

Impact of the Slovak Tax Reform on Firms' Tax Evasion: A Comparative Study of the Czech and Slovak Republics

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NON-TECHNICAL SUMMARY

We explore a change in the behaviour of Slovak firms after the radical tax reform in 2004. We enquired 930 Czech and Slovak firms in manufacturing industry for their experience and attitude towards tax evasion. We compare the results of Slovak firms with the development in the Czech Republic. Our main argument is that the simplification of the tax system has had a positive impact on tax compliance of Slovak firms.

We argue that the Czech and Slovak Republics can be viewed as a natural experiment. They formed one state until 1993 sharing the same socio-economic background. In addition, the Czech and Slovak tax system had both similar structure and development until January 2004 when Slovak government introduced a new tax system including a flat tax. For the purpose of measuring tax evasion, where many of the agents' incentives change very slowly, we believe the idea of natural experiment is suitable. Because of the tax reform that took place in Slovakia and not the Czech Republic and given the common characteristics mentioned above, we can treat the latter country as the control and the former as the treatment group.

Results:

- The tests show that no statistically significant change in the level of tax evasion of Slovak firms took place after the reform. There are two obstacles in testing: a very high variance of the data and probably a short time span between the survey and the reform.
- However, we identify differences between the Czech and Slovak firms regarding the respective tax systems. The Czech companies markedly call for a change of the tax system, mostly simplification. On the other hand, the Slovak firms are relatively satisfied and majority of them see the current tax system as optimal.

We see a few suggestions for further research. The attitudes of firms towards tax evasion change rather slowly. Therefore, it would be probably necessary to wait longer for the full effect of the tax reform to develop. Secondly, the higher satisfaction with the tax system and smaller range of tax evasion possibilities in Slovakia could gradually lead to increased tax compliance. This fact should be addressed in further research. Finally, applying non-parametric tests might be a way to remedy the difficulty of high variance of the survey data.