



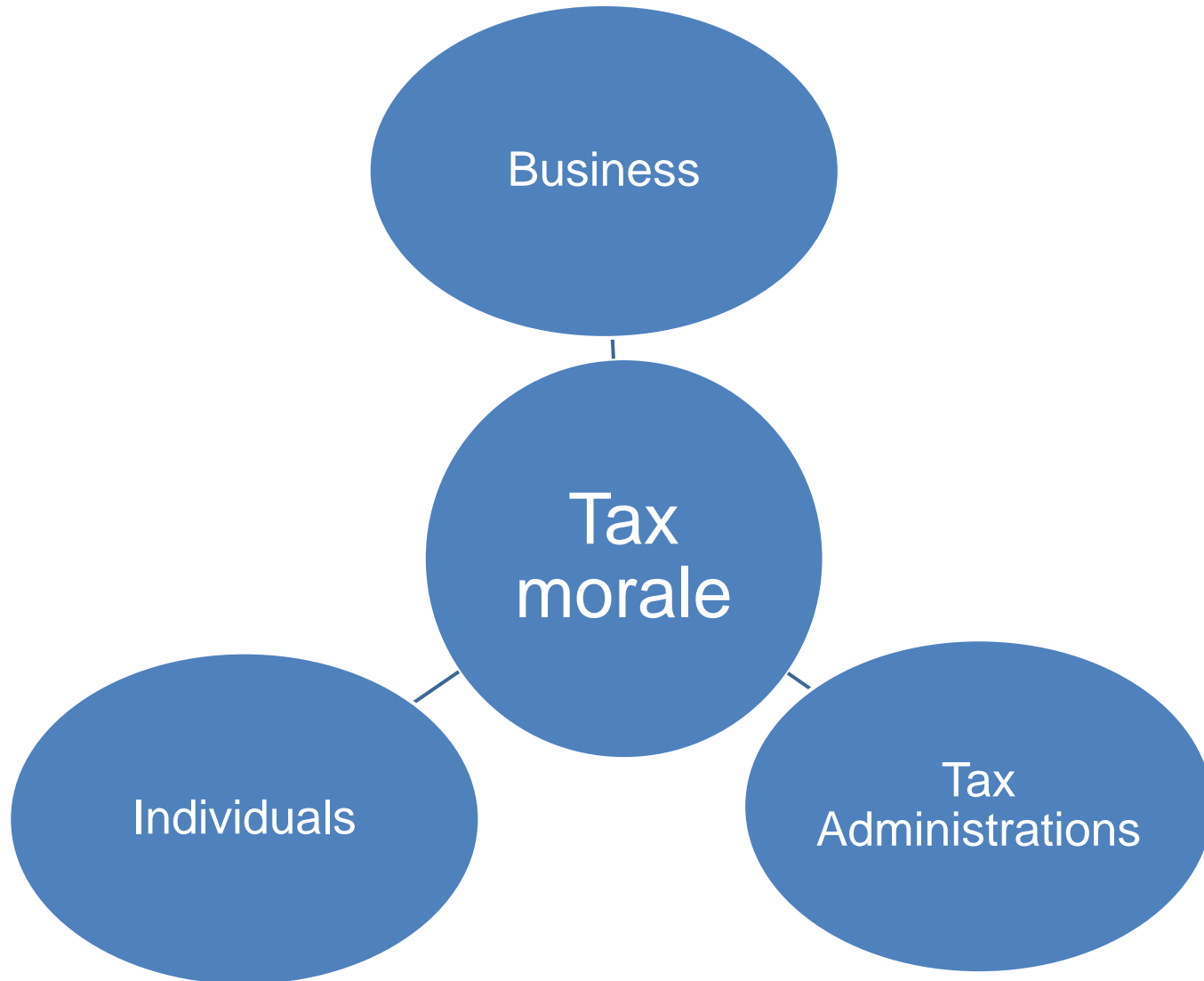
TAX MORALE:

What drives taxpayers' willingness to pay tax?

Grace Perez-Navarro
Deputy Director, Centre for Tax Policy and Administration

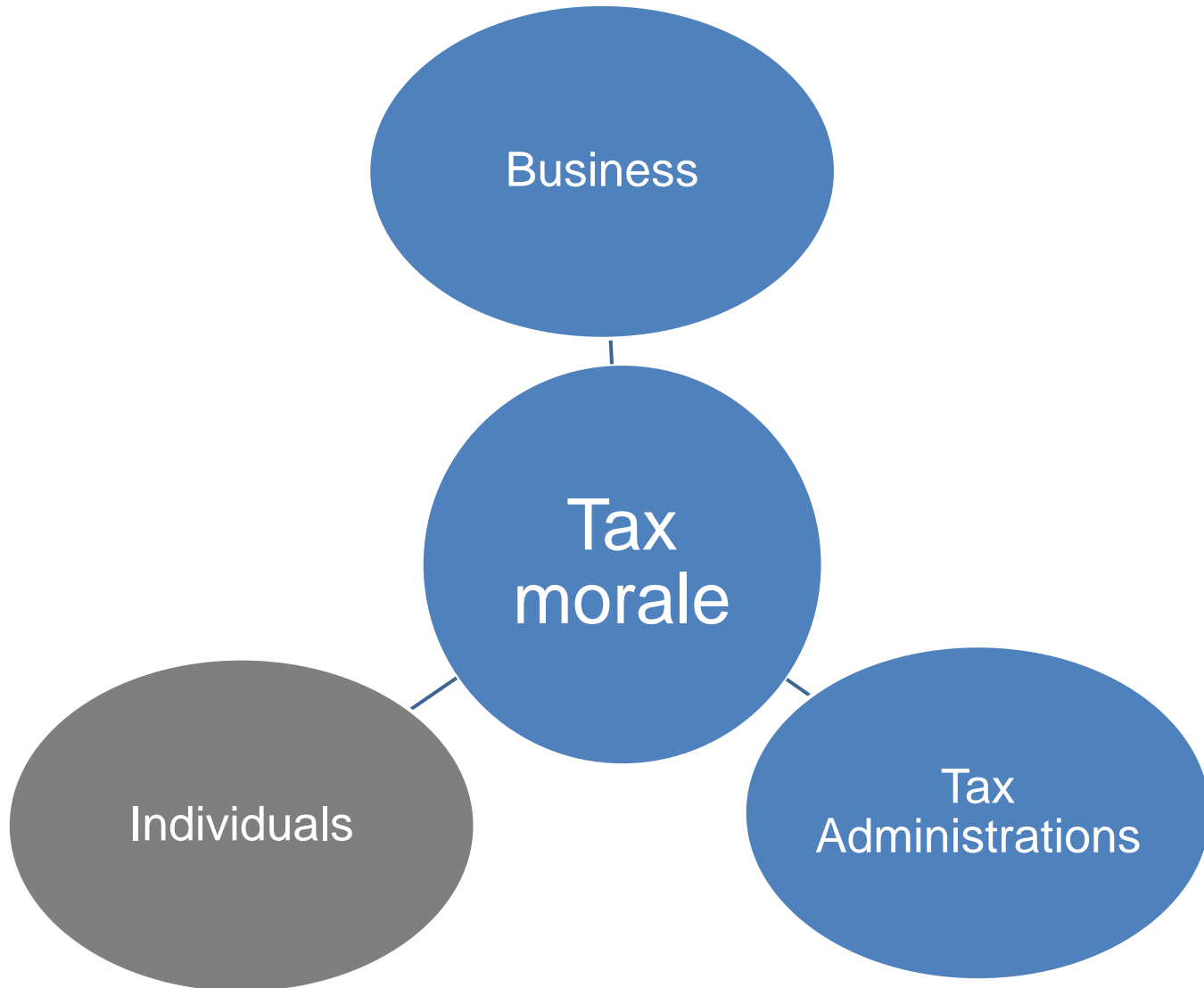


What drives tax morale?





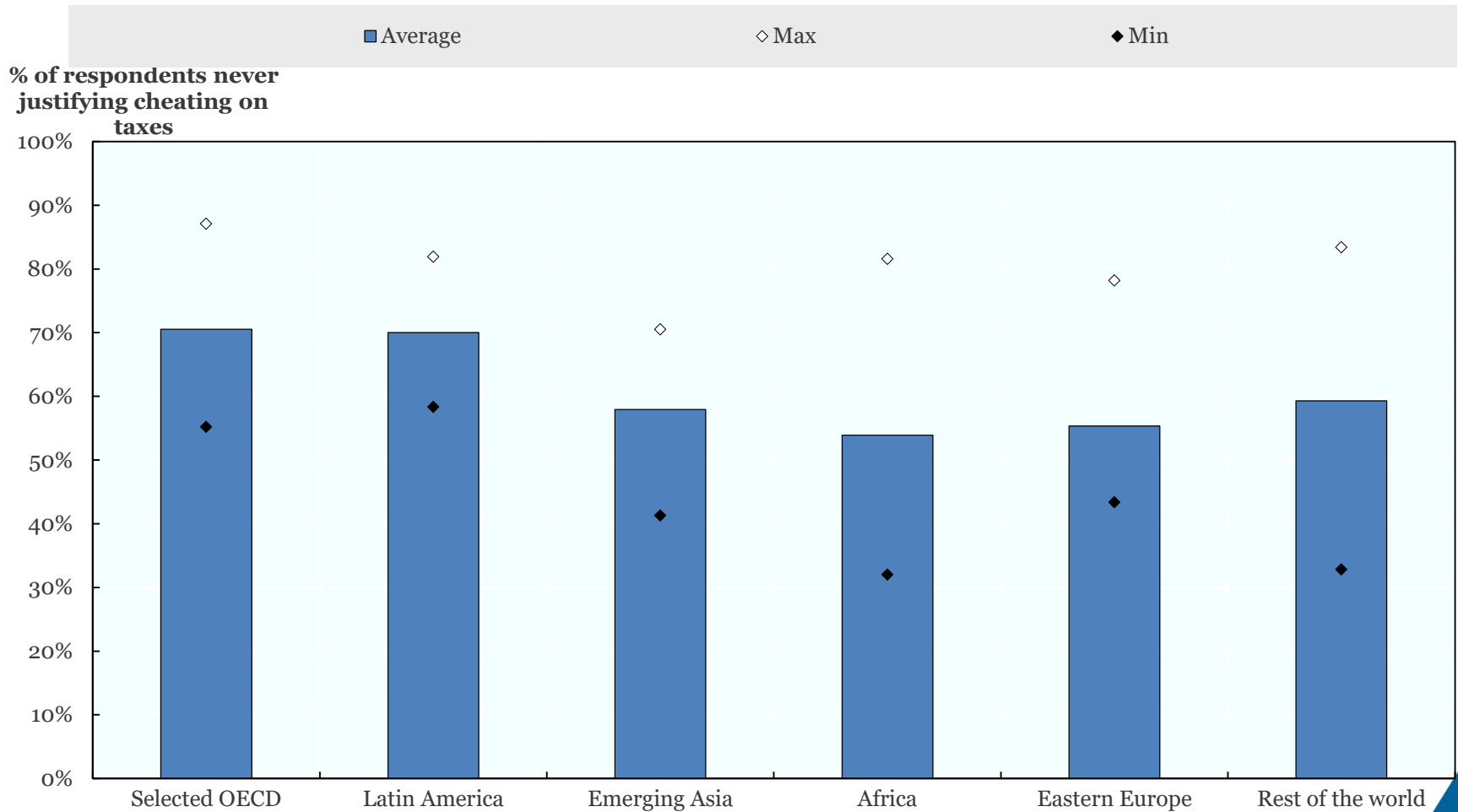
What drives tax morale for individuals?





Tax morale varies across different regions

Tax morale in the world by regions, 2010-2013

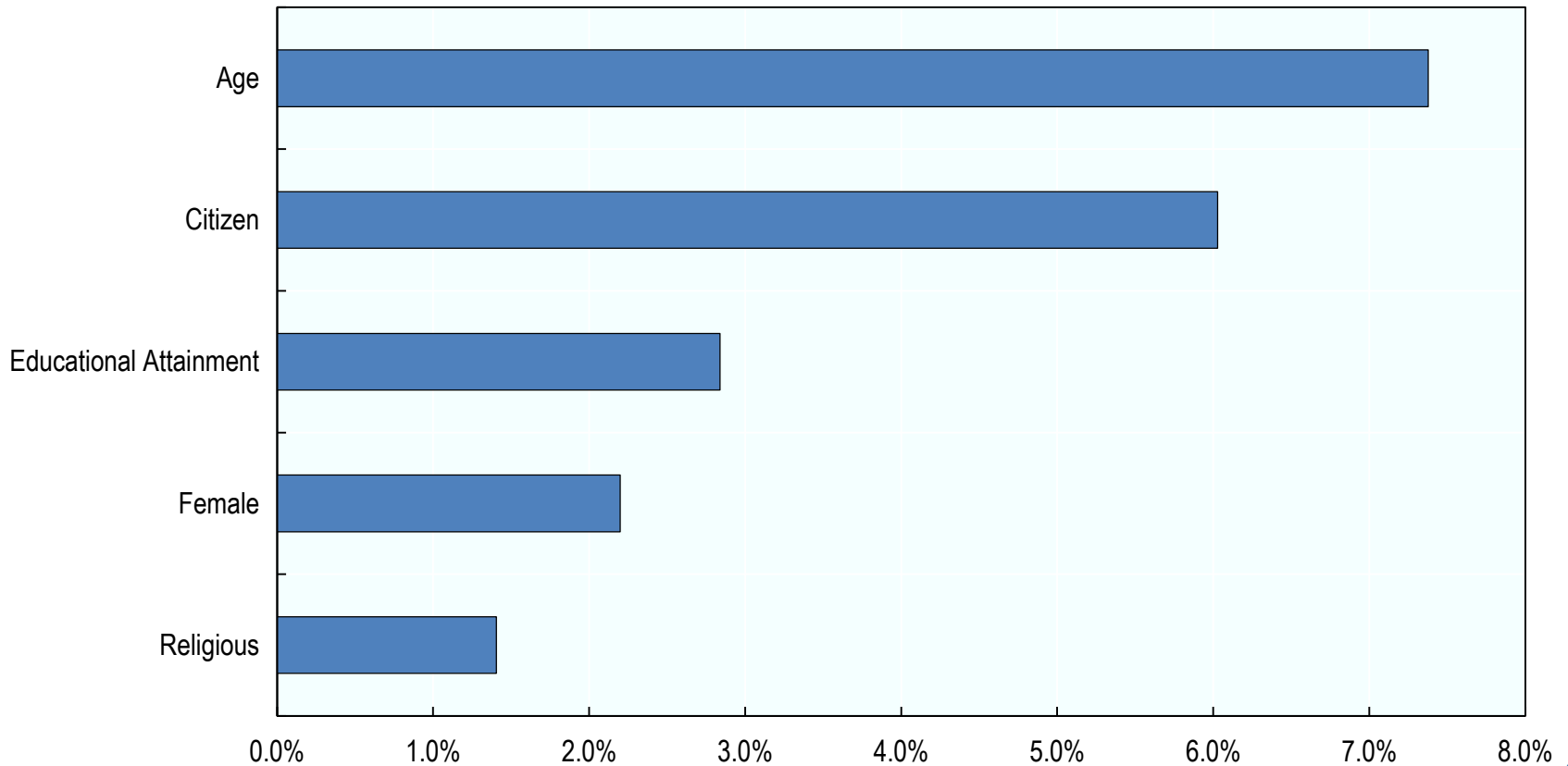




Socio-economic factors are key determinants of tax morale at the global level

Socio-economic factors associated with tax morale, 2010-2013

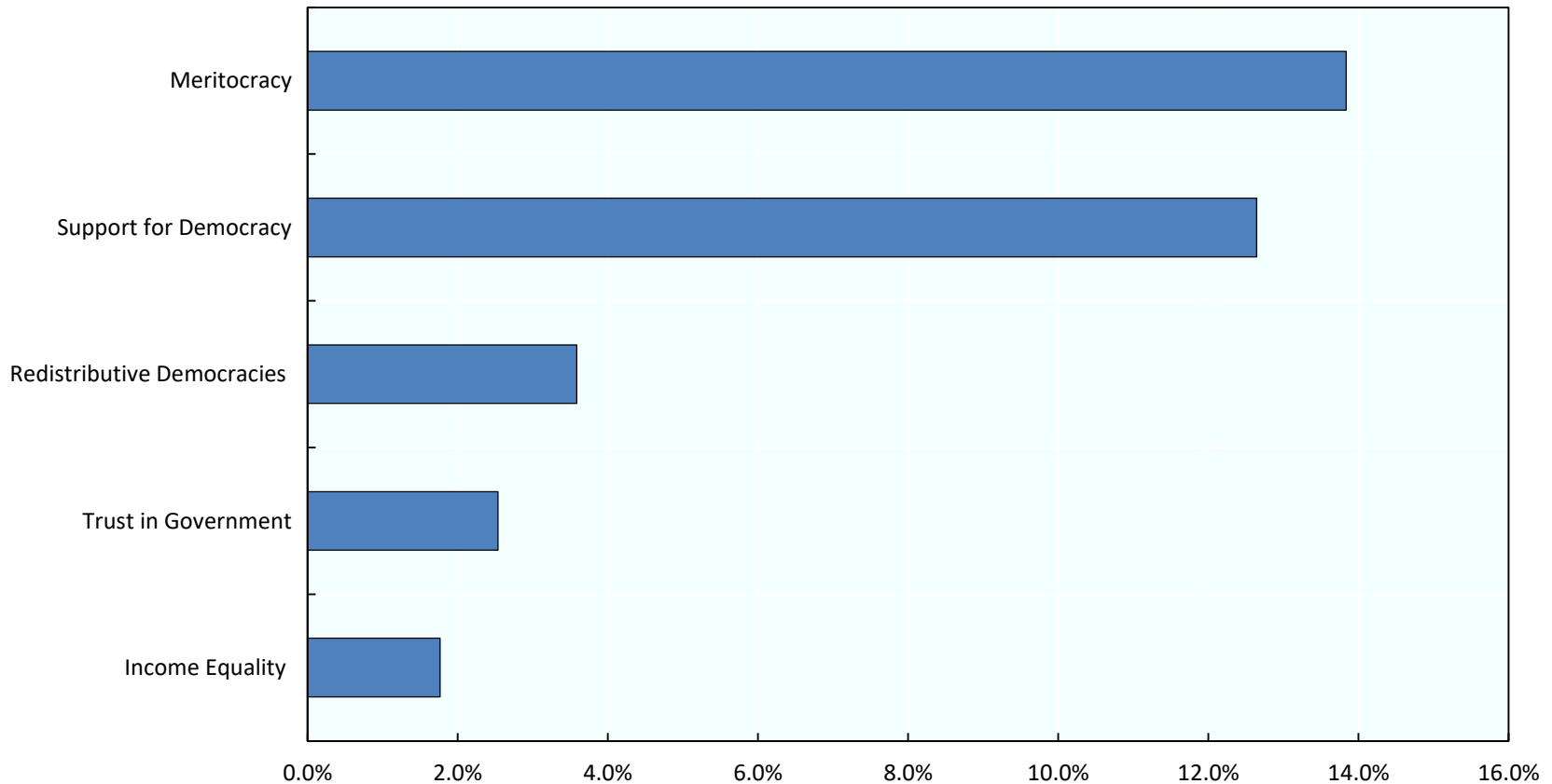
Marginal effects on the probability of reporting high tax morale





Institutional factors are also key determinants of tax morale in the global analysis

Institutional factors associated with tax morale, 2010-2013 marginal effects on the probability of reporting high tax morale





Policy considerations

- Taxpayer **education programmes** can be informed by tax morale data
- Careful consideration needed before introducing hypothecated taxes
- Build taxpayer profiles
- Support development of tax administrations
- **Deepen understanding** of drivers of **trust in government**
- More in-depth country-level surveys can be used to identify the factors at the local level, and where relevant at sub-national level
- Increase the research and data on **tax and gender**



HOW DO WE DEFINE AND MEASURE TAX MORALE FOR BUSINESS?



How to define tax morale for business?

Professor Reuven Avi-Yonah:

“...[U]ntil the 1980s most business corporations treated the corporate tax as a necessary cost that had to be borne for both ethical and legal reasons. But beginning in the late 1980s, self-serving professionals (accountants, investment bankers, lawyers and some academics) managed to persuade executives in large business corporations that their fiduciary duty to their shareholders required paying as little tax as possible, and that their tax department could become a profit center rather than a cost. Moreover, the argument went, this was true even for purely tax motivated transactions such as corporate tax shelters, as long as a legal opinion could be obtained that there was a 51% chance that the tax authorities and courts could be hoodwinked to believe that there was a valid non-tax reason for the transaction.”



OECD Guidelines for MNEs: Tax Chapter

XI. Taxation

1. It is important that enterprises contribute to the public finances of host countries by making timely payment of their tax liabilities. In particular, enterprises **should comply with both the letter and spirit of the tax laws and regulations of the countries in which they operate.** Complying with the spirit of the law means discerning and following the intention of the legislature. It does not require an enterprise to make payment in excess of the amount legally required pursuant to such an interpretation. Tax compliance includes such measures as providing to the relevant authorities timely information that is relevant or required by law for purposes of the correct determination of taxes to be assessed in connection with their operations and conforming transfer pricing practices to the arm's length principle.



OECD Guidelines for MNEs: 2011 Update

- Most comprehensive government-backed international instrument for **promoting responsible business conduct**
- **Recommendations from governments to businesses** operating in or from adhering countries
- **Purpose:** to ensure business operations are in harmony with gov't policies; strengthen the basis of mutual confidence with the society; help improve foreign investment climate; enhance contribution to sustainable development
- Unique **implementation mechanism**
- Endorsed by business, trade unions and civil society organizations



OECD Guidelines for MNES: Tax Chapter

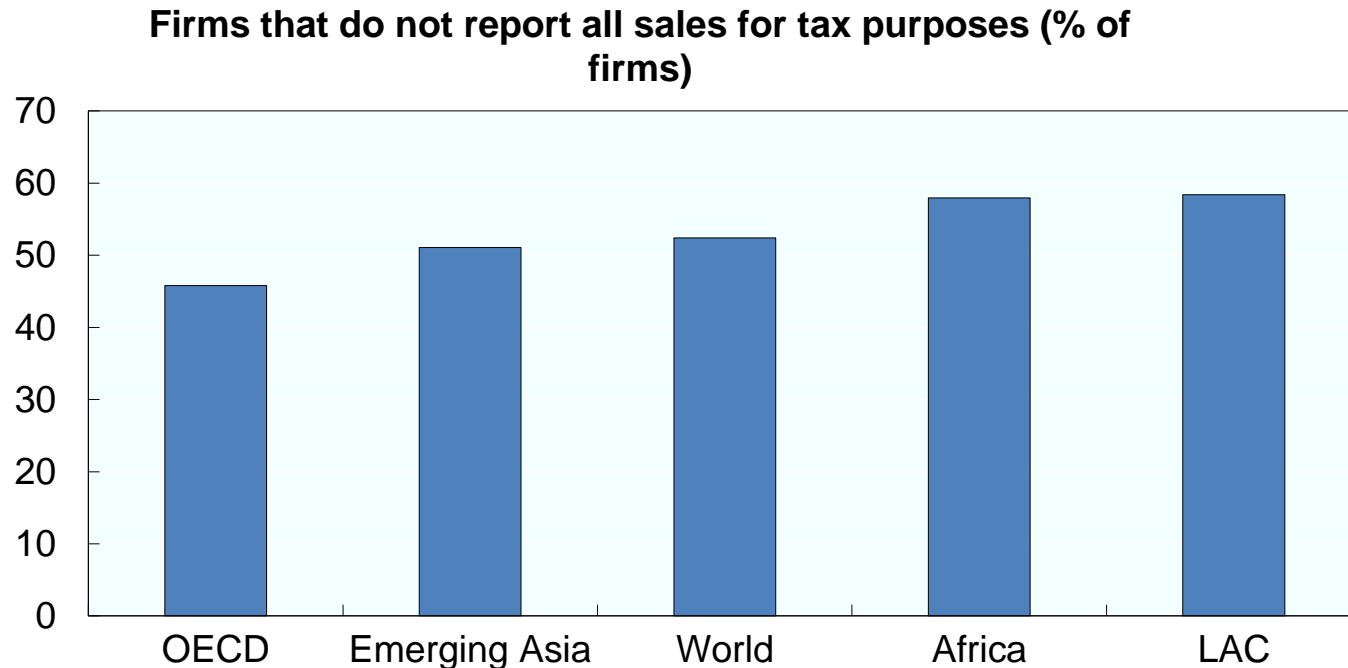
2. Enterprises should treat **tax governance** and tax compliance as important elements of their oversight and broader risk management systems. In particular, **corporate boards should adopt tax risk management strategies to ensure that the financial, regulatory and reputational risks associated with taxation are fully identified and evaluated.**





Measuring business tax morale is challenging

- Data sources are limited
- Likely to be differences between SMEs and MNEs
- Need to use proxies – e.g. fraction of sales concealed from tax authorities



- Tax certainty survey provides a new data source that may be useful proxy for MNE tax morale



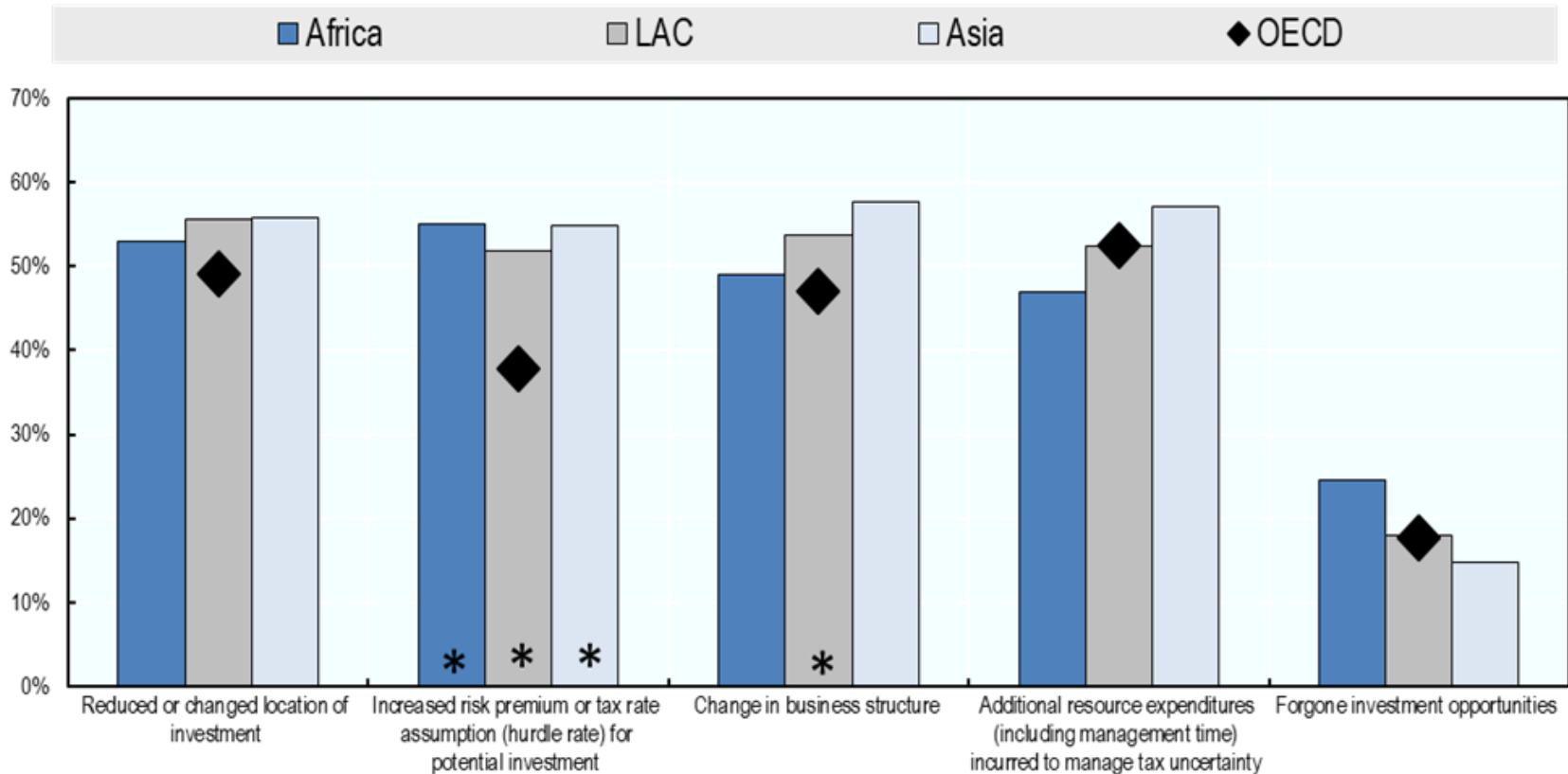
Measuring business tax morale is challenging

- **Lack of data** remains the main challenge into deepening the analysis for business tax morale
- Given the current data limitations, **tax certainty** can be a useful **proxy** to measure tax morale among MNEs.
- As in tax morale when MNEs perceive low tax certainty they may be less likely to participate actively or positively in the tax system (or at least the parts that are most uncertain).



Given current limitations, tax certainty can be a useful proxy to measure tax morale among MNEs

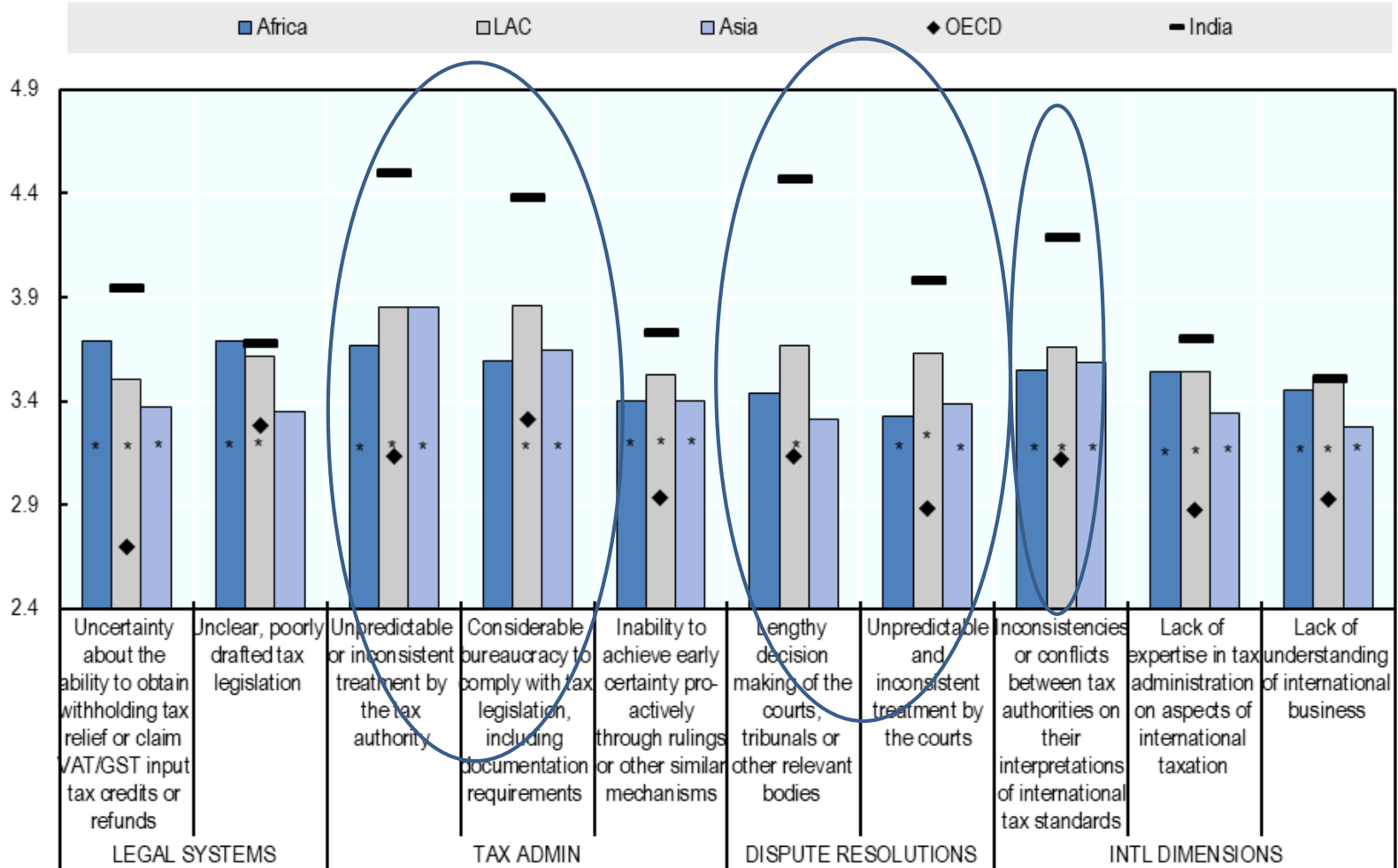
Impact of tax uncertainty
% of respondents picking that answer





The sources of tax uncertainty vary across regions

Top ten sources of tax uncertainty for firms
Scale of 5 to 1 where 5 is extremely important



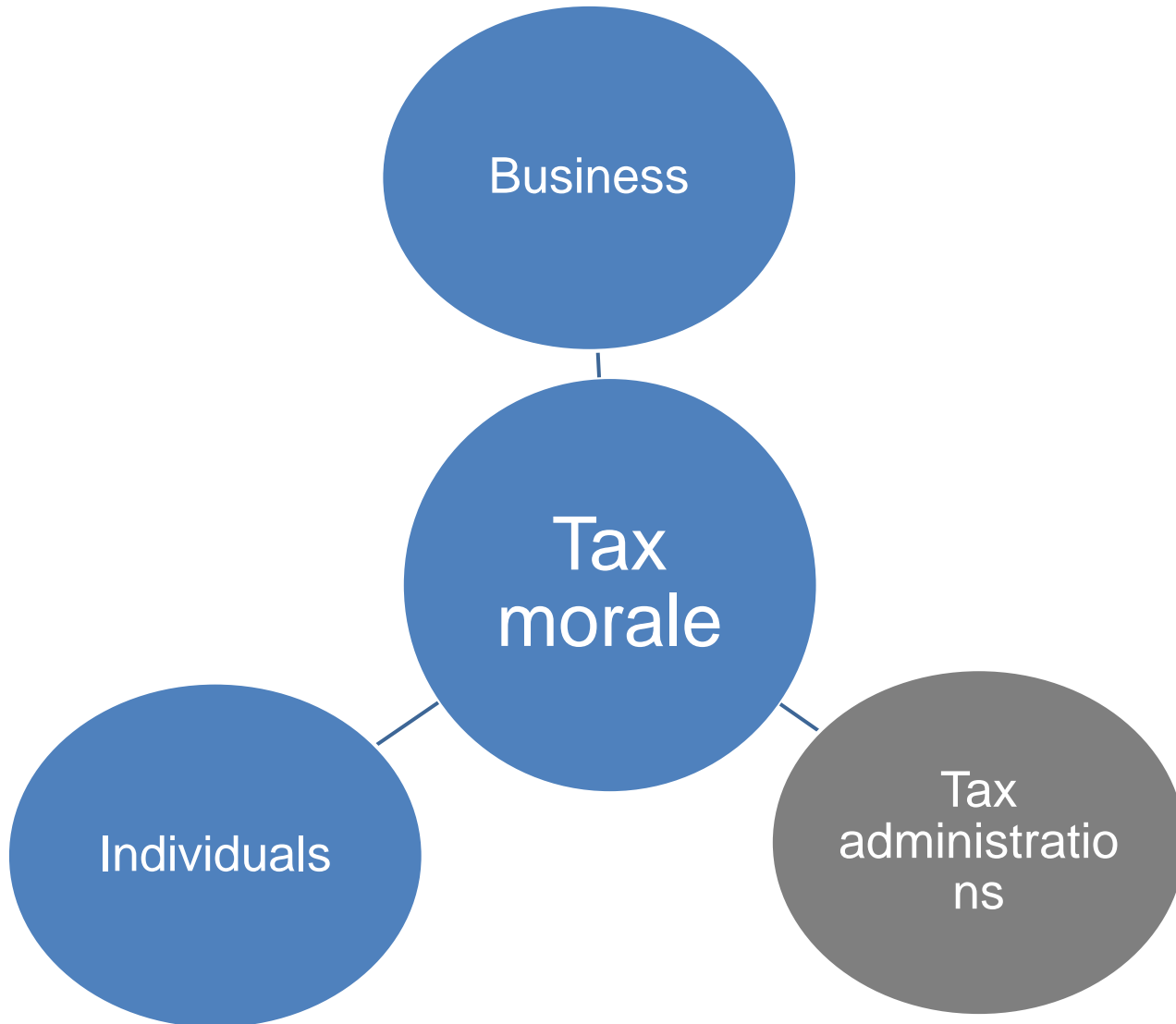


Policy considerations

- Increase **capacity building on international taxation** issues in tax administrations in developing countries
- Increase **business engagement in capacity building** for tax administrations in developing countries
- Support the development of **effective VAT** and **withholding tax systems**
- **Unlock experience** from other tax administrations
- Look for **synergies in building tax morale** across the **whole tax system**
- Develop country-level surveys to identify key issues affecting tax morale across different types of businesses (both size and sectors)



What do tax administrations think?





Work in progress: survey to gather views from tax officials

Objective of the study:

Identify how business conduct varies across countries, and provide insights into **what might improve behaviour in developing countries**

- **Survey aimed at tax officials in developing countries, who work on MNE taxation**
- Asks for perceptions of behaviour by MNEs and Big 4
- Questions based on the voluntary tax principles that companies/Big 4 have committed to
- **Global coverage of the survey**
 - So far 319 responses (4 from India), from 80 countries

Report to be published in 2020



Work in progress: Taxpayer Education

- Follow up to 2015 publication [Building Tax Culture, Compliance and Citizenship](#)
- Survey completed of taxpayer education initiatives in over 50 countries
- Creating a typology of initiatives, identifying key components, and measuring impact
- Report in 2020



For more information

MNE Guidelines: <http://mneguidelines.oecd.org/>

BEPS: <http://www.oecd.org/tax/beps/>

Tax Certainty: <http://www.oecd.org/tax/g20-report-on-tax-certainty.htm>

Tax & Development: <http://www.oecd.org/ctp/tax-global/tax-and-development.htm>

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Tax Morale

WHAT DRIVES PEOPLE AND BUSINESSES TO PAY TAX?

