

The Politics of Tax Evasion

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Abstract

Despite the widespread consequences of tax evasion, economists' ability to predict this behavior is limited. In this paper, we explore whether the decision to evade personal income taxes depends on the payee's perceived net benefits from government spending. We consider fiscal aspects of net benefits, via the flow of funds to localities, and psychic aspects, via the degree of political alignment with elected officials. We first demonstrate using survey data the association between political alignment of the respondent and her elected officials and the respondent's view of government spending. We then show using IRS data and county-level fixed effects regressions that the larger the share of county residents who voted for the president the smaller tax gap across a variety of tax gap measures. Results are driven by counties with larger scope for evasion as proxied by the share of self-employed. Our results suggest that a positive outlook on government results in decreased tax evasion. From a policy perspective, our results imply that actions to increase the popularity of the government may increase tax revenues.