

DOES STATUTORY INCIDENCE MATTER FOR TAX AVOIDANCE?

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THIS PAPER: PEOPLE UNDERSTAND ECONOMIC INCIDENCE!

- New evidence that homeowners understand GE effects of taxes
 - ▶ **Surprising** because goes against other papers in literature (Bó et al. 2018)
 - ▶ Buyer pays tax upon sale, but WTP $\downarrow \implies$ economic incidence on the seller and more difficult to sell at given reservation price (e.g. Kopczuk & Munroe 2015)
- 2018 reform in Flanders, Belgium which removed reduction for transaction tax (TT) but not property tax (PT) around common valuation threshold
- State-of-art estimators in RD and “diff-in-disc”
 - ▶ RD: PT appeals around threshold in post-reform period (single difference)
 - ▶ Diff-in-disc: all appeals pre vs. post around threshold (double difference)
 - ▶ Need diff-in-disc because appeals connected across tax bases

COMMENT #1: SALIENCE VS. PROFIT MAXIMIZATION

- Paper argues that reason we see behavioral response on appeals for TT but not PT is due to complexity or lack of salience of the latter
 - ▶ Goes against what we see in the U.S. (Cabral & Hoxby 2012; Nathan et al. 2020)
 - ▶ Main test: Google search volume around reform (units are on 0/100 scale?)
- Alternative hypotheses:
 - ▶ **Profit-maximizing investors:** more money to be gained from appealing for TT reduction
 - ★ Simulate bills for different parameters and show in PDV terms $PT \geq TT$ reduction (often)
 - ★ But for less patient, **short-hold** investors PDV of $PT < TT$ reduction
 - ▶ Differences in success probabilities across tax regimes
 - ★ RD results over time show that, if anything, success probability went up after reform

IN DEFENSE OF THE PROFIT MAXIMIZATION HYPOTHESIS

- Benefit to appealing in the pre-reform period is...

$$P_{t < 2018, I_i^a > 745}(a_i = 1) = P \left(\underbrace{\frac{0.75\tau_i \cdot (I_i^a - I_i^c)}{1 - \delta} + \frac{0.25\tau_i \cdot I_i^a}{1 - \delta}}_{\text{benefit from PT } \downarrow} + \underbrace{0.05\delta_i^T \cdot S_i}_{\text{benefit from TT } \downarrow} - C_i > 0 \right)$$

- PT reduction benefit has two parts: reduction above the threshold, and exemption below
 - ▶ $(1 - \delta^{T+1})/(1 - \delta)$, with $T \rightarrow \infty$ special case with 100% capitalization on PT side
- But δ, T are pos. correlated and define **endogenous** investor types
 - ▶ In practice, investors tend to be more responsive to tax law (cf. Tobin tax literature) \implies more likely to appeal (is all of this just from investors?)
 - ▶ Exclude *ex post* sales after 2018, but not much data
- What about tagging homeowners based on portfolio and past holding periods?

COMMENT #2: WHAT IS THE ECONOMIC INCIDENCE?

- Perhaps an obvious second paper, but is the economic incidence on the seller?
 - ▶ Helps kill the profit maximization story by calibrating the PDV simulation
 - ▶ But also, if not much capitalization, then suggests buyers have little bargaining power
 - ▶ Could be **loss aversion** and uncertainty about whether I can receive an offer with the higher TT (Genesove & Mayer 2001)
- Can test using standard DiD methods around the threshold with sales data
- **Or, if taking as given, need to tie this to larger literature on transaction taxes**
 - ▶ TT on sellers can lead to higher prices through liquidity crunch (Chi, LaPoint, Lin 2021)
 - ▶ TT on buyers can pass through to sellers in lower prices (NYC mansion tax)
 - ▶ Lump-sum nature implies investment horizon matters
- Reads too much like a standard PF paper given that real estate is “special”

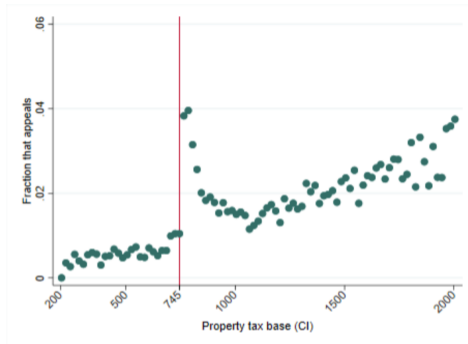
COMMENT #3: MORE CONTEXT ON THE BELGIAN SYSTEM

- After reading, I was left with quite a few questions (**tell us more!**)
 1. Why is the appeals rate so low compared to U.S. and elsewhere?
 - ★ $\approx 10\%$ appeal assessments in U.S. (Chicago) vs. $< 2\%$ in Belgium
 2. How are appeals adjudicated and resolved?
 - ★ Why would an assessor ever grant an appeal?
 - ★ Random judge assignment or elected officials?
 - ★ What factors predict a successful appeal and can I appeal twice?
 3. What is the CI indexed to? Is it a moving target?
 - ★ My interpretation: comps + cap rate as of 1975 and then indexed to CPI inflation
 4. Why link both tax bases (and appeals) to this common parameter?

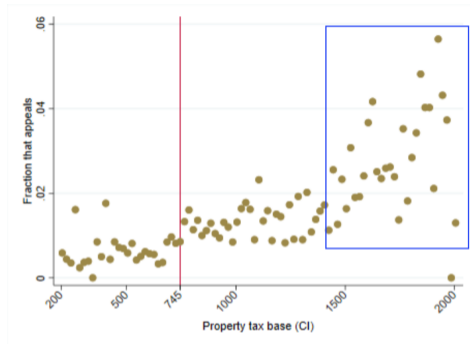
MISCELLANEOUS COMMENTS

- Table 1 summary stats and sample churn
 - ▶ Are the data incomplete in earlier periods, or is tax base growing?
 - ▶ Post-2018 (1.5 years) has 115k obs. while pre-2018 (11 years) has 626k
 - ▶ Fix the set of properties included in the tax base as of 2019 and only use that sample to run the RD and diff-in-disc results
- Google Trends results: search index is on a 0/100 scale by default, but Figure 9 y-axis ranges from 0 to 600 (rescaling?)
- Typos with standard errors in counter offer Table 3
- Non-monotonicity in appeal propensity w.r.t. CI (Figure 3)
 - ▶ Appeal prob. linear in CI above threshold prior to reform but convex after (why?)
 - ▶ More details on the PT schedule in a footnote/caption or Appendix figure

NON-MONOTONICITY IN APPEALS W.R.T. VALUATION



(a) Before 2018



(b) After 2018

- Does the 2018 reform also change discontinuities in the 2018 schedule?
- Spillovers of TT reduction removal to higher-end of market?

OVERALL ASSESSMENT

- Important new evidence that people understand statutory incidence \neq economic incidence in housing market context
 - ▶ Administrative data, clean research design, interesting tax system
- More tests needed to rule out alternatives to salience mechanism
 - ▶ Is understanding GE effects more difficult than computing property tax liability?
 - ▶ Evidence that economic incidence falls on sellers using 2018 reform?
 - ▶ Profit maximization story compelling if $\text{corr}(\delta, P(a = 1)) < 0$ or $\text{corr}(T, P(a = 1)) < 0$
- Unique reform in that both tax bases linked to historical income threshold
 - ▶ More details about appeals system would help with external validity + interpretation
 - ▶ Appeal letters could be **“text as data”**



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THANKS!
