

# 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<sup>[3]</sup>), 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<sup>[4]</sup>)). 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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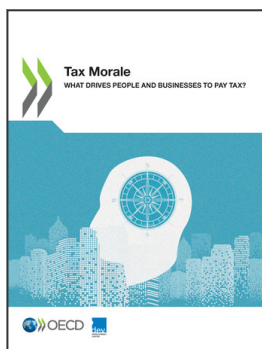
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## Notes

<sup>1</sup> See <https://www.oecd.org/tax/beps/>.

<sup>2</sup> Definition most commonly used and accepted in the literature.

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



**From:**

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