CONCLUSION

[In some later literature, the inadequacy in the simple individualistic model of tax evasion in the hope of monetary gains, for dealing with the subject of tax evasion has been pointed out.] In many of the extensions to the work of Allingham and Sandmo (1972), modification in the structure of simple portfolio choice model as well as in the approach to the tax problem have been brought in to accommodate the influence of other factors in the community as a whole. The approaches taken up in some works were a clear progression from the early work whereas in others, at least in terms of analytical ground, there was no improvement or progress. There is no doubt that much progress and lots of new insights have come up regarding the issue of tax evasion since the work of Allingham and Sandmo (1972). However, the nature of the subject under study is such that there may never be enough insights or sufficient knowledge of it so that one can confidently solve or talk about the intricacies involved in the tax evasion game. In spite of the knowledge
of the later developments and the new approaches in the literature and the inadequacy of the simple portfolio choice approach, I could not resist the temptation of falling back to the simple individualistic model to start with, in my study of tax evasion problem. The utility of this basic approach in explaining the compliance behavior of a TP in logical and comprehensible manner should not be overlooked, just because of the inadequacies pointed out in later works. No doubt, some of the findings of the simple model is incompatible with evidences available or one's intuition, specially the relation between tax rate and evasion.

Using the basic framework with some modification in the set-up or environment, I start my study by exploring certain situations hoping to gain new insights of the subject in hand. In fact, in chapter II, the Srinivasan (1973) model with the Yitzhaki-form of penalty system is taken up to study the compliance behavior of a TP under three different audit regimes. We assume that our TP has knowledge or subjective belief of the prevailing audit regime he is placed in. Thus, in fact for analytical purposes, it is as good as assuming that probability of audit is exogenously determined and announced to the TP. In all the three audit regimes, different penalty structures or functions are brought in, to create different situations under which the TP has to make a choice about his compliance.
behavior. It is interesting to see that in spite of the simple structure of the model, the relation between probability of audit and compliance for the audit regime where \( p \) is a function of the individual's compliance level, does not come out as direct or obvious as in earlier works. In the rest of the situations, the findings are in line with one's intuition or earlier findings. It may be mentioned that the movement of compliance level with respect to each of the parameters namely tax rate, probability of audit (except for the case mentioned earlier), penalty rate or income level of the TP comes out unambiguously, accompanied by the logical explanations of such patterns.

In chapter III, we deal with the revenue maximization problem of a government in the face of rational taxpayers. In fact, we determine the optimal audits in respective economic classes. Then, we characterize the situations where a hike in tax rate may require raising or lowering of the probability of audit for the system to regain its maximal attainable revenue position. In the literature, it has often been shown that probability of audit and the penalty may be used as substitutes for enforcing compliance. In our analysis, we find that to get to the maximal revenue position, an increase in the severity of penalty may require to be accompanied by a higher probability of audit. Finally, we work out the problem in a simple two class economy facing
a resource constraint. A very significant finding, here, is that a small disturbance in one corner of the system will require a reform in the whole system to maintain optimality. In fact, it shows that piece-meal reforms are generally ineffective. The inter-depency between the various classes within the system is brought out, here.

As mentioned earlier, there is still a small literature on the subject of tax evasion, dealt in a corrupt atmosphere. In chapter IV, we study the behavioral pattern of a representative tax evader and a corrupt TA in a bribe-situation. We deal with two situations: one where the probability of superaudit, \( q \) is exogenously determined and in the other case, \( q \) is taken to be dependent on the exposure level of the TA concerned.

First of all, we characterize the situation of successful bribe negotiation between the TP and his TA. In case of exogenous \( q \), we find that in a bribe situation, the TA will never expose beyond what the TP had declared in his returns. The compliance level is found falling with increase in tax rate, very much in line with evidences available in empirical works of Clotfelter, Poterba and Alexander-Feinstein. It is suggested that overlooking the presence of corruption may be one reason why standard theoretical models fail to obtain a negative relation between compliance and tax rate. Another counter-intuitive
finding in this work was the positive relation between compliance and corruption level - a higher compliance level corresponds to greater corruption. A possible intuitive explanation is provided in the text. Mathematically, it is shown that the above situation enables the TP to climb up to a higher expected income position. A raise in the incentive rate provided to the TA yields benefit to the government but from unexpected quarter of the TP. What is happening is that with higher incentive rate, the TA hikes up the bribe amount and to counteract it, the TP increases his compliance level.

When the superaudit is taken to be a function of the exposure level of the TA, it is found that the effect of change in penalty rate on exposure level depends on the initial exposure level. In this case, a raise in incentive rate benefits the government from higher exposure by the TA. A very counter-intuitive result in this case is the finding of higher superaudits resulting in lower exposure level.

Chapter V covers the government's search for the audit (and superaudit) policy which will maximize its expected net revenue in the presence of corrupt auditors. The above problem is studied by taking up two possible situations. In the first one, it is assumed that the TP and the TA have already played out their cards in the sense that the compliance level, $\alpha$ and the exposure level, $e$ have been decided between them for possible tax situations. The
government, at this stage, has to determine the optimal audit and superaudit values. In the other one, it is assumed that TPs and TAs tailor their behavior in accordance to the audit and superaudit policy of the government. Here, we consider a one shot game set-up where probability of audit (and superaudit), the compliance level $\alpha$ of TP and the exposure level of the TA, $e$ are all simultaneously determined.

In both the situations, the existence of an optimal audit (and superaudit) policy is shown. The optimality of any audit policy will, for sure, depend on the specific tax situations and the behavior patterns of the other two players namely the TPs and their TAs. A change in any one or more of these may require an adjustment in audit policy for the government to attain the maximal revenue position in the changed situation. It has been argued that an adjustment in audit policy to attain optimal position in new situation will be desirable only if it is a superior position than the earlier optimal position. In such a case, the government can opt for a change in some particular tax parameter, accompanied by a corresponding adjustment in audit policy as this new policy will bring in additional revenue. It is also shown that the government through appropriate tax reforms may be successful in changing a gear or two to reach a position of greater revenue.