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Experimental Evidence on the Relationship between Tax Evasion Opportunities and Labor Supply

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Abstract:

Motivated by the observation that access to evasion opportunities is distributed heterogeneously across the labor market, this paper examines the extent to which labor supply elasticities with respect to tax rates depend on such evasion opportunities. We first discuss the channels through which access to evasion affects labor supply responses and then set up a laboratory experiment in which all participants undertake a real-effort task over several rounds. Subjects face a tax rate, which varies across rounds and are required to pay taxes on earned income. The treatment group is given the opportunity to underreport income while the control group is not. We find that participants in the treatment group have significantly larger effort responses to changes in the net-of-tax rate than participants in the control group; suggesting that both groups indeed react differently to taxes.

Text: See [Discussion Paper No. 6914](#)



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