



Cheating Ourselves: The Economics of Tax Evasion

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Abstract

No government can announce a tax system and then rely on taxpayers' sense of duty to remit what is owed. Some dutiful people will undoubtedly pay what they owe, but many others will not. Over time the ranks of the dutiful will shrink, as they see how they are being taken advantage of by the others. Thus, paying taxes must be made a legal responsibility of citizens, with penalties attendant on noncompliance. But even in the face of those penalties, substantial tax evasion exists. Tax evasion is widespread, always has been, and probably always will be. This essay reviews what is known about the magnitude, nature, and determinants of tax evasion, with an emphasis on the U.S. income tax. It then places this information into a conceptual context, examining various models and theories, and considers policy implications.

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H25 Business Taxes and Subsidies including sales and value-added (VAT)

H26 Tax Evasion

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