SPOTLIGHT 4.4

The role of trust and norms in tax compliance in Africa

Odd-Helge Fjeldstad and Ingrid Hoem Sjursen, *Chr. Michelsen Institute, Norway*

Chapter 4, Spotlight 4.4 (pp. 135-141) in *Human Development Report 2023-2024*. New York: UNDP.

The tax system is a key formal institution with a unique role in the social contract between people and governments, as an essential source of revenue for governments to fund public services and programmes that benefit the community. It also provides an important entry point to explore how people engage with institutions across different contexts and the role of culture, beliefs, norms and perceptions in determining issues such as compliance with policies. This spotlight synthesizes findings from recent research on determinants of tax compliance and evasion, with a focus on developing countries.

Mobilizing domestic revenue is crucial for developing countries to achieve the Sustainable Development Goals. However, tax evasion is a major challenge in many countries. Research and policymakers have generally focused on law-based compliance and the role of formal rules and institutions such as audits and penalties to reduce tax evasion—often referred to as enforced compliance.[1] More recently, voluntary compliance[2]—informal norms and beliefs motivating taxpayers' compliance, particularly trust and norms—have received more attention.[3] Voluntary compliance is likely to be particularly important in countries where enforcement capacity is weak.[4] This spotlight starts with a short theoretical background on how a deeper understanding of trust and norms can enhance our understanding of voluntary compliance. It then examines how these factors vary across different contexts, taxpayers and tax bases and how these variations affect voluntary compliance. The last section discusses policy implications.

Deeper knowledge of trust and norms can enhance our understanding of tax compliance

Trust (a person's belief that another person or institution will act consistently with their expectations of positive behaviour)[5] fosters social and economic progress.[6] Theoretical work emphasizes the importance of trust in the government and in the tax administration, as well as for voluntary tax compliance. Kirchler, Hoelzl and Wahl (2008) develop a theoretical framework in which trust in tax authorities and the power of authorities are the main determinants of tax compliance, where trust fosters voluntary compliance and power leads to enforced compliance. When taxpayers trust the tax administration and perceive it as benevolent and working beneficially for the common good, taxpayers may feel obliged to adhere to decisions, policies and rules, even in the absence of powerful administration and enforcement.[7] Prichard and others (2019) develop a conceptual framework for tax reform and compliance that highlights four key drivers of trust: fairness (the tax system is fairly designed and administered), equity (burdens are equitably distributed and everyone pays their share), reciprocity (tax revenue is used for public goods and services) and accountability (governments are accountable to taxpayers). While fairness and equity are features of the tax system, reciprocity and accountability relate to broader governance issues. The equity dimension entails that in addition to trust in the tax authority, trust in fellow citizens may be an important determinant of tax compliance.

Both personal and social norms have been argued to be important determinants of tax compliance (table S4.4.1).[8] Social norms may be important to tax compliance because people care about how they are perceived by others and the social sanctions and rewards associated with these perceptions[9] or because they want to behave as others do. Importantly, personal and social norms can be misaligned, and people may not always act according to their own personal norms.[10] Several studies have identified the phenomenon of pluralistic ignorance, a situation in which most group members personally reject a norm but believe that most others accept it.[11] When pluralistic ignorance exists, providing information about the views of others has been shown

Table S4.4.1 Types of norms and examples

Personal norm or attitude (Moral norm)	Social norm ("a rule of behavior such that individuals prefer to conform to it on the condition that they believe that (a) most people in their reference network conform to it (empirical expectation), and (b) they ought to conform to it (normative expectation)"; Bicchieri 2016, p. 35)	
	Descriptive norm (Empirical expectation)	**Injunctive norm** (Normative expectation)
What I believe is the right thing to do	What I believe others do	What I believe most people think I should do

Source: Bicchieri 2016; Cialdini, Kallgren and Reno 1991.

to change both tax behaviour[12] and behaviour in other areas.[13] Thus, to understand taxpayer behaviour, it is important to identify and analyse the personal and social norms associated with tax compliance and to investigate the various factors that influence personal and social norms. Differentiating between personal and social norms is a prerequisite for designing efficient policies to enhance desirable outcomes.[14] Empirically, a large literature of field and lab experiments shows that personal and social norms influence each other and that both motivate behaviour but that social norms affect behaviour more than personal norms do.[15]

Trust and norms can vary across different contexts and affect tax compliance

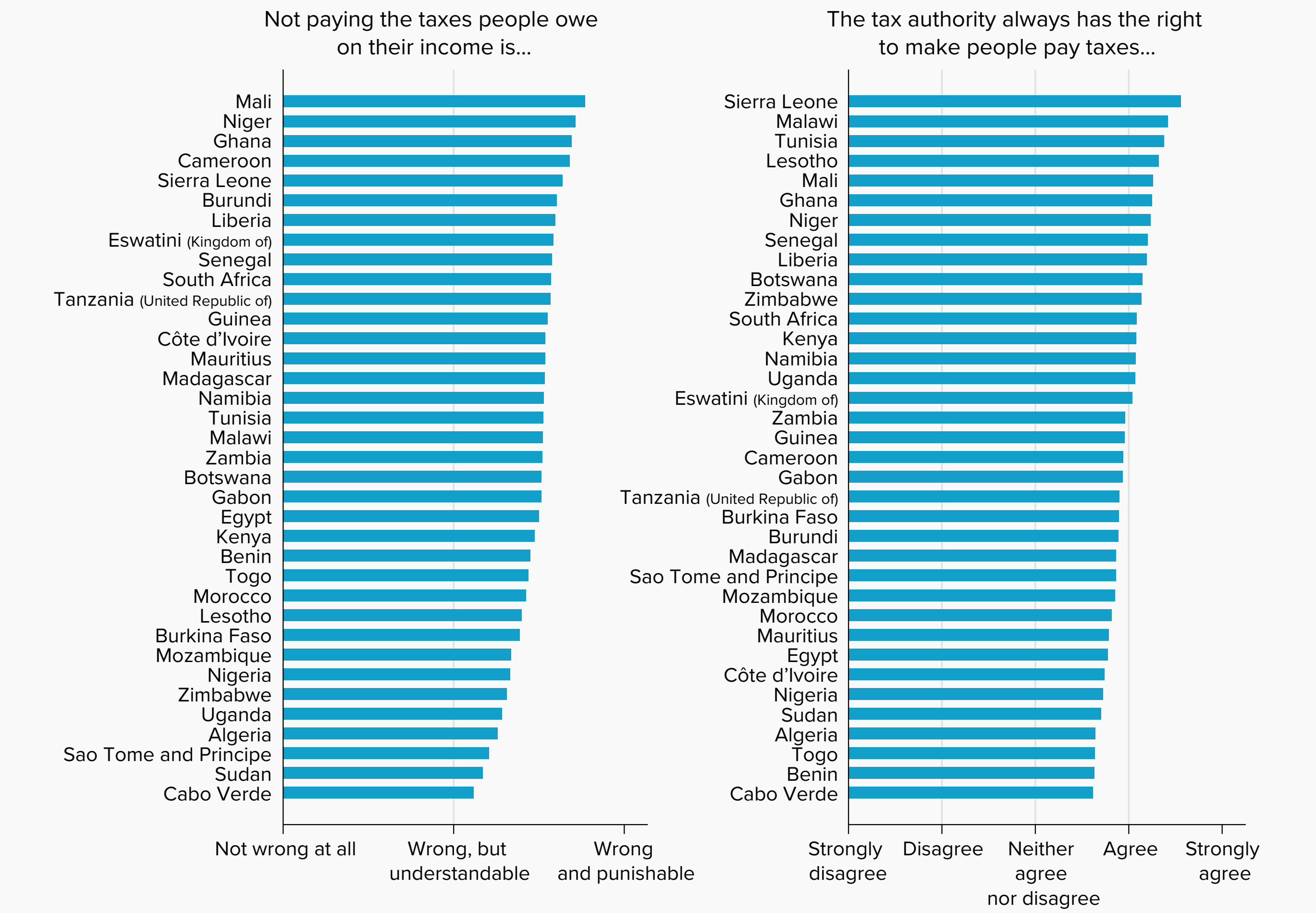
Tax compliance is challenging to measure because individuals are typically trying to hide noncompliant behaviour and attitudes.[16] Empirical investigations of determinants of voluntary compliance have commonly used survey questions from large databases, such as Afrobarometer and the World Values Survey, asking respondents about their views of whether not paying tax is wrong and punishable/justifiable or whether the tax authority has the right to make people pay taxes (figure S4.4.1).[17] In all countries the average respondent thinks that not paying taxes on income is at least "wrong, but understandable" and is closer to agreeing than disagreeing with the statement that the tax authority always has the right to make people pay taxes—but there is substantial variation across countries.

Studies based on such survey measures show that within countries voluntary compliance is positively correlated with a stronger feeling of national identity,[18] trust in the tax authority[19] and perceived fairness in how the government treats the respondent's own ethnic group,[20] which according to the framework of Prichard and others (2019) is an important driver of trust. Furthermore, there is a positive correlation between voluntary compliance and the perceived social norm for tax compliance, as well as satisfaction with provision of public services.[21] However, there are also substantial differences in correlates of voluntary compliance among Kenya, United Republic of Tanzania, Uganda and South Africa.[22] While these studies provide interesting insights into correlates of voluntary compliance, they do not offer causal evidence or explanations for the mechanisms through which the determinants affect voluntary compliance.

The weight of history in shaping trust and norms today

To better understand the causal mechanisms behind variations in voluntary compliance, one strand of the literature studies the effect of historical roots and cultural heritage on voluntary tax compliance.[23] Cultural heritage is passed on from one generation to the next and coupled with the country or ethnic group of origin. And it is well documented that it can affect people's trust in others—for instance, trust in people from the same ethnic group or (dis)trust in people from other ethnic groups, as well as trust in public institutions.[24] For instance, evidence suggests that trust is an important causal mechanism in the negative relationship between economic development today in parts of Africa and the slave trade: individuals who belong to ethnic groups that were more exposed to slave trade are less trusting in their relatives, neighbours, others of the same ethnicity and local government.[25] Moreover, the individual variation in trust in public institutions and neighbourhood caused by differential exposure to the slave trade also explains variations in voluntary tax compliance in several

Figure S4.4.1 Most people in African countries think that not paying taxes on income is at least "wrong, but understandable" and are closer to agreeing than to disagreeing that the tax authority always has the right to make people pay taxes



Note: The survey question for the left figure was "Please tell me whether the following is not wrong at all; wrong, but understandable; or wrong and punishable: Not paying the taxes they owe on their income," and the survey question for the right figure was "Please tell me whether you disagree or agree: The tax department always has the right to make people pay taxes."
Source: Based on the results of Afrobarometer Round 6, 2014/2015 (https://www.afrobarometer.org/, accessed 25 January 2024).

countries: more trusting individuals have a higher voluntary compliance.[26]

A study in Uganda finds that history also plays a role in that people in historically centralized parts of Uganda have mistrust towards the central government and public institutions but may be willing to follow rules and pay taxes when they live in a setting with higher interpersonal trust.[27] Trust affects voluntary tax compliance, and trust is affected by group heterogeneity shaped by history. Thus, historical events and organization of societies continue to shape present voluntary tax compliance through trust and social norms. This finding relates to results in the broader literature in institutional economics that history can matter for present-day outcomes through the evolution and persistence of early institutions.[28]

How trust and norms inform challenges with tax compliance

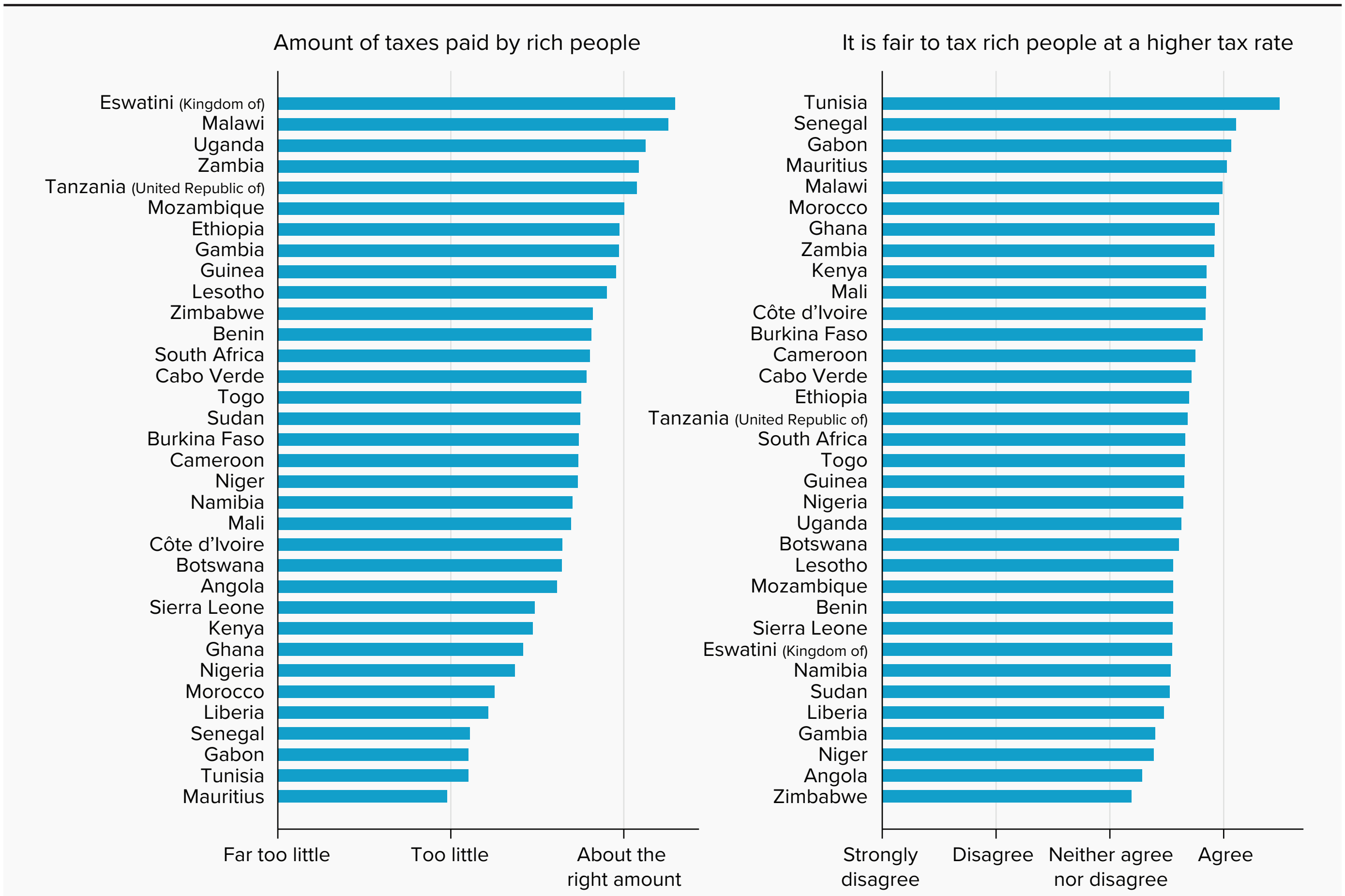
Opportunities for tax evasion by self-employed individuals

Self-employed professionals have more opportunities than salaried workers to minimize their reported incomes—because more of their income is self-reported as opposed to reported by a third party[29]—and are more likely to take advantage of these opportunities.[30] Opportunities for tax evasion may affect people's voluntary tax compliance. Research shows that self-employed individuals have less favourable views on taxes and the tax authorities than other taxpayers.[31] Tax evasion is also found to be high among many self-employed individuals.[32]

Taxing the rich: Noble objectives, unrealistic expectations?

Some studies argue that "the weakness of taxes on the wealthy not only affects revenue but also risks undermining broader trust in the tax system and weakening the social contract."[33] Thus, it is argued, "taxing the wealthy more effectively is critical not only to increasing revenue, but also to building trust in the tax system, thereby unlocking more sustained political support for taxation and the achievement of longer-term gains." However, redistribution through taxation is not a salient election issue in most African countries,[34] nor is it a strong priority of their citizens.[35] In most countries the average response to the Afrobarometer survey question on the amount of taxes that rich people are required to pay is closer to "about the right amount" than to "too little," and while the average respondent in all countries is closer to agreeing than disagreeing with the statement that rich people should be taxed at a higher rate to help poor people, the support for the statement is relatively weak in many countries (figure S4.4.2).

Figure S4.4.2 Redistribution through taxation is not a salient election issue in most African countries, nor is it a strong priority of their citizens



Note: The survey question for the figure on the left was "Do you think that the amount of taxes that rich people in [COUNTRY] are required to pay is too little, too much, or about the right amount?" and the survey question for the figure on the right was "Do you agree or disagree with the following statement: It is fair to tax rich people at a higher rate than ordinary people in order to help pay for government programmes to benefit the poor."
Source: Based on the results of Afrobarometer Round 8, 2019/2021 (https://www.afrobarometer.org/, accessed 25 January 2024).

Redistributive coalition building in ethnically diverse societies may be especially difficult,[36] so that any push for a wider redistributive agenda to benefit the poor tends to be weak.[37] While we sympathize with the argument that "the time has come to tax the rich," the focus of many African governments is to increase revenue by broadening the tax base to incorporate larger segments of individuals and firms in the tax net. The wealthy elites will probably be affected little by these reforms. This is reflected in what Mick Moore refers to as tax administrations' obsession to register new tax taxpayers, the majority of which are small-scale businesses and poor individuals.[38] This approach is associated with the idea that the major source of uncollected revenue in Sub-Saharan Africa is the informal sector.[39] A policy of taxing the very rich is not easy to implement.[40]

Corporate taxpayers: Trust and a predictable tax system

Medium and large firms account for most of the tax revenue in many low- and lower-middle-income countries. Their voluntary compliance is likely to be influenced by different factors than individuals and small firms and needs to be conceptualized differently.[41] Voluntary compliance by firms is likely to be driven by self-interest to a larger extent than voluntary compliance by individuals.[42] Predictability is a critical concern of corporate taxpayers and enhances trust in a way that can allow firms to properly budget and make realistic plans for the future.[43] It also ensures that firms will be treated like their competitors. Questions about fairness and equity are often important for corporations because they affect market competition, profitability and the predictability of their operations.[44] For instance, are other firms in the same sector bearing equivalent tax burdens? Firms also are more likely to be compliant when they believe the government is funding services and activities that benefit them and when they have a voice in shaping those decisions.[45] Thus, improving the predictability and fairness of tax enforcement can foster voluntary compliance and support for reform for corporations.[46]

Taxing the informal sector

A large share of economic activity in poor countries takes place in the informal sector, which is hard to tax.[47] Until recently, tax administrations tended to give it little priority because returns to effort may be low in cash terms, and collection is likely to be difficult. From the economic and administrative perspectives, it makes sense not to tax multitudes of poor people. The value-added tax system generally exempts basic goods that are consumed heavily by poor people, and the income tax code generally excludes individuals and entities with incomes below a certain threshold. However, in recent years several national revenue agencies have introduced special presumptive taxes directed at the informal economy that are based on workers' presumed rather than actual income, given the type of work they perform.[48]

A wider tax net is not always a good thing, but the possibility that tax reforms are driven by a calculus that emphasizes the advantages of excluding marginal payers must be a cause of concern.[49] This would be less of a problem if the actual tax burdens in poor countries were fairly and effectively distributed, but they are not. In particular, they often fall heavily on a small number of registered, formal companies.

Evidence suggests that the relationship between firm size and evasion is negative or U-shaped, implying that small firms are more likely to evade taxation.[50] This evasion may lead to unfair competition, which can undermine trust and negatively affect the voluntary tax compliance of medium firms.[51] Thus, one argument for improving taxation of small and medium enterprises is that it is important for ensuring equity and improving voluntary compliance. It thus makes sense to question the arguments for excluding smaller taxpayers from the tax net on pure efficiency grounds and to explore the potential political and revenue advantages of widening that net, while also carefully considering the administrative implications of doing so.

Policy levers to address tax evasion: Beyond formal laws and regulations

Findings from the research reviewed above show that history, ethnic diversity and how tax revenue is spent may substantially affect people's voluntary tax compliance and trust in government and other citizens. Voluntary tax compliance is also likely to differ between segments of taxpayers (for example, between individuals and businesses), between different taxes (for example, between direct and indirect taxes) and in how taxes are enforced. A general conclusion from this literature is that policies aiming to improve attitudes towards taxes in Africa should pay attention to strengthening the general environment of trust.[52] This is linked to a political economy approach that takes the historical, cultural and political contexts seriously, combined with conventional economic thinking.[53] Thus, it is important to move away from a purely technocratic approach when addressing tax evasion. Advice on tax policy, including methods of auditing and better tax design are valuable but must be located in a wider and case-by-case context, especially given the characteristics of many African countries.

A first step to addressing deep-rooted tax evasion norms is understanding how things actually function in the specific context, independently of how we would expect the tax system to perform according to good governance. This calls for more robust analysis of country and local contexts and institutions, particularly trust in tax authorities and social norms for tax compliance. Improving voluntary tax compliance furthermore requires thoroughly analysing different segments of taxpayers and revenue administrations, as well as their environment, to understand key players' norms and incentives.

This analysis leads to a two-pronged approach to reform. The first prong relates to developing policy instruments that are directed at both the incentives and opportunities for evasion. Unless taxpayers recognize that the penalties for being caught are much more severe than the potential gains, they will continue to take risk evading taxes. This, of course, requires enforcing the rules, which depends on the willingness at the top to reduce tax evasion. The second prong must go beyond legal and regulatory reform to address the root causes of tax evasion. Many efforts to adopt stricter rules for tax administration have failed because informal practices have continued. Changing social norms and mindsets is much more difficult than bringing in new regulations in part because social norms are deep rooted. Successful reforms are not achieved overnight. Reformers must keep this in mind and not be discouraged when they face challenges in implementing their reforms.

Social norms can be persistent across generations, economic development and political regimes.[54] But when they change, it can happen quickly—for instance, when new public information becomes available.[55] Behavioural tipping points—that is, when enough people have strong attitudes against an existing social norm (or towards a new one)—are decisive for norm change. In situations where the social norms for tax compliance are misperceived (underestimated), providing factual information about others' views may enhance compliance.[56]

Education can play a role when designed to help taxpayers understand the importance of paying taxes and how to do so. A wide range of taxpayer outreach and education activities exist across countries.[57] For instance, the Tanzania Revenue Authority is working with secondary schools to mainstream tax education into the curriculum. Government taxpayer education and outreach programmes generally often appeal to state-building narratives. Such programmes are valuable, but they must move beyond the frequent emphasis on why people should pay taxes towards emphasizing who pays taxes, how to pay them and what taxpayers receive in return.[58]

An essential component of building trust is the government's ability to demonstrate that tax revenue results in public services and broader benefits for taxpayers.[59] When governments can demonstrate those connections, it is possible to build meaningful popular support for more effective taxation and compliance.[60] This, combined with more transparent and predictable tax systems, is likely to result in more positive attitudes towards taxation in Africa and popular support for more effective taxation.

Just as improved service delivery is likely to be critical to encouraging voluntary compliance, so too is there an opportunity for more sustained investment in building trust with taxpayers.[61] A starting point for such trust building lies in improving the basic fairness of tax systems. Although discussions of building voluntary tax compliance often centre on improving the provision of public services, improvements in fairness may be important.[62] Such improvements are also much more directly under the control of tax administrations, which may be pursuing reform and seeking to build voluntary or quasi-voluntary compliance. Perceived corruption in tax authorities remains a major barrier to improving trust and voluntary compliance.[63]

NOTES

1. Early research includes Allingham and Sandmo (1972); for a recent review, see Slemrod (2019).
2. A related term for voluntary compliance is "tax morale." We prefer "voluntary compliance" because it better captures aspects of taxpayer motivation that we consider important.
3. Besley 2020; Besley, Jensen and Persson 2023; Luttmer and Singhal 2014; Prichard and others 2019.
4. Kirchler, Hoelzl and Wahl 2008.
5. OECD 2017.
6. Algan and Cahuc 2014.
7. Kirchler, Hoelzl and Wahl 2008.
8. Kirchler, Hoelzl and Wahl 2008.
9. Besley, Jensen and Persson 2023; Luttmer and Singhal 2014.
10. Köbis, Jackson and Carter 2020; Onu 2016.
11. Miller and McFarland 1987.
12. Wenzel 2005.
13. Bursztyn, González and Yanagizawa-Drott 2020.
14. Bursztyn and Jensen 2017; Hallsworth and others 2017.
15. Bicchieri 2016. In the literature on tax compliance, see, for instance, Antinyan and Asatryan (2020), Bott and others (2020), d'Adda and others (2020), Dwenger and others (2016), Hallsworth and others (2017) and Slemrod (2019).
16. Ali, Fjeldstad and Sjursen 2014.
17. See Prichard (2022) for an overview of survey questions used in cross-country studies on voluntary compliance and a discussion of the weaknesses and limitations of these measures. Afrobarometer Round 6 was chosen because it is the most recent survey that includes both of the questions reported in the figure.
18. Besley and Mueller 2021; Blimpo and others 2018.
19. Besley and Mueller 2021.
20. Ali, Fjeldstad and Sjursen 2014; Sacks 2012.
21. Ali, Fjeldstad and Sjursen 2014; Blimpo and others 2018.
22. Ali, Fjeldstad and Sjursen 2014. See Fjeldstad, Schulz-Herzenberg and Hoem Sjursen (2012) for a broader review of correlates of voluntary tax compliance.
23. See Nunn (2020) for a review of the research on the historical roots of economic development more broadly.
24. Dinesen 2011; Kouamé 2021; Uslaner 2008; Woolcock and Narayan 2000.
25. Nunn 2008; Nunn and Wantchekon 2011.
26. Kouamé 2021.
27. Ali and Fjeldstad 2023. A state's organized power to uphold authority implies that it can uniformly apply policies throughout a given territory, such as extracting labour, enforcing the law and demanding taxes (Schraeder 2000).
28. Nunn 2009.
29. Dom and others 2022; Kleven and others 2011.
30. Engström and Holmlund 2009; Saez 2010.
31. Kogler and Kirchler 2020.
32. Chetty, Friedman and Saez 2013.
33. Dom and others 2022, p. 60.
34. Bleck and Van de Walle 2019.
35. Except, perhaps, in Ghana (Bleck and Van de Walle 2019). Inequality per se is not mentioned as a priority of citizens in a large recent Afrobarometer survey of 34 African countries (Coulibaly, Silwé and Logan 2018). Poor access to public services is a major concern, however—one that clearly has equity implications.
36. Mazrui 2008.
37. Bolch, Ceriani and López-Calva 2022.
38. Moore 2023.
39. Moore 2023. For instance, in a survey of 26 national tax administrations for the 2018 African Tax Outlook, 15 reported one or more special programmes or initiatives to deal with the informal sector (ATAF 2018). By contrast, only 4 had special sections for high-net-worth individuals.
40. Harrington 2016.
41. Alm and McClellan 2012; OECD 2019; Prichard and others 2019; Slemrod 2019.
42. Prichard and others 2019.
43. Campos, Lien and Pradhan 1999; World Bank 2018.
44. Alm and McClellan 2012; OECD 2019; Prichard and others 2019.
45. Prichard 2015.
46. Dom and others 2022.
47. Bird and Wallace, 2003. The concept the informal sector is disputed. When the term is used in relation to taxes in Africa, it generally refers to unregistered, small-scale economic operators (Moore 2023). The size of the informal economy is difficult to estimate. Estimates for low- and middle-income countries suggest that informality accounts for 30–70 percent of GDP and 20–80 percent of the labour force (Ulyssea 2020; Ulyssea, Bobba and Gadenne 2023). Estimates from West Africa suggest that more than 80 percent of total employment is informal and up to 60 percent of GDP is produced by informal activities (Benjamin, Mbaye and Diop 2012).
48. Dube and Casale 2016; Joshi, Prichard and Heady 2014; van den Boogaard, Prichard and Jibao 2018.
49. Ali, Fjeldstad and Sjursen 2014; Fjeldstad and Moore 2008.
50. Abdixhiku and others 2017; Cowell 2003; Hanlon, Mills and Slemrod 2007; Slemrod 2004.
51. Torgler and Schneider 2007.
52. Kouamé 2021.
53. Besley and Mueller 2021.
54. Jackson and Köbis 2018.
55. UNDP 2019.
56. Wenzel 2005.
57. Dom and others 2022.
58. Dom and others 2022.
59. Ali, Fjeldstad and Sjursen 2014; Bird 2011.
60. Dom and others 2022; Sanogo 2019.
61. Dom and others 2022.
62. Kogler, Muehlbacher and Kirchler 2015.
63. Aiko and Logan 2014; Fjeldstad 2006.