VAT Revenues as a Mediator Between Tax Evasion and the UAE Economy

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C H R O N I C L E	A B S T R A C T
	This paper is an attempt to investigate the mediating role of Value Added Tax revenues in the relationship between tax evasion and UAE economy. VAT is a new tax in the UAE but has quickly become key part of the country's economic diversification and revenue generation strategy. Partial Least Squares Structural Equation Modeling (PLS-SEM) is applied to the data set of 359 cases to study direct and indirect effects of tax evasion on economic performance. The findings above reveal that the evasion has a relatively huge influence on the revenue can actually be collected from VAT, which also confirms how responsive design of the VAT system to taxpayers' and compliance behavior. VAT collection plays a strategic role in strengthening the performance of the UAE national economy, reflecting its integration with fiscal stability and diversification policy. The fact that VAT revenues partially mediate the impact of tax evasion on the national economy implies, through mediation analysis, that the macroeconomic consequences of evasion are more transmitted by lost VAT revenue than via direct growth-related mechanisms. These findings are also in line with international studies of VAT-gap dynamics, and highlight the need to improve the tax administration efficiency, increase VAT enforcement action, simplify tax payments via digital platform and improve tax knowledge. The paper provides empirical evidence to fiscal policy literature in new tax systems, and suggests policy lessons for achieving revenue sustainability and economic stability in the UAE. This study provides the empirical analysis into the mediating role of VAT Revenues in UAE economy. It contributes to the literature by synthesizing behavioral, administrative, and economic considerations, with evidence-based lessons for improved governance of VAT systems, better tax compliance promotion approaches and long-run growth prospects within emerging tax administrations.

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الملخص

تحاول هذه الورقة البحثية دراسة الدور الوسيط لإيرادات ضريبة القيمة المضافة في العلاقة بين التهرب الضريبي والاقتصاد الإماراتي. وتُعد ضريبة القيمة المضافة ضريبة حديثة نسبيًا في دولة الإمارات العربية المتحدة، إلا أنها سرعان ما أصبحت جزءًا أساسيًا من استراتيجية الدولة لتنويع الاقتصاد وتعزيز الإيرادات العامة. تم تطبيق أسلوب نمذجة المعادلات الهيكلية باستخدام المربعات الصغرى الجزئية (PLS-SEM) على عينة مكونة من 359 حالة لدراسة الآثار المباشرة وغير المباشرة للتهرب الضريبي على الأداء الاقتصادي. وتُظهر النتائج أن التهرب الضريبي يؤثر بشكل كبير نسبيًا على الإيرادات التي يمكن فعليًا تحصيلها من ضريبة القيمة المضافة، وهو ما يؤكد مدى استجابة تصميم نظام ضريبة القيمة المضافة لسلوك المكلفين ومستوى التزامهم الضريبي. كما تلعب إيرادات ضريبة القيمة المضافة دورًا استراتيجيًا في تعزيز أداء الاقتصاد الوطني لدولة الإمارات، بما يعكس تكاملها مع سياسات الاستقرار المالي والتنويع الاقتصادي. حيث يشير ثبوت الدور الوسيط الجزئي لإيرادات ضريبة القيمة المضافة في تأثير التهرب الضريبي على الاقتصاد الوطني، من خلال تحليل الوساطة، إلى أن الآثار الاقتصادية الكلية للتهرب الضريبي تنتقل بدرجة أكبر عبر فقدان إيرادات ضريبة القيمة المضافة، وليس من خلال آليات النمو المباشر. وتتسق هذه النتائج مع الدراسات الدولية المتعلقة بفجوة ضريبة القيمة المضافة، كما تؤكد الحاجة إلى تحسين كفاءة الإدارة الضريبية، وتعزيز إجراءات إنفاذ ضريبة القيمة المضافة، وتبسيط إجراءات الدفع الضريبي عبر المنصات الرقمية، إضافة إلى رفع مستوى الوعي والمعرفة الضريبية. وتقدم هذه الورقة أدلة تجريبية تسهم في أدبيات السياسة المالية المتعلقة بالأنظمة الضريبية الحديثة، كما تستخلص دروسًا سياساتية تهدف إلى تحقيق استدامة الإيرادات والاستقرار الاقتصادي في دولة الإمارات العربية المتحدة. في حين تقدم هذه الدراسة تحليلًا تجريبيًا للدور الوسيط لإيرادات ضريبة القيمة المضافة في الاقتصاد الإماراتي. وتسهم في الأدبيات العلمية من خلال الدمج بين الجوانب السلوكية والإدارية والاقتصادية، مع تقديم دروس قائمة على الأدلة لتحسين حوكمة أنظمة ضريبة القيمة المضافة، وتعزيز أساليب الامتثال الضريبي، ودعم آفاق النمو طويل الأجل في الإدارات الضريبية الناشئة.

الكلمات المفتاحية :
الامتثال الضريبي؛ الاقتصاد الوطني؛ السياسة المالية؛ إيرادات ضريبة القيمة المضافة؛ التهرب الضريبي؛ مالية العامة؛ المنشآت الصغيرة والمتوسطة.

1. Introduction

Tax evasion is well perceived as the most formidable obstacle for modern economies, especially in countries which switched recently to formal taxation. In the case of the United Arab Emirates (UAE), where VAT was implemented in 2018 as part of a broader policy strategy to wean it from its dependence on oil, both customer and supplier fraud pose an immediate threat to fiscal stability and sustainable institutional reform (Al-Qasmi, 2024; Wongi, 2025). Indeed, the introduction of VAT in the UAE (also see Alsharari 2023) was predicated upon the need to reduce reliance on oil revenues that are notoriously volatile; balance and stabilize government budgets so as to achieve fiscal sustainability; and bring about convergence with international public finance standards (Falaha, 2024). However, tax evasion depletes the tax base which is used to fund education, healthcare, roads and bridges and other essential public services (Huson et al., 2024). This negatively affects economic development and trust in government organizations (Ozili, 2020; Androniceanu & Ciopea, 2019).

In addition, widespread tax evasion distorts market-based competition by giving a competitive advantage to dishonest firms, influencing the cost of doing business, impacting legitimate corporate conduct, deterring foreign direct investment, and indicating ineffective enforcement (Hudori & Mustikasari 2020; Zaqeeba 2024; Jango & Mohamed 2024). For a country like the UAE (used to be globalized enough), which needs transparency and competition and stability for its image, tax savings is simply nothing instead of economic losses as well as reputational damage. Then there is the subject of underground economy, somehow or directly related to tax avoidance. The black (or shadow) economy funneled money transactions and transfers through informal, illegitimate channels, reducing the efficacy of fiscal policies and distorting resources allocation (Abuamria, 2019; Omodero, 2019). While a variety of studies have examined VAT dynamics in different tax systems, including sectoral effects of VAT (Gopakumar, 2022), and the role of VAT audits (Mu et al., 2022), as well as macroeconomic simulations to estimate evasion (Feltenstein 2022), there is limited empirical evidence on how VAT revenues affect the link between evasion and economic performance within an emerging tax system such as that of UAE. The majority of existing studies focus on tax evasion and tax revenue alone and do not consider the impact of intermediate fiscal accounts (e.g., VAT revenues). This piecemeal method hinders the creation of broad policy recommendations for greater enforcement, more compliance and sustainable fiscal futures in UAE.

In this sense, the contribution of this study is to fill this gap and conceptualize revenues from VAT as a fiscal end, also as a relevant intermediate mechanism through which tax compliance with respect to evasion affects macroeconomic order. This mediating role is far more crucial for the need to optimise tax collection and economic governance as the UAE continues to develop its tax structures. Moreover, to the extent that there is a significant role for other cultural and psychological factors [such as taxpayer morale (Alm et al., 2012a), trust in government (Kotzé etal., 2009), and fairness perception (Lang, 2016) in compliance behavior, they have been found to vary across different culture contexts themselves. Therefore, administrative changes are not enough. Empirical lessons are needed to comprehend how tax collection interferes with fiscal capacity within a sociocultural framework where tax institutions and practices are still developing. Reinforcement of law enforcement and increase in transparency control and the more association and perceptible relations between tax authorities and society members as tax payers are necessary contents of any action against evasion (Abdo et al. 2020, Al-Qalaawi et al., 2023). These kinds of interventions, however, have to be based on evidence and inserted into symmetrical framework of the fiscal governance where VAT is a central stabilizing tool. VAT has become a linchpin in the mobilization of domestic revenue around the world, given its broad tax base, neutrality and relative efficiency.

The new scheme's effect on the VAT would be direct; in 2023, the value-added tax accounted for 15.7 percent of national tax receipts in European Countries (CASE, 2024; Christos, 2025), demonstrating that it has a strategic significance. The slag of success over VAT systems is however linked to compliance rates, the scale of informal economy vis-à-vis administrative capability. The under-reporting of income, off-shore or grey markets Tax evasion is still undermining fiscal resources and national tax sovereignty (Chuy, 2025; Andriukaitis & Beresnevičius, 2025). The annual losses for the EU due to VAT fraud are estimated in all at more than €50 billion a year and are evidence of the extreme vulnerability, for evasions or administrative dysfunctions. of VAT system (Poniatowski et al., 2020). The set of VAT collection inefficiencies illustrates

the enormity of these challenges (Barbone et al., 2013; Christos, 2025). Empirically, VAT compliance is found to be very low in countries with large shadow economies and low-quality institutions (Hasikova & Hanousek Role of Decentralization 95765), apart from experiencing huge revenue loss (Wijaya et al., 2014). In these comparatively recent forms of taxation, low levels of tax evasion have a minimal impact on VAT revenue ("leakage"), and as such 'fiscal governance' (Ciobanu et al., 2023) is not threatened. The vagaries in the potential flow of VAT revenue could constrain government's ability to finance capital projects, improve public services and cushion economic shocks (Ocansey 2025). However, relatively few studies have investigated how VAT affects national economic performance depending on tax evasion, especially in Gulf countries that are experiencing significant transformations of their institutions through a rapid departure from old mono-productive revenue patterns.

In this context, the present study seeks to investigate the mediating role of VAT revenues in the link between tax evasion and nation economy. The research is likely to have implications in terms of tax governance, VAT compliance and sustainable economic development. Attitudinally based and grounded on the existing literature, this study provides useful information that will contribute to current debates on fiscal policy as the link between attitudes towards paying taxes, and improving compliance can be tested empirically. This study may empower policy makers with a sophisticated objective to support their efforts on escalating enforcement, strengthening transparency and building further public trust in young tax institutions of UAE.

2. Literature Review

In tax systems around the world, VAT takes on increasing strategic importance and profile, especially in economies that are trying to migrate towards non-natural-resource revenue bases. In the GCC, United Arab Emirates (UAE) is notable for being an earlier and front row adopter of VAT in 2018 to enhance fiscal sustainability (Issaa, 2024). The UAE exhibited a series of notable features in preparing for the VAT, as observed by Alsharari (2023), policy coordination, high administrative capabilities and commitment to GCC financial reforms. According to Alsharari study, VAT as a fiscal instrument has not been only viewed as a revenue tool but also critical constituent of long term sustainable public finance of the region. There is evidence from empirical analysis that the impacts of VAT can be quite different across sectors. Gopakumar (2022) investigated ADX listed firms and observed significant abnormal returns around the implementation of VAT and changes in perceived sectoral risk, mainly for retailing and insurance industry as a result of VAT introduction. This implies that VAT has an effect on market performance, investors' anticipating and financial decision-making power. Results can be explained in the illumination of Alsharari (2023) who had been revealed that VAT adoption plays a role in microeconomic forces and macro-fiscal systems.

Recent research, moreover, highlights the ways in which digitalisation, sustainability measures and technology innovation intersect with tax and VAT systems. Aloqaily et al. (2024) found that green human resource management and organizational culture positively influences sustainable firm performance, which implies that recipient organizations' values affect tax-related behavior. Also, Al-Zaqeba (2024) argues that the use of tax and custom renormalization is essential in fostering environmental responsibility while Al-Taani et al. (2025) demonstrate the effect of tax and customs structures on supply chain excellence.

In the finance sector, advantages of fintech and blockchain application have enhanced the quality of reporting and its inclusion in (Lootah, 2024; Maabreh, 2025; AlZakwani et al., 2025). Similarly, Alshehadeh et al. (2025) had exploited big data and IOT for academic purposes in their work about creative accounting behavior and financial transparency. These findings reinforce the need for technology already injected internally into tax collection as has happened with VAT and indeed revenue systems.On the other hand, some studies also indicate that there are fundamental structural constraints despite the revenue generation possibilities of VAT. Fentau (2022) concludes that the United Arab Emirates faced the same issues, and that having somewhat better digital infrastructure is not necessarily going to naturally lead to higher levels of compliance, but rather more focused awareness raising and political support over time. At the macroeconomic level, Feltenstein (2022) developed an equilibrium model that implies that reducing tax evasion through improved enforcement can generate a large increase in VAT revenue without affecting long-run GDP growth. Feltenstein's results suggest that reduction in tax evasion would stabilise 'the fiscal position

and milden inflationary impulses' an attractive outcome for the UAE, which is keen to remain globally competitive in terms of tax, but wants to increase domestic revenues.

Tax evasion and VAT compliance on its part, and their correlation with economic performance elsewhere in developed and developing countries have also been investigated. In such an economy like the UAE where tradition dependence is along income taxes for revenue, Hammadi and Ali (2025) argue that VAT could stimulate stabilisation if governance quality is high since it adds to fiscal sustainability; which curtails evasion motives. Beside the above, Fakhari (2023) showed, that administrative effectiveness, organizational structure and managerial capacity has a direct and significant impact on collection efficiency of VAT. These results are evidence that how good a country\\'s governance is remains the key driver of VAT performance. Also, there are deeper psychological and social questions as well. Fitria (2024) states that tax morale affects taxpayers' compliance behavior, a high tax morale will reduce levels of evasion and increase the performance of VAT. This is a sign that we need to encourage a culture of self-assessment, openness and trust from the public. Ndoya and Bakouan (2023) as well have additionally established the fact that recycling of VAT revenues into public services and goods will result to economic complexity and growth, hence the argument that if VAT is spent well it would make a powerful instrument fiscal policy. Taxpayer knowledge is still a key driver for encouraging compliance. Mangoting et al. (2024) the level of VAT compliance among taxpayers who are educated/knowledgeable, is much higher with rigorous campaigns for public awareness by tax administrations.

Similarly, Oseni (2018) believes that extending VAT to include the informal sector and disbursing accumulated revenue on public goods may help in generating some level of public trust (confidence) and compliance for developing countries. The set of policy recommendation by Alsharari and him whose (2023) argument in favor for reform of VAT within the context of GCC takes a step forward making general as well as specific policy recommendations to enforce, expanding coverage and transparency around utilization of revenues brought about by VAT. Lastly, the literature analyzes VAT as a multi-dimensional fiscal meta-instrument that influences tax revenues, business dynamics, administrative capabilities and macroeconomic levels. Evidence from various backgrounds indicates that rand the VATs is a cash-box tax, which might be one way in which tax evasion affects economic consequences. For UAE system that works with such confidence of expectation remains in part a fledgling experience for VAT, this work one that designs and administers a system-in-action n to deliver compliance, therefore trust among local citizens and those who trade with purpose there, also as best acts to support domestic economic resilience. This review therefore provides justification for establishing the study hypotheses with a strong theoretical foundation linking tax evasion, VAT revenues and economic growth.

3. Hypothesis Development

3.1 Tax evasion and VAT revenues

Tax evasion is a serious threat to fiscal health and tax morale. A substantial body of literature is conclusive that when taxpayers strategically underreport their taxable activities, or shift transactions to the shadow economy, governments lose large sums of revenue because consumption-based tax systems including VAT are the 'only show in town'. Chuy (2025) highlights that weakens when tax evasion grows as it erodes the sufficiency of revenue, efficiency of tax administration and fiscal risks. Likewise, Christos (2025) argues that the EU's VAT Gap (the difference between expected and collected VAT revenues) is primarily generated by tax evasion or avoidance, bankruptcies and ineffective audits. Cross-border VAT fraud only leads to losses of over €50 billion annually in the EU (Poniatowski et al., 2020; Рущишин et al., 2025), showing how evasion reduces the ability for governments to collect VAT. Empirical evidence has also suggested that countries with higher levels of shadow economy activity and weaker institutional capacity tend to suffer more from VAT revenue shortfalls (Hasikova & Hanousek, 2025). Concomitantly reducing the shadow economy undermines compliance, and this feeds back almost immediately into reduced VAT collections. Research on international trade shows once again that low-value goods traded to evade taxes actually distort economic flows and tax returns. Tax activity has been curtailed to reduce the VAT base (Andriukaitis & Beresnevičius, 2025). Taken together, these results provide support to the conclusion that

tax evasion directly affects VAT revenue collections. Accordingly, in consideration of previous research existing both theoretically and empirically, the following hypothesis is formulated:

H1: Tax evasion negatively affects VAT revenues.

3.2 VAT revenues and UAE national economy

Although VAT aims to promote fiscal sustainability, its link with economic growth is not straightforward; particularly in the case of developing tax systems. Studies in emerging economies showed that VAT systems with poor performances, lack of compliance and non-effective tax systems could create unintended economic burdens for taxpayers (Ocansey, 2025). Christos (2025) has argued that significant VAT gaps lead to distortions in competition and undermine revenue predictability and are likely to have an impact on economic performance through the creation of imbalances between budget planning. But when VAT revenue collection is erratic (for reasons such as evasion, exemptions or poor enforcement) governments may turn to other distortionary fiscal nostrums that crowd out investment or exacerbate inequality. Further, VAT revenues are empirically found to induce economic instability in economies where administrative systems have not developed and VAT compliance is low (Balios et al., 2024; Wijaya et al., 2024). For example, sudden shortfalls in VAT revenues may limit the ability of the government to spend on priority sectors and exacerbate budget deficits and slow down growth. Such effects are of particular relevance for heterogenous countries such as the UAE, where VAT is a new policy tool and the impact depends on the degree of enforcement. Hence, differences in the performance of VAT can be effect on macroeconomic results. Therefore, the following hypothesis is proposed:

H2: VAT revenues positively affect the UAE national economy.

3.3 Mediating Role of VAT Revenues

There is little direct linkage between tax evasion and economic consequences; the connection runs through fiscal channels that shape government revenue and macroeconomic stability as they are affected by the decision to evade. In particular, VAT receipts are an important intermediary through which taxpayer behaviour translates to broader economic outcomes. Indeed, VAT is a major source of revenue for the state and anything that will have an impact on its collection (evasion, avoidance or administrative failure) takes away from the fiscal capacity of the state" (Christos, 2025). The money lost in VAT evasion means that government revenue will fall, leading to less investment on public goods like; infrastructure and economic development initiatives. Additionally, the literature shows that VAT compliance-eroding factors (shadow economy, corruption and weak institutions) deteriorate economic growth by decreasing the effectiveness of government spending and increasing fiscal imbalances (Hasikova & Hanousek, 2025; Ciobanu et al., 2023). On the other hand, improved VAT enforcement increases the revenue predictability and the economic response. For low income countries, Ocansey (2025) shows a tremendous potential impact of tax reforms and digitalisation on the transmission of taxes into economic growth. Accordingly, VAT revenues are an intermediate variable: tax evasion influences the performance of VAT which in turn impacts on the economy. The macroeconomic consequences of tax evasion cannot be fully comprehended without the intermediate role fiscal channel plays. Thus, the following is a mediation hypothesis:

H3: VAT revenues mediate the effect of tax evasion on the UAE national economy.

4. Research Model

Based on the theoretical and practical considerations discussed above, we develop a research model that tries to explain the structural relationships of tax evasion with VAT Revenues, The UAE National economy as illustrated. Previous research shows that tax evasion damages fiscal stability by diminishing revenue of the state, weakening public services and distorting economic development (Chuy, 2025; Andriukaitis & Beresnevičius, 2025). VAT literature also indicates that tax evasion is a direct cause of losses in VAT revenues, increases the VAT Gap and constrains governments' capacity to achieve fiscal sustainability (Christos, 2025; Barbone et al., 2013). Similarly, the literature on public finance outcomes emphasizes how

VAT revenues volatility (especially in economies with low levels of income taxation such as UAE) may also have serious macroeconomic consequences. Oseni (2018), Ndoya and Bakouan (2023) and Poudel, 2025 VAT revenues are important for financing national development, infrastructure, economic stability. Similarly, VAT is within-tax the intermediate mechanism: from tax evasion to real economic outcomes. Feltenstein (2022) and Hasikova and Hanousek (2025)), so that the decrease in tax evasion enhances VAT compliance, by letting better macroeconomic conditions to develop, by maintaining fiscal stabilization, and then by avoiding harm from shadow-economy activities. This corroborates the assertion of Hammadi and Ali (2025) who argue that VAT is a strong fiscal transmission mechanism in economies where consumption type tax constitutes a major source of tax. Therefore, the proposed model reconciles these theoretical and empirical underpinnings by presenting VAT revenues as a hub mediating construct in the nexus of tax evasion and economic performance. Figure 1 shows the theoretical research model with became a direction-tested in this study:
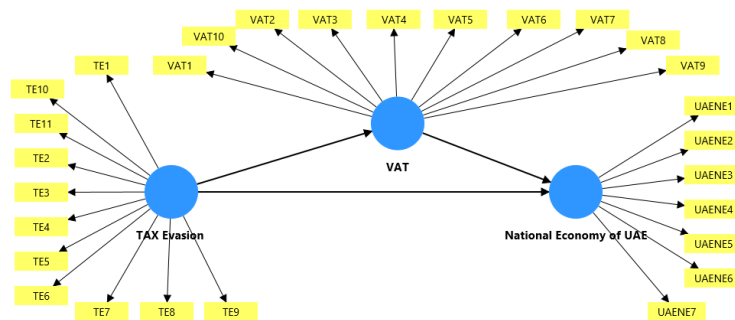

Figure (1): Research Model

5. Methods

The current research employs a descriptive quantitative–analytical research methodology examining the mediating role of VAT revenues in relation to tax evasion and the UAE national economy. Quantitative studies are well-suited to fiscal and behavioral research as they facilitate an objective investigation of cause-effect relationships in the context of intricate financial systems and allow generalizability based on statistical evidence (Qahman & Abdu, 2024). Since the constructs tax evasion, VAT revenue performance and the economic outcomes are multidimensional, Structural Equation Modeling (SEM) approach with Partial Least Squares (PLS-SEM) was considered to be most appropriate for analyzing the data. This method is particularly useful for models with latent factors and has become a common tool in modern fiscal governance research since it can estimate both direct and indirect effects concurrently (Feltenstein, 2022; Hasikova & Hanousek, 2025).

The target population for this research consists of registered VAT SMEs based in the seven Emirates of UAE. SMEs constitute a suitable sample to study the functioning of VAT compliance and evasion dynamics since they represent gross share of UAE's taxable base, given that their level of VAT-related compliance costs, administrative complexity as well as behavioral motivation in relation to VAT disclosure are even higher (Christos, 2025). Similarly, SMEs have also been the focus of more recent work on tax avoidance, revenue security and administrative efficiency in emerging fiscal systems (Chuy, 2025; Ndoya & Bakouan, 2023). The purposive technique was used to avoid VAT registered organizations not directly reporting or remitting the tax. Within this purposive framework, stratification was implemented in order to provide proportional representation from the seven Emirates. Following the sampling methodology by Krejcie and Morgan, a sample of 374 individuals was set considering required statistical power in SEM analyses. In the end, 359 valid responses were included after data cleaning, meeting the requirement for SEM fiscal research (Hammadi & Ali, 2025; Mangoting et al., 2024). Instrument data were collected through a structured questionnaire adapted from validated instruments of the tax compliance and public finance literature. This instrument has been developed to operationalize tax evasion, VAT revenues and economic performance for

the nation as multi-item items measured using five points on Likert scale. This approach follows previous empirical research into fiscal behavior, VAT performance and compliance attitudes (Fitria, 2024; Oseni, 2018). For content validity, the questionnaire was pretested with 30 respondents of SMEs to adjust item clarity and structure as well as reviewed by experts in taxation and government finance. The measurement model was assessed for reliability and validity using Smart-PLS 4. Internal consistency was tested through Cronbach's Alpha and Composite Reliability, which reached acceptable levels. The convergent validity was satisfied by AVE values over 0.50, and the discriminant validity were reacted by Fornell–Larcker and HTMT. Moreover, these statistical tested confirmed that all constructs applied theoretically distinguish and valid which indicated the highly strict methodological of VAT compliance and governance researched (Fakhari, 2023; Alsharari, 2023). Bootstrapping with 5,000 subsamples was used in this paper to investigate for the significance of the direct and indirect paths for hypothesis testing in the structural model. This way of analyzing can help to identify whether mediation effects are present (see Brunner and King, 2024); something that is arguably relevant since for instance the idea that VAT revenues function as a bridge from tax evasion to macroeconomic performance, which appears to be an underlying assumption in at least some previous empirical work (Feltenstein, 2022; Christos, 2025), could vary. Model fit was examined by R^2 to confirm the predictive value of the structural relationships for endogenous constructs. The respondents were informed the purpose of the study, that their anonymity was protected and voluntary participation was emphasized. Personal or sensitive information of the people involved was not collected. This normative position also aligns with the global research standards in business and financial practice (Ocansey, 2025). Lastly, empirical sounds and theoretical depths are also incorporated in the methodology to demonstrate the influence of tax evasion and value added tax revenues on UAE economy.

6. Results

The demographics of the 359 patients are relevant in interpreting the findings on structures reported from this study. Gender balance was also attained with pointer to a preference for male (54.6% male) and (45.4% female), suggesting a variety of the active workforce in this population sample from UAE. This narrow male-female respondent differential is reflected in national employment statistics, particularly in SMES where male unemployment is high. Age definitely shows that sources are not young star forming region in general. A majority of patients were 30 to 39 years old (38.7%) followed by the age group in its forties (34.5%). The participants' average age is 39.8 ± 8.7 years old, indicating middle-aged population so that the respondents may occupy certain supervisory or management positions. The responses since tax compliance, VAT filing and economic decision-making are mainly roles of these professional groups. Furthermore, the researchers could enrich the dataset by educational level. Most of the respondents had a bachelor's degree (60.4%), 29.8% were post graduates. Merely 9.8% were high school graduates or less. The high education profile matches the leading-edge of SME-level picture in the UAE, where business owners and managers, accounting professionals etc. are often highly qualified and likely to be knowledgeable regarding legislation with tax procedures, VAT requirements and compliance issues. A few shack dwellers and street workers were, however, interviewed but the predominance on representation of domestic or informal sector workers means that certain marginalized understandings of tax burden and evasion behaviours may be skewed. Regarding their occupational status, 46.0% of respondents were working in private sector organizations (n = 186), followed by individuals with a job in governmental institutions (28.7%, n = 116), and self-employed persons (15.0%, n = 61).

Private sector participation is heavy because of the economic framework in which UAE operates, with SMEs leading the way for non-oil diversification and VAT contributions. There are also adding the public and self-employed allowing for various compliance settings, VAT exposure to enforcement efforts. Nevertheless, a limitation in this analysis is that the proportion of self-employed individuals is low and self-employed workers might be more susceptible to tax evasion incentives. The work experience data further supports the credibility of the responses. Over half (52.9%) had more than 10 years of work experience, along with a certain level of understanding of financial reporting, management approval processes, and compliance requirements. In contrast, only 11.7% had less than five years of experience, indicating that early-career employees have relatively limited understanding of tax practices. Following the ease of

demographic analysis, the intermediate pathways between these three key components (tax evasion vs. VAT revenues > UAE national economy) were assessed using PLS-SEM. The assumed relationships are shown in the structural model illustrated in Figure 2, which we use to investigate both the direct and intermediate effects of VAT revenues. Path coefficient estimates and significance values based on the smoothing provide empirical insights into how tax evasion behavior impacts VAT revenues, which in turn affect the national economy as determined by VAT revenue volatility.
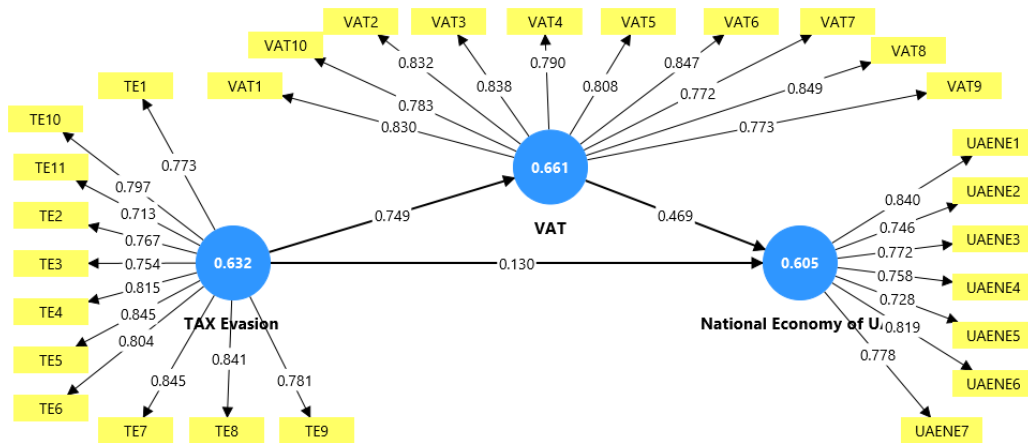

Figure (2): Validity Results and Structural Model Path Coefficients

Structural and Measurement Model of PLS-SEM, shown in Figure 2 demonstrates both construct validity as well as the direction of relationship between Tax Evasion, VAT Revenues and National Economy of UAE. The indicator reliability as indicated by the high outer loadings is strong, based on the measurement model results of all constructs. Most loadings are above the suggested cutoff of 0.70; meaning that most indicators significantly contribute to their respective latent construct. This provides evidence for the convergent validity of the model, and for internal reliability of the measurement scales.

The path weights for the three primary constructs appear in the structural portion of the model. Specifically, tax evasion has significant (1%) effect on VAT Revenues of 0.749. It also implies that divergences in tax evasion behaviour have significant impacts on the performance and the stability of revenue collection. The coefficient is consistent with theory; increased avoidance pressures corrupt VAT administration, erode fiscal accountability. As for the second most significant path (VAT Revenues to National Economy), it can be noted positive coefficient of 0.469 showing that VAT performance has some but huge effects on other dimensions of economy. This implies that VAT earnings are the bedrock of the general fiscal policy as well as macroeconomic stability and national development goals of a government. The direct relationship Tax Evasion and the National Economy shows a shadow coefficient of 0.130, which indicates also weak direct effect. This finding supports once again the meditating role of VAT Revenues; macroeconomics effects of tax evasion are essentially transmitted through their effect on Vat collection rather than resting directly on the macro aggregates. These findings are in line with the theoretical propositions of fiscal governance literature asserting that VAT is an intermediate instrument in developing tax systems. On the other hand, the reported R² values inside latent variable circles enhance model understanding. The Tax Evasion construct describes 63.2% of the variance in VAT Revenues and the VAT explains 60.5% of the variance in the national economy construct. These are highly predictive values and suggest model validity, which is to say that there is strong evidence in favor of the endogenous variables being well-explained by their predictors. Figure 2 shows that the structural model fits well. The high factor loadings, good value of R2 and significant path coefficient also support the posited relationship and role of mediating VAT Revenues among tax moratorium (dependent variable), national economy of UAE. As can be seen from the reliability statistics in Table 1, a high level of internal consistency was observed for all three constructs: Tax Evasion, VAT Revenues and National Economy of the UAE.

Table (1): Reliability testing

	Cronbach's alpha	Composite reliability (rho_c)	Average variance extracted (AVE)
National Economy of UAE	0.891	0.915	0.605
TAX Evasion	0.941	0.950	0.632
VAT	0.943	0.951	0.661

Cronbach's alpha coefficients of these factor solutions vary between 0.891 and 0.943, all surpassing the benchmark value (there is not a generally accepted critical level) and all reflect items across constructs with strong internal consistency. Also, the CR values are consistent, varying oh CR 0.915 -0.951, supporting the structure reliability of measurement scales. These CRs suggest that the constructs are uncorrupted by measurement error and produce stable responses. In addition, the Average Variance Extracted (AVE) values of all constructs ranging from 0.605 to 0.661 are higher than the cut-off value at 0.50 (Fornell & Larcker, 1981). This provides evidence that more than 50% of the variance in each latent variable is explained by its observed indicators, hence, demonstrating strong convergent validity.

Table 1 supports the good psychometric properties of the measurement model and its appropriateness to reflect well the constructs under examination. Turning to the discriminant validity, Table 2 shows the Fornell–Larcker criterion values that are used to assess whether constructs are conceptually different from each other.

Table (2): Discriminant Validity

	National Economy of UAE	TAX Evasion	VAT
National Economy of UAE			
TAX Evasion	0.524		
VAT	0.615	0.794	

The square roots of the diagonal AVE elements (on implied basis) are higher than inter-construct correlations indicating that discriminant validity is acceptable. For example, despite the relatively high value of correlation between VAT and Tax Evasion (0.794), this is below the AVE square root of VAT (0.661 = 0.813) which leads to reject overlap conceptually among constructs (Fornell & Larker 1981). Likewise, the correlation between VAT and UAE National Economy (0.615) is also moderate which supports the theoretical stance that VAT acts as a playing mediator rather than variance shared concept. The lower correlation between Tax Evasion and the National Economy (0.524) also confirms that the constructs-type of responses had structural independence. In general, as shown in Table 2, the measurement model has achieved a good conceptual distinctness that assures the reliability of the subsequent structural inferences. With regard to explanatory power, R² for the endogenous constructs namely VAT Revenues and UAE's National Economy is presented in Table 3.

Table (3): R² results

	R-square	R-square adjusted
National Economy of UAE	0.328	0.325
VAT	0.562	0.560

As Table 2 shows, VAT show relatively high R² by 0.562, which indicate that Tax Evasion account for 56.2% of its variance. This large explanatory power is indicative of the importance of evasion practices as a determinant of VAT performance, in line with the international literature on VAT-gap. On the other hand, UAE National Economy have 0.328 moderation effect that means, 32.8% variation of it is due to commonly influence of VAT Revenues and Tax Evasion. While this R² for scraped wage is less than VAT (it means the behavior of human being and public finance system are affected by more factors), it still has an important explanation in social economic research. The adjusted R² of 0.560 (VAT), and 0.325 (UAE economy) are almost the same with their unadjusted values, where statistically strong and robust predictive power is ensured without over-fitting. The results in Table 3 as provide some indication that there is a good performing model with sufficient predictive accuracy, particularly at the level of mediating mechanisms

(VAT). Structural model results are reported in Figure 3 and demonstrate visually the directions of relationships between Tax Evasion, VAT Revenues and National Economy of the UAE.
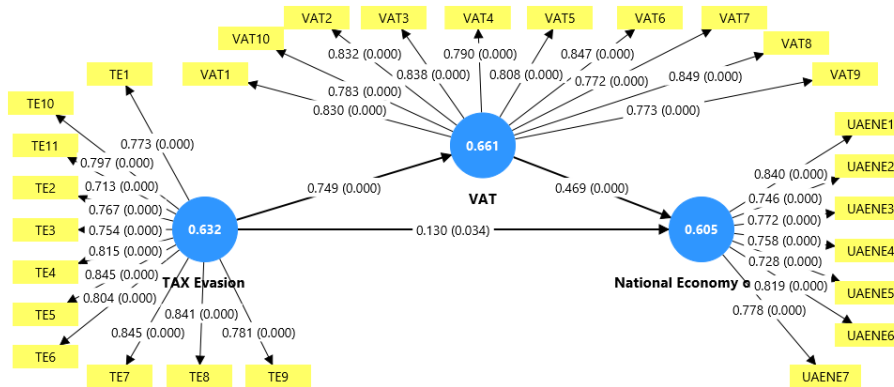

Figure 3: SEM Path Model Results

The model shows high factor loadings for the indicators on all the constructs, which supports measurement reliability and also justifies data appropriateness for structural testing. The standardized path coefficients illustrated in the chart represent explanatory power and direction along with p-value for each model assumption, providing a readable expression for causal complexing in path analysis. The statistical results reported in Table 4 are presented to elaborate on the level of support for each hypothesis.

Table 4: Path Coefficients

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
TAX Evasion -> National Economy of UAE	0.130	0.132	0.061	2.127	0.034
TAX Evasion -> VAT	0.749	0.750	0.023	33.048	0.000
VAT -> National Economy of UAE	0.469	0.470	0.058	8.065	0.000

The coefficient on Tax Evasion-VAT Revenues is similarly positive and large ($\beta = 0.749$, $t = 33.048$, $p < 0.001$), suggesting that there are great swings in VAT performance as a result of changes in tax evasion . This is a strong statistically significant relationship, which is consistent with the empirical evidence of the fact that tax evasion crowds out VAT systems and its effect on revenue collections and increase in VAT gap in developed and developing economies (Christos, 2025; Barbone et al., 2013). The second route, VAT Revenues to the National Economy also generates a strong effect ($\beta = 0.469$; $t = 8.065$ $p < 0.001$). This result further supports the premise ultimately that VAT revenues are fundamental in determining macroeconomic performances, given their influence on government fiscal strength, revenue predictability and economic policies (Hammadi & Ali, 2025; Fakhari, 2023).

The direct impact of Tax Evasion on the National Economy is relatively weaker ($\beta = 0.130$, $t = 2.127$, $p < 0.034$), but also statistically significant. This implies that tax evasion has no impact on the UAE's national economy in the short run to mean that theoretical expectation is also supported where the effects of evading profit or income are through macroeconomic level. This small coefficient as well opens up the way for a testing of the mediating role of VAT revenue. The mediation analysis in Table 5 sheds lighter on the way how tax evasion influences economic performance.

Table 5: Mediating Testing Result

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Direct Effects					
TAX Evasion -> National Economy of UAE	0.482	0.484	0.039	12.403	0.000
TAX Evasion -> VAT	0.749	0.750	0.023	33.048	0.000
VAT -> National Economy of UAE	0.469	0.470	0.058	8.065	0.000
Indirect Effects					
TAX Evasion -> National Economy of UAE	0.352	0.353	0.046	7.638	0.000
Mediating Effect					
TAX Evasion -> VAT -> National Economy of UAE	0.352	0.353	0.046	7.638	0.000

Tax Evasion had significant and strong direct effect on the National Economy before entering the mediator ($\beta = 0.482$ p < 0.001). When entering VAT revenues as a mediator, the direct effect declined substantially to $\beta = 0.130$ – thus the indirect effect became strong and significant ($\beta = 0.352$, t = 7.638, p < 0.001). This is a pattern of partial mediation (and the direct effect becomes less: toward the disc).21 Which suggests that VAT Revenues are an important transmission channel through which tax evasion affects national income. This mediating model is theoretically based on the literature, which states that tax-related behaviors influence national economic performance primarily by distorting the flow of government revenue, resource availability and fiscal sustainability (Hasikova & Hanousek, 2025; Poudel, 2025). Proportion of indirect effect (0.352) in relation to the total one suggests that VAT Revenues take up and transfer most part of cumulated economic impacts of tax evasion. As such, VAT is not just a "revenue machine"it is an institutional barrier, one that helps mediate the translation of black economy tax payments into national economic 'policy effects'. Therefore, the uniform findings offer strong evidence in favour of the three hypotheses. Tax Evasion contributes significantly to the variation in VAT Revenues (H1 is supported); VAT Revenues is responsible for a significant amount of variance in the national economy (H2 holds); and that there was mediation involving VAT Revenue between tax evasion as well as the national economy (H3). These implications highlight the strategic Role that VAT enforcement and control make in preserving monetary and financial stability in the UAE.

7. Discussion

The evidence presented in this study serves as an important empirical contribution to the literature on tax evasion, VAT revenues and country's economy of emanates from UAE. The findings reveal that tax evasion is the predominant negative factor of VAT revenue performance and thus macro-nomic indicator, a finding also echoed in international VAT-gap literature. The fact that the route coefficient from Tax Evasion to VAT Revenues is very high reasonable as previous studies have claimed that evasion decreases the fiscal capability of the state by tampering with efficiency and dependability of tax administrative device (Barbone et al., 2013; Christos, 2025). To me this appears to present VAT as virtually invincible, but also very vulnerable at the same time to compliance strategies, administrative manipulations and taxpayer confidence. As noted by Chuy (2025) the security to collect taxes depends on how much obey taxpayers, and this efficiency in enforcement called the attention of being another determining in that UAE situation. This paper also highlights that VAT Revenues are having a positive and strong effect on the national economy. This finding is also aligned with the literature result of development finance studies, which has emphasized that VAT gains importance with resource wealth as financial support and economic diversification reform tool (Alsharari, 2023; Hammadi & Ali, 2025). The strength of this association implies that in addition to promoting the state fiscal capacity, VAT could be used as a counter-cyclical tool for economies during transition; most notably post-oil communities. Similar findings by Poudel (2025) and Ndoya & Bakouan

(2023), show that VAT revenues can be mobilized productively enhance public services, consolidated infrastructure development and onwards growth. The main finding may be the role played by VAT Revenues as a mediator country for tax evasion and UAE national economy. The direct evasion of the national government only has modest impact on national income but is omitted indirectly via VAT receipts. This finding is in line with theoretical models predicting that societal-level macroeconomic effects of evasion are predominantly mediated by revenue loss, weakened public budgets and distortions over administrative allocation instead of economic pathways (Feltenstein, 2022; Hasikova & Hanousek, 2025). Its strong mediating effect also provides additional evidence of the role of VAT as a structural fiscal instrument that translates micro-level tax responses into macroeconomic outcomes. They are also supported by research that underlined the role of governance quality, administrative capacity, and technology modernization in determining VAT performance (Fakhari, 2023; Oseni, 2018). And as the international study of research in the EU demonstrated digital reporting systems, e-invoicing and real-time monitoring all decrease space for evasion whereas they augment VAT efficiency (Poniatowski et al., 2020; Christos, 2025). Therefore, seems like the UAE's ongoing move to more sophisticated digital tax systems can only increase VAT revenue predictability and reduce evasion incentives and compliance burden. Lastly, the participants are predominantly highly educated and experienced taxpayers (who represented majority of the sample) and they might have better grasp on how VAT operates which could influence their compliance. This is consistent with the study by Mangoting et al. (2024) on the important role of tax literacy and awareness in promoting taxpayer compliance. Thus, the findings corroborate a more general conclusion that further improving VAT problems, reducing noncompliance, increasing enforcement capability and promoting impulse to be compliant are crucial to protect fiscal sustainability in the UAE.

8. Conclusion

A Structural Equation Model was used to test the direct and the mediating effect for tax evasion, VAT revenues, and local UAE economy. The findings reveal that tax evasion has a significant negative effect on the performance of VAT revenue indicating that taxpayer representation is at center for fiscal circumstances. VAT Revenues are also positively represented with Domestic Demand, which reflects VAT's role as a fiscal counter-cyclical tool within the UAE's pursuit of lacklustre economic development. The empirical study also provides evidence that VAT collection becomes a channel of the relationship between shadow economy and economic performance, implying that at macro level consequence of the evasion is transmitted majorly on fiscal revenue impact. This shows that the VAT enforcement, taxpayer education and digital reporting and closing of administrative loopholes, which facilitates evasion, need to be pursued strategically. Practically, the estimated results suggest that policy makers should pay more attentions to investing in digital tax infrastructure, enhancing compliance program and improving governance structure in order to reduce VAT evasion. This paper therefore contributes to the literature on VATs in developing countries and it provides empirical evidence on how tax behaviour influences national productivity too. In future, the present study may be supplemented by further research such as sectoral VAT dynamics studies and could utilize longitudinal data or cross-comparative GCC tax systems to provide a clearer picture of the changing role played by VAT within sustainable economic development. The results of the study have some significant policy implications pertaining to F&A consolidation, Economic governance and Social welfare in the UAE. First, the strong correlation of tax evasion and decreasing value-added tax (VAT) revenue performance indicates the necessity for better enforcement systems, such as electronic audits, e-invoicing, and real-time transaction monitoring. Evidence from the EU VAT-gap decrease is that these technologies do have a major positive impact on compliance and revenue losses reduction (Christos, 2025). The adoption of similar systems in the UAE would bolster fiscal stability and improve revenue generation effectiveness. Second, given that the mediating effect of VAT revenues is robust, ensuring stable VAT revenue collection matters for economic performance. Building administrative capacity and enhancing taxpayer services, as well as simplifying procedures, can also contribute to making VAT inflows more predictable. That predictability is vital in allowing the government to plan public investment, infrastructure and long-term fiscal planning. Third, the results indicate that fostering tax morale and transparency matters and trust in government institutions matter as well. The state's capacity to turn tax revenues into social welfare outcomes (ie,

healthcare, education and infrastructure) is the primary mechanism for promoting such investment. If taxpayers believe VAT revenues was spent efficiently, voluntary compliance is likely to rise (Fitria, 2024). For this reason, enhanced communication about the way in which VAT revenues are used to fund public services can result in improved compliance and a more equitable distribution of social welfare. Lastly, the fight against tax evasion must be seen as a social duty not only an economic one. Loss in revenue due to evasion constrains the government's ability to provide essential services, and widens disparity among social classes. Thus, enforcement policies which combine legal repression with tax education, public information systems and open budget reporting can promote welfare fairness as well as fiscal efficiency. Such unified actions would enable the UAE to maintain its economic diversification plans while promoting an inclusive and fair development process.

Authors' Contributions

The first author spearheaded the formation of ideas and a research model, and wrote the introduction, problem statement, and theoretical background. The measurement model was developed by the first author, who also built the questionnaire and managed data collection. The second author conducted the empirical analysis which included data wrangling, statistical model estimation, and producing all tables and figures. The third author provided contribution to the review of literature, integration of theories and interpreting the data within scholarly tradition. All authors reviewed the manuscript for academic quality and adherence to journal guidelines, and completed discussion, policy implications, and conclusion. All authors were involved in drafting the article or revising it and provided final approval of the version to be published.

Disclosure of AI Use

The authors used OpenAI's in reviewing and editing the content of manuscript only to correct English language issues prior to publication. The tool was used to enforce grammar, clear up expression, and refine style. All contents have been reviewed and confirmed for its accuracy and integrity by the authors.

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