

## Tax Evasion with Mobility between the Regular and Irregular Sectors

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**Abstract :** This paper incorporates mobility between the legal and black economies into a model of tax evasion with endogenous labor supply in which underreporting is possible in one sector but impossible in the other. We have found that the results of the effects along the extensive margin (number of evaders) become more robust and conclusive than those along the intensive margin (hours of illegal work) usually considered by the literature. In particular, it is shown that the following policies reduce the number of evaders: (a) larger and more progressive evasion penalties; (b) higher detection probabilities; (c) an increase in the legal sector wage rate; (d) a decrease in the moonlighting wage rate; (e) higher costs for creating opportunities to evade; (f) lower opportunities to evade, and (g) greater psychological costs of tax evasion. When tax concealment and illegal work also are taken into account, the effects do not vary significantly under the assumptions in Cowell (1985), except for the fact that policies (a) and (b) only hold as regards low- and middle-income groups and policies (e) and (f) as regards high-income groups.

**Keywords :** income taxation, tax evasion, extensive margin responses, the penalty system

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