Discussion of "Casting a Wider Tax Net: Experimental Evidence from Costa Rica" by Anne Brockmeyer, Marco Hernandez, Stewart Kettle, and Spencer Smith

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General comment on the paper

This is a very nice paper

- Experiment(s) very well designed and carried out
- Empirical analysis is very careful
- Authors are very thorough and run many robustness checks
- Find very interesting results
- Means from a pure econometric/empirical point of view I do not have much to add

About the research question

There are three compliance dimensions discussed in the paper:

- Intensive margin ("creative accounting") by formal firms
- Full informality (shadow economy) –> extensive margin
- Partial informality (this paper) –> extensive margin
  - These firms are mostly in the system
  - Many even make quarterly payments!
  - But small expected tax liabilities
- Which should be the group of most interest to tax authorities?

Selection issues

Experiment requires:

- Firm has to be in the "radar" of the tax authorities
- Firm has an email address
  (SMS also tried, no effects in terms of tax revenue)
- Firms that show more interesting results are subject to third party reporting –> of course that's a particular type of firm!
  –> $\simeq$ 25% of experiment $\simeq$ 10% of non-filers $\simeq$ 3% of firms
- It is important to keep in mind that if a firm can file and be subject to small enough tax bill –> false sense of increased compliance

About the results

Main results:

- Third-party verification matters: increases filing –> $\simeq$ 20 p.p.
- But probability of net liability increases little ($\simeq$ 3 p.p.)
- Increased payments: $\simeq$ US$15 to US$19 (US$0.39 for those with no third-party info)
- Filing results are sustained in medium-term, but what about tax revenue?
- (Minor pet peeve: why so many decimals in the tables?)

Is it worth it for tax authority?

- C-B ratio is 1:5 –> pretty good!
- But high organization effort for limited total tax revenue gained....
- So, should tax authorities copy this? Not sure, except...

Understanding mechanisms is key!

- I am not convinced the "nudge" effect is worth the effort
- But learning why this works for some and not for others, and understanding the mechanisms by which it works is really important!
- I wish the authors could push that angle more
  –> it is not easy!
- Speculation on who are the "compliers": firms that can easily minimize tax liability?
  - Firms do not underestimate sales/overestimate costs much
  - Authors find some evidence of (declared) Δsales $>$ Δcosts (and impacts higher for those with lower sales)
  - So relatively small firms seem to be compelled to file (and pay)

Final thoughts

- This is a very useful paper
  - Nudges matter
  - In an area where getting positive results (increased formality) is hugely important
- But we need "better nudges" –> those that affect the firms we really are interested in
- Similar to how discussion around IVs centers on LATE and who are the compliers
- We need more discussion about the type of nudges that could affect the compliers we care about...

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