WHAT IS DRIVING TAX MORALE?

An empirical analysis on social preferences and attitudes towards taxation

Joseph Stead
René Orozco

The Task Force on Tax and Development
The Role of Tax Morale in Development
25th January 2019, Paris
What is driving tax morale?

- Individuals
- Business
What is driving tax morale?

- Individuals
- Business
Tax morale varies across different regions

Tax morale in the world by regions, 2010-2013
% of the population never justifying cheating on taxes

% of respondents never justifying cheating on taxes

Selected OECD | Latin America | Emerging Asia | Africa | Eastern Europe | Rest of the world
---|---|---|---|---|---
Average (Min, Max) | 60% (40%, 80%) | 60% (40%, 80%) | 60% (40%, 80%) | 60% (40%, 80%) | 60% (40%, 80%)
Socio-economic factors are key determinants of tax morale in the global analysis

Socio-economic factors associated with tax morale

- Age
- Citizen
- Educational Attainment
- Female
- Religious
Similarly, in the regional analysis socio-economic factors are key determinants of tax morale.

Socio-economic factors associated with tax morale

Panel A. Tax Morale in Africa
- Urban
- Educational Attainment
- Female

Panel B. Tax Morale in Asia
- Age
- Educational Attainment
- Female

Panel C. Tax Morale in Latin America
- Age
- Educational Attainment
Institutional factors are also key determinants of tax morale in the global analysis.

**Institutional factors associated with tax morale**

- **Meritocracy**: 14.0% in 2005, 12.0% in 2010-2013
- **Support for Democracy**: 12.0% in 2005, 13.0% in 2010-2013
- **Redistributive Democracies**: 4.0% in 2005, 4.0% in 2010-2013
- **Trust in Government**: 2.0% in 2005, 3.0% in 2010-2013
- **Income Equality**: 7.0% in 2005, 8.0% in 2010-2013
The analysis highlights the positive link between tax morale and public services in Africa.

Factors associated with tax morale and taxation in Africa, 2016

Panel A. Tax Morale in Africa

Panel B. Citizens must pay their taxes to the gov in order for the country to develop in Africa

Panel C. Factors associated with the willingness to increase spending on health in Africa
Factors associated with tax morale and taxation in Latin America, 2016

- Not consistent with previous research, not clear if this is statistical anomaly or the fiscal contract has weakened in Latin America
The analysis highlights the positive link between tax morale and tax administration in Africa.

**Tax administration and tax morale and taxation in Africa, 2016**

**Panel A. Tax Morale in Africa**
- Tax authorities legitimacy: 23.5%
- Positive attitude towards paying taxes: 20.3%
- Difficulty of avoiding taxes: 6.9%
- Difficulty of finding out what taxes to pay: -6.8%

**Panel B. Citizens must pay their taxes to the gov in order for the country to develop in Africa**
- Tax authorities legitimacy: 28%
- Positive attitude towards paying taxes: 11%
- Difficulty of avoiding taxes: -4.2%
- Difficulty of finding out what taxes to pay: -6.3%

**Panel C. Factors associated with the willingness to increase spending on health in Africa**
- Tax authorities legitimacy: 15.6%
- Difficulty of avoiding taxes: -2.7%
- Difficulty of finding out what taxes to pay: -4.6%
Policy considerations

• Taxpayer education programmes can be informed by tax morale data
• Careful consideration is needed before introducing hypothecated taxes
• Build taxpayer profiles
• Support the development of tax administrations
• Deepen the understanding of the drivers of trust in government
• More in-depth country-level surveys can be used to identify the factors at the local level, and where relevant at sub-national level
• Increase the research and data on tax and gender
What is driving tax morale?

• Individuals

• Business
Measuring business tax morale is challenging

- Data sources are limited
- Likely to be differences between SMEs and MNEs
- Need to use proxies – e.g. fraction of sales concealed from tax authorities

- Tax certainty survey provides a new data source that may be useful proxy for MNE tax morale
Given current limitations, tax certainty can be a useful proxy to measure tax morale among MNEs.

Frequency of tax uncertainty seriously affecting business decisions

- Africa
- LAC
- Asia
- OECD

<table>
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<th>LAC</th>
<th>Asia</th>
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<tr>
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<td></td>
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<td>27.5%</td>
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<td>22.5%</td>
<td>22.5%</td>
<td>27.5%</td>
<td>27.5%</td>
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<tr>
<td>Very frequently</td>
<td>15.5%</td>
<td>17.5%</td>
<td>17.5%</td>
<td>14.5%</td>
</tr>
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</table>
As tax morale, tax uncertainty has some significant impacts in tax behavior
The sources of tax uncertainty vary across regions.

Top ten sources of tax uncertainty for firms:

- Uncertainty about the ability to obtain withholding tax relief (e.g., for withholding taxes on portfolio investment) or claim VAT/GST input tax credits or refunds
- Unclear, poorly drafted tax legislation
- Unpredictable or inconsistent treatment by the tax authority
- Considerable bureaucracy to comply with tax legislation, including documentation requirements
- Inability to achieve early certainty proactively through rulings or other similar mechanisms (e.g., Advance Pricing Arrangement)
- Lengthy decision-making of the courts, tribunals or other relevant bodies
- Unpredictable and inconsistent treatment by the courts
- Inconsistencies or conflicts between tax authorities on their interpretations of international tax standards (e.g., on transfer pricing or VAT/GST)
- Lack of expertise in tax administration on aspects of international taxation
- Lack of understanding of international business

**LEGAL SYSTEMS**

- **TAX ADMINISTRATION**

- **DISPUTE RESOLUTIONS**

- **SPECIFIC INTERNATIONAL DIMENSIONS**
The analysis identifies key tools to foster tax certainty

**Top 10 tools to foster tax certainty**

- Domestic tax legislation in line with international taxation standards
- Detailed guidance in tax regulations
- Reduction of bureaucracy to comply with tax legislation
- Reduced frequency of changes in tax legislation
- Changes in statutory tax system announced in advance
- Timely consultation with taxpayers when changes are introduced
- Increased transparency from tax administrations in relation to tax compliance approaches
- Effective domestic dispute resolution regimes
- Mutual agreement procedure MAP
- Multilateral APAs in collaboration with other jurisdictions
Policy considerations

• Increase capacity building on international taxation issues in tax administrations in developing countries

• Increase business engagement in capacity building for tax administrations in developing countries

• Support the development of effective VAT and withholding tax systems

• Unlock the experience from other tax administrations

• Look for synergies in building tax morale across the whole tax system

• Develop country-level surveys to identify key issues affecting tax morale across different types of businesses (both size and sectors)
What is driving tax morale?

Appendix
Main messages

- There has been relatively limited research on business tax morale, especially in developing countries.

- With limited evidence to draw on, businesses’ views on tax certainty in developing regions have been used as a proxy for tax morale.

- Tax certainty appears to have a greater impact on business decisions in developing countries than OECD countries, resulting in modified business structures, increased costs, and changes to investment decisions.

- With some regional variations, both international taxation and the relationship between the authorities and businesses are consistent concerns across developing countries.
Main messages

• Tax morale is generally higher in countries that tax more (fiscal contract?)

• New data confirms previous findings that age, education, religion and trust in government all appear to influence tax morale

• While at the global level women have higher tax morale than men, in Africa they have lower tax morale

• More detailed data, currently only available with respect to Africa, shows that the perceived quality of the tax administration is a key determinant of tax morale.

• Data from Africa highlight the positive link between tax morale and public service provision, with a less clear relationship in Latin America.
SESSION 1: TAX MORALE IN INDIVIDUALS – WHAT DO WE KNOW?

Moderator: Sebastian Nieto, Head of Unit, Latin America and the Caribbean, OECD Development Centre

Speakers:
- Patrick Mukiibi, Commissioner for Tax Investigations, Uganda Revenue Authority
- Dr. Katharina Gangl, Assistant Professor, University of Göttingen, Germany
- Anette Erling Jivenius, Swedish Tax Agency

25th January, 2019
9:00 – 11:00
Tax Morale in Individuals
Swedish Tax Agency
25 January 2019
"If I had the opportunity, I would not declare taxable income"
(Share that agree)
The Swedish Tax Agency’s shift

<table>
<thead>
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<th>1970</th>
<th>2000</th>
<th>2017</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feared tax collector</td>
<td>Popular service agency</td>
<td>Enabler</td>
<td></td>
</tr>
</tbody>
</table>

[Images of people and objects representing the shift from feared tax collector to popular service agency to enabler]
Procedural justice
Our view on taxpayers

Are taxpayers inherently good or bad and should be treated accordingly?

OR

Are taxpayers’ behaviour to a large extent the result of what we and others do?

What is easiest for us to influence?
Antagonistic climate

Coerced compliance
- Enforcement used as deterrence
- Enforcement destroys trust

"You must comply, or else.."

Trust based climate

Voluntary compliance
- Enforcement that supports social norms and the willingness to comply
- Enforcement contributes to trust

"We will make sure that others comply"

A strategic choice
Trust in different organisations

- Tax agency
- Amnesty
- Red cross
- Salvation army
- Swedish armed forces
- General audit office
- Insurance agency
- Migration agency
- Employment agency
SESSION 2: TAX MORALE IN BUSINESS – WHAT DO WE KNOW?

**Moderator:** Matthew Gbonjubola  (FIRS, Nigeria)

**Speakers:**
- Janine Juggins, EVP Global Tax, Unilever
- Yamuna Sastry, Founder, CabDost (social enterprise), India
- Darlingston Y. Talery, Commissioner - Domestic Taxes, Liberia Revenue Authority

11:30 – 13:00
Tax Morale Conference
Liberia’s TIWB Transfer Pricing Program in Perspective

by: Mr. Darlingston Y. Talery, Commissioner Domestic Taxes Department, Liberia Revenue Authority
Outline

- Background to our Transfer Pricing Program
- Liberia’s Tax Inspectors Without Borders Program
- Successes/Achievements of the TIWB Program
- Current Challenges
- What are we currently doing?
Background to Our Transfer Pricing Program

ATAF/OECD/WBG Interventions – 2015 to 2018

- Transfer pricing regulations
- Transfer pricing practice notes
- Transfer pricing return schedules
- Transfer pricing risk assessment Toolkit
- Advance Pricing Agreements (APA) Guidelines
- Capacity building - auditors
- Awareness training – BOTA and Judiciary
Tax Inspectors Without Borders Program

An OECD – UNDP initiative to facilitate long-term skills-building to tax administrations

- Matches developing country needs with experienced auditors, providers and donors
- Focuses on auditing – mostly large taxpayers and multinational enterprises
- Involves hands-on working on audit cases
- Focus on largest MNEs in the mining sector; Major Diamond dealers; and Sub-contractors in the mining sector.
- Challenging complex avoidance issues including transfer pricing and thin capitalisation
Successes/Achievements

- **Completed two audits in the Mining sector**
  - Over US$ 60M assessed including penalty and interest

- Two audits in the mining sector nearing completion
- Two audits just begun in the telecommunication and insurance sectors
- Audit of the agriculture sector to begin shortly
- Filing of 2017 TP Tax returns – expected 50; received 30 on time and 15 after the due date.
Successes/Achievements cont’d

- Capacity building and knowledge transfer

  - Do it alone as a result of the on-site one on one knowledge transfer
  - Perform better critical analysis – Functional and comparability analysis
Successes/Achievements cont’d

- Synergy between LRA and tax practitioners
  - Enhanced dialogue between LRA and tax preparers (Tax Clinics)
  - Increased TP returns received (even though about 25% were received after the due date)
  - Increase awareness among taxpayers to keep transactional documentations (LRA is watching!)
Current Challenges

- Finding comparable databases
- Taxpayer difficulty in understanding the principles and intricacies of transfer pricing
- High cost of filing TP returns – tax advisors/preparers
What are we doing currently?

- Constituted the Transfer Pricing Team for both audit and other compliance purposes
  - Compose of auditors, lawyers and economists – eight auditors, one lawyer, and one economist.
  - For peer learning – transfer of knowledge and skills between peers
- Further training and capacity building with BOTA and Judiciary
- Seeking funding for comparable databases
THANK YOU!
CabDost
Helping taxi drivers secure a better financial future
Where CabDost comes in

To ensure Taxi drivers have access to the same financial resources as any other self-employed individual.

HOW?

- Trigger Awareness
- Sensitize about ITR filing process
- TDS refund procedures
- Financial Planning
BE LOCAL THINK GLOBAL MANTRA
MARKET PLACE BASED FREE TAX FILING CAMPAIGN
BUILD SENSE OF BELONGINGNESS FOR TAX SYSTEM AND NATION’S GROWTH
FINANCIAL LITERACY PROGRAM : TO ADDRESS THE BARRIERS
WHAT IS A NATION WITHOUT MOTHER TONGUE?

2014-15 (II PUC) Calendar
Since 2016
From 2017
Until March 31, 2017.

Date: 4th week of May 2017
Time: 10-30 AM 6-00 PM
Place: 560 003

Contact Information:

A Grade, B Grade, C Grade, D Grade, E Grade, F Grade, G Grade, H Grade, I Grade, J Grade, K Grade, L Grade, M Grade, N Grade, O Grade, P Grade, Q Grade, R Grade, S Grade, T Grade, U Grade, V Grade, W Grade, X Grade, Y Grade, Z Grade.
TAX-E-MELA

[FOR 2014-15 ONLY]

Date: 22-24 January 2017
Time: 7:00 a.m. - 11:00 a.m. | 3:00 p.m. - 6:00 p.m.
Venue: P7 Parking Area, GVK KIA8 Airport

Contact:
+91 959 090 8908
+91 959 090 8906

2014-15 (CPE) Scheme details available on website of
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Step 3: Complete payment Rs.500/- post filing.

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PAN, Aadhaar & Bank Statement

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SECRET SAUCE = PARTNERSHIPS
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= FINANCIAL DIGNITY FOR TAXI DRIVERS
IT TAKES A VILLAGE ! TO BRING INFORMAL ECONOMY TO TAX UMBRELLA
TAX = MY FUTURE
SESSION 3: TOOL TO BUILD TAX MORALE – CURRENT AND FUTURE APPROACHES

Moderator: Grace Perez-Navarro, Deputy Director CTPA, OECD

Speakers:

- Anna Custers, Economist, World Bank Group
- Borja Diaz, Senior Technician, Eurosocial
- Cassiel Forson MP, Ranking Member, Finance Committee Parliament of Ghana
- Nida Broughton, Head of Economic Growth and Productivity, Behavioural Insights Team

14:00 – 15:30
Innovations in Tax Compliance

The Role of Tax Morale in Development
OECD, Paris, January 2019
Traditional Theory of Change for Tax Reform

1. Political Support for Reform
2. Enforcement and Facilitation
3. Expanded Tax Compliance
4. Fiscal Contract (Services and Accountability)
Moving to an Alternative Theory of Change

- Political Support for Reform
- Trust
- Facilitation
- Enforcement
- Expanded Tax Compliance
- Fiscal Contract (Services and Accountability)

[Diagram showing the flow of concepts]
Moving to an Alternative Theory of Change

- Political Support for Reform
- Trust
- Facilitation
- Enforcement
- Fiscal Contract (Services and Accountability)
- "Enforced" Compliance
- "Quasi-voluntary" Compliance
Theory of Change for Innovations in Tax Compliance

Tax Governance Outcomes: Reciprocity and Accountability

- Political Support for Reform
- Trust
- Facilitation
- Enforcement

Taxpayer Empowerment

Tax System Outcomes: Fairness and Equity

- Fiscal Contract (Services and Accountability)
- “Enforced” Compliance
- “Quasi-voluntary” Compliance

Trust

Direct Improvements
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 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:
  1. strengthening core elements of the Kaduna Inland Revenue Service (KADIRS);
  2. building broader based support and taxpayer trust in the face of mounting skepticism.
Inattention to strengthening core elements of tax administrations may risk mounting resistance from local governments, tax administrators and taxpayers.

Two-pronged approach, focusing on strengthening enforcement and trust would address the most pressing binding constraints.

What is different?
Thank you!
Taxpayer education in Latin America

Borja Díaz Rivillas
Senior Project Manager EUROsociAL+ / FIIAPP

Paris, January the 25th
Lessons learnt

Commitment at the Tax Administration

Alliance with the education system

Pedagogical approach

Monitoring and peer to peer learning
Case study: El Salvador

- Tax education in the curriculum
- 800,000 school children/year
- Training of commercial technical teachers.
- Tax moral base line (2015)
Case study: University-based centres for accounting and tax support – NAF
Impact

University
- Empowerment of students: updated and practical knowledge, soft skills, personal experience.
- Social responsibility and image enhancement in the community.
- Generates tax knowledge.

Tax administration
- Improves tax moral and ethics of accountants
- Better working relationship with accountants
- Improves voluntary payment of taxes of citizens

Comunity
- Support low income taxpayers in basic tax issues free of charge
- Friendly and personalized environment for people who distrust or have difficulty communicating with the tax administration.
- Improving small business
Impact: #NAF

NAF in Brazil

Other Latin American countries

0 3 6 15 27 1 16 56 165 265
50 120 226 345
571 NAF in 10 countries, more than 80,000 citizenship supported by 6,000 students during 2017.
Núcleos de Apoyo Contable y Fiscal

Atenciones: Abril 2017 a Octubre 2018

Universidad

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Fuente: Formato NAF reportado por los Centros de Estudios participantes del programa (corte al 28 noviembre 2018 a las 15:00 horas).
Elaborado por: Gerencia de Cultura Tributaria y Aduanera - Instituto Aduanero Tributario (IAT) de la SUNAT.
EARMARKING OF VAT REVENUES AND THE IMPLICATIONS FOR BUILDING TAX MORALES IN GHANA

BY:

CASSIEL FORSON

MEMBER OF PARLIAMENT AND RANKING MEMBER OF FINANCE COMMITTEE – PARLIAMENT OF GHANA.
INTRODUCTION

- Most of the literature makes it clear that the whole purpose of earmarking tax revenue is to create a reliable source of funding to support critical central government expenditures such as education, health, infrastructure, etc (Cheryl et al., 2017; Bird et al., 2005; Marsiliani & Renstrom, 2000). They are charged as a fixed percent of a broad tax or a separate tax.

- In the case of Ghana, specific VAT handles are used as earmarked taxes. The rationale for imposing these earmarked taxes was to create a sustainable source of funding for health (NHIL), education (GETFund) and infrastructure (GIIF).
  - E.g. Health (NHIL) (2.5% VAT and 2.5% SSNIT), Education (GETFund) (2.5% VAT), Infrastructure (GIIF) (2.5% VAT)

- Earmarked funds Capping and Realignment Act was introduced in 2017 to create fiscal space for government.
In the past, the total disbursement to earmarked generated from earmarked taxes was about forty (40) percent of tax revenue.

The passage of the Act brought about the capping of earmarked fund tax revenue to twenty-five to (25) percent of tax revenue and to align central government expenditure to statutory funds.

An assessment of the policy after two (2) years of implementation has found the policy to be counterproductive because most of the earmarked funds can’t meet their statutory obligations.

The capping and alignment of earmarked funds resulted in a transfer of nearly GH¢ 2.9 billion ($590million) from GETFund to the central budget as indicated in Table 1 below.
CAPPING OF EARMARKED TAX REVENUE

Table 1: Revenue from Capping and Realignment of GETFund Allocation

<table>
<thead>
<tr>
<th>Year</th>
<th>Expected Yield</th>
<th>Capping (GH¢)</th>
<th>Alignment (GH¢)</th>
<th>Total (GH¢)</th>
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<td>2017</td>
<td>737,013,575</td>
<td>490,706,605</td>
<td>215,000,000</td>
<td>705,706,605</td>
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<td>2018</td>
<td>1,078,982,848</td>
<td>552,741,110</td>
<td>447,511,600</td>
<td>1,000,252,710</td>
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<td>2019</td>
<td>1,895,100,000</td>
<td>688,336,455</td>
<td>440,000,000</td>
<td>1,128,336,455</td>
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</table>

Total (GH¢) ($)

| Total (GH¢) | 3,711,096,423 | 1,731,784,170 | 1,102,511,600 | 2,834,295,770 |
| Total ($)    | 773,145,088   | 360,788,369   | 229,689,917   | 590,478,285    |

Source: Budget Statement of Government of Ghana
### CAPPING OF EARMARKED TAX REVENUE

<table>
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<tr>
<th>Year</th>
<th>Expected Yield (GH₵)</th>
<th>Capping (GH₵)</th>
<th>Alignment (GH₵)</th>
<th>Total (GH₵)</th>
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<td>2017</td>
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<td>1,037,470,009</td>
<td>456,071,222</td>
<td>1,493,541,231</td>
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<td>2018</td>
<td>1,845,071,064</td>
<td>833,866,766</td>
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<td>2019</td>
<td>2,381,014,749</td>
<td>1,595,773,931</td>
<td>440,000,000</td>
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<td>Total (GH₵)</td>
<td>6,004,768,372</td>
<td>3,467,110,706</td>
<td>1,395,129,622</td>
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<td>722,314,730</td>
<td>290,652,005</td>
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Source: Budget Statement of Government of Ghana
THE ECONOMIC IMPLICATIONS OF CAPPING EARMARKED TAXES

The implications of the cap are that:

- The cap has constrained GETFund’s ability to deliver on its core mandate of making funds available to supplement Government’s role of providing educational infrastructure and facilities within the public sector (from the pre-tertiary to the tertiary level);

- Government made a move to increase public debt by contracting a loan facility for GETFund to clear the outstanding claims, when there is the option to exempt GETFund from the capping and alignment policy. A total amount of $1.5 billion loan is proposed for critical projects by GETFund, which will be disbursed in three tranches.

- More so, GETFund is unable to pay contractors which leaves outstanding claims high at GH¢ 734,813,381, thereby collapsing their working capital;

- Contractors are unable to honor their debt service obligations to financial institutions, which has translated into systemic liquidity crisis in the banking sector. About 70% of loan default cases over the past two years, is attributed to rising government arrears;
THE ECONOMIC IMPLICATIONS OF CAPPING EARMARKED TAXES

- The provision of universal health care will be compromised;
- There is general call to impose new taxes on some selected goods such as sugar, cigarettes and alcohol to raise revenue for the Insurance Scheme;
- There is deterioration in physical capital such as roads, schools, etc;
- It imposes a constraint on key government expenditure;
- Reduces an individual's willingness to pay their taxes;
CONCLUSIONS

- The general principle governing the imposition of earmarked taxes is to ensure that there are able to generate enough revenue to finance the purpose for which they were established.

- These taxes as already stated in the literature are mostly established to serve as a reliable source funding to most statutory funds.

- The imposition of a cap on earmarked/statutory funds weakens their financial strength and this bring about the need to raise additional revenue by introducing new taxes or acquiring additional debt or using some other means to finance the gap created as a result of the capping.

- This situation is more worrisome and leaves the tax payer unfulfilled when the earmarked taxes are not used for the reason for which they were established.
CONCLUSIONS

- This practice does not promote tax morale since it weakens the drivers of trust in good tax governance.

- More so, it does not Support the development of tax administration and compliance and will eventually weaken the links between revenue and expenditure.
THANK YOU
Behavioural insights and tax

OECD Tax Morale conference

Nida Broughton, Head of Work & the Economy, Behavioural Insights Team
In the UK, social norms worked to improve tax payment

We tend to follow social norms and underestimate other people’s good behaviour.

Nine out of ten people pay their tax on time.
What about a country where tax compliance is low?

“According to our records, 64.5% of Guatemalans declared their income tax for the year 2013 on time. You are part of the minority of Guatemalans who are yet to declare for this tax”
What about a country where tax compliance is low?

“According to our records, 64.5% of Guatemalans declared their income tax for the year 2013 on time. You are part of the minority of Guatemalans who are yet to declare for this tax.”

“Previously we have considered your failure to declare an oversight. However, if you don’t declare now we will consider it an active choice. You may therefore be audited and could face the procedure established by law.”
Mexico: Sending reminder SMS texts

Control

[No Message]

Deterrence

[Guadalupe] You should submit your RIF tax declaration before the end of the month. Please declare now avoid being fined with $1240 or more. Thanks SAT

Make it Easy

[Guadalupe] You should submit your RIF declaration before the end of the month. Please declare now at www.sat.gob.mx or call (55) 62722728 opt. 6. Thanks SAT

Reciprocity

[Guadalupe] You should submit your RIF tax declaration before the end of the month. Please declare now you have a reduction of [90/100]% on your payable tax. Thanks SAT
Mexico: Sending reminder SMS texts

**Bar Graph**

- **Control**: Total N=519,932
- **Deterrence**: Mean = 38.6
- **Easy**: Mean = 36.7
- **Reciprocity**: Mean = 37.2

Sample restricted to those assigned to paying taxes

© The Behavioural Insights Team
Subject: Urgent: Please submit your tax return now

Attention: NAME,

Please file your income tax return in the next 10 days

Declare now by visiting: https://www.haciendadigital.go.cr/tribunet/loginDeclaraciones.jsp

According to our records, you have not filed your tax return (Form D101). 8 out of 10 Costa Ricans have already filed their 2014 income tax return. You are part of a small minority of citizens who have not.

It is a serious offense to not file your taxes.

We have third-party information confirming that you or your client performed activities in 2014 which require you to pay taxes.

We have third-party information confirming that you or your client performed activities in 2014 which require you to pay taxes. From third-party returns (D150, D151 and D153), we know about your operations, for example:

- Revenues of at least XXX reported by COMPANY,
- Revenues from credit/debit cards of at least ZZZ reported by BANK,
- Sales or contracts with state entities of at least WWW.

If you do not file, you could be audited and your business may be closed. Furthermore, your name may be published on our website as someone who did not contribute.

If you have any questions, you can contact me by PHONE or E-MAIL. I'll be checking whether you respond to this message.

Sincerely,

NAME OF OFFICIAL POSITION
Costa Rica: Making prospect of being caught salient…

- Control: 9.0
- Behavioural email: 23.9
- Behavioural + TPI email: 27.4

N=12,515

** p<0.01, * p<0.05, + p<0.1

CRC converted to USD on 28/07/16
Rewarding good tax compliance can backfire…

- Winning the tax holiday reduced tax compliance by three percentage points, an effect that lasted up to three years.
- This is likely due to habit interruption because no effect for vehicle tax (winners still pay small amount) or those with automatic debit.

Methodology: Natural experiment (2004-2014)

- Montevideo Municipal Government uses National Lottery results to reward tax compliance
  - Head tax
  - Vehicle
  - Property
  - Sewage
- “Good” = no debt and compliant in previous year, eligible for tax holiday in coming year
- Randomly selected by lottery simulation then assessed as “Good” taxpayers
- Comparison between holiday winners & control group

Thank you

nida.broughon@bi.team
SESSION 4: WHAT NEXT FOR TAX MORALE?

Moderator: Ben Dickinson, Head of Division, Global Relations and Development, CTPA, OECD

Speakers:
- Susana Ruiz, Global Lead, Tax Justice, Oxfam
- Fabrice Murtin, OECD TrustLab

16:00 – 17:00
OECD, TAX MORALE CONFERENCE -
Paris, 25th January 2019

Susana Ruiz. Oxfam
How big is the inequality gap

The wealth of the world’s billionaires increased $900 billion in the last year, which is $2.5 billion a day.

Last year 26 people owned the same as the 3.8 billion people who make up the poorest half of humanity.
THE “INEQUALITY CALCULATOR” – HOW MANY YEARS FOR A CITIZEN IN LOW INCOME LEVEL TO EARN AS MUCH AS A SUPER WEALTHY IN HIS COUNTRY IN ONE MONTH

- Argentina: 174 years
- Suriname: 405 years
- Brazil: 314 años
- Colombia: 442 years
- Mexico: 264 years
- El Salvador: 387 years
- Honduras: 603 years
- Dominican Republic: 196 years
- Haiti: 336 years
- El Salvador: 214 years
Figure 2. Poverty reduction according to the accumulated and combined effect of fiscal policy instruments in LAC, c.2010 (%). (Poverty line at US$4 ppa per day)

Contributory pensions as direct transfer.

The breakdown of tax revenues

- Corporate taxes: 11%
- Wealth taxes: 4%
- Personal income taxes: 21%
- Payroll taxes: 22%
- VAT and other consumption taxes: 39%
- Other: 1%

Note: Rounding issues mean figures may not total 100.

Source: Oxfam calculations based on OECD data available for 35 OECD and 43 non-OECD countries for 2015.
The shift in tax revenues

Figure 2: Tax revenue change 2007–2015 (%GDP)

- Corporations
- Families

Corporate income tax: Decrease
Wealth taxes: Increase
Personal income tax: Increase
Payroll taxes: Increase
Taxes on goods and services: Increase
Other taxes: Increase

Oxfam calculations based on OECD data available for 35 OECD and 43 non-OECD countries (unweighted averages). Axis figures represent pp – percentage points of GDP.
The spiralling of offshore economy

Extreme wealth concentration

FDI through OFC
POWER IMBALANCE: WHO MAKES THE RULES

- Enabling or Limiting Factors (Explanatory Variables)
- Elites + Power Resources
- Context (Intervening Variables)

The Power of Undue Influence

Mechanisms

Dependent Variable
A certain mining elite succeeds (or fails) to get a policy that affects the development of inequality to be debated, formulated or implemented to serve its interests and against the general interest and/or a specific population group.
<table>
<thead>
<tr>
<th>CASE STUDY</th>
<th>Communications and media campaigns</th>
<th>Revolving door</th>
<th>Extraordinary regulatory procedures</th>
<th>Exploitation of weaknesses in the political and electoral systems</th>
<th>Advocacy and lobbying</th>
<th>Technical smokescreen</th>
<th>Exploitation or regulation of regulatory frameworks</th>
<th>Prosecution in constitutional courts</th>
<th>Bills and/or influence peddling</th>
<th>Marches and protests</th>
<th>Opacity in tax havens</th>
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<td>Suspension of Regulation XVI or anti-circumvention regulation in Peru, 2014</td>
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</table>
Perú

Tax reform in Peru 2014

74% citizens declared

“having no understanding or knowledge of economical and tax proposals presented by the government to promote investment and support growth”
Pharma companies “invest” more than any other sector in lobby activities in the US.

More than 1,500 lobbyists, and
200 million USD
TAX, INEQUALITY and CITIZENS MOVEMENTS
Justicia Fiscal
Reorientar
La Prioridad del Gasto Público ¡Ya!
strengthen social change to tackle inequality
Peru’s inequality

40% population vulnerable

12 million people

risk of moving backwards and returning to a situation of poverty
Fiscal Justice Group
NGO’s Alliance
Research
Journalism
TAX Justice
Online campaign
Fiscal Justice Lab
Evidence based advocacy
Public Opinion
Policy change
tax reform – Parliament Commission
Public Engagement + mobilization
empowering change
Podemos Hacerlo!
THE SOCIAL CONTRACT
WE CONTRIBUTE, WE PARTICIPATE
Thank You!!!
susana.ruiz@oxfam.org
THE DETERMINANTS OF TRUST: EVIDENCE FROM TRUSTLAB

Fabrice Murtin
Head of Section, SDD/HSPM
Trustlab process

- Collaboration between the Statistics and Public Governance Directorates

- **External collaboration** with an international network of behavioural economists and political scientists:

- Governments commissioning reports: SVN, KOR

- 7 countries in 2016-2018: FRA, KOR, SVN, USA, DEU, ITA, GBR
Two key contributions

- **Measurement**: Trustlab collects experimental measures from behavioural economics and experimental psychology + self-reported (survey) measures for both interpersonal and institutional trust in order to compare them and better understand them:

  **What do trust measures capture (convergent validity)?**

- **Policy**: Trustlab has built a comprehensive survey on policy perceptions as drivers of trust

  **Where is policy action most needed to rebuild trust?**
The Trustlab Survey

- Online platform run on nationally representative samples of n=1000

<table>
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<th>Module</th>
<th>Focus</th>
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<td>Trust in Institutions</td>
<td>Quasi-experimental</td>
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<td>3</td>
<td>Generalised Trust, Trust in Institutions, Drivers of Trust, Optional modules</td>
<td>Traditional self-reported survey questions</td>
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</table>
Both players start with €10

Player A’s transfer (trust) to player B is multiplied by 3

Player B transfers back some money (trustworthiness)

Player A’s payoff depends on decision by Player B

Behavioural Game I: The Trust Game Measuring Trust and Trustworthiness
Behavioural Game II: The Public Good Game Measuring Cooperation

1. All players start with €10.
2. Players make decision to invest in a joint project.
3. Investments are multiplied by 1.6 and equally redistributed.
4. Player A’s payoff depends on own investment (cooperation) and on other players’ investment.
Glaeser et al. (2000): **No or weak correlation between self-reported and experimental measures of trust in others...**

Distributions of experimental and self-reported trust
Self-reported trust correlates with expected trustworthiness of other people and one’s own trustworthiness (Fehr, 2009)

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<td>Experimental trustworthiness</td>
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<td>0.185***</td>
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<td>0.092**</td>
<td>0.103**</td>
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</table>

Standard errors in parentheses. * = p<0.10, ** = p<0.05, *** = p<0.01
The Determinants of Trust

Determinants of trust and number of corresponding survey or experimental variables:

- Preferences (8)
- Expectations (7)
- Socio-economic Characteristics (10)
- Values (3)
- Community (3)
- Diversity (3)
- Digitalization and globalization (2)
- Government competence (11)
- Government values (6)
Government and the Parliament are the least trusted institutions in most countries.
Government integrity is the most important determinant of trust in government...

- Out of all the policy determinants included in Trustlab, perceived integrity of high-level politicians and government reliability in case of natural disaster are most strongly associated with trust in government across Trustlab countries.
Trustlab and tax morale: a few ideas

- Trustlab needs practical applications and **policy use-cases**: tax morale would be a perfect example, corruption is another good example.
- **Measurement issue 1**: a comparison between self-reported and experimental measures of tax morale could be made (they are not necessarily related, why?)
- **Measurement issue 2**: How do social norms relate to tax morale?
- **Policy insight 1**: a behavioural setting allows measuring the influence of environmental parameters such as probability of fraud detection or size of punishment.
- **Policy insight 2**: What are the policy determinants of tax morale? The same as for trust in government? E.g. perceived quality of public services, integrity of high-level officials etc…
Trustlab needs **funding**, thank you!

Follow our working papers on:

The determinants of trust: evidence from the Trustlab experiment (Murtin et al., 2018)

...and others (forthcoming)