Constraints on IRS Control: An Alternative Approach to Tax Gap Analysis

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Abstract : A tax authority wants to take actions it knows will foster the greatest degree of voluntary taxpayer compliance to reduce the "tax gap." This paper suggests that even if a tax authority could attain a state of complete knowledge, there are constraints on whether and to what extent such actions would result in reducing the macro-level tax gap. These limits are not merely a consequence of finite agency resources. They are inherent in the system itself. To show that this is one possible interpretation of the tax gap data, the paper formulates known results in a different way by analyzing tax compliance as a population with a single covariate. This leads to a standard use of the logistic map to analyze the dynamics of non-compliance growth or decay over a sequence of periods. This formulation gives the same results as the tax gap studies performed over the past fifty years in the U.S. given the published margins of error. Limitations and recommendations for future work are discussed, along with some implications for tax policy.

Keywords : income tax, logistic map, tax compliance, tax law
Conference Title : ICTLR 2018 : International Conference on Tax Law and Regulations
Conference Location : London, United Kingdom
Conference Dates : October 15-16, 2018