



Tax evasion, civic duty and the law abiding citizen

Marta Orviska^a, John Hudson^{b,*}

^a*Faculty of Finance, Matej Bel University, Tajovskeho 10, 974 01 Banska Bystrica, Slovak Republic*

^b*Department of Economics, University of Bath, Bath BA2 7AY, UK*

Received 14 November 1999; received in revised form 24 September 2001; accepted 22 May 2002

Abstract

This paper examines attitudes to tax evasion. Sample survey data from a randomly chosen group of people are used to analyze this problem using hypothetical questions. The results suggest that evasion is condoned by a large proportion of the population, who are particularly ready to take advantage of someone else's evasion. The problem seems greatest among the young and men. People however appear to be deterred from tax evasion by the consequences of being caught. Empirical analysis supports the importance of both civic duty and 'law abidance' in deterring tax evasion.

© 2002 Elsevier Science B.V. All rights reserved.

JEL classification: H26; K42

Keywords: Tax evasion; Civic duty; Law abidance

1. Introduction

Tax evasion is the source of a potentially serious loss of revenue to governments, resulting in the possible underfunding of public service and an 'unfair' burden on honest taxpayers. [Andreoni et al. \(1998\)](#) estimate that in the US over 25% of all taxpayers underpaid their taxes by \$1500 or more in 1988. In developed countries, tax evasion is frequently estimated to be at about 20% level of tax revenue. In the USA in 1992, lost revenue through underpaid federal income taxes was estimated at \$95.3 billion. In developing countries, the problem appears worse. [Krugman et al. \(1992\)](#), for example, estimate tax evasion to be 50% for income tax in the Philippines.

The literature has revolved around several different focal points. Virtually all theoretical models of tax evasion conclude that tax evasion increases with income, i.e. richer people

* Corresponding author.

E-mail address: J.R.Hudson@bath.ac.uk (J. Hudson).

are more likely to evade than poorer people, although there is no clear theoretical indication of how tax rates affect the evasion decision. Yitzhaki (1974), using a variant on the Allingham and Sandmo (1972) model, comes to the opposite conclusion that tax evasion declines with income. Clotfelter's (1983) empirical study found evidence that evasion increased with both income and tax rates. Pommerehne and Frey (1992), using data from Swiss cantons, found similar results, as did Joulfaian and Rider (1996). However, the evidence is not unambiguous, and Alm et al. (1993) find, in a study based on Jamaican data, the less intuitively plausible result that evasion declines with marginal tax rates. Feinstein (1991) also finds a significant *negative* relationship between marginal tax rates and evasion and *no* relationship with income. One of the problems is obtaining data on evasion. To circumvent this problem, several economists have used laboratory experiments where individuals are asked hypothetical questions about their behavior (e.g. Webley et al., 1991; Alm et al., 1992). Typically, these results find a positive association between tax rates and evasion.

Empirical work has also focused on the link between tax evasion and socio-economic characteristics. There is evidence that evasion declines with age, and is more common among men and in households in which the head is married (Clotfelter, 1983; Feinstein, 1991). There is also evidence from the USA that evasion varies between occupations, with car dealers, stores and restaurants evading the most (understating taxes by 39%) while those in finance, insurance and agriculture the lowest evaders (see Andreoni et al., 1998). The empirical analysis of the deterrent effects of audit probability and fines or penalties is complicated by the potential endogeneity of both of these variables, which necessitates the use of simultaneous equation techniques. With the data availability problems that characterize this area, suitable instrument variables are, however, not easy to find. The evidence suggests that both penalties and audit probabilities have significant deterrent impacts on evasion, although the extent of the impact is not clear. In addition, it seems possible that the probability of detection is more important than the fine in deterrence. Further empirical and theoretical work on tax evasion, in what is becoming a large body of literature, can be found in Myles and Naylor (1996), McGraw and Scholz (1991), Roth et al. (1989), Roth and Scholz (1989), Hessing et al. (1987) and Cullis and Lewis (1997). The paper by Myles and Naylor is of particular relevance for our analysis in integrating social norms within a model of tax evasion.

Much of this empirical work is centered on the USA and based on audit data or tax amnesty data. Both suffer from an element of bias, the former because auditors are generally unable to detect all evasion, the latter because only those evaders who respond to the amnesty will be included in the data set. In addition, such data sets generally do not contain full socio-economic data. Typically, they contain some information on income, occupation, age and marital status, but rarely any information on attitudes or educational attainment. This is partly why there have been relatively few structural econometric models estimated in this area. Survey data can be used to circumvent this problem (Hessing et al., 1988), although self-reporting of actual evasion itself imports bias, even to confidential surveys (Elffers et al., 1987; Hessing et al., 1988). This is something we return later in the paper, but for the moment, note that, in a recent survey, Andreoni et al. (1998) commend the use of survey data particularly when (i) it provides information on social and attitudinal variables and (ii) when "incorporated into structural economic models, to test

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات