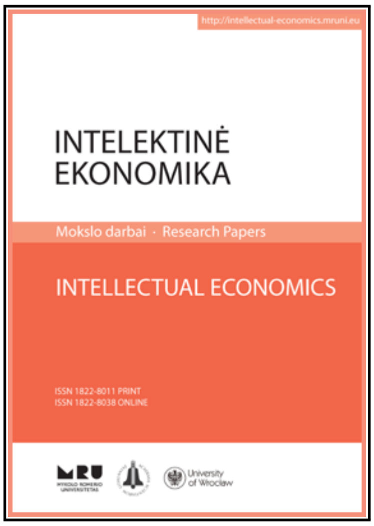

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Abstract

This article is aimed at evaluation of the impact of shadow economy determinants on the scope of shadow economy in Ukraine over 2005 – 2012. The empirical research has revealed that 99 percent of shadow economy in Ukraine is explained by such determinants as tax rate, overall employment rate, import of goods and services, GDP and participation of working-age people in the labour market. The growth of the overall employment rate has a bidirectional impact on the scope of shadow economy in Ukraine: hired work increases the opportunities to earn legal wages, but probability of paying illegal wages is still high.

Keywords

shadow economy determinants, scope of shadow economy, Ukraine.

JEL classification: E26 – Informal Economy, Underground Economy; H26 – Tax Evasion and Avoidance; K42 – Illegal Behavior and the Enforcement of Law; O17 – Formal and Informal Sectors, Shadow Economy, Institutional Arrangements.

1. Introduction

Scientific literature (Thiesen, 2003; Vinnychuk & Žiukov, 2013; Bilotkach, 2006 and others) highlights the following determinants of shadow economy: tax complexity emerging through the number of taxes, the considerable room for interpretation of tax laws on the part of the tax administration, the number and extent of tax exemptions, regulatory burden, insufficient quality of state institutions, ineffective regulatory policy, unformed competitive environment, corruption, etc. In the contemporary tax system, shadow economy promotes illegal tax evasion and fraud. Taxpayers do not declare or only partly declare their activities, which impedes revenue capture and tax liability control for tax inspections (Lesnik, Kracun, & Jagric, 2014). In contrast to the EU member states, Ukraine shows rather high level of shadow economy: in 2005, it made 47.8 per cent of GDP while in 2012 it decreased by 3.8 per cent and made 44 percent of GDP. With reference to Schneider (2012), the level of shadow economy in the EU member states was significantly lower: in 2012, it composed 32.3 per cent of GDP in Bulgaria, 29.6 per cent in Romania, 29 per cent in Lithuania, 28.6 per cent in Estonia and 26.5 per cent in Latvia.

According to Thiesen (2003), since Ukraine is presumed to have a relatively large shadow economy, "the government became very concerned and adopted measures in an attempt to reduce