Discussion of "The effects of management practices on effective tax rates: Evidence from Ecuador"

by Javier Beverinotti, Gustavo Canavire-Bacarreza, Maria Cecilia Deza & Lyliana Gayoso de Ervin

Lucas Rosso
Universidad de Chile

BCDE 2021
November, 2021

Overview

Paper uses administrative firm-level data + novel data on management practices to:

1. Study the relation between management practices and effective tax rate (ETR) in Ecuador
2. See if fiscal incentives (and its interaction with management practices) play a role in ETR

Their main findings are:

1. There is a positive correlation between management practices and ETR
2. This result is robust to different measures of ETR
3. (Weaker) evidence that firms with better pay more taxes

Data

Very interesting data on management practices, though I have a couple of **Q**

- How are the firms picked? Is it representative of mid-large firms in Ecuador?
- Is the survey available? Would be great to see what's inside the index.
  - $\longrightarrow$ Perhaps management practices are more related to emisions, corporate social responsability, etc.
  - $\longrightarrow$ If having better management practices make me pay more taxes, why bother?
- Knowing more about the firms will allow us to discard enforcement effect.

Data and Descriptive Analysis

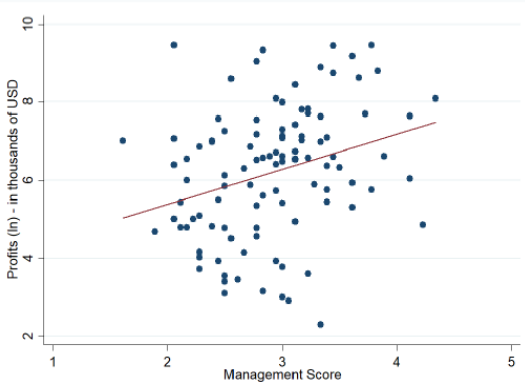

Fig 4.6. Management & profits

Results undercover an interesting correlation

- Counter-intuitive that firms with better management practices pay more taxes
- Is it less tax avoidance? firm age? financial constraints?
- Is this result Ecuador-specific? tax systems across countries have different tax rates, deduction, etc.

Main Results: What about firm dyamics?

Baseline regressions does not control for firms' age I feel like firm age is a big part of the story

- Younger firms may have access to substantial deductions (accelerated depreciation, carryforward, etc)
- Financial constraints make young firms rely more on (more expensive) debt $\Longrightarrow$ higher tax shield

I also found interesting that coef. in paid taxes $>$ coef. in taxes to be paid.

- $\longrightarrow$ is this a story of tax avoidance?

On a side note, why change the covariates in the robustness tests? I think it would be better to see if the results hold under different ETR definitions?

- Why don't just do both?

Overall

- Well written and easy to follow, always appreciated
- Nice new data with several applications.
- I would dig deeper on the endogeneity concerns $\longrightarrow$ Very important for policy debate!
- I missed discussion about potential channels. Perhaps a simple framework allows to understand better what we see in the data.

Minor Comments (just for the authors)

I also have a couple of minor comments (mostly typos) that I hope will help you to improve the paper at a small cost

1. I would include some formal test (e.g. Jarque-Bera) when claiming normality on the distribution of management scores.
2. Is Figure 4.7 statistically significant? Anyway, I would include the slope and the standard error (idem in Figure 4.6)
3. $\mathbf{X}_i$ includes firms' age but that is the only covariate not included in Tables 6.1-6.3. Is it included in the regression?
4. Table 6.4 has the column titles the other way around.