Available online at www.sciencedirect.com
ScienceDirect
Journal of Policy Modeling 30 (2008) 401–415
Journal of Policy Modeling
www.elsevier.com/locate/jpm

# Does political intention affect tax evasion?

Sangheon Kim *

*Associate Professor, Graduate School of Public Administration, Seoul National University, San 56-1, Sillim-dong, Gwanak-gu, Seoul, Republic of Korea*

Received 1 March 2007; received in revised form 1 October 2007; accepted 1 December 2007
Available online 5 January 2008

**Abstract**

For quite sometime, tax evasion has attracted many researchers' attention in the field of public finance. Not enough attention, however, has been paid to the effects of political factors on tax evasion. This paper intends to provide an economic model of tax evasion, considering the interactions between tax authority and its sovereign government. It shows that tax evasion is influenced by the government's intention to control the economy, controlling for other determinants of tax evasion. The theoretical predictions are examined with annual data from the competitiveness reports published by the IMD and the WEF. The empirical evidence supports the theoretical model to a large extent.
© 2008 Society for Policy Modeling. Published by Elsevier Inc. All rights reserved.

*JEL classification:* H2; H8

*Keywords:* Tax evasion; Tax audit; Political control of the economy

## 1. Introduction

Tax evasion has been an important issue in tax administration for a long time. Especially, the effects of tax evasion on tax revenue and equity among citizens seem to be the major area of attention. For the past two decades, we have witnessed a fast growth in the literature on tax compliance and evasion.[1] Theoretical advances have been made in the modeling of tax compliance decisions, and empirical studies have also flourished.[2]

* Tel.: +82 2 880 9318; fax: +82 2 882 3998.
*E-mail address:* sanghkim@snu.ac.kr.

[1] For an excellent review of the literature on tax compliance, see Andreoni, Erard, and Feinstein (1998). Schneider and Enste (2000) also provide a good literature survey of size, causes, and consequences of tax evasion.

[2] The literature on tax compliance and evasion can be divided into four big categories: theoretical investigation of tax compliance decisions; empirical examination of the compliance decisions; analysis of audit programs; empirical

0161-8938/$ – see front matter © 2008 Society for Policy Modeling. Published by Elsevier Inc. All rights reserved.
doi:10.1016/j.jpolmod.2007.12.004

Despite the abundance of the literature on tax compliance and evasion, however, not enough attention has been paid to the effects of political factors on tax evasion.[3] It is postulated in the public choice literature that the politicians in power have incentives to control or at least affect the economy in some way. This strand of research is grouped under the title of political business cycle (PBC).[4] The literature shows that there are political elements in certain highly visible public payments and prices. Nordhaus (1975) was a breakthrough, introducing for the first time the election cycle model in the literature. MacRae (1977) and others have built upon this study later on. They investigated the effects of the election cycle on unemployment and inflation. The major implication of these studies is that before the election year, the government creates a slump to reduce citizens' expectations towards unemployment and inflation, but in the election year, a boon is created with low rates of unemployment and inflation. Hibbs (1977) enriched the literature with a partisan cycle model. Many empirical studies have also flourished in the last three decades and most of them support the PBC theory.

Unemployment and inflation, the main tools of government's manipulation of the economy in the PBC theory, however, cannot be the only tools. If it is agreed upon that the politicians in power have incentives to affect the economy for some reasons, there might be many other ways of manipulating the economy: regulations, antitrust policies, government subsidies and tax auditing. For instance, the politicians in power might be able to influence tax administration, enforcing tax authority to conduct tax auditing for their interests. In contrast to the case of direct influence, the politicians might be able to influence tax administration indirectly. In most countries, appointing the head of tax administration involves influences from key politicians in the ruling party. This enables the politicians in power to implicitly affect the behavior of tax administration even if it is the case that the politicians cannot influence tax administration directly.

Even though tax auditing tends to be affected by political factors in many countries, the actual political influence might vary across countries. In some developed countries, the politicians find it extremely difficult, if this is at all possible, to utilize tax auditing to affect the economy. In contrast, in other countries it might be easier for the politicians to use tax auditing according to his or her own will. This entails a model in which the level of tax auditing is endogenously determined incorporating the variations in the political influence on the economy. However, this type of model has rarely been developed. This paper intends to fill this gap in the literature by providing an economic model of tax evasion, considering explicitly the interactions between tax authority and its sovereign government.

estimation of magnitudes of tax evasion. The studies in the first category include Allingham and Sandmo (1972), Cowell (1981), Engel and Hines (1994), Pencavel (1979) and Sandmo (1981) More recent theoretical studies have tackled the interaction between tax payers and tax authorities (Beck, Davis & Jung, 1991; Cremer, Marchand, & Pestieau, 1990; Cronshaw, & Alm, 1995; Graetz, Reinganum, & Wilde, 1986, and Mookherjee & P'ng, 1989; Sansing, 1993). Beginning with the work of Clotfelter (1983), empirical studies of tax compliance have been very fruitful in recent years. The analysis of audit programs is a growing field whose main purpose is to investigate the tax agency's audit selection decisions. Alm, Bahl, and Murray (1993), Erard and Feinstein (1996) are most prominent studies. The studies in the fourth category of tax evasion estimate the magnitudes of tax evasion with various types of data and econometric techniques: these include Beron, Tauchen, and Witte (1992); Erard (1992), Feige (1989), Gutmann (1977), Macafee (1980), O'Higgins (1981), Pissarides and Weber (1989), Plate, Bingham, Cox, and Plumley (1990) Pyle (1989) and Tanzi (1980).

[3] There are exceptions such as Hettich and Winer (1988, 1999). Even most of those studies considering the interactions between tax administration and tax payers have ignored the administrative relationship between tax authority and its sovereign government.

[4] Among the early works on the relationship between the politics and the economy, Kalecki (1971) and Akerman (1947) are most prominent. Later studies include Ben-Porath (1975), MacCraken (1977), and Tufte (1978). Paldam (1977) provides an excellent review of the literature.

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات