

# Reducing Evasion Through Self-Reporting: Evidence from Charitable Contributions

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# Motivation 1: Self-Reporting

**Third-party reporting** is effective against evasion. However,

- can be impossible (e.g. use of personal car for Uber drivers)
- can be too costly (e.g. reporting all business transactions)
- politically infeasible (e.g. religious donations in the U.S.)

Common alternative: **self-reporting**

- taxpayers provide information
- with varying degrees of stringency:
  - no details, no proof (report deduction amount)
  - details, no proof (report detailed break down)
  - details + proof available (detailed break down, store receipts)
  - details + proof submitted (detailed break down, submit receipts)

**Does self-reporting reduce evasion?**

Electronic copy available at: <https://ssrn.com/abstract=2691744>

# Motivation 1: Self-Reporting

**Third-party reporting** is effective against evasion. However,

- it can be impossible
- it can be too costly
- politically infeasible

Common alternative: **self-reporting**

- only individuals provide information
- with varying degrees of stringency:
  - **no details, no proof** (report deduction amount)
  - **details, no proof** (report detailed break down)
  - details + proof available
  - details + proof submitted

**Does self-reporting reduce evasion?**

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# Motivation 2: Choosing Optimal Self-Reporting Rules

**The trade off between stricter reporting rules and evasion is important:**

**1 Reporting rules may decrease evasion:**

- Individuals cheat when evasion costs are low

**2 Reporting rules impose compliance costs:**

- Costly b/c taxpayers must learn / fill out forms / worry
- Law-abiding citizens also bear the cost
- Social norms and the “sense of duty” reduce the number of evaders

**Solution: impose reporting rules only above some threshold  $T$**

# This Paper

Study reform that **relaxed** reporting requirements for **noncash charitable donations deduction** in the U.S.

Main Findings:

- 1 Simplest reporting rules are effective against evasion
  - Donations increase after reform but  $\approx 50\%$  of new donations due to evasion
- 2 Compliance is costly
  - Individuals willing to forgo \$55 to avoid filling out a simple form
  - Arguably measures the cost of filling out, rather than record-keeping
- 3 Evasion is costly
  - at least 60% of itemizers don't cheat despite the opportunity

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# Data: Tax Returns

## Statistics of Income Individual Income Tax Public Use Files

- yearly cross-sections
- 80,000-200,000 tax returns per year
- oversampling of high income individuals

I restrict the sample to

- Itemizers (otherwise no info on charitable donations available)
- With **total** charitable contributions less than 20% of Adjusted Gross Income (AGI)

# 1985 Charitable Donations Reform

Itemizers can reduce income tax due by claiming deductions.

- e.g. by claiming cash and noncash charitable donations

The 1985 reform **relaxed** reporting requirements for claiming of **noncash** charitable donations:

- **Before**: fill out equivalent of Form 8283 for **any** claim
- **After**: fill out Form 8283 **only** if claim  $> \$500$

# Schedule A

## SCHEDULES A&B (Form 1040)

Department of the Treasury  
Internal Revenue Service

## Schedule A—Itemized Deductions

(Schedule B is on back)

▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074

**1985**  
07

Name(s) as shown on Form 1040

Your social security number

### Medical and Dental Expenses

(Do not include  
expenses  
reimbursed or  
paid by others.)

(See  
Instruc-  
tions on  
page 19.)

- 1 Prescription medicines and drugs; and insulin . . . . . 1
- 2 a Doctors, dentists, nurses, hospitals, insurance premiums  
you paid for medical and dental care, etc. . . . . 2a
- b Transportation and lodging . . . . . 2b
- c Other (list—include hearing aids, dentures, eyeglasses, etc.)  
▶ . . . . . 2c
- 3 Add lines 1 through 2c, and write the total here . . . . . 3
- 4 Multiply the amount on Form 1040, line 33, by 5% (.05)  
5 Subtract line 4 from line 3. If zero or less, write -0-. **Total medical and dental** ▶ 5

### Taxes You Paid

(See  
Instruc-  
tions on  
page 20.)

- 6 State and local income taxes . . . . . 6
- 7 Real estate taxes . . . . . 7
- 8 a General sales tax (see sales tax tables in instruction booklet)  
b General sales tax on motor vehicles . . . . . 8a  
8b
- 9 Other taxes (list—include personal property taxes) ▶ . . . . . 9
- 10 Add the amounts on lines 6 through 9. Write the total here. **Total taxes** ▶ 10

### Interest You Paid

(See  
Instruc-  
tions on  
page 20.)

- 11 a Home mortgage interest you paid to financial institutions . . . . . 11a
- b Home mortgage interest you paid to individuals (show that  
person's name and address) ▶ . . . . . 11b
- 12 Total credit card and charge account interest you paid . . . . . 12
- 13 Other interest you paid (list) ▶ . . . . . 13
- 14 Add the amounts on lines 11a through 13. Write the total here. **Total interest** ▶ 14

### Contributions You Made

(See  
Instruc-  
tions on  
page 21.)

- 15 a Cash contributions. (If you gave \$3,000 or more to any one  
organization, report those contributions on line 15b.) . . . . . 15a
- b Cash contributions totaling \$3,000 or more to any one  
organization. (Show to whom you gave and how much you  
gave.) ▶ . . . . . 15b
- 16 Other than cash. (You must attach Form 8283 if over \$500.) . . . . . 16
- 17 Carryover from prior year . . . . . 17



# Form 8283

Form **8283**

(Rev. March 1990)

Department of the Treasury  
Internal Revenue Service

Name(s) shown on your income tax return

## Noncash Charitable Contributions

▶ Attach to your tax return if the total claimed deduction for all property contributed exceeds \$500.

▶ See separate instructions.

OMB No. 1545-0908  
Expires 2-28-93

Attachment  
Sequence No. **55**

Identification number

**Note:** Compute the amount of your contribution deduction before completing Form 8283. (See your tax return instructions.)

**Section A** Include in Section A **only** items (or groups of similar items) for which you claimed a deduction of \$5,000 or less per item or group, and certain publicly traded securities (see Instructions).

### Part I Information on Donated Property

1	(a) Name and address of the donee organization	(b) Description of donated property (attach a separate sheet if more space is needed)
A		
B		
C		
D		
E		

**Note:** If the amount you claimed as a deduction for the item is \$500 or less, you do not have to complete columns (d), (e), and (f)

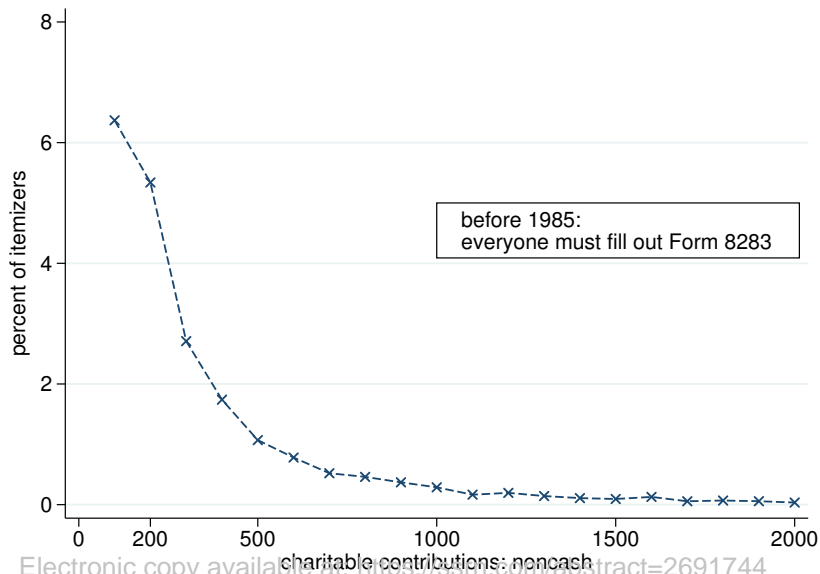
A	(c) Date of the contribution	(d) Date acquired by donor (mo. yr.)	(e) How acquired by donor	(f) Donor's cost or adjusted basis	(g) Fair market value	(h) Method used to determine the fair market value
A						
B						
C						
D						
E						

**Part II Other Information**—If you gave less than an entire interest in property listed in Part I, complete lines 2a–2e. If restrictions were attached to a contribution listed in Part I, complete lines 3a–3c.

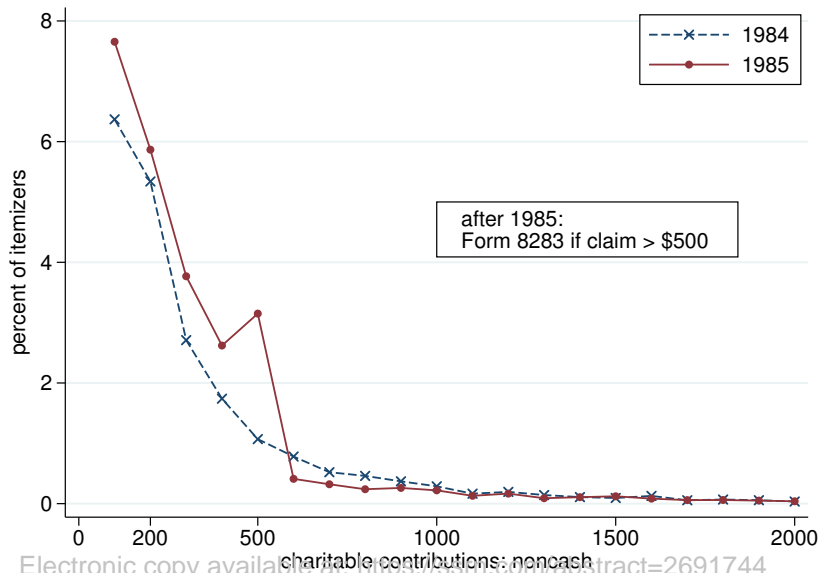
- 2 If less than the entire interest in the property is contributed during the year, complete the following:
- Enter letter from Part I that identifies the property \_\_\_\_\_ (If Part II applies to more than one property, attach a separate statement.)
  - Total amount claimed as a deduction for the property listed in Part I for this tax year \_\_\_\_\_ for any prior tax year(s) \_\_\_\_\_
  - Name and address of each organization to which any such contribution was made in a prior year (complete only if different from the donee organization above).

Name of charitable organization (donee)

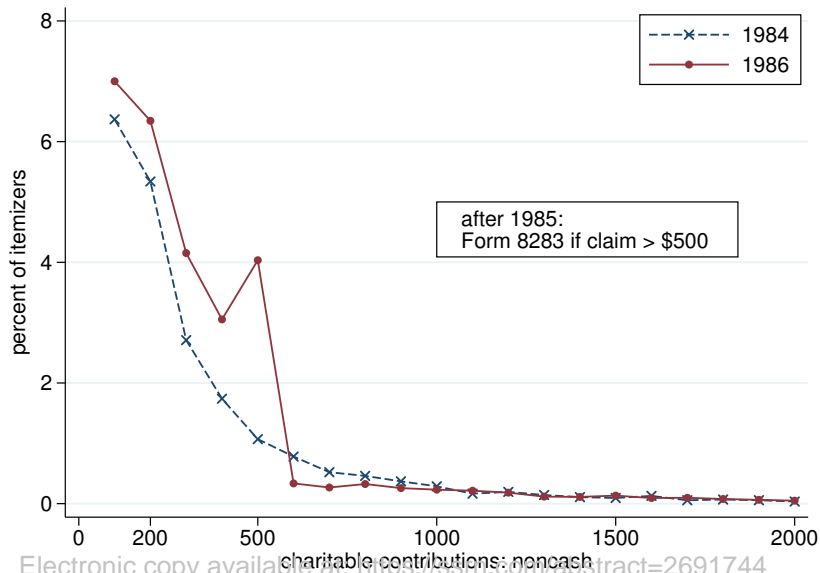
# Noncash donations before the reform (1984)



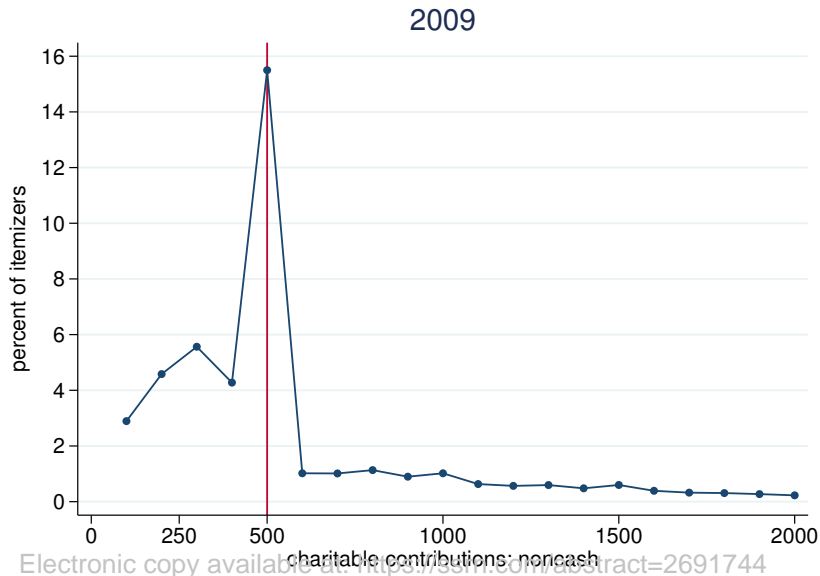
# Noncash donations 1 year after the reform (1985)



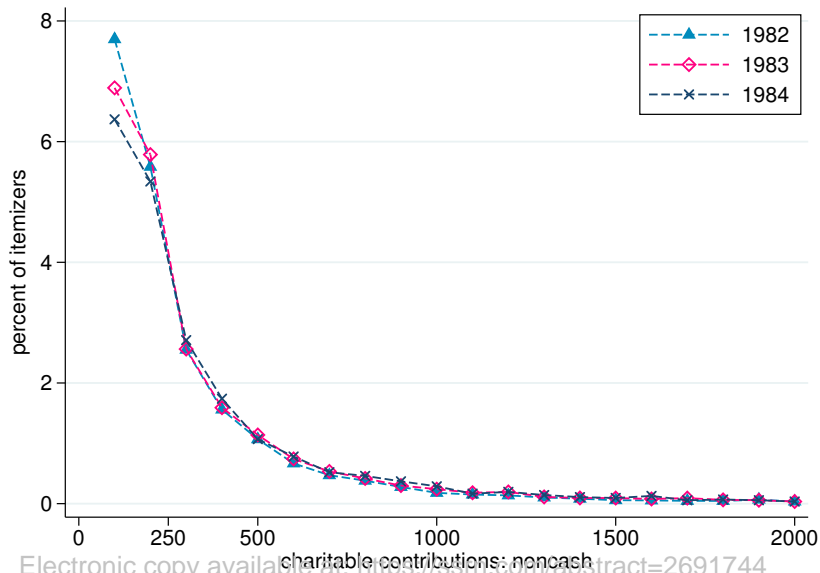
# Noncash donations 2 years after the reform (1986)



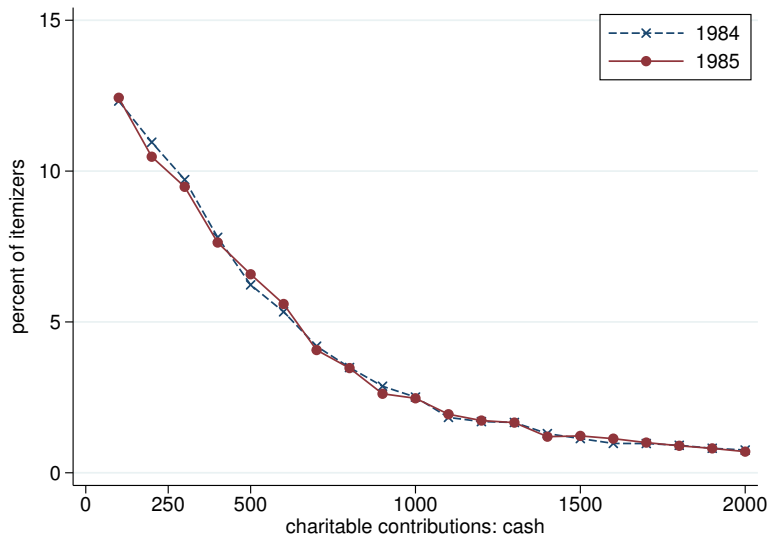
# Noncash donations in 2009



# Noncash donations before reform (robustness check)

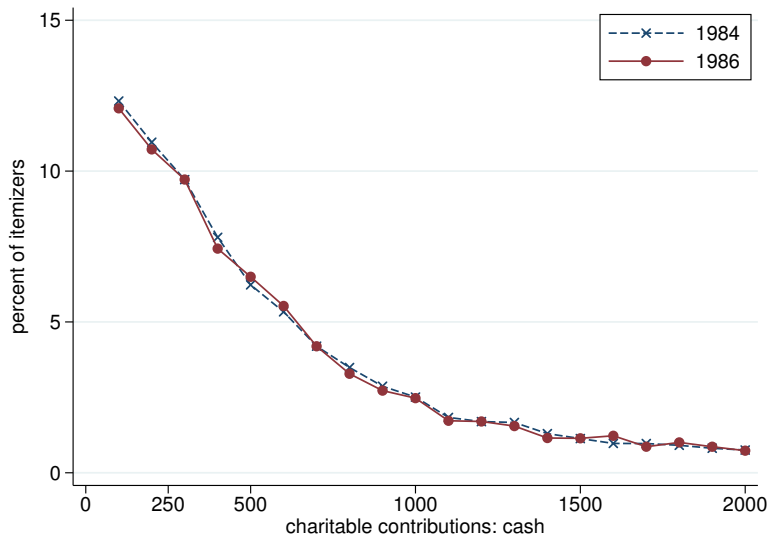


# Cash Donations before/after reform (robustness check)



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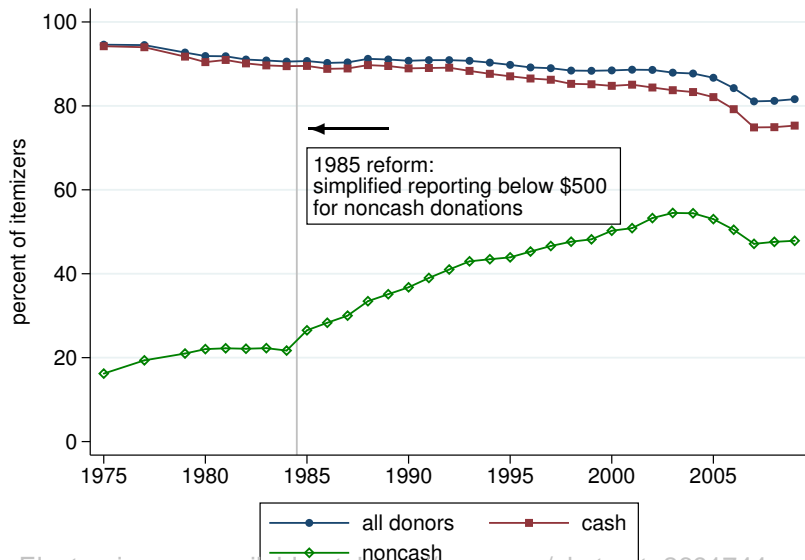
# Cash Donations before/ 2 years after reform (robustness check)



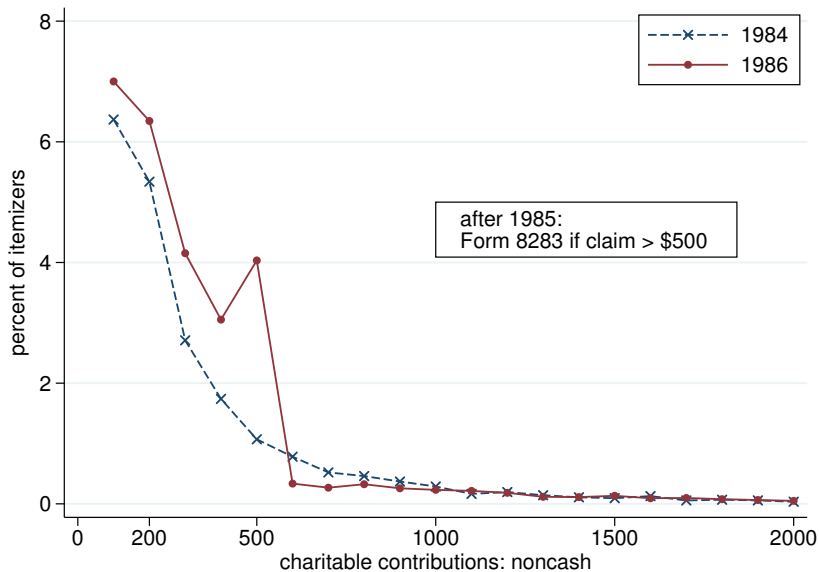
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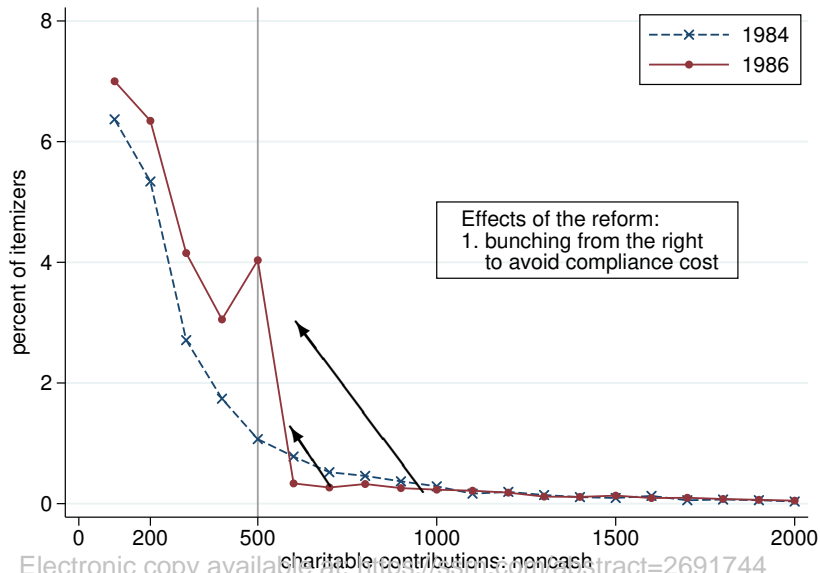
# Noncash donations increase after reform



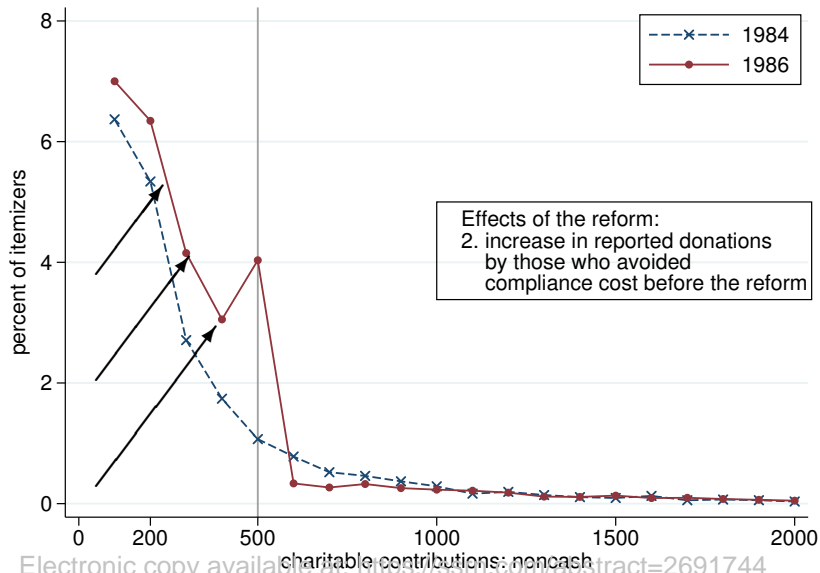
# Evasion vs Compliance



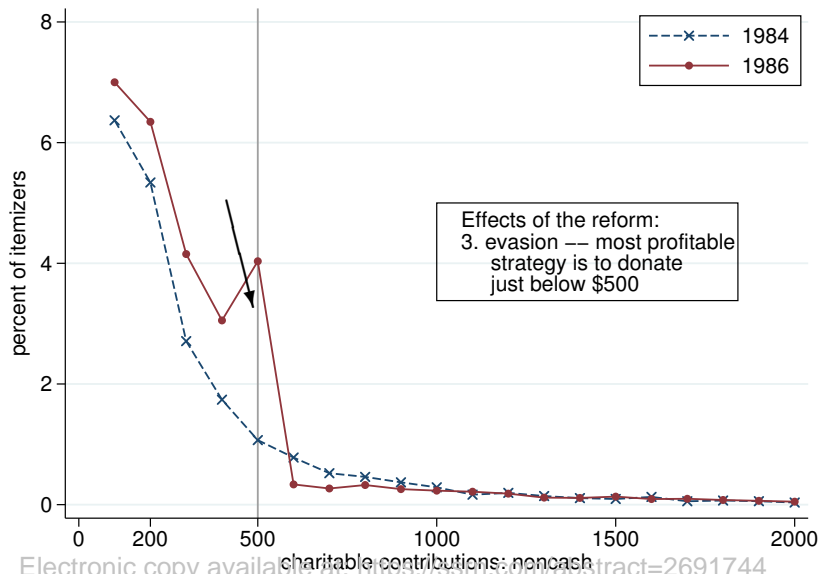
# Response 1: bunch at \$500 to avoid compliance cost



## Response 2: new genuine donations close to \$0

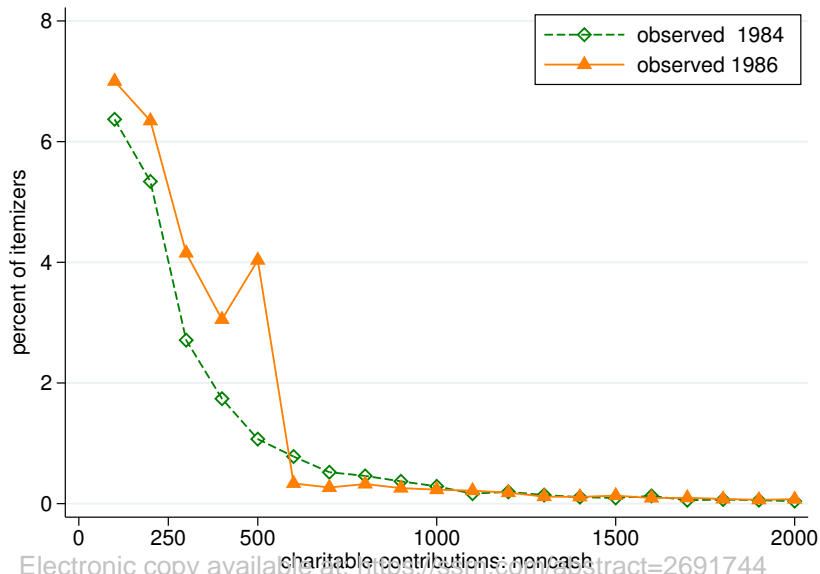


## Response 3: evasion donations at \$500



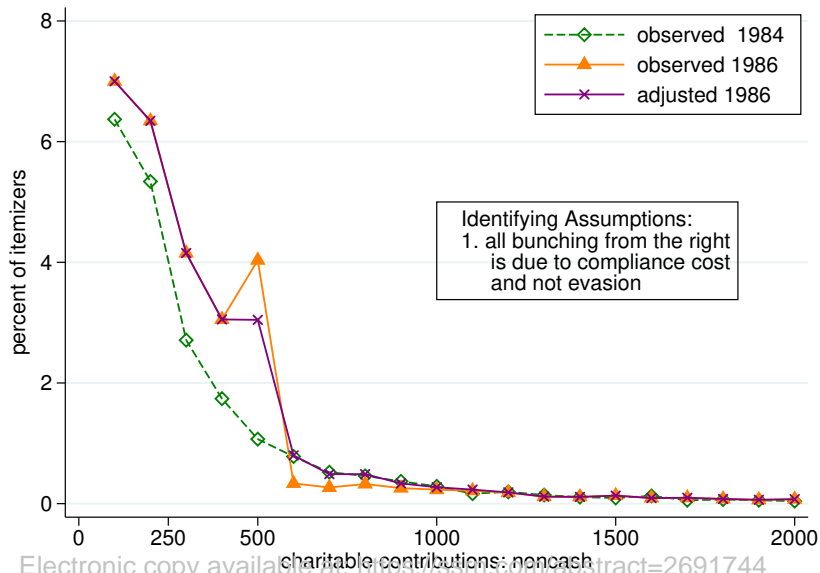
# Empirical Approach: Identifying Evasion

## Step 0: compare asset donations in 1984 to 1986

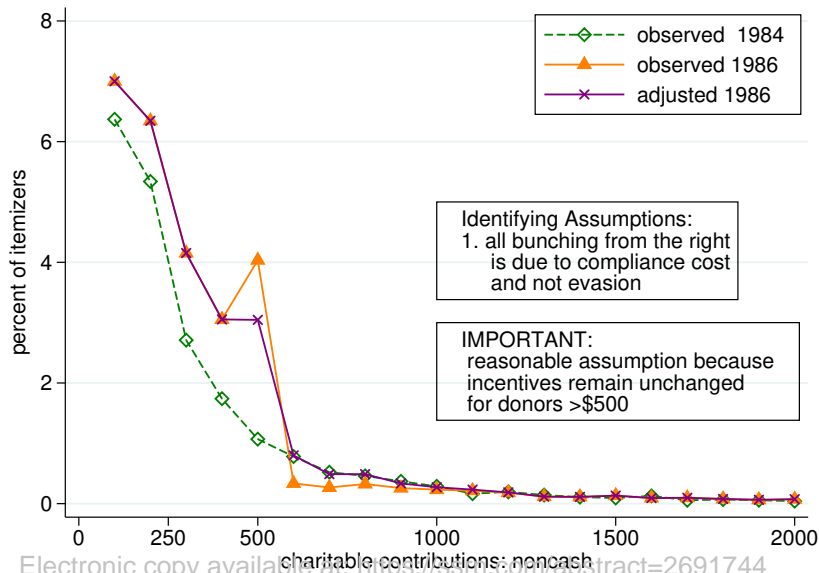




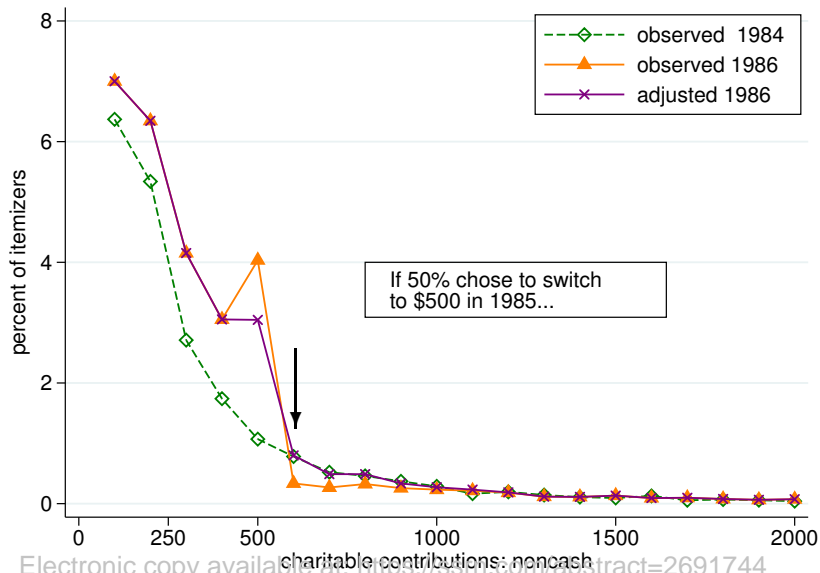
# Step 1: "fill in" the missing mass on the right of \$500



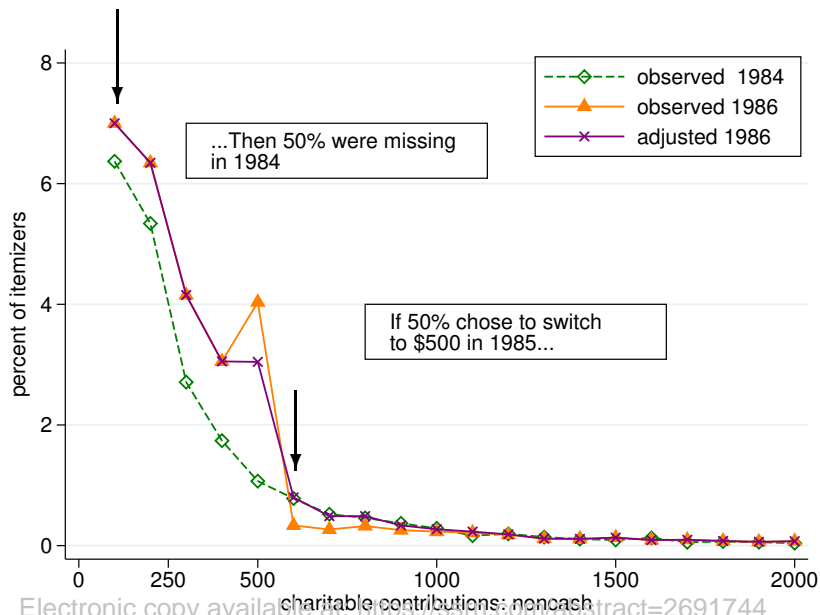
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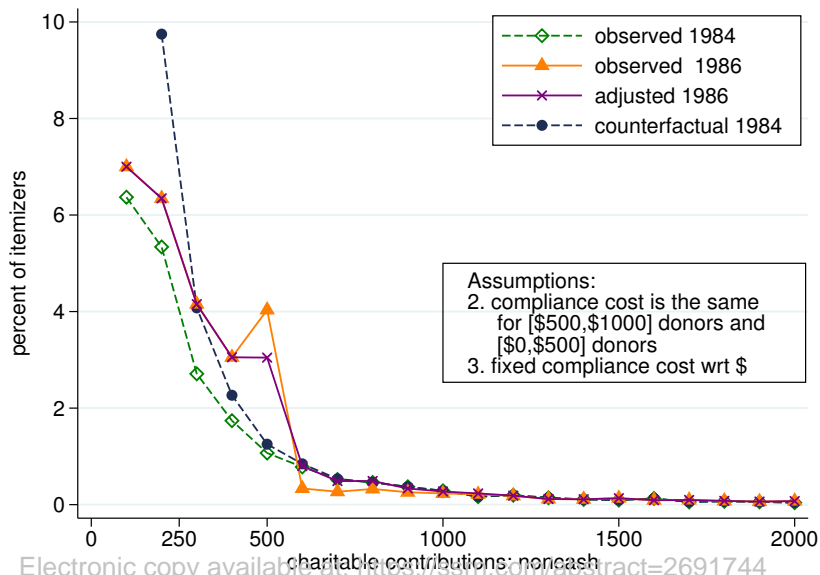
## Step 2: adjust 1984 for the missing mass close to \$0



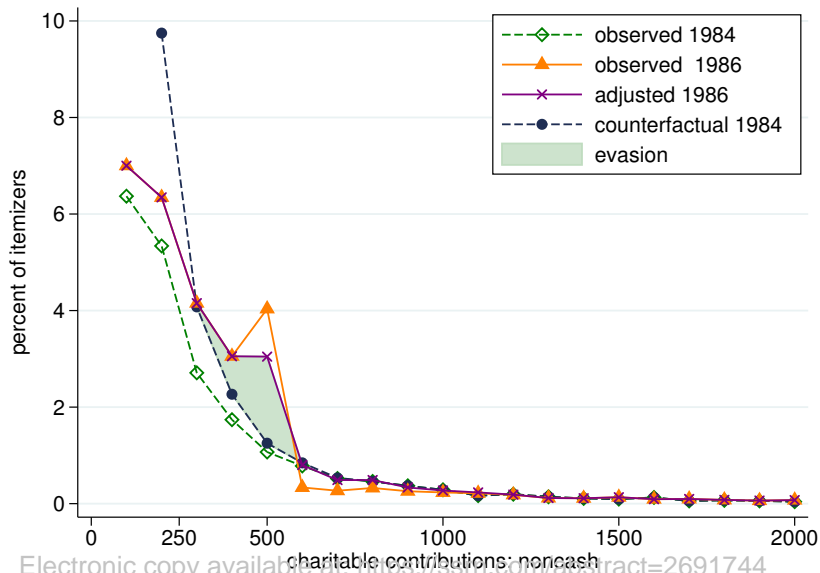
## Step 2: adjust 1984 for the missing mass close to \$0



## Step 2: adjust 1984 for the missing mass close to \$0



## Step 3: Evasion highlighted



# Additional estimation assumptions:

## 1 To estimate evasion:

- We can't observe the amount of actual donation
- Assume evaders have donated \$100 on average
  - b/c too few donations in [\$0,\$200] range

## 2 To estimate compliance cost:

- lower bound: calculate foregone utility from reduced giving
  - assume quasilinear utility with elasticity of charitable giving of 1.3
- upper bound: foregone tax savings

## Results in Numbers (all in 2015 dollars)

	1985	1986
Lower Bound Compliance Cost	\$102	\$55
Upper Bound Compliance Cost	\$198	\$142
New Donations	\$920 m	\$1540 m
(Potentially) Lost Donations	\$140 m	\$116 m
Evasion Donations	\$156 m	\$680 m
Percent Evasion	20%	48%
Average Tax Rate	29.4%	30.1%



# Why does self-reporting work?

## Why does self-reporting work?

- 1 more detail  $\Rightarrow$  higher probability of being caught  $\Rightarrow$  less cheating
- 2 individuals believe their donations worth \$\$\$ until they are forced to describe in detail. Then revise to \$

# Policy Implications I

- 1 Self-reporting is effective against evasion
  - even simple descriptions reduce evasion, need more evidence on other forms of reporting
  - works long-term (bunching 24 years later, even with e-filing)
  - useful for self-employment returns, deductions, etc
    - particularly for unverifiable expenses: e.g., use of personal home/car
  - however: self-reporting does not eliminate evasion
- 2 Individuals evade but find evasion costly
  - less than 50% of itemizers report noncash donations
  - surprising because minimal documentation requirement and a rare cheating opportunity for wage earners
  - need to better understand evasion process

## Policy Implications II

- 3 Do not impose too much paperwork
  - Self-reporting is costly to taxpayers
  - Reduce reporting when cheating impossible: e.g. use pre-populated forms for 3-rd party reported items
  - Use threshold approach:
    - require documentation only for larger amounts
    - calibration suggests optimal threshold of \$350
- 4 We can use reforms to set optimal compliance rules
  - start with stringent rules, then simplify
  - use reform to estimate compliance cost and evasion
  - ⇒ determine optimal threshold