

Why is tax education important for compliance?

Summary of African Tax Administration Working Paper 1
by Giulia Mascagni and Fabrizio Santoro

Knowledge about tax can contribute to shaping attitudes towards compliance. Citizens with better tax education are able to navigate complex tax systems, and can avoid overpayment due to intricate reporting requirements. They may be more encouraged to comply voluntarily.

The literature on tax compliance often focuses on two sets of factors explaining tax behaviour: deterrence tools, including audits and fines, and tax morale, such as peer effects, fiscal reciprocity and social norms. Tax education is largely under-researched in the literature, and most of the evidence comes from high-income countries. Tax knowledge has only recently been shown to affect tax morale, and very little is known about its direct effect on compliance. A tax system that is difficult to understand can be perceived as distant and unfair, especially in low-income countries where public services are poor. Uncertainty about tax rules can fuel distrust between citizens and the government, and undermine perceptions of equity and transparency, thus reducing willingness to comply.

Against this background, we review the state of tax education in Africa, investigating common pitfalls of initiatives on the continent, and drawing evidence-based recommendations on how to improve them.

Taxpayer education in Africa

First, we conducted a review to understand what African revenue authorities are currently doing to improve taxpayer education. We rely

both on secondary sources (publications, policy reports, etc.), and in-depth interviews with officials from taxpayer services departments of revenue authorities in Rwanda, Uganda, Nigeria, Kenya and Tanzania.

Tax education initiatives in Africa take different forms, including: i) training on the practicalities of taxpaying (tax rates, deadlines, etc.), ii) information on reasons for paying taxes, such as to fund public services, and iii) creation of a venue where citizens meet the State, improving perceptions of fairness, budget accountability and participation in tax issues. Specific examples are:

- **National Taxpayer Days:** held in all African countries reviewed, these consist of an official celebration of taxpayer contributions and a moral appeal to pay taxes. Often, as in Rwanda and Senegal, the president himself officiates at the main event. Nationwide education initiatives are implemented around the main event.
- **Tax education in schools:** the younger generation of students are oriented towards a solid culture of tax compliance. Tax clubs are formed in schools in Kenya, Mauritius, Rwanda and Tanzania.
- **Tax edutainment:** radio, TV and social networks are the main channels for bringing tax education into people's homes. Tax becomes an enjoyable topic, and revenue authorities address and educate the general public in a more friendly way. Edutainment takes many forms: tax soap operas in Nigeria, radio programmes in

“ Knowledge about tax can contribute to shaping attitudes towards compliance. Citizens with better tax education are able to navigate complex tax systems, and can avoid overpayment due to intricate reporting requirements. They may be more encouraged to comply voluntarily. ”

Rwanda and Zambia, campaigns via Twitter in Kenya.

- **Tax training and seminars:** training sessions are the most common activities that revenue authorities organise to provide education. They take a more traditional classroom approach and target specific groups, such as small businesses, farmers or traders.
- **Mobile Tax Units (MTUs):** launched in 2009 in South Africa, MTUs represent an innovative strategy for the revenue authority to reach taxpayers where they live. MTUs explain the tax code and help citizens fill in their tax forms.

Key challenges

Although there has been no rigorous impact evaluation of these activities, our review and interviews identify four challenges faced by taxpayer education:

- **Impacts can be small and heterogeneous.** Educational inputs are more likely to affect knowledge than actual behaviour: increased tax literacy may not automatically translate into better tax compliance.
- **Low take-up.** Attendance rates are quite low. It is difficult to reach those taxpayers that could benefit the most – for example, the least educated. The low number of attendees undermines the statistical significance of any evaluation study based on a small sample. Moreover, attendees may represent a selected group of people, with specific characteristics, which can result in biased estimates of the real impact of training.
- **Limited budget.** Tax education programmes are often under-budgeted. The number of available staff is often inadequate. Lack of evidence of any impact results in policymakers preferring to direct funds to activities with more immediate returns.
- **Low quality.** Mostly due to insufficient budget, the quality of these programmes is often poor. Technical glitches and failures in implementation are common.

This can fuel negative perceptions among individuals, thus decreasing attendance.

The way forward

From our research review, we draw out seven recommendations on how to improve taxpayer education programmes across Africa:

- **Make the content easy to understand:** for example, taxpayers can get live feedback on specific tax issues in the radio show call-in in Zambia.
- **Personalise the training:** ICTD and the Rwanda Revenue Authority are currently studying the impact of one-to-one assistance during the tax-filing period, to check whether this type of intervention can be effective in improving compliance.
- **Make it timely:** educational inputs closer to the declaration deadline can have more impact in increasing tax compliance.
- **Involve leaders:** national and local authorities and even local celebrities are often highly effective in encouraging voluntary compliance.
- **Target the youth:** shaping good tax habits in the younger generation is a key strategy for promoting a culture of tax compliance.
- **Go beyond the technical:** Taxpayers in Africa face technical constraints with how to file their taxes, and also struggle to see what taxes are for. The content of these programmes can be improved by giving more attention to aspects of reciprocity, transparency and accountability.

Last but not least, perhaps the most crucial recommendation emerging from this review is for revenue authorities to **embed impact evaluation in their tax education programmes**, so that we can learn more about what works and what can be improved. Partnerships with academic researchers can help to foster a culture of evidence-based policymaking. A better understanding of what works in tax education is essential to implement cost-effective educational strategies that have greater impact.

Further reading

Mascagni, G. and Santoro, F. (2018) *What is the Role of Taxpayer Education in Africa?*; ICTD African Tax Administration Paper 1, Brighton, IDS: April.

Credits

This paper was written by **Giulia Mascagni**, Research Fellow at the Institute of Development Studies and Research Director of the International Centre for Tax and Development in Brighton, UK; and **Fabrizio Santoro**, a Research Officer at the Institute of Development Studies (IDS) and PhD student in Economics at the University of Sussex.

The ICTD is funded with UK aid from the UK Government and by the Bill & Melinda Gates Foundation; however, the views expressed herein do not necessarily reflect the UK Governments' official policies. Readers are encouraged to quote and reproduce material from the series. In return, ICTD requests due acknowledgment and quotes to be referenced as above.



ICTD is based at the Institute of Development Studies, Brighton BN1 9RE UK.

© ICTD 2018