National culture and firm-level tax evasion

Charles W. Bame-Aldred a,⁎, John B. Cullen b,1, Kelly D. Martin c,2, K. Praveen Parboteeah d,3

⁎ Corresponding author at: College of Business Administration, Northeastern University, 360 Huntington Ave., Hayden Hall #404, Boston, MA, 02115, USA. Tel.: +1 617 373 5022.
E-mail addresses: c.bamealdred@neu.edu (C.W. Bame-Aldred), cullenj@wsu.edu (J.B. Cullen), kelly.martin@business.colostate.edu (K.D. Martin), parboteek@uwu.edu (K.P. Parboteeah).
1 Washington State University, College of Business, Pullman, WA 99163, USA. Tel.: +1 509 335 4440.
2 College of Business, Colorado State University, Fort Collins, CO, 80523-1278, USA. Tel.: +1 970 491 7269.
3 College of Business & Economics, University of Wisconsin-Whitewater, 800 West Main Street, Whitewater, WI 53190-1790, USA. Tel.: +1 262 472 3971.

A R T I C L E  I N F O

Article history:
Received 1 February 2010
Received in revised form 1 July 2011
Accepted 1August 2011
Available online 13 September 2011

Keywords:
Tax evasion
Institutional anomie theory
Hierarchical generalized linear modeling
National culture
World Business Environment Study (WBES)
Global Leadership and Organizational Behavior Effectiveness (GLOBE)

A B S T R A C T

A significant research stream provides evidence that institutional, demographic, and attitudinal factors influence the likelihood of tax evasion. Assessments of culture’s role in tax evasion are far more scarce and limited. Absent are investigations of how theoretically derived culture variables predict tax evasion likelihood. Institutional anomie theory (IAT) informs this research gap, suggesting cultural values that likely influence deviant firm behaviors. Accordingly, a cross-cultural perspective examines the influence of important cultural forces (individualism, achievement orientation, assertiveness, humane orientation) on tax evasion, simultaneously controlling for institutional, demographic, and attitudinal factors. Multilevel analysis, with both country- and firm-level data, examines actual reports of firm tax illegal evasion from over 3000 companies in 31 countries using hierarchical generalized linear modeling. After controlling for the above-mentioned factors, a subset of influential cultural values stipulated by IAT surfaces to predict tax evasion. Findings suggest a number of theoretical and practical cross-cultural research implications.

© 2011 Elsevier Inc. All rights reserved.

1. Introduction

Tax evasion generally involves economic activities hidden from revenue agents. The United States Internal Revenue Service (2005) reports tax evasion numbers, also referred to as the tax gap (difference between what taxpayers should pay and what they actually pay), in excess of $300 billion per year, representing 2.7% of Gross Domestic Product (GDP). Other countries experience hidden economies between 6% of GDP (Switzerland) and 27% of GDP (Italy) (Giles, 1998). In both developed and developing countries, income taxation is necessary for the country’s investment in social services and economic infrastructure. Accordingly, income tax evasion, both personal and business, potentially hurts the poorest within that taxing jurisdiction.

Research examining cross-national differences in tax evasion considers an array of factors including institutional (e.g., rule of law, corporate tax rates), demographic (e.g., firm size, ownership, audit likelihood), and attitudinal (e.g., tax fairness, perceived burden) (Richardson, 2006). Cross-national research on tax morale and stated willingness to pay taxes uses similar predictors (Alm and Torgler, 2006). Although some research considers how certain aspects of cultural values relate to tax evasion or morale (Richardson, 2006), only two previous studies (Richardson, 2008; Tsakumis, Curatola, and Porcano, 2007) use any of the major national culture models (such as Hofstede, 1980) to examine the impact of culture on tax evasion. However, no study examines the influence of culture while controlling for institutional, demographic, and attitudinal factors.

This paper examines whether cultural values continue to influence tax evasion after controlling for institutional country-level factors, demographic factors, and attitudes toward taxes. Controlling for these factors is important because some of these previously identified variables may be proxies for cultural values held. In omitting institutional, demographic, and attitudinal information when examining the impact of culture on tax evasion, researchers may misidentify cultural influences where none exist, or fail to see more nuanced cultural effects on tax evasion.

In addition to the above, this work contributes to knowledge on other fronts. First, rather than focusing on all possible dimensions of culture, the institutional anomie theory (IAT) of deviance provides a
rigorous framework for selecting relevant variables. Second, the analysis employs hierarchical linear modeling (HLM), which is a statistical technique appropriate for cross-level, cross-national data (Bryk and Raudenbush, 1992). Finally, while other studies operatio-
nalize tax evasion using either individual taxpayer reports or broad estimates of national tax evasion rates, this study uses self-reports from firms about tax evasion practices as the dependent variable.

Most tax evasion theories focus on the individual decision to avoid tax payments. For instance, economists question why people or firms pay taxes when the probability of an audit or penalty is so low (Dhami and al-Nowaihi, 2007). Often referred to as the “Yitzhaki puzzle” (Yitzhaki, 1974), this failure of expected utility theory encouraged investigation of more psychological, ethical, and social predictors of evasion and compliance (Hanno and Violette, 1996). Still lacking, however, is the application of a macro sociological theory explaining how context can affect rates of deviant behavior; in this case tax evasion. This study suggests that national culture creates a context that encourages or discourages different rates of tax evasion by firms regardless of other influential individual firm characteristics or other national institutional components.

The classic sociological theory of anomie provides the basic insights and theoretical foundations for this investigation of the cultural influences on tax evasion. Specifically, the most recent rendition of anomie theory, institutional anomie theory (IAT) (Messner and Rosenfeld, 2001), identifies specific cultural values that might influence tax evasion. IAT suggests conditions where the willingness, through any means, legitimate or not, to achieve pecuniary benefits like monetary rewards displaces normative behavior or, in this case, tax compliance (e.g., Cullen, Parboteeah, and Höegl, 2004).

The remainder of the paper describes the conceptual background and hypotheses development, explains the research approach and methodology, reports the results and concludes with a discussion of the findings and implications.

2. Background, related research and hypotheses

2.1. Taxation, ethics and norms

Businesses typically arrange operations and financial transactions to minimize taxes, which is commonly accepted practice. Defining appropriate arrangements or management of tax positions characterizes the primary debate between taxpayers and tax collectors. Tax accountants often push the envelope with legitimate means to reduce taxes, which is commonly accepted practice. De...
دریافت فوری متن کامل مقاله

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