

ABSTRACT

COMPETITION AND TAX EVASION:
A CROSS COUNTRY STUDY

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This paper investigates the determinants of informality (tax evasion in particular) utilizing rich cross-country data of firm-level survey from the World Bank, and hypothesizing that competition is a significant factor determining tax evasion behaviors. Competition pressure is a key stimulus to induce questionable manipulations of tax reporting behaviors. However its effect works at a decreasing speed. It is also hypothesized that business obstacles facing firms such as tax administration and corruption play significant roles in explaining tax evasion. This paper further hypothesizes that firm characteristics such as size, age, ownership are important evasion determinants. Empirical results are found supporting these hypotheses above. The analysis controls for country-level effects, for instance the quality of the legal environment. Industry sectors are also controlled and found significant in explaining corporate tax evasion levels.

Keywords: tax evasion; competition; legal environment.