Comments and Discussions

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This paper constructs a new kind of overlapping-generations model in which individuals evade capital income tax. It assumes that the detection probability for the tax evasion is dependent upon the amount of undeclared savings, the interest rate and the detection probability parameter. In this circumstance, it firstly concludes that a rise in the capital income tax rate may lower capital stock both in the short- and the long-run. It, secondly, finds that a rise in the tax rate can increase welfare in the short-run and a rise in the detection probability parameter or the penalty rate can increase welfare in the long-run.

This paper succeeds in having several interesting conclusions, above mentioned, in the sense that they are opposed to the results of conventional static models. In addition, it can refer an welfare levels of individuals and gives a new insight on dynamic tax evasion models. Hence, we can say that it is valuable from the viewpoints of both static and dynamic frameworks.

It also, however, has some shortcomings. First, it may simplify government and tax authority behavior so that the expenditure side can be excluded. One possible modification of this assumption is to incorporate public goods supply behavior of the government. Secondly, the government can pretend itself as a game player in this model. As it is well known, the game theoretic approaches regarding tax evasion, tax harmonization etc. have been applied.

In spite of these shortcomings, we cannot ignore the contributions by this paper as we have already pointed out. The main “paradoxical” result of this paper is very fascinating not only from a theoretical reason but from a practical reason. I think that this paper would have potential to be extended.

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