

[A Solution to Tax Evasion](#)

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Abstract

Indirect tax collection is difficult because it is hard for the government to monitor the economic dealings. In most countries, the firm incurs cost to cheat the government while so does the government to audit the firm. To solicit the information on a transaction known only to the firm and the consumer, several governments (for example, Armenia, Bolivia, Mainland China, Northern Cyprus, Indonesia, Korea, Philippines and Taiwan) have set up a cashback system. The paper shows if the government gives a subsidy to the consumer in a competitive market, the consumer will voluntarily and fully declare the tax so that the firm cannot cheat, and that the cheating and auditing costs can be saved; Pareto improving and efficient taxation without evasion becomes practicable. JEL classification: H26, D81, D82

Keywords: tax evasion, unit tax, subsidy, tax declaration

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