

**ADVANCED INTERNATIONAL JOURNAL  
OF BUSINESS, ENTREPRENEURSHIP  
AND SMES  
(AIJBES)**[www.gaexcellence.com/aijbess](http://www.gaexcellence.com/aijbess)**NATIONAL CULTURE AND TAX AVOIDANCE**Amilia Syuhada Abdul Majid<sup>1\*</sup>, Salsiah Mohd Ali<sup>2</sup><sup>1</sup>Department of Accounting and Finance, Faculty of Business Management and Professional Studies, Management and Science University, Malaysia [amilia\\_syuhada@msu.edu.my](mailto:amilia_syuhada@msu.edu.my) <https://orcid.org/0000-0001-8843-509X><sup>2</sup> Faculty of Accountancy, Universiti Teknologi MARA, Puncak Alam, Selangor, Malaysia [salsiahma@uitm.edu.my](mailto:salsiahma@uitm.edu.my) <https://orcid.org/0000-0003-0523-6293>

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**Article Info:****Article history:**

Received date: 16.07.2026

Revised date: 27.07.2026

Accepted date: 18.08.2026

Published date: 17.09.2026

**To cite this document:**

Majid, A. S. A., & Ali, S. M. (2026). National Culture and Tax Avoidance. *Advanced International Journal of Business Entrepreneurship and SMEs*, 8 (29), 1148-1167.

**Abstract:**

This study investigates the impact of national culture on tax avoidance for three dimensions of national culture, namely power distance, individualism and uncertainty avoidance. Theoretical backgrounds are Agency theory, Institutional theory and Legitimacy theory. A quantitative research approach was chosen, and a regression model is used to test the hypothesis. The three cultural variables are found to be negatively significant determinants of tax avoidance. Thus, in cultures with strong cultural structures, companies tend to adopt a more cautious tax strategy and are more tax compliant. Government effectiveness has a strong negative relationship with tax avoidance and thus the quality of a government's institutions is a critical factor in a country in order to prevent tax avoidance. The results of this study are in contrast to most of the prior studies which either did not find any direct evidence of the effect of culture on tax avoidance or that the effect of culture is influenced by the quality of governance and the extent of regulatory interference that a company faces. The study has several implications for policy makers in strengthening the institutional environment in order to improve tax compliance.

**DOI:** 10.35631/AIJBES.829065**Keyword:**

National Culture, Tax Avoidance



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## Introduction

Taxation constitutes a fundamental pillar of government revenue, enabling governments to finance essential public services, infrastructure development, social welfare programmes, and long-term economic growth (Bird & Zolt, 2005, Besley & Persson, 2014, OECD, 2021). In many countries, domestic tax revenue represents a more stable and sustainable source of public financing than foreign aid or development assistance, making it crucial for governments to strengthen tax collection and reduce revenue leakages (OECD, 2015). However, tax avoidance by multinational corporations has become a major global concern, particularly because multinational enterprises are able to exploit differences, gaps and mismatches in international tax rules to reduce their tax liabilities (OECD, 2015; Beer, de Mooij, & Liu, 2020). Although tax avoidance is generally conducted within the boundaries of the law, it raises fairness concerns because it reduces government revenue and shifts the tax burden to other taxpayers, including individuals and domestic firms (Hanlon & Heitzman, 2010; Dowling, 2014; Cooper & Nguyen, 2020). As a result, corporate tax avoidance remains an important issue for governments, businesses, policymakers, and society at large (OECD, 2015).

Tax avoidance by multinational corporations is not only a concern on developed economies but also in emerging and developing countries, where government revenue is often more limited (Crivelli, de Mooij & Keen 2016). The Organisation for Economic Co-operation and Development (OECD, 2015, 2021) estimated that base erosion and profit shifting practices may cost governments approximately USD100 billion to USD240 billion in lost corporate income tax revenue annually, representing a significant loss to public finance. The impact may be more severe for developing countries because these economies tend to rely more heavily on corporate income tax and other domestic revenue sources to finance development needs (Crivelli et al., 2016). In less developed countries, a substantial portion of tax revenue is also derived from taxes on goods and services, which may increase the tax burden on ordinary citizens when corporate tax revenue is eroded (Bird & Gendron, 2007, OECD, 2021). Therefore, tax avoidance by multinational corporations may have serious implications for public-sector spending, development programmes, and citizens' welfare (Beer et al., 2020, Baert, 2024).

Tax avoidance practiced by multinational corporations has become a worldwide entrenched practice despite numerous reforms introduced by governments and international organisations (OECD 2015, 2021). These reforms include the Base Erosion and Profit Shifting initiative, country-by-country reporting, transfer pricing documentation requirements, and the global minimum tax framework under Pillar Two (OECD, 2015, 2021). Nevertheless, prior studies continue to show that multinational corporations engage in tax planning strategies to reduce their effective tax burdens across jurisdictions (Dyrenge, Hanlon, & Maydew, 2008; Taylor & Richardson, 2012; Beer et al., 2020). In the Malaysian context, concerns over revenue sufficiency remain relevant because Malaysia's tax-to-GDP ratio is relatively low compared with many higher-income and regional economies. For example, Malaysia's tax revenue as a percentage of GDP was reported at approximately 12.5% in 2024 and 12.6% in 2025, indicating the continuing need to broaden the tax base and strengthen tax compliance (Ministry of Finance Malaysia, 2025). This suggests that tax revenue leakages arising from corporate tax avoidance

and other forms of non-compliance remain an important policy concern in developing countries such as Malaysia.

The accounting and tax research shows that corporate tax avoidance is influenced by economic, regulatory, governance and firm-specific factors (Hanlon & Heitzman, 2010, Wilde & Wilson 2018). Prior studies have commonly examined firm profitability, leverage, firm size, capital intensity, ownership structure, and corporate governance mechanisms as determinants of tax avoidance (Dyreng et al., 2008; Richardson, Taylor, & Lanis, 2013, Salleh, Kassim & Abubakar, 2025). However, recent research suggests that tax avoidance is not solely driven by economic incentives and regulatory constraints, but may also be shaped by behavioural, institutional, and socio-cultural factors (Bame-Aldred, Cullen, Martin, & Parboteeah, 2013; Richardson, 2008; Alm, 2019).

From a behavioural and socio-cultural perspective, national culture may influence how managers perceive tax compliance, risk-taking, ethical responsibility, and the acceptability of aggressive tax planning (Hofstede, 2001; Tsakumis, Curatola, & Porcano, 2007; Bame-Aldred et al., 2013). Hofstede's cultural framework has been widely used to explain how cultural values shape economic behaviour, organisational decision-making, and compliance attitudes across countries (Hofstede, 2001). In taxation research, national cultural dimensions such as individualism, masculinity, uncertainty avoidance, and power distance have been associated with variations in tax compliance and corporate tax avoidance across countries (Tsakumis et al., 2007; Richardson, 2008; Yoo & Lee, 2019). Prior studies suggest that countries with higher levels of individualism, masculinity, uncertainty avoidance, and power distance may exhibit greater tendencies toward tax avoidance because these cultural values may influence managerial preferences, ethical judgement, and tolerance toward opportunistic behaviour (Tsakumis et al., 2007; Yoo & Lee, 2019; Toumi, Bouraoui, & Khlif, 2022). Therefore, examining corporate tax avoidance through the lens of national culture provides a broader understanding of why firms in different institutional environments may behave differently despite facing similar tax rules (Khlif, Hussainey, & Achek, 2015; Toumi et al., 2022).

Formal tax avoidance practiced by multinational corporations within the boundaries of the law is a serious problem that has attracted a lot of attention in the last two decades or so. On the other hand, the so-called shadow or undeclared economy refers to all unreported and undeclared economic activities that are intentionally concealed from tax authorities as well as from other public institutions in order to avoid payment of taxes and to circumvent legal, administrative, and regulatory requirements. The OECD estimated that the global shadow economy accounts for about 11.8% of total GDP and that it is higher in emerging and in low-income economies. The so-called tax gap (i.e. the difference between taxes owed and taxes actually collected by tax authorities) in these countries can be even wider than in developed economies, since tax avoidance within the formal sector is combined with an extraordinary high volume of informal activities. Most of the research on the shadow economy has been conducted from a macroeconomic perspective, focusing on tax burden, regulatory quality, unemployment, institutional quality, and economic development (Schneider & Enste, 2000; Medina & Schneider, 2018).

However, there is a significant lack of research that analyzes the relationship between formal tax avoidance and the shadow economy from a conceptual perspective, also taking into account the behavioral dimension. Therefore, there is also a significant lack of research on how national

culture affects both formal tax avoidance as well as broader tax compliance (or non-compliance) within the shadow economy.

This is an important research problem that is waiting for an answer within the context of emerging markets around the world. In examining the influence of culture on tax avoidance by firms, it is also important to examine how culture influences formal tax avoidance as well as other tax related behaviors of citizens in various countries around the world. This study attempts to fill this important gap in the existing body of knowledge on tax avoidance by using an integrated framework that looks at tax avoidance within the context of a nation's culture.

The remainder of the paper is divided into five sections. Section 2 reviews the relevant literature to the study. Section 3 outlines the theoretical framework upon which the study is based, presents the hypotheses which the study seeks to test and explains the research framework upon which the study is based. Section 4 describes the data used in the study, explains how the study's main variables were measured and presents the results of the study. Section 5 draws implications from the study and offers conclusions.

## Literature Review

### *Tax Avoidance*

Tax avoidance, defined as tax minimisation conducted in a legally correct manner, has in recent years become an increasingly debated topic within the accounting and finance literature. Tax avoidance has three main stakeholders, i.e. government, corporation and society. From a government perspective, it is of importance as it generates government revenue. From a corporation's perspective, tax avoidance is of importance as it affects the transparency of corporate activities. Finally, from a societal perspective, tax avoidance is of importance as it highlights a corporation's ethical responsibilities. Tax avoidance should be distinguished from tax evasion, where the latter refers to tax non-compliance conducted by illegal means (Hanlon & Heitzman, 2010).

Most studies within the field of accounting, and more recently in finance, examine the tax behavior of individual companies. Tax avoidance by companies is usually measured by using a number of indicators of tax noncompliance and of tax-minimizing behavior by firms at the firm level. When, however, a large number of countries are studied, obtaining comparable data on taxes for individual firms proves to be a problem. Many studies thus use the size of a country's shadow economy as a country-level proxy for a number of tax-related indicators of behavioral type. The term 'shadow economy' refers to activities which are concealed from the public authorities and take place in the informal or hidden sector of an economy for reasons of tax minimization, to avoid rules and regulations, and because of an inefficient and corrupt administration (Nerré, 2001).

Tax avoidance has been an issue in recent years that has attracted a lot of attention from researchers and has very important economic, institutional, and ethical implications. Studies on tax avoidance emphasize the role of economic, institutional, and behavioral factors. Determinants of Tax Avoidance are not only firm related but also are related to governance, rules and regulation, and ethics. In addition to these determinants, behavioral determinants such as tax planning incentives, risk-taking, and other strategic goals of a firm affect the decision of Tax Avoidance. From an agency-theoretic perspective, Tax Avoidance is a strategic behavior

that can create value or manager-opportunistic behavior. Tax Avoidance of firms is determined by a set of managerial discretion-related factors, and risk-taking of top managers affects the extent of Tax Avoidance. In addition to these firm-specific characteristics (size, book profit margin, leverage etc.) that explain a large part of cross-country differences in tax-avoidance practices, more recently also informal institutions, like the national culture, have been found to explain corporate tax behavior (Allam, Moussa, Abdelhady & Yamen, 2023; Hossain, Ali, Ling & Fung, 2024).

### ***National Culture***

Culture refers to values of societies to explain behaviors and actions of citizens of countries across the globe. Using cross-country studies, culture has been studied in various dimensions over the years. Many researchers adopt Hofstede's (2001) four dimensions for cross-country analysis. These dimensions include Individualism/Collectivism, Power Distance, Uncertainty Avoidance and Masculinity/Femininity. Many subsequent researchers have extended Hofstede's dimensions. Allam et al. (2023) included four additional dimensions namely Long-term Orientation, Indulgence vs. Restraint, Confucian Dynamism and Prolongation of Childhood in their cross-country analysis. These dimensions enable researchers to explain financial decisions as well as many other actions of citizens across the globe.

Studies conducted in recent years in the context of financial decisions as well as ethical decisions taken by companies worldwide have proven that culture plays a significant role. A systematic review by Duhoon & Singh (2023) and Hossain, Ali, Ling & Fung (2024) examined various factors that influenced individuals' and companies' tax behavior, and both concluded that cultural and societal values influence tax avoidance. The degree of trust that citizens have in governments, other public institutions as well as non-governmental organizations and other stakeholders in society also had a bearing on tax behavior. Moreover, recent studies have sought to establish the relationship between culture and formal and informal institutions, and in doing so revealed that there was an interaction between the two that influenced tax evasion by individuals worldwide. It is whereby the social environment influences the extent of tax awareness in a country (Abdul Majid, Saphira, Mohd Ali & Armaini, 2024) and consequently affected the tax compliance. As such, culture acts as an informal institution that affects tax behavior of individuals as well as companies worldwide.

In addition to using tax avoidance as a single indicator of the degree to which corporate activities are influenced by a country's culture, many other indicators are also used in cross-country studies, which include, among others, the risk that firms take, their disclosure practices, their governance practices, and so on. It has been found that all these indicators of corporate activities vary significantly between countries and can be best explained by the culture of the countries in which these firms are based (Bactalia, Aggelopoulos, Lampropoulos, Kalogera, & Kariofyllas, 2025).

### ***National Culture and Tax Avoidance***

Recent studies on tax avoidance of firms from different countries have increasingly delivered robust evidence on the relation between national culture and tax avoidance by corporations. In contrast to the fragmented results of earlier studies on this research question, more recent studies attempt to draw a more complete picture on the various aspects of tax avoidance across countries.

Recent studies on tax avoidance practices include a new variable, i.e., national culture that affects the levels of tax avoidance practiced by firms. The recent empirical evidence on the effect of national culture on tax avoidance supports the findings of Hofstede (2001) and provides more robust results in different contexts. In a study that used a multi-country panel data for the period of 2015–2022, the results showed that power distance positively correlated with tax avoidance practices. On the other hand, uncertainty avoidance negatively correlated with aggressive tax avoidance practices.

The impact that culture has on the occurrence of tax avoidance is context dependent. The behavior affected by culture is influenced by the quality of a country's informal and formal institutions, by the extent to which a country is globalized, and the quality of its governance. Thus, the quality of a country's formal and informal institutions can play a mediating role between culture and tax behavior.

In summary, the evidence derived from new studies as well as from earlier research supports the findings that the cultural dimensions of a country represent a significant predictor of cross-country differences in tax avoidance by corporations. At the same time, however, these new studies also point to the need for a more integrated approach in order to explain tax behavior in addition to the cultural and the institutional factors.

## **Theoretical Framework**

### ***Agency Theory***

Agency theory has been widely used in many studies in order to explain behavior of the managers (as agents) and impact that their actions have on the company and on the shareholders of this company (as principals). From a tax avoidance perspective, actions of any company can create value for the shareholders of this company or decrease value of the company's shares because of actions of the managers who use the company as means to get personal benefits (Jensen & Meckling, 1976).

Even though the Agency theory has been applied in a number of studies in order to explain the tax avoidance from a perspective of management's decisions, the majority of them have introduced number of discretionary variables of company's management in order to explain the tax avoidance. According to Duhoon and Singh (2023), in order to determine the tax avoidance, there are number of variables that are under the control of the management of the company. Thus, the tax avoidance decisions can be motivated both by intention to increase the value of the firm and by the self-interest of the management. In their review of the existing research, Bactalia, Aggelopoulos, Lampropoulos, Kalogera, and Kariofyllas (2025) noted that tax avoidance is strongly related with other company's features (such as organizational culture, CEO characteristics, risk-taking, board composition, etc.) as well as with some firm-specific features (such as disclosure practices, leverage and even governance quality).

However, culture does matter when it comes to assessing the degree to which principal interests are compromised by those of their agents, i.e. how managers behave and what levels of unethical behavior are expected from them. As such, highly hierarchical cultures as well as individualistic cultures where individual gain is prioritized over that of others and of the organization are likely to result in greater agency problems and, therefore, more tax avoidance considered to be aggressive.

### ***Institutional Theory***

Both formal and informal institutions affect the ways organizations behave. With respect to the national culture, the latter is viewed as an informal institution. Such culture affects how organizations and their managements perceive, interpret and respond to tax regulations.

There is a considerable body of evidence that support the view that, in respect of taxation, the informal institutions, or the social structures that are external to organizations, are in turn moderated by the formal institutions (Amin, Mohamed, Abdallah, & Elamer, 2024). These latter institutions, which include the laws that in general govern all activities of individuals and organizations within a country as well as those that are specifically designed to govern organizations, such as the Articles of Association and the Memorandum of Association of a company as well as the Board of Directors and management of an organization, are in turn influenced by the cultural values of the stakeholders of an organization (Moussa, 2024). In other words, the tax behavior of organizations is influenced by both the formal and the informal institutions found in a country, and that both national culture and the formal institutions of a country jointly affect how managers perceive reality and make decisions (Amin et al., 2024).

### ***Legitimacy Theory***

These theories examine why companies behave in ways and attempt to ensure that the company maintains or gains legitimacy or 'worth' to increase its chances of survival. Tax avoidance can cause a company to lose legitimacy in the eyes of others and be viewed as being unethical or irresponsible in their tax affairs.

Recent global research into the ethics of tax avoidance around the world identified that perceptions of tax avoidance held by individuals and companies are affected by the way in which a country views taxation and the role of a taxpayer. As a result, emerging research into the tax avoidance practices of companies are focusing on the practices and changes within them in order to gauge the impact that tax avoidance is having on their reputation. Studies are monitoring how companies perceive the issue and how stakeholders are scrutinizing tax practices with a view to determining the legitimacy of a company's tax affairs.

### ***Hypotheses Development***

#### ***Power Distance and Tax Avoidance***

Power Distance describes the extent to which members of institutions accept the unequal distribution of power in their society, (i.e. hierarchical structures) and rarely question the authority in these structures (Hofstede, 2001). High Power Distance cultures typically have weak mechanisms of accountability and enforcement (North, 1990). Therefore, from an institutional theory perspective, we would expect firms from these cultures to engage in tax avoidance. From an agency theory perspective, weak external monitoring and controlling in societies with high Power Distance would also allow for higher levels of tax avoidance by opportunistic managers (Jensen & Meckling, 1976). Current research highlights the impact of tax avoidance on internal behavioral factors and the role of managerial discretion (Bactalia et al. 2025). Research already has been conducted on the relationship between power distance and tax avoidance, within countries (Tsukamis et al. 2007) and across multinational

corporations (Toumi et al. 2022). All studies conclude that power distance is positively related to tax avoidance.

High power distance cultures are characterized by weak mechanisms of accountability that allow organizations to engage in tax avoidance more than others. High power distance also leads to less monitoring of managers on the part of stakeholders such as owners, customers and suppliers, giving managers more scope for opportunistic behavior such as tax avoidance. In the literature on taxation within organizations there is an increasing focus on internal determinants of tax such as managerial discretion (Bactalia et al. 2025) and a shift in focus from corporate tax generally to the corporate tax strategies of individual organizations (Tsukamis et al. 2007; Toumi et al. 2022). In a global economy in which the degree of regulatory oversight of multinational corporations is less than consistent and less than effective, a positive relationship between power distance and tax avoidance by corporate firms in countries around the world is anticipated. However, in highly trustful and confident countries, with strong governments and high respect for authority, there are still inequalities of power; these would just be accepted by companies in such countries. This is because such firms recognize that the ultimate decision-making power rests with the government.

This perspective draws on legitimacy theory which posits that where there is high acceptance of hierarchical structures, such as government, tax authorities etc, there is less questioning of authority by stakeholders and less activism and scrutiny. Thus, there is less reputational risk from managerial behavior that is considered to be tax aggressive. Suchman (1995) found that firms that were viewed as being highly legitimate by both external and internal stakeholders were viewed as being more likely to engage in tax avoidance practices. Yoo and Lee (2019) have found that tax avoidance is less common in countries with higher power distance scores. H1: Power distance society is negatively associated with tax avoidance.

### ***Individualism and Tax Avoidance***

This dimension describes societies in which individuals consider themselves to be isolated entities with their own goals and aspirations in life. They look after number one first, and only after that the family. In highly individualistic countries, the interests of the shareholders in the multinational or the local company are given priority over the interests of other stakeholders, including employees, customers and suppliers. Because of this, the focus is on maximizing profits.

On the other hand, managers in individualistic cultures are likely to be interested in tax avoidance because of the extra return on investment that it generates and therefore the higher value that is created for the shareholders (Hanlon & Heitzman, 2010). Recent research therefore argues that the incentives and economic benefits managed by the CEO are key determinants of the level of tax avoidance by multinational companies (Duhoon & Singh, 2023). This can be attributed to the nature of institutional environments of countries that are highly individualistic. Such countries have formal and informal structures that value equality or treatment of individuals who hold similar personal rights. These are the developed economies where there are strong and effective governance and other structures that support value creation and do not allow unfair practices. Other studies, such as Tsakumis et al. (2007) and Yoo and Lee (2019), have examined the impact of individualism on a company's tax avoidance behavior. The studies found that countries with strong institutional environments (i.e., individualistic cultures) tend to have less tax avoidance practices from corporate taxpayers.

## H2. Individualism negatively affects tax avoidance.

### *Uncertainty Avoidance and Tax Avoidance*

To answer the research question for uncertainty avoidance, we first have to define the concept. People in certain societies are more uncomfortable with uncertainty and ambiguity than others. Therefore, they try to avoid uncertainty or reduce it as much as possible. In order to reach stability, they prefer to have clear rules and to take measures in advance in case something unexpected happens (Hofstede, 2001).

Tax avoidance by a firm can result in a high risk for the firm in terms of (1) incurring penalties; (2) the risk of an audit by tax authorities; and/or (3) the risk of the firm's tax avoidance activities being exposed and having a negative effect on the firm's reputation. Given the above points, from the perspective of agency theory, the risk aversion on the part of the managers from cultures that avoid uncertainty to a high extent would lead them not to engage in tax avoidance by the firm.

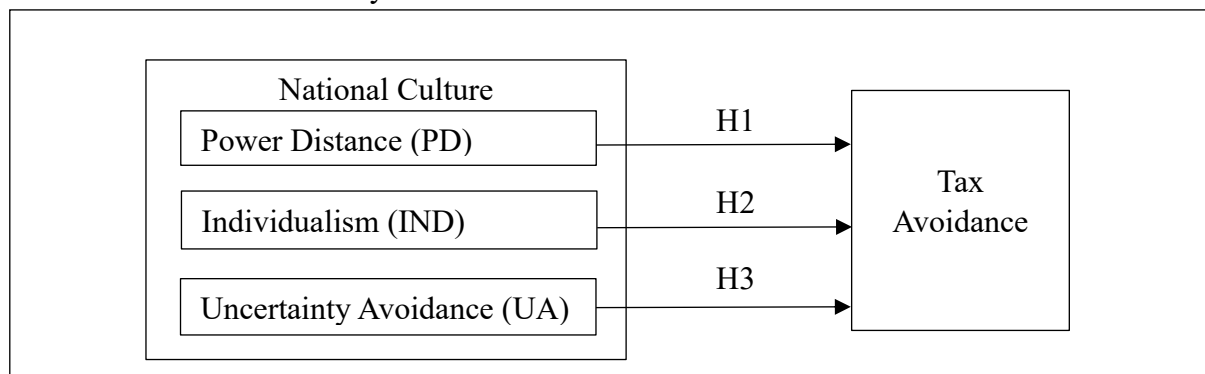
Hanlon & Heitzman (2010) discussed similar viewpoints. From an institutional perspective, in order to avoid the uncertainty as to the tax liability on the part of the firm and to avoid the disputes with tax authorities as to the tax liability on the part of the firm, the firms from cultures that avoid uncertainty to a high extent would comply with the formal rules, including the tax laws and tax regulations. As discussed above, from the legitimacy theory's perspective, the rules of a society, formal as well as informal, are to be followed by a firm in order to achieve and maintain legitimacy by the firm. In this sense, a firm from cultures that avoid uncertainty to a high extent would not engage in tax avoidance by the firm because tax avoidance by a firm is considered to be deviant tax behavior and any such behavior could result in negative reactions from all the stakeholders of the firm, as well as from tax authorities.

This finding is consistent with Yoo & Lee (2019), who found that uncertainty reduces firms' tendency to engage in tax avoidance. Firms operating in uncertain environments are generally more risk-averse and therefore more likely to adopt conservative tax strategies to avoid potential legal, financial, and reputational consequences.

H3: Uncertainty avoidance society is negatively associated with tax avoidance.

### *Research Framework*

The framework of this study is as follows:



**Figure 1: Research Framework**

## Methodology

### *Research Design*

The research design of this study uses a quantitative method to study how national culture dimensions influence the level of tax avoidance. The quantitative method is adopted as it able to test the hypotheses on the influence of national culture towards tax avoidance in the respective country (Sekarang & Bougie, 2016). This study employs multiple regression analysis to establish the direction and statistical importance of relation between independent variable of uncertainty avoidance (UA), individualism (IND) and power distance (PD) and dependent variable of tax avoidance. The method allows simultaneous evaluation of the effects of multiple predictors while controlling for the sample characteristics. The method is consistent as adopted by Tsakumis et al. (2007) on its study on the relation between national cultural dimensions and tax evasion.

This study includes government effectiveness (GE) as a control variable because it affects tax-related outcomes across countries. For instance, Yanikkaya and Turan (2020) found that government effectiveness influences the relationship between tax structure and economic growth, particularly in low-income countries. Government effectiveness was selected as the primary control variable because it captures the overall quality of public institutions, regulatory enforcement, and policy implementation, which have been consistently identified as important determinants of tax-related behaviour in cross-country studies. As national culture operates alongside formal institutions, controlling for government effectiveness helps isolate the influence of cultural dimensions on tax avoidance behaviour

### *Population, Samples and Data Collection*

This study adopts shadow economy estimates for 131 countries for the year 2023, obtained from Visual Capitalist (2025). After merging the shadow economy data with Hofstede cultural dimensions and government effectiveness indicators, countries with incomplete information were excluded from the analysis. The final sample consists of 96 countries. As the study employs a cross-sectional research design, each country represents a single observation in the analysis. The study uses country-level data for a single period (2023), making the dataset cross-sectional in nature.

In this study, tax avoidance is proxied by the size of the shadow economy as a percentage of GDP. Although shadow economy is broader than corporate tax avoidance and may also encompass elements of tax evasion and informal economic activities, it remains closely associated with tax minimisation behaviour. Prior literature recognises that shadow economic activities often emerge due to attempts to reduce tax obligations and regulatory costs (Nerré, 2001; Rozkrut et al., 2025). Given the cross-country nature of the study and the absence of comparable firm-level tax avoidance measures across a large sample of countries, shadow economy provides a practical and widely available indicator of national tax-related behaviour. Each variable was collected from reputable published sources, as presented in table 1 below:

**Table 1: Variables of the Study**

| Variable                      | Type                 | Measurement                          | Source of data           |
|-------------------------------|----------------------|--------------------------------------|--------------------------|
| Tax Avoidance (TA)            | Dependent variable   | Shadow economy (% of GDP, 2023)      | Visual Capitalist (2025) |
| Power Distance (PD)           | Independent variable | Hofstede index score                 | Hofstede Insights        |
| Individualism (IND)           | Independent variable | Hofstede index score                 | Hofstede Insights        |
| Uncertainty Avoidance (UA)    | Independent variable | Hofstede index score                 | Hofstede Insights        |
| Government Effectiveness (GE) | Control variable     | Government effectiveness index score | World Bank               |

### *Results and Analysis*

Table 2 presents the descriptive statistics, providing an overview of the distribution of the variables used in this study. It highlights the variation in tax avoidance, proxied by shadow economy activity, as well as cultural dimensions and institutional quality (government effectiveness) across countries.

**Table 2: Descriptive Statistics**

| Variable    | n  | Minimum | Maximum | Mean  | Median | S.D   |
|-------------|----|---------|---------|-------|--------|-------|
| Dependent   |    |         |         |       |        |       |
| TA          | 96 | 2.10    | 64.5    | 17.25 | 13.3   | 12.58 |
| Independent |    |         |         |       |        |       |
| UA          | 96 | 11      | 100     | 64.31 | 69     | 22.22 |
| IND         | 96 | 0       | 100     | 40.94 | 36     | 23.47 |
| PD          | 96 | 8       | 100     | 67.49 | 67.5   | 21.14 |
| Control     |    |         |         |       |        |       |
| GE          | 96 | 0.05    | 1       | 0.61  | 0.62   | 0.27  |

Tax avoidance in terms of the so-called shadow economy as percentage of the GDP of the countries under consideration is unequal and reaches values between 2.10% and 64.5% of the GDP of the respective countries. The large differences between individual countries are determined by differences of the institutional, of the implementation and of the cultural nature. On the other hand, a considerable amount of variation exists among the four dimensions of national culture, that is, among countries' uncertainty avoidance (UA), individualism (IND), power distance (PD) and collectivism (COL). These four dimensions of national culture will affect individuals' compliance behavior as well as regulatory enforcement practices in countries. For example, countries with higher levels of uncertainty avoidance (mean value of UA is 64.31) implement their compliance practices and set up their regulatory requirements in such a way so as to reduce uncertainty. Countries with higher levels of power distance (mean value of PD is 67.49) are hierarchical and accept hierarchical structures in all areas of life. A large number of countries are, however, individualist (mean value of IND is 40.96) and in such countries formal rules and regulations are often replaced by more informal agreements and practices that better enable to solve problems in a socially tolerant manner. In collectivist

cultures, for example, formal requirements for behavior and procedures are often replaced by more informal agreements and practices in order to solve problems in a socially tolerant manner. The control variable government effectiveness (GE) also varies within a considerable range of 0.05 to 1.00, thereby marking considerable differences between weak and strong government structures in countries.

Pearson Correlation measures the linear relationship between two variables in the study. The results are shown in the following table 3:

**Table 3: Pearson Correlation Matrix**

| Variable | TA        | PD        | IND      | UA     | GE    |
|----------|-----------|-----------|----------|--------|-------|
| TA       | 1.000     |           |          |        |       |
| PD       | 0.356**   | 1.000     |          |        |       |
| IND      | -0.592*** | -0.654*** | 1.000    |        |       |
| UA       | -0.189    | 0.254     | -0.123   | 1.000  |       |
| GE       | -0.715*** | -0.593*** | 0.587*** | -0.222 | 1.000 |

\*\*\* significant at 1%, \*\* significant at 5%.

The correlation analysis indicates that there are no multicollinearity issue among the variables, as none of the correlation coefficients exceed the threshold of 0.8. The results show a negative relationship between IND and TA, suggesting countries with higher levels of IND tend to exhibit lower levels of TA ( $r = -0.592$ ). Similarly, UA is negatively associated with TA ( $r = -0.189$ ), indicating that societies with a stronger preference for rules and stability are less likely to engage in aggressive tax practices.

Moreover, GE is strongly and negatively correlated with TA ( $r = -0.715$ ), implying that countries with more effective institutions tend to have lower levels of tax avoidance. In contrast, PD shows a positive relationship with tax avoidance ( $r = 0.356$ ), suggesting that higher acceptance of hierarchical structures is associated with greater tax avoidance.

The negative correlation between PD and IND ( $r = -0.654$ ) supports Hofstede's theoretical framework, which posits that societies with high power distance tend to exhibit lower levels of individualism. Additionally, the negative relationship between GE and PD ( $r = -0.593$ ) suggests that more effective institutional environments are associated with lower hierarchical dependence. Finally, the positive correlation between GE and IND ( $r = 0.587$ ) indicates that culture and institutional quality are closely interconnected.

Further test for multicollinearity of Variance Inflation Factor (VIF) and tolerance results as follows:

**Table 4: VIF and tolerance**

| Variable | VIF     | Tolerance |
|----------|---------|-----------|
| PD       | 7.4578  | 0.1341    |
| IND      | 6.3890  | 0.1565    |
| UA       | 10.7481 | 0.0930    |
| GE       | 7.5081  | 0.1332    |

The above table 4 indicates most variables exhibit VIF values below 10 and tolerance values above 0.10, suggesting no serious multicollinearity concern. Specifically, PD, IND and GE fall within acceptable limits. However, UA slightly exceeds the commonly recommended threshold, with a VIF value of 10.784 and tolerance value of 0.093. The presence of moderate multicollinearity in this study is theoretically justifiable in the context of cross country research. Cultural dimensions such as power distance, individualism and uncertainty avoidance captured interrelated aspect of societal values and institutional structures. Thus, the cultural variables are conceptually overlapping and empirically correlated across counties, making some degree of multicollinearity inevitable.

This finding should therefore be interpreted with caution rather than considered as a methodological limitation. Prior literatures suggest that multicollinearity becomes problematic only when it substantially affects the stability of coefficient estimates and the reliability of statistical inference. For instance, Gujarati and Porter (2009) highlight that multicollinearity inflates standard errors rather than biasing coefficients, while O'Brien (2007) cautions that commonly used VIF thresholds (e.g.,  $VIF > 10$ ) should not be treated as rigid cut-offs, as even higher values do not necessarily invalidate regression results.

Table 5 below shows the regression result:

**Table 5: Regression Results**

Regression model:  $TA_i = \alpha_0 + \alpha_1 PD_i + \alpha_2 IND_i + \alpha_3 UA_i + \alpha_4 GE_i + e_i$

| Variable                | Coefficient | t-stat  | p-value | Significance |
|-------------------------|-------------|---------|---------|--------------|
| Constant                | 61.4412     | 11.791  | 0.000   | ***          |
| PD                      | -0.1092     | -0.2722 | 0.025   | **           |
| IND                     | -0.1916     | -4.249  | 0.000   | ***          |
| UA                      | -0.1695     | -4.620  | 0.000   | ***          |
| GE                      | -30.4357    | -8.521  | 0.000   | ***          |
| R <sup>2</sup>          | 0.678       |         |         |              |
| Adjusted R <sup>2</sup> | 0.664       |         |         |              |
| F-statistic             | 47.85       |         |         |              |
| Prob (F)                | 0.000       |         |         |              |

\*\*\* significant at 1%, \*\* significant at 5%.

The regression results presented in Table 5 examine the influence of national culture dimensions—power distance (PD), individualism (IND), and uncertainty avoidance (UA)—along with government effectiveness (GE), on tax avoidance. The model demonstrates strong explanatory power, with an R<sup>2</sup> of 0.678 and an adjusted R<sup>2</sup> of 0.664, indicating that approximately 66–68% of the variation in tax avoidance is explained by the independent variables. The F-statistic (47.85,  $p = 0.000$ ) confirms that the model is statistically significant and well-fitted.

### Power Distance and Tax Avoidance (H1)

The co-efficient for power distance (PD) is -0.1092 and is significant at 5% level ( $p = 0.025$ ). Thus, H1 is supported. Previous studies found positive relationship between power distance and tax avoidance practices. However, recent study by Yoo and Lee (2019) found that the effect of power distance on tax avoidance is conditional on the institutional context and governance

quality. In strong institutionalized economies with effective government, higher power distance would encourage managers to comply with rules and regulations and thus would reduce tax avoidance practices.

These findings are however in contrast to prior research that has reported that higher levels of power distance are associated with increased levels of tax avoidance (Tsakumis et al, 2007). More recent research however has reported findings that are consistent with this study, namely that higher levels of power distance are associated with tax avoidance in the presence of strong institutional frameworks and good governance (Yoo and Lee, 2019).

Legitimacy Theory views organizations in terms of the societies to which they belong and how these societies are powered in terms of power distance. Singapore is a very high-power distance country and as such managers are likely to comply with government regulations as it is in their best interest to maintain their legitimacy. In very developed countries with effective government, a powerful public sector and high levels of transparency, programs are introduced by governments to tackle tax avoidance by organizations within their countries such as tax amnesty programs.

Our results therefore indicate that higher Power Distance does not equal greater tax avoidance, as does appear to be the case when strong regulatory bodies are in place and functioning well in the society.

### **Individualism and Tax Avoidance (H2)**

The individualism (IND) variable has a negative coefficient of  $-0.1916$  and is highly significant at  $p = 0.000$ . Thus, H2 can be supported as higher individualism within a country is associated with lower tax avoidance.

This finding contrasts with the previous study by Tsakumis et al (2007) and Yoo and Lee (2019) who found that individualism was positively related to tax avoidance practices. As mentioned earlier, in individualistic cultures with strong formal institutions, there is greater transparency and higher degree of accountability amongst organizations and therefore they are less to engage in tax avoidance practices. As highlighted in the recent research by Duhoon & Singh (2023), in individualistic cultures, in order to increase returns for shareholders, companies are under tremendous pressure to behave ethically and in line with all stakeholders' expectations. Thus, from a legitimacy theory perspective, organizations in individualistic cultures would strive to meet all the stakeholders' expectations with regard to their tax affairs.

Thus, there is indication that although individualism can encourage self-interest, in practice strong formal institutions, transparency and accountability in such cultures may have a greater influence to ensure tax avoidance behavior are brought under control in order to maintain legitimacy with all stakeholders. This is particularly so for a firm with shareholders as key stakeholders.

### **Uncertainty Avoidance and Tax Avoidance (H3)**

The coefficient for uncertainty avoidance (UA) equals  $-0.1695$  and is highly significant on a  $p$ -value level of  $p = 0.000$ . Therefore, hypothesis H3 can be supported.

Risk aversion by managers and/or by other employees in a firm has been found to significantly affect a firm's tax avoidance behavior in prior research. We did not include any variables in our study that would have captured this aspect of cultural variation, but there is prior research that has used a variable labeled risk that was found to be positively correlated with tax avoidance by small and medium enterprises (SMEs) operating in 30 countries. That research supported our theoretical expectation that the greater the degree of uncertainty that a firm perceives, the greater its use of tax avoidance in an effort to overcome that uncertainty. We did not use any single dimension of cultural uncertainty as a variable in our study, but there is also prior research that has used a variety of subjective measures of uncertainty (i.e., perceived risk, subjectively assessed uncertainty, etc.) that were significantly correlated with tax avoidance by firms in prior studies. In sum, our finding that tax avoidance is negatively correlated with uncertainty avoidance on the part of the firms of a society supports H3.

From an institutional theory perspective, high uncertainty avoidance societies are characterized by a set of institutions, such as rules and of networks, which stress stability and compliance and thus discourage risky activities such as tax avoidance.

### Government Effectiveness and Tax Avoidance (Control Variable)

The coefficient for government effectiveness (GE) is negative and highly significant with a value of -30.4357 and p-value equals to 0.000. The result shows that with an increase in governance quality there will be reduce implementation in tax avoidance. The effect of government effectiveness is found to be so strong that it could even outperform the impact of the cultural variables and therefore this study supports a combined formal and informal institutional analysis of corporate tax behavior.

The significant effect of government effectiveness supports the institutional perspective that formal institutions play an important role in shaping corporate tax behaviour. While national culture represents an informal institution, government effectiveness reflects the quality of formal institutions that enhance regulatory enforcement and governance mechanisms. This finding is consistent with Yousefinejad, Abdul Majid, Othman, Halid and Roslani (2022), who suggest that effective governments contribute to better tax systems and stronger economic outcomes through improved policy implementation and institutional quality.

Table 6 summarizes the hypotheses results:

**Table 6: Summary of Hypotheses Results**

| Hypothesis         | Expected result | Result                               |
|--------------------|-----------------|--------------------------------------|
| H1: PD and TA      | Negative        | Supported, significant ( $p < 5\%$ ) |
| H2: IND and TA     | Negative        | Supported, significant ( $p < 1\%$ ) |
| H3: UA and TA      | Negative        | Supported, significant ( $p < 1\%$ ) |
| Control: GE and TA | Negative        | Supported, significant ( $p < 1\%$ ) |

### Conclusion

This study examined the influence of national culture, specifically power distance, individualism, and uncertainty avoidance, on corporate tax avoidance while controlling for

government effectiveness. The findings provide strong empirical evidence that both cultural and institutional factors significantly shape corporate tax behaviour.

The regression results indicate that all three cultural variables are statistically significant determinants of tax avoidance. Interestingly, the findings reveal that power distance, individualism, and uncertainty avoidance are negatively associated with tax avoidance. This suggests that higher levels of these cultural dimensions are linked to more conservative tax practices and greater compliance behaviour.

The negative relationship between power distance and tax avoidance implies that firms operating in hierarchical societies may be more inclined to comply with authority, particularly when governance frameworks are strong. This aligns with recent literature emphasizing that institutional quality can mitigate opportunistic corporate behaviour and encourage tax compliance.

Similarly, the result for individualism challenges the traditional assumption that individualistic societies promote aggressive self-interest. Instead, firms in such environments may face stronger transparency requirements and stakeholder scrutiny, which discourage tax avoidance despite profit-maximization motives.

The findings for uncertainty avoidance are consistent with theoretical expectations. Firms in high uncertainty avoidance cultures tend to adopt risk-averse strategies, avoiding aggressive tax planning due to potential legal and reputational risks. This supports recent evidence showing that uncertainty leads firms to adopt more conservative tax practices.

Furthermore, government effectiveness exhibits a strong negative relationship with tax avoidance, highlighting the critical role of institutional quality, regulatory enforcement, and governance structures in reducing aggressive tax behaviour.

Overall, this study contributes to the literature by demonstrating that cultural influences on tax avoidance are context-dependent and closely intertwined with institutional factors. It highlights the importance of integrating both cultural and governance perspectives when analysing corporate tax behaviour across countries.

From a policy perspective, the findings suggest that strengthening governance frameworks and improving regulatory enforcement can significantly reduce tax avoidance, regardless of cultural background. For firms, the results underscore the growing importance of transparency and ethical considerations in tax decision-making.

From a sustainability perspective, this study contributes to SDG 16 (Peace, Justice and Strong Institutions) by highlighting the role of national culture in shaping corporate tax avoidance behaviour. By influencing tax compliance practices, cultural values may support or hinder governments' efforts to mobilize tax revenues, strengthen institutional effectiveness and promote sustainable development.

This study is subject to several limitations. First, tax avoidance is proxied by shadow economy data, which may capture broader tax-related behaviour beyond corporate tax avoidance, including informal economic activities and elements of tax evasion. Therefore, the findings should be interpreted as reflecting national tax minimisation behaviour rather than purely firm-

level tax avoidance. Future studies may employ firm-level tax avoidance measures such as effective tax rates or book-tax differences to provide more direct evidence on corporate tax avoidance

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- Acknowledgements:** The authors would like to express their sincere gratitude to Management and Science University (MSU) and Universiti Teknologi MARA (UiTM) for providing the necessary resources and support throughout the course of this research. Special appreciation is extended to colleagues and peers who contributed valuable insights and constructive feedback, which greatly enhanced the quality of this paper.
- Funding Statement:** This research received financial support from Management and Science University (MSU) publication fund. The funding body had no role in the design of the study, data collection, analysis, interpretation of results, or the decision to publish this manuscript.
- Conflict of Interest Statement:** The authors declare that there is no conflict of interest regarding the publication of this paper. All authors have contributed to this work and approved the final version of the manuscript for submission to the Advanced International Journal of Business, Entrepreneurship and SME's (AIJBES).
- Ethics Statement:** This study did not involve any human participants, animals, or sensitive data requiring ethical approval. The authors confirm that the research was conducted in accordance with accepted academic integrity and ethical publishing standards.
- Author Contribution Statement:** All authors contributed significantly to the development of this manuscript. Amilia Syuhada Binti Abdul Majid was responsible for the conceptualization, methodology, data collection and overall supervision of the study. Salsiah Mohd Ali handled analysis and interpretation of results. Both authors contributed to the literature review, drafting, and critical revision of the manuscript. Both authors read and approved the final version of the manuscript prior to submission.
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