

Determinants of tax evasion: A cross-country investigation

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Abstract

The purpose of this study is to expand on the work of Riahi-Belkaoui [Riahi-Belkaoui, A. (2004). Relationship between tax compliance internationally and selected determinants of tax morale. *Journal of International Accounting, Auditing and Taxation*, 13, 135–143] and systematically investigate, on a cross-country basis, many of the key determinants of tax evasion identified by Jackson and Milliron [Jackson, B. R., & Milliron, V. C. (1986). Tax compliance research: findings, problems and prospects. *Journal of Accounting Literature*, 5, 125–165]. Based on data for 45 countries, the results of the OLS regression analysis show that non-economic determinants have the strongest impact on tax evasion. Specifically, complexity is the most important determinant of tax evasion. Other important determinants of tax evasion are education, income source, fairness and tax morale. Overall, the regression results indicate that the lower the level of complexity and the higher the level of general education, services income source, fairness and tax morale, the lower is the level of tax evasion across countries. These findings remain robust to a broad range of cross-country control variables, an alternative tax evasion measure and various interactions.

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1. Introduction

Tax evasion has been the subject of a great deal of academic research in most developed countries over a long period of time (Andreoni, Erard, & Feinstein, 1998; Cuccia, 1994; Jackson & Milliron, 1986; Kinsey, 1986; Long & Swingen, 1991; Richardson & Sawyer, 2001). Even so, little research has focused on the underlying determinants of tax evasion on a cross-country basis. This is disappointing since Andreoni et al. (1998, p. 856) and Tan and Sawyer (2003, p. 454) have argued there is a need for international and cross-country comparisons on this topic.

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Riahi-Belkaoui (2004) considered the relationship between selected determinants of tax morale and tax evasion, employing data from 30 countries. He finds empirical evidence to show that tax evasion across countries is negatively related to the level of economic freedom, the level of importance of the equity market, the effectiveness of competition laws and high moral norms. Notwithstanding, he only explored the broad link between tax evasion and some selected determinants of tax morale across countries.

The first major tax evasion literature review by Jackson and Milliron (1986)¹ established 14 key determinants of tax evasion. These include: age, gender, education and occupation status ('demographic' determinants), income level, income source, marginal tax rates, sanctions and probability of detection ('economic' determinants), and complexity, fairness, revenue authority initiated contact, compliant peers and ethics or tax morale ('behavioral' determinants).

The purpose of this study is to expand on the work of Riahi-Belkaoui (2004) and systematically investigate on a cross-country basis, many of the key determinants of tax evasion identified by Jackson and Milliron (1986). When these determinants are clearly identified in a systematic way by empirical analysis, appropriate policy conclusions can then be drawn and government policymakers are then in a position to design and implement strategies to minimize the damaging effects of tax evasion.

Based on data for 45 countries, the results of the OLS regression analysis for this study show that non-economic determinants have the strongest impact on tax evasion. In particular, complexity is the most important determinant of tax evasion. Other significant determinants of tax evasion are denoted by education, income source, fairness and tax morale. On the whole, the results of the regressions show that the lower the level of complexity and the higher the level of general education, services income source, fairness and tax morale, the lower is the level of tax evasion across countries. These findings remain robust to a broad range of cross-country control variables, an alternative tax evasion measure and various interactions.

This study contributes to the literature in four ways. First, it builds upon the pioneering work of Riahi-Belkaoui (2004) and investigates more systematically many of the key demographic, economic and behavioral determinants of tax evasion. It thereby fills a major gap in the tax literature by exploring the major determinants of tax evasion across countries. Second, it demonstrates that 'mixed' models of tax evasion that integrate demographic, economic and behavioral determinants, offer valuable insights into our understanding of tax evasion across countries. Third, it provides a sound empirical framework, which includes a substantial list of multiple cross-country control variables, for further international research on tax evasion. Fourth, it also presents a key summary of multiple data sources for future international tax research.

The remainder of the paper is organized into the following sections. Section 2 reviews the major determinants of tax evasion discussed in the literature and formulates research hypotheses. Section 3 describes the research design. Section 4 summarizes and analyzes the empirical results of this study. Section 5 presents the conclusions, limitations and future research opportunities.

¹ Other major tax evasion literature reviews have been carried out by Kinsey (1986), Cuccia (1994), Andreoni et al. (1998), Long and Swingen (1991) and Richardson and Sawyer (2001). However, the literature review by Jackson and Milliron (1986) represents the first to systematically identify and discuss in comprehensive terms, all of the key determinants of tax evasion.

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