

# COMPILATION OF COMMENTS

## Public comments on the discussion draft on **WHAT IS DRIVING TAX MORALE?**

15 MAY 2019



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16 April 2019

The OECD Centre for Tax Policy and Administration  
Paris, France

**RE: Comments on the report - [What drives tax morale?](#) (OECD, 2013)**

I would like to give feedback on the above mentioned report. Evidence-based tax policy that supports growth and development in developing countries is of particular interest to me.

I am delighted with the work which is addressing one of the major headaches of developing countries in mobilising tax revenue. The work gives empirical evidence from various regions that support the theories and previous literature on tax compliance and morale, and puts weight on what should be done by various players to boost tax morale.

I would also like to point out that the taxpayer's behaviour is also influenced by the culture and history of a country. For instance, a country which was colonised and forced to pay taxes to their colonizers may have low tax morale since they tax perceive taxes as a means of oppression by the ruling elite. In the future, it would be interesting to find out if there is any evidence to show the influence of history and culture on tax morale, within the diverse regions and countries involved in the study.

Sincerely,

**Anne Maina**

Email: [wanyagathi@yahoo.com](mailto:wanyagathi@yahoo.com)

Nairobi, Kenya

# The BEPS Monitoring Group

## **Submission to the OECD on the Public Consultation Document**

### **WHAT IS DRIVING TAX MORALE?**

These comments have been prepared by the [BEPS Monitoring Group](#) (BMG). The BMG is a network of experts on various aspects of international tax, set up by a number of civil society organizations which research and campaign for tax justice including the Global Alliance for Tax Justice, Red de Justicia Fiscal de America Latina y el Caribe, Tax Justice Network, Christian Aid, Action Aid, Oxfam, and Tax Research UK. These comments have not been approved in advance by these organizations, which do not necessarily accept every detail or specific point made here, but they support the work of the BMG and endorse its general perspectives. They have been drafted by Sol Picciotto, with contributions from Jeffery Kadet, Tovony Randriamanalina and Attiya Waris. We appreciate the opportunity to provide these comments and are happy for them to be published.

May 2019

### **Introduction**

This discussion draft (the DD) updates previous OECD research of 2013 on tax morale in individuals and, additionally presents a new business section, using data from a survey of multinational enterprises (MNEs) conducted in 2016 to discuss business tax morale in developing countries.

Our concern is international corporate taxation especially in relation to developing countries. In our view, the inclusion of the data from the 2016 survey of business into the work on tax morale of individuals is unhelpful and makes the draft report incoherent. In addition, there are surprising omissions from the report, particularly the lack of any discussion of the attitudes to tax of key groups such as wealthy people and tax advisers. Our comments will focus mainly on the second chapter on business, and especially its policy recommendations.

More generally, however, it is of key importance in our view to understand that the motivation to pay tax is not 'intrinsic', at least in the sense of some kind of innate motivation of individuals. Tax is at the heart of the social contract or solidarity of citizens of a state, and there is plenty of evidence that its legitimacy, and hence the willingness of citizens to pay it, rests on notions of tax fairness. We are surprised that these issues are largely ignored in this DD, and will comment further on them below.

### **The business survey data are not relevant to ‘tax morale’**

The concept of tax morale is defined in this DD as ‘the intrinsic motivation to pay taxes’. The intention is to go beyond tax compliance, to uncover the deeper motivations of taxpayers. However, the survey conducted in 2016 concerned business attitudes to tax certainty, and the data from that survey that are included and discussed in chapter 2 have no relevance to the ‘intrinsic motivation to pay taxes’.

Although large corporations are sometimes referred to as ‘taxpayers’ there is clearly an enormous difference between the attitudinal and motivational factors that affect the behaviour of individuals, and the institutional context in which large corporations take decisions about tax. It could certainly be relevant in evaluating business attitudes to tax to consider the behaviour of key individuals who are concerned with corporate tax decision-making, such as tax advisers and company directors and managers. This could include evidence about their attitudes to tax planning practices, their appetite for aggressive tax positions, and their approach towards managing tax risk. It could also encompass evidence of the effects of equity-based compensation on the incentive for such company directors and managers to minimize corporate taxation so as to maximize earnings per share, stock prices, and, most importantly, the value of that compensation. And it could also include evidence over the past several decades of how some tax advisors have been motivated through high fees to ‘sell’ their clients increasingly aggressive tax schemes. Perhaps the best published example of this is the over \$55 million paid by Caterpillar to PwC for its Swiss tax strategy.<sup>1</sup>

However, the business survey conducted in 2016, although completed by individuals, did not include any questions about their attitudes and motivations towards payment or avoidance of tax. Indeed, the bulk of questions dealt with the respondents’ views about the desirable or undesirable features of tax systems, and not their attitudes to paying tax. Those directed at decision-making focused on investment decisions and did not explore attitudes towards tax planning or tax avoidance.

Inclusion of this data has the effect of shifting attention from the attitudes and motivations of those responsible for tax compliance to their concerns and perceptions about the defects in how tax rules are formulated and enforced. There are certainly valid concerns about the problem of uncertainty of tax rules, to which we return below, but it is inappropriate to take at face value those expressions of concern as evidence for motivations towards tax compliance.

### **Relevant evidence is available, but not discussed in the DD**

The main reason given in the DD for including the 2016 survey data is the lack of other data. It may be the case that there are no large data-sets from opinion or attitude surveys relating to corporate tax practices, but there are good reasons for this. Large-scale questionnaires are not likely to be a source of good or reliable data about the tax planning practices of corporations, especially MNEs. The questionnaire subjects are harder to anonymise, and partly for that reason are more likely to give answers that are less than truthful, especially when some of their practices are of dubious legality. Hence, other types of data are more appropriate.

Some such data are available, in particular for a group of taxpayers that are important, especially in developing countries: wealthy people and families, sometimes described as

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<sup>1</sup> See the Majority Staff Report of the U.S. Senate Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, 1 April 2014, available at [https://www.hsgac.senate.gov/imo/media/doc/Caterpillar's%20Offshore%20Tax%20Strategy%20\(4-1-14,%208-28-14%20FINAL\).pdf](https://www.hsgac.senate.gov/imo/media/doc/Caterpillar's%20Offshore%20Tax%20Strategy%20(4-1-14,%208-28-14%20FINAL).pdf).

high-net-worth individuals (HNWIs). Surprisingly, the DD gives little or no attention to this category, although they have been the focus of considerable debate and also of research in recent years. Improving taxation of HNWIs has been recognised as a key element in domestic resource mobilisation and the Addis Tax Initiative, and consideration of the tax morale of this group is an important element of those efforts. HNWIs as a group perhaps fall between individuals and ‘business’, especially if the latter is considered to consist mainly of corporations. We suggest that a separate chapter should be written on this category.

Consideration of the research that has been done on HNWIs would point to different sources of evidence that would also be relevant to business. Thus, qualitative research methods are being used, for example the recent study by the UK tax authority, [HMRC \(2019\)](#).<sup>2</sup> It is clear from that research that for most wealthy people it is the role of wealth and tax advisers that is key to their attitude towards payment of tax. Hence, it is important to consider the attitudes towards tax of the various categories of wealth and tax advisers. Surprisingly, the DD does not include any consideration of this aspect. Considerable attention has been devoted in recent years to the role of ‘enablers’ in both tax evasion and avoidance. Although the methods involved are in some respects different, there are considerable similarities between the techniques used for international tax evasion and avoidance for HNWIs and MNEs. In particular, both exploit the disjunctures and mismatches in international tax rules and take advantage of the international tax haven and offshore secrecy system. The creation of these complex structures to avoid or evade tax entails the expenditure of considerable resources and ingenuity, and the existence of a body of professionals willing to engage in these practices is an important feature of tax morale, or maybe more correctly, the lack of tax morale.

### **Tax fairness and tax morale**

Inclusion of a chapter on HNWIs would also cast light on an important aspect of the tax morale of individuals that is surprisingly hardly mentioned in the DD: perceptions of the fairness of tax systems. The DD begins by presenting a framework proposed by the World Bank for understanding the interlinked elements of tax morale as based on trust, which in turn depends on ‘the degree to which the tax system, including the approach to facilitation and enforcement, is characterized as fair, equitable, reciprocal and accountable’. Yet the DD includes no discussion at all of the effects on tax morale of perceptions of fairness in the tax system.

There is extensive evidence that the issue of fairness is a central concern of citizens everywhere about the nature of the social contract that is at the heart of taxation. The OECD’s own recent survey of public opinion [Risks That Matter 2018](#) shows that in every single country over half of respondents, and on average almost 70%, answered Yes, or Definitely Yes to the question ‘Should the government tax the rich more than they currently do, in order to support the poor?’. This was a survey of OECD countries, but the rate of agreement to that proposition is unlikely to be lower in developing countries where inequalities are generally far greater, and public services much worse. Regrettably, neither the World Values Survey nor the regional barometers from which the data in this DD are derived include a question about tax fairness, only the former has one about redistribution being a characteristic of democracy (Annex A, Table A2).

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<sup>2</sup> [HMRC \(2019\)](#). *Researching the drivers of tax compliance behaviour among the wealthy, and ways to improve it*.

## **The continuing relevance of tax certainty**

It should be recalled that the business survey was conducted in 2016, in the aftermath of publication of the main outputs from the G20/OECD project on base erosion and profit shifting (BEPS). The need for the survey was suggested by the concerns expressed by business tax advisers that the reforms resulting from the BEPS project would greatly increase complexity and uncertainty in international tax. In our view these concerns were well-founded, although both our analysis of the reasons and our suggested remedies differed from those of business tax advisers.

The aim of the BEPS project, as stated by the G20 leaders, was to reform international tax rules to ensure that MNEs declare income and pay taxes ‘where their economic activities occur, and value is created’. This should mean ending the incentives to devise complex corporate structures to avoid taxes. However, the BEPS project recommendations mainly patched up the existing rules, and generally greatly exacerbated their complexity. This was because they failed to tackle directly the central question of establishing clear methods and criteria for the allocation of income of MNEs. The lack of clear allocation rules feeds the suspicions of other taxpayers that large and highly profitable MNEs are not paying their fair share.

In this context, the pressures from business for greater certainty took the form of a drive to establish mandatory binding arbitration. As we have consistently pointed out, this tackles the problem at the wrong end. The aim should be to prevent the continued growth of disputes, the majority of which concern transfer pricing, by ending the ad hoc and subjective approach that has become embedded in the OECD Transfer Pricing Guidelines. These require an individual analysis of the ‘facts and circumstances’ of each MNE and all its affiliates, to identify and then to attribute to each of them profits in line with those of comparable independent entities. This doesn’t have to be done just once by each MNE and all its affiliates, but rather must be done multiple times since all analysis and pricing must be done separately for each product produced by the group and for each service line or other business conducted by the group.

To apply ‘functional analysis’, tax authorities need staff with a range of skills, who not only are familiar with the legal and economic techniques needed to interpret and apply the TPGs, but also understand the taxpayer’s business model and industry segment well enough to analyse the documented transfer pricing model, choice of method and selection of comparables. This need to conduct a functional analysis creates a severe information asymmetry, since a company will always know more about its own business and its sector than any outsider, especially tax authorities who have little background in the industry of the MNE and no detailed knowledge of the taxpayer’s operations. Matching the resources available to MNEs is impossible for tax authorities even from developed countries, which are often under-resourced. The problem is far greater for developing countries, especially the poorest.

The response to this real problem proposed in the DD, based on the views of MNE tax advisers from the 2016 survey, seems to us in key respects misconceived. The concerns identified by the DD in relation to international tax are ‘inconsistency with international standards, lack of expertise in the tax administration, and a lack of understanding of the business structures of MNEs’ (p. 35). We would characterise the problem quite differently. In our view its roots lie in the complexity of the approach developed by the OECD and its emphasis on ad hoc and subjective judgments requiring detailed knowledge of the taxpayers’ business models. There is ample evidence that this approach has failed in the OECD countries over the past 20 years. It has not only resulted in a rising tide of conflicts and disputes but has also increasingly failed to stem the revenue losses from tax avoidance.

Indeed, the ‘independent entity’ principle underpinning the OECD approach creates a perverse incentive for tax advisers to devise complex and opaque structures for MNEs. This has greatly contributed to the vicious cycle of growing mistrust between tax authorities and MNEs that has undermined tax morale.

Another aspect involves the common refrain heard from the CEOs and other officers of virtually all MNEs: ‘We pay all the taxes we legally owe.’ First, over the past 20-30 years, almost all countries have adopted territorial taxation systems, greatly facilitating BEPS behaviour. Second, MNE boards of directors and managements almost universally believe that they must maximise returns to shareholders. These two factors, along with the significant equity-based compensation factor noted above, have created a strong motivation for MNE boards and managements to seek out and adopt tax strategies, often having no business objective other than tax minimisation, that shift profits out of the countries where business operations are conducted and into zero- or low-tax countries. The adoption of territorial taxation systems, each of which has different rules, has greatly encourage efforts to find ways to arbitrage those rules and pay significantly less tax in the process.

Hence, it seems exactly the wrong approach to suggest that developing countries should adopt the current failed approach. Furthermore, to attempt to remedy its defects by ‘capacity building’ to train staff in poor countries to apply these methods seems a waste of scarce resources. The *reductio ad absurdum* of this approach is shown in Box 2.2 which lauds examples of ‘harnessing business and industry expertise’ to help tax authority staff to understand the business models which they are expected to analyse in determining the appropriate level of tax to be paid by these same companies.

We do not advocate an adversarial approach to tax enforcement by tax authorities, but the emphasis in the DD on voluntary codes for business<sup>3</sup> and ‘cooperative compliance’ is misplaced in view of the current state of international tax rules. In our view the key to an effective tax system is to design rules that are simple and easy to administer, and hence reduce the compliance costs for business.

## **A better approach**

Fortunately, a better approach is being proposed. The latest public consultation document in the BEPS project Action 1 on *Addressing the Tax Challenges of Digitalisation of the Economy*, issued in February 2019, puts forward a new approach to allocation of the income of MNEs based on simplified methods of apportionment. This is evident especially in the third option presented under pillar 1, which originated in a submission from the G24 group of developing countries, a version of which was included in the submissions for the public consultation. A similar approach has now been put forward for public comments by India’s Central Board of Direct Taxes.<sup>4</sup> The European Commission, in its plan for [\*Fair Taxation of the Digital Economy\*](#) of March 2018, also proposes adoption of an apportionment approach.

This is not the place to discuss these issues in any detail. We have put forward in our other reports,<sup>5</sup> mainly in relation to the BEPS project, our analyses of the defects of international tax rules and the reasons for the complexities and uncertainty that they create. These problems are far from being resolved, but in our view there may now be some hope that a

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<sup>3</sup> The DD states that ‘the OECD intends to work with BIAC to assess the impact of the BIAC principles in developing countries.’ This appears to refer to the BIAC *Statement of Tax Best Practices for Engaging with Tax Authorities in Developing Countries* of 2013 mentioned in Box 2.3. However, although there is a media release about this on the BIAC website, the Statement itself cannot be found.

<sup>4</sup> [Proposal for amendment of the rules for profit attribution to a permanent establishment.](#)

<sup>5</sup> Available at <https://www.bepsmonitoringgroup.org/>



way can be found to restore some clarity and greater simplicity to the system. We urge the OECD to reach out to business to cooperate in this endeavour to set international tax rules on a more secure foundation.



**William Morris**

Chair, BIAC Tax Committee

13/15, Chaussée de la Muette, 75016 Paris  
France

**Mr. Ben Dickinson**

Head of Division, Global Relations and Development Division

Centre for Tax Policy Administration

Organisation for Economic Cooperation and Development

2 rue André-Pascal

75775, Paris, Cedex 16

France

**10 May 2019**

## **BUSINESS AT OECD FEEDBACK ON WHAT IS DRIVING TAX MORALE? PUBLIC CONSULTATION DOCUMENT**

Dear Ben,

*Business at OECD (BIAC) thanks the OECD for the opportunity to provide comments on the draft working paper addressing the topic of tax morale in individuals and business entitled *What's driving tax morale? An empirical analysis on social preferences and attitudes towards taxation*.*

We believe work in this area is important as the level of tax morale drives tax compliance and collection. Therefore, understanding tax morale and developing policies that increase it are key ways to respond to the challenges and opportunities for improving domestic resource mobilization in developing countries. Furthermore, we are pleased to team with your team on the upcoming survey of tax administrations vis-à-vis behaviour of MNCs against the *Business at OECD [Statement of Tax Best Practices for Engaging with Tax Authorities in Developing Countries](#)*.

*Business at OECD looks forward to continuing to provide feedback into this process as work on the topic of tax morale continues.*

Sincerely,

A handwritten signature in black ink that reads "Will Morris".

Will Morris

Chair BIAC Tax Committee Chair BIAC Tax Committee



## Comments

1. We welcome the OECD's work on tax morale as a way to understand and respond to the challenges and opportunities for improving domestic resource mobilization in developing countries.
2. Much of the research and work in the area of tax morale (defined in the literature and in the draft paper as "the intrinsic motivation to pay taxes") has historically focused on tax morale in individuals. Our comments will focus on chapter 2 tax morale in business, however we believe research and policy recommendations to increase tax morale in individuals is also important and should be continued.
3. We agree with the comment made within the paper that further detailed work would be needed to be able to draw out significant conclusions on factors affecting tax morale in business; and in particular to be able to draw out conclusions at a more granular level (e.g., country-level research) in order to reach more meaningful conclusions.
4. The document and policy recommendations would benefit from additional research and references to factual examples rather than generalizations which may hinder the ability to make strong conclusions currently.
5. It would be useful to bifurcate the business research and analysis between MNCs and SMEs. The issues, factors, and policy considerations may vary significantly between MNCs and SMEs. For example, tax morale for closely held SMEs may draw parallels to the research and policy considerations relevant for individuals.
6. Understanding the impact of cross-border investment and culture may be a useful area for further research. The tax morale of cross-border investors may vary from the tax morale exhibited in a local market. This interplay may be able to inform policy decisions.
7. Specific research should be undertaken to analyze the role of taxation on the decisions to exit markets or renounce investment plans. The available research, mentioned in the draft document, seems to show that tax would not be one of the main factors driving investment decisions in developing countries. However (very high / excessive) tax levels do in practice influence business decisions and can cause businesses to exit, or avoid entering, a market. Additional research would be welcome on this particular topic.
8. As mentioned, tax morale in business is generally less studied than tax morale in individuals. The paper analyzes tax morale in business by using tax certainty measures as a proxy for tax morale. We agree that tax morale and tax certainty are related and linked factors. No doubt, tax certainty is a factor that increases compliance as it affects the ease of paying taxes and the relationship with the tax authority. However tax morale in business is motivated by a variety of internal (e.g., tax strategy, principles or risks management policies endorsed by the business) and external factors (tax policy design and ease of compliance, tax authority behavior and attitudes). Therefore future work on tax morale in business could be enhanced by examining more than just tax certainty in favor of a holistic context.



9. Other factors, such as the power of tax authorities to apply tax enforcement measures or the attitude of the businesses towards risks are also relevant elements to take into consideration when determining the willingness of businesses to voluntarily take part in the tax system. While tax enforcement and tax morale generally interact, the attitude towards risks is a global behavioral decision taken by the business, which may have no explicit liaison with the tax environment where the business performs some of its activities.
10. Another factor that is relevant for tax morale in business is the (perceived and real) fairness of the tax system. The fairness of the tax system could be assessed against the neutrality principle. Taxation should seek to operate neutrally and equitably between different forms of business activities. Taxpayers in similar situations carrying out similar transactions should be subject to similar levels of taxation. The neutrality principle is important for assessing business tax morale because unfair competition between similar businesses resulting from unfair tax rules, and/or facing a heavier tax burden compared to other businesses just because of the nature of the business, can be major causes for noncompliance.
11. We believe “tax morale” is not a unilateral decision in the hands of the business, but rather a “two-way street” involving governments and tax authorities as well as business. “Tax morale” of companies could be enhanced if tax authorities adopt reciprocal feedback mechanisms, invest in productive outreach programs, and maintain good communication channels. Tax morale is built upon bilateral relationships between tax authorities and the taxpayer. A good example is the ICAP program.
  - Many MNEs have started to pursue a voluntary tax transparency and best practices approach (e.g., *Business at OECD* principles, B Team) with the aim of seeking tax certainty from tax authorities, with good results. Reciprocity in this context would mean that the motivation to comply would depend on how MNEs perceive the services and relationship provided by tax authorities in return for their transparency attitude and compliance efforts. We welcome the upcoming OECD Secretariat survey of tax administrations vis-à-vis the *Business at OECD Statement of Tax Best Practices for Engaging with Tax Authorities in Developing Countries* as another data point for assessing tax morale in business.
  - As also mentioned in the document, a more service-oriented approach by tax authorities, rather than an enforcement approach, helps to build mutual trust in tax morale and thus tax compliance.
12. We agree with the paper’s policy recommendation stressing the importance of capacity building on international taxation issues in tax administrations in developing countries as being a key way to increase tax morale in developing countries. The Tax Inspectors Without Borders (TIWB) program is leading the way in this effort.
13. Future work could be undertaken in respect of the role of behavioral economics aspects of tax policy design and tax authority behavior for increasing business tax morale. We believe tax rules that are easy to understand and comply with will increase tax morale.

## **Tax morale in taxpayers (businesses and individuals) in Turkey**

**Emre AKIN<sup>a</sup>, Arif AYLUÇTARHAN<sup>b\*</sup>,**

<sup>a</sup> Tax Inspector-Tax Inspection Board, Ministry of Treasury and Finance, İstanbul, Turkey

<sup>b</sup> Dr. Lecturer-Former Tax Inspector -Department of Commercial Law, School of Business, İstanbul University, İstanbul, Turkey

\*Corresponding Author. Tel: (+90) 2124737070-18123, E-mail: arif.ayluctarhan@istanbul.edu.tr

As a source of tax uncertainty related tax administration we would like to point out tax amnesty effects. Tax amnesty is very important issue affecting tax morale. There were tax amnesties containing all taxpayers in Turkey last 10 years. Approximately, all 36 months there were subjected tax amnesty laws to taxpayers to benefit. The last one were applied in the middle of 2018.

Tax amnesties in Turkey were structured the way that provides protection to tax reviews (inspections). It means that if a taxpayer benefits from the tax amnesty, this taxpayer cannot be reviewed by tax inspectors in terms of tax laws. Thus, many taxpayers prefer to benefit from taxpayers. When taxpayers want to benefit from amnesties they must increase tax bases which they declared on the tax returns at a certain rate in accordance with amnesty laws.

This tax application causes negative taxpayer's attitudes and perceptions. As (one former) Tax Inspectors based on personal observations and interactions we are convinced these attitudes and perceptions might be detailed as below.

Firstly, when we look at the attitudes that changed because of tax amnesties in those years:

- 1- Taxpayers do not feel the institutions of tax reviews. Many taxpayers benefit from tax amnesties. Therefore, their tax accounts are immune to be reviewed. They can benefit from tax amnesties by paying less taxes than they would pay when tax inspectors detect. Thus, big tax fraud cannot be revealed via tax investigations.  
In this situation, taxpayers prefer to commit tax evasion with expectation of tax amnesty which would be published. Because they believe that possible tax amnesties will save them from tax reviews.
- 2- Taxpayers who pursue complete honesty believe that this situation is highly unfair because they go on to pay their taxes regularly and completely. Hence, they consider this disrupts competition between other taxpayers. Consequently, honest taxpayers begin not to declare and pay their taxes fairly. Therefore, authority and reliance of the government is failing.

Secondly, In terms of perception:

- 1- Nearly all taxpayers expect tax amnesties permanently. They rely on tax amnesties that to be applied at least in 2 years. Despite to have capacity to pay, they prefer not to pay. And they finance other expenses instead of paying taxes because of tax amnesties and increasing inflation rates. As a matter of fact, bank credit interest rates are higher than

inflation rates. In this case, economically, not paying taxes is more rational. Therefore, taxpayers consider that they do not need to declare and pay proper tax.

- 2- Citizens consider that dishonest taxpayers are rewarded via tax amnesties. And citizens respond negatively when a new tax would be introduced or tax rates are increased. On the other hand, they consider they are punished paying taxes at the right time. It violates the equality.

As a result of these, tax morale in Turkey is suffering from tax amnesties in recent years. Tax compliance level has been decreased since taxpayers are aware of that they would pay less taxes due to tax amnesties.

## Opinion Statement on the OECD Consultation on Draft Report on Tax Morale (2019)

- Issued by the Global Tax Advisers Platform
  - Submitted to the OECD on 10 May 2019
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CFE Tax Advisers Europe together with the Asia-Oceania Tax Consultants' Association ("AOTCA") and the West African Union of Tax Institutes ("WAUTI"), established the Global Tax Advisers Platform ("GTAP") in 2013. GTAP is an international platform, representing more than 600,000 tax advisers in Europe, Asia and Africa, that seeks to bring together national and international organizations of tax professionals from all around the world. The principal aim of GTAP is to promote taxpayer and tax advisers' interests by ensuring the fair and efficient operation of the global tax framework, including recognition of the rights and interests of taxpayers, and the role of tax professionals. For further information, please contact Piergiorgio Valente, President of CFE Tax Advisers Europe or Aleksandar Ivanovski, Tax Policy Manager, at [gtap@taxadviserseurope.org](mailto:gtap@taxadviserseurope.org). For further information regarding CFE Tax Advisers Europe please visit our web page [http://www.taxadviserseurope.org/about-us\\_gtap/](http://www.taxadviserseurope.org/about-us_gtap/)

## Statement

The Global Tax Advisers Platform (“GTAP”)<sup>6</sup> is pleased to submit a response to the OECD public consultation on the draft report on tax morale.

GTAP welcomes the findings of the report that suggest a global policy course of action which places greater emphasis on increased tax certainty and voluntary compliance in order to strengthen and improve the tax morale among individuals and business alike.<sup>7</sup> In particular, GTAP supports the findings of the report related to the need for increased tax morale with reference to developing countries. In respect to both businesses and individuals, improving tax morale would no doubt have a meaningful impact on tax good governance and capacity building.

### 1. Tax Morale and Tax Certainty

In such a context, GTAP endorses the findings of the OECD Report that tax certainty has a great impact on business decisions, in absence of which, modified business structures, increased costs, and changes to investment decisions could arise.<sup>8</sup>

GTAP has long advocated for increased tax certainty and strengthened taxpayers’ rights as a proxy for increased tax morale among individuals and businesses. In collaboration with the Asia-Oceania Tax Consultants’ Association (AOTCA) and the Society of Trust and Estate Practitioners (STEP), CFE has

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<sup>6</sup> The founding members of GTAP are:

- CFE Tax Advisers Europe,
- Asia-Oceania Tax Consultants’ Association (AOTCA), and
- West Africa Union of Tax Institutes (WAUTI).

Observers to GTAP are:

- International Association of Financial Executives Institutes (IAFEI),
- Society of Trust and Estate Practitioners (STEP), and
- Arc Méditerranéen des Auditeurs (AMA).

<sup>7</sup> Tax morale is defined as a voluntary, intrinsic motivation to pay taxes, both at the level of individuals and businesses

<sup>8</sup> OECD Draft Report on Tax Morale, p. 33



published Model Charter of Taxpayer Rights and Responsibilities between taxpayers and tax administrations.<sup>9</sup>

## 1.1. The Model Taxpayer Charter

The Model Taxpayer Charter highlights the characteristics of a well-functioning tax system, and sets out the following 10 basic principles that are perceived as underpinning the rights of the taxpayers, with significant impact on tax morale:

- integrity and equality;
- certainty;
- efficiency and effectiveness;
- the right to appeal and the right to dispute resolution;
- appropriate assistance;
- confidentiality and privacy;
- payment of the correct amount of tax;
- representation;
- proportionality; and
- honesty.

The Model Charter also sets out 10 taxpayer responsibilities, including:

- being truthful;
- providing information where reasonably required;
- being cooperative;
- making payment;
- complying with the law;
- maintaining accurate records;
- taking due care;
- retaining responsibility for information in filings;
- showing courtesy; and

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<sup>9</sup> The Model Taxpayer Charter and the Final Report can be accessed online at the following link:  
<http://www.taxpayercharter.com/>

- complying cross-border.

The overriding purpose of the Charter is to foster a relationship of mutual trust, respect and responsibility between taxpayers and tax administration by clarifying taxpayers' obligations while also clarifying the rights of taxpayers that should be upheld. The Charter aims to ensure that all taxpayers are treated equally and without bias or preference.<sup>10</sup>

The Model Taxpayer Charter is intended as a blueprint for what a good tax system should contain including best practice examples. It aims to provide a model based on mutual trust to be used and embedded in national laws. It constitutes the basis on which taxpayers' obligations to the state are balanced against the rights of taxpayers.

## 1.2. Relationship between Tax Morale and Taxpayers' Rights

The tax morale is significantly affected by the nature of the relationship between taxpayers and government. An emphasis on taxpayers' rights and certainty in the OECD countries and worldwide will benefit the tax morale, in particular due to the fact that tax morale is closely linked to what some authors refer to as 'taxpayer ethics', as norms of behaviour governing citizens as taxpayers in their relationship with the government.<sup>11</sup> As such, the tax assessment and enforced compliance strategies utilised by governments are likely to create tension with the taxpayers, with negative influence on their tax morale as a consequence.

Equally, the concept of tax morale is dependent on strengthening the relationship of trust between the taxpayers and governments, as well as empowerment of the taxpayer's position. Policy developments in this direction are welcomed by GTAP as these will have a positive impact on taxpayers' tax morale and the tax compliance in general.

Further, GTAP members strongly believe that well-functioning institutions, trust in the governments and an atmosphere of positive returns from the system back to citizens will produce results such as higher tax morale and willingness of individuals to voluntarily contribute to the 'social contract' by

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<sup>10</sup> At present, under the GTAP umbrella, CFE is revisiting this work with a forthcoming report of the Professional Affairs Committee on basis of a survey on the position of taxpayers' rights vis-a-vis tax administrations among a selected group of countries in Europe, Africa and Australia

<sup>11</sup> James Alm and Benno Torgler, "Culture differences and tax morale in the United States and in Europe.", *Journal of economic psychology* 27.2 (2006): 224-246.

paying more taxes. Thus, a sustainable system should be based on a fair tax environment, responsive governments, reciprocally related with the tax contributions of citizens and the supply of public goods. With taxpayers' perception that their 'social contract' commitments are adequately represented, their identification with the national governments increases, and consequently the tax morale and their willingness to contribute voluntarily to the budget and pay taxes.<sup>12</sup>

GTAP concurs with the proposition that 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 spill over benefits from public satisfaction generated by its provision.<sup>13</sup> GTAP welcomes the findings that the need for increased focus on tax morale is particularly relevant for developing countries, where the improved public service delivery is directly related to an improved tax morale.

On this basis, GTAP highlights the intrinsic link between the taxpayers' rights and the voluntary compliance, as citizens and businesses alike will be more likely to comply with the law if the relationship between the taxpayers and the government is found to be equitable.<sup>14</sup>

## 2. Policy considerations with respect to the tax morale

### 2.1. Gender- Responsive Fiscal Policies

The OECD reports concludes that an important divergence from the global analysis is that women appear to have lower tax morale than men, with reference to Africa. To address these issues, GTAP endorses the UN- led projects that have recently promoted the awareness of gender mainstreaming

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<sup>12</sup> Ronald Cummings et al. "Tax morale affects tax compliance: Evidence from surveys and an field experiment." *Journal of Economic Behavior & Organization* 70.3 (2009): 447-457

<sup>13</sup> The OECD Draft Report (2019) highlights that improved public service delivery appears to be a driver of tax morale, in particular with reference to Africa

<sup>14</sup> Benno Torgler, "Tax morale, rule-governed behaviour and trust." *Constitutional Political Economy* 14.2 (2003): 119-140. Torgler suggest that there are other possibilities to increase tax morale, ie. taxpayers are likely to follow rules they know or trust to produce good results or when they trust both the public officials and the legal system, *op. cit.*

in the field of public finance management through its gender responsive taxation and budgeting initiatives.<sup>15</sup>

In strengthening the tax morale among both genders, GTAP fully supports government actions that deliver budgets and promote taxation policies that work for everyone. By promoting gender-neutral distribution of resources and raising of revenues, governments contribute to more equitable societies and more opportunities for all. In such a context, GTAP members fully endorse the proposition to work on gender-responsive policies in developing countries in particular, as a means for both improving the perception of fairness and establishing fiscal equality among all citizens, regardless of gender.

## 2.2. Tax Morale and the Post-BEPS Complexities - Cooperative Compliance

In a post-BEPS environment, with the proliferation of measures to combat tax avoidance and evasion, there is a notable lack of certainty, which affects the compliance levels among businesses. For these reasons, GTAP members believe that protecting the legally held rights of taxpayers, business or individuals, is all the more significant given the current state of public opinion regarding tax avoidance and as important as ensuring the continuance of legally enforced compliance and voluntary compliance alike.

Increasingly, with BEPS-implementing measures, taxpayers in different jurisdictions are facing equal tax obligations but are not treated equally by tax administrations in terms of their rights. As a means of providing advance certainty for taxpayers by tax administration, GTAP is supportive of any programmes that establish such protection for taxpayers. We support both cooperative compliance programmes and tax ruling practices that comply with the OECD and the EU tax good governance standards.

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<sup>15</sup> According to the United Nations: “gender responsive budgeting helps to track the way that budgets respond to women’s priorities and the way that governments use funds to reduce poverty, promote gender equality, reverse the spread of HIV and lower the rates of maternal and child mortality. It helps ensure government accountability to the commitments made to women in the Cairo Programme of Action on Population and Development and the Beijing Platform for Action for Gender Equality and Women’s Empowerment and to achieving the Millennium Development Goals”, *Gender Responsive Budgeting in Practice*, United Nations Textbook (2013)

Similarly, cooperative compliance was recently endorsed by the IMF/OECD, on the basis that “cooperative compliance programs could reduce uncertainty for low risk companies, assist tax administrations to better focus their resources and promote a culture of greater trust”.<sup>16</sup>

In the same vein, where tax administrations provide tax rulings and Advance Pricing Agreements (APAs) these have proved to be an effective tool for the prevention of tax-related disputes, especially with respect to transfer pricing issues. They provide the taxpayer with advance knowledge of the tax treatment of particular transactions and therefore allow certainty for taxpayers in planning for the future, and also prevent the risk of subsequent disputes. In light of the debate about strengthening the tax morale among businesses, GTAP encourages governments to establish legal frameworks that promote simple and effective procedures for the conclusion of bilateral/multilateral APAs and/or confirmative tax rulings as means for increased tax certainty.

### 2.3. The response of the international tax professionals’ community

GTAP members share the concern that the complexity arising from the international aspects of taxation affect the incentives for voluntary compliance, in particular in relation to developing countries. Digitalisation is posing significant challenges to the *modus operandi* of the international tax framework. The boundaries are increasingly becoming irrelevant, and as a result jurisdictions find it quite challenging to effectively tax modern value producing activities. As a consequence, a global tax jurisdiction is being *de facto* constituted.

In this vein, GTAP welcomes the new models of collaborations, platforms where stakeholders across the board sit together and work with legislators and policy-makers to address the new circumstances. We believe that only through effective collaboration, the complexities of the international tax system can be addressed, as well as the related issues of compliance with the rules. We participate in all the international and supranational initiatives that aim to define internationally acceptable rules that will be appropriate and effective in an ever-shifting tax landscape. The likely result of such initiatives is indeed increased tax morale: seeking to unite stakeholders across the board will ensure that the outcomes have only beneficial consequences, for taxpayers and governments, as intended by democratically elected legislators worldwide.

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<sup>16</sup> OECD / IMF Report to G20 on Tax Certainty, March 2017

In line with these initiatives, tax advisers from all over the world launched the GTAP, aiming to contribute to the global debate on addressing the system deficiencies in an international context. Moreover, this platform is more than a cooperation tool: it enables effective partnership among tax advisers across the globe and shall hence ensure their prompt and adequate responses in the new framework. Most importantly, it shall ensure that tax advisers' knowledge, skills and expertise are in the service of policy-makers for the construction of a new international tax framework. Consequently, in light of the discussion for improved tax morale and the related policy considerations, GTAP members highlight the *Ulaanbaatar Declaration*: on 12 September 2018, GTAP members and observers signed the Declaration, setting out the platform's 10 key priorities for international taxation.<sup>17</sup>

Finally, GTAP encourages cooperation at all levels to address the inconsistency of the international framework, to address the lack of expertise of tax administrations in particular in developing countries. One key benefit of the globalised tax environment and the post-BEPS world are the equal learning opportunities for both developed and developing countries in adopting international standards in tax, such as the BEPS Actions, in addition to effective capacity building in implementing such standards. As a response to the globalised tax governance environment, GTAP serves a unique purpose: to encourage tax professionals to take up the challenge of proposing a new system: simple, flexible and fit for purpose, a system that can reclaim taxpayers' confidence and increases the tax morale of both individuals and businesses.

In conclusion, growth demands tax policies instilling confidence to taxpayers. Entrepreneurship needs systems from which it can hold, to plan and to create a vision. There is growth where there are efficient tax systems, where legislators can inspire voluntary tax compliance. Sustainable tax systems are the ones that give good reasons for compliance to taxpayers, their main stakeholders. Due respect to taxpayers' rights is the primary prerequisite in such an endeavour.

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<sup>17</sup> The *Ulaanbaatar Declaration* sets out common key priorities for the collective promotion of an optimal tax framework worldwide, including strong cooperation among tax professionals, inclusiveness, revision of existing tax rules, safeguarding taxpayers' rights, and digitalisation of the tax profession, available at: <http://taxadviserseurope.org/blog/the-ulaanbaatar-declaration-global-tax-advisers-platform-signs-declaration-setting-out-key-priorities-in-international-taxation/>



## COMPILATION OF PUBLIC COMMENTS – WHAT’S DRIVING TAX MORALE? (MAY 2019)

OECD

## Introduction

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To understand what is driving Tax Morale, first we need to understand what is Tax Morale is. Tax Morale is one's intention to participate in the compliance of tax laws with full integrity. Here, the most important factor is one's intention to participate in compliance of Tax Laws. Before moving ahead, we must understand as to what are the factors that affect one's intention to participate in compliance with Tax Laws. All below specified comments, discussion, and data are based on the current economic environment present in India relating to the Tax Laws. I have used data and statistics of Indian tax filers to highlight the factors driving tax morale for developing countries.

## Behavioral Science Approach:

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In terms of Behavioral Science, a person never pays for anything until and unless he obtains something in return that is of equivalent worth. Tax is something that a person is required to pay to the government. Nevertheless, the biggest problem here is something in return of equivalent worth. Most of the people feel they are not getting something in return of equivalent worth for payment of taxes. To understand this we have taken the example of current economic scenario of India;

The existing economic data pertaining to India reveals that only 1.7 % of Indians pay Income tax<sup>18</sup>. Further reasons for apathy of the people towards payment of Tax and comply with Tax Laws are<sup>19</sup>:

1. Most people feel that tax is a **burden** and should be avoided.
2. Taxpayers feel that they are being **treated harshly and the punitive provisions** in the tax laws are applied ruthlessly against them. Hence, it is better to be away from the tax department and the number of non-filers of tax returns is increasing. Most of the people then try to reduce their tax liability below the taxable limit by diverting their incomes between the related parties.
3. Many taxpayers become defiant, demotivated, and disillusioned because of **wrong notions** held by tax collectors about their powers, the desire to pass on their part of work to taxpayers, indifference towards them, and an attitude that assessee are out to manipulate figures and evade taxes. Such notions strike at the roots of a healthy tax culture.
4. The tax compliances are there to the great extent and are complex in nature, therefore, assessee generally feel that **complying** with Tax Laws **is very difficult**, time consuming and expensive.

To Summarize above, we can say that the major problems that influences one's intention to participate in compliance with Tax Laws are:

### 1. Burden:

People do not find any **worth** in paying tax. They do not have any **information** as where the tax money is going. Further, they do not know the benefit they are receiving from Government against the tax money they have paid. As a result, the taxpayer thinks that the payment of Tax is burden.

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<sup>18</sup> Based on the revelation by the IT department. Source :

<https://www.thebetterindia.com/125778/indians-pay-income-tax-reasons/>

<sup>19</sup> Source : <https://www.incometaxindia.gov.in/Charts%20%20Tables/Why%20should%20I%20pay%20tax.htm>



To remove this misconception and to eradicate this issue first we need to understand the factors lying behind such thinking. Along with the factors, I have also enumerated the actions that can be taken into consideration in eradicating such factors. The Factors are:

1. **Lack of Education:** Today a huge class of people does not have knowledge as to how Government functions, how the Government plays important roles in our day-to-day life. As a result, people do not understand why Government needs money from public in form of Tax. The only way to resolve the said issue is to provide to public an understanding as to why Government needs money in form of Tax. As correctly said by Justice Holmes of the US Supreme Court "**Taxes are the price for civilization**". Making people understand this is primarily is crucial thing.
2. **Worth of Money:** People think that they are not getting anything in return of equivalent worth in front of taxes paid. To address this, a nation must educate its citizens about the benefits its citizens are receiving by paying the Taxes. One also can adopt the following solutions or practices in order to educate the public about the benefit they are receiving through payment of Tax;
  - i. **One Stream Revenue Allocation Method:** Here the Government can tag certain of its expenditure or projects that will only be financed through Tax Revenue Receipts, for example, 30% of the Income-tax collections will be used for the salaries of Military or Armed Forces or 20% of the Income-tax collections will be used on Road and Infra Projects, etc. By doing this it will become easy for public and Government to understand that where there money is being used, what worth is derived from it, the allocation of funds and further requirement of funds in such areas, etc.
  - ii. **Public Accountability Report:** Today most of the nations have Auditor General or similar position in their governmental structure who are responsible for the audit of Receipts and Expenditure of the Government. At times, such authority issues reports and comments that are subsequently placed in the Houses of the Parliament or Congress for discussion. Like in India, Comptroller and Audit General of India issues its report, under Article 151 of the Indian Constitution, which is placed then in Indian Parliament through Public Accounts Committee for further discussion. However, there is no provision that makes the Government responsible to respond to queries and comments of the public. In such a case, there should a mechanism where Government should present its comments over the issues raised by Auditor General, so that people should understand that where there money is being utilized.
  - iii. **Tax Payer Status:** Government should start some Tax Payer classification schemes where the Tax Payers should be classified according to the amount of Taxes they have paid in last year or in last 3 years. Then the Government should attach some additional benefits to such classification. Like classifying the Tax Payers as Silver, Gold, Platinum, and Diamond Tax Payers and attaching benefits like Mediclaim Coverage, Discounts on Public Transportation Fare, free access to certain entertainment establishment maintained by Government, subsidized availability of food grains etc. By this the Tax Payer will get motivated to pay more tax and they will see worth in that.

## 2. Attitude Towards of Government:

Most of the people feel that the Tax laws are punitive in nature. They feel that the Laws are designed from a point to harass them. They do not have any trust in the Government. As a result, most people feel demotivated and feel reluctant in participating in compliance with Tax Laws. People feel in such a way because of the following factors;

- a. Complex Tax Laws
- b. High Tax rates
- c. Specific Benefits for only one or few class of people. Like, specific Tax Exemptions for big business
- d. No help from Government in compliance
- e. Harsh punitive provision in case of non-compliance
- f. Abusive punitive provision,
- g. Corruption,
- h. No accountability of public money.

In order to change the attitude towards the Government and to generate trust, the Government must focus of the above-specified factors that will in turn help in achieving high Tax Morale,

To Summarize, following are the factors that affect one's intention to participate in compliance with Tax Laws i.e. affects the Tax Morale:

1. **Education / Awareness**
2. **Benefits received from tax payment**
3. **Simpler tax laws and compliance provisions**
4. **Moderate tax rates**
5. **Benefits for middle class as well as start-ups**
6. **Punitive provisions to the extent that they ensure compliance from the taxpayers and acts as deterrent for tax avoidance and evasion**
- 7.
8. **Accountability of Tax Money.**
9. **Trust in Government**

## Incentive, Opportunity and Rationalization Approach:

An Individual can only evade tax when it is possible to do so and when there is incentive behind it and there is a purpose of doing so. Hence, the number of opportunities, reasons to do so and quantum of incentive are the major factors, which drive a person's tax Morale. Below is the detailed understanding of these factors

### 1. Incentive:

Incentive is the advantage a person will receive when he will evade tax. For example monetary amount saved by not paying tax. The more the monetary gain the more person will feel to evade the tax.

### 2. Opportunity:

Opportunity is the window or chance to evade the tax. Like, a loophole in the Tax Laws or so complex tax laws that no one understands. Based on the Opportunities available a person thinks about evading the Tax.

### 3. Rationalization:

Rationalization refers to reason to do. Unless a person has rationale to evade the tax or not to participate in compliance with Tax Laws, although he has opportunity and incentive to do the same, he will not act in such way. As a result, rationalization is most important factor. However, one must understand that sometimes opportunity and incentive itself becomes the rationale to evade the tax and not to participate in compliance with Tax Laws. Other factors that may be termed as rationales are already discussed in behavioral science approach above.

Therefore, Incentive and Opportunity are two major factors which impact one's Tax Morale.

## Specific Identification Approach:

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One must assess nation or region wise factors affecting the intention to participate in compliance of Tax Laws. Each country has its own unique factors that are different from other countries in terms of economic, regional, demographic, environmental, living status, earning equality, etc. Therefore, it would not be advisable to adopt single solution to increase Tax morale for all the nations. Rather, a proper mechanism should be devised or drafted that should:

1. Identify the issues affecting one's intention to participate in compliance of Tax Laws
2. Prioritize the issues to be addressed based on Impact Assessment
3. Identify all possible and feasible solutions for addressing such issues
4. Provide an acceptable solution that will mitigate the impact over the intentions of public

There is no direct way to identify what drives Tax Morale of public and how to increase the same. One should understand the factors hindering the Tax Morale. Each nation has its unique issue factors like, poverty, unemployment, trust in the government, terrorism, etc. these macro eco-socio conditions determines the factors which will drive the Tax Morale. Here, the best approach will be Specific Identification Approach, wherein, nationwide specific problems will be identified that is creating hindrance in increment of the Tax Morale.

For such identification, one must understand the;

1. Nation's Economic Situation like GDP, Poverty, Unemployment, etc.
2. Nation's Social Condition like demographic composition, geographical issues, etc. and,
3. Nation's Legal Environment like form of Government, Corruption, Stringent Laws and Legislature, Abuse of Power, etc.

After successful identification, the second step will be to prioritize the problem based on the it's impact assessment. The rationale behind prioritizing is that - each nation, country, or state has limited resources to invest. Moreover, each issue might not be affecting in such extent as compared to other issue. The bigger and important issues are required to be addressed first. Hence the Impact Assessment of the issues over Tax Morale is must and important.

Thirdly, one must identify all the possible and feasible solutions available that will help in mitigating the issue to the extent applicable. Then, one must perform the cost benefit analysis i.e. the revenue which can be generated from removal of such hindrance over one's intention to participate in compliance with Tax Laws viz a viz the cost need to be incurred for removal of such hindrance. In other words, feasibility assessment of the solutions available needs to be analysed.

Then last step is to adopt an acceptable solution for removal of such identified issues or hindrances considering the cost benefit analysis already performed. By this method, one can identify and address the issues affecting the Tax Morale.

**-X-X-X- End of Paper -X-X-X-**



To OECD Development Centre / Centre for Tax  
Policy and Administration, [taxanddevelopment@oecd.org](mailto:taxanddevelopment@oecd.org)

Date May 8, 2019

From KPMG International

Ref

cc Chris Morgan, Head of Global Tax Policy

## Response to OECD Consultation on “What is Driving Tax Morale”

KPMG International<sup>20</sup> (KPMGI) is pleased to respond to the OECD Consultation on “What is Driving Tax Morale”.

We<sup>21</sup> consider this a very important issue and commend the OECD for focusing on it. In particular we believe that increasing tax morale could assist in:

- Making the tax system more efficient by improving voluntary compliance and so reducing the cost of collection for tax authorities;
- Reducing costs to taxpayers where demonstrated higher tax morale leads to greater trust and so fewer tax audits and quicker resolution of uncertain positions;
- Increasing tax revenues which can be used either for investment in social infrastructure or to reduce rates or other taxes according to the country’s needs;
- Allowing for a more open and better quality dialogue between taxpayers and revenue authorities and government which should lead to improved tax legislation;
- Potentially, allowing for simplification of tax laws given that complexity is sometimes driven by the need for anti-avoidance rules which can then create anomalies and uncertainty and can drive more tax planning.

We agree with the analysis set out in the document and the policy recommendations which are made. We have set out some thoughts below on further areas or issues, which the OECD may wish to consider in developing this work. In particular we recommend carrying out further research to understand in more depth:

- The relationship between trust between taxpayers and tax authorities and the level of tax morale;
- The relationship between trust in institutions as a whole and tax morale – perhaps as part of the OECD TrustLab project;
- As regards individuals: the reasons for the correlation between the various socio-economic and institutional factors identified and tax morale;
- As regards businesses: the criteria which are used in deciding upon a company’s approach to tax and the boundaries it sets in its tax strategy.

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<sup>20</sup> KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 153 countries and territories and have 207,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

<sup>21</sup> Throughout this document, “we”, “KPMG”, “us” and “our” refer to the network of independent member firms operating under the KPMG name and affiliated with KPMG International or to one or more of these firms or to KPMG International.

## What is driving tax morale?

Page 10 of the Consultation refers to the World Bank's forthcoming theory of change for tax compliance, which puts trust as a central issue. We agree with this analysis. For example, in March 2019 we held a round table in Cape Town<sup>22</sup> looking at whether the current global corporation tax system was fit for purpose in Africa. This session was attended by a number of African tax authorities, companies from the region, professionals and academics. The key theme which emerged was trust. On the one hand, corporate delegates noted a lack of expertise in some tax authorities and considered they compensated by aggressive tactics. They noted disputes could drag out for over 10 years, and one case was cited where an inspector had raised an assessment for millions, but when challenged, immediately reduced it to thousands. On the other hand, tax authority delegates noted cases where companies refused to provide information, or claimed to be taxed on a (low) deemed profit. Both parties felt the other held all the power: the companies believed the tax authorities and governments could ultimately act with impunity, whereas the tax authorities felt companies controlled all the information. It was clear that an increase in trust would pave the way for a more open dialogue; one in which information could be shared as companies would be less defensive and tax authorities would not feel the need to impose arbitrary assessments. Trust, therefore, needs to be reciprocal.

However, we consider that – while very important - trust is not the only element in tax morale. Page 9 of the Consultation, and note 1, defines tax morale as “the *intrinsic* [emphasis added] motivation to pay tax.” In other words it is something internal to the taxpayer – whether an individual or a company. This means a taxpayer could lack trust in the capacity or even the integrity of a tax authority or a tax regime but still have an intrinsic motivation to pay what they consider to be the right amount of tax according to the law. We consider the OECD could usefully carry out further research in this area. As set out below, this is particularly relevant to the corporate sector.

Figure 1.2 on page 14 which shows countries with a higher tax to GDP ratio have a higher tax morale is very interesting. It would be useful to understand better what is driving that dynamic and also the impact of actual tax rates on both individuals' and companies' tax morale.

Another area which could be usefully studied is the impact on morale of law which taxpayers think is capricious – for example because it treats taxpayers in objectively the same situation differently or creates uneconomic results. This is an issue of how tax policy is perceived rather than tax certainty or how the law is applied.

### Individuals

We agree with the analysis set out under the section on individuals, specifically that identifying trends between socio-economic and institutional factors and tax morale may assist in the design and administration of tax policy.

Our main comments reinforce the OECD's recognition that more detailed country-level research is required to implement truly tailor made approaches. Whilst understanding the correlation between socio-economic and institutional factors is useful, in order for tax administrations to take effective action, there needs to be a stronger understanding of why such a correlation exists.

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<sup>22</sup> For a fuller write up of the event see <https://responsibletax.kpmg.com/page/note-of-roundtable-on-the-future-of-corporation-tax-in-cape-town-25-march-2019/>

To use one socio-economic factor as an example, across the global analysis and the regional analysis for Latin America and Asia, there was a consistent correlation between age and tax morale, being that older individuals are likely to have higher tax morale. One of the report's findings is that lower tax morale among young people suggests a role for taxpayer education programs to be integrated into school curricula. This recommendation appears to be based on the assumption that younger people have lower tax morale because they do not understand the fiscal contract as well as their older compatriots. Whilst this may be the case, it would be beneficial for research to be undertaken at the country level to see what causes younger people to have lower tax morale. Whilst lack of education may be a key component, it would be interesting to see whether wider demographic and economic trends (for example ageing populations and generational wealth inequality) have affected younger people's interpretation of the fiscal contract, a change which education alone would not be able to counteract. Undertaking further, deeper, research at a country level on what causes the correlations between the factors and tax morale should allow tax authorities to effectively health-check the fiscal contract in their jurisdiction, which should in turn allow them to deploy more tailored and bespoke approaches to maximizing tax morale.

We agree with the proposal on page 27 to consider further the links between tax morale and gender.

We also recommend that the relationship between trust in institutions as a whole and tax morale could be researched in more detail – perhaps as part of the OECD TrustLab project referred to on page 26 of the Consultation.

Overall, we recommend that the surveys continue to be repeated over time so that at a global, regional and country level, the wider social, economic and political trends (for example, the political engagement of different sectors of society) can be analyzed to see how they affect tax morale over time.

## **Businesses**

We agree with the analysis set out under the section on businesses and that looking at factors providing tax certainty is a good proxy for tax morale. We have two specific drafting points. However our main recommendation relates to identifying what creates tax morale within a company.

### *What does tax morale in companies consist of?*

While what drives perceptions of tax certainty is certainly a good proxy, it is not identical to tax morale. As indicated in the Consultation, where there are concerns about tax certainty in a country (for example unclear legislation, inconsistent application, lack of expertise in tax authorities) it is likely that companies will respond by, for example, reducing investment or requiring a higher return on investment made. This is a rational response to uncertainty. However, there is not a direct read across to tax morale. Once a company has decided to make an investment - even if it requires a higher return on capital than for an investment in a more benign environment – it might nevertheless decide to engage with the tax authorities and the tax system on a voluntary, responsible basis. The key question is, therefore, what drives such an intrinsic motivation in a company?

Some companies have published their tax strategies or have principles setting out their attitude to tax management. We note that on page 39 there is reference to the B Team<sup>23</sup> and to BIAC<sup>24</sup> tax principles. The BIAC principles state: “Tax is a business expense which needs to be managed, like any other, and therefore businesses may *legitimately* respond to tax incentives and statutory alternatives offered by governments [emphasis added].” The B Team Principles state: “We will not undertake transactions whose sole purpose is to create a tax benefit which is in excess of a *reasonable interpretation* of relevant tax rules [emphasis added].” Clearly different parties could understand the meaning of “legitimately” and “reasonable interpretation” differently. But it is clear that companies (or many companies) do in practice have an approach to deciding what tax planning is and is not acceptable.

There will be many factors that will weigh differently for different companies and in different jurisdictions. These will include: consideration of the impact of adverse publicity if they are thought by the public to be engaging in aggressive tax planning; the risk of damaging the relationship with the tax authority; the cost and management time, which can be tied up in defending tax planning; the sophistication of anti-avoidance legislation and tax penalties. Some companies may also have pressure from investors to adopt a certain approach on tax.

There is, however, often another factor which is harder to quantify. For example, The B Team document “A New Bar for Responsible Tax” says that “Tax is vital to fund public services and infrastructure that are critical to societies.” This indicates an approach to tax management which is truly “intrinsic” and goes beyond calculating the risk of adverse publicity or doing a cost benefit analysis - more “extrinsic” factors. It could be termed an ethical or moral stance but whatever the definition there does not appear to be a common set of terminology for discussing how companies set this bar and we consider it would be useful for the OECD to engage directly with companies to understand better how they make tax decisions. Part of such discussion could also involve trying to identify to what extent tax morale in companies is mainly driven by key personnel, such as the finance director and head of tax – and is linked to their own personal tax morale -, and to what extent it flows from a wider corporate ethos.

### *Drafting points*

One point we think needs clarifying is the statement on page 29 that: “**MNEs may seek incentives to compensate for lack of trust in parts of the tax system.** For MNEs and other large firms, the possibility of informality is remote. Nevertheless, as a result of having more political and economic power, MNEs have other options, including the possibility to secure tax exemptions.”

We agree that (generally speaking) multinationals do not engage in tax evasion (informality) and note the research referred to in 2.1 showing that domestic firms evade more than foreign and state owned firms. However juxtaposing evasion/informality with seeking tax exemption could appear to be equating the two and we think there is a need for clarity here. There are cases – probably in the past more than the present – of multinationals demanding excessive tax exemptions in return for making investments. In terms of tax morale, such behavior by an MNE could perhaps be compared to a small domestic firm simply under reporting. However in many cases MNEs ask for exemptions or specific agreements precisely because the law is unclear and the investing company requires certainty before deciding upon making an investment. These are cases of MNEs trying to clarify the law, not circumvent it.

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<sup>23</sup> 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, for the wellbeing of people and the planet – see [www.bteam.org](http://www.bteam.org)

<sup>24</sup> Business at OECD: An international business network with a global membership representing over 7 million companies of all sizes – see [www.biac.org](http://www.biac.org)





In other cases unproductive exemptions may be offered by the investee country. These may be a result of misplaced harmful tax competition between developing countries, and it is an interesting question whether or not MNEs with a high tax morale should or do refuse to accept them even though they are offered to and accepted by competitors. But using such exemptions should not be equated with companies acting in the formal sector, which simply evade the tax which is due.

Another point we think would be worth clarifying is figure 2.3 on page 33, which looks at the frequency with which tax uncertainty has seriously affected business decisions. The table shows this occurs more in developing countries. However, we assume this is not showing that companies change their business decisions where there is uncertainty more often in developing than developed countries, but that there is more uncertainty in developing countries (generally) which means business decisions are affected more often.

If you would like to discuss any of the above further, please do not hesitate to contact Chris Morgan, Head of Global Tax Policy, at [christopher.morgan@kpmg.co.uk](mailto:christopher.morgan@kpmg.co.uk)

To: OECD Tax and Development Programme

From: M. Sc. Petra Brus

Consultation on Tax Morale - Deadline 10 May

Dear colleagues,

Please find herewith comments of the Ministry of Finance, Directorate for the system of tax, customs and other public finance revenues of the Republic of Slovenia on consultation document on tax morale. Invitation was published on 10 April 2019.

We would like to stress the importance of tax morale for better functioning of tax systems all over the world. Tax administrations cannot rely solely on supervision and control techniques to improve tax compliance. Improving tax morale is an important tool for enhancing voluntary compliance and thus for influencing the fairness of national tax systems.

The report is focusing on tax morale primarily in developing countries, but it is our firm belief that tax morale is a very important issue also for developed countries, especially (when discussing taxation as a tool for enhancing development) with respect to taxation of large multinational companies. Therefore, when thinking about future work on tax morale, more in depth analysis on developed countries would be welcomed. Issues on tax compliance, improving the notion of the fairness of tax systems in general public and closing the gap between potential and actually collected tax revenue are important also for those countries. Taking into account cultural circumstances of individual countries, there is considerable mismatch between statistical data and perception of fairness of taxation and easiness to comply with tax rules. Changes in how the tax administration works by putting more emphasis on services provided to taxpayers; the provision of greater support to taxpayers when dealing with compliance issues and improved efficiency in detecting and preventing different forms of tax avoidance and evasion are needed also in developed countries. To address those issues, the question What is driving tax morale in their societies is very important as well as identification of measures that can improve the level of voluntary tax compliance so that supervision and audit functions can be targeted to more risky areas/groups of taxpayers.

It is difficult to accept the thesis that tax morale is higher in countries with higher taxes as indicated in the document. In the text this thesis is justified with an argument that countries with higher tax to GDP ratio have higher taxes and thus higher level of tax morale. It cannot be argued that higher tax to GDP ratio is only a consequence of higher (nominal) taxation. Many other factors can influence higher tax to GDP ratio, not only level of taxation – better administrative capacity of tax administration, lower level of informal economy and higher level of tax morale itself. Thus, further studies would be welcomed to develop an internationally comparable indicator on gap between potential tax revenue and actually collected tax revenue in a particular country. In this respect, we would also welcome a broader international analysis on the level of informal (grey) economy in

different countries or regions. We believe this could be a better proxy-indicator of tax morale than tax to GDP ratio.

We find it interesting that the existing research on tax morale of economic operators indicates that domestic taxpayers are more prone to tax immorality than foreign investors. This result is just the opposite to the findings on tax morale of individuals where citizenship positively influences tax morale of a taxpayer. Nevertheless the first finding does not take into account that foreign investors (especially multinational companies) usually benefit from special and very favourable tax regimes or direct subsidies that reduce cost of investment and therefore these companies do not have such a drive to avoid paying taxes as domestic investors. With this respect it would be useful and interesting to explore correlation between tax morale of economic operators, fairness of taxation and existence of special tax regimes or/and subsidies offered to foreign investors.

Kind regards,

On behalf of M. Sc. Petra Brus,



**M. Sc. Martina Verbančič, Head of Department**

Ministry of Finance

Directorate for the System of Tax, Customs and Other Public Finance Revenues

Župančičeva 3, 1000 Ljubljana

t: +386 1 369 6745, f: +386 1 369 6719

## **Inputs on public consultation document on tax morale**

- **By Prerna Peshori and Nupur Jalan**

### **1. Background -**

- 1.1 The concept of taxation has been a concern of global significance as it affects every economy irrespective of national differences. Taxes constitute the principal source of government revenue and the beauty of any government is for its citizen to voluntarily execute their tax obligations.
- 1.2 In the recent times, there has been rampant tax avoidance by some of the big conglomerates. Different tax avoidance schemes have been deployed by the individuals/ businesses over the globe to manipulate/ avoid taxes. This has not been an issue only limited to one nation but is hovering over the entire globe. Therefore, it is important to understand what factors lead the businesses/ individuals to avoid taxes.
- 1.3 Tax morale can be conceptualized as a set of moral principles or values that individuals/ businesses have regarding the payment of their taxes. Tax morale is broadly defined as an umbrella term capturing non-pecuniary motivations for tax compliance as well as factors that fall outside the standard expected utility framework. For example, individuals may have some intrinsic motivation to pay taxes or feel guilt for failure to comply. In other words, it can be said that, it is a moral obligation to pay taxes and to contribute to the general welfare of the society. It is said that a high level of tax morale will result in a relatively high tax compliance.

*The individuals/ businesses would ideally compare - benefits of not paying taxes vis-a-viz penalties imposed if the tax avoidance is caught hold off. In this context, the concept of 'tax morale' has gained significance. OECD in continuation with its previous research on tax morale has now published a draft consultation document seeking comments regarding 'WHAT IS DRIVING TAX MORALE?'*

### **2. Our submissions –**

The comments are presented below with regard to the possible concerns that may drive tax morale. It is important to note that what matters for policy is not so much what role tax morale plays in current compliance, but whether it is feasible to improve tax morale on the margin and whether a given increase in compliance can be achieved at a lower cost by improving tax morale than by increasing enforcement. Tax morale can be enhanced if it is displayed to the taxpayer that tax is an investment rather than cost to him.

**Following points merits considerations in respect of tax morale drive in the case of Individual and businesses -**

**1. Tax rate:**

The report suggests that countries with higher levels of taxation appear to have higher levels of tax morale i.e. there exists a positive correlation between the level of tax morale and the tax-to-GDP ratio in a country. However, this might not be true in case of individuals because, if due to higher rate of taxes, higher amounts of income goes towards payment of tax dues, the individual taxpayers may try to find alternative mechanisms to lower down their tax liability.

**2. Education/ Understanding and awareness of taxes:**

The OECD report suggests that those with higher education or awareness to pay taxes, for example, are more likely to have a deeper understanding of the role of taxation in the economy and have positive attitude towards paying the taxes.

**3. Simpler tax compliance mechanism:**

Simpler process of collection of taxes and simpler tax compliances ensure voluntary payment of taxes to a greater extent. Further, faster processing of returns and initiation of refunds motivates the taxpayer to pay the taxes.

**4. Accreditation mechanism:**

Recognition in certain forms should be given to taxpayers for complying with the tax obligations. Also, the government may contribute some amount of taxes towards medical premium for taxpayer.

**5. Public Accountability statements by Government:**

The Government should provide the audited accountability statements disclosing where the tax amount has been invested and the returns received on those project. This would boost tax morale since the taxpayers would have faith in the Government that their funds are being invested at right place.

**6. Others miscellaneous considerations –**

- **Sense of community:** A stronger sense of community fosters tax morale
- **Support for democracy:** Support for democratic values is associated with high tax morale
- **Peer effects and social influences:** Individuals may wish to conform to the behavior of others, so that peer compliance directly affects the individual's own compliance

### **Following points merits considerations in respect of tax morale drive in the case of businesses-**

#### **1. Investment certainty:**

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. The businesses are not only driven by the taxation in a particular economy but are more driven by the investment climate in that country. Therefore, in certain jurisdictions even though, the tax rates might be little higher, however, if that jurisdictions offer the stable investment climate, then the businesses may be ready to pay the higher taxes.

#### **2. Transparency:**

Reducing bureaucracy, improving consultation and transparency, and providing more effective dispute resolution are identified as the most important tools to build tax certainty. The introduction of e-assessments reduces the chances of the corruption and results in fair assessments. Further, publication of annual statistics by the government of a country regarding the tax filers and non-filers, tax collection, disclosure of public usage of the amount of tax collected results in transparency among the taxpayers and the tax authorities. This automatically boosts the tax morale of the businesses.

#### **3. Other points that can improve transparency in the system can be –**

- a. **Litigation management:** Better litigation practices, faster dispute resolution, policies for dismissal of appeals, stability in the judicial precedents rendered affects the tax morale
- b. **Tax certainty:** 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. Addressing these issues may yield significant results in terms of an improved investment climate by enhancing tax morale of MNEs in developing countries
- c. **Aligning domestic tax laws with international rules:** Tax uncertainty can be avoided through aligning the domestic law with international tax rules, timely resolution of dispute, signing APAs and entering into MAPs with different jurisdictions. The certainty in jurisdiction with regards to tax policy fosters investment and boost tax morale
- d. **Consultation with public:** Framing the rules in consultation with the public at large goes a long way in boosting tax morale rather than suo-moto introduction of the draconian provisions

#### **3. Indian statistics –**

- There has been rise in direct tax-GDP ratio over last three years which shows that more and more number of individuals as well as businesses are voluntarily contributing towards taxes. For FY 2017-18, the direct tax GDP ratio was 5.98% which is the best DT-GDP ratio in last 10 years
- The number of persons filing return of income has also increased by about 65% during this period from 3.31 crore in FY 2013-14 to 5.44 crore in FY 2017-18. Hence, there has been a growth in the number of returns filed
- The total number of taxpayers (including corporates, firms, HUFs, etc.) showing income of above Rs. 1 crore has also registered sharp increase over the three-year horizon. Similarly, there has been 68%

increase in the number of individual taxpayers disclosing income above Rs. 1 crore. Further, the average tax paid by corporate taxpayers has increased by 55% and there is also an increase of 26% in the average tax paid by individual taxpayers

This shows that the tax collections and the tax compliance has been increasing in India due to several taxpayer and investor friendly regime, introduction of e-assessment leading to reduction of corruption, penalties and prosecutions for non-payment of taxes and non-compliance with tax provisions which act as deterrent for tax avoidance, aligning the tax laws with international rules and BEPS Action Plan recommendations. Indian Government has been intolerant against rampant tax evasion and avoidance and has therefore, entered into exchange of information agreements. Further, the information regarding tax evaders also gets published from time to time. There is better transparency which is resulting with regard to use of the taxpayers money. This all goes a long way in boosting the tax morale.

#### **4. Conclusion –**

Equity, social norms, attitude toward tax evasion, trust in government and authority, fairness in tax system, tax certainty and confidence in legal system have a significant impact on tax morale. The improved tax morale would contribute to better tax compliance by the taxpayers and would result in reduced chances of tax evasion or avoidance. This would lead to development and growth of economies across the globe.



Ben Dickinson  
Head of Global Relations and Development Division  
Centre for Tax Policy and Administration  
OECD  
2, rue Andre Pascal  
75775 Paris Cedex 16  
France

By email to: [taxanddevelopment@oecd.org](mailto:taxanddevelopment@oecd.org).

10 May 2019

Dear Ben

**Public Consultation Document: What is Driving Tax Morale?**

PricewaterhouseCoopers International Limited on behalf of its network of member firms (PwC) welcomes the opportunity to comment on the Public Consultation Document on *What is Driving Tax Morale?* as per the invitation for public input dated 10 April 2019.

The new section using OECD tax certainty data to consider tax morale among businesses operating in developing countries provides a useful addition to the updated material on individuals. We believe tax morale is an important contributor to the effectiveness of the tax system. It is an area in which we are keen to share our views and perspectives, as one of the world's leading professional services organisations with activities in many of these as well as developed countries. We will restrict our comments here to some of the key elements of the new area of focus for this report, but would be very willing to engage in a broader dialogue with you on tax morale more generally. In particular, we have identified a number of matters on which you raise important points but believe that further thought and discussion would be useful.

We also believe it is important to highlight the extent to which tax evasion/ fraud may be interwoven with lower morale amongst those who try to comply with the tax system - asking why they should be required to pay much higher amounts than others who are not prevented from 'cheating'. Many tax gap analyses compiled by individual countries, but also by the European Commission<sup>25</sup> identify that

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<sup>25</sup> [https://ec.europa.eu/taxation\\_customs/news/vat-gap-report-2018\\_en](https://ec.europa.eu/taxation_customs/news/vat-gap-report-2018_en)

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*PricewaterhouseCoopers International Limited*

*1 Embankment Place*

*London WC2N 6RH*

*T: +44 (0)20 7583 5000 / F: +44 (0)20 7822 4652*



‘tax avoidance’, in terms of aggressive tax planning not in accordance with the spirit of the law, is not nearly the size of evasion/ fraud. VAT/ GST fraud is often a major part of that as is perhaps also inferred by the report’s reference to omitted sales. Beyond that, a larger part of the balance is usually attributed to individuals rather than businesses.

However, the global nature of the current business world together with the complexity and competing priorities of national laws - including tax competition amongst nations - is such that it is not always clear where lines should be drawn. That has undoubtedly affected tax morale in recent years but is now being addressed - the difficulty being in where to redraw the lines to balance expectations and burdens.

## **Context**

The use of the tax certainty survey and data is an interesting starting point for addressing business tax morale. Uncertainty is a factor that would contribute to lower tax morale but it may not be the most important factor. It is difficult to list or easily classify all the factors but we could perhaps at this stage suggest a few ideas for further discussion.

In addition to the contributing items set out below, we think it would also be necessary to consider these in the context of the relationship, both in overall morale and in any particular factor, between the size of businesses, the domestic/multinational nature of businesses and as against individuals. There may be a knock-on effect from one to the other - if morale is high in large multinational enterprises, smaller businesses may as a result feel more, or less, motivated and that may also apply in relation to the impact on individuals. Multinational businesses may or may not try to instil an ethos across the organisation. Large cross-border businesses may comprise small local businesses in some countries. All businesses are run by individuals whose own tax morale may be impacted on a wider scale. Where cultural change is required, this can be very hard to achieve, particularly bearing in mind some of the matters we discuss below.

Changes in tax morale also need to be considered alongside a wide range of evolutionary changes, including those more openly impacting tax. These would encompass things like moves to improve sustainability in tax systems, to build domestic resource mobilisation in generating tax revenues in developing countries, to harness technology in tax administration and to improve relationships, both between tax administrations and between a tax administration and its taxpayers.

## **Trust in the tax system**

It may be appropriate to distinguish different components of overall trust in the tax system as involving trust in the political system, trust in the rule of law, and trust in the actors, i.e. taxpayers, tax administrations and tax advisers.

The level of trust in the tax system might begin with an assessment of the equity in the tax policies taken by governments (and others) and go on from there to consider its efficiency, complexity, transparency and so on. A number of attempts at guiding principles for good tax policy have been postulated and are beyond the scope of this letter. The Ottawa principles in relation to the taxation of e-commerce might be a relevant subset of such principles.

The levels of ‘voluntary compliance’ with that system and the tax gap that might otherwise arise are at least partly attributable to the levels of trust taxpayers and others have in the systems and people involved in administering them. Some intrinsic components to these are explored below but the wider context should not be forgotten.

Assisted or enforced compliance lies partly within the framework of business taxpayers, taxing authorities and ultimately, on occasion, the courts. Advisers also have a part to play in helping taxpayers to comply and exercise their right to manage their tax affairs within the law. To some extent all those stakeholders often have to interpret the tax law. A shared effort in this regard between tax authorities, taxpayers and advisers might aid or quicken this process through, for example, cooperative compliance, International Compliance Assurance Programme (ICAP) and multilateral advance pricing agreements (APAs). The levels of governance that take decisions out of the sole hands

of one individual and impose levels of review is in our view critical to restore trust by the public at large in the tax behaviour of companies. The presence of tax control frameworks in businesses imposes a check on how detailed these are and how they should work. The determination and publication of business tax strategy adds an additional layer on top, whether voluntarily or within specific required parameters. For international businesses, BIAC has produced responsible business tax management principles that provide a useful guide.<sup>26</sup> An update of the OECD Guidelines for multinational enterprises to incorporate more guidance on tax governance frameworks would be welcomed.

### **International collaboration and agreement**

Governments enact laws domestically (and sometimes collaboratively, through consensus, agree to adopt them, as with guidelines on transfer pricing etc) and enter into treaties with other nations so as to determine how companies and other taxpayers should be taxed. Relieving, largely through treaties, the double taxation that can often arise from the asymmetry in domestic tax rules remains a critical component of tax morale in businesses operating cross border. The concerns in this respect have been exacerbated with the increasing prevalence in countries adopting or considering gross revenue or withholding taxes. In practice, even if a treaty effectively allows for a tax credit, or in the case of an exemption a refund of the tax paid at source, obtaining the relief can be time consuming and, frankly, morale sapping.

Double taxation, and the uncertainty and costs around relieving it, may have a negative impact on some impacted taxpayers, and relieving these issues may help improve morale. There are signs of dispute resolution through mutual agreement procedures (MAP) being generally more accessible and timely following BEPS, with the help of improved domestic processes and the MLI or new treaties. It is hoped that mandatory arbitration will further prevent disputes from over-running. The resolution of disputes through better cooperation between jurisdictions without the need to resort to MAP is also being more widely addressed through different bodies, like the Forum on Tax Administration. But the prevention of disputes at an earlier stage through the use of cooperative compliance, an appropriate rulings or clearance system, APAs, etc would relieve the pressure on these mechanisms.

Collaboration between tax administrations is also now being enhanced as a result of automatic information sharing as well as the peer reviews of responses and information on request standards. Country-by-country reporting by businesses to tax administrations might be considered as part of these automated processes and it is hoped that initiatives like ICAP will help demonstrate that with the involvement of businesses, collaboration between jurisdictions can both be efficient and lift morale.

### **Improved systems and cooperative compliance**

On a domestic basis, cooperation between businesses and tax administrations can also be advantageous for all stakeholders. Morale may be dependent in part on active involvement in the development of systems and processes as well as the efficiency of the resulting reporting, settlement and payment of tax appropriately due. Some degree of advance risk assessment may be useful in addressing resource constraints, whether through a level of reliance on elements of tax control frameworks (TCFs), third party tax assurance or similar factors.

The appropriate use of technology will be critical, particularly in relation to any particular country (cross-border issues may be more challenging). Society should embrace all the advantages new technology brings, but it is still very important to build relationships between taxpayers and tax administrations to enhance trust. The level of automation could lead to an improvement or a worsening of morale, depending on ease of use, accuracy in reflecting the law and intervention when things don't go smoothly. Local business involvement will be a vital element here. Things like blockchain may have the potential to work globally, but not all countries may have the same capabilities, prevalences and attitudes at the same time. While learning from experiences in different

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<sup>26</sup> [http://biac.org/wp-content/uploads/2014/05/07-Final\\_5\\_September\\_BIAC\\_Statement\\_of\\_Tax\\_Principles\\_for\\_International\\_Business.pdf](http://biac.org/wp-content/uploads/2014/05/07-Final_5_September_BIAC_Statement_of_Tax_Principles_for_International_Business.pdf)

countries would be recommended, testing against country characteristics is paramount (including socio-economic factors and even morale itself).

The ease of paying taxes has appeared to be an interesting contributor to tax morale. New tax software, real time reporting systems and data analytics are changing the way companies meet their tax compliance obligations and how tax authorities monitor and enforce those obligations, as our latest Paying Taxes report shows.<sup>27</sup> A growing number of countries have been keen to discuss the trends in perceived business morale and the investment effect of addressing the amount of time needed for business to comply, the number of tax payments to be made and the post-filing index (the ease of claiming a VAT refund and correcting a tax return) as well as the overall Total Tax Contribution rate.

### **Different taxes, rates and incentives**

The questions as to what is taxed and to what extent are fundamental drivers for tax morale.

We see more generally that tax rates within particular ranges tend to be considered acceptable by taxpayers while those above that may lead to a greater focus on tax planning (or some studies have suggested avoidance or evasion). This is probably more relevant to individuals than larger businesses<sup>28</sup>.

Much has been said about the granting of tax incentives to attract investment in developing countries that would be forthcoming in any case. There could be an impact on morale in situations in which incentives were to be provided discriminately but, if it were needed, those countries are now more keenly aware of the arguments and potential trade-off.

The mix of taxes imposed by a particular jurisdiction is likely to be a major contributor to tax morale. There is a careful balance to be struck - for example in relation to sin taxes (duties on perceived consumer 'bads', like tobacco and alcohol) there will be those whose morale will rise and those for whom it will fall. The OECD has done quite a lot of work on the efficiency of different taxes with consumption and property taxes tending to fare better than other taxes - whether that filters through to morale would be an interesting facet to consider.

Overall, we believe that tax morale has been an under-studied topic. Better insight into tax morale may be an important contributor to the efficiency of future tax policy. It should be part of the forward-looking agenda that considers how the international tax system, as well as the domestic tax regimes in particular countries, could be improved, in relation to both the current tax mix and those new taxes that will likely follow.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'Stef van Weeghel', with a long horizontal stroke extending to the right.

**Stef van Weeghel, Global Tax Policy Leader**

[stef.van.weeghel@pwc.com](mailto:stef.van.weeghel@pwc.com)

T: +31 (0) 887 926 763

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<sup>27</sup> <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2019.html>

<sup>28</sup> <https://www.gov.uk/government/publications/researching-the-drivers-of-tax-compliance-behaviour-among-the-wealthy-and-ways-to-improve-it>



PwC Contacts	Email
Will Morris	<a href="mailto:william.h.morris@pwc.com">william.h.morris@pwc.com</a>
Edwin Visser	<a href="mailto:edwin.visser@pwc.com">edwin.visser@pwc.com</a>
Pam Olson	<a href="mailto:pam.olson@pwc.com">pam.olson@pwc.com</a>
Dave Murray	<a href="mailto:david.x.murray@pwc.com">david.x.murray@pwc.com</a>
Aamer Rafiq	<a href="mailto:aamer.rafiq@pwc.com">aamer.rafiq@pwc.com</a>
Giorgia Maffini	<a href="mailto:giorgia.maffini@pwc.com">giorgia.maffini@pwc.com</a>
Romero Tavares	<a href="mailto:romero.tavares@pwc.com">romero.tavares@pwc.com</a>
Phil Greenfield	<a href="mailto:philip.greenfield@pwc.com">philip.greenfield@pwc.com</a>

# Simmons & Simmons

Simmons & Simmons LLP PO Box 79023 1070 NB Claude Debussylaan 247 1082 MC Amsterdam The Netherlands  
T +31 20 7222500 F +31 20 7222599

Monique van Herksen, advocaat  
DD +31 20 7222325  
Clive Jie-A-Joen, counsel  
DD +31 20 7222338

Our ref FMCMG/MXVHPERSONALOPEN/-1/MXVH  
Your ref

May 10, 2019

OECD Centre for Tax Policy and Administration  
OECD / CTPA

By e-mail to: [taxanddevelopment@oecd.org](mailto:taxanddevelopment@oecd.org)

Dear Sir/Madam:

## Comments on the Public Consultation Document “What Is Driving Tax Morale?”

### Introduction

Simmons & Simmons LLP welcomes the opportunity to submit comments on the Consultation Document “What Is Driving Tax Morale?” released by the OECD on April 10, 2019 (hereafter: the “Consultation Document”).

Simmons & Simmons is a leading international law firm with more than 900 legal staff in offices situated in key business and financial centres across Europe, the Middle East, and Asia. We believe it is who we are and how we approach our work that sets us apart from other firms. We set the highest standards for the work we do and pride ourselves on our client focus.

In building our international business, we have created a closely knit and cohesive network of lawyers who seek to balance local business needs with the delivery of a global service. Our current client base includes a significant number of the current FTSE 100 and Fortune Global 500 companies and we advise the world’s leading investment banks, many of the world’s largest financial conglomerates and more than half of the top 50 European hedge fund managers. We provide services from locations based in Europe, the Middle East and Asia. We work across core practice areas including corporate, dispute resolution, EU, competition & regulatory, employment, pensions & employee benefits, financial markets, intellectual property, projects, real estate, information, communications & technology and tax.

A key commercial advantage for our clients is our focus on specific sectors, including asset management & investment funds; financial institutions; technology, media and telecommunications

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For details of our international offices please visit [www.simmons-simmons.com](http://www.simmons-simmons.com)

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(TMT); and life sciences. We also focus on the energy and infrastructure market, in particular through our international projects and construction teams.

Our comments on the Consultation Document are provided below. For clarification as regards our comments, please do not hesitate to contact us through the contact details listed below.

Simmons & Simmons contacts	E-mail address	Telephone number
Monique van Herksen	<a href="mailto:monique.vanherksen@simmons-simmons.com">monique.vanherksen@simmons-simmons.com</a>	+31 20 722 2325
Clive Jie-A-Joen	<a href="mailto:clive.jie-a-joen@simmons-simmons.com">clive.jie-a-joen@simmons-simmons.com</a>	+31 20 722 2338
Fan Bai	<a href="mailto:fan.bai@simmons-simmons.com">fan.bai@simmons-simmons.com</a>	+31 20 722 2376

## General observations

The Consultation Document focusses on developing countries and analyses (factors that correlate with) tax morale, while aiming to increase tax collection to finance the Sustainable Development Goals (SDGs). The Consultation Document emphasizes that efficient domestic revenue mobilization (DRM) is at the heart of financing for development and that tax revenues are the largest single source of financing at every level of development. However, it should be noted that the SDGs are not restricted to developing countries, whereas the Consultation Document appears to limit itself to addressing tax morale and developing countries. The SDGs target the (private sector and) developed countries as much as they do (businesses in) developing countries. In that respect we suggest that the OECD's consultation ought to also consider aspects that can increase tax morale in developed countries, which currently are not addressed in the Consultation Document. Furthermore, to get to increased tax collection, it is not only the (behaviour of) parties that are liable to pay taxes which merit(s) review but also the (behaviour of) authorities collecting the taxes and the actual system of collecting tax. As the Consultation Document rightfully indicates, tax morality is (greatly) impacted by government policies and performance.

The focus on increasing transparency in tax matters in the years since the OECD's 2013 BEPS Action Plan has led to a heightened awareness of underreporting of taxes. The BEPS Action Plan served to tackle base erosion. One of the BEPS action items concerned ensuring transparency while promoting increased certainty and predictability. In this respect, requiring taxpayers to disclose their aggressive tax planning arrangements (Action 12); re-examining transfer pricing documentation (Action 13), making dispute resolution mechanisms more effective (Action 14) and developing a multilateral instrument (Action 15) were presented as means to ensure transparency and promoting certainty. We very much welcome the OECD's focus on tax morale. However, we would suggest that additional aspects that impact tax morale should also be considered, including recognition or reward for individuals or businesses for being or becoming compliant. Tax amnesty programs may serve as one (extreme) example in this respect and cooperative compliance programs may serve as another example.

Below, please find a few observations and comments with respect to the Consultation Document.

1. Tax morale in individuals

- 1.1. Chapter 1 of the Consultation Document focusses on individual attitudes towards tax avoidance and evasion. It recognizes as common thread that government performance and responsiveness to the needs of citizens drive tax morale (p.16). It more specifically recognizes that improved public service delivery appears to be a driver of tax morale (in Africa) (p.18); support for democracy and trust in government are associated with tax morale and taxation (in Latin America) (p.23); and that a meritocracy, i.e. a society where progress is based on ability and talent rather than on class privilege and wealth is associated with tax morality (in Asia) (p.25).
- 1.2. Conclusions resulting from the collected data and information presented include, inter alia, that more work is needed to identify ways to harness the fiscal contract (and trust in government) to build tax morale and that support is needed to develop tax administrations (p. 25-27).
- 1.3. These observations concern the individuals subject to taxation. Not addressed as such are service providers/individuals that assist others with filing and paying the right amount of taxes who may, however, play an important role here as well.

2. Tax morale in businesses

- 2.1. Chapter 2 of the Consultation Document identifies opportunities to increase the tax morale of businesses. It recognizes that there has been significant focus on BEPS issues affecting businesses through (new) international rules recently, yet little discussion of tax morale.
- 2.2. Tax certainty and tax morale are closely intertwined and according to the Consultation Document both relate to the willingness for business to voluntarily take part in the tax system (p.28). We believe that taking (the desire for) tax certainty as a proxy for tax morale is persuasive. At least, in our professional experience, tax uncertainty is considered a major unfavourable factor for doing business in a jurisdiction. Tax certainty encompasses both the quality of tax rules and regulations and the predictability of behaviour of tax authorities in enforcing tax rules and regulations. Many of our clients strive first and foremost for tax certainty when seeking tax and transfer pricing advice and when assessing the tax consequences of doing business in a certain format or through a certain business structure.
- 2.3. Tools for fostering tax certainty that are proposed in the Consultation Document include reducing bureaucracy, improving consultation and transparency (of government) and providing more effective dispute resolution (p.37). We wholeheartedly agree with those findings. Relevantly, mention is also made of the role of voluntary principles in the tax morale of MNEs (p.39) and it is recommended that further research be conducted in this respect (p.40). No mention is made of cooperative compliance programs (although "improving consultation" is mentioned). This may be because such programs tend to be resource-intensive and developing countries might not have such resources readily available. However, being able to discuss with tax authorities in a non-hostile environment what business concerns and KPIs drive the business is generally considered positive and attractive for conducting business in a jurisdiction. It is also likely to help and enhance the company's tax morale.

- 2.4. Not addressed as such is the relevance of enhanced (monitoring of) corporate governance within business organizations. To the extent that corporate governance and the monitoring thereof includes the issue of tax compliance, management boards and supervisory boards are likely to consider tax compliance a relevant aspect and to manage the business accordingly or at least inquire as to what the company's tax exposure and policies are on a regular basis. This may in turn help to create attention for and focus on the tax morale of the company/business as such. The B-Team initiative to some extent can be seen and interpreted as – voluntarily - putting tax compliance on the corporate governance agenda through the Responsible Tax Principles.

### 3. Recommendations

- 3.1. We believe that increased tax morale (and revenue collection) may result from (i) getting taxpayers to report previously unreported income; (ii) creating awareness at C-suite level of a company's tax footprint resulting from changes to its fiscal position; (iii) making it easy for taxpayers to pay the appropriate amount of taxes due with respect to reported income on a timely basis; and (iv) through availability of well-functioning (tax) dispute resolution programs.
- 3.2. As global transparency of income streams increases, so does the desire of taxpayers to "come clean" and report previously unreported or wrongly characterized/allocated income. In this regard, there is a constant struggle for businesses (or individuals) to get a proper assessment of all the potential consequences of disclosing what went wrong before: what penalties (and interest cost) could apply and how many back years are potentially exposed in case of disclosure. That uncertainty often keeps taxpayers from coming forward. Tax amnesty programs have been in existence for many years and generally are in place for a limited-time only to pay a defined amount in exchange for forgiveness of a tax liability or penalties and without concerns about criminal prosecution. Although these programs may be "rewarding" offenders, they do manage to get income streams reported that previously were not and can contribute to enhanced taxpayer compliance going forward. Therefore, they may serve the purpose of getting taxpayers to adhere to the desired tax morale and tax compliance after taxpayers have confessed and repaired previous reporting errors albeit with no or reduced penalties. It is acknowledged that tax amnesty programs ought to be used with caution and don't serve to close budget loopholes. It is also acknowledged that they may encourage residents to evade taxes and wait for the next amnesty without being subject to penalties. But if well designed, not made into a regular feature, and set up such that they do not benefit persons who have benefitted from tax amnesties previously, the possible role of such programs deserves consideration we believe, however controversial it may sound.
- 3.3. The role of individual tax practitioners and corporate governance might assist with enhancing tax morale as well. If and to the extent that tax practitioners would explicitly consider clarifying what the business reasons are for an envisaged tax structure or tax advice for the client and its stakeholders, that could assist in creating awareness and information for the client to properly assess what the consequences will be of implementing the tax advice received. In this respect, it could be considered that in an addendum to any formal advice, the explicit business reasons and resulting tax impact would be considered for a



series of (future) years. In addition, it could be considered whether a change in the form in which business is conducted has impact on (the number of) employees employed or external resources needed. While managing the cost of doing business is entirely appropriate, creating awareness of the fiscal contribution a business makes to the place where it conducts its business, the business reasons therefor and the impact of changes to the tax structure may assist in creating a better perception for all stakeholders of the company's tax profile. Tax directors could use this information to inform management of the overall impact of tax strategies that are being considered or implemented, creating better visibility for management and a tool for board room discussions.<sup>29</sup>

- 3.4. Tax simplification tends to be an often-overlooked contributor to improved tax morale. The easier it is to be current and compliant from a tax perspective, the more likely it is that companies and individuals will be compliant. Thus, assessing what simplification measures are available in countries, both from a tax rule and regulation perspective as from a tax payment and collection process perspective, the more likely it is that taxes will be paid on a timely basis and tax revenue will increase.
- 3.5. Finally, in our experience, a well-functioning dispute resolution mechanism, either at administrative level (objection/administrative appeal or mediation procedures or more sophisticated processes such as advance pricing agreements), judiciary level (competent tax courts) or at Ministry of Finance level (tax treaty; competent authority procedures or perhaps even access to bilateral investment treaties) is a major driver of confidence in tax authorities and supporting tax morale. Tax authorities that allow for review of their own determinations in an objective fashion command trust and increased tax morale.

## Conclusion

In the above brief comments, we have attempted to indicate in what (additional) areas improved transparency and tax morale might be triggered.

We appreciate the opportunity to comment on behalf of Simmons & Simmons and remain available to elaborate on any of the above observations and comments.

Yours sincerely,

Simmons & Simmons LLP

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<sup>29</sup> See also: Tax Management Transfer Pricing Report [INSIGHT: The Role of Corporate Taxation Today and the UN's 2030 Sustainable Development Goals. 28 Transfer Pricing Report 18, 1/10/19 by Monique van Herksen](#)

**From: Susan  
Nakabembe Bakaawa  
Advocate**

**To: OECD  
Draft report on tax morale**

**Date: 9th May 2019**

**RE: OPINION ON THE PUBLIC CONSULTATION DOCUMENT: WHAT IS DRIVING  
TAX MORALE**

**Facts:** Quoted verbatim from the OECD website, "As part of the ongoing work on tax morale, the OECD is seeking public comments on its forthcoming publication *What's driving tax morale? An empirical analysis on social preferences and attitudes towards taxation*, expected to be published in 2019, the publication features new research on both individuals and businesses. It identifies a number of socio-economic and institutional factors that influence tax morale in individuals, such as age, gender, education, and level of trust in government".

My opinion is on the presentation of a new business section, using OECD tax certainty data to discuss business tax morale in developing countries. My view is on the situation in Uganda, which is not part of the countries that responded to the tax morale question, but is a beneficiary in the implementation of the recommendations by the OECD on Base erosion and profit shifting.

**Issues**

1. Whether you are willing to cheat on taxes if you have a chance?
2. Whether you are willing to pay more taxes for development or a public service
3. Whether you are willing to increase spending on certain public services
4. Whether the education system caters for the importance of paying taxes
5. Whether the issues addressed in the report on business tax morale are beneficial to Uganda

**Resolution**

**1. Whether you are willing to cheat on taxes if you have a chance.**

Running a business in Africa is not an equal opportunity venture for women and men in Africa. Women are generally less educated and do not have assets or capital to start a business. Men are exposed to business early in their lives and usually have the option to be employed or run a personal business. They therefore have a lot more experience in cheating on taxes than women. In business, tax morale among women is low but the women pay their taxes.

**2. Whether you are willing to pay more taxes for development or a public service.**

Yes, we are willing to pay more taxes for development or a public service. Tax morale is low because the developments do not unfold as they were offered. Development takes much longer than targeted, usually with no explanations or notices, hence the low tax morale.

For public service, regardless of the needs of the community, taxes collected, grants and also loans are spent as the government deems fit. This leads to low tax morale and the desire for women to learn how to cheat on taxes.

In business, small and medium entities usually first look to multinationals to see how they are handling their tax matters. Multinationals almost always engage international tax planners, who assist them to pay the least tax possible which leads to low tax morale among the SMEs.

### **3. Whether you are willing to increase spending on certain public services.**

Yes we are willing to increase spending on certain public services especially on education, health care and an efficient transport system. In Uganda specifically, the majority of our Members of Parliament spend a substantial amount of time increasing their salaries instead of being committed to service. We now have a system where it is implied that a lucrative career of choice is being an MP. This sustains low tax morale.

We would like the government to collect their fair share of taxes from profits from multinationals and provide public services itself. That is in lieu of collecting minimal taxes and multinationals purchase goodwill from their customers using corporate social responsibility projects that the government was supposed to provide its citizens with in the first place

### **4. Whether the education system caters for the importance of paying taxes.**

The educators on primary, secondary, tertiary and university levels do their best to educate students on the theoretical use of taxpayers' money; but this is not guaranteed in practice for one to learn through observation. However genuine the educators are, they also usually have a minimal understanding about the workings of the Revenue authority and the mandate of the Finance ministry, and cannot create a strong foundation for the responsibility of tax payment, collection and use. That is left to those who have chosen to specialize in tax law, economics and policy.

We have a situation where the educated enter the workforce and have to learn about their business tax obligations on the job. It does not make them efficiently accountable to the Revenue authority and their expectations as tax payers are inevitably low as well.

### **5. Whether the issues addressed in the report on business tax morale are beneficial to Uganda**

Pages 9 and 10 of the report address issues affecting tax morale in Uganda. It is a good summary of how tax morale is affected in Africa generally, with variations from country to country. In Uganda there was a mandatory VAT registration exercise by the Uganda Revenue Authority of all businesses that were seen to be falling within the VAT threshold for taxes. A few years later, the same companies were deregistered for filing only nil returns or not filing returns at all. The same issue manifested when businesses that were only registered at the Uganda Company registry were put on the income tax payers' list. Businesses were registered to pay taxes, yet they did not meet the requirements of the revenue authority, this led to low tax morale. The informal and formal sectors comply in paying indirect taxes but those registered to pay formal taxes are a few businesses.

## **Conclusion**

It is a well researched report tackling an important area of tax that is usually considered irrelevant. A lot of resources and planning are required to compile a report like this, in an area that was previously ignored. My recommendation is that each country, as a sovereign State, be reviewed independently because of the different political, economic, social and cultural aspects that are to be considered when reviewing the state of tax morale.

## Response to the OECD Public Consultation Document

John D'Attoma  
Lotta Björklund Larsen  
Lynne Oats

10 May 2019

The OECD's Public Consultation Document *What is Driving Tax Morale* showcases the need for tax administrations in developing countries to examine factors beyond the more cost-benefit/rational choice explanations for tax behaviour. There has been significant academic research over the past forty years across the social sciences dedicated to studying these factors. This response reflects our past and ongoing research on tax compliance from different perspectives. In Part I we offer some observations on the Consultation Document and in Part II we offer some recommendations.

### Part I: Observations

#### **1. Tax morale is not a panacea and only makes up one small component of the entire set of variables that affect an individual's tax compliance decision.**

Tax morale is a highly ambiguous concept and should not be thought of as a panacea for tax administrations. There is a plethora of factors influencing why people choose to pay, or not to pay, their taxes, including the effectiveness of institutions<sup>1</sup> social norms<sup>2</sup> and reciprocity<sup>3</sup>, which need to be addressed before tax administrations can begin to consider tax morale seriously. There is a wide range of academic studies into tax compliance from different disciplinary perspectives and adopting different methodologies. Over reliance on work from a small selection of academic disciplines and a failure to appreciate the limitations of methods used can potentially lead to poor policy choices and inefficient use of resources.

#### **2. Tax administrations in developing countries should proceed with caution when using attitudinal survey data on tax morale.**

Surveys that provide questions which can be used as proxies for tax morale have been employed in the scholarly literature, however these attitudinal surveys, like all surveys, are not without bias. Specifically, the World Values Survey (WVS) relies on *one* survey question as a measure for tax

1. D'Attoma, J. (2018). More bang for your buck: tax compliance in the United States and Italy. *Journal of Public Policy*, 1-24.
2. Onu, D., & Oats, L. (2016). "Paying tax is part of life": Social norms and social influence in tax communications. *Journal of Economic Behavior & Organization*, 124, 29-42.
3. Björklund Larsen, L. (2018). *A Fair Share of Tax: A Fiscal Anthropology of Contemporary Sweden*. London: Palgrave Macmillan. Open Access.

Tax Administration Research Centre (TARC)  
University of Exeter Business School  
Rennes Drive  
Exeter EX4 4PU

morale when tax morale is constituted by a number of different factors. An index made up of several questions that account for the range of characteristics that make up tax morale would eliminate some of the bias in the measurement that arises from using a single question.<sup>4</sup> Moreover, the question used in the WVS in itself is problematic. There are many reasons why citizens might have high tax morale, yet nonetheless think that cheating on taxes is completely justifiable, such as civil war or political violence. Individuals from developing countries are more likely to face these challenges which could be reflected in this particular measure of tax morale.

There is recent data that demonstrate that attitudes about taxes do not converge with tax compliance behaviour in laboratory experiments.<sup>5</sup> There is also considerable uncertainty about how stated intentions to comply or not translate into actual compliance or non-compliance. This is not to say that tax morale is not important, but rather that tax administrations in developing countries need to be careful with how they define tax morale and how much weight they are assigning to tax morale (especially measured in this way) when designing tax policies intended to improve levels of tax compliance.

### **3. Over reliance on tax morale as an indicator of tax behaviour can lead to generalizations and cultural stereotypes**

Cultural arguments are often unfounded and culture itself can be thought of as deriving from a specific institutional environment.<sup>6</sup> These cultural arguments are often used to stereotype that does not reflect the institutional problems such as ineffective governance and corruption, and to project blame on to regions and countries without examining the broader institutional and structural context. Over reliance on tax morale might encourage developing countries to overlook or even ignore their underlying institutional and structural problems while attempting to “fix” their “tax culture” or tax morale.

### **4. Regional generalisations do not advance debates.**

Developing countries vary considerably in terms of categories of taxpayer (eg size) and their heterogeneity as well as the types of taxes and the way in which they are operationalised. We are concerned about the regional categorization of, for example, ‘African’ or ‘Latin American’ tax morale. What purpose does such categorization serve if we believe that tax morale depends on a variety of interlinked factors, including tax systems that vary in legal construction as well as enforcement and facilitation between countries? There is a danger that regional generalisations impede the development of effective localised policies.

<sup>4</sup>Onu, D. (2016). Measuring tax compliance attitudes: What surveys can tell us about tax compliance behaviour. In *Advances in taxation* (pp. 173-190). Emerald Group Publishing Limited.

<sup>5</sup>Guerra, A., & Harrington, B. (2018) . Attitude–behavior consistency in tax compliance: A cross-national comparison. *Journal of Economic Behavior & Organization*, 156, 184-205.

<sup>6</sup>D’Attoma, J. (2019). What explains the North–South divide in Italian tax compliance? An experimental analysis. *Acta Politica*, 54(1), 104-123.

**5. The use of the concept of trust as a determinant of tax compliance also needs to be treated with caution.**

Like 'tax morale', 'trust' is a multifaceted and complex phenomena that is not well understood in the tax compliance context. It should also be noted that there are also flaws in how trust in government is measured in surveys and experiments. Although there is a significant body of academic literature (some of it cited) on how trust in government affects tax compliance, the WVS, etc., do not necessarily provide the best measure of trust. "Trust" is clearly important for tax compliance. But we have concerns about the way it is measured. Measuring trust in government using a single question doesn't capture the multidimensionality of trust in government. Is the survey referring to specific leaders or to institutional aspects of trust? Trust in what – competence, integrity or something else? What part of government or aspect of governing is the WVS, Latin Barometer, or Afrobarometer referring to? Further problems here include the ambiguity of the meaning of "government"<sup>7</sup> and the relationship between trust and legitimacy.

**6. The use of the concept of tax morale, and the use of tax certainty as a proxy for tax morale, in the context of businesses entities is problematic.**

The tax compliance decisions of businesses cannot necessarily be understood in the same way as the tax compliance decisions of individuals. Even if businesses are viewed as being comprised of individual decision makers, there is a spectrum which to some extent will correlate with the size of the business. At one end, businesses can be viewed as being an aggregation of individuals making unfettered decisions about tax compliance. At the other end of the spectrum, businesses can be considered to be collective entities with one single guiding mind. Micro businesses are likely to behave more like individuals, however medium and large businesses operate with more constraints and it is important to learn how they are structured and operate in order to understand how compliance decisions are made<sup>8</sup>. In terms of micro businesses, research has also shown that proprietors are often concerned less with whether to comply or not, but rather how to comply<sup>9</sup>. For all businesses, certainty (and stability) in relation to tax liabilities is important to business because uncertainty is costly to them, but the link between certainty and tax compliance is tenuous at best.

In the business context also, recent research on cooperative compliance initiatives with large businesses in several countries has revealed important differences in local adaptations of the model<sup>10</sup>.

<sup>7</sup> For a much more detailed analysis of some of the problems of measuring trust in government see: Feldman, S. (1983). The measurement and meaning of trust in government. *Political Methodology*, 341-354.

<sup>8</sup> Mulligan, E. and Oats, L. (2015) Tax Professionals at work in Silicon Valley, *Accounting Organizations and Society*, 52, 63-76

<sup>9</sup> Onu, D. & Oats, L. (2016) "Tax Talk: An Exploration of Online Discussions among Taxpayers", *Journal of Business Ethics*; Onu, D. & Oats, L. (2016) "Paying tax is part of life: Social norms and social influence in tax compliance", *Journal of Economic Behavior and Organization*.

<sup>10</sup> Björklund Larsen, L. and Oats, L. (2019) Large Businesses: Co-operative Compliance in action, FairTax Policy Brief No 3, available at <http://umu.diva-portal.org/smash/record.jsf?language=en&pid=diva2%3A1293994&dsid=3494>

## Part II: Recommendations

1. While recognising the discussion document's acknowledgement that tax morale is multi-faceted, we recommend the development of new terminology, given the ambiguity of 'tax morale' and the dangers of uncritical acceptance that it is capable of providing 'solutions' to the problems of non-compliance in developing countries. A more holistic approach is required.
2. Increased attention should be given to a wider range of academic studies in relation to tax compliance, beyond that emanating from economics and psychology and by reference to universally applicable principles. We recommend that future work unpacks the different elements, making use of contemporary tax compliance research from various disciplines, including political science, anthropology and sociology. A multi-disciplinary and multi method (including qualitative methods) approach will lead to more robust policy prescriptions.
3. While appreciating the value of learning from the experiences in other countries, and we encourage more of this type of work, we urge tax administrations individually to engage with academic researchers in their attempt to design country specific policies to improve tax compliance. Tax administrations should make data available so as to facilitate academic studies into actual compliance behaviour as distinct from attitudes towards compliance.

The Tax Administration Research Centre was founded in 2013 to deliver interdisciplinary research in tax administration and policy that addresses the major challenges confronting policy makers and tax authorities. The Centre is funded in part by the Economic and Social Research Council under grant number ES/S00713X/1. More information about the Centre's work can be found on our website <http://tarc.exeter.ac.uk>.



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## TAX MORALE DEVELOPMENT IN THE REPUBLIC OF SERBIA

by Slobodan Trivić<sup>30</sup>

### *Summary*

Serbia is a developing country involved in the institutional transition process for the last 18 years. One of the transitional processes Serbia is currently undergoing is the reform of its tax system. These reform efforts are oriented by commitments in the EU accession process and international initiatives in which Serbia has taken part. The Serbian Ministry of Finance (**MoF**) and the Tax Administration (**STA**) have been making progress in streamlining tax administrative procedures in the past years. However, the Serbian tax environment still faces substantive challenges in resolving systemic deficiencies caused by non-transparent legislative processes, lengthy and complicated administrative procedures and legal uncertainty.

USAID Cooperation for Growth Project (**USAID CFG**) has identified niches of support aimed to improve the taxpaying environment for the Serbian private sector. The support to the Serbian Government in reducing tax compliance burdens for SMEs is among fundamental USAID CFG goals. In this respect, USAID CFG recognized tax morale as one of the key components of tax compliance. From January 2019, USAID CFG initiated landmark research in Serbia with the aim to identify key determinants of SME tax morale and the influence tax morale has on SMEs' tax compliance. A team of experts<sup>31</sup> is conducting research on the entire territory of Serbia. Research results are expected by the end of 2019.

### *Serbian Tax Reform Development*

The STA has been in the process of transformation from 2015. The Serbian Government adopted an underlying strategic document, the Program of Transformation of the Tax Administration 2015-2020 (**Program**). The Program is dedicated to the improvement of STA's operational efficiency, infrastructure, collection of taxes, and provision of tax services to taxpayers. Its implementation slowed down in 2017, and in 2018 the Serbian Government adopted a revised Transformation Action Plan 2018-2023 for implementation of the Program. So far, the STA made results in consolidating its functions by removing non-core activities from its portfolio and reducing the number of local branches. However, the STA lacks administrative capacities and needs to make further efforts to

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<sup>30</sup> Reform Specialist at the USAID Cooperation for Growth Project implemented by Cardno Emerging Markets USA, Ltd.

<sup>31</sup> Branko Radulovic ([branko.radulovic@bcrr.org.rs](mailto:branko.radulovic@bcrr.org.rs)) and Miljan Savic ([miljan.savic@bcrr.org.rs](mailto:miljan.savic@bcrr.org.rs)) from the Balkan Center for Regulatory Reform (BCRR), a policy-oriented NGO established in 2004 by a group of lawyers, economists, political and social scientists and academics from Serbia and other Balkan countries.



improve the predictability of tax decisions and services to taxpayers. The MoF faces similar issues, with lengthy appeal procedures against STA's decisions.<sup>32</sup>

Serbian tax policy is heavily focused on fighting the grey economy, due to its relatively high share in the national GDP.<sup>33</sup> Tax audit & fraud prevention remain its focus. Some improvements in communication between the STA and the taxpayers are noticeable. Positive developments consist of the electronic filing of tax returns for most of the tax revenues and the establishment of local tax service offices for small taxpayers (individuals and SMEs).

In 2018, the Serbian National Assembly adopted amendments to the Tax Procedure and Tax Administration Act under which provision of tax services to taxpayers was introduced for the first time as a core activity. A special department within the STA is dedicated to the provision of tax services and the education of taxpayers. However, the development of tax services is in its initial stage.

The behavioral-insight approach in designing tax policies is still undeveloped in Serbia. Tax morale remains a research topic only in academic circles, whereas some state institutions recognize its importance in the Serbian tax policy. The Serbian Fiscal Council<sup>34</sup> is one of such institutions. In one of its analyses of the Serbian fiscal policy, the Council touched upon the link between the quality of the Serbian tax system and tax morale. The Council recognized the importance of the quality of the tax system and consistency and transparency of tax practices for tax morale among taxpayers. In one of its analyses, the Council stated that “[t]he long-term failure to address systemic deficiencies and inequities within the main tax laws undermines the credibility of the system and negatively affects the tax morale in the society. [...] It is necessary to discontinue the long-standing practice of isolated ad hoc amendments to tax laws and systematically approach the shortcomings of tax regulations. Although previously mentioned tax inconsistencies and injustices have been known for many years, they have not been systematically resolved. Instead of systemic reform, at the end of each year, the Ministry of Finance proposes numerous amendments to the tax laws, as a rule without prior debate or review by tax experts, which are then adopted in an accelerated procedure together with the Budget Law for the next year. In this way, often hasty and insufficiently thought-out solutions are adopted that are unable to respond to the increasing challenges of tax inconsistencies and injustices”.<sup>35</sup>

As mentioned in the Public Consultation Document, data on tax morale amongst businesses is scarce and is generally hard to obtain. This is particularly the case with entrepreneurs and SMEs, which have fewer capacities for understanding all their compliance requirements. Also, many questions pertaining to compliance may represent business sensitive information which is hard to reach if not directly obtained directly from the businesses. Therefore, proxies for tax morale are used in order to

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<sup>32</sup> See more: *Serbia 2018 Report Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions*, Strasbourg, 17 April 2018, pg. 69.

<sup>33</sup> According to a 2017 country-level research, grey economy from registered businesses amounts to 15.4% of GDP in Serbia, whereas the percentage of informal (unregistered) businesses amounts to 17.2%. These findings have been recognized in the Government's National Program for Combating the Grey Economy for the period 2019-2020 ("Official Gazette of the Republic of Serbia" no. 27/2019). The National Program document is available (in Serbian) at: [http://www.eupropisi.com/dokumenti/sivaekonomijaRS27\\_19.pdf](http://www.eupropisi.com/dokumenti/sivaekonomijaRS27_19.pdf).

<sup>34</sup> The Fiscal Council is an independent state body, accountable to the National Assembly. It assesses the credibility of the fiscal policy in terms of compliance with established fiscal rules and provides the publicity and responsibility in fiscal policy implementation.

<sup>35</sup> *Assessment of the Budget Proposal for 2019*, Fiscal Council, 28 November 2018, pgs. 48-50.

fill in the research gap. Such proxies may be the views of businesses on tax certainty (in case of MNEs), a fraction of sales concealed from tax authorities (for small businesses), etc. In any case, the lack of data remains the main challenge into deepening the analysis for business tax morale.<sup>36</sup>

For this reason, USAID CFG's team had to take a different approach.

### ***USAID CFG Research of Tax Morale in Serbia***

In January 2019, USAID CFG commenced research of underlying causes and factors that contribute to compliance and non-compliance of SMEs. The research uses tax intermediaries as proxies, i.e. the research is carried out on accountants. The research consists of determining characteristics of accountants, measuring their attitudes and behaviors towards tax compliance, and analyzing whether the tax morale of accountants has an influence on the voluntary tax compliance of their SME clients.

Accountants are tax intermediaries between tax administrations and taxpayers. As such, they have been subject to researches regarding their role in the decision-making of businesses, including their role in tax compliance of businesses to which they provide professional services.<sup>37</sup> Recent researches in G20 countries conclude that professional tax accountants enjoy the highest level of trust among tax intermediaries, with the majority public belief that the role of professional accountants contributes to better tax systems by making them more efficient, more effective, and fairer.<sup>38</sup> Developing countries lack such researches and there are rare analyses of accountants as tax intermediaries, especially in the area of tax compliance and tax morale. To the best of our knowledge, there are rare researches of how accountants' tax morale influences the tax compliance of their SME clients, whereas we have not encountered any country-level research on this topic.<sup>39</sup>

USAID CFG's ongoing initiative is organized as country-level research. The target population consists of accountants that are registered and conduct professional practice by providing accounting services in the territory of the Republic of Serbia.

Expert team has developed a comprehensive questionnaire which will gather information on accountants': (1) socio-demographic characteristics; (2) services and socio-demographic characteristics of their clients; (3) attitudes and behavior towards tax compliance and professional accounting standards; (4) communication with clients and with the tax authorities; (5) perception of client behavior; and (6) experience with tax audits and results of such audits. The questionnaire is under distribution and preliminary findings are expected in mid-2019.

The scope of the research covers the analysis of several key issues: (1) What are the accountants' attitudes concerning desirable or undesirable professional behavior that can lead to a decline in tax compliant behavior?; (2) How do accountants perceive their clients' behavior (both desirable or undesirable), and how they perceive the attitudes their clients hold towards tax obligations and tax

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<sup>36</sup> *Public Consultation Document – What is driving tax morale?*, OECD (2019), pgs. 28-32.

<sup>37</sup> See: *Study into the Role of Tax Intermediaries*, OECD (2008).

<sup>38</sup> *G20 public trust in tax - Surveying public trust in G20 tax systems*, ACCA, IFAC, and CA ANZ (2019), pgs. 4 and 11.

<sup>39</sup> See: Alasfour, Fadi & Samy, Martin & Bampton, Roberta. (2016). *The Determinants of Tax Morale and Tax Compliance: Evidence from Jordan*. Atabay, Ismail & Koc, Fatih & Alniacik, Umit. (2016). *How professional accountant's tax morale affects taxpayer's tax morale? A study in Balikesir*.

authorities?; and (3) To what extent do accountants and their clients in Serbia engage in these types of behavior and which factors contribute to it?

The prerequisite for the research was obtaining a comprehensive and detailed sampling frame database of accountants (basic status data: location, contact information, and legal status information as crucial pieces of information). Developing a comprehensive database of accountants enabled the team to choose one-stage stratified sample, being representative at 95% confidence level.

The development of the questionnaire was the milestone stage of the research. The major challenge in the process is the response rate which is greatly affected by the design of survey questions. The length and complexity of the questionnaire may cause respondent fatigue and lead to lower response rates. For this reason, the team opted for an online questionnaire as the primary method of conducting the survey. This method ensures simplicity and efficiency, especially when compared to presenting questions by telephone that may create additional respondent fatigue.

Gathered data will be ex-post analyzed to confirm the credibility of the answers. For instance, to identify if there is a tendency of using straight line answers to shorten the time required to fill out the questionnaire, rendering it unrepresentative of the true views and behaviors of the respondent. The team also conducted pilot questionnaires to determine the average time required to fill out the questionnaire. Respondents who do not fulfill these criteria will be excluded from the analysis.

Another challenge was to obtain honest and quality inputs from the respondents. For this reason, the questionnaire is anonymous. The anonymity of the IP address was guaranteed, and respondents were informed by means of a "welcome message" that the act of filling in the questionnaire is to be considered as giving informed consent to participate in the survey.

Following the process of obtaining responses, the team will verify its findings through focus groups, in-depth interviews and other available sources of comparable data. Data and verified findings will be subject to economic and regulatory analyses. The analysis is expected to provide several outputs: (1) key factors that drive compliant or non-compliant behavior; (2) key practices of accounting firms that need to be modified and good practices that need to be stimulated; (3) key practices of accounting firms that boosts tax morale of SMEs and helps tax compliance; and (4) indicators that tax authorities can look for in accounting firms for better targeting in tax inspections.

### ***Research Goals & Challenges***

The research aims to identify factors that contribute to the erosion of SME tax compliance due to their accountants and factors that contribute to more compliant behavior and attitudes of SMEs and their accountants. One of the expected research outcomes is an analysis of whether MSMEs' tax compliance may be improved through nudging methods applied via their accountants and recommendations on how these methods may be designed.

The research has several general objectives: (1) determining the attitudes and behavior of accountants concerning desirable or unwanted professional behavior; (2) determining whether the legal form, region, professional experience, size (number of employees), socio-demographic and other factors influence the emergence of differing attitudes and behaviors in accountants and their relations with clients, also whether these factors act as barriers or mitigating circumstances; (3) determining how accountants inform clients of their tax obligations, changes in relevant regulations, deadlines for fulfilling obligations and other important data needed for compliance with regulations; (4) determining the extent of client behavior that caused sentencings to criminal sanctions or the

application of administrative measures; (5) through attitudes of accountants, indirectly determining the level of information, attitudes and behavior of their clients concerning desired or unwanted professional behavior.

The results may be used to create effective solutions for a business environment for changes in communication between accountants, tax inspections and SMEs. Tax authorities would have at their disposal new and simple parameters to identify and nudge the behavior of accountants and indirectly SMEs towards higher tax compliance. Not only that, the research could provide a better understanding of compliant behavior and characteristics of SMEs and their accountants. It would pinpoint the optimal behavior of accountants and SMEs within the meaning of tax compliance. In that way, Serbia's tax environment can be recalibrated to be more enabling by nudging those that are less compliant to emulate those that are more compliant. Furthermore, SMEs can have access to more opportunities having in mind the reduced risk to investors and could lead to a more stable and compliant private sector. By identifying opportunities for the tax authorities to use the most effective ways to influence the change in the attitude of SMEs, the greatest potential impact on all the SMEs in Serbia can be made with fewer resources and facilitate the advancement of a more efficient regulatory framework in the area of taxes.

### ***Further Steps***

USAID CFG intends to further promote the research and contribute to the discussion on how to better understand business tax morale and address the challenges in improving business tax compliance in developing countries such as Serbia. In the following months, USAID CFG will actively pursue cooperation with the MoF, the STA, professional accounting organizations, and other stakeholders involved in tax compliance in Serbia for developing a strategic approach towards increased tax compliance of SMEs on the basis of research findings, recommendations, and tools our research would provide. USAID CFG is also sharing its experiences with other regional and international institutions and professionals in order to determine best practices in implementing solutions it expects from the research.

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