LANCAH JURNAL INOVASI DAN TREN
Vol. 2, No. 2, 2024, pp. 370~374
e-ISSN: 3025-8189 ; p-ISSN: 3025-8197
DOI: https://doi.org/10.35870/ljit.v2i2.2728

Tax Fraud in International Trade: Analysis of Driving Factors and Economic Implications

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Article Info

Article history:

Received 06 23, 2024
Revised 06 24, 2024
Accepted 06 25, 2024

Keywords:

Tax Fraud;
International Trade;
Driving Factors;
Economic Implications
Fifth Keyword.

ABSTRACT

This research aims to find out what are the driving factors and economic implications of tax fraud in international trade. The research method used in this research is the meta-analysis method. This research uses data from articles available in full text form. Data sources were searched and taken from Researchgate, Sciencedirect, Emerald, and Taylor And Francis. The subject of this research is tax fraud in international trade while the object is an article. Of the 5 articles that have been studied by researchers, they discuss the driving factors and economic implications of tax fraud in international trade. Then the article is reviewed using analytical techniques, looking for driving factors and economic implications among several literatures and drawing conclusions. The results of the analysis from these 5 journals show that there are several driving factors and economic implications in the occurrence of tax fraud in international trade. Driving factors and economic implications include the role of tax havens, invoice and VAT errors, ghost companies, changes in company structure, tax avoidance and tax rates. These five factors state that they influence the occurrence of tax fraud in international trade activities.

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How to Cite:

Nanlohy, Y. B., Rohmansyah, M. N., & Hwihanus. (2024). Tax Fraud in International Trade: Analysis of Driving Factors and Economic Implications. *LANCAH: Jurnal Inovasi Dan Tren*, *2*(2), 370~374. https://doi.org/10.35870/ljit.v2i2.2728

1. INTRODUCTION

International trade plays an important role in a country's economic growth engine. According to Adam Smith, through trade, world resources can be used efficiently and can maximize world welfare (Mankiw, 2006). International trade activities include exports and imports. Exports are the activity of selling goods and services produced domestically and purchased by foreigners and imports are the activity of purchasing goods and services produced abroad for domestic needs.

Trade on an international scale aims to increase state income. When an agreement is reached between two countries that need each other, this activity also aims to serve as a means of meeting the needs of each country. Apart from increasing state income, international trade also provides benefits to a country, namely when international trade profits are obtained through exports by increasing domestic production of goods and services for sale abroad, economic growth will occur.

With the profits from international trade activities, within a country there is a policy regarding taxes given to products entering and leaving that country. However, with the existence of taxes, many fraudulent individuals or fraudulent methods are starting to emerge in taking advantage of these taxes, by increasing tax levels and even avoiding taxes.

According to Desai et al. (2006), multinational companies often exploit loopholes in international tax regulations to reduce their tax liabilities, which has a negative impact on the revenues of developing countries that rely heavily on corporate taxes as a main source of income. Meanwhile, research from Crivelli et al. (2016) show that tax fraud causes a significant loss of tax revenues, estimated at hundreds of billions of dollars annually, hampering countries' ability to provide vital public services.

The influence of international trade profits on tax fraud is very significant. Trade openness, as measured by the proportion of exports and imports to Gross Domestic Product (GDP), can increase production efficiency and expand markets, but it can also lead to challenges such as tighter competition and vulnerability to global market changes.

Tax fraud in international trade is a complex issue and
has a significant impact on the global economy. Tax fraud can occur through various mechanisms, such as unfair transfer pricing, the use of shell companies in low-tax jurisdictions, and manipulation of trade invoices. Factors driving tax fraud include differences in tax rates between countries, non-uniform regulations, and a lack of transparency in the international financial system.

The economic implications of tax fraud in international trade are extensive. Tax fraud can reduce state revenues from taxes, disrupt fair competition, and damage public confidence in the tax system. Apart from that, tax fraud can also exacerbate economic inequality by giving unfair advantages to multinational companies compared to local companies that comply with tax regulations.

Thus, efforts to overcome tax fraud in international trade are by knowing the source of the problem or driving factors and economic implications of tax fraud and then carrying out closer global cooperation and harmonization of tax regulations. Based on the introductory description above, the researcher decided to create a journal with the title "Tax Fraud in International Trade: Analysis of Driving Factors and Economic Implications".

2. METHODS

This research uses a meta-analysis approach to present findings from five international journals that are relevant to the keyword "Tax Fraud in International Trade". The literature search process was carried out thoroughly through leading academic databases such as Researchgate, Sciencedirect, Emerald, and Taylor And Francis, with an emphasis on publications covering tax aspects.

Journal selection was carried out based on strict inclusion criteria, taking into account the quality of research methodology, relevance to the research topic, and suitability to the research objectives. Once appropriate journals were identified, researchers systematically extracted data from each article, including research objectives, conceptual framework, research methods, population samples, variables studied, main findings, and implications of research results.

Data from the five journals was then analyzed qualitatively using a descriptive approach by highlighting patterns, themes and relationships that emerged from the literature. This analysis takes into account variations in methodological approaches, measurement of variables, and the context in which research is conducted. By integrating findings from each journal, researchers can identify general trends, patterns of similarity, as well as variability in the research results observed. Next, researchers analyzed the driving factors and also the economic implications of each journal.

3. RESULTS AND DISCUSSION

According to research conducted by Bułgorzata Kutera with the journal title "The Role of Tax Havens in Tax Avoidance by Multinational Companies".

The research results show that tax havens play an important role in tax avoidance by multinational companies. This research finds that multinational companies use tax havens to avoid taxes by shifting income to countries with lower tax rates.

The research results also show that multinational companies that have larger business interests in countries with lower tax rates tend to use tax havens more. In addition, this research also finds that tax havens can influence the financial structure of multinational companies and can increase their ability to avoid taxes.

According to research conducted by Yanuar Irawan and Mahjus Ekananda with the title "Dynamic Analysis of Trade and VAT Invoice Errors in Developing Countries: Dynamic Panel Data Model".

The journal's research results use a dynamic panel data model to analyze trade and VAT invoice errors in developing countries. Researchers found that several factors such as relative prices, gross domestic product, exchange rates, population, and road length have a significant influence on trade and VAT invoice errors. The results of this research can help in improving the efficiency and accuracy of trade and VAT invoices in developing countries.

According to research conducted by Paul Carrillo, Dave Donaldson, Dina Pomeranz, and Monica Singhal entitled "Ghosting the Tax Authority: Fake Firms and Tax Fraud in Ecuador".

The research results focus on the analysis of trade invoice errors and VAT in Ecuador. The research results show that companies that use fake invoices usually have higher non-labor costs. Companies that use fake invoices are also more likely to claim fake expenses that don't exist.

In this research, Carrillo, Donaldson, Pomeranz, and Singhal use transaction data to analyze transaction patterns between companies that use fake invoices and companies that do not use fake invoices. Researchers also found that companies that used fake invoices were more likely to claim false expenses that didn't exist and had higher non-labor costs.

According to research conducted by Antonin Korauš, Miroslav Gombar, and Filip Cernak entitled "Changes in the Structure of International Trade and Services in the Context of Tax Fraud and Tax Avoidance".

The research results focus on analyzing changes in the structure of international trade and services in the context of tax fraud and tax avoidance. This research analyzes changes in the structure of international trade and services in the context of tax fraud and tax evasion. Researchers found that several factors such as relative prices, gross domestic product, exchange rates, population, and road length have a significant influence on tax fraud and tax evasion.

According to research conducted by Andualem T. Mengistu, Kiflu G. Molla, and Giulia Mascagni entitled "Trade Tax Avoidance and Tax Rates: Evidence from Transaction Level Trade Data".

The research results focus on the analysis of trade tax avoidance and tax rates using transaction-level trade data. In this research, Andualem T. Mengistu, Kiflu G. Molla, and Giulia Mascagni use transaction-level trade data to analyze the effect of tax rates on export and import volumes. Researchers found that tax rates have a significant influence on the volume of exports and imports.

The Influence of the Role of Tax Havens in Tax Avoidance by Multinational Companies on International Trade

Tax havens allow multinational companies to shift their profits to jurisdictions with low or zero taxes. This reduces the tax revenue that countries with higher tax rates would otherwise receive. These countries lose critical resources for infrastructure development, education, health and other public services.

Companies that take advantage of tax havens can reduce their tax burden significantly, so they can offer more competitive prices compared to companies that pay full taxes in their home countries. This creates distortions in competition in international markets.

Developing countries are often more disadvantaged by tax avoidance involving tax havens, because they have a more limited capacity to enforce tax regulations and attract legitimate direct investment. As a result, they lose resources that are essential for economic development.

Overall, multinational companies' use of tax havens for tax avoidance has broad and complex impacts on international trade, undermines fairness in the global tax system, and poses major challenges for policymakers around the world.

The Effect of Trade Invoice and VAT Errors in Developing Countries on International Trade

Invoice errors cause trade statistical data to be inaccurate, which can interfere with economic analysis and policy making. Errors in reporting the value of imports and exports complicate economic planning and trade monitoring.

Businesses operating legally are at a disadvantage because they have to compete with companies that evade taxes through invoicing errors. This creates unfairness in market competition.

Developed countries and international organizations may impose stricter supervision and control on trade from developing countries. This can increase costs and time for the trading process.

Overall, trade invoicing errors and ineffective VAT implementation in developing countries not only harm state revenues and create unfairness in business competition, but also disrupt economic stability and international trade more broadly. Efforts to improve the tax system and increase trade transparency are critical to mitigating these negative impacts.

The Influence of Companies and Fake Invoices on International Trade

Fake companies and invoices are often used to evade import duties, Value Added Tax (VAT), and other taxes. This causes countries to lose revenue they would otherwise gain from international trade, which can reduce the government's ability to provide public services and invest in infrastructure.

Developing countries are often more disadvantaged by corporate practices and false invoices because they have a more limited capacity to enforce regulations and monitor trade. This could hinder economic development and reduce the country's ability to attract legitimate foreign investment.

Fraudulent companies and invoices have a broad and detrimental impact on international trade, including lost tax revenues, distortion of trade data, competitive unfairness, economic instability, increased security risks, international policy backlash, reputational damage, and obstacles to economic development.

The Influence of Changes in the Structure of International Trade and Services in the Context of Tax Fraud and Tax Avoidance on International Trade

Companies often move their production or operations to countries with lower tax rates or that offer certain tax incentives. This could alter global trade flows, not based on economic efficiency or comparative advantage, but rather for tax avoidance purposes.

Tax avoidance practices can cause fluctuations in international capital flows, which have an impact on global economic stability. Countries that depend on revenues from multinational companies may face higher economic risks if these companies shift their operations.

Tax avoidance practices by large companies can reduce public trust in the tax system and government. This can cause social and political discontent, as well as fuel demands for tax reform.

Changes in the structure of international trade and services for the purposes of tax fraud and tax evasion have a detrimental impact on international trade. These include distortions in trade flows, loss of tax revenues, distortions of competition, reactions to stricter international policies, economic instability, reduced public confidence, and negative impacts on developing countries.

The Effect of Trade Tax Avoidance and Tax Rates on International Trade

Companies may divert their trade flows through countries with lower tax rates or that offer tax incentives. This causes unnatural trade flows and reduces global efficiency.

High tax rates in certain countries can encourage companies to seek alternative markets or source raw materials from countries with lower tax rates, which can change global trade patterns.

Developing countries are often more disadvantaged by tax avoidance practices because they have a more limited capacity to enforce tax rules and attract legitimate investment. Loss of tax revenue hampers their ability to fund economic development.

Trade tax avoidance and tax rates have a complex and significant impact on international trade. Tax avoidance causes distortions in trade flows, reduces tax revenues, creates unfairness in competition, and gives rise to stricter international policy reactions. Meanwhile, high tax rates can change trade patterns, reduce tariff revenues, give rise to unfair competition, and cause economic instability and reduced market access for developing countries.

4. CONCLUSION

Based on the results and discussion in the previous chapter which was carried out based on meta-analysis and reviewing the documents studied which are in accordance with the research title, namely "Tax Fraud in International Trade: Analysis of Driving Factors and Economic Implications".

So the researchers concluded that tax fraud has driving factors and economic implications that can affect international trade, namely as follows:

1. The role of tax havens in tax avoidance affects international trade by reducing tax revenues that would otherwise be received by countries with higher tax rates.
2. Trade invoice and VAT errors Trade invoice errors and VAT implementation disrupt economic stability and international trade more broadly.
3. Fake companies and invoices have a far-reaching and detrimental impact on international trade.
4. Changes in the structure of international trade and services for the purposes of tax fraud and tax evasion have a detrimental impact on international trade.
5. Trade tax avoidance and tax rates have a complex and significant impact on international trade.

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