

Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University

Student:	Stevan Šijan Stojić
Advisor:	Mgr. Evgeniya Dubinina
Title of the thesis:	Tax Evasion and its Implications on Country-level Tax Revenue Structure

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Short summary

This thesis aims to examine the relationship between tax evasion and tax revenue structure. Using a panel of 37 countries over the 2001-2016 in a fixed-effects framework, the author reports several statistically significant coefficients which are interpreted as evidence of an effect of tax evasion on tax revenue structure.

Contribution

I find the contribution of this thesis to be on the low end of theses normally defended at our Institute. The research question and methods chosen to answer it are relatively uninformative and I am not convinced by the results. My main concerns regarding the contribution are threefold. First, I am worried that the dependent variable is defined in a very unhelpful way. Tax revenue structure, which is claimed to be studied, is measured in parts of this thesis by total tax revenue, or by a share of an individual tax in the total tax mix. This is highly problematic as I think these variables used in this way measure different things than tax revenue structure (for example, how is total tax revenue related to tax structure?), so the thesis is not measuring what is set out to measure. Second, I am worried that the relationship studied here is driven by unobserved variables. The most straightforward concern is that tax evasion is known to be done primarily by high-net worth individuals, which are based in high income countries, which tend to have high tax revenues as shares of GDP – but for very different reasons than having high amounts of tax evasion. Third, tax evasion directly impacts tax revenue structure in the given year by lowering some tax receipts (thereby increasing the other taxes' share in the total tax mix).

I do think however that the thesis studies a hugely important topic and uses some of the best available estimates and data for the issues at hand.

Methods

The methods chosen in this thesis are not very appropriate to study the research question. I describe a few reasons for that above, and I add a few more specific concerns here:

- What is the usefulness of Model 1 (results in Table 2)?
- Why log the population and GDPpc but not tax evasion?
- Providing summary statistics would be of huge help.
- Why use FDI as a % of GDP when using tax evasion in absolute dollar terms?
- Smaller point which however illustrates a larger trend of the lack of clarity in the thesis: The author says that Figure 1 shows the average amounts of tax evasion in countries within a group, but it actually shows the sum.

Literature

I find the literature review relatively weak. The author heavily relies on a few sources (in both the background of the study as well as the empirical analysis itself), although there are dozens of relevant papers that could have been nicely incorporated into the narrative of the thesis. The thesis does not tie its results to existing literature well in the places it should, such as in the introduction and in the literature review section. Smaller points include that Zucman (2015) is wrongly cited as Zucman et al. (2015) despite being one of the primary sources, and that the author refers many times to „Taxation Papers“ as the source of the main estimates, but this seems like a misunderstanding of this working paper series of the European Commission.

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Manuscript form

The thesis would benefit greatly from further proofreading, with relatively poorly structured sentences being too common. Charts and tables could also be improved and harmonized.

Overall evaluation and suggested questions for the discussion during the defense

In my view, the thesis fulfills the requirements for a bachelor thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade E.

The results of the Turnitin analysis do not indicate significant text similarity with other available sources.

During the defense, I suggest that the committee asks the author the following questions:

- How do you interpret your results quantitatively? For example, you write on p. 21: „...one more billion dollar increase in tax evasion is significantly associated with 0.0275 increases in property tax revenues as percentage of total tax revenues on average, holding other things constant (or 2.75 percentage-points increase in property tax as percentage of total tax revenues).“ Is this an economically large or small effect? Does this estimate make sense given the amounts reported for individual countries?
- Why do you use population in the regressions? What is your assumed mechanism of the effect of population on the dependent variables, say, total tax revenue as a share of GDP?
- How do you think of the direct interplay between tax evasion and the share of the evaded tax in total tax revenues? Do you find it problematic for your methodology? Why or why not?

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Contribution (max. 30 points)</i>	17
<i>Methods (max. 30 points)</i>	18
<i>Literature (max. 20 points)</i>	13
<i>Manuscript Form (max. 20 points)</i>	11
TOTAL POINTS (max. 100 points)	59
GRADE (A – B – C – D – E – F)	E

NAME OF THE REFEREE: PhDr. Miroslav Palanský, M.A., Ph.D.

DATE OF EVALUATION: August 27, 2024

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F