Sustainability level, corruption and tax evasion:
A cross-country analysis

Hichem Khlif
hichemkhlif@gmail.com
Faculty of Economics and Management of Mahdia,
University of Monastir
Tunisia

Achraf Guidara
achrafguid@yahoo.fr
Faculty of Economics and Management of Sfax,
University of Sfax
Tunsia

and

Khaled Hussainey*
khaled.hussainey@plymouth.ac.uk
Plymouth Business School,
Plymouth University,
UK

Abstract:

This paper examines the relationship between the sustainability level and tax evasion and tests whether the level of corruption moderates such a relationship**.** Tax evasion is measured using the macro indirect approach based on Schneider, Buehn and Monterngro (2010). Sustainability level and corruption variable are collected from The Global Competitiveness Report for 2012-2013. Based on a sample of 65 developed and developing countries, we find that the level of tax evasion is negatively associated with the level of sustainability (overall score and social and environmental score) and the quality of infrastructure. When we distinguish between low- and high-corruption countries, we find that this negative association is significant for low-corruption countries and insignificant for high-corruption settings. These results imply that the level of corruption may reduce the tendency of individuals in a given state to accept and trust their government in general and comply with the tax rules in particular. Our empirical findings have policy implications for governments with high levels of tax evasion since they highlight the importance of states' engagements towards their citizens in reducing the tax evasion.

Key words: Tax evasion, sustainability, quality of infrastructure, corruption.

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1. Introduction

Although audits and fiscal authorities' controls exist, tax evasion[1] represents a widespread phenomenon for both developed and developing countries that may considerably affect public revenues due to the lack of tax compliance (Picur and Riahi-Belkaoui, 2006). Understanding the determinants of tax evasion is crucial for governments that seek to reduce the level of tax evasion in society (Richardson, 2008).

Given this importance, this topic has been gaining major interests in tax literature during the last decade (e.g., Alm and Torgler, 2006; Picur and Riahi-Belkaoui, 2006; Riahi-Belkaoui, 2004; Richardson, 2006; Richardson, 2008; Tsakumis, Curatola and Porcano, 2007). These studies have considered several variables to explain tax evasion including demographic, legal and behavioral characteristics.

A tax system is a social contract that promises citizens that in exchange for participating in the economy by paying taxes, government will finance the overall state welfare (Riahi-Belkaoui, 2004). Riahi-Belkaoui (2004) suggests that future research may expand the determinants to include social and environmental norms in order to contribute to an efficient public policy on the topic. Our empirical investigation is further motivated by the recent literature review conducted by Khlif and Achek (2014) that summarises the cross-country empirical studies dealing with the determinants of tax evasion. In their review, they explicitly call for an empirical investigation of the effect country's level of social and environmental sustainability on tax evasion since tax compliance is a type of social contract between government and its citizens. However, there is no study, to date, that examines the effect of country's sustainability level on tax evasion. Our paper replies to these research calls and fills an important research gap in the

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[1] Tax evasion is defined as a behavior involving a direct violation of fiscal rules to escape the payment of tax (Richardson, 2008). The deliberate under-reporting of income and over-claiming of tax deductions are examples of tax evasion (International Bureau of Fiscal Documentation (IBFD), 2001, 134).

literature by being the first to examine the impact of sustainability level on tax evasion. We also examine whether the level of corruption affects the sustainability-tax evasion relationship.

Using a sample of 65 developed and developing countries, the level of tax evasion is negatively associated with the level of sustainability (overall score and social and environmental score) and the quality of infrastructure. When we distinguish between low- and high-corruption countries, we find that this negative association is significant for low-corruption countries and insignificant for high-corruption countries. These results imply that the level of corruption may reduce the tendency of individuals in a given state to accept and trust their government in general and comply with the tax rules in particular (Slemrod, 2002; Slemrod and Katuscak, 2002). In addition, a high corrupt environment may increase the feeling among citizens that they do not owe anything to the government because it does not respect the terms of social contract established between them. Our empirical findings have policy implications for governments having high levels of tax evasion since they highlight the importance of state's engagement towards its citizens in the reducing of tax noncompliance.

We offer two major contributions to tax literature. First, the paper is being of the first to examine the impact of different sustainability scores on tax evasion. Second, we are also the first to examine the extent to which corruption level may affect the association between sustainability and tax evasion. These findings have policy implications for governments that seek to reduce the level of tax evasion.

The remainder of the paper is organized as follows. Section 2 develops theoretical bases for the association between sustainability and tax evasion 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 avenues.

2. Hypotheses development

2.1. Sustainability level and tax evasion

A tax system in a country is considered as social contract between taxpayers and their state. Riahi-Belkaoui (2004, p. 137) defines tax system as *"... is a special social contract whereby individuals in a given state accept and trust their government in general, and comply with the tax burden in particular, if the government and/or the state provide them with conditions that enhance and protect their human dignity, trigger their morality and respect for moral norms, and assure them a piece of mind in their relations with other citizens and in the conduct of their affairs"*. The level of sustainability can take several forms including the protection of environment, the reduction of poverty, the improvement the quality of life and the quality of infrastructure.

Based on these suggestions, we expect that a strong government commitment to increase the welfare in a country through social, environmental sustainability and the quality of infrastructure may encourage taxpayers to comply with tax legislation which implies low tax evasion level. By contrast, if citizens in a country do not receive in exchange with their compliance with tax rules a sufficient level of sustainability, this will discourage them to pay taxes. This implies that this country does not respect the social contract established with its citizens which translates into high level of tax non-compliance and thus high levels of tax evasion.

Based on legitimacy theory, we suggest that the commitment of one state to improve the overall welfare of one country represents a legitimacy signal for citizens in general and taxpayers in particular. Therefore, the state's sustainability effort may represent a signal for taxpayers showing the degree of commitments of governments towards their citizens. When taxpayers feel that their government does not make a transparent allocation of fiscal revenues; this might discourage them to comply with fiscal rules.

Prior empirical studies dealing with the determinants of tax evasion suggest that several factors may affect this variables including demographic variables (Richardson, 2006), cultural dimensions (Gabor, 2012; Richardson, 2008; Tsakumis, Curatola and Porcano, 2007), legal and economic variables (Riahi-Belkoui, 2004; Picur and Riahi-Belkaoui, 2006). A neglected aspect in tax evasion literature is the effect of sustainability effort undertaken by government on tax evasion. Accordingly, we build on these studies and expand them to explore how the level of sustainability in a country can affect taxpayers' behavior through tax evasion. Accordingly, it is expected that a high level of sustainability in one country will encourage citizens to comply strongly with tax rules and reduce the likelihood of tax evasion. We consider four levels of sustainability and set the following hypotheses:

H1: The level of overall sustainability is negatively associated with the level of tax evasion.

H2: The level of environmental sustainability is negatively associated with the level of tax evasion.

H3: The level of social sustainability is negatively associated with the level of tax evasion.

H4: The quality of infrastructure is negatively associated with the level tax evasion.

2.2. The moderating effect of corruption on the association between sustainability and tax evasion

Corruption is defined as the exercise of public power to private gain (Picur and Riahi-Belkaoui, 2006). Corruption involves an operation in which one agent typically pays a sum of money or performs a service in exchange for an illicit act by a public official (Andreoni, Erard and Feinstein, 1998). High level of corruption, in a given country, is likely to reduce the tendency of individuals to accept and trust their government in general and comply with the tax burden in particular (Slemrod, 2002; Slemrod and Katuscak, 2002). In addition, a high corrupt environment may increase the feeling among citizens that they do not owe anything to the government because it does not do anything for them (McGee, 1999b).

Corruption may also reduce the sustainability effort made by government. For instance, Morse (2006) provides evidence that level of corruption reduces environmental sustainability. By reducing the level of corruption, government may increase the value of sustainability effort and increase the intrinsic motivation to pay taxes, this is referred as tax morale motivation (Frey, 1994, 1997a, b). Therefore, we try to explore how the level of corruption may moderate the association between the level of sustainability and tax evasion. Based on the above discussion, we expect that the negative association between sustainability and tax evasion will be more significant for countries characterized by low corruption level. Thus, we set the following hypothesis:

H5: The negative association between sustainability effort (overall, environmental, social and the quality of infrastructure) is more (less) pronounced in settings characterized by low (high) corruption level.

3. Research design

In this study we consider four sustainability dimensions and we test their effects on tax evasion for a sample of 65 developed and developing countries. These sustainability dimensions are classified into four categories including an overall sustainability score, environmental sustainability score, social sustainability score and the quality of infrastructure. Data for this study are collected from a public range of public sources. Appendix 1 provides a description of the data employed to measure the different variables used and their various sources.

3.1. Sample

The sample for this study consists of 65 countries. The justice tax network reports the cost of tax abuse for 145 countries, while the Global competitiveness report (2012 -2013) includes sustainability scores only for 79 countries. Thus, we limit our analysis to 79 countries that have sustainability scores in the Global Competitiveness Report. We also exclude four countries because there is no information about them in the Justice Tax Network. Finally, since we

control for cultural dimensions, we exclude 10 countries with no cultural scores. Based on these criteria, our final sample encompasses 65 countries. Table 1 presents the sample selection process and the list of countries included in our sample.

Insert table 1 about here

3.2. Dependent variable: Tax evasion

Tax evasion literature distinguishes between micro-direct and macro-indirect approaches (Gemmell and Hasseldine, 2012). While micro direct approaches are based on taxpayer data or surveys or tax audit to measure the extent of tax noncompliance, macro direct approaches estimate the size of the hidden economy based on macro-economic assumptions and models. Riahi-Belkaoui (2004), Picur and Riahi-Belkaoui (2006), Richardson (2006) and Richardson (2008) use the individuals' perceptions about tax evasion as a proxy for a country's tax evasion reported by the World Competitiveness Reports. By contrast, Tsakumis et al. (2007) and Gabor (2012) use the macro indirect approach. This approach is based on the economic estimate of shadow economy developed by Schneider (2004) using dynamic multiple-indicators multiple-causes (DYMIMIC)[2] which consists of a structural equations model with one unobserved variable named the size of the shadow economy. In this study, we use a macro indirect approach based on Schneider, Buehn and Monterngro (2010)[3]. Table 2 reports the estimates of shadow economy in percentage of Gross Domestic Product (GDP) for the list of countries included in our sample. The minimum value for tax evasion is for Switzerland (8.500 %), while the maximum value is for Peru (58 %). The median value for tax evasion is for Slovenia (26.200 %).

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[2] For more details about this approach, see Gemmell and Hasseldine (2012, pages 213 to 214).

[3] The size of shadow economy is defined as: All market-based legal production of goods and services that are deliberately concealed from public authorities.

Insert table 2 about here

3.3. Independent variables

The Global Competitiveness Report for 2012-2013 defines sustainability as the set of institutions, policies, and factors that make the country competitive over a long period while ensuring environmental and social sustainability. Accordingly, we consider the overall sustainability score for each country and sub-scores for social and environmental sustainability. The Global Competitiveness Report considers three indicators for environmental sustainability including the environmental policy, the use of renewable resources and degradation of environment. The report considers also three indictors for social sustainability including the access for basic necessities, vulnerability to shocks and social cohesion[4]. Finally, we consider the quality of infrastructure for each country. All these variables are measured using a survey among a sample of individuals from each country raging from 1 for low level of sustainability and low quality of infrastructure to 7 for high level of sustainability and high quality of infrastructure. Table 3 shows the sustainability scores for countries included in our analysis

Insert table 3 about here

The minimum values for sustainability are obtained for Pakistan with 2.900, 2.960 and 2.840 for the overall, environmental and social sustainability scores respectively, whereas the maximum values are for Switzerland and they account for 6.850, 6.870 and 6.830 respectively for the overall, environmental and social sustainability scores. With regard to the quality of infrastructure, the maximum value is for Germany (6.400), while the minimum value is obtained for Tanzania (2.300).

3.4. The moderating variable: the level of corruption

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[4] For more details for these indicators, have a look at the Global Competitiveness Report (2012-2013), figure 2 for environmental sustainability indicators and figure 3 for social sustainability indicators pages 54 and 55 respectively.

The importance of corruption in one economy may affect the level of sustainability (Morse, 2006) and tax evasion (Picur and Riahi-Belkaoui, 2006). In our study, the level of corruption is measured as the he weight of corruption as the most problematic factor in doing business (a percentage). From a list of 16 factors including corruption, respondents were asked to select the five most problematic and rank them from 1 (most problematic) to 5. The results were then tabulated and weighted according to the ranking assigned by respondents.

3.5. Control variables

Based on the previous empirical literature dealing the determinants of tax evasion, we consider economic, cultural and legal and institutional variables. With respect to economic variables, Quirk (1997) suggests that countries in the early stages of economic development represent fertile grounds for tax evasion. Similarly to Richardson (2008), our proxy for economic development is the GDP per capita. In addition, Gabor (2012), Tsakumis et al. (2007) and Richardson (2008) suggest that cultural dimensions may also affect the level of tax evasion in one country. Therefore, we consider the following four dimensions including uncertainty avoidance, individualism, masculinity and power distance[5]. Finally, we control for legal and institutional characteristics by considering the level of market development (Riahi-Belkaoui, 2004), tax regulation complexity (Richardson, 2006) and legal system (common/civil law countries) (Richardson, 2008). Definition of each variable and the source of data used to collect information are also provided in Appendix 1.

3.6. Models specification

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[5] Pragmatism and indulgence are not considered in the analysis since scores for these dimensions are not reported for several countries included in our sample. Besides, Gabor (2012) does not provide support for the significant effect of these cultural dimensions on tax evasion.

To assess the empirical validity of the hypotheses formulated above, the following OLS[6] regressions are estimated. To avoid the problem of multicollinearity between sustainability scores and the quality of infrastructure, each variable is tested separately. Accordingly, the following regression models are performed:

$$TEV_i = \alpha_0 + \alpha_1\,OSS_i + \alpha_2 GDP_i + \alpha_3 MKS_i + \alpha_4\,COR_i + \alpha_5\,CTR_i + \alpha_6\,ID_i + \alpha_7\,PD_t + \alpha_8\,UA_i$$
$$+ \alpha_9\,MAS_i + \alpha_{10}\,LGS_{it} + \varepsilon_i$$

$$TEV_i = \alpha_0 + \alpha_1\,ESS_i + \alpha_2 GDP_i + \alpha_3 MKS_i + \alpha_4\,COR_i + \alpha_5\,CTR_i + \alpha_6\,ID_i + \alpha_7\,PD_t + \alpha_8\,UA_i$$
$$+ \alpha_9\,MAS_i + \alpha_{10}\,LGS_{it} + \varepsilon_i$$

$$TEV_i = \alpha_0 + \alpha_1\,SSS_i + \alpha_2 GDP_i + \alpha_3 MKS_i + \alpha_4\,COR_i + \alpha_5\,CTR_i + \alpha_6\,ID_i + \alpha_7\,PD_t + \alpha_8\,UA_i$$
$$+ \alpha_9\,MAS_i + \alpha_{10}\,LGS_{it} + \varepsilon_i$$

$$TEV_i = \alpha_0 + \alpha_1\,QIS_i + \alpha_2 GDP_i + \alpha_3 MKS_i + \alpha_4\,COR_i + \alpha_5\,CTR_i + \alpha_6\,ID_i + \alpha_7\,PD_t + \alpha_8\,UA_i$$
$$+ \alpha_9\,MAS_i + \alpha_{10}\,LGS_{it} + \varepsilon_i$$

Where:

Dependent variable:
TEV = level of tax evasion as proxied by the size of shadow economy;

Test variables:
OSS = overall sustainability score;
ESS = environmental sustainability score;
SSS = social sustainability score;
QIS = quality of infrastructure score;

Moderating variable:
COR = the level of corruption in one country;

Control variables:
GDP = gross domestic product per capita;

MKS = market size;

CTR = complexity of tax regulation;
ID = individualism score for country i;
PD = power distance score for country i;
UA = uncertainty avoidance score for country i;
MAS = masculinity score for country i;
LGS = a dummy variable: 1 for common law countries and 0 otherwise.

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[6] Previous empirical literature dealing with this topic (Picur and Riahi-Belkaoui, 2006; Riahi-Belkaoui, 2004; Richardson, 2006; Richardson, 2008; Tsakumis, Curatola and Porcano, 2007) suggest the use of OLS regression models.

4.7. Testing for the moderating effect of corruption level

In order to test hypothesis H5 which posits that the level of corruption may moderate the association between sustainability effort and tax evasion, we divide our overall sample into two sub-samples: *(i)* countries characterized by a low level of corruption (inferior or equal to the median of COR[7]) and *(ii)* countries with high level of corruption (superior to the median). A test of hypothesis H5 consists of observing a negative and significant association between sustainability effort and tax evasion for low corruption countries, while we expect a non-significant or less significant relationship between sustainability effort and tax evasion for high corruption countries. This means that we regress the above four models for low and high corruption groups.

5. Empirical results and analysis

5.1. Descriptive statistics

The descriptive statistics are reported in table 4. For the dependent variable, tax evasion has a mean of 26.592 % and a range from 8.500 % to 58 %. Regarding the sustainability scores, OSS has a mean of 4.534 and a range from 2.900 to 6.850, ESS has a mean of 4.494 and a range from 2.960 to 6.870, SSS has a mean of 4.575 and a range from 2.840 to 6.830 and QIS has a mean of 4.556 and a range from 2.300 to 6.400. The largest standard deviation is obtained for SSS and it accounts for 1.059.

With respect to corruption level, the mean of this variable amounts to 8.104 % and ranges from 0 % to 20.800 %. The zero value for corruption indicates that no respondents to the survey conducted by the world economic forum consider corruption as the most problematic factors for doing business. This value is obtained for Australia and New Zealand, while the maximum value is obtained for Kenya. With regard to the complexity of tax regulation and the degree to which

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[7] The median of corruption in our sample accounts for 7.100.

such a factor may represent the most problematic factor for doing business, the mean is about 7.244 % and ranges from a minimum value of 0.600 % for Trinidad and Tobago to a maximum value of 20.400 % for Poland.

With respect to cultural dimensions, individualism has a mean of 46.076 and a range from 8 to 91, power distance has a mean of 57.015 and a range from 11 to 100, uncertainty avoidance has a mean of 65.015 and a range from 13 to 100 and masculinity has a mean of 48.430 and a range from 5 to 100. Finally, 32.307 % of countries included in the analysis belong to common law legal system.

Insert table 4 about here

5.2. Univariate analysis

Table 5 reports the results of univariate analysis. Findings show that there are a number of significant correlations between tax evasion and the overall sustainability score (-0.674), the environmental sustainability score (-0.623), the social sustainability score (-0.689) and the quality of infrastructure (-0.682). These univariate results provide some preliminary support for H_1, H_2, H_3 and H_4. In addition, it seems that corruption is significantly and positively associated with tax evasion with a Pearson coefficient accounting for 0.592. Finally, individualism and uncertainty avoidance are positively associated with tax evasion, while masculinity is negatively correlated with the same variable.

It should be noted here that the sustainability scores (OSS, ESS, SSS and QIS) are highly correlated and corruption level is negatively and significantly associated with these sustainability scores with Pearson correlations accounting for -0.718, -0.672, -0.736 and -0.724 respectively.

Insert table 5 about here

5.3. Multivariate analyses

Table 6 reports the results from estimating the multiple regressions specified in models (1), (2), (3) and (4). In model 1, our finding provides evidence that the overall sustainability score is negatively associated with tax evasion (Coeff = 4.271; t = -2.290). This result suggests that the higher the sustainability effort in one country, the higher the taxpayers' compliance with fiscal rules.

With respect to control variable, the level of corruption is positively and significantly associated with tax evasion (Coeff = 0.531; t = 2.180). This result is in line with that previously reported by Picur and Riahi-Belkaoui (2006). In addition, masculinity has a significant negative effect on the same variable (Coeff = -0.137; t = -2.660). This result is also in line with those reported by Tsakumis et al. (2007), Richardson (2008) and Gabor (2012). Controlling for muticollinearity, the VIFs reported suggest that model 1 does not suffer from such a problem since the maximum VIF accounts for 3.270. Finally, the overall explanatory power of the model is significantly high (F = 8.400; $p < 0.001$) and the adjusted-Rsquare accounts for 53.610 %.

Model 2 considers the environmental sustainability score instead of the overall score. Results do not show a significant change since environmental sustainability is negatively associated with tax evasion (Coeff = -3.521; t = -1.810). Similarly, corruption level is positively associated with tax evasion, while masculinity is negatively associated with the same variable. This model does also suffer from multicolliniarity since all VIFs are inferior to 2.830. The explanatory power of the model has witnessed a slight decrease moving from 53.610 % in model 1 to 52 % in model 2.

Model 3 considers the social sustainability score instead of the overall score. Findings show that social sustainability score is significantly and negatively associated with tax evasion (Coeff = -4.309; t = -2.600). Similarly, corruption level is positively associated with tax evasion, while masculinity is negatively associated with the same variable. In addition, this model shows that uncertainty avoidance is positively and significantly associated with tax evasion (Coeff = 0.105;

$t = 1.730$). This result is also in line with those reported by Tsakumis et al. (2007), Richardson (2008). Model 3 does also suffer from multicolliniarity since all VIFs are inferior to 3.490. The explanatory power of the model has witnessed a slight increase since it moves from 53.610 % in model 1 to 54.750 % in model 3.

Finally, model 4 considers the quality of infrastructure as a test variable. Results show that the quality of infrastructure in one county is significantly and negatively associated with tax evasion (Coeff = -4.725; $t = -2.910$). Similarly, corruption level and uncertainty avoidance are positively associated with tax evasion, while masculinity is negatively associated with the same variable. Model 3 does also suffer from multicolliniarity since the maximum VIF accounts for 3.030. The overall explanatory power of the model is significantly high ($F = 9.140$; $p < 0.001$) and the adjusted-Rsquare accounts for 55.980 %.

These findings support the view that high a high degree of sustainability and a high infrastructure quality imply high tax compliance level and less tax evasion and thus H1 H2, H3 and H4 are supported. Therefore, a strong government commitment to increase the welfare in a country through social, environmental and the quality of infrastructure may encourage taxpayers to comply with tax legislation which implies low tax evasion. The findings also confirm the views of Cuccia (1994) and Cummings, Martinez-Vazquez, and McKee (2001) who argue that the combination of economic and non-economic variables leads to a better understanding of the tax evasion determinants.

Insert table 6 about here

5.4. The moderating effect of corruption on the association between sustainability and tax evasion

To test the moderating effect of corruption level on the relationship between sustainability and tax evasion (hypothesis H5), we divide the overall sample into countries characterized by high and low corruption.

With respect to the overall sustainability score (table 7, model 1), the relationship is negative and significant only for low corrupt environment (Coeff = -8.921; t = -4.240), while it is non-significant for high corrupt environment (Coeff = -3.467; t = -0.850). This means that low corruption level implies more credibility of sustainability effort undertaken by government. Taxpayers will have more trust in their government and comply more with fiscal rules. Under low corruption level, market size contributes also the reduction of tax evasion (Coeff = -3.960; t = -2.510) and legal system (common law countries) is associated with low tax evasion levels (Coeff = -10.029; t = -2.640). By contrast, legal system (common law countries) is associated with high tax evasion levels under high corruption levels (Coeff = 9.979; t = 2.150). It is worthy to note that the overall explanatory power, as proxied by the adjusted R-Square, has witnessed a improvement for low corruption countries moving from 53.610 % for the overall sample to 62.700 % for low corrupt environment, while it decreases for high corrupt environment since it amounts to 32.910%.

With respect to the environmental sustainability score (table 7, model 2), the relationship is negative and significant only for low corrupt environment (Coeff = -7.646; t = -3.380), while it is non-significant for high corrupt environment (Coeff = -2.133; t = -0.470). This means that low corruption level gives rise to the environmental sustainability effort undertaken by government among taxpayer. Under low corruption level, market size contributes also the reduction of tax evasion (Coeff = -3.990; t = -2.480) and legal system (common law countries) is associated with low tax evasion levels (Coeff = -9.633; t = -2.290). By contrast, legal system (common law countries) and uncertainty avoidance are associated with high tax evasion levels under high corruption levels (Coeff = 10.159; t = 2.170) and (Coeff = 0.228; t = 2.250), while masculinity is negatively associated with tax evasion (Coeff = -0.168; t = -1.860). It should be noted here that the adjusted R-Square has witnessed a decrease for high corrupt environment since it amounts to 31.410%.

Similarly, corruption level also moderates the association between the social sustainability score and tax evasion since the relationship is negative and significant only for low corrupt environment (Coeff = -8.608; t = -4.540), while it is non-significant for high corrupt environment (Coeff = -3.740; t = -1.090). This means that a low corrupt environment increases the credibility of social sustainability effort undertaken by government and encourages taxpayers to comply more with fiscal rules. Under low corruption level, market size and legal system are negatively associated with tax evasion, while individualism is positively associated with the same variable. By contrast, under high corruption levels, legal system (common law countries) and uncertainty avoidance are positively associated with tax evasion, while masculinity has a negative effect on the same variable. Similarly to model 1, the adjusted R-Square, has witnessed an improvement for low corruption countries moving from 54.750 % for the overall sample (model 3) to 64.920 % for low corrupt environment, while it decreases for high corrupt environment since it amounts to 34.250%.

Finally, the relationship between the quality of infrastructure and tax evasion (table 7, model 4) is negative and significant for low corrupt environment (Coeff = -7.501; t = -3.480), while it is less significant for high corrupt environment (Coeff = -5.502; t = -2.060). This implies that a high quality of infrastructure encourages taxpayers to comply more with fiscal rules with a more significant effect under low corrupt environment. Under low corruption level, legal system (common law countries) is negatively associated with low tax evasion levels (Coeff = -7.805; t = -1.970). Under high corruption level, legal system (common law countries) and uncertainty avoidance are positively associated with high tax evasion levels, while masculinity is negatively associated with the same variable. The adjusted R-Square witnesses a decrease for high corrupt environment since it accounts for 41.900%, while it was about 55.980 % for model 4.

Overall, it seems that the level of corruption moderates the association between the level of sustainability and tax evasion and thus H5 is confirmed. For instance, taxpayers trust more a

sustainability effort undertaken by a state operating under a low corrupt environment leading to more tax compliance. In addition, the level of corruption moderates the association between legal system and tax evasion since tax compliance is higher in common law countries characterized by low corruption level. Finally, the effect of cultural dimensions (uncertainty avoidance, masculinity and individualism) on tax evasion is also moderated by the level of corruption.

Insert table 7 about here

6. Conclusion

The determinants of tax evasion on cross-county basis have been gaining major interests in tax literature following the pioneering work of Riahi-Belkaoui (2004). A neglected aspect in empirical literature is the effect of sustainability effort undertaken by government on tax evasion since tax system represents a implicit contract between the individual and the state guaranteeing social and environmental welfare in exchange of high tax compliance. Accordingly, this study expands this stream of research by examining the effect of the overall, social, environmental sustainability and the quality of infrastructure on tax evasion since recent international reports (e.g. World Economic Forum) publish figures dealing with sustainability efforts in many countries.

OLS regression analysis shows that the sustainability variables have a significant negative effect on tax evasion. Accordingly, a higher sustainability effort undertaken by government in one country translates into higher taxpayers' compliance with fiscal rules. In addition, corruption level moderates such an association since the negative and significant association is more pronounced in countries characterized by low corruption level. These results imply that a high level of corruption may reduce the tendency of individuals in a given state to accept and trust their government in general and comply with the tax rules in particular.

These specific insights should help government policy-makers to gain a better understanding of the importance of sustainability in a given state as a key determinant of tax evasion internationally, and design and implement appropriate strategies to minimize its damaging effects. This should lead to improvements in tax revenue collection and allocation by governments. Empirical findings, in this study, also alert government about the adverse effect of low level of sustainability and corruption on the public revenues due to the lack of tax compliance. The findings are of great value to developing and emerging economies that need to reduce the level of corruption in an attempt to create the type of tax morale conducive to both tax compliance and economic development.

Our study has a number of limitations. First, the sample size of 65 countries is relatively small, which may decrease the reliability of empirical findings. However, this is a common problem of cross-country research (e.g. Riahi-Belkaoui, 2004; Richardson, 2006; Richardson, 2008; Tsakumis et al., 2007). Second, tax evasion is measured using the macro-indirect approach while other micro-direct approach exists. However, these alternative measures are not available in recent international reports to be integrated in the analysis. Finally, some independent variables (corruption, tax regulation) are proxied using survey data measures which raise concerns about measurement error. However, the data are collected from reputable sources (e.g World Economic Forum) which may reduce this concern.

Future research on tax evasion may be extended as follows. First, variables relating to sanctions, probability of detection and religious beliefs might be analyzed, subject to the availability of reliable cross-country data. Second, extending the sample size to study how region characteristics moderates the determinants of tax evasion may also improve our understanding of the topic. Finally, using several measures of tax evasion is needed to give rise to the robustness of the results, subject also to availability of reliable cross-country data.

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Appendix 1. Data description and sources

Variable	Description	Source

TEV	The size of the shadow economy. Data on the size of shadow economy is collected from a World Bank paper prepared by Shneider, Buehn and Montenegro (2010). The size of the shadow economy is estimated as a percentage of 'official' GDP.	Collected from table. 2 pages 454 to 456, column country average from the paper Schneider et al. 2010.
OSS	A country survey rating on a scale raging from 1 for low level of overall sustainability to 7 for high level of sustainability	The Global Competiveness report 2012-2013 (pages 58-59)
ESS	A country survey rating on a scale raging from 1 for low level of environmental sustainability to 7 for high level of sustainability	The Global Competiveness report 2012-2013 (pages 58-59)
SSS	A country survey rating on a scale raging from 1 for low level of social sustainability to 7 for high level of sustainability	The Global Competiveness report 2012-2013 (pages 58-59)
QIS	A country survey rating on a scale raging from 1 for low level of quality of infrastructure to 7 for high level of quality of infrastructure	The Global Competiveness report 2012-2013 (pages 58-59)
GDP	Gross domestic product per capita of population in thousands of Dollars	The Tax Justice Network 2011 (pages 8- 9- 10)
MKS	The size of the national domestic and foreign market in an index ranging from 0 to 7.	The Global Competiveness report 2012-2013 (Country profiles)
COR	The weight of corruption as the most problematic factor in doing business (a percentage). The information is drawn from the 2012 edition of the World Economic Forum's Executive Opinion Survey (Survey). From a list of 16 factors, respondents were asked to select the five most problematic and rank them from 1 (most problematic) to 5. The results were then tabulated and weighted according to the ranking assigned by respondents	The Global Competiveness report 2012-2013 (Country profiles)
CTR	The weight of tax regulation as the most problematic factor in doing business (a percentage). The information is drawn from the 2012 edition of the World Economic Forum's Executive Opinion Survey (Survey). From a list of 16 factors, respondents were asked to select the five most problematic and rank them from 1 (most problematic) to 5. The results were then tabulated and weighted according to the ranking assigned by respondents	The Global Competiveness report 2012-2013 (Country profiles)
ID	Individualism score	
PD	Power distance score	http://geert-hofstede.com/countries.html
UA	Uncertainty avoidance score	
MAS	Masculinity score	
LGS	Legal system (common = 1; civil =0)	Stulz and Williamson (2003) (Table 1, p. 323 & 324).

Table 1. Sample description

Sample selection process

Countries included in Shneider, Buehn and Montenegro (2010)	145
Countries with sustainability scores in the Global Competitiveness Report	79
Initial sample	Minimum (145; 79) = 79
Countries with sustainability scores not reported in Shneider, Buehn and Montenegro (2010)	(4)
Countries with no cultural dimensions	(10)
Final sample	65

List of countries included in the analysis

Argentina	Kenya
Australia	Latvia
Austria	Lithuania
Belgium	Malaysia
Brazil	Mexico
Bulgaria	Morocco
Canada	Namibia
Chile	Netherlands
China	New Zealand
Colombia	Norway
Costa Rica	Pakistan
Croatia	Peru
Czech Republic	Philippines
Denmark	Poland
Dominican Republic	Portugal
Ecuador	Romania
Egypt	Russian Federation
Estonia	Slovak Republic
Finland	Slovenia
France	South Africa
Germany	Spain
Greece	Sri Lanka
Hungary	Sweden
Iceland	Switzerland
India	Tanzania
Indonesia	Thailand
Iran, Islamic Rep.	Trinidad and Tobago
Ireland	Turkey
Israel	United Kingdom
Italy	United States
Jamaica	Uruguay
Japan	Venezuela
Jordan	

Table 2. Tax evasion by countries

	Rank from low to high level of shadow economy				
	Country	**TEV**		**Country**	**TEV**
1	Switzerland	8.500	34	Italy	27.000
2	United States	8.600	35	Poland	27.200
3	Austria	9.700	36	South Africa	27.300
4	Japan	11000	37	Greece	27.500
5	New Zealand	12.400	38	Latvia	29.200
6	United Kingdom	12.500	39	Mexico	30.000
7	China	12.700	40	Namibia	30.300
8	Netherlands	13.200	41	Malaysia	30.900
9	Australia	14.000	42	Estonia	31.200
10	France	15.000	43	Turkey	31.300
11	Iceland	15.600	44	Dominican Republic	31.900
12	Canada	15.700	45	Lithuania	32.000
13	Ireland	15.800	46	Croatia	32.100
14	Germany	16.000	47	Ecuador	32.400
15	Denmark	17.700	48	Romania	32.600
16	Finland	17.700	49	Kenya	33.200
17	Slovak Republic	18.100	50	Trinidad and Tobago	33.400
18	Iran, Islamic Rep.	18.300	51	Venezuela	33.800
19	Czech Republic	18.400	52	Jamaica	34.800
20	Jordan	18.500	53	Egypt	34.900
21	Norway	18.700	54	Morocco	34.900
22	Sweden	18.800	55	Bulgaria	35.300
23	Indonesia	18.900	56	Pakistan	35.700
24	Chile	19.300	57	Colombia	37.300
25	Belgium	21.900	58	Brazil	39.000
26	Israel	22.000	59	Philippines	41.600
27	India	22.200	60	Russian Federation	43.800
28	Spain	22.500	61	Sri Lanka	43.900
29	Portugal	23.000	62	Thailand	50.600
30	Hungary	24.400	63	Uruguay	50.600
31	Argentina	25.300	64	Tanzania	56.400
32	Costa Rica	25.800	65	Peru	58.000
33	Slovenia	26.200			

Notes: TEV: tax evasion level

Table 3. Sustainability scores for countries included in the sample

Sustainability scores for each country included in the sample

Country	OSS	ESS	SSS	QIS	Country	OSS	ESS	SSS	QIS
Argentina	3.480	3.370	3.590	3.600	Kenya	3.380	3.760	3.010	3.100
Australia	5.460	5.080	5.830	5.700	Latvia	4.620	4.690	4.550	4.100
Austria	6.020	5.860	6.170	5.800	Lithuania	4.610	4.710	4.520	4.700
Belgium	5.680	5.460	5.900	5.700	Malaysia	5.140	4.980	5.300	5.100
Brazil	4.460	4.690	4.220	4.000	Mexico	4.010	3.900	4.120	4.000
Bulgaria	4.070	3.970	4.170	3.800	Morocco	3.530	3.520	3.550	4.100
Canada	5.630	5.330	5.930	5.800	Namibia	3.530	3.840	3.220	4.200
Chile	4.480	4.430	4.530	4.600	Netherlands	6.210	5.880	6.540	6.200
China	4.440	4.270	4.610	4.500	New	5.680	5.530	5.820	5.200
Colombia	3.740	4.010	3.470	3.400	Norway	6.150	5.980	6.320	5.200
Costa Rica	4.490	4.690	4.300	3.800	Pakistan	2.900	2.960	2.840	2.700
Croatia	4.020	4.200	3.840	4.700	Peru	3.880	4.030	3.730	3.500
Czech	4.770	4.660	4.890	4.800	Philippines	3.990	4.160	3.820	3.200
Denmark	5.730	5.250	6.210	5.700	Poland	4.370	4.420	4.320	3.900
Dominican	3.290	3.290	3.290	3.000	Portugal	4.360	4.150	4.580	5.500
Ecuador	3.630	3.670	3.580	3.500	Romania	3.720	3.730	3.710	3.200
Egypt	3.380	3.200	3.560	3.600	Russian	3.980	3.870	4.090	4.500
Estonia	4.830	4.850	4.820	4.700	Slovak	4.270	4.360	4.180	4.200
Finland	6.360	6.260	6.450	5.600	Slovenia	4.660	4.560	4.760	4.900
France	5.500	5.400	5.590	6.300	South	3.800	3.770	3.830	4.100
Germany	6.140	5.920	6.370	6.400	Spain	4.550	4.450	4.660	5.900
Greece	3.710	3.820	3.590	4.700	Sri Lanka	3.960	4.250	3.670	4.100
Hungary	4.300	4.320	4.290	4.400	Sweden	6.160	6.150	6.170	5.700
Iceland	5.440	5.430	5.450	5.700	Switzerland	6.850	6.870	6.830	6.200
India	3.730	3.750	3.700	3.600	Tanzania	3.240	3.600	2.880	2.300
Indonesia	4.030	4.210	3.850	3.700	Thailand	4.280	4.160	4.390	4.600
Iran, Islamic	3.850	3.850	3.850	4.000	Trinidad	3.830	3.670	4.000	4.300
Ireland	5.180	5.110	5.260	5.300	Turkey	4.040	3.840	4.240	4.400
Israel	5.060	4.720	5.400	4.900	United Kingdom	5.820	5.620	6.030	6.100
Italy	4.390	4.400	4.380	5.200	United States	5.310	5.000	5.630	5.800
Jamaica	3.510	3.740	3.280	3.600	Uruguay	4.150	4.090	4.210	4.400
Japan	5.760	5.420	6.100	5.900	Venezuela	3.280	3.410	3.150	2.600
Jordan	3.920	3.580	4.250	4.200					

Notes: OSS: overall sustainability score; ESS: environmental sustainability score, SSS: social sustainability score; QIS: quality of infrastructure score.

Table 4. Descriptive statistics

Variable	Observations	Mean	Median	Standard deviation	Minimuim	Maximuim
TEV	65	26.592	26.200	11.426	8.500	58
OSS	65	4.534	4.300	0.944	2.900	6.850
ESS	65	4.494	4.270	0.855	2.960	6.870
SSS	65	4.575	4.290	1.059	2.840	6.830
QIS	65	4.556	4.400	1.014	2.300	6.400
GDP	65	59.840	13.061	167.367	1.429	983
MKS	65	4.481	4.400	0.984	2.400	6.900
COR	65	8.104	7.100	6.760	0.000	20.800
CTR	65	7.244	6.500	4.334	0.600	20.400
ID	65	46.076	39.000	23.004	8	91
PD	65	57.015	60.000	21.026	11	100
UA	65	65.015	65.000	21.088	13	100
MAS	65	48.430	49.000	21.173	5	100
LGS	65	32.307	0.000	47.100	0	1

Notes: OSS: overall sustainability score; ESS: environmental sustainability score, SSS: social sustainability score; QIS: quality of infrastructure score, GDP: GDP per capita in thousands of Dollars; MKS: market size; COR: corruption level; CTR: the level of tax regulation; ID: uncertainty avoidance score; PD: power distance score; UA: Uncertainty avoidance score; LGS: dummy variable: 1 if common law country and 0 otherwise.

Table 5. Correlation matrix

	TEV	OSS	ESS	SSS	QIS	GDP	MKS	COR	CTR	ID	PD	UA	MAS	LGS
TEV	1.000													
OSS	-0.674***	1.000												
ESS	-0.623***	0.982***	1.000											
SSS	-0.698***	0.988***	0.943***	1.000										
QIS	-0.682***	0.881***	0.831***	0.899***	1.000									
GDP	0.140*	-0.192*	-0.154*	-0.217**	-0.259**	1.000								
MKS	-0.289*	0.197*	0.138*	0.240**	0.256**	-0.136*	1.000							
COR	0.592***	-0.718***	-0.672***	-0.736***	-0.724***	0.215**	-0.111*	1.000						
CTR	-0.143*	0.307**	0.332***	0.279**	0.267**	-0.230**	0.277**	-0.287**	1.000					
ID	-0.596***	0.710***	0.681***	0.716***	0.704***	-0.144*	0.196*	-0.603***	0.285**	1.000				
PD	0.491***	-0.615***	-0.595***	-0.616***	-0.545***	-0.039	0.140*	0.644***	-0.031	-0.610***	1.000			
UA	0.227**	-0.186*	-0.212**	-0.160*	-0.063	-0.099	0.104*	0.023	0.247**	-0.243**	0.215**	1.000		
MAS	-0.167*	-0.141*	-0.157*	-0.124*	-0.103*	-0.027	0.325***	0.200**	-0.038	0.016	0.167*	0.023	1.000	
LGS	0.038	-0.127*	-0.124*	-0.128*	-0.097	0.328***	-0.145*	0.082	-0.385***	0.053	-0.036	-0.575***	0.064	1.000

Notes: TEV: tax evasion level; OSS: overall sustainability score; ESS: environmental sustainability score, SSS: social sustainability score; QIS: quality of infrastructure score, GDP: GDP per capita in thousands of Dollars; MKS: market size; COR: corruption level; CTR: the level of tax regulation; ID: uncertainty avoidance score; PD: power distance score; UA: Uncertainty avoidance score; LGS: dummy variable: 1 if common law country and 0 otherwise.

Table 6. Multivariate regression analysis

	Model 1		Model 2		Model 3		Model 4	
Dependent variable: Tax evasion								
	Coeff	t-statistic	Coeff	t-statistic	Coeff	t-statistic	Coeff	t-statistic
Intercept	46.428***	3.860	43.276***	3.410	46.335***	4.170	43.465***	4.460
OSS	-4.271***	-2.290						
ESS			-3.521*	-1.810				
SSS					-4.390***	-2.600		
QIS							-4.725***	-2.910
GDP	-0.022	-0.350	-0.015	-0.240	-0.003	-0.480	-0.004	-0.770
MKS	-1.402	-1.180	-1.732	-1.450	-1.083	-0.910	-1.100	-0.940
COR	0.531	2.180	0.603	2.490	0.483	1.980	0.465*	1.950
CTR	0.283	1.040	0.322	1.150	0.226	0.840	0.183	0.690
ID	-0.524	-0.760	-0.068	-0.980	-0.430	-0.630	-0.025	-0.370
PD	0.176	0.230	0.266	0.350	0.118	0.160	0.031	0.440
UA	0.101	1.610	0.103	1.600	0.105*	1.730	0.146***	2.480
MAS	-0.137***	-2.660	-1.33***	-2.550	-0.139***	-2.730	-0.141***	-2.810
LGS	3.229	1.100	3.502	1.170	3.196	1.110	4.570*	1.650
F (p-value)	8.400***		7.940***		8.740***		9.140***	
Adj-R-square	53.610 %		52 %		54.750 %		55.980 %	
Max VIF	3.270		2.830		3.490		3.030	
Number of observations	65		65		65		65	

Notes: TEV: tax evasion level; OSS: overall sustainability score; ESS: environmental sustainability score, SSS: social sustainability score; QIS: quality of infrastructure score,

GDP: GDP per capita in thousands of Dollars; MKS: market size; COR: corruption level; CTR: the level of tax regulation; ID: uncertainty avoidance score; PD: power

distance score; UA: Uncertainty avoidance score; LGS: dummy variable: 1 if common law country and 0 otherwise.

Table 7. Multivariate regression analysis

	Model 1				Model 2			
Dependent variable: Tax evasion								
	Low corruption		High corruption		Low corruption		High corruption	
	Coeff	t-statistic	Coeff	t-statistic	Coeff	t-statistic	Coeff	t-statistic
Intercept	74.533***	5.450	46.887***	2.380	68.835***	4.590	42.912*	1.940
OSS	-8.921***	-4.240	-3.467	-0.850				
ESS					-7.646***	-3.380	-2.133	-0.470
SSS								
QIS								
GDP	-0.010	-0.440	-0.005	-0.700	-0.011	-0.450	-0.004	-0.530
MKS	-3.690***	-2.510	-2.224	-1.240	-3.990***	-2.480	-2.497***	-1.400
COR								
CTR	0.301	1.130	-0.144	-0.270	0.325	1.110	-0.117	-0.210
ID	0.157*	1.820	-0.118	-1.080	0.116	1.280	-0.135	-1.240
PD	0.045	0.490	0.083	0.740	0.079	0.780	0.079	0.680
UA	-0.014	-0.150	0.225***	2.290	-0.016	-0.160	0.228**	2.250
MAS	-0.006	-0.100	-0.177	-1.990	-0.004	-0.060	-0.168*	-1.860
LGS	-10.029***	-2.640	9.979**	2.150	-9.633***	-2.290	10.159**	2.170
F (p-value)	6.980 ***		2.690*		5.450***		2.58*	
Adj-R-square	62.700 %		32.910 %		55.500 %		31.410 %	
Max VIF	4.320		2.310		4.360		2.31	
Number of observations	33		32		33		32	

Notes: TEV: tax evasion level; OSS: overall sustainability score; ESS: environmental sustainability score, SSS: social sustainability score; QIS: quality of infrastructure score,

GDP: GDP per capita in thousands of Dollars; MKS: market size; COR: corruption level; CTR: the level of tax regulation; ID: uncertainty avoidance score; PD: power

distance score; UA: Uncertainty avoidance score; LGS: dummy variable: 1 if common law country and 0 otherwise.

Table 7. Continued

Dependent variable: Tax evasion

	Model 3				Model 4			
	Low corruption		High corruption		Low corruption		High corruption	
	Coeff	t-statistic	Coeff	t-statistic	Coeff	t-statistic	Coeff	t-statistic
Intercept	72.001***	5.740	46.707***	2.700	52.226***	4.620	51.594	3.430
OSS								
ESS								
SSS	-8.608***	-4.540	-3.740	-1.090				
QIS					-7.501***	-3.480	-5.202**	-2.060
GDP	-0.014	-0.630	-0.006	-0.830	0.001	0.070	-0.010	-1.330
MKS	-3.304**	-2.320	-1.920	-1.050	-1.941	-1.180	-2.013	-1.220
COR								
CTR	0.245	0.950	-0.211	-0.400	-0.082	-0.280	-0.172	-0.350
ID	0.169**	2.010	-0.108	-1.000	0.160*	1.670	-0.089	-0.890
PD	0.034	0.380	0.080	0.730	0.149	1.550	0.064	0.620
UA	-0.000	-0.010	0.229***	2.380	0.063	0.610	0.254***	2.810
MAS	-0.016	-0.260	-0.179**	-2.050	-0.022	-0.310	-0.184	-2.280
LGS	-9.262***	-2.570	9.888**	2.150	-7.805*	-1.970	11.298***	2.620
F (p-value)	7.580***		2.790*		5.610***		3.480**	
Adj-R-square	64.900 %		34.250 %		56.400 %		41.900 %	
Max VIF	4.270		2.310		4.230		2.310	
Number of observations	33		32		33		32	

Notes: TEV: tax evasion level; OSS: overall sustainability score; ESS: environmental sustainability score, SSS: social sustainability score; QIS: quality of infrastructure score,

GDP: GDP per capita in thousands of Dollars; MKS: market size; COR: corruption level; CTR: the level of tax regulation; ID: uncertainty avoidance score; PD: power

distance score; UA: Uncertainty avoidance score; LGS: dummy variable: 1 if common law country and 0 otherwise.