

**DETERMINANTS OF TAX EVASION: EVIDENCE FROM
LIBYA**

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ABSTRACT

Governments around the world are continually looking for ways and means to improve the level of tax compliance by their citizens. Tax revenue is the major source of income for many countries. The purpose of this study is to investigate the factors influencing tax evasion among taxpayers from the Libyan perspective. This study is based on five variables that are used to determine the factors that affect tax evasion in Libya. The five variables that are measured in this current study are: education level, tax rate, corruption, penalty rate and the Islamic religious perspective. The data were collected through the distribution of questionnaires to 277 respondents in Libya and processed using Statistical Package for Social Science (SPSS) software for the purpose of this study.

By using correlation and regression analysis, the findings of the study show that there is a positively significant relationship between tax rate, corruption and penalty rate and tax evasion. On the other hand, education level indicates a negative but insignificant correlation with tax evasion. There is no significant correlation between Islamic religion and tax evasion but the relationship is positive.

Key words: tax evasion, education level, tax rate, corruption, penalty rate, Islamic religion.

ABSTRAK

Kerajaan di seluruh dunia senantiasa mencari cara dan kaedah untuk meningkatkan tahap pematuhan cukai oleh warganegara mereka. Hasil cukai adalah sumber utama pendapatan bagi kebanyakan negara. Tujuan kajian ini adalah untuk mengkaji faktor-faktor yang mempengaruhi pengelakan cukai di kalangan pembayar cukai dari perspektif Libya. Kajian ini menggunakan lima pembolehubah Kajian ini adalah berdasarkan kepada lima pembolehubah yang digunakan untuk menentukan faktor-faktor yang memberi kesan kepada pengelakan cukai di Libya. Lima pembolehubah yang diukur dalam kajian ini adalah: tahap pendidikan, kadar cukai, rasuah, hukuman dan perspektif agama Islam. Data dikumpulkan melalui pengedaran soal selidik kepada 277 responden di Libya dan diproses menggunakan perisian Pakej Statistik untuk Sains Sosial (SPSS) yang sesuai untuk tujuan kajian ini.

Dengan menggunakan analisa korelasi dan regresi, dapatan kajian ini menunjukkan bahawa terdapat hubungan yang signifikan dan positif di antara kadar cukai, rasuah dan kadar penalti dan pengelakan cukai. Sebaliknya, tahap pendidikan menunjukkan hubungan yang negative, namun tidak signifikan dengan pengelakan cukai. Didapati juga bahawa hubungan di antara agama Islam dan pengelakan cukai adalah tidak signifikan tetapi positif.

Kata kunci: pengelakan cukai, tahap pendidikan, kadar cukai, rasuah, hukuman, agama Islam.

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LIST OF ABBREVIATIONS

GDP	Gross Domestic Product
LD	Libyan Dinar
SPSS	Statistical Package for Social Sciences
TE	Tax Evasion
USA	United States of America
VIF	Variance Inflation Factor



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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Historically, every nation imposes tax on its citizens in order to regulate, control and create revenue for covering state expenses. The primary responsibility of every government is to provide social amenities for its citizens, based on the amount of taxes generated. Thus, the amount of money collected in a given period is utilized to finance education programs, health care, electricity, water, law enforcement as well as other projects beneficial to society (Worlu & Emeka, 2012).

Many efforts have been taken by various countries in tackling tax evasion and tax avoidance, but these have proven to be ineffective (Oyedele, 2012). Taxes provide high revenue for governments and those who pay taxes are interested to know if the monies collected are wisely spent or otherwise. Tax revenue is an essential element for economic and social growth. Therefore, there is no doubt about the need for tax revenue and its benefits to society.

Fuest and Riedel (2009) pointed out that providing public infrastructure and facilities is a significant part of economic development. However, in developing countries, there is a lack of public services, which adversely affects and undermines the standard of living of the people. There are many reasons attributable for the failure of many governments in

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