compliance costs are relatively high among low-income individuals. The results highlight an efficiency-equity trade-off in optimal tax administration policies.

Payments Under the Table: Tax Distortions and Optimal Taxation

Ana Franco
University of Michigan, United States of America

I develop a model of optimal income taxation that incorporates a hybrid employment structure, where formally employed workers receive both recorded wages and payments under the table (PUT). When firms' choices are not considered, the optimal tax rate depends on two sufficient statistics—the PUT elasticity and the ratio of PUT to reported wages. Higher absolute values of the PUT elasticity and the ratio of PUT to reported wages lower the optimal tax rate. When firms are introduced, the corporate tax creates an additional distortion because PUT wages cannot be deducted from taxable income. As higher PUT wages reduce income tax revenue, they simultaneously increase corporate tax payments, partially offsetting the revenue loss and affecting redistribution. I apply this model to the Peruvian context. To estimate PUT, I perform optimal transport matching between two datasets that most governments already collect—payroll administrative records and household survey data.

Optimal Taxation with Non-Filers & Imperfect Takeup

Dylan Moore
University of Hawai'i at Mānoa, United States of America

Abstract This paper revisits classic results in optimal income taxation by incorporating non-filers, whose undermining the efficacy of income tax-based redistribution. Under Atkinson-Stiglitz preference assumption, the addition of non-filers rationalizes commodity subsidies as an alternative approach to achieving redistribution. The imperfection of this approach may also rationalize differential commodity taxation/subsidization. Moreover, when filing is an endogenous choice—affected by demogrant incentives—the optimal income tax follows a modified ABC rule, with social marginal utility adjusted to reflect imperfect takeup. These findings reveal that accounting for non-filers can increase or decrease optimal redistribution.

Optimal Enforcement of Redistributive Taxation

Claus Thustrup Kreiner
University of Copenhagen, Denmark

We integrate tax enforcement into the Mirrlesian optimal income tax framework, derive sufficient statistics formulas for the jointly optimal tax and enforcement schemes, and establish the following properties: (i) Taxation and enforcement are complementary. (ii) Tax exemptions can be optimal under variable enforcement. (iii) Cost-benefit enforcement is optimal if the marginal social value on consumption of evaders is zero. We calibrate the model using US audit data and find that even a conservative re-alignment of audit intensity at high incomes could lead to a significant increase in optimal top tax rates.

11:00am - 1:00pm

F05: Taxes, Buoyancy, and Growth

Location: SS8
Session Chair: **Andrey Timofeev**, Georgia State University
Discussant 1: **Hyejeong SIM**, National Assembly Budget Office
Discussant 2: **Aneesh K A**, CHRIST University
Discussant 3: **Andrey Timofeev**, Georgia State University
Discussant 4: **Elina Berghäll**, VATT Institute for Economic Research

Tax Revenue and Growth in Africa

Elina Berghäll
VATT Institute for Economic Research, Finland

The positive correlation of tax to GDP and GDP per capita at the global level suggests that developing country growth should reduce aid dependence by mobilizing domestic revenues (DRM) to finance public expenditure. Income status upgrades by the World Bank represent milestones in this transition and may anticipate a decline in aid precipitating an increase in tax collection to complement the shortfall in government revenue. Applying the synthetic control method (SCM) and synthetic difference-in-differences (SDID) to countries with sufficient data in the UNU-WIDER GRD tax database and the WDI, I investigate whether the income status upgrades raise tax and other government revenue in sub-Saharan Africa (SSA). Results confirmed by extensive robustness checks show upgrades to rarely have an impact on tax revenue per GDP. Overall income status upgrades cannot be expected to lead to increased DRM in Sub-Saharan Africa.

Real Asset Market Incompleteness and Tax Policy

Hyejeong SIM
National Assembly Budget Office, Korea, Republic of (South Korea)

This study aims to shed light on the cyclicality of tax policy. The result shows that tax policy in Korea is a-cyclical. One notable feature is a strong relationship between house prices and tax policy. The empirical results show a positive relationship between housing prices and tax rate reduction bills and a negative relationship with tax rate increase bills. This result implies that tax rate reduction is strengthened when the housing market is strong, and conversely, tax rate increase is strengthened when the housing market is weak. Based on this result, this paper argues that asset market imperfections lead to procyclical tax policies. Since the 2000s, real asset markets have had a greater impact on tax revenue fluctuations, and unexpectedly high tax revenues during the real estate boom have led to tax rate reductions.

Fiscal Deficit Under the Fiscal Rule Regime in India: The Role of Disinvestment of PSEs

Aneesh K A, Susmita Kalyani
CHRIST University, India

Since 1991, India's central government has actively pursued disinvestment of Public Sector Enterprises (PSEs). However, the strategic sale of well-performing PSEs like Life Insurance Corporation of India Ltd. and Air India has drawn criticism, raising concerns about undervaluation and deviation from stated policy objectives. This paper examines the rationale, debates, and fiscal implications of disinvestment in India. Empirically, it analyzes disinvestment proceeds post-1991, particularly after the Fiscal Responsibility and Budget Management (FRBM) Act of 2003, to assess their role in managing fiscal deficits. The findings indicate that disinvestment revenues, both current and lagged, have been used as a fiscal tool, questioning whether the policy aligns with long-term economic efficiency or serves as a short-term revenue strategy. The study contributes to the discourse on whether disinvestment enhances economic sustainability or merely addresses fiscal constraints without structural reforms.

Reconciling Tax Buoyancy and Tax Capacity

Andrey Timofeev
Georgia State University, United States of America

I attempt to reconcile two vast strands of literature that essentially estimate the same empirical relationship. Tax effort studies aim to benchmark a country's tax-to-GDP ratio to tax outcomes observed in other countries under comparable conditions, in particular under similar levels of economic development, proxied with the real GDP per capita. A completely separate strand of literature deals with estimating tax buoyancy, which is measured as the percentage change in tax revenue associated with a one per cent change in GDP. While dealing with some of the same data as in the tax effort studies, the tax buoyancy literature has developed more robust econometric methods. In this paper, I show that an estimate of long-run buoyancy can be translated into the magnitude of the impact of economic development on the tax-to-GDP ratio by making adjustments for how the population size and real exchange rate interact with economic growth.

11:00am - 1:00pm

F06: Decentralization and Local Government

Location: SS9
Session Chair: **Nicolas Orgeira Pillai**, Local Government Revenue Initiative

Discussant 1: **Atrayee Choudhury**, National Institute of Public Finance and Policy
Discussant 2: **Nicolas Orgeira Pillai**, Local Government Revenue Initiative
Discussant 3: **Takeshi Miyazaki**, Kyushu University

Economies of Scope, Economies of Scale and Local Government: Evidence from the Boundary Reform of Local Governments

Takeshi Miyazaki
Kyushu University, Japan

The literature has not explored the interaction of economies of scope and economies of scale for public services provided by general-purpose local governments in detail. This study attempts to estimate the interactive effects on expenditures of the designation as a specially authorized city and merger, i.e. the interaction of economies of scope and scale. The findings of this research are summarized as follows. First, in the provision of public services by general local governments, the interaction of economies of scope and economies of scale is observed especially in the long term. The designation as a core city increases per capita expenditures for non-merged cities in the long term, but decreases for merged ones. Second, the contrasts of the long-term effects of designation as a specially authorized city between merged and non-merged cities hold for fiscal items such as ordinary expenses and conditional and unconditional grants.

Can Sub-National Climate Finance Mitigate Climate Driven Risks? Accounting For AI Preparedness, Gender Budgeting And Methodological Heterogeneities

Atrayee Choudhury
National Institute of Public Finance and Policy, India

Policymakers globally emphasize sub-national autonomy in environmental policies, but empirical evidence linking sub-national fiscal autonomy to climate risk is limited. This study addresses this gap by examining how AI preparedness and statistical performance mediate the relationship between environmental fiscal decentralization and climate risk, as measured by the IMF's Climate INFORM risk indicator. Using Panel Threshold Regressions with latent group structures (Miao et al., 2020) and quantile techniques on approx two decades of global data, we find that sub-national autonomy in climate finance reduces climate risk only up to a certain threshold. Beyond this point, excessive decentralization increases risk, though higher AI preparedness mitigates this negative effect. The findings suggest that strong statistical infrastructure and digital capabilities can counter protectionist policies in decentralized systems, improving climate change accountability. Additionally, decentralization reduces climate risk more effectively in countries with gender-sensitive policies, indicating that societal equality contributes to more sustainable outcomes.

Balancing Authority: Property Owners' Perspectives On Local And Traditional Roles In Property Taxation In Zambia

Nicolas Orgeira Pillai
University of Sussex, International Centre for Tax and Development

Property tax collection in Zambia under-performs when compared to a number of African countries, owing in part to the existence of a dual tenure system which hampers local governments' ability to raise revenue on customary land. Pursuing property taxation on customary land would require improved collaboration and information sharing between local councils and traditional leaderships, but also buy-in from owners living under the authorities of chiefs, who have historically reported low levels of trust in local councils' ability to provide public services. Using novel data of 2'400 property owners in three councils of Zambia, equally distributed among owners who are property tax compliant and non-compliant, in informal settlements and on customary land, we use conjoint analysis to investigate (1) whether owners express a preference for a collaboration between local and traditional authorities in raising property tax, and (2) what drives owners' preferences in the design of a property tax policy.

11:00am - 1:00pm

F07: World Bank DaTAX

Location: **SS10**
Session Chair: **Dario Tortarolo**, World Bank
Discussant 1: **Revocatus Washington Paul**, World Bank
Discussant 2: **Daniel Okuku Zalo**, Kenya Revenue Authority
Discussant 3: **Dario Tortarolo**, World Bank
Discussant 4: **Benard Kipyegon Kirui**, Privatization Commission

Spatial Inequality and Informality in Kenya's Firm Network

Benard Kipyegon Kirui[1], Verena Wiedemann[2], Vatsal Khandelwal[3], Peter Wankuru Chacha[4]
[1]Privatization Commission, Kenya; [2]International Finance Corporation (World Bank Group); [3]University of Exeter, UK; [4]IMF

The spatial configuration of domestic supply chains plays a crucial role in the transmission of shocks. This paper investigates the representativeness of formal firm-to-firm trade data in capturing domestic trade patterns in Kenya — a context with a high prevalence of informality. We first document a series of stylized facts to show that formal sector data is not representative of overall economic activity. We then link granular transaction-level data on formal firms with data on informal economic activity to estimate a structural model and predict a revised network that accounts for informal firms. We find that formal sector data overstates the spatial concentration of aggregate trade flows and underaccounts for trade within regions and across regions with stronger social ties. Additionally, the higher the incidence of informality in a sector and region, the more we underestimate its vulnerability to domestic output shocks and overestimate its vulnerability to import shocks.

Lying to the Taxman or Accepting a Helping Hand ? Evidence from a Novel Experiment on SMEs in Tanzania

Revocatus Washington Paul[1], Ephraim Mdee[2], Massaga Fimbo[2], Jonathan Karver[3], Christopher Hoy[3], Zain Chaudhry[3]
[1]World Bank, Tanzania; [2]Tanzania Revenue Authority; [3]World Bank

This paper presents findings from a field experiment assessing the impact of increased tax officer presence on tax compliance and morale among SMEs in Tanzania. The experiment was embedded in a face-to-face survey, where Tanzania Revenue Authority officers accompanied an independent survey firm in randomly selected urban and peri-urban wards. This temporary increase in tax officer visibility aimed to test whether their presence influenced taxpayer behavior. Results indicate no significant overall effect on tax compliance or tax morale, as measured through administrative and survey data. However, a short-term rise in compliance was observed in Tanzania's largest city, while tax morale showed a sustained increase elsewhere. A follow-up survey suggests that these effects stemmed from heightened perceptions of enforcement credibility rather than improved perceptions of tax facilitation or trust in the tax authority.

Trade-offs in the Design of Simplified Tax Regimes in Low Capacity Settings

Christopher Alexander Hoy[1], Thiago Scott[1], Alex Oguso[2], Ruggero Doino[1], Anna Custers[3], Jonathan George Karver[1], Daniel Zalo[2], Nicolas Orgeira Pillai[4]
[1]World Bank, United States of America; [2]Kenya Revenue Authority, Kenya; [3]Amsterdam University of Applied Sciences; [4]International Centre for Tax and Development

This paper provides novel evidence of the trade-offs policy makers face between revenue collection, simplicity, and equity when designing simplified tax regimes for small businesses in low-capacity settings. First, it provides a comprehensive stocktaking of the main features of these regimes across Sub-Saharan Africa. Second, it draws on administrative and survey data from Kenya for a thorough examination of its simplified tax regime. This analysis shows most small businesses lack knowledge about design features, such as the existence of a minimum exemption threshold. Finally, the paper presents the results of an experiment that encourages taxpayers to pay customized fixed amounts - a potential alternative design of a simplified tax regime that aims for a better balance of the trade-offs facing policy makers. The findings show that providing simple guidance about how much small businesses with similar characteristics typically pay in taxes can increase revenue, but at the expense of equity.

Exploring Gender Disparities in Rwanda's Presumptive Tax System

Dario Tortarolo, Hitomi Komatsu, Amadeus Malisa, Mahvish Shaukat
World Bank

This study examines behavioral responses to Rwanda's presumptive tax regime for small businesses, with a focus on gender differences in taxpayer behavior. While simplified tax regimes aim to raise revenue, encourage formalization, and reduce compliance costs, there is limited empirical evidence on their effectiveness. In particular, simplified tax regimes may encourage behavioral responses that run counter to its goals, with taxpayers minimizing tax liabilities by strategically reporting income below tax thresholds. Using administrative tax data from 2012 to 2022, we present three sets of stylized facts to answer the following questions: 1) What are the characteristics of taxpayers

in the presumptive tax system? 2) Are there behavioral responses to the presumptive tax system, and if so, are there important gender differences? and 3) What proportion of businesses graduate to the regular tax system and what are their characteristics? Are women-owned businesses less likely to graduate?

11:00am - 1:00pm

F08: Health Outcome

Location: SS11
Session Chair: **Eva Mörk**, Uppsala University
Discussant 1: **Tim Cejka**, UC Berkeley
Discussant 2: **Marianne Bitler**, UC Davis
Discussant 3: **Eva Mörk**, Uppsala University
Discussant 4: **Olli Ropponen**, Etla Economic Research

Extending Working Life: The Effects Of Retirement Age Reform On Employment Participation And Health Trajectories

Tero Kuusi[1], Pekka Martikainen[2], Olli Ropponen[1], Tarmo Valkonen[1]
[1]Etla Economic Research, Finland; [2]University of Helsinki, Finland

This paper leverages the 2005 reform of retirement rules in Finland to analyze its impact on both employment and health outcomes. The reform introduced stricter criteria for early retirement while enhancing flexibility in old-age pension options. Examining cohort variations across the reform period allows us to pinpoint its causal impacts. Regarding labor market participation outcomes, we study the reform's influence on individuals close to the earlier retirement age of 65 years. We find that individuals around this age were less likely to be retired and more likely to be employed due to the reform. Regarding health outcomes, we focus on three outcomes, which may respond to changes in labor market status: antidepressant purchases and hospitalization because of cardiovascular, or musculoskeletal conditions. We observe that health effects remain relatively small and rare, yet the reform may have slightly increased the probability of cardiovascular diseases after retirement.

Shifting Sweetness: Impacts of South Africa's Health Promotion Levy on Sugar-Sweetened Beverages

Tim Cejka[1], Marlies Piek[2], Mazhar Waseem[3]
[1]UC Berkeley; [2]National Treasury of South Africa; [3]University of Manchester

Sin taxes are increasingly being used to discourage the consumption of goods perceived to harm individuals and society. This paper examines the impact of South Africa's Health Promotion Levy (HPL)—the first sugar tax implemented in Africa-on the consumption of sugar-sweetened beverages (SSBs) in the country. Using comprehensive data from excise returns submitted by manufacturers and importers of SSBs, we find that the HPL was extremely effective in reducing the consumption of sugar through these beverages. Within two years of its introduction, the levy caused a substantial 33 percent reduction in the consumption of sugar through taxable beverages. We also find that the consumption partially shifted to non-taxable beverages, resulting in an increase of 15 percent in the consumption of non-taxable SSBs. These findings suggest that while the HPL is effective in reducing SSBs consumption, policy adjustments, including broader product coverage and targeted use of tax revenues, could enhance its impact.

Long-Run Effects of Food Assistance: Evidence from the Food Stamp Program and Administrative Data

Marianne Bitler[1], Theodore Figinski[2]
[1]UC Davis, United States of America; [2]Treasury Department, US Government

Previous work using mostly self-reports shows large, positive effects of early-life exposure to Food Stamps on self-sufficiency, health, and well-being-lasting well into adulthood. We combine this same adoption timing with administrative data on earnings, employment, and use of disability benefits. Women born in counties with Food Stamps available in early life had 3 percent higher earnings at age 32. Effects were larger in counties with another in-kind food program in place before Food Stamps. Food Stamps relied on the other program's preexisting administrative eligibility determination. Our results establish links between pre-existing administrative infrastructure and the later-life impacts of Food Stamps.

Effects of Childhood Cancer on Siblings

Thomas Crol[1], Eva Mörk[1], Gerard van den Berg[2]
[1]Uppsala University, Sweden; [2]University of Groningen

We investigate one of the most distressing experiences a child can face: the terminal illness and death of a sibling. Despite siblings being the ultimate peers in childhood, sibling illness and death spillovers remain largely unexplored as it is notoriously difficult to capture causal effects due to endogenous factors. To circumvent endogeneity issues, we leverage exogenous variation in childhood cancer incidence and death across families in Sweden to estimate causal effects. We estimate the impact of the shock on the educational performance, health outcomes and early labor market succes of the remaining children.Using parental fertility, marital stability, and labour-market outcomes as potential mediators, we aim to improve the understanding of the estimated effects of sibling spillovers.Sibling spillovers are important in understanding the total effects of childhood policies on children within families. Our findings will speak to the efficacy of these human capital interventions.

11:00am - 1:00pm

F09: Political Economy

Location: SS12
Session Chair: **Francisco José Veiga**, Universidade do Minho
Discussant 1: **Luca Vittorio Angelo Colombo**, Università Cattolica del Sacro Cuore
Discussant 2: **Steve kevin Ngangni**, University of Douala
Discussant 3: **Francisco José Veiga**, Universidade do Minho
Discussant 4: **Thomas Rieger**, DIW Berlin / FU Berlin

Economic Conditions And Far-Right Support: Places Or People?

Thomas Rieger[1], Charlotte Bartels[2]
[1]DIW Berlin / FU Berlin, Germany; [2]University of Leipzig, Germany

Regional economic decline is argued to be a major factor behind the recent rise of far-right support in liberal democracies. We generalize this finding using a unique county-level panel covering the fall (1949-1972) and rise (1972-today) of far-right voting in West Germany. Our results show that regional economic ascent predicts the initial fall of the far-right just as economic decline predicts its rise. We then combine the county-level panel with individual-level survey data to -- for the first time -- test the relative importance of regional (places) and individual (people) economic conditions for far-right support. Local growth and individual income shocks have a differential relation to far-right preferences. While individual income decline relates to stronger far-right party identification, local decline predicts heightened worries about immigration. People, it therefore seems, matter for far-right support more than places.

Roads to Fascism? State Capacity and the Spread of Political Violence

Tommaso Celani[1], Luca Vittorio Angelo Colombo[2], Michele Magnani[3], Massimiliano Onorato[3]
[1]European Central Bank; [2]Università Cattolica del Sacro Cuore, Italy; [3]Università degli Studi di Bologna

We investigate the role of state capacity and political violence in favoring regime changes. Specifically, we examine the role of road networks in the spread of fascist violence in early 1920s Italy. Using novel and comprehensive data on fascist violence, along with digitized maps of the Italian road network, we investigate the impact of road accessibility on the location and intensity of political violence, addressing endogeneity issues by means of an instrumental variable approach based on the least-cost paths virtual network among major municipalities as an instrument for the actual historical road network. We find that road accessibility played an important role in the spread of early fascist violence. Our conclusions suggest that incumbents might have a strategic incentive to limit the development of state capacity in order to maintain political power.

Political Instability in Africa and Commodity Price Volatility

Steve kevin Ngangni, Georges Dieudonne Mbondo
University of Douala, Cameroon

This paper analyzes the effect of political instability in African countries on the volatility of commodity prices. A synthetic index is constructed from a set of political instability variables, and four types of commodities are considered: energy, agricultural, mineral, and precious metals. Using data from a sample of 37 countries spanning the period 1984-2016, a panel data model is estimated using the system generalized method of moments. Two main results are obtained: (i) political instability in African countries negatively affects the volatility of commodity prices overall, and (ii) this instability particularly affects energy, mineral, and mining commodities. Strengthening political deficiencies in different African countries experiencing instability is necessary to mitigate the volatility of the various

commodity prices on which they depend.

Electoral Incentives to Obtain EU Grants

Francisco José Veiga[1], Linda Gonçalves Veiga[1], Otto Swank[2]
[1]Universidade do Minho, Braga, Portugal; [2]Erasmus School of Economics, Rotterdam, The Netherlands

Political agency models predict that electoral concerns induce politicians to put effort into making policies that benefit citizens. We exploit the introduction of mayoral term limits in Portugal to investigate how electoral incentives affect incumbents' efforts to obtain EU grants. We focus on EU grants because getting them requires effort. Moreover, by obtaining EU grants, mayors can do more for their citizens. We focus on Portugal because it provides a quasi-natural experimental setting to determine the causal effect of electoral incentives on effort. We find that term-limited mayors receive about 30% less EU money than mayors eligible for reelection.

11:00am - 1:00pm

F10: Tax Enforcement and Nudges

Location: **SS13**
Session Chair: **Gayline Migide Vuluku**, Vienna University of Economics and Business
Discussant 1: **Fredrick Manang**, University of Dodoma (UDOM)
Discussant 2: **David Johannes Henning**, UCLA
Discussant 3: **Gayline Migide Vuluku**, Vienna University of Economics and Business
Discussant 4: **Celeste Scarpini**, International Centre for Tax and Development (ICTD)

The Interpersonal Side Of Tax Compliance: Interactions Between Taxpayers And Tax Officials In Rwanda

Giulia Mascagni[1], Celeste Scarpini[1], Denis Mukama[2], Fabrizio Santoro[1], Naphtal Hakizimana[2]
[1]International Centre for Tax and Development; [2]Rwanda Revenue Authority

The role of interactions between taxpayers and tax officials in shaping compliance strategies remains unexplored in the literature on tax administration and compliance in developing countries. Nevertheless, practically, taxpayers' experience is shaped by interactions with those who implement tax laws: tax officials. Drawing on a survey of small and medium Rwandan businesses, we provide descriptive and causal evidence into taxpayer experiences and the impact of tax officials' attitudes and behaviours on taxpayers' perceptions. A vignette experiment proves that interactions shape compliance attitudes. Facilitation-based interactions improve trust and perceptions of professionalism, while enforcement-focused interactions deteriorate tax morale and respect for the tax administration. Moreover, a population-wide survey of Rwandan tax officials explores how taxpayer characteristics influence officials' attitudes. A conjoint experiment confirms that tax officials favour more knowledgeable businesses and distrust larger, wealthy taxpayers. The analysis highlights taxpayer knowledge and facilitation efforts as key to improving compliance through healthier taxpayer-administration interactions.

Property Tax Compliance in Tanzania: Can Nudges Help?

Fredrick Manang
University of Dodoma (UDOM), Tanzania

We report the results of a text message campaign to promote tax compliance among landowners in Dar es Salaam, Tanzania. Landowners were randomly assigned to one of four groups designed to test different aspects of tax morale. They received a simple text message reminder to pay their tax (a test of salience), a message highlighting the connection between taxes and public services (reciprocity), a message communicating that people who did not pay were not contributing to local or national development (social pressure), or no message (control).

Recipients of any message were 18 percent more likely to pay any property tax by the end of the study period. Total payment amounts were highest for recipients of reciprocity messages. The average estimated benefit-cost ratio across treatments is 36:1 due to the low cost of the intervention, with higher cost-effectiveness for reciprocity messages. Significant geographic heterogeneity in treatment effect sizes and estimated cost-effectiveness were observed.

Tax Audits And Their Distortionary Effects

David Johannes Henning[1], Joseph Okello[2]
[1]UCLA; [2]Ugandan Revenue Authority

Tax audits are essential for governments to raise revenue but can create economic distortions. To avoid an audit, firms may remain small, move to the informal sector, or shut down. Leveraging administrative tax data from the Ugandan Revenue Authority (URA), a novel linked survey, and a regression discontinuity design (RDD), we show that audits have a dual negative effect: They reduce the tax revenue collected from audited firms and impose large economic distortions. Audited firms are 11 percentage points likelier to shut down, and those that remain operational reduce their output. Back-of-the-envelope calculations indicate that the overall revenue collected from audited firms declines. The total wage bill loss induced by the audits is equivalent to 0.2-0.6% of the total wage bill of the formal economy at baseline, suggesting that the auditing process potentially imposes a large distortion to the Ugandan economy.

Treat - Remind - Repeat! A Natural Field Experiment in a Tax Amnesty Context

Gayline Migide Vuluku[1], Christian Bauer[1], Erich Kirchler[2]
[1]Vienna University of Economics and Business, Austria; [2]University of Vienna, Austria

Using RCTs in a natural field experiment, tax debtors received emails from the tax authority regarding tax amnesty. We test the impact of nudging sentences and sequences of nudges. We find all treatments to be effective than no communication. Effect sizes increased with nudge sequencing in subsequent reminders. Effects size on uptake averaged 0.7 percentage points in the first two rounds, increasing to 9.6 percentage points in the third round. Further, information treatment is found to be as effective as nudging, except for the deterrence treatment. On payment outcomes, those who acted in the first or second round paid more on average than those in the third, with average effect sizes of 2.5% and 1.4% compared to the no email group. We contribute to tax compliance literature by focusing on the tax amnesty context, nudge sequencing and, provide empirical insights for designing effective compliance strategies in developing countries.

11:00am - 1:00pm

F11: Competition

Location: **SS14**
Session Chair: **Davud Rostam-Afschar**, University of Mannheim
Discussant 1: **Ahmed Tohamy**, University of Oxford
Discussant 2: **Johannes Pauser**, University of Applied Sciences Erfurt
Discussant 3: **Davud Rostam-Afschar**, University of Mannheim
Discussant 4: **Raphael Parchet**, Università della Svizzera italiana

Policy Competition in a Spatial Economy

David Agrawal[2], Tidiane Ly[3], Raphael Parchet[1]
[1]Università della Svizzera italiana, Switzerland; [2]University of California, Irvine; [3]University of Syracuse

We incorporate policy competition into a quantitative spatial model. The interdependence of policymaking among a network of counties is characterized by 3109X3109 endogenous bilateral linkages. These linkages are summarized by ``policy impact'' ---the effect of a jurisdiction's policy on other jurisdictions. Applying our model to local sales taxes, we find that limits to tax competition increase welfare, albeit heterogeneously, and that ignoring endogenous policies underestimates welfare gains by 6%. Ranking counties by the magnitude of their policy impact, we show that interventions targeting high-policy impact jurisdictions raise welfare by six times more than those targeting low-tax jurisdictions.impact. Then, we show interventions targeting high policy impact jurisdictions raise welfare by 6 times more than targeting low-tax jurisdictions.

Market Power in the Middle East

Ahmed Khaled Yassin Tohamy[1], Yevgeniya Korniyenko[2], Weining Xin[2]
[1]University of Oxford, United Kingdom; [2]International Monetary Fund

The Middle East is often perceived as region with rentier economies and uncompetitive markets. Evidence of market power in the region however is scant. In this paper, we ask the following two questions: Is the Middle East uniquely uncompetitive? Can tax policy be a way to even the playing field? Using comprehensive firm-level data from Compustat between 2004 and 2022 and employing two methods for estimating markups (production function and cost-share approach). We document that market power among listed firms in the Middle East is higher than in the US, but on a downward trend. We find that the value-added tax (VAT) introduced by some Gulf states from 2018 to 2022 resulted in a reduction of market power, an unintended benefit beyond increasing fiscal space. While policymakers should continue to use available antitrust levers to achieve economic efficiency, VAT could be considered as an alternative instrument.

Tax Competition, Labor Market Imperfections, And The Specification Of Congestion

Johannes Pauser
University of Applied Sciences Erfurt, Germany

The present study examines the role of the congestion technology in a symmetric tax competition setting with a productive public good and with unemployment. Considering two well-known specifications of congestion, the congestion technology can be shown to be crucial for the analysis of efficiency in both public provision and private utilization of a congestible public input in the decentralized equilibrium: For the specification of decreasing marginal congestion, efficiency in the non-cooperative equilibrium with capital and lump-sum taxation will depend alone on the magnitude of the production and congestion elasticities. In contrast, factor prices and corresponding employment levels are, in addition, important to determine whether both provision and utilization levels of the public input are efficient in case of increasing marginal congestion. Numerical analysis is employed to supplement the results of the theoretical and graphical analysis and to further compare the social optimum to the decentralized equilibria.

Local Policy Misperceptions and Investment: Experimental Evidence from Firm Decision Makers

Sebastian Blesse[1], Florian Buhlmann[2], Philipp Heil[3], Davud Rostam-Afschar[4]
[1]Leipzig University; [2]ZEW – Leibniz Centre for European Economic Research; [3]LMU Munich; [4]University of Mannheim, Germany

We study firm responses to local policies through a survey experiment, providing randomized information on the competitiveness of business tax rates and highway access in their headquarters' municipality. Firms often misperceive local policy competitiveness, especially for tax rates. Investment decisions respond asymmetrically to tax competitiveness. Positive tax rank information reduces investment intentions in neighboring municipalities. Compared to this, negative tax news increases relocation plans. However, most firms receiving bad news plan to continue investing in their headquarters' municipality, indicating home bias. These effects are strongest for mobile firms and corporations. Negative infrastructure news lowers location satisfaction but does not influence investment.

11:00am - 1:00pm

F12: Digital Money and Taxation

Location: SS15
Session Chair: **Jasmin Vietz**, ifo Institute
Discussant 1: **Hjalte Fejerskov Boas**, University of Copenhagen
Discussant 2: **Fabrizio Santoro**, Institute of Development Studies
Discussant 3: **Jasmin Vietz**, ifo Institute
Discussant 4: **Faycal Sawadogo**, International Monetary Fund

Taxing Mobile Money: Theory and Evidence

Michael Barczay[1], Shafik Hebous[2], Fayçal Sawadogo[2], Jean-Francois Wen[2]
[1]European University Institute, Florence, Italy; [2]International Monetary Fund, Washington DC, United States of America

Mobile money is a key digital alternative to traditional banking in developing countries, yet several African governments have introduced taxes on its transactions. Using a stylized model, cross-country panel survey data, and transaction-level data, we show that such taxes reduce user numbers, transaction frequency, and transaction value, with high tax elasticity. Evidence from Cameroon and Central Africa Republic indicates a significant drop in usage probability and in transaction volume. Unbanked and rural users respond less, suggesting they bear a disproportionate tax burden.

Enforcing Taxes on Cryptocurrencies

Hjalte Fejerskov Boas[1], Mona Barake[2]
[1]University of Copenhagen; [2]Skatteforsk, NMBU

Cryptocurrencies pose substantial challenges to tax enforcement due to their anonymous and decentralized properties, undermining conventional regulatory practices. We study the impact of an ambitious new enforcement initiative aimed at addressing these challenges: domestic third-party reporting of crypto income. We estimate tax compliance and behavioral responses to this new policy by combining unique Danish microdata from domestic crypto platforms, administrative tax records, and cross-border bank transfers. Despite the introduction of domestic third-party reporting, over 90% of crypto investors do not declare crypto income. Moreover, we identify a significant and persistent evasion response to the policy as investors shift trading activity from domestic platforms, subject to third-party reporting, to foreign platforms outside regulatory reach. Our findings underscore the limits of domestic enforcement strategies in addressing tax evasion for decentralized, borderless assets like cryptocurrencies, highlighting the need for international coordination.

Cashless Tax Systems: Voluntary vs. Mandated Digital Payments in Eswatini

Fabrizio Santoro[1], Phindile Masuku[2], Tanele Magongo[2]
[1]Institute of Development Studies, United Kingdom; [2]Eswatini Revenue Service

The digitalization of tax payments is a key policy focus in low- and middle-income countries, particularly in Africa. This study examines its impact on compliance, leveraging Eswatini's 2021 zero-cash-handling mandate. Using administrative tax data, we assess (i) the effects of voluntary digital payment adoption and (ii) the mandate's impact. A staggered difference-in-differences (DiD) approach shows that voluntary adoption reduces late payments by 19 percentage points (25%) and improves payment accuracy by 5.7 percentage points (22%)—rising to 9 percentage points (30%) for strictly digital methods—while having minimal effect on total tax paid. A treatment-intensity DiD strategy finds that the mandate eliminated cash payments but had modest compliance effects, increasing tax payments by 3.5% for individuals and 1.6% for corporations, with no improvement in accuracy. These findings highlight differences between voluntary and mandated adoption, emphasizing the need for policies that account for taxpayer heterogeneity to enhance compliance.

Tax Salience: Experimental Evidence from Tanzania

Jasmin Vietz[1], Odd-Helge Fjeldstad[2,3], Sunniva Nygard Ingholm[2], Lucas Katera[4], Emil Løstegard[2], Ingrid Hoem Sjursen[2], Vincent Somville[2,5]
[1]University of Hohenheim, Germany; [2]Chr. Michelsen Institute; [3]African Tax Insitute, University of Pretoria; [4]REPOA; [5]Norwegian School of Economics

In sub-Saharan Africa, the adoption of mobile money has increased substantially during the last decade and is an important driver of financial inclusion in the region. At the same time, governments have implemented tax on mobile money transfers that may constrain financial inclusion and provide an incentive for cash transfers. The introduction of the taxes has led to heated public debate and reductions in the mobile money tax rates in several countries, making the tax highly salient to many taxpayers. This paper examines the effect of tax salience on the use of mobile money. Using a lab experiment among market traders in Dar es Salaam, we find that increasing the salience of the tax significantly reduces the use of mobile money.

1:00pm - 2:15pm

Lunch III

Location: SHSS Rooftop

1:00pm - 2:15pm

Panel II: Panel discussion on the topic "Tax Policy Challenges in Africa and How Research Can Help"

Location: SHSS Rooftop
Chair:
• Amina Ebrahim (UNU-WIDER)
Panelists:
• Edna Gitachu (PwC Kenya)
• Trond Hjørungdal (Norwegian Tax Administration)
• Jane Kiringai (Commission on Revenue Allocation, Kenya)

2:15pm - 4:15pm

G01: Water and Climate Adaptation

Location: SS4
Session Chair: **Juan Carlos Suarez Serrato**, Stanford GSB
Discussant 1: **Bart Defloor**, Ghent University
Discussant 2: **Anna Zasova**, UNU-WIDER
Discussant 3: **Juan Carlos Suarez Serrato**, Stanford GSB
Discussant 4: **Emanuele Massetti**, International Monetary Fund

2:15pm - 2:37pm

Public Sector Capacities to Address Macro-Critical Concerns for Water Resilience

Emanuele Massetti, Junko Mochizuki, Suphachol Suphachalasai, Christine Richmond, Dora Benedek

International Monetary Fund, United States of America

Appropriate management of water requires greater policy coherence vis-a-vis macro-fiscal planning. This renewed emphasis calls for an improved analytical framing and strengthening of public sector capacities. The paper proposes an analytical framing of water resilience relevant to macro-fiscal planning termed 'water value chain' outlining channels through which water resilience affects the macroeconomy and a country's fiscal position. Focusing on three major policy themes in the water value chain, namely: (i) management of water resources, (ii) ensuring adequate and reliable access, and (iii) enhancing the efficiency of water use, the paper further assesses public sector capacity building needs associated as identified in the IMF's Climate Policy Diagnostic (CPD) and policy reforms being pursued under the IMF's Resilience and Sustainability Facility (RSF).

2:37pm - 3:00pm

Welfare Economic Analysis of Climate Change and Drought in Eastern Ethiopia

Bart Defloor, Haileyesus Girma Birhane
Ghent University, Belgium

Climate change leads to more severe periods of drought. Especially in drought prone regions as Ethiopia there are economic, environmental and social consequences. In this article we take a welfare economic perspective. There are welfare costs due to its direct cost, welfare costs related to risk aversion, and welfare costs related to the fact that drought might impact intertemporal variability.Then we focus on the equity aspect of drought. Increased drought has an impact on inequality as rich and poor households are impacted differently. We analyse the equity impact using the Atkinson Social Welfare Function and arrive at eight cost components: four efficiency related and four equity related. This information can be used to inform policymakers and to advise them which policy measures to take. It can inform about the welfare impact of different policy measures. We apply the approach to rural households in Eastern Ethiopia facing drought.

3:00pm - 3:22pm

Raindrop in the Drought? Vulnerability to Climate Shocks and the Role of Social Protection in Zambia

Anna Zasova[1], Katrin Gasior[2], Pia Rattenhuber[1], Adnan Shahir[3,1]
[1]UNU-WIDER, Finland; [2]Southern African Social Policy Research Insights, UK; [3]University of Bologna

Zambia's reliance on rain-fed agriculture makes its economy and population highly vulnerable to frequent droughts and irregular rainfall. This paper assesses the role of social protection, specifically the Social Cash Transfer (SCT) program, in mitigating drought-induced poverty and consumption declines. Using the MicroZAMOD microsimulation model and district-level rainfall data, we find that droughts significantly increase poverty and reduce household consumption, disproportionately affecting the poorest households. While the current SCT program provides some relief, reforms to eligibility criteria, particularly removing the household composition requirement, could improve targeting, expand coverage, and strengthen resilience against climate-related economic shocks.

3:22pm - 3:45pm

Regulations, Public Goods, and Firm Adaptation: Evidence from Environmental Water Policy in China

Juan Carlos Suarez Serrato
Stanford GSB, United States of America

Environmental regulations can reduce economic output when firms struggle to adopt cleaner production methods. We examine how public infrastructure can complement regulations by mitigating their economic costs. Using detailed firm-level data and a staggered difference-in-differences design, we find that sewage treatment plants (STPs) provided by local governments significantly enhance wastewater treatment among polluting firms. This infrastructure provision reduced firms' production adjustments required for regulatory compliance, attenuating output losses by approximately 30%. To further analyze optimal policy design, we develop an equilibrium model that captures the joint decision-making of governments in providing STPs and firms in managing wastewater discharge. Our model also quantifies the social welfare gains from increased public goods provision, offering insights into effective water environmental governance.

2:15pm - 4:15pm

G02: The Effects of BEPS and Minimum Taxation on Profit Shifting

Location: SS5
Session Chair: **Alessandro Chiari**, CORPTAX, Charles University
Discussant 1: **Tomas Boukal**, Charles University, Faculty of Social Sciences
Discussant 2: **Alessandro Chiari**, CORPTAX, Charles University
Discussant 3: **Johannes Julius Gaul**, Universität Mannheim and ZEW

The Effect of Global Anti-Tax Avoidance Efforts on Sub-National Profit Shifting

Johannes J. Gaul[1,2], Inga Schulz[1]
[1]Universität Mannheim, Germany; [2]ZEW, Germany

This paper studies whether multinational enterprises (MNEs) respond to international anti-tax

avoidance regulations by increasing local profit shifting activities. Within Germany, local variation of profit tax rates facilitate similar avoidance strategies on a sub-national level through the use of intellectual property or financing structures. We study whether these local schemes serve as complements orsubstitutes for international profit shifting. To explore the use of local profit shifting activities by MNEs, we construct a novel database documenting the network structures of MNEs that link international to sub-national tax havens. We hypothesize that MNEs intensify their domestic tax avoidance practices in response to stricter international regulations. Our findings highlight the adaptive strategies of MNEs in response to evolving international tax policies and underscore the complexity of recent anti-tax avoidance regulations and their consequences at both the international and local level.

Global Minimum Tax and Profit Shifting

Tomas Boukal[1], Petr Janský[1], Miroslav Palanský[1,2]
[1]Charles University, Faculty of Social Sciences, Czech Republic; [2]Tax Justice Network, London, United Kingdom

We develop a methodology to decompose the tax revenue impact of the global minimum tax introduced in 2024 into several components and quantify its potential impact on profit shifting. We apply it to 34 thousand multinational-country observations from tax returns, financial statements and country-by-country reports of all multinationals active in Slovakia. We find that the global minimum tax has the potential to decrease profit shifting by most multinationals, which are on average likely to pay higher effective tax rates in most countries worldwide post-reform. We find that Slovak corporate tax revenues will increase by 4%, with half of the increase due to its minimum top-up taxes. The other half of the increase is corporate income tax on profits that will no longer be shifted out of the country. We expect the global minimum tax to target 49% of previously shifted profits.

Global Minimum Tax: a stress test for Banks?

Alessandro Chiari
CORPTAX, Charles University

We study the potential impact of the OECD Global Anti-Base Erosion (GloBE) minimum tax on banks, combining a theoretical model with a new cross-country dataset of bank-level tax haven exposure and profitability. We show that the policy affects banks' effective tax burden, their internal capital markets, and ultimately their financial stability metrics under Basel III. A dynamic stress-testing simulation and a difference-indifferences analysis reveal that banks with significant tax haven profit shares are more sensitive to post-GloBE regulatory shocks.

2:15pm - 4:15pm

G03: Enhancing VAT Collection in Africa: Evidence from Tax Administrative Data

Location: SS6
Session Chair: **Amina Ebrahim**, UNU-WIDER
Discussant 1: **Rodrigo Oliveira**, UNU-WIDER
Discussant 2: **Amina Ebrahim**, UNU-WIDER
Discussant 3: **Adrienne Forder Lees**, Institute of Development Studies

2:15pm - 2:37pm

Beyond The Tax Bill: Measuring Tax Compliance Costs For Ugandan Firms

Adrienne Forder Lees[1,2]
[1]Institute of Development Studies, United Kingdom; [2]University of Sussex, United Kingdom

For low-income countries looking to enhance revenue mobilisation without harming firm growth, understanding the full burden of taxation, beyond just tax liabilities, is crucial. This paper documents the substantial and often regressive tax compliance costs faced by small and medium-sized firms in Uganda. Using original survey data from nearly 2,000 firms, matched to administrative tax data, I show that compliance costs are significant, equivalent to 2%

of turnover for the median firm. Moreover, total compliance costs often exceed firms' tax liabilities. Breaking down cost components, I find that labour time spent on tax compliance activities is the largest component, with tax compliance consuming a median of 34 hours of labour time per month, and approximately 20% of firm owners' working hours. Using a survey experiment, I test how sensitive compliance costs measures are to the measurement strategy, finding significant divergence between estimates from an itemised module versus more aggregate questions.

2:37pm - 3:00pm

Climate Shocks and Economic Resilience: Evidence from Zambia's Formal Sector

Rodrigo Oliveira[1], Kwabena Adu-Ababio[1], Evaristo Mwale[2]
[1]UNU-WIDER, Finland; [2]Zambia Revenue Authority

Low-income countries face the combined challenges of climate shocks and limited domestic revenue mobilization, yet these issues are rarely studied together. This paper provides new evidence on the impact of climate shocks on firm performance and tax revenue in a low income country context, using firm-level data from Zambia. We find that extreme weather events, such as excessive rainfall and high temperatures, significantly reduce firms' sales, input purchases, and tax collection, particularly in sectors such as manufacturing, retail, accommodation, and construction. Firms respond by reducing employment and wages, reflecting a decline in productivity.

3:00pm - 3:22pm

Mapping VAT Non-Compliance in Rwanda

Amina Ebrahim[1], Umuhire Grace Ingabire[2], John Karangwa[2]
[1]UNU-WIDER; [2]Rwanda Revenue Authority

Value Added Tax (VAT) collection is essential for achieving domestic revenue objectives. Yet, the extent of misreporting, or the VAT gap, is infrequently and unsystematically evaluated in developing countries, where it would be most beneficial. This study utilizes VAT declaration and audit data to estimate VAT misreporting in Rwanda, applying a machine learning approach to predict evasion in unaudited firms and periods. We measure the underreporting component of the compliance gap, quantifying potential revenue losses due to non-compliance. We estimate a 62 per cent VAT gap among all VAT-reporting enterprises in Rwanda. The Manufacturing and Wholesale and retail sectors have the highest VAT gaps.

2:15pm - 4:15pm

G04: Measuring and Managing the Public Sector

Location: SS7
Session Chair: **James R. Hines Jr.**, University of Michigan
Discussant 1: **Gopika Govindan**, GULATI INSTITUTE OF FINANCE AND TAXATION (GIFT)
Discussant 2: **Laura Montenbruck**, Stockholm University
Discussant 3: **James R. Hines Jr.**, University of Michigan
Discussant 4: **Nikolai Stähler**, Deutsche Bundesbank

Labor Market Reforms in Open Economies: Current Account Dynamics and Consumer Heterogeneity

Brigitte Hochmuth[1], Stephane Moyen[2], Felix Schröter[3], Nikolai Stähler[2]
[1]University of Vienna, CEPR; [2]Deutsche Bundesbank, Germany; [3]Institute for Advanced Studies (IHS), Vienna

This paper establishes a connection between labor market reforms and an increase in the reforming country's net foreign asset position through a precautionary savings channel. We use data from the German Socioeconomic Panel to document significant changes in the savings behavior of the most affected groups in response to the reform. We then construct a heterogeneous agent model of a small open economy with labor market frictions to assess the current account effects of the major German unemployment benefit reform (Hartz IV). Our findings show that the reduction in the generosity of the unemployment insurance scheme leads to a significant increase in precautionary savings. As a result, since not all of these additional savings can be absorbed domestically, the net foreign asset position and the current account rise. Furthermore, welfare gains and losses are distributed unequally among agents. Compared to a closed economy, the reform is more detrimental.

Efficiency Analysis of Public Expenditure in India: A Sub-National Study

Gopika G[1], Kiran Kumar Kakarlapudi[2]
[1]Gulati Institute of Finance and Taxation (GIFT) affiliated with Cochin University of Science and Technology (CUSAT); [2]Gulati Institute of Finance and Taxation (GIFT) affiliated with Cochin University of Science and Technology (CUSAT)

In recent years the debate on the state's role has shifted towards the empirical assessments of technical efficiency of public spending. This paper analyses the efficiency of public expenditure across 28 states in India from 2000 to 2019 and similarly for 19 major states, using a composite public sector performance (PSP) index and data envelopment analysis. A single input-oriented variable returns to Scale DEA, a non-parametric analysis is done to analyze the efficiency and total revenue expenditure as a share of GDP is taken as the input and the outputs are various socioeconomic indicators as a proxy for outcome. The DEA analysis suggests that Indian states could reduce their public spending by 64% and 58% for all states and 19 states analysis respectively and still achieve similar output. This study adds to the literature by conducting an inter-temporal analysis of public expenditure efficiency across Indian states by identifying the trends.

Fiscal Exchange and Tax Compliance: Strengthening the Social Contract Under Low State Capacity

Laura Montenbruck
Stockholm University, Sweden

This article provides evidence that increased salience of public service provision can strengthen the social contract and increase tax compliance in a low-capacity setting. I conduct a field experiment randomizing information about public service provision across 5,494 property owners and tenants in Freetown, Sierra Leone. Receiving information increases property tax payments by 20% on average. The effect is driven by increases in tax compliance on both the extensive and intensive margin. Residents of low-value properties are 7–16 percentage points more likely to pay taxes when informed about public services that are both geographically accessible and respond to the citizens' most urgent needs, suggesting a benefit-based approach to taxation. Revenue effects are largely driven by residents of high-value properties, who depend less on the public provision of services, and for whom the treatment seems to act as a more general signal of government performance.

How Large Is the Government?

James R. Hines Jr.
University of Michigan, United States of America

Governments provide many goods and services without charge, making it impossible to use market prices to assess their values or significance. This paper proposes that government size be measured by the opportunity cost of government activity, as reflected in the value of foregone private output. Properly applied, this entails two important changes to the current national income accounting treatment of government product: exclusion of expenditures on intermediate goods and services provided to businesses, and replacement of the government price deflator with an appropriately modified private sector price deflator. The price deflator adjustment alone implies that average annual government output growth is 1.0 percent higher than currently measured, and that average annual GDP growth is 0.13 percent higher.

2:15pm - 4:15pm

G05: Pension and Labor

Location: SS8
Session Chair: **Heidi Karjalainen**, Institute for Fiscal Studies
Discussant 1: **Kathleen McKiernan**, Vanderbilt University
Discussant 2: **Tomoaki Tanaka**, Queen Mary University of London
Discussant 3: **Heidi Karjalainen**, Institute for Fiscal Studies
Discussant 4: **Junya Hamaaki**, Hosei University

Loss of Marital Gains from the Division of Labor and Divorce: Evidence from a Pension Reform in Japan

Junya Hamaaki[1], Yoshitomo Ogawa[2]
[1]Hosei University, Japan; [2]Kwansei Gakuin University, Japan

We examine the impact of Japan's pension reform on divorce. In typical Japanese couples, spouses enjoy marital gains from the division of labor, not only during their younger years but also into old age, with the primary earner generating income through pension benefits and the dependent spouse contributing through household work. The

reform allowed dependent spouses to claim half of the primary earner's pension contributions during the marriage upon divorce. Thus, dependent spouses could secure these gains without maintaining marital relationships. Using the reform as a natural experiment, we test the hypothesis that the reduction in marital gains increased the likelihood of divorce. Our analysis reveals that among couples experiencing the largest reduction in these gains, divorce incidents rose by 10 to 20% in a few years after the reform. This finding highlights the importance of marital gains from the division of labor in shaping divorce decisions.

Labor Market Sorting and Public Pensions in Developing Countries

Han Gao[2], Kathleen McKiernan[1]

[1]Vanderbilt University, United States of America; [2]University of New South Wales, Australia

We use a life-cycle labor search model in which firms post contracts specifying job formality and wages calibrated to match key aspects of the Brazilian labor market to study two sets of pension reforms --- reforms which change the share of pension contributions paid by the firm and reforms which change the pension contribution tax base. We find that fixing the total per worker pension contribution rate but increasing the share paid by the firm leads to less vacancy posting, a higher non-employment rate, and a lower labor share. On the other hand, reforms which weaken the linkage between formality and public pension contributions by changing the pension tax base lead to an increase in aggregate vacancies and the formality share. The results highlight the importance of firm responses in policy reforms in developing countries.

Pension Participations and Health-Related Behaviors: Evidence from Mongolia

Tomoaki Tanaka[1,2,3]

[1]Queen Mary University of London, UK; [2]The University of Tokyo, UK; [3]Japan International Cooperation Agency (JICA), Japan

Public pension coverage has been expanding worldwide in response to the challenges of an aging society, potentially influencing health-related decisions. Leveraging Mongolia's pension policy, which expanded voluntary participation differently across birth cohorts, this study examines the effects of pension participation on the health-related behaviors of informal workers. Using a difference-in-differences approach with nationally representative survey data, I find causal evidence that pension participation reduces tobacco consumption, indicating a behavioral shift toward healthier living. This study contributes to the literature on the effects of social protection in developing countries, asymmetric information in insurance markets, and tobacco control policies.

Public Pension Reforms and Disability Benefit Uptake – Evidence from the UK's Early Retirement Age Increase

Jonathan Cribb, Heidi Karjalainen

Institute for Fiscal Studies, United Kingdom

This paper examines how the gradual increase in the early retirement age (ERA) for women from 60 to 65 affected working-age disability benefit claims and receipt in England and Wales. This reform allows us to isolate how changes in public pension eligibility directly affect disability insurance claims and receipt, in the absence of any changes to the age of eligibility for disability insurance. We find that increasing the ERA is associated with a large and significant increase in new claims for disability insurance (37% of the baseline level of claims). Smaller increase in disability insurance claims are also found for cohorts of men who, although they face no change in their ERA, see large reductions to the generosity of the means-tested welfare system that occur alongside the increase in the ERA for women. Our findings underscore the interplay between rising ERA and alternative forms of social security.

2:15pm - 4:15pm

G07: Fiscal Capacity

Location: SS10
Session Chair: **Abiodun Adewale Adegboye**, West African Tax Administration Forum
Discussant 1: **Mahima Gupta**, I.I.T DELHI
Discussant 2: **Kefa Maunda Simiyu**, Economics Scholar/ University of Nairobi/ KESA
Discussant 3: **Abiodun Adewale Adegboye**, West African Tax Administration Forum
Discussant 4: **Bernard Clery Nomo Beyala**, University of Yaounde 2

On The Deep Root of Fiscal Capacity: The Role of Statehood Experience

Bernard Clery Nomo Beyala

University of Yaounde 2, Cameroon

The link between state history and contemporary economic outcomes, like development and governance, is well established, but the effect of state antiquity on fiscal capacity remains underexplored. This study examines whether longer historical experience with state-level institutions improves tax collection capabilities. Using data from 159 countries, we find that accumulated statehood experience positively impacts fiscal capacity. This relationship is robust across alternative measures of state antiquity and fiscal capacity, controls for standard fiscal capacity determinants, and considerations of heterogeneity. It also holds after addressing endogeneity concerns, including measurement errors and omitted variables. Our analysis reveals two key mechanisms through which state antiquity enhances fiscal capacity: fostering economic development and improving governance quality. Notably, it strengthens corruption control, government efficiency, and the rule of law. These findings highlight the enduring influence of historical statehood on modern fiscal capacity and its transmission through institutional and economic pathways.

Transition of Sub-National Fiscal Multiplier across Structural Characteristics - Evidence from Indian States

Mahima Gupta, Amlendu Dubey

I.I.T DELHI, India

We study the transition of sub-national fiscal multipliers' efficiency in normal times across the structural characteristics' threshold levels in the Indian states. Using the recently developed Panel Structural Threshold Regression Model, we identify latent groups across the states contingent on their structural characteristics. Our findings suggest that for Indian States capital outlay expenditure multipliers are higher than revenue and aggregate spending multipliers. We identify financial inclusion as one of the important state-level fiscal multiplier determinants. Our results suggest that state public debt has negative implications for all the categories of fiscal multipliers and across all the latent groups. Based on our study, we argue for a sustainable policy-oriented targeting framework, which includes threshold levels for public debt accretion as a sub-target.

Women in Government and Pro-poor Growth in East Africa

Kefa Maunda Simiyu[1,3,4,5], Fellah Wanjiru[2]

[1]Economics Scholar Panel; [2]Kenya School of Law; [3]University of Nairobi; [4]Economics Students Association of Kenya; [5]The Continental Pot

Women in East Africa are enormously underrepresented in government with no more than one in every five cabinet positions being occupied by women. Women in cabinet are also less likely to hold high-prestige cabinet positions. This has ramifications on the implementation of policies that raise the living standards among the poorest segment of the population. This paper analyzes the extent to which gender inclusive cabinets foster pro-poor growth. We utilize the Who Governs dataset alongside the Worldwide Governance Indicators, and the World Income Inequality datasets in a regression discontinuity design setup. Results indicate that raising the share of women in cabinet above designated thresholds insignificantly affects the distribution of average pre-tax national incomes among the poorest half relative to the top income decile. These results hint at the low prestige positions held by the underrepresented women in cabinet.

Understanding Fiscal Capacity In Africa: How Societal Institutions Drive Tax Performance?

Abiodun Adewale Adegboye

Obafemi Awolowo University, Nigeria, Nigeria

How, and to what extent do tax policymaking processes impact tax revenue performance? This study assesses the effects of political institutions on tax systems in Africa to identify actionable strategies to enhance domestic revenue mobilisation in the region. Using a combination of quantitative and textual data, the main finding is that democratic accountability and practice show surprisingly less marked effects on tax systems in West Africa, particularly after controlling for basic tax handles that may moderate the probable interactions between institutions and tax administration. Also, results show that trade/labour unions have strong potential to influence tax system outcomes in the long run

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2:15pm - 4:15pm

G08: Empirics of Investment and Innovation

Location: SS11
Session Chair: **Clara Martínez-Toledano**, Imperial College London
Discussant 1: **Sarah Necker**, ifo institute
Discussant 2: **Marius Bendoma**, University of Douala / Higher School of Economics and Management (ESSEC)

Discussant 3: **Clara Martínez-Toledano**, Imperial College London
Discussant 4: **Emilia Gschossmann**, University of Mannheim

Taxes And The Global Spillovers Of AI Investments

Emilia Gschossmann[1], Marcel Olbert[2]
[1]University of Mannheim, Germany; [2]London Business School, United Kingdom

Artificial Intelligence (AI) is transforming business operations and global markets, yet little is known about how AI investments spill over across borders. Using a novel panel dataset, we examine the international propagation of U.S. firms' AI investments, focusing on their European subsidiaries and broader industry-level effects. We find that AI investment strongly predicts growth in foreign subsidiaries' assets, employment, and revenues, with significant spillovers to European industries exposed to U.S. AI firms. However, these effects vary with local tax policies: countries with attractive R&D tax incentives experience faster and larger AI-driven growth, while low corporate tax rates further amplify revenue spillovers. Our findings highlight the role of fiscal policy in shaping the diffusion of AI and offer new insights into how digital-era investments influence global economic growth.

Does Information about Tax Shifting Shift Tax Preferences?

Sarah Necker, Lisa Windsteiger, Fabian Böhme
ifo institute, Germany

One of the main insights of public economics is that taxes are not necessarily borne by those who pay the taxes. However, public debates about taxation rarely consider tax shifting. Using corporate taxation as an example, we investigate in a survey experiment whether individuals' preferences for taxation change when they are informed about four channels of tax shifting: prices, wages, owner payouts, or investments. We find that the preferred corporate tax rate decreases when the burden falls onto individuals (in terms of prices and wages), and less so when we reveal the effect on payouts or investments. The change is caused by own perceived costs, distributional concerns seem to play only a limited role for the reaction to the information.

Bayesian Analysis of Public Investment Distortion in Cameroon

Marius Bendoma[1], Cyrille Essomba Messiné[2], Franky Brice Afia Kogueda[2]
[1]University of Douala, Higher School of Economic and Mangement (ESSEC), Cameroon; [2]University of Douala, Faculty of Economic Sciences and Applied Management (FSGA), Cameroon

The objective of this article is to show that there is a distorting effect of Cameroon's failing institutional environment on the structure of public expenditure. To study the choices made by public authorities, we rely on a Bayesian model over the period 1970-2020 to determine the occurrence of public investment allocation. It emerges that institutional failure marked by corruption, political and social instability, and approximate compliance with established laws, directs public investment towards types of expenditure for which rent seeking is easier and easily concealed, particularly in physical capital to the detriment of education and health expenditure. In this context, the results also reveal that economic growth is negatively associated with the choice of investing in social projects. Economic policy recommendations are in line with budgetary rebalancing through social investments, which are essential for resolving social crises and improving factor productivity.

Private Capital Markets and Inequality

Clara Martínez-Toledano[1], Ararat Gocmen[2], Vrinda Mittal[3]
[1]Imperial College London, United Kingdom; [2]University College London; [3]University of North Carolina

This paper studies the relationship between the growth in private capital markets and the rise in economic inequalities over the last two decades in the U.S. Exploiting both company- and state-level variation in exposure to the expanded federal capital gains tax exclusion on qualified small business stock (QSBS), we find that QSBS-eligible companies' probability of staying private increased by 3.5 percentage points, and that the average income gap between HNWIs and other income earners increased by 7.2%. We show that this rise in income concentration appears to have been driven by HNWIs' excess returns on their early-stage investments relative to public stock market returns.

2:15pm - 4:15pm

G09: Improving Tax Compliance of SMEs

Location: SS12
Session Chair: **Enlinson Mattos**, Fundacao Getulio Vargas
Discussant 1: **Franziska Sicking**, University of Muenster
Discussant 2: **Christin Schmidt**, University of Mannheim
Discussant 3: **Enlinson Mattos**, Fundacao Getulio Vargas
Discussant 4: **Seid Yimam Mohamed**, International Centre for Tax and Development (ICTD)

The Impact of E-filing on Corporate Income Tax Compliance: Administrative Panel Data Evidence from Ethiopia

Seid Yimam Mohamed
International Centre for Tax and Development (ICTD), and University of Sussex

Tax administrations in low-and middle-income countries have been introducing technological innovations to improve tax compliance and boost revenue collection. This study evaluates the impacts of e-filing adoption, first introduced in late 2011, on corporate income tax (CIT) compliance in Ethiopia using tax administrative panel data spanning between 2008 and 20219. Employing a modified difference-in-difference approach by de Chaisemartin and d'Haultfoeuille (2024), which is robust to heterogeneous and dynamic treatment effects, the study documents three findings. First, e-filing adoption reduces the likelihood of being late in CIT filing on average by 7 percentage points. Second, there is no evidence that the e-filing adoption increases the amount of CIT liabilities. Third, the results on gross income and total expenses suggest that taxpayers play smartly to avoid paying higher taxes. Moreover, evidence from focus group discussions compliment the empirical findings that the technology reduces compliance costs for the tax administration and taxpayers.

Tax Code Complexity, Tax Advisor Services and Firm Outcomes: Evidence from South Africa

Nadine Riedel, Franziska Sicking, Ida Zinke
University of Muenster, Germany

We study the impact of tax preparers on corporate tax optimization in South Africa. The analysis draws on the population of corporate tax returns linked to data on tax preparer use. Consistent with frictions from tax code complexity, we document that tax preparer take-up is associated with a significant decline in firms' reported taxable income and tax payments. Additional analyses show that the use of a tax preparer increases the take-up of tax advantages: Eligible firms become more likely to seek access to a regime with special low tax rates; they are more likely to claim employment tax incentives for the young and to run losses. The observed effects imply that the application of tax laws differs across firms with and without tax preparer. The same holds true for the effectiveness of tax incentives: The use of a tax preparer significantly increases the propensity to employ young and eligible workers.

Does Simplification Increase Firms' Compliance With VAT? Evidence From The Cross-Border E-Commerce Sector

Philipp Dörrenberg, Alina Pfrang, Christin Schmidt
University of Mannheim, Germany

How does simplifying VAT affect firms' compliance in cross-border trade? We study a major 2021 reform of the EU's VAT system, which introduced the One Stop Shop (OSS) and the Import One Stop Shop (IOSS) to streamline cross-border VAT reporting for business-to-consumer (B2C) transactions. Using high-frequency, transaction-level administrative data from Germany, we examine whether these measures increased reported sales and VAT revenue. In the intra-EU setting, we find that the OSS significantly increased the number and volume of reported intra-EU B2C transactions, consistent with improved compliance. In the global setting, where simplification coincides with a reporting threshold for imports below EUR 150, we find evidence that firms adjust behavior strategically to exploit the cutoff. Post-reform, B2C imports from non-EU countries cluster just below the threshold, and parcel weights decline suggesting undervaluation or shipment splitting to benefit from simplified procedures and avoid tariffs.

Do Firms Respond to Presumptive Tax Credits?

Carlos Gomes[1], Enlinson Mattos[2]
[1]Sao Paulo Revenue Service; [2]Fundacao Getulio Vargas, Brazil

This paper leverages a large tax-benefit policy with administrative data from the state of Sao Paulo in Brazil to document the economic impact on firms' behavioral responses and correspondent tax collection. Our analysis compares treated firms—primarily within the textile and clothing industries—exposed to an increase in the presumptive tax credit against comparable firms, most of which are in the footwear industry, a closely related industrial sector not yet affected during the analyzed period. We employ a dynamic difference-in-differences strategy to document a positive (11%) effect on reported sales and purchases only in the year after its implementation without

affecting tax collection and the number of firms in these sectors. Last, we explore a synthetic control strategy at the industry level to find a (positive) negative effect on formal jobs in the (textile) clothing sector without any significant aggregated effect aggregated impact on formal employment and wages.

2:15pm - 4:15pm

G10: The Extractive Sector and Development

Location: SS13
Session Chair: **Alice Chiocchetti**, Paris School of Economics
Discussant 1: **Vidhya Unnikrishnan**, Lancaster University
Discussant 2: **Alice Chiocchetti**, Paris School of Economics
Discussant 3: **Paula Fernandez Musso**, Barnard College, Columbia University

Mine Suppliers: Understanding Backward Linkages in Kitwe, Zambia

Anja Benshaul-Tolonen, Paula Fernandez Musso
Barnard College, Columbia University, United States of America

The integration of domestic firms into the mining global value chain (GVC) can bolster local economies, yet the scale and impact of these linkages remain unclear. This study examines the mining value chain in Kitwe, a key mining hub in Zambia's Copperbelt. Ten years of VAT data on domestic purchases and imports reveal that mine suppliers adjust both their domestic and international procurement in response to fluctuations in the international copper price. Our cross-sectional firm survey reveals GVC integration is of strong interest among local firms. Ultimately, Zambia faces a double-edged sword: while local firms seek deeper integration into the mining GVC to boost revenue, profits, exports, and employment, the financialization of the global copper trade ties Zambia to the volatility of commodity prices. Thus, the government must ensure optimal backward linkages between local firms and mines to foster resilient, non-resource-dependent growth and maximize VAT, tariff, and income tax revenue.

Life Evaluation, Affluence and Trust in National Democratic Alliance Government in India

Raghav Gaiha[1], Vidhya Unnikrishnan[2], Vani Kulkarni[3], Radhika Aggarwal[4]
[1]University of Pennsylvania; [2]Lancaster University, Germany; [3]U Penn; [4]University of Delhi

Disillusionment with income as a measure of well-being has led to alternative measures that are broader and focus on outcomes. Deaton (2008), among others, espouses a measure of well-being called life evaluation/satisfaction that aggregates components of well-being, such as economic status, health, family circumstances and even human and political rights. We have used this measure of life evaluation. As there is no study of the relationship between life evaluation and trust in the present Indian government/National Democratic Alliance (NDA), led by the Bhartiya Janata Party (BJP), our present study aims to fill this gap, based on the Gallup World Poll Survey for India, covering the period 2018-2021. As trust in the NDA is endogenous, 2SLS and Lewbel IV estimators have been used. Our analysis confirms robustly that trust in the NDA determines life evaluation, controlling for other covariates. As trust in the NDA decreased over the period analysed, so did the life evaluation

Rent-Sharing Between Firms and States: Evidence from the Extractive Sector

Alice Chiocchetti[1,2], Ninon Moreau-Kastler[1,2]
[1]Paris School of Economics, France; [2]EUTax Observatory

Based on a new granular and exhaustive dataset on effective payments made by listed extractive (mining, oil & gas) firms to governments worldwide, we find that a 1% increase in commodity prices leads to a 0.3% increase in fiscal windfalls for states. We find that rich source countries benefit from a higher proportional increase of their fiscal windfalls than lower-income countries during commodity price increases. This result indicates that tax systems in lower-income countries favor more stable revenues at the expense of benefiting more from commodity price booms. The revenue implications may be substantial in contexts of commodity price booms.

4:15pm - 4:45pm

Coffee Break V

Location: SHSS Rooftop

4:45pm - 5:45pm

Plenary IV: Keynote Oyebola Okunogbe (World Bank): "Expanding the Frontier of Taxation: Technology, Transparency and Trust"

Location: Main Auditorium
Session Chair: **Dina Deborah Pomeranz**, University of Zurich

5:45pm - 6:15pm

Closing

Location: Main Auditorium

6:15pm - 7:15pm

shuttle to Conference Dinner: transport shuttle for participants, start at USIU

7:15pm - 10:00pm

Social Program III: Conference Dinner (incl. Award Ceremony)

Location: Safari Park Hotel