

Introduction

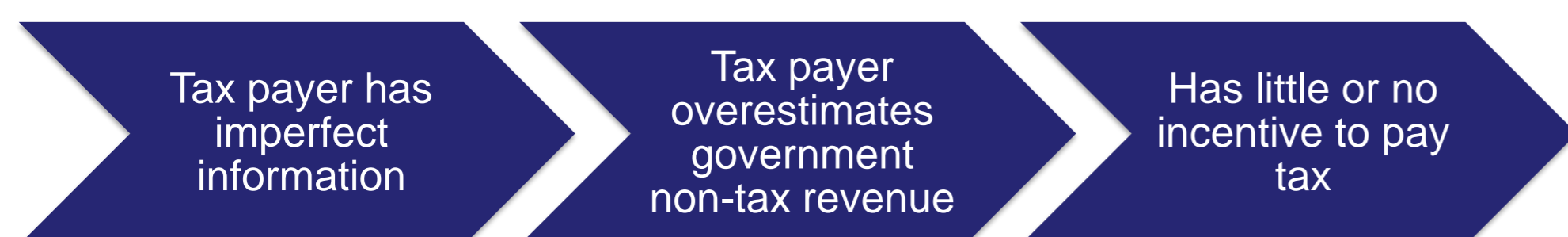
The need for alternative development financing methods in the wake of the decline in donor support, has informed a renewed interest in understanding the effectiveness of existing tax systems and the factors that underlie tax compliance or evasion thereof in developing countries

Gap In the Literature

Focus on the inability of government to perfectly observe transactions for the purposes of taxation

Our Argument

We argue that the effect of asymmetric information on household tax morale is mediated through perceptions about the size government's non-tax revenue



Estimation Strategy

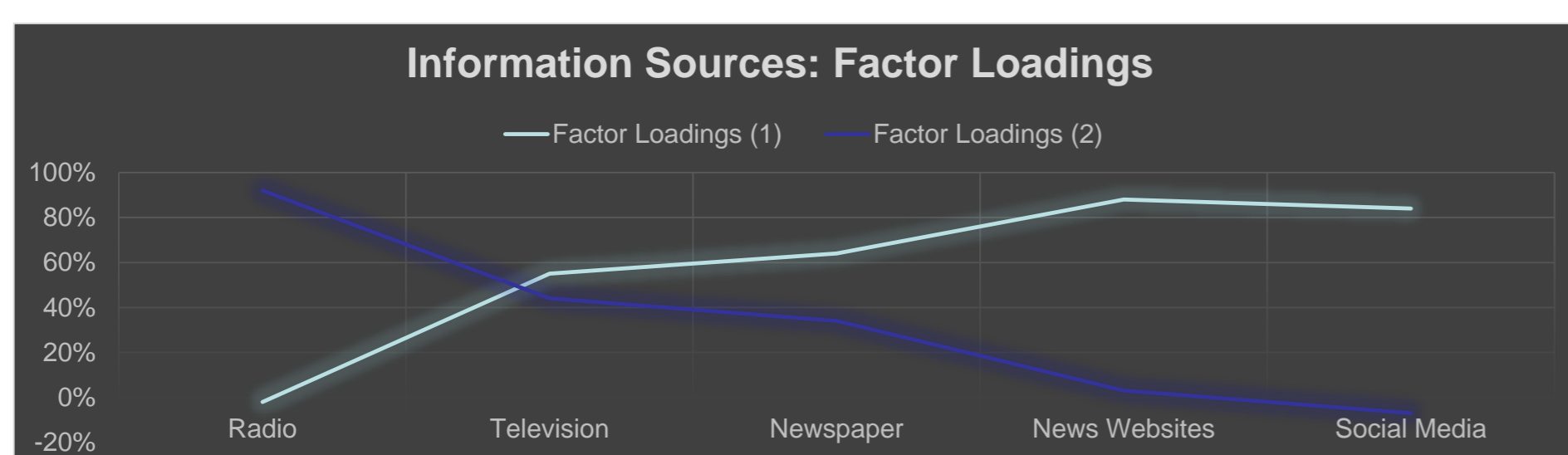
$$\ln\left(\frac{\theta}{1-\theta}\right) = \lambda + \beta\varphi_i + \sigma' \sum_i^n X_i + \varepsilon_i$$

θ is the level of tax morale which captures the notion that it is wrong for an individual to evade their tax obligation;

φ_i is asymmetric non-tax revenue information measured as the perception that non-tax revenue alone is sufficient for development financing and

X is the vector of control variables: educational attainment of the individual, public sector employment, religiosity, present view of the economy, whether the person lives in an area that has public amenities, gender and trust in tax administration

We construct an index to proxy how 'well-informed' an individual is using principal component analysis. We then use mediation analysis to examine the direct and mediated effect of asymmetric non-tax revenue information on tax morale



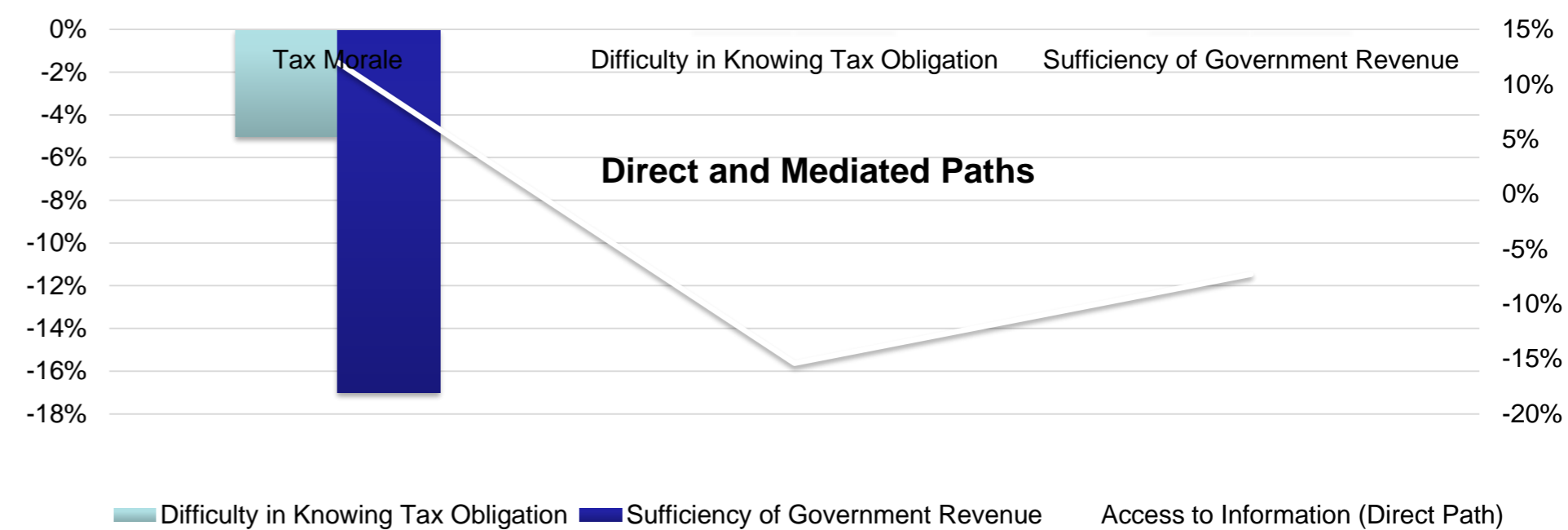
Some Preliminary Findings

- There are two dimensions to the sources of information across Africa; audio-visual media (radio and television) and print and/or digital media (newspapers, websites and social media)
- East and West Africa rely more heavily on the audio-visual sources while North, Southern and Central Africa rely relatively more on the print and digital sources. Also, tax morale is highest in Central Africa and lowest in West and East Africa

Findings: Test of Mediation

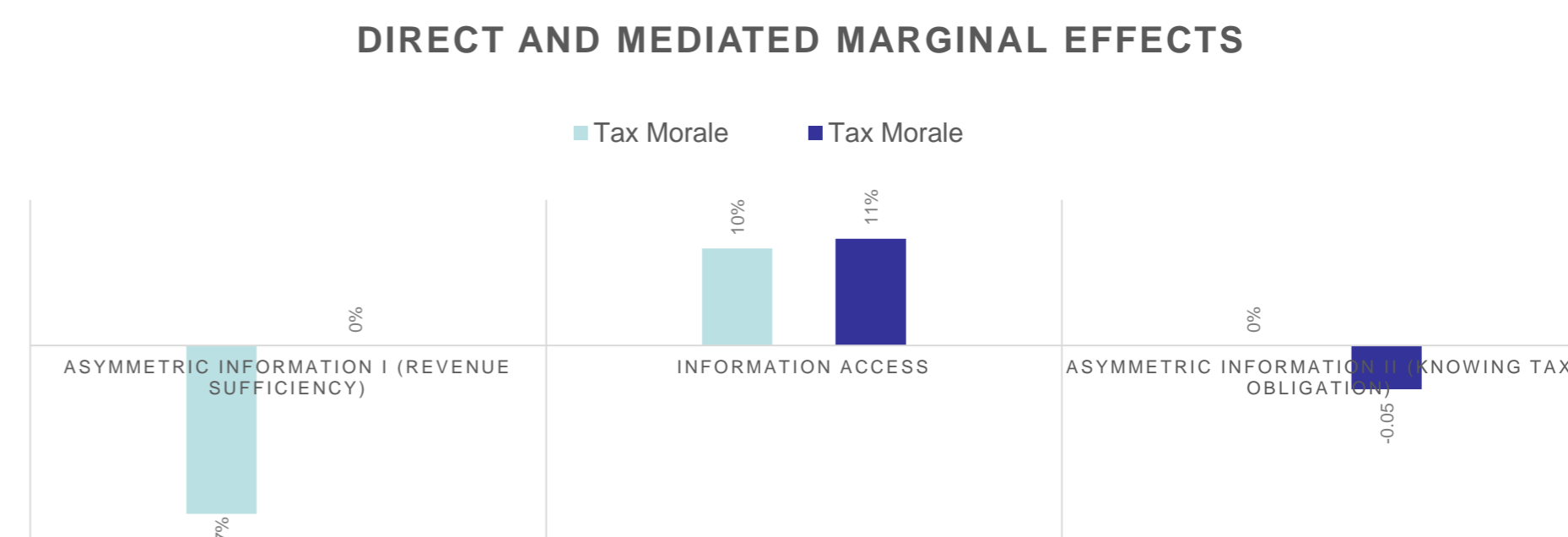
Difficulty in obtaining information on how much tax to pay lowers tax morale by 5%. However, asymmetric non-tax revenue information has a higher negative impact on tax morale— lowering it by as much as 17%.

However, a unit increase in the information index, increases the probability of having a high tax morale by roughly 12% on average, all things equal



Direct and Mediated Marginal Effects:

Since there's no zero-order relationships in any of the estimations, we conclude that the effects of information on tax morale is *partially* mediated through the formation of wrong perceptions regarding the sufficiency of non-tax revenues for development financing. A simple regression of this perceptions on information access shows a significant negative relationship even across different specifications.



Other Determinants of Tax Morale:

Females are more likely to believe that tax evasion is wrong relative to males and are as well, less likely to assume that non-tax revenues are sufficient for development financing. Individuals with secondary education and those employed in the public sector tend to have higher tax morale than those in NGO's or private sector. Having trust in the tax department increases tax morale by roughly 9% while 'religiosity' increases tax morale by approximately 1%. These findings are consistent even after controlling for country-fixed effects

Policy Recommendation:

Our study suggests that an increased supply of information— above current levels, on both government non-tax revenues and citizens tax obligations are fundamental to improving domestic revenue mobilization. Tax payers ought to be briefed— beyond period budget presentations on how non-tax revenues, especially, those coming from natural resources are used. This has a double-edged effect; direct improvement of tax morale and improving trust in the tax administration. Furthermore, developing countries should make additional efforts to enhance trust in the tax administration. Even though several reforms such as the African Tax Forum have made some progress, the gains have been modest at best.