

# BUILDING TRUST IN THE TAX SYSTEM

## A NEW APPROACH



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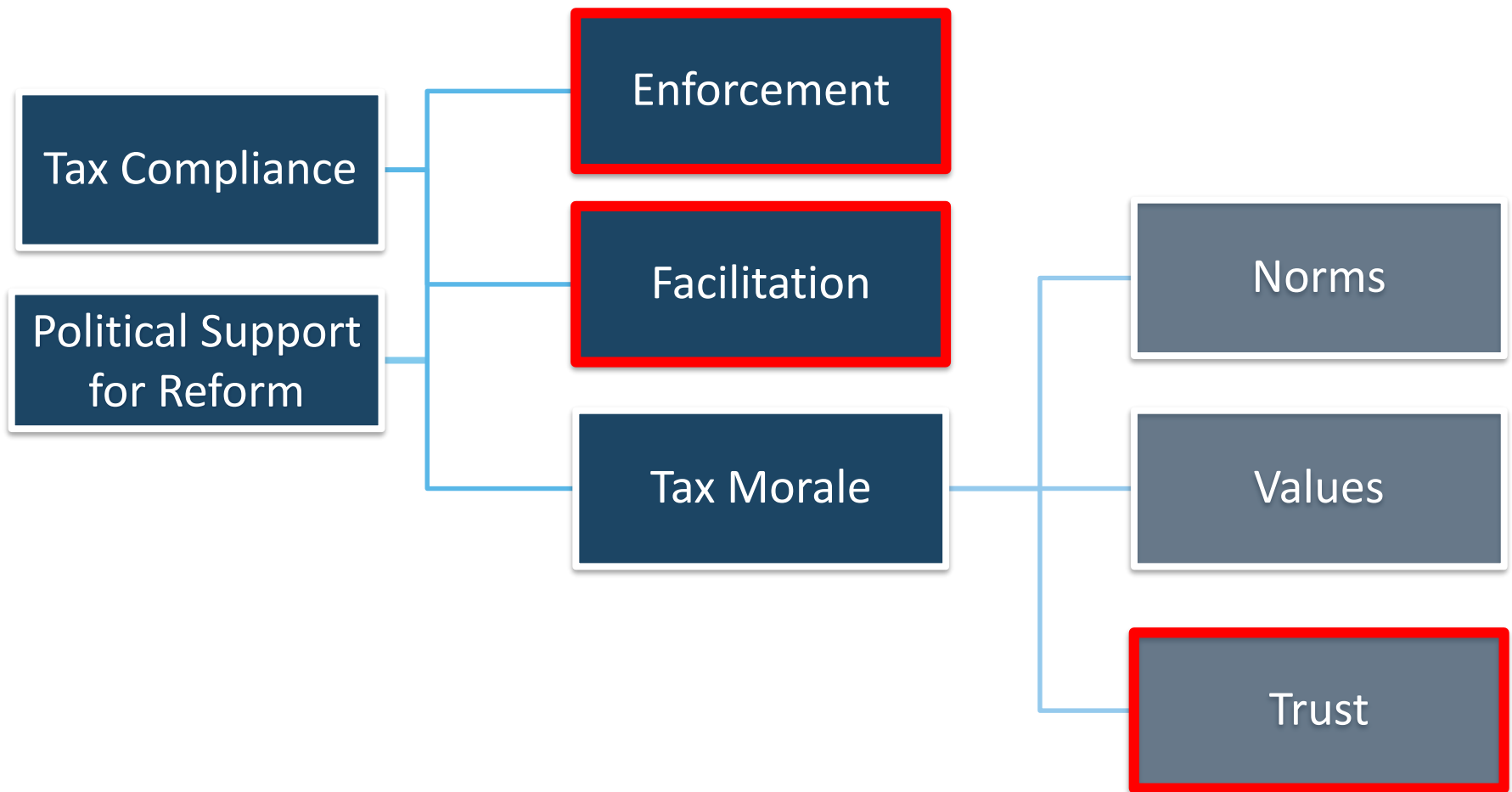
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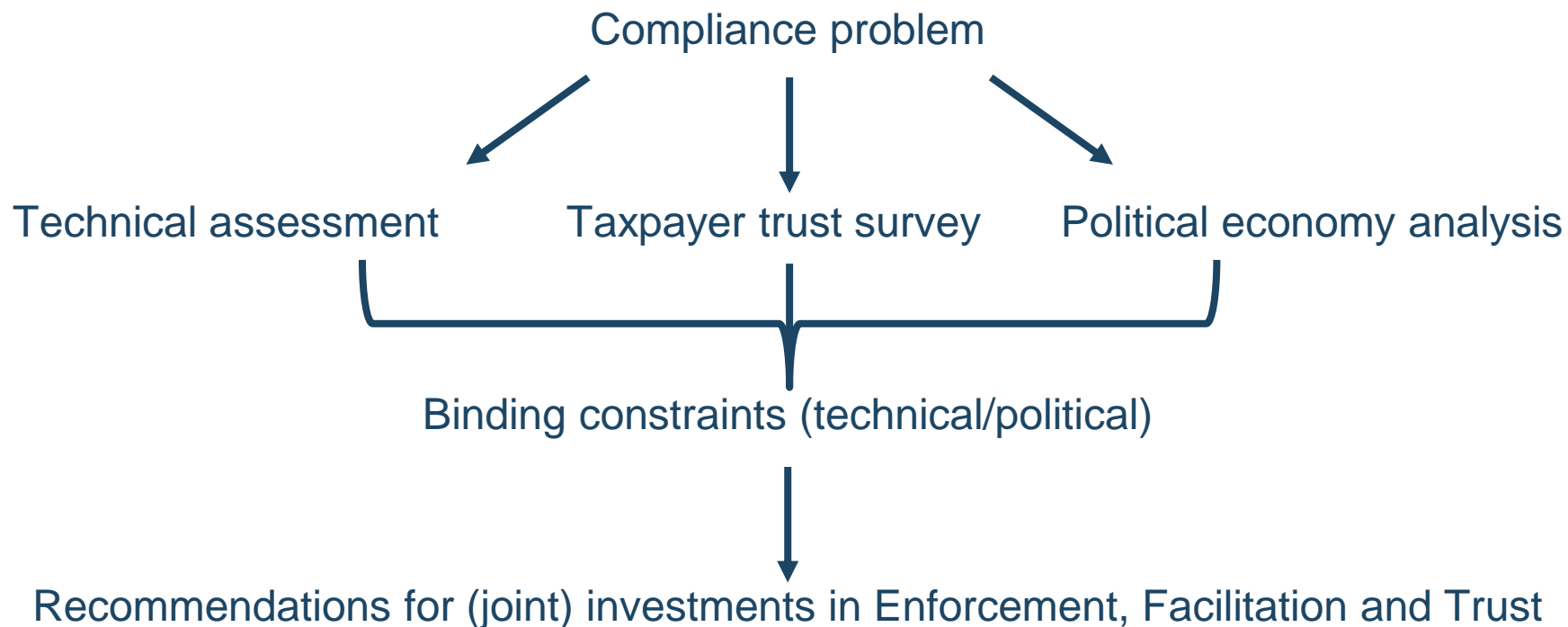
# Innovations in Tax Compliance

1. Overview
2. Conceptual framework
3. Diagnostic toolkit
4. Case studies
5. Conclusion
6. Q & A

# Overview – The EFT Conceptual Framework



## Overview – The Diagnostic Toolkit



# Conceptual Framework

POLICY RESEARCH WORKING PAPER

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## Innovations in Tax Compliance

### Conceptual Framework

*Wilson Prichard*

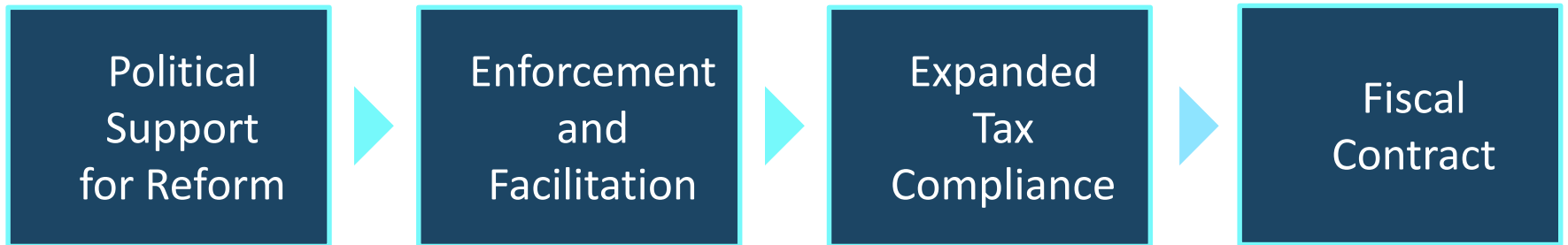
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*Roel Dom*

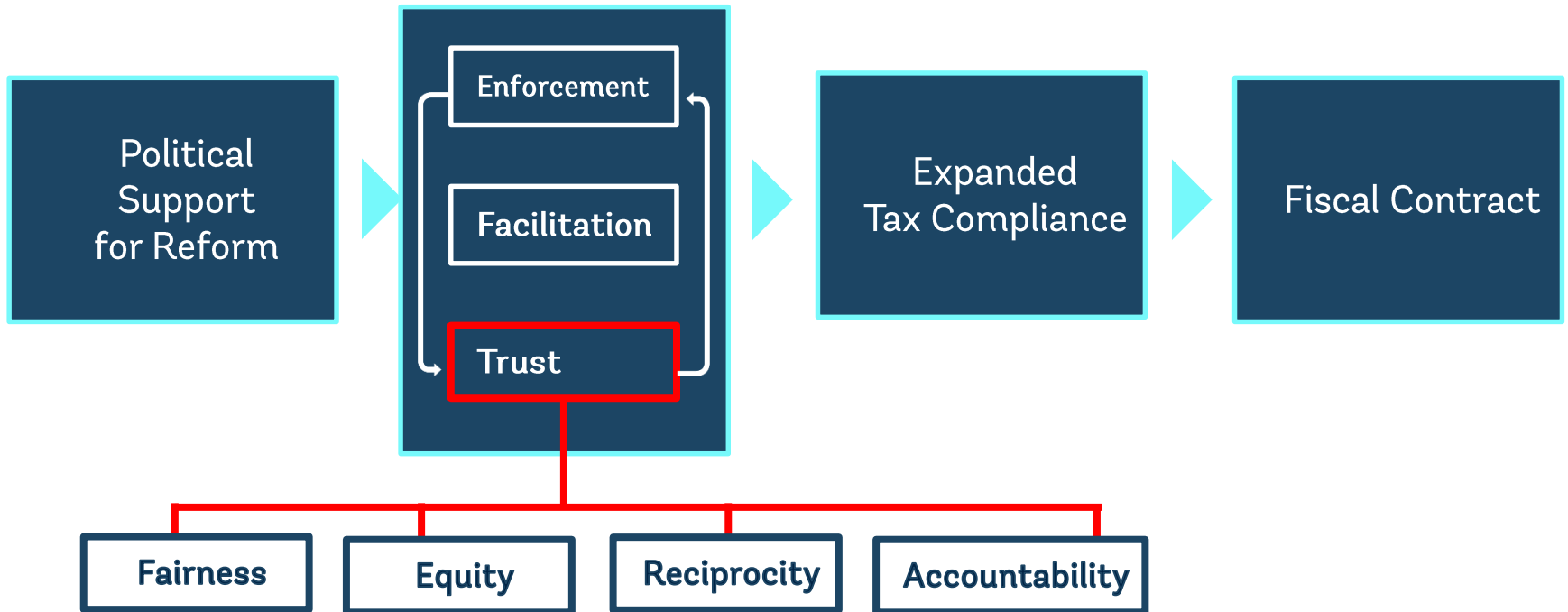
*Stephen Davenport*

*Michael Roscitt*

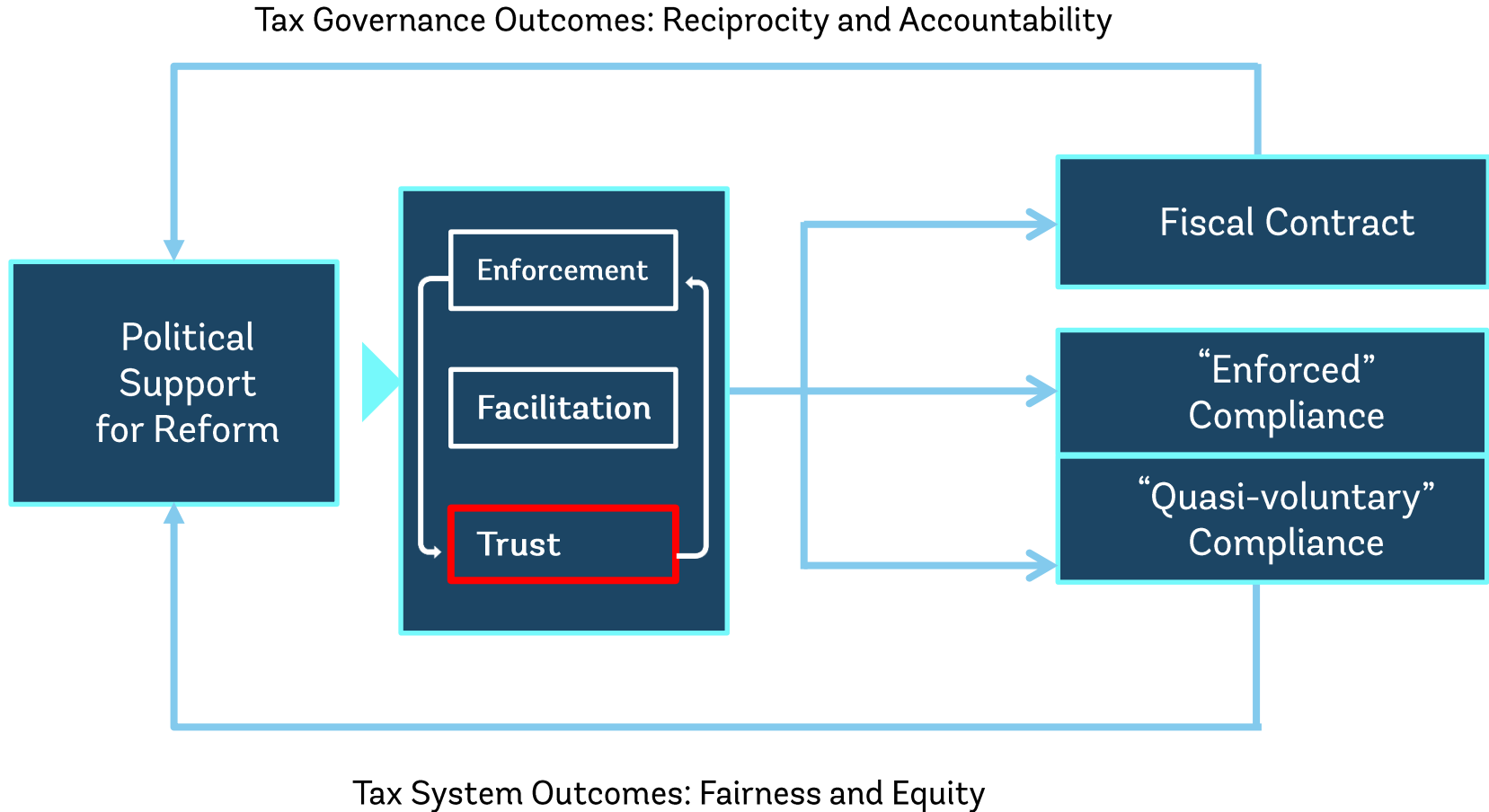
# Traditional Theory of Change



# An Alternative Theory of Change: Adding Trust



# An Alternative Theory of Change: Adding Politics





# Diagnostic Toolkit: 3 Modules

## 1. Technical binding constraints assessment

- Develop a decision tree laying out all potential causes of suboptimal performance;
- Systematically identify which causes are most important;
- Identify binding constraints based on likely gains and importance for other actions.

## 2. Taxpayer trust survey

- Citizen's perspective on tax compliance
- Covering taxpayer attitudes, taxpayer experience, tax morale
- Often includes survey experiments

## 3. Problem-focused political economy analysis

- Assess political constraints on reform
- Identify politically feasible reforms
- Inform design of reform strategy

# Case Studies: 3 Active Pilots

## 1. Kaduna State, Nigeria

- Property Tax
- Supports DLIs in PforR to Kaduna State @ USD400mIn

## 2. Karachi, Pakistan

- Cross-border trade
- Supports DLIs in IPF for the Federal Board of Revenue @ USD400mIn

## 3. Georgia

- VAT for medium size taxpayers
- Supports work on informality, possibly DPO

# Case Study



# Kaduna, Nigeria: Context

## Focus:

- Property tax compliance assessment in Kaduna State
- Should be major source of internally generated revenue (IGR)
- In 2017 good for <1% of IGR

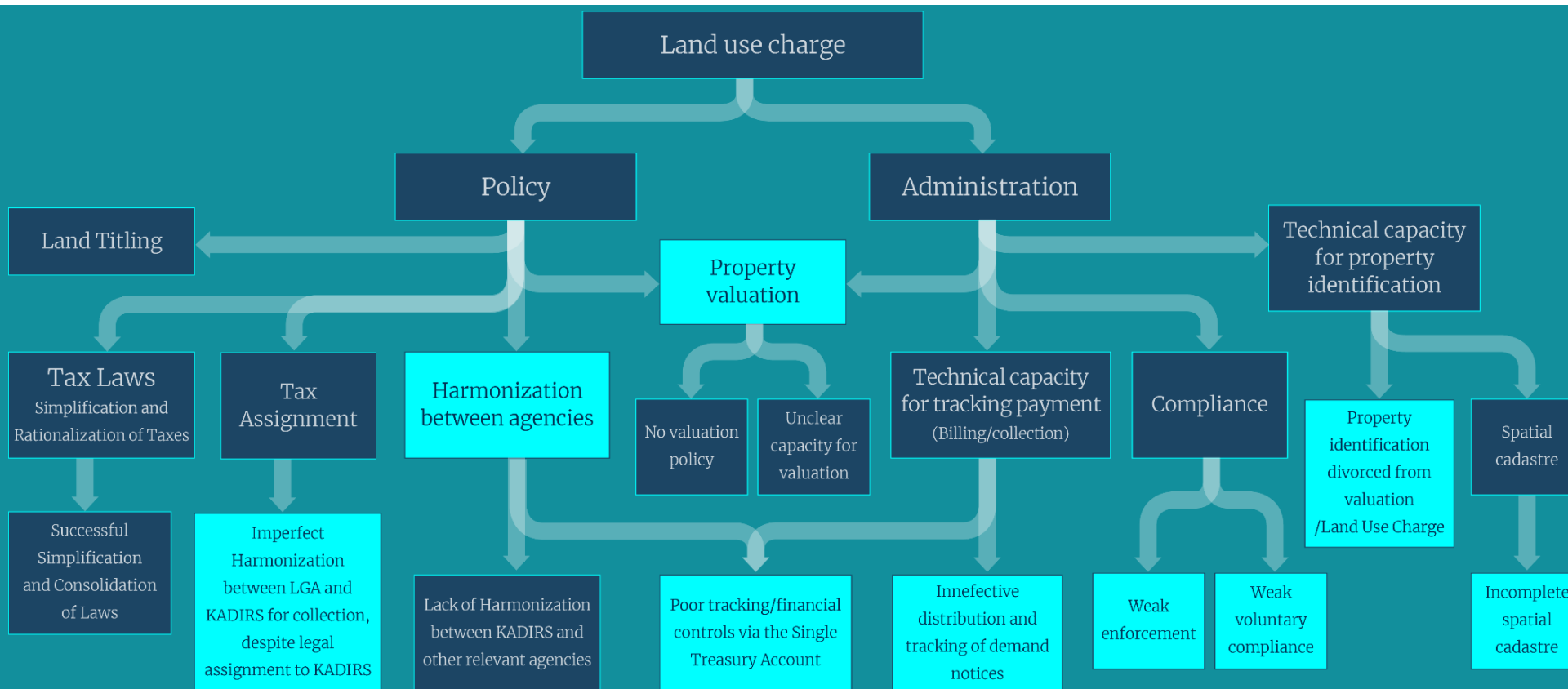
## Ongoing reforms:

- PT moved from local level (LGA) to state level (KADIRS)
- Heavy investment in IT systems
- Harmonization of tax law

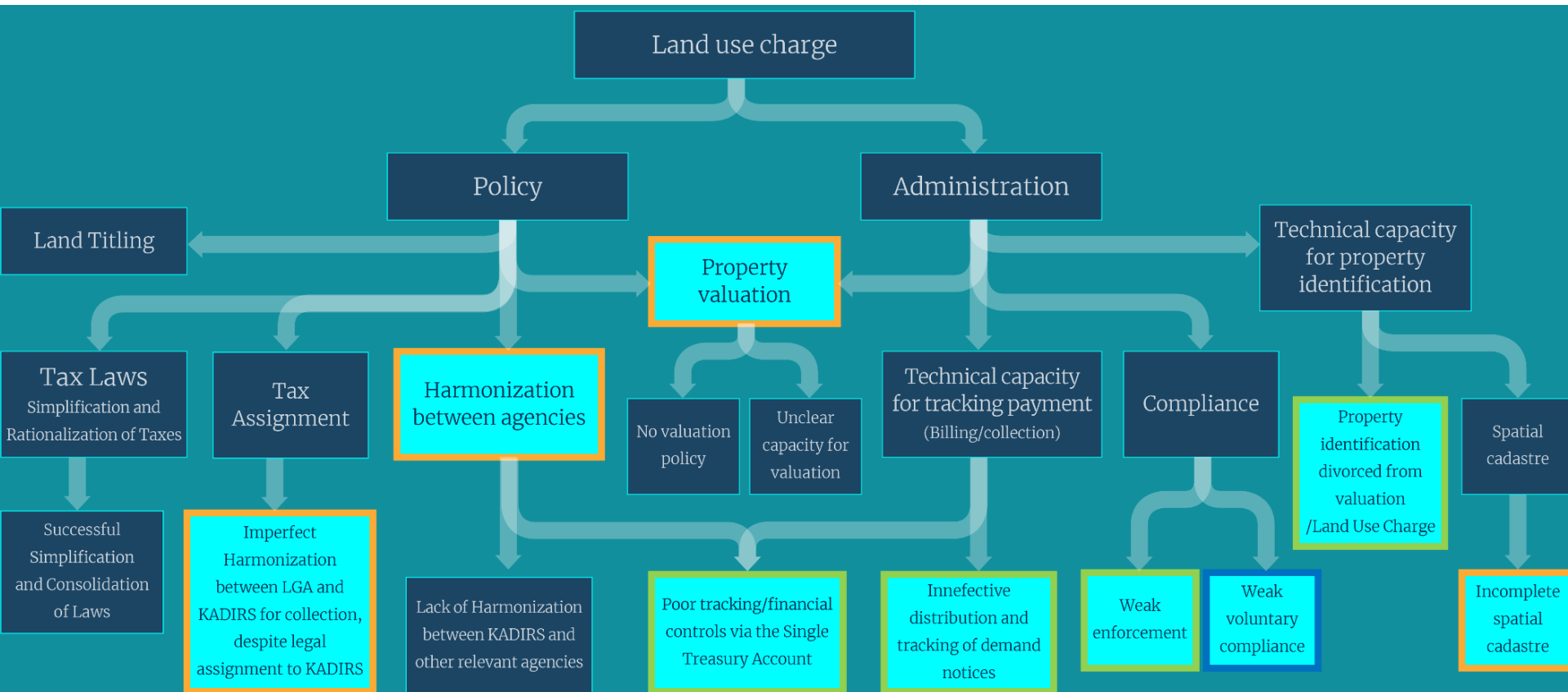
## EFT analysis:

- reprioritized the direction of short term reform towards;
  - investments in robust front-line administrative systems;
  - improved facilitation by lowering information-related transaction costs;
  - strengthening trust, specifically through investments in fairness.

# Kaduna, Nigeria: Mapping the Constraints



# Kaduna, Nigeria: the Binding Constraints



# Conclusion

## What is new?

1. Analyzing local drivers of trust
  - Links to compliance and political support for reform
  - Operationally relevant dimensions
2. Practical political economy
  - What are the most important political barriers to reform
  - How can reformers navigate these barriers
3. Move from gaps to bindings constraints

## What is next?

1. Further empirical validation through more pilots
2. Expand operationalization of trust-related interventions

Questions?



# Georgia: Work in progress

## Focus:

- VAT compliance among SMEs firms
- Compliance gap sizable, but declining
- Suggestive evidence that it is mostly located SME sectors
- Significant unclaimed VAT credits

## Ongoing reforms

- From heavy-handed enforcement to (extreme) facilitation
- Introduction of data analytics and risk-based auditing
- Automatic VAT refunding

## Preliminary EFT analysis:

- Significant gains, but ...
- Extreme facilitation might be undermining equity
- Taxpayers are maintaining a wait-and-see position towards recent reforms
- Dual approach to reducing stock of VAT credits is affecting perceived fairness

# Kaduna, Nigeria: Citizens' Perspectives

## 1. Compliance

- 66% reported paying property taxes

## 2. Enforcement

- Majority reports that evading taxes is (very) difficult

## 3. Facilitation

- Only 7% managed to name both taxes they are supposed to pay

## 4. Morale

- A majority believed that citizens have an unconditional obligation to pay tax, but understand evasion
- Trust in KADIRS is higher than in LGA, but the level is low
- LGA assessment negotiable almost twice as frequently compared to KADIRS
- KADIRS is thought to treat taxpayers more fairly than LGA

Survey results suggest importance of :

- (1) improving facilitation by lowering information-related transaction costs
- (2) strengthening trust, specifically through investments in fairness

# Kaduna, Nigeria: Recommendations

EFT analysis *reprioritized the direction of short term reform* towards investments in robust front-line administrative systems, coupled with targeted facilitation measures and trust building strategies, to ensure efficient use of transformative investments in IT:

## 1. Investments in enforcement

- Increase the number and capacity of KADIRS staff in key local tax offices
- Build capacity to improve distribution and tracking of demand notices

## 2. Investments in facilitation

- Improve communication to taxpayers about tax obligations

## 3. Investments in trust

1. Effective implementation of property tax collection by KADIRS (only);
2. Improve fairness of collection;
3. Operationalize the Tax Tribunal;
4. Improve reciprocity by prioritizing capital investment;
5. Improve accountability for example via popular participation in budgeting.