Does global financial transparency improve tax compliance?

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Introduction

Large-scale tax evasion through offshore tax havens notably by the wealthiest (Zucman, 2013; Alstadsæter et al., 2019)

Global policy response: Automatic exchange of bank account information (AEoI)
- 100+ countries
- 100+ million accounts
- \$10+ trillion of assets

Does automatic information exchange improve tax compliance? (anwer may depend on the context)

Third-party reported information

Automatic information exchange effectively extends third-party reporting to the offshore domain

Theory suggests third-party reporting can deliver equilibrium with small audit effort and full compliance:

- Tax authorities audit discrepancies between self-reported and third-party reported income
- Given this audit policy, taxpayers do not evade
- No audits necessary to sustain this equilibrium

Has automatic information exchange put an end to offshore tax evasion? (if no, why not?)

This paper

Use administrative data from South Africa to investigate how automatic information exchange shapes

- compliance of taxpayers
- enforcement by tax authorities

Do taxpayers with foreign financial income stop evading when information reports from foreign banks arrive?

Do tax authorities audit discrepancies between self-reforted and third-party reported income?

Literature: policy efforts to rein in offshore tax evasion

Limited compliance effects of pre-AEoI policies (Johannesen, 2014; Johannesen and Zucman, 2014; Hanlon et al., 2015; Johannesen et al., 2020)

Unintended behavioral responses to AEoI

- deposit shifting (Menkhoff and Miethe, 2019; Casi et al., 2020)
- real estate (Bomare and Le Guern Herry, 2024)
- golden passports (Langenmayr and Zyska, 2020)

Compliance effects of AEoI (Boas et al., 2024; Baselgia, 2023; Londoño-Vélez and Tortarolo, 2025)

Literature: third-party reporting

Seminal paper from Denmark: non-compliance rate 100x larger for income types that are not third-party reported (Kleven et al., 2011)

More recent evidence: Outcomes can be much less favorable when third-reported information is imperfect

- Ex: partial third-party reporting of business revenue with no reporting of costs (Carillo et al., 2017)

Background

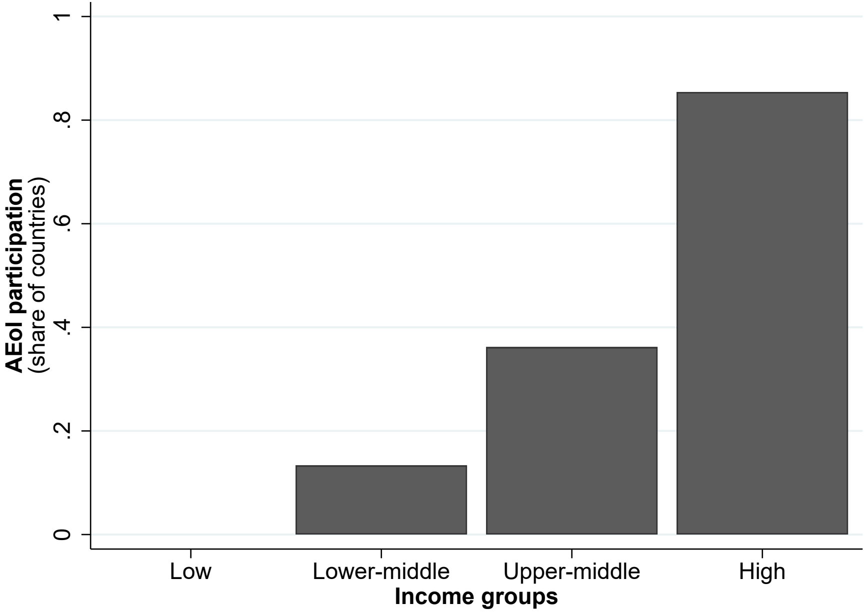
Background: Global financial transparency

100+ countries have agreed to combat offshore tax evasion with automatic information exchange (AEoI)

- banks identify the accounts beneficially owned by foreign residents
- share account information with tax authorities in the account owners' home countries
- look through corporate layers to the beneficial owners of offshore wealth

Mimicks third-party reporting by banks in the domestic domain

Background: Striking income gradient in AEoI participation



Data

Data

Tax returns including granular information about foreign financial income components

AEoI reports from foreign banks with information about account balances and financial income

Audit data with information about desk verifications and audits and their outcomes

Infomation reports are noisy signals

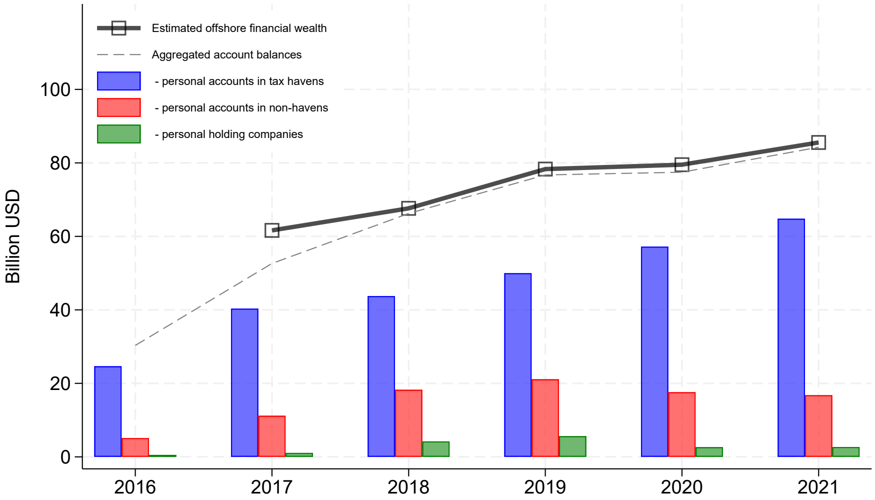
The quality of the third-party information is not perfect

Only around 60% of account balances have TIN numbers that match to owners (missing or unmatcheable TINs)

- Consistent with evidence from other countries
- Clear improvements in data quality over time

Size and Distribution of Offshore Wealth

Aggregate offshore wealth of South African households: ≈$80-85bn



Aggregate offshore wealth

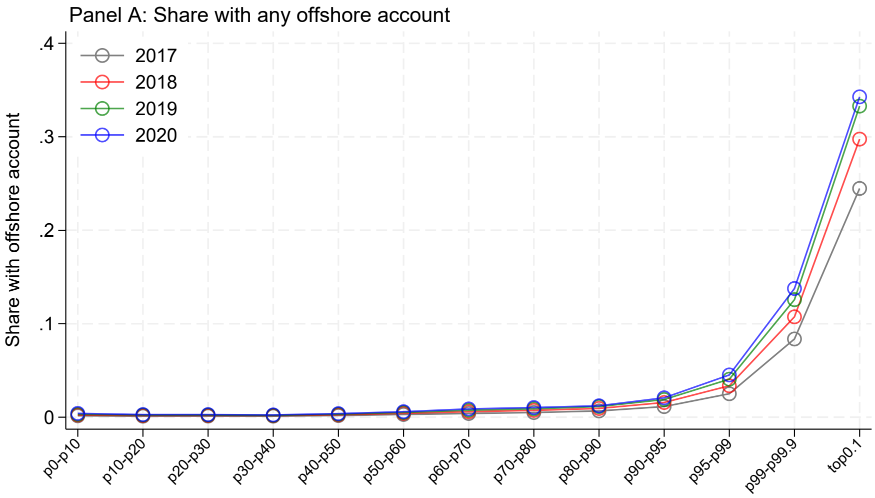
We estimate that South African offshore wealth amounts to \$80–85bn ($\sim$25% of GDP) - twice as large as

- estimate based on macro data (Alstadsæter et al., 2018)
- assumption in wealth accounting (Chatterjee et al., 2022)

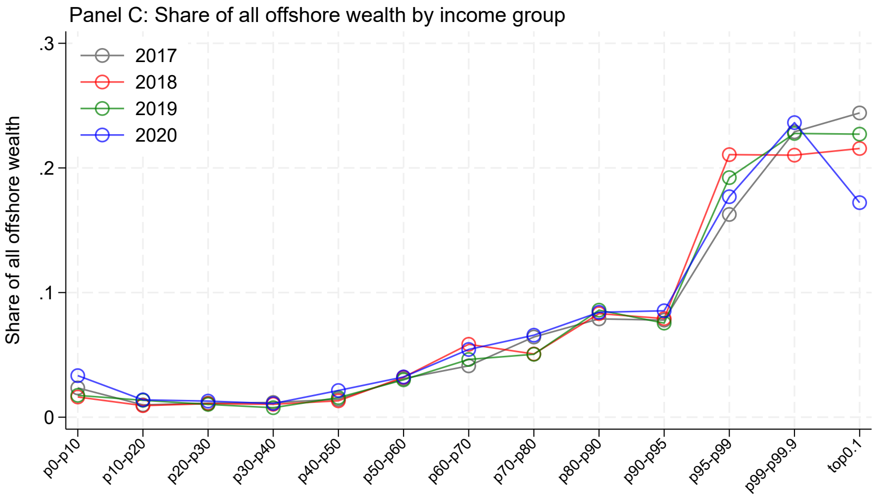
The estimate understates total offshore wealth by excluding:

- certain asset classes (e.g. unlisted shares, crypto, real estate)
- some jurisdictions

Strong income gradient in the propensity to have offshore wealth



Offshore wealth is concentrated at the top of the distribution ($\sim$ 20% in the top 0.1%)



Aggregate compliance analysis

Aggregate offshore wealth

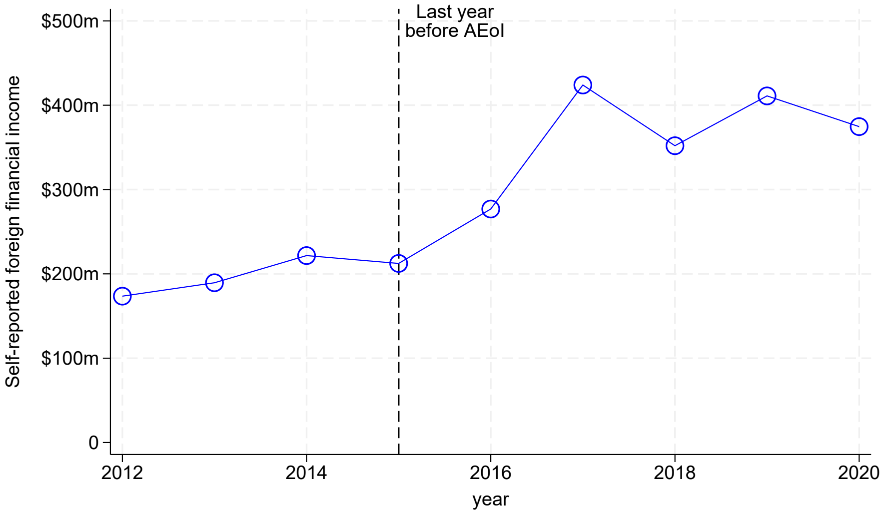
(#1) What happens to aggregate self-reported foreign financial income at the onset of AEoI?

$\rightarrow$ *compliance response?*

(#2) How does aggregate self-reported compare to aggregate bank-reported foreign financial income after the onset of AEoI?

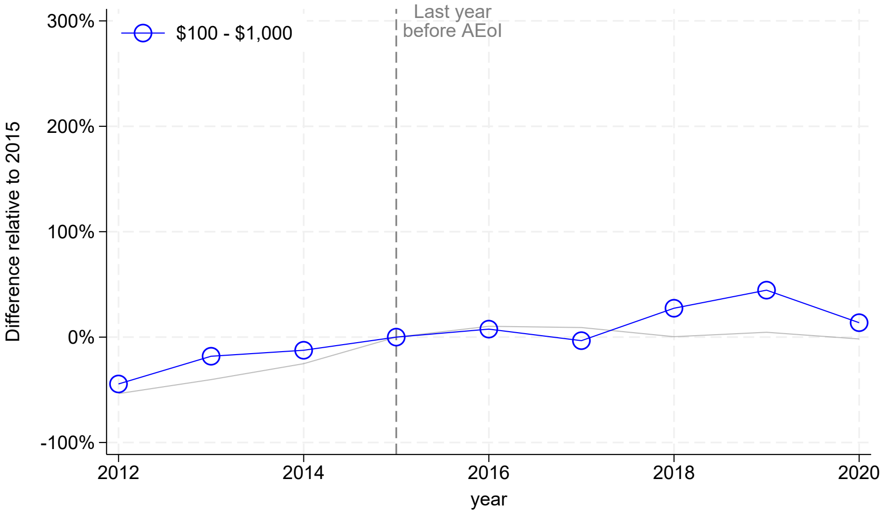
$\rightarrow$ *remaining underreporting?*

Doubling of self-reported foreign financial income around onset of AEoI

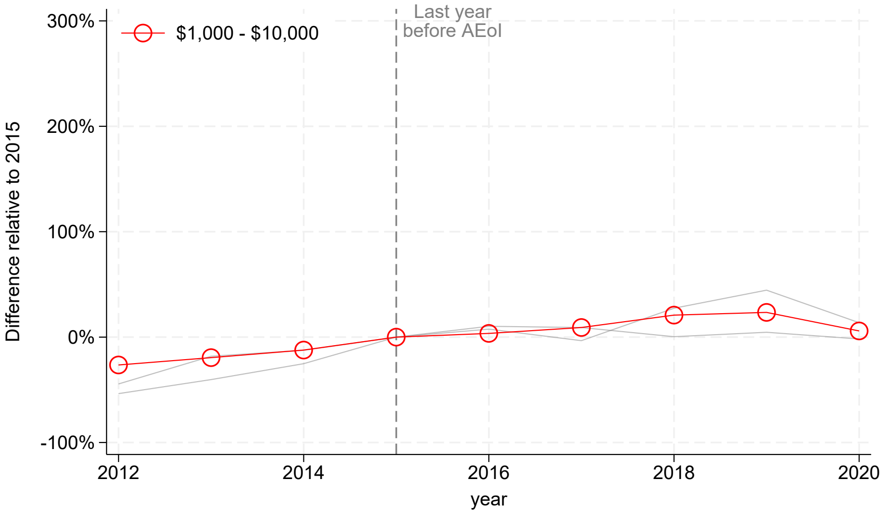


No increase in #taxpayers with very small self-reported amounts

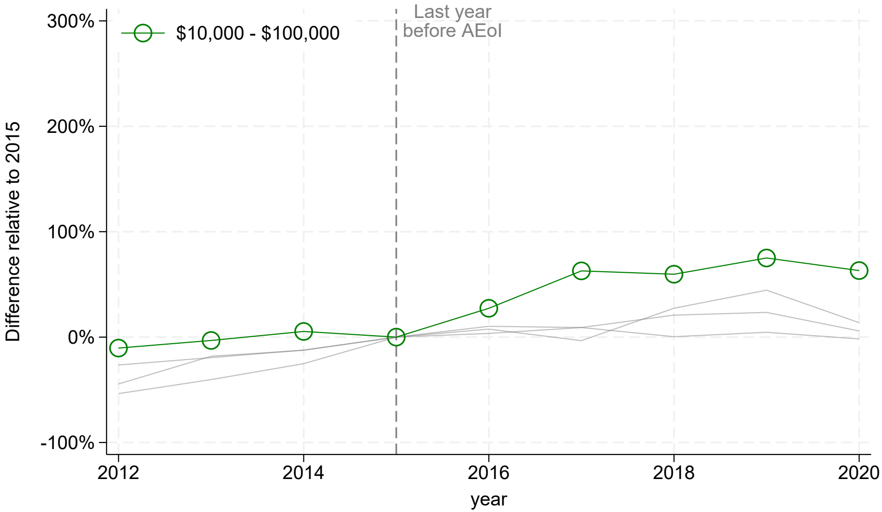
Same for taxpayers with slightly larger self-reported amounts



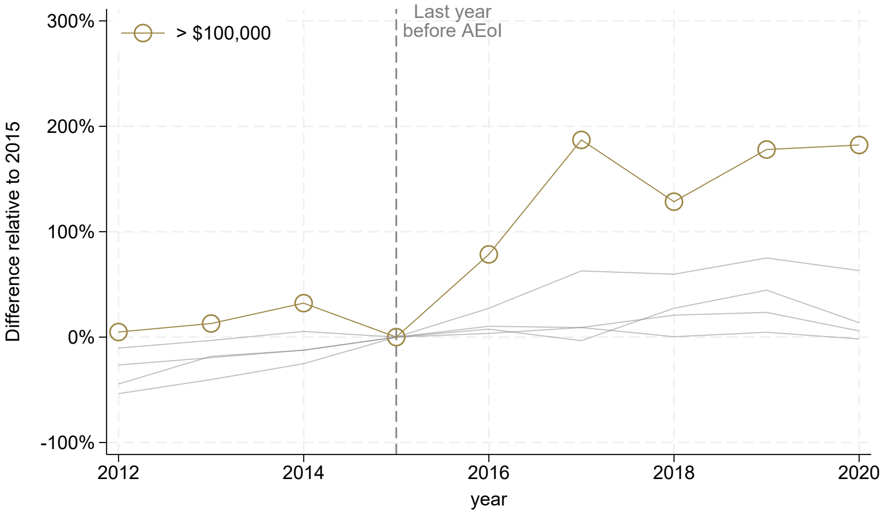
Same for taxpayers with yet larger self-reported amounts



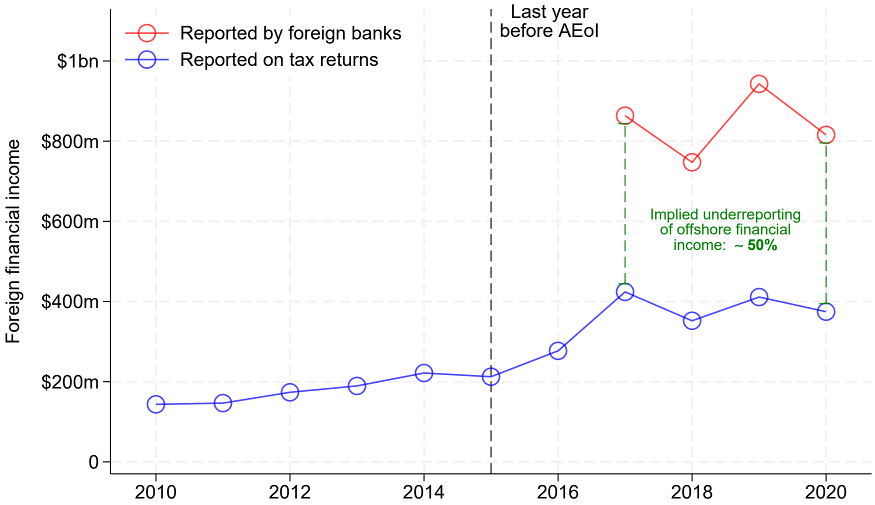
Large increase for taxpayers self-reporting $10k - 100k$



Very large increase for taxpayers self-reporting above 100k$



Self-reported income remains at only half of bank-reported income



Aggregate offshore wealth

(#1) What happens to aggregate self-reported foreign financial income at the onset of AEoI?

→ *significant compliance reponses: doubling of self-reporting coming from taxpayers with large accounts*

(#2) How does aggregate self-reported compare to aggregate bank-reported foreign financial income after the onset of AEoI?

→ *significant remaining underreporting: taxpayers report only half of what is implied by bank reporting*

Taxpayer-level compliance analysis

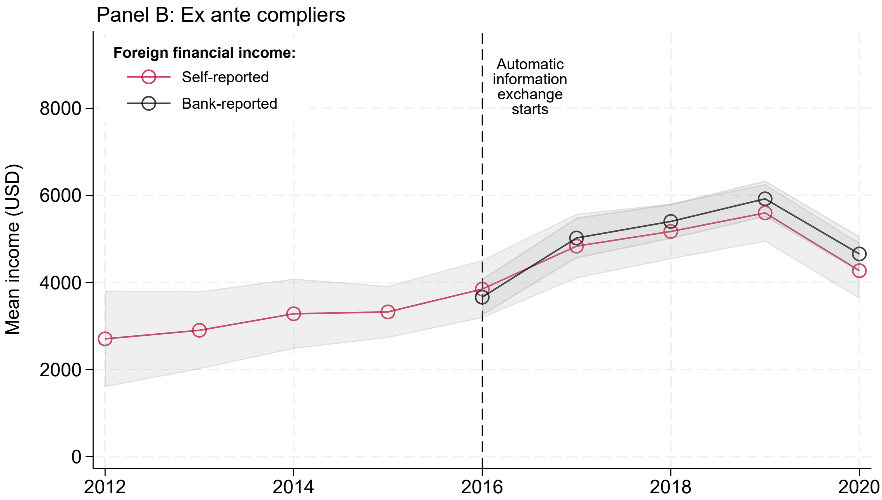
Taxpayer-level compliance

Taxpayer-level analysis allows for improved identification

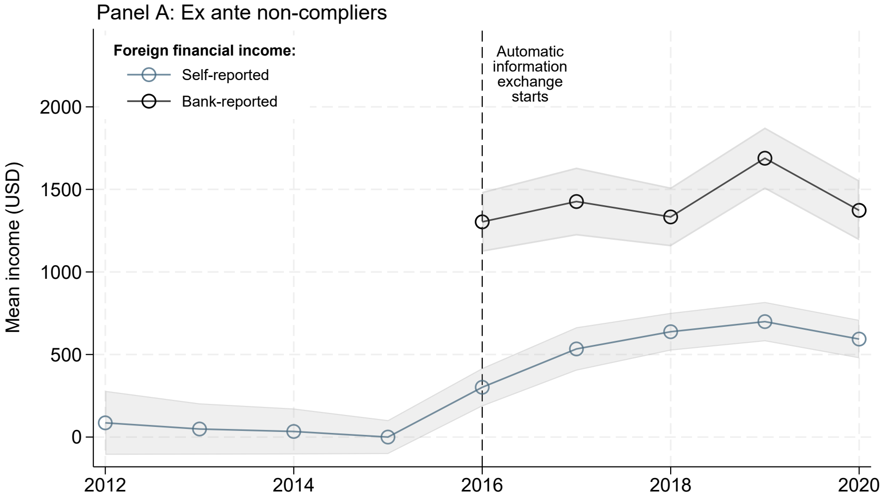
We focus on large 2016-cohort ($80bn of assets) but find similar results for 2017-and 2018-cohort ($10bn each)

We distinguish taxpayers with:
- any self-reporting in 2015 (”ex ante compliers”)
- no self-reporting in 2015 (”ex ante non-compliers”)

Ex-ante compliant taxpayers remain compliant



Ex-ante non-compliant taxpayers only to a small extent become compliant



Compliance and enforcement

Why does non-compliance remain significant at the arrival of third-party information?

Under the modern theory of third-party reported information:

- tax agency should audit discrepancies between self-reported and bank-reported income
- taxpayers should anticipate this and stop underreporting foreign income

To understand what is happening, we study how self-reporting of foreign financial income shapes **audit outcomes**

Audit analysis

Audit analysis

How do the tax authorities use the AEoI information for tax enforcement?

Compare taxpayers who are near-identical in terms of

- background risk (age, reported income, self-employment)
- true foreign income (AEOI income, bank country)

but differ with respect to foreign income reporting

Do non-reporters face high risk of audit and audit correction (≈ 1) relative to otherwise similar self-reporters?

Audit data

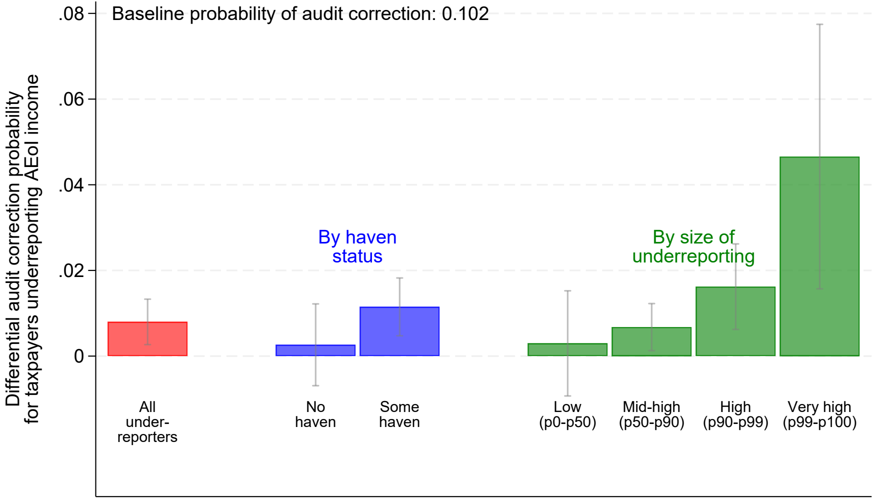
Comprehensive, but not detailed audit data:

- start and end dates but no specific actions
- amount of final correction (if any)
- even lightest desk verifications are included

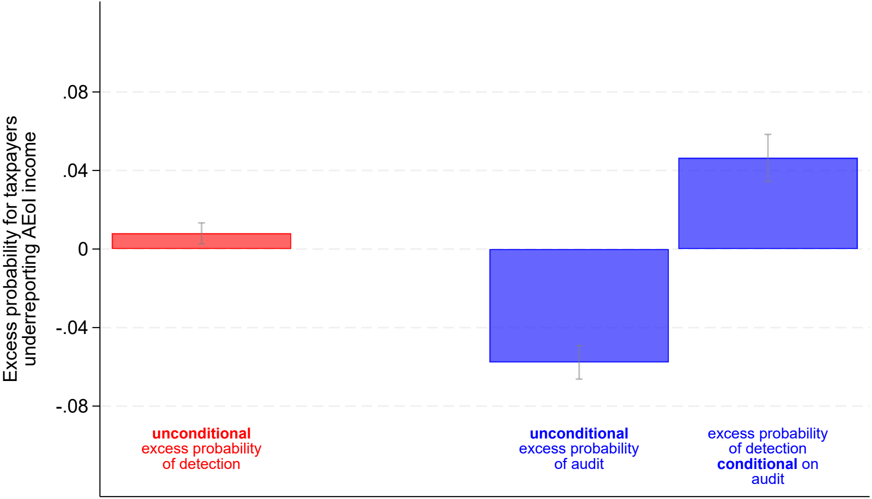
We use the audit information to create the following indicators

- any audit
- any audit correction

Small differential correction risk for non-compliers - larger for large amounts



Decomposition: audit risk and correction risk conditional on audit



Conclusion

Compliance: automatic information exchange

- doubling of self-reported of foreign income
- increase driven by large accounts
- but significant underreporting persists

Enforcement:

- only small increase in detection risk for average taxpayer (contrary to theory)
- but larger when underreported amounts are large

Three policy-relevant lessons

(#1) Audit risk matters: compliance effect is concentrated where detection risk is largest

(#2) Audit selection: selection of compliers into audit reduces the deterrence effect of the audit effort

(#3) AEoI can work: can bring meaningful complicance gains with modest audit effort targeting largest non-compliant accounts