

# Identifying the Determining Factors of Tax Evasion in Afghanistan (Case Study Kunduz City)

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**Abstract:** Tax as one of the most powerful instrument of economics policies, is the main source of governments' incomes. In general, the taxation poses as finance-dedicated and distributional pyramid in the economy. By paying taxes, some portion of private taxpayers' welfares are transferred to the public sector. So this phenomenon provokes tax evasion as an anti-value among private taxpayers. This study uses an experiment to investigate the determining factors of tax evasion in the Kunduz City. In addition, in terms of purpose, this is a practical research and the method of collecting information is survey type which data are gathered from 97 finance experts and medium taxpayer companies in the Kunduz city in 2024. Furthermore, we use SPSS software for data analysis and use One Simple T-student test and Wilcoxon Signed-Rank Test for statistical hypothesis tests. Our results suggest that there are a positive and significant relationships between economics, political, socio-cultural and organizational factors with tax evasion in the Afghanistan.

**Keywords:** Taxation, Tax Evasion, Determining Factors, Afghanistan.

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## I. INTRODUCTION

This is not dubitable that the indisputable power of the countries is summarized in their economic power. According to the economics terminology, a sufficient way to measuring way of economic power is economic income which is maximum amount consume by a nation, firm, or a person without degeneration in value of that individuals, firms, of national assets (Auerbach, 2025).

Indeed, the tenor of the economic power is money. The size of governments in today's advanced economies cannot be maintained without high financial capacity. Taxes, in spite of other resources, have largest share (80% - 90%) in the structure of governments revenues (OECD, 2009). Government annual budget actually reflect their expenditure-revenue statement which is directly afforded from individuals' and firms' revenues. All decisions are dominated by maximum profit (Pindyck & Rubinfeld, 2013). The main goals of both individuals and firms are to maximize their profits. By paying taxes, some of private sectors' welfare is

transferred to government sectors. According to the Agency Theory, and the lack of information asymmetry between the government and the taxpayers, economic activists naturally try to avoid paying taxes. On the other hand, governments are looking for potential taxpayers to maximize their income (Bolouri, Moradi, & Yazdani, 2021).

However, there is delicate balance between the limits of taxation and tax collection rate. Whenever the financial policy makers of a country don't consider that balance, it will cause taxpayers to react, like tax evasion (Haghighyeghi, 2014). The problem of tax evasion can spoil disaster the economy of in several areas. First of all, one of the main resource of governments' revenue which governments relies on this for funding their normal and development budgets. However, tax evasion undermines government to generate sufficient revenues (Ifeyinwa U, John T, & Onyinye, 2023).

In developed economics, taxes serve not only to fund government operations but also to implement economic policies and strategies, often becoming a focal point for political factions (Atami Zadeh, 2004). On the other hand, in the developing world, many countries struggle to collect adequate tax revenue due to various challenges including inefficiencies in the tax system, widespread tax evasion, and a lack of taxpayers awareness (Kassa, 2021).

To sum up, in this research, the main goal of investigators is to examine the determining factors of tax evasion in Afghanistan. The study concentrated on affection of factors, such as economic factors, politic factors, socio-cultural factors and organizational factors, on tax evasion in Kunduz City.

## II. LITERATURE REVIEW

Tax are a crucial source of government financing, significantly influencing economic growth and income distribution, depending their development and economic structure. On the other hand, tax evasion often stemming from a lack of professional ethics, poses a serious threat to tax culture. This undermines the effectiveness of the tax system and can hinder the achievement of social welfare (Maleki, 2021).

Tax evasion involves illegal actions to avoid tax payments, such as not reporting income. Understanding its causes is crucial for prevention. This study revealed that the most significant factor in tax evasion is the determined executive factors, followed by economic-environmental and legal factors (Zara Banamiri, Rahimian Amiri, & Tirgan, 2022).

Based on insights from Jackson and Milliron, the OLS regression analysis show that non-economics factors, particularly complexity, significantly impact tax evasion. Other notable determinants include education, income source, fairness, and tax morale. The results of this study suggest that lower complexity and higher level of education, service income, fairness, and tax morale are associated with reduced tax evasion (Richardson, 2006).

According research about exploring the causes and factors contributing to tax evasion in East Azerbaijan Province, highlighting its negative impact on social welfare. Utilizing a field study method, surveys were conducted among taxpayers and tax staff to evaluate 15 factors influencing tax evasion. The finding identified 10 factors recognized as aggravating tax evasion by both taxpayers and tax staff. However, from taxpayers' perspective, only three specific factors were significant, while tax staff identified just one. Notably, one factor was deemed irrelevant by both groups (NAQI & SHAHRZAD, 2011).

Any illegal attempt to evade tax payments, such as failing to provide the necessary information regarding taxable income and benefits to the responsible authorities, is referred to as tax evasion. This research examines and prioritizes the factors influencing tax evasion. Information was collected

through library methods and the distribution of questionnaires, and it was analyzed using Fuzzy Analytic Hierarchy Process. The statistical population consisted of 20 managers and experts from the tax administration. The results indicated that the most significant factor affecting tax evasion is the executive factor, followed by economic-environmental and legal factors in subsequent priorities (Zare Behnmiri, Rahimian Amiri, & Tirgan, 2022).

Tax evasion is a critical issue in both developed and transitioning economics, influenced by each country's unique characteristics. Understanding the factors that drive tax evasion is essential for governments to implement effective fiscal policies. It results in economic costs, promotes negative behaviors, and leads in inefficient resource allocation. This research reviews key factors affecting tax evasion, particularly tax rate, audit probabilities, and penalty rates. The finding indicate that while these factors significantly influence tax evasion, their effects on tax compliance vary across different studies (Kiri, 2016)

According a research paper, Erstu Tarko Kassa (2021) indicated that both primary and secondary data, selecting 370 respondents from a target population of 4,979 through stratified and simple random sampling. The findings revealed a positive and statistically significant relationship between independent variables – tax fairness, tax knowledge, and moral obligation – and tax evasion. However, moral obligation and subjective norms were not found to significantly influence tax evasion (Kassa, 2021).

## III. RESEARCH METHODOLOGY

Both descriptive and explanatory research designs were utilized for this study. The explanatory design facilitates the illustration of causal links between independent and dependent variables, whereas the descriptive design helps to effectively depict events. A quantitative methodology was employed to analyze and interpret the numerical data collected from participants. Data was collected from both primary and secondary sources. The primary data was obtained through questionnaires filled out by participants, while the secondary data was sourced from books, journal articles, websites, and other pertinent materials.

The study's target population consisted of 302 medium size taxpayers and financial affairs experts. Based on 90% confident level, from 302 taxpayers, 97 samples are selected.

In terms of the tools used for data collection, the information was gathered using standardized questionnaires that were self-administrated. There were 16 questions in our questionnaire, 12 questions were arranged based on Likert Scale which the 5-point Likert scale consists of the below points – (1) Strongly Disagree; (2) Disagree; (3) Neither Agree nor Disagree; (4) Agree; (5) Strongly Agree, and 4 questions were arranged based on Guttman Scale which consists a serious of "yes-no" options. Also the value of Cronbach's alpha was 0.722 for above listed factors.

The quantitative data collected through survey are analyzed using statistical software (SPSS). For testing hypothesis, firstly we test every factor that follow normal distribution or not by using Shapiro Wilk test. After that, whenever data follow Normal Distribution, we use One Simple T-test for identifying affection of foregoing factors on tax evasion in Afghanistan. But on the other hand, if data do not follow Normal Distribution, we use Wilcoxon Signed-Rank test for studying the affection of above factors on tax evasion as well.

This study has a couple of limitations. Firstly, we faced some response biases. Participants may underreport tax evasion due to fear of repercussions. Secondly, another issue which we faced during our research was cultural context. For instance, unique cultural factors could influence compliance. All in all, addressing response bias and cultural issues is essential in research design and implementation. by recognizing these challenges and applying appropriate strategies, investigators can improve the accuracy and representativeness of their findings, leading to more reliable conclusions and informed decisions.

#### IV. RESULT AND DISCUSSION

##### ➤ Test of Hypothesizes:

First of all, before testing our hypothesis, we need to find out that our data comply from Normal Distribution or not. For this reason, we use Shapiro-Wilk test. If they have followed Normal Distribution, we use One Simple T-test for testing the hypothesizes. On the other hand, whenever the related-data don't follow the Normal Distribution, we use Wilcoxon Signed-Rank Test as well.

- **The first hypothesis:** testing the economics factors on tax evasion.

{**H0:** The data follow a Normal Distribution .  
{**H1:** The data do not follow a Normal Distribution.

Table 1: Normal Distribution Test

Economics Factors; Tax Rate, Unemployment Rate, and Underground Economy	
Quantity	97
Shapiro-Wilk test	0.948019
Decision Attribute	$7.63 \times 10^{-4}$

Source: Own Survey (2024)

- Note: as could be seen, the decision attribute is equal to  $7.63 \times 10^{-4}$ , also Decision attribute  $< 0.05$ . The results show that with a 95% confidence level, Null Hypothesis indicating data follow normal distribution, is rejected and alternative hypothesis is accepted.

**H0 :** The economics factors do not effect tax evasion.

**H1 :** The economics factors effect tax evasion.

Table 2: Wilcoxon Singed-Rank Test

Calculating the Impact of Economics Factors on Tax Evasion	
Quantity	97
Wilcoxon Signed-Rank Test	-9.539956
Decision Attribute	$1.4 \times 10^{-21}$

Source: Own Survey (2024)

- Note: as it is shown, the decision attribute is  $1.4 \times 10^{-21}$ , which is smaller than 0.05. so with 95% confidence level, the null hypothesis is rejected, and alternative hypothesis indicating impact of economics factors on tax evasion is accepted.
- **The second hypothesis:** testing the politics factors on tax evasion.

{**H0:** The data follow a Normal Distribution .

{**H1:** The data do not follow a Normal Distribution.

Table 3: Normal Distribution Test

Political Factors: Political Stability, Non-compliance with Tax Laws, and the Level of Corruption in Government	
Quantity	97
Shapiro-Wilk test	0.974141
Decision Attribute	0.052241

Source: Own Survey (2024)

- Note: as could be seen, the decision attribute is equal to 0.052, also Decision attribute  $> 0.05$ . The results show that with a 95% confidence level, Null Hypothesis showing data follow normal distribution is accepted.

{**H0:** The politics factors do not affect tax evasion.

{**H1:** The plitcs factors affect tax evasion.

Table 4: One Simple T Test

Calculating the Impact of Political Factors on Tax Evasion	
97	Quantity
3.457045	Average
0.806971	Standard Division
96	Degree of Freedom
67.650207	T test
$8.4 \times 10^{-83}$	Decision Attribute

Source: Own Survey (2024)

- Note: as can be seen, the decision attribute is  $8.4 \times 10^{-83}$ , which is smaller than 0.05. so with 95% confidence level, the null hypothesis is rejected, and alternative hypothesis indicating impact of political factors on tax evasion is accepted.
- **The third hypothesis:** testing the socio-cultural factors on tax evasion.

{**H0:** The data follow a Normal Distribution .

{**H1:** The data do not follow a Normal Distribution.

Table 5: Normal Distribution Test

<b>Socio-Cultural Factors: Trust in the Government, People's Tax Mentality, and Religious Beliefs</b>	
Quantity	97
Shapiro-Wilk test	0.967859
Decision Attribute	0.017638

Source: Own Survey (2024)

- Note: as could be seen, the decision attribute is equal to 0.017638, so decision attribute  $< 0.05$ . The results show that with a 95% confidence level, null hypothesis showing data follow normal distribution is rejected and alternative hypothesis is accepted which show data do not follow normal distribution.

{**H0**: The socio – cultural factors do not affect tax evasion.  
 {**H1**: The socio – cultural factors affect tax evasion.

Table 6: Wilcoxon Signed-Rank Test

<b>Calculating the Impact of socio-cultural Factors on Tax Evasion</b>	
Quantity	97
Wilcoxon Signed-Rank Test	-9.544254
Decision Attribute	$1.37 \times 10^{-21}$

Source: Own Survey (2024)

- Note: as can be seen, the decision attribute is  $1.37 \times 10^{-21}$ , which is smaller than 0.05. so with 95% confidence level, the null hypothesis is rejected, and alternative hypothesis indicating impact of socio-cultural factors on tax evasion is accepted.
- The forth hypothesis:** testing the organizational factors on tax evasion.

{**H0**: The data follow a Normal Distribution .  
 {**H1**: The data do not follow a Normal Distribution.

Table 7: Normal Distribution Test

<b>Organizational Factors: Weak Leadership, Control and Supervision, and Lack of Organization Commitments</b>	
Quantity	97
Shapiro-Wilk test	0.968446
Decision Attribute	0.019492

Source: Own Survey (2024)

Note: as could be seen, the decision attribute is equal to 0.019492, so decision attribute  $< 0.05$ . The results show that with a 95% confidence level, null hypothesis showing data follow normal distribution is rejected and alternative hypothesis is accepted which show data do not follow normal distribution.

{**H0**: The orgnaizational factors do not impact tax evasion.  
 {**H1**: The oraganizational factors impact tax evasion.

Table 8: Wilcoxon Signed-Rank Test

<b>Calculating the Impact of Organizational Factors on Tax Evasion</b>	
Quantity	97
Wilcoxon Signed-Rank Test	-8.480138
Decision Attribute	$2.24 \times 10^{-17}$

Source: Own Survey (2024)

- Note: as can be seen, the decision attribute is  $2.24 \times 10^{-17}$ , which is smaller than 0.05. so with 95% confidence level, the null hypothesis is rejected, and alternative hypothesis indicating impact of organizational factors on tax evasion is accepted.

## V. DISCUSSION

According to Table 2 through the examination of cause and effect test, economic factors including tax rate, unemployment rate, and underground economy have positive effect on tax evasion. Thus with 95% of confidence level, the discussion attribute is  $1.4 \times 10^{-21}$ , so above 3 economic factors could influence tax evasion. This finding is similar to result of Blackburn, Bose and Capasso (2012).

In accordance with the table 4 showing the affection of political factors on tax evasion, indicate that political stability, non-compliance with tax laws, and the level of corruption in government could influence tax evasion. With 95% of confidence level, the discussion attribute is  $8.4 \times 10^{-83}$ , so Political factors could be a strong determines of tax evasion. This finding is corresponding with the results of Cervena and Romanova (2018) and Kacakciligli (2006).

According to table 6, socio-cultural factors, including trust in the government, people's tax mentality, and religious beliefs, affect tax evasion. With 95% confidence level, the discussion attribute is 0.017638, so the 3 discussed socio-cultural factors could be determining factors of tax evasion. This finding is on contract with Dharma et al (2016) findings, Khalil and Sidani (2020) findings. On the other hand, our research result is similar to with Ciziceno and Pizzuto (2022) findings.

Based on table 8 information, organizational factors, for instance, weak leadership, control and supervision, and lack of organization commitments affect tax evasion. With 95% of confidence level, the discussion attribute is  $2.24 \times 10^{-17}$ , so 3 above mentioned organizational factors could be the determines of tax evasion. The result of studying of organizational factors on tax evasion is similar to the Kasaa (2021) findings.

## VI. CONCLUSION

Tax evasion is a significant issue with the informal sector of the economy and is a major contributor to the decline in tax revenue. In contrast to previous studies that have explored the factors influencing tax evasion in different parts of the globe, this research focuses on specifically on identifying determining factors of tax evasion in Afghanistan.



According to our findings, economic factors has a positive impact on tax evasion in Afghanistan. When tax rates are seen as too high, individuals and businesses may be more likely to evade taxes to keep more of their income. In addition, there is a positive relationship between unemployment rate and tax evasion. Higher unemployment rates create financial strain for individuals, which may lead some so evade taxes to retain more of their limited income. Additionally, with fewer people earning taxable income, overall tax revenue decrease, promoting governments to increase scrutiny and enforcement of tax compliance. Also the underground economy leads to a diminished tax base as income generated in this sector often goes unreported, resulting in decreased tax revenue for governments. Additionally, it fosters heightened tax evasion, with individuals frequently underreported earnings or conducting untraceable cash transactions.

In accordance with our findings, political factors could be determining of tax evasion. First of all, political stability enhances the enforcement of tax regulations by strengthening institutions and enabling effective oversight and prosecution of tax evasion, which deters individuals from avoiding taxes. It also fosters economic confidence, leading businesses and individuals to view their tax payments as investments in a secure and prosperous future, thereby reducing the inclination to evade taxes. Secondly, failure to comply with tax laws creates a setting that promotes tax evasion. Ambiguous regulations, insufficient enforcement, and a sense of unfairness can heighten non-compliance, prompting others to evade taxes too. This erodes the integrity of the tax system, resulting in decreased government revenue and heightened inequality. In addition, corruption in government erodes public trust, promoting individuals and businesses to justify tax evasion based on the belief that tax revenues are misused. This culture of bribery and embezzlement weakens enforcement efforts, enabling tax evaders to act without concern for repercussions. Consequently, this lead to reduced government revenue, slowed economic growth, and heightened social inequality, ultimately destabilizing the system.

Based on our findings, socio-cultural factors have positive impact on tax evasion. Firstly, public trust in government is vital for tax compliance. When citizens believe their taxes are used effectively, they are more likely to pay. In contrast, low trust due to corruption or mismanagement can lead to tax evasion, undermining the financial system. Also tax mindset affects evasion; viewing taxes as civic duty increases compliance, while perceptions of unfairness promote evasion. Social norms are also important, underscoring the need for a positive tax attitude to reduce evasion. Finally, religious beliefs influence tax evasion, with some seeing taxes as a moral obligation, while feeling of unfairness can promote evasion.

Finally, our evidence shows that organizational factors can be determines of tax evasion. Firstly, ineffective leadership can lead to higher tax evasion by weakening law enforcement and eroding trust in the tax evasion. Additionally, effective control and oversight are crucial for decreasing tax evasion, as they ensure consistent law enforcement and encourage compliance and trust among taxpayers. Finally, insufficient organizational commitment can result in higher tax evasion due to a fragile compliance culture, ineffective internal controls, insufficient training for employees, diminished ethical standards, and an elevated likelihood of audits and penalties. This situation ultimately compromises the integrity of the tax system.

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