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Peoples' views of taxation in Africa: A review of research on determinants of tax compliance

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Peoples' views of taxation in Africa:
A review of research on determinants of tax compliance*

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Abstract

What are the key determinants of taxpayer compliance? And which features of citizen-state relations govern attitudes and behaviour regarding taxation? This paper examines the analytical foundation, methodological approaches and key findings of available empirical literature on taxpayer behaviour in Africa. Understanding how citizens perceive and experience taxation may provide an essential diagnostic of the political realities for tax reform. Attempts to broaden the tax base require insights into how citizens experience and perceive the tax system, whether people perceive they are paying taxes or not, what they eventually pay, their views on tax administration and enforcement, and whether and how their tax behaviour is correlated with how they perceive the state. Attitude and perception surveys of current and potential taxpayers may also help to identify perceived weaknesses of the tax system, and enable tax authorities to focus attention efficiently on high-risk categories of taxpayers.

1. Introduction

Tax evasion has been a universal and persistent problem throughout history with manifold economic consequences.[1] Two thousand five hundred years ago, Plato was writing about tax evasion, and the Ducal Palace of Venice has a stone with a hole in it, through which people once informed the Republic about tax evaders (Tanzi 2000b).[2] Today, taxpayer non-compliance is a continual and growing global problem that is not readily addressed (McKerchar and Evans 2009: 175). Yet, there are many indications that developing countries are hardest hit. Firm evidence on the extent of such practices is naturally hard to come by. But anecdotal evidence from different countries indicates that half or more of the taxes that could be collected remain uncollected and/or unaccounted for due to a combination of tax evasion, avoidance, tax exemptions and corruption (Richupan 1984; Bird 1992; 1989; Krugman et al. 1992; Fuest and Riedel 2009; Curtis et al. 2012).[3] The most widely cited study of the domestic component of tax evasion is Cobham (2005), who estimates that developing countries collectively lose USD 285 billion per year due to tax evasion in the domestic shadow economy.[4]

This erosion of the tax base has detrimental fiscal effects and there are at least four reasons for concern. First, revenue losses from non-compliance are critical in the context of substantial budget deficit (Tanzi 1991). Second, tax evasion may have harmful effects on economic efficiency in general (Chand and Moene 1999; Tanzi 2000a), and income distribution in particular because the effective tax rates faced by individuals and firms may differ due to different opportunities for evasion (Hindriks et al. 1999). Third, underground economic activities are often the other face of tax evasion and the expansion of these may affect implementation and outcomes of economic policies (Tanzi 2000b; Cowell 1990). Finally, evasion and citizens' disrespect for the tax laws may go together with disrespect for other laws and contribute to undermine the legitimacy of government (Graetz et al. 1986). Consequently, tax evasion can have unintended negative effects on a society, undermining the purpose and outcomes of the formal tax system.

Dealing with the policy problem of tax evasion requires at least some understanding of the factors underlying the individual's decision whether to pay or evade taxes. More systematic and coherent information on taxpayer attitudes are required for better analysis and more informed tax policy design in Africa. Understanding how taxpayers think about and experience taxation may provide an essential diagnostic of the political realities for tax reform. Attempts to broaden the tax base require better knowledge of how the large majority of citizens perceive the tax system, whether people perceive they

[1] Universally accepted definitions of tax avoidance and tax evasion do not exist. However, tax authorities commonly define tax avoidance as "an activity that a person or a business may undertake to reduce their tax in a way that runs counter to the spirit and the purpose of the law, without being strictly illegal" (Fuest and Riedel 2009: 3). Tax evasion, on the other hand, usually refers to efforts by individuals, corporations, trusts and other entities to evade taxes by illegal means. Thus, both evasion and avoidance can be viewed as forms of tax non-compliance, as they describe a range of activities that are unfavourable to a state's tax system.

[2] Modern versions of this technology are Tax Evasion and Fraud Hotlines which many tax administrations around the world have installed. *The Economist* (July 17th 1996: 38) reported that in Uganda, on a special telephone hot-line people could report corrupt tax officials or tax dodgers. They got a reward, usually around 10%, of the tax recovered.

[3] In 2003, the Guatemalan revenue administration (SAT) estimated the total tax evasion to be more than two-thirds of actual collections (Mann 2004). For India, Mookherjee and PnG (1995) report a confidential survey finding that 76% of all government tax auditors took bribes, and that 68% of taxpayers had paid bribes. According to a study from Tanzania, official import statistics underreported the value of imports by as much as 70% (ESRF 1996: 6). Evasion of other types of taxes was also reported to be widespread. In a business survey conducted in Uganda in 1998, covering 243 firms, as many as 43% said they were paying bribes to tax officers occasionally or always (Gauthier and Reinikka 2001 :22).

[4] Cobham's calculation of tax evasion is based on estimates of the size of the domestic shadow economy by Schneider (2005, 2007).

are paying taxes or not, what they eventually pay, their views on tax administration and enforcement, what the perceived benefits of paying taxes might be, and whether and how their tax behaviour is correlated with how they perceive the state. Further, the political settlement between élites and citizens over how to raise public revenues is critical for state-building. Do ordinary citizens and élites have similar perceptions of taxation in a given country? Attitude and perception surveys of current and potential taxpayers may also help to identify perceived weaknesses of the tax system, as well as to enabling tax authorities to focus attention efficiently on high-risk categories of taxpayers. Finally, perception surveys offer an opportunity to explore cross-country similarities and differences, assisting regional policymakers to identifying good practise cases and lessons to be learnt.

This study assesses the design and key findings of some of the existing taxpayer surveys in Africa. It reviews the analytical foundation, methodological approaches and evidence on citizens' attitudes and behaviour with respect to taxation. While tax perception surveys are well established for OECD countries they are scarce in low income country contexts. Available studies in Africa are limited and provide little more than scattered estimates of the distribution of tax burdens and some information on attitudes towards specific, usually local, taxes. Some business surveys also include questions on taxation, focusing on constraints and compliance costs for enterprises. Few surveys have a large enough number of respondents and a sufficient range of variables to allow for rigorous quantitative testing of different theoretical explanations.

The paper builds an argument for greater use of public opinion survey data by pointing to the strengths of such data, which include their ability to capture a broad range of explanatory variables known only to taxpayers, particularly their understanding of compliance requirements, relevant values and attitudes, expectations of risks and benefits of non-compliance. Identifying explanatory variables may help us tap into a variety of causal processes that have been posited in the literature, thus presenting opportunities to test theoretical explanations in the African context. The paper also addresses disadvantages of such surveys, including variations in definitions of issues such as non-compliance, the integrity of the respondents' answers for deliberate or unintended reasons, and the inability to report on unintended omissions (OECD 2001). Further, surveys may be controversial in countries where the political contest is oppressive and tax authorities are unwilling to invite criticism of their integrity, public acceptance, and effectiveness.

The paper is organised as follows: Section 2 provides a brief review of the theoretical literature on taxpayer's (non-)compliance behaviour. Section 3 outlines key research questions and hypotheses deriving from the theoretical literature. The analytical foundation, methodological approach and key findings of available empirical research on taxpayer attitudes and behaviour in Africa are examined in Section 4, which is followed by a concluding Section 5. Finally, based on the evidence that derives from this study, an agenda for further research is suggested in Section 6.

2. Understanding taxpayers' behaviour: theoretical foundations

Systematic and coherent analysis is required to shed led on taxpayers' attitudes and the economic and behavioural determinants of tax compliance. Strategies to gather such information need to be embedded in sound theory. An understanding of the compliance literature is an important starting point. Models and theories of taxpayer behaviour, including the decision whether or not to pay taxes, tend to reflect one of five 'schools of thought' that can be referred to as: (1) economic deterrence; (2) fiscal exchange; (3) social influences; (4) comparative treatment; and (5) political accountability. These are to some extent interconnected and some represent an evolution of others.

2.1 Economic deterrence

Economic deterrence, or coercion, is the focus of the classical tax evasion model (Allingham and Sandmo 1972), which assumes that the taxpayer's behaviour is influenced by factors such as the tax rate determining the benefits of evasion, and the probability of detection and penalties for fraud which determine the costs.[5] The problem is thus one of rational decision making under uncertainty whereby tax evasion either pays off in terms of lower taxes or subjects one to sanctions. This implies that if detection is likely and penalties are severe few people will evade taxes. In contrast, under low audit probabilities and low penalties, the expected return to evasion is high. The model then predicts substantial noncompliance.

The economic deterrence model relies upon a wide range of major assumptions that are generally unrealistic for determining behaviour (Andreoni et al. 1998). For example, it is assumed that all people respond to a change in any one variable in an identical and predictable manner; that all taxpayers have a full knowledge of the probability of being audited; and that all taxpayers have the same level of risk preference (McKerchar and Evans 2009: 175).[6] The model has also been criticized by focusing exclusively on the coercive side of compliance, at the expense of the consensual (Sandmo 2005). For instance, empirical data from the US and Scandinavia reveal that taxpayers pay much more tax than what could be accounted for even by the highest feasible levels of auditing, penalties and risk-aversion. The question therefore has switched from "why do people not evade taxes" to "why do people pay?" (Alm et al. 1992; Slemrod 1992).

In spite of this, the theoretical principles of economic deterrence have been widely adopted by tax administrations when developing enforcement strategies that rely principally on penalties and the fear of getting caught. There is, however, some evidence to support the relevance of deterrence strategies to addressing non-compliance (McKerchar and Evans 2009). For example, the fear of getting caught, or the probability of detection, has been found in some contexts to be an effective strategy to induce truthful behaviour. On the other hand, 'moral' factors have also been found to influence this decision. These results suggest that the economic deterrence models have some relevance to compliance behaviour, but that there are other influences also to be considered. Some of these are included in the fiscal exchange framework that we now turn to take closer look at.

[5] Nearly all economic approaches to tax evasion are based on this economics-of-crime framework (Becker 1968). Cowell (1990) offers an insightful review of this analytical framework.

[6] Erard and Feinstein (1994) state that the standard compliance model fails to explain compliance behaviour due to the exclusion of taxpayer motivations.

2.2 Fiscal exchange

The fiscal exchange theory suggests that the presence of government expenditures may motivate compliance. The proposition is well rooted in economics and political science (e.g. Cowell and Gordon 1988; Levi 1988; Tilly 1992; Slemrod 1992; 2003; Moore 1998; 2004). For instance, Alm et al. (1992) note that compliance increases with (perceptions of) the availability of public goods and services. They suggest that governments can increase compliance by providing goods that citizens prefer in a more efficient and accessible manner, or by more effectively emphasizing that taxes are necessary for the receipt of government services.

Accordingly, the main concern of taxpayers is what they get directly in return for their tax payments in the form of public services (*quid pro quo*). In this perspective, taxation and the provision of public goods and services are interpreted as a contractual relationship between taxpayers and the government. Individuals may pay taxes because they value the goods provided by the government, recognizing that their payments are necessary both to help finance the goods and services and to get others to contribute (Fjeldstad and Semboja 2001). A taxpayer may therefore be seen as exchanging purchasing power in the market in return for government services. The existence of positive benefits may increase the probability that taxpayers will comply voluntarily, without direct coercion.[7] Levi (1988) refers to this as *quasi-voluntary compliance* since compliance is motivated by a willingness to cooperate, but is also backed by coercion. It requires that citizens and businesses receive something from the government in return for the extractions government takes from them. It also means that compliance is always conditional. It will vary as governments vary in their performance, honesty, attention to due process, and other determinants of government reliability. Without a material benefit, compliance becomes less assured. Although most taxpayers cannot assess the exact value of what they receive from the government in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and others' terms of trade with the government (Richupan 1987). It is then reasonable to assume that a taxpayer's behaviour is affected by his/her satisfaction or lack of satisfaction with his/her terms of trade with the government. Thus, if the system of taxes is perceived to be unjust, tax evasion may, at least partly, be considered as an attempt by the taxpayer to adjust his terms of trade with the government.[8]

A main proposition of this analytical approach is that bargaining over taxes is central to building relations of accountability between state and society based on mutual rights and obligations, rather than on patronage and coercion (Braütigam 2008; Moore 2004).[9] This idea of bargaining and negotiation over taxes is central to the concept of a social fiscal contract. This is essentially about stimulating good governance at the interface between state and society, in response to the demands of citizens. Thus, there is a strong argument that substantial governance 'dividend' can be gained from

[7] The potential for free riding is obvious when the government offers collective goods in return for taxes (Axelrod 1984). However, according to the Folk Theorem, voluntary provision may not always play as a "prisoner's dilemma" game, in which each individual has an incentive to free ride on the provision of others. Instead, individuals may in many cases voluntarily contribute to a public good, implying that they will pay taxes. In theory, this occurs when service provision is both repeated and interdependent. See Gibbons (1992) for an introduction to the literature.

[8] Inferring from the core idea of a fiscal social contract, several more general theoretical propositions have been made (D'Arcy 2011: 5): (a) how a state earns its revenue determines its character (Moore 1998, 2004); (b) that the state is most responsive to those from whom it collects most of its revenue (Timmons 2005); and (c) that this dependency is the citizen's chief bargaining tool to make the state more democratic, accountable and responsive (Levi 1988; Ross 2004).

[9] Moore (2004: 312) notes that "[I]f one starts from the assumption that a core governance problem lies in the dearth of bargained exchange relationships between the state and any organized societal group, then any collective action on the part of business to negotiate with the state over taxation might be considered to be potentially positive, even if it takes place entirely outside any representative or legislative institutional framework".

mobilising domestic financial resources through the tax system (Braütigam et al. 2008). A 'virtuous circle' may be generated whereby the generation of government tax revenues leads to improved service provision, which in turn increases citizens' willingness to pay their taxes.[10] Seen in this light, tax is not just an administrative task for citizens and governments. It is also about politics and power - the way that authority is exercised through its formal and informal institutions.

What factors make tax bargaining, either explicit or implicit, more likely to be successful? On-going research suggests that constructive tax bargaining may be more likely when (Prichard 2010: 23):

1. Various taxpayers perceive themselves to have common interests, and will thus pursue a broad tax bargain rather than narrow benefits (Moore 2008; Prichard 2009);
2. There is a high degree of mutual trust amongst taxpayers (Fjeldstad 2004);
3. Taxpayers are well organised politically and thus have the strength and unity to bargain constructively with government (Olson 1965; Levi 1988; Prichard 2009; Mahon 2005);
4. Levels of awareness and education are high, so as to encourage political engagement (Prichard 2009);
5. Links between taxation and expenditure are relatively clear to taxpayers (Bahiigwa et al. 2004; Fjeldstad and Semboja 2001);
6. Quasi-voluntary compliance is relatively important, thus providing stronger incentives for governments to seek a tax bargain (Bates and Lien 1985); and
7. There is a minimum level of trust between taxpayers and government in order to facilitate bargaining (Prichard 2010).

The fiscal exchange theory has received much attention and is well established theoretically. Empirical evidence to support the theory is, however, ambiguous (D'Arcy 2011: 5-6). Timmons (2005) find a statistically significant and positive relationship between tax revenues (i.e. compliance) and government expenditures on social welfare in a cross-country analysis. Ross (2004) also presents evidence to support the hypothesis about fiscal exchange in his study of the relationship between taxation and democratization in 130 countries. Fjeldstad (2004), on the other hand, found no significant association between fiscal exchange (measured by satisfaction with public services) and tax compliance in his investigation of survey data from South Africa.

D'Arcy (2011) offers a possible explanation of the lack of sound evidence on fiscal exchange in the literature by suggesting that the analytical framework applied by researchers is too simplistic. In particular, she points to the fact that the modelled interaction between the citizen and the state is one-dimensional. The conception of taxation as a market exchange between two actors in the public sphere misses a crucial aspect, she argues: "- the translation of private wealth into a public resource. (…) it goes beyond a two actor exchange and, in the transition from private to public, invokes not just the citizen's normative and contractual relationship with the state, but also how a citizen views fellow citizens" (D'Arcy 2011: 5-6).

Increasingly, researchers lean towards behavioural sciences and focus on the consensual aspects in an attempt to explain the positive motivations for compliance (Cummings et al. 2005). There is longstanding evidence from many disciplines, including psychology, sociology, accounting and

[10] In practice, tax bargains may take the form of a relatively explicit *quid pro quo* between governments, taxpayers and their representatives, but also in the form of implicit behavioural adjustments (Prichard 2010: 22). Two general processes seem to be particularly important in practice: (i) direct tax bargaining which involves governments making relatively explicit concessions to citizens in response to the threat, or emergence of public resistance to taxation; and (ii) indirectly, in which taxpayer resistance to taxation by an unresponsive government undermines the stability of the government, leading to future reform (ibid).

economics, that behavioural factors influence non-compliance (e.g., Spicer and Lundstedt (1976); Grasmick and Scott (1982);Yankelovich et al. (1984); Cowell (1990); Smith (1992); Alm et al. (1992); Erard and Feinstein (1994)). Feld and Frey (2007, 2010) argue that citizens and the state appear to develop their fiscal relationships according to a psychological 'tax contract' that establishes fiscal exchange between taxpayers and tax authorities. This relationship, however, reaches beyond pure exchanges, and involves relationships and loyalties between the 'contract partners'. Consequently, Andreoni et al. (1998) argue that researchers need to explore the psychological, moral, and social influences on compliance behaviour and integrate these factors into economic models of compliance.

The behavioural literature on tax compliance incorporates social and political motives to explain a sense of morale or social duty to pay taxes (Andreoni et al. (1998: 851)). Three main lines of theoretical arguments have been made in relation to tax morale, i.e. arguments focusing on (i) social influences, (ii) comparative treatment of citizens, and (iii) the strength of the national political community. Each of these is now presented in turn.

2.3 Social influences

It is reasonable to assume that human behaviour in the area of taxation is influenced by social interactions much in the same way as other forms of behaviour (Snavely 1990). Compliance behaviour and attitudes towards the tax system may therefore be affected by the behaviour of an individual's reference group such as relatives, neighbours and friends. Therefore, if a taxpayer knows many people in groups important to him who evade taxes, his/her commitment to comply will be weaker. On the other hand, social relationships may also help deter individuals from engaging in evasion in fear of the social sanctions imposed once discovered and revealed publicly (Grasmick and Green 1980; Grasmick and Scott 1982). Theoretical research on herd behaviour in economic situations (Banerjee 1992; Sah 1991) also indicates that social influences may affect compliance, in particular by affecting the perceived probability of detection.

One of the most consistent findings about taxpayer attitudes and behaviour in Western countries is that those who report compliance believe that their peers and friends (and taxpayers in general) comply, whereas those who report cheating believe that others cheat (Yankelovich et al. 1984). Evidence suggests that perceptions about the honesty of others may affect compliance behaviour.

2.4 Comparative treatment

Equity theory suggests that individuals are more likely to comply with rules if they perceive the system that determines those rules to be impartial (McKerchar and Evans 2009: 176). Where there are perceived inequities, individuals will adjust their inputs to the exchange until fairness is restored. Based on equity theory, addressing inequities in the exchange relationship between government and taxpayers would result in improved compliance.

Citizens may not consider their relationship with the state in a vacuum where both parties are the only actors. Likewise, they may not think about their fellow citizens without considering their own relationship with the state. They may also consider how the state treats them relative to their fellow citizens. This judgment is likely to affect not only their judgment of the state, but also how they view their fellow citizens (D'Arcy 2011: 7). If the state treats certain groups preferentially, this may colour the citizen's relationship with the state and the group receiving favours. A crucial variable is then not just what a person (or a business) gets from the state, but what the person (or business) gets from the state (and how the state treats the person) relative to those who are in the person's wider national community. This social psychology model highlights the importance of equity theory in the study of compliance and taxpayer behaviour.

Rothstein and Teorell (2008) take this argument further and argue that 'impartiality' in the exercise of power is the key characteristic of 'good governance'. They emphasize that the state's legitimacy rests on its impartiality, i.e. the state's "proven ability to treat citizens equally in dealings with them and to adjudicate impartially in disputes between them" (D'Arcy 2011: 8). Citizens feel able to trust their fellow citizens if they trust the state to intervene and resolve fairly when there is a breakdown in relations between citizens. Thus, compliance rests not only citizens' trust in government, but also on their trust in each other.

2.5 Political legitimacy

One strand of the literature emphasises that higher legitimacy for political institutions leads to higher tax compliance (Torgler and Schneider 2007). Tayler (2006: 376) argues that legitimacy makes "people feel that they ought to defer to decisions and rules, following them voluntarily out of obligation". Legitimacy could be described as belief or trust in the authorities, institutions, and social arrangements to be appropriate, proper, just and work for the common good. According to the political legitimacy theory, tax compliance is positively related to perceptions about the government's, in particular the tax authority's, trustworthiness (Tayler 2006; Kirchler et al. 2008; Fauvelle-Aymar 1999). Related to political legitimacy is identification with the state in the sense of national pride. Researchers have suggested that the group identification deriving from national pride fosters cooperative behaviour and willingness to pay taxes (Torgler and Schneider 2007).

Political scientists have addressed how political legitimacy and civic identification are fostered. Persson (2008) argues that African countries that upon independence emphasized building national over ethnic identity have been more successful than those who allowed ethnicity to become the main animus of politics. She uses Botswana as an example of a state that succeeded in the construction of a national identity and Uganda as a case that failed to do so. Lieberman (2003) argues that the definition of *National Political Community* (NPC) is crucial. In an analysis of data from national surveys, he compares South Africa under Apartheid, where the NPC was small, exclusive and racially defined, to Brazil where regionalism was the main logic in an NPC that was large with many cross-cutting cleavages. Lieberman attributes the higher revenue performance of South Africa to the superior ability of a small, exclusive and cohesive group to solve collective action challenges like taxation. Citizens' evaluations of their obligations to the state, including tax compliance, were largely conditioned by feelings of closeness or affinity towards other groups included in the state's definition of the national political community.

Empirical studies conducted in other regions also find evidence that political legitimacy and national pride are important to tax compliance. Alm et al. (2005) find a positive relationship between attitudes towards tax and trust in the government as well as national pride in Russia in the 1990s. Based on a study of 30 developing and developed countries, Picur and Riahi-Belkaoui (2006) find that tax compliance is highest in countries characterised by high control of corruption and low size of bureaucracy.

Five 'schools of thought' on taxpayer behaviour have been presented above. In the following section, theory inspired research questions and hypotheses to guide empirical research are formulated.

3. Research questions and hypotheses deriving from the theories

A similar set of tax research questions that Western scholars have grappled with also concern studies of African societies: Under what conditions do citizens assent to comply with the tax laws? What are the primary motivations for compliance? What are the key determinants of tax attitudes and behaviour? Which features of citizen-state relations govern attitudes and behaviour regarding taxation? Which theoretical school best explains citizens' willingness to part with private resources?

Answers to these questions are important because they can inform policy makers about how to extend the reach of tax administrations. They may provide insights into what social, economic and political goods governments need to provide to citizens to ensure that taxation is accepted as a normative act; insights into the relationship between perceptions of supply and demand for democracy and taxation; and ultimately information about which actions could ensure the state the credibility and legitimacy necessary for effective governance.

3.1 The African context

The research questions that dominate the theoretical literature on tax compliance are as pertinent to the African context as elsewhere. However, certain socio-political conditions and variables common to many African states are likely to influence citizens' behaviour and thus shape the research findings. For meaningful research design and analysis, specific features of the African context should be noted:

- Relatively low GDP per capita.
- Young populations
- Extreme income inequalities.
- Low levels of human development (education, health).
- Dominant ruling parties and, generally, weak opposition, civil society and media.
- Colonial histories affecting attitudes towards the role of the state, governance and the type of public institutions, including tax administration, of a country.
- Limited (administrative) reach of national government institutions, in many cases to mainly urban and semi-urban areas.
- Large informal sectors.
- Widespread public and private sector corruption.
- Limited delivery of quality and diversity of public services by governments to citizens.
- Relatively narrow public revenue base from which to provide goods and services.
- Differing perceptions regarding service delivery across urban versus rural populations.

Yet, there are wide divergences across African states on most variables. Generalised explanations are therefore problematic. Cross-national variations require a more detailed examination of country-specific factors.

3.2 Tailoring research questions and hypotheses

Mutual consideration of the African context and recent scholarly work on taxation generate several pressing research questions and hypotheses for further research on African's tax attitudes and behaviour. These can be grouped after the five major theoretical approaches outlined in section 2 above:

Economic deterrence

Research questions deriving from this theoretical framework include:

- How do citizens perceive the likelihood of being detected and punished if evading tax?
- How do citizens perceive the credibility or trustworthiness of the revenue administration's sanctions against defaulters?

The following hypotheses can be formulated:

H1 Compliance is more likely when the probability of detection and prosecution is perceived to be high.

H2 Compliance is more likely when sanctions against tax evasion are perceived to be severe.

Fiscal exchange

Research questions deriving from this theoretical framework include:

- Do citizen's attitudes towards taxation depend on their perceptions about the state's delivery of (political, social and economic) services?
- If yes, what aspects (quality, access) and types of services (e.g. education, housing and health) matter most?
- Does one's position in the social structure/demographic characteristics (age, gender, education, income level, profession, urban-rural, etc.) have a bearing on (a) citizens' attitudes toward taxation, and (b) the state's delivery of services and goods?

The following hypotheses can be formulated:

H3 A taxpayer is more likely to comply when she/he perceives her/his terms of trade with the government as fair.

H4 A taxpayer assents to pay tax because he/she is satisfied with the services received in exchange.

H5 Citizens who frequently contribute taxes (employed, urban) have higher expectations of government to deliver goods and services than those who are unemployed/do not pay taxes.

H6 Middle class citizens are more likely to assent to the normative arguments for taxation (reciprocity, development of state etc.).

Challenges facing these hypotheses include: (i) which services are of most concern, and (ii) what aspects of service delivery are critical to the citizen? The answers to these questions are also likely to differ between citizens depending on age, gender, geographical location etc.

Social influences

Research questions deriving from this theoretical framework include:

- Are peoples' tax behaviour influenced by their perception of others' behaviour?

The following hypothesis can be formulated:

H7 The fewer evaders a taxpayer knows, the more likely he/she will comply.

Comparative treatment

Research questions deriving from this theoretical framework include:

- How do people perceive they are treated by the state/tax administration relative to other people in their community?
- Do economic and politically weaker or marginalised groups tend to perceive taxation differently than more prosperous and influential groups?
- Does one's ethnic group (group or regional identities) determine how they perceive the state's delivery of services?

The following hypothesis can be formulated:

H8 A citizen assent to pay tax because she/he feels that the state treats her/him fairly relatively to fellow citizens.

Political legitimacy

Research questions deriving from this theoretical framework include:

- Are people more compliant when they feel the government is politically legitimate?
- Is there a relationship between attitudes towards democracy and attitudes towards taxation?
- Is there a relationship between citizen's perceptions of government accountability and attitudes towards taxation?

The following hypothesis can be formulated:

H9 Citizens assent to pay tax because they feel the government is legitimate and accountable.

H10 Citizens assent to pay tax because they feel a strong sense of national identification with their fellow citizens.

In what direction do these relationships and associations work? Causality is an issue for further investigation. For instance:

- Does compliance follow from coercion?
- Does compliance follow perceptions of state legitimacy and accountability?
- Do state legitimacy and accountability follow from state responsiveness (delivery of services)? Yet, the state requires compliance (and tax revenues) before it can deliver goods and services using public finances.

4. Tax perception studies in Africa

This section examines the use of surveys to gather evidence on citizens' behaviour and attitudes towards the tax system. While tax perception surveys are well established for OECD countries, available studies in Africa are limited and provide little more than scattered estimates of the distribution of tax burdens and some information on peoples' attitudes towards specific, usually local, taxes. Some business surveys also include questions on taxation, focusing on constraints and compliance costs for enterprises. The main part of this section assesses the design and key findings of some of the existing surveys in Africa. The studies examined are categorised into three groups: (1) Business surveys, aiming to identify main constraints for investors and entrepreneurs; (2) Country specific citizen surveys, addressing peoples' views of a range of issues, including the tax system, tax payment, trust in public institutions and service delivery; and (3) Cross-country citizen surveys.[11] Finally, the strengths and disadvantages of such surveys in the African context are discussed.

4.1 Business surveys

Business surveys have been conducted in several African countries during the last decade, focusing on business constraints and compliance costs for enterprises. The most comprehensive of these is the *Doing Business* study conducted by the International Finance Corporation of the World Bank (Doing Business 2011). It covers a wide range of variables (including taxes) that may impact the business environment in a large number of countries across the globe. In addition, country specific business surveys have been conducted in several African countries. In the following we start out by discussing the cross-country *Doing Business* and *Paying Taxes* studies, followed by a presentation and discussion of selected country specific studies.

4.1.1 Cross-country 'Doing Business' and 'Enterprise' surveys

The *Paying Taxes* study looks at tax systems from the business perspective. The sixth edition of *Paying Taxes - the Global Picture* was published in 2012.[12] It is a joint publication produced by the World Bank, the International Finance Corporation (IFC) and PricewaterhouseCoopers (PwC). The study is based on data collected as part of the *Doing Business* report (Doing Business 2011) and the 2012 report covers businesses in 183 countries (PricewaterhouseCoopers 2012). *Doing Business* reports generally receive wide media attention when published and commonly initiate public debates about whether the business environment is conducive or not compared to other (usually neighbouring) countries. Although *Doing Business* does not explicitly aim to shed light on taxpayers' (firms) perceptions of the tax system in the country they operate, it is likely that these surveys impact on the business community's - as well as (potential) foreign investors' - perceptions of the tax system in individual countries. It is therefore relevant to include a discussion of these surveys in this paper.

Doing Business records the taxes and mandatory contributions that a medium-size company must pay in a given year as well as measuring the administrative burden of paying taxes and contributions.[13] Taxes and contributions measured are profit or corporate income taxes, social contributions and labour

[11] A fourth category of surveys labeled 'Taxpayer satisfaction surveys' is not covered by this study. These surveys are mainly conducted by the national revenue administrations in individual countries, and focus, generally on central government taxes and tax administration.

[12] The Paying Taxes report 2012 can be downloaded from http://www.doingbusiness.org/~/media/FPDKM/Doing%20Business/Documents/Special-Reports/Paying-Taxes-2012.pdf

[13] The methodology applied is presented in PricewaterhouseCoopers (2012: 95-100, appendix 1).

taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, road and vehicle taxes, and any other small taxes or fees (PricewaterhouseCoopers 2011: 78).[14] The ranking on the ease of paying taxes is the simple average of the percentile rankings on its component indicators.

Doing Business uses a case study scenario to measure the taxes and contributions paid by a standardised business and the complexity of an economy's tax compliance system. Tax experts from a number of different firms in each country compute the taxes and mandatory contributions due in their jurisdiction, based on the standardized case study facts (PricewaterhouseCoopers 2011: 75). Information is also compiled on the basis of the frequency of filing and payments, as well as the time taken to comply with the tax laws in an economy.

The method applied in *Doing Business* is simple, which has some real benefits, not least because it is accessible to policy-makers who can make up an informed opinion about the results. The authors of *Doing Business* claim that some more sophisticated, although standard statistical scaling methods do not change the results. However, Hoyland et al. (2008) show that if the uncertainty in the data is taken into account, it becomes difficult to tell most countries apart on the aggregated ranking. Thus, a move of 20 or 30 places on the ranking may not reflect any real-life improvement of the underlying business-environment of the country. It may simply be due to random noise or margin of error. Further, while the main body of the text and the country tables in *Doing Business* present a wide range of indicators across ten different areas, it is not always clear from the report which indicators are included in the final ranking, and what criteria are used for including or excluding an indicator in the calculation of the ranking. Hoyland et al. (2008: 11) show that (a) several of the indicators presented in *Doing Business* are not used for rankings, and (b) coding-decisions taken before calculating the rankings are not transparent. In spite of these and other methodological challenges, the *Doing Business* country ranking receives widespread attention and is widely referred to by policy makers, investors and business people.

The Paying Taxes part of the *Doing Business* report (Doing Business 2011) focuses on the potential to simplify the tax system and improve revenue collection in reducing tax evasion and the size of the informal economy in developing countries. Although it is not made explicit in the *Doing Business* reports, the theoretical foundation for the 'tax constraint indicators' implicitly refer to (a) the classical tax evasion model, which assumes that a taxpayer's behaviour is influenced by factors such as the tax rate and the effectiveness of the tax administration to enforce taxes due, including compliance costs (section 2.1 above), and (b) the comparative treatment model, which assume that taxpayers' behaviour is influenced by how they perceive they are treated by the state relative to other taxpayers/businesses (section 2.4).

The World Bank and the International Finance Corporation also conduct so called "Enterprise Surveys". These are firm-level surveys of a representative sample of a country's private sector, and the surveys site (http://www.enterprisesurveys.org/) contains data on the investment climate and business perceptions of firms in 135 countries. The data are based on surveys of almost 130,000 firms and contains, among other issues, rankings of the largest constraints for investment. In the following, we present relevant results from the *Enterprise Surveys* as well as from *Doing Business* 2012 for nine African countries. We have selected the sub-Saharan countries Benin, Kenya, Mozambique, Senegal, Sierra Leone, Tanzania, Uganda, South Africa and Zambia against the background that we will use

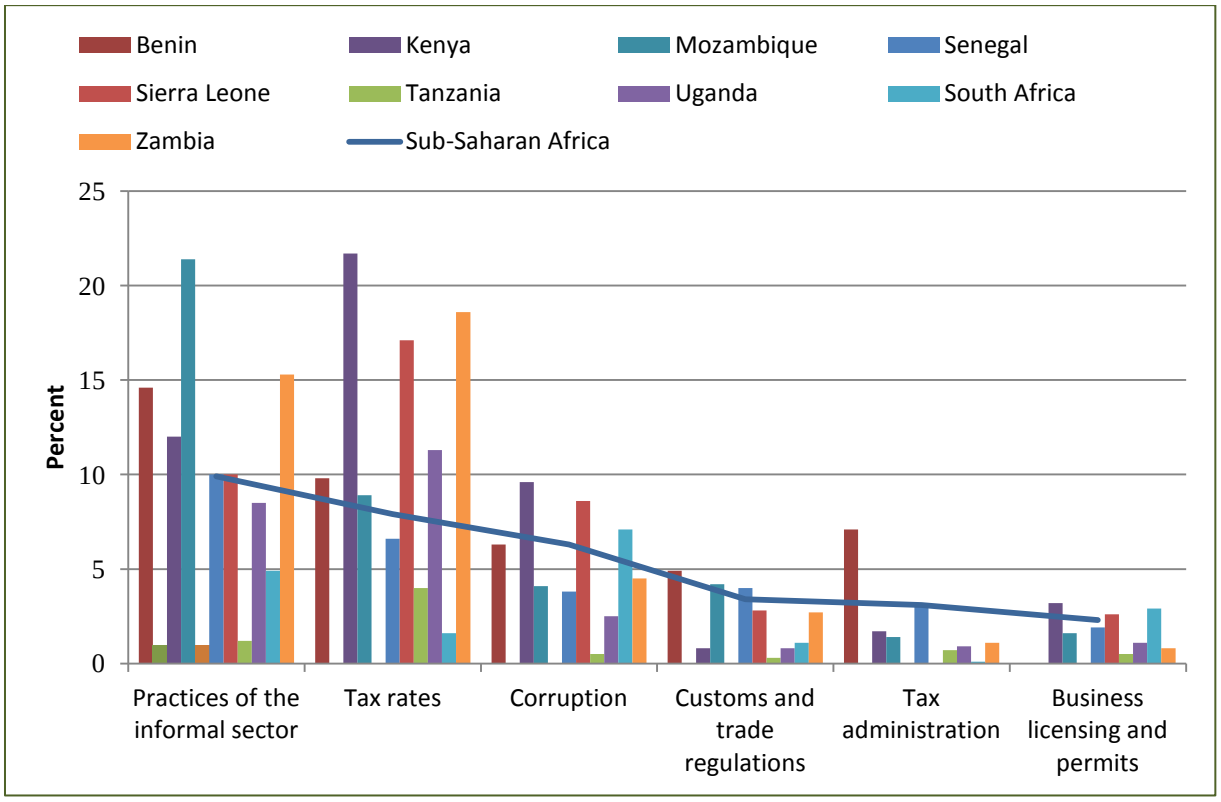
[14] "*Doing Business* measures all taxes and contributions that are government mandated (at any level - federal, state or local) and that apply to the standardized business and have an impact on its financial statements. In doing so, *Doing Business* goes beyond the traditional definition of a tax. As defined for the purposes of government national accounts, taxes include only compulsory, unrequited payments to the government. Doing Business departs from this definition because it measures imposed charges that affect business accounts, not government accounts" (PricewaterhouseCoopers 2012).

data from these countries to examine taxpayer attitudes and behaviour in a forthcoming study (see Section 6 below) .[15]

4.1.1.1 Findings from enterprise surveys

In the Enterprise survey, firms are asked whether they find a range of issues to be obstacles to the current operations of the firm, and have the following options: "No obstacle", "Minor obstacle", Moderate obstacle", "Major obstacle" and "Very severe obstacle" (Enterprise Surveys 2012b). Figure 1 depicts the share of firms in the private sector that rate each of the six tax-related obstacles as major or very severe constraint on the business environment in each of the nine selected countries as well as the average for sub-Saharan Africa.[16] [17]

Figure 1: Largest tax-related business obstacles experienced by firms in the private sector



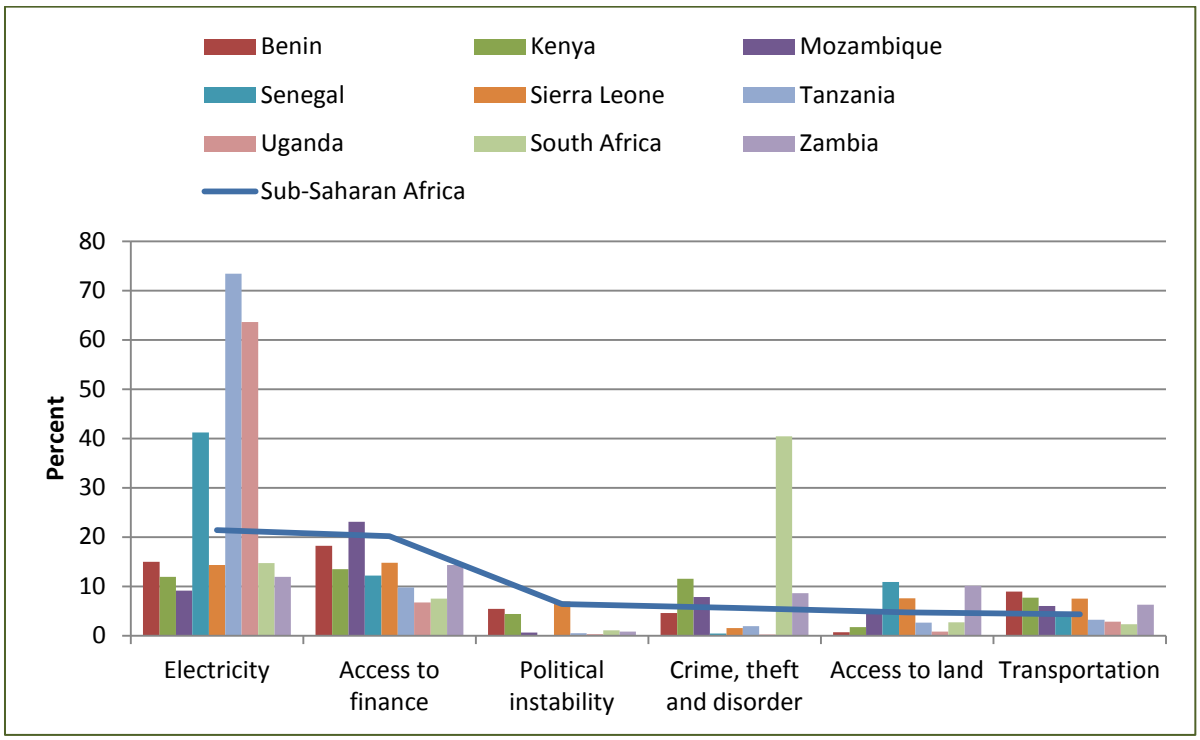
Similarly, figure 2 shows major business constraints not related to taxation.

[15] In addition, Cameroon, Ghana, Malawi and Mali might be added depending on data availability from Afrobarometer Round 5.

[16] Source: Enterprise Surveys (2012a) (http://www.enterprisesurveys.org/)

[17] The data for Benin and Sierra Leone are from 2009; the figures for Kenya, Mozambique, Senegal, South Africa and Zambia are from 2007; and the data for Tanzania and Uganda are from 2006.

Figure 2: Largest non-tax related business obstacles experienced by firms in the private sector



On average in Sub-Saharan Africa, (1) electricity was found to be the most important constraint, followed by (2) access to, and cost of, financing, (3) practices of the informal sector, (4) tax rates, (5) political instability, (6) corruption, (7) crime, (8) access to land, (9) transportation, (10) customs and trade regulations, (11) tax administration, (12) inadequately educated workforce, (13) business licensing and permits, (14) labour regulations and (15) courts.[18] While tax rates were found to be among the top five constraints for sub-Saharan Africa as a whole (and among the top 10 constraints in all the case study countries), tax administration is seen as less problematic by businesses. In three of the selected countries, Kenya, Sierra Leone and Zambia, the tax rate is the most frequently mentioned business constraint. In the other countries, other, non-tax related issues are more important. Electricity is seen as the most important obstacle in Tanzania, Uganda and Kenya, while firms in Mozambique and Benin perceive access to finance to be the major business constraint. Finally, South African businesses perceive crime, theft and disorder as the largest obstacle to the business environment.

Access to finance is the second most important constraint to firms regionally (20%) and this is listed among the four most frequently stated obstacles in all the selected countries. Practises of the informal sector are the third largest business obstacle in Sub-Saharan Africa as a whole and also seem important in the selected countries. It is rated the second largest constraint for enterprises in Mozambique and Zambia, third largest in Benin, Kenya and Uganda, and fourth largest in Senegal and Sierra Leone. In South Africa and Tanzania, informal sector practises is rated somewhat less important (7th and 8th largest constraints, respectively).

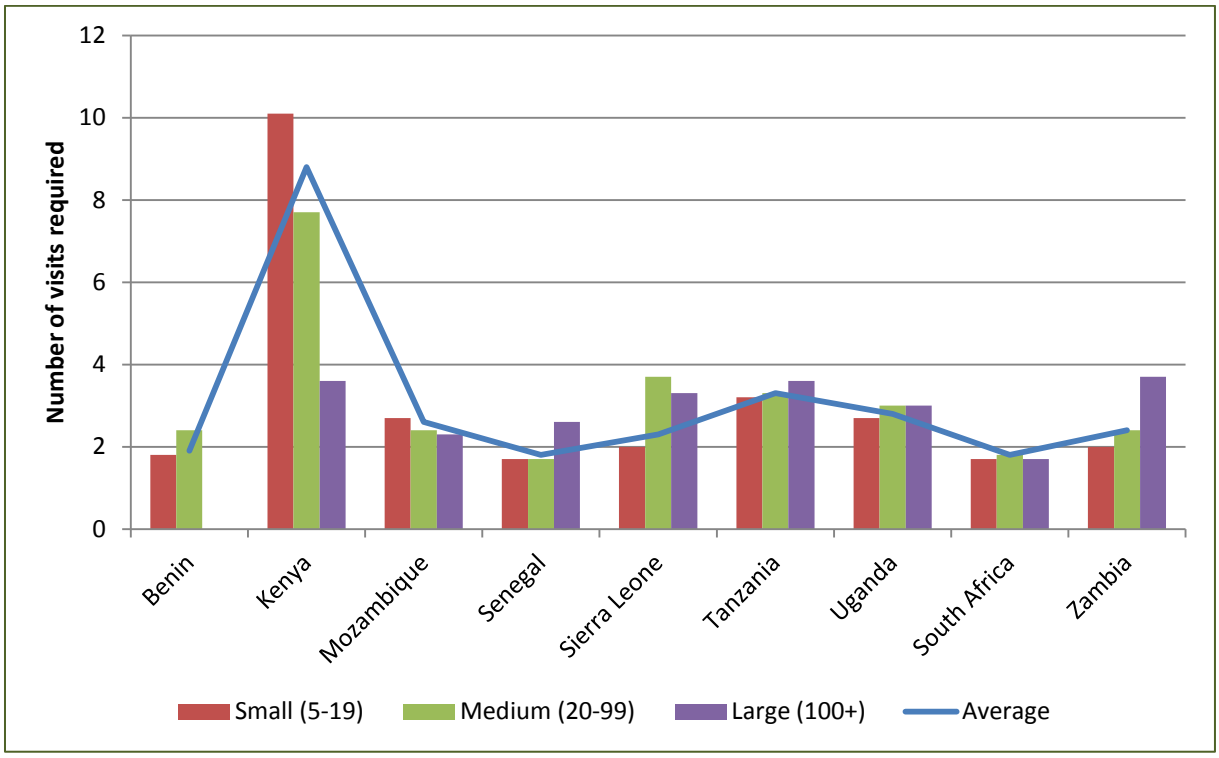
Though there are many similarities between the selected countries, there are also important differences. In particular, the business constraints reported for South Africa differ from the regional average as well as those reported by the other countries in Figure 1 and 2. As mentioned above, South African firms rate crime, theft and disorder as the most important obstacle. However, regionally, crime

[18] Inadequately educated workforce and labour regulations are not displayed in the figures due to space constraints.

is only rated seventh most important. Crime is also further down on the lists of each of the selected countries. In Senegal, Sierra Leone and Uganda, crime is not even among the ten most important obstacles, while in Benin it is perceived as the 10th largest business constraint. In Tanzania and Zambia it ranks 6th and, finally, crime is the 5th largest obstacle in Kenya and Mozambique. Furthermore, South Africa is the only country where inadequately educated workforce is rated among the five most important obstacles for business. There are also large cross-country variations in the share of businesses that rates electricity as the most important constraint. In Tanzania, 73% of the firms reported electricity to be a barrier, but only 9 % of the firms did so in Mozambique.

Figure 4 shows the average number of meetings with tax officials required each year for firms of different sizes. Small firms are those with 1 to 19 employees, medium-sized firms employ between 20 and 99 workers, and large firms employ more than 100 workers.

Figure 3: Average number of visits or required meetings with tax officials by business size [19] [20]



According to Figure 3, there are no substantial differences between firms of different sizes except for in Kenya, Sierra Leone and Zambia. Kenya exhibits the largest variations. Large Kenyan firms have much fewer meetings with tax officials than medium size businesses (4.1 visits difference), and medium size businesses have much fewer visits than small firms (2.4 visits difference). In Sierra Leone the situation is a bit different. Medium sized firms have more visits than both small and large firms, and medium sized firms have more visits by tax officials than small firms. Yet another pattern is displayed by Zambian firms. For them, number of meetings is increasing by firm size.

The figure also illustrates that the average level of visits by tax officials is markedly higher in Kenya (8.8) than in the other countries which all have an average number of visits in the area between 1.8 and 3.3.

[19] Source: Enterprise Surveys (2012)

[20] The average is estimated based on the respondents answering 'yes' to the questions of whether visits or meetings were required.

4.1.1.2 Findings from Doing Business

The *Doing Business* database (http://www.doingbusiness.org/) provides measures of business regulations and their enforcement (Doing Business 2011). It indicates the regulatory cost of business, and includes a wider range of countries and subjects than the enterprise surveys. The countries are ranked in terms of the ease of doing business, which is an overall ranking of 10 elements relevant to the business environment. The individual elements in 'ease of doing business' are (1) starting a business, (2) obtaining and renewing licenses, (3) employing workers, (4) registering property, (5) getting credit, (6) protecting investors, (7) paying taxes, (8) trading across borders, (9) enforcing contracts, and (10) closing a business. Table 1 shows the overall ranking of countries in terms of ease of doing business. The right column describes the ranking on ease of paying taxes which is one of the ten elements of which the ease of doing business entails.

Table 1: Worldwide rank on ease of doing business and ease of paying taxes in selected African countries (ranking within sub-Saharan Africa in brackets) (Doing Business 2012)(Doing Business 2012)(Doing Business 2012)(Doing Business 2012)[21]

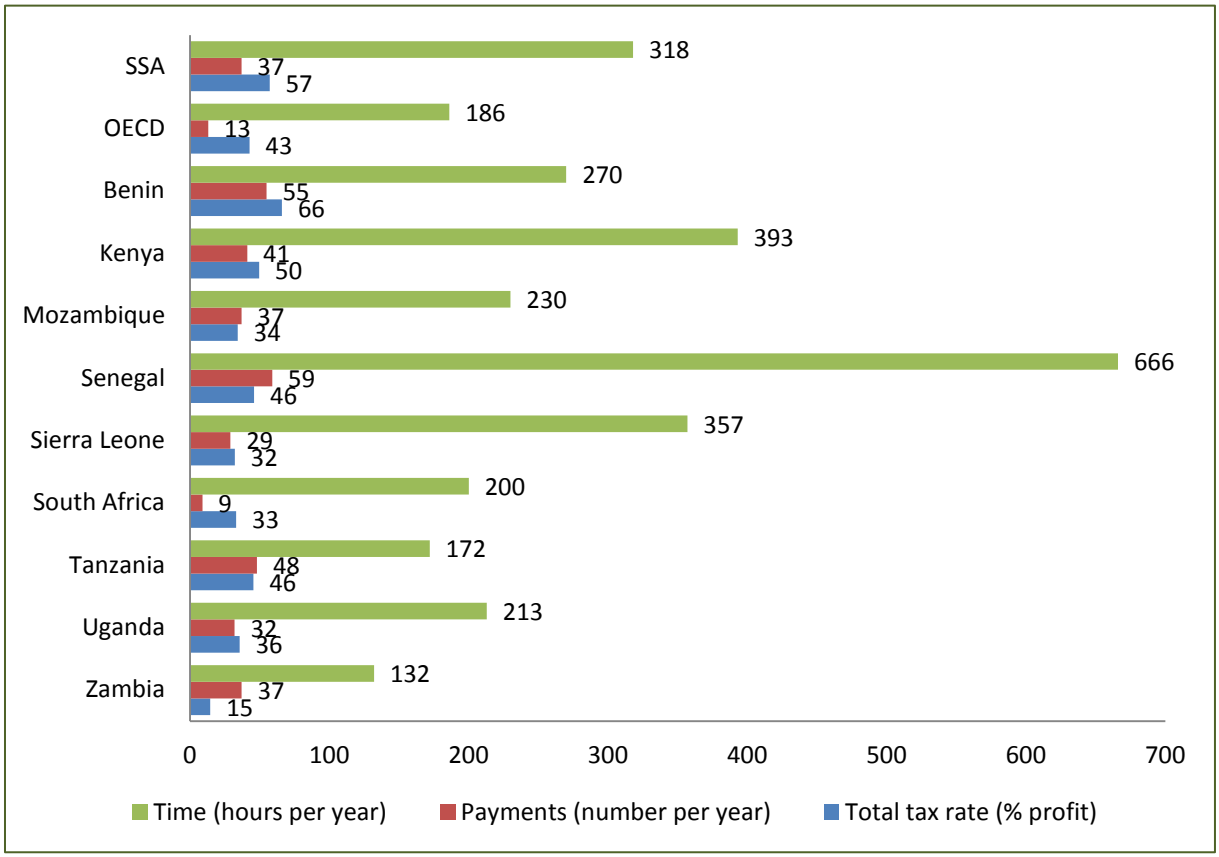
	Rank	
	Ease of doing business	**Ease of paying taxes**
South Africa	35 (2)	44 (7)
Zambia	84 (7)	47 (8)
Kenya	109 (9)	166 (36)
Uganda	123 (12)	93 (14)
Tanzania	127 (14)	129 (25)
Mozambique	139 (18)	107 (20)
Sierra Leone	141 (19)	76 (12)
Senegal	154 (26)	174 (40)
Benin	175 (39)	170 (38)

South Africa is rated highest, while Senegal and Benin are at the bottom of the list both in terms of doing business and paying taxes. However, some of the other countries are performing much better on one ranking than the other. For instance, Kenya is ranked as 109th on the ease of doing business worldwide, but is rated as low as 166 on the ease of paying taxes. For Sierra Leone it is the other way around; it is ranked 141st on the ease of doing business, but does much better in terms of paying taxes (76th). These findings strengthen the impression from the Enterprise surveys discussed above (see Figure 1 and 2): there seems to be substantial variations in business constraints between the countries in our sample.

Figure 4 gives a graphic presentation of the three components of the ease of paying taxes indicator discussed above, namely the average of the total number of tax payments, the total number of hours spent on preparing taxes and complying with rules and laws, and the total tax rate (measured as share of commercial profits), for medium-sized companies each year (Doing Business 2010: 53). The figure includes all the selected countries, as well as the regional and OECD average.

[21] Source: Doing Business (2012).

Figure 4: Time spent paying taxes, number of payments and total tax rate on profits in selected countries [22]



The Figure shows that the total tax rate on profits is lower than the SSA average rate (57% of profit)[23] in all the selected countries except for Benin (66%), which has the highest total tax rate in the sample. Zambia is by far the country with the lowest tax rate on profits (15%), and, together with Sierra Leone (32%), South Africa (33%), Mozambique (34%) and Uganda (36%), it has a rate below the OECD average of 43%. Tanzania (46%), Senegal (46%) and Kenya (50%) all have tax rates on profits between the OECD and SSA average.

The average number of payments made by firms is more than three times the size in SSA than in the OECD region (37 vs. 13 payments). Among the countries in our sample, Senegal (59), Benin (55), Tanzania (48) and Kenya (41) lie above, and Uganda (32), Sierra Leone (29) and South Africa (9) below, the regional average. Mozambique and Zambia have numbers equal to the regional average. South Africa is the only country where the number of payments is lower than the OECD average.

The variation in time spent on paying taxes and complying with rules and laws is extensive. While the number of hours spent on paying taxes annually in Senegal is 666, firms in Zambia only use 132 hours on paying taxes every year. Six of the nine selected countries are rated below the SSA average (318 hours) in terms of this indicator.

Though Zambia has the lowest tax rate of the countries in the sample (14.5%), figures from the Enterprise Survey shows that tax rates are seen as the top constraint by firms in Zambia (see Figure 1).

[22] Source: Doing Business (2012)

[23] It should be noted that this average is heavily affected by the tax rates in the Comoros, the Democratic Republic of Congo and The Gambia where tax rates are 218%, 340% and 284%, respectively. When these three countries are excluded from the sample, the SSA tax rate average is 41.5%, i.e. lower than the OECD average.

The Doing Business and the Enterprise surveys are inadequate to explain why the perception of firms are so strongly opposed to the level of the tax rates, even though the Doing Business numbers suggest them to be far below the regional and OECD average.

To sum up, the surveys show that tax rates are viewed as an important obstacle for business in the individual countries, as well as in Sub-Saharan Africa as a whole. Furthermore, tax rates are perceived to be a much larger obstacle than tax administration. Of non-tax related issues, practises of the informal sector and supply of electricity are the most frequently mentioned business constraints regionally, but there are substantial differences across countries. Large disparities between countries are found in the number of required meetings with tax officials, but also between companies of different sizes within countries. The costs associated with tax payments vary extensively between the countries. Thus, while providing interesting and useful findings about regional challenges related to taxation, cross-country studies are far from sufficient in the study of taxpayer behaviour.

4.1.2 Country specific business surveys

A series of country and sector specific surveys have been conducted across Africa. In the following we summarise the design and findings of two surveys, which have received attention due to the strength of the methodologies and the policy relevant findings. The first is a survey of enterprises in Uganda (Gauthier and Reinikka 2001) and the second a survey of small businesses in South Africa (Coolidge and Ilic 2009).

4.1.2.1 Uganda: Shifting tax burdens through exemptions and evasion

The study by Gauthier and Reinikka (2001) uses detailed information on taxes and firm characteristics from a survey of 243 firms in Uganda conducted by the *World Bank* and the *Ugandan Private Sector Foundation*. Firms were interviewed in 1998 on their activities in 1995-97, including physical investment, exports, infrastructure services, taxation, policy credibility, regulation, and corruption. The survey requested confidential information on costs, sales, tax payments etc. To obtain cooperation from the respondents, the interviews were carried out by the *Uganda Manufacturers Association.* In addition to quantitative data, the survey also collected information on the firms' perceptions of various constraints to investment.

A stratified random sample for the survey was constructed using the following criteria (Gauthier and Reinikka 2001: 5):

- The sample should be reasonably representative of the population of establishments in five major economic sectors.
- The establishments surveyed should account for a substantial share of national output in each of the industrial categories.
- The sample should be sufficiently diverse in terms of firm size.
- There should be enough representation outside the capital city Kampala to draw conclusions about industrial activity in Uganda as a whole.

The survey was based on a partial industrial census update from 1996 of the then latest complete industrial census in Uganda from 1989. Only 8 out of the 39 districts in the country were included. However, despite its limited geographical coverage, the 8 districts in the 1996 update represented 80% of value added in the private industrial sector and 70% of employment, based on the 1989 census. Large firms represented less than 20% of the sample, while firms with less than 21 employees represented 47%. Although the sample was drawn randomly from the 1996 updated industrial census, it over-represents larger, more visible firms. This bias is likely to be important when considering the tax evasion data.

The study shows that tax exemptions and evasion were widespread among businesses in 1995-97. Tax evasion was found to be especially prevalent among smaller firms, while larger firms tended to reduce their tax obligations through official tax incentive (exemption) programmes, leaving medium-sized firms bearing a disproportionate share of the total tax burden. These findings suggest that the inverted U-shaped relationship between taxes and size derives from the relationship between tax erosion patterns and firm size (Gauthier and Reinikka 2001: 10). That medium-sized firms support the heaviest tax burden in proportion to sales suggests that they have a competitive disadvantage relative to smaller and larger firms. Domestic-owned firms tended to bear half the tax ratio (4.5%) of foreign firms (8.3%) or joint-ownership firms (8.2%) in 1995. The lighter burden of domestic firms was found to be mainly due to differences in evasion behaviour, with 64% of domestic firms classified as evaders compared to just 40% of foreign-owned firms and 44% of joint-owned firms.

Firms were also asked about various forms of contacts with the national tax administration, the Uganda Revenue Authority (URA). For example, they were asked whether they had been audited by the URA, and if there were any differences between the firm's self-declaration and the revenue authority's assessment over the last three years (i.e. in 1995-97). Furthermore, they were asked if they had to pay bribes to public officials, including tax collectors, and if so, how much.

Over 40% of the surveyed firms reported audits for corporate tax, while as many as 75% of VAT-paying firms reported audits, which are very high shares when compared to other countries. The high auditing frequency indicates a serious lack of (quasi-)voluntary compliance and a low level of mutual trust between the tax authority and the taxpayer (see Chen and Reinikka (1999). The firms audited for corporate tax and VAT were mainly larger, and the firms audited for corporate tax typically did not have access to exemptions. Furthermore, half of the firms surveyed challenged their tax assessments. The difference between the Uganda Revenue Authority's assessment and the firm's self-declaration was, on average, 83%. Gauthier and Reinikka (2001: 21) found that the probability of the firms' own assessment being different from that of the tax administration was significant and negatively correlated with tax exemptions. In other words, the more exemptions a firm has, the less likely it is to disagree with the revenue authority over its tax assessment.

The sampled firms were asked to rank a number of constraints, including tax administration and tax burdens (Gauthier and Reinikka 2001: 18). Tax administration was perceived as the sixth most binding constraint overall (out of 24). On average, as many as 64% of the respondents ranked tax administration and tax burdens as a major constraint. With regard to customs, 32% of the respondents felt it represented a major constraint. Customs-related constraints increased with firm size, reflecting the fact that large firms are often importers.

Finally, firms were asked if they usually paid bribes to tax and customs officers, and if so, the amount (Gauthier and Reinikka 2001: 22). Bribe payments to tax officials are a means of gaining favours, and especially of reducing tax obligations or payments. As many as 102 of the 237 surveyed firms (43%) reported paying bribes to tax officials occasionally to always, while 75 (38%) out of 197 firms reported having to pay bribes to customs officials. The frequency increased with firm size. As many as 60% of the large firms said they paid bribes to tax officials (occasionally to always) compared with just 13% of smaller firms. The actual burden of bribe extraction by public officials was found to be heaviest for medium-sized firms.

Gauthier and Reinikkas' study is interesting both with respect to the rigorous methodology applied and with respect to some of the findings. Firstly, it shows that - if properly designed and implemented - it is possible to gather quite rather sensitive data on firms' tax behaviour and attitudes. Second, it indicates that businesses' tax behaviour may differ substantially depending on the company's size and the sector it is operating in.

4.1.2.2 South Africa: Tax compliance perceptions and formalisation of small businesses

The compliance behaviour of small and micro enterprises is receiving increasing attention due to the large number of such firms in many African countries, and the perceived untapped tax potential these companies represent for governments. This section presents a recent investigation by Coolidge and Ilic (2009). The study was initiated in 2006 by the National Treasury (NT) of South Africa and the South African Revenue Service (SARS) in cooperation with the Foreign Investment Advisory Service (FIAS) of the World Bank Group to assess the extent of the tax compliance burden for enterprises in South Africa. A set of three surveys were conducted focusing on small, medium and micro enterprises (SMMEs):

1. A survey of professional tax practitioners (TP) about their SMME clients.
2. A survey of SMME's registered with SARS.
3. A survey of informal SMME's regarding their perceptions of tax compliance costs.

The survey fieldwork for the third informality survey included 1000 businesses that were not registered with SARS. The survey of formal firms included 1000 businesses that were registered with SARS. A representative sample was drawn from the SARS database of registered business taxpayers. The fieldwork for the two business surveys took place in 2007.

The surveys aimed to answer, among others, the following questions:

- What are the characteristics of the 12% of formal firms who reported they had operated for some time before registering with SARS?
- What are the characteristics of the informal firms who reported they are considering registering with SARS?
- Is there a 'bridge' that can be found between informal and formal firms?
- What do informal firms know about their tax obligations?
- What are some of the key attitudes of informal firms that may be related to their decisions about formalizing and registering with SARS?

The study found that formalisation was more likely to take place in urban areas in South Africa, involving relatively larger firms, and those who already used proper bookkeeping. Furthermore, informal businesses who said they were likely to register for tax in the near future were more likely than other informal firms to:

- Report higher satisfaction with government services.
- Believe most businesses should (and do) pay their taxes.
- Be registered with business associations.
- Have a relatively larger number of employees.
- Rent their premises.
- Keep financial records.
- Be aware of the location of nearest SARS office.

Conversely, informal businesses that received most of their income in cash were found to be less likely to register for taxation. In addition, those who perceived there to be 'major problems' associated with crime, infrastructure, and the skills and education of available workers, were relatively less likely to register for tax. The most-cited advantages of being registered for taxation included better

opportunities for growth, better access to financing, and better access to government services. The disadvantages included the financial burden of taxation, and dissatisfaction about government services.

Coolidge and Ilic's study provides some insights for policy makers wanting to increase formalisation among informal small to medium size businesses. The findings suggest that a complex range of factors attract or inhibit firms from registering for taxation. To encourage larger formalisation, the authors' suggest that the South African Revenue Services (SARS) should improve and emphasise government services that are high priorities to informal businesses, such as fighting crime and providing infrastructure.

So far, we have looked at taxation from the firm's point of view. In the following subsections the focus is shifted towards studies of the behaviour and attitudes of the individual taxpayer.

4.2 Country specific citizen surveys

During the last 10-15 years, citizen surveys have been conducted in several African countries aiming to shed light on peoples' views of taxation and their compliance behaviour. Several of these surveys focus on local government taxation. A general characteristic of these studies is that they are exploratory, location specific and the samples are not nationwide representative. This section presents the design and key findings of some of these surveys.

4.2.1 Tanzania: Citizens' tax behaviour and attitudes

Several surveys examining citizens' tax behaviour and attitudes have been conducted in Tanzania. Most of these studies focus on local government taxes. In the following we present two studies in which one of the authors' of this paper was involved in collaboration with Tanzanian researchers.

4.2.1.1 Tanzania: Why people pay taxes

One of the earliest taxpayer surveys in Tanzania was conducted in the mid-1990s (Fjeldstad and Semboja 2001). The study attempted to shed light on factors determining tax compliance behaviour in local government authorities. The experiences with the per capita (head) tax - locally named 'development levy' - was used as case. Revenues from development levy contributed on average about 30% of total own revenues in rural councils in 1997, and 19% in urban councils (p. 2059-60). The levy was, in principle, imposed on every person above the age of 18 years who ordinarily resided in the area. Women were exempted in many councils. In most areas, the tax was levied on a flat basis, but in some urban areas graduated rates based on incomes were applied.

The study aimed to answer two questions: Firstly, who pays head-tax in local authorities, and secondly, why people pay, i.e., to identify the determinants of their compliance behaviour. The study tested a set of hypothesis that were derived from theories of (a) economic deterence; (b) fiscal exchange; and (c) social influences (see section 2 of this paper; and Fjeldstad and Semboja (2001: 2016):

H1 Compliance is more likely the higher income a taxpayer has.

H2 Compliance is more likely when the probability of prosecution is perceived to be high.

H3 Compliance is more likely when sanctions against tax evasion are perceived to be severe.

H4 A taxpayer is more likely to comply when he perceives his terms of trade with the government as fair.

H5 The fewer evaders a taxpayer knows, the more likely he himself will comply.

The study was carried out in two district councils in late 1996 and mid-1997. The sample was not representative. While the respondents were randomly selected from the Tax Register Books of the Village Executive Officers and the Ward Executive Officers in one council (Kibaha, 128 respondents in four villages), the representativeness of the sample in the second council (Kilosa, 44 respondents in three villages) is questionable, both in terms of size and how it was selected (Fjeldstad and Semboja 2001: 2062-3). For instance, Tax Register Books were unavailable in some of the sampled wards, because they had either been stolen or had just disappeared. Thus, lists of names of taxpayers were provided on hand-written sheets of paper. The interviews were conducted in Swahili.

The questionnaire was organised around five main headings (Fjeldstad and Semboja 2001: 2063):

1. *Background information on the respondent*

Key data collected was on the main occupation of adult members of the household and the principal source of income as these variables are assumed to affect both the opportunity to evade and the ability to pay taxes.

2. *Admitted (non-)compliance*

The respondents were asked if they had paid development levy in each of the two recent years. Respondents giving an affirmative answer were then asked about the tax rate paid.

3. *Tax enforcement*

A series of questions were asked on tax collection procedures, including which part of the council was involved and how payment was made.

4. *Perceptions of others' behaviour*

Respondents were asked about their perceptions of other taxpayers' behaviour regarding compliance.

5. *Perceptions of the terms of trade with the government*

To measure perceptions of the terms of trade with the government, a series of questions were asked about the quality of public services and the value received in return for tax payment. Emphasis was put on the perceived relationship between tax compliance and the provision of public services.

The study found that the following factors contributed to explain compliance behaviour (Fjeldstad and Semboja 2001: 2070):

Opportunities: Differences in opportunities for evasion mattered, for example, employees paying their head-tax through a tax withholding system had lesser opportunities to evade than the self-employed.

Ability to pay: Some of the relatively better off respondents, in particular migrants and traders, were more compliant due to (i) higher opportunity costs connected with evasion, and (ii) because they were easily targeted by tax collectors. The opportunity costs of hiding from tax collectors were higher for the better off, since hiding "puts one out of business". Thus, relatively better off persons put less effort into hiding, and, therefore, were more accessible to tax enforcers. This finding further implied that the head tax was a less regressive tax than what was usually claimed.

Probability of prosecution: Given the limited administrative resources, it was rational for collectors to concentrate on the more accessible and better off taxpayers. In this case the ability to pay and accessibility were key variables.

Social influences: Knowledge of the compliance behaviour of others seemed to influence the taxpayer's perceived probability of being prosecuted. The larger the fraction of the local population that was observed not paying the lower the perceived risk of being prosecuted.

Severity of sanctions: The way the law was enforced and the severity of sanctions appeared to have fuelled tax resistance. This finding contradicts the standard theory which tells us that the more severe the sanctions perceived by taxpayers, the higher the compliance expected. The survey results point in the opposite direction: The more severe the sanctions, the more widespread the tax resistance. According to Fjeldstad and Semboja, the reason for this 'perverse' relationship was not entirely clear, but, they argued, it could be due to reciprocity considerations. The coercive behaviour of tax collectors fostered resistance and disrespect for tax laws. Accordingly, oppressive enforcement and harassment by collectors induced tax evasion. Tax evasion could, therefore, to some extent be interpreted as a strategy of public resistance and opposition against the authorities.

Fiscal exchange: Generally, the head tax was perceived to be unfair. Perceptions of exploitation due to unfair terms of trade with the government promoted non-compliance. Thus, peoples' tax resistance seemed to be correlated to declining or absence of public service provision.

The study did not explore the relative strength of the various factors in explaining the observed patterns of tax compliance. However, the results suggest that the standard economic influences of tax size and detection probability were at work, although other determinants also were essential in understanding peoples' tax behaviour. In particular, the relationship between taxation and service provision and how the tax law was enforced seemed to be important.

Clearly, no findings of statistical significance could be generated by these case studies except generating suggested explanations to the tax compliance behaviour observed. Thus, although Fjeldstad and Semboja's analysis is limited by the cases upon which their study was based, it has a more general interest and application.

In a subsequent follow-up study based on the same dataset, Fjeldstad (2001) examined three propositions about tax collection by local authorities in Tanzania. The following results derived from the analysis: First, revenue performance depended on the degree of coercion involved in tax enforcement. Reciprocity did not seem to be an inherent component of the state-citizen relationship in connection with local government taxation. Second, the extent of coercion depended on the bargaining powers of the stakeholders involved in the tax enforcement process. In particular, coercive tax enforcement was facilitated when the 'bargaining powers' with respect to tax collection favoured the council administration, and the elected councillors had no direct influence on collection. Third, the presence of donors in a local authority was crucial by changing the 'balance of power' in favour of the council administration, with implications for accountability, responsiveness and democratic development.

The study demonstrated that the involvement of donors at the local level could at least have two impacts on tax enforcement: (i) donors' presence could induce increased tax effort, however, (ii) at the expense of accountability and democratic consolidation. Thus, Moore's (1998) proposition that the more a state (in this case a local government) 'earns' its income through bureaucratic tax collection, the more likely are state-society relations to be characterized by accountability and democracy, was not supported by this study. In contrast, increased tax effort was achieved through coercive methods, often characterised by violent and extortive forms of enforcement. According to Fjeldstad (2001), these results might explain why widespread differences in revenue performance between local authorities were observed in Tanzania.

4.2.1.2 Tanzania: Citizens' changing views on taxation in Tanzania

Since 2003, the Tanzanian research institute REPOA (www.repoa.or.tz) has conducted citizens' perception surveys that focus on peoples' views of public service delivery, governance and taxation. So far, three surveys - based on the same questionnaire - have been conducted: the first in 2003, the second in 2006, and the third in 2009. Each survey comprised 1260 respondents and covered the same localities in four district councils and two urban councils, all located in different regions of the country. In each council 210 respondents from 7 villages/*mitaa* were sampled, i.e. 30 respondents in each locality.

Ideally, the three surveys should have covered the same respondents to secure panel data. However, due to practical and financial constraints this was not feasible, according to the research team. The respondents were sampled according to the same sampling procedures in each survey. Since the selection of wards and villages was random, respondent households were also randomly picked from the village/*mtaa*[24] registers. In each identified respondent household, any adult over 18 years was picked as the appropriate respondent.

The analytical and conceptual framework applied in these surveys followed the approach suggested by Levi (1988; 1997) where the relationship between a taxpayer and the government includes three of the theoretically predicted elements outlined in chapter 2 of this paper. First is the element of *fiscal exchange* (see section 2.2). Consequently, citizens' willingness to pay taxes voluntarily depends on the government's capacity to provide services. Second is the element of *coercion*, as represented by the enforcement activities of tax collectors and the penalties imposed on those detected for non-payment (section 2.1). The third element is the impact of *social influences* and norms on the taxpayer's compliance behaviour (section 2.3).

The surveys included questions on citizens' views on: (i) taxation and evasion; (ii) who pays and why; (iii) service delivery; (iv) major problems in revenue collection; (v) who is to blame for poor revenue collection; and (vi) measures required to improve revenue collection. The respondents were grouped according to socio-economic characteristics such as age, gender, size of household, education, occupation etc. The data analysis consisted of simple statistical analysis of a step-by-step process, starting with frequencies, cross-tabulations combining bi- and multi-variables, and, finally, an exploratory analysis of the respondents' perceptions on taxation and factors explaining compliance.

Based on the survey data from 2003 and 2006, Fjeldstad et al. (2009) examined what changes – if any – could be observed with respect to factors impacting on Tanzanian's willingness to pay taxes or not? What did ordinary people consider to be the major challenges to improving the tax system in 2006 compared to 2003? To our knowledge, few studies have traced changes in Africans' perceptions on taxation over time, which is surprising since it is likely that peoples' views will change over time with implications for policy design. In the following some of the findings from the 2003 and 2006 surveys in Tanzania are summarised.

In the total sample, almost 88% of the respondents in 2006 reported paying at least one form of taxes, fees or user charges in the past two years, though with variations between the councils. This figure was substantially higher than the corresponding figures in 2003, when less than 60% of all respondents reported paying. The most frequently cited payments in 2006 were various service charges, especially school contributions (84%), health costs sharing fees (75%) and water fees (35%). Contributions to the *Uhuru Torch* were also common (47% of the respondents in 2006). As many as 36% of the respondents in 2006 said they paid VAT, suggesting increased awareness among citizens of the presence of this indirect tax on goods and services.

[24] Mtaa is Swahili for 'hamlet', i.e. an area in a town or city.

While the general level of claimed compliance was higher in 2006 compared to 2003, the relative level of compliance between age groups, gender, and levels of education had not changed much. Admitted compliance also seemed to increase with the level of education, and was significantly higher among respondents who had completed college or university.

Why did more people claim to pay in 2006 compared to 2003? When asked why people paid taxes and fees the responses differed significantly between 2003 and 2006. In 2003, the majority of the respondents said people paid because they 'wanted to avoid disturbances' (46% of the total sample). Fjeldstad et al. (2009) argue that this response reflects that many people at that time perceived the tax enforcement regime as being unfair, coercive and demeaning. Three years later, by the end of 2006, only 14% of the respondents gave the same response. According to the authors, this dramatic change in peoples' perceptions was most likely due to the local government tax reforms of 2003 and 2004 in Tanzania, and in particular due to the abolition of the much detested head tax ('development levy').

Another major change in peoples' perceptions of the tax regime was related to service delivery. While only 23% of the respondents in 2003 said that people paid taxes because they anticipated public services, as many as 50% gave this answer in 2006. This change was consistent with peoples' perceptions that public services had improved in Tanzania in recent years. The majority (75%) of the respondents of the 2006-survey said they had seen an improvement in service delivery over the past two years, particularly in education, health, and law and order. The corresponding figure for 2003 was 54%.

Although these surveys provide some interesting findings, in particular on changes over time of peoples' perceptions of the tax system, and the linkage between taxation and the delivery of state services, they are essentially exploratory. A major weakness is that the samples are location specific and do not reflect a national, representative sample. Further, the statistical analysis is very simple, mainly cross-tabulations that identify certain correlations. However, causalities and the relative strength of the various factors in explaining the observed patterns of tax compliance remains unexplored.

4.2.2 South Africa: Perceptions of taxation among different population groups

Oberholzer (2007) examines the perceptions of taxation amongst different groups of South African taxpayers. The study aims to determine the various economic, geographic, demographic or other factors that might influence a taxpayer's attitude with regard to general tax-related issues (Oberholzer 2007)(Oberholzer 2007)(Oberholzer 2007)(Oberholzer 2007). It focused on individual taxpayers. Corporate taxpayers were not included.

The target population for the study consisted of the four different population groups in South Africa (i.e. White, Coloured, Indian and African) as defined by Statistics South Africa. A sample was selected from the greater Tshwane metropolitan area (which includes the capital city Pretoria). According to Oberholzer (2007: 49) , this target area was selected for practical purposes (e.g. time and budget constraints), and also because this area represents a heterogeneous population. 260 respondents were randomly selected from the target population. Respondents older than 21 years of age were included in the sample. As the research was essentially exploratory, statistical hypothesis testing was not used. The sample is not representative. Hence, the findings only highlight the various perceptions amongst the respondents.

The study was carried out by means of personal, face-to-face interviews with a structured and semi-structured questionnaire administered at the respondents' homes.[25] The questionnaire comprised both

[25] The methodology applied is presented in Oberholzer (2007: chapter 3).

closed and open-ended questions. Respondents answered closed-ended questions by ticking one box representing the views that were the closest to their own. Open ended questions were also incorporated to which respondents provided unstructured replies. The questionnaire was designed to take into consideration the fact that English is not the first language of the majority of the respondents and that only a small number of previously disadvantaged South Africans have had tertiary education.[26] The respondents were asked whether they agreed or disagreed with a number of statements that dealt with general issues related to tax. In the following we have extracted some of the key findings from study.[27]

Almost 60% of the respondents disagreed with the statement *"I do not know why I have to pay tax"*, which according to the author, indicates that most of the surveyed people understood the need to contribute to the development of South African society via taxes. While a small minority held the view that it is 'unfair' to pay tax, nearly 75% of the respondents disagreed with this statement. Perceptions, however, were quite mixed when it came to receiving value for money from government, with only 25% believing that the benefits received justified the amount of tax paid. Nearly 40% of the respondents believed that the services received from government did not represent value for money. Almost 60% of the respondents felt that a substantial portion of all taxes collected were used 'for meaningless purposes'. Furthermore, the vast majority (almost 88%) believed that waste and corruption in government was high. These findings may indicate that the 'fiscal exchange' argument behind taxpayers' compliance has limited explanatory power in this case. However, it is possible that the fiscal exchange argument may still hold given that the majority of people responded that they find the principle of paying taxes fair and just, but that the return on their taxes is lacking due to poor public service delivery. This may reflect fiscal exchange expectations among the populace: people are willing to pay taxes, but perceive they get little in return, partly due to wastage and corruption.

Interestingly, a large share of the respondents (61%) agreed with the statement that the tax authority (i.e. the South African Revenue Services) would notice if they evaded taxes. Yet, more than 45% of the respondents believed that people evaded tax because the risk to be detected by the tax authority was low. Furthermore, as many as 46% of the repondents percived the tax burden to be so heavy that many people were forced to evade in order to survive. Still, almost two-thirds (64%) of the respondents believed that the wealthy evaded more often than poor people.

Oberholzer found support for the view of Alm and Torgler (2006) that a sustainable tax system is based on a fair tax system and a responsive government. Hence, if taxpayers perceive that their preferences are adequately considered, their identification with the government increases and so does their willingness to pay taxes. The government should therefore aim to establish a conducive environment for tax payment.

Oberholzer's study provides some interesting insights on citizens' views of taxation in South Africa. However, it is essentially a case study. The sample is small and location specific, and not representative for the country. The statistical analysis is simple, mainly cross-tabulations. Clearly, no findings of statistical significance can be generated by this case study except generating suggested explanations to the tax compliance behaviour observed. Causalities and the relative strength of the various factors in explaining taxpayers' behaviour and attitudes in South Africa remain unexplored. Although Oberholzer's analysis is limited by the case upon which it is based, it is interesting.

[26] MarkData, a private, independent company specialising in designing surveys, health surveys, demographic and population surveys, and monitoring surveys, was contracted to aid in conducting the survey (ibid.: 55).

[27] For further details, see Chapter 5 (pp. 100-206) in Oberholzer (2007).

4.2.3 South Africa: What's trust got to do with it?

Fjeldstad (2004) investigates the reasons for variation in compliance behaviour within and between local authorities in South Africa with similar socio-economic characteristics. His dependent variable is the non-payment of service charges, despite a major 1995 campaign, the Msakhane campaign, to mobilize citizens to pay.[28] He explicitly sets out to test Levi's arguments on quasi-voluntary compliance (Levi 1988; 1997). According to this analytical framework, three dimensions of trust may affect compliance: (1) trust in the local government to use revenues to provide expected services; (2) trust in the authorities to establish fair procedures for revenue enforcement and distribution of services; and (3) trust in other citizens to pay their share of service charges.

Fjeldstad analysed the results of two comprehensive national surveys, which explicitly focused on payment of municipal services. These surveys had been conducted by the Centre for Development Support (CDS) at the University of the Free State, and by the Helen Suzman Foundation, respectively. The CDS survey (Centre for Development Support 2001) was carried out in 2000, and covered 1600 households in 32 localities across South Africa. Both rural and urban sites were included. The Helen Suzman Foundation survey (Johnson 1999) was conducted in late 1998, and covered 1754 respondents in various urban councils known to have high levels of non-compliance (795 respondents in Gauteng, 326 in other cities, and 633 in smaller towns). In both surveys, the respondents were grouped according to socio-economic characteristics such as type of housing (ownership), language, size of the household, and income. The surveys included questions on service delivery, e.g. changes over time for better or for worse, perceptions of the capacity and effectiveness of municipalities in providing services (implicitly the trustworthiness of the local authorities), the role of community leaders, perceptions of the rate level (i.e. ability to pay), perceptions of why (some) people did not pay, perceptions of others' compliance behaviour (i.e., implicitly trust in others), and how to deal with defaulters (i.e. credibility of sanctions). Combined, the two surveys provide an extensive database on citizens' perceptions and attitudes with respect to service delivery, community development and the non-payment of service charges in local authorities.

Fjeldstad (2004) concluded that 'ability to pay', although a factor, was not determinant of compliance behaviour with respect to payment of service charges. However, he found that two dimensions of trust seemed to affect citizens' compliance. Firstly, the survey data supported the proposition that the trustworthiness of the revenue enforcement mechanisms and the penalties imposed on defaulters affected citizens' compliance behaviour. Yet, in a number of cases the way the law was enforced and the severity of sanctions appeared to have contributed to undermine trust in local authorities and fuelled resistance: the more severe the sanctions, the more widespread and organised resistance to paying rates and charges. Fjeldstad found that excessive use of sanctions and force was more likely to fuel resistance than compliance. Thus, non-payment could to some extent, according to the author, be interpreted as a strategy of public resistance and opposition against the authorities.

Secondly, trust in other citizens to pay their share seemed to be important. The data supported the proposition that social influences affected compliance. In particular, knowledge of the compliance behaviour of others seemed to influence the perceived probability of being detected for non-payment. The larger the fraction of the local population that was observed not paying the lower was the perceived risk of being prosecuted. The attitude of local political leaders with respect to payment was also found to be important, for instance by legitimising non-payment through their own behaviour. Furthermore, the interaction between social networks and overlapping collective activities had in some instances, such as in Soweto with respect to electricity charges, provided a framework in which it was difficult for individuals to pay their charges without provoking reactions from their non-paying

[28] The campaign was launched by the South African Government in February 1995. The overall aim of the Masakhane campaign, meaning 'let us build together', was to normalise governance and the provision of basic services at the local level.

neighbours and other members of the community. Fjeldstad also found that procedural fairness and the existence of a social norm to comply increased quasi-voluntary compliance. Hence, (non-)compliance is not only a question of state-society relationships, but also a question of relationships between citizens and/or between groups of citizens within local communities. Considerations of these issues might shed light on the observed differences between and within local authorities with respect to service charge compliance, and factors determining citizens' compliance behaviour.

The data analysed did not provide clear linkages between payment and service delivery, i.e. the fiscal exchange proposition. However, there seemed to be a perception among respondents that the quality of services had deteriorated in recent years. Fjeldstad (2004) argues that if this perception persists and is fortified, this may have an impact on future willingness to pay, and lead to a further erosion of people's trust in the government's capacity to provide expected services.

Considerations of these issues may shed light on the observed differences between and within local authorities with respect to service charge compliance, and factors determining citizens' compliance behaviour. However, Fjeldstad's findings would have been more compelling if he had provided contingency table analysis, regressions or factor analysis.

4.3 Cross-country citizen surveys

A small but growing body of literature assesses attitudes and behaviours of African citizens towards taxation using cross-country surveys. Much of this literature draws data from the Afrobarometer-series. Afrobarometer is an independent, nonpartisan research project which consists of national sample surveys on the attitudes of citizens in selected countries towards democracy, markets, civil society and other aspects of development.[29] Data from nationally representative surveys offer an opportunity to disaggregate the results and study citizens' perceptions of and attitudes toward taxation across various political and social subgroups.

The Afrobarometer surveys are conducted in more than a dozen African countries and are repeated on a regular cycle. Because the instrument asks a standard set of questions, countries can be systematically compared. Trends in public attitudes are tracked over time. Results are shared with decision makers, policy advocates, civic educators, journalists, researchers, donors and investors, as well as Africans who wish to become more informed and active citizens. Thus far, four rounds of the survey have been conducted, while the fifth is currently being implemented:

- Round 1: conducted from July 1999 through June 2001 and covered 12 countries.
- Round 2: conducted from May 2002 through October 2003 in 16 countries (the Zimbabwe survey was carried out in April and May 2004).
- Round 3: conducted in 18 countries from March 2005 through February 2006.
- Round 4: took place in 19 countries between March 2008 and June 2009.
- Round 5: started in the second half of 2011 and is expected to be completed by end 2012/early 2013. It will cover at least 25 countries. In addition, Afrobarometer expects to collaborate with Arab Barometer to include several North African countries.

[29] The Afrobarometer is a collaborative enterprise of the Centre for Democratic Development (CDD, Ghana), the Institute for Democracy in South Africa (IDASA), and the Institute for Empirical Research in Political Economy (IREEP) with the support of Michigan State University (MSU) and the University of Cape Town Centre for Social Science Research (UCT/CSSR). More details are provided at www.afrobarometer.org

The samples are drawn using multi-stage, stratified, area cluster probability sample.[30] The sample is designed as a representative cross-section of all citizens of voting age in a given country. Random selection is used at every stage of sampling and the sample is stratified and datasets are weighted to ensure that all major demographic segments of the population are represented. Sample size varies from a minimum of 1200 in each country to up to 2400 or more.

In a paper entitled *Why do citizens assent to pay tax? Legitimacy, taxation and the African state*, D'Arcy (2011) analyses three theoretical models - fiscal exchange, national political community and comparative treatment - to explain tax compliance in several African countries using Afrobarometer Round 3 (2005-06) data. The results provide limited support for fiscal exchange, no support for national community approaches and considerable support for the comparative treatment thesis. Moreover, D'Arcy finds that to earn the right to collect tax the state must fulfil its adjudicatory role by providing a judicial system that citizen's trust, i.e. a fair state that arbitrates equally among its citizens. In addition, although less important, the state must be responsive and seen to be addressing citizen needs through the delivery of services. Overall, D'Arcy finds that the state must be impartial, fair and responsive before African citizens agree to the normative values that underpin taxation. According to D'Arcy (2011), meeting these duplicate roles assures the state greater legitimacy and in turn citizens' acceptance regarding the state's right to tax citizens.

The first critique of the study is that the empirical analysis omits two major theoretical explanations rooted in the literature, i.e. economic deterrence or coercion and social influences and networks (see section 2 of this paper). Thus, the results are not fully conclusive and only test three of the five theoretical possibilities.

A second critique concerns the operationalization of the comparative treatment thesis and the choices of variables that are used to test this thesis. The variables used are: *(i) ethnic treatment; (ii) trust in courts,* and *(iii) equal enforcement.* The first assumes that ethnicity is the key social division in all the African countries analysed. However, in some countries social cleavages may instead be based along regional, religious, linguistic, racial, or class-based lines, and these are not accounted for. Perceptions about preferential treatment of ethnic groups take on this bias only when ethnic group identities are politicized in a country. In addition, the results find that ethnic discrimination undermines the assent to pay tax in only a small number of countries. Yet, the paper does not examine why this is the case, for instance by examining in which countries ethnicity is a determinant of access to political and/or economic power. The second variable does not tap preferential treatment at all, but instead is a gauge for institutional trust in the judicial system. The third variable taps perceptions of government's enforcement and monitoring capacities and not their preferential treatment.

The third, and primary, concern relates to the operationalization of the dependent variable. The author uses the item: For each of the following statements, please tell me whether you disagree or agree: The tax department always has the right to make people pay taxes. First, the paper does not test compliance, but uses instead assent or willingness to pay taxes. Second, the item used does not

[30] Sampling and measurement error are reduced in a number of ways. Firstly, the use of identical or similar item wording across surveys minimizes measurement errors. Secondly, the sampling frame, method of sampling and sample size are all sufficiently similar to make comparisons over time valid and reduce sampling and measurement error. The survey samples are drawn using a multistage clustered random probability sample, which were disproportionally stratified by province, population group, and community size. A combination of the two types of sampling ensures thorough sampling practise. Multistage cluster sampling deals with drawbacks inherent in other sampling alternatives, which are of limited use on their own when sampling a geographically dispersed population and when no easily available sampling frames (a list of the population elements) exist. Stratification techniques ensure maximum representativeness, whilst being able to reduce the number of clusters used. This is done by dividing each level of cluster, district, area etc. into the various strata and then employing random selection within each stratum.

necessarily tap whether people agree to pay tax (or assent to taxes) as D'Arcy assumes. The item taps whether people believe the taxation department has the right to collect taxes.

Since the validity and reliability of the choice of variables is under question, especially those for which the paper finds the most compelling evidence (comparative treatment by the state) the results should be approached with caution.

Finally, D'Arcy (2011) assumes that political legitimacy is the outcome of a process of compliance and assent towards taxation. However, it may be that causation works the other way around. In other words, a high level of trust and legitimacy is earned by the state in other ways (performance delivery of goods, credible leadership etc.) and this legitimacy generates positive attitudes towards compliance and taxation generally.

In contrast to D'Arcy (2011) who found limited support for fiscal exchange, Sacks (2012) finds, in an article entitled *Can Donors and Non-State Actors Undermine Citizens' Legitimating Beliefs?,* evidence supporting the fiscal contract theory in a wide variety of African countries. Sacks uses Afrobarometer Round 4 (2008/09) data[31] from 19 sub-Saharan African countries. The cross-national analysis links citizens' legitimating beliefs (measured by a willingness to defer to the tax department, the police and the Courts) to a government's fulfilment of a fiscal contract. Citizens who are satisfied with their government's provision of services and goods are more likely to be willing to defer to the tax department, courts and police than citizens who are dissatisfied with government service provision. There is also evidence that the more competent, honest and fair a government is in serving its citizens, the more likely it is to produce a virtuous cycle of citizen compliance with its extractions, leading to better government and greater compliance.

In addition, Sacks (2012) addresses the question about whether the provision of services by donors and non-state actors is strengthening, rather than undermining, the relationship and contract between citizens and the state. The study finds that across a wide range of African countries, including fragile states like Liberia and stronger states like Botswana and South Africa, donors and non-state actors are strengthening, rather than undermining, citizens' legitimating beliefs, as measured by their willingness to defer to the tax department, the police and the courts. Citizens who believe that donors and non-state actors, including domestic and international NGOs and international businesses, are doing much to help their country, rather than a little, are more likely to be willing to defer to the tax department.

The analysis is thorough, and by definition most compelling. It uses a dependent variable[32] that taps acceptance of the government's right to make people pay taxes, but cautions that this does not necessarily tap compliance per se. The predictor variables tap citizens' experiences of paying taxes, perceptions of government effectiveness, perceptions of administrative competence and honesty, and procedural justice, plus controls for relevant socio-demographic variables. Due to a binary dependent variable the analysis employs probit and logistic regressions techniques.

However, some questions arise regarding the theoretical and operational choice of independent variables, and therefore, by definition, also question some of the findings. For instance, D'Arcy (2011) makes a distinction between the fiscal exchange and comparative treatment thesis, for which she finds considerable support. She tests the latter thesis using the item, which asks *how often their ethnic group is treated unfairly by their government.* Sacks (2012) uses the same item, but interprets it as an indicator of procedural justice. Yet, support for this preferential treatment variable in Sacks' paper lends credence to the preferential treatment theoretical exposition, but this is not noted in her study.

[31] Afrobarometer Round 4 used a pooled, cross-country sample with a weighted sample of 24,000 respondents that reflects equally weighted national country samples at $n = 1200$.

[32] The dependent variable is whether respondents agree with the statement: "The tax department always has the right to make people pay taxes."

This variation in interpretation of survey items raises a fundamental issue regarding measurement validity and reliability, a hallmark of survey research. This is addressed below; suffice to note here that greater consensus is required on the operationalization of concepts within the taxation literature.

Bratton (2010), which uses Afrobarometer Round 4 (2008/09) data, entitled *Citizen perceptions of local government responsiveness in sub-Saharan Africa* (May 2010), examines whether leadership responsiveness is susceptible to popular political behaviour.[33] The paper tests three types of mass behaviour: (i) citizen activism; (ii) tax payment; and (iii) offers of bribes. Questions addressed by Bratton include: By what active means do citizens hold leaders accountable? And does taxation help to obtain responsiveness and representation?

A key finding is that tax compliance is weakly connected to responsiveness (measured by a leaders willingness to register the preferences of their constituents), and thus to representation and accountability. Bratton asserts that there is little evidence of a positive link between taxation (or the number of taxes or fees citizen's pay) and representation.[34] African citizens who complied with tax payments are not more likely to insist on responsive governance and accountable local leadership.

Bratton argues that this finding has significant implications for political accountability in Africa. Tax compliance will not necessarily generate the responsiveness among rulers that citizens seek. Instead, his findings demonstrate that local government responsiveness is much more associated with political activism between elections and voting.

Yet, Bratton (2010) finds, contrary to expectations, that a citizen's experience as a victim of corruption leads to perceptions of more, not less, responsive leadership. Weak, but significant statistical evidence suggests that bribe giving to local councillors generates perceptions that they are responsive. In sum, offers of bribes to officials generate a rise in political responsiveness. This link has perverse implications - corruption disrupts the taxation-representation rule between citizens and state. Corruption partially displaces taxation in linking people and leaders, and this finding should become a priority concern for African policy makers at local government level.

Bratton's paper appears theoretically and methodologically sound. Its limitations from our perspective are that it only addresses local government and does not reflect on national data and tax as an aggregate. The study therefore overlooks the possibility that there may be a much stronger association between tax compliance and political/leader responsiveness and accountability at the national or regional level. Local governments are notoriously weak across many African states compared to their respective national governments in terms of tax collection, service delivery and accountability (Fjeldstad and Heggstad 2012). It may be that citizens do not perceive that responsiveness will come from local governments. This limitation could have been dealt with to some extent by using the item in Afrobarometer Round 4 that asks respondents to choose which level of government (central, local, etc.) has primary responsibility for collecting income taxes. This finding (which level of government is perceived to have the bigger tax base) could then be used to assess responsiveness. Moreover, the paper does not isolate the effects of the political design of a country, where the role of the national government and the executive powers are stronger compared to their local counterparts. Thus, Bratton (2010) cannot draw any definitive conclusions about the presence or absence of a fiscal contract between citizen and state in these African societies.

[33] Dependent Variable = are leaders responsive? *How much of the time do you think elected local government councilors try their best to listen to what people like you have to say*? Ordinal scale: never, only sometimes, often, or always.

[34] Independent Variable = Scale of Tax payment = taxation variable is an additive scale of number of taxes paid –number of taxes reportedly paid by each respondent.

A third study by Levi, Sacks and Tyler (2009), entitled, *Conceptualizing legitimacy, measuring legitimating beliefs*, draws on Afrobarometer Round 3 (2005-06) data. The authors find considerable statistical evidence of a link between the extent of the trustworthiness of government and procedural justice and citizens' willingness to defer to the police, courts and tax department in a number of African countries. In addition, they maintain that perceptions of trust and justice elicit a sense of obligation or willingness to obey authorities (value based legitimacy), which is likely to translate into compliance (behavioural legitimacy). Their analysis suggests that the more trustworthy and fair the government, the more likely its population will develop legitimating beliefs that lead them to accept the government's right to make people obey law and regulations.

Of all the factors measured, administrative competence is found to be the most important (which includes taxation variables), followed by procedural justice (fair treatment of citizens and own ethnic group). Government performance is third in importance. Thus, overall, citizens develop a sense of duty/obligation towards the government and an acceptance of the government's right to extract personal wealth based on their perceptions of government efficiency, competence and fairness of enforcement, as well as ensuring the state administer rules in a fair and unbiased manner among citizens, including their ethnic identity group. This means more than government performance.

Levi et al. (2009) make use of a variable which taps assent to pay taxes, or in their words, "the sense of obligation or willingness' to pay taxes as one of three interrelated dependent variables. *"The tax department always has the right to make people pay taxes"*. The other two similar dependent variables tap willingness to obey police and the courts, respectively. Again, in a similar fashion to D'Arcy (2011), the authors interpret this variable as one that captures citizens' willingness or obligation to obey or comply with taxation. However, as discussed above this variable may act as an indicator of such, but cannot be assumed to tap this directly.

The two explanatory variables, trustworthy government and procedural justice, used in the analysis by Levi et al. (2009) include a range of taxation items. In order to measure trustworthy government the authors operationalise an indicator 'administrative competence' which taps three issues: (i) citizens perception of corruption (honesty) among tax officials; (ii) the enforcement of taxes for non-compliers; and (iii) enforcement of tax evaders among top government officials. Yet, they do not use any institutional trust items available in the Afrobarometer surveys. Moreover, one could argue that these particular items also tap similar other concepts and theories such as perceptions of the government's enforcement and monitoring capacities, some elements of economic deterrence and political accountability theories. Again, the choice of variables to operationalise concepts used frequently in taxation research are seemingly used interchangeably and without due regard to the existing literature that employs well-established measures and offers guidance on conceptual clarification.

Levi et al. (2009) operationalise procedural justice by using variables that indicate whether respondents believe the government treats citizens fairly and whether they believe the government treats members of their own ethnic group fairly. Their notion of procedural justice and the link between that and assent (willingness) to pay taxes is essentially a test of the comparative treatment theory. Yet, it is not recognized in the paper as such.

Perhaps the most substantive critiques of the small body of research that employs cross-country African surveys can be condensed as follows:

Scope of variables: The number of taxation related questions in Afrobarometer Rounds (prior to Round 5) is not substantial and do not offer suitable items with which to test the major competing theoretical schools of thought. Thus, it is difficult to expect thorough empirical investigations from an existing body of literature. The Afrobarometer Round 5 includes many more and more detailed taxation items and will therefore go a long way to addressing this shortfall.

Measurement validity and reliability: Scholars usually develop standard ways of asking questions about a range of concepts in their sub-discipline. The development of these standard indicators has led to a process of consensus or 'harmonisation' in survey analysis on different areas of interest. The indicators usually selected for operationalisation by scholars closely reflects choices made in well-known studies that aim to test the same concepts. However, it seems that there are few well-established measures and little consensus regarding which are appropriate variables for operationalisation in the existing research on taxation. The literature that uses African data could build validity by reverting to the wider literature that outlines the established tradition of variable usage and which has dealt at length with processes of conceptual clarification, as well as indicator development and evaluation.

4.4 Advantages and disadvantages of survey research

The strengths of perception surveys include their ability to capture a broad range of explanatory variables known only to taxpayers, notably their understanding of compliance requirements, relevant values and attitudes, expectations of risks and benefits of non-compliance. Disadvantages include variations in definitions of issues such as non-compliance, the integrity of the answers for deliberate or inadvertent reasons, and the inability to report on inadvertent omissions. Surveys may also be controversial in countries where the political contest is oppressive and tax authorities are unwilling to invite criticism of their integrity, public acceptance, and effectiveness (OECD 2001). In the following, we briefly summarise advantages and disadvantages of this methodological approach to shed light on peoples' behaviour and attitudes towards the tax system.

Survey research provides data for studies of this nature by allowing us to obtain attitudinal information directly from different individuals who are selected according to scientific sampling procedures to provide a basis for making inferences about some larger population to which they belong.

Another advantage of survey analysis is that it allows one to perform descriptive research, by describing the characteristics of a large set of cases, and explanatory research by looking at variations in a certain variable across cases and examining other characteristics systematically linked to the variation to draw causal inferences. Moreover, because surveys collect data systematically, comparative analysis of the same variables in different populations (or countries) can be made. In contrast, other research methodologies, such as case-studies and experimental methods, do not possess the distinguishing feature of 'co-variation' (that variation in one variable is matched with variation in another), and thus lack the statistical methods developed for survey analysis. Public opinion and perception surveys also provide a much larger number of cases than that normally obtained with in-depth interviews. A large sample is essential if one wants to make intergenerational comparisons or control for social factors. Large samples also enable representativeness and inference, which are important if one is studying a nation or society.

A drawback of using once off survey data in a study of this nature, and not longitudinal data, is that one relies on only one set of data and cannot compare cross-sectional surveys. Therefore one cannot explore or reveal changes in attitudes or behaviour over time. However, surveys that are repeated in the same countries or communities over time, using the same sampling procedures, may allow for time comparisons. But, a drawback of using survey data in some African countries is that it is often difficult to obtain a truly representative sample, as reflected in some of the studies reviewed in this section, because of uneven access to certain geographical areas or uneven response rates among different social groups or classes. However, such challenges can be accommodated. For instance, the Afrobarometrer surveys that are repeated every three years are weighted to account for regional, racial and other demographic considerations (see section 6.1).

5. Concluding remarks

Understanding taxpayer compliance remains a challenging and unresolved problem. A part of the problem appears to have been the search for one overarching model of taxpayer compliance that allows predictions to be made about the taxpaying population as a whole (McKerchar and Evans 2009:179). However, as argued by Alm et al. (1992), individuals exhibit much diversity in their tax behaviour. Some people are primarily worried about getting caught and penalised; others are more concerned about the behaviour of other taxpayers (or neighbours or business competitors); others think in terms of civic duty and/or public services and may weigh those considerations against the perceived accountability and efficiency of the state (Ritsema et al. 2003: 16; Coolidge and Ilic 2009: 4). Such different factors are all likely to vary across different countries, institutions, and cultures.

More systematic and coherent information on taxpayer attitudes and behaviour are required for better analysis and more informed tax policy design in Africa. Understanding how taxpayers think about and experience taxation may provide an essential diagnostic of the political realities for tax reform. For instance, attempts to broadening the tax base require better understanding of how the large majority of citizens perceive the tax system, whether people perceive they are paying taxes or not, what they eventually pay, their views on tax administration and enforcement, and whether and how their tax behaviour is correlated with how they perceive the state. Attitude and perception surveys of current and potential taxpayers may also help to identify perceived weaknesses of the tax system, as well as to enable tax authorities to focus attention efficiently on high-risk categories of taxpayers.

6. Moving forward: an agenda for research

Continued work in this area should focus on enhancing our understanding of taxpayer experiences, through a combination of survey and case study evidence, and possibly also through experimental studies. The surveys in particular should allow for as broad an exploration as possible by including a wide range of valid indicators that will allow for multiple tests of theoretical possibilities.

The insights generated in this way will not only inform tax policy and reform strategies, but will also provide a lens into differences in taxpayer experiences across groups (e.g. gender, age, level of education, rural-urban location, ethnicity) and into understanding the micro basis for connections between tax payment and broader demands for improved governance. Different survey instruments should be considered, including:

Tailored surveys for segments of taxpayers

- Enabling tax authorities to focus attention efficiently on high-risk categories of taxpayers.

Nationally representative surveys

- Opportunity to disaggregate the results and study citizens' perceptions of and attitudes towards taxation across various political and social subgroups.
- Opportunity to gain better understanding of citizens views of different types of taxes in different regions.
- Possibility to analyse causal relationships behind perceptions of taxation.
- Identify segments in society where perceptions of taxation are more or less prevalent.

Cross-country surveys

- Enabling comparison between countries.

Other regions than Sub-Saharan Africa

- Enable comparisons of African data with other regional findings from Asia, Europe, Latin America and elsewhere.

The International Centre for Tax and Development (www.ICTD.ac) has commissioned the organisers of the 2011-2012 round of the Afrobarometer survey to include a series of questions about tax in the following 13 countries: Benin, Ghana, Kenya, Malawi, Mali, Mozambique, Senegal, Sierra Leone, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe.[35] Further, ICTD's research team suggests triangulating some of the findings from the Afrobarometer survey with more detailed and tailored surveys in some of these countries.

6.1 Testing new research boundaries: Afrobarometer Round 5

The new Afrobarometer Round 5 (fielded in 2011 and 2012) will allow for a more comprehensive empirical analysis of taxation theory in African societies using nationally representative public opinion survey data from the selected African countries (see section 4.3 above).

The quantitative data can be tested using at least *two* alternative dependent variables:

[35] At present (October 2012), there is some uncertainty with respect to when the survey data from Cameroon, Ghana, Malawi and Mali will be available.

1. Compliance – an act or behavioural variable
2. Assent – an attitudinal variable that measures the normative aspect of taxation

The tax questions that are included in the Afrobarometer questionnaires in the selected countries are framed around a set of hypothesis on taxpayer's behaviour deriving from the literature on tax compliance and governance discussed in previous sections of this paper and listed below. In addition, the data will allow for an interrogation of the five 'schools of thought' on determinants of tax compliance (see section 2 above).

6.1.1 Economic deterrence

Research questions derived from the theory:

- How do citizens perceive the tax collection regime?
- Is it perceived to as reasonable, fair and in accordance with the accepted standards of society, or is it perceived to be corrupt, oppressive and non-transparent?
- How do people perceive the credibility or trustworthiness of the revenue administration's sanctions against defaulters?

Afrobarometer Round 4 (2008-09) does not allow for thorough investigation of 'economic deterrence'. Round 5 (2011-12) will allow for a more thorough testing of the economic deterrence theory by providing data on two related *tax avoidance/ evasion* variables (which can be combined into a single scale):

Based on your experience, how easy or difficult is it to do the following: To avoid paying the income or property taxes that you owe to government?

What do you think is the main reason that some people avoid paying government the taxes and fees that they owe? (We are especially interested in the share of respondents answering "People don't avoid paying" and "They know they will not be caught")

The first variable is an indicator of the ease of avoiding taxes. Responses to this question are likely to be related to citizens' perception of the probability of getting caught and sanctioned if one evades taxes. If those who think it is easy to avoid paying taxes are less compliant or is less willing to pay taxes than those who think it is difficult, this could be seen as an indication that the economic deterrence theory is relevant to take into account in efforts to broaden the tax base. In a similar fashion, variable two gives an indication of the probability of getting caught if avoiding taxes.

6.1.2 Fiscal exchange

Research question derived from the theory:

- Do citizens' attitudes towards taxation depend on their perceptions about the state's delivery of services (political, social and economic) and the incumbent's performance?

This question will also be interrogated by looking at urban versus rural citizens. The assumption is that citizens in urban areas in African countries are more likely to experience higher levels of social services, jobs, and political governance. Is this delivery linked to (positive) attitudes to paying taxes? Afrobarometer Round 5 includes a range of items that tap different elements of fiscal exchange theory, which are not contained in the earlier Round 4:

Which of the following statements is closest to your view? Choose Statement 1 or 2:

- Statement 1: *Citizens must pay their taxes to the government in order for our country to develop.*
- Statement 2: *The government can find enough resources for development from other sources without having to tax the people.*

Which of the following statements is closest to your view? Choose Statement 1 or 2:

- Statement 1: *It is better to pay higher taxes, if it means that there will be more services provided by government.*
- Statement 2: *It is better to pay lower taxes, even if it means there will be fewer services provided by government.*

Based on your experience, how easy or difficult is it to do the following: Find out how government uses the revenues from people's taxes and fees?

What do you think is the main reason that some people avoid paying government the taxes and fees that they owe? (We are especially interested in the responses "The services they receive from government" and "Government wastes tax money").

The first two variables are indicators of the degree to which citizens recognize the link between public service provision and tax, and are thus useful in the empirical investigation of the fiscal exchange theory. For instance, one can look at the relationship between the responses to the two variables and (self-reported) compliance. A positive relationship between answering "statement 1" and compliance would for instance be an indication of fiscal exchange being important to compliance: those who recognize that tax revenue is needed for development of the country and who think it is worth paying higher taxes for more public services are more likely to pay taxes. Answers to the last question, that inquires about reasons for tax avoidance, can be used and interpreted in a similar fashion as the first two.

Responses to the question about the ease of finding out how the government spends tax money can also be used to examine whether attitudes and compliance is related to how the government spends tax revenue. We would then expect to find people to be more compliant if they think it is easy to find out how the government spends tax money.

A number of additional variables common to all Afrobarometer surveys can be used to explore fiscal exchange theory through correlations with assent and compliance or acting as control variables in multivariate analyses:

- Government performance evaluations: economic trends
- Government policy performance (all policies)
- Incumbent job approval
- Supply of democracy
- Demand for democracy

6.1.3 Social influences

Research questions derived from the theory:

- How often do people avoid paying the taxes that they owe the government?
- Are people's tax behaviour influenced by the perceived behaviour of others?

The following questions included in Afrobarometer Round 5 might help shed light on the above stated research questions:

Do you think the following action by others is not wrong at all, wrong but understandable, or wrong and punishable: Not paying the taxes they owe on their income?

How often, in this country, do people avoid paying taxes that they owe to the government?

The question about how often the respondents believe that fellow citizens avoid taxes can be used to see if people's tax behaviour is influenced by the perceived behaviour of others. In the social influence framework we expect to find a positive relationship between self-reported compliance and faith in other peoples compliance.

Afrobarometer Round 5 includes several items that tap social influences, which are not contained in the earlier Round 4. Demographic variables found in all rounds of the surveys can be used to disaggregate groups to assess if group attitudes and behaviour towards taxation are common to particular social groups or geographical regions.

6.1.4 Comparative treatment

Research questions derived from the theory:

- How do people perceive they are treated by the state/tax administration relative to those who are in their community?
- How often do people avoid paying the taxes that they owe the government?
- How often is your ethnic group unfairly treated by the government?

The literature on comparative tax treatment in Africa (D'Arcy 2010) use three items, common to Afrobarometer surveys, that tap equal enforcement of taxation compliance by both citizens and top officials, and ethnic preferential treatment. The Afrobarometer Round 5 survey includes the ethnic treatment item, but not the others. Ethnic treatment can be measured by the following question:

How often is your ethnic group treated unfairly by the government?

The relationship between perceptions of treatment and discrimination based on ethnicity by government is fairly limited. However, while the ethnic preferential treatment variable presents a sound basis upon which to start to investigate this theoretical explanation, additional variables that tap other social divisions and that could explain the basis for preferential treatment also need to be considered.

6.1.5 Political legitimacy

Connected to the fiscal exchange theory is the notion that the more accountable the government is with taxpayers' money, the more legitimate its actions become. In turn, citizens become increasingly willing to assent to and comply with taxation requirements.

Research questions derived from the theory are:

- Are people more compliant when they feel that the government is politically legitimate?
- Is there a relationship between attitudes towards democracy and attitudes towards taxation?

- Is there a relationship between citizen's perceptions of government accountability and attitudes towards taxation?

Afrobarometer Round 5 includes a range of items that tap different elements of political and accountability and legitimacy:

Institutional trust: *How much do you trust the tax department?*

Responsiveness and government accountability: *Which of the following statements is closest to your view? Choose Statement 1 or 2:*

- *Statement 1:* Parliament should ensure that the President explains to it on a regular basis how his government spends taxpayers' money.
- *Statement 2:* The President should be able to devote his attention to developing the country rather than wasting time justifying his actions.

Corruption: *How many of the following people do you think are involved in corruption, or have you not heard enough about them to say? Tax officials, like Ministry of Finance officials or Local Government tax collectors.*

If political legitimacy is an important determinant of tax behaviour, we should expect a positive relationship between trust in the tax department and self-reported compliance. Within this framework we will also expect that those who think "the President does not need to justify how (s)he spends tax money", and "that many tax officials are involved in corruption" are less likely to be compliant than those who think otherwise.

6.1.6 Sociological variables

In addition to testing the different theoretical frameworks, the survey also includes a number of sociological of interest that could be used to answer the following remaining questions:

- Are there differences in perceptions between age groups, gender, peoples' level of education, occupation, ethnicity, and religion?
- What is the geographical reach of the tax system in a particular country (urban-rural, provinces etc.)?

6.1.7 Benefits of the Afrobarometer data and survey question design

Above, we have presented some of the many variables included in Afrobarometer Round 5 and explained how they can be used to examine determinants of tax compliance and taxpayer behaviour. The data will allow us to test different hypotheses while controlling for a wide range of background variables. Because Afrobarometer poses identical questions across countries, we will also be able to make credible cross country comparisons. In sum, the analysis of data from Afrobarometer Round 5 is likely to provide much needed knowledge about citizens' perceptions, attitudes and behaviour with respect to taxation in Africa.

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What are the key determinants of taxpayer compliance? And which features of citizen-state relations govern attitudes and behaviour regarding taxation? This paper examines the analytical foundation, methodological approaches and key findings of available empirical literature on taxpayer behaviour in Africa. Understanding how citizens perceive and experience taxation may provide an essential diagnostic of the political realities for tax reform. Attempts to broaden the tax base require insights into how citizens experience and perceive the tax system, whether people perceive they are paying taxes or not, what they eventually pay, their views on tax administration and enforcement, and whether and how their tax behaviour is correlated with how they perceive the state. Attitude and perception surveys of current and potential taxpayers may also help to identify perceived weaknesses of the tax system, and enable tax authorities to focus attention efficiently on high-risk categories of taxpayers.

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