

# *What's driving tax morale?*

## An empirical analysis on social preferences and attitudes towards taxation



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## *What's driving tax morale?*

### Motivation

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- **Low tax levels** should not be fully attributed to states' poor capacity of and **poor enforcement**, but also to **policies, institutions and social preferences**.
- **Fiscal legitimacy** in emerging countries is often low, as citizens do not trust that tax revenues are well spent, making them less willing to pay → **Difficult to approve and implement structural tax reforms**
- **What institutional characteristics and attitudes influence tax morale in emerging economies?**
  - **Key** to identify, measure and estimate tax morale drives to better design effective policies.



# *What's driving tax morale?*

## Methodology

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- Econometric analysis to understand the **citizens perceptions of taxes** through household surveys, based on OECD (2013), *Tax and Development*.
- Focus on the influence of **socioeconomic and institutional variables** on tax morale.
- Exploring **Global and Regional Surveys**:
  - World Value Survey (WVS) 2010-13 covering OECD economies, Africa, Asia and Latin America.
  - Emerging regions in focus → Regional surveys: Afrobarometer 2015, Latinobarometro 2016 and Asiabarometer 2005-07.



# *What's driving tax morale?*

## An empirical analysis

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1

**Global analysis**

2

Regional patterns in Latin America and Africa

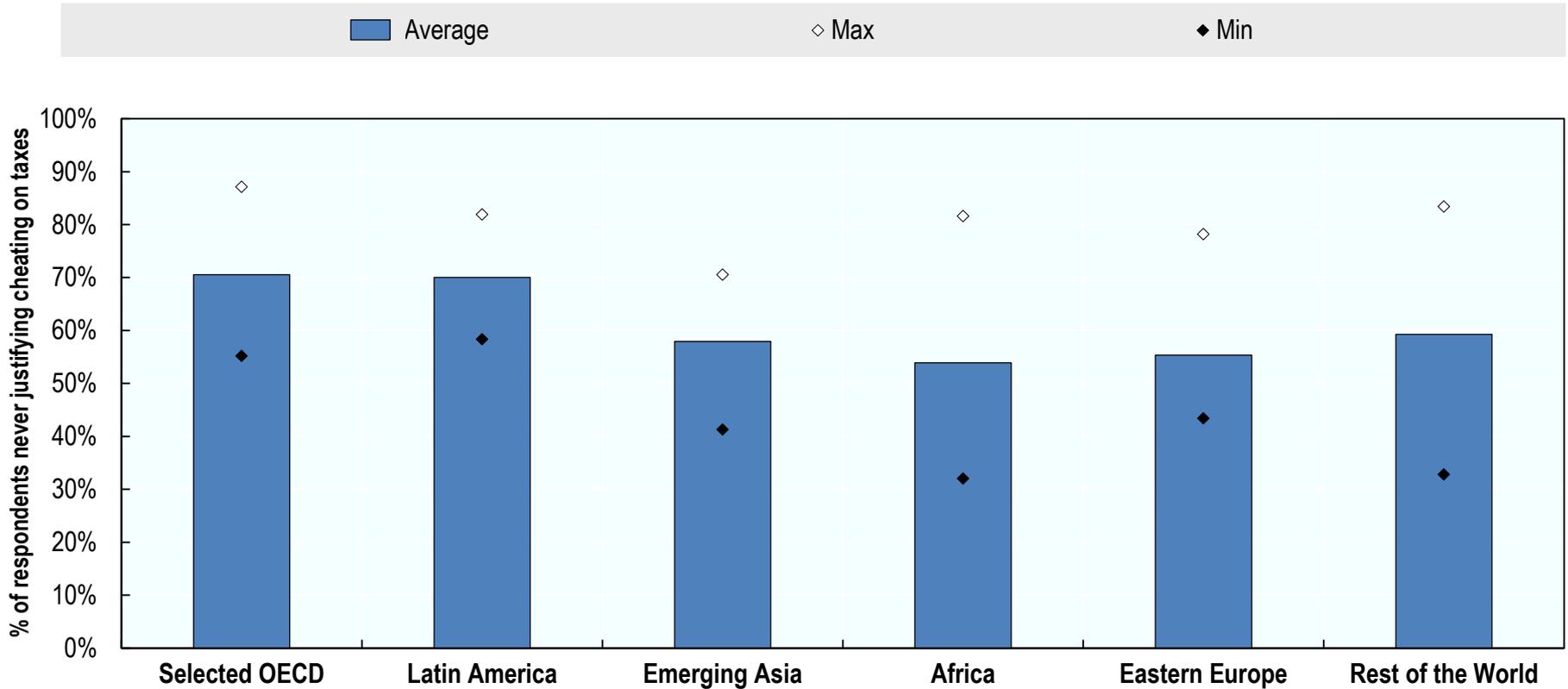
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Conclusions



# Tax morale across regions at a glance

## Tax morale by regions (% never justifying cheating on taxes)



Note: Refers to the percentage of respondents that stresses that they would never justify taxes.

Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on World Value Survey (2010-2013).



## Potential determinants of tax morale

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### Socio-economic factors

- Marital status, female, citizen, educational attainment, employment status, perceived income ...

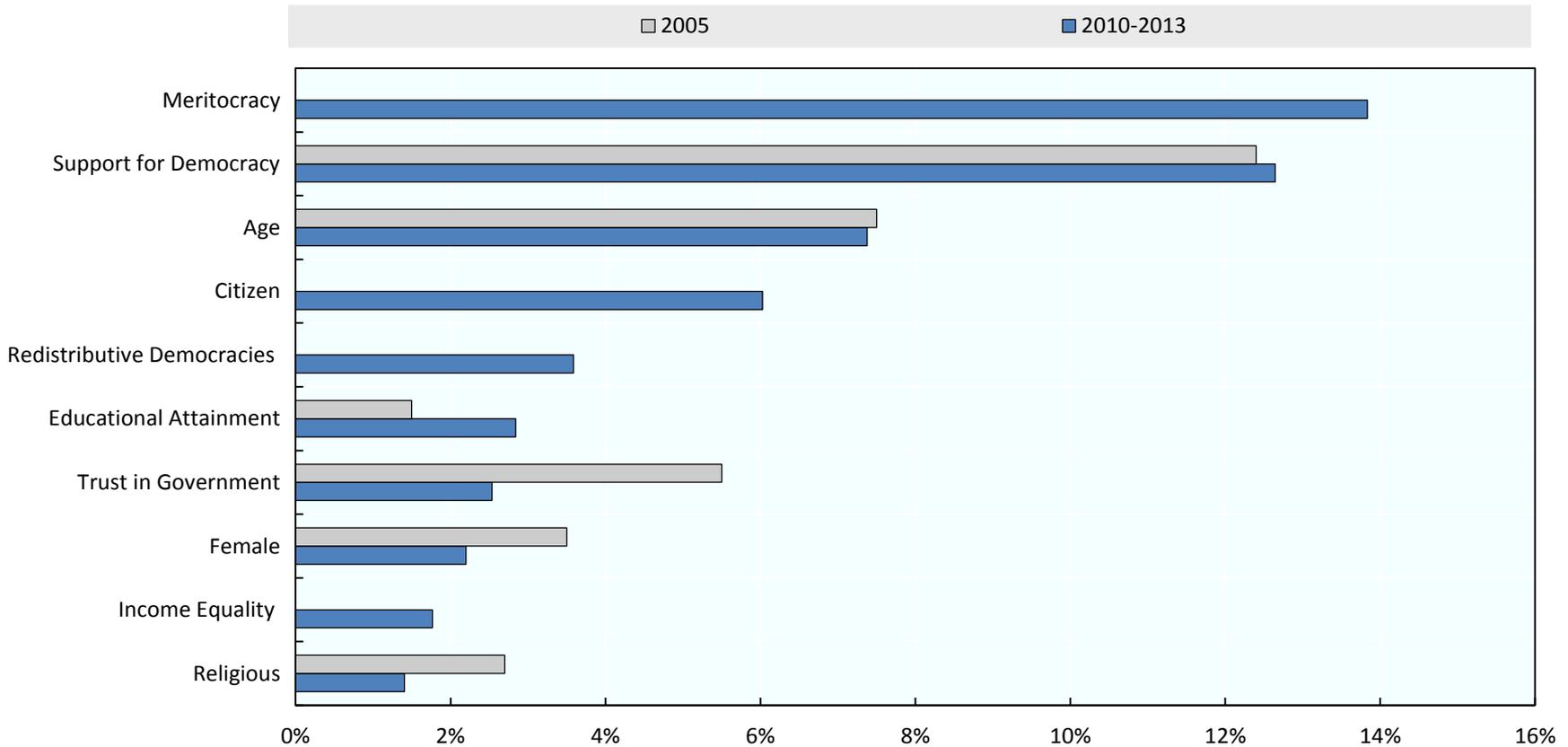
### Institutional characteristics

- Support for democracy, trust in government, preference for redistribution, meritocracy, preferences for equality ...



# Main results: meritocracy and support for democracy are main determinants of tax morale

**Marginal effects on the probability of reporting high tax morale  
(Never justifying tax evasion)**



*Note:* Based on regression coefficients (% refers to marginal effects).

*Source:* OECD Development Centre / Centre for Tax Policy and Administration calculations based on World Value Survey (2010-2013) and Daude, Gutiérrez and Melguizo (2013), What Drives Tax Morale? A Focus on Emerging Economies.



# *What's driving tax morale?*

## An empirical analysis

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1

Global analysis

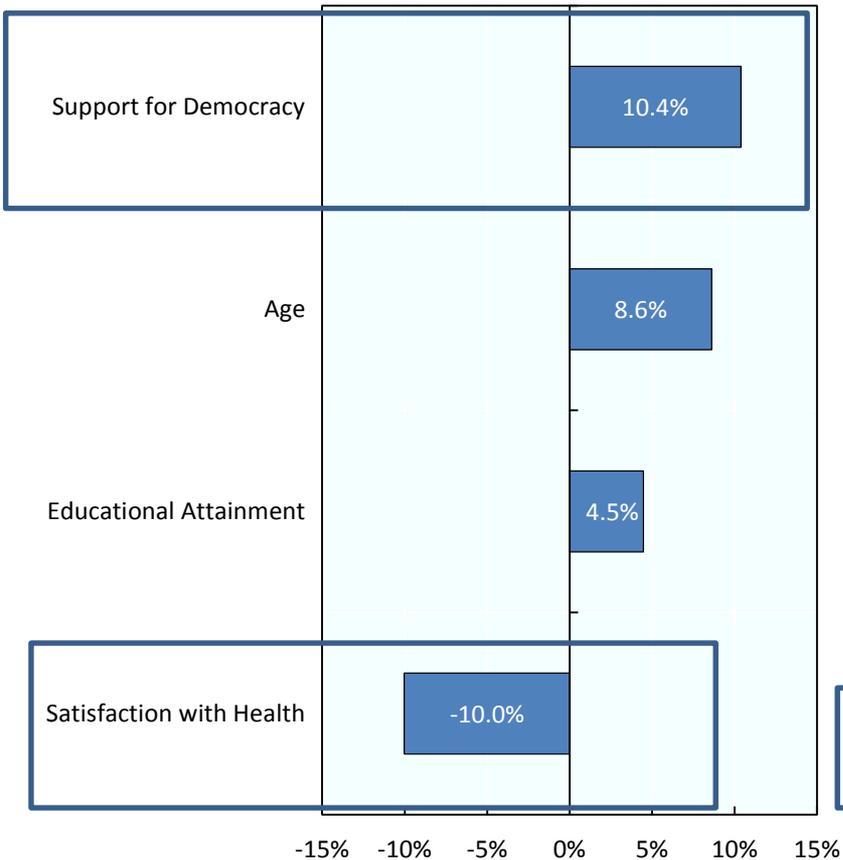
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**Regional patterns in Latin America and Africa**

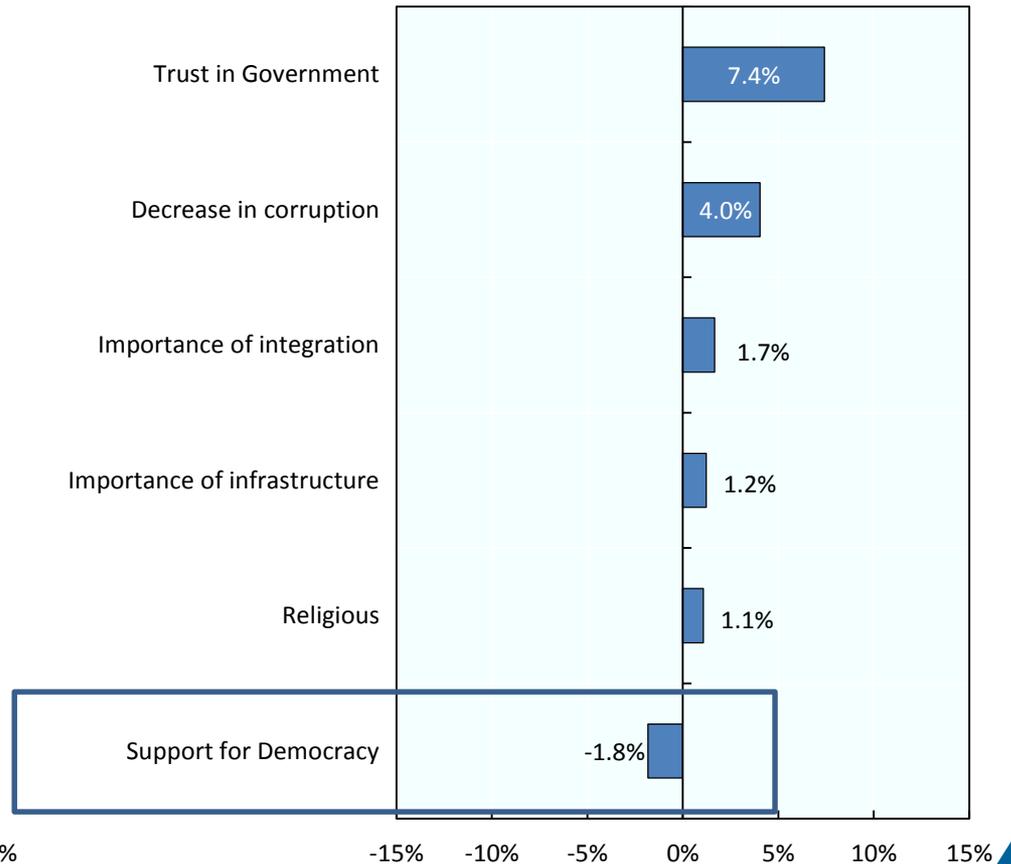
3

Conclusions

### Tax morale in Latin America (Never justifying tax evasion)



### High willingness to increase taxes in Latin America (Willing to increase taxes to finance infrastructure)







# *What's driving tax morale?*

## An empirical analysis

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1

Global analysis

2

Regional patterns in Latin America and Africa

3

**Conclusions**



## *What's driving tax morale?*

### General conclusions on OECD, Africa, and Latin America

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- **Institutional factors** are key. Support for democracy and trust in government are consistently relevant factors for higher tax morale, though depends somewhat on the question.
- **Tax administration matters** – probably more than service delivery.
- **Socio-demographics factors** appear to have some role - (+age, +educational attainment and being religious) lead toward greater tax morale.
  - Can this help in targeting initiatives?
  - Can we use this form of analysis to help identify gender biases?
- Questions seem to matter – some significant differences when looking at tax in abstract vs. paying increased taxes
- We don't know what people think of when asked about tax (national, sub-national, non-governmental level)



# *Tax morale in businesses*



## Tax morale in business

### How does it differ from tax morale for individuals?

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- Socioeconomic variables such as the level of income, education, gender or faith are not applicable to businesses
- Quality public education and health affects directly affect individuals, but the impact on firms might be through an indirect channel; the provision of a qualified workforce
- As decisions in firms are made by individuals some of the factors influencing citizens might filter down to the firm, especially for small firms
- Factors determined by the firm's corporate behaviour might also be affecting their tax morale.
  - risk preferences, tax advisor effect, board reputation, company structure, size of the firm, compliance cost, tax complexity, etc (Yucedogru, 2013; Lanis, Richardson, Liu and McClure, 2018).



# *What's driving tax morale?*

## Tax morale in businesses

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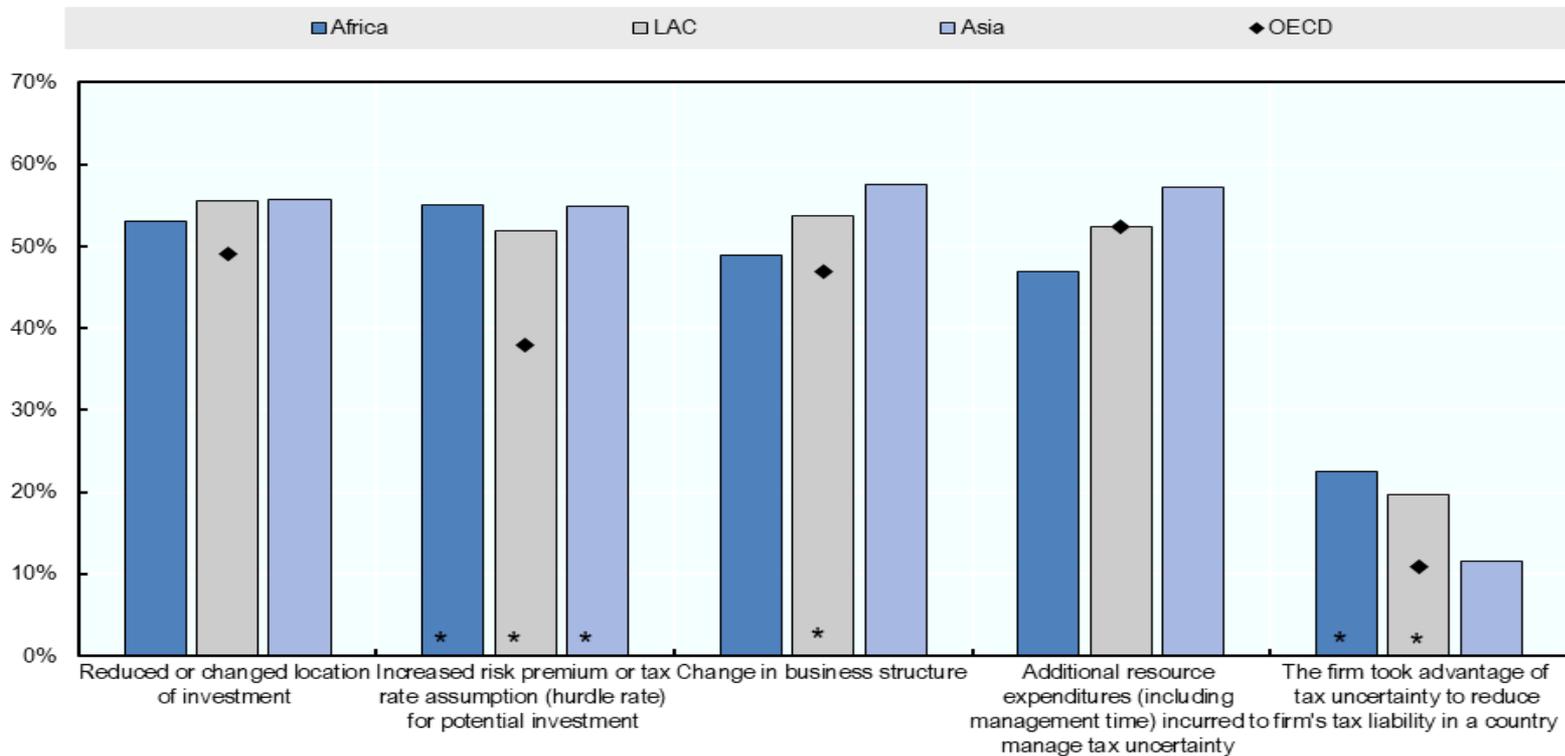
- OECD business survey on tax uncertainty in 2016
- 724 responses from firms headquartered in 62 countries.
- Aggregated by region: Africa, Latin America and Caribbean, Asia and OECD.
- Tax uncertainty vs. tax morale



# What's driving tax morale?

## Findings

### Tax uncertainty affecting business operations by regions (%)



*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*



# *What's driving tax morale?*

## Tax uncertainty and tax morale

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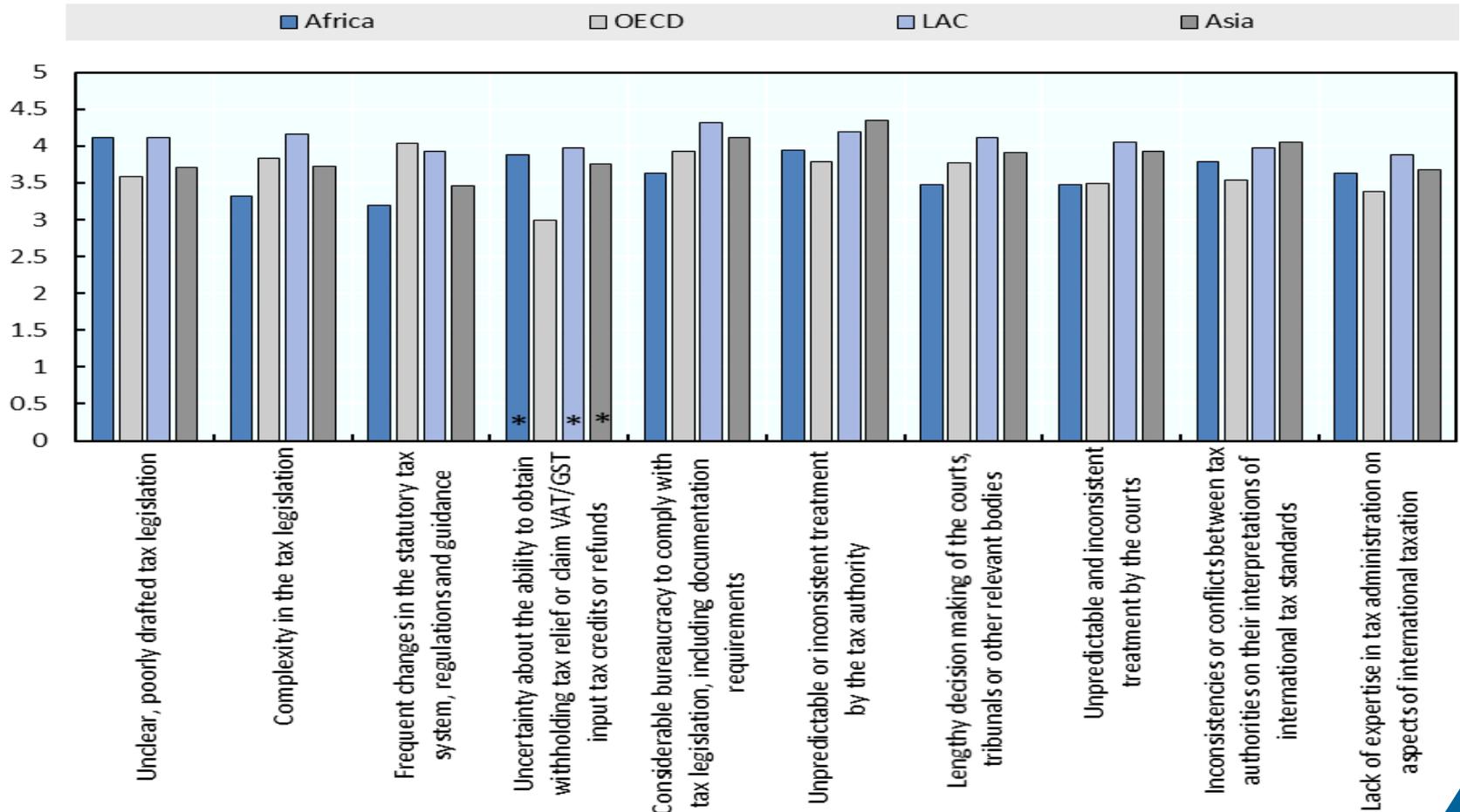
- Tax uncertainty can affect decisions on whether and how to enter into an investment
  - This is a result that seems to happen often in developing countries
- The variations between the regions, and especially with the OECD, highlights the fact that tax morale is likely to show significant variation between countries.



# What's driving tax morale?

## Findings

### Top 10 sources of tax uncertainty

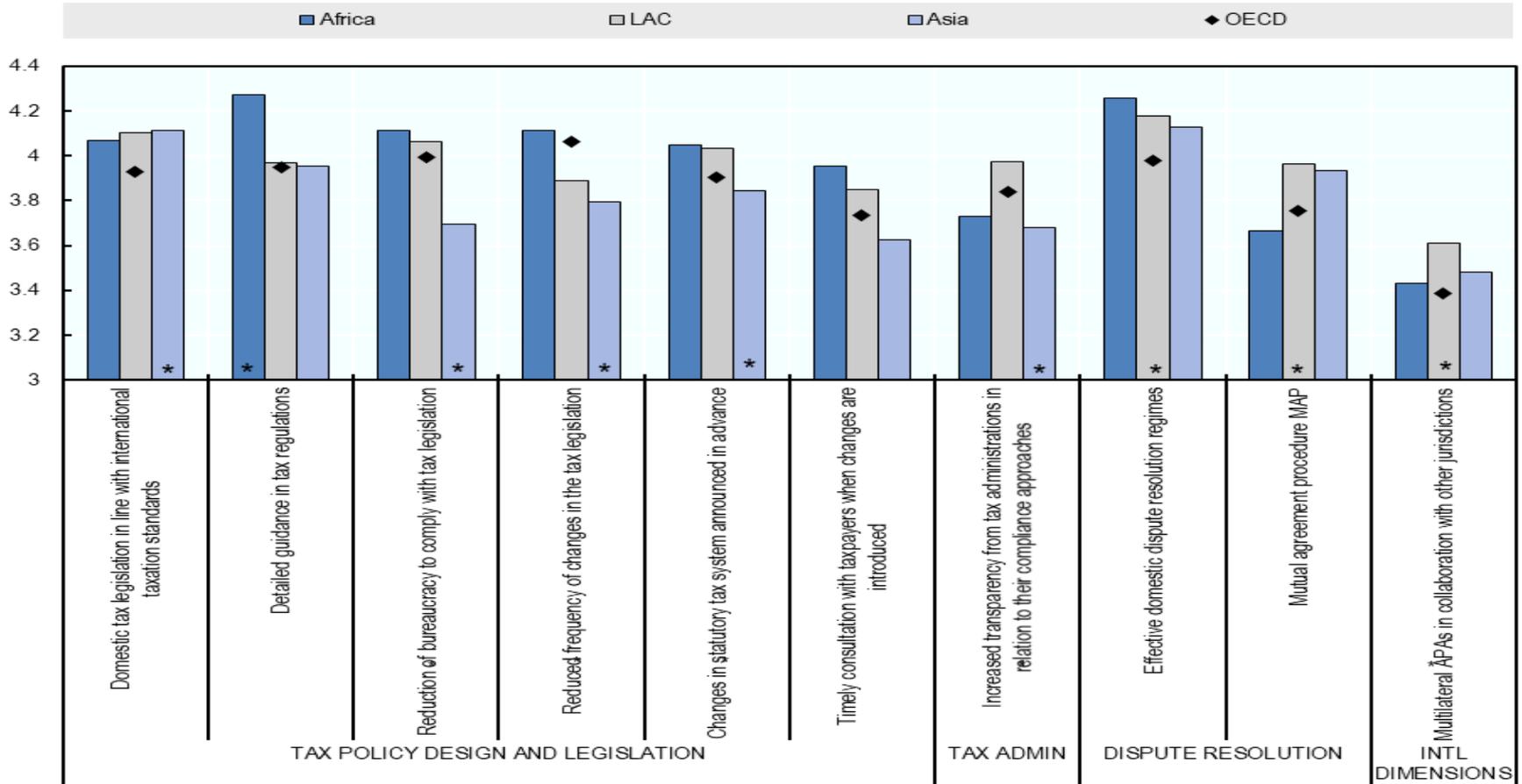




# What's driving tax morale?

## Findings

### Top 10 tools to build tax certainty





## Takeaways

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- Countries should start addressing tax morale for businesses, not least in making the administration easier, and the legislation clearer.
- Conduct country level surveys
  - covering not just the MNEs covered in this work, but also to understand the issues facing SMEs.
  - Need to go beyond tax drivers of tax morale

*Thanks!*





## Annex: How to measure tax morale?

- **World Value Survey: Wave 6 (2010-2013)**, covering 56 countries and 45.000+ observations.
- **Definition of tax morale** : Do you justify cheating on taxes if you have the chance? 1 (always) – 10 (never).

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



## Annex: Possible determinants of tax morale

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- **Marital status** (married/living together; divorced/separated; widow/single)
- **Religious** (1 = respondent considers herself religious)
- **Female** (1 = female)
- **Citizen** (1=citizen of the country)
- **Educational attainment** (1 = no formal education ... 9 = university degree)
- **Employment status** (full-time; part-time; self-employed; retired; housewife; student; unemployed; other)
- **Income quintile** (self-perceived relative position)
- **Support for democracy** (having a democratic system is very bad =1 ... very good =4)
- **Trust in government:** confidence in national government (1 none at all – 4 a great deal)
- **Redistribution:** tax the rich and subsidize the poor (1 not essential – 10 essential)
- **Meritocracy:** hard work usually brings a better life (1=it is a matter of luck and connections – 10=yes).
- **Income equality** (1= larger income differences – 10= Income should be more equal)



# Annex: Econometric Specifications

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Religious	0.022 (0.004)***	0.019 (0.004)***	0.019 (0.004)***	0.017 (0.004)***	0.018 (0.004)***	0.017 (0.004)***	0.019 (0.004)***	0.014 (0.004)***
Female	0.026 (0.003)***	0.025 (0.004)***	0.023 (0.004)***	0.023 (0.004)***	0.025 (0.004)***	0.025 (0.004)***	0.024 (0.004)***	0.022 (0.004)***
Age	0.002 (0.000)***							
Educational Attainment	0.003 (0.001)***	0.005 (0.001)***	0.005 (0.001)***	0.004 (0.001)***	0.006 (0.001)***	0.005 (0.001)***	0.005 (0.001)***	0.005 (0.001)***
Part-time	-0.020 (0.006)***	-0.025 (0.006)***	-0.026 (0.006)***	-0.025 (0.006)***	-0.027 (0.006)***	-0.025 (0.006)***	-0.026 (0.006)***	-0.028 (0.006)***
Self employed	-0.002 (0.005)	-0.001 (0.006)	-0.002 (0.006)	-0.004 (0.006)	-0.000 (0.006)	-0.003 (0.006)	-0.001 (0.006)	-0.005 (0.006)
Retired	0.009 (0.007)	0.001 (0.007)	0.001 (0.007)	0.001 (0.007)	0.000 (0.007)	-0.003 (0.007)	0.000 (0.007)	-0.002 (0.007)
Housewife	-0.008 (0.005)	-0.012 (0.006)**	-0.011 (0.006)*	-0.010 (0.006)*	-0.015 (0.006)**	-0.013 (0.006)**	-0.012 (0.006)**	-0.013 (0.006)**
Student	0.012 (0.007)*	0.006 (0.007)	0.005 (0.007)	0.002 (0.007)	0.005 (0.007)	0.005 (0.007)	0.006 (0.007)	0.001 (0.008)
Unemployed	-0.009 (0.006)	-0.017 (0.006)***	-0.018 (0.006)***	-0.017 (0.006)***	-0.017 (0.006)***	-0.015 (0.006)***	-0.018 (0.006)***	-0.019 (0.006)***
Citizen		0.061 (0.014)***	0.059 (0.014)***	0.060 (0.014)***	0.064 (0.014)***	0.059 (0.014)***	0.063 (0.014)***	0.060 (0.014)***
Quintile 2		-0.002 (0.005)	-0.004 (0.006)	-0.008 (0.006)	-0.001 (0.006)	-0.004 (0.005)	-0.002 (0.006)	-0.007 (0.006)
Quintile 3		-0.032 (0.005)***	-0.033 (0.005)***	-0.033 (0.005)***	-0.031 (0.005)***	-0.034 (0.005)***	-0.031 (0.005)***	-0.033 (0.006)***
Quintile 4		-0.052 (0.006)***	-0.054 (0.006)***	-0.054 (0.006)***	-0.051 (0.006)***	-0.052 (0.006)***	-0.051 (0.006)***	-0.052 (0.006)***
Quintile 5		-0.076 (0.009)***	-0.080 (0.009)***	-0.077 (0.009)***	-0.077 (0.009)***	-0.069 (0.009)***	-0.075 (0.009)***	-0.070 (0.010)***
Trust in Government			0.014 (0.002)***					0.008 (0.002)***
Support for Democracy				0.049 (0.002)***				0.042 (0.002)***
Redistributive Democracies					0.005 (0.001)***			0.004 (0.001)***
Meritocracy						0.016 (0.001)***		0.015 (0.001)***
Preferences Redistribution							0.003 (0.001)***	0.002 (0.001)***
Observations	57.583	50.598	49.149	48.043	48.994	49.689	49.353	45.149

## Probit regressions explaining tax morale (WVS, 2010-2013)

Note: Marginal effects. Robust standard error in parenthesis. \*, \*\*, \*\*\* denote significance at 10%, 5% and 1% respectively. Regressions include country and marital status dummies nor reported here.

Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on World Value Survey (2010-2013).



# Annex: Comparing databases (I)

	<b>World Value Survey (2010-2013)</b>	<b>LatinoBarometer (2016)</b>	<b>AfroBarometer (2015)</b>	<b>AsiaBarometer (2005-2007)</b>
<b>Tax Morale</b>	Do you think it can always be justified, never be justified, or something in between: Cheating on taxes if you have a chance	How justifiable do you believe it is to evade paying taxes?	Do you think the action is not wrong at all, wrong but understandable, or wrong and punishable: Not paying the taxes they owe on their income	N/A
<b>Support for democracy</b>	Would you say it is a very good, fairly good, fairly bad or very bad way of governing this country? Having a democratic political system	With which of the following statements do you agree most? Democracy is preferable to any other kind of government.	Which of these three statements is closest to your own opinion? Democracy is preferable to any other kind of government.	Please indicate for each system whether you think it would be very good, fairly good or bad for this country. DA democratic political system
<b>Trust in Government</b>	Could you tell me how much confidence you have in... The government (in your nation's capital)	How much trust you have in each of the following groups/institutions: The National Government	How much do you trust each of the following, or haven't you heard enough about them to say? The President	To what extent you trust the following institutions to operate in the best interests of society. If you don't know what to reply or have no particular opinion, please say so.



# Annex: Comparing databases (and II)

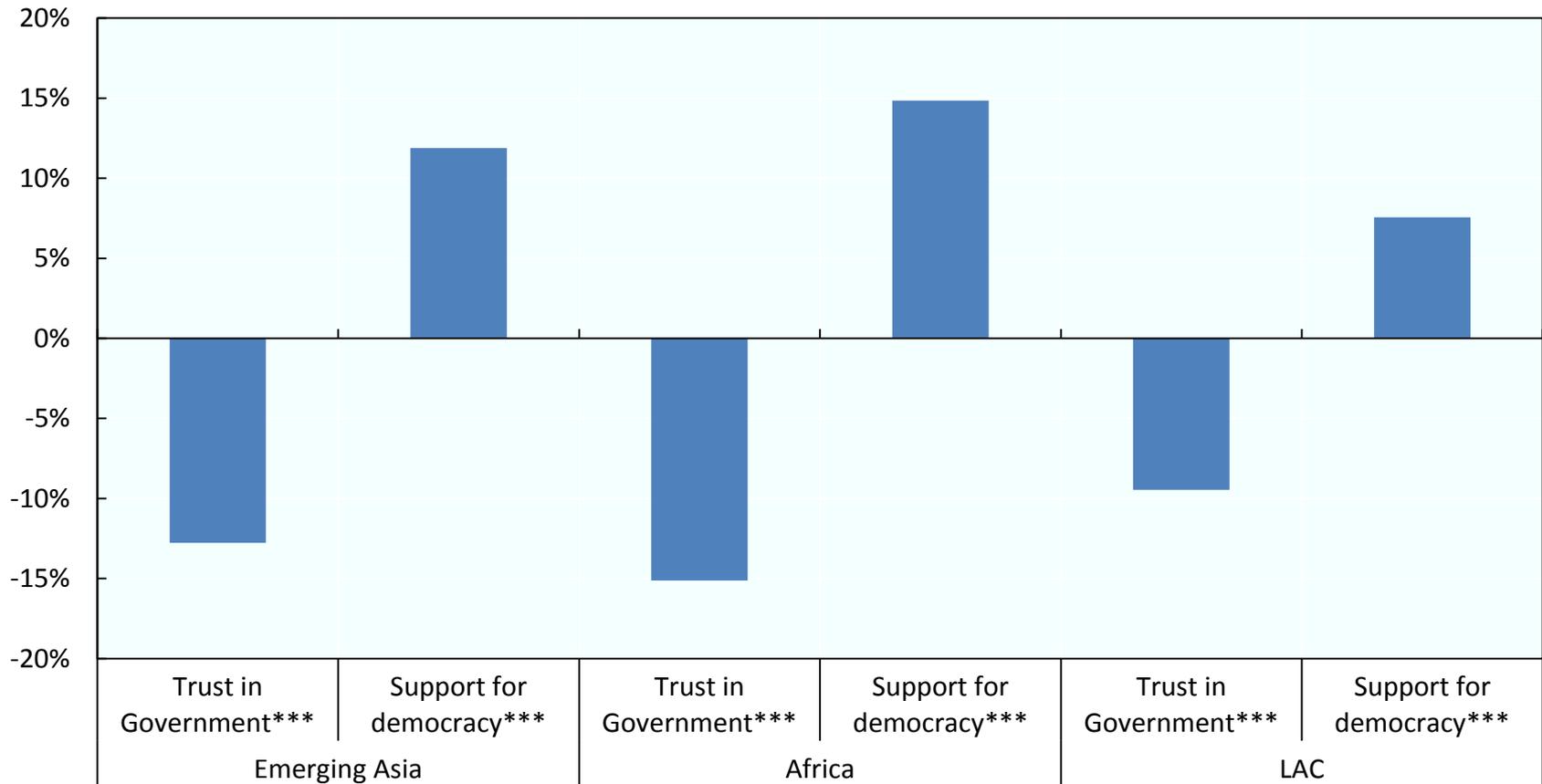
	World Value Survey (2010-2013)	LatinoBarometer (2016)	AfroBarometer (2015)	AsiaBarometer (2005-2007)
<b>Willingness for a bigger government</b>	N/A	How much are you willing to increase taxes and / or the country gets into debt to finance infrastructure works that promote the integration of their country with the world (bridges, highways, airports, ports)?	<p>1: Citizens must pay their taxes to the government in order for our country to develop.</p> <p>2: If the government decided to make people pay more taxes in order to increase spending on public health care, would you support this decision or oppose it?</p>	Please indicate whether you would like to see more or less government spending in each area ( <i>among different aspect, each asked separately</i> ). Please bear in mind that more spending may require a tax increase.
<b>Satisfaction with public services</b>	N/A	Would you say that you are very satisfied, rather satisfied, not very satisfied or not at all satisfied with...? ( <i>among different aspect, each asked separately</i> )	How well or badly would you say the current government is handling the following matters? ( <i>among different aspect, each asked separately</i> )	Please tell me how satisfied or dissatisfied you are with the following aspects of your life ( <i>among different aspect, each asked separately</i> )
<b>Tax administration</b>	N/A	N/A	<p>How easy or difficult is it to do each of the following?</p> <p>A. To find out what taxes and fees you are supposed to pay to the government?</p> <p>B. To avoid paying the income or property taxes that you owe to government?</p>	N/A
	N/A	N/A	Have done any of these things during the past year: Refused to pay a tax or fee to government	N/A
	N/A	N/A	Do you disagree or agree? The tax authorities always have the right to make people pay taxes.	N/A



## Annex: Additional results

# *Democratic regime* matters more than *trust in government* in emerging economies (vs. OECD)

**Regional differences in the effects of perceptions of institutions on tax morale**  
(Relative to Selected OECD countries)



Note: Marginal effects. \*, \*\*, \*\*\* denote significance at 10%, 5% and 1% respectively.

Source: OECD Development Centre / Centre for Tax Policy and Administration calculations based on World Value Survey (2010-2013).