Who Evades Tariffs?

Evidence from Madagascar

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Motivation

- **Fair taxation requires consistent tax enforcement**
  - Evasion can result in variation in de facto tariff rates ➔ unfairness

- **Detecting evasion is difficult**
  - State of the art: product-level evasion proxies (Fisman and Wei, 2004)
  - Little is known about:
    - Who evades?
    - Which transactions are most at risk?

What we do

- **Identify transactions most at risk of evasion**
  - Match customs declarations from France and Madagascar using **container IDs**
  - Calculate container-specific measures of evasion

- **Identify perpetrators and quantify losses**

Matching customs transactions

- **Data**
  - French export declarations (2013-2016)
  - Madagascar import declarations (2014-2016) with transport costs
  - GASYNET risk scores

- **Matching using container IDs**
 - Keep only declarations with registration dates <90 days

- **Key advantages:**
  - Container IDs are hard to manipulate
  - Directly observe reports of importers and exporters

Measuring discrepancies

- **Value Gap= Exports declared in France – Imports declared in Madagascar**
  - Expressed in logs – so we can interpret the difference in percentage terms
  - Proxy for undervaluation

- **Tariff Revenue Gap= Hypothetical tariff liability − paid tariffs**
  - Hypothetical tariff liability calculated using values and products declared in France

# Reporting discrepancies are prevalent
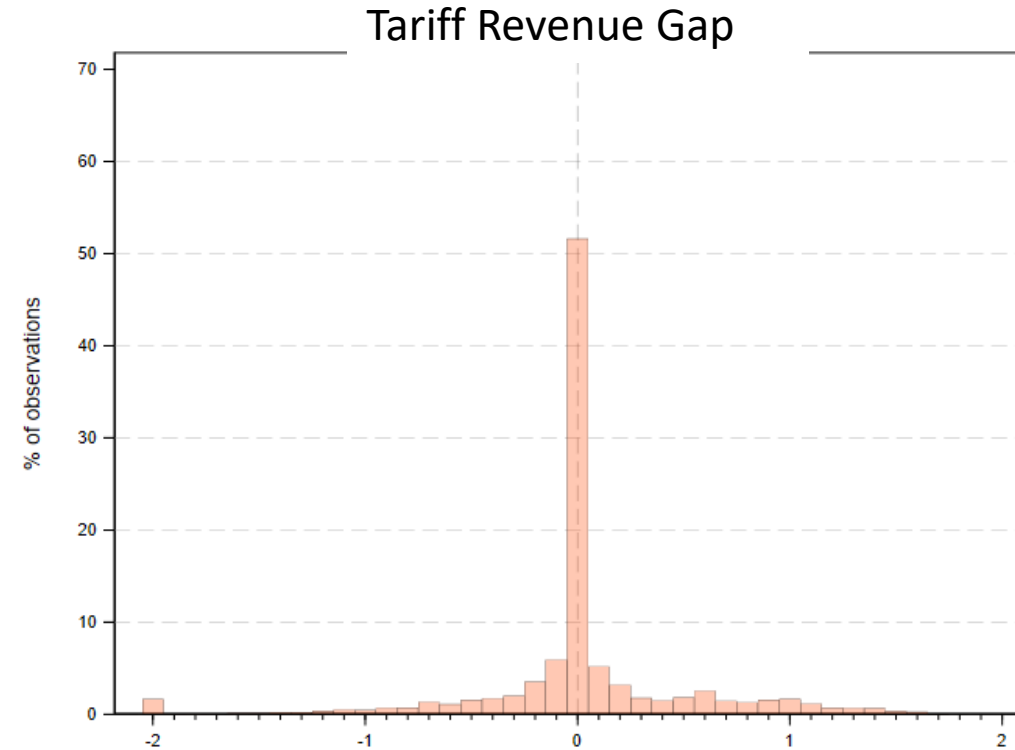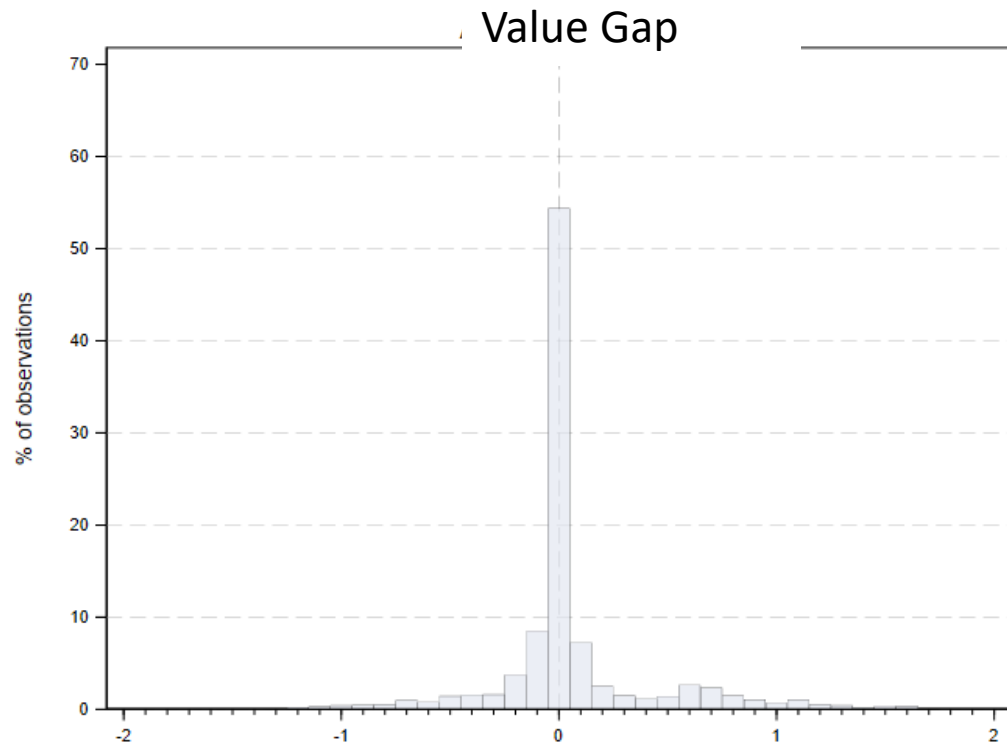
- Discrepancies are prevalent but small on average
- 2/5 of firms report in a way that increases their tax liability
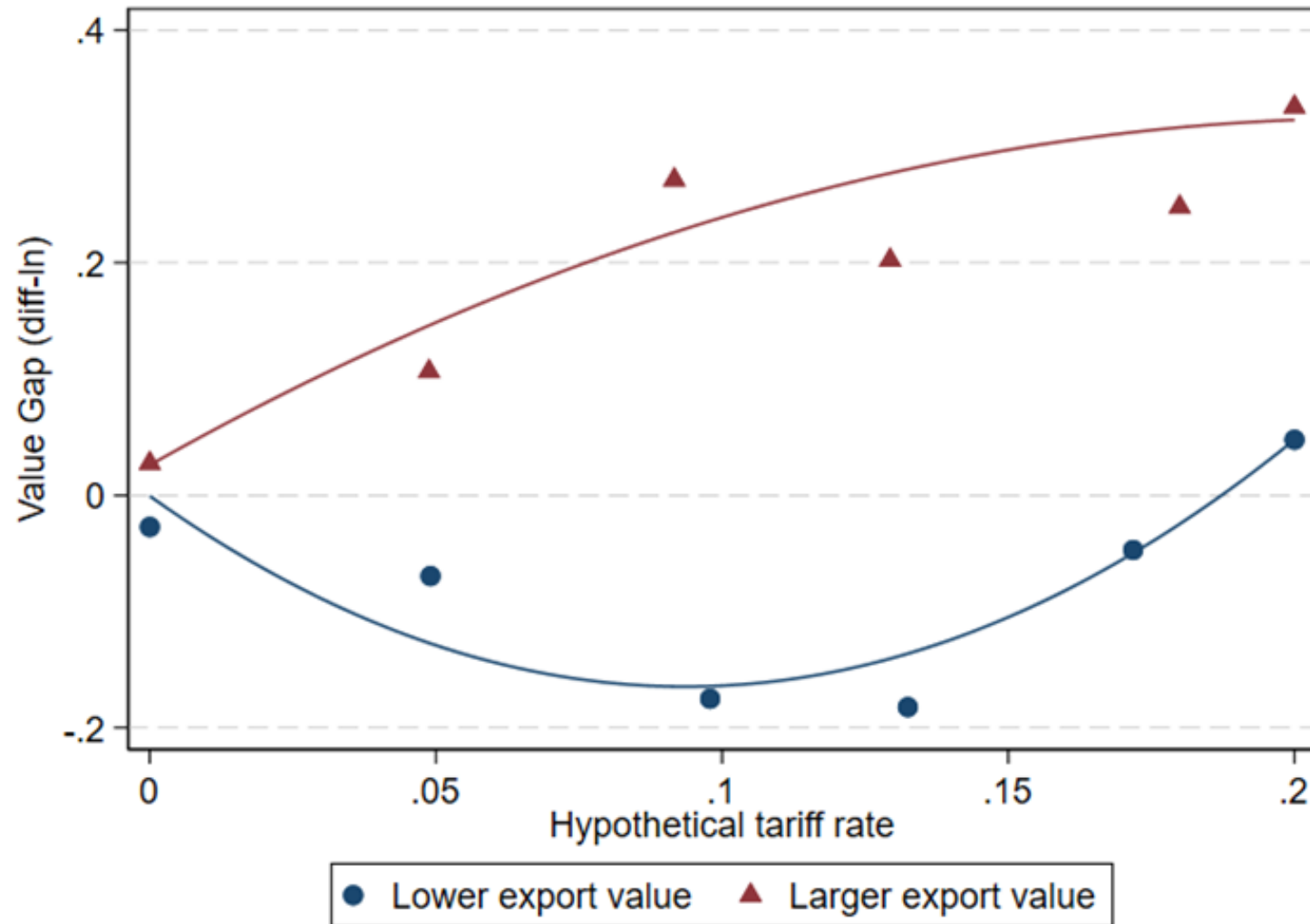
Descriptive Statistics

	Mean	Std dev
Export FOB value (€)	24 708	30 542
Import FOB value (€)	23 077	30 432
Import CIF value (€)	25 052	31 311
Value gap (€)	1 631	11 547
Value gap (diff-ln)	0.054	0.455
Hypothetical tariff liability (€)	2 266	3 209
Paid tariffs (€)	1 828	2 424
Tariff revenue gap (€)	438	2 297
Tariff revenue gap (% average values)	0.046	0.540

- Small average (4.6%), but large aggregate revenue loss (24%)
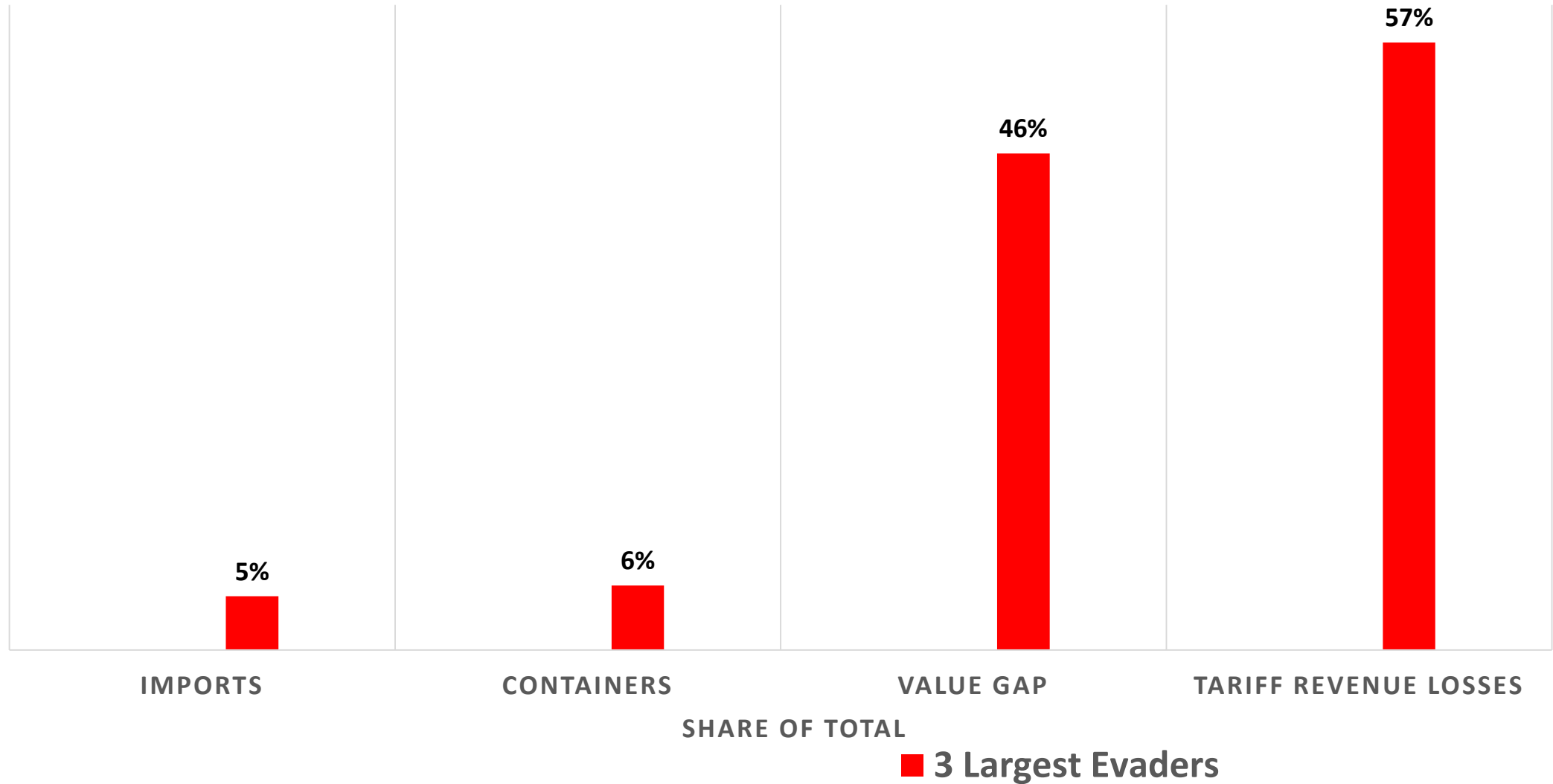- Transport costs matter (≈ 12% of import value)
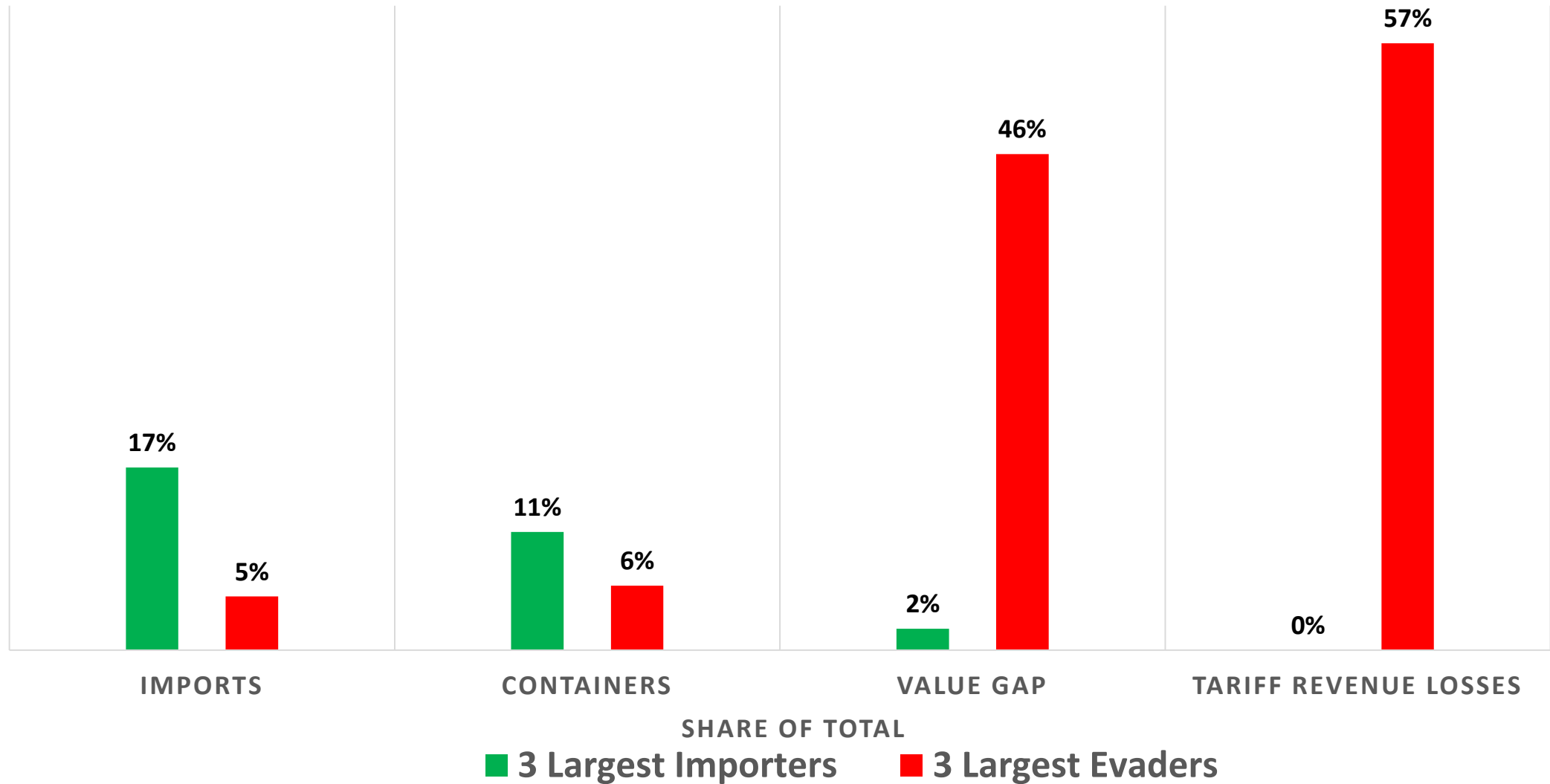
Value gaps increase with third-party risk scores

Binned scatter residualized with Month-year FE
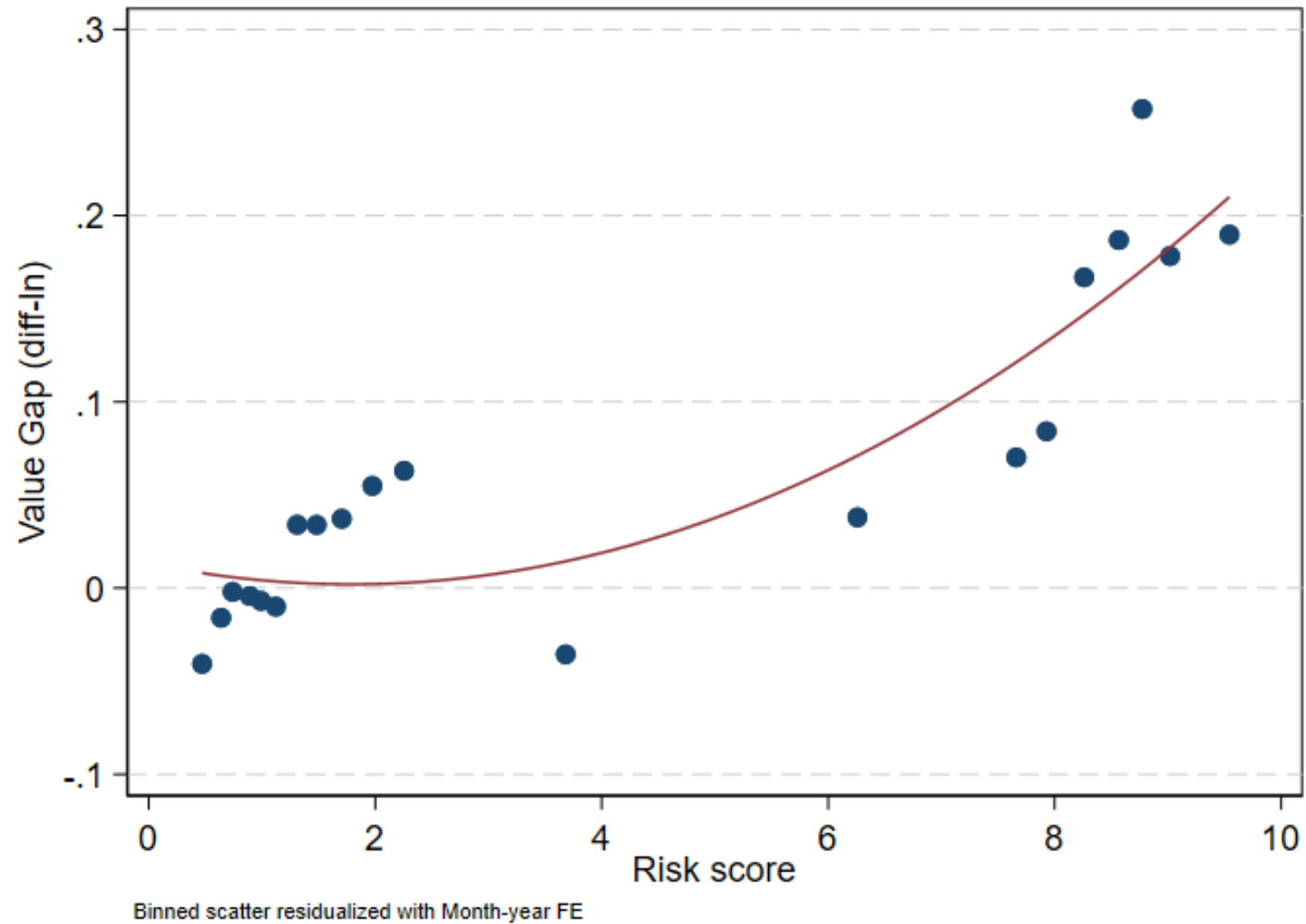
Value gaps increase with tariffs...
...especially when shipments are large

Evasion is highly concentrated

	IMPORTS	CONTAINERS	VALUE GAP	TARIFF REVENUE LOSSES
3 Largest Evaders	5%	6%	46%	57%

SHARE OF TOTAL

Evasion is highly concentrated

	IMPORTS	CONTAINERS	VALUE GAP	TARIFF REVENUE LOSSES
3 Largest Importers	17%	11%	2%	0%
3 Largest Evaders	5%	6%	46%	57%

SHARE OF TOTAL

■ 3 Largest Importers   ■ 3 Largest Evaders

Determinants of value gaps (undervaluation)
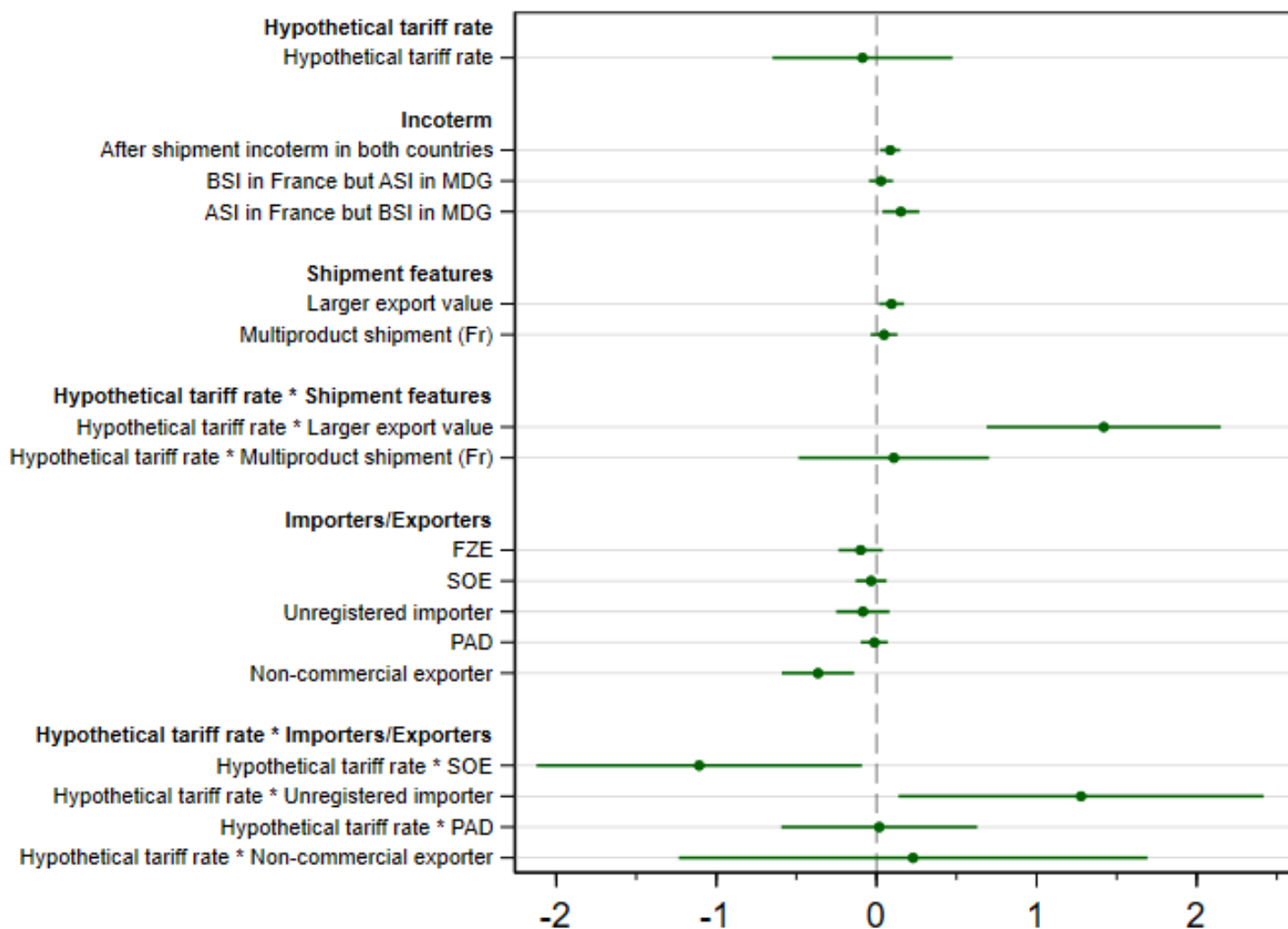
- Shipments that are subject to high tariffs and large are most at risk

- Unregistered importers are more prone to evade

Summary

- **Evasion is highly concentrated**
  - Average tariff loss is 4% , yet aggregate loss is 24% because large shipments subject to high tariffs are more at risk
  - Top 3 firms account for majority of evasion

- **Not all firms evade (equally)**
  - 2/5th of firms report in a way that increases their tariff burden

Implications

- **Be cautious when using mirror statistics**
  - Accounting for transport costs matters

- **Improving the compliance of a select few firms has major macroeconomic impacts**

- **Large shipments and informal importers merit extra scrutiny**