

The Long Arm of the U.S. Tax Law: Compliance Rates and Costs related to FATCA

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Abstract

We examine the extent and reach of the U.S. tax law for extraterritorial countries and financial entities. Specifically, using both hand-collected and public data, we focus on the compliance rates and financial costs of FATCA, the recently enacted cross-border tax information sharing law that has been dubbed an overreach by political pundits and legal scholars because of the new requirements it imposes on foreign governments and entities. We find that tax havens were more likely to come to an agreement with the IRS than non-tax havens countries. Havens were also relatively quicker to comply than their counterparts.

Thus, despite these countries' general preference for privacy, they exhibit higher and faster willingness to share information under FATCA. Countries with U.S. treaties and strong legal protections also exhibit higher and faster willingness to comply with FATCA. We also examine entity-level compliance rates, which we find were exceptionally high. Finally, we document evidence of significant reductions in financial performance for FATCA firms relative to control firms. Overall, the evidence is consistent with high compliance to, and additional performance costs for, financial firms subject to FATCA, suggesting that U.S. tax law has substantial force in the international political economy.