

November 12, 2019

To whom it may concern,

I write this letter to collect and explain some thoughts on a recently finished project, “Missing Miles: Evasion Responses to Car Taxes” that has now been accepted to publication in the *Journal of Public Economics*, a leading journal in the field of public economics. I co-authored this project with Finnish researchers Tuomas Kosonen and Jarkko Harju. I have written many papers in the past, but this was the first with Finnish co-authors. I enjoyed working on this project and also visited Finland two times, first in 2014 to kick off this and other related tax evasion projects, and then in 2018 in connection with the annual congress of the International Institute of Public Finance (IIPF) held in Tampere. I served as the president of the IIPF at the time of the conference, and was especially eager that it take place in Finland to recognize the outstanding community of Finnish public finance researchers.

The project itself dealt with used car imports to Finland and the possible tax evasion associated with the import tax (“autovero” in Finnish). The topic is of special interest to me, as I have been studying tax evasion and tax avoidance extensively and also have done some research on public finance aspects of cars and related topics. In this case, we had a promising setting where we observed in administrative data much about cars being imported, more so than one normally would. Because tax evasion was possible in this case by distorting the reported mileage in the car tax declaration, we observe both the reported mileage and comparison information not coming from taxpayers themselves. This type of information is called third-party information, and in this case originated from mandatory car inspections, where the odometer reading was recorded by the inspector. Having the reported mileage and the third-party information linked to the same car is quite unique, and allows us to have a measure of tax evasion for each imported used car. Based on the results from this project and my other research, I encourage Finnish authorities to consider collecting third-party information from all sources of taxable income.

In addition, the research team had a good relationship with Finnish authorities. We agreed with Finnish Customs to do a randomized controlled trial (RCT), where the Customs sent letters designed in cooperation. These letters informed potential car importers of the existence of the third-party information. Since the letters were sent to randomized groups, we could reliably study the differences in later car imports across different groups as causal effects of the letters and therefore of the effects of promulgating third-party information in tax enforcement. RCTs as a method are state-of-the art, and I encourage tax authorities to make use of them in future studies in Finland whenever possible. The results of this project are that tax evasion was not uncommon before the policy measures we consider took place--about 10% of used cars imported had taxes evaded. Somewhat interestingly, higher tax rates do not seem to affect tax evaders, but do reduce

the number of imported cars by non-evaders. Moreover, the usage of third-party information in tax enforcement does reduce the extent of tax evasion quite effectively.

More broadly, the takeaway from this and other research on tax evasion is that using third-party information and informing taxpayers about its existence seem to be very effective in limiting tax evasion. From the point of view of the tax authorities, it is also much more cost-effective than, for example, increasing the audit rate. The third-party information can be collected from activities that occur for some non-tax reason, in this case car inspections, and thus does not incur much cost for the authorities. Increasing the number of audits, on the other hand, necessitates hiring more auditors, and thus is quite costly. Thus, being innovative about how to collect and make use of third-party information is a policy worth considering.

Sincerely,

A handwritten signature in black ink, appearing to read "Joel Slemrod". The signature is fluid and cursive, with the first name "Joel" being more prominent than the last name "Slemrod".

Joel Slemrod
Professor of Economics