

Wealth Taxation and Evasion: Quasi-Experimental Evidence from Colombia*

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Abstract

Many countries are considering using wealth taxes to curb rising wealth inequality but face direct enforcement challenges due to the threat of capital flight to tax havens. However, little empirical evidence exists documenting evasion responses to wealth taxation, and all recent studies have focused on the developed world. Using administrative tax records from Colombia and focusing on tax reforms that introduce large variation in exposure to wealth taxes from year-to-year, we document large elasticities of reported wealth to the net-of-tax rate. These imply substantial revenue losses to the government. Importantly, the evidence strongly suggests that these elasticities are driven by evasion—not real—responses to wealth taxes. To further study tax evasion, we merge tax records with micro-data from the leaked “Panama Papers.” We document the extent to which taxfilers evade taxes by obscuring their wealth and transferring assets to offshore shell corporations in tax havens. Finally, we study a recent tax amnesty program and show that it reduced tax evasion, encouraging the wealthiest individuals to disclose their hidden assets and their fake liabilities.

Keywords: wealth, inequality, tax evasion, bunching, Colombia

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