

The Impact of Tax evasion on the Public revenues in Sudan

2007-2017

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Abstract

The collection efficiency of the budget revenues depends largely on the ability of the State, through tax authorities empowered, to apply firm measures to prevent and fight against fraud and tax evasion. However, the phenomenon of fraud and tax evasion is a complex process that extends quickly beyond national borders. That is why it is necessary to the existence of international cooperation against fraud and tax evasion as much as possible, in accordance with the principle of good governess in the field of taxation, thus eliminating negative fiscal measures. Here we raise the question, what is the effect of tax evasion in revenue collection performance in Sudan? Then the objectives are, to examine the effects of tax evasion on government revenue generation and to ascertain the effects of prevalent corruption in government on tax evasion. And that is with hypothesizing that, tax evasion has no significant effects on government revenue generation and that there is no effect of perceived corruption in government on tax evasion.

This study would be of benefit to revenue officials who are saddled with the responsibility of ensuring that taxpayers are not negligent in paying their taxes. The study is about stating the scope or boundaries of the study in terms of gathering data, subject matter and area of the study. This study confined itself on effects of tax evasion on revenue collection performance in Sudan tax region only in the period 2007-2017. The main results of the study can be summarized as the importance of

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diversification of revenue sources for economic development, unfriendly tax policies may create room for capital flight from Sudan to other countries and multiplicity of tax levy on the individual and organizations is too much a burden on the tax payer. There we recommend review the law in order to strengthen it to address tax evasion, review the administrative measures used to address tax evasion and a carefully planned tax policy which is consciously and faithfully implemented can help to generate revenue that can transform a nation in totality.

Keywords: Tax evasion, Fiscal policy, Tax system

المستخلص:

تعتمد الطاقة الايرادية للموازنة العامة للدولة كثيرا على مقدرة تلك الدولة على، من خلال سلطاتها الضريبية على تطبيق اجراءات صارمة لمنع ومحاربة الاحتيال والتهرب الضريبي. ولكن ظاهرة الاحتيال والتهرب الضريبي من العمليات المعقدة و التي تنتشر سريعا خارج حدود الدول و هذا هو السبب الذي يستدعي وجود تعاون عالمي بقدر الامكان يحارب عملية التحايل و التهرب الضريبي ويكون ذلك وفقا لمبادئ عدالة الحكم في المجال الضريبي ومن ثم يتم تجنب كل الاجراءات السالبة للسياسة المالية. ففي هذه الورقة سوف نقوم بدراسة انواع و اهداف السياسات المالية واثرها على النمو الاقتصادي واثرها بظاهرة التهرب الضريبي متناولين السودان كمثال.

وهنا نطرح السؤال، ما هو اثر التهرب الضريبي على الايرادات الحكومية في السودان؟ مستهدفين في ذلك اختبار اثر التهرب الضريبي على تحصيل الايرادات وايضا التاكيد على ظاهرة انتشار الفساد عن طريق التهرب الضريبي. وفي ذلك فرضيتان، لا يوجد اثر للتهرب الضريبي على الايرادات وايضا انه لا يوجد تهرب ضريبي ملحوظ في هذه الظاهرة. تعتبر هذه الدراسة ذات فائدة للقائمين على امر التحصيل من الموظفين والذين هم مهتمون بتحصيل الايرادات و يعتبرون ان

الممولين لايجهلون دفع التزاماتهم الضريبية. تهدف هذه الدراسة لتوضيح اثر التهرب الضريبي على الايرادات فى السودان فى الفترة من 2007 الى 2017. تتمثل اهم النتائج فى اهمية تنويع مصادر الايرادات فى الدولة و السياسات الضريبية غير الصديقة والتي تحفز على التهرب وهروب رؤوس الاموال والانشطة الى الخارج اضافة الى كثرة تعدد انواع الجباية المختلفة على الممولين و الانشطة، عليه نوصى براجعة القوانين الضريبية والاجراءات الادارية فى مواجهة الظاهرة وايضا اعداد خطة ضريبية واضحة ومدروسة للايرادات.

1- Introduction

The necessity of collecting revenue from the State budget is a challenge for any State rulers of most of the time. However, taxpayers are trying to evade the payment of tax obligations, in particular where the tax burden is becoming an unbearable burden. Tax evasion is a great way to avoid payment of liabilities arising from work carried out. The spirit of tax evasion is born from the simple game of interest, whatever tax put in charge and that is not just a form of selfishness and human cupidity (Saguna, 2000). The phenomenon of tax evasion is highly debated and reviewed in the

literature, both conceptually and structurally and in terms of causes and effects that are generated or control measures (Anitei, 2009), (Buchanan, 2013), (Hoanta, 2010), (Gally, 2015), (Balaban, 2006), (Padurean, 2010).

An efficient tax system involves knowing and identifying the causes that lead to the appearance of the phenomenon of tax evasion, collection efficiency of budgetary incomes being in close connection with the degree of voluntary compliance to the payment and declaration of tax liabilities. In this respect, the National Agency for Fiscal Administration (NAFA), through the strategic objectives defined in the short term, aims at raising philosophical issues in each tax payer, emphasizing the unique control measures and guidance and assistance offered to the

taxpayers. But in order to establish relevant measures it is necessary to identify the main causes that determine the appearance and evolution of tax evasion, such as: the tax burden generated by the urgent need to increase budget resources, tax legislation, which

leaves room for interpretation, bureaucracy in the tax system and psychological behavior of taxpayers. Failing to detect the proper measures to eliminate the causes that lead to the proliferation of tax evasion (Moldovan, 2002) can determine the maintenance and even the amplification of this phenomenon.

1.1- Objectives of the study

This study has the following objectives.

- i- Evaluation of the tax system in the Sudan
- ii- Clarification of the goals and types of fiscal policy.
- iii- To see the impact of fiscal policy on economic growth and tax evasion.

1.2 Literature Review

The concept of systematic state intervention to stimulate economic development has been a major part of the ideology of many developing countries. Yet perhaps surprisingly, taxes as a percentage of GNP in less developed countries are generally less than in developed countries. If social security contributions are included, the differences in tax ratios widen. Among the Less Developed Countries(LDCs), the tax revenue as a percentage of GNP is 12.9 per cent for low-income countries, 23.1% for middle-income countries and 37.7 per cent for developed countries. The increase in tax ratio with GNP per capita is a reflection of both demand and supply factors - demand for social goods (collective goods like education, highways, sewerage, flood control and national defense) and the capacity to levy and pay taxes. Wagner's law, named for the nineteenth century German economist Adolph Wagner, states that as real GNP per capita rises, people demand relatively more social goods and relatively fewer private goods. A poor country spends a high

percentage of its income on food, clothing, shelter and other essential consumer goods. After these needs have been largely fulfilled, an increased proportion of additional spending is for social goods.

The most important taxation goal in LDCs is to mobilize resources for public expenditure. According to the IMF, the amount of these resources is determined by GNP per capita, the share of the mining sector in GNP, the share of exports in GNP and tax policy. It is desirable to look at how tax policies affect public spending and the impact of taxes on stability of income and prices. However, achieving these crucial taxation goals must be viewed in light of other goals, such as improved income distribution, efficient resource allocation, increased capital and enterprise and administrative feasibility. The LDC governments must consider all of these goals when designing tax schemes to achieve rapid economic growth, to improve the lot of the poor and to stabilize prices.

The main tools of fiscal policy are taxes and/or public spending. Thus here we discuss the two instruments of the policy.

1.3 Methodology

a- Hypothesis of the study

The study hypothesizes some relationships of variables given below;

(H1) The use of the needed fiscal policy (expansionary or contractionary) is highly important.

(H2) There is a positive relationship between government spending and economic growth.

(H3) The extend of tax evasion is greatly affected by the fiscal policy used.

2- Government Expenditure and Tax System

2.1-Government Expenditure

Policy makers are divided as to whether government expansion helps or hinders economic growth. Advocators of bigger government argued that government programs provide valuable (public goods) such as education and infrastructure. They also claim that increases in government spending can bolster economic growth by putting money into people's pockets. Proponents of smaller government have the opposite view. They explain that government is too big and that higher spending undermines economic growth by transferring additional resources from productive sector of the economy to government, which uses them less efficiently. They also warn that an expanding public sector complicates efforts to pro-growth policies-such as fundamental tax reform and personal retirement account- because critics can use the personal existence of a budget deficit as a reason to oppose policies that strengthen the economy (Mitchell, 2005)

It is difficult to disentangle a prior whether the relation between government expenditure and GDP goes from the latter to the former or vice versa. To the extent that the impact of government expenditure on GDP is mostly in terms of aggregate demand impulse rather than changed output potential. Focusing the analysis of figures adjusted for the cycle contribution to contain the issues of reverse causality. They argued that an impact of government expenditure on potential output cannot be excluded. However, the effect can be the opposite depending on which types of expenditure are considered. While government investment or public education expenditures are likely to improve the growth by crowding out resources to private investment.

Fiscal variables are generally non robust when included in cross-country growth regression (quoted in Arpaia and Turrini, 2008).

Generally, Fiscal Policy (FP) is the economic term that defines the set of principles and decisions of government in setting the

level of public expenditure and how the expenditure is funded. Fiscal policy and monetary policy (MP) are the macroeconomic tools that governments have. With regard to fiscal policy it is observed that Less Developed Countries (LDCs) are characterized by underdeveloped financial markets that governments could borrow little or nothing from the public. In some countries, however, deposit-taking banks were forced to buy government papers at low interest rates thereby depriving private sector of the available fund. But this was not a matter of deep concern since public investment was believed to be most important for development. Thus borrowing from the central bank mainly financed budget deficit that could not be financed by foreign borrowing. As such fiscal policy largely consisted of the determination of the size of the government deficit that would have to be financed domestically. This in turn would determine the required increases in the quantity of money and its effects.

2.2-Tax system

In the past thirty years Sudan has been trying to be self-sufficient and was and invest in development. The government wanted to reduce the amount of foreign aid and the only way out was depending on revenues from different sectors in the economy as well as tax moneys. The government main focus was to ensure that all taxes are collected.

People in Sudan must comply with the tax systems. The government of Sudan requires taxpayers to assess tax liability, file tax returns and pay the tax liability. It has a detailed tax law that specifies tax and the penalties for avoidance, late filing late payment and non-payment. To ensure tax compliance tax authorities imposed tax penalties if there are no court proceedings, and substantial fines a case in taken to court. Sanctions for not presenting returns range from 5% of due tax and five thousand Sudanese pounds for each day the omission continues to twentieth five thousand Sudanese pounds for non-

compliance. In extreme cases there are imprisonment imposed by court.

The tax system in Sudan is highly distorted by widespread exemption and weak tax administration. This distortion continued to undermine all attempts to remove macroeconomic imbalances. Important attempts to review the tax system were undertaken during the periods (1978-1985) and (1992-2000). However, very little was achieved during the first period due to the high growth of unrecorded underground economy and availability of foreign finance from abroad, which reduced pressure on the government to adopt tax reforms.

Private investment in Sudan started to grow rapidly during the British Administration in Sudan. This was followed by successful private investment in the period 1956-1970, especially in the large-scale mechanized rain-fed agricultural sub-sector. In 1970, the socialist government adopted a policy of nationalization and confiscation that frustrated private investment for many years despite a later retreat from this policy in the 1970s. During the 1980s and early 1990s, private investment was further frustrated by political and economic instability. Private investment during that period was low and concentrated on real estate, trade and financial speculation, transport equipment and hotels. Private investment started to recover after liberalization policies in late 1990s, mainly in the oil sector.

Exchange rate policy in Sudan is characterized by inconsistency in objectives, confusion, loss of control over foreign exchange and payments, and the remittance of Sudanese Working Abroad (SWA) that tended to play a major role in shaping exchange rate policy. Moreover, there has been a lack of supportive financial policies. However, the government was able to stabilize the exchange rate value in the late 1990s. The stability was based on successful demand management and the implementation of a wide range of structural reforms. In 1998, different types of

exchange rate were unified in one free market rate policy. Moreover, there has been a lack of supportive financial policies.

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3-Fiscal Policy Goals and Types

3.1-Goals of Fiscal Policy

Fiscal policy is the economic term that defines the set of principles and decisions of a government in setting the level of public expenditure and how that expenditure is funded. Fiscal policy and monetary policy are the macroeconomic tools that governments have at their disposal to manage the economy. Fiscal policy is the deliberate change in government spending, government borrowing or taxes to stimulate or slow down the economy. Fiscal policies include direct and indirect taxes such as excise tax, export tax, subsidies, and etc.

Faridi (1983, p.28) attributes the following socioeconomic goals at the state level for fiscal policy:

1. Justice and equity
 2. Provision of socioeconomic needs of the community or socioeconomic welfare
 3. Enhancement of the community's economic resources or economic growth
 4. Improvement in the cultural milieu of the society
- He contends that Islamic economy would be a three-sector economy consisting of traditional private and public sectors as well as a voluntary sector. He goes on to note that the state (by which he means government) shall perform traditional allocation, stabilization and distribution roles. In his view, *zakh* and voluntary charity would provide anchors for distributive purposes.

Salama (1983) also assigns stabilization, distribution and regulation goals to fiscal policy. To this extent he is no different from recommendations in the mainstream economics literature. But he also adds a fourth goal: economic growth. He also touches upon revenue and expenditure sides of the Islamic state, and what one might expect for the case of the existing Muslims countries.

Metwally (1983) makes no major addition to the above points. He mainly discusses mechanism for fiscal policy in an Islamic economy and effects of *zakh* levy on selected macroeconomic aggregates.

Kahf (1983) discusses genesis of an Islamic state, goals of fiscal policy and principles for taxation policy in an Islamic economy.

Siddiqi (1986) focused on public expenditure in Islam. According to his argument, heads of public expenditure from the Islamic point of view will be more or less the same as in any economy in the current age. In a later study, Siddiqi (1993) also presented evidence on public borrowing during the time of the Prophet SAAWS, falling in the period of the first Islamic state, and later Muslim rulers.

Ahmad (1989, 1992) presented a detailed analysis of public finance in Islam. His 1992 paper is a survey of the existing thinking in the area.⁴ The 1989 paper, the more important of the two, contains reviews of (i) basic teachings of Islam with a bearing for the discipline of public finance and (ii) fiscal system in the first Islamic state of Madinah. His conclusion is that many of the issues of public finance had precedence during the time of the Prophet (SAAWS) and his able successors. The main paper gives an outline for public finances in Islam in the modern age. The most striking proposal in his paper is that the distribution or welfare budget is to be based on *zakh* and to be maintained separately from the rest of the government budget. He also argues that transfers could be made from the main budget to the *zakh*-based budget, but not vice versa.

Hasan and Siddiqui (1994) examine the stability implications of equity-based financing of government expenditure in an interest-free economy. They replicate similar exercises for bond-financed government expenditure in an interest-based economy. Their study offers no breakthrough at the conceptual level.

This above review captures most, if not all, of the points in the existing literature related to fiscal policy. It is pertinent to mention that when the above writings were penned, advances in the area of Islamic banking and finance were yet to be made.

The government uses fiscal policy to allocate and redistribute resources because the allocation and distribution resulting from private sector activities are not satisfactory in most cases, especially in the Less Developed Countries [LDCs]. In LDCs, the private sector often has not been given the chance to develop into a fully-grown vibrant and dynamic productive sector [as in the case of western Europe and United States of America] due to a combination of historical, social, political and economic factors. Likewise, in these countries the market system has not developed naturally and has continued to be characterized by severe distortions and inadequacies. As a result, the government becomes an essential and influential player in the economy in matters concerning the use, allocation and distribution of resources among different groups and sectors. It compensates for the deficiency in the private sector's allocation and distribution of resources to certain sectors and groups of people, directly by spending more or less to make up for the rest of the economy spending more or less. On the other hand, the government compensates indirectly by raising or lowering of taxes to encourage the rest of the economy to spend more or less. There are important differences among various government spending patterns and variation of taxes and non-tax revenue sources that affect resource generation and distribution in the economy. We should mention that government interference in the economy is hotly debated in both economic and political spheres.

For instance, neoclassical economists directly oppose government intervention in the economy as they consider it a major cause of economic distortion. It is argued that it takes resources away from the private sector and gives them to the public sector. The private sector is seen as much more efficient in the allocation and uses of resources compared to the public sector that constitutes the worst alternative user and allocator of resources. However, in the aftermath of the 1997 Asian economic and financial crises that hit hard most of East Asian countries and endangered the world financial stability, a new realism and recognition of the need for government regulation and intervention in the economy to offset any negative external shocks and to ensure macrocosmic stability, are widely demanded and agreed upon by many scholars and decision - makers as well as multilateral institutions. This is often referred to as the Neo-liberal approach to public finance, in contrast to the more restrictive

view of the role of government in the economy under a libertarian approach to public finance. [Baily, Chapter 1].

Through the various revenue raising and spending tools of fiscal policy, the government can have a positive or a negative impact on the economy. For instance, the perceived positive roles of the government in the economy are seen to lie in the following spending areas:

Infrastructure services, education, health, and research and development. A positive government intervention to increase the level of activity can increase employment and reduce Unemployment; in many cases it raises prices. Conversely, spending on wages and salaries, administration, military and security and in areas where the private sector can provide goods and services more efficiently, all are considered as examples of negative government interventions that should be controlled and minimized. On the other hand, a negative action to reduce prices may indeed reduce employment and increase unemployment.

Generally, the ratio of government expenditure to GDP is taken as an indicator of the extent to which the government is interfering in the economy and, as the ratio rises, some see that as a negative indicator of this intervention. Also, when the government's share of wages and salaries in GDP rises, it is often viewed as a negative intervention. More attention is also given to the ratio of government investment to gross investment, which is considered an indicator of bad government intervention, discriminating against the private sector.

Finally, it is important to mention that government subsidies to certain groups and direct transfers to the states give mixed signals – a positive one that redistributes income in favor of poor people and regions and a negative one that distorts resource allocation and thus reduces competitiveness and causes resource misallocation in the economy.

3.2-Types of Fiscal Policy

Generally, there are two types of fiscal policy. The first and most widely-used is expansionary fiscal policy. It stimulates economic growth. It most critical at the contractionary phase of business cycle. That is why voter are clamoring for relieve from a recession. The government either spend more, cut taxes, or does both if it can. The idea is how to put more money into consumers' hands, so they spend more. That jumpstarts demand, which keeps business running and hopefully, adds jobs. Of course there is a debate about which works better. Advocate of supply-side economics prefer tax cuts. They say it frees up business to hire more workers to pursue business ventures. Advocates of demand- side economies say additional spending is more effective than tax cuts. Example includes as public work projects, unemployment benefits and food stamps. The money goes into the pockets of consumers, who go right out and buy the things business produced .Expansionary fiscal policy is usually impossible for state and local governments. That is because they

often are mandated to keep a balanced budget. If they have not created a surplus during the boom times, they must cut spending to match lower tax revenues during a recession. That makes it worse. The second type, contractionary fiscal policy, is rarely used, that is because its goal is to slow economic growth. Why would you ever want to do that? One reason only and that is to stamp out inflation. That is because the long-term impact of inflation can damage the standard of living as much as recession. The tools of contractionary fiscal policy are used in reverse. Taxes are increased and spending is cut. You can imagine how widely unpopular this is among voters. Thus, it is hardly ever used. Fortunately monetary policy is effective in preventing inflation as the following figure shows.

4- Impact of fiscal Policy

4.1-Impact of Fiscal Policy on Economic Growth

There is no doubt that the civil war which took place in Sudan casted a negative shadow over Sudan's economy over the years. That war, which can be considered as part of the resource curse but it was not considered as a direct cause of the economic deterioration that led to the current crisis in Sudan's economy, but has many other factors combined to lead to this tragic situation and one of the most important of these factors, the instability of the country political situation over the past fifty years, that the country fluctuated between democracy and military rule, and each type has its own ideas, principles and its own economic policies, which caused the inconsistency , randomness and uncertainty in economic policies.

The economic policy is an integral part of the general policy of any country, so Sudan's economy has fluctuated in accordance with those policies and ideologies between capitalism to socialism and Islamic ideology, so over the time had became a deep intellectual roots for all those ideologies in the Sudanese economic mentality, which ultimately led to an incompatible mix of these ideologies, where the economic ideology in the Arab

countries, especially in Sudan is suffering a severe contradiction at the conceptual level between what non purposefully transferred from Western economic ideology, and the actual economic that is written to describe the live economic problems on the terms of the descriptive economy on one hand, and also what these problems need of a theoretical analysis to remove the ambiguity of its general laws and development from the other side.

And through the study of the Sudan economic ideology movement we can distinguish (at the philosophical level) between three conflicts grappling within it 1-historical materialism tendencies 2-utopian idealism tendencies 3- logical and positive tendencies. this tendencies in its entirety represents a reflection of the fluctuations in the movement of economic thought since the founding of the modern economy where the "economic mind" was looking for a new synthesis thought, but did not address the basic issues in distribution, accumulation and employment, as many schools of modern economic was insisted, for example Keynesian school. The thing that alerted by the great economic scholar Oskar R. Lange In his important book "Political Economy"

So we can observe that "economic mind" of Sudan's economy generally tends to exaggerated abstraction, to evasion from facing the complex problems of the economic facts. In other words, "the mind is trying to subject these facts to its concepts, where its concepts are not subjected to reality of these facts.

In view of Sudanese economy in recent history since the beginning of the nineties notes that it has seen a rise in the growth rate in the middle of nineties from 1996 to 2009 after the entry of oil on the Sudan economic cycle, but the country was unable to take advantage of this boom to keep the reliability and stability of the economy that related to internal and external factors found basically because of the confusion and randomness in economic policy-making, and I'm simply trying through this

paper to discuss the reasons that led to the current impact in Sudan's economy through the analysis of the crisis factors by divide it internally and externally to clarify the situation and extract imbalance places".

The main objectives of IMF macroeconomic programs between 1978/9 -1981/2 to raise the rate of economic growth to about 4 % per year and reduce the inflation rate to 10 %, through a range of measures aimed to reduce the government budget deficit and loans from local banks. In actual fact, GDP declined by about 6% in real terms, the central government budget deficit increased about 10 % of the GDP, the money supply grew at an average annual rate of more than 40 % in comparison with the target rate of 16 % for the 1980/1 range. But from 1980/1, inflation has risen to an average of about 35 % annually.

So at the end IMF previous objectives were not achieved. For example, between 1980/1-1983/4 the central government revenue as a percentage of GDP has been less than 16 %. During 1982/3, money supply grew to about 37 % instead of the planned 28 % and 21 % in 1983/4. As a result, the inflation rate rose, even further in 1982 to more than 40% (according to official estimates) And the failure to achieve these goals attributed to the failure in the resources planning of these institutions and that the government and its priorities converted from its original program"(World Bank 1985). Secondly, the economic devastating effects factors such as depletion of human resources associated with migration to Gulf countries, three consecutive years of drought and famine culminating in 1984/5, the prevalence of corruption ,embezzlement of public funds, squandering and ill public administration, which has grown steadily in last years to (Nimeiri's) regime despite of the high aid flow, which by1983, reached to US\$35 per capita, compared to US\$19 per capita for the entire sub-Saharan Africa, So this was a clear indication that the generous foreign aid was not sufficient condition for economic recovery, and that the macroeconomic

targeting type of the (IMF) is no substitute for the necessary structural reforms that generate the conditions for a real recovery in the economy.

The Islamicization program in September 1983, which was political more than economic program also brought important institutional changes and has had a direct impact on the Economic Recovery Program (ERP) according to (Haitham and Fung) . By late January 1985, there was growing speculation that the IMF was close to suspend Sudan from its organization, this coincided with a shortage of food and fuel, and rising of exchange rate of the open market to unprecedented levels and by the end of January, In early February Sudan's arrears to the IMF had reached US\$110m. On 6 April, 1985, Nimeiri regime fell after two weeks of food riots and a general strike. Note here that the Nimeiri regime, which was based largely on external funding, collapsed when donors became impatient and withheld support.

The third major phase in the historical path of the Sudanese economy started in 1992 after applying of the economic liberalization policy and adopting of a market economy approach as an economic system which reduced the government economic role to be restricted on policy- making. In this framework, an extensive program of sale and liquidation for most of the institutions and government companies to the private sector was applied under the purpose of treating the economic stagnation by reducing the control of the public sector on economic activity and break the monopolies in this section , to liberalizing the economy of various restrictions, opening the door to the private sector to take over the reins of economic initiative and driving economic activity towards achieving the national economy objectives, at this stage the economy has tested a number of negative and positive developments.

In the first four years of implementation of the economic liberalization policy, an evident disturbance was occurred in the national economy performance expressed by several indicators

the most prominent was the inflation rapid rising , which reached 166% in 1996, as well as significant deterioration in the value of the national currency , clear distortions in the exchange rate, a decline in the rate of GDP growth to low levels of 1.8% in 1991, a decline in the appropriations of the general budget development to 50%, while the external debt exacerbated until it reached about \$ 17 billion in 1996.

However, a significant improvement occurred in the performance of the Sudanese economy after that because of the reforms that took place in the macro-economic policies since July 1996 in the framework of the implementation of economic structural reform strategy during the period from 1996-2002, where the Indicators of the total economic performance showed a remarkable development, Inflation rates have fallen to very low levels of 8% in 2000, after it was 166% in 1996, a significant stability had took place in exchange rate, and the rate of GDP growth returned to rise to reach an average of about 6% during 1997-2000. The thing which has helped to make this improvement was the entry of oil within the sectoral components of the Sudanese economy since 1998, as well as its entry within the structure of the Sudanese exports since 1999. This situation had made improving and some sort of relative stability in the Sudanese economy until the year 2008, in spite of internal political crises that took place in Sudan and at the level of its external relations, as the Darfur crisis did. But that relative economic stability have been in decline since the year 2009, under the influence of various factors, most notably was the significant expansion of the public current expenditure (non-development) because of the many entitlements that imposed by the political circumstances since the signing of the Comprehensive Peace Agreement in 2005 As well as facing requirements of Darfur crisis and Eastern Sudan problem, the implications of the effects of the global financial crisis in 2008 and its impact on the public budget and Imports in Sudan due to

lower oil prices in the global markets in 2009, those effects made a significant pressures on public revenues of the country, and forced the government to increase the value-added tax and impose additional import duties with the new addition of fees and levies at the federal and state levels, which led to increase the production costs and economic stagnation.

The most prominent features of the transformations in Sudan economic system during the past twenty years, was the transition to the market economy system, and stabilization of Islamic- banking approach in Sudanese banks both in terms of to accept deposits or grant funding, as well as the use of financial instruments that compatible with Islamic law with what regard to the cash management in macro economy. Also the adoption of the dual banking system according to two systems which has been later achieved by approving the Islamic banking system in the north and the traditional banking system in the south of Sudan before separation, so there is no doubt that these transformations had a direct impact on the performance of Sudan's economy, especially its closely associated with monetary policy.

So, through this historical review of developments that experimented by Sudan's economy through various stages since independence, clearly noted the turmoil that has characterized its path and orientation and formed its features and attributes. From an economy based on a combination of market and indicative planning economy to other type based on government control and central planning, and then to the third type which is non harmonized combination of open and complete Liberal approach with Islamic economics approach.

the great turmoil in Sudan path of economy and a radical shifts of the economy from one system to another completely contrary, beside political instability, internal conflicts and crises, which has been a dominant feature in the Sudan since independence, these the reasons which prevented Sudan from making any economic progress with great quality and value, in spite of richness and diversity of resources that distinguishes Sudan.

4.2- Tax Evasion Under the Influence of Fiscal Policy

In the first place let us see the modes of tax evasion and tax avoidance in the developing countries as a hole in the following figure tax flight strategies that are employed by private individuals or corporations with the purpose to minimize or circumvent their tax liability. The chapter intends to give a broad overview on the most prevalent instruments that are constraining revenue mobilization efforts in developing countries. These different modes of reducing a firm's or private household's tax burden are summarized in Figure (1). Note that the overview does not provide a comprehensive list of all possible modes of tax evasion and avoidance but rather focuses on the most relevant ones in terms of tax losses in developing countries. While the figure explicitly differentiates between tax avoidance efforts which occur within legal boundaries and tax evasion, that is illegal attempts to evade taxes, one has to bear in mind that this distinction is far less clear in practice.,

Figure (1)

Tax evasion and avoidance

Intentional falsification of tax relevant information Tax Evasion	Exploiting the legal scope for discretion of the tax system running counter to the purpose of the tax law Tax avoidance
Non-declaration of financial assets in offshore financial accounts Trade Mispricing VAT fraud • Missing trader fraud / carousel fraud • Misclassification of goods • Smuggling of goods Bribing tax officials Abuse of tax incentives by falsely claiming eligibility	Profit Shifting • Pricing of intercompany tangible goods transactions/ barter trade • Increase in intercompany debt • Location of central services and intangible assets Bargaining for tax incentive

Source: Federal Ministry for Economic Cooperation and Development

Figure (2) starts out with different modes of evading tax obligations that violate national tax laws. These include misreporting and non-declaration of personal income or corporate profits to circumvent direct income taxation or tax obligations resulting from sales of goods and services. In this context, holding offshore financial accounts to conceal taxable income from tax authorities in the country of residence allows tax evaders to benefit from low or zero taxes abroad, exploiting bank secrecy and poor financial regulation abroad. The resulting tax revenue loss for developing countries is substantial: According to estimates reported by GFI, developing countries have lost \$858.6 billion – \$1.06 trillion in illicit financial outflows in 2006 (Baker, 2005).

Along these lines, trade mispricing through faked invoices between colluding exporters and importers serves as a commonly used way to illegally transfer money from developing countries to financial accounts abroad usually with the purpose to evade taxes (GFI, 2010). In the past, developing countries like Cote d'Ivoire or Nigeria fell prey to substantial illegal capital outflows that were based on deliberate over-invoicing of imports or under-invoicing of exports (TJN Newsletter 2006, Vol.2(3)).

VAT fraud:

False statements of business transactions subject to VAT represents a type of tax evasion that has attracted increased attention in the course of broader adoption and rising rates of VAT or goods and services taxes (GST) in developing countries. For example, Sri Lanka which introduced the VAT system in 2002 had to incur major revenue losses (approximately 10 % of its net VAT receipts, see Keen and Smith, 2007) from a single case of VAT fraud. Fraudulent exploitation of the VAT system thereby takes a number of different

forms and is carried out within as well as across national borders. All different forms of VAT fraud rely on the principle that all registered businesses are able to credit VAT expenses from purchasing input goods against VAT due on their sales. In the simplest case, missing trader fraud includes under-reporting of sales by falsifying records and accounts allowing the fraudster to collect taxes without remitting them to the tax authority. Similarly, overstating purchases and forging invoices to increase the amount of VAT refunds are methods applied especially by new businesses where corresponding levels of sales are not expected immediately (Keen and Smith, 2007). At the international level, **carousel fraud** takes advantage of the zero-rating¹⁵ of exports between multi-country trade operations which have been identified to be most vulnerable to VAT fraud as they occur across national borders and

hence, affect different tax authorities.¹⁶ In principle, carousel fraud consists of two parts – the collection of VAT payments without remitting them to the corresponding tax authority (missing trader fraud) followed by illegitimately claiming a tax refund for the good that is exported.

Misclassification of commodities and smuggle of goods: Another source of tax evasion stems from the misclassification of commodities subject to different VAT rates with the purpose to reduce tax liabilities or increase claims for tax refunds. Related to revenue losses stemming from tax evasion activities is the smuggling of goods across borders as a way of evading not only VAT liabilities but also other forms of indirect taxes such as customs and excise duties.

Bribery of tax officials: Developing countries that suffer from inefficiencies in the administration and enforcement of taxes are exposed to bribing activities by companies as shown in the case of Bangladesh where sugar importers evaded 90 % of excise taxes in collaboration with corrupt tax officials (TJN, 2003).

All in all, it is important to note that the above described modes of tax evasion are not mutually exclusive but may also result as a consequence of one another. For instance, illicit financial flows that are directed to offshore accounts may result from proceeds that are realized through criminal activities such as the smuggling of goods or fraudulent manipulation of VAT records or bribery. The remainder of this chapter describes tax avoidance strategies predominantly applied in practice, which are listed in Figure (1). We distinguish between two modes of tax avoidance. The first mode, which can be subsumed under profit shifting, refers to the legal exploitation of loopholes in the legislative tax code

granting corporations some discretion on the formation of the tax base and/or the level of taxable income. The second mode refers to the exploitation of selectively granted tax incentives reducing the tax base immediately

Tax evasion usually is deliberately misrepresenting or hiding taxable incomes from the tax authorities to reduce their tax liability. Several studies in different parts of the world explored the reasons for evading taxes. Previous studies showed that people had different perceptions toward tax and concluded that taxpayers' perceptions are the reason why tax evasion occurs. Therefore the relationship between taxpayers' behaviors and their perceptions must be identified.

The share of tax income from government's total income is often more than that of other sorts of income in various countries and taxation is the main source of government's income to fulfill its obligations. By virtue of tax lever, government is able of absorbing a significant part of liquidity in private sector and the part of capital seeking for the maximum profit in minimum time period and with minimum effort. By tax lever, government can also decrease the proceeds of commerce and distribution sector in a way that brings back the production sector in the spotlight. While taxation more than the capacity will hinder economic growth, on other hand taxation below the capacity will be compensated from other sources of income if government expenditure sustains and this leads to breakdown of economic sectors. The correct manipulation of tax lever and taxation

commensurate with tax capacity (reflected by share of each social group from GDP) can make government needless of non-tax income.

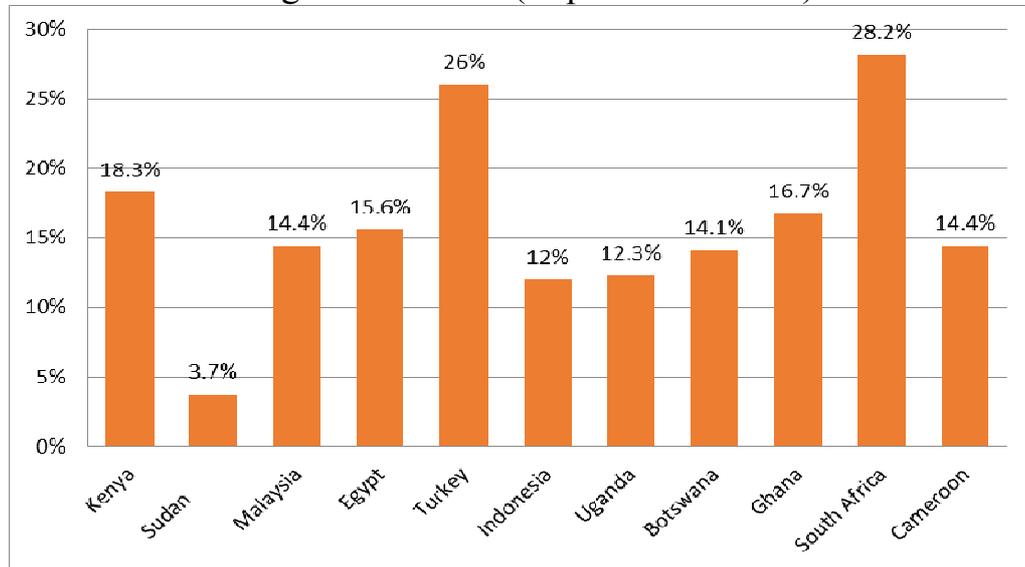
Disinterest of many government to eradicate the phenomenon of tax evasion leads to imperfect implementation of taxation law. Tax evasion might be expected to be related to level of economic development, taxation structure, ideological values and behavior of tax payers. By the way it is obvious that for any level of economic development and other factors, government can choose different level of implementation of law. Then question is "Why tax evasion is permitted to sustain?".

5-Tax Revenue Mobilization

Sudan's tax revenues are among the lowest in low- and lower middle income countries (LLMICs). Tax revenues represented only 3.7 percent of GDP compared to 17.2 percent of GDP on average in fragile LLMICs in 2013–2017 (figure 1) below. With little improvement over the period, this gap has been increasing.

Figure 2

Selected Countries. Tax Revenues
Averages 2013-2017 (In percent of GDP)



Source: WEO (IMF) and IMF staff calculations

Tax collections have yet to adjust to the loss of oil revenues following the secession of South Sudan. Oil revenues, which averaged 8 percent of GDP in 1995–2011, financed the bulk of government expenditure and made it unnecessary to raise tax collections. After the secession, oil revenues (including transit fees and transfers from South Sudan) dropped to 1.2 percent of GDP in 2013–17, and are expected to drop further to less than 1 percent of GDP in 2016 on account of low global oil prices. At the same time, despite efforts to strengthen tax administration, tax revenues increased only marginally in percent of GDP in 2015 due to low imports and an overvalued official exchange rate. This limited the available fiscal space and constrained pro-growth investment and poverty-reducing social spending. Sudan's tax revenue is lower than expected at its income level. In general, tax revenues are positively correlated with GDP per capita. In

particular, a non-oil producing country with a median income per capita of \$1,520 (at PPP exchange rates) should raise tax revenues equivalent to 12.2 percent of GDP on average. In contrast, Sudan with an income of \$3,920 collected only 6.2 percent of GDP in 2015—comparable to much poorer countries such as Turkey and the South African Republic. Sudan's tax collection efficiency is relatively low. VAT efficiency—measured by the revenue collected in percent of GDP divided by the standard tax rate—is only 0.19 per percentage point, placing Sudan below the 25th percentile of the distribution and well below the median of 0.37. While at 17 percent its VAT rate is similar to its peers (in the range of 15–18 percent), the low efficiency suggests large tax exemptions and/or weaknesses in tax administration.

5.1-Tax Revenue Contribution to GDP

In table (6) above we can also see that the share of tax revenues in GDP ranged between 3.5% - 4.0% with an average of about 3.3% for the years 2013-2017, and that with the exclusion of the

agricultural sector due to the zero tax rate of that sector, meaning that tax revenues share in GDP is still low.

5.2- Value Added Tax (VAT)

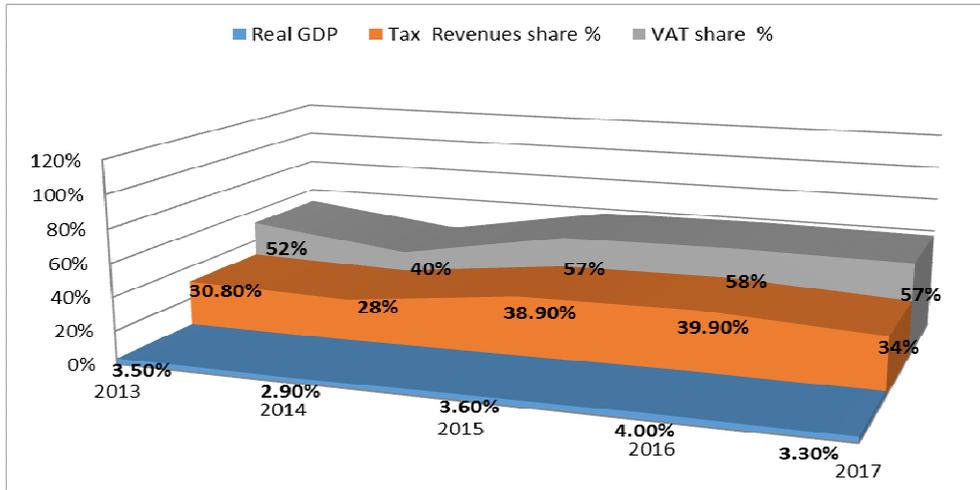
VAT is one of the main and important revenue resource as is shown in table (2) and figure (1) below for the period 2013/2017. As shown on table 4.7 below the share of the direct taxes in tax revenues is only 22.8% while value added tax share is 68.9%. But despite that VAT contribution to total revenues is very low (9.6%) table 4.3 above due to exemptions.

Table (1)
VAT revenues Compared to other Taxes
(In millions of pounds)

Type	2013	2014	2015	2016	2017	Average
Direct taxes	2.658.47	2.595.91	4.499.44	4.889.64	6.445.44	4.217.78
Percent/total revenues	24.5%	17.6%	24.4%	23.5%	24.4	22.8%
VAT	8.185.54	9.918.07	12.343.45	13.950.24	17.765.39	12.432.53
VAT Percent/total revenues	75.5%	67.5%	67.1%	67.3%	67.4%	68.9%
Total Revenues	10.844	14.675	18.382	20.725	26.356	90.982

Source: Chamber of taxation ,general Directory for Collection

Figure (3)
Tax Revenues Share In GDP



Source: Taxation Chamber Annual Report

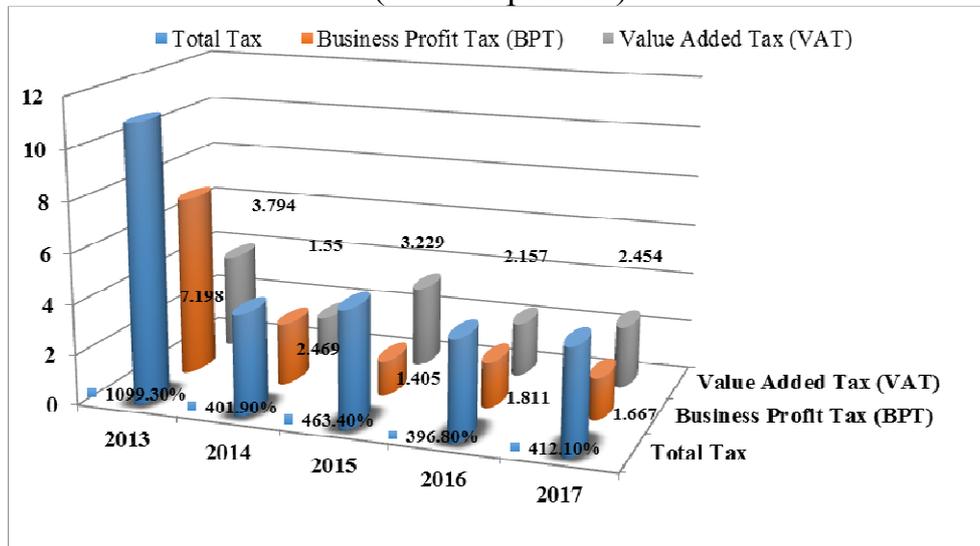
Tax exemptions are always in contradiction with VAT and stamp tax laws. VAT is always imposed on public goods and services and businesses as the stamp tax. Exemptions from this tax (VAT) should be subject to concessions and very limited and these exemptions are hampered by:

The origin of exemptions from VAT is that for the basic goods and services only, or these exemptions from the minister of finance. But in practice these exemptions have been widened for self-interests, the thing which decreased VAT revenues. Despite changing the authority responsible for exemptions from the finance minister to the council of ministers, the problem still persists. Exemptions in investment law, social insurance, also resulted in decreasing revenues. Bilateral agreement between some governmental units (mining sector, oil, electricity sector ...etc) sector and the government also curbed revenue from the VAT.

6-Tax Evasion

One of the central problems that any tax administration encounters is cheating, corruption or evasion and the prevalence of shadow economies. High incidences of tax evasion relate to high tax rate, low probability of detection and law, permanently lead for tax evasion figure 4 below. Tax evasion is usually associated with undervalued and officially unrecorded transactions, which relate to the so-called underground economy.

Figure 5
Amounts of tax Evaded 2013-2017
(Million pounds)



Source: Tax annual reports

The shadow economy is known by different names, such as the hidden economy, gray economy, black economy, cash economy or informal economy. All these synonyms refer to some type of shadow economy activities. We use the following definition: The shadow economy includes all economic activities which are hidden from official authorities for monetary, regulatory, and institutional reasons. Monetary reasons include avoiding paying taxes and all social security contributions, regulatory reasons include avoiding governmental bureaucracy or the burden of

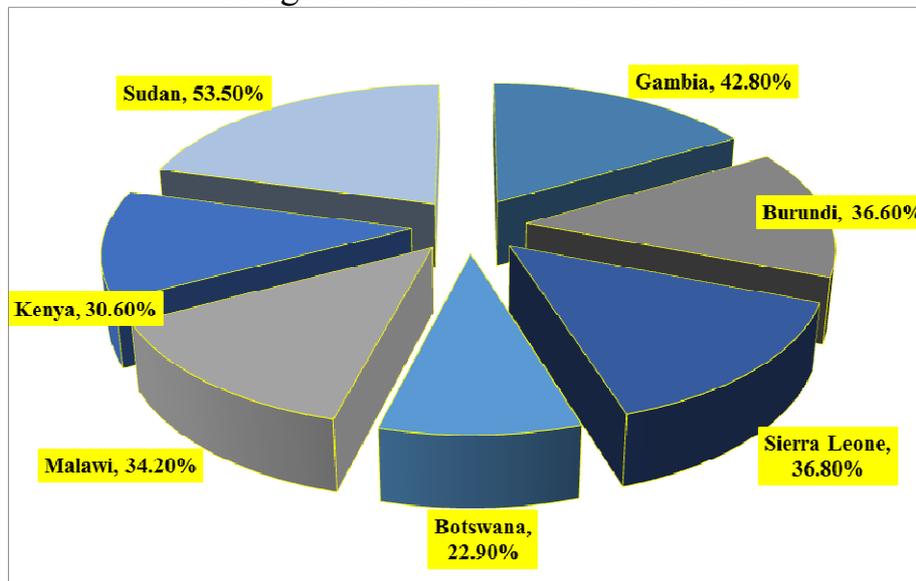
regulatory framework, while institutional reasons include corruption law, the quality of political institutions and weak rule of law. Table 2 and figure 5 below shows the size of shadow economy in six countries but due to the unavailability of data for 2016 and 2017, we can see that according to the last estimate of the International Monetary Fund in regard to Sudan informal economy, the number is almost twice that of Burundi, Botswana and Serra Leone. That definitely adds to the amount of tax evasion in the country.

Table 2
Size of the shadow economies of
Selected Countries

Country	2013	2014	2015	2016	2017	Average % country
Gambia	40.9	43.8	43.8	-	-	42.8
Burundi	36.9	36.2	35.6	-	-	36.6
Sierra Leone	38.1	37.0	35.4	-	-	36.8
Botswana	22.8	22.1	23.9	-	-	22.9
Malawi	35.0	34.0	33.5	-	-	34.2
Kenya	29.9	28.6	33.4	-	-	30.6
Sudan	45.4	55.0	60.0	-	-	53.5
Sample average	49.8	51.3	55.1	-	-	42.9

Source: World Bank, International Comparison Program database

Figure 6
Average Size % Economic Activities



Source: World Bank, International Comparison Program database

One of the central problems that any tax administration encounters is cheating, corruption or evasion and the prevalence of shadow economies. High incidences of tax evasion relate to high tax rate, low probability of detection and law, permanently lead for tax evasion figure 4.10 below. Tax evasion is usually associated with undervalued and officially unrecorded transactions, which relate to the so-called underground economy.

The theoretical literature about tax evasion and practical results in industrial countries show that with a proper mixture of imposing punishments and with a plausible taxation structure, tax evasion can be decreased to a very low level. In order to describe the stabilizing role of taxes in economy of countries, and the relationship between ratio of tax to income and stabilizing behavior of tax, one should study the effect of taxes on income of governments and the relationship between tax income,

government expenditure and GDP, and the effect of ratio of tax to production cost on economic stability. The issue of tax evasion has become a major problem for governments. Nowadays, governments are actively trying to reduce the possibility of misrepresentation of income by people. Tax evasion refers to all illegal ways that people employ to avoid paying taxes. Underreporting income, profit or over reporting the amount of tax deductions are some well-known ways of misrepresenting tax liabilities.

There have been opposing views on how governments can deal with this problem. The classical view is that the increase in the tax rates will lead to an increase in the size of the underground economy. Guttman (1977) was the first to study the size and effect of tax evasion. He estimates the size of the underground economy or the subterranean economy as large as 9.4 percent of U.S GNP, which caused a lot of attention to the issue of tax evasion. Also, he mentions that the underground economy is a product of government regulations and policies and suggest revising them in order to not motivate unreported activities. However, Feige (1979) estimates of the irregular economy were far bigger than Guttman estimation. He finds that the size of the illegal economy is 22 percent of GNP in 1976 and 33 percent of GNP in 1978. His recommendation is to reduce tax rates in the legal sector, increase the punishment for participation in the illegal activities and also legalizing currently illegal activities such as gambling and use of marijuana. Clotfelter (1983) using the Internal Revenue Service's Taxpayer Compliance Measurement Program (TCMP) survey for 1969 finds that marginal tax rates affect the amount of tax evasion significantly.

An alternative view finds no evidence regarding the positive relationship between tax rates and tax evasion (Friedman et al., 2000). They claim that businesses and people may be derived to

the underground economy because of weak institutions which are responsible for protecting people's rights. According to this view, Weak jurisdictional system, bureaucracy and corruption are the primary reasons that lead people to underground and unreported economy. Finally(Kabbashi Medani Suliman,2005)see that for more effective fiscal and tax policy to combat tax evasion the following measures are important :

1. Revise the tax incentive and exemption regime. A high occurrence of tax incentives has negative impacts on revenue mobilization and creates loopholes for tax evasion. The benefits of investment tax incentives are generally exaggerated, while the costs are often underestimated or overlooked.

2. Greater emphasis is needed on the cost-effectiveness of revenue collection, taking into account not only the direct costs of tax administration, but also the overall costs to the economy, including the compliance costs to the taxpayers. In addition, losses through tax evasion need to be reduced. To achieve these aims, there is a need to simplify the structures for business licenses, stamp duties and fees, by reducing the number of rates and coverage. Moreover, sub-national taxes and licenses should be harmonized with the federal government's revenue bases, to avoid double taxation and conflicts with national development policies, such as job creation and private sector development. The establishment of one-stop-shop Single Business Permit systems can be promising for future reforms.

3. Revise the tax incentive and exemption regime. A high occurrence of tax incentives has negative impacts on revenue

mobilization and creates loopholes for tax evasion. The benefits of investment tax incentives are generally exaggerated, while the costs are often underestimated or overlooked.

7- Results and Recommendations

The purpose of this paper is to see the relationship between fiscal policy and tax evasion in the developing countries as a whole in reference to Sudan, the paper noted that the historical path of Sudan's economy fluctuated between the cases of stability and instability, this is mainly due to the disruption of economic policies and developmental programs on one hand, and political instability on the other hand We note that the economic facts had always been the first hand in the change of the political map of the Sudan. In spite of the reform and development efforts those have been made to improve the situation of the Sudan's economy, but it still suffers from substantial distortions related to its structure. Sudan's economy had significant economic opportunities if it handled properly and exploited efficiently it would put the economy on the right track and made it able to absorb any sudden shocks, There are a number of political and economic challenges which need response and resolve, in order to take the advantage of the big economic opportunities inherent in the Sudanese economy.

8- Discussion of the Findings

Summary, Conclusion

The purpose of the study was to find out the impact of tax evasion on th economy in Sudan. This chapter is to present a summary of the findings of the study, the conclusions drawn

based on the findings of the study and recommendations made for consideration.

8.1- Summary of the major findings

Based on the analysis, it was indicated that the study was centered on three factors such levels of tax evasion, measures of controlling evasion and its effectiveness. In order to achieve objectives set for the study.

1- It was found that there was high tax evasion in Sudan tax system and tax compliance attitude is very low

2-High rate of tax evasion was associated with several factors including lack of education on tax, corruption, distance and high tax rate specially VAT rate and customs exemptions.

3- Tax evasion had negative impact of revenue collection performance, as it caused low revenue collection, lack of social service, budget deficits and failure to meet revenues that can enhance budgets.

4-In curbing tax evasion problem it was found that Tax authorities in the Sudan employed several measures ranging from imposing penalty, door to door visit, education, using TIN to computerization of tax system but none of aforementioned measure was effective up to now due to the lack of tax officials ,the system used is not working effectively, lack of real and dependable statistics.

5-Tax system in tax offices is built upon the idea of how much is collected regardless of paying attention to increasing tax compliance using media, employing new tax officials and there must be enough training courses for them before handling tax work and introducing new methods in auditing sections.

8.2- Conclusion

This study looked at some important aspects of the Sudan tax system. Tax evasion associated with the underground economy is one of the major problems facing tax administration in the country. The underground economy remains sizable and growing rapidly, meaning that as yet all reforms did not capture the evaded tax or checked the black and parallel markets activities. Checking of such activities is also a matter of law enforcement and improved accountability of officials. Despite the increase and amendments to tax policy and its procedures from 2011 to 2014, tax revenue is still the lowest among 22 African countries. Exemptions from custom duties and VAT tax on public goods and services and businesses as stamp tax has the biggest share in tax evasion. Corruption is the highest among sub-Saharan and middle-income countries.

Diversification of revenue sources for economic development is very important if Sudan must rank among equals in the improvement of the lives of his citizens. The focus on revenue from oil amounts to putting all our eggs in one basket. In this modern days the speedy technological development will in no distance time render obsolete the use of such mineral resources like oil and possibly replace same with gold or solar energy which is more environmental friendly.

Unfriendly tax policies may create room for capital flight from Sudan to other countries with more relaxed tax policies (Tax havens). The move towards borderless world has opened up new opportunities for taxpayers to minimize their tax liabilities. Government should not only create an enabling environment for business establishment but also give all necessary support for its

survival because profits of businesses are one of the major sources of tax revenue.

Multiplicity of tax levy on the individual and organizations is too much a burden on the tax payer. This is a structural problem that needs to be addressed urgently. There should be clear cut boundaries of the tax jurisdiction of government without overlap. That is the only way multiplicity of tax levy on the individual and organizations can be curtailed.

Sudan lacks the enforcement machineries which include among other things, adequate manpower, computers and effective postal and communication system. This among other issues call for the autonomy of tax administration which the system had long been yearning for. Tax administration requires highly trained personnel to match up with the sophistication of tax evasion with the use of modern technology. The autonomy if granted will enable tax administration to hire the appropriate qualified personnel, fire the redundant ones, reduce internal layers of management with its attendant bureaucracy and official red tape, buy the appropriate equipment required for the job, reduce political interference which had encouraged frequent changes in policy and many more.

9- Recommendations

Sudan Tax administration needs to continuously review its systems, strategies and skills to keep pace with the problems of violations of tax law. That is why the study suggests the following:

1-Review the law in order to strengthen it to address tax evasion. This must include among others:

a- Tax authorities must provide knowledge about public expenditure on taxpayers' money to prove that they are appropriately utilized besides simplifying tax rules and make them more understandable.

a- Stiffer penalties: Charge interest at above market rate, strengthening enforcement on jail sentences and create tax courts to deal with tax offenders, revocation of operating licenses and blacklisting the directors of companies involved in tax evasion.

b- Review the law to include filing of personal income returns by the self-employed and wage earning employees.

2. Review the administrative measures used to address tax evasion to include among others:

a- Restructuring the Audit and Inspection departments by increasing the number of officers and equipping them with skills to combat tax evasion.

b- Continuous upgrade of the information systems to accommodate changes in the economy.

c- Increase compliance through embarking on taxpayer education to improve tax literacy. This can be done by establishing call centers in each provincial centre in Sudan for the purpose of taking tax literacy closer to the people.

3. Streamline tax incentives. Tax incentives should be reviewed continuously to ensure those which no longer serve or have served their purpose are phased out. Maintaining incentives which appear to be disproportionately favoring a sector of the economy at the expense of tax revenue deters tax morality in the

rest of the sectors and therefore encourages tax evasion. Tax incentives should only be awarded to firms or sectors.

4. A carefully planned tax policy which is consciously and faithfully implemented can help to generate revenue that can transform a nation in totality. But where the reverse is the case, a selected few will divert the good intention of the government by enriching themselves with the public fund which was supposed to be used to better the life of the people through the provision and maintenance of social infrastructure.

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