Global Report on Tax Morale

Preliminary findings

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Tax revenues and development

Not just an issue of different levels of economic development
What factors explain the differences across countries?

- **“Usual suspects”:** weak tax enforcement and administration

- **Social preferences** (sometimes linked to fairness and transparency considerations)

- **Low fiscal legitimacy:**
  - The state/government is perceived as weak in delivering essential services
  - Public revenue are diverted or used to benefit a few
  - People do not feel that tax compliance is a moral obligation
  - Vicious cycle: underfunded governments cannot deliver

It is key to understand the relative importance of these issues to design effective policies.
The approach chosen for this report

- **Micro-econometric evidence** from public opinion surveys across the world (World Value Survey) to understand the impact of socioeconomic variables and perceptions within countries.

- Analyze **differences across regions** along some key dimensions (interaction terms).

- **Averages across countries from opinion surveys.** At the regional level: *Afrobarometer, Asiabarometer* and *Latinobarometer* (to increase coverage).*
Micro-econometric evidence: Sample issues

- **Tax morale variable** (from WVS, circa 2005)
  
  *Do you justify cheating on taxes if you have the chance? 1 (always) – 10 (never)*

- Sample: 55 countries; around 52,000 observations

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Micro-econometric evidence: Explanatory variables and controls

- **Marital status** (married/living together; divorced/separated; widow/single)
- **Religious** (binary variable; 1 if respondent considers herself religious)
- **Female** (binary variable; 1 if female respondent)
- **Educational attainment** (1 – no formal education up to 9 – University completed)
- **Employment status** (8 binary variables: full-time; part-time; self-employed; retired; housewife; student; unemployed; other)
- **Income quintile**: self-perceived relative position
- **Economic problems**: binary variable 1 if cannot save or had to borrow to satisfy needs, else 0
- **Support for democracy**: having a democratic system is (1 very bad – 4 very good)
- **Trust in government**: confidence in national government (1 none at all – 4 a great deal)
- ** Democracies should redistribute**: tax the rich and subside the poor (1 not essential – 10 essential)
Results: Effects of perceptions and socioeconomic variables

Marginal effects on the probability of reporting high tax morale

Note: The marginal effects are evaluated at the mean of the explanatory variables. The dependent variable is a dummy that equals 1 if the person rates on a scale from 1 to 10 that tax evasion is always (1) to never (10) justified, at least 6. For support of democracy and trust in government, it compares the effect of no support/no trust versus high support/high trust. Female is the effect of being a woman. Religious the effect of a dummy for people who consider themselves religious. Age accounts for the effect of 40 years. Educational attainment accounts for the difference between tertiary education completed and some primary education.
Differences across regions: often large and significant

Difference with respect to Anglo-Saxon countries

- Support for Democracy
- Trust in Government
- Redistributive Democracies

Western Europe
Eastern Europe
Asia
Africa
Latin America
• **Perceptions on the functioning of democracy, transparency and fairness** are important to understand attitudes towards taxation.

• **Sociological issues**: religiousness, gender, relative income, age composition of the population (might relate to type of social insurance and programs; or stigma of evading taxes)

• **Economic conditions matter**: tax morale is lower if people struggle to get by or are unemployed

• **Education spillovers to tax morale**: e.g. Educational upgrading seems to lead towards greater tax morale (public service link?)

• However, differences across countries account for a significant fraction of the total variation in tax morale in our sample.
Regional patterns: An example based on Afrobarometer

Countries with higher tax morale exhibit higher tax effort

Tax morale measure: The tax department always has the right to make people pay taxes (1: strongly disagree – 5: strongly agree)

Tax effort: observed revenues relative to predicted revenues based on GDP per capita, trade openness and structure of the economy
Regional patterns: An example based on Afrobaromter II

Countries show higher tax morale when corruption is under control

Tax morale measure:
The tax department always has the right to make people pay taxes (1: strongly disagree – 5: strongly agree)

Corruption of tax officials: 1 All are corrupt; 4 none
Satisfaction with public services is associated with higher tax morale

Tax morale measure: The tax department always has the right to make people pay taxes (1: strongly disagree – 5: strongly agree)

Satisfaction with water and sanitation: 1 Not satisfied; 4 Very satisfied

\[ y = 0.4071x + 0.8536 \]

\[ R^2 = 0.2102 \]
Next potential steps (many beyond the report)

- Result so far show the **need to consider a broad approach** to domestic resource mobilisation efforts **integrating the tax and expenditure sides**.
- For **regular and global comparisons** across countries, there is need to:
  - increase country coverage and
  - homogenize tax morale measures as well as questionnaires across surveys
  **Disadvantages**: cost and small sample problems to understand better country-specific issues

- **Country-specific studies**
  - In-depth analysis of constraints to fiscal policies
  - International benchmarking to understand gaps (need to develop better methodology and data)
  - Understand public preferences and confidence gaps to determine the path and priorities of reform
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Thank you very much!

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