

**CIRANO note based on a report by David Masclet, Claude Montmarquette and Nathalie Viennot-Briot,
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Every year, the government forgoes considerable sums in lost revenues and the population suffers substantial welfare losses in terms of reduced public services because of tax evasion. It is therefore important that our society come to understand the determinants of tax evasion and the effectiveness of the instruments designed to curb it. Quebec's most recent budget calls for recovering more than one billion dollars annually by reducing tax evasion.

Our study examines the policy of using advertising campaigns to raise awareness of the problem of tax evasion and to motivate the public to curtail their cheating. These policies are classified as upstream, since they are effective before tax returns are filed. How much should we spend on this type of policy, knowing that to be socially profitable each dollar disbursed must result in at least one dollar in reduced tax evasion? What type of advertising campaign is most effective?

Our experimental study considers three elements of tax evasion that relate to information and communications: information about the tax compliance behaviour of other participants, the opportunity to report one or several of the other participants as tax cheats, and the impact on compliance rates of earmarking the taxes collected for a specific cause, such as environmental protection.

Our main results are as follows: (1) Information on how the taxes are used has no significant impact. (2) Information on the average compliance rate of

the other taxpayers does not positively affect the probability of declaring, and may even create a perverse disincentive inherent in the role played by the learning effect. (3) Information on other taxpayers' compliance rates in conjunction with the opportunity to report cheaters has a positive, and very significant, effect on the probability of declaring.

In the experimental design with reporting, it is important to note that the mere possibility of being reported results in an increased rate of declaring. While random audits represent an element of risk that can easily be incorporated into the decision of whether or not to cheat, the possibility of being reported increases the uncertainty and ambivalence associated with tax evasion. Evidently, participants find it harder to estimate the uncertainty of being reported, which is what matters for discouraging tax evasion.

Finally, given the framework of parameters retained in our experiment, we were able to increase tax revenues by 30% in the design with reporting.

The full study (French only) is available on CIRANO's Website at:

<http://www.cirano.qc.ca/pdf/publication/2013RP-01.pdf>