

Tax, Transparency, and Trust

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Is Tax Transparency and Trust Important?

An online survey experiment spanning 50 countries finds sizable improvements in tax morale when...

the salience of anti-corruption efforts is increased

citizens are allowed to voice their expenditure preferences to the government.

Example: Participatory governance institutions in Brazil...

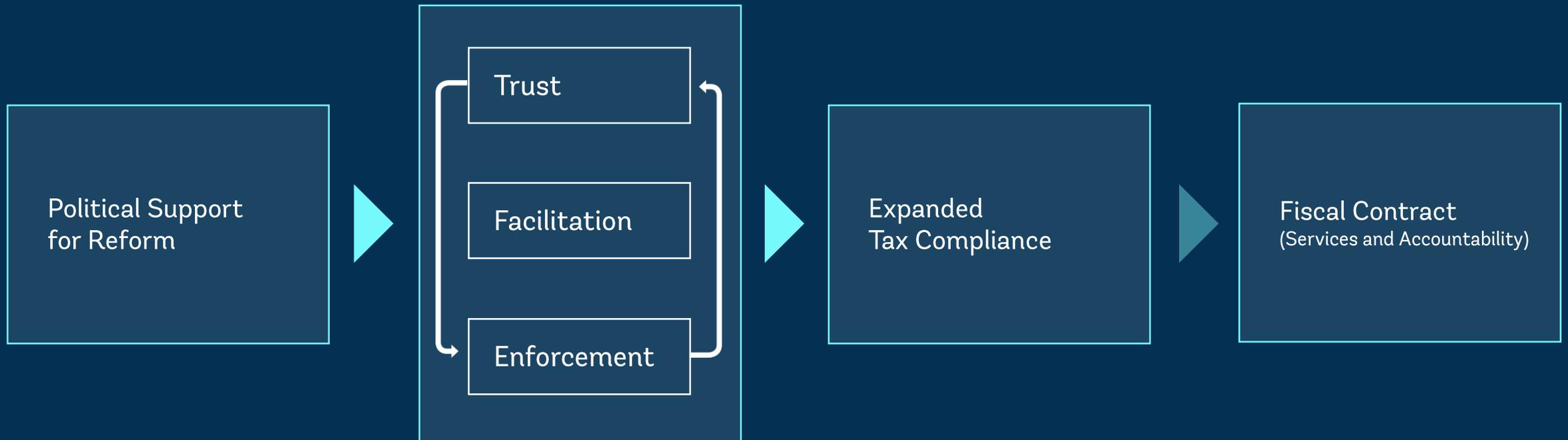
voluntary adoption of participatory governance institutions influences municipal tax collection in Brazil.

Municipalities that voluntarily adopt participatory institutions collect significantly higher levels of taxes than similar municipalities without these institutions.

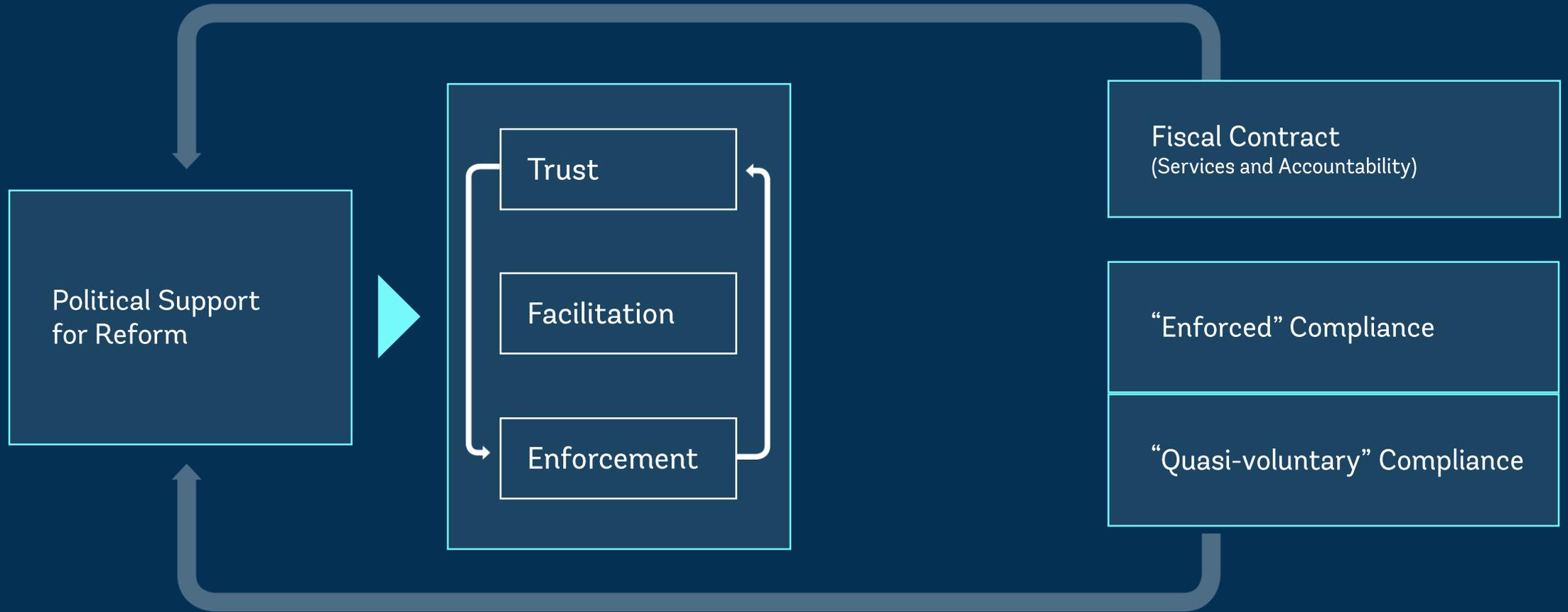
Traditional Theory of Change for Tax Reform



Moving to an Alternative Theory of Change

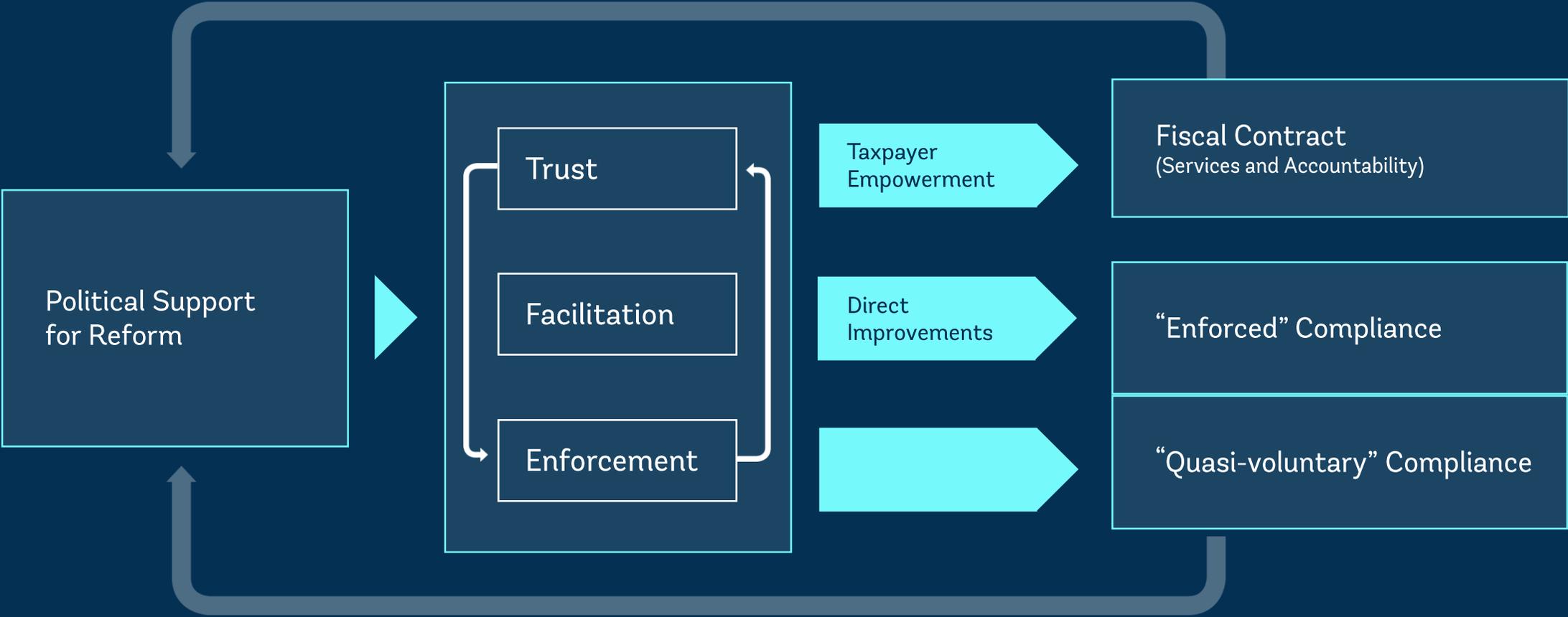


Moving to an Alternative Theory of Change



Theory of Change for Innovations in Tax Compliance

Tax Governance Outcomes: Reciprocity and Accountability



Tax System Outcomes: Fairness and Equity

Set of Questions Guiding Reformers

What are the reform objectives?

What types of reform can best meet these objectives?

What is the binding constraint on reform?

How can investments in enforcement, facilitation and trust best be combined?

What types of investments can best be combined, and is there adequate political support for reform?

Methodology – 3 core, overlapping modules

A binding constraints module

Clearly defined statement of the problem

Developing a decision tree that lays out all the potential causes of suboptimal performance

Systematically identifying which causes are, in fact, most important

Amongst these, identify likely binding constraints

A problem focused political economy module

Assesses the enabling environment for reform

A taxpayer trust survey

Covering taxpayer attitudes, taxpayer experience, tax morale

Incl. survey experiments to test whether hypothetical variations in the taxpayer trust environment impact willingness to pay tax

Setting: Property Tax in Kaduna State

The main objective of the work was a Property tax is set to become one of Kaduna **property tax compliance assessment, aimed at assisting Kaduna State to unlock its bottlenecks in tax collection**

Property tax is set to become one of Kaduna's main sources of internally generated revenue, but, at <1% of IGR in 2017, it currently is negligible

The Kaduna State government has started **with transformative investments in new IT systems, and a harmonization of the tax law;**

While this has resulted in some significant gains, the assessment highlights binding constraints to further progress in property tax compliance, notably:

- (i) strengthening core elements of the Kaduna Inland Revenue Service (KADIRS);
- (ii) building broader based support and taxpayer trust in the face of mounting skepticism

Survey of the Broad Compliance Environment

Tax morale

Majorities expressed belief in an unconditioned citizen obligation to pay tax and in the tax authority's right to collect tax, exceeding levels recorded elsewhere in Nigeria (Bodea and LeBas (2016) and Isbell (2017))

At the same time, respondents in Kaduna are more likely than other Nigerians (Afrobarometer 2017) to think that not paying taxes they owe to the government is wrong but more understandable (66%) than punishable (28%)

Reported compliance

The majority (66%) said to have paid taxes in relation to their landed property when they were asked to, either through demand notice or otherwise.

A significant majority of taxpayers (54%) report that evading taxes is (very) difficult, presumably spurring compliance.

Knowledge of the Tax System

Taxpayers demonstrate a relatively clear understanding that Land Use Charge is now collected by the Kaduna IRS.

65% of respondents believe KADIRS is involved;

28% believe KADGIS is involved;

17% believe LGAs are.

Taxpayers have comparatively little knowledge on the details of taxes asked to pay:

Majority of respondents was able to volunteer at least 1 of the charged on property—only 7% named both the LUC and ground rent.

Of those who paid ground rent, 60% were not clear how it was determined.

Experiences with the Tax System

Clear support for the decision to shift property tax administration to the state level:

Respondents trust the following institutions somewhat/a great deal:

45% LGAs

54% KADIRS

59% Kaduna State Government

Taxpayer experience:

Respondents deem the following polite in their collection of tax:

97% KADIRS

83% LGAs

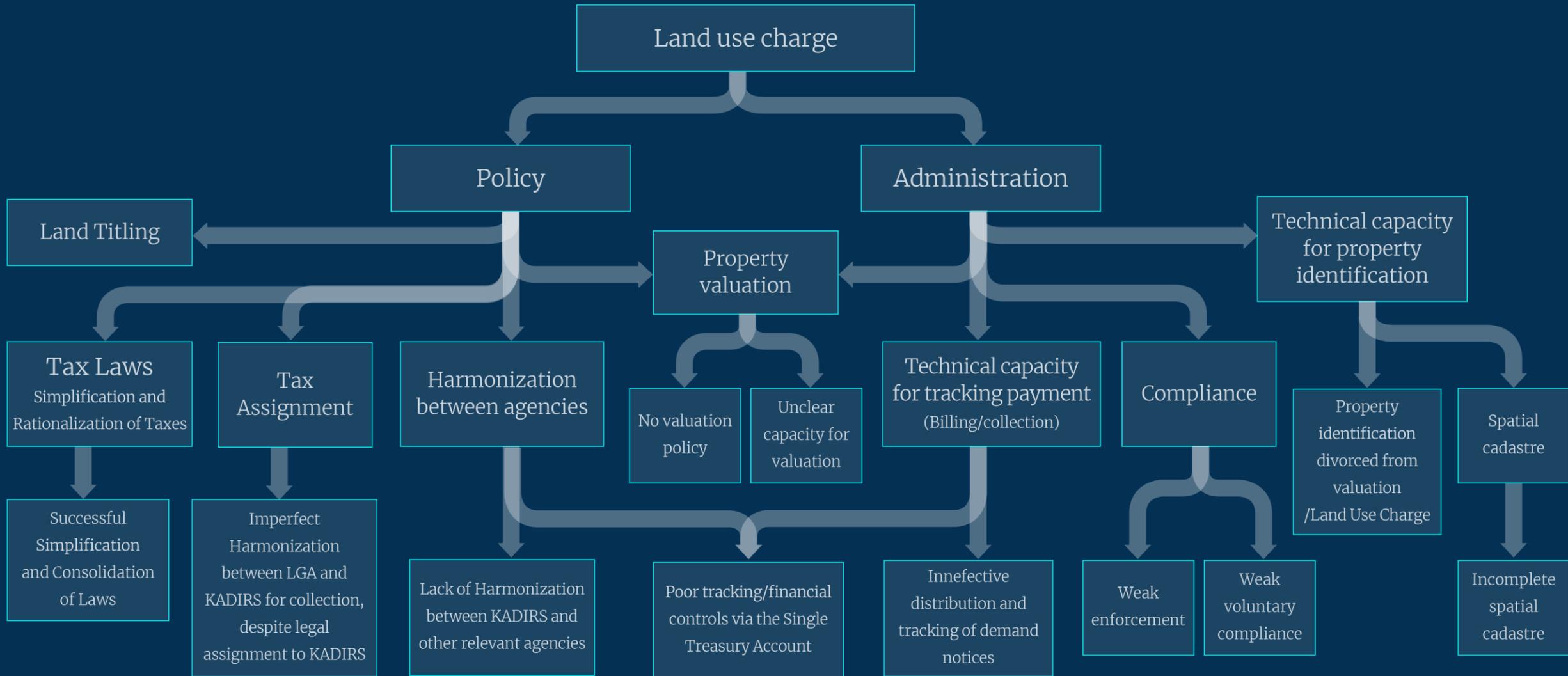
Respondents see property taxes assessed by LGAs negotiable almost twice as frequently compared to KADIRS:

55% of the time - LGAs

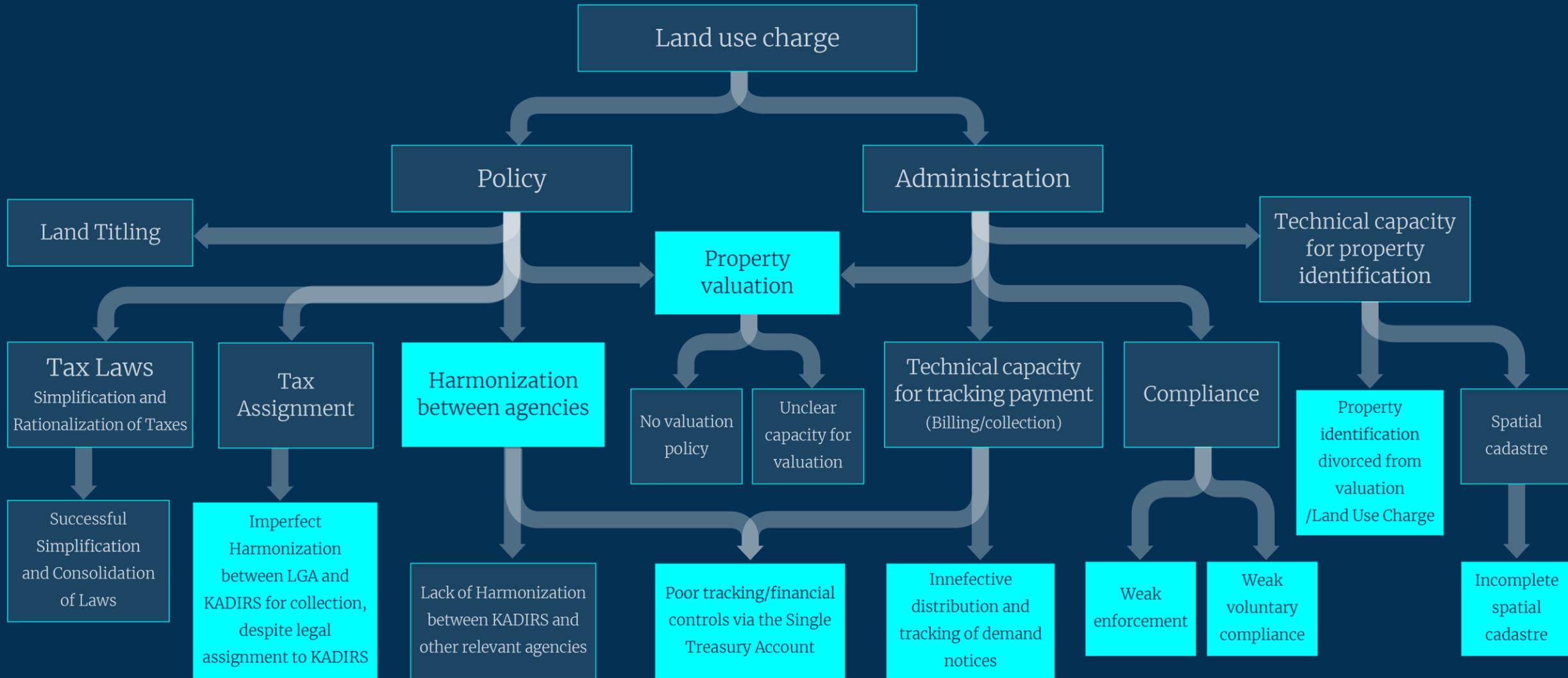
30% of the time - KADIRS

17% of the time - KADGIS

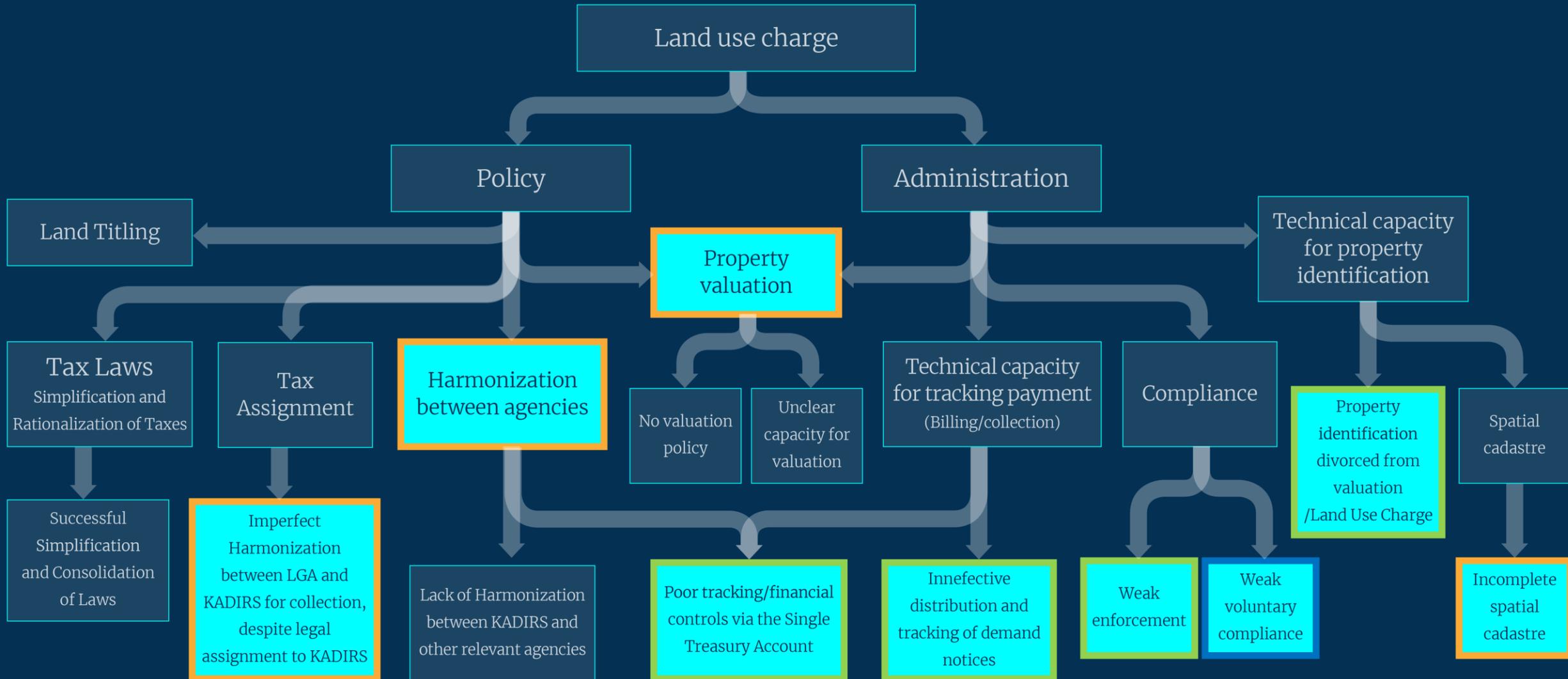
Binding Constraints – all *potential* causes of underperformance



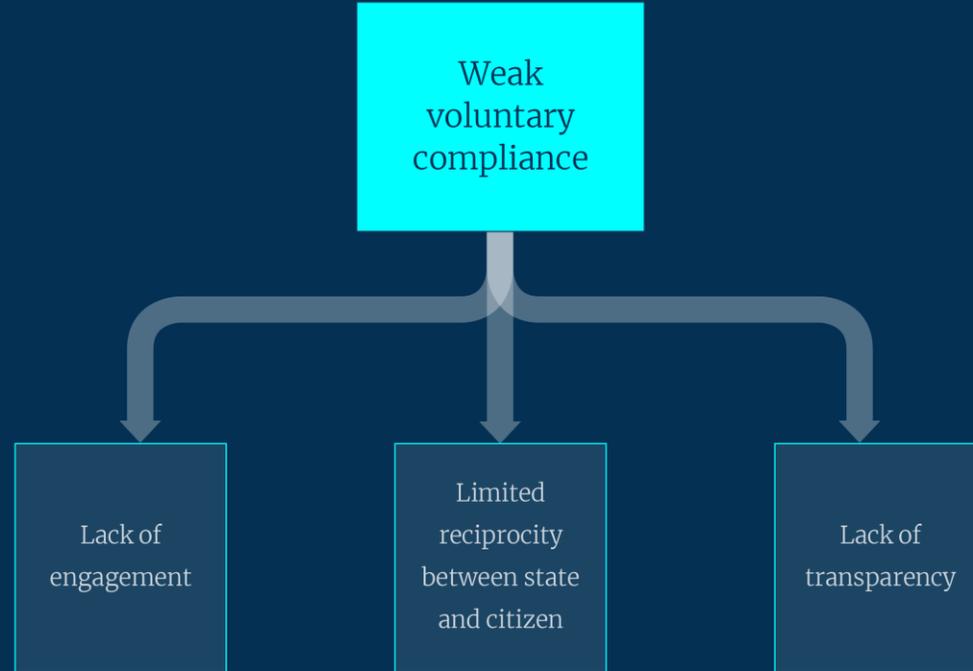
Binding Constraints – all *potential* targets for reform



Binding Constraints – characterizing immediate *binding* constraints



Binding Constraints – characterizing immediate *binding* constraints



Directions for Immediate Reform

MAKE PUBLIC INVESTMENTS IN STRENGTHENING TAX MORALE
AND TAXPAYER COMPLIANCE

Improved transparency and communication to taxpayers about tax obligations;

Consider policies aimed at improving popular participation in budgeting and in the prioritization of capital investments;

Consider policies that increase the perception of strong links between tax payment and service provision.



Thank You

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Working Papers

Voice and Punishment

A Global Survey Experiment on Tax Morale

bit.ly/2X8p7X9

Of Governance and Revenue

Participatory Institutions

and Tax Compliance in Brazil

bit.ly/2Vk21wm