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Corruption and Public Spending as Predictors of Tax Evasion in Libya: Political Instability as a Moderator

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Abstract: Taxation remains a vital and dependable source of revenue for governments, playing a key role in promoting social and economic development. In Libya, despite ongoing efforts to strengthen tax collection mechanisms, compliance among self-employed individuals remains persistently low, leading to substantial revenue shortfalls. The impact of public expenditure and perceived corruption on tax evasion, particularly within the context of Libya's ongoing political instability, remains insufficiently explored in the existing literature. These factors may be important in molding the compliance of the taxpayer. This research sought to explore the effect of perceived corruption and public spending on tax evasion, while political instability was considered as a moderating variable. Questionnaires were distributed to 369 self-employed taxpayers in Libya which were analyzed by Smart-PLS version 4. Findings show that there is a positive and statistically significant relationship between perceived corruption and tax evasion while the relationship between public spending and tax evasion is negative and statistically significant. Though political instability does not significantly moderate the relationship between corruption and tax evasion, it does moderate the relationship between public spending and tax evasion. The results provide important policy implications that would benefit tax authorities aimed at increasing revenue collection and minimizing evasion in Libya's independent sector.

Keywords: *Perceived corruption,* Public Spending*, Political instability, Tax evasion, Libya*

1. Introduction and Background

Tax evasion is a common problem all over the world because of its dangerous threats to economic stability and attracting remarkable academic attention (Abodher et al., 2020; Anggareni & Mujiyati, 2024). It refers to willful behavior on the part of taxpayers (individuals or corporations) whereby income is underreported, and deductions are exaggerated to pay lower taxes (Ben Othman et al., 2023). It refers to willful behavior on the part of taxpayers (individuals or corporations) whereby income is underreported, and deductions are exaggerated to pay lower taxes (Aca & Dick, 2018) This situation is even worse in developing countries, where decreasing revenues make it difficult for the government to finance essential public services (Al-Asfour & Mcgee, 2024) Libya, for instance, released significantly loss in tax revenue of $254 million IN 2019, $667 million IN 2020, and above $501 million in 2021 (Libyan Audit Bureau, 2018).

Tax compliance among taxpayers, particularly the self-employed is reported as low in Libya as one of the main factors influencing the low tax revenue (LAB, 2018). It emphasizes the urgency of sorting out issues related to tax compliance for effective domestic resource mobilization and national budgeting. A study by (Sidik et al., 2019) highlighted that low levels of tax compliance are a primary factor affecting the tax revenues and it is also a serious challenge for the Libyan tax administration. Tax evasion has increased in Libya since the revolution (LAB, 2018). It is therefore necessary to explore the causes of tax evasion, especially amid prevailing political and economic situations, which may account for the dwindling tax revenues in the country (Abodher et al., 2020). The issue of tax evasion in North Africa and the Middle East. Overall, there is scarce empirical literature on tax evasion for both North African and Middle Eastern nations compared with other regions' writers. This lack of knowledge keeps us from controlling for factors that determine tax evasion in these zones (Senan, 2024).

Tax evasion has been identified as a major problem in many developing countries, with taxpayers admitting to higher rates of tax evasion than in developed countries. This is due to weak enforcement mechanisms, a large informal economy, corruption and people's trust in government (Al-Rahamneh et al., 2023). In this research, the theory of social influence is an informative model for explaining factors that affect tax compliance and

evasion attitudes. Such a theory suggests that social norms and peer behavior have a role in determining individual tax compliance judgments (Bani-Khalid et al., 2022). Researchers have employed this theory to examine which factors determine tax compliance, such as perceived corruption (Torgler, 2011), public spending (Iraman et al., 2021), and political instability (Fagbadebo, 2007). By understanding these determinants from the perspective of social influence theory, researchers can more accurately explain how individual attitudes, societal norms and institutional-level factors interact to influence taxpayers' levels of tax compliance.

The remainder of this paper is divided into the following sections: Section 2 reviews the related literature systematically and makes a detailed discussion on previous research about tax evasion. The theoretical framework is presented in Section 3, and specifically we look at Social Influence Theory. The methodology of the research is presented in Section 4. Section 5 discusses the results and key determinants of tax evasion in Libya, as inspired by the analysis of data. Implications of findings, limitations of the current study and recommendations for future research are discussed in Sections 6&7 respectively. Lastly, Section 8 concludes the paper by presenting the main conclusions and contributions.

2. Literature Review

Tax Evasion Issue

Tax evasion has been defined by various authors from different perspectives. (Al-Rahamneh & Bidin, 2022; Anggareni & Mujiyati, 2024) define tax evasion as the illegal act of eluding financial obligations to the state by hiding or distorting income or wealth that are liable to taxation. According to Ben Othman (et al., 2023) tax fraud is a crime that taxes society and states of similar importance and so are the damages for general public. Nevertheless, McGee et al., (2012) suggest that tax evasion is less serious compared to other offenses like drug-related crimes, violent crimes, commercial crimes, property crimes, and traffic offenses. Rashid et al., (2021) highlight that deterrence, personal and social norms, likelihood of compliance, fairness, and trust are crucial factors influencing taxpayer compliance and recommends that tax policy measures proposed by the government and implemented by tax administrations should aim to reduce tax evasion and encourage compliance.

Corruption Perception

Corruption's perception has been defined as the abuse of public power and authority for personal gains, and can take on various forms of corrupt practices such as bribery, embezzlement and fraud (Carmelo et al., 2023; Hope, 2022). According to Amoh et al., (2023), with the corruption in tax administration possible to have a material reduction on government's revenue as agents might take bribes to close an eye to illegal actions or decrease the taxes. Many studies indicate a positive and significant relationship between perceived corruption and tax evasion. For example, Gebrihet et al., (2024), Irawan & Utama (2021) & Posadnieva & Sidelnykova (2024) argue that higher levels of perceived tax unfairness, especially when the taxing authorities are viewed as corrupt and raise the level of tax evasion. There are caveats, though, and not all studies support this view. For instance, Akdede (2006) reported a negatively significant relationship between bribery and tax evasion, suggesting that when bribes are high enough, some taxpayers may prefer to respect their levies than incur evasion. Similarly, Alkhatib et al., (2019) and Obaid et al., (2020) did not find a robust relationship between corruption and tax evasion. In view of the scarce studies that have investigated this association in Libya, it is important to appeal to Social Influence Theory as a theoretical basis to provide an explanation from an explanatory standpoint on the effect of perceived corruption on tax evasion behavior.
H1: There is a significant relationship between corruption and tax evasion among self-employed taxpayers.

Further, in light of the inconsistent results, Baron and Kenny, (1986) theory suggests adding a moderating variable to enhance the relationship among inconsistent relationships. It is therefore postulated:
H1a: Political instability moderates the relationship between corruption and tax evasion among self-employed taxpayers.

Public Spending

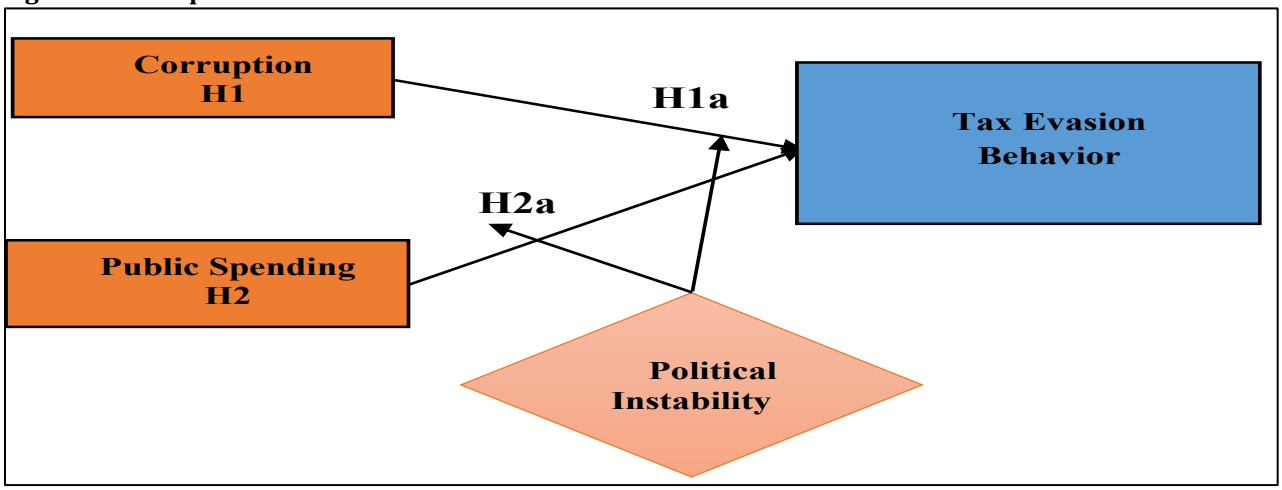
Public spending that is highly visible and efficient in improving public goods and services can also enhance the perceived returns to taxes. If taxpayers observe significant changes in their quality of life as a result of the

government expenditure, they may have a higher level of compliance with tax obligations (Alloza et al., 2019; Kousar et al., 2023; Saddaf et al., 2022). The nature of the relationship between government expenditure and tax evasion is complex, influenced by a variety of economic, social and institutional factors. This relationship has been analyzed in a variety of work and the main result is that the size seems to be negatively related to government spending. There is also a group of researchers, Rashid et al. (2022), Khaltar (2024), Mishi & Tshabalala (2023) and Tawiah et al. (2025), who have added to this knowledge. Their research proposes that the higher the levels of government spending and revenue, the lower tax evasion becomes for taxpayers. On the contrary, works such as that of Mugarura et al. (2021), Novita et al. (2024) & Ogungbade et al. (2021) observed that taxpayers' perception of government spending has no significant relationship with tax evasion behaviour. In view of the existing gaps in the literature—particularly in the Libyan context, where limited evidence is available regarding whether government spending has a moderating effect on tax evasion, this study employs social influence theory as a guiding framework for hypothesis development:
H2: There is a significant relationship between public spending and tax evasion among self-employed taxpayers.

It is also possible that political instability in a country may affect the extent to which public spending reduces tax evasion. Financial instability can hinder the contribution of public service expenditure to tax compliance. The subsequent hypothesis was formulated:
H2a: Political instability moderates the relationship between public spending and tax evasion among self-employed taxpayers.

Moderating Role of Political Instability
In statistical modeling, the concept of moderators is crucial, especially when we seek to understand the complex interplay among variables (Baron & Kenny, 1986b). Although political instability has been researched in the past as a direct variable with respect to tax dodging, its role as a moderating variable was not addressed so much (Abodher et al., 2020). With respect to Libya, the country provides an interesting space for this type of research. Attitudes and behavior in favor of fighting tax evasion may be significantly influenced by the sustained political turmoil that has lasted since 2011. Therefore, the analysis in which factors such as corruption and public spending are considered in the presence of political instability as a moderator (Figure 1 below) might offer valuable new insights into these relationships on tax evasion among Libyan citizens.

Figure 1: Conceptual Framework



3. Research Methodology

Data Collection and Sample
A self-administered questionnaire using simple random sampling was used to obtain 369 responses from self-employed taxpayers in Tripoli, Libya's capital. It is estimated that approximately 18,200 Libyans living in Libya file their own taxes. Data Analysis The data presented were analyzed using the (PLS-SEM version 4.

Measurement of the Variables

To measure the variables in this study, modifications were made based on previous research. Specifically, four items related to corruption were derived from the work of (Obaid & Udin, 2020), while four items concerning the perception of public spending were adapted from (Azmi et al., 2008). Additionally, five items addressing political instabilities were taken from (Abodher et al., 2020), and five items about tax evasion behavior were sourced from (Jeyapalan & Abdul-Jabbar, 2014). A five-point Likert scale was employed for these four constructs, following expert recommendations.

Responded

The study population is individuals who work in various occupations and industries in Tripoli city in Libya. The unit of analysis of this study is individuals. A systematic random sampling procedure was adopted to pick 490 individuals from the population of self-employed taxpayers. This procedure entailed the random selection of an initial point from the list at the outset. The author initiated the selection process with the number 25 and then chose every 37th individual (e.g., 25, 62, 99, etc.) until the target sample size was attained (Zikmund, 2013). Of the 490 issued surveys, 380 replies (78%) were obtained. Nevertheless, 11 questions were identified as inappropriate and eliminated from subsequent analysis. As a result, 369 valid surveys (75%) were incorporated into the final data analysis. As demonstrated in Table 1, the sample composition is dominated by males (76.2%) and respondents are mainly between the ages of 30-50 years old (61.2%). Most participants are married (65.3%) and have a bachelor's degree (62.6%). Based on the sources of income, the major group is professionals (45.5%) followed by traders (21.4%), craftsmen (18.2%) and industrial workers (14.9%).

Table 1: Profile of Respondents

Demographic Variables	Category	Frequency	Percentage
Gender	Male	281	76.2
	Female	88	23.8
Age	Less than 30 years	71	19.2
	Between 30-50 years	226	61.2
	More than 50 years	72	19.5
Marital Status	Single	116	31.4
	Married	241	65.3
	Others	12	3.3
Educational	Before Secondary School	23	6.2
	Secondary School or Diploma	74	20.1
	Bachelor's Degree	231	62.6
	Master's or Doctorate Level	41	11.0
Source of Income			
	Trade	79	21.4
	Industry	55	14.9
	Crafts	67	18.2
	Professions	168	45.5
Total		**369**	**100.0**

4. Results

Convergent Validity

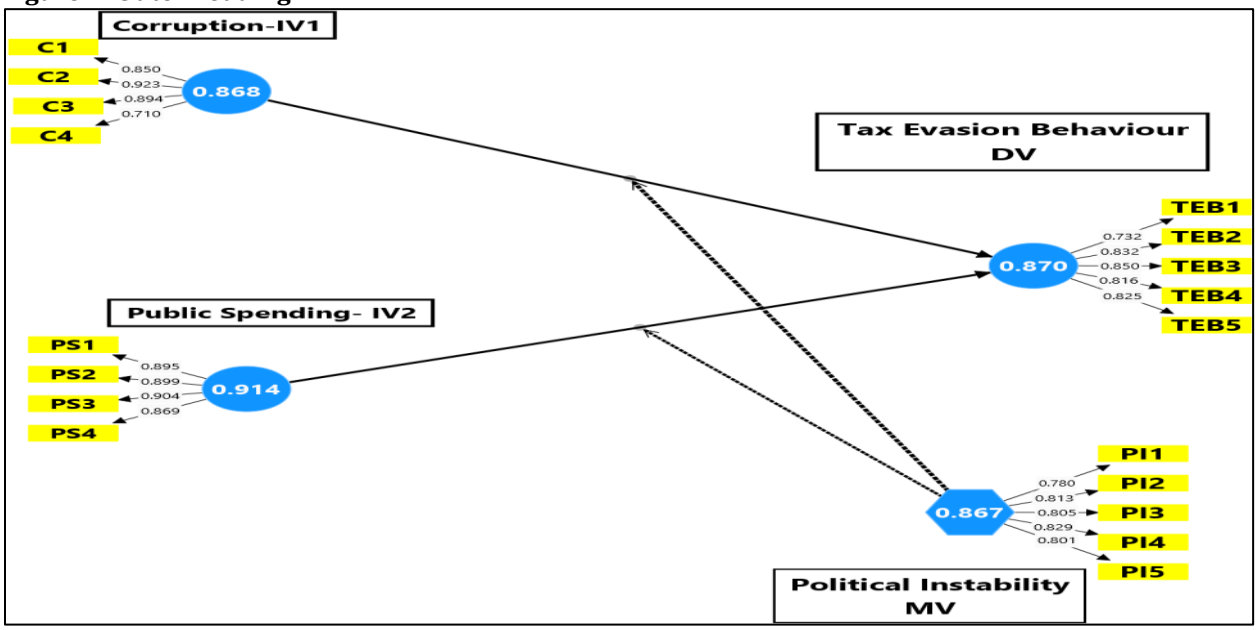
There are two measures of validity which measured based on the quantity of how they averagely measuring items accurately to measure the intended construct, in line with Hair et al. (2024). There are many ways validity can be measured and one of these is convergent validity. This method evaluates whether items related to a construct indeed converge to represent that construct, according to Hair & Alamer (2022). As shown in Table 2 and Figure 2. The composite reliability (CR) and Average Variance Extracted (AVE) values for this study

indicate robust convergent validity, with all constructs exceeding the thresholds of 0.7 for CR and 0.5 for AVE. Moreover, the factor loading values for all items met the acceptable standards suggested by Haji-Othman & Yusuff (2022).

Table 2: Convergent Validity

Latent Variable	Items	Factor loadings	CR	AVE
Corruption	POC1	0.850	0.911	0.720
	POC2	0.923		
	POC3	0.894		
	POC4	0.710		
Public Spending	POGS1	0.895	0.940	0.796
	POGS2	0.899		
	POGS3	0.904		
	POGS4	0.869		
Political Instability	PI1	0.780	0.903	0.649
	PI2	0.813		
	PI3	0.805		
	PI4	0.829		
	PI5	0.801		
Tax Evasion Behavior	TEB1	0.732	0.906	0.659
	TEB2	0.832		
	TEB3	0.850		
	TEB4	0.816		
	TEB5	0.825		

Figure 2: Outer Loading



Discriminant Validity

Discriminant validity evaluates the degree to which the constructs in a model are distinct from one another (Hair et al., 2024). According to Legate et al. (2023) discriminant validity is established when the square root of the Average Variance Extracted (AVE) for each construct is greater than its highest correlation with any other construct. In other words, a construct should share more variance with its own indicators than with other constructs in the model. The results presented in Table 3 confirm that discriminant validity has been achieved, as the square roots of AVE range from 0.806 to 0.892, all exceeding the corresponding inter-construct correlations.

Table 3: Discriminant Validity - Fornell-Larcker Analysis

Latent Variable	PS	PC	PI	TEB
Public Spending	0.892			
Corruption	-0.028	0.848		
Political Instability	0.044	0.324	0.806	
Tax Evasion Behavior	-0.164	0.286	0.432	

Hypotheses Testing

Testing Results (Direct Effect)

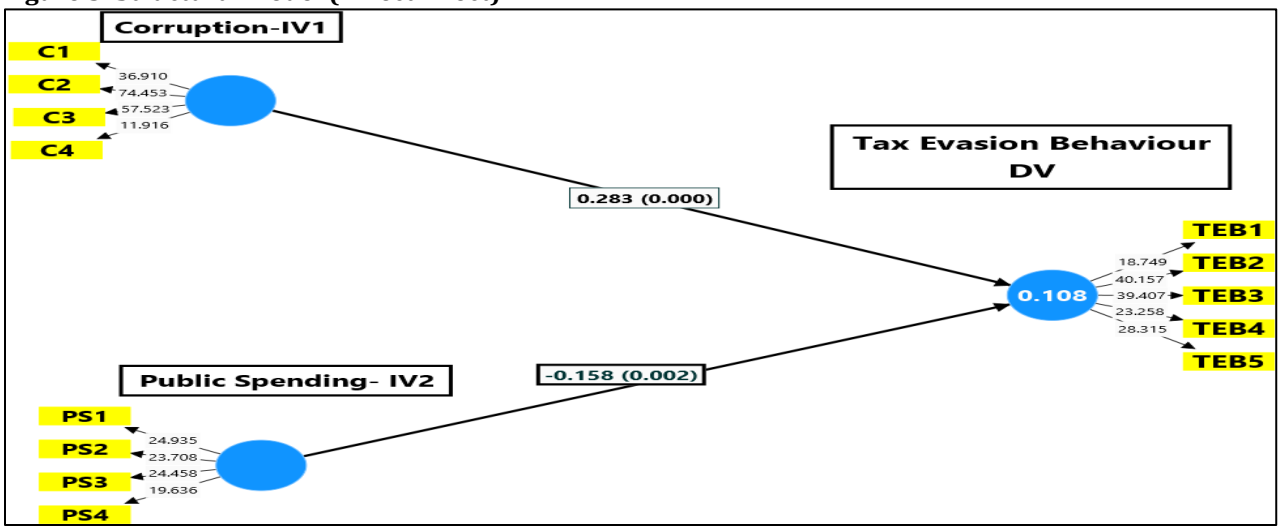
As can be seen in Table 3 and Figure 4, the perception of corruption (β = 0.283, p <.001) and public spending (β = -0.158, p <.001) are significant factors driving tax evasion among self-employed taxpayers within Libya. There is an empirical correlation, in particular, between corruption perception and tax evasion (positive) and public expenditure and tax evasion (negative). Hence, hypotheses H1 and H2 are supported. This evidence indicates the importance of corruption and public spending for tax evasion by self-employed people. The findings underscore the importance of decreasing perceived levels of corruption and improving the efficiency of public expenditure to minimize tax evasion in Libya.

Table 4: Path Coefficient (Direct Effect)

H	Relationship	Path Coefficient	T-Value	P-value	Decision
H1	PC-> TEB	0.283	5.776	0.000***	Accepted
H2	PS -> TEB	-0.158	3.064	0.002***	Accepted

Note: Significant at * p < 0.001

Figure 3: Structural Model (Direct Effect)



Moderating Effects Analysis (Indirect Effect)

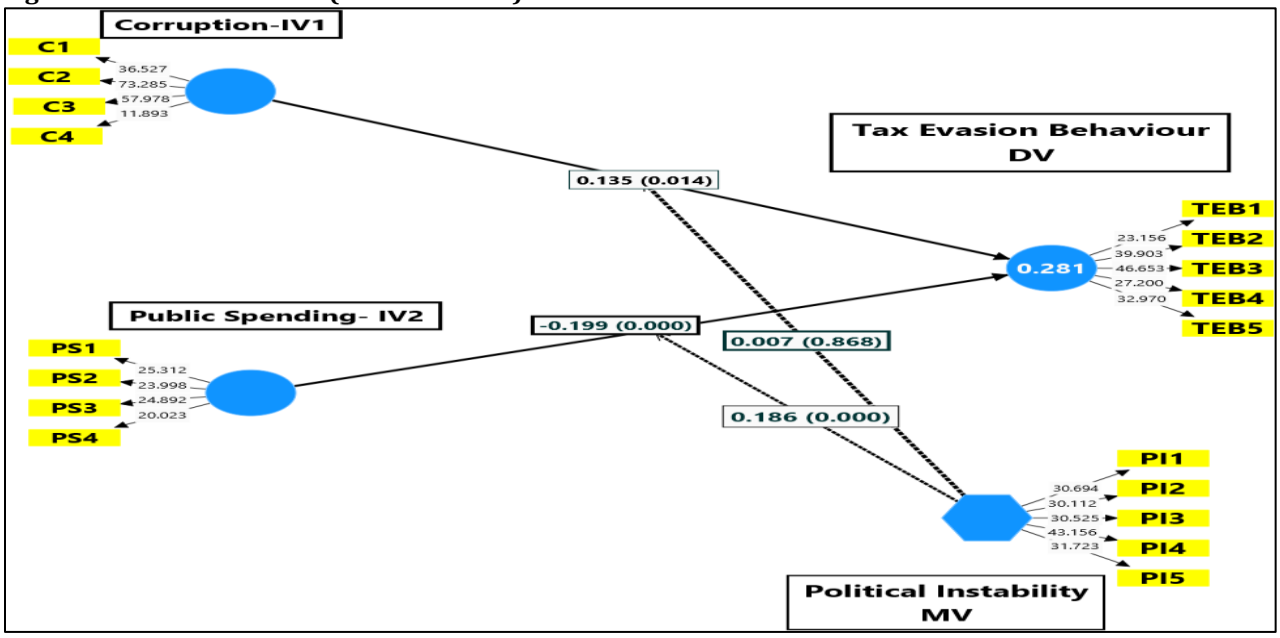
As outlined in Table 5 and Figure 4, the analysis of moderating interactions shows that political instability does not moderate the corruption–tax evasion behavior relationship. However, political instability does moderate the relationship between public spending and tax evasion. To be specific, the moderation effect of political instability and corruption was nonsignificant (β = 0.007, p > 0.05), which does not support H1a. On the contrary, we found a strong and negative interaction effect of political instability and public spending on tax evasion (β = 0.186, p < 0.001), in line with hypothesis H2a.

Table 5: Path Coefficient (Indirect Effect)

H	Relationship	Path Coefficient	T-Value	p-Value	Decision
H1a	PI x PC -> TEB	0.007	0.167	0.868	Not Supported
H2a	PI x PS -> TEB	0.186	4.481	0.000***	Supported

Note: Significant at * p < 0.001

Figure 4: Structural Model (Indirect Effect)



Discussion

This study sought to examine the association between perceived corruption, public spending perception and tax evasion behavior, and specifically focused on the mediating effect of political instability among Libyan self-employed taxpayers. The results show that there is a positive and significant relationship between the perception of corruption on the one hand and tax evasion behaviour in Libya among Libyan taxpayers. This implies that Libyan taxpayers tend to evade higher taxes when they believe the tax authority is corrupt. This outcome is consistent with previous studies, which similarly report that higher levels of perceived corruption are associated with greater tax evasion (Amoh et al., 2023; Litina & Palivos, 2014; Posadnieva & Sidelnykova, 2024). They concluded that when taxpayers believe corruption is widespread, their motivation to fulfil tax obligations declines, leading to increased evasion.

Furthermore, the current study reveals that attitudes toward public spending have a negative and significant effect on tax evasion among self-employed respondents. This suggests that when taxpayers view government spending as fair, transparent, and beneficial, their willingness to evade taxes decreases. This result implies that Libyan self-employed taxpayers, who believe the government is effectively expending money on activities beneficial to society, will see the tax system as morally honest and decline avoiding of taxes. This finding is consistent with other studies that have found an association between tax delinquency and perceptions of the role that public spending fulfills (Khaltar, 2024; Mishi & Tshabalala, 2023; Tawiah et al., 2025).

5. Practical implications, limitations and future work

Theoretical Implications

This study contributes to the literature on tax compliance by examining the influence of trust and power on the tax evasion behavior of self-employed taxpayers in Libya. Although they have traditionally been treated by the literature as independent variables, this paper includes them in a single model (Socio Influence Theory) and highlights their interplay in explaining anti-combining behavior. Perceived corruption substantially raises the probability of tax evasion, and, on the other hand, a higher level of satisfaction with public spending lowers this probability. These findings highlight the need to include socio-political factors in tax compliance models,

especially in fragile and developing countries where both institutional trust and public goods' provision are key determinants of compliance.

Practical Implications

From a policy perspective, the results provide relevant policy implications for tax authorities and public sector parties in Libya and countries with similar backgrounds. The positive effect of perceived corruption on tax evasion implies that fighting corruption in tax administration is a prerequisite for reducing noncompliance. Improved transparency, accountability and integrity in government institutions may provide a way to win voters' trust back again. At the same time, the negative correlation between public spending and tax evasion suggests that transparent and efficient government use of tax revenues can motivate compliance. Governments should prioritize better quality public services and transparent communication on the use of taxpayers' money. By pursuing a dual-pronged strategy of, on the one hand, minimizing corruption and maximizing the use of public funding.

Limitations and Future Work

Every research paper has its limitations, and this study is no exception. Firstly, the sampling technique and data collection methods used in this study have inherent constraints. The survey data collected may not fully capture the complexities of tax compliance behavior among self-employed taxpayers. To overcome this, future research should consider employing alternative data collection methods, such as mixed-method approaches, to gain a more nuanced and in-depth understanding. Moreover, the literature is limited to applying moderating and mediating roles in the tax evasion context as well as in Libya especially post political matter. It is recommended that further studies consider the addition of mediating and moderating factors to investigate their role in tax evasion behaviors toward Libya. To the extent that these limitations can be addressed in further research, we would achieve a fuller and more accurate picture of tax evasion by different taxpayer groups in the country.

Conclusion

This paper investigates the effect of corruption perception and perception of public spending on tax evasion behaviour among Libyan self-employed taxpayers, considering the moderating role of political instability. The study indicated that corruption perception had a significant positive effect on tax evasion behaviour. This means that in Libya self-employed taxpayers are going to evade taxes when they feel that there is a high level of corruption within the tax authority. On the contrary, the perception of public goods positively affected tax evasion behavior. When self-employed taxpayers have the impression of living in a just society, they are less likely to engage in tax evasion. Moreover, the influence of these factors in combination with country instability also produced surprising outcomes. Political instability has no significant effect on the relationship between corruption perception and tax evasion but has a moderating influence on the link between perception of public spending and tax evasion. In other words, the effect of government spending efficiency on tax evasion may vary in politically unstable times.

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