Tax Morale

WHAT DRIVES PEOPLE AND BUSINESSES TO PAY TAX?



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Foreword

A better understanding of what motivates taxpayers to participate in, and comply with, a tax system is valuable for all countries and stakeholders. Tax administrations can benefit from increased compliance and higher revenues, taxpayers (both businesses and individuals) are better served by tax systems that understand and are responsive to their needs, while increased data and discussion can help researchers deepen their understanding. In addition, such understanding can help organisations, such as civil society groups, improve communication on taxation, and development partners to maximise the impact of development assistance.

This report focuses on developing countries, where the importance of tax revenues for development has been highlighted by both the sustainable development goals (SDG) and the Addis Ababa action agenda (AAAA) on financing for development. Tax revenues are the largest source of financing for development, providing the funds governments need to invest, relieving poverty, delivering public services, and building the physical and social infrastructure for long-term development. Increasing tax revenues is therefore an essential goal for developing countries as they seek to raise the additional financing necessary to realise the SDGs.

Many developing countries face a range of challenges in increasing revenue domestically. These challenges may include a small tax base, a large informal sector, weak governance and administrative capacity, low per capita income, low levels of domestic savings and investment, and tax avoidance and evasion by firms and elites. As a result, two-thirds of least developed countries still struggle to raise taxes equivalent to more than 15% of GDP, the widely accepted minimum to enable an effective state. In comparison, OECD member countries raise taxes, on average, close to 35% of the gross domestic product (GDP).

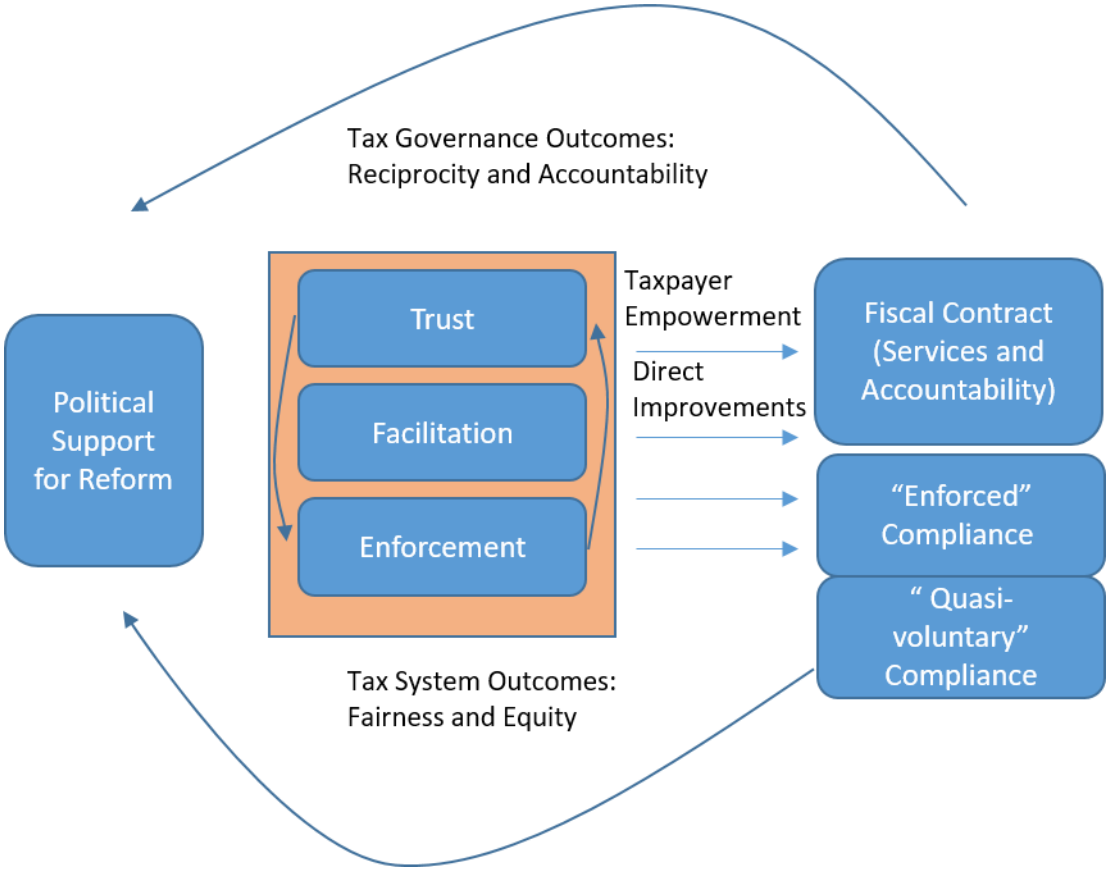
There has been significant progress in recent years, especially in international taxation. Developing countries and development partners alike have been increasing their efforts to support domestic resource mobilisation (DRM). Most notably, signatories to the Addis Tax Initiative have committed to fostering DRM through increased transparency, fairness, effectiveness and efficiency of tax systems, while donors have committed to doubling the amount of support to DRM capacity building. At the international level, new tools, standards and approaches have been agreed, providing new options for all countries. By implementing the Base Erosion and Profit Shifting (BEPS) Actions, (15 measures to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment[1]) governments can enhance their ability to tax Multinational Enterprises (MNE), while improvements to exchange of information offer a range of benefits, especially in taxing high net worth individuals (HNWI).

There remains much to do in building a sustainable taxpaying culture. While the majority of individuals in developing countries will pay indirect, and perhaps informal, taxes, the number of registered taxpayers who file and pay taxes in most developing countries is very low. In addition, a proliferation of tax incentives to businesses, combined with opportunities for aggressive tax planning, have increased the challenge of raising tax revenues from businesses.

An increased focus on tax morale provides a route to increase voluntary compliance. Research shows a significant correlation between tax morale, generally defined as the intrinsic motivation to pay taxes (Torgler, 2005[24])[2], and tax compliance in both developed and developing countries (Ali, Fjeldstad and Sjursen, 2014[1]; Cummings et al., 2009[2]). Thus, a better understanding of what drives differences in tax morale is a key element in explaining variations in tax compliance. It also offers an alternative, grassroots perspective on tax systems, to more traditional administrative and quantitative measures, such as tax-to-GDP ratios.

Tax morale is composed of several, interlinked, elements. One approach to understanding these interlinkages is proposed by the World Bank. The World Bank theory of change for tax compliance (See Figure 1) (World Bank, forthcoming) highlights the dynamic relationships between trust, facilitation, and enforcement, and their role in building tax morale. The theory posits that trust is driven by the degree to which the tax system, including the approach to facilitation and enforcement, is characterized as fair, equitable, reciprocal, and accountable. As such, strengthening tax compliance is not only about improving tax enforcement and "enforced compliance", but also about pursuing "quasi-voluntary compliance" through building trust and facilitating payments – all underpinned by a credible, fair and equitable system of enforcement. For instance, a more service-oriented approach, rather than an enforcement approach, has helped the Swedish tax authorities to increase citizens' trust in government, tax morale and thus tax compliance.

Figure 1. World Bank theory of change for tax compliance



Based on empirical analysis, this report seeks to further the debate on tax morale, including to identify potential policy responses and options for future research. It does not seek to provide definitive answers, but rather to identify a number of areas which may benefit from further consideration, either as part of the policy making process, or through further research. The report uses the latest available data samples to bring new evidence to the understanding of tax morale. It is structured in two chapters. Chapter 1 focuses on the tax morale of individuals, using micro-econometric analysis of public opinion surveys at the global (World Values Survey) and regional levels in Africa, Asia and Latin America (See Annex A). The analysis allows the identification of the socio-economic factors and institutional perceptions that may affect tax morale in developing countries, as well as the testing for evidence of the fiscal contract influencing tax morale. Chapter 2 looks at the tax morale of businesses. It reviews the limited existing literature on tax morale for businesses. It then uses tax certainty as a proxy for tax morale of MNEs relying on survey data from over 500 companies operating in over 80 developing countries to identify some of the potential drivers and impacts of tax morale in MNEs.

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Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda
APA	Advanced Pricing Agreement
ATAF	African Tax Administration Forum
AUC	African Union Commission
BEEPS	Business Environment and Enterprise Performance Survey
BEPS	Base Erosion and Profit Shifting
BIT	Behavioural Insights Team
CAF	Development Bank of Latin America
DRM	Domestic Resource Mobilisation
DBI	Doing Business Indicators
EBRD	European Bank for Reconstruction and Development
ECLAC	Economic Commission for Latin America and the Caribbean
FIIAPP	International and Ibero-American Foundation for Administration and Public Policies
FTA	Forum on Tax Administration
GDP	Gross Domestic Product
GST	Goods and Services Tax
HNWI	High Net Worth Individuals
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MNEs	Multinational Enterprises
PwC	PricewaterhouseCoopers
SDG	Sustainable Development Goals
SME	Small and Medium Sized Enterprises
TIWB	Tax Inspectors Without Borders
UN	United Nations
VAT	Value Added Tax

Executive Summary

Context

All countries and stakeholders can benefit from a deeper understanding of what motivates taxpayers to participate in, and comply with, the tax system. Increasing that knowledge can provide the impetus for the design of more effective and responsive tax systems that increase voluntary tax compliance. Thus, while this report is primarily focussed on development considerations, the findings and recommendations are likely to be of interest to a wider range of countries and stakeholders.

This report focuses on developing countries given that the SDGs and the AAAA have made clear the need to support more effective and efficient DRM. DRM is at the heart of financing for development and tax revenues are the largest single source of financing at every level of development. With the financing gap for the SDGs estimated between USD 3 and 14 trillion (ECLAC, 2017[3]), both the SDGs and the AAAA stress the need for a universal focus on how to maximise the contribution of DRM in bridging the financing gap.

To date, much of the focus of DRM has been on international tax policy and building the capacity of tax administrations. Since the 2008 global financial crisis, significant attention has been paid to international tax policy issues associated with cross-border tax evasion and avoidance. This has led to a range of new tools, standards and approaches to address the challenges of undeclared offshore wealth by individuals and aggressive tax planning by MNEs. Alongside these new mechanisms, which offer significant potential for developed and developing countries alike, there has been an increased emphasis on establishing and measuring the building blocks of effective tax administrations.

In contrast, understanding and improving tax morale has been relatively neglected. Tax morale, generally defined as the intrinsic motivation to pay taxes, is a vital aspect of the tax system, as most tax systems rely on the voluntary compliance of taxpayers for the bulk of their revenues. Improving tax morale therefore holds the potential to increase revenues with (relatively) little enforcement effort. In the short term this potential can be realised largely through behavioural economic approaches, while in the longer term more structural changes are needed to build trust and legitimacy among taxpayers. Given this potential, it is surprising that tax morale has received comparatively little attention.

This report specifically focuses on tax morale in developing countries, using new data sources to identify some of its drivers and dynamics. A deeper understanding of the factors that influence taxpayers' perceptions of the tax system and willingness to pay taxes is the starting point for improving tax morale. This report makes use of recent data to help identify the drivers of tax morale among individuals and businesses, though there are limits to the data, especially in developing countries, so important aspects such as how perceptions of fairness of the tax system affect tax morale could not be tested. This may be a valuable area for future research as and when data become available. Chapter 1 analyses data from global and regional surveys of individuals, where the high volume of respondents allows for deeper interrogation through micro-econometric analysis. Data on tax morale amongst businesses is harder to obtain. Using tax certainty as a proxy for tax morale, Chapter 2 exploits a survey

of over 500 firms, with operations in over 80 developing countries and a combined turnover of over USD 15 trillion to identify some of the factors likely to influence the tax morale of MNEs.

Tax morale in individuals

Tax morale is generally higher in countries that tax more heavily. While there is substantial variation among countries, the general pattern is that countries with high tax to gross domestic product (GDP) ratios have higher tax morale. This may be indicative of a virtuous circle between effective government performance, higher tax morale and voluntary tax compliance (as well as effective enforcement); or evidence of a fiscal contract between taxpayers and the state (a willingness to pay tax by citizens in return for effective public services, (OECD/CAF/UN ECLAC, 2018[4])). Regional-level analysis allows this dynamic to be tested further.

New data from public perception surveys confirms previous findings that age, education, gender, religion, and trust in government all appear to influence tax morale. Comparison of the new global analysis with previous analysis from eight years ago shows that many of the same factors appear to influence tax morale. Individuals who are older, more educated or religious are all shown to have consistently higher levels of tax morale at the global level, as are women, in general. Those who have greater trust in government also have higher tax morale. These results are repeated in the regional analysis, especially in Latin America, with some exceptions in Africa.

While at the global level women have higher tax morale than men, in Africa they are found to have lower tax morale. The reasons for this are unclear and the findings highlight a need for further research on gender and taxation (not just tax morale), including on aspects such as how unpaid care is addressed in the tax system and differences in taxation between female- and male-dominated sectors. Such research is currently hampered by a lack of sex-disaggregated data.

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. Survey results show that the perceived legitimacy of the tax authority is the most significant determinant of tax morale in Africa.

Data from Africa highlight the positive link between tax morale and public service provision, with a less clear relationship in Latin America. Africa showed increased tax morale linked to satisfaction with public services, supporting the existence of the fiscal contract. This relationship was less obvious in Latin America, where trust in the government was important, but higher satisfaction with healthcare was associated with lower tax morale. Furthermore, this contrasts with previous findings, suggesting that the fiscal contract (in Latin America, at least) may be weaker than suspected, especially in areas like healthcare where the role of the state is changing and individuals make substantial financial contributions.

Tax morale in businesses

With limited evidence to draw on, businesses' views on tax certainty in developing regions have been used as a proxy for tax morale in MNEs. The factors likely to affect tax morale vary between small and medium sized enterprises (SMEs) and MNEs. While SMEs may mirror findings for individuals, the greater size and complexity of MNEs is likely to make the tax morale picture more complex too. This report focusses on tax morale in MNEs, as MNEs are especially important in developing country revenue systems, comprising a significant portion of the tax base. To address the lack of data for MNEs, a survey on tax certainty has been used as a proxy for tax morale in MNEs. Tax certainty appears likely to be a key component of tax morale. Simply put, when MNEs perceive low tax certainty they may be less likely to participate actively or positively in the tax system (or at least the

parts that are most uncertain). This relationship plus the lack of other specific data for tax morale in MNEs makes tax certainty a useful possible proxy for tax morale.

Tax certainty appears to have a greater impact on business decisions in developing countries than in OECD countries, resulting in modified business structures, increased costs, and changes to investment decisions. Tax uncertainty was found to affect business decisions in developing countries much more frequently than in OECD member countries. The impacts of this vary, but include increased costs to investment, changes in the business structure or even reduction or change in location of investment. Thus, while other studies have made clear that tax rarely determines whether or not a company invests in a specific country, tax certainty may still have significant impacts on exactly where, how, and how much investment is made.

With some regional variations, both international taxation and the relationship between the tax authorities and businesses are consistent concerns across developing countries. Perhaps unsurprisingly, for a survey of primarily MNEs, the international aspects of taxation were of persistent high concern, highlighting the benefit of adopting international standards in taxation, as well as emphasising the need for capacity building in international tax. Elsewhere, the concerns were generally focussed on the regularity of treatment, or being able to secure certain results (relief/refunds/rulings). Overall, these can be seen as issues of trust, suggesting that trust between taxpayers and tax authorities is likely to be a key component of tax morale for MNEs.

Next Steps

The findings in this report identify a number of areas for policy makers to consider, and for further research. With respect to both individuals and businesses there are a number of areas, especially in supporting the further development of tax administrations, where the findings of this report support intensification, and possible adaptations, of existing efforts. Beyond that there are a number of promising areas for further research to deepen the understanding of patterns identified in this report, and could help integrate tax morale considerations into broader development objectives. Given the variations seen in this report, and the complex interactions between tax morale and other drivers of tax compliance, it will be vital for further work to look at the country (or sub-national) level, and at the role of other factors alongside tax morale.

Policy considerations

Individuals:

- Support taxpayer education programmes – including through incorporating tax morale research and analysis into the programmes.
- Support the development of tax administrations – especially in improving the ease of paying taxes.
- Over the longer term seek to strengthen revenue-expenditure links to build the social contract – with careful consideration before introducing hypothecated taxes.

Businesses (especially MNEs):

- Continue to expand capacity building of tax administrations – with specific attention on international taxation, VAT, and withholding tax systems. Unlocking the experience and expertise from other tax administrations can play a valuable role here.

- Expand business engagement in capacity building for tax administrations – to build the understanding of business processes and structures.

Further research

Individuals

- More in depth country-level analysis, including surveys, to identify the drivers of tax morale at the local and sub-national level, and their relationship to other compliance factors.
- Deepen understanding of the drivers and components of trust in government.
- Increase the research and data available on developing countries, especially on tax and gender.

Businesses

- Identify further approaches and data sources to measure tax morale in businesses of all sizes.
- Develop country-level research to identify key issues affecting tax morale across different types of business (size and sectors).
- Undertake further research to understand the impact of other components of tax morale for business – e.g. the Business at OECD Statement of Tax Best Practices for Engaging with Tax Authorities in Developing Countries.
- Identify the influence on tax morale of key individuals in the firm (e.g. board members, CEO, senior tax staff), and external influences including tax advisors.

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ECLAC (2017), *Financing the 2030 Agenda for Sustainable Development in Latin America and the Caribbean*, https://repositorio.cepal.org/bitstream/handle/11362/41197/4/S1700214_en.pdf (accessed on 8 March 2019). [3]

OECD/CAF/UN ECLAC (2018), *Latin American Economic Outlook 2018: Rethinking Institutions for Development*, OECD Publishing, Paris, https://dx.doi.org/10.1787/leo-2018-en. [4]

Notes

[1] See https://www.oecd.org/tax/beps/.

[2] Definition most commonly used and accepted in the literature.

[3] Comments received are available at https://www.oecd.org/tax/tax-global/public-comments-received-on-draft-report-on-tax-morale.htm.

1 Tax morale in individuals

This chapter focuses on the drivers of tax morale of individuals. Using micro-econometric analysis of public opinion surveys at the global and regional levels it identifies a number of socio-economic and institutional factors that influence tax morale. The chapter also discusses a number of policy responses to help build tax morale, including taxpayer education programmes, behavioural economics approaches, and hypothecated taxes. While more detailed country level analysis is required before embarking on concrete policy changes, the overview provided in this chapter provides a starting point for discussion and further research on the role of tax morale in developing countries.

There is growing research that demonstrates a significant and positive relationship between tax morale and tax compliance in developed and developing economies (Ali, Fjeldstad and Sjursen, 2014[1]; Cummings et al., 2009[2])**.** Recent growth in the use of behavioural economics in tax compliance illustrates how tax administrations are seeking to use an understanding of tax morale to increase compliance (OECD, 2017a[3]).

This chapter uses recent public opinion surveys to revisit previous findings (OECD, 2013[4]) **and deepen understanding of the determinants of tax morale, especially in Africa, Asia and Latin America.** At the global level, the survey questions focussed on the justification for tax avoidance or evasion, which necessarily limits the definition of tax morale, but at the regional level more proxies are used. The research looks at socio-economic and institutional factors, both at the global and regional levels. Using these elements, it also seeks to test for the robustness of the fiscal contract as being a key aspect of tax morale (OECD/CAF/UN ECLAC, 2018[5]).

The findings, combined with lessons from other research, highlight the potential for greater consideration of and research on tax morale in the design and administration of tax policy. For instance, to improve taxpayer profiles and taxpayer education programmes, as well as indicating the need for further research, especially on gender differences in tax morale.

A focus on tax morale should complement, not replace, other efforts to improve compliance. Tax morale forms a part of an individual's compliance decisions, and so needs to be considered alongside other factors (e.g. enforcement). While this work provides a useful starting point for discussion and consideration of tax morale, more detailed country-level research is needed to identify how best to practically incorporate tax morale considerations into broader tax policy and administration in countries.

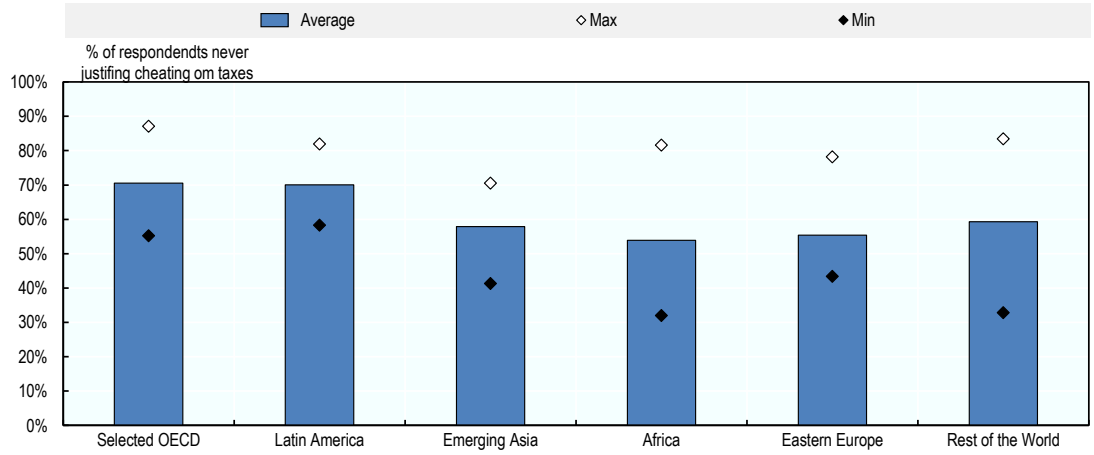
1.1. Tax morale in the world today: global analysis

This report confirms that previous findings on institutional and socio-economic factors associated with tax morale have held over the past decade. Previous research (OECD, 2013[4]) used the World Values Survey to identify institutional and socio-economic factors associated with tax morale. This exercise has been repeated with new data from a more recent round of the survey. Repeating this exercise (see **Annex A** and Table A.9 for methodology) confirms previous findings, providing confidence in the identification of long-term trends and possible policy recommendations.

OECD member and Latin American economies have the highest levels of tax morale, with Africa and Eastern Europe reporting lower levels. Comparing individual attitudes towards tax avoidance and evasion[1], it is possible to measure and compare tax morale in different regions. The results are shown in Figure 1.1. By this measure, OECD[2] and Latin American economies show the highest levels of tax morale (see Section 1.3 on recent changes in Latin America), with more than 70% of the population reporting that they would never justify cheating on taxes. This drops to just over 50% in Africa and Eastern Europe. There are, however, variations within each region, most dramatically in Africa, where the range for respondents never justifying cheating stretches from 82% in the highest-ranked country to 32% in the lowest-ranked country.

Figure 1.1. Tax morale in the world by regions, 2010-2014

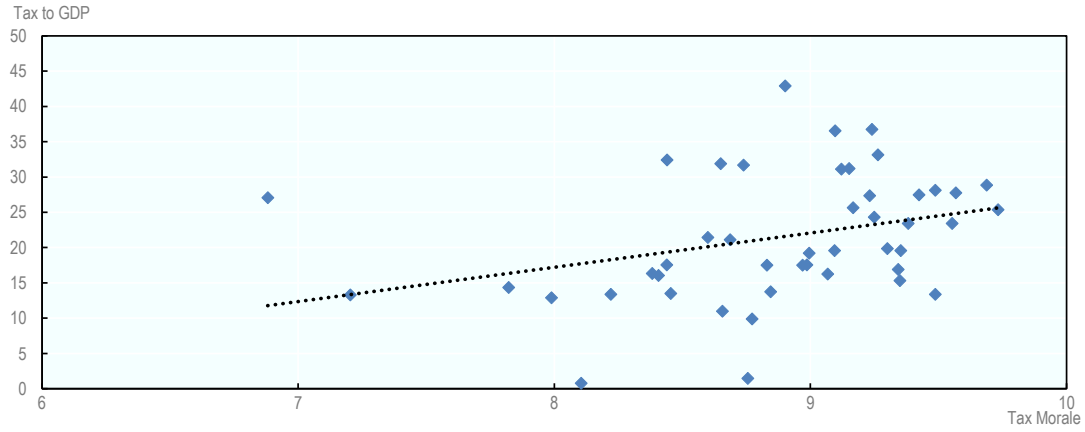
% of the population never justifying cheating on taxes



Note: Tax morale across regions is measured as the percentage of respondents that report that they would never justify cheating on taxes. See **Annex A** for detailed country classification, Table A.1.
Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on World Values Survey (2010-2014).

Countries with higher levels of taxation as a percentage of GDP appear to have higher levels of tax morale. Figure 1.2 shows a positive correlation between the level of tax morale and the tax-to-GDP ratio in a country, where each dot represents a country in the World Values Survey. This may help explain the variation between the regions as the OECD member countries and Latin America tend to have higher tax-to-GDP ratios than other regions. The causality of this correlation is not clear. One possibility is that the correlation is indicative of a virtuous circle of public service provision, voluntary tax compliance, and fiscal stability issues that many developing countries face challenges in addressing. Other relationships could be of interest, such as the impact of informality on tax morale for instance, but data limitations impede this type of exercise (at least in a multi-country analysis) for the moment. The rest of this chapter, including the regional analysis, seeks to explore some of these dynamics further.

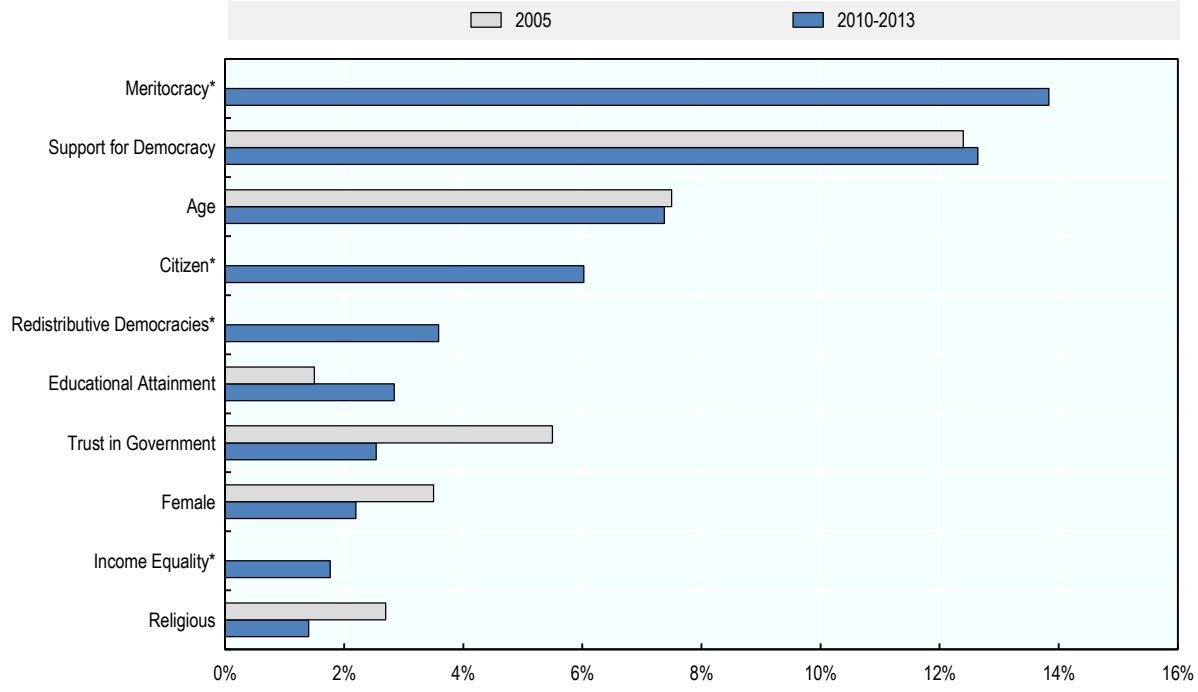
Figure 1.2. Tax morale and tax-to-GDP ratios



Source: For tax morale, the data is from the World Values Surveys (2010-14). For tax-to-GDP ratios, the data is from the OECD Global Revenue Statistics Database and the World Development Indicators.

Institutional and socio-economic factors are strongly linked with tax morale, a result that confirms previous findings. Figure 1.3 shows the marginal effects (see Table A.2 for full results) of each variable on the probability of reporting high tax morale. In other words, what effect an additional unit of – say, increased trust in government, being a year older or having an extra level of education (college degree vs. high school) has on tax morale. Figure 1.3 includes the results from previous OECD research (based on World Values Survey 2005 data), where available, for comparison (OECD, 2013[4]). The analysis did test for the role of different perceived levels of income and (un)employment status, but no significant association was identified (see Annex A, Table A.3). The consultation responses highlighted that further research, using alternative data sources, would be useful to understand the tax morale of HNWIs. Such research could look both at how HNWIs respond to policies such as tax amnesties, where consultation responses identified both potential benefits and risks, as well as how the tax behaviour of HNWIs affects the tax morale of other taxpayers (OECD, 2019[6]).

Figure 1.3. Institutional and socio-economic factors associated with tax morale



Note: * no data from previous analysis. Marginal effects on the probability of reporting high tax morale. Results based on regression coefficients of significant variables in column 7, Table A.3 in **Annex A**.
Source: OECD Development Centre / Centre for Tax Policy and Administration estimations based on World Values Survey (2010-2014), and OECD, 2013.

The analysis of global results emphasises that socio-economic factors help explain individuals' tax morale:

- More educated individuals have more positive attitudes towards paying taxes.
- Women have higher tax morale than men.
- Older people are less likely to justify cheating on taxes than younger people.
- Those who are citizens of the country they live in have higher tax morale than non-citizens.
- Individuals who claim a faith or religious identity have more positive attitudes towards paying taxes.

Some of these results are perhaps expected – those with higher education, for example, are more likely to have a deeper understanding of the role of taxation in the economy. Nevertheless, confirming these links does have practical value, giving confidence to use such factors in constructing taxpayer profiles and enabling better targeting of efforts to increase compliance. It is necessary, however, to undertake such analysis at the national (or even sub-national) level to ensure that such analysis is valid for the local context. Regional analysis shows (see Sections 1.2 - 1.4 below) that the significance of these factors can vary.

Institutional factors show that government policies and performance are also likely to have a significant impact on tax morale:

- Individuals who believe they are living in a meritocratic society have significantly higher tax morale.

- Those who trust their national government display higher tax morale than those who do not.
- People who identify fiscal redistribution to be essential (i.e. governments should tax the rich to enable support for the poor) show higher tax morale.
- Those who perceive democracy to be the best system of government for their country tend to think that cheating on taxes is unjustifiable.

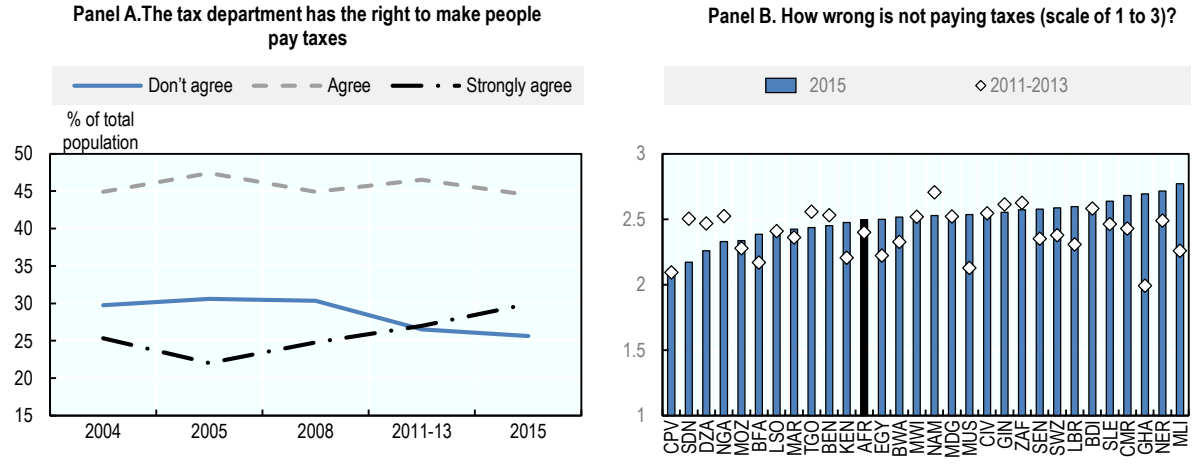
A common thread of all these factors is that government performance and its responsiveness to the needs of citizens drive tax morale. Trust in government is affected by how effective the government is in delivering on its promises, while perceived meritocracy relies upon governments helping create a society where hard work results in success and where opportunities are available to all. As highlighted in responses to the consultation on this report, it would also be interesting to fill a current research gap by testing how taxpayers' perception of the fairness of the tax system affects tax morale (OECD, 2019[7]).

While this global analysis is useful up to a point, it is only regional or country-level data that can help explore specific aspects of government performance which drive tax morale. The following sections investigate this issue in Africa, Asia and Latin America.

1.2. Tax morale by region - Africa

Tax morale appears to be improving in Africa. Figure 1.4 below shows that between 2005 and 2015 the proportion of Africans who strongly believed that the tax authorities had the right to make people pay taxes increased from 22% to 30%. In addition, more Africans expressed the view that not paying taxes was wrong and punishable in 2015, than in the previous surveys (Afrobarometer, 2011-2013). There is, however, significant variation between countries and although most countries have seen increased tax morale, some have seen it decline (Afrobarometer, 2011-2015).

Figure 1.4. Tax Morale in Africa



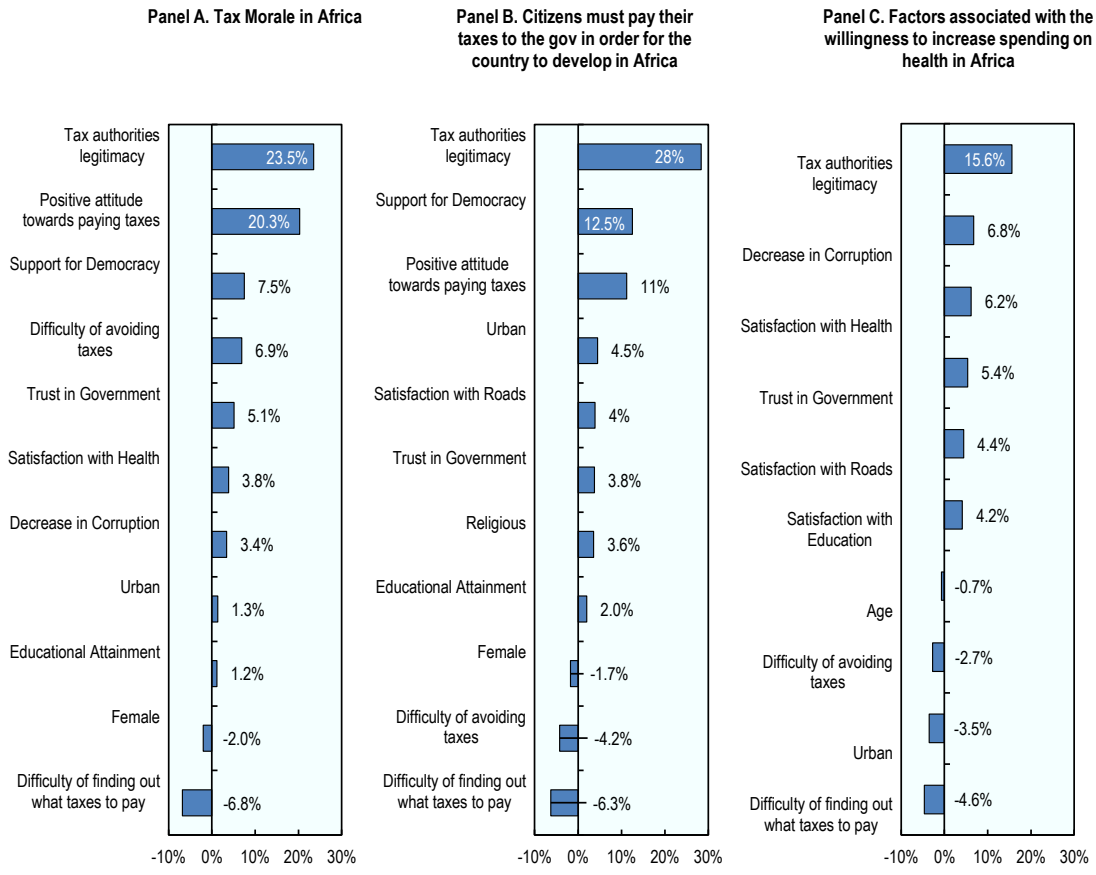
Note: Panel A shows responses to the question "For each of the following statements, please tell me whether you disagree or agree: The tax authorities always have the right to make people pay taxes." In Panel B, tax morale is measured as the average of all available observations for the question "How wrong is not paying the taxes" on a scale from 1 (not wrong at all) to 3 (wrong and punishable). The black bar represents a simple average of the countries included in the Afrobarometer.
Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on Afrobarometer (2015).

There are several possible explanations for this increase, including improvements in the tax-to-GDP ratio and in the tax administration. Figure 1.2 highlighted the correlation between tax morale and tax-to-GDP ratios and this has been gradually increasing in Africa for some time. Notably, the average of the 21 countries included in *Revenue Statistics in Africa 2018,* passed the 15% mark in 2004 (OECD/ATAF/AUC, 2018[8]), the threshold generally accepted as necessary for minimum effective state functioning. The achievement of this minimum threshold of state capacity may therefore reflect the development of a virtuous circle between tax and service delivery described earlier. In addition, Moore et al. emphasize the steady improvements made by revenue authorities in Africa (Moore, Prichard and Fjeldstad, 2018[9]). The more detailed survey data in Africa enables factors on tax morale, such as service delivery and tax administration, to be tested.

The perceived improvement in the quality of tax administration impacts significantly tax morale. The Afrobarometer survey is the most detailed of the regional surveys and includes a focus on tax administration. Figure 1.5 below shows how important the perceptions and quality of the tax authority are to taxpayers. Gains in the perceived legitimacy of the tax authority have the largest impact in boosting tax morale, and linking taxes to public spending, particularly health, could improve the willingness to increase tax payments. The recent improvements in tax administrations may therefore have been a key driver of increasing tax morale in Africa.

Making taxes simpler to pay appears to generate more willingness to pay. Another constant observed is that a higher perceived difficulty in finding out how to pay taxes has a negative impact on tax morale. There are several potential policy responses to this challenge. Firstly, taxpayer education programmes, which engage with taxpayers on why and how to pay tax, can be used to make it easier for taxpayers to navigate the tax system. In addition, increased use of technology offers potential for improvements in tax collection. Used effectively, technology can both simplify the process of paying taxes and help increase the integrity of the tax system by reducing opportunities for corruption (Bird and Zolt, 2008[10]). Many developing countries have been making significant progress when it comes to corruption (one of the factors likely to be driving the improved perceived legitimacy of tax authorities in Africa), yet there remains significant further potential. The OECD's Forum on Tax Administration (FTA) is responding to this challenge by identifying best practices in the use of technology in tax administration. Lastly, addressing the high prevalence of 'small taxes' in Africa, which while insignificant in statistical terms, are the dominant taxpaying experience for many individuals (especially women) in Africa, may offer a route to improve tax morale in Africa (Moore, Prichard and Fjeldstad, 2018[9])[3].

Figure 1.5. Factors associated with tax morale in Africa, 2015



Note: Marginal effects on the probability of reporting high tax morale and a high willingness to increase taxes. Panel A, B and C results are based on regression coefficients of significant variables in the last column of Table A.6, Table A.7 and Table A.8, respectively (Annex A). In Panel A, tax morale is measured through the question "Do you justify cheating on taxes if you have the chance?"
Source: OECD Development Centre / Centre for Tax Policy and Administration estimations based on Afrobarometer (2015).

Improved public service delivery appears to be a driver of tax morale in Africa. Effective public services are a means to demonstrate how well governments turn tax revenues into beneficial expenditures, so these can produce a double dividend comprising both the intrinsic benefit of the service provided and the spillover benefits from public satisfaction generated by its provision. The results from Africa (Figure 1.5) suggest that this relationship exists with respect to tax morale, with the satisfaction with roads, education and health all showing a positive impact on tax morale.

Hypothecated or earmarked taxes seek to use the link between service delivery and tax morale to create the political space for tax reforms, but can be problematic. By linking certain taxes to spending on specific services, hypothecated taxes have been suggested as a tool to build the fiscal contract, especially in cases where trust in government is especially low (Prichard, 2015[11]). While earmarked taxes may offer an attractive option in the short-term, there are a number of challenges, not least in how they are designed (McCleary, McCleary and William, 1991[12]) [4] and the impact that they can have over the longer term – see Box 1.1.

Box 1.1. Hypothecated taxes in Ghana

Ghana has made repeated use of earmarked taxes to provide funding in several key areas. Three of the 14 earmarked funds are:

- The Ghana Education Trust Fund (GETFund) was introduced in 2000 to fund education and is now funded by an additional flat 2.5% VAT.
- The National Health Insurance Scheme was established in 2005 to support healthcare and is now funded by both an additional 2.5% VAT flat rate and a 2.5% Social Security and National Insurance Trust contributions.
- The Ghana Infrastructure Investment Fund was established in 2014 and is funded by a 2.5% VAT rate.

The growth of earmarked taxes in Ghana, and the funds generated by them, resulted in nearly 40% of tax revenue becoming allocated to earmarked funds. This reduced the fiscal space for the government and in response an Earmarked Funds Capping and Realignment Act was introduced in 2017 to cap earmarked funds tax revenues to 25% of tax revenue, with the additional revenues being made available to the general budget. While this has increased the fiscal space for the government, it has significantly diminished funding for the earmarked funds, reducing its ability to deliver services. There are concerns that this may result in decreased tax morale – if service delivery is scaled down while the earmarked tax rates remain.

Source: Cassiel Forson MP (Ghana).

Behavioural economics approaches provide another, less rigid, way to use the link between service delivery and tax morale. A number of countries have used 'nudge' approaches in enforcement (see Box 1.2). Based on behavioural economics principles, these methods generally use the introduction of new messages in communications from tax authority to taxpayers. In Rwanda, this approach included a focus on service delivery. In a taxpayer letter experiment conducted by the Rwanda Revenue Authority in 2016, letters to taxpayers highlighting the links between taxes and public services were more successful than deterrence letters (Mascagni, Nell and Monkam, 2017[13]). The literature on these exercises highlights their benefits, but also their limits; for example, if behavioural economics approaches are not accompanied by substantial improvements in governance and public services, then the positive results can fade over time (Castro and Scartascini, 2015[14]; Coleman, 2007[15]; Cummings et al., 2009[2])). Some of the consultation responses also highlighted the role for other academic disciplines beyond economics and psychology in tax compliance, including political science, anthropology and sociology (OECD, 2019[7]).

Box 1.2. Behavioural economics approaches to tax compliance

The Behavioural Insights Team (BIT)[5] have been supporting the use of behavioural economics by a number of countries, examples include:

The United Kingdom: With the help of the BIT, the UK tax department sent letters to taxpayers who had not paid their taxes on time highlighting social norms to improve tax payments. Examples included: "Nine out of ten people with a debt like yours, in your area, pay their tax on time", "The great majority of people in your local area pay their tax on time" and "Most people with a debt like yours have paid it by now". The latter example increased tax payments from the people receiving the letters from 34% to 39%.

Guatemala: In collaboration with the Guatemalan tax authority, the BIT and the World Bank carried out a randomised controlled trial in Guatemala. The trial consisted of modifying reminder letters sent to taxpayers who had failed to declare their income tax on time. The letter included the following statement: "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." Tax payment among letter recipients increased by 5.5 percentage points. (The Behavioural Insights Team, 2014[16]). It is estimated that if the letter was sent to all taxpayers it would generate USD 760 000 additional revenue, which is 36 times the cost of sending the letters (Kettle et al., 2016[17]).

Mexico: The Mexican authorities along with the Inter-American Development Bank and the BIT team sought to encourage businesses to declare revenues via SMS reminders. The messages were sent to 748 499 taxpaying businesses that had not submitted their declaration on time. The most effective reminder, which highlighted the potential fines for non-compliance, increased declaration rates from 24% to 33% (Kettle et al. forthcoming).

Costa Rica: The BIT, in conjunction with the Costa Rican authorities, sent emails to 12 515 firms to encourage them to submit their 2014 income tax declarations. The firms were randomly selected to receive either no email, a behaviourally informed email (including a deterrence message), or the same email but including additional examples of transactions made by the recipient firm, highlighting that these were known to the tax authority. Results show that the firms that received the behavioural email increased tax declaration from 11.5% up to 32.5% (simple email) and up to 34.2% (email with transactions).

There are several lessons to bear in mind with such behavioural approaches however.

- Communication interventions are most effective when taxpayers have few other sources of information, hence the communication is more likely to update the taxpayers' prior beliefs.
- It is important to target interventions at sub-groups in the population, e.g. those with specific past behaviour, the wealthiest taxpayers etc.
- Behavioural approaches do not exist in isolation, they need to work together with other approaches, especially enforcement and policies that aim to rebuild trust and legitimacy and thus increase tax morale.
- Although behavioural approaches are relatively cost effective in the short term, they are not a replacement for a well-designed tax system, but can help build morale effectively when the fundamentals of the system are in place.

Source: OECD and www.bi.team/blogs.

In general, the factors influencing tax morale in Africa match those at the global level. Support for democracy, faith, educational attainment and trust in government, which were all identified as factors influencing tax morale globally, also appear as factors in Africa, though with some variations. Of these, trust in government was the most consistent factor, further reinforcing the relationship between tax morale and government performance.

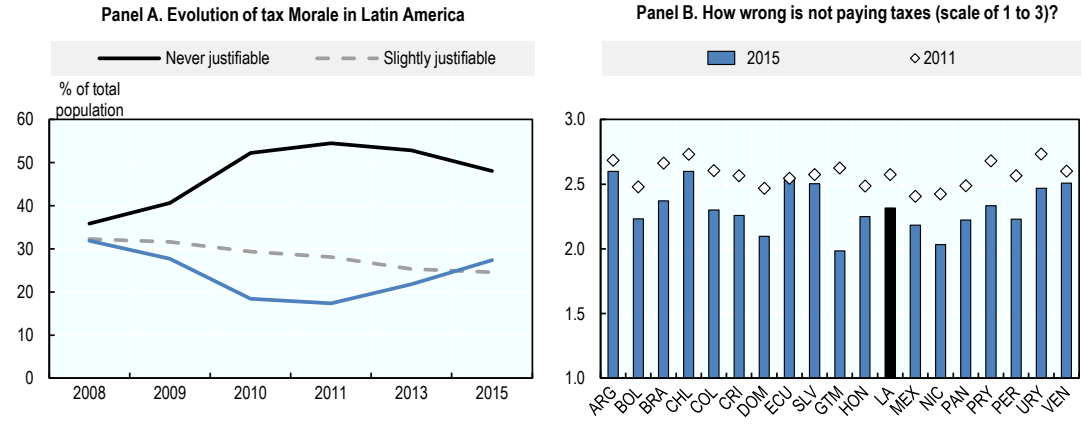
An important divergence from the global analysis is that women appear to have lower tax morale than men in Africa. Tax systems can affect men and women in different ways. For instance, recent research in Nigeria has identified implicit tax biases that affect women negatively (Akpan and Sempere, 2019[18]). This sometimes takes the form of explicit references to "women" in the tax code, but mainly arises from the interaction of the tax system with other patterns of economic behaviour, including differences in labour participation, entrepreneurship, wage rates, education decisions, savings, property ownership, and consumption. When tax policies fail to consider how gender roles and inequalities affect how women and men earn, control, save and spend their income and wealth, they can entrench gender inequalities and deepen women's poverty and/or decrease their willingness to participate in the fiscal contract.

There is a need to increase both the research and availability of data on gender and taxation, especially in Africa. The findings in this report on the tax morale of women in Africa emphasise the need to research gender and taxation. With currently available research, it is not possible to identify specific reasons for the gender variation in tax morale and why women have lower tax morale in Africa. Moore, Prichard and Fjeldstad (2018[9]) highlight some possible reasons, notably market taxes for small traders, as well as biases in administration, but reach no clear conclusions. In Sierra Leone, Van Den Boogaard finds that female-headed households pay fewer formal taxes than men, but more informal taxes; however, the total tax burden is higher for women, both in terms of formal and informal taxation (Van Den Boogaard, 2018[19]). The study of the gender dimensions of tax (and wider fiscal policy) is further complicated by a lack of sex-disaggregated data. Additional research should seek to explore gender dimensions, especially in areas such as: differences in tax regimes for predominately female-/male-headed sectors, how tax systems recognise unpaid care, how tax systems deal with different family structures, differences in taxation between rural/urban and informal/formal sectors. Tax morale surveys themselves could provide useful input into this work, as significant gender discrepancies in tax morale may be indicative of a gender bias in the fiscal system.

1.3. Tax morale by region - Latin America

Tax morale appears to be falling across Latin America, from a relatively high base. Figure 1.6 below shows the evolution of tax morale in Latin America. Since 2011, tax morale has weakened: the percentage of Latin Americans who would never justify evading paying taxes decreased from 54% to 48% in 2015[6]. In contrast, the proportion of those who find evading taxes 'justifiable' increased to 27% in 2015 from 17% in 2011 (Panel A, Figure 1.6). A reduction in tax morale has been universal across all economies in the region covered by the Latinobarómetro, although to different degrees (Panel B, Figure 1.6).

Figure 1.6. Tax Morale in Latin America

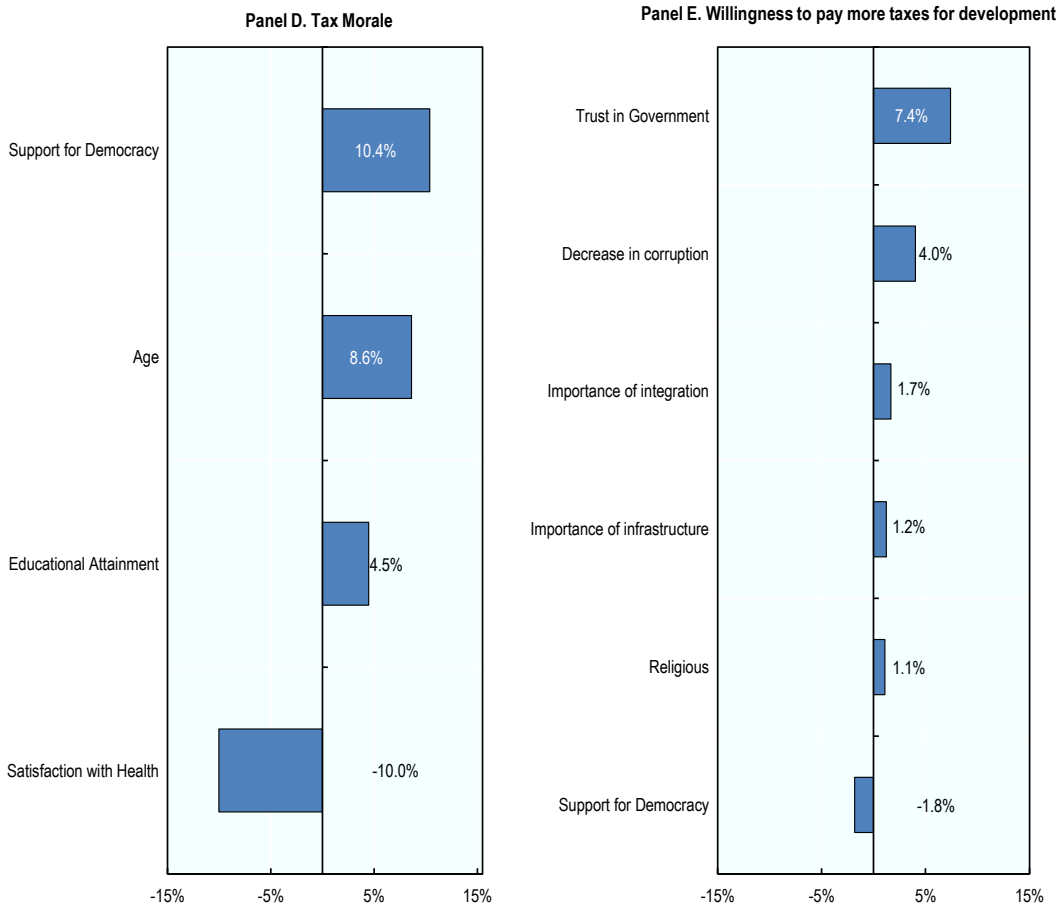


Note: In panel A, tax morale is measured through the question "Do you justify cheating on taxes if you have the chance?" on a scale of 1 (not at all justifiable) to 10 (totally justifiable). "Never justifiable" is the share of respondents that answered 10; "slightly justifiable" corresponds to the share of respondents who answered between 9 and 6; and "justifiable" is the share of respondents that answered between 1 and 5.
In panel B, tax morale is represented as the average of all available observations for the question "How justifiable do you believe it is to evade paying taxes?" on a scale of 1 (totally justifiable) to 10 (not at all justifiable) and normalised between 1 and 3 for illustration purposes. The black bar is a simple regional average that includes all economies in the Latinobarómetro.
Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on Latinobarómetro (2016).

Decreasing tax morale appears linked to recent economic and social changes in Latin America. The fall in tax morale in Latin America coincides with an economic slowdown that also began in 2011 and may thus explain it. The *Latin American Economic Outlook 2018* notes the economic slowdown brought an end to a period of economic and social progress in Latin America, where poverty had declined sharply and created an increasingly demanding middle class. Recent reversals in poverty reduction and inequality have combined with global trends such as technological change, aging populations and a number of corruption scandals across Latin America. These factors have created a climate of uncertainty regarding the ability of public institutions to respond effectively to the needs of citizens in Latin America (OECD/CAF/UN ECLAC, 2018[5]).

While tax morale overall is declining, it is possible to identify a number of factors that positively affect tax morale. Figure 1.7 shows factors that were associated with individual's tax morale in Latin America. There were several similarities with the global-level analysis, as higher age, level of education, and faith are all associated with higher tax morale. Lower tax morale among younger individuals highlights the need for differentiated strategies. For instance, potential taxpayer education programmes targeted at Latin America's large cohort of younger taxpayers (or future taxpayers) including integration with the education system (see Box 1.3 for an example); in 2017, 26% of the Latin American population was between 15 and 29 years old (UN, 2017[20]). As an aside, it is interesting to note that those reporting democracy as their preferred system of government are significantly more likely to never justify cheating on taxes (Figure 1.7, Panel A), but are also less likely to argue for increased taxes to pay for development (Figure 1.7, Panel B). This calls attention to the fact that high tax morale in one area (never justifying cheating on taxes) does not automatically correspond to higher taxes in another area (willingness to pay more taxes).

Figure 1.7. Factors associated with tax morale and taxation in Latin America, 2016



Note: Marginal effects on the probability of reporting high tax morale and high willingness to pay more taxes. Panel A and B results are based on regression coefficients of significant variables in the last column in **Table A.4** and **Table A.5**, respectively (Annex A). In Panel A, tax morale is measured through the question "Do you justify cheating on taxes if you have the chance?". In Panel B, willingness to pay more taxes is measured through the question "How much are you willing to increase taxes to finance infrastructure works that promote the integration of your country with the world (bridges, highways, airports, ports)?".
Source: OECD Development Centre / Centre for Tax Policy and Administration estimations based on Latinobarómetro (2016).

Box 1.3. Educating the next generation – the EuroSocial experience

EuroSocial is a co-operation programme between Latin America and the European Union that has been supporting taxpayer education to increase social cohesion through its Tax and Accounting Assistance Hub (NAF, Spanish initials).

The hub trains university students in the social benefits of taxes and basic tax- and customs-related topics, helping them to co-operate in providing advice on taxes to entrepreneurs and owners of micro and small companies. In 2017, NAF included 571 universities in 10 Latin American countries, resulting in 6,000 students supporting more than 80,000 taxpayers.

The programme provides benefits for all stakeholders. It enables students to strengthen their sense of social responsibility, deepen their general tax knowledge and apply it practically. For the tax administrations, they benefit from the programme as it encourages responsible behaviour by accountants, improves tax morale (including supporting voluntary compliance), and it facilitates a better relationship between the administration and accountants and citizens. The support that students contribute to local communities helps low-income taxpayers on basic issues at no cost to them, as well as supporting small businesses to be formalised and compliant.

The success of NAF programmes requires a joint commitment from both the tax administration and education system. This ensures that programmes have a clear pedagogical approach and allows the tax content to be integrated effectively into the lessons. A successful programme incorporates both an understanding of the role and function of taxes and the importance of the fiscal contract between state and citizens.

Source: EuroSocial.

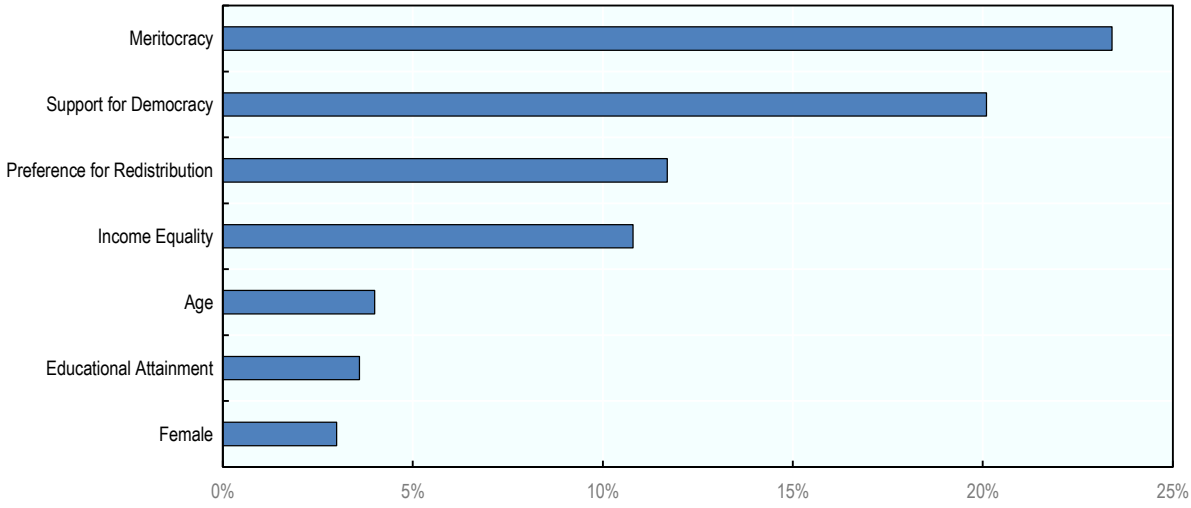
The relationship between tax morale and public services is less clear for Latin America, with mixed results between previous studies and recent data. Previous research using 2008-2009 Latinobarómetro data finds a positive relationship between tax morale and satisfaction with education and health services (Daude and Melguizo, 2010[21]). Other research has also found a positive relationship with public services (Carrillo, Castro and Scartascini, 2018[22]). The current analysis, however, finds a mixed relationship between public services and tax morale: individuals who are more satisfied with public health provision have a lower level of tax morale, while satisfaction with education shows no link with tax morale. The inconsistency of results for healthcare may be linked to the way in which this is financed in Latin America, with many countries having mixed financing models including social security payments, general taxation and significant out-of-pocket expenses which result in many individuals in Latin America paying significantly for healthcare individually, rather than through taxation (Izquierdo, Pessino and Vuletin, 2018[23]). While the relationship between specific services and tax morale was not clear for Latin America, trust in government and the perceived level of corruption both showed an impact on tax morale, highlighting how government performance overall appears to influence tax morale in Latin America.

1.4. Tax morale by region - Asia

Data is more limited for Asia, but it is possible to identify a number of factors that affect tax morale. The Asiabarometer has not been updated since 2005-2007 and cannot be used to track tax morale over time. It is, however, possible to use World Values Survey data from Asia to identify the factors that appear to drive tax morale, albeit with fewer observations than with the regional surveys.

From this data, it can be seen that taxpayers having preferences for more equal and meritocratic societies have higher tax morale (Figure 1.8). Individuals who are older, more educated and female also show higher tax morale - once again highlighting the potential for taxpayer education programmes for younger, less educated citizens. The limited data in the World Values Survey means it is not possible to test for the strength of the fiscal contract in Asia.

Figure 1.8. Factors associated with tax morale in Asia



Note: Marginal effects on the probability of reporting high tax morale. Results are based on regression coefficients of significant variables in Table A.9 (Annex A).
Source: OECD Development Centre / Centre for Tax Policy and Administration estimations based on World Values Survey (2010-2014).

1.5. Conclusions and next steps

These findings support the existence of a fiscal contract, but suggest its strength may vary between regions and over time. The positive findings from Africa and Asia point clearly to the existence of the fiscal contract as an influence on tax morale, supporting previous research (Torgler, 2005[24]). While the link with public services is strong in Africa, it appears weaker in Latin America (and weaker today than previously reported), suggesting that the strength of the fiscal contract is variable across regions and over time.

There are a broad range of tools and approaches that can help build confidence in the fiscal contract and trust in government on taxation. Many include more explicitly linking the revenue and expenditure sides of the fiscal framework: transparent budgeting; space for parliaments, courts, civil society and media to hold governments accountable, both in addressing corruption and for collecting taxes and spending them effectively. This is a well-known general governance agenda, but there are some specific actions where additional progress could be made:

- **Taxpayer education programmes can be informed by tax morale data.** The findings in this report highlight how tax morale differs across different sections of society, suggesting diverse needs for taxpayer education. For example, lower tax morale among young people suggests a role for taxpayer education programmes to be integrated into school curricula. The 2015 publication *Building Tax Culture, Compliance and Citizenship* (OECD/FIIAPP, 2015[25]) showcases a number of taxpayer education initiatives, including several (e.g. Kenya. Malaysia,

and Morocco) that bring taxpayer education to children. Others (e.g. Burundi, Costa Rica, and Guatemala) seek to combine understanding of the fiscal contract with improving the legitimacy of the tax authority and the ease of paying taxes. And others aim also to recognise and reward exemplary taxpayers (e.g. the Korean National Tax Service).

- **Careful consideration is needed before introducing hypothecated taxes.** While hypothecated taxes may provide a useful tool to create political space for tax reform in the short-run, there are long-term challenges. Pros and cons need to be carefully analysed and reflected in the design and duration of hypothecated taxes, if adopted. Tax morale dynamics should be included in the design of hypothecated taxes as taxpayers might be more willing to pay more taxes for certain public services and less for others.
- **Build taxpayer profiles**. Analysing the attitudes towards and perceptions of taxation (including through the use of survey data as in this report), tax administrations in all countries can develop comprehensive profiles of their taxpayers. Such profiles could provide information on groups which are most resistant to paying tax, as well as those which are most easily convinced of the benefits of taxation, and help develop approaches to engage all taxpayers more effectively in the tax system. For instance, a better understanding of the drivers of tax morale for the wealthy (including responses to amnesty programmes), and their influence on the rest of the taxpayers could provide valuable insights.
- **Support the development of tax administrations,** especially in improving the ease of paying taxes. There is already significant work being undertaken in this area, for example the International Monetary Fund (IMF) and World Bank Group, which both have several decades of experience of providing technical assistance in tax administration, while the more recently established African Tax Administration Forum (ATAF) has driven pan-African co-operation in tax administration development. More can be done. For example, the 50 tax administrations of the OECD's FTA have extensive experience in this area to be shared. Through the development of the FTA's Capacity Building Network there are increased opportunities for this experience to be made available to developing countries. Improved use of technology is likely to be at the heart of efforts to improve the ease of paying taxes (Bird and Zolt, 2008[10]), as well as strengthening the integrity of tax administrations. As such, helping developing countries design and manage the use of technology in tax administrations should be a key part of support. More broadly there may be further applications of technology to increase citizen engagement in both how taxes are raised and spent, that could impact tax morale.
- **Deepen the understanding of the drivers of trust in government**. Trust in government is a broad concept, covering trust in the political system, rule of law etc.; as such the relationship between trust in government and tax morale needs to be further explored, and disaggregated. The OECD TrustLab project[7] has undertaken some work looking at the components of trust (though not in relation to tax morale) and has run behavioural experiments across OECD member countries. Results show that institutional characteristics (i.e. competences and values, perceptions about public service delivery, and integrity) account for about 40% of differences in trust in government, but there are significant variations between countries (Murtin et al., 2018[26]). Expanding the TrustLab experiments to developing countries would help identify the determinants of trust in developing countries, enabling policies to be developed which specifically target building trust.
- **Increase the research and data available on developing countries, especially on tax and gender**. While there has been a range of research on tax morale spanning over 40 years, there has been relatively little research focussing on developing countries. Addressing this gap will require greater cooperation and sharing of data between developing countries and researchers, from a range of disciplines (including economics, psychology, political science, anthropology and sociology). The OECD may be well placed to help facilitate such links (and has already

done so in some cases following the January 2019 tax morale conference[8]). Different levels of tax morale between men and women are likely to be indicative of a deeper issue in how the fiscal system treats men and women differently. The 2018 Platform for Collaboration on Tax conference on Taxation and the Sustainable Development Goals identified the need to address both implicit and explicit gender biases in taxation, reiterating that gender disaggregated data is a vital starting point for further research (Platform for Collaboration on Tax, 2018[27]).

A universal consideration is that in-depth country (or sub-national) level analysis is a vital precondition to inform policy changes. As highlighted by the World Bank approach (see Figure 1), tax morale sits within complex inter-relationships between enforcement, facilitation and trust which affect compliance; countries (or sub-national authorities) should therefore look to take a holistic approach that identifies the context of tax morale locally. More in-depth country-level surveys can be part of this process, used to identify tax morale factors at the local level and, where relevant, at sub-national level. Country-level surveys could also include surveying which taxes individuals are actually paying (and how much) to increase the understanding of how the various taxes and other payments (including to non-state actors) are perceived by individuals in developing countries. Randomised control trials have also been used in some countries, including Rwanda and a number of Latin American countries (Castro and Scartascini, 2013[28]; Kettle et al., 2016[17]; Mascagni et al., 2016[29]), to measure the effects of different methods of tax enforcement. Results have been promising, suggesting other countries could benefit from such studies.

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Notes

[1] Based on the response to the question "Do you justify cheating on taxes if you have the chance?" For further detail, see Annex A.

[2] Excluding Chile and Mexico, which are included in Latin America.

[3] 'Small taxes' cover a range of taxes, in three broad categories; Formal subnational taxes and charges, formal taxes and payments on small and micro-businesses, informal taxes – comprising both illicit formal taxes and revenues collected by non-state agents and organisation.

[4] Earmarking can have a negative impact on budget flexibility.

[5] The Behavioural Insights Team, originated within the UK government and now an international company, seeks to generate and apply behavioural insights to inform policy and improve public services – www.bi.team.

[6] Results differs from section 1.1 as they are from a different data sources (WVS), different periods of analysis and different question (see table A.2).

[7] See www.oecd.org/sdd/trustlab.htm.

[8] The Task Force on Tax and Development organised this conference on the role of tax morale in development to discuss the preliminary findings in this report. The event brought together over 125 delegates including government representatives, leading academics and researchers, regional tax organisations, business and civil society, in a multi-stakeholder environment to share experiences and thinking on tax morale. For more information see: http://www.oecd.org/tax/role-of-tax-morale-in-development-conference-january-2019.htm.

2 Tax morale in businesses

This chapter focuses on tax morale in businesses, where there is limited existing research, especially in relation to developing countries. The chapter uses new data on tax certainty as a proxy for tax morale, to identify some of the factors likely to influence MNEs, and possible policy responses. In addition, in recognition of the limitations of tax certainty as a proxy, further research opportunities are identified including assessing the role of voluntary tax and business principles on MNE tax morale.

There has been significant attention focussed on the taxation of businesses in recent years. This focus has primarily been on the (often complex) practices of MNEs and the international rules regulating them (most notably the BEPS issues[1]), or the nature of tax competition between states, which is seen to reduce corporate income tax rates across the world. This has left relatively little room for discussion of tax morale and often diminished it to a simple relationship with tax rates.

Focus on the taxation of business has been complemented more recently, with the G20's attention on tax certainty. The tax certainty agenda seeks to increase the predictability of the tax environment to encourage investment. As such, the tax certainty agenda and the tax morale agenda are closely intertwined. Both are concerned with the factors that determine the willingness for businesses to voluntarily take part in the tax system.

This chapter uses new data to help fill the research gap on business tax morale. There is relatively little research and data on business tax morale currently available (Sections 2.1 and 2.2 below summarise the existing research). A recent OECD tax certainty survey of MNEs (OECD/IMF, 2018[1]) provides a useful proxy to open the debate on business tax morale in developing countries. Simply put, when MNE's perceive low tax certainty they may be less likely to participate actively or positively in the tax system (or at least the parts that are most uncertain). As tax certainty is only a proxy of tax morale, it presents some limitations, thus while the conclusions derived from the analysis point to some policy implications, further research is needed.

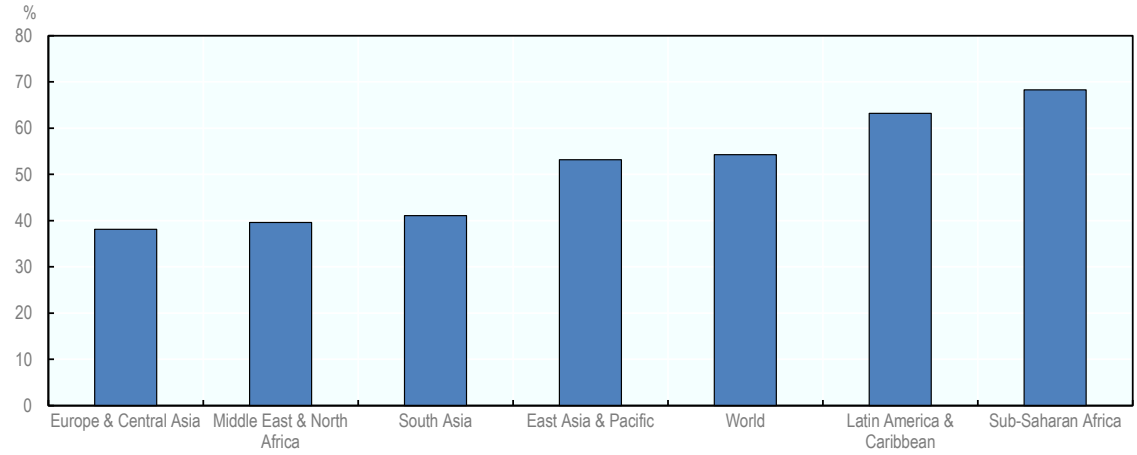
Several opportunities to increase tax morale of businesses, and so improve the investment climate are identified for governments in developing countries. These cover both the technical (e.g. refund processes for VAT) and the relational (e.g. the relationship between the taxpayers and tax authorities). While many of the factors may not be surprising, observing how priorities differ between regions is instructive in terms of showing how variable the causes of low tax morale can be, further emphasising the need for tailored country- or regional-level approaches.

2.1. Why is business tax morale important?

The impact of low tax morale in business is not confined simply to tax revenues, but also encompasses the level or type of investment and other spillover impacts. For instance, as in the case of individuals, low tax morale in businesses can result in tax avoidance, but it may also result in firms exiting the market. Since firms also act as withholding agents (e.g. for VAT and employees' income tax), low tax morale may therefore affect their willingness to withhold and remit taxes to governments, in addition to their own tax payments. The mechanisms through which these effects may happen will vary between SMEs and MNEs.

Small firms can declare fewer sales, reduce investments or move into the informal market. Research using the World Bank Enterprise Survey highlights how levels of informality vary strongly across regions (Figure 2.1)[2]. In Latin America and the Caribbean and in Sub-Saharan Africa, more than 60% of firms report unfair competition with informal firms, while in Europe and Central Asia the number is below 40%. The effects of informality go beyond tax collection, as informal firms tend to be less productive, generate fewer quality jobs and provide fewer benefits (such as access to social security) for employees. While low tax morale is not the sole cause of informality among small firms, measuring and understanding tax morale in SMEs provides an avenue for addressing the high rates of informality, alongside other methods such as reducing bureaucracy and the costs of formalisation (see Box 2.1).

Figure 2.1. Percentage of firms competing against unregistered or informal firms



Source: Enterprise Surveys (http://www.enterprisesurveys.org/data/exploretopics/informality), The World Bank.

MNEs may seek incentives to compensate for lack of trust in parts of the tax system. As a result of having more political and economic power, MNEs have multiple approaches (of varying degrees of legitimacy) to reduce tax payments, including the possibility to secure tax exemptions. For example, a lack of confidence in VAT systems in Africa is reported to motivate MNE demands for tax incentives (Moore, Prichard and Fjeldstad, 2018, p. 128[2]). As an extreme option, MNEs can exit the market (or choose not to enter) and/or change their investment behaviour. However, repeated surveys have identified tax as not generally being one of the main factors driving investment decisions (World Bank Group, 2018[3]; Platform For Collaboration on Tax, 2015[4]; James, 2009[5]; Hornberger and Kusek, 2011[6]).

2.2. Existing research

There has been relatively limited research on business tax morale, especially in developing countries. Tax morale in businesses has both similarities and differences to tax morale among individuals. As decisions in firms are made by individuals, some of the factors influencing those individuals may spill over into firms, especially for small firms. Factors include corruption, cultural norms and values . Other factors determined by the firm's corporate behaviour might also affect their tax morale. These include risk preferences, approach of tax advisors, board reputation, company structure, size of the firm, compliance cost, and tax complexity . There is limited research into the impact of these various factors, though it is gradually increasing; currently USAID is undertaking a study to explore the influence of tax advisors on Serbian businesses , while the OECD is exploring perceptions of tax officials on the role of the Big Four (KPMG, EY, Deloitte and PwC – the four biggest professional services networks globally).

Table 2.1 summarises some of the main findings of existing research. These include differences between large and small firms, as well as between domestic and foreign enterprises (where the results are mixed). Other findings identify the role of the tax administration, the legitimacy of the state, and even the role of religion and patriotism (Yucedogru, 2013[9]).

Box 2.1. Reducing informality and building tax morale, the CabDost experience

CabDost is a tech-based social enterprise working with taxi drivers in India (primarily Bangalore and Hyderabad). It aims to encourage financial inclusion, through helping file tax returns and facilitating formalisation to enable better financial planning.

Through several innovative and free tax filing campaigns, CabDost has worked with more than 9 000 taxi drivers, building awareness of the importance of tax filing and leading to approximately 14 000 tax returns being filed.

CabDost has achieved this success through a range of approaches:

- An association with Radio City 91.1 enabling targeted broadcasts.
- Setting up help desks at the offices of taxi apps OLA and Uber.
- Hosting the first of its kind financial inclusion drive in Kempegowda Bangalore International Airport and RGIA Airport, Hyderabad, India.
- Working with car manufacturing companies to support the campaigns through brand integration.
- Launching a pioneering tech product through which the drivers could register on a multilingual platform, as opposed to English being used as a default language.

Importantly, CabDost has pitched their work as a broad financial literacy programme, rather than a narrow tax programme. This scope has enabled the company to discuss the benefits of formalisation, as well as the tax obligations. CabDost is now looking to extend its approach and to reduce the fear of taxation in other sectors.

Source: Yamuna Sastry and Muhammed Shafeeque (Founding team, CabDost).

Tax morale in businesses has both similarities and differences to tax morale among individuals. As decisions in firms are made by individuals, some of the factors influencing those individuals may spill over into firms, especially for small firms. Factors include corruption, cultural norms and values (Joulfaian, 2009[7]; Alm and McClellan, 2012[8]). Other factors determined by the firm's corporate behaviour might also affect their tax morale. These include risk preferences, approach of tax advisors, board reputation, company structure, size of the firm, compliance cost, and tax complexity (Yucedogru, 2013[9]; Lanis et al., 2018[10]). There is limited research into the impact of these various factors, though it is gradually increasing; currently USAID is undertaking a study to explore the influence of tax advisors on Serbian businesses (OECD, 2019[11]),[3] while the OECD is exploring perceptions of tax officials on the role of the Big Four (KPMG, EY, Deloitte and PwC – the four biggest professional services networks globally).

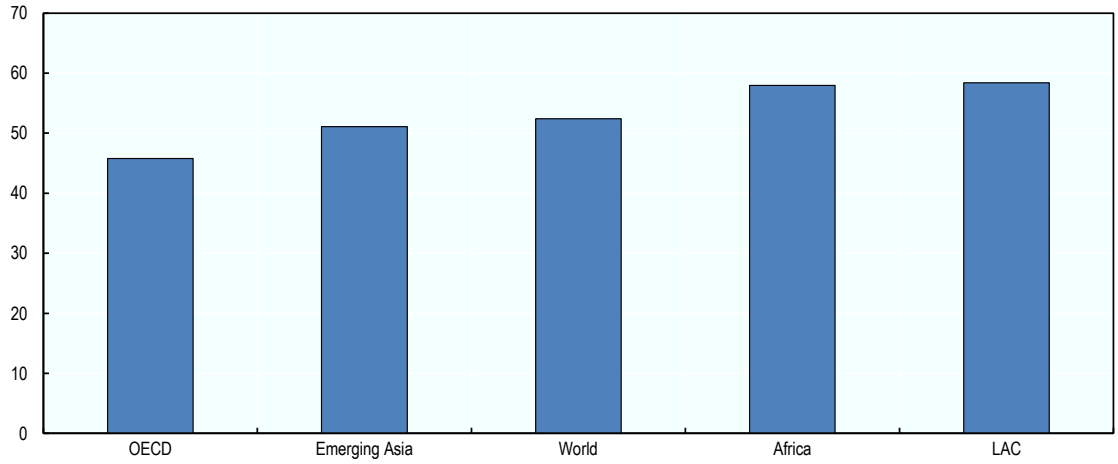
Table 2.1. Summary of research on business tax morale

	Year	Findings:	Methods
Alm and McClellan	2012	Domestic firms evade more and report less than foreign- and state-owned firms. Policies should: • Reduce corruption • Improve taxpayer services • Simplify the tax paying process	Regression analysis. Dataset includes data from 34 countries and over 8,000 firms.
Everest-Phillips and Sandall	2009	Integral factors to any tax system: • State legitimacy • Taxpayers' willingness to pay • Effectiveness of tax administration	Discussion note
Joulfaian	2009	-Business non-compliance rises with the rate of tax related bribes. -Foreign firms conceal fewer of their activities than domestic firms.	Multivariate regression analysis. Dataset includes 26 transition economies
Mickiewicz et. al	2017	Higher tax morale in firms is associated with: • Legitimacy of tax authorities and the government • Feeling of belonging to the nation • Perceptions of the risk and severity of punishment	Regression analysis. Survey data on business owners/managers in Latvia
OECD	2004	-Large business might have political power to gain favourable tax schemes and have access to sophisticated tax strategies -SMEs can choose to become informal or evade taxes	Guidance note on tax compliance risk
Yucedogru	2013	-Perception of government and religion affect tax morale -Patriotism and tax complexity are not effectively influencing SMEs tax morale	Qualitative data from 20 SMEs in Turkey.

Given these differences the definition of tax morale may need to be interpreted differently with respect to businesses than for individuals. As noted in several of the consultation responses, especially for large companies, tax morale for businesses represents something different to the intrinsic motivation to pay taxes by an individual. While the motivations of individuals within (or advising) a company may play a role, the structure and processes of the company itself will further shape the company approach to tax (see Mulligan and Oats, (2016[12])). Several consultation responses suggested that a new nomenclature might be beneficial for the tax morale of businesses, perhaps focussing on responsible compliance, to make clearer the differences from individuals (OECD, 2019[11]). While a new definition might be useful in the longer term, this report refers to tax morale of businesses within the definitions generally used in existing research.

Estimates of tax morale among firms (as with individuals) vary across regions and countries, with emerging economies showing the lowest levels. There is no simple way to measure tax morale, so proxies are generally used. One commonly used method is the fraction of sales concealed from tax authorities[4] (see Alm and McClelland (2012[8]) and Joulfaian (2009[7])). Using this measure, on average, OECD member economies present the highest levels of tax morale with less than 46% of formal firms (with five or more employees) not declaring all sales for tax purposes. In emerging regions, the figures are relatively higher, especially for Africa and LAC with almost 60% of firms not declaring all sales to reduce tax payment (Figure 2.2). An important caveat to this approach, however, is that the measure is a proxy for tax morale; other factors, most notably enforcement levels, are likely to impact on the results.

Figure 2.2. Firms that do not report all sales for tax purposes (% of firms)



Note: Latest year available, data availability between 2002-10.
Source: Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

Lack of data remains the main challenge into deepening the analysis for business tax morale. Similar datasets to those used for individuals' tax morale do not exist. The few empirical papers that have focussed on tax morale for business have used the EBRD and World Bank Business Environment and Enterprise Performance Survey (BEEPS), based on a question related to the percentage of total sales declared for tax purposes by a firm. Since 2014, however, the question is no longer included in the survey, limiting the options to continue analysing firms' tax morale with this methodology. The rest of this chapter seeks to use a new data source to further the research on business tax morale. This focuses on MNEs, which are of particular importance in developing countries where they can be responsible for a significant share of the tax base, even a majority in some countries (e.g. Rwanda reported that 70% of its tax base comes from MNEs (ATAF, 2016[13]).

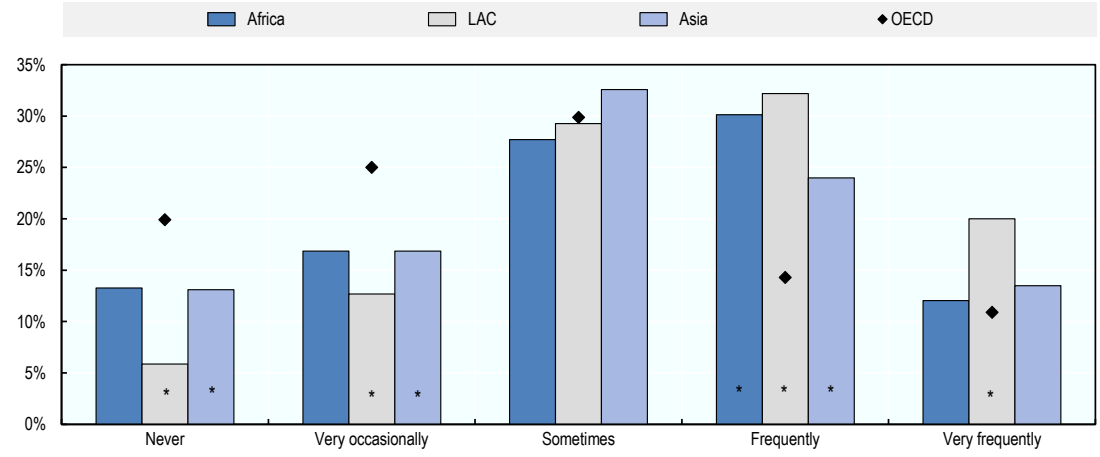
2.3. MNE tax morale – lessons from a survey on tax certainty

Given the current data limitations, tax certainty can be a useful proxy to measure tax morale among MNEs. As outlined in Section 2.2 there are a number of factors that may influence the tax morale of businesses. Tax certainty is one that has previously not been looked at significantly, but appears to offer potential as tax certainty is likely to contribute to the tax morale of MNEs (OECD, 2019[11]).[5] Most obviously, tax certainty affects the ease of paying taxes and relationship with the tax authority - issues that were found, in Africa, to have a significant impact on tax morale of individuals. In addition, tax certainty is likely to influence a range of issues that shape how a business chooses to engage with the tax system of a country, for example in its choices around investment, approach to tax incentives, and tax planning strategy. This section will test for some of these links and the causes of tax uncertainty for MNEs, particularly in developing countries. The analysis is based on a unique data source, the 2016 OECD business survey that gathered views from senior staff from over 500 companies, almost all MNEs, providing views on tax certainty in 82 developing countries (see Annex B for methodology) (OECD/IMF, 2018[1]).

Tax uncertainty appears to have a greater impact on business decisions in developing countries than in OECD member countries. While tax may not be the primary factor affecting investment

decisions, the survey does suggest that tax uncertainty can have an impact and that for developing countries the impact is more common than for OECD member countries. Figure 2.3 shows the frequency with which tax uncertainty affects business decisions; all three regions show a more frequent impact than in OECD member countries, and this is especially pronounced in LAC. This is most likely due to levels of tax uncertainty being higher in the emerging regions, and suggests that developing countries may have much to gain from addressing tax certainty/tax morale issues.

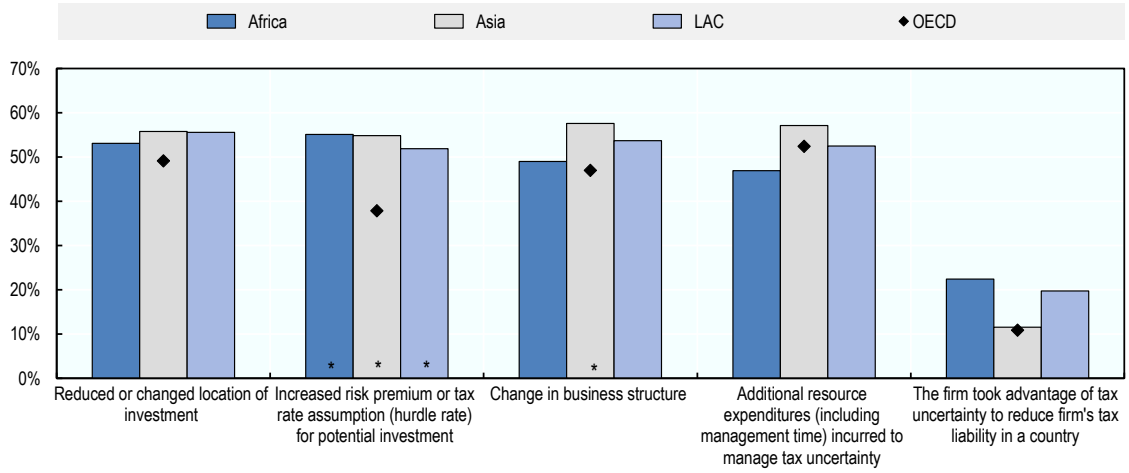
Figure 2.3. Frequency of tax uncertainty seriously affecting business decisions



Note: Responses to the question "How frequently has uncertainty in the tax system had a serious impact on business decisions?" Respondents were asked to use a scale from 5 to 1 where 5 indicated very frequently, 4 frequently, 3 sometimes, 2 very occasionally, and 1 never.
The question represented in this table was asked separately for each country selected by the respondents, each respondent could select a maximum of 4 countries.
* denotes significance at 5%, difference between the region and OECD.
Source: OECD business survey on taxation (2016).

Tax uncertainty has some significant impacts, including changing business structures, adding costs, or even reducing investment. Companies were asked in which ways tax uncertainty affected business. Figure 2.4 shows that tax uncertainty has a range of impacts on businesses. The most common impact is on structures, costs and scale of investment. Tax uncertainty may only rarely affect the decision to invest, but it may much more frequently affect the decision on the size, location and structure of investment.

Figure 2.4. Impact of tax uncertainty



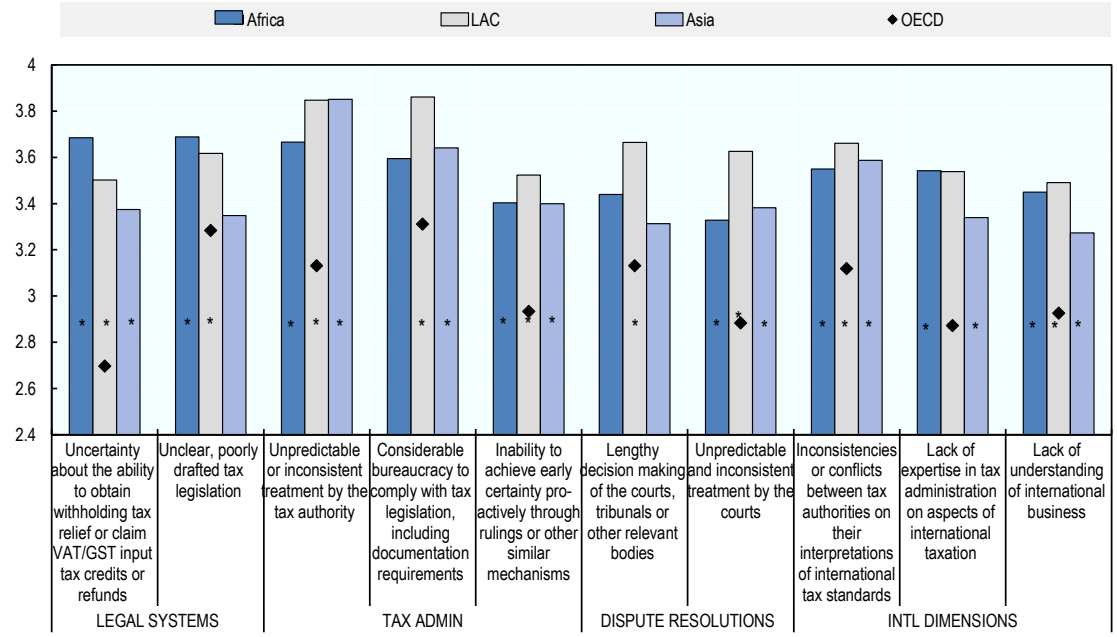
Note: Results for the question "In your experience, in which of the following ways has tax uncertainty affected business operations?"
* denotes significance at 5%, difference between the region and OECD
Source: OECD business survey on taxation (2016).

2.4. The sources of tax uncertainty

The sources of tax uncertainty vary across regions. Figure 2.5 shows the top ten sources of tax uncertainty across the three regions. While there is some variation (especially in comparison to OECD member countries), there are also some commonalities.

International taxation issues are a source of tax uncertainty in all regions. There are several international tax issues in the top ten sources of tax uncertainty, highlighting the importance of this area for MNEs. The concerns cover inconsistency with international standards, lack of expertise in the tax administration, and a lack of understanding of the business structures of MNEs. This finding demonstrates a key benefit for developing countries in adopting international standards in tax, such as the BEPS Actions, in addition to highlighting the need for effective capacity building in implementing such standards. The experience of the Tax Inspectors Without Borders (TIWB) programme in Liberia has shown that building the technical capacity of the Liberia Revenue Authority has led to improved relationships with MNEs, including a positive change in compliance[6]. The concerns over the lack of understanding of international business also emphasise the potential benefits of engaging businesses themselves in capacity building to help explain how business structures and value chains are organised. This is an area where the OECD has made important progress, with the potential to do much more (Box 2.2), though careful attention is needed to avoid conflicts of interest.

Figure 2.5. Top ten sources of tax uncertainty for firms



Note: Results for the question "Please identify in your experience how important each of the below factors has been in increasing the overall uncertainty on tax issues in the countries you have selected?" The respondents could choose from a scale from 5 to 1, where 5 is extremely important and a lower number indicates the factor is progressively less important. The question represented in this table was asked separately for each country selected by the respondents, each respondent could select a maximum of 4 countries.
* denotes significance at 5%, difference between the region and OECD
Source: OECD business survey on taxation (2016).

Box 2.2. Harnessing business and industry expertise

Experience-sharing and insights from business can help tax authorities better understand common industry practices and alert them to tax base erosion risks. Products such as the Platform for Collaboration on Tax toolkits have been developed using information received through consultation with the business sector. Thanks to these toolkits, several developing countries have acquired increased understanding of their taxpayers' industries, building a more collaborative relationship with business.

It is also possible to involve business in country-level and multilateral capacity building. Examples include:

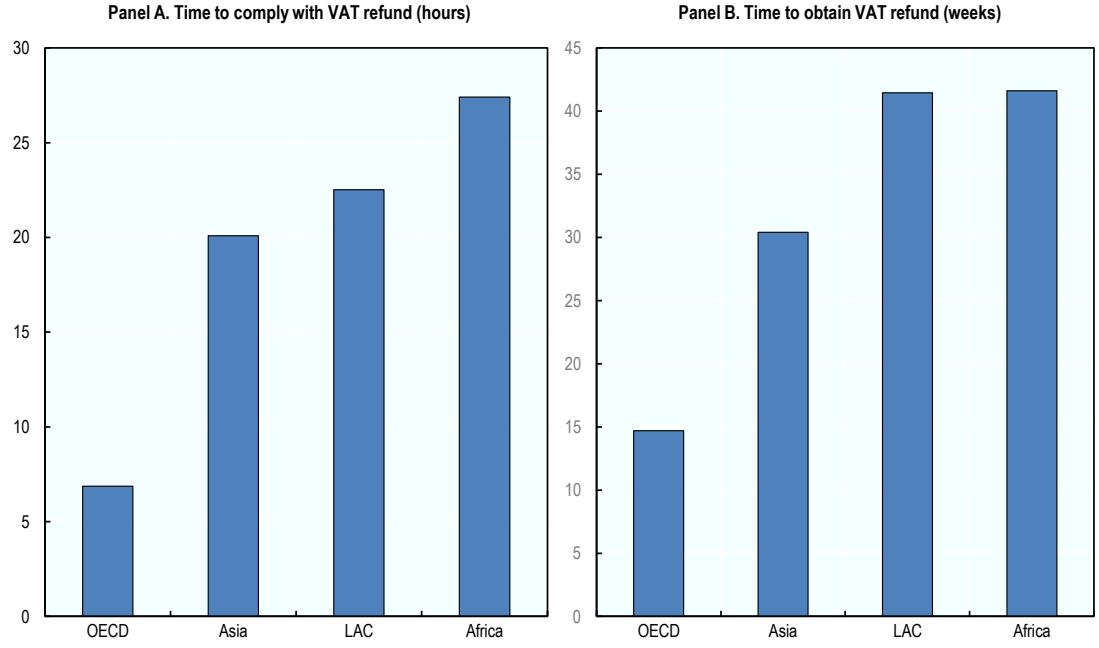
- Unilever provided its industry experts to train Zimbabwe Revenue Authority officials on the value chain for consumer goods.
- Industry experts are increasingly used as complements to TIWB audit related technical capacity building programmes. For example, a TIWB Botswana programme benefitted from the supplementary skills of a diamond industry expert to help navigate the complexity of rough diamond trading and local value adding (e.g. polishing). Other examples include a floriculture expert in Ethiopia, and oil and gas experts in Nigeria.
- As part of a multilateral training programme on transfer pricing and mining in the Republic of Korea, country participants visited Posco Steelworks to gain practical insight into how mineral products (particularly iron ore) are used in steelmaking.

The relationship between tax authorities and businesses is at the heart of most sources of tax uncertainty. The majority of the highest-scored issues centre on the consistency of treatment or being able to secure certain results (reliefs/refunds/rulings). Addressing these issues may yield significant

results in terms of an improved investment climate by enhancing tax morale of MNEs in developing countries.

The findings from the OECD business survey on the sources of tax uncertainty are consistent with findings elsewhere. The World Bank Group's Doing Business Indicators (DBI) contain several indicators on taxation and provide an alternative data source to test the consistency of the findings from the OECD's tax certainty survey. For example, Figure 2.6 shows the data for VAT refunds, which correlates with the tax certainty survey results. VAT refunds are identified as a far greater source of tax uncertainty in all three regions than the OECD member countries, with Africa reporting the greatest uncertainty. The data from the DBI shows that the time taken to comply with and obtain VAT refunds is highest in Africa and significantly higher in all three regions than the OECD average.

Figure 2.6. Time to comply with and obtain VAT refunds



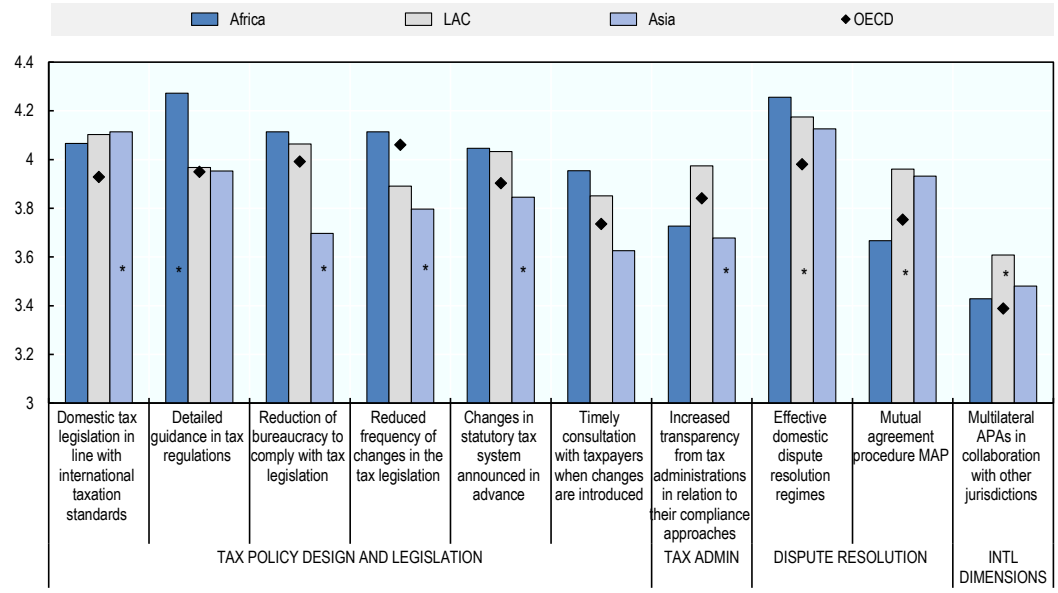
Source: World Bank Group, Doing Business Indicators.

2.5. Tools to foster tax certainty and possible lessons for tax morale

Reducing bureaucracy, improving consultation and transparency, and providing more effective dispute resolution are identified as the most important tools to build tax certainty. The survey asked which tools would be useful to improve tax certainty, with the top 10 shown in Figure 2.7 below. Most of these tools address issues around improving trust in the tax system or making it easier to understand the tax system. In this respect, the results are consistent with changes recommended by World Bank Group and PricewaterhouseCoopers (PwC) for simple and coherent tax systems (World Bank Group and PwC, 2018[14]). There also appear to be similar challenges in building the tax morale of individuals. Whilst the processes would doubtlessly be different, reducing bureaucracy, improving consultation and transparency, and providing more effective dispute resolution are likely to have an impact on individuals' tax morale as well as that of MNEs. Looking at such measures as part of a government-wide effort to improve tax morale for all taxpayers may therefore be beneficial. It could

encourage exchange of ideas across wider networks and reduce the risk that tax certainty is only a concern for large corporations.

Figure 2.7. Top 10 tools to foster tax certainty



Note: Results for the question "Which of the following tools has enhanced or could enhance certainty in the tax system?" The respondents could choose from a scale from 5 to 1, where 5 is 'has increased or could increase certainty substantially', and lower numbers where the tool is progressively less important.
* denotes significance at 5%, difference between the region and OECD.
Source: OECD business survey on taxation (2016).

Significant variation between regions illustrates the need for a tailored approach to building tax morale. This illustrates again that while tax certainty/morale appears to be a global challenge, the responses need to be crafted to respond to the local environment. The priorities of developing countries are unlikely to be the same as in OECD member countries, although this may mean that OECD member countries have already addressed some of the challenges and can share experiences (e.g. through the FTA). The domestic capacities may also affect the policy choices. Many MNEs advocate co-operative compliance programmes which have been adopted by a number of OECD countries, yet these may be more challenging for developing countries, where limited capacities can create risks, for example in asymmetries in information and technical capacity (IMF/OECD, 2017[15]). Additional research will be needed, especially at the country level, to identify which policy choices and what level of openness and engagement with MNEs are likely to have the most impact.

Further research is needed including on the role of non-tax factors, on influencing the tax morale of businesses. This chapter has looked at one aspect of business tax morale, the role of tax certainty. There are however a number of other aspects that could be researched. The public consultation responses identified a number of these including; perceived fairness, business tax strategies and risk management, ease of compliance, role of key personnel within the business (OECD, 2019[11]). More work is also needed to understand how non-tax factors (e.g. service provision, levels of corruption, company structure etc.) may affect tax morale of businesses.

One area of increasing interest is the role and impact of principles of responsible tax conduct volunteered by MNEs in recent years. In an attempt to enhance dialogue and understanding with tax administrations, especially in developing countries, several business bodies have articulated voluntary

best practice principles (see Box 2.3). If successful, such approaches could improve tax morale among businesses. Moreover, the assessment of such initiatives may have a wider impact if the largest companies are seen to be paying their taxes, with a positive knock-on effect on the tax morale of smaller companies and individuals. The OECD plans to work together with business to seek the views of developing country tax officials on the performance of business against the voluntary tax principles developed by business.

Box 2.3. Examples of voluntary tax principles developed by business

There are a number of voluntary tax principles, the most prominent are those from Business at OECD (BIAC) and the B Team. BIAC represents over 7 million companies of all sizes. In 2013, they produced a *Statement of Tax Best Practices for Engaging with Tax Authorities in Developing Countries* (BIAC, 2013[16]).

The B Team is a not-for-profit initiative formed by a global group of business leaders to catalyse a better way of doing business. In consultation with businesses and civil society, they developed a set of Responsible Tax Principles (The B Team, 2018[17])[7] which 15 companies have endorsed thus far. Some companies have made public their self-assessment against these principles.

Both sets of principles cover a range of issues, including accountability and governance, compliance, relationships with tax authorities, approach to tax incentives, and transparency. These principles set out the guidelines that companies should apply. For example, regarding tax incentives, the BIAC Statement notes:

Business may utilise tax incentives that are transparent, publically published and endorsed by the host nation legislation.

Business should refrain from claiming or accepting exemptions not contemplated in the statutory, regulatory, or administrative framework related to taxation, financial incentives, or other issues.

The tax morale of SMEs also requires further research. This chapter has focussed on MNEs, as MNE taxpayers are of significant importance, especially in developing countries, but that is not to suggest the tax morale of SMEs is not important. SME's represent the majority of firms in emerging economies and contribute to, on average, 45% of total employment and 33% of GDP (OECD, 2017b[18]). Many SME firms also move between formal and informal status, which has significant impacts not only on tax payments but access to social protection systems for employees. Given the differences between SME and MNEs different factors are likely to influence tax morale, and so dedicated SME focussed research will also be needed.

2.6. Policy considerations and further research

Increased business tax morale could lead to greater compliance. While tax morale is only rarely likely to be the determining factor for whether an investment occurs or not, it is prone to affect the scale and composition of investments. Building tax morale remains a challenging proposition, especially in developing countries, as understanding the determinants and drivers of business tax morale is not easy and research remains limited. By analysing survey responses on tax certainty, this report has identified some potential starting points for tax morale of MNEs:

- **Increase capacity building on international taxation issues in tax administrations in developing countries** to address inconsistencies in the application of international standards

and build the experience of revenue authorities in this area. TIWB is especially valuable in the practical experience of applying international tax standards.

- **Expand business engagement in capacity building for tax administrations in developing countries.** While there are risks to involving business in capacity building, there are also potential gains through deeper explanations of how their structures, process and value chains work. In general, such capacity building can be delivered by non-tax staff from businesses, helping to manage potential conflicts of interest. Greater use of co-operative compliance approaches may also be useful in some countries, but such approaches also bring risks, especially in developing countries where capacity and safeguards are lower.
- **Support the development of effective VAT and withholding tax systems**. Much of the focus on MNE taxation is on corporation tax, but there are clearly significant issues with other taxes paid by MNEs. VAT is an area of special concern where a lack of effective refund systems can lead to demands for tax exemptions. The OECD International VAT/GST Guidelines and VAT Global Forum may offer starting points for an increased focus on these issues.
- **Unlock the experiences of other tax administrations**. There is significant variation between regions (and countries) on issues affecting tax morale among businesses. While this means priorities may be different, it also means some countries will have already addressed challenges faced elsewhere. Progress can therefore be made by regional tax organisations and the FTA to unlock and share their expertise and experience with others. This could include issues highlighted in this report such as reducing bureaucracy, improving consultation and transparency, and providing more effective dispute resolution.
- **Look for synergies in building tax morale across the whole tax system.** Issues around trust and transparency are common across businesses and individuals, suggesting tax morale should be addressed as a common challenge, sharing experience and insights across the system and not siloed through solely individual, corporate or even MNE taxation. In this respect, it may be useful to broaden the current focus on tax certainty on MNEs to the concept of tax morale.
- **Develop country-level research to identify key issues affecting tax morale across different types of businesses (both size and sectors).** As with tax morale of individuals, there is a need for deeper, country-level work to provide further insights, including to better understand the range of drivers of tax morale beyond tax certainty, and how tax morale interacts with other factors affecting compliance such as tax fairness. More detailed country level work is also vital to provide the granularity of evidence for detailed policy making.
- **Undertake further research to understand the impact of other components of tax morale, e.g. voluntary principles.** The OECD intends to work with BIAC to assess the impact of the BIAC principles in developing countries. The OECD will survey tax administrations, primarily in developing countries, to gather feedback.

Notes

[1] Base erosion and profit shifting (BEPS) refers to tax planning strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax. Developing countries' higher reliance on corporate income tax means they suffer from BEPS disproportionately. BEPS practices cost countries USD 100-240 billion in lost revenue annually. Working together within **OECD/G20 Inclusive Framework on BEPS**, over 130 countries and jurisdictions are collaborating on the implementation of 15 measures to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment.

[2] See http://www.enterprisesurveys.org/data.

[3] In 2019 USAID commenced a survey on SMEs that aims to identify factors that contribute to the erosion of SME tax compliance due to their accountants and factors that contribute to more compliant behaviour and attitudes of SMEs and their accountants. Results from the analysis will allow Serbian officials to implement policies that can help increase tax morale and tax compliance indirectly by influencing or nudging tax accountants.

[4] Using data from the European Bank for Reconstruction and Development (EBRD)-World Bank Business Environment and Enterprise Survey.

[5] This approach was endorsed by a number (though not all) of the consultation responses, especially those from the private sector.

[6] Cited by Darlingston Talery, Commissioner Domestic Taxes, Liberia Revenue Authority (LRA) during his presentation at the Tax Morale conference on 25 January 2019. Improvements include enhanced dialogue between LRA and tax preparers and improvements in filing compliance. See also the presentation slides available at http://www.oecd.org/ctp/tax-global/presentations-of-the-conference-on-the-role-of-tax-morale-in-development-january-2019.pdf.

[7] The principles in detail can be found in http://bteam.org/wp-content/uploads/2018/02/A-New-Bar-For-Responsible-Tax.pdf.

Annex A. Methodology – Individuals

Countries covered in the analysis

Global and regional surveys are used in the analysis. They are public opinion surveys that explore the perceptions and public attitudes on different issues of society.

World Values Survey 2010-13

The analysis uses the latest World Values Survey wave (2010-13). To explore differences across regions, countries are grouped into OECD members (excluding Chile and Mexico), Latin America, Emerging Asia, Africa, Eastern Europe and Rest of the World (Table A.1). The country classification is limited to the 56 countries that responded to the tax morale question and each regional group varies, being composed of a range of 5 to 12 countries.

Table A.1. Countries that responded to the tax morale question in World Values Survey 2010-13

Selected OECD	Latin America	Emerging Asia	Africa	Eastern Europe	Rest of the world
Australia	Argentina	China	Algeria	Belarus	Armenia
Estonia	Brazil	Hong Kong	Egypt	Georgia	Azerbaijan
Japan	Chile	India	Ghana	Romania	Cyprus[1]
Netherlands	Colombia	Malaysia	Libya	Russia	Iraq
New Zealand	Ecuador	Pakistan	Morocco	Ukraine	Jordan
Poland	Mexico	Philippines	Nigeria		Kazakhstan
Slovenia	Peru	Singapore	Rwanda		Kuwait
South Korea	Trinidad and	Thailand	South Africa		Kyrgyzstan
Spain	Tobago		Tunisia		Lebanon
Sweden	Uruguay		Zimbabwe		Palestine
Turkey					Uzbekistan
United States					Yemen

Latinobarómetro 2016

The last round of Latinobarómetro (2016) survey was conducted in 18 LAC countries, representative of the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

Afrobarometer 2015

The 2015 round of Afrobarometer covers 36 countries: Algeria, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cabo Verde, Côte d'Ivoire, Egypt, Gabon, Ghana, Guinea, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, São Tomé and

Príncipe, Senegal, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, and Zimbabwe.

Variables and questions used

Table A.2. Questions asked in World Values Survey and regional barometers

	World Values Survey (2010-2014)	Latinobarómetro (2016)	Afrobarometer (2015)	AsiaBarometer (2007)
Tax Morale	'Cheating on taxes if you have a chance': Do you think it can always be justified, never be justified, or something in between.	How justifiable do you believe it is to evade paying taxes?	Do you justify cheating on taxes if you have the chance?	
Willingness to pay taxes		How much are you willing to increase taxes to finance infrastructure works that promote the integration of their country with the world?	Citizens must pay their taxes to the government in order for our country to develop	
Increase spending on public services			If the government decided to make people pay more taxes or use fees in order to increase spending on public health care, would you support this decision or oppose it?	Please indicate whether you would like to see more or less government spending in education
Citizenship	Are you a citizen of this country?			
Education	What is the highest level of education that you have attained?	What level of education do you have?	What is your highest level of education?	
Religion	Independently of whether you attend religious services or not, would you say you are religious?	Do you consider yourself religious?	Aside from wedding and funerals, how often do you personally engage in religious practices like prayer, reading a religious book, or attending a religious meeting or a meeting of a religious group?	
Trust in Government	Could you tell me how much confidence you have in the government in your nation's capital?	How much trust do you have in government?	How much do you trust the president?	
Support for Democracy	'Having a democratic political system': Would you say it is very good, fairly good, fairly bad or very bad way of governing this country?	With which of the following statements do you agree most? 'Democracy is preferable to any other kind of government'. 'Under some circumstances an authoritarian government can be preferable to a democratic one'. 'For people like me, it doesn't matter whether we have a democratic or non-	Democracy is preferable to any other kind of government	Please tell me how satisfied or dissatisfied you are with the democratic system?

		democratic regime'.		
Meritocracy	In the long run, hard work usually brings a better life or hard work doesn't generally bring success – it's more a matter of luck and connections?			
Preference for redistribution	'Governments tax the rich and subsidize the poor': How essential do you think it is as a characteristic of democracy?			'It is desirable that the people are equal, even if the economy is stagnant, rather than unequal but developing'. Please indicate how much you agree or disagree with the statement.
Income equality	Incomes should be made more equal?			
Corruption		In your opinion, since last year, corruption has increased a lot, fairly increased, stayed stable, has decreased or has strongly decreased?	In your opinion, over the past year, has the level of corruption in this country increased, decreased, or stayed the same?	Please indicate how much you agree or disagree with the statement: There is widespread corruption among those who govern the country
Satisfaction with health		Would you say you are very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with public hospitals?	How well or badly would you say the current government is handling the improvement of basic health services?	Please tell me how satisfied or dissatisfied you are with health in your life?
Satisfaction with education			How well or badly would you say the current government is addressing the educational needs?	Please tell me how satisfied or dissatisfied you are with education in your life?
Importance of infrastructure		From the following list of issues, do you think infrastructure is the most important?	How well or badly would you say the current government is maintaining roads and bridges?	
Integration		From the following list of issues, would you say integration is the most important?		
Positive attitudes towards taxation			Have you refused to pay a tax to the government? From 'yes', 'often' to 'no, I would never do this'.	
Difficulty avoiding taxes			How easy or difficult is it to do each of the following? 'To avoid paying the income or property taxes that you owe to government'.	
Tax authorities legitimacy			The tax authorities always have the right to make people pay taxes	

Methodology

To measure tax morale we use the answers to the question ‘’Do you justify cheating on taxes if you have the chance?’’ Tax morale is defined as a dummy that equals unity if the person rates 10 on a scale from 10 (cheating on taxes is never justifiable) and zero from answers raging between 1 (cheating on taxes is always justifiable) and 6 (low tax morale). Therefore, we define individuals with (high) tax morale as those who strictly do not justify cheating on taxes at all.

The drivers of tax morale are analysed based on a simplified micro-econometric approach. Following the standard specification in the empirical literature, a Probit model is used on an individual basis, where the dependent variable is tax morale measured in three ways, when available. First, the traditional definition that measures the attitudes toward taxation by analysing those who would never justify cheating against those who would cheat on taxes. Second, tax morale is measured as the willingness to pay more taxes for development or a public service. Third, and only for the case of Africa the dependent variable, as a proxy of tax morale, captures the willingness to increase spending on certain public services.

The analysis studies the relationship between citizens’ perceptions of tax morale and several socio-economic and institutional (perceptions-related) variables that vary depending on the availability of data across world and regional surveys. For that purpose, the different Probit regressions include in a first stage the socio-economic factors, in order to grasp the information not dependent from policy decisions. In the second stage, the different variables related to institutions, satisfaction with public services, corruption and tax administration as established in the literature and available in the datasets are included successively, one at a time and alone. In the final stage, the Probit includes all of the socio-economic variables alongside all of the possible determinants under analysis. All regressions include country dummies to capture potential differences in perceptions and average behaviour across countries.

Possible caveats

A caveat to take into consideration is that these regional surveys are not comparable to each other. Additionally, the coverage per country is still limited (we focus on regional results and not a country comparison) and the period of implementation of each survey differs. Finally, similar to the World Values Survey, questions intend to measure perceptions and attitudes; the information corresponds to self-report answers that can bias the results.

Probit estimation results

Table A.3. Probit regressions explaining tax morale using World Values Survey (2010-2014)

Dep. Var	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Religious	0.019	0.019	0.017	0.018	0.017	0.019	0.014
	(0.004)***	(0.004)***	(0.004)***	(0.004)***	(0.004)***	(0.004)***	(0.004)***
Female	0.025	0.023	0.023	0.025	0.025	0.024	0.022
	(0.004)***	(0.004)***	(0.004)***	(0.004)***	(0.004)***	(0.004)***	(0.004)***
Age	0.002	0.002	0.002	0.002	0.002	0.002	0.002
	(0.000)***	(0.000)***	(0.000)***	(0.000)***	(0.000)***	(0.000)***	(0.000)***
Educational attainment	0.005	0.005	0.004	0.006	0.005	0.005	0.005
	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.001)***
Citizen	0.061	0.059	0.06	0.064	0.059	0.063	0.06
	(0.014)***	(0.014)***	(0.014)***	(0.014)***	(0.014)***	(0.014)***	(0.014)***
Part-time	-0.025	-0.026	-0.025	-0.027	-0.025	-0.026	-0.028
	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***
Self employed	-0.001	-0.002	-0.004	0	-0.003	-0.001	-0.005
	-0.006	-0.006	-0.006	-0.006	-0.006	-0.006	-0.006
Retired	0.001	0.001	0.001	0	-0.003	0	-0.002
	-0.007	-0.007	-0.007	-0.007	-0.007	-0.007	-0.007
Housewife	-0.012	-0.011	-0.01	-0.015	-0.013	-0.012	-0.013
	(0.006)**	(0.006)*	(0.006)*	(0.006)**	(0.006)**	(0.006)**	(0.006)**
Student	0.006	0.005	0.002	0.005	0.005	0.006	0.001
	-0.007	-0.007	-0.007	-0.007	-0.007	-0.007	-0.008
Unemployed	-0.017	-0.018	-0.017	-0.017	-0.015	-0.018	-0.019
	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***
Quintile 2	-0.002	-0.004	-0.008	-0.001	-0.004	-0.002	-0.007
	-0.005	-0.006	-0.006	-0.006	-0.005	-0.006	-0.006
Quintile 3	-0.032	-0.033	-0.033	-0.031	-0.034	-0.031	-0.033
	(0.005)***	(0.005)***	(0.005)***	(0.005)***	(0.005)***	(0.005)***	(0.006)***
Quintile 4	-0.052	-0.054	-0.054	-0.051	-0.052	-0.051	-0.052
	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***
Quintile 5	-0.076	-0.08	-0.077	-0.077	-0.069	-0.075	-0.07
	(0.009)***	(0.009)***	(0.009)***	(0.009)***	(0.009)***	(0.009)***	(0.010)***
Trust in Government		0.014					0.008
		(0.002)***					(0.002)***
Support for Democracy			0.049				0.042
			(0.002)***				(0.002)***
Redistributive Democracies				0.005			0.004
				(0.001)***			(0.001)***
Meritocracy					0.016		0.015
					(0.001)***		(0.001)***
Preferences Redistribution						0.003	0.002
						(0.001)***	(0.001)***
Pseudo R2	0.13	0.13	0.14	0.12	0.14	0.13	0.16
Observations	50.598	49.149	48.043	48.994	49.689	49.353	45.149

Note: Marginal effects. Robust standard errors in parenthesis, *,**,*** denote significance at 10%, 5% and 1%, respectively. Regressions include country and marital status dummies not reported in the table. The dummy for full-time employment and quintile 1 are omitted in the regressions.
Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on World Values Survey (2010-2014).

Table A.4. Probit regressions explaining tax morale using Latinobarómetro (2016)

Dep. Var	(1)	(2)	(3)	(4)	(5)
Religious	0.001	0	0.002	0.002	0.001
	-0.005	-0.006	-0.005	-0.006	-0.006
Female	-0.014	-0.014	-0.016	-0.016	-0.015
	-0.01	-0.01	-0.01	-0.01	-0.01
Age	0.003	0.002	0.003	0.002	0.002
	(0.000)***	(0.000)***	(0.000)***	(0.000)***	(0.000)***
Educational Attainment	0.007	0.006	0.006	0.006	0.006
	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.001)***
Citizen	-0.014	-0.008	-0.008	0.002	-0.002
	-0.046	-0.05	-0.046	-0.047	-0.049
Self-Employed	-0.012	-0.011	-0.011	-0.01	-0.011
	-0.013	-0.013	-0.013	-0.013	-0.013
Out of Work	-0.038	-0.03	-0.038	-0.039	-0.032
	(0.022)*	-0.023	(0.023)*	(0.023)*	-0.023
Retired	0.002	0.016	0.008	0.011	0.022
	-0.023	-0.023	-0.023	-0.023	-0.023
Housework	0.007	0.007	0.009	0.011	0.01
	-0.015	-0.015	-0.015	-0.015	-0.015
Student	0.034	0.024	0.034	0.037	0.024
	-0.024	-0.024	-0.024	-0.024	-0.024
Support for Democracy		0.051			0.052
		(0.006)***			(0.006)***
Satisfaction with Health			-0.029		-0.033
			(0.005)***		(0.005)***
Satisfaction with Education				-0.017	
				(0.005)***	
Pseudo R2	0.05	0.06	0.06	0.05	0.07
Observations	10,127	9,494	10,067	9,836	9,447

Notes: Marginal effects. Robust standard errors in parenthesis, *,**,*** denote significance at 10%, 5% and 1%, respectively. Regressions include country, marital status, ethnic and quintile dummies not reported in the table. The dummy for salaried employment and quintile 1 are omitted in the regressions.
Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on Latinobarómetro (2016).

Table A.5. Probit regressions explaining willingness to increase taxes using Latinobarómetro (2016)

Dep. Var	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Religious	0.011	0.012	0.010	0.008	0.011	0.011	0.011
	(0.004)***	(0.004)***	(0.004)**	(0.003)***	(0.004)***	(0.004)***	(0.004)***
Female	-0.015	-0.015	-0.012	-0.009	-0.015	-0.015	-0.010
	(0.007)**	(0.008)**	(0.007)*	(0.006)*	(0.007)**	(0.007)**	(0.008)
Age	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Educational Attainment	-0.001	-0.001	-0.001	-0.002	-0.001	-0.001	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)**	(0.001)	(0.001)	(0.001)
Citizen	0.006	-0.015	-0.002	-0.014	0.007	0.007	-0.015
	(0.033)	(0.024)	(0.034)	(0.023)	(0.033)	(0.033)	(0.025)
Self-Employed	-0.018	-0.014	-0.017	-0.004	-0.018	-0.018	-0.012
	(0.009)*	(0.010)	(0.009)*	(0.007)	(0.009)*	(0.009)*	(0.010)
Out of Work	-0.036	-0.031	-0.032	-0.005	-0.035	-0.035	-0.028
	(0.017)**	(0.018)*	(0.017)*	(0.013)	(0.017)**	(0.017)**	(0.018)
Retired	0.010	0.008	0.012	0.012	0.011	0.010	0.007
	(0.016)	(0.017)	(0.016)	(0.013)	(0.016)	(0.016)	(0.017)
Housework	-0.012	-0.011	-0.012	0.003	-0.011	-0.012	-0.011
	(0.011)	(0.011)	(0.011)	(0.008)	(0.011)	(0.011)	(0.011)
Student	0.005	0.001	0.003	-0.027	0.005	0.004	-0.001
	(0.017)	(0.017)	(0.017)	(0.016)*	(0.017)	(0.017)	(0.018)
Support for Democracy		-0.005					-0.009
		(0.004)					(0.004)**
Trust in Government			0.025				0.025
			(0.004)***				(0.004)***
Decrease in Corruption				0.004			0.010
				(0.003)			(0.004)***
Importance of Infrastructure					0.016		0.012
					(0.007)**		(0.007)*
Importance of Integration						0.019	0.017
						(0.008)**	(0.009)*
Pseudo R2	0.03	0.03	0.03	0.08	0.03	0.03	0.03
Observations	13,047	12,281	12,901	11,295	13,047	13,047	11,935

Notes: Marginal effects. Robust standard errors in parenthesis, *,**,*** denote significance at 10%, 5% and 1%, respectively. Regressions include country, marital status, ethnic and quintile dummies not reported in the table. The dummy for salaried employment and quintile 1 are omitted in the regressions.

Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on Latinobarómetro (2016).

Table A.6. Probit regressions explaining tax morale using Afrobarometer (2015)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Religious	0.013	0.014	0.013	0.012	0.012	0.015	0.015	0.010
	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)	(0.014)	(0.013)	(0.015)
Female	-0.022	-0.023	-0.020	-0.023	-0.022	-0.025	-0.021	-0.020
	(0.004)***	(0.004)***	(0.005)***	(0.004)***	(0.004)***	(0.005)***	(0.004)***	(0.005)***
Age	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Educational Attainment	0.002	0.002	0.002	0.003	0.002	0.002	0.002	0.002
	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.001)***
Part Time	-0.043	-0.043	-0.040	-0.048	-0.044	-0.035	-0.032	-0.033
	(0.007)***	(0.007)***	(0.008)***	(0.008)***	(0.008)***	(0.008)***	(0.007)***	(0.009)***
Unemployed	-0.050	-0.047	-0.043	-0.053	-0.049	-0.049	-0.037	-0.036
	(0.006)***	(0.006)***	(0.007)***	(0.006)***	(0.006)***	(0.007)***	(0.006)***	(0.007)***
Out of Work	-0.047	-0.046	-0.040	-0.048	-0.047	-0.048	-0.037	-0.039
	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.007)***
Urban	0.018	0.023	0.012	0.018	0.019	0.017	0.012	0.013
	(0.005)***	(0.005)***	(0.005)**	(0.005)***	(0.005)***	(0.005)***	(0.005)**	(0.006)**
Trust in Government		0.032						0.017
		(0.002)***						(0.003)***
Support for Democracy			0.032					0.025
			(0.003)***					(0.004)***
Satisfaction with Health				0.027				0.013
				(0.002)***				(0.003)***
Decrease in Corruption					0.018			0.008
					(0.002)***			(0.002)***
Difficulty of finding out what taxes to pay						-0.032		-0.023
						(0.003)***		(0.003)***
Difficulty of evading taxes						0.029		0.023
						(0.003)***		(0.003)***
Positive attitudes toward taxation							0.057	0.051
							(0.003)***	(0.003)***
Tax Authorities Legitimacy							0.065	0.059
							(0.002)***	(0.002)***
Pseudo R	0.04	0.05	0.04	0.04	0.04	0.05	0.07	0.07
Observations	50,985	49,998	46,083	49,101	48,229	41,734	48,744	34,819

Note: Marginal effects. Robust standard errors in parenthesis, *,**,*** denote significance at 10%, 5% and 1%, respectively. Regressions include country dummies not reported in the table. The dummy for full-time employment is omitted in the regressions.
Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on Afrobarometer (2015).

Table A.7. Probit regressions explaining willingness to increase taxes using Afrobarometer (2015)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Religious	0.044	0.046	0.043	0.043	0.047	0.043	0.036
	(0.012)***	(0.012)***	(0.012)***	(0.012)***	(0.013)***	(0.012)***	(0.014)***
Female	-0.022	-0.022	-0.016	-0.024	-0.020	-0.020	-0.017
	(0.004)***	(0.004)***	(0.004)***	(0.004)***	(0.005)***	(0.004)***	(0.005)***
Age	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)**	(0.000)***	(0.000)**	(0.000)**	(0.000)**	(0.000)*	(0.000)**
Educational Attainment	0.003	0.004	0.004	0.004	0.003	0.003	0.004
	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.001)***
Part Time	-0.006	-0.006	-0.004	-0.005	-0.004	0.002	0.005
	(0.007)	(0.007)	(0.007)	(0.007)	(0.008)	(0.007)	(0.008)
Unemployed	-0.030	-0.028	-0.023	-0.027	-0.027	-0.019	-0.010
	(0.006)***	(0.006)***	(0.006)***	(0.006)***	(0.007)***	(0.006)***	(0.007)
Out of Work	-0.009	-0.010	-0.008	-0.006	-0.011	-0.001	0.001
	(0.006)*	(0.006)*	(0.006)	(0.006)	(0.006)*	(0.006)	(0.006)
Urban	0.047	0.050	0.045	0.044	0.048	0.040	0.045
	(0.004)***	(0.004)***	(0.005)***	(0.005)***	(0.005)***	(0.004)***	(0.005)***
Trust in Government		0.025					0.013
		(0.002)***					(0.002)***
Support for Democracy			0.047				0.042
			(0.003)***				(0.003)***
Satisfaction with Roads				0.026			0.013
				(0.002)***			(0.003)***
Difficulty of finding out what taxes to pay					-0.030		-0.021
					(0.003)***		(0.003)***
Difficulty of evading taxes					-0.007		-0.014
					(0.003)**		(0.003)***
Positive attitudes toward taxation						0.029	0.028
						(0.003)***	(0.003)***
Tax Authorities Legitimacy						0.074	0.071
						(0.002)***	(0.002)***
Pseudo R	0.06	0.06	0.06	0.06	0.09	0.09	0.09
Observations	52,740	51,638	47,352	50,553	42,287	49,282	36,164

Note: Marginal effects. Robust standard errors in parenthesis, *,**,*** denote significance at 10%, 5% and 1%, respectively. Regressions include country dummies not reported in the table. The dummy for full-time employment is omitted in the regressions.
Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on Afrobarometer (2015).

Table A.8. Probit regressions explaining willingness to increase spending using Afrobarometer (2015)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Religious	-0.003	-0.007	-0.005	-0.004	-0.008	-0.006	0.000	-0.004	0.001
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.013)	(0.014)	(0.013)	(0.015)
Female	0.011	0.011	0.012	0.010	0.010	0.011	0.004	0.012	0.007
	(0.004)**	(0.004)**	(0.004)***	(0.004)**	(0.004)**	(0.004)**	(0.005)	(0.004)***	(0.005)
Age	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)***	(0.000)***	(0.000)***	(0.000)***	(0.000)***	(0.000)***	(0.000)**	(0.000)***	(0.000)***
Educational Attainment	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
	(0.000)**	(0.001)	(0.001)*	(0.001)	(0.001)**	(0.001)**	(0.001)**	(0.001)**	(0.001)
Part Time	-0.016	-0.016	-0.016	-0.017	-0.014	-0.015	-0.020	-0.012	-0.017
	(0.007)**	(0.008)**	(0.008)**	(0.008)**	(0.008)*	(0.008)*	(0.008)**	(0.008)	(0.009)*
Unemployed	-0.001	-0.000	-0.002	-0.002	0.000	-0.003	0.004	0.003	0.006
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.007)	(0.006)	(0.007)
Out of Work	0.002	-0.000	-0.003	-0.004	-0.001	-0.001	-0.002	0.006	-0.004
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.007)
Urban	-0.034	-0.028	-0.034	-0.034	-0.044	-0.031	-0.037	-0.038	-0.035
	(0.005)***	(0.005)***	(0.005)***	(0.005)***	(0.005)***	(0.005)***	(0.005)***	(0.005)***	(0.005)***
Trust in Government		0.037							0.018
		(0.002)***							(0.002)***
Satisfaction with Health			0.050						0.021
			(0.002)***						(0.004)***
Satisfaction with Education				0.048					0.014
				(0.002)***					(0.004)***
Satisfaction with Roads					0.043				0.015
					(0.002)***				(0.003)***
Decrease in Corruption						0.031			0.017
						(0.002)***			(0.002)***
Difficulty of finding out what taxes to pay							-0.026		-0.015
							(0.003)***		(0.003)***
Difficulty of evading taxes							-0.008		-0.009
							(0.003)***		(0.003)***
Tax Authorities Legitimacy								0.045	0.039
								(0.002)***	(0.002)***
Pseudo R	0.03	0.04	0.04	0.04	0.04	0.03	0.03	0.04	0.05
Observations	52,251	51,198	50,243	50,154	50,164	49,357	41,980	50,579	37,906

Note: Marginal effects. Robust standard errors in parenthesis, *,**,*** denote significance at 10%, 5% and 1%, respectively. Regressions include country dummies not reported in the table. The dummy for full-time employment is omitted in the regressions.
Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on Afrobarometer (2015).

Table A.9. Probit regressions explaining tax morale in Asia using World Values Survey (2010-2014)

Dep. Var	(1)
Religious	0.003
	(0.011)
Female	0.030
	(0.010)***
Age	0.001
	(0.000)***
Educational Attainment	0.006
	(0.002)***
Part-time	-0.090
	(0.015)***
Self employed	0.027
	(0.013)**
Retired	-0.067
	(0.021)***
Housewife	-0.031
	(0.014)**
Student	-0.008
	(0.023)
Unemployed	-0.033
	(0.018)*
Citizen	-0.014
	(0.087)
Quintile 2	-0.002
	(0.014)
Quintile 3	-0.049
	(0.013)***
Quintile 4	-0.030
	(0.015)**
Quintile 5	-0.062
	(0.022)***
Trust in Government	0.007
	(0.005)
Support for Democracy	0.067
	(0.005)***
Redistributive Democracies	0.013
	(0.001)***
Meritocracy	0.026
	(0.001)***
Preferences for Redistribution	0.012
	(0.001)***
Observations	7.758

Note: Marginal effects. Robust standard errors in parenthesis, *,**,*** denote significance at 10%, 5% and 1%, respectively. Regressions include country dummies not reported in the table. The dummy for full-time employment is omitted in the regressions.
Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on World Values Survey 2010-2014.

Annex B. Methodology – Business

Data

In October 2016, the OECD launched a business survey on taxation to gather the views of businesses regarding the sources of tax uncertainty and on the possible solutions to foster greater certainty in the tax system. The survey was open between October and December 2016, targeted senior tax professionals and received 724 responses from firms headquartered in 62 different countries and with regional headquarters in 107 different jurisdictions. In the case of Africa, Asia and Latin America, more than 91% of firms were MNE's with a global and regional headquarter. Among the respondents, the top five countries of global headquarters were Bulgaria, the United States, Italy, Japan and Germany (in order of number of respondents). The top five countries for regional headquarters are slightly different from those by global headquarters. Most respondents have regional headquarters in the United States, United Kingdom, Singapore, Germany, the People's Republic of China and Mexico (in order of number of respondents). Additionally, although some jurisdictions are not represented as the base for global headquarters, they are well represented as a base for regional headquarters. For example, this is the case for the People's Republic of China and Singapore. For a more developed description of the methodology please see the IMF/OECD Report for the G20 Finance Ministers on "Tax certainty" (IMF/OECD, 2017[1]).

Methodology

For the current analysis, responses have been aggregated by region: Africa, Asia, LAC and OECD. They have been aggregated using simple averages and testing if means of Africa, Asia and LAC were statistically significant to that of the OECD simple average. This approach provides different numbers of observations in each region, and also has different numbers of observations per country, however a single country never represents more than 35% of the responses for a single region. For questions where respondents were asked to give answers without reference to a specific country, the approach taken was to include for analysis for each region those respondents which have identified having either a global or regional headquarters in a region. This approach does mean that some responses are included in multiple regions, reflecting the multi-regional nature of their companies' operations. Table B.1and Table B.2 provide more complete details on the regional breakdown.

Table B.1. Regional breakdown of number of countries and firms included in data for Figure 2.5 and Figure 2.7

	Global HQs		Regional HQ		Total (GHQ + RHQ)	
	Countries	Firms	Countries (additional to HQ)	Firms	Countries	Firms
Africa	7	24	5	25	12	49
Asia	7	25	21	192	28	217
LAC	10	78	11	84	21	162
OECD	33	456	0	59	33	515

Note: Questions where responses were provided in relation to the views of the respondent generally, not in relation to a specifically cited country.

Table B.2. Regional breakdown of number of countries and firms included in data for Figure 2.4 and Figure 2.6

	Countries		Number of firms	
Africa		26		92
Asia		33		299
LAC		23		231
OECD		33		587

Note: Questions where responses were in relation to a specifically cited country

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Notes

[1] Note by Turkey:

The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Union:

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