**The Role of Corruption Control in Moderating the Relationship between Value Added Tax and Income Inequality**

Mohd Zulkhairi Mustapha1

Department of Accounting, Faculty of Business and Accountancy, University of Malaya, Kuala Lumpur, Malaysia

Eric H.Y. Koh2

Department of Finance and Banking, Faculty of Business and Accountancy, University of Malaya, Kuala Lumpur, Malaysia.

Sok-Gee Chan3\*

Department of Finance and Banking, Faculty of Business and Accountancy, University of Malaya, Kuala Lumpur, Malaysia.

Phone.: +603-79673888 Fax: 03-79673980 E-mail: sokgee@um.edu.my

Zulkufly Ramly4

Department of Finance, Kulliyah of Economics and Management Sciences, International Islamic University Malaysia, Kuala Lumpur, Malaysia

**Corresponding author:**

Sok-Gee Chan,

Department of Finance and Banking, Faculty of Business and Accountancy,

University of Malaya, 50603 Kuala Lumpur, Malaysia.

Tel: +603-79673888

Fax: +603-79673980

E-mail: sokgee@um.edu.my

**Abstract**

This paper investigates the mediating role of the control of corruption on VAT and income inequality in the top 10 most corrupted countries. We employed quantile regression to capture the varying effects of income inequality. The results suggest that most corrupted countries with lower income inequality did not benefit from VAT, but they stand to gain if the income inequality is wide. VAT seems to improve the effectiveness of tax collection, which the government can allocate the higher tax revenues for social and economic programs to benefit poor people. Our finding also suggest the extent of control of corruption and the improved governance of tax collection via VAT in our sample that consists of countries with high level of corruption are not strong enough to reduce income inequality.

**Keywords** income inequality, corruption, value-added tax

**JEL Classifications** E62 H25 D73

**Acknowledgements** This work was supported by the Fundamental Research Grant FP034-2014B, Ministry of Education Malaysia.