

Role of Political Factors for Fiscal Destabilization in Oil Dependent Economies: Implications for Tax Compliance Behavior in Libya

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Abstract: There is little doubt that tax compliance is a major problem confronting tax authorities in every economy. This issue becomes even more pronounced in oil-dependent developing countries in the wake of scarcity of domestic resource mobilization. Libya's fiscal management is also currently facing two major issues in relation to taxation system and collection in post-2011 revolution which led to overturning of the Qaddafi regime. Firstly, Libya is among those developing countries that suffer from the issue of tax evasion stemming from noncompliance behavior by taxpayers. Secondly, Libya faces the issues of narrow tax base with overwhelming share of non-tax hydrocarbon revenues which has made fiscal policy vulnerable to oil price shocks and domestic production volatility. Both of these issues have been more evident by the fiscal vulnerability and imbalance due to political turmoil after 2011 revolution. This study using the case study methodology seeks to explore the implications of political Turmoil for tax compliance behavior in overcoming fiscal destabilization in Libya. Findings of the study would enable to better understand the role of political factors in explaining determinants of tax noncompliance in oil-dependent developing economies such as Libya.

Key words: Behavior • Tax non-compliance • Tax Payers • Attitude • Determinants

INTRODUCTION

Around the world, tax authorities are facing the challenges of fiscal management pertaining to performance in the collection of tax revenue as an important source of domestic resource mobilization. Tax non-compliance is the attitudinal tendency of taxpayers that may lead to tax behaviour i.e. tax avoidance and/or tax evasion. It is attitude of taxpayers towards their tax liability and its payment. Tax noncompliance behaviour leads to tax evasion and tax avoidance which in turn translates into tax gap in the national accounts i.e. the difference between statutory and actual tax revenue collection. A study revealed that due to tax avoidance and tax evasion, tax gap is tax revenue losses [1]. There is little doubt that tax compliance is a major problem confronting all revenue authorities. This issue becomes even more pronounced in developing countries in the wake of scarcity of domestic resource mobilization [2].

The fiscal management of Libya is currently facing two major issues regarding taxation system and collection in post-2011 revolution resulted in overturning of the Qaddafi regime. The first one, Libya is among those

developing countries that suffer from the issue of tax evasion stemming from noncompliance behaviour by taxpayers. Secondly, Libya faces the issues of narrow tax base with overwhelming share of non-tax hydrocarbon revenues which has made fiscal policy vulnerable to oil price shocks and domestic production volatility. Both of these issues have been more evident by the fiscal vulnerability and imbalance in the wake of political turmoil after 2011 revolution [3][4][5]. According to Mansour [5], this situation represents the need of structural fiscal reforms to broaden the tax base and increase the tax collection efforts. It thus necessitates the clear understanding of taxpayers' behaviour towards tax liability i.e. tax compliance (tax noncompliance) so that the tax policy and system can incorporate these factors beforehand.

Tax Non-Compliance Behavior in Libya: The issue of tax noncompliance behaviour among taxpayers in Libya which has led to tax evasion has been more pronounced in post-2011 revolution. Following statistics make the problem more evident and highlight its magnitude. According to the annual report of Libyan Audit Bureau

Table 1: Public finances (percentage of GDP)

	2005	2010	2011	2012	2013(e)	2014(p)	2015(P)
Total revenue and grants	59.5	60.0	34.0	59.6	46.6	42.6	47.9
Tax revenue	2.6	3.6	1.4	0.7	1.0	1.1	1.0
Oil revenue	55.1	54.3	31.9	56.9	43.6	39.5	44.9
Total expenditure and net lending (a)	26.8	52.6	47.0	45.8	55.9	55.8	47.5
Current expenditure	12.5	27.8	38.2	41.1	48.8	48.6	41.2
Excluding interest	12.5	27.8	38.2	41.1	48.8	48.6	41.2
Wages and salaries	5.9	11.1	25.8	15.8	18.6	18.5	15.7
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	13.6	23.6	6.8	4.7	5.6	5.8	5.2
Primary balance	32.6	7.4	-13.0	13.8	-9.3	-13.2	0.4
Overall balance	32.6	7.4	-13.0	13.8	-9.3	-13.2	0.4

Note: a. Only major items are reported. Data from domestic authorities: estimates (e) and projections (p) based on authors' African Economic Outlook (Rad & Mansour, 2014) calculations.

Table 2: Tax collection in Libya

Year	(Million Libyan Dinar)	
	The actual tax revenue	Change rate
2009	2,243	-
2010	1,941	(13%)
2011	443	(77%)
2012	687	55%
2013	838	22%
2014	731	(13%)
2015	671	(8%)

Source: (LAB, 2015)

[6], tax revenues collected during the fiscal year 2014 have amounted to LYD 731 million. This figure falls short by 19% from the estimated tax collection which stood at LYD 900 million. This represents tax gap of LYD 169 million stemming from tax noncompliance. Moreover, tax revenue collection in 2015 shows 8% decline reaching to LYD 671 million as against LYD 731 million in 2014. According to the statistics made by the Central Bank of Libya (CBL) and Libyan Audit Bureau report [6], tax revenues collected during the fiscal the decline in collection of tax revenues is considered one of the reasons of the rising budget deficit which increased from almost LYD 6 billion in 2013 to LYD 25 billion by 2015. The tax revenue collection which stood at 2.6% in 2005 rose to 3.6% in 2010. Yet it has been dropping to only 1% in 2015 (Table 1).

Table 2 depicts major deterioration in the tax collection in Libya in post-2011 revolution yet the tax compliance is gaining momentum from then onward yet with uncertainty. This predicts that political turmoil is not the only factor behind the low tax collection in Libya and that other determining factors of taxpayers' compliance behaviour need to be analysed.

According to the Audit Bureau report [6], one of the major reasons for the rise of fiscal deficit in Libya in recent year is reluctance of citizen to pay taxes in addition to declining oil production due to political instability in Libya after revolution of 2011 and decline in global oil prices. Libyan Audit Bureau, tax revenues collected during the fiscal [6] report also warned about serious financial and economic outcomes of rising fiscal deficit for the financial performance of the state during 2013 and 2014. The available statistics have showed that the actual fiscal deficit in the public budget during 2014 amounts to LYD 22 billion as against LYD 6 billion deficit in 2013. This alarming situation implicates that state should pay more attention to the effective collection from its fiscal sources of income such as taxes. This, in turn, points to the need of a detailed investigation into taxpayers' attitude towards tax liability that is noncompliance in Libya. Because after the revolution of 2011 emerged several factors are characterized by Libya, including political, religious and other factors.

African countries and stresses to look further into other factors causing tax noncompliance. The LAB report [6] describes tax revenue as part of the sovereign revenues that include all the State's revenue sources with exception to oil. The report points out that in 2014, the sovereign revenues estimated to be LYD 6,048 billion but the actually collected amount was LD 1,566 billion only. This deficit in the sovereign revenues exceeding LYD 4 billion is ascribed by the report to tax non-compliance behaviour among other reasons. According to The World Bank Group (WBG) and PricewaterhouseCoopers (PwC) reports on tax compliance across countries titled as 'Paying Taxes' offers important insights about tax compliance in Libya in relation to 189 other countries. The report mentions that Libya stands 116th in 2013, 157th in

2014 and 160th in 2015 out of 189th in overall world ranking of paying taxes. While in terms of tax rate, Libya is among top ten African countries with lowest tax rate ranked at 9th out of overall 53 countries in the region. Yet the major determining factor is time to comply with tax liability. Here Libya performed so poorly with 889 hours required for a person to comply with his/her tax liability. Libya has the highest time required to comply only after Nigeria indicating poor and difficult tax system [7].

The study is further narrowed down to analyse determinants of tax noncompliance behaviour of self-employed taxpayers in Libya. The reason for investigating noncompliance by the self-employed taxpayers is also grounded into data. The decline of tax revenue collection since 2011 revolution is mainly contributed by tax noncompliance by self-employed taxpayers in Libya. The statistics on tax collection trend during 2009-2013 by LAB report 2014 describes large decline in the tax collection from LYD 38.1 million in 2009 to merely LYD 5.3 million in 2013 by self-employed taxpayers in Libya. Such dismal picture of tax revenue collection by self-employed taxpayers points to need of probing determinants of the individual taxpayer's compliance behaviour. The tax on salaries in Table 2 mentions income tax collected mainly from public sector employees and staff of foreign companies. Since the LAB (2014) report mentions that this tax is deducted at source, it is excluded from the scope of present study. Moreover, the study also excludes the tax noncompliance from corporate firms whose corporate tax payments systems are more formalized and less dependent on the behavioural factors of one or few individuals.

Focus of present study thus is on the behavioural determinants of self-employed taxpayer's compliance. It is more logical to examine and analyse tax noncompliance among self-employed taxpayers because their tax behaviour is determined by individual socio-psychological factors after making earnings at year end. These self-employed taxpayers' compliance behaviour may lead to tax evasion or avoidance through adjustment in profits such as increased expenses [8]. Since the government employees have considerably less chances to exhibit noncompliance behaviour, the self-employed may incline towards tax noncompliance after weighing various factors [9, 10].

Another issue related to taxation system and collection is that the tax base of Libya is quite narrow and the fiscal management largely depends on hydrocarbon revenues. According to the report of African Economic Outlook [11], tax-to-GDP ratio was about 1.1% in 2014.

The report estimates that this ratio is expected to decline even more to 1% by the end of 2015. This vulnerable fiscal standing of Libya is unique to it in the whole Middle East and North African (MENA) region. The narrow tax base in the fiscal management with heavy dependence on hydrocarbon revenues in Libya makes it vulnerable to political conditions as the income from oil is vulnerable to political risk. This has been more evident during the political turmoil of post-2011 revolution when oil income dropped sharply and thus led to deteriorating fiscal management in Libya.

In addition to global volatility in the oil prices, domestic political instability in the wake of post-2011 revolution has also contributed to fiscal deterioration in Libya. The International Monetary Fund report [12] titled 'Arab Countries in Transition (ACTs): An Update on Economic Outlook and Key Challenges' mentions political instability coupled with narrow share of tax revenues in fiscal policy as major hurdle in improving fiscal management in Libya. The report points out tax policy and administration reforms as the medium term policy objective for Libya. Among these ACTs, Libya faces the issue of narrow tax base and over dependence on non-tax revenue as share of GDP. The narrow tax base of Libya thus necessitates analysis of tax compliance behaviour and its determining factors in order to enable tax reforms to develop a diversified and efficient tax system. According to LAB [6], it is the main responsibility of ministry of finance to bring reforms in tax collection systems and broaden the tax base to decrease the burden of the State reserves in case of decrease of oil income.

An understanding of tax compliance behaviour of taxpayers and its determinants is a prerequisite to any tax policy reforms towards increasing tax base or tax efforts [13]. Since hydrocarbon industry is highly vulnerable to political risk, political instability leads to lower oil production and thus lower revenues in oil-dependent economies as has been the case in Libya in post-2011 revolution. By incorporating the moderating role of political factors in relationship between tax noncompliance behaviour and its determinants in post-2011 revolution in Libya, this study offers significant improvement in the existing models of tax compliance especially for commodity-dependent economies. Existing studies on tax compliance behavior, moreover, have used economic models to analyze impact of economic costs and incentives associated with tax compliance behavior. Yet there is emerging need towards developing behavioral models that may analyze the impact of socio-psychological factors on tax compliance behavior in post-

evolution regime in Libya. A more detailed discussion on these determinants has been made in next section on problem statement. The overturn of Qaddafi regime in Libya and introduction of democratic reforms has brought with it a number of socio-psychological changes among Libyan citizens. It is pertinent to understand the implications of these socio-psychological factors for tax noncompliance behavior among Libyan citizens. In this way, understanding of behavioral determinants of tax compliance behavior will not only help improve the taxation policy and administration but enable proactive shift in the taxation structure from hydrocarbon revenues to non-hydrocarbon tax revenues. Overall results of study will help overcome structural barriers towards fiscal vulnerability in Libya in relation to noncompliance among taxpayers.

Social Influence Theory: Social influence theory has associated with social learning theory. This theory was posited by Bandura [14] in which is related to environmental factors. According to this theory, behavior of an individual is associated with many factors or people who are the part of environment. It is usually observed that individuals learn for other people in the environment like friends, colleagues, family etc. besides other means such as modelling imitation and observation. In addition, this theory explains human behavior in accordance with the continuous reciprocal interference between behavioral and cognitive environmental influences. As stated by Bandura [14], individuals learn the behaviors from mainly two things, i.e. outcomes of the others' behaviors and observation of their attitude. The attitude of a taxpayer depends upon their beliefs regarding taxes. If he or she

have positive belief or attitude toward tax, they will most probably will adopt tax compliance behavior. Researchers have adopted and tested the tax compliance with number of theories [15-19].

The research framework of this study has been demonstrated in Figure 1. According to the Figure, there are various independent variables (religion factors, national pride, trust in government, tax knowledge, tax fairness and tax morale), dependent variable (tax noncompliance behavior) and moderating variable (political factors). Religious factors further includes two dimensions, i.e. Islamic perspective and Islamic religiosity. The affiliations of people with certain religions could change their attitudes and behaviors, their associations, their choices and their living style. Therefore, the necessity of studying detailed understanding of dominant religion in certain country to ensure its impact on voluntary taxpaying behavior.

Political factors has been employed as moderating variables. These factor can either strengthen or weaken the relationship between various determinants of tax noncompliance behavior as discussed on this study. For instance, if an individual or group supports the ruling party then they will most likely pay taxes as they believe that the current ruling party is equitable, efficient and trusted. Conversely, in the case of supporting opposition party, the individual could avoid taxes as he thinks that the government is not capable enough to utilize taxes in an efficient way [20]. Consequently, in the context of religion, if a person is more inclined to his religion, e.g. Islam, they he will more likely support the government which will be in the favor of Islamic laws and rulings.

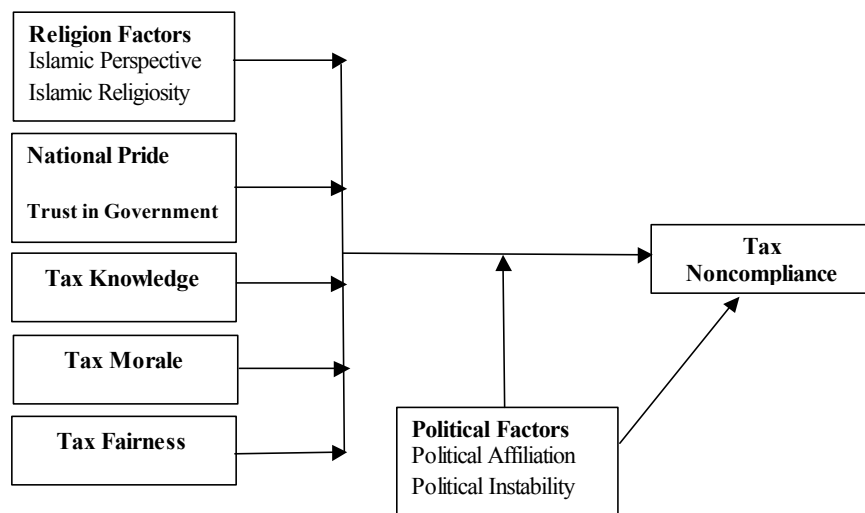


Fig. 1: Conceptual Framework

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Determinants of Tax non Compliance Behaviour: Factors discussed under the heading of determinants of tax noncompliance are divided into five i.e. religious factors, national pride, trust in government, tax knowledge, tax morale and tax fairness.

Religious Factors: Religion, according to the [21] is a system of faith and worship or human recognition of a superhuman controlling power and religiosity is defined as the quality of being religious. Apparently, the term “religion” is very complex to describe [22]. This is because “the roots of religion are so numerous, the weight of their influence in individual lives so varied and the forms of rational interpretation so endless, that uniformity of product is impossible” [23]. However, it is interesting to note that religion in the form of specific religious beliefs and practices helps to define an individual’s motivation and personality that go beyond the basic desires to gain rewards or to avoid self-punishment [24].

Religiosity: The effect of religiosity on individual behaviour has been investigated by several researchers. Based on the results in those studies, religiosity is expected to influence certain behaviours, such as cheating (tax noncompliance) behaviour [25, 26]; criminal behaviour [27, 28] and ethical behavior [29]. Greeley [30] described the religion and behaviour relationship based on three different models. The Weberian model suggests that religion influences a society through the values held by each individual; the influence occurs through a religious network not only between religious individuals themselves, but also between non-religious individuals and religious individuals [31].

The “need disposition” model assumes that people use religion as a coping mechanism to meet life’s challenges. Pargament, Smith, Koenig and Perez [32] found that religious coping methods work both ways, positively and negatively with life stressors. Lau *et al.* [33] examined the religiosity as a moderating of the relationship between money ethics and tax evasion and concluded that taxpayers who have high level of intrinsic religiosity less willing to noncompliance. Libya as Muslim populated state suffers from the problems of tax noncompliance and this issue should be investigated for the religious factors and their impact on tax noncompliance. The current study will examine the impact of the Islamic perception variable to the perceived legality of the tax and religiosity variable on the noncompliance behaviour of taxpayers in Libya.

Islamic Perspective: It is a fact that religion affects the individual whether they are fully committed or not to the religion. As religion provides guidelines to everyone and has a significant role in shaping any society according to [34][85]. A number of more recent articles have studied the tax noncompliance behaviour issue from a variety of perspectives. Tamari [35] examined the issue of tax noncompliance behaviour from a Jewish perspective. Schansberg, [36] and McGee [37] explore Biblical views on tax noncompliance behaviour while Gronbacher [38] presents a Catholic and classical liberal views. A More points of view is discussed McGee and Smith [39]. An Islamic view on the ethics of tax noncompliance behaviour is provided by Murtuza and Ghazanfar [40] and a Baha’i interpretation on the subject is given by [41].

The Islamic perception on tax can be concluded in three aspects 1) Tax is fully halal so noncompliance behaviour is not allowed, 2) noncompliance behaviour is acceptable under some conditions as in some conditions tax is considered as haram and 3) tax is totally haram so noncompliance behaviour is acceptable but the individual should not commit any forbidden act for noncompliance. Religion provides an essential basis for social interaction, which may have a strong effect on the individual's tax noncompliance attitudes and behaviour. Although inconclusive, the overall literature has proven that religion may play a vital role in helping authorities to meet their target in fostering voluntary tax compliance.

National Pride: In the reference of national pride social identity theory develops a theoretically grounded measure of national identity with clear implications for

intergroup behavior [42][43][86]. A social identity is typically defined as an awareness of one's objective membership in the group and a psychological sense of group attachment [43]. Consistent with this definition, national identity is a subjective or internalized sense of belonging to the nation [44]. Social identity theory generates numerous predictions about the consequences of national pride. National identity is expected to be non-ideological in flavour because it represents a pervasive sense of subjective attachment to the nation. An individual having a psychological attachment with the nation will definitely have a positive intention towards its development so it can affect the tax compliance behaviour of an individual in this way.

Over the past few years, an increasing number of studies have investigated concepts such as the social norm of compliance or tax morale as an explanation for why people willingly comply with their tax paying duties. One recurring theme is that "traditional approaches such as deterrence can be seen as just one possible instrument. Thus, knowledge about the causes and consequences of tax morale could lead to a better tax policy" [45], assuming that taxpayers trust the government, see the government as legitimate and perceive the policy makers as being prepared to 'do the right thing'. While it has been demonstrated that the traditional approach can influence tax compliance given the right audit probability and fine rates, a large proportion of tax compliance is attributed to alternative causes, motivated by the consequences of informal deterrence. Tax compliance via informal deterrence has been linked to the desire to avoid social sanctions, either external due to gossip, ostracism; or internal due to guilt, remorse, or shame [46][47]. One of the challenges in the literature is to empirically verify the causal link between self-reported tax attitudes and actual tax behaviour [45], particularly where research is based on secondary survey data (as in Chapter 3). Dulleck *et al.*, [46] point out existing research at the attitudinal level, but note that work needs to be done at the behavioural level. Konrad Qari [48] claim to conduct the first study specifically focusing on this interaction between patriotism and tax compliance and their paper argues for a causal interpretation after submitting the (secondary) data and the specifications to several robustness checks.

Trust in Government: Faith in government is proposed to exert more impact on behaviour of taxpayers as compared to general supposition developed by many economists [49]. The opinions of taxpayers about the tax system are

impartial or not are too acknowledged as inducing tax compliance attitude [50] [51][52]. Realistic suggestions from the modern study firmly sustain the significance of positive attitudes of taxpayers towards administration. That positive attitude is built on confidence in government and insights of tax objectivity in boosting the intentions to pay taxes [53]. Impact of these elements on attitudes of taxpayers is problematic and assumed to have equal impact by separating it. Intentional tax obedience can be amplified if administration attains a policy interchange attitude as assured to the civilians [54].

A study by Saad [55] was utilized a multi-stage sampling technique and identifies the impacts of trust and confidence in government and its powers on taxation by considering the slippery slope framework. Cross-country statistics of Sub-Saharan Africa were also utilized in the research. The outcomes of the research imply that trust should be developed to a great extent on the state authorities and taxation system. The state authorities should take the necessary measures to certify the rules & regulations regarding the improved service quality and infrastructures as the beneficial utilization of tax payment being made by citizens. Lots of trust intensifies strength of government. In dictatorial rules, tax confrontation becomes a signal, a departure choice to prompt inclinations and to confine attitude of government. Tax compliance literature illustrates that economists recently initiated to deliver greater devotion to constructs of trust [56-87]. Trust in public servants has a tendency to grow positive attitudes of taxpayers and assurance to taxation & payments of tax. All of this has an encouraging effect on tax compliance.

Tax Knowledge: Tax knowledge is vital in influencing the approaches of taxpayers to taxation. The effect of understanding on compliance activities has been verified in many studies [58]. Harris [59] also contributed in the study by dividing tax knowledge in two facets. One of them is knowledge through common or formal education that is received as a matter of course. Other is the knowledge explicitly focused at potential prospects to escape tax. In the earliest item, level of education acknowledged by taxpayers is a chief aspect which adds to the overall understanding about tax system regarding the laws of tax system [60]. Earlier studies also proved that common tax policy knowledge shows a close association with the ability of taxpayers to understand the laws of tax system and their aptitude to conform to the tax policies as well [61]. Many previous findings (e.g. [62] [19]

[63] occupied the broad degree of understanding of taxpayers as superfluous variable. As this is an indirect method and bases on hypothesis which describes that understanding of tax system rises with the extent to which the understanding is being provided to the people. It is also notable that the extent is independent of the content in education of taxation. The society has a number of persons who have a rare formal education but they have a better knowledge about tax system.

Tax Morale: Tax determination is generally described in research studies of tax as the inherent inspiration to pay taxes. Tax is well-defined by [64] as the *“Morale principles or values held by individuals about paying their taxes”*.

As explained in the past studies, another factor that fortifies compliance behaviour relates to social norms. These norms are anticipated at the peak level when tax noncompliance behaviour is low [65]. The emphasis of social norms is greater on individual ethical opinions and peer impact and it depicts in his tax compliance decision.

It is evident that individual ethics happen to be much persuasive in influencing tax compliance than peer impact [66]. Many different terms are used to clarify ethics in earlier investigation like ethics [19] civic duty [67], ethical responsibility [66] and the enthusiasm to submit [65]. The research of tax morale in tax compliance exploration has stayed unnoticed regardless of the reality [68] pointed by the necessity to enhance ethical and morale diminuendos to a tax compliance structure. Meanwhile, it stayed deliberated as a developing zone of exploration. As claimed by [69]

“Tax morale may therefore be a dominant, although also a largely unexplored, factor in unravelling the puzzle of tax compliance”.

Additionally, [70] has proposed communal and spiritual customs as factors of tax compliance to fulfil the contingency theory of tax compliance. That not only deals with pecuniary aspects but also with influential and morale issues of tax compliance.

Tax Fairness: Perception of the civilian as taxpayers about fairness of tax calculation is also considered as key factor in the reference of tax noncompliance. This factor was not much considered for economic analysis for a very long time span. Some other researchers including, [71][72] debate upon the characteristics of justice and fairness by analysing closely related concepts. Some examples of these concepts are altruism by [73], social norms by [74];

[75] and cognitive dissonance by [76]. Theoretical studies are more in number than rare empirical researches. Frey and Eichenberger [77] first analyzed behavioural anomalies. Common form of analysis is natural and laboratory experimentations.

Research in social psychology proposes that a deficiency of fairness in a give-and-take association causes a great distress for the victim particularly [78]. It is also found that tax non-compliance might be viewed as a response to re-establish fairness (for common observed proof, see [79]. Spicer and Becker [80] conducted an experiment at University of Colorado with fifty-seven students. They found that the proportion of tax non-compliance behaviour was at peak between the individual students who were pre-described that tax rates imposed to them were more than ordinary

Political Factors: Political factors are also important to consider while investigating the determinants of tax non-compliance behaviour. Political affiliation with certain political parties affects the opinion of an individual to make economic decisions in the reference of the present government and same is the case of political instability [81].

Political Affiliation: Lozza, Kastlunger, Tagliabue, & Kirchler, [82] explore the relationship of political affiliation and tax compliance behavior among self employed tax payers in Italy. The study incorporates the slippery slope framework and on the basis of quantitative and qualitative results suggests that the political affiliation can directly affect the tax compliance behavior. Another study is conducted by Paul, Lange, Bekkers, Chirumbolo, & Leone, [83], sample size of the study consists of four hundred and one participant consists of 194 men and 207 women. And this sample mainly consists of university students, professionals and employees. By applying a survey technique the study comes up with the empirical results showing that the interpersonal orientation affects the level of political affiliation. The study also depicts that the personal interest is not the only factor which creates the political affiliation of an individual but it also includes the concern for others. So political affiliation can directly affect the tax compliance behavior.

Political Instability: Frequent changes in the government, often bringing reversals in ideological orientations, created a climate of political instability, as they often resulted in governments pursuing different social and

economic policies than their predecessors. Evidence that economic policy changes have an impact on business decision makers. Kirchler, Hoelzl and Wahl, [84] explains in slippery slope framework that synergistic climate is considered as an ideal situation where tax authority and tax payer have a good relation and the tax payer is willing to pay tax because he has trust on the government. High level of trust ensures the high tax compliance behaviour among the tax payers. Political instability can cause the reduction in trust level on tax authorities as political instability indicates the rapid change in different policy matters including tax policies.

CONCLUSION

Existing theories and models of tax compliance need to be adapted to incorporate political factors in wake of political unrest in countries facing issues of tax noncompliance. Broadening of tax-base and enhancing tax collection in oil-dependent economies such as Libya requires to carefully study the factors that impact tax compliance behavior. In addition, determinants of voluntary tax compliance behavior tend to enhance the understanding of theorists and policy makers in order to help them enhance tax collection with least use of state power. Other factors of tax compliance behavior also need to be studied for their impact such as religion and ethics in context of Libya. Current study and proposed model seeks to provide theoretical foundation to the empirical study to examine determinants of tax compliance behavior in Libya.

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