



# Tax Compliance and Uncertainty of Tax Law

*Does Japan Need GAAR?*

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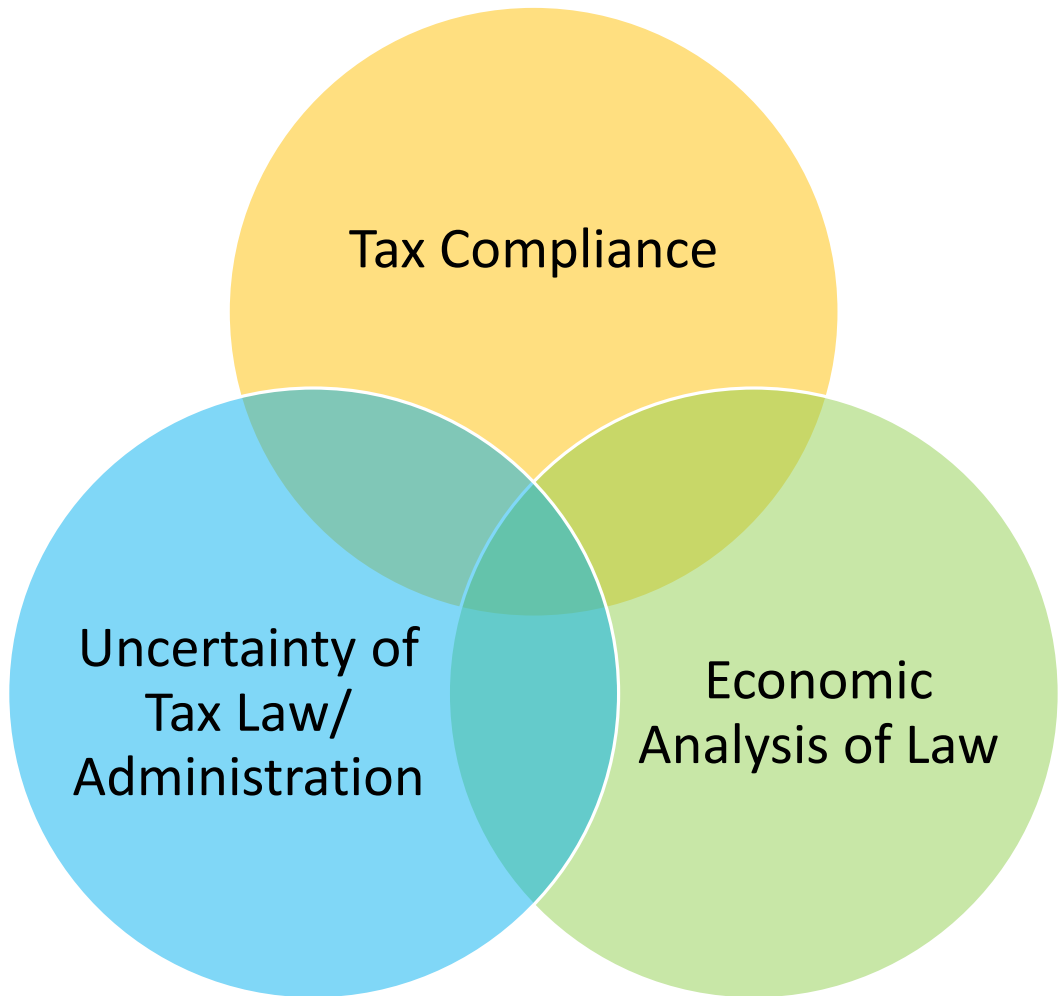
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# Introduction

## Today's Topic

“Tax Compliance & Uncertainty of Tax Law.”

[See, Kohyama(2017)]

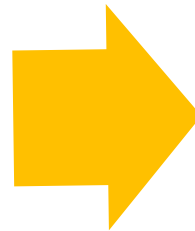


# Question

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Increasing  
Uncertainty

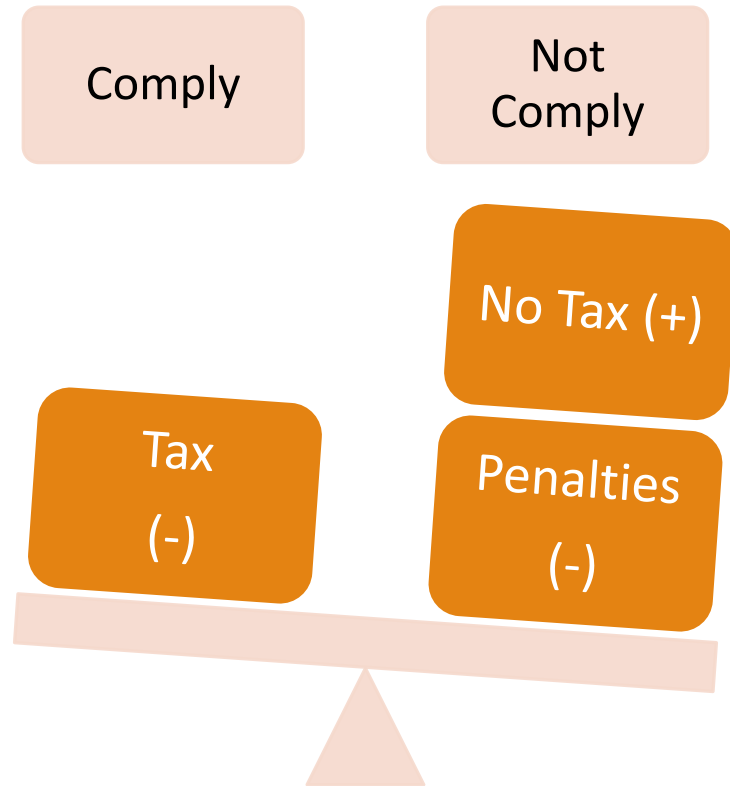
- Tax Codes
- Administrations



Increasing  
Tax  
Compliance ?

General Anti Avoidance Rule(GAAR)

# Subjective Expected Utility Model (SEU)



◆ Comply

$$U(I - T)$$

◆ Not Comply

$$EU = pU(I - T - F) + (1 - p)U(I)$$

This model can NOT well explain a *real* taxpayer's behavior.

# Ellsberg's Paradox

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	<b>Blue Ball</b>	<b>Red Ball</b>
Box A	50	50
Box B	100	

◆ Question 1

Bet on **Red** Ball. You can choose the box.

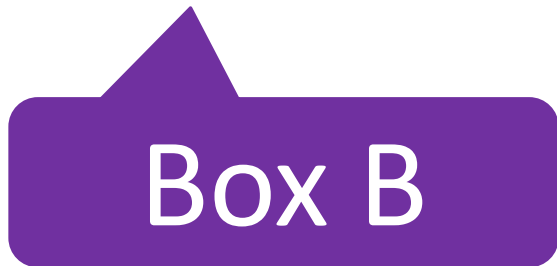
◆ Question 2

Bet on **Blue** Ball. You can choose the box.

# Uncertainty Aversion

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Uncertainty  $\neq$  Risk



# Choquet Expected Utility Model (CEU)

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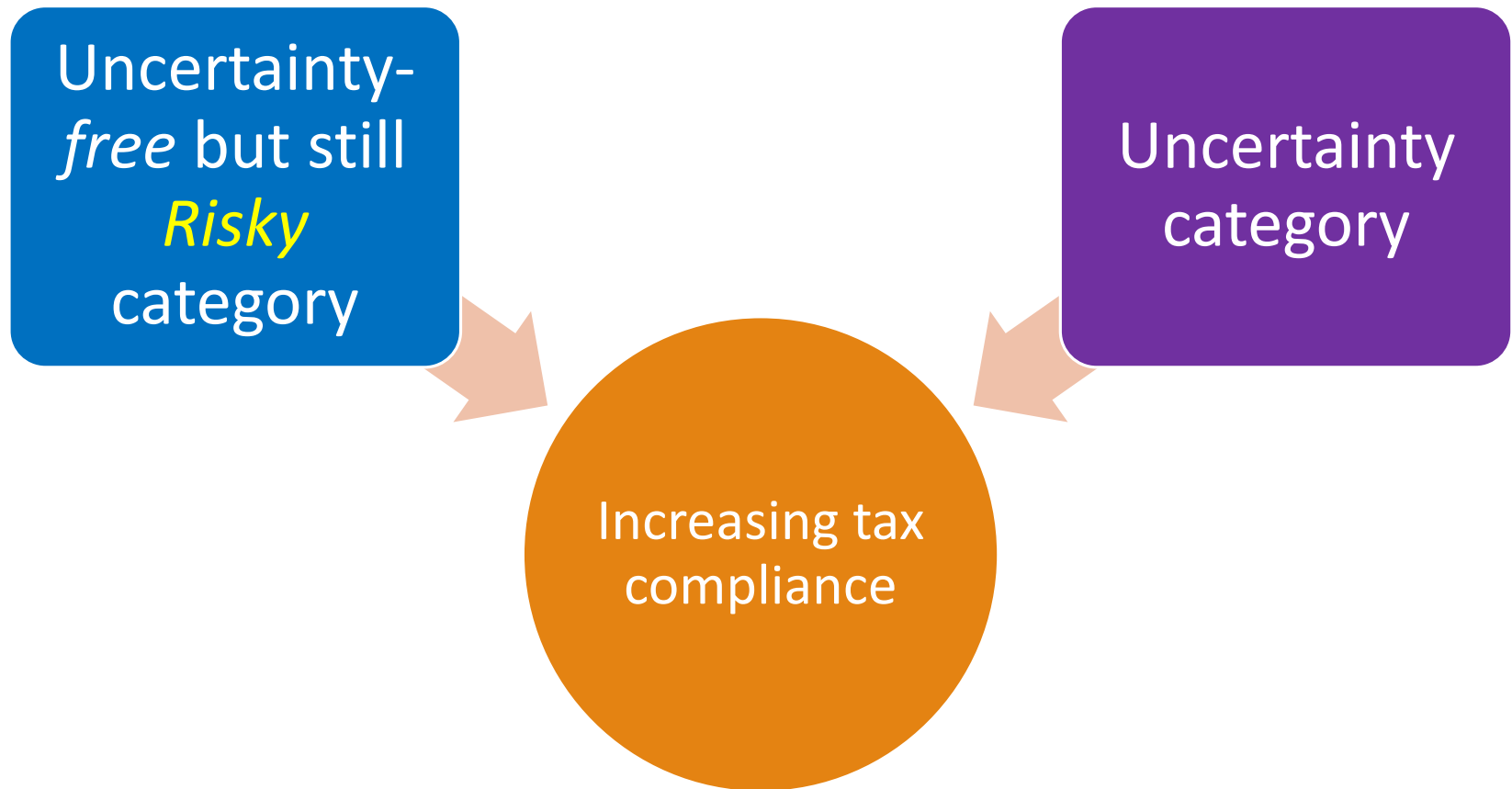
## ◆ Not Comply

$$\text{CEU} = (1 - \delta)\{pU(I - T - F) + (1 - p)U(I)\} \\ + \delta\{aU(I - T - F) + (1 - a)U(I)\}$$

- [I] Income, [T] Tax, [F] Penalty/Fine
- [p] probability of the bad outcome
- [ $\delta$ ] the taxpayer's extent of doubt
- [a] the extent of taxpayer's pessimism

# Strategical use of uncertainty

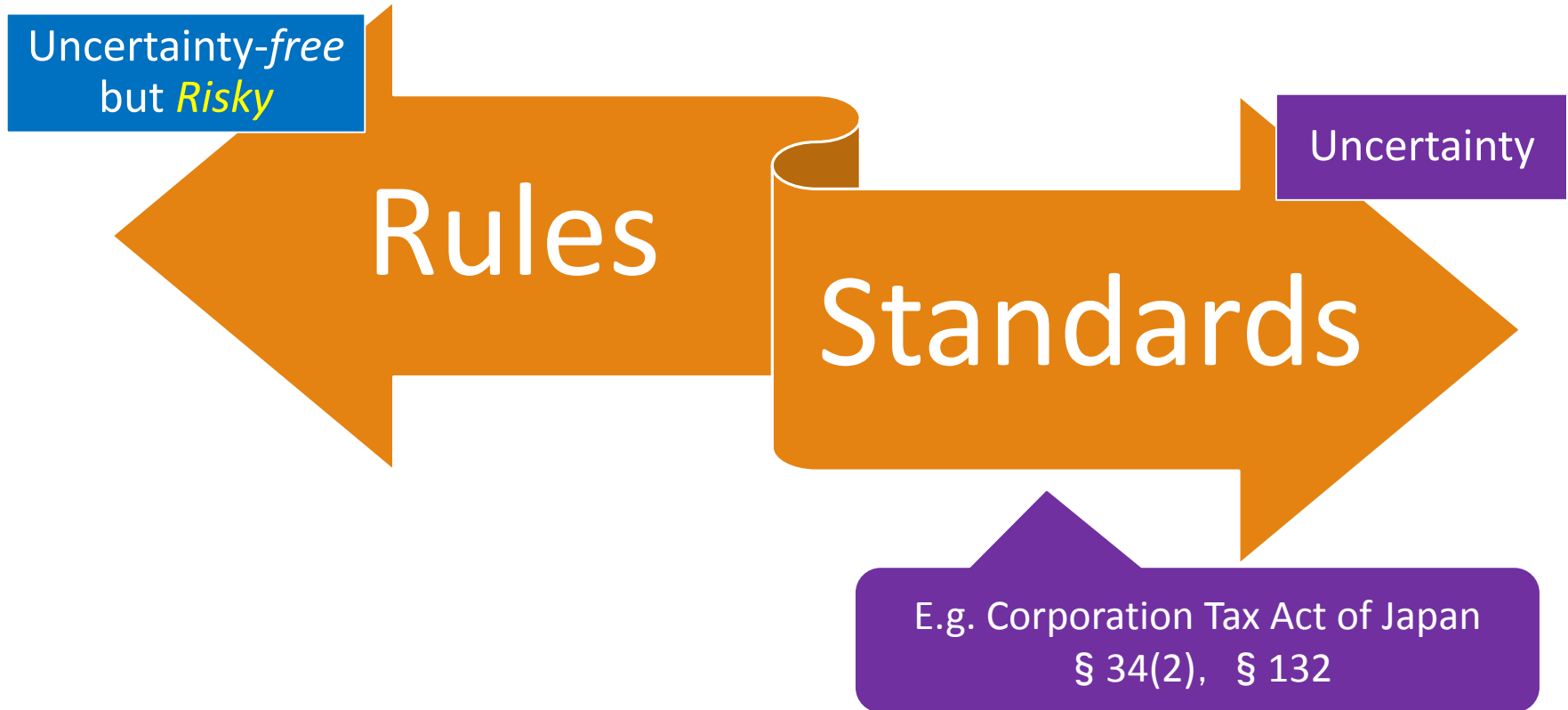
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# Anti-Avoidance Provisions in Tax Law

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# Corporate Tax Act of Japan

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## ◆ § 34(2): Exclusion from Deductible Expenses of Remuneration for Officers

The portion of the amount of remuneration paid by a domestic corporation to its officers ... that is specified by Cabinet Order as an amount which is unreasonably high shall be excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year.

## ◆ § 132(1): Denial of Acts or Calculation by Family Corporations, etc

In the case where the district director of the tax office makes a reassessment or determination with regard to corporation tax related to a corporation listed as follows, when it is found that any acts conducted or calculations made by the corporation will, if allowed, unreasonably reduce the burden of corporation tax, he/she may calculate the tax base of corporation tax related to the corporation, the amount of loss, or the amount of corporation tax, based on his/her own recognition, notwithstanding the said acts or calculation:

# Implications (1)

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If the degree of uncertainty averse differ depending on taxpayers' attributes,



- ✓ listed or family companies
- ✓ individuals or corporations
- ✓ high- or low-income earners

the degree of uncertainty might be differentiated from category to category of taxpayers.

# Implications (2)

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Family  
Corporations?

Listed  
Corporations?

Rules

Standards

A taxpayer who is *not* or *less* ambiguity averse.

A taxpayer who is strongly ambiguity averse.

## Implications (3)

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It would **NOT** be desirable to increase uncertainty for **ALL** taxpayers.

It could be desirable to increase uncertainty only for the **specific categories of taxpayers** under certain conditions.

Thank you

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# References

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