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Political connections, corruption and tax evasion:
A cross-country investigation

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Abstract:

Purpose: We examine the association political connections and tax evasion and we test whether corruption level affects this relationship.

Design/methodology/approach: Tax evasion measure is based on Schneider, Buehn and Monterngro (2010), while country's political connection trend is based on Faccio (2006).

Findings: Using a sample of 35 countries, we document that political connections are positively associated with tax evasion and this relationship becomes stronger for high corrupt environment.

Practical implications: Our findings have policy implications for countries aiming to combat tax evasion since political connection trends in one country reduce the level of tax compliance. In addition, political connections and corruption play a complimentary role in increasing tax evasion practices.

Key words: Tax evasion, political connections, corruption.

1. Introduction

Both political connections and tax evasion have attracted a great deal of attention among policy makers as widespread phenomena that may adversely affect the economic development in one country. Research concerning the importance of political connections as a determinant of tax evasion is important since very little is currently known about this association at country level. Some studies have examined the effect of political connections on tax avoidance (e.g., Adhikari et al., 2006 in Malaysia), tax aggressiveness (Kim and Zhang, 2016 in USA), or on the capability of the state to enforce tax legislations (e.g., Lin et al., 2017 in China) at firm level. All these empirical enquiries have documented that political connections have an adverse effect on tax compliance behaviour through more tax avoidance, more tax aggressiveness practices and less effective enforcement of tax compliance by State tax authorities. However, there is no empirical evidence concerning the linkage between political connections and tax evasion using cross-country dataset.

Accordingly, this study tries to complement the above streams of research by exploring the direct effect of political connection on tax evasion at country level. In addition, it tests whether corruption level moderates such a relationship. By doing so, our paper extends also previous literature dealing with the determinants of tax evasion initiated by Riahi-Belkaoui (2004)[1].

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[1]The stream of research dealing with the determinants of tax evasion at country level has focused on a wide range of explanatory variables including economic and demographic characteristics (e.g., Gabor, 2012; Picur and Riahi-Belkaoui, 2006; Richardson, 2006), national culture (e.g., Richardson, 2008; Tsakumis, Curatola and Porcano, 2007) and sustainability level (e.g., Khlif et al., 2016) and financial crime (e.g., Khlif and Amara, 2018).

Understanding the economic consequence of political connections on tax evasion is crucial for governments that have an objective to fight or reduce tax evasion practices.

Political connection trends in one country are proxied using the seminal work of Faccio (2006) dealing with political connections at country level, while tax evasion is measured using Schneider et al. (2010). Based on sample of 35 countries, we provide evidence that countries characterised by high level of political connections have higher levels of tax evasion. Furthermore, political connections and corruption level play a complimentary role in increasing tax evasion practices. Finally, the positive association between political connections and tax evasion becomes stronger for countries characterised by high corruption levels.

These findings imply that the high level of political connections in one country may adversely affect tax compliance behaviour and this adverse effect is more prevailing under high corrupt environment. Our results have policy implications for governments having high levels of tax evasion since they alert them about the adverse effect of political connections and corruption on tax compliance behaviours. Accordingly, relationship-based economies may create a favourable environment for tax evasion and government should adopt legislations to reduce the adverse effect of political connections on tax enforcement and tax compliance.

The rest of the paper is structured as follows. Section 2 develops theoretical bases for the association between political connections and tax evasion and formulates research hypotheses. Section 3 describes the research design. Section 4 summarises and analyses the empirical results of this study. Section 5 concludes the paper.

2. Hypotheses development

2.1. Political connections and tax evasion

Political ties of taxpayers may adversely affect the state's revenue-generation efforts through direct effects, via tax evasion and tax avoidance, and through indirect impact such as decreasing voluntary tax compliance due to destruction of tax morale of country's citizens (Abbas et al, 2017). Accordingly, we discuss the impact of political connections on tax evasion through its effect on *(i)* management tax policies, *(ii)* state capability to enforce tax legislations *(iii)* and the development of black economy in one country.

On the one hand, Adhikari et al. (2006) suggest that political connections may give managers incentives to use their discretions in order to undertake illegal behaviour such as concealing taxable income or profit by deliberately overstating deductions, exemptions or credits. Managers will commit these illegal acts given the fact that they know that they will be protected from any kind of future law suits due to their strong political ties. Similarly, Kim et al. (2016, p. 79) posit that "*politically connected firms are more tax aggressive because these firms can have lower detection risk, better information regarding future changes in tax regulation or enforcement, lower capital market pressure for transparency, lower political costs associated with aggressive tax planning, and higher risk-taking tendencies*". From an empirical standpoint, Adhikari et al. (2006) investigate the relationship between effective tax rates and political connections in Malaysia and find that firms with political connections pay tax at significantly lower effective rates than other firms. Kim et al. (2016) examine the association between corporate political connections and tax aggressiveness in the U.S. setting and document that politically connected firms are more tax aggressive than non-connected firms. In China, Li et al. (2016) use the occasion of increase in tax rate for many of the listed companies and document that only politically connected firms undertake aggressive tax-induced earnings management.

On the other hand, political connections may constrain the effort played by tax authorities in the detection of fiscal infractions and the magnitude of post-audit adjustments and sanctions (Lin et al., 2017). For instance, the presence of a politician as major owner or a key actor in the

management may reduce fiscal authorities' capability to enforce tax law and strictly punish committed fiscal frauds (Lin et al., 2017). From an empirical perspective, Lin et al. (2017) test whether political connections on boards of directors weaken the effectiveness of tax authorities in constraining tax aggressiveness practices in China. They provide evidence that political connections reduce the effective enforcement of tax compliance by State fiscal authorities.

Finally, relationship-based economies may create a favourable environment that gives raise to black economy size where the main operators feel protected from any future punishment from fiscal authorities given their strong relationships with politicians in the government. Accordingly, black and unofficial economies will gain momentum in one country where economic agents have a hidden protection of politicians. Abbas et al. (2017, p. 6) suggest that "*there is wide consensus that the political economy constitutes the structural issue behind low fiscal capacity* »

Accordingly, countries characterised by high levels of political connections may create a fertile ground for tax noncompliance and illegal acts among their companies and taxpayers which translate into high levels of tax evasion. Thus, we formulate our first hypothesis.

H1: There is a significant positive association between political connections and tax evasion in one country.

2.2. The moderating effect of corruption on the association between political connections and tax evasion[2]

Corruption is defined as an act 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). Chen et al. (2010, p. 1509) argue that "*corruption creates injustice in the legal system and depreciates the value of public scrutiny*". In countries characterized by high levels of

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[2] Previous literature dealing with the determinants of tax evasion has documented that corruption level moderates the association between sustainability level and tax evasion (Khlif et al., 2016) and financial crime and tax evasion (Khlif and Amara, 2018).

corruption, the role of financial media is reduced to promote powerful politicians or corporations connected to them. High levels of corruption are also associated with the lack of transparency (Chen et al., 2010). Accordingly, if politicians or their connected firms operate within black economy or commit aggressive tax management leading to tax evasion, high corrupt environment will protect them against any kind of future law suits.

High level of corruption may reduce public scrutiny and decrease the ability of fiscal authorities to enforce tax laws and punish politicians and their companies involved in tax evasion practices, which in turn, translate into a fertile ground of black economy and higher tax evasion. By contrast, low corrupt environment will promote transparency and politicians and their connected companies will operate under higher public scrutiny which creates a favourable environment to combat tax evasion and thus reduce the scope of black economy.

Based on the above discussion, we expect that the positive relationship between political connections and tax evasion will be more significant for countries characterised by high corruption level. Thus, we test the following hypothesis:

H2: The positive relationship between political connections and tax evasion is stronger in jurisdictions with higher levels of corruption.

3. Research design

In this study, we collect data from diverse public sources. Appendix 1 provides more details about the measurement and the source of data collection for each variable employed in this empirical enquiry.

3.1. Sample

Our initial sample consists of 162 countries included in the paper of Schneider et al. (2010). Faccio (2006) reports information concerning the magnitude of political connection for 47 countries. Thus, our sample size is reduced to 47 settings. Finally, we remove all countries for which Faccio (2006) reports nil values of political connections (12) given the fact that they may

represent outliers in our empirical analysis and these values do not really provide a concrete picture about the degree of political connection trends in one country. Accordingly, our final sample includes 35 countries. The rest of variables are collected from the Global Competitiveness Report 2009-2008 and corruption perceptions index of 2007. Table 1 presents more details about 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 level is measured using the macro indirect approach based on the economic estimate of shadow economy available in Schneider et al. (2010). Tax noncompliance measure represents the country average of tax evasion level over the period of 1999-2007. This approach has been used by previous studies dealing with the determinants of tax evasion including Tsakumis et al. (2007), Gabor (2012) and Khlif et al. (2016) and Khlif and Amara (2018). The minimum value for tax evasion is for Switzerland (8.500 %), while the maximum value is for Thailand (50.600 %). The median value for tax evasion is for Indonesia (18.900 %).

3.3. Political connections

The measure of political connectedness in one country is taken from Faccio (2006) who reports the country distribution of firms with political connections. Our proxy for the level of political connections in one setting represents the ratio between the market capitalization of politically connected firms and the overall market capitalization of the Stock Exchange in one country. We consider that this percentage represents the degree of politicians' involvement in one economy. As stated above, we remove countries with zero values of political connections (12 of 47 countries) given the fact that they may represent outliers in our empirical analysis and these values do not really provide a concrete picture about the degree of political connection in

one country. The minimum value of political connectedness in one country is obtained for Netherlands with 0.010 %, whereas the maximum values is for Russia and it accounts for 86.750 %. The median value is for Singapore with 2.560 %.

3.4. The moderating variable: the level of corruption

The level of corruption is proxied by corruption perceptions index score of 2007 on a scale from zero to ten (0-high levels of perceived corruption; 10-low levels of perceived corruption). This variable was transformed to obtain an increasing scale of corruption level and we compute a new variable (max value in our sample − the score of corruption attributed to the country). Accordingly, the minimum values are obtained for Denmark and Finland with a nil score of corruption, while the maximum score is obtained for Indonesia and Russia with a value of 7.100. The median score accounts for 2.300 and it is obtained for Belgium.

3.5. Control variables

We consider four control variables including the level of investor protection, tax regulation, market size and political instability. Richardson (2006) posits that tax regulation complexity and legal system may affect tax evasion in one setting. In addition, Riahi-Belkaoui (2004) posits that larger market size may diminish the scope of black economy in one country. Finally, political instability may represent a fertile ground for black economy activities which translates into high levels of tax evasion.

3.6. Model specification

To assess the empirical validity of the hypotheses formulated above, the following OLS regression is performed:

$$TEV_i = \alpha_0 + \alpha_1\,POL_i + \alpha_2\,COR_i + \alpha_3\,CTR_i + \alpha_4\,POLINST + \alpha_5 IP_i + \alpha_6 MKS_i +_i \varepsilon_i \quad (1)$$

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

POL = the level of political connectedness in one country;

Moderating variable:

COR = the level of corruption in one country;

Control variables:

CTR = complexity of tax regulation;

POLINST = the degree of political instability in one country.

IP = the level of investor in one country;

MKS = market size.

3.7. Testing for the moderating effect of corruption level

In order to test hypothesis H2 which posits that the level of corruption influences the relationship between political connections and tax evasion, we introduce an interaction variable by multiplying political connections by a dummy corruption variable which equals to 1 if corruption score is superior to the median[3] (high corrupt environment) and 0 otherwise. A test of hypothesis H2 consists of observing a stronger positive association between this interaction variable (POL*COR_Dum) and tax evasion. To test H2, we regress model 1 after removing corruption and political connections variables[4].

4. Empirical results and analysis

4.1. Descriptive statistics

The descriptive statistics are reported in table 2. For the dependent variable, tax evasion has a mean of 21.188 % and it ranges from 8.500 % to 50.600 %. Political connections has an average of 10.368 % and varies from 0.010 % to 86.750 %. The mean of corruption level accounts for 2.854 and varies from 0 to 7.100. The zero value for corruption is obtained since we have transformed the corruption perceptions index into an increasing variable by subtracting each country's corruption score from the maximum score in our sample.

The strength of investor protection has a mean of 0.679 and ranges from 0.119 to 0.985. The average of tax regulation complexity amounts to 11.305 and varies from 3 % to 23.400 %. The

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[3] The median of corruption level in our sample accounts for 2.300.

[4] It is impossible for us to perform the sub-sample analysis in our study as it was for Khlif et al. (2016) or Khlif and Amara (2018) due the small sample size in our study which is 35 countries.

mean of political instability accounts for 6.322% and ranges from 0 to 19.800 %. Finally, the

average of market size accounts for 0.798 and varies from 0.276 to 0.992.

<p align="center">**Insert table 2 about here**</p>

4.2. Univariate analysis

Table 4 displays the results of univariate analysis. Findings show that there is a significant

positive correlation between political connections and tax evasion (0.565). This result provides

preliminary support for H_1. Similarly, corruption level is significantly and positively correlated

with tax evasion with a Pearson coefficient accounting for 0.709. Political instability variable

is also positively correlated with tax evasion (0.369). Finally, market size is negatively

correlated with tax evasion with a Pearson correlation amounting to 0.164. It should be noted

here that corruption level is positively correlated with the level of political connections in one

country with a Pearson correlation accounting for 0.444.

<p align="center">**Insert table 3 about here**</p>

4.3. Multivariate analyses

Table 4 presents the results of multiple regression specified in model (1). In model 1, our

finding suggests that political connections are positively related to tax evasion (Coeff = 0.186;

t = 2.670). This finding provides support for H_1 and suggests that high levels of political

connections in one country may increase tax noncompliance behaviour among taxpayers which

leads to high levels of tax evasion. This implies that relationship-based economies may

encourage firm's management to undertake aggressive tax avoidance behaviours, reduce the

capability of tax authorities to enforce tax legislations and create a favourable environment to

black economy which translate into higher tax evasion levels. Similarly, the level of corruption

is also positively and significantly related to tax evasion (Coeff = 2.753; t = 4.140) and this

finding is in line with results previously documented by Riahi-Belkaoui (2004), Picur and

Riahi-Belkaoui (2006) and Khlif et al. (2016).

With regard to control variables, all of them do not have a significant effect on tax evasion. Controlling for muticollinearity, the VIFs reported for model 1 suggest that it does not suffer from such a problem since the maximum VIF amounts to 2.190. The overall explanatory power of the model is significantly high ($F = 11.630$; $p < 0.000$) and the adjusted-Rsquare accounts for 65.230 %.

In model Model 2, we remove corruption variable to assess how political connections may affect tax evasion without corruption variable. Reported results show that association between political connections and tax evasion becomes more significant (Coeff = 3.260; $t = 4.290$) as compared to model 1. Accordingly, we can suggest that there is a complementarity between political connections and corruption level in increasing tax evasion. By contrast to model 1, political instability becomes a significant predictor of tax evasion since the former has a positive effect on such variable (Coeff = 0.803; $t = 2.880$), while investor protection level has a significant negative impact on tax evasion (Coeff = -8.569; $t = -1.710$). Model 2 does not also suffer from multicolliniarity since all VIFs are inferior to 1.340.

In model 3, we remove political connections to examine how corruption may influence tax evasion. We find that only the level of corruption has a significant positive effect on tax evasion (Coeff = 3.616; $t = 5.660$). As for previous models, Model 3 does not also suffer from multicolliniarity since all VIFs are inferior to 1.670.

To test the moderating effect of corruption level on the relationship between political connections and tax evasion (hypothesis H2), we introduce an interaction variable between political connections and a dummy corruption variable. This interaction variable captures the effect of political connections only under high corrupt environment and it takes the value of political connections variable under high corrupt environment and it has a zero value otherwise. Findings show that the adverse impact of political connections under high corrupt environment becomes more strong (Coeff = 0.398; $t = 5.920$) as compared to models 1 and 2. This finding

provides support for H2 suggesting that corruption moderates association between the political connections and tax evasion and this association is more pronounced under high corrupt environment. This implies that the adverse effect of relationship-based economies on tax evasion is higher under corrupt environment due to the reduced tax enforcement power which encourages taxpayers to undertake illegal tax management practices under the scope of black economy. With respect to control variables, findings show also that political instability variable is positively associated with tax evasion (Coeff = 0.696; t = 2.920).

It should be noted that the overall explanatory power of the model 4 is significantly high (F = 11.160; p < 0.000) and the adjusted-Rsquare accounts for 59.910 % and this model does not also suffer from muticollinearity since all VIFs are inferior to 1.350.

Insert table 4 about here

5. Conclusion

Recent literature accounting literature has dealt with the effect of political connections on tax avoidance and tax aggressiveness at company level (e.g., Kim and Zhang, 2016). However, no study has extended this stream of research by considering the effect of political connections on tax evasion practices at country level. Accordingly, this study investigates this relationship and tests whether the level of corruption on one country moderates such an association. Using a sample of 35 countries, we find that political connections are positively associated with tax evasion and this relationship is more prevailing under high corrupt environment.

The findings have policy implications for governments that aim to reduce the level of tax evasion. Relationship-based economies or political connections may increase the scope of back economy and tax evasion and this is particularly true in countries with high corruption levels. These results should allow government policy-makers to gain more understanding about the adverse effects of political connections at country level and implement adequate fiscal strategies to control these kinds of relationships in order to reduce their damaging impacts. Accordingly,

it becomes crucial for emerging, developing, and developed economies to identify and quantify the impact of political ties of citizens on taxpaying behaviour, since it can improve the revenue-generating opportunities. This may normally lead to more tax compliance by taxpayers which translate into improved tax revenue collection by governments.

Our study has a number of limitations. First, the sample size of 35 countries is relatively small, which means that the results of our study may not be generalizable. Nevertheless, this is a common problem of cross-country empirical investigations (e.g., Picur and Riahi-Belkaoui 2006; Riahi-Belkaoui, 2004; Richardson, 2006). Second, variables collected do not relate to the same years and same periods. However, we have tried to bring closer the same periods of data collection for the different variables examined in our models. In addition, tax noncompliance behaviours remain stable over certain period of time for several countries (Tsakumis et al., 2007). Finally, explanatory variables (e.g., corruption, tax regulation) are proxied based on survey data which may introduce a bias into the analysis. However, the data are collected from reputable sources (e.g., World Economic Forum, Corruption Perceptions Index) which may reduce this concern.

Future research may explore the effect of foreign political connections on tax evasion practices, tax avoidance and tax aggressiveness at country and company levels respectively, subject to the 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	Collected from table. 2 pages 454 to 456, column country average from the paper Schneider et al. 2010

	economy is estimated as a percentage of 'official' GDP	
POL	Political connections at country level proxied by the ratio between the market capitalization of politically connected firms and the overall market capitalization of the Stock Exchange in one country	Collected from table 2 page 374, column connected firms as % of market capitalization country from the paper Faccio (2006)
COR	Corruption perception index	Collected from the following web site: https://www.transparency.org/research/cpi/cpi_2007/0
CTR	Tax regulation complexity measured as the weight of tax regulation as the most problematic factor in doing business (a percentage). 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 2009-2008 (Country profiles)
PLOINST	Political instability measured as the weight of political instability as the most problematic factor in doing business (a percentage). 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 2009-2008 (Country profiles)
IP	The level of investor protection computed as [1-(Rank of the country/134)]	The Global Competiveness report 2009-2008 (Country profiles)
MKS	The size of the national domestic and foreign market computed as [1-(Rank of the country /134)].	The Global Competiveness report 2009-2008 (Country profiles)

Table 1. Sample description

Sample selection process	
Countries included in Shneider et al. (2006)	162
Countries with political connections in Faccio (2006)	47
Initial sample	Minimum (162: 47) =47
Countries with zero value of political connections	(12)

Final sample			35		
Countries included in the sample (ranked from the minimum to the maximum)					
Country	**TEV**	**Country**	**POL**	**Country**	**COR**
Switzerland	8.500	Netherlands	0.010	Denmark	0.000
USA	8.600	Greece	0.090	Finland	0.000
Luxembourg	9.700	Finland	0.140	Singapore	0.100
Austria	9.800	Turkey	0.140	Sweden	0.100
Japan	11.000	Austria	0.250	Netherlands	0.400
UK	12.500	Australia	0.320	Switzerland	0.400
Singapore	12.900	Switzerland	0.690	Canada	0.700
Netherlands	13.200	Spain	0.820	Australia	0.800
Australia	14.000	Sweden	1.020	Luxembourg	1.000
France	15.000	Germany	1.200	UK	1.000
Canada	15.700	Japan	1.340	Hong Kong	1.100
Ireland	15.800	Chile	1.430	Austria	1.300
Germany	16.000	India	1.830	Germany	1.600
Hong Kong	16.000	Portugal	2.000	Ireland	1.900
Denmark	17.700	Hong Kong	2.330	Japan	1.900
Finland	17.700	Denmark	2.520	France	2.100
Sweden	18.800	Canada	2.530	USA	2.200
Indonesia	18.900	Singapore	2.590	Belgium	2.300
Chile	19.300	Hungary	2.810	Chile	2.400
Belgium	21.900	USA	4.940	Spain	2.700
Israel	22.000	France	8.030	Portugal	2.900
India	22.200	Israel	8.130	Israel	3.300
Spain	22.500	Mexico	8.140	Taiwan	3.700
Portugal	23.000	South Korea	8.950	Hungary	4.100
Hungary	24.400	Luxembourg	10.480	Italy	4.200
Taiwan	25.000	Italy	11.270	Malaysia	4.300
South Korea	26.800	Taiwan	12.740	South Korea	4.300
Italy	27.000	Indonesia	12.760	Greece	4.800
Greece	27.500	Philippines	16.160	Turkey	5.300
Mexico	30.000	Belgium	18.770	India	5.900
Malaysia	30.900	Ireland	22.830	Mexico	5.900
Turkey	31.300	Malaysia	28.240	Thailand	6.100
Philippines	41.600	UK	39.020	Philippines	6.900
Russia	43.800	Thailand	41.620	Indonesia	7.100
Thailand	50.600	Russia	86.750	Russia	7.100

Notes: TEV: tax evasion level; POL: the level of political connection; COR: corruption level.

Table 2. Descriptive statistics

Variable	Observations	Mean	Standard deviation	Minimum	Maximum

TEV	35	21.188	9.909	8.500	50.600
POL	35	10.368	17.030	0.010	86.750
COR	35	2.854	2.232	0.000	7.100
CTR	35	11.305	5.160	3.000	23.400
POLINST	35	6.322	4.709	0.000	19.800
IP	35	0.679	0.259	0.119	0.985
MKS	35	0.798	0.151	0.276	0.992

Notes: TEV: tax evasion level; POL: the level of political connection; COR: corruption level; CTR: the level of tax regulation complexity; POLINST: the degree of political instability; IP: Investor protection; MKS: market size.

Table 3. Correlation matrix

	TEV	POL	COR	CTR	POLINST	IP	MKS
TEV	1.000						
POL	0.565***	1.000					

COR	0.790***	0.444***	1.000				
CTR	- 0.216**	- 0.128	- 0.239**	1.000			
POLINST	0.369***	- 0.039	0.391***	- 0.024	1.000		
IP	-0.098	0.086	-0.151	-0.197*	0.072	1.000	
MKS	0.164*	0.146	0.319**	0.344**	0.260**	0.109	1.000

Notes: TEV: tax evasion level; POL: the level of political connection; COR: corruption level; CTR: the level of tax

regulation complexity; POLINST: the degree of political instability; IP: Investor protection; MKS: market size.

*significant at 10%; **significant at 5%; ***significant at 1%.

Table 4. Multivariate analyses

	Dependent variable: Tax evasion						
	Model 1		Model 2		Model 3		
	Coeff	t-statistic	Coeff	t-statistic	Coeff	t-statistic	C
Intercept	16.131**	2.750	18.907**	2.600	14.929**	2.320	1
POL	**0.186****	**2.670**	**0.326*****	**4.290**			
COR	**2.753*****	**4.140**			**3.616*****	**5.660**	
POL* COR_Dum							(
CTR	0.031	0.130	-0.395	-1.450	0.066	0.250	-(
POLINST	0.367	1.490	0.803***	2.880	0.175	0.670	(
IP	-1.079	-0.250	- 8.569*	-1.710	1.512	0.320	-:
MKS	-8.369	-1.010	5.157	0.540	-8.708	-0.950	2
F (p-value)	11.630 (0.000)		6.760		10.350		
Adj-R-square	65.230 %		45.860 %		57.900 %		
Max VIF	2.190		1.340		1.670		
Number of observations	35		35		35		

Notes: TEV: tax evasion level; POL: the level of political connection; COR: corruption level; CTR: the level of tax regulation complexity; P

Investor protection; MKS: market size. *significant at 10%; **significant at 5%; ***significant at 1%.