

Challenges for the Welfare State: Tax Evasion and Preferences for Redistribution

PRE-ANALYSIS PLAN

Abstract

The main objective of this project is to study how perception of tax compliance affects preferences for the size of the welfare state and for income redistribution. Using a large-scale survey experiment, we test whether giving individuals information about tax evasion reduces their bias on this topic and changes their attitudes towards tax fraud, the support of the welfare state and the desired degree of progressivity of the tax system. In particular, we check if detailed information about the differences in the level tax evasion across individuals with different income alter their preferences.

1 Interventions

This project is built on a large-scale survey experiment to be implemented in Spain. We implement a conventional pre-post information treatment, which exposes randomly selected survey participants to information about the magnitude of tax evasion in the personal income tax.

We measure the knowledge participants have before the experimental intervention, and repeat similar questions after, to measure to which extend the treated participants updated their beliefs (see Section 2 below).

We also randomize when participants are asked about trust in people and politicians before and after the other treatment interventions mentioned above to test whether priming effects on this dimension play a role.

We leverage participants' responses to different questions on preferences for redistribution to measure how important the dimension of lost revenues due to tax evasion is (see Section 3 below).

2 Experimental Design

We randomize the information provided to respondents in four groups. Control) does not receive any information; B) information about mean tax evasion in Spain; C) same as B + information about number of primary care doctors which could be hired with the evaded amount; and D) same as C + information about mean tax evasion in Spain of the 0.1% richest citizens.

The priming on the trust dimension will be randomized across all treatments.

3 Primary Outcomes

The key outcome variables of the experiment are views on tax evasion, its justification, and different dimensions which reflect individuals views on the support of the welfare state and the desired degree of progressivity of the tax system.

4 Secondary Outcomes

Using the same questions as above, as secondary outcomes we aim at estimating treatment effects conditional on the priming on trust.

5 Sample Size

The planned number of clusters is around 8.650 individuals. 1.000 observations will be used in a pilot. Our final sample will consist of 8.650 observations. These are distributed equally among the treatment arms (and control group).

6 Analysis Plan

Given the random nature of our treatment intervention, we estimate models on different outcomes and consider treatment as exogenous. Given the implemented quotas and randomization, the different sub-samples are expected to be balanced on socio-economic characteristics, which can be verified by including covariates X into the model.

To shed light on the mechanism(s) behind outcomes, the analysis includes a detailed investigation of heterogeneous treatment effects. To do so, we interact coefficients with continuous and/or categorical variables of those dimensions and present predicted marginal effects within those groups. In line with the theoretical literature we interact treatment effects with, among others variables, individual income, preferences for income inequality, views about luck versus merit as a source of individual income.

The main theoretical hypotheses to be tested are the following:

Regarding the views about tax evasion we aim at testing the following:

- H1: Underestimating [overestimating] tax evasion increases [decreases] concern about tax evasion.
- H2: In the case of underestimating tax evasion, the positive effect of treatment C and D on concern about tax evasion should be larger than the effect of treatment B.
- H3: In the case of underestimating tax evasion, treatment effects are higher for individuals with low income, larger degrees of inequality aversion, and opposition to meritocratic beliefs.

Regarding the views about tax progressivity we aim at testing the following:

- H4: Individuals fail in estimating tax evasion would be affected by the information treatments. In general, we expect a positive (negative) effect on preferences for tax progressivity in those who underestimate (overestimate).
- H5: In the case of underestimating tax evasion, the positive effect of treatment C and D on on preferences for tax progressivity should be larger than the effect of treatment B.
- H6: In the case of underestimating tax evasion, treatment effects are higher for individuals with low income, larger degrees of inequality aversion, and opposition to meritocratic beliefs.