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International Tax Evasion: a Cross-Country Investigation

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Introduction

The phenomenon of tax evasion is strictly correlated with the public intervention in the economy of a country. The first historical references to the regulation of economic activities and taxation, date back to pre-Christian civilizations: in particular, the earliest sources can be attributed to Mesopotamian civilization with its Hammurabi Code and to the Ancient Egyptians. In Mesopotamia, in fact, for at least part of the year, the population was obliged to do non-agricultural work (such as the construction of temples or public buildings) or to carry out military activities, the so called *corvée*; this compulsory work was remunerated with wages in kind (usually sixty liters of barley per month, to which annual payments of oil and wool could be added). On the other hand, those who performed private production work in addition to their corvée, or did it exclusively, had to pay institutional taxes.

Obviously, with the passage of time and the evolution of societies, there has been a continuous change in the way in which the State intervenes in the economic activity: if at the beginning its only role was to ensure the security and smooth functioning of the market, avoiding too much involvement, later the public operator started to be part of it. With the advent of the first and necessary fiscal impositions, the first illegal behaviors occurred.

Tax evasion is undoubtedly the most concerning problem that affects all the economics systems around the world: its incidence on the economic sustainability of different countries (especially in the EU zone) makes the analysis of the phenomenon of a fundamental importance for the current historical period. Economic literature has always had a particular interest in the subject, even though it has not always been constant; in the last years there has been a new attractiveness towards the topic: due to factors of major force, nowadays families and companies find it difficult to face the burden of taxes and that's why the behavior of all those who deliberately decide not to comply with their fiscal duties is deemed to be outrageous.

According to the EU Tax Observatory, the offshore wealth held by EU residents in 2016 is estimated at EUR 1.5 trillion; the average annual revenue loss due to international tax evasion for the EU-28 over the period 2004-2016 is estimated at EUR 46 billion, or 0.46% of GDP. Taking a quick glance at the number of this research carried out by the EU Tax Observatory, it is possible to conclude that, in absolute terms, the record of evaders (as holders of offshore hidden wealth) is held by France, Germany, Italy and UK; if instead we consider the results as a percentage of GDP, this supremacy is held by Cyprus, Malta, Portugal and Greece.

With reference to the year 2019 in the EU countries there was a heavy shortfall in tax revenue, totaling around EUR 134 billion. This is stated in the 2021 report on the VAT gap, which has just been published by the EU Commission. The same report shows that the record in this respect is held by Italy. Moving, instead, across the ocean into the United States, in 2019 $1.8 billion tax fraud was identified (according to IRS), while in 2018 it amounted to $9.69 billion and in 2017 to $2.5 billion.

The first chapter of this study goes through the phenomenon of tax evasion by a purely explicative point of view: it starts with the definition of the underground economy and its composition; then it proceeds with an analysis of tax morale as a factor that is strictly correlated with tax evasion. The following paragraphs go deeper into the subject of taxes, defining the different kinds that there exists, making a distinction between direct and indirect taxes and presenting causes and consequences of evasion. The chapter ends with a paragraph on one of the most famous model used to estimate evasion.

The second chapter is all about Europe: data at hand, it analyses the situation in the eurozone, focusing on the countries that are least likely to comply with taxation laws and therefore, hold the record as tax evaders.

The third and final chapter exposes the phenomenon in the European state that for years has always been at the top for tax evasion: Italy. The opening paragraph tries to explain why the Italian people are one of the most prone to evasion and in doing so refers to a study conducted over the years and using data from the Bank of Italy's Survey on Household Income and Wealth. The chapter proceeds with an overview of the tax system in Italy and presents a possible method to measure evasion and solutions to the problem.

Chapter one

1.1 The underground economy and its composition

The first step for the description and the analysis of the phenomenon of tax evasion is to define the concept of underground economy and then to go into detail on everything that derives from it and that is closely related to it.

Although it may seem otherwise at first glance, finding a universal definition for the shadow economy is a complex task. It concerns all production activities whose main characteristic is to escape observation, regulation and detection of monetary and non-monetary transactions. An initial definition, accepted and used by ISTAT (*Istituto Nazionale di Statistica*), attributes to the underground economy the whole of all unregistered activities, which escape all statistical surveys and tax controls[1]; but, as already mentioned, it goes far beyond a mere enunciation. Surely, an explanation that goes much deeper into detail is the one provided by Schneider (Schneider and Williams, 2013; Schneider and Buehn, 2016). In his works, he states: *" The Underground Economy includes all legal market-based production of goods and services, which is deliberately concealed from public authorities in order to avoid:*

I) the payment of taxes (income taxes or value-added taxes);

ii) the payment of social security contributions;

iii) certain legal labour market standards, such as minimum wages, maximum working hours, safety regulations, etc.;

iv) the fulfilment of certain administrative procedures, such as the completion of statistical questionnaires or other administrative forms;

v) the payment of social security contributions;

vii) the payment of taxes"

For a better understanding and to find the right link between the shadow economy and other activities with the same purpose (and which can be deemed to be a subset of it), it is necessary to go back to the definition provided by ISTAT and start from the distinction between monetary transactions and non-monetary transaction and make a further distinction among them based on illegal and legal activities. A

[1] *Report: L'economia non osservata nei conti nazionali | Anni 2016-2019*, ISTAT, 2021

monetary transaction is one in which one institutional unit makes a payment (receives a payment) or incurs a liability (receives an asset) stated in unit of currency.[2] Basically, it is a transaction that involves a monetary exchange for a good or service. The definition of a non-monetary transaction, on the other hand, is slightly more complex and lengthier, but it is easy to see what is the main difference with the one previously explained. Non-monetary transactions refer to the exchange of goods or services without actual money changing hands; this kind of transactions can be either reciprocal or non reciprocal. The former involves two or more parties exchanging non-monetary goods, assets or services; the latter involves the transaction from one party to another. It is important to mention *payment in kind*, which is the use of a good or service as payment instead of cash; this expression refers also to a financial instrument that pays interest or dividends to investors of bonds, notes, or preferred stock with additional securities or equity instead of cash. By the IRS (Internal Revenue Service, a U.S. government agency responsible for the collection of taxes and enforcement of tax laws) this is considered as a bartering activity and requires the payment in kind to report it on their income tax revenue. In general, non-monetary transactions germinate ethical and moral issue as well as practical concerns around taxation and valuation. Furthermore there is distinction between legal and illegal activities. Starting from the latter, under monetary transaction lie trade in stolen goods, production and drug dealing, prostitution, gambling, smuggling, fraud, etc; instead, under non monetary transactions lie exchange of drugs, stolen goods, smuggling, production or growth of drugs for personal use and theft for personal use. With regards to legal activities, there is an additional distinction between fiscal evasion and fiscal elusion (which will be properly analyzed successively): what falls under these two categories depends on whether it is the case of a monetary or non-monetary transaction. Starting with the monetary transactions, under the heading tax evasion are: undeclared income of self-employed persons, salaries, wages and resources from undeclared work of legal goods and services; instead under the heading tax avoidance fall benefits and fringe benefits. On the other hand, with non-monetary transactions, tax evasion covers the exchange of legal goods and services, while tax avoidance covers only self-employment. Hence, it must be concluded that both legal (but illegally carried out) production activities and the illegal ones should be considered submerged. All these activities, if properly conducted and properly managed would contribute to the GDP of their own country.

1.2 The pattern of shadow economy

The growth of shadow economy can initiate a destructive cycle. Transaction may escape taxation and this would lead to lower tax revenues; if the tax compliance is eroded, government may respond by increasing tax rates and this consequentially would lead to a kind of movement towards underground

[2] Definition taken from the Glossary of Statistical Term, OECD

economy, worsening the budget constraint on the public sector. Notwithstanding, at least two-thirds of the income earned in the shadow economy is immediately spent on the official economy, resulting in a positive stimulus effect. Going back to the negative aspects, a growing shadow economy may encourage domestic and foreign workers to divert their attention from the official economy. Macroeconomic and microeconomic modeling based studies tried to find a pattern behind the size of the shadow economy: their studies conclude that the causes behind a bigger size for underground economies are an increasing burden of tax and social security payments, combined with restrictions in the official labor market. Another important factor is the wage rate. Instead, underground economies tend to be smaller in countries where government institutions are strong and efficient; indeed, what really affects shadow economy is not the heaviness of taxes, but the ineffectual and discretionary application of the tax system and regulation by governments. Other empirically studies investigate the relationship between corruption and the underground economy, concluding that countries with higher rates of shadow economy also have higher rates of corruption. Activities that provide opportunities for corruption are control over provision of tax incentives; control over decision regarding procurement of public investment contracts; control over hiring and promotion within the public sector; land zoning and other similar official decisions; regulation or licensing to engage in particular activities.[3]

What is difficult to explain is how an increase in informal sector could affect the economic growth. According to some, the shadow economy depresses the growth of the Gross Domestic Product. They claim that shrinking this phenomenon would increase tax revenues, stimulate a rise in public spending, especially in infrastructure and services that support production expansion, leading to a rise in the overall economic growth rate. In Europe the share of shadow economy is significant, ranging from less than 10 to over 40 percent. In advanced economies, the shadow economy tends to be smaller than the average, at around 10-20% of GDP. Emerging economies have higher shares of shadow economy, around 30-35%.[4] With respect to US, instead, some estimates show that the shadow economy is around the 11-12% of the GDP: in 2021, US GDP was estimated at $24 trillion, so that puts underground economy at more than $2.5 trillion.[5]

[3] Friedrich Schneider with Dominik Enste, *International Monetary Fund*, https://www.imf.org/external/pubs/ft/issues/issues30/

[4] B. Kelmanson, K. Kiraboeva, L. Medina, B. Mircheva, J. Weiss, *Explaining the Shadow Economy in Europe: Size, Causes and Policy Options*

[5] *Gross Domestic Product, Fourth Quarter and Year 2021 (Advance Estimate),* Beauru of Economic Analysis, 2022

1.3 The influence of tax morale

The shadow economy takes many forms, and capturing it is not easy as it is by definition unobservable; it includes all activities that are voluntarily concealed from the tax, social security and statistical authorities: it is therefore time to go into detail and get to the heart of the discussion on tax evasion, the main topic of this thesis.

First of all, whether a citizen decides to pay taxes or not depends on his mentality and on how much he trusts the government, hence it depends on the morale. Tax morale can be defined as the attitude of tax payers toward tax evasion or the intrinsic motivation to pay taxes. A valid question to be asked is whether there exists a link between tax morale and tax evasion: many researchers and economists have tried to find an answer during the past decades.

Surely, one of the most relevant study on the topic, is the one conducted by Allingham and Sandmo (1972) which suggests that the extent of tax evasion is negatively correlated with the probability of detection and the degree of punishment. Before discussing this model, which is crucial for the analysis of the phenomenon, it is appropriate to define what tax evasion is and how it can be distinguished from the similar tax elusion. The former refers to all those behaviors that violates the law with the aim of not paying or paying less taxes, the latter refers to a behavior apt at avoiding the payment of tributes and taxes without violating the law.

In legal terms there is a huge difference, the outcome of reducing tax payments may be similar, but tax evasion could lead to penalties under the law. It is important to mention that the boundaries between these two (apparently equal) phenomena change according to the country where the infringement was committed. A particular case is the one of USA: there, tax avoidance is considered legal, instead tax evasion is considered illegal, even though the two have similar objectives, which are respectively to minimize and to avoid the payment of taxes. Tax evasion is considered an illegal activity through which the taxpayer attempts to demonstrate to the competent authority that his due liability is lower with respect to the concrete and actual one. This practice may involve an individual or a corporation misreporting their income to the Internal Revenue Service, which may take the form of underreporting income, inflating deductions, or hiding money and its interest altogether in offshore accounts; in most cases unintentional errors are not equated to tax evasion as tax laws are indeed complex, anyway it is important to remember that evasion is illegal and can result in criminal prosecution. Section 7201 of Internal revenue Code reads: "*Any person who willfully attempts in any manner to evade or defeat any tax imposed by this title or the payment thereof shall, in addition to other penalties provided by law, be guilty of a felony and, upon conviction thereof, shall be fined not more than $100,000 ($500,000 in case of a corporation) or imprisoned not more than 5 years, or both, together with the costs of prosecution.*" Tax avoidance, on the other hand, is considered a legal act, as the IRS tax code allows taxpayers to claim deductions, credits, and other adjustments. When taxpayers follow the law, they have the chance to minimize the amount of tax they owe and to get money back from the government without incurring in criminal penalties. The differences among these two practices reside in two elements: lying and hiding. To clarify this concept, the California-based tax attorney Mitch Miller stated "*Tax avoidance is structuring your affairs so that you pay the least amount of tax due. Tax evasion is lying on your income tax form or any other form*". It is worth mentioning that the Internal Revenue Service (a government agency) allows taxpayers to file an amended return using the IRS Form 1040-X, which allows to change tax returns filed in the past.

Another concept that needs to be mentioned is fiscal fraud, which is a real violation of the tributary legislation. Its main characteristic is that this practice deceives the Public Administration and that the fraudulent objective is to evade the tax authorities. A typical example of tax fraud is fraudulent declaration: income tax or value added tax (VAT) is evaded by means of invoices or other documents for non-existent transactions. The difference between tax evasion and fiscal fraud is that the former constitutes a passive behavior meanwhile the latter constitutes an active behavior (more precisely, the violation must be carried out *willfully*): in particular, it is possible to speak about fiscal fraud when there is a fraudulent declaration by use of invoices or other documents or by other artifices. In US tax fraud refers to a violation of any of several different statutes within Title 26 of the Internal Revenue Code; with respect to Europe, laws change according to the country where the violation is committed. In Italy, for instance, when tax evasion exceeds certain thresholds, it becomes a crime of tax evasion with reference to Legislative Decree 74 of 2000, as amended by Legislative Decree 138 of 2011 and further amended by Legislative Decree 158/2015. In case of fraudulent declaration, it becomes an offence when the tax exceeds 30,000 euros, when the evasion exceeds 5% of the declared assets or when the evaded amount exceeds 1.5 million euros. The penalty is imprisonment from 1 to 6 years.

Hence, the infringement of the duty to pay taxes is strictly related with the concept of tax compliance, which is the voluntary compliance with the tax legislation that can be measured by three indicators:

- Filling compliance: the willingness and honesty to fill a return;
- Reporting compliance: the equivalence between the amount decleared and the amount actually due;
- Payment compliance: the payment of any liabilities declared.

Basically, it is the act of paying taxes corresponding to income, wealth, capital and consumption according to the tax law; conceptually, it should be the norm behavior of any modern society, as it finances the system of public goods provided by the state.

Talking about taxes and tax compliance, it is important to specify which kind of tax has been evaded since there exist different kinds. First of all, there are direct and indirect taxes: the former, as the name itself suggests, are directly levied on taxpayers and include income tax and corporate tax; the latter are taxes collected by an entity in the supply chain and then paid to the government, but it is passed on the consumer as a part of the purchase price of a good or a service. Therefore the consumer pays the tax by paying a higher price for what he is purchasing; an example could be the Value Added Tax (already mentioned above as VAT).

1.4 Direct and Indirect taxes

Starting from direct taxes, the income tax is a tax imposed on the income generated by individual and businesses within their jurisdiction: by law, taxpayers are obliged to fill an income tax return annually in order to establish their tax obligation. It is a government revenue, hence it is used to finance public services, pay government obligations, and provide goods for citizens. In the United States the income tax is in turn subdivided into: individual, business and state and local income tax. The individual income tax (or personal income tax) is levied on the taxpayer's wage, salary or any other kind of source of income and it is imposed by the state. The Internal Revenue Service features a series of income tax deductions and tax credits that can be used to reduce the taxable income. A deduction can reduce the taxable income and the tax rate, instead a tax credit reduce the income tax by providing a larger refund of the withholding. Also businesses pay income taxes on their earnings and depending on the structure of the business, the corporation, its owners or the shareholders report the income and then deduct the operating and capital expenses. The difference between the income generated by the business and the expenses is considered the taxable income. State and local income taxes are a type of income taxes that is levied by most US state (eight of them do not impose this direct tax).

The corporate tax, instead, is imposed on the profits of a corporation; it is paid on a company's taxable income, that includes revenues minus cost of good sold (COGS), general and administrative (G&A) expenses, selling and marketing, research and development, depreciation, and other operating costs. It is important to mention that, due to different tax rates imposed by different countries, there exist tax heavens (countries with lower corporate tax rates). By the way, corporate tax rates can be lowered by deductions, government subsidies and tax loopholes, hence the effective corporate tax rate is often lower than the statutory one. There are many permission for corporation that allow them to reduce the taxable income: all current expenses required for the operation of the business are completely tax-deductible; also investments and real estate purchased with the purpose of generating income are deductible. Moreover for a corporation it is possible to deduct employee salaries, health benefits, tuition reimbursement, and bonuses, insurance premiums, travel expenses, bad debts, interest payments, sales taxes, fuel taxes, and excise taxes.

An issue of central relevance for corporation is the concept of double taxation. This problem is linked to dividend that shareholders earn by owning the share of a company: in this way both the income generated by the company itself and by the shareholders (who receive a portion of it) are taxed. Paying corporate taxes is more beneficial for business owners than paying individual income tax, since with the former it is possible to deduct medical insurance for families as well as fringe benefits, including retirement plans and tax-deferred trusts. Furthermore, profits generated by a corporation may be left within the corporation, allowing for tax planning and potential future tax advantages. European OECD countries have a current corporate income tax rate of 21.37% on average, which is below the worldwide average of 23.9% in 2020 (measured across 177 jurisdictions). As most of the region in the world, European OECD countries have faced a decrease in the corporate income tax that from the 31.6% in 2000 has declined to 23.9% in 2020.

As direct taxes there is also the payroll tax, which is a percentage withheld from an employee's salary and that the employer pays to the government; this tax is evaluated taking into consideration the wage, salary and tips of an employee. In U.S., differently from the income tax, which is a progressive tax, some element of payroll taxes are levied only up to a certain yearly limit. There exist also the social security payroll tax and the Medicare payroll tax. Finally there exists a capital gain tax which includes everything owned or used for personal purposes (e.g. investments which in turn can include stocks, homes or art, etc.) and whenever an asset increases in value, the result represents a capital gain. In all jurisdictions that apply this kind of tax, people are obliged to comply with it whenever they realize a capital gain: the problem is that when the profit originates from stocks, the tax results being paid twice leading to double taxation. That is why the theory of taxation highlights the importance of looking thorough the corporate entity to understand the incidence of tax to shareholders, workers and also costumers. In a comprehensive income tax there is no need to tax the income generated by corporations differently from any other source, any justification have centered on its role as backstop or withholding for an imperfect personal income tax.

Above we mentioned the existence of indirect taxes: basically taxes on what is bought. The most known among this category is surely the VAT: the value added tax. The VAT is a consumption tax estimated on the basis of the value added at each stage of production of a good or service. Each participant in the value chain is required to pay the VAT on the value of the good produced or of the service furnished, with the Vat previously paid being deductible at each step. Finally, the burden of this tax is faced by the final consumer making it a final consumption tax which is not deductible. Except U.S., more than 140 countries all over the world levy a VAT, making it a significant revenue source, but making it also one of the most evaded taxes in the world. Then there is the excise tax, which is imposed on a specific good or activity in addition to broad consumption tax. To make things easier, think of the excise tax as a "sin tax" since its purpose should be to offset negative externalities; a clear example could be the excise imposed by the government on cigarettes or alcohol, in order to persuade people to reduce their consumption and safeguard their health; an other example could be the gas tax: the amount of gas a consumer purchases is a good example of driver's contribution to traffic congestion. Furthermore, there is the sales tax, which is levied on retail sales of goods or services and which is typical of the United States and other few industrialized countries. It is important to stress that this tax is applied on goods and services purchased by consumers, but not on what businesses purchase while producing their own goods. In addition, there exists the gross receipts tax, which is applied to a company's gross sales, without taking into accounts the profitability and the deductions for businesses expenses; it is imposed at each state of production (resulting in "tax pyramiding").

1.5 The concept of Non-Observed Economy

From a statistical point of view, it is also important to consider the Non-Observed Economy (NOE), which is composed by the set of activities that deliberately do not send statistical signals whose magnitude can be measured, but which contribute to the formation of the product in which they generate added value, through acts of exchange carried out between willing parties. Underground economy is part of the NOE. Other component of the Non economy are illegal economy, which is defined as the aggregate of all production activities involving illegal goods or services, or the set of legal activities carried out without authorization or title; the informal economy, which includes all the production activities carried out with little or no organization, with labor relations with no formal contracts; and statistical submergence, which includes all the activities that escape direct observation due to information inefficiency or coverage errors in the file. According to the EU Regulation 2223/96, only a comprehensive measure of the GDP makes it possible to estimate and compare the NOE among the member States and make it possible to evaluate the contribution that they must pay to the European Union. It is important to remember that including all the components of the Non-Observed Economy allows to improve the estimates of the Gross Domestic product and of the Gross National Product. Obviously, when making this calculation, it is rightful to consider the tax gap, which can be defined as the gap between theoretical and actual revenues and which in turn identifies the extent of the spontaneous non-compliance by taxpayers.

Internationally, the tax gap is divided into the: compliance gap, i.e. the distance of the compliance from the one provided for in current legislation; and the policy gap, i.e. a measure of the discrepancy between the current standard and the benchmark taxation model. With regards to the former, there is an additional division into assessment gap, which is the gap between the amount that the taxpayer should have paid and the amount he actually paid, and the collection gap, which is the gap between the amount declared by taxpayers and how much they actually pay.

After having defined what is the underground economy and what it consists of, it is time to go into detail and specify what impact evasion can have on the state and citizens.

1.6 Consequences of tax evasion

Even though it may seem that the subject (whether she is a legal entity or a natural person) committing this fraud is acting in his best interest and increasing her wealth, the reality is grimly the opposite. Tax evasion and tax avoidance (which will be described in detail gradually) have drastic consequences on a macroeconomic level which in turn directly affect citizens.

As taxes can be considered a source of income for the Government, their missed payments mean a reduction in public revenues, which in turns obliges policy makers to cut services and lower public expenses or to increase the tax burden on all those citizens willing to comply in order to compensate for the loss of revenue caused by the evaders.

Going deeper into the question, policy makers could follow different strategies to face the problem. First, they could obtain the missing resources from financial markets, which basically means to increase the emission of bonds, which represents a good solution in the short term, but a bigger issue on the long term as it would imply a further indebtedness for the State. Policy makers could also decide to fight this phenomenon, increasing the activity of control, which have elevated costs and frequently turn out to be inefficient (as we will see later with Italy). Another possibility could be a reduction in public expenses, the most difficult political intervention as it can have two different implications: a positive outcome with a rationalization of the spending and the elimination of the wastefulness of resources; a negative outcome as it may represents an additional burden faced by less wealthy citizens. Furthermore, policy makers could decide to implement fiscal pressure, increasing interest rates and obtaining the public revenues needed to cover public spending. Finally, fiscal reforms could be implemented, introducing new fiscal instruments and sometimes radically modifying the whole.

It is important to mention that tax evasion is responsible for the distortion of the market. This means that fair firms that pay all the due taxes must face the burden of higher interest rates, while fighting the competition of all those company that instead evade. This represents a treat because avoiding the tax payment means that it is possible to benefit from less costs and consequentially being able to set lower prices with respect to competitors, which will be obliged to exit the market. This distortion has effects on the long run as it leads the allocation of economic resources on all those sectors with higher evasion, harming the economic development and growth.

1.7 Causes of the phenomenon

There exists different factors that do influence the existence of this phenomenon.

First of all, the one that can be considered the main cause of tax evasion are surely taxes and social security contributions. The principle behind this factor is that higher the burden to face, higher the incentive to not comply with the law for employers and employee. Continuing with the reading of this study, it will be possible to see how, according to the model of Allingham and Sandmo, there must be coherence between the tax burden and the resulting benefits.

Then there are institutional factors such as the prerogative and the modality used by the authorities that monitor economic activities.

A third factor is the excessiveness of regulation and bureaucracy. The way to measure the extent of this burden is to look at the necessary authorization needed for the performance of a company or in the labor market. It is important to consider also the inappropriateness of the of the current regulation.
An other factor that needs to be consider is the industrial structure: if there are few big firms, for the competent authorities it will be easier to ensure that laws are respected.
The increase in the demand of service with a high labor intensity needs to be added to this list: there are some types of jobs, such as tourism and restaurants, that favor the development of undeclared work.
And finally, an important factor, whose influence is felt in some countries rather than others, is the cultural factors, i.e. tax morality. It is the way in which citizens react to an illicit behavior: sometimes they tend to justify and accept this kind of actions. This factor is strongly influenced by the efficiency of the public sector, hence it is strongly related to the quality of the services provided by the State.

1.8 The model

As it has been mentioned above and it will be used later on in this study, it is now the moment to describe the model of Allingham and Sandmo (1972), a milestone in the explanation of tax evasion. Sandmo is a Norwegian economist, whose career started at Norwegian School of Economics and Administration (NHH); his main field of research are: uncertain investments, environmental problems and characteristics of the fiscal system. Internationally, he became famous for the publication of the article "*Income tax evasion: a theoretical analysis"* (1972), written with M. Allingham.
Let's consider a taxpayer with effective income y and tax rate t (which is linear for assumption). This citizen must report an income value (x) and hence his tax payment will be equal to (tx). Assuming that the taxpayer is honest, income and effective income will be the same, i.e. (x=y); but in the opposite case, the reported income will be (x<y), and hence there will be a z which will represent the amount of

underdeclared income. Now assume that the strategy, which is known by all taxpayers, is to verify the income declaration with a probability p ($0<p<1$) and that p is independent from x; assume also that when authorities make their verification, they always discover the exact amount of y. if the taxpayer is discovered, then he will have to pay a sanction **θ** (always linear) for every dollar evaded, θz**,** plus the amount of taxes that has not been paid. In order to make evaluation easier, Allingham and Sandmo assumed that there were no additional costs for the taxpayer. If we consider the case in which the fraudulent taxpayer is not discovered, his consume will be equal to: $y-tx= (1-t)*y+tz$, hence there is an additional tz that he would pay if he was honest. In case, instead, he is discovered, his consume will be: $y-tx-(\theta + t)*z= y*(1-t)- \theta z$, i.e. θz less with respect to the amount consumed if he was honest. This model also assumes that individuals are risk-averse, hence the utility of a tax payer will be:

$$\mathbf{EU = (1 - p) * u * [y (1 - t) + tz] + pu [y * (1 - t) - \theta z]}$$

According to this model, the choice of a taxpayer to be honest and pay the exact amount of due taxes depends on the probability of being caught while committing the fraudulent actions, hence he is influenced by the possibility of paying sanctions. The optimal choice is quite subjective: yet it depends on the possibility of being caught and y the amount of the sanction, but it is also influence by the level of risk aversion of the individual taken into consideration. The morality behind this concept is that citizen pay taxes because they fear the repercussion they would face if they wouldn't comply with the law, and they do not care about the real reasons for the existence of taxes.

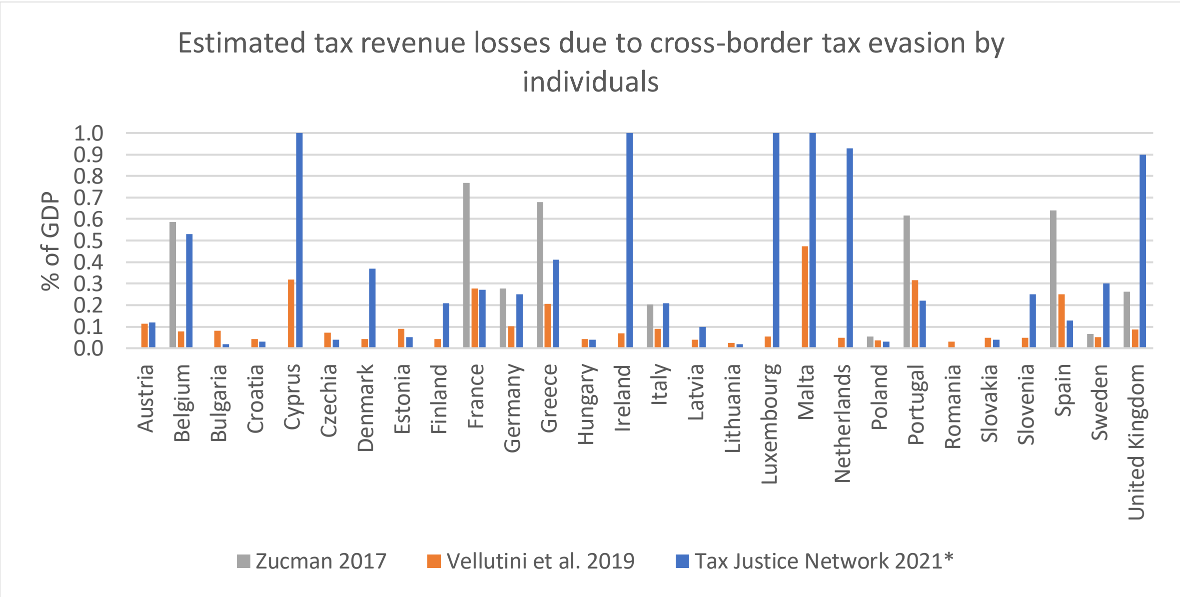
Chapter two

2.1 The situation in Europe

The aim of this chapter is to go through the phenomenon of tax evasion in Europe.

How much money is concealed in offshore financial jurisdictions? Who is the owner? What percentage of tax revenue is lost as a result of wealth-related tax evasion? The secrecy surrounding tax evasion makes clear solutions difficult to come by. Nonetheless, academics have developed methods for estimating hidden wealth both globally and by nation of origin. Increased international financial transparency and administrative data availability are critical for research development in this subject.

Figure 1: Estimated tax revenue losses due to cross-border tax evasion by individuals



Source: EU Tax Observatory.

The European Parliament points out that nearly 40 percent of multinational companies' profits are transferred each year, to tax havens around the world.[6]

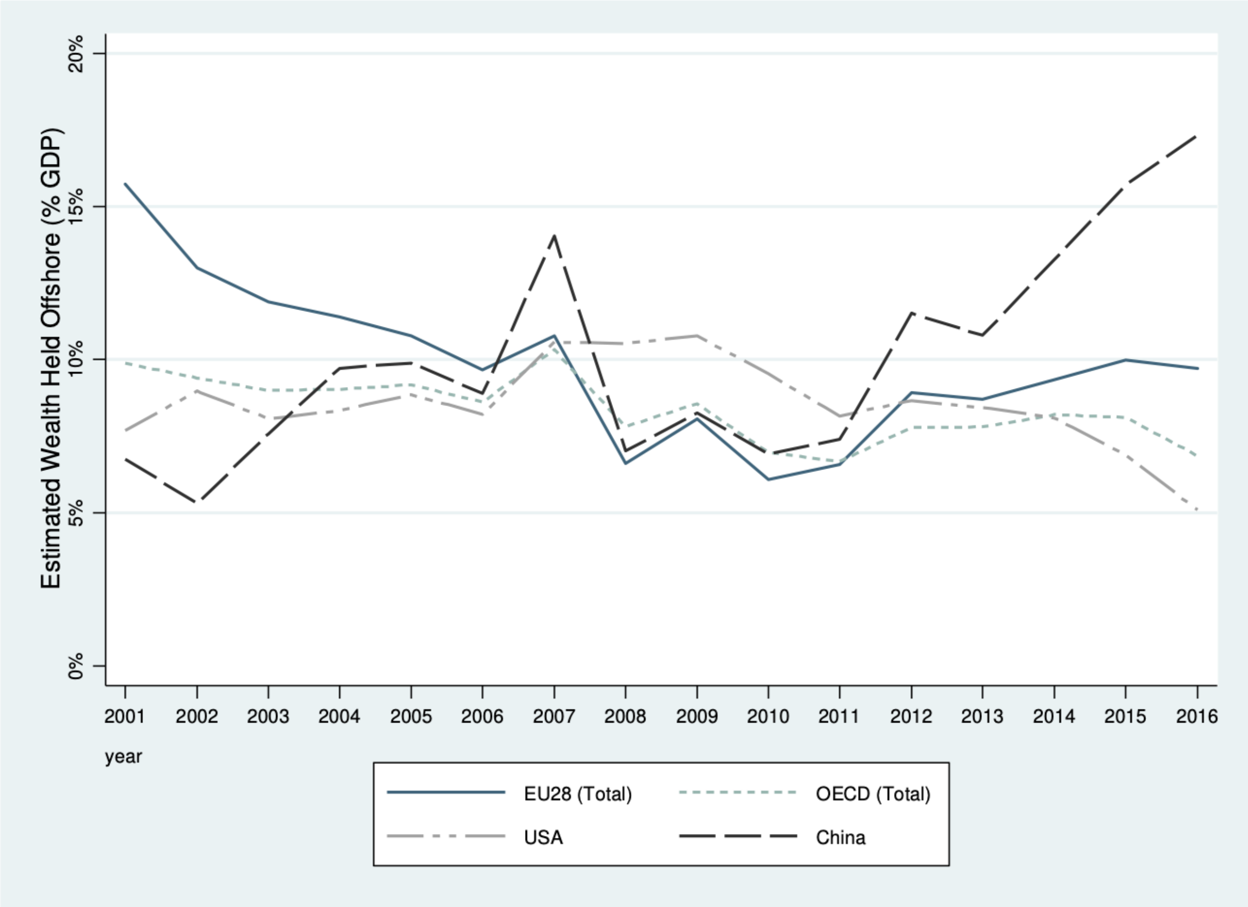
If we start by considering offshore wealth, which is defined as holdings held by non-residents in given jurisdictions, we can see how in 2016, EU nationals' offshore wealth was projected to be worth US$ 1.6 trillion (EUR 1.5 trillion), up from an average of US$ 1.5 trillion (EUR 1.2 trillion) from 2001 to 2016. While the GDP ratio has been stable in dollar terms, it has dropped from 15.7 percent in 2001 to 9.7 percent in 2016.

This drop, however, cannot be regarded as a result of the 2005 EUSD (European Union Saving Directive). Estimated EU offshore wealth increased in monetary terms between 2005 and 2007 (from US$ 1.6 trillion

[6] https://www.europarl.europa.eu/doceo/document/TA-8-2019-0240_IT.pdf?redirect

in 2005 to US$ 1.9 trillion in 2007). The decline began only after the 2008 financial crisis (from 10.8 percent of GDP in 2007 to 6.6 percent in 2008). After 2011, EU offshore wealth increased again, reaching 9.7% of GDP and 20.5 percent of overall offshore wealth in 2016.

Figure 2: Offshore wealth as a % of GDP, by Region.



Source: Estimating International Tax Evasion by Individuals – Final Report, European Commission

When trying to estimate the losses faced because of tax evasion and the related illicit practices, the starting point must always be the tax gap: according to Richard Murphy, director of Tax Research LLP, based on 2015 data, the EU revenue deficit arising from primarily domestic tax evasion might be €825 billion per year.[7] It's more difficult to determine corporate tax avoidance in the EU, although available information implies values ranging from €50 billion to €190 billion each year, according to past European Parliament research. Compared with the estimates taken in 2009, the base year for the last EU wide tax gap, these ones are smaller. When adjusted for inflation, the tax gap has shrunk by at least 11.8 percent throughout that time period. This shows that since the start of the financial crisis in 2008, tax authorities have become more efficient in combating tax fraud. According to all known information, the scale of the shadow

[7] http://www.taxresearch.org.uk/Documents/EUTaxGapJan19.pdf

economy in the European Union has shrunk. However, the residual tax gap is substantial. Tax gaps range from 7.98 percent in Luxembourg to 29.51 percent in Romania, given as a percentage of expected tax collection. Italy, France, and Germany have the largest tax disparities in terms of absolute amounts.

As mentioned before, one of the most evaded tax is the VAT tax, that is why the EU commission every year calculates an estimate of the VAT tax gap, which covers all the member states. It should be noted that the EU VAT gap estimate does not represent the entire tax gap, but rather the size of a jurisdiction's 'shadow' or 'non-observed' economy.

Figure 3: Suggested size of the EU tax compliance gap

Member state	EU sourced GDP data 2015	EU reported tax yield as a proportion of stated GDP 2015	Tax gap estimate based on average grossed up GDP	Tax gap estimate based on reported GDP	Average tax gap estimate based on the two previous estimates
	€'bn	%	€'bn	€'bn	€'bn
Austria	344.5	43.20%	13.4	12.3	12.9
Belgium	410.3	45.20%	33	27.8	30.4
Bulgaria	45.3	29.10%	4.3	3.2	3.8
Croatia	44.5	37.10%	4	3	3.5
Cyprus	17.7	33.20%	1.8	1.3	1.6
Czech Republic	168.5	34.00%	9.5	8.1	8.8
Denmark	271.8	46.50%	18.7	16.2	17.5
Estonia	20.3	33.70%	1.5	1.2	1.4
Finland	209.6	43.90%	11.4	10	10.7
France	2194.2	45.60%	124.9	110.9	117.9
Germany	3043.7	38.40%	132.1	118.1	125.1
Greece	176.3	36.60%	22.9	16.8	19.9
Hungary	110.7	38.80%	10	8.1	9.1
Ireland	262	23.40%	7.3	6.5	6.9
Italy	1652.6	43.00%	216.3	165.5	190.9
Latvia	24.3	30.10%	1.9	1.5	1.7
Lithuania	37.4	28.90%	3.5	2.6	3.1
Luxembourg	52.1	37.20%	1.7	1.5	1.6
Malta	9.5	32.10%	1	0.8	0.9
Netherlands	683.5	37.40%	23.1	21.2	22.2
Poland	430.1	32.40%	38.9	30.2	34.6
Portugal	179.8	34.40%	12	10	11.0
Romania	160.3	28.00%	19.2	13.2	16.2
Slovak Republic	78.9	32.10%	6.1	4.7	5.4
Slovenia	38.8	36.60%	2.9	2.3	2.6
Spain	1080	33.70%	66.4	53.5	60.0
Sweden	449	43.10%	18.1	15.6	16.9
United Kingdom	2602.1	33.10%	91.9	83	87.5
	14798	36.10%	897.6	749.1	823.5

Source: A report for the Socialists and Democrats Group in the European Parliament, Richard Murphy

The figures are different depending on how GDP is calculated. If the shadow economy is assumed to be already included in GDP estimates, the lower tax gap estimate is appropriate. If only a portion of the shadow economy is included in GDP, as appears to be the case in most countries, the greater number may be a better indicator. In practice, a value anywhere in the middle is quite acceptable.

From the table above it results that, in order, the Member States that evade the most are: Italy, Germany, France and Spain, despite the fact that the estimates for the tax gap for the latter are well below the previous three.

Even though in terms of share of GDP is not as relevant as the other Member States, also the United Kingdom should also be mentioned among the most evading states: in fact, as the graph at the end of this paragraph shows, UK costs the EU 87.5 billions of euro in tax loss.

So, moving forward in this chapter, we will analyze the situation in Germany, France, UK and Spain to try to understand the reasons why these nations hold the record for tax evasion in Europe

Figure 4: Tax evasion Costs EU Countries Billions

Source: University of London for Socialists and Democrats Group in the European Parliament.

2.2 Germany

As just mentioned, Germany holds the record in Europe for tax evasion and it is predicted that it will cost Germany €50 billion ($59 billion) every year[8], with an estimated per capita evasion of 1529 euros.[9]

Schmölders' work was the beginning of the empirical study of tax evasion in Germany (1932, 1960, 1964, 1970, 1978). Nonetheless, in his maiden presentation at Humboldt University in Berlin in 1932 on "tax morale and tax mentality," he took an interdisciplinary approach, combining concepts from psychology and economics. He postulated fundamental concepts such as the subjective perception of tax burden among various groups of taxpayers, as well as the importance of a taxpayer's attitude toward the state and satisfaction with tax compliance laws. He investigated the reasons why taxpayers contribute to the "bonum commune" voluntarily long before the "tax compliance puzzle" resulting from the Allingham/Sandmo-type (1972) rational portfolio-choice-theory was acknowledged. The key reason, according to him, is located in the psychological realm of values and attitudes. He defined "tax mentality" as a set of beliefs, attitudes, and customs concerning the government, its supply of public goods, and its financial foundation. In this context, "tax morale" refers to a person's attitude regarding a) his responsibility to pay his taxes appropriately and b) the criminal act of tax evasion in comparison to other crimes. He conducted interviews to assess tax mentalities and morale, as well as the behavior of tax authorities and the state of the economy, in order to compare the impact of different countries' tax morale, mentalities, and institutions on tax compliance.

The conclusion of five important criteria that shape "tax compliance" is consistent with today's observations: First, the importance of an appropriate overall level of tax burden, second, a fair distribution of tax burdens among taxpayers, third, collaborative treatment of taxpayers by tax authorities, fourth, efficient government spending, and finally, the benefit principle of taxation, i.e. an equivalence of taxes and public goods in each group of taxpayers (Mackscheidt 1994, 2004).[10]

2.3 France

As it is mentioned in the study reported above, France ranks second for evasion in Europe.

According to the SFP, the amount of tax lost in France each year due to tax evasion and avoidance is estimated to be between €42 and €51 billion. This tax gap, according to the French Tax and Social Charges

[8] https://www.dw.com/en/germany-tax-snitch-website-sparks-controversy/a-59061571

[9] *Elaborazione Sole 24 Ore su dati Relazione Richard Murphy, gennaio 2019*

[10] *Fighting international tax avoidance: the case of Germany,* Alfons Weichenrieder

Board (Le Conseil des Prélèvements Obligatoires), represents a yearly revenue loss of €30 to €40 billion. When compared to the government deficit, which was estimated to be €42 billion in 2006 and €52 billion in 2007, these data highlight the state's long-standing failure to address tax theft and the counterproductive impact of its tough austerity policies.[11]

Historically, in 2018, France became the latest country to abolish its wealth tax, replacing it with a tax on high-value immovable property. Wealth taxes have a number of characteristics in common among countries. Residents are usually taxed on their worldwide net assets, whilst non-residents are usually solely charged on assets situated inside the taxing jurisdiction. However, non-residents may be exempt from the wealth tax on financial investments made in the taxing jurisdiction, such as in France. France had the highest tax exemption threshold before abolishing its wealth tax, taxing individuals and households with net wealth of at least EUR 1.3 million, which meant that only roughly 360,000 taxpayers were liable to it in 2017. In 2017, France's top tax rate was lower than it was in the early 2000s.

The French Ministry of Finance kept track of the number of wealthy taxpayers who left and returned to France. In 2014, 915 net wealth tax payers departed France, while 311 people returning to France were registered. 27 However, it's difficult to say how much of the choice to relocate was influenced by the wealth tax, other levies, or personal or professional reasons. There was a large increase in the number of rich taxpayers departing France in the 2000s, which coincided with tax measures that generally reduced tax burdens on the very wealthy (reduction in top marginal personal income tax rates and introduction of the net wealth tax ceiling). One of Emmanuel Macron's presidential campaign's pledges was to repeal the wealth tax, which was put under the first objective of 'supporting the development and expansion of French firms' and aimed to avoid 'high marginal taxes, which might discourage investment.'[12]

2.4 United Kingdom

The tax gap is estimated to be £34.8 billion, which is the 5.2% of tax liabilities in 2019 to 2020.[13]

The graph below shows that the amount of the tax gap, as well as the percentage tax gap, which is computed as a proportion of the tax that should be paid to HMRC in theory. Since 2005-2006, when the tax gap was anticipated to be 7.5 percent (£33 billion), it has narrowed to 5.3 percent (£35 billion) in 2019-2020. Small maxima of 6.9% (£33 billion) and 7.1 percent (£37 billion) were seen in 2008-2009 and 2013-2014, respectively, with a slight upturn in 2019-2020.

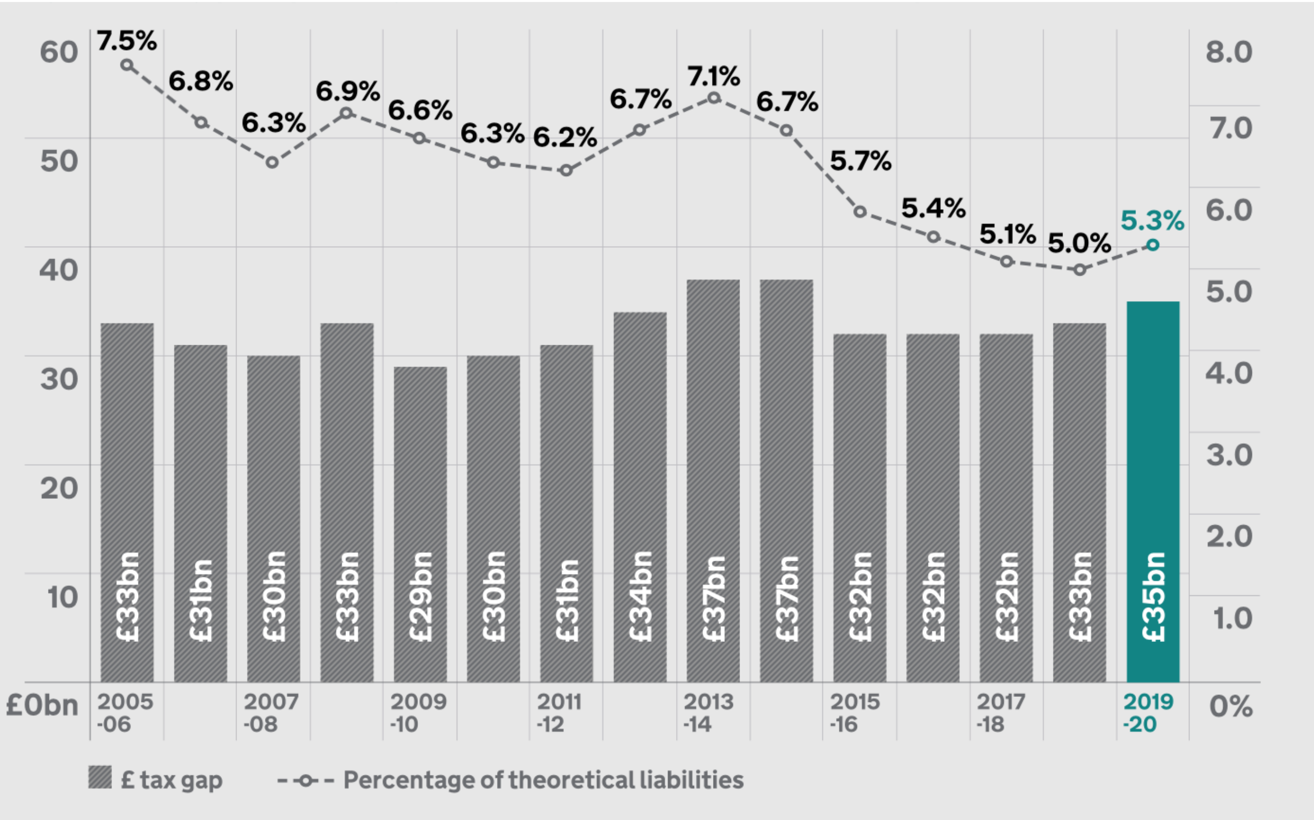
While the total tax deficit (in billions of pounds sterling) remains relatively constant over time, the percentage tax gap shrinks as theoretical tax liabilities rise from £436 billion in 2005-2006 to 674 billion

[11] *Tax fraud: a socially acceptable financial crime in France?,* Frederic Compin, 2015
[12] *Why were most wealth taxes abandoned and is this time different?,* Sarah Perret
[13] *Measuring tax gaps 2021edition- tax gap estimates for 2019 to 2020*

in 2019-2020. This tax gap is composed by different taxes: Income tax, NCIs and Capital Gain Tax cover the 36% of the gap; the Value Added Tax accounts for the 35%; Corporation Tax, excise duties and other taxes account respectively for the 16%, 9% and 4% of the gap.

Non-payment, use of avoidance techniques, legal interpretation of the tax impacts of complicated transactions, inaccuracy, failure to take reasonable care, evasion, the hidden economy, and criminal attacks on the tax system are all examples of the tax gap.

Figure 5: The tax gap as a percentage of theoretical tax liabilities, 2005 to 2006 up to 2019 to 2020



Source: Measuring tax gaps 2021 edition- tax gap estimates for 2019 to 2020, Official Statistics

The tax gap is broken down by behavior utilizing assumptions and judgment, as well as estimates based on historical data. The estimates that result are subject to unquantifiable uncertainty. The estimates are only a rough guide to the behaviors that contribute to the tax gap, and they may not fully reflect how those behaviors are changing over time.

Failure to take reasonable care accounts for 19 percent of the tax shortfall (£6.7 billion), while avoidance accounted for only 4 percent of the tax gap (£1.5 billion). With 16 percent (£5.8 billion), 15 percent (£5.5 billion), and 15 percent (£5.2 billion), respectively, legal interpretation, evasion, and criminal attacks are all in the same ballpark. Non-payment accounts for 11% (£4.0 billion), with errors accounting for 10% (£3.7 billion) and the hidden economy accounting for 8% (£3.0 billion).

When talking about tax evasion in the United Kingdom, it is crucial to mention the role of Brexit: many people speculated that the UK would become a new tax haven, despite the fact that it had been obvious for some time that this was an unduly simplistic view, given the international constraints on taxation. There were even conspiracy ideas that Leavers were motivated by a desire to evade anti-tax avoidance legislation.

Nevertheless, the primary UK company tax rate will rise to 25% from 19% in April 2023, the first increase in the headline rate of corporation tax in 50 years. Some may have been surprised, but given the need for money, the tax and business community mainly expected an increase.

To better understand how Brexit has affected the taxation system, it is necessary to give an example. Obviously, after the United Kingdom's exit from the European Union, the country has additional taxation freedoms. This is especially true in the case of VAT, where the UK is free to change its VAT laws as it sees fit without being constrained by the Principal VAT Directive. The UK might, for example, lower the standard rate of VAT from its present level of 20% specified under Article 97 of the Principal VAT Directive. Even a complete repeal of VAT is possible, but improbable, considering that VAT is the UK's third-largest source of tax revenue, at £134 billion in 2019–20.

On the direct tax side, there are few immediate major consequences, and the loss of benefits under the few EU tax Directives may be offset over time by the UK securing similar benefits in bilateral tax treaties.[14]

2.5 Spain

Even though there’s a huge gap in the estimate of evasion between Germany and France on one side and Spain on the other, the latter is one of those countries that evades the most in Europe.

Tax avoidance, or the diversion of business profits and wealth to low-tax regions and tax havens, costs Spain $7.2 billion (about 6.3 billion euros) per year. This is one of the conclusions of the State of Tax Justice 2021 report, which was developed by three international organizations based on OECD data. The 6.3 billion euros lost due to tax avoidance in Spain is distributed as follows. The effect of diverting company revenues to low-tax jurisdictions or tax havens is estimated to be around 4.5 billion euros. According to a recent investigation by the Spanish Internal Revenue Service, Spanish companies were utilizing subsidiaries in Luxembourg and Malta with essentially no employees to pay less than 3% tax on income from their foreign operations. The remainder, almost 1.8 billion euros, would be lost income as a

[14] *Tax policy in the UK post Brexit,* Judith Freedman and Glen Loutzenhiser

result of private wealth being relocated to these areas. As a result, Spain would lose roughly 2.5 percent of its tax revenue, or about 140 euros per person.

According to a study carried in 2015[15], the reason behind this fact is that the perceptions of efficiency in the delivery of public services should be positively influenced, perceptions of fiscal fraud should be negatively influenced, and individual judgments of the tax system's overall fairness should be positively influence. Moreover there is a clear evidence of a strong relationship between tax morale and the perceived benefits of public services. There is also evidence of a negative relationship between tax morale and perceptions of fiscal fraud.

The causal factors involved in the decision to defraud by taxpayers are classified into economic, psychological, institutional and socio-political causes.[16] Economic causes are: the tax burden, the disposable income after, the economic situation in the household and in the state, taxpayers' perception of the benefit they obtain from the state (public services), which are financed by public expenditure that they in turn finance by paying taxes. Attitude of the taxpayer towards the State, concealed compensation for unfair treatment by the system and the behavior of other citizens represent the psychological factors. Instead, institutional factors are: the existence of fraudulent administration, ineffective resource management, complex, inflexible and excessive tax legislation and excessive enforcement and sanctions.

Finally, under socio-political causes fall: the degree of taxpayers' acceptance of tax and expenditure policy, the status of individual rights and guarantees, the degree of social maturity and individual appreciation of solidarity.

For society, according to an IEF opinion survey (2015: 37), the main causes leading to fraudulent behavior are psychological, followed by economic and institutional. In summary, tax evasion is the result of an individual decision influenced mainly by psychological and economic factors, but with collective overtones because the individual may repeat the behavior of other evaders. Not to mention that such behavior also depends on the relationship between the taxpayer and the administration and the degree to which the fraud is accepted in society.

2.6 TADEUS Project

The Parliament writes: "*Another thing that leaves its mark: there is a lack of political will in the Member States to combat tax evasion-avoidance and financial crime. The approved text also states that the*

[15] *Social capital and tax morale in Spain,* James Alm and Juan Luis Gomez

[16] *El fraude fiscal en Espana y en la UE. Una aproximación a la cuantía de fraude fiscal en el Impuesto Sobre el Valor Anadido,* José Prieto Jano

European Commission should work on the establishment of a European financial police force, a common financial intelligence, an anti-money laundering control body and a global tax body within the United Nations" (Sole24Ore, March 2019, R. Galullo e A. Mincuzzi)

This means that there exists a clear awareness of the situation in Europe and a determined will to make changes in order to improve it. Obviously, this is not a simple operation, but something that requires the cooperation of several bodies and, above all, requires a huge effort over time. Of all the projects that have come to life over the years, one is of major importance: The TADEUS project.

TADEUS is a forum for the heads and deputy heads of tax administrations in Member States. They meet with the Commission on a regular basis to promote administrative cooperation within the EU and to address common concerns.

The forum began in April 2018, when EU economy and finance ministers decided to strengthen collaboration between their respective tax agencies. A series of Commission reports on Member States' administration of value added tax for available translations of the preceding, income tax for available translations of the preceding, and tax recovery for available translations of the preceding came before that. The search for available translations of the preceding found flaws in the EU's administrative cooperation.

The burden on member states' tax revenues has intensified. As a result, tax officials are under pressure to close the "tax gap." There are several sources of the tax gap. The tax gap is exacerbated not only by fraud and evasion, but also by a lack of information and incentives on the part of the taxpayer. As a result, tax administrations must select a combination of measures that effectively motivate compliance and avoid noncompliance, based on knowledge of all taxpayers' behaviour and in relation to available resources and capacity. Furthermore, in the spirit of administrative cooperation, tax administrations should assist one another and remain attentive in combating abuses of public finances, even if the fiscal loss is due to occur in another Member State. TADEUS Heads approved the new project "Estimations of Tax Gap on Personal Income Tax/Social Security Contributions, Corporate Income Tax, Missing Trader Intra-Community Fraud, and VAT e-commerce" to better assess the significance of the tax gap, which is first and foremost the main reason for the need to foster tax compliance and secondly a measurement of success in that regard. The recently completed TADEUS project "Enabling creating trust and assuring compliance" provided the groundwork for future work by presenting a comprehensive picture of prospective actions toward taxpayers as well as within tax administrations, with a focus on increasing voluntary compliance by taxpayers. Individual tax administration heads can choose to build on the project's several promising examples supplied by single tax administrations. In addition, the upcoming Commission report on VAT collection and control procedures under Article 12 of Regulation 1553/89, as well as the Commission Communication on the VAT Gap "Mind the VAT Gap," will identify differences between tax administrations and present success stories on which tax administrations can build in the TADEUS framework.

Tax administrations play a critical role in putting Union tax policy and legislation into practice at the national level. It is critical that legislation is correctly executed, not just from a strictly legal standpoint, but also in terms of achieving the desired consequences in practice. Tax administrations play a crucial role in the execution of EU legislation, not only in terms of substantive tax rules (VAT, excise taxes, corporate tax), but also in terms of administrative cooperation for both direct and indirect taxation.

The need to improve administrative cooperation is not limited to intra-Union cooperation in tax problems as a result of successive economic and financial crises. In the next years, this rising external dimension will almost certainly lead to several EU agreements with third countries that will necessitate high-level mobilization of national tax administrations to ensure efficient execution. [17]

[17] https://ec.europa.eu/taxation_customs/document/download/9e0f8524-966f-43c4-8abf-f1645eaa8c17_en?filename=Multi-Annual%20Plan%20of%20TADEUS.pdf

Chapter three

It is common knowledge that Italy is that country that complies the less with evasion regulations and evades the most among the Member States in Europe. The reason behind this fact is that Italy has the highest rate of taxation. Facts in hand, evasion has diminished during the years, but it still holds the record: according to estimates by the European Commission, the EU country that evades VAT more than any other is Italy, with more than EUR 30 billion missing from state coffers. To be exact, in the period from 2014 to 2019, the estimated average tax and social security revenue gap in Italy amounts to approximately EUR 105 billion.[18]

Obviously there should be a reason on why Italians are the most likely to evade taxes or to not comply with the law among all the citizens of the European Union.

3.1 Why do Italians evade?

In fact, although officially condemned, tax fraud is not always considered so serious by citizens; on the contrary, for taxpayers it can be seen as a necessary evil, for various reasons, which go beyond purely economic assessments. That's why it is important to always keep in mind the crucial role of tax morale.

Individuals' decisions are conditioned by the social norms that are established within a community: a social environment that has adopted honesty and norms of honesty and 'good behavior' will tend to sanction individuals who do not respect them.

In this section we will try to understand the reasons behind Italians attitude towards tax evasion and in doing so we will use data from the Bank of Italy's Survey on Household Income and Wealth.[19] This study was carried out multiple times during the last two decades: the decision was taken by the Ministry of Finance after the break out of a scandal in the North of Italy. We take into consideration only the data from the most recent surveys: the one carried out in 2004 and the one carried out in 2013.

The survey sample consists of 3,796 heads of households, who are asked for their opinions on the level of taxation, the seriousness of tax evasion, the motivations behind taxpayers' behavior, the advisability of changing the intensity of assessments, and the most effective tools to combat tax evasion. According to the study, the statements summarizing the most frequent justifications for evasion are quite controversial.

[18] *Relazione per orientare le azioni del governo volte a ridurre l'evasione fiscale derivante da omessa fatturazione,* 2021
[19] *Le opinioni degli Italiani sull'evasione fiscale,* Luigi Cannari e Giovanni d'Alessio, 2007

There is disagreement when evasion is associated with overly complicated mechanisms or unfair taxes; there is, on the other hand, an equality of opinion in agreement and disagreement when evasion is associated with the need to keep alive activities that would otherwise be out of business. Overall, statements that tend to justify the phenomenon find consensus in Southern Italy and the Islands.

And in fact, when looking at the table that shows the value of propension to evasion, it is evident that the highest values are found in the South of Italy. The values associated with the propensity to evade are higher in the self-employed than in the employed, with the highest values being associated with blue collar workers, and the lowest values being associated with managers and executives. Moreover, the data show that heads of households up to the age of 30, or who have no educational qualifications, or who are self-employed or not professionally employed, are the most likely to evade.

Figure 6: Propensity to evade by household head and area of residence characteristics

Propensione a evadere per caratteristiche del capofamiglia e dell'area di residenza
(punteggi medi)

Modalità (capofamiglia)	Propensione	Modalità (area di residenza)	Propensione
Età (anni)		**Tasso di disoccupazione**	
Fino a 30	0,66	Basso	-0,38
31-40	0,37	Medio	0,07
41-50	0,01	Alto	0,38
51-65	-0,24	**Qualità della P.A.**	
Oltre 65	-0,10	Bassa	0,43
Titolo studio		Media	-0,04
Nessun titolo	0,90	Alta	-0,47
Elementare	0,13	**Tasso di criminalità**	
Media inferiore	-0,01	Basso	-0,26
Media superiore	-0,23	Medio	-0,09
Laurea	-0,42	Alto	0,24
Condizione professionale		**Capitale sociale**	
Operaio	0,19	Bassa	0,42
Impiegato	-0,14	Media	-0,23
Dirigente, direttivo	-0,57	Alta	-0,28
Imprenditore, libero professionista	0,25	**Area geografica**	
Altro autonomo	0,59	Nord	-0,33
Pensionato	-0,24	Centro	0,15
Altro in condizione non professionale	0,53	Sud e Isole	0,38
Totale	0,00		

Fonte: elaborazioni su dati Banca d'Italia (2004).

Source: Le opinioni degli Italiani sull'evasione fiscale, L.C and G.D.A., 2007

As we already mentioned, the same study was conducted even in 2013[20], always using data from the Bank of Italy, on a survey of 2,000 heads of household. With respect to the previous study, it seemed that the awareness of citizen on the subject has increased, changing their opinion. In particular, the change has been significant in the South, which aligned with the Centre and the North.

[20] *What do Italians think about tax evasion,* Giovanni D'Alessio, 2021

About one third of household believed that there was little or no probability of being checked, a common belief among the retired rather than among the self-employed.

The fact that the awareness on the subject has increased during the years is highlighted by the 90% of agreement on the opinion that paying taxes is a duty of citizen that recalls criteria of equality and efficiency. Nonetheless, there is still the belief that not paying taxes is a necessary asset in order to save all those businesses that otherwise would have to cease.

With respect to 2004 there are low levels of agreement with the statement of not paying taxes as deemed to be unfair and with too complicated procedures. From the survey resulted that attitude towards tax evasion is inversely correlated with the level of education and that from the analysis of the relation between the propensity to evasion and income, it resulted that the propensity to evade decreases with income. In fact, there is a shift toward evasion in low-income-level household and a trend in the opposite direction for higher income classes.

Figure 7: Opinions on tax evasion, 1992-2013

Opinions on tax evasion, 1992-2013

Year	Degree of agreement						Average score (1-5)
	Not at all	Very little	So so	Quite a lot	Very much	Total	
	Paying taxes is one of the basic duties of citizenship						
1992	0.8	1.9	5.2	34.9	57.2	100.0	4.5
1995	0.9	2.0	5.2	37.0	54.9	100.0	4.4
2004	1.0	4.4	15.4	42.1	37.1	100.0	4.1
2013	0.7	1.4	6.2	31.3	60.4	100.0	4.5
	People will be more willing to pay tax if they know everyone else does						
1992	1.4	0.6	3.7	27.0	67.4	100.0	4.6
1995	1.4	0.5	3.5	28.8	65.8	100.0	4.6
2004	2.4	5.6	14.4	32.8	44.8	100.0	4.1
2013	0.7	2.5	7.9	25.0	63.9	100.0	4.5
	People are happy to pay tax if the country functions properly						
1992	1.2	0.7	4.5	33.0	60.7	100.0	4.5
1995	1.0	0.9	4.7	34.0	59.5	100.0	4.5
2004	1.8	5.2	15.4	38.9	38.7	100.0	4.1
2013	0.4	2.3	4.7	25.1	67.5	100.0	4.6
	The revenue from taxation should be spent where it was collected						
1992	13.5	13.8	17.5	24.4	30.9	100.0	3.5
1995	16.6	16.6	22.6	21.0	23.2	100.0	3.2
2004	12.8	14.0	25.3	28.7	19.2	100.0	3.3
2013	10.6	12.3	20.6	26.2	30.3	100.0	3.5
	It is right not to pay taxes if you think they are unfair						
1992	19.5	24.0	23.9	20.3	12.2	100.0	2.8
1995	22.1	25.8	25.6	17.9	8.6	100.0	2.7
2004	20.3	21.9	29.0	19.3	9.5	100.0	2.8
2013	31.4	22.6	21.5	15.1	9.3	100.0	2.5
	People try to avoid paying tax because they know the Government spends the money badly						
1992	8.7	13.2	17.5	31.6	29.1	100.0	3.6
1995	11.8	18.2	27.8	22.0	20.2	100.0	3.2
2004	11.4	16.1	27.4	28.3	16.8	100.0	3.2
2013	8.9	15.7	17.4	29.8	28.2	100.0	3.5
	Some people are obliged to evade tax in order for their business to survive						
1992	25.4	22.4	18.9	21.7	11.6	100.0	2.7
1995	25.6	23.6	20.5	19.6	10.6	100.0	2.7
2004	14.0	15.2	30.9	29.1	10.8	100.0	3.1
2013	6.6	10.6	21.7	34.7	26.4	100.0	3.6
	Some people don't pay tax because the rate (%) is too high						
1992	11.6	9.3	19.4	40.4	19.4	100.0	3.5
1995	9.9	10.3	19.7	42.1	18.0	100.0	3.5
2004	11.2	15.1	29.3	28.8	15.6	100.0	3.2
2013	9.0	13.2	20.8	33.0	24.1	100.0	3.5
	Some people do not pay tax because the system is too complicated						
1992	30.3	23.7	19.2	19.1	7.7	100.0	2.5
1995	24.4	19.3	14.7	30.6	11.1	100.0	2.8
2004	27.7	21.1	25.6	19.3	6.3	100.0	2.6
2013	33.3	23.8	18.4	17.0	7.6	100.0	2.4
	Some people do not pay tax because they run little risk of being caught						
1992	5.4	15.8	20.8	33.3	24.6	100.0	3.6
1995	5.7	17.2	25.0	32.1	20.0	100.0	3.4
2004	6.9	11.9	26.4	33.2	21.6	100.0	3.5
2013	8.3	11.7	19.9	31.3	28.8	100.0	3.6
	The more someone earns. the more (as a percentage) he/she should contribute to Government spending						
1992	2.5	3.5	9.2	30.4	54.4	100.0	4.3
1995	2.4	3.5	9.8	30.8	53.5	100.0	4.3
2004	3.0	9.0	20.2	33.6	34.1	100.0	3.9
2013	1.4	3.0	9.9	36.2	49.5	100.0	4.3
	The State should levy higher taxes on income and lower taxes on consumption (VAT)						
1992	14.9	16.7	35.8	22.7	10.0	100.0	3.0
1995	13.4	15.6	37.7	22.5	10.8	100.0	3.0
2004	5.8	10.8	34.5	32.0	16.9	100.0	3.4
2013	4.4	9.5	30.8	33.0	22.2	100.0	3.6

Source: My calculations based on SHIW data for 2004 and 2013, Censis for 1995 and the Ministry of Finance for 1992.

Source: What do Italians think about tax evasion, G.D.A., 2021

Furthermore, the latest study conducted, focused also on the propensity to evade with respect to the actual behavior of evasion, with two main conclusions to be drawn from this. First, starting from the assumption that the demand for cash represents a good estimator for evasion (Ardizzi et al., 2012) since evaders tend to need more cash for their consumption because they receive cash payments and because they do not want to leave track of their transactions), a regression was conducted on 5613 observations collected in 2004 and 2013. The coefficient of the propensity to evasion index is positive and significantly different from zero, confirming the starting hypothesis.

The second conclusion, instead, begins with the assumption that household tend to underestimate their income (Baffigi et al., 2016). The experiment conducted involved a survey on reported income and the interviewers to give a judgement on the reliability of their answers. The indicator is the dependent variable of a linear regression in which, together with other covariates, the role of the propensity for evasion is evaluated. The result is that, all other things being equal, the higher the propensity for evasion, the lower the reliability index that the interviewers find in the answers on income provided by the respondents.

Figure 8: Regression analysis: propensity for tax evasion, cash expenditures and under-reporting

Regression analysis:
propensity for tax evasion, cash expenditures and under-reporting

	(a) Dependent variable: Share of expenditures paid for in cash		(b) Dependent variable: Log consumption paid for in cash		(c) Dependent variable: Log consumption paid for in cash		(d) Dependent variable: Truthfulness of income data in SHIW (interviewers' judgments 1-10)	
Parameter	Estimate	Pr > |t|	Estimate	Pr > |t|	Estimate	Pr > |t|	Estimate	Pr > |t|
Intercept	60.1672	<.0001	1.8451	<.0001	1.8041	<.0001	8.1675	<.0001
Log (consumption)*			0.5051	<.0001				
Log (consumption)**					0.4904	<.0001		
Year 2004	12.5559	<.0001	0.1604	<.0001	0.1347	<.0001	-0.8154	<.0001
Year 2013	0.0000	-	0.0000	-	0.0000	-	0.0000	-
Male	0.8350	0.2436	0.0234	0.1164	0.0206	0.1806	-0.0041	0.9327
Female	0.0000	-	0.0000	-	0.0000	-	0.0000	-
Up to 30 years	-10.0639	<.0001	-0.1518	<.0001	-0.1153	0.0021	0.3118	0.0090
31-40 years	-9.8163	<.0001	-0.1830	<.0001	-0.1676	<.0001	-0.0175	0.8539
41-50 years	-8.5673	<.0001	-0.1679	<.0001	-0.1692	<.0001	0.0484	0.6008
51-65 years	-5.6366	<.0001	-0.0807	0.0002	-0.0750	0.0006	-0.1027	0.1420
Over 65 years	0.0000	-	0.0000	-	0.0000	-	0.0000	-
Employed	-7.3900	<.0001	-0.1095	<.0001	-0.0614	0.0034	0.2570	0.0001
Self-employed	-7.3515	<.0001	-0.1099	<.0001	-0.0858	0.0025	-0.2260	0.0121
Retired or not employed	0.0000	-	0.0000	-	0.0000	-	0.0000	-
1 member	-5.1044	<.0001	-0.2598	<.0001	-0.3462	<.0001	-0.1257	0.1083
2 members	-4.3869	<.0001	-0.1449	<.0001	-0.1782	<.0001	0.0309	0.6534
3 members	-2.7753	0.0039	-0.0939	<.0001	-0.1010	<.0001	-0.0390	0.5532
4 or more members	0.0000	-	0.0000	-	0.0000	-	0.0000	-
Income class 1	16.0290	<.0001	0.0103	0.7348	0.1336	0.0002	-0.0200	0.8271
Income class 2	14.8582	<.0001	0.1393	<.0001	0.2261	<.0001	-0.2451	0.0030
Income class 3	11.6174	<.0001	0.1078	<.0001	0.1565	<.0001	-0.0792	0.2951
Income class 4	5.8895	<.0001	0.0783	0.0003	0.1135	<.0001	-0.1145	0.1080
Income class 5	0.0000	-	0.0000	-	0.0000	-	0.0000	-
Up to primary school certificate	8.5041	<.0001	0.0582	0.0544	0.0534	0.0876	-0.2983	0.0024
Lower secondary school certificate	3.7404	0.0034	0.0476	0.0747	0.0482	0.0803	-0.1275	0.1434
Upper secondary school diploma	3.4907	0.0045	0.0696	0.0065	0.0722	0.0062	-0.0902	0.2824
University degree	0.0000	-	0.0000	-	0.0000	-	0.0000	-
North	-11.2604	<.0001	-0.1704	<.0001	-0.1738	<.0001	0.4938	<.0001
Centre	-4.2542	<.0001	-0.0341	0.0954	-0.0461	0.0292	0.4350	<.0001
South and the Islands	0.0000	-	0.0000	-	0.0000	-	0.0000	-
Up to 20,000 inhabitants	0.6489	0.3723	-0.0162	0.2851	-0.0083	0.5973	0.3728	<.0001
Between 20,000 and 40,000 inhabitants	0.6302	0.5370	0.0004	0.9841	0.0076	0.7286	0.1926	0.0058
Over 40,000 inhabitants	0.0000	-	0.0000	-	0.0000	-	0.0000	-
Propensity for tax evasion	**0.8663**	**<.0001**	**0.0201**	**<.0001**	**0.0224**	**<.0001**	**-0.1393**	**<.0001**
R^2	0.2761		0.2842		0.2422		0.1289	
Number of observations	5,613							

(*) Consumption includes imputed rents. (**) Consumption does not include imputed rents.
Source: My calculations based on SHIW data.

Source: What do Italians think about tax evasion, G.D.A., 2021

3.2 The main Italian taxes

The main Italian taxes are: IVA, IRPEF, IRES and IRAP.

As already mentioned before, IVA (the VAT tax) is an indirect tax on consumption, introduced by Presidential Decree No 633 of 26 October 1972, which was subsequently supplemented and amended to bring it into line with European Community directives. Value added represents the contribution to the national income of each economic operator. In Italy, IVA is applied at three rates: one ordinary rate (21%) and two reduced rates (10% and 4%) on goods deemed necessary.

IVA is applied to each supply with the obligation to reclaim it, i.e. the supplier must debit it to the customer and then pay it to the State, calculated as follows:

IVA payable (on sales) - IVA receivable (on purchases) = IVA due.

IRPEF (Imposta sul Reddito delle Persone Fisiche), on the other hand, is a direct, personal and progressive tax on the income of individuals. It was established in 1974, pursuant to Presidential Decree no. 597 of 29 September 1973, and is now regulated by the Consolidated Income Tax Act (TUIR) issued by Presidential Decree no. 917 of 22 December 1986.

The prerequisite for the tax is the possession of income in cash or in kind falling within the categories expressed by the legislator (in Article 6 T.U.I.R.). The personal nature of the tax can be deduced from the fact that the definition of the tax considers subjective aspects of the taxpayer, starting with the level of taxable income, which is affected according to progressive criteria, as well as other aspects such as family characteristics, personal burdens, etc.".

Thanks to its progressive character, this tax is mainly entrusted with the task of achieving the progressivity that the Italian Constitution (art 53, cc. 1 and 3) provides for the tax system as a whole" (Bosi, Guerra, 2013, p. 73).

The algebraic sum of all incomes determines the total income, which allows to identify the rate for the definition of the tax; IRPEF provides, in fact, progressive rates for income brackets.

IRES (Imposta sui Redditi delle Socità) is a direct income tax on business income. It was established by Legislative Decree No 344 of 12 December 2003, but came into use on 1 January 2004.

The tax is of a proportional nature and the rate of application is 24%.

The taxable persons are: companies limited by shares and limited partnerships with shares, limited liability companies, cooperative and mutual insurance companies; public and private entities other than companies; companies and other entities of any kind with or without legal personality not resident in the territory of the Italian State.

The taxable base (BI) is the business income, represented by Total Revenues (R), minus Total Costs (C), minus recognised Depreciation2 (AM) and minus Interest Expense3 (IP).

BI= R- C- AM- IP. A tax rate of 24% is applied to the tax base.

IRAP, i.e. the Regional Tax on Productive Activity, is a direct tax on net production value, i.e. the income produced including personnel costs and financial income and expenses. It was introduced on 1 January 1998, in implementation of the delegated law no. 662 of 23 December 1996, by legislative decree no. 446 of 15 December 1997.

The prerequisite for the tax is the habitual exercise of an activity directed towards the production or exchange of goods or the provision of services. Taxable persons are individual entrepreneurs, companies, commercial and non-commercial entities, persons engaged in the arts and professions, public administrations, non-resident entities and companies.

The tax has an ordinary rate of 3.9%, while for certain subjects it has different values.

In order to understand which can be the impact of the evasion of these taxes, it is useful to look at the data on the tax gap, which aims to measure the impact of non-compliance with the obligations to declare and pay the main taxes and contributions, is an important indicator of the extent to which the taxpayer's income is affected. The analysis of the tax gap in Italy is carried out by ISTAT, Agenzia delle Entrate and by the Finance Department. Over the period between 2014 and 2018, the tax gap has been reduced in absolute terms by approximately €6.7 billion and the propensity to gap, equal to the ratio between the tax gap and potential revenues for the portion due to non-payment of taxes net of the TASI, has been reduced by approximately 2.9 percentage points. The TASI is a fully municipal tax included in the new Imposta Unica Comunale IUC (IMU + TASI + TARI) introduced by Law no. 147 of 27/12/2013.

More specifically, the overall tax gap in 2018, even after the revisions made to the historical series, is reduced in absolute value by approximately €5.3 billion between 2017 and 2018. The total amount of the tax and contribution gap thus stands at just under €103 billion in 2018. In addition, the reduction in the propensity to gap between 2017 and 2018 is 1.7 percentage points, and follows a substantial stability in the three-year period 2015-2017 and a further reduction of 1 percentage point between 2014 and 2015.[21]

In Italy, facts at hand, the most evaded tax is IVA (which amounted to 80 billion in 2019 alone): it is sufficient to not invoice when a good is sold and hence no record is left of any profit, especially if the transaction is in cash. The same stratagem can be applied with unregistered labor, since if there is not VAT number (partita IVA), an invoice that attests occasional work can be used. It is also very easy for freelancers to evade IVA by not issuing an invoice for the service provided to the clients.

3.3 Why evasion is higher in Italy?

It is clear from the above paragraphs that tax evasion is a common phenomenon in Italy more than in other countries in the European Union. Hence, the question on why it is possible (and apparently so easy) to evade, arises spontaneously. Surely, a key role was played by the economic crisis of the last decades: consequently, many firms have been "forced" to evade in order to survive and in fact, for Italians, this have been a justification for the phenomenon. Despite this, the economic crises and their impact on taxpayers' lives cannot explain why Italy holds the record among European nations for tax evasion.

Proceeding in order, the first flaw that allows such a spread of the phenomenon is the economic structure. In Italy almost one fourth of the workers are self-employed and it has already been extensively discussed above the behavior of this category towards evasion. In Europe, only Greece has a higher number of self-employed, while the average for countries such as France and Germany is around 10% and 15% respectively. It is important to bear in mind the size of businesses in Italy: since we are talking about small and medium-sized enterprises, the propensity to evasion cannot be ignored in order to survive (regardless of economic crises). Then, according to the Bank of Italy, the 83% of the transaction is made with cash, compared to an European average of 65%, thus a third cause can be appointed to the fact Italians prefer to use cash. The reason behind this obsolete custom is attributed to an attempt to escape controls or to a lack of confidence in the new instruments.

Italian tax policy can also be considered as a root cause of the phenomenon, as it encourages or facilitates tax evasion. First, let's consider the heaviness of taxation in Italy. In the not-too-distant year 2008, the Prime Minister himself (Berlusconi) publicly justified the propensity of taxpayers not to comply with the law when taxes are too high. Indeed, leaving aside the Prime Minister's provocative speech, theorists

[21] *Relazione sull'economia non osservata e sull'evasione fiscale e contributiva,* 2021

themselves, in their attempts to create a model that could estimate evasion, have always given some weight to how much a taxpayer could earn by evading (remember the model of Allingham and Sadmo). Another reason can be found in the composition of taxes. The problem is that the evasion on IVA is quite high and the evasion on self-employment income is even higher, hence the set of goods that are difficult to evade should be taxed more. It is not a case, in fact, that it is quite difficult to evade IMU (Imposta Municipale Unica) which is tax with a capital nature whose prerequisite is possession or ownership of the real estate; it is levied on real estate for residential use (other than the first house), commercial and land. It is not easy to evade also IRPEF in case of a public employee or taxes on financial income, since it is the bank that pays the amount on interest income.

Furthermore, the weakness of our repressive apparatus cannot be overlooked. There is the historical conflict between the Guardia di Finanza and the Revenue Agency (Agenzia delle Entrate), thus policy intervenes whit the occurrence of a fiscal offence. This weakness is also represented by the low penalties or even benefits that come with evasion. Suffice it to say that at the end of 2006 pants and peculiarities have been reduced and very few people end up in prison for committing this type of crime.

The last cause to be mentioned is the scarcity of social capital, understood as the capacity of internalize the consequences of one's actions on others: basically being able to understand that what can be beneficial for me might be dangerous for everyone (including myself). This is precisely the case with tax evasion: not comply with this civic duty may seem to be a profit for the individual, but on a large scale, the consequences impact the welfare of everyone in the society.[22]

After having explained the tendencies of Italians to evade and why this phenomenon is so deeply rooted in this country, it is time to move on to the other side and see how the Italian government has tried and tries to fight tax evasion.

3.4 *How to measure and counter evasion*

When talking about fighting tax evasion, it is often forgotten that the real problem of this phenomenon is its invisibility. The close consequence of this invisibility is the difficulty in finding information about individuals and companies. Studies aimed at analyzing the causes and effects of tax evasion inevitably suffer from various methodological and applicative limitations (Schneider and Buen, 2018). In this context, the management and use of big data, a relevant set of (millions of) detailed data on individuals and businesses, are strategic tools for tax administrations worldwide (Alm, 2015). This is not a case, in

[22] *I sette peccati capitali dell'economia italiana,* Carlo Cottarelli, 2018

fact, that in the National Reform Program attached to the Economic and Financial Document 2020, one of the Government's priorities is the fight against tax evasion includes greater investment in technology and big data, with the aim of making the tax system fairer and more growth-oriented (MEF, 2020b).

At the international level, the tax gap is used as a proxy for measuring tax evasion. As it has already been explained in the first chapter, the tax gap is divided into policy gap and compliance gap, which approximates tax evasion. The former is based on the comparison of tax data with a corresponding macroeconomic aggregate, usually national accounts flows, which provide an estimate of the Unobserved Economy. In Italy, *the top-down* approach is used to estimate direct taxes such as IRPEF and IRES, and indirect taxes such as VAT, excise duties and others. The *bottom-up* method uses administrative data (such as tax returns and tax audits) and surveys, with the goal of building economic models that can estimate tax evasion. It is a particularly popular method in countries such as the United States, the United Kingdom and Denmark, where random audit tax assessment programs are in place. The problem with this method concerns the selection of the sample, which is not random as it should be since the taxpayers chosen are the ones with the highest probability of noncompliance, hence the most likely to be evaders.[23]

Obviously, during the years, many estimation models have been developed. For instance, Franz (1985) developed a model to measure evasion in small enterprises (with less than 20 employee). It compares the income received by self-employed workers with the average income of employees in enterprises with similar characteristics and assumes that the income of the self-employed worker (the entrepreneur) can never fall below the average income received by employees. Using enterprise survey data, the per capita income of the self-employed is compared with the per capita income of its employees. If the remuneration of the self-employed person is lower than the average remuneration of the employees, the enterprise is classified as under-reporting. The limitation of this approach is quite clear: the starting assumption that the income of a self-employed person is higher than the income of an employee cannot always be true, as there are fields of work where even the opposite is possible.

As we have seen, evasion is a problem that Italy has been fighting for decades, every time inventing new strategies against new issues. Nowadays the biggest concern is how to get IVA back into the State coffers and in doing so the Public Administration has included the use of electronic invoicing. It is enough to think that the introduction of e-invoicing led to the reduction of the IVA gap, in 2019 compared to the previous year, by approximately 2.4 percentage points, corresponding to a recovery of approximately €3.5

[23] *Conoscere l'evasione fiscale può contribuire a ridurla,* Paolo di Caro e Marco Manzo, 2021

billion[24], of which between €1.7 and 2 billion can be justifiably attributed to the obligation to issue e-invoices.

Article 1(5-bis) of Legislative Decree No. 127/2015 (inserted by Article 14(1) of Legislative Decree No. 124/2019) provides that electronic invoice files are stored until 31 December of the eighth year following the year in which the relevant declaration is submitted or until any judgments are settled, in order to be used:

(a) by the Guardia di Finanza in the performance of its economic and financial police functions (Article 2(2) of Legislative Decree No 68/2001);

b) the Revenue Agency and the Guardia di Finanza for risk analysis and control activities for tax purposes.

Paragraph 5-ter provides that the Guardia di Finanza and the Revenue Agency, having consulted the Privacy Guarantor, shall adopt appropriate safeguards to protect the rights and freedoms of the persons concerned, through the provision of appropriate security measures, including organizational measures, in accordance with the provisions of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 and Legislative Decree no. 196/2003.[25] Moreover in the report of MEF it is possible to find to different strategies apt at contrasting evasion. There is a section dedicated to the incentives for customers, such as the cashback and the receipt lottery. The aim of the cashback project (which has been suspended since September 2021) was to encourage electronic payments and to provide the tax authorities with a tool for the analytical reconstruction of financial flows and, therefore, of the revenue generated during the business. Instead, the receipt lottery (established by the 2017 Budget Law) provided that, from 1st February 2021, purchases of at least one euro made at merchants who transmit their receipts electronically and by means of electronic payments, would generate 'virtual tickets' for every euro spent and allow participation in the lottery. This provided an incentive for purchasers to request certification of receipts from merchants. According to the Report the cost of the cashback project was higher than the potential recovery of evaded revenue and that, anyway, the pandemic situation increased the use of electronic payment regardless the project. With respect to the receipt lottery, the lack of data does not allow any ex post evaluation of benefits, by the way, the Report notes a downwards trend since the beginning (obviously due to the lockdown).

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[24] https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwjcjMjx-8P3AhWbiv0HHXs4CLYQFnoECA4QAQ&url=https%3A%2F%2Fitaliadomani.gov.it%2Fcontent%2Fdam%2Fsogei-ng%2Fdocumenti%2FRelazione-per-orientare-le-azioni-di-governo-volte-a-ridurre-l-Evasione-fiscale-derivante-da-omessa-fatturazione.pdf&usg=AOvVaw0l3AhtwiZH5sfaZLeAWyVL

[25] *https://www.ipsoa.it/documents/fisco/iva/quotidiano/2022/02/08/pnrr-strategie-ridurre-evasione-omessa-fatturazione*, Roberto Fanelli, 2022

Then the Report proposes the enforcement actions, which are divided into two categories:

1. those that should be submitted to the Privacy Guarantor;

2. those which should not be submitted to the Privacy Guarantor (and which, therefore, would be of immediate application).

The former includes risk analysis and data scraping; the latter, instead, includes notice of assessment, extension of electronic invoicing, competitions for new staff and normal value in customs.

Conclusion

Benjamin Franklin stated: *'There are only two certainties in life: one is death, the other is taxes'*. Leaving aside the aphoristic nature of this statement, if it is possible to say that one of the certainties of life is that sooner or later everyone will have to confront this civil (and moral) duty, it is also possible to say that an attitude of non-compliance toward taxation will always exist. The purpose of this thesis is not to offer a solution to this problem that has affected society since the dawn of taxation, but to give an 'accurate' overview of a phenomenon that is closely related to the mentality of the individual. As it has been mentioned in the previous chapters, this non-compliance behavior toward taxes is often seen as an unavoidable evil which goes well beyond purely economic reasons. Thinking about period of crisis, some businesses do think that not paying taxes is the only way to survive: a clear and recent example could be the spread of Covid-19, which undoubtedly challenged both small and large businesses.

In the case of Spain (chapter two) there is strong evidence of a positive correlation between tax morale and the perception of public services; furthermore, the main reasons behind evasion are principally psychological (such as the attitude toward the State) immediately followed by economic (e.g. disposable income) and institutional (inflexible and excessive taxation) reasons. Always speaking about non-economic reasons, Italy (chapter three) is a clear example. It holds the record as top evader in the European Union and the factors that have contributed to this supremacy are anything but economic. Italians suffer for the heaviness of the taxes they have to pay; it is easier for them to evade because of the structure of their society; their choice (because it is crucial to remember that non-compliance is a choice) is strongly correlated to the environment in which people are placed (it is not a case that the majority of those who show a propensity to evade live in the Southern regions). In addition to this, also the composition of taxes themselves seem to encourage this behavior.

Again, it is far from this thesis to provide accurate solutions to such a vast and deep-rooted problem, but after painting a clear picture of the phenomenon, some conclusions arise spontaneously. After having read the different situation in Europe, the main consideration is that the starting point for understanding how to combat tax evasion is to recognize the proper relevance of tax morale. It is enough to look at the survey based on Bank of Italy data to understand that poor education leads to a propensity for non-compliance attitudes. The problem with Italy is that it has a school system that, despite being different from that of most countries in the world, is still well-functioning, but does not impart the basic notions that would form a good citizen. It is not convenient for the State to wait for a student to decide to continue his studies, apply to a university, and thus to embark on a life path that allows him to remove himself from the context in which he grew up and that consequently can offer him the possibility of improving himself and have a more 'moral' (if it is permissible to call it that) approach to life. A State cannot just *"trust the process"* but has a duty to do something. It cannot wait for the offence to be committed and then punish its citizens:

it must try to eradicate the problem at its root. It would be time, effort and money wasted trying to re-educate people, but it would be much more logical to educate people and hence start with the young. Of course, this is a consideration that can be applied to any country that has to deal with the problem of tax evasion, and therefore must first address the mentality and behavior of its citizens.

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