

## **Abstract for “Tax Gap and Redistributive Aspects across Italy”**

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There is an extensive literature on tax evasion and tax compliance (see, among others, Andreoni et al, 1998; Slemrod – Yitzhaki, 2000; Slemrod, 2007), mainly concerned with the size of shadow economy (Schneider- Enste, 2000) or the estimation of gap related to single taxes or to the use of irregular job (Bayer – Cowell, 2009; Reckon, 2009; Marino – Zizza, 2010; Smith – Keen, 2007; Schneider, 2012; D’Agosto et al., 2012). Due to the crucial impact of tax evasion on public finance and state budget, a more comprehensive approach to estimate the size of resources subtracted from public revenues due to tax evasion is necessary and urgent. Moreover, considering tax gap in the assessment of state budget is an essential condition for the future harmonization of welfare and taxation systems among countries with different characteristics, in order to avoid any form of arbitrage or unfair competition (European Commission, 2011, 2012; OECD, 2002, 2008).

The aim of the paper is twofold: first, we contribute to the debate on the estimation of tax gap proposing a methodology to empirically assess the (total) tax gap; second, we analyze the effects of tax evasion in terms of primary distribution of income. Our analysis is applied to Italy and draws on three different sets of data: (a) national accounts, (b) administrative data on fiscal assessments by taxpayers and (c) results from fiscal audits conducted by the Internal Revenue Agency.

The proposed methodology relates to the extensive literature on the broad class of models used at the international level to estimate tax gap (HMRC, 2012; Swedish National Tax Agency, 2008). The approach is top-down and is based on the comparison and cross-checking (matching) between national accounts and administrative fiscal data. This criterion allows one to fully exploit the availability of comprehensive and lately-updated administrative database (Braiotta et al., 2013).

The original contribution of the paper relates to the evaluation of tax gap integrating the top down with the bottom up approach based on results from fiscal audits (Feinstein, 1999; Danish Tax and Customs Administration, 2006; IRS, 2012). This integrated approach allows, from one hand, to better qualify information used in the estimation process, from another hand, to achieve estimation of tax gap disaggregated geographically and for type of taxation. Moreover, the use of micro data from fiscal audits allows to examine how tax evasion modifies the progressivity and vertical and horizontal equity of the income tax system.

Due to its features, the methodology used in this paper is suitable for the analysis of functional distribution of income as tax gap can be distinguished in two factors, one related to the cost of labor (W) and one residual (U), which includes gross profits. In this way, it is possible to explicit the link between undeclared work and tax evasion. Due to the complexity of tax evasion, it is necessary to overtake an analysis based on average values of tax gap in favor of a more disaggregated one, at geographical and at functional level. This is important not only for better analyzing the nature of tax evasion but also to

accurately calibrate deterrence, dissuasion and anti-evasion strategies. In particular, disaggregating the component related to undeclared work, it is possible to identify in which cases the basic conditions of theoretical models to evade à la Allingham e Sandmo (1972) do not hold. For instance, in some contexts, the black labor does not derive from an individual choice but it is influenced by the economic and social environment. In these cases, the most successful anti-evasion strategy is not to improve controls but to create favorable conditions to develop regular jobs.

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