



Arbeitskreis Quantitative Steuerlehre
Quantitative Research in Taxation – Discussion Papers

Henning Giese, Adrian Schipp

**The Downside of Democracy?
The Case of Tax Complexity**

arqus Discussion Paper No. 320
March 2025

The Downside of Democracy? The Case of Tax Complexity¹

Henning Giese

Paderborn University

KU Research Institute for Taxation

henning.giese@upb.de

Adrian Schipp

Paderborn University

adrian.schipp@upb.de

March 2025

Abstract

This study investigates the association between the political characteristics of countries and the complexity of the legal system. Using country-level data on tax complexity, democracy indicators, and election results, we find that greater democratic governance is associated with increased overall complexity of tax systems. This association is primarily driven by the complexity of tax regulations, whereas tax procedures—such as filings and audits—tend to be less complex in more democratic countries. Further analyses reveal that anti-tax avoidance regulations are more intricate as democracy levels rise, highlighting complexity as an unintended consequence of economic prosperity. Additionally, we identify electoral pluralism and civil liberties as key factors driving this association. Finally, we find that left-leaning governments experience a greater increase in tax complexity through democracy than their right-leaning counterparts.

Keywords: tax complexity, legislation process, democracy and governance, political orientation, political economy of taxation

JEL Classification: D72, K34, H11, H25

¹ We thank Simon Harst, Thomas Hoppe, Deborah Schanz, Felix Siegel, Susann Sturm, and Caren Sureth-Sloane for sharing data from their Global MNC Tax Complexity Survey. Moreover, we thank Michael Ebert, Jesse van Geest, Martina Rechbauer, Caren Sureth-Sloane, and participants at the 2022 arqus Workshop, the 2022 TAF Brown Bag Seminar, the 45th Annual Congress of the European Accounting Association 2023 and the Doctoral Seminar at the Paderborn University for their valuable comments and suggestions. We gratefully acknowledge financial support from the Deutsche Forschungsgemeinschaft (DFG, German Research Foundation) – Collaborative Research Center (SFB/TRR) Project-ID 403041268 – TRR 266 Accounting for Transparency.

The Downside of Democracy? The Case of Tax Complexity

Abstract

This study investigates the association between the political characteristics of countries and the complexity of the legal system. Using country-level data on tax complexity, democracy indicators, and election results, we find that greater democratic governance is associated with increased overall complexity of tax systems. This association is primarily driven by the complexity of tax regulations, whereas tax procedures—such as filings and audits—tend to be less complex in more democratic countries. Further analyses reveal that anti-tax avoidance regulations are more intricate as democracy levels rise, highlighting complexity as an unintended consequence of economic prosperity. Additionally, we identify electoral pluralism and civil liberties as key factors driving this association. Finally, we find that left-leaning governments experience a greater increase in tax complexity through democracy than their right-leaning counterparts.

Keywords: tax complexity, legislation process, democracy and governance, political orientation, political economy of taxation

JEL Classification: D72, K34, H11, H25

1 Introduction

This study investigates the relationship between the degree of democracy and the complexity of a country's legal system. We use country-level measures of tax complexity and democracy to analyze this association. In further analyses, we decompose a country's tax system into subcomponents to investigate the specific drivers of the overall effect. Furthermore, we analyze the role of international economic integration and the governing party's political orientation in the relationship between democracy and complexity. Additionally, we identify two key characteristics of democracy—electoral pluralism and civil liberties—as particular drivers of this increased complexity.

The literature has proposed that a strong rule of law, alongside prosocial institutions, is a crucial determinant of the economic prosperity of nations (Acemoglu et al., 2001; Acemoglu & Robinson, 2008, 2015). Following this notion, inclusive institutions, i.e., institutions that represent multiple citizen interests, are indispensable for establishing wealth in states. This requires a shift of power from exclusive

elites to the masses and therefore the implementation of democratic structures. However, the degree of democracy worldwide has been steadily declining in recent years.² At the same time, political polarization within countries has increased, as recent data from The Economist³, Our World in Data⁴, International IDEA,⁵ and Tucker et al. (2018) indicate. While we witness the tangible consequences of political changes, e.g., in terms of environmental policies (Klick, 2002) or media control (Rozenas & Stukal, 2019), relatively little research has explored the impact for the legal system. Since laws form the fundamental basis of societies, exploring potential changes in the complexity of (tax) regulations induced by political characteristics enhances our understanding of the factors shaping societal workings.

The complexity of the tax system offers a unique setting to study these changes. First, unlike many other fields of law, tax regulations change frequently⁶, making the link between political characteristics and the complexity of current tax law more readily identifiable. Second, the tax system affects a broad segment of society, making it likely that governments try to impact these regulations and influence their complexity. Third, the Tax Complexity Index by Hoppe et al. (2023) provides a comprehensive measure of perceived tax complexity, which is central to our study. Previous studies of regulatory complexity focus on simple measures of complexity, such as the number of words, regulations, or paragraphs (Karlinsky, 1981; Clotfelter, 1983; Weinstein, 2014; Weber, 2015). The multidimensional nature of the Tax Complexity Index enables us to investigate not only the complexity of corporate income tax systems but also specific income tax regulations (tax code complexity), and tax procedures such as tax audits (tax framework complexity).

Building on the Tax Complexity Index and the Democracy Index from The Economist⁷, we investigate the association between the degree of democracy and tax complexity using a country-level panel regression. In our analysis, we focus on the distinct characteristics of democratic and autocratic

² See <https://www.economist.com/graphic-detail/2022/02/09/a-new-low-for-global-democracy>.

³ See <https://www.eiu.com/n/democracy-index-conflict-and-polarisation-drive-a-new-low-for-global-democracy/>.

⁴ See <https://ourworldindata.org/less-democratic>.

⁵ See <https://www.idea.int/>.

⁶ Labro and Pierk (2023) investigate accounting regulation changes in the European Union until 1993. They document that tax regulations have been the most frequent changing EU regulations and directives since 2010. This result is not only present for EU directives but even for single countries, e.g., in German national legislation, tax regulation changes are the most frequent changes in the observation period (<http://www.eu-regulations.com/>).

⁷ See <https://www.eiu.com/n/campaigns/democracy-index-2020/>.

regimes and their implications for tax system complexity. We argue that democratic systems tend to exhibit highly complex legal systems to accommodate diverse interests in the legal framework (Galli & Profeta, 2009; Krieger, 2022) and to prevent powerful elites from destabilizing the democratic system (Lamoreaux & Wallis, 2024). This effect is largely driven by legislation being a compromise of diverging interests for all groups participating in the political-economic process, leading to increased complexity of the law (OECD, 2017; Warskett et al., 1998). Moreover, politicians in democracies face a trade-off between attracting broad electoral support by catering to various groups and the risk of elevated administrative costs and lengthy procedures due to the resulting complexity (Galli & Profeta, 2009). In autocracies, however, the association is less straightforward. Autocrats might simplify tax regulations by making decisions unilaterally, bypassing structured legislative processes, potentially resulting in less complex tax laws. Conversely, the absence of a structured legislative process may also contribute to greater complexity, as autocratic leaders impose regulations to consolidate power (Dodlova & Lucas, 2021). Despite these opposing effects, we expect the simplification effect to prevail, leading to lower tax complexity in autocracies than in democracies.

Consistent with this argumentation, we find that a one standard deviation increase in democracy is associated, on average, with a 3.3% rise in tax system complexity. Compared to the average Tax Complexity Index value in our sample (0.373), this represents an increase of 1.1 percentage points. While extensive legislative processes lead to more complex tax regulations (4.9%), we find that procedures in democracies are comparatively less complex (3.6%). However, the simplifying effect of democracy on tax procedures does not offset the increase in tax code complexity. Based on estimates from Fichtner and Feldman 2013, these effect sizes translate into substantial costs for businesses of at least \$7.1 billion and lost tax revenue of \$32.6 billion. Accordingly, our results indicate that tax complexity is a largely overlooked consequence of democratization, leading to considerable economic costs for both corporations and countries.

In additional tests, we investigate potential variations in the democracy-complexity relationship. Using a factor analysis of the sub-components of the tax code complexity of the Tax Complexity Index, we find that the complexity of anti-tax avoidance regulations, i.e., rules aimed at curbing tax avoidance, rises with democracy levels. Additionally, following Acemoglu et al. (2001), Acemoglu & Robinson

(2008), and Acemoglu & Robinson (2015), we test the association between economic prosperity and complexity and find that complexity is a potentially unintended byproduct of economic prosperity in democracies. Surprisingly, the development status of countries, often assumed to be linked with economic prosperity, does not appear to determine this association. Further examining which democratic characteristics drive complexity, we identify electoral pluralism and civil liberties as key determinants. Accordingly, using the Manifesto database⁸, we find that countries with two-party systems, such as the US and Malta, exhibit lower tax complexity compared to multi-party systems. Moreover, when a governing party secures a significant electoral mandate, i.e., over 50% of parliamentary votes, tax system complexity is notably lower. These findings strongly support our main hypothesis that the inclusion of diverse interests tends to increase legal complexity.

To further explore the role of civil liberties, we examine the relationship between political ideology and tax complexity. Left-wing parties, which favor redistribution and exhibit lower confidence in market forces than liberal right-wing parties, tend to impose higher corporate taxes (Angelopoulos et al., 2012; Wang, 2021). Additionally, left-wing supporters are less likely to perceive opportunities for upward social mobility than right-wing supporters (Alesina et al., 2018). Implementing income redistribution policies require extensive legislation to ensure effectiveness. Consequently, left-wing parties are expected to introduce higher tax complexity to facilitate redistribution. Moreover, left-wing governments, where the state plays a more dominant role, require complex tax systems to balance redistribution and civil liberties. In line with this expectation, we find that the positive association between democracy and tax complexity persists for left-wing governments. In contrast, we do not find similar associations for right-wing governments, nor do we observe differences in tax procedure complexity between left- and right-wing governments.

Overall, our results provide consistent evidence that democracies increase law complexity using the case of taxation. By demonstrating this link, we extend the literature on the real-world effects of democracy and add to research on the determinants of tax complexity. Prior studies highlight that tax complexity is rising, with internationally introduced regulations, such as CFC rules, identified as key

⁸ See <https://manifesto-project.wzb.eu/information/documents/information>.

drivers (Devereux, 2019; Siegel et al., 2025). However, less is known about how country-specific political characteristics influence tax complexity, a gap our study seeks to address.

Our results also carry significant implications for policymakers and business leaders. We highlight that tax complexity is an unintended consequence of democratic processes, as the need to balance diverse interests leads to intricate regulatory frameworks. This complexity can have adverse effects, such as discouraging foreign direct investment (Euler et al., 2024) or diminishing the effectiveness of investment incentives (Amberger et al., 2023). Additionally, while democratic countries are generally perceived as more legally stable (Zagler, 2023), our findings suggest that regulatory complexity introduces hidden costs, particularly in moderately democratic nations. From a business perspective, firms must consider the administrative burden of operating in democracies, where legal intricacies may increase compliance costs and reduce operational efficiency.

2 Prior literature and hypothesis development

While studies of the legislative determinants of tax complexity remains limited, numerous studies examine its implications. Feldman et al. (2016) highlight that tax complexity can create confusion and lead to unintended behavioral responses from taxpayers. Similarly, Collier et al. (2018) find that tax complexity poses a threat to economic prosperity. At the firm level, tax complexity increases compliance costs (Kaplow, 1998; Krause, 2000) and encourages tax planning and avoidance strategies (Budak & James, 2018). Moreover, Euler et al. (2024) demonstrate that tax complexity—particularly in tax procedures—negatively affects foreign direct investment. Amberger et al. (2023) find that tax complexity diminishes the effectiveness of investment incentives, while Giese et al. (2024a) document increased costs for firms due to the need for larger tax departments and heightened tax risk.

Despite these insights, the legislative origins of tax complexity remain underexplored. Hoppe et al. (2018) analyze the perceptions of 221 tax consultants and identify frequent regulatory changes and detailed provisions as key complexity drivers. Paul (1997) argues that tax complexity arises from efforts to achieve equitable tax distribution and certainty in application. Slemrod (2005) examines US state tax heterogeneity and attributes complexity to professional legislatures and disengaged voters. Diller et al. (2013) suggest that tax complexity is an inherent response to a complex world, resulting from an ongoing strategic interaction between tax authorities and taxpayers.

However, these studies largely overlook the role of political institutions in shaping tax complexity. Given that legal systems are deeply intertwined with a state's political structure, understanding the institutional framework is crucial. The design of states and governments has been widely debated since the seminal works of Schumpeter (1942) and Olson (1982), emphasizing how political organization influences economic prosperity. Building on this foundation, our study explores how the degree of democracy influences tax complexity, filling a gap in the literature.

The structure of modern societies can be classified on a spectrum between democracy and autocracy. The forms of government in states significantly influence societal and political factors in the respective countries. Accordingly, prior literature documents different tax policy strategies across this spectrum. For instance, Galiani & Torrens (2014) and Tam (2004) demonstrate analytically that the governmental form affects the outcome of policy tools. Democracies, in contrast to autocracies, reflect a greater number of individual interests in their legislation, resulting in higher bureaucracy costs as a means for solving the agency problem between citizens and governments (Dixit, 2010). The aggregation of citizens' individual interests at the national level leads to representative types of tax systems. Through electoral votes, citizens' preferences map into governing parties and, hence, into legislation and tax systems.⁹ Krieger (2022) provides both analytical and empirical evidence that democracy influences the quality of economic institutions and, consequently, the taxation process.

While the literature on the relationship between political characteristics and the complexity of tax systems is scarce, the discussion about the link between government forms and taxation is ongoing (see, e.g., Peters, 1991; Gould & Baker, 2002; and Kiser & Karceski, 2017 for extensive literature overviews on taxation and politics). Garcia & Haldenwang (2016) find that countries with a higher level of democracy impose higher tax burdens on their taxpayers more because of economic growth, redistribution, and legitimacy. Surprisingly, they find a U-shaped relation between a country's tax revenue and its regime type. Accordingly, strong autocracies also tax heavily because of their greater extorting

⁹ Fuest et al. (2024) find an association between election dates and tax rate increases. Especially increases in value added taxes and personal income taxes are postponed after election dates.

power.¹⁰ Boix (2003), Kenny & Winer (2006), and Winer et al. (2013) support this notion, emphasizing that democracies tend to generate higher tax revenues.¹¹ The level of democracy in a country is crucial for both the level of tax revenue and the types of taxes collected. Specifically, democratic governments are more likely to implement flatter income tax rates (Mulligan et al., 2004) and rely on higher levels of voluntary compliance because the enforcement mechanisms for penalties are weaker than in autocracies (Wintrobe, 1990; Kenny & Winer, 2006).

On the other hand, autocrats design the tax system to secure their power and avoid being overthrown by citizens. The trade-off for autocrats is whether to tax influential and rich elites, e.g., with taxes on land and property, or the broader working class, e.g., with income taxation.¹² Either approach could result in a loss of benevolence by at least one of these groups. Despotical autocrats who have seized power illegally tend to focus on taxes on land and property to discourage the working class from a rebellion against the regime (Dodlova & Lucas, 2021). Moreover, autocratic countries tend to tax firms more than individuals (Musgrave, 1969; Kenny & Winer, 2006)¹³ and are more likely to use direct rather than indirect taxes (Aidt & Jensen, 2009; Profeta & Scabrosetti, 2010; Profeta et al., 2013).

Overall, these studies document the significant influence of the governing form of states in shaping the tax system and its complexity. To a certain extent, the country and its legislative body can define and influence these characteristics. Therefore, we investigate the impact of democracy on tax complexity. Democracies and autocracies, as the extremes of the spectrum of governmental forms, behave systematically differently in their (tax) legislative process. Strong autocracies can dictate the tax law without an extensive legislative process and without the recognition of multiple interests (Tam, 2004; Galiani & Torrens, 2014). In contrast, purely democratic countries tend to reflect a broader range of individual interests in their (lengthy) legislative process and, therefore, are more likely to implement more intricate tax laws (Krieger, 2022). Galli & Profeta (2009) analyze the relationship between economic and political

¹⁰ These findings are confirmed in an analytical study by Hausken et al. (2004). Also, Jones & Olken (2005) find small shifts from authoritarian to democratic regimes to increase economic growth but dramatic democratization to reduce economic growth. In contrast, Profeta et al. (2013) and Mulligan et al. (2004) do not find an association between the level of tax revenues and the degree of democracy.

¹¹ Acemoglu & Robinson (2006) and Meltzer & Richard (1981) state the same in analytical models.

¹² Dodlova & Lucas (2021) argue, that in autocracies the middle class is vanishing so there is no need to focus on the taxation of this group of society.

¹³ Profeta & Scabrosetti (2010) do not support these findings.

factors and tax complexity, finding a trade-off between incorporating multiple individual interests and excessive costs arising from a highly nuanced and, therefore, complex tax system. Moreover, Lamoreaux & Wallis (2024) find that modern democracies, which are often structured as capitalist systems that enable individuals to accumulate excessive wealth, need a complex legal system based on impersonal rules to prevent powerful elites from manipulating elections through their overarching resources. Hence, we expect the degree of democracy to be positively associated with the complexity of the tax system.

H1: Tax systems are more complex in countries with a higher degree of democracy.

Besides the governing form of states, modern societies face international influences in their tax systems as markets and economies become increasingly integrated and globalized. The worldwide KOF Globalization Index rose by 66% between 1970 and 2021.¹⁴ While globalization has undoubtedly brought many benefits to countries, economies, and societies, it has also created opportunities for global tax competition. Multinational corporations can reduce their tax burden through international profit shifting via treaty shopping or transfer pricing manipulation (Riedel, 2018; Dharmapala, 2020; Dyreng & Hanlon, 2021). Numerous national and international legislative initiatives, such as the BEPS project, have arisen to scrutinize tax avoidance and tie taxation to real economic activities. Accordingly, Labro & Pierk (2023) document a significant rise in EU accounting and tax regulations and directives since the early 2000s.¹⁵ To deal with these emerging challenges, supranational organizations, like the OECD, propose internationally accepted guidelines for supranational taxation matters, e.g., the OECD Transfer Pricing Guidelines (OECD, 2022). Although these supranational guidelines are not legally binding for countries, many have implemented measures to counter declining tax revenues, resulting in a growing influence of international regulations on tax systems and, consequently, on their complexity. While this international influence is increasing, countries still have some discretion to (1) partially deviate from supranational proposals and (2) to levy country-specific taxes. Hence, we expect the complexity of tax

¹⁴ See <https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>.

¹⁵ See <http://www.eu-regulations.com/europe.html>.

regulations to be driven by both national and international factors and predict that (recent) international aspects further contribute to the complexity of the national tax system.

The form of government sets the framework, and global aspects further affect how (complex) tax systems are shaped. However, there is still some flexibility for governing parties. Therefore, we argue that the political agenda of governing parties affects the tax system and its inherent complexity, such that the tax system and the resulting tax revenues are tied to partisan politics.¹⁶ Following prior literature, we argue that left- and right-wing governing parties use taxes differently. For example, Shin 2017 finds that left-wing party governments increase statutory tax rates. However, firms' effective tax rates are not higher in these countries. This suggests that although left-wing governments raise statutory tax rates, they reduce the actual tax burden through the use of exemptions. As a result, the tax system becomes more complex due to additional regulations and loopholes. Moreover, left-wing parties favor redistribution and do not rely on market forces to reallocate income within society (Alesina et al., 2018). Therefore, left-wing governments incorporate higher tax rates for corporations to secure redistribution in the corporate sector (Angelopoulos et al., 2012; Wang, 2021). Redistribution via taxation requires detailed and precise regulations to ensure the targeted taxation of specific groups within society without constraining other groups. Conversely, right-wing governing parties build on the idea of market forces and social mobility as drivers of movement to higher income classes (Alesina et al., 2018) and, therefore, favor less detailed tax legislation. Hence, we predict that the association of Hypothesis 1 is more pronounced for left-wing governed countries.

3 Research Design

We test Hypothesis 1 and examine the association of a country's prior year level of democracy¹⁷ with the current level of tax complexity using Equation (1). Formally, we estimate the following OLS-regression model.

¹⁶ Potrafke (2017) documents a declining effect of partisan politics on economic outcomes since 1990, but still documents influence on privatization and market deregulation.

¹⁷ Since enactment processes, especially in democracies, tend to be time-consuming procedures, we investigate the association between the democracy level of a country and the complexity of the tax system of the subsequent year.

$$TaxComplexity_{c,t} = \beta_0 + \beta_1 Democracy_{c,t-1} + \gamma Controls_{c,t} + \mu_t + \varepsilon_{c,t} \quad (1)$$

$TaxComplexity_{c,t}$ is our dependent variable, capturing the degree of tax complexity in a given country c in time t . We use the Tax Complexity Index ($TaxComplexity$) by Hoppe et al. (2023) as well as its sub-indices Tax Code Complexity ($TaxCodeComplexity$) and Tax Framework Complexity ($TaxFrameworkComplexity$) to test Hypothesis 1. We primarily rely on the Tax Complexity Index as it is exclusively dedicated to corporate income tax complexity faced by MNCs, an area of highly publicly debated regulations and procedures in multiple tax systems worldwide. Additionally, we use data of the Paying Taxes database as a part of the Doing Business study by PwC and the World Bank to proxy for tax complexity as well.

$Democracy_{c,t-1}$ is our primary independent variable and measures the degree of democracy in country c in time $t-1$. We use the democracy index from the Economist Intelligence Unit ($Democracy_EIU$)¹⁸ as the main measure of democracy. Compared to other democracy measures, it offers the best data coverage. However, we demonstrate the robustness of our findings using the democracy index from the Bertelsmann Transformation Index ($Democracy_BTI$)¹⁹ and the Polity IV Project ($Democracy_PRC$)²⁰ as alternative proxies for democracy. We use all of these democracy measures in terms of their one-year-lagged values. This delay appears appropriate, as newly elected governments require time to establish the necessary procedures before they can effectively govern. Karow (2018), for example, documents an average duration of 206 days between the first discussion of a draft legislation in the German parliament and its enactment. While there may be some cross-country heterogeneity in the process of establishing a new government and passing a bill, prior evidence suggests that a one-year lag is appropriate.

[Insert Table 1 about here]

We extensively control for country characteristics using economic and societal factors (*Unemployment Rate, Population, GDP, GDPpercapita, Inflation, Corruption*).²¹ Finally, we also use time

¹⁸ <https://www.eiu.com/n/campaigns/democracy-index-2020/>.

¹⁹ https://bti-project.org/fileadmin/api/content/en/downloads/data/BTI_2006-2022_Scores.xlsx.

²⁰ See Marshall et al. (2018).

²¹ For our control variables, we rely on the complexity related country characteristics identified in Table 4 in Hoppe et al. (2023) and adapt them to the purposes of our study.

fixed effects (μ_i) to account for time-specific shocks to tax complexity, such as the synchronous introduction of new regulations across countries. We provide detailed definitions for all variables in Table 1. Descriptive statistics for all variables included in Equation (1) are reported in Table 2.

We conduct several additional analyses and robustness tests based on Equation (1). We test the complexity of individual tax code regulations to detect the association between democracy and specific parts of the tax code. Moreover, we use factor analysis and artificial intelligence to determine possible associations between democracy and certain clusters of tax law regulations. Additionally, we perform sample splits based on specific dependent variables to test for potential heterogeneity in the sample.

4 Data & Measurement

To test our hypotheses, we conduct country-level analyses using data from the Tax Complexity Index and the Democracy Index by the Economist Intelligence Unit. Our sample consists of 362 country-year observations from 95 unique countries between 2016 and 2020.²²

We measure tax complexity primarily through the Tax Complexity Index Hoppe et al. (2023)²³, which is based on a biannual survey of tax experts advising multinational corporations. This index captures perceived tax complexity across up to 100 countries, distinguishing between tax code complexity and tax framework complexity. Tax code complexity describes the difficulty of reading, understanding, and complying with tax regulations characterized by five complexity drivers. The study identifies 15 internationally comparable tax regulations that serve as dimensions for the complexity of the tax code. Tax framework complexity describes the complexity that arises from the legislative and administrative processes and features within a tax system and is measured by five dimensions (Hoppe et al., 2023). Missing values for 2017 and 2019 are imputed using the mean values of adjacent years. Additionally, we use *TimeToComply* from the Paying Taxes database (PwC and the World Bank), which measures the annual hours required for businesses to fulfill tax obligations.²⁴

²² To test the robustness of our results, we extend the sample to 2022 and find similar inferences. Since PwC and the World Bank discontinued the Paying Taxes study after 2019, we are only able to replicate the results using the Tax Complexity Index as the dependent variable. Hence, we rely on our estimation based on the sample period 2016-2020 in our analysis.

²³ See <https://www.taxcomplexity.org/>.

²⁴ See <https://archive.doingbusiness.org/en/reports/thematic-reports/paying-taxes-2020>.

We define democracy through the Democracy Index (*Democracy_EIU*)²⁵, a 0–100 scale, based on 60 aspects of democracy.²⁶ For robustness, we incorporate the Bertelsmann Transformation Index (*Democracy_BTI*)²⁷ and Polity IV Project (*Democracy_PRC*, Marshall et al., 2018). We also control for economic and societal factors using data from the IMF, Transparency International, and the KOF Globalization Index.

In further analyses, we rely on data from the Manifesto Project (Manifesto Research on Political Representation) to account for the political orientation (right-wing or left-wing) of governing parties. The Manifesto Project analyses parties' election manifestos to study their policy preferences. They use data analysts from over 50 countries to collect and analyze the comparative content of parties by analyzing their party manifestos. The provided Manifesto Project Dataset for examining the policy preferences covers over 1,000 parties from 1945 until today in over 50 countries on five continents.²⁸ Table 2 provides summary statistics for all variables.

[Insert Table 2 about here]

To control for country-specific factors influencing the complexity of a tax system, we include several country-level control variables. We include country-level controls from the World Economic Outlook, provided by the International Monetary Fund²⁹, to account for heterogeneities in countries' economic status (*GDP*, *GDPpercapita*, *Inflation*, *Population*, and *Unemployment Rate*). Moreover, we account for the level of corruption in a country (*Corruption*), using data from Transparency International.³⁰ In further analyses, we incorporate data from the KOF Globalization Index to capture the possible influence of globalization on the complexity of a country's tax system (*Globalization*).³¹ Moreover, we use the Human Development Index to control for the development status of a country (*Development*).³² See Table 1 for variable definitions and Table 2 for summary statistics.

²⁵ See <https://www.eiu.com/n/campaigns/democracy-index-2020/>.

²⁶ The Economist has created a visualization of the changing democracy index of all countries here: <https://infographics.economist.com/2018/DemocracyIndex/>.

²⁷ See <https://bti-project.org/en/?&cb=00000>.

²⁸ See <https://manifesto-project.wzb.eu/information/documents/information>.

²⁹ See <https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases#sort=%40imfdate%20descending>.

³⁰ See <https://www.transparency.org/en/cpi/2022>.

³¹ See <https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>.

³² See <https://hdr.undp.org/data-center/human-development-index#/indicies/HDI>.

To maintain a balanced panel for our analysis, we estimate values for missing data points from the different data sources. The final sample includes imputed values for the years 2017 and 2019 for *TaxComplexity* since the Tax Complexity Index relies on a biannual survey. PwC and World Bank discontinued the Paying Taxes study after the data for 2019 had been published. To keep our sample balanced, we impute the 2019 data for 2020. Moreover, missing data for the control variables *Unemployment Rate* (year average of all other observations) and *Inflation* (country averages) are imputed to balance the panel. However, our results remain robust to using only existing data points.

Pairwise correlations for all included variables are displayed in Table 3. We find significantly positive correlations between all control variables and the dependent variables *TaxComplexity*, *TaxCodeComplexity*, and *TimeToComply*. In contrast, *TaxFrameworkComplexity* is negatively correlated with *Democracy_EIU*, *Corruption*, and *GDPpercapita*. Countries with a more complex tax framework tend to be less democratic (-0.529), have a lower level of corruption (-0.629), but are also less wealthy (-0.577). Therefore, the correlations between *TaxFrameworkComplexity* and *Corruption* and *GDPpercapita* seem to point toward complex tax frameworks mitigating corruption but at the same time lowering the welfare of citizens as well. The democracy proxies *Democracy_EIU* and *Democracy_BTI* show strong positive correlations with *Corruption* and *Globalization*, raising concern about multicollinearity. However, variance inflation factors are certainly below the threshold of ten and therefore mitigate these concerns.

[Insert Table 3 about here]

5 Results

5.1 Democracy and Tax Complexity

We begin our empirical analysis by investigating whether tax regulations tend to be more complex in countries with higher levels of democracy (Hypothesis 1). We hypothesize that while democratic regimes typically adopt more intricate tax regulations to address diverse societal interests, autocratic regimes are more likely to uphold a simpler and less detailed legal system. The results in Table 4 provide strong support for this hypothesis. Using two distinct measures of tax complexity and three proxies for

democracy, we find statistically significant coefficient estimates in five out of six specifications, reinforcing the idea that greater democracy is associated with increased tax complexity.³³

[Insert Table 4 about here]

To evaluate the economic significance of our findings, we focus on our primary democracy measure (*Democracy_EIU*) and the Tax Complexity Index (*TaxComplexity*) in column 1. Based on the coefficient estimate of 0.0065, a one standard deviation increase in democracy corresponds to a 1.1 percentage point rise in tax complexity. This effect accounts for 3.3% of the sample's average tax complexity. To put this into perspective, the resulting compliance burden translates into at least \$7.1 billion in additional costs for businesses and \$32.6 billion in forgone tax revenue (Fichtner & Feldman, 2013). The association is even stronger when using our second measure of tax complexity, the PwC and World Bank's Time to Comply metric (*TimeToComply*). The statistically significant coefficient estimate (27.6239) indicates a 22.5% increase in *TimeToComply*. In absolute terms, this equates to taxpayers spending more than 50 additional hours per year on tax-related obligations.

Examining the broader determinants of tax complexity, we observe that wealthier countries (*GDPPPC*), those with lower corruption levels (*Corruption*), and those experiencing lower inflation rates (*Inflation*) generally exhibit less tax complexity. In contrast, larger economies (measured by *GDP*) and those with higher unemployment rates tend to have more complex tax regulations.

To ensure the robustness of our findings, we test alternative democracy measures (*Democracy_BTI* and *Democracy_PRC*) in combination with the two tax complexity proxies. The results remain consistent across these specifications.

5.2 Tax Framework and Tax Code Complexity

The dependent variables *TaxComplexity* and *TimeToComply* capture the overall complexity of a tax system. The comprehensiveness of the Tax Complexity Index allows for a deeper investigation into various aspects of the tax system. Table 5 uses the sub-components Tax Framework Complexity

³³ The results also hold without imputing values for years where no tax complexity information is available (untabulated results). In further robustness checks, we only include countries which appear over the whole sample period of 2016 to 2020. We find similar inferences.

(*TaxFrameworkComplexity*) and Tax Code Complexity Index (*TaxCodeComplexity*) to assess the associations with the tax regulations and the tax procedures. Tax framework complexity arises from the legislative and administrative processes and features within a tax system, such as tax filing procedures and tax audits. Tax code complexity is defined as the difficulty of reading, understanding, and complying with tax regulations (Hoppe et al., 2023). To ensure the robustness of our results, we apply all three democracy measures across the specifications in Table 5.

[Insert Table 5 about here]

Columns 1 and 2 indicate that the positive link between democracy and tax complexity is primarily driven by tax code complexity (*TaxCodeComplexity*). In contrast, the association between democracy and tax framework complexity (*TaxFrameworkComplexity*) is negative. While the legislative process in democracies leads to more intricate tax regulations (4.9%), tax procedures themselves are 3.6% less complex. One possible explanation is that the detailed nature of tax regulations in democratic countries allows for a more straightforward tax framework. Additionally, democracies with well-developed institutional structures tend to enforce laws more consistently and predictably (Tapscott 2021). These opposing effects persist when using alternative democracy measures *Democracy_BTI* (columns 3 and 4) and *Democracy_PRC* (columns 5 and 6). While the association with *TaxCodeComplexity* remains significant across all proxies, the link between democracy and *TaxFrameworkComplexity* is insignificant when using *Democracy_BTI*. One potential explanation is the sample composition of the Bertelsmann Transformation Index, which excludes many highly developed countries from Central Europe and North America—regions known for strong institutions and simpler tax procedures.

The results for Hypothesis 1 establish a positive relationship between democracy and tax complexity. Next, we explore the underlying mechanisms driving this relationship by focusing on specific aspects of the tax code. Leveraging the Tax Complexity Index, we analyze the complexity of 15 distinct tax regulations. Table 6 presents the results for the complexity of each single regulation separately.

[Insert Table 6 about here]

The results show that most regulations—such as *Additional Taxes*, *Alternative Minimum Taxation*, *Capital Gains/Losses*, *CFC Rules*, *Corporate Reorganization*, *Dividends*, *General Anti Avoidance*

(Panel A), and *Group Treatment*, *Investment Incentives*, *Statutory Tax Rate*, *Transfer Pricing* (Panel B)—exhibit a positive association with *Democracy_EIU*. However, the coefficients for *Depreciation*, *Interest*, *Loss Offset*, and *Royalties* are not statistically significant.

However, the tax complexity values of the different regulations are highly correlated. Hence, we apply a factor analysis to reduce dimensions and identify the underlying mechanisms of the association. Using the Kaiser criterion, we identify two primary factors with eigenvalues greater than one (Kaiser, 1960):

- Factor 1: *Dividends, Royalties, Depreciation & Amortization, Interest, Loss Offset, Statutory Tax Rate, Capital Gains*
- Factor 2: *CFC Rules, Corporate Reorganization, General Anti Avoidance, Transfer Pricing, Group Treatment*

Three regulations—*Alternative Minimum Taxation*, *Additional Taxes*, and *Investment Incentives*—do not strongly load onto either factor.

[Insert Table 7 about here]

To further interpret these factors, we employ artificial intelligence (ChatGPT 4.0) to identify commonalities among the regulations. When asked, “What do these tax regulations have in common?” the AI provided the following responses:

- Factor 1: “[...] In summary, all these elements affect the computation of taxable income and ultimately influence the amount of tax an entity or individual is required to pay.”
- Factor 2: “[...] In summary, these regulations are aimed at ensuring tax compliance, preventing tax avoidance and evasion, and addressing issues related to international taxation and complex corporate structures. They help maintain the integrity of the tax system by ensuring that entities cannot exploit gaps or mismatches in tax laws to unduly minimize their tax liabilities.”

Based on this, we label Factor 1 as *ComputationPayment* and Factor 2 as *AntiTaxAvoidance*. We proceed by estimating OLS regressions using these two factors as dependent variables. Table 8 presents the results.

[Insert Table 8 about here]

Democracy is not significantly associated with *ComputationPayment*. However, a strong positive relationship emerges between democracy and *AntiTaxAvoidance* (column 2), indicating that democratic

countries implement more complex regulations to counter international tax avoidance.³⁴ Economically, a one standard deviation increase in democracy corresponds to a 2.6% rise in the complexity of anti-tax avoidance regulations. A plausible explanation is that global tax competition and multinational firms' strategies to exploit international tax rate differentials (Hanlon & Heitzman, 2010) necessitate highly complex tax rules to protect national revenues.

Since more democratic countries tend to be more globally integrated, they are more exposed to international profit shifting, necessitating stricter anti-tax avoidance measures. To test this, we introduce *Globalization* as a control variable in subsequent analyses. As expected, *Globalization* is not significantly associated with *ComputationPayment* (column 3), but it is positively correlated with *AntiTaxAvoidance* (column 4). The coefficient for *Democracy_EIU* remains largely unchanged, while the model's explanatory power (adjusted R²) improves by 114%.

To further assess robustness, we incorporate *Globalization* into the baseline regression (Equation 1) and re-estimate the models in Table 3 (columns 5 to 7). While *Globalization* has a positive baseline association with tax complexity (column 5), the inclusion of this variable does not alter our main results. However, due to the high correlation (0.7157) between *Democracy_EIU* and *Globalization*, we refrain from including it in our primary analyses.

5.3 Economic Prosperity and Tax Complexity

Beyond globalization, another widely debated factor in economic development is the relationship between economic prosperity and democracy. In their highly influential work on national prosperity, Acemoglu et al. (2001), Acemoglu & Robinson (2008), and Acemoglu & Robinson (2015), argue that a nation's long-term economic success is primarily shaped by its institutions rather than geography or culture. They distinguish between inclusive institutions, which foster broad participation, innovation, and an equitable distribution of power and resources, and extractive institutions, which concentrate power among elites and hinder economic growth. Their empirical findings suggest that countries with inclusive institutions tend to experience sustained economic growth and political stability, while those

³⁴ This finding aligns with the observed increase in regulatory complexity following international reforms such as the U.S. TCJA, which introduced novel anti-avoidance provisions with significant compliance implications (Giese et al., 2025; Herzfeld, 2021).

with extractive institutions remain trapped in poverty and inequality. The core features of inclusive institutions—broad participation, innovation, and equitable resource distribution—are also fundamental characteristics of modern democracies. Following this argument, economic prosperity and democracy are closely linked, which in turn may contribute to greater tax system and legal complexity. Consequently, we emphasize the potential influence of economic prosperity on tax complexity.

To account for this, we include two key measures of economic prosperity as control variables in our baseline regressions (Table 4). First, we use *GDP*, which represents a country's gross domestic product in year t , to control for the overall size of the economy. However, GDP alone may not fully capture economic prosperity, as larger economies are not necessarily wealthier on a per capita basis. Therefore, we also include GDP per capita, which reflects the average economic output per person, providing a more precise measure of actual economic prosperity.

The results in Table 4 reveal mixed findings. *GDP* is significantly and positively associated with tax complexity (columns 1 and 2), while GDP per capita exhibits a significant negative association (columns 3 and 4). This suggests that larger economies tend to have more complex tax systems, whereas economically prosperous nations tend to have less complex tax structures. To further explore these relationships in the context of Acemoglu et al.'s findings, we conduct additional analyses in Table 9.

[Insert Table 9 about here]

Columns (1) to (3) present OLS regressions, incorporating indicator variables for high-GDP and low-GDP countries. A high-GDP (low-GDP) country is defined as having a GDP in the top (bottom) tercile of the sample. Consistent with previous results, countries with high GDP exhibit greater tax complexity, whereas those with low GDP experience lower complexity (column 1).

To examine the drivers of this complexity, we analyze the subcomponents of the Tax Complexity Index—*TaxCodeComplexity* and *TaxFrameworkComplexity*—as dependent variables in columns (2) and (3). The findings indicate that the complexity of the tax code primarily explains the observed relationship, as high-GDP countries show a statistically significant positive coefficient for *TaxCodeComplexity* and a negative coefficient for *TaxFrameworkComplexity*. This suggests that larger economies tend to have more intricate tax codes but less complex tax procedures.

To assess the influence of economic prosperity beyond GDP alone, we conduct tercile regressions on GDP per capita. Surprisingly, we do not find statistically significant results (column 4). However, economic prosperity extends beyond just high GDP or high GDP per capita. To further explore this, we introduce interaction terms combining GDP and GDP per capita, deriving variables for rich and poor countries. A rich country is defined as having both high GDP and high GDP per capita, aligning with Acemoglu et al.'s definition of economic prosperity.

The results in Table 9 (columns 5 to 8) confirm that economic prosperity is linked to increased tax complexity. Specifically, rich countries tend to have more complex tax codes but less complex tax procedures. This suggests that tax code complexity is an inherent byproduct of economic prosperity, potentially hindering further economic growth, as excessive tax complexity may impose significant compliance costs (Collier et al., 2018). While rich countries can streamline tax procedures (e.g., by reducing the complexity of tax audits), they must contend with more elaborate tax codes, likely due to greater regulatory oversight and the need to manage complex financial transactions.

Finally, we examine whether a country's development level drives the relationship between economic prosperity and tax complexity. One could argue that rich countries tend to be more developed, making development the underlying factor behind this association.³⁵ However, our analysis suggests otherwise: the coefficient for development level is small and statistically insignificant. Thus, we reject the notion that development level, rather than economic prosperity itself, is the primary driver of tax complexity.

5.4 Drivers of the Tax Complexity in Democracies

Our baseline analyses established a positive association between democracy and tax complexity. Countries with higher levels of democracy tend to have more intricate tax systems, particularly in terms of tax codes and internationally driven anti-tax avoidance regulations. However, democracies are multi-

³⁵ In our sample, the variables for the development level of a country and the GDP per capita are highly positively correlated (0.7206).

faceted systems with distinct institutional characteristics. The Economist Intelligence Unit defines democracy based on five key dimensions: Electoral Process & Pluralism, Government Functioning, Political Participation, Political Culture, and Civil Liberties.³⁶

To further examine the specific drivers of tax complexity within democracies, we analyze the relationship between these five democracy subindices and tax complexity by regressing them on *TaxComplexity*.

[Insert Table 10 about here]

The results in Table 10 reveal that Electoral Process & Pluralism and Civil Liberties are the primary drivers of tax complexity in democracies, as only these coefficients are significantly positive (Panel A, columns 1 and 5). Furthermore, tax regulations — particularly anti-tax avoidance regulations — appear to be most affected (Panel B). This aligns with the argument that democratic regulatory systems tend to be more complex due to the inclusion of multiple political and economic interests.

To further test this notion, we compare countries with multi-party systems to those with two-party systems. If regulatory complexity in democracies is driven by the inclusion of multiple interests, then tax systems should be more complex in multi-party democracies (Galli & Profeta, 2009, Winer et al., 2021). To test this, we use data from the Manifesto Project, which allows us to differentiate between countries with two-party and multi-party systems. Additionally, we extend our analysis to governments with a dominant ruling party, defined as having secured more than 50% of total votes in parliamentary elections. We expect that countries with strong governing parties will have less complex tax systems, as they face fewer constraints in implementing policies without significant opposition.

[Insert Table 11 about here]

The results in Table 11 support our expectations. Countries with two-party systems have less complex tax systems overall, as reflected in lower values for *TaxComplexity* (column 1), *TaxCodeComplexity* (column 2), and *TaxFrameworkComplexity* (column 3). In our sample, only the United States and Malta qualify as two-party systems. Given this small sample size, we conduct additional tests using a dummy variable for multi-party systems (*MultiParty*), identifying countries with at least five parties in parliamentary elections.

³⁶ See <https://www.eiu.com/n/campaigns/democracy-index-2020/>.

We select five parties as a threshold, as only 10% of the sample has fewer than five parties in parliament. However, our results remain consistent when varying this threshold between three and ten parties. Consistent with our earlier findings, multi-party democracies exhibit significantly greater tax complexity in *TaxComplexity* (column 4), *TaxCodeComplexity* (column 5), and *TaxFrameworkComplexity* (column 6).

Moreover, countries with a dominant governing party (columns 7 to 9) tend to have less complex tax systems. This suggests that stronger governing parties can implement tax policies with fewer compromises, resulting in simpler regulatory frameworks. Taken together, electoral pluralism emerges as a key driver of tax complexity in democracies.

Beyond electoral pluralism, our findings identify civil liberties as another major contributor to tax complexity in democracies. To further investigate this, we split the sample based on the political ideology of the governing party, distinguishing between left-wing and right-wing governments.

In left-wing governments, the state typically plays a more significant role in economic and social affairs, whereas right-wing governments tend to favor market liberalization and limited state intervention (Alesina et al., 2018). To uphold civil liberties while maintaining a strong state, left-wing governments may require more complex regulations to prevent government overreach. Thus, we expect higher tax complexity in left-wing governed countries

[Insert Table 12 about here]

Table 12 presents the results of our sample split based on the political direction of the governing party, using data from the Manifesto Project (variable *rile*). We categorize countries as left-wing or right-wing governed, based on a threshold of 0 on the *rile* index (which ranges from -100 to 100). Our sample includes 125 left-wing and 79 right-wing governed countries.

Columns (1) and (2) analyze the association between *TaxComplexity* and *Democracy_EIU* for right-wing (column 1) and left-wing (column 2) governments. As expected, we find a stronger relationship between democracy and tax complexity in left-wing governed countries. A similar pattern emerges when focusing on tax regulation complexity (columns 3 and 4).

However, an F-test reveals that the difference between left- and right-wing estimates is not statistically significant at conventional levels. Furthermore, we do not observe significant differences for

tax framework complexity (columns 5 and 6). Overall, the results in general underline the notion that civil liberties are a driver of complexity in democracies.

6 Conclusion

This study examines the relationship between political characteristics—such as democracy, globalization, and the political orientation of governing parties—and the complexity of tax systems. Since political institutions shape the structure and scope of taxation, we leverage data from the Tax Complexity Index, the Economist Intelligence Unit’s Democracy Index, and the Manifesto Project Dataset to analyze these associations. Using a global sample spanning five years (2016–2020), we explore the impact of democracy on overall tax complexity, tax codes, tax frameworks, and specific regulatory dimensions, such as anti-tax avoidance measures and computational factors, identified through factor analysis and artificial intelligence.

Our findings indicate that more democratic countries tend to have more complex tax systems, particularly in tax regulations and anti-tax avoidance rules. A one standard deviation increase in democracy corresponds to a 3.3% rise in overall tax complexity. While democracies exhibit more intricate tax regulations (+4.9%) due to extensive legislative processes, their tax procedures are relatively less complex (-3.6%). Additionally, building on the influential work of Acemoglu et al., we highlight the link between economic prosperity and tax complexity, suggesting that tax complexity is often an unintended consequence of national economic growth.

To further explore the mechanisms driving the democracy-tax complexity relationship, we identify electoral pluralism and civil liberties as the primary contributors. Specifically, countries with multi-party systems (i.e., more than five electable parties) exhibit tax systems that are 4.5% more complex than those with fewer electable parties. This supports the argument that the inclusion of diverse political interests contributes to regulatory complexity.

Beyond advancing our understanding of the link between political structures and legal frameworks, this study also contributes to the literature on the determinants of tax complexity. As recent studies (Bornemann et al., 2021; Devereux, 2016; Harst et al., 2021) show, tax complexity is continuously rising, with internationally introduced regulations—such as CFC rules—playing a key role in this trend (Devereux,

2019; Siegel et al., 2025). However, much less is known about country-specific drivers of tax complexity. Our findings fill this gap by demonstrating how political characteristics shape tax regulation intricacies.

From a policy perspective, our results suggest potential drawbacks of democratization, as expanding democratic institutions may lead to excessively complex tax systems, further exacerbating bureaucratic burdens and compliance costs. Moreover, our findings reveal that democracy contributes to the increasing complexity of anti-tax avoidance regulations, highlighting the hidden costs of democratization in the form of regulatory overcomplication aimed at protecting national tax revenues.

References

- Acemoglu, D., Johnson, S., & Robinson, J. A. (2001). The colonial origins of comparative development: An empirical investigation. *American Economic Review*, 91(5), 1369–1401.
- Acemoglu, D., & Robinson, J. A. (2006). *Economic origins of dictatorship and democracy*. Cambridge University Press.
- Acemoglu, D., & Robinson, J. A. (2008). Persistence of power, elites, and institutions. *American Economic Review*, 98(1), 267–293.
- Acemoglu, D., & Robinson, J. A. (2015). The rise and decline of general laws of capitalism. *Journal of Economic Perspectives*, 29(1), 3–28.
- Aidt, T. S., & Jensen, P. S. (2009). Tax structure, size of government, and the extension of the voting franchise in Western Europe, 1860–1938. *International Tax and Public Finance*, 16(3), 362–394.
- Alesina, A., Stantcheva, S., & Teso, E. (2018). Intergenerational mobility and preferences for redistribution. *American Economic Review*, 108(2), 521–554.
- Amberger, H., Gallemore, J., & Wilde, J. H. (2023). Corporate Tax System Complexity and Investment. *WU International Taxation Research Paper Series No. 2023-11, Kenan Institute of Private Enterprise Research Paper No. 4607146, DOI: 10.2139/ssrn.4607146*.
- Angelopoulos, K., Economides, G., & Kammass, P. (2012). Does cabinet ideology matter for the structure of tax policies? *European Journal of Political Economy*, 28(4), 620–635.
- Boix, C. (2003). *Democracy and redistribution*. Cambridge University Press.
- Bornemann, T., Schipp, A., & Sureth-Sloane, C. (2021). Was treibt die Komplexität der Ertragsbesteuerung multinationaler Unternehmen?—Ergebnisse einer Befragung in der deutschen Finanzverwaltung. *Deutsches Steuerrecht*, 59(3), 182–190.
- Budak, T., & James, S. (2018). The level of tax complexity: A comparative analysis between the UK and Turkey based on the OTS Index. *International Tax Journal*, 44, 27–40.
- Clotfelter, C. T. (1983). Tax evasion and tax rates: An analysis of individual returns. *The Review of Economics and Statistics*, 363–373.
- Collier, R., Kari, S., Ropponen, O., Simmler, M., & Todtenhaup, M. (2018). *Dissecting the EU's Recent Anti-Tax Avoidance Measures: Merits and Problems*.

- Devereux, M. (2016). Measuring corporation tax uncertainty across countries: Evidence from a cross-country survey. *Oxford University Centre for Business Taxation Working Paper Series WP 16*, <https://oxfordtax.sbs.ox.ac.uk/files/wp16-13pdf>.
- Devereux, M. P. (2019). How should business profit be taxed? Some thoughts on conceptual developments during the lifetime of the IFS. *Fiscal Studies*, 40(4), 591–619.
- Dharmapala, D. (2020). Do multinational firms use tax havens to the detriment of other countries? *University of Chicago Coase-Sandor Institute for Law & Economics Research Paper*. DOI: 10.2139/ssrn.3598761.
- Dixit, A. K. (2010). Democracy, autocracy and bureaucracy. *Journal of Globalization and Development*, 1(1), 1–45.
- Dodlova, M., & Lucas, V. (2021). Regime security and taxation in autocracies: Who is taxed and how? *European Journal of Political Economy*, 67, Article No. 101998.
- Dyreng, S. D., & Hanlon, M. (2021). Tax avoidance and multinational firm behavior. In C. Foley, J. R. Hines Jr., & D. Wessel (Eds.), *Global Goliaths: Multinational Corporations in the 21st Century Economy*.
- Euler, I., Harst, S., Schanz, D., Sureth-Sloane, C., & Voget, J. (2024). Tax Complexity and Foreign Direct Investment: Evidence Across Countries and Time. *TRR 266 Accounting for Transparency Working Paper Series No. 160, WU International Taxation Research Paper Series No. 2024-10*, DOI: 10.2139/ssrn.4990616.
- Feldman, N. E., Katuščák, P., & Kawano, L. (2016). Taxpayer confusion: Evidence from the child tax credit. *American Economic Review*, 106(3), 807–835.
- Fichtner, J. J., & Feldman, J. M. (2013). The hidden costs of tax compliance. *Mercatus Published Research*, DOI: 10.2139/ssrn.2267971.
- Fuest, C., Gründler, K., Potrafke, N., & Ruthardt, F. (2024). Read My Lips? Taxes and Elections. *Journal of Public Economics* (236), Article No. 105149.
- Galiani, S., & Torrens, G. (2014). Autocracy, democracy and trade policy. *Journal of International Economics*, 93(1), 173–193.

- Galli, E., & Profeta, P. (2009). The political economy of tax complexity. *Public Finance and Management*, <http://www.siepweb.it/siep/wp/wp-content/uploads/2021/10/200750.pdf>.
- Garcia, M. M., & Haldenwang, C. von. (2016). Do democracies tax more? Political regime type and taxation. *Journal of International Development*, 28(4), 485–506.
- Giese, H., Koch, R., & Sureth-Sloane, C. (2024a). Where to locate tax employees? The role of tax complexity and tax risk implications. *TRR 266 Accounting for Transparency Working Paper Series No. 149*, DOI: 10.2139/ssrn.4888151. doi:10.2139/ssrn.4888151.
- Giese, H., Lynch, D., Schulz, K. A., & Sureth-Sloane, C. (2025). The Effects of Tax Reform on Labor Demand within Tax Departments. *TRR 266 Accounting for Transparency Working Paper Series No. 171*, WU International Taxation Research Paper Series No. 2025-04, DOI:10.2139/ssrn.5068550.
- Gould, A. C., & Baker, P. J. (2002). Democracy and taxation. *Annual Review of Political Science*, 5(1), 87–110.
- Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, 50(2-3), 127–178.
- Harst, S., Sureth-Sloane, C., Schanz, D., & Siegel, F. (2021). 2020 Global MNC Tax Complexity Survey: Executive Summary. https://www.accounting-for-transparency.de/wp-content/uploads/2021/06/trr266_global_mnc_tax_complexity_survey_2020.pdf.
- Hausken, K., Martin, C. W., & Plümper, T. (2004). Government spending and taxation in democracies and autocracies. *Constitutional Political Economy*, 15(3), 239–259.
- Herzfeld, M. (2021). Designing international tax reform: lessons from TCJA, *International Tax and Public Finance*, 28(5), 1163–1187.
- Hoppe, T., Schanz, D., Sturm, S., & Sureth-Sloane, C. (2018). What are the drivers of tax complexity for MNCs? Global evidence. *Intertax*, 46(8/9), 654–675.
- Hoppe, T., Schanz, D., Sturm, S., & Sureth-Sloane, C. (2023). The tax complexity index—a survey-based country measure of tax code and framework complexity. *European Accounting Review*, 32(2), 239–273.

- Jones, B. F., & Olken, B. A. (2005). Do leaders matter? National leadership and growth since World War II. *The Quarterly Journal of Economics*, 120(3), 835–864.
- Kaiser, H. F. (1960). The Application of Electronic Computers to Factor Analysis. *Educational and Psychological Measurement*, 20, 141–151. doi:10.1177/001316446002000116.
- Kaplow, L. (1998). Accuracy, complexity, and the income tax. *The Journal of Law, Economics, and Organization*, 14(1), 61–83.
- Karlinsky, S. S. (1981). *Complexity in the federal income tax law attributable to the capital gain and loss preference: a measurement model*. New York University, Graduate School of Business Administration.
- Karow, S. (2018). Das beschleunigte Parlament—Die Gesetzgebungsdauer der 18. Wahlperiode des Deutschen Bundestags. *Zeitschrift für Parteienwissenschaften*, 1, 64–70.
- Kenny, L. W., & Winer, S. L. (2006). Tax systems in the world: An empirical investigation into the importance of tax bases, administration costs, scale and political regime. *International Tax and Public Finance*, 13(2), 181–215.
- Kiser, E., & Karceski, S. M. (2017). Political economy of taxation. *Annual Review of Political Science*, 20, 75–92.
- Klick, J. (2002). Autocrats and the environment or it's easy being green. *Law and Economics Working Paper Series 02-16*, DOI: 10.2139/ssrn.311063.
- Krause, K. (2000). Tax complexity: Problem or opportunity? *Public Finance Review*, 28(5), 395–414.
- Krieger, T. (2022). Democracy and the quality of economic institutions: theory and evidence. *Public Choice*, 192(3), 357–376.
- Labro, E., & Pierk, J. (2023). Accounting Regulation in the European Union. DOI: 10.2139/ssrn.4663683.
- Lamoreaux, N. R., & Wallis, J. J. (2024). Democracy, Capitalism, and Equality: The Importance of Impersonal Rules. *NBER Working Paper No. w32930*. doi:10.3386/w32930.
- Marshall, M. G., Gurr, T. R., & Jagers, K. (2018). Polity IV project: Political regime characteristics and transitions, 1800–2017. *Center for Systemic Peace*, <https://www.systemicpeace.org/inscr/p4manualv2018.pdf>.

- Meltzer, A. H., & Richard, S. F. (1981). A rational theory of the size of government. *Journal of Political Economy*, 89(5), 914–927.
- Mulligan, C. B., Gil, R., & Sala-i-Martin, X. (2004). Do democracies have different public policies than nondemocracies? *Journal of Economic Perspectives*, 18(1), 51–74.
- Musgrave, R. A. (1969). Cost-benefit analysis and the theory of public finance. *Journal of Economic Literature*, 7(3), 797–806.
- OECD. (2017). Debate the Issues: Complexity and policy making. *OECD Publishing*, DOI: 10.1787/9789264271531-en.
- OECD. (2022). OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022. *OECD Publishing*, DOI: 10.1787/0e655865-en.
- Olson, M. (1982). *The Rise and Decline of Nations*. Yale University Press.
- Paul, D. L. (1997). The sources of tax complexity: How much simplicity can fundamental tax reform achieve. *North Carolina Law Review*, 76, 151–221.
- Peters, B. G. (1991). The politics of taxation. *A Comparative Perspective*, Cambridge, 58–64.
- Potrafke, N. (2017). Partisan politics: The empirical evidence from OECD panel studies. *Journal of Comparative Economics*, 45(4), 712–750.
- Profeta, P., Puglisi, R., & Scabrosetti, S. (2013). Does democracy affect taxation and government spending? Evidence from developing countries. *Journal of Comparative Economics*, 41(3), 684–718.
- Profeta, P., & Scabrosetti, S. (2010). *The political economy of taxation: Lessons from developing countries*. Edward Elgar Publishing.
- Riedel, N. (2018). Quantifying international tax avoidance: A review of the academic literature. *Review of Economics*, 69(2), 169–181.
- Rozenas, A., & Stukal, D. (2019). How autocrats manipulate economic news: Evidence from Russia's state-controlled television. *The Journal of Politics*, 81(3), 982–996.
- Schumpeter, J. (1942). *Capitalism, Socialism and Democracy*. Harper and Brothers.
- Shin, M. J. (2017). Partisanship, tax policy, and corporate profit-shifting in a globalized world economy. *Comparative Political Studies*, 50(14), 1998–2026.

- Siegel, F., Schanz, D., & Sureth-Sloane, C. (2025). Anti-Tax Avoidance Rules and Tax Complexity: Evidence Across Countries and Time. *World Tax Journal*, 17(1), 1–23.
- Tam, H. (2004). The Humean critique of lump sum taxation (or the implausibility of pure lump sum taxes in autocracy). *Public Choice*, 118(1), 61–76.
- Tapscott, R. (2021). *Arbitrary states: social control and modern authoritarianism in Museveni's Uganda*. Oxford University Press.
- Tucker, J. A., Guess, A., Barberá, P., Vaccari, C., Siegel, A., Sanovich, S., et al. (2018). Social media, political polarization, and political disinformation: A review of the scientific literature. DOI: 10.2139/ssrn.3144139.
- Wang, Z. (2021). Choosing a Lesser Evil: Partisanship, Labor, and Corporate Taxation under Globalization. *Political Research Quarterly*, 74(3), 571–586.
- Warsekett, G., Winer, S. L., & Hettich, W. (1998). The complexity of tax structure in competitive political systems. *International Tax and Public Finance*, 5(2), 123–151.
- Weber, R. (2015). The Effect of Tax Code Complexity on Entrepreneurship. *Journal of Private Enterprise*, 30(2), 83–102.
- Weinstein, P. (2014). The state tax complexity index: A new tool for tax reform and simplification. *Policy Memo, Washington DC: Progressive Policy Institute*, https://www.progressivepolicy.org/wp-content/uploads/2014/04/2014.04-Weinstein_The-State-Tax-Complexity-Index_A-New-Tool-For-Tax-Reform-and-Simplification1.pdf.
- Winer, S. L., Ferris, J. S., Dash, B. B., & Chakraborty, P. (2021). Political competitiveness and the private–public structure of public expenditure: a model and empirics for the Indian states. *International Tax and Public Finance*, 28, 1430–1471.
- Winer, S. L., Profeta, P., & Hettich, W. (2013). *The political economy of taxation*. Oxford University Press.
- Wintrobe, R. (1990). The tinpot and the totalitarian: An economic theory of dictatorship. *American Political Science Review*, 84(3), 849–872.
- Zagler, M. (2023). Foreign direct investment, legal uncertainty and corporate income taxation. *International Economics*, 173, 19–28.

Table 1: Variable definitions

Variables	Definition	Data Source
TAX COMPLEXITY		
<i>TaxComplexity</i>	Overall tax complexity score as defined by Hoppe et al. 2023.	taxcomplexity.org
<i>TaxCodeComplexity</i>	Tax code complexity score as defined by Hoppe et al. 2023.	taxcomplexity.org
<i>TaxFrameworkComplexity</i>	Tax framework complexity score as defined by Hoppe et al. 2023.	taxcomplexity.org
<i>TimeToComply</i>	This variable quantifies the time required to prepare, file, and pay three key types of taxes and contributions: corporate income tax, value-added or sales tax, and labor-related taxes, including payroll taxes and social contributions.	PWC and World Bank Paying Taxes
DEMOCRACY		
<i>Democracy_EIU</i>	The democracy index, derived from data provided by the Economist Intelligence Unit, measures the quality of democracies on a scale from 0 to 100. It is based on 60 key indicators relevant to democracy, including universal adult suffrage, voter participation, perceptions of human rights protection, and the freedom to form organizations and political parties. These 60 indicators are grouped into five sub-indexes: Electoral pluralism index (<i>Electoral Pluralism</i>), Government index (<i>Government</i>), Political participation index (<i>Political Participation</i>), Political culture index (<i>Political Culture</i>), Civil liberty index (<i>Civil Liberties</i>).	Economist Intelligence Unit
<i>Democracy_BTI</i>	The Bertelsmann Transformation Index publishes two rankings: the Status Index and the Governance Index, based on comprehensive assessments of 137 countries. The Status Index evaluates countries based on the condition of their democracy and market economy, while the Governance Index assesses the effectiveness of their leadership. Together, these indices incorporate 17 criteria, further divided into 49 specific questions.	Bertelsmann Transformation Index
<i>Democracy_PRC</i>	<i>Democracy_PRC</i> is assessed using the “Polity Score” which measures a regime's authority on a 21-point scale, ranging from -10 (hereditary monarchy) to +10 (consolidated democracy).	systemicpeace.org

Table 1: Continued

Variables	Definition	Data Source
CONTROL VARIABLES		
<i>Corruption</i>	Level of corruption of country c in year t .	Transparency International
<i>Development</i>	Level of development of country c in year t .	Human Development Index
<i>GDP</i>	Gross domestic product of country c in year t .	International Monetary Fund
<i>GDPpercapita</i>	Gross domestic product per capita of country c in year t .	International Monetary Fund
<i>Globalization</i>	Level of globalization of country c in year t .	KOF Globalization Index
<i>Inflation</i>	Inflation rate of country c in year t .	International Monetary Fund
<i>Multi Party</i>	Indicator variable equal to one if country c in year t had more than four electable parties in the most recent parliamentary elections, and zero otherwise.	Manifesto Project
<i>Population</i>	Number of citizens of country c in year t .	International Monetary Fund
<i>Right_Left</i>	Country c 's political direction score (right/left) in year t .	Manifesto Project
<i>Strong Party</i>	Indicator variable equal to one if the governing party in the most recent parliamentary elections of country c received more than 50% of the votes, and zero otherwise.	Manifesto Project
<i>Two Party</i>	Indicator variable equal to one if country c had only two electable parties in the most recent parliamentary elections, and zero otherwise.	Manifesto Project
<i>Unemployment Rate</i>	Unemployment rate of country c in year t .	International Monetary Fund

Table 2: Summary Statistics

VARIABLES	(1) N	(2) mean	(3) sd	(4) p5	(5) p95	(6) min	(7) max
COMPLEXITY MEASURES							
<i>TaxComplexity</i>	362	0.373	0.0670	0.249	0.475	0.179	0.534
<i>TaxCodeComplexity</i>	362	0.448	0.0919	0.297	0.577	0.119	0.642
<i>TaxFrameworkComplexity</i>	362	0.298	0.0755	0.184	0.425	0.141	0.542
<i>TimeToComply</i>	357	232.2	243.1	64	453	41	2,600
DEMOCRACY MEASURES							
<i>Democracy_EIU</i>	362	6.764	1.911	3.040	9.220	1.930	9.930
<i>Democracy_BTI</i>	241	6.476	2.034	3.250	9.400	2.308	9.950
<i>Democracy_PRC</i>	121	5.521	5.930	-7	10	-10	10
CONTROLS							
<i>Corruption</i>	362	5.260	1.967	2.700	8.500	1.400	9
<i>Development</i>	362	0.816	0.117	0.547	0.945	0.432	0.963
<i>GDP</i>	362	1.062	2.868	0.0136	3.690	0.0105	21.37
<i>GDPpercapita</i>	362	2.335	2.373	0.156	6.727	0.0476	11.85
<i>Globalization</i>	362	7.390	1.162	5.239	8.950	3.736	9.114
<i>Inflation</i>	362	5.361	26.98	-0.451	12.84	-1.558	438.1
<i>Multi Party</i>	208	0.909	0.289	0	1	0	1
<i>Population</i>	362	8.049	22.77	0.127	26.14	0.0450	141.2
<i>Right_Left</i>	208	-3.852	22.58	-37.81	35.21	-52.49	91.89
<i>Strong Party</i>	208	0.087	0.282	0	1	0	1
<i>Two Party</i>	208	0.481	0.214	0	1	0	1
<i>Unemployment Rate</i>	362	7.672	4.819	2.541	17.80	1	29.18

Notes: This table presents summary statistics of all variables. The table includes the number of observations (N), the mean value (mean), the standard deviation (sd), the 5% and 95% percentiles (p5, p95), as well as the minimum and maximum values.

Table 3: Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	
(1) <i>TaxComplexity</i>	1.000																			
(2) <i>TaxCodeComplexity</i>	0.840*	1.000																		
(3) <i>TaxFrameworkComplexity</i>	0.751*	0.272*	1.000																	
(4) <i>TimeToComply</i>	0.334*	0.158*	0.400*	1.000																
(5) <i>Democracy_EIU</i>	-0.222*	0.111*	-0.529*	-0.169*	1.000															
(6) <i>Democracy_BTI</i>	-0.014	0.127*	-0.204*	0.037	0.898*	1.000														
(7) <i>Democracy_PRC</i>	0.034	0.247*	-0.305*	0.024	0.821*	0.779*	1.000													
(8) <i>Corruption</i>	-0.388*	-0.049	-0.629*	-0.336*	0.775*	0.587*	0.383*	1.000												
(9) <i>Development</i>	-0.264*	0.014	-0.486*	-0.249*	0.650*	0.441*	0.305*	0.807*	1.000											
(10) <i>GDP</i>	0.103*	0.217*	-0.081	-0.006	0.009	-0.208*	-0.046	0.140*	0.150*	1.000										
(11) <i>GDPpercapita</i>	-0.392*	-0.097	-0.577*	-0.313*	0.619*	0.214*	0.251*	0.841*	0.721*	0.189*	1.000									
(12) <i>Globalization</i>	-0.238*	0.060	-0.495*	-0.293*	0.716*	0.558*	0.466*	0.805*	0.909*	0.099	0.699*	1.000								
(13) <i>Inflation</i>	0.007	-0.102	0.135*	0.192*	-0.154*	-0.122	-0.153	-0.196*	-0.104*	-0.037	-0.112*	-0.207*	1.000							
(14) <i>Multi Party</i>	0.036	-0.056	0.124	0.048	0.186*	0.276*	0.127	0.165*	-0.044	-0.480*	0.007	0.162*	-0.016	1.000						
(15) <i>Population</i>	0.180*	0.207*	0.067	0.092	-0.196*	-0.160*	-0.164	-0.155*	-0.211*	0.548*	-0.152*	-0.204*	-0.010	-0.532*	1.000					
(16) <i>Right_Left</i>	-0.117	-0.160*	-0.014	0.174*	-0.163*	-0.228*	-0.160	-0.030	-0.011	0.154*	0.015	0.011	0.024	-0.017	0.139*	1.000				
(17) <i>Strong Party</i>	-0.040	-0.078	0.022	-0.018	-0.361*	-0.498*	-0.531*	-0.333*	-0.353*	0.041	-0.216*	-0.385*	0.248*	-0.555*	0.206*	-0.109	1.000			
(18) <i>Two Party</i>	-0.021	0.076	-0.121	-0.060	0.063		-0.015	0.014	0.111	0.627*	0.107	-0.014	-0.041	-0.709*	0.485*	0.055	0.410*	1.000		
(19) <i>Unemployment Rate</i>	0.170*	0.049	0.243*	0.173*	-0.070	0.126	-0.012	-0.262*	-0.214*	-0.152*	-0.287*	-0.197*	0.282*	0.187*	-0.080	-0.342*	0.204*	-0.133	1.000	

Notes: This table presents pairwise person correlation coefficients for all dependent and independent variables used in the analyses. * labels statistical significance at the 5% level.

Table 4: Democracy and Tax Complexity

	(1) <i>Tax Complexity</i>	(2) <i>TimeTo Comply</i>	(3) <i>Tax Complexity</i>	(4) <i>TimeTo Comply</i>	(5) <i>Tax Complexity</i>	(6) <i>TimeTo Comply</i>
<i>Democracy_EIU</i>	0.0065** [2.15]	27.6239*** [2.79]				
<i>Democracy_BTI</i>			0.0068*** [2.60]	39.1340** [2.46]		
<i>Democracy_PRC</i>					0.0007 [0.73]	9.7292*** [2.88]
<i>Unemployment Rate</i>	0.0012* [1.71]	1.5125 [0.63]	-0.0002 [-0.21]	3.2717 [0.90]	0.0033* [1.97]	13.3856 [1.64]
<i>Population</i>	0.0001 [0.67]	0.2693 [0.71]	0.0002 [1.45]	-0.4810 [-1.13]	0.0000 [0.08]	0.3883 [0.73]
<i>GDP</i>	0.0043*** [6.98]	4.9908** [2.35]	0.0012 [0.59]	22.1263 [1.49]	0.0033*** [4.86]	7.5809** [2.12]
<i>GDPpercapita</i>	-0.0064*** [-3.11]	-11.4119*** [-3.17]	-0.0120** [-2.21]	22.4117 [0.89]	-0.0108*** [-3.46]	-8.9276 [-1.61]
<i>Inflation</i>	-0.0002*** [-4.16]	1.1520*** [4.45]	-0.0001** [-2.21]	0.9931*** [3.11]	-0.0002** [-2.35]	0.4943 [0.96]
<i>Corruption</i>	-0.0125*** [-3.49]	-46.8103*** [-3.48]	-0.0144** [-2.45]	-81.8123** [-2.57]	0.0043 [0.79]	-42.6834*** [-3.00]
Year FE	YES	YES	YES	YES	YES	YES
Observations	362	357	240	236	144	144
Adj. R-sq	0.2076	0.1320	0.1343	0.0680	0.1190	0.0888

Notes: This table presents the estimates for Equation (1) for the dependent variables *TaxComplexity* and *TimeToComply*, indicating the complexity of the tax system. Democracy is measured using the democracy indices from the Economist Intelligence Unit (*Democracy_EIU*), the Bertelsmann Transformation Index (*Democracy_BTI*), and Political Regime Characteristics (*Democracy_PRC*). They express the quality of democracy in a given country. See Table 1 for definitions of control variables. ***, ** and * label statistical significance at the 1%, 5%, and 10% level, respectively. A constant is included but not reported. t-statistics are given in parentheses and standard errors are heteroscedasticity-robust.

Table 5: Democracy and Tax Code and Framework Complexity

	(1)	(2)	(3)	(4)	(5)	(6)
	<i>TaxCode</i> <i>Complexity</i>	<i>TaxFramework</i> <i>Complexity</i>	<i>TaxCode</i> <i>Complexity</i>	<i>TaxFramework</i> <i>Complexity</i>	<i>TaxCode</i> <i>Complexity</i>	<i>TaxFramework</i> <i>Complexity</i>
<i>Democracy_EIU</i>	0.0186*** [4.83]	-0.0056* [-1.86]				
<i>Democracy_BTI</i>			0.0147*** [4.32]	-0.0012 [-0.41]		
<i>Democracy_PRC</i>					0.0040*** [2.96]	-0.0026*** [-2.87]
Chi ²	49.28		19.86		24.73	
Prob > Chi ²	0.0000		0.0000		0.0000	
Controls	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Observations	362	362	240	240	144	144
Adj. R-sq	0.1384	0.4028	0.1351	0.1578	0.1883	0.2669

Notes: This table presents the estimates for Equation (1) for the dependent variables *TaxCodeComplexity* and *TaxFrameworkComplexity*, indicating the complexity of the tax code and the tax framework. Democracy is measured using the democracy indices from the Economist Intelligence Unit (*Democracy_EIU*), the Bertelsmann Transformation Index (*Democracy_BTI*), and Political Regime Characteristics (*Democracy_PRC*). They express the quality of democracy in a given country. See Table 1 for definitions of control variables. ***, ** and * label statistical significance at 1%, 5%, and 10% level, respectively. A constant and control variables are included but not reported. t-statistics are given in parentheses and standard errors are heteroscedasticity-robust.

Table 6: Democracy and Single Regulation Complexity

Panel A

	(1) Additional Taxes	(2) Alternative Minimum Tax- ation	(3) Capital Gains/Losses	(4) CFC Rules	(5) Corporate Reorganization	(6) Depreciation	(7) Dividends	(8) General Anti Avoidance
<i>Democracy_EIU</i>	0.0411*** [6.99]	0.0414*** [7.32]	0.0175** [2.32]	0.0422*** [4.65]	0.0282*** [4.61]	0.0060 [1.39]	0.0137** [2.48]	0.0233*** [3.79]
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	362	362	362	362	362	362	362	362
Adj. R-sq	0.2387	0.1921	0.0828	0.2449	0.2032	0.1085	0.0725	0.1525

Panel B

	(9) Group Treatment	(10) Interest	(11) Investment In- centives	(12) Loss Offset	(13) Royalties	(14) Statutory Tax Rate	(15) Transfer Pricing
<i>Democracy_EIU</i>	0.0344*** [4.95]	0.0068 [1.54]	0.0109* [1.70]	0.0042 [0.84]	0.0068 [1.54]	0.0166*** [2.72]	0.0237*** [3.19]
Controls	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES
Observations	362	362	362	362	362	362	362
Adj. R-sq	0.1564	0.0444	0.0896	0.0216	0.1604	0.1394	0.1053

Notes: This table presents the estimates for Equation (1) for the complexity of 15 single tax regulations. See Table 1 for definitions of control variables. ***, ** and * label statistical significance at 1%, 5%, and 10% level, respectively. A constant and control variables are included but not reported. t-statistics are given in parentheses and standard errors are heteroscedasticity-robust.

Table 7: Rotated Factor Loadings and Eigenvalues of the Factors

Regulation	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7	Factor 8	Uniqueness
Dividends	0.791	0.320	0.205	-0.100	-0.043	-0.014	-0.057	0.025	0.215
Royalties	0.777	0.116	0.196	0.169	-0.046	0.130	-0.114	0.018	0.284
Depreciation & Amortization	0.756	0.196	0.194	0.281	0.026	0.032	0.203	-0.035	0.229
Interest	0.723	0.400	0.048	-0.038	0.093	0.099	-0.052	-0.129	0.276
Loss Offset	0.696	0.331	0.091	0.210	0.251	-0.002	0.237	0.028	0.234
Statutory Tax Rate	0.667	-0.042	0.410	0.101	0.054	0.034	-0.017	0.146	0.350
Capital Gains	0.577	0.523	0.178	0.018	-0.086	0.011	-0.065	0.112	0.337
CFC Rules	0.099	0.774	0.151	-0.084	0.093	-0.042	-0.004	-0.098	0.341
Corporate Reorganization	0.328	0.745	0.120	0.294	-0.067	-0.012	0.022	0.027	0.230
General Anti Avoidance	0.342	0.663	0.017	0.071	0.101	0.250	0.086	0.107	0.346
Transfer Pricing	0.294	0.533	0.193	0.030	-0.044	0.377	-0.016	-0.022	0.447
Group Treatment	0.159	0.517	0.229	0.069	0.354	-0.024	0.011	-0.013	0.525
Alternative Minimum Taxation	0.246	0.146	0.652	0.086	0.013	0.043	-0.074	0.027	0.477
Additional Taxes	0.348	0.267	0.642	0.051	0.043	0.018	0.100	-0.046	0.378
Investment Incentives	0.445	0.210	0.197	0.488	0.059	0.029	0.009	0.013	0.475
Eigenvalue	6.940	1.132	0.669	0.388	0.245	0.154	0.078	0.068	

Notes: This table presents the rotated factor loadings and eigenvalues of the factors. According to Kaiser 1960, only factors with eigenvalues greater than 1 are included in the analysis. Consequently, only Factor 1 and Factor 2 are considered. Additionally, the table presents the uniqueness of the regulations.

Table 8: Factoranalysis

	(1) <i>Computation Payment</i>	(2) <i>AntiTax Avoidance</i>	(3) <i>Computation Payment</i>	(4) <i>AntiTax Avoidance</i>	(5) <i>TaxComplexity</i>	(6) <i>TaxComplexity</i>	(7) <i>TimeToComply</i>
<i>Democracy_EIU</i>	-0.0024 [-0.06]	0.1938** [4.50]	-0.0088 [-0.22]	0.1576*** [3.91]		0.0052* [1.68]	30.4133*** [2.70]
<i>Globalization</i>			0.0498 [0.60]	0.2803*** [4.15]	0.0120*** [2.91]	0.0099** [2.33]	-21.7271 [-1.58]
Controls	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES
Observations	362	362	362	362	362	362	357
Adj. R-sq	0.1119	0.2776	0.1106	0.3166	0.2089	0.2146	0.1329

Notes: This table presents the estimates for Equation (1) for the complexity of Factors 1 and 2 from a factor analysis of the 15 regulations for the tax code captured by the Tax Complexity Index and the variables *TaxComplexity* and *TimeToComply* to measure tax system complexity. Democracy is measured using the democracy index from the Economist Intelligence Unit (*Democracy_EIU*) to express the quality of democracy in a given country. Globalization (*Globalization*) is measured by the KOF Globalization Index (*Globalization*). See Table 1 for definitions of control variables. ***, ** and * label statistical significance at 1%, 5%, and 10% level, respectively. A constant and control variables are included but not reported. t-statistics are given in parentheses and standard errors are heteroscedasticity-robust.

Table 9: Economic Prosperity and Tax Complexity

	(1) <i>Tax Complexity</i>	(2) <i>TaxCode Complexity</i>	(3) <i>TaxFramework Complexity</i>	(4) <i>Tax Complexity</i>	(5) <i>Tax Complexity</i>	(6) <i>TaxCode Complexity</i>	(7) <i>TaxFramework Complexity</i>	(8) <i>Tax Complexity</i>
<i>Democracy_EIU</i>	0.0065*** [2.59]	0.0186*** [6.33]	-0.0056* [-1.90]	0.0064** [2.13]	0.0041 [1.50]	0.0142*** [4.12]	-0.0059** [-1.99]	0.0041 [1.50]
<i>High GDP</i>	0.0149** [2.18]	0.0255*** [2.93]	0.0043 [0.57]					
<i>Low GDP</i>	-0.0456*** [-5.77]	-0.0800*** [-7.28]	-0.0111 [-1.35]					
<i>High GDPpercapita</i>				0.0053 [0.41]				
<i>Low GDPpercapita</i>				0.0006 [0.06]				
<i>Rich Country</i>					0.0339*** [4.06]	0.0695*** [6.42]	-0.0018 [-0.21]	0.0339*** [4.06]
<i>Poor Country</i>					-0.0427*** [-4.18]	-0.0755*** [-4.93]	-0.0099 [-0.93]	-0.0439*** [-3.93]
<i>Development</i>								-0.0124 [-0.22]
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	362	362	362	362	362	362	362	362
Adj. R-sq	0.3166	0.3175	0.4050	0.2035	0.2670	0.2531	0.4012	0.2651

Notes: This table presents the estimates for Equation (1) for the dependent variables *TaxComplexity*, *TaxCodeComplexity* and *TaxFrameworkComplexity*, indicating the complexity of the tax system, the tax code, and the tax framework. Democracy is measured using the democracy index from the Economist Intelligence Unit (*Democracy_EIU*), the variable expresses the quality of democracy in a given country. *High GDP*, *Low GDP*, *High GDPpercapita*, and *Low GDPpercapita* are indicator variables indicating subgroups of countries in the top or bottom tercile of the distribution. *Rich Country* (*Poor Country*) indicates countries with high (low) GDP and high (low) GDP per capita. See Table 1 for definitions of control variables. ***, ** and * label statistical significance at 1%, 5%, and 10% level, respectively. A constant and control variables are included but not reported. t-statistics are given in parentheses and standard errors are heteroscedasticity-robust.

Table 10: Drivers of the Complexity Increase

Panel A: Subindizes Economist Democracy Index

	(1) <i>Tax</i> <i>Complexity</i>	(2) <i>Tax</i> <i>Complexity</i>	(3) <i>Tax</i> <i>Complexity</i>	(4) <i>Tax</i> <i>Complexity</i>	(5) <i>Tax</i> <i>Complexity</i>	(6) <i>Tax</i> <i>Complexity</i>
<i>Electoral Pluralism</i>	0.0012*** [3.75]	0.0005*** [4.03]				
<i>Government</i>	-0.0006 [-1.36]		0.0003 [1.04]			
<i>Political Participation</i>	-0.0002 [-0.57]			0.0003 [1.13]		
<i>Political Culture</i>	-0.0005 [-1.55]				-0.0005 [-1.46]	
<i>Civil Liberties</i>	-0.0007 [-1.42]					0.0005** [2.08]
Controls	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Observations	362	362	362	362	362	362
Adj. R-sq	0.2511	0.2319	0.1979	0.1974	0.2022	0.2079

Panel B: Electoral Pluralism & Civil Liberties

	(1) <i>TaxCode</i> <i>Complexity</i>	(2) <i>Tax</i> <i>Framework</i> <i>Complexity</i>	(3) <i>Computation</i> <i>Payment</i>	(4) <i>Anti</i> <i>Avoidance</i>	(5) <i>TaxCode</i> <i>Complexity</i>	(6) <i>Tax</i> <i>Framework</i> <i>Complexity</i>	(7) <i>Computation</i> <i>Payment</i>	(8) <i>Anti</i> <i>Avoidance</i>
<i>Electoral Pluralism</i>	0.0011*** [6.49]	-0.0000 [-0.32]	0.0019 [0.95]	0.0105*** [5.96]				
<i>Civil Liberties</i>					0.0011*** [3.45]	-0.0001 [-0.46]	-0.0009 [-0.26]	0.0128*** [3.80]
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	362	362	362	362	362	362	362	362
Adj. R-sq	0.1679	0.3952	0.1144	0.2959	0.1163	0.3955	0.1122	0.2623

Notes: This table presents the estimates for Equation (1) for the dependent variables *TaxComplexity*, *TaxCodeComplexity* and *TaxFrameworkComplexity*, indicating the complexity of the tax system, the tax code, and the tax framework, as well as *Computation Payment* and *Anti Avoidance* as the results of the factor analysis on the tax code regulations. Democracy is measured using the subindices of the democracy index from the Economist Intelligence Unit (*Democracy_EIU*). The variable expresses the quality of democracy in a given country. See Table 1 for definitions of control variables. ***, ** and * label statistical significance at 1%, 5%, and 10% level, respectively. A constant and control variables are included but not reported. t-statistics are given in parentheses and standard errors are heteroscedasticity-robust.

Table 11: Electoral Pluralism & Tax Complexity

	(1) <i>Tax Complexity</i>	(2) <i>TaxCode Complexity</i>	(3) <i>Tax Framework Complexity</i>	(4) <i>Tax Complexity</i>	(5) <i>TaxCode Complexity</i>	(6) <i>Tax Framework Complexity</i>	(7) <i>Tax Complexity</i>	(8) <i>TaxCode Complexity</i>	(9) <i>Tax Framework Complexity</i>
<i>Democracy_EIU</i>	0.0115** [2.26]	0.0251*** [3.96]	-0.0020 [-0.34]	0.0071 [1.42]	0.0216*** [3.50]	-0.0074 [-1.30]	0.0064 [1.19]	0.0207*** [3.32]	-0.0078 [-1.20]
<i>Two Party</i>	-0.0791*** [-4.71]	-0.0644** [-2.49]	-0.0938*** [-5.92]						
<i>Multi Party</i>				0.0583*** [5.01]	0.0395** [2.41]	0.0771*** [6.79]			
<i>Strong Party</i>							-0.0463*** [-4.69]	-0.0453*** [-3.31]	-0.0473*** [-3.53]
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	208	208	208	208	208	208	208	208	208
Adj. R-sq	0.2508	0.1680	0.5033	0.2604	0.1654	0.5258	0.2481	0.1737	0.4900

Notes: This table presents the estimates for Equation (1) for the dependent variables *TaxComplexity*, *TaxCodeComplexity* and *TaxFrameworkComplexity*, indicating the complexity of the tax system, the tax code and the tax framework. Democracy is measured using the democracy index from the Economist Intelligence Unit (*Democracy_EIU*), the variable expresses the quality of democracy in a given country. The variables *Two-Party*, *Multi-Party*, and *Strong Party* are indicator variables indicating if a country is structured in a two-party system (*Two-Party*), a multi-party system (*Multi-Party*), or if the governing party gained more than 50 percent of the votes in the latest parliament election (*Strong Party*). See Table 1 for definitions of control variables. ***, ** and * label statistical significance at 1%, 5%, and 10% level, respectively. A constant and control variables are included but not reported. t-statistics are given in parentheses and standard errors are heteroscedasticity-robust.

Table 12: Left- and Right-wing Democracies and Complexity

Sample	Left (1) <i>TaxComplexity</i>	Right (2) <i>TaxComplexity</i>	Left (3) <i>TaxCode Complexity</i>	Right (4) <i>TaxCode Complexity</i>	Left (5) <i>Tax Framework Complexity</i>	Right (6) <i>Tax Framework Complexity</i>
<i>Democracy_EIU</i>	0.0192*** [2.77]	-0.0018 [-0.24]	0.0373*** [4.77]	0.0081 [0.91]	0.0010 [0.11]	-0.0116 [-1.41]
F-Test		7.40		0.04		25.29
Prob > F		0.0008		0.9600		0.0000
Controls	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Observations	125	79	125	79	125	79
Adj. R-sq	0.2710	0.2727	0.1883	0.2342	0.4504	0.4983

Notes: This table presents the estimates for Equation (1) for the complexity of the tax system (*TaxComplexity*), the tax codes (*TaxCodeComplexity*), and the tax framework (*TaxFrameworkComplexity*) of a country and the association with democracy for the subsample right-wing and left-wing governments. Democracy is measured using the democracy index from the Economist Intelligence Unit (*Democracy_EIU*) to express the quality of democracy in a certain country. See Table 1 for definitions of control variables. ***, ** and * label statistical significance at 1%, 5%, and 10% level, respectively. A constant and control variables are included but not reported. t-statistics are given in parentheses and standard errors are heteroscedasticity-robust.

Impressum:

Arbeitskreis Quantitative Steuerlehre, arqus, e.V.

Vorstand: Prof. Dr. Ralf Maiterth (Vorsitzender),
Prof. Dr. Kay Blaufus, Prof. Dr. Dr. Andreas Löffler
Sitz des Vereins: Berlin

Herausgeber: Kay Blaufus, Jochen Hundsdoerfer,
Martin Jacob, Dirk Kieseewetter, Rolf J. König,
Lutz Kruschwitz, Andreas Löffler, Ralf Maiterth,
Heiko Müller, Jens Müller, Rainer Niemann,
Deborah Schanz, Sebastian Schanz, Caren Sureth-
Sloane, Corinna Treisch

Kontaktadresse:

Prof. Dr. Dr. h.c. Dr. h.c. Caren Sureth-Sloane,
Universität Paderborn, Fakultät für
Wirtschaftswissenschaften,
Warburger Str. 100, 33098 Paderborn,
www.arqus.info, Email: info@arqus.info

ISSN 1861-8944