

# Analysis on the Tax Evasion: A Financial and Country Governance Perspective

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**Abstract:** Corporate tax evasion is a universal problem. Many scholars have studied the factors affecting corporate tax evasion from the perspective of theory and experience. The early corporate tax evasion study used the theoretical framework of individual tax evasion, but then economists gradually realized that there is an essential difference between corporate tax evasion and individual tax evasion, which is the separation of management rights and ownership. The ability to regulate and control has caused disorder in the national macro-control mechanism. The article summarizes the essence of corporate governance that affects corporate tax evasion and summarizes the literature on tax evasion affecting financial performance.

## 1. Introduction

The issue of tax evasion has always been a topic that cannot be ignored in the field of tax research. On the one hand, taxpayers have the motive to evade taxation because they pursue their own utility maximization; on the other hand, taxation has “free” and taxpayer property has “private property”, so taxation is a certain degree of opposition. Many scholars have studied the factors affecting corporate tax evasion from the perspective of theory and experience. The early corporate tax evasion study used the theoretical framework of individual tax evasion, but then economists gradually realized that there is an essential difference between corporate tax evasion and individual tax evasion, which is the separation of management rights and ownership. Although at the micro level, the increase in tax evasion may reduce the burden on enterprises and reduce the role of tax burden, at the macro level, the existence of tax evasion not only distorts macroeconomic activities, but also increases the mismatch of resources and reduces the tax policy. The article first reviews the domestic and foreign theoretical and empirical research on tax evasion, and then summarizes the essence of corporate governance that affects corporate tax evasion. Finally, the article also sorts out and summarizes the literature on tax evasion affecting financial performance.

## 2. Related overview

Foreign scholars explain the motives of tax evasion from both theoretical and empirical aspects. Theoretically, the study of tax evasion begins with the study of individual tax evasion. Allingham & Sandmo (1972) combines criminal economics with expected utility theory based on the assumption of “single decision maker” to establish maximum expected utility. Model to study the tax evasion problem of personal income tax. On the empirical side, scholars' research shows that high tax rates are an important cause of corporate tax evasion. Tax rates are positively correlated with corporate tax evasion. Increasing audit rate can reduce tax evasion probability. Alm pointed out in the comprehensive summary of the results of previous studies that the factors affecting corporate tax evasion include audit rate, fines, incentive rewards, tax rates, compliance with social norms, tax exemptions, and the complexity of the tax system. Measures to prevent tax evasion have been strengthened. Tax collection and management, introduction of effective audit procedures, strengthening of third-party supervision, strengthening of taxation services, tax agency services, taxation integrity education and taxation knowledge promotion. In terms of how to measure the scale of corporate tax evasion, foreign scholars mainly use direct auditing of taxpayer income,

investigating evidence or using shadow economy instead of tax evasion, or through other The indicator indirectly estimates the scale of tax evasion, such as the difference between tax return income and domestic income account, and the difference between income and expenditure of national income account.

Domestic scholars also studied the effects of tax evasion on fiscal revenue and GDP, the resource allocation effect of tax evasion, and the income distribution effect of tax evasion. The results show that tax evasion not only reduces fiscal revenue, but also is not conducive to economic development, resource allocation and income distribution. Large-scale tax evasion will not only affect the fiscal revenue of a government, but also lead to the failure of the government's macroeconomic indicators, and will also lead to distortions in the allocation of social resources and the failure of income distribution. Scholars use different methods to estimate the tax evasion scale of enterprises, and provide data support and suggestions for tax authorities to make anti-evasion decisions.

### **3. Country governance and tax evasion**

#### **3.1 Taxation system and tax evasion**

The tax system design has an important influence on the taxpayer's behavior choice. A fair, concise and accurate tax system is beneficial for taxpayers to understand taxation better and faster, thereby reducing their taxation costs and increasing tax compliance.

The fairness of the tax law will largely determine whether the taxpayer will have a sense of identity with the tax law. The fairness of the tax system is divided into horizontal fairness and vertical fairness. If the tax system is obviously unfair, the taxpayer will feel an imbalance in the psychological, its recognition of the tax law will be lower and lower, and its tax compliance will be lower and lower. If the unfair factors of the tax system cannot be removed, the taxpayer will externalize his psychological imbalance into actual actions and implement tax evasion.

The complicated tax system will strengthen the difficulty of tax collection and management, increase its workload, and it is not conducive to taxpayers understanding the tax law, which will cause taxpayers to implement tax laws. When taxpayers have difficulty interpreting the tax law correctly, it is difficult to pay for self-taxation, and may have resistance to the tax law. Under the circumstances of understanding, I am lucky, on the one hand to reduce my tax burden, on the other hand to retaliate against tax collectors to remedy the psychological costs of complex tax system. From this point of view, the complicated tax system will cause taxpayers to rebel, thereby reducing the willingness to pay taxes, and tend to choose to evade taxation.

The tax rate determines the reasonable degree of taxation. A reasonable tax rate structure will promote the development of the enterprise, and thus contribute to the transformation and upgrading of the economic structure. If the tax rate structure is unreasonable, the taxpayer's burden may be aggravated, resulting in unfair tax treatment between industries. Especially for the progressive tax rate adopted by many countries in the world, because it's most basic function is to regulate income and carry out secondary distribution of wealth, and bear the responsibility of narrowing the gap between rich and poor. It embodies the principle of fairness. If the tax rate is set unreasonably, the tax rate level is too high or the tax rate of each level is large, the taxpayer will feel unfair and be willing to fulfill the tax liability.

Reasonable tax incentives will help the effective implementation of national regulatory policies and promote the development of enterprises. However, too much tax incentives will stimulate taxpayers' desire for the pursuit of interests. Taxpayers always hope to pay less taxes. Some taxpayers who do not meet the scope of tax incentives will make false material application discounts. What's more, relevant personnel of the taxation department are tempted by taxpayers under the temptation of the taxpayer's interests, failing to fulfill the responsibility of examination and approval, and jointly seeking illegal interests. Too wide a range of tax incentives will result in taxpayers who are not entitled to preferential tax benefits. Other taxpayers who do not enjoy the benefits will have an imbalance, and tends to evade taxes.

### **3.2 Tax collection and management and tax evasion**

The tax collection and management mainly refers to the tax authorities' taxation and punishment for illegal cases.

The relationship between the probability of taxpayers choosing to evade taxes and the changes in their personal income is uncertain, and it is inseparable from the taxpayer's risk appetite. The relationship between the probability that a taxpayer chooses to evade taxes and the change in tax rate is also uncertain, because changes in tax rates have two different effects. The income effect has a negative impact on tax evasion. The increase of tax rate will lower the income level of taxpayers, which increases the risk aversion of taxpayers, thus weakening the motive of tax evasion. The substitution effect positively affects tax evasion and tax evasion. The expected return will increase as the tax rate increases, and taxpayers are more inclined to evade taxes. The combined effect of income effect and substitution effect is the result of tax rate on tax evasion. Because of the unclear income effect and substitution effect, the impact of tax rate on tax evasion is not clear. Increasing the tax inspection rate, thereby increasing the investigation rate of tax violation cases, and increasing the penalty rate to increase the cost of tax violations can effectively reduce the tax evasion rate.

In the era of big data, innovative tax collection and management methods and means of collection and management are the most effective ways to improve the efficiency of tax collection and management. The modernization of the means of collection and management can not only provide taxpayers with quality services, but also provide institutional guarantees, increase information exchange between taxpayers and tax authorities, facilitate the tax payment process, and promote tax compliance. Applying computers to tax collection and management, and implementing taxation law enforcement information management will help reduce the workload of tax law enforcement personnel, reduce the impact of subjectivity on law enforcement, and enhance the process compliance and fairness of tax enforcement work. Promote the efficiency of tax collection and management. In addition, the improvement of tax collection and management efficiency depends on the improvement of the professional quality and political quality of tax officials.

The taxation cost is the price paid by both parties in the process of tax collection. The increase of taxation cost not only increases the burden on taxpayers, but also causes waste of social resources, which is not conducive to the development of social economy. Excessive tax collection costs will lead to intensification of conflicts between the two parties, and the credibility and prestige of the country will also decline, and the probability of taxpayers choosing to evade taxes will increase. In the case that the tax authorities do not provide any tax services, the taxpayer's taxation costs are very high. Because taxpayers who want to earnestly fulfill their tax obligations must spend the cost of self-learning tax laws; when tax services are more thoughtful, the corresponding learning costs will be reduced, tax costs will be reduced, and their tax service levels will be reduced. The improvement is constantly decreasing. In addition, perfect taxation services can promote the dissemination and popularization of various tax policy information, reduce the degree of information asymmetry between tax authorities and taxpayers, and help taxpayers pay taxes according to law.

### **3.3 Taxation environment and tax evasion**

Tax culture can guide people's ideology and restrict their taxation behavior, and can stimulate the taxpayer, which will affect the taxpayer's tax compliance. Whether citizens have a good sense of taxation depends largely on the tax culture. Too low taxation awareness will give taxpayers a reverse incentive to evade taxes, and the amount of tax evasion will increase accordingly. When the whole society forms an abnormal tax culture and encourages tax evasion, the government will be helpless in evading tax evasion. The probability of taxpayers stealing taxes will increase, and tax evasion is in an anarchy. On the contrary, a good sense of taxation will prompt taxpayers to pay taxes in accordance with the law and effectively curb tax evasion.

The taxation department is the competent department of tax collection and management. However, it is impossible to complete the collection and management of tax collection and management by taxation departments. It is also necessary for the relevant departments to protect taxation and taxation.

China's tax sources are relatively scattered. The taxation work involves multiple institutions and various issues. Due to restrictions on capital and manpower, the tax authorities have difficulty in comprehensively monitoring the tax sources on their own. To prevent the evasion of tax evasion, we must rely on social forces to protect taxation and taxation, give full play to the supervision and management capabilities of each social entity, and encourage taxpayers to better constrain themselves and then pay taxes according to law. The taxation department and other departments collaborate to collect taxation work, which can enhance the public's understanding and support for taxation work, enhance the sense of tax culture identity, and promote the smooth development of taxation activities, effectively combating tax evasion.

#### **4. Tax evasion and financial performance**

Although tax evasion is a "bad" result for the government, from the perspective of multinational companies themselves, tax evasion is to some extent a mitigation of their own tax burden, which is similar in nature to the government's tax reduction policy. In countries with high marginal tax rates, tax arbitrage helps offset the negative effects of high tax rates and enhances individuals and businesses. The enthusiasm reduces the efficiency loss.

Due to the strong spillover of R&D investment, in addition to the improvement of the technical level of the enterprise itself, it can also promote the improvement of the overall technical level of the relevant industries. Therefore, governments of all countries have tax incentives for investment in R&D of enterprises. A large number of literatures examine the impact of tax cuts on corporate R&D investment from an empirical perspective, and the findings also confirm the effectiveness of government tax cuts. Guellec and Van Pottelsberghe distinguish the short-term and long-term effects of the reduction policy, and believe that the incentive effect of tax incentives is greater than its short-term effects in the long run. Zhu Pingfang and Xu Weimin used the panel data of 32 industries in Shanghai from 1993 to 2000 to examine the impact of tax incentives on R&D investment and patent output. Research shows that tax cuts increase self-raised R&D investment. There is a positive stimulus, and government funding will further strengthen this effect.

The reduction of most taxes will also increase the productivity of enterprises. For example, the decline in tariff rates will significantly increase the productivity of enterprises. On the one hand, due to the increased openness of the market, competition will intensify, some inefficient enterprises will be eliminated, and the market will be eliminated. The share is reserved for more efficient companies, thus increasing the average productivity level. On the other hand, learning by exporting also increases the productivity of individual firms. The empirical literature also confirms the impact of tariffs on firm performance. Nie Huihua et al. used China's VAT transformation pilot policy and found that reforming production-type VAT into consumption-type VAT significantly improved the company's fixed-asset investment, which is conducive to enterprise optimization. Industrial structure and productivity. Johansson et al. found that the tax structure that favors the taxation of corporate or personal income is a country's productivity and tax structure compared to the tax structure that favors taxation on real estate. The damage to economic growth performance is even greater.

In addition to examining the impact of tax reduction policies on corporate performance from the perspective of corporate R&D investment, there is not much literature on the impact of systematic tax cuts on overall corporate performance. The representative domestic literature characterizes corporate performance from five aspects: fixed asset investment, capital labor ratio of employment quantity, and productivity and R&D investment. The study finds that reforming production-type VAT into consumption-type VAT significantly improves the fixed asset investment of enterprises. Enterprises optimize industrial structure and increase productivity, but the improvement of enterprise production efficiency is mainly achieved by purchasing fixed assets rather than through independent technological innovation.

It can be seen that the theoretical analysis of government taxation policies and corporate behavior is more fully discussed in the existing literature, and there is little literature on empirically examining the systematic impact of tax reduction policies on firm performance, especially for comprehensive

tax cuts. The study of policy is scarce. Most of the literature only focuses on the tax credit policy of a specific behavior and the analysis of a specific corporate behavior, but the impact on the large-scale tax incentives of the government is rarely studied.

## 5. Conclusion

The article finds that taxation system, tax collection and management, taxation environment all have a great influence on tax evasion from different aspects. Finally, and the article also sorts out and summarizes the literature on tax evasion affecting financial performance.

There are some advice on how to control tax evasion. In order to better and faster promote the construction of China's taxation process in accordance with the law, improve the efficiency of tax collection and management, and reduce the tax evasion, it is necessary to establish a sound taxation legal system. China should formulate the basic tax law as soon as possible, determine the general ideas and basic principles for improving the taxation system in the form of legislation, promote its normative development, and increase the certainty of the tax law so that taxpayers can better understand the tax law and enhance taxpayers' tax laws. It is necessary to improve China's relevant substantive law and procedural law, and regulate the law enforcement procedures for tax collection, tax inspection, and handling of related litigation issues. In addition, special tax laws should be formulated to guide specific taxation relations and improve the specific supporting policies of the Tax Administration Law.

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