

Empirical Tax Research

CDSB PhD Class

Philipp Dörrenberg / Johannes Voget

Class times: Monday, 13.35-15.15; 15.30-17.00. We will have additional meetings during the summer break (see below).

Goals of the class:

- Overview of the most important topics and methods for causal identification in empirical tax research. Familiarize with state-of-the-art literature. We selected papers to be studied in class which (hopefully) cover the most important topics and methods. The course will require preparing for class through reading papers.
- Insights on “How to survive in academia”: career paths, how to publish, how to write a referee report, how to be a good “academic citizen”, conferences, role of networking, etc..
- Introduction to statistical software package “R”.
- Developing of a research project and carrying out all phases of the projects, i.e., from identifying a research question to writing up a first draft. The class will guide you through all phases of the project. If this project turns out to be feasible and promising, it could well be a first dissertation paper.

Grading will be based on:

1. Summary and lead discussion of three papers in class.
This includes for each paper: short summary of i) RQ, ii) data, iii) intuition behind causal identification, iv) empirical design, v) main results, vi) shortcomings, vii) guiding the discussion about the paper in class. Slides can be helpful, but are not necessary. Paper summary can be substituted by guidance through one of the “R” sessions.
2. Development of a research project.
This includes: i) presentation of a research question, contribution and idea of empirical design (end of May), ii) writing up a first draft for the project (due Mid August), iii) presenting this draft (time slots for presentations towards the end of the summer break, taking into account our availabilities).

Topics:

In light of the small class size, we can select papers based on interest and your own research project. Topics on “how to survive in academia” are in addition to the topics below. We will mostly organize the class sessions along the methods in the standard tool kit of empirical research. For each method, we identified a set of core papers which use the method and are interesting topic wise. Taken together, the core papers give a good overview of the state-of-the-art application of empirical methods. We start off each topic with a brief and easy overview of the method. Afterwards, a student will summarize a paper using the respective method and we will discuss in class. We expect all students to read the core papers that we cover in class.

Outline (tentative):

1. Statistical Software package “R”
2. Randomized Experiments
3. Difference in Difference (including event studies)
4. Instrumental Variables
5. Regression Discontinuity Design
6. Bunching

Core Papers (* indicates student presentations)

Randomized Experiments

William Morrison and Dmitry Taubinsky, 2020, Rules of Thumb and Attention Elasticities: Evidence from Under- and Overreaction to Taxes. Working Paper (*)

Floyd, E., List, J.A., 2016. Using Field Experiments in Accounting and Finance. Journal of Accounting Research 54 (2), 437-475

DiD/Event Studies

Simon Jäger, Benjamin Schoefer, Jörg Heining, 2020, Labor in the Boardroom, <http://economics.mit.edu/files/17273> (*)

Yagan, Danny. 2015. "Capital Tax Reform and the Real Economy: The Effects of the 2003 Dividend Tax Cut." American Economic Review, 105(12): 3531-63

Benzarti, Youssef, Dorian Carloni, Jarkko Harju, Tuomas Kosonen, 2020, "What Goes Up May Not Come Down: Asymmetric Incidence of Value Added Taxes" Journal of Political Economy, Forthcoming. (*)

Fuest, Clemens, Andreas Peichl and Sebastian Siegloch. 2018. "Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany". American Economic Review, 2018, Vol. 108(2), pp. 393-418

IV

Wolfgang Frimmel, Martin Halla, Jörg Paetzold, 2019, The Intergenerational Causal Effect of Tax Evasion: Evidence from the Commuter Tax Allowance in Austria, Journal of the European Economic Association (*)

RDD

Antoine Dechezleprêtre, Elias Einiö, Ralf Martin, Kieu-Trang Nguyen, John Van Reenen, 2019, Do tax Incentives for Research Increase Firm Innovation? An RD Design for R&D. <https://www.nber.org/papers/w22405.pdf> (*)

This should be read together with a very related DiD paper: Guceri, Irem, and Li Liu. 2019. "Effectiveness of Fiscal Incentives for R&D: Quasi-experimental Evidence." American Economic Journal: Economic Policy, 11 (1): 266-91

Egger, P. H., & Wamser, G. (2015). The impact of controlled foreign company legislation on real investments abroad. A multi-dimensional regression discontinuity design. Journal of Public Economics, 129, 77-91

Bunching

Michael P. Devereux, Li Liu, Simon Loretz. 2014. The Elasticity of Corporate Taxable Income: New Evidence from UK Tax Records. American Economic Journal: Economic Policy. Vol. 6, no. 2, May 2014 (*)

Raj Chetty, John Friedman, Tore Olsen, and Luigi Pistaferri, 2011, Adjustment Costs, Firm Responses, and Micro vs. Macro Labor Supply Elasticities: Evidence from Danish Tax Records Quarterly Journal of Economics 126(2): 749-804 (*)

Buhlmann, Florian and Dörrenberg, Philipp and Loos, Benjamin and Voget, Johannes, 2020, How Do Taxes Affect the Trading Behavior of Private Investors? Evidence From Individual Portfolio Data

Henrik Jacobsen Kleven, 2016, Bunching, Annual Review of Economics, Vol. 8:435-464

Further Reading (organized by Topics)

Randomized experiments:

Kleven, H. J., Knudsen, M. B., Kreiner, C. T., Pedersen, S. and Saez, E. (2011), Unwilling or Unable to Cheat? Evidence From a Tax Audit Experiment in Denmark. *Econometrica*, 79: 651-69

Chetty, Raj, Adam Looney, and Kory Kroft. 2009. "Salience and Taxation: Theory and Evidence." *American Economic Review*, 99 (4): 1145-77

Bergolo, M, Ceni, R, Cruces, G, Giacobasso, M and Perez-Truglia, R (2017), "Tax Audits as Scarecrows: Evidence from a Large Field Experiment", NBER Working Paper No. 23631

Blumkin, T., Ruffle, B.J. and Ganun, Y., 2012. Are income and consumption taxes ever really equivalent? Evidence from a real-effort experiment with real goods. *European Economic Review*, 56(6), pp.1200-1219.

Alberto Alesina, Stefanie Stantcheva, Edoardo Teso. 2018. "Intergenerational Mobility and Support for Redistribution." *American Economic Review*

Joachim Gassen and Maximilian Muhn, 2018, Financial Transparency of Private Firms: Evidence from a Randomized Field Experiment

Boning, W.C., Guyton, J., Hodge, R.H., Slemrod, J. and Troiano, U., 2018. Heard it Through the Grapevine: Direct and Network Effects of a Tax Enforcement Field Experiment (No. w24305). National Bureau of Economic Research.

SURVEY: Floyd, E., List, J.A., 2016. Using Field Experiments in Accounting and Finance. *Journal of Accounting Research* 54 (2), 437-475

SURVEY: Dina Pomeranz, Impact Evaluation Methods in Public Economics: A Brief Introduction to Randomized Evaluations and Comparison with Other Methods, *Public Finance Review*, 2017

Elasticity of Taxable Income and labor supply responses

Austan Goolsbee, "What Happens When You Tax the Rich? Evidence from Executive Compensation," *Journal of Political Economy*, April 2000, vol. 108(2), 352-378

Matikka, T. (2018), Elasticity of Taxable Income: Evidence from Changes in Municipal Income Tax Rates in Finland. *Scand. J. of Economics*, 120: 943-973 (IV and local variation to estimate ETI)

Emmanuel Saez, Isabel Martinez and Michael Siegenthaler. 2018. "Intertemporal Labor Supply Substitution? Evidence from the Swiss Income Tax Holidays". NBER Working Paper No. 24634 (DiD using local variation and variation in timing to estimate effects of a large tax holiday)

Chetty, Raj, John Friedman and Emmanuel Saez, 2013, Using Differences in Knowledge Across Neighborhoods to Uncover the Impacts of the EITC on Earnings, *American Economic Review* 103(7): 2683-2721, 2013 (Using local variation bunching estimates to estimate EITC effects on labor supply)

Saez, Emmanuel. 2010. "Do Taxpayers Bunch at Kink Points?" *American Economic Journal: Economic Policy*, 2 (3): 180-212.

SURVEY: Emmanuel Saez, Joel Slemrod and Seth Giertz, 2012, "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review," *Journal of Economic Literature*, March 2012, 50(1) pp. 3-50.

Firm responses to taxes and incidence of firm taxes

Raj Chetty lecture as Intro

Michael P. Devereux, Li Liu, Simon Loretz. 2014. The Elasticity of Corporate Taxable Income: New Evidence from UK Tax Records. *American Economic Journal: Economic Policy*. Vol. 6, no. 2, May 2014 (Bunching to estimate elasticity of corporate taxable income)

More bunching with business data: Miller, H., Pope, T. and Smith, K., 2018. Intertemporal Income Shifting: Evidence from Small Business Owners. Working Paper.

Asatryan, Z. and Peichl, A., 2017. Responses of firms to tax, administrative and accounting rules: Evidence from Armenia.

Yagan, Danny. 2015. "Capital Tax Reform and the Real Economy: The Effects of the 2003 Dividend Tax Cut." *American Economic Review*, 105(12): 3531-63 (DiD finding zero effect)

Compare to this significant finding: Alstadsæter, A., Jacob, M. and Michaely, R., 2017. Do dividend taxes affect corporate investment?. *Journal of Public Economics*, 151, pp.74-83.

And this one: John L. Campbell, James A. Chyz, Dan S. Dhaliwal, and William C. Schwartz, Jr. (2013) Did the 2003 Tax Act Increase Capital Investments by Corporations?. *The Journal of the American Taxation Association*: Fall 2013, Vol. 35, No. 2, pp. 33-63.

And potentially also to this: Becker, B., Jacob, M., & Jacob, M. (2013). Payout taxes and the allocation of investment. *Journal of Financial Economics*, 107(1), 1-24. (panel approach, well framed as sort of Dif-in-Dif)

Can also be read as complement to: Chetty, R. and Saez, E., 2005. Dividend taxes and corporate behavior: Evidence from the 2003 dividend tax cut. *The Quarterly Journal of Economics*, 120(3), pp.791-833.

Saez, Emmanuel, Benjamin Schoefer and David Seim. 2018. "Payroll Taxes, Firm Behavior, and Rent Sharing: Evidence from a Young Workers' Tax Cut in Sweden", revised October 2018, forthcoming *American Economic Review* (Exploiting firm-level differences in treatment intensity to estimate wage incidence of payroll taxes)

Juan Carlos Suárez Serrato, Owen Zidar. 2016. Who Benefits from State Corporate Tax Cuts? A Local Labor Markets Approach with Heterogeneous Firms, *American Economic Review*, 106(9): 2582-2624 (Using local variation to estimate incidence of corporate taxes)

Fuest, Clemens, Andreas Peichl and Sebastian Siegloch. 2018. "Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany". *American Economic Review*, 2018, Vol. 108(2), pp. 393-418 (Event studies to estimate incidence of business taxes)

Location choices

David R. Agrawal and Dirk Foremny. 2018. Relocation of the Rich: Migration in Response to Top Tax Rate Changes from Spanish Reforms. *Review of Economics and Statistics*, accepted (Using regional variation in income taxes to estimate migration effects)

Kleven, Henrik, Camille Landais, Emmanuel Saez and Esben Schultz. 2014. Migration and Wage Effects of Taxing Top Earners: Evidence from the Foreigners' Tax Scheme in Denmark, *Quarterly Journal of Economics* 129, 333-378, 2014 (Very transparent DiD to estimate migration responses to taxes)

Scott D. Dyreng, Bradley P. Lindsey, Kevin S. Markle, Douglas A. Shackelford, The effect of tax and nontax country characteristics on the global equity supply chains of U.S. multinationals, *Journal of Accounting and Economics*, Volume 59, Issues 2–3, 2015,

Becker, Sascha & Egger, Peter & Merlo, Valeria. (2012). How low business tax rates attract MNE activity: Municipality-level evidence from Germany. *Journal of Public Economics*. 96. 698–711. 10.

E. Moretti and D. Wilson, "The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists", *American Economic Review*, 107(7), 2017

Akcigit, Ufuk, Salome Baslandze, and Stefanie Stantcheva. 2016. "Taxation and the International Mobility of Inventors." *American Economic Review* 106 (10): 2930–2981

Investment decisions, productivity and innovation

Akcigit, Ufuk, John R. Grigsby, Tom Nicholas, and Stefanie Stantcheva,. 2018. "Taxation and Innovation in the 20th Century." NBER Working Paper 24982

Wilson, D. (2009), "Beggar Thy Neighbor? The In-State, Out-of-State, and Aggregate Effects of R&D Tax Credits," *Review of Economics and Statistics*, 91(2), 431-436.

Tsoutsoura, M. (2015), "The Effect of Succession Taxes on Family Firm Investment: Evidence from a Natural Experiment." *The Journal of Finance*, 70: 649-688. doi:10.1111/jofi.12224

Antoine Dechezleprêtre, Elias Einiö, Ralf Martin, Kieu-Trang Nguyen, John Van Reenen. 2016. Do tax Incentives for Research Increase Firm Innovation? An RD Design for R&D. NBER Working Paper No. 22405

Mahon, James and Eric Zwick. 2017. Tax Policy and Heterogeneous Investment Behavior. *American Economic Review*, 107(1): 217-48, 2017. (DiD to study tax effects on firm investments)

Compare to "old school" panel approach: Bond, Stephen, and Jing Xing, 2015. "Corporate Taxation and Capital Accumulation: Evidence from sectoral panel data for 14 OECD countries" *Journal of Public Economics* 130, 15-31

Martin Jacob, Roni Michaely und Maximilian A. Müller, Consumption Taxes and Corporate Investment, *Review of Financial Studies*, forthcoming.

Financial markets

Effect of capital gains tax on stock prices: Li, O., Y. Lin, and J. Robinson. 2016. The effect of capital gains taxes on the initial pricing and underpricing of IPOs. *Journal of Accounting and Economics* 61(2-3): 465-85.

Sikes, S.A. and Verrecchia, R.E., 2012. Capital gains taxes and expected rates of return. *The Accounting Review*, 87(3), pp.1067-1086.

Jacob Thornock. (2013) The Effects of Dividend Taxation on Short Selling and Market Quality. *The Accounting Review* 88:5, 1833-1856

Ivković, Zoran, James Poterba, and Scott Weisbenner. 2005. "Tax-Motivated Trading by Individual Investors." *American Economic Review*, 95 (5): 1605-1630

Stephen R. Bond, Michael P. Devereux, and Alexander Klemm , The Effects of Dividend Taxes on Equity Prices: A Re-examination of the 1997 U.K. Tax Reform, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.833.4322&rep=rep1&type=pdf>

Shackelford, D., and R. Verrecchia. Intertemporal Tax Discontinuities. *Journal of Accounting Research* 40 (2002): 205–22.

Sialm, C., 2009. Tax changes and asset pricing. *American Economic Review*, 99(4), pp.1356-83

Related: Longstaff, Francis A. "Municipal debt and marginal tax rates: Is there a tax premium in asset prices?." *The Journal of Finance* 66.3 (2011): 721-751.

SURVEY: Campbell, J.Y., 2006. Household finance. *The Journal of finance*, 61(4), pp.1553-1604

Financial markets, round 2

Grinblatt, M., and T. Moskowitz. 2004. Predicting stock price movements from past returns: The role of consistency and tax-loss selling. *Journal of Financial Economics* 71(3): 541-79.

Jin, L. 2006. Capital gains tax overhang and price pressure. *The Journal of Finance* 61(3): 1399-431.

Dhaliwal, D., L. Krull, and O. Li. 2007. Did the 2003 Tax Act reduce the cost of equity capital?. *Journal of Accounting and Economics* 43(1): 121-50.

Behavioral aspects

Wolfgang Frimmel and Martin Halla and Jörg Paetzold. 2018. The Intergenerational Causal Effect of Tax Evasion: Evidence from a Commuter Tax Allowance in Austria, *Journal of the European Economic Association* (forthcoming)

Benzarti, Youssef, Dorian Carloni, Jarkko Harju, Tuomas Kosonen. 2018. "What Goes Up May Not Come Down: Asymmetric Pass through of Value Added Taxes" RR JPE. (Non-standard behavioral effects of taxes using different identification strategies)

DeBacker, J., B. T. Heim, and A. Tran (2015). Importing corruption culture from overseas: Evidence from corporate tax evasion in the united states. *Journal of Financial Economics* 117(1), 122 – 138

Bott, K. M., A. W. Cappelen, E. O. Sorensen, and B. Tungodden (2017). You've got mail: A randomised field experiment on tax evasion. NHH department of economics discussion paper SAM 10 2017

Drago, Francesco, Friederike Mengel, and Christian Traxler. 2018. Compliance Behavior in Networks: Evidence from a Field Experiment. July 2018. RR, AEJ Applied. (field experiment)

SURVEY: Chetty, Raj. 2015. Behavioral Economics and Public Policy: A Pragmatic Perspective, Ely Lecture, *American Economic Review Papers and Proceedings* 105(5): 1-33 (Overview Behavioral Public Econ)

SURVEY: Luttmer, E. F. P. and M. Singhal (2014). Tax morale. *Journal of Economic Perspectives* 28(4), 149–68

International Taxation

Puerto Rico papers by Juan Carlos

Executives

Ege, M., Hepfer, B. and Robinson, J., 2018. Tax Function Influence: The Case of Power and Status.

Dyreng, S., M. Hanlon and E. Maydew, 2010. The effects of managers on corporate tax avoidance, *The Accounting Review* 85, 1163-1189.

Approach originally proposed by: Bertrand, M. and Schoar, A., 2003. Managing with style: The effect of managers on firm policies. *The Quarterly Journal of Economics*, 118(4), pp.1169-1208.

Frydman, C, and R. Molloy. 2011. Does tax policy affect executive compensation? Evidence from postwar tax reforms. *Journal of Public Economics* 95(11-12): 1425-37.

Goolsbee, A., 2000. Taxes, high-income executives, and the perils of revenue estimation in the new economy. *American Economic Review*, 90(2), pp.271-275.

Goolsbee, A., 2000. What happens when you tax the rich? Evidence from executive compensation. *Journal of Political Economy*, 108(2), pp.352-378.

Rose, N.L. and Wolfram, C., 2002. Regulating executive pay: Using the tax code to influence chief executive officer compensation. *Journal of Labor Economics*, 20(S2), pp.S138-S175.