Replication Package Readme for "Where in the World Does Partnership Income Go?"

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1 Overview

This replication package provides code for the data analysis reported in "Where in the World Does Partnership Income Go? Evidence of a Growing Use of Tax Havens." The majority of data used in this paper comes from administrative tax data. These data were accessed and handled solely by the author, who at the time of writing was an employee at the Joint Committee on Taxation. All results and replication codes have been reviewed to ensure that no confidential taxpayer information is disclosed. This document describes the data construction process, and describes the data analysis code in the replication package.

2 Data Construction

This paper uses administrative tax data from 2005 through 2019. Under Section 6103 of the Internal Revenue Code, this data cannot be shared publicly. The paper also uses publicly available data from the IRS Statistics of Income, which is available online, described below.

The uploaded code uses seven data files as inputs.[1] I describe each here.

The "soi_net_income_table.csv," uploaded, consists of publicly available data on partnerships, S-corporations, C-corporations, and sole proprietors from 1996 to 2017.[2] It also includes the BEA GDP implicit price deflator.

The "income_table.dta," not uploaded, is the main dataset for analysis. It is created by extracting and cleaning administrative data from filed Schedule K-1 forms. The data consists of the following 15 variables across years 2005-2019: year; "net income" as defined in the paper;[3] net positive amounts of each of the following boxes from the Schedule K-1: ordinary, net rental, other net rental, interest, dividends, royalties, short-term capital gain, and long-term capital gain; the category of jurisdiction of the partner, as described in the paper;[4] the entity classification of the partner, as described in the paper; a two-digit NAICS code of the industry of the partnership;[5] an indicator variable for whether the Schedule K-1 can be matched to an annual filing (such as a Form 1040 or 1120); and an indicator variable for whether the partner jurisdiction is one where a US bilateral tax treaty exists that imposes at most a 15% rate on dividends.

The "counts_table.dta," not uploaded, consists of Schedule K-1 observations with three variables between years 2011-2019: year, net income (as calculated above), and entity classification (described above). It is used to produce Figure 13.

[1] The code also uses the GDP implicit price deflator, which is uploaded as well.

[2] Data used are: Corporations: Table 1, Net income; Partnerships: Table 1, net income plus portfolio income, real estate, and other rental income; S-Corporations: Tables 1 and 2.4, net income plus portfolio income, real estate, and other rental income; Sole-Proprietorships: Table 1, net income. See https://www.irs.gov/statistics/soi-tax-stats-business-tax-statistics.

[3] Any net positive amount from the sum of the following fields on the Schedule K-1: ordinary, net rental, other net rental, interest, dividends, royalties, short-term capital gain/loss, long-term capital gain/loss, and section 179 deductions.

[4] These include the US, Cayman Islands, Zero-Rate Havens, Other Havens, Conduits, Other Foreign, Undisclosed Foreign, and Unknown.

[5] I also treat investment firms under NAICS 5239 as a distinct category.

The "missing_partner_table.dta," not uploaded, consists of Schedule K-1 data from K-1s that could not be matched to annual returns, and includes four variables across years 2011 through 2019: year, net income, entity classification, and country (which is more granular than the jurisdiction category above). It is used to produce Figure 4.

Three tables combine to create Figure 15, reporting withholding taxes to havens. First, "soi_form_8805_table.csv," uploaded, compiles publicly available data on withholding reported on Form 8805 from 2005 to 2018, by country.[6] Second, "form_1042s_withholding_by_destination.dta," not uploaded, is compiled directly from data on filed Forms 1042-S. It includes the withholding tax reported under Chapter 3 (US source income) on forms that either match to a foreign partner or to a partnership with a foreign partner. It consists of two variables: tax withheld and category of jurisdiction. Third, "form_8288s_withholding_by_destination.dta," not uploaded, is compiled directly from data on filed Forms 8288-A. It includes the withholding tax reported on forms that either match to a foreign partner or to a partnership with a foreign partner. It consists of two variables: tax withheld and category of jurisdiction.

3 Code and Analysis

The code that analyses the data is uploaded. It consists of seven parts, each described below.

Part I uses publicly available SOI data in the soi_net_income_table to describe trends in partnership versus other entity classifications over time, by income and counts. It produces Figure 3.

Part II uses Schedule K-1 data in the income_table to describe aggregate flows of net income over time to different jurisdictions, by amount and by share of total net income. It produces Figures 1 and 2.

Part III uses Schedule K-1 data in the missing_partner_table to describe the magnitude of net income flows to previously missing partners by country. It produces Figure 4.

Part IV uses Schedule K-1 data in the income_table to decribe the composition of partners by entity classification. It does so by net income, comparing to prior research, and also by counts. It produces Figures 5, 12, and 13.

Part V uses Schedule K-1 data in the income_table to contrast the patterns of income flows to different jursidictions in terms of industry, entity classification, and character of income. It also investigates industry and character of income over time. It produces Figures 7, 8, 9, and 14.

Part VI uses Schedule K-1 data in the income_table to describe and investigate the patterns observed around 2010 and 2011 related to FATCA and dividend equivalent taxation. It produces Figures 10 and 11.

Part VII uses the three withholding datasets described above to calculate the amounts of withholding on outbound income flowing to foreign partners in tax haven jurisdictions. It produces Figure 15.

[6] Form 8805, Table 1, available at https://www.irs.gov/statistics/soi-tax-stats-foreign-recipients-of-us-partnership-income-statistics.