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To File or Not to File? Another Dimension of Non-Compliance: The Eswatini Taxpayer Survey

Summary of ICTD Working Paper 110 by Fabrizio Santoro, Edward Groening, Winnie Mdluli and Mbongeni Shongwe

Non-filing of income tax takes place when taxpayers fail to submit a tax declaration, despite being liable to do so, thus becoming *ghosts* in the eyes of tax authorities. It is a widespread phenomenon in sub-Saharan Africa (SSA). Increasing evidence has been produced on non-filers in Rwanda, Uganda, Malawi, Kenya and Nigeria. Eswatini is no exception: over half (57 per cent) of personal income tax (PIT) returns are missing for 2013–2018; figures for corporate income tax (CIT) are lower (43 per cent), but still alarming.

Non-filing has important negative repercussions in terms of fairness and equity, on top of undermining domestic revenue mobilisation. Hence, it is crucial for both researchers and tax authorities to understand what drives this phenomenon. Unfortunately, non-filing remains a neglected topic, with most tax literature focusing on positive filers. Here, we focus on non-filing of PIT, a progressive tax on income generated by non-incorporated traders, and consider two interrelated questions: (i) which economic and behavioural factors explain the decision to file a return in a given year? and (ii) do these factors differently impact the persistence of non-filing over time? A third crucial question naturally arises: are the same factors explaining *self-reported* compliance?

Our theoretical approach builds on the behavioural formulations of the taxpayer decision. We consider six sets of drivers: (i) economic deterrence, (ii) compliance costs of filing, (iii) trust in the authority and political legitimacy, (iv) fiscal exchange or the reciprocity between taxes and public services, (v) social norms against tax evasion, and (vi) intrinsic motivation to comply.

Merging survey and administrative data

We address our research questions in a quite novel way. We combine a detailed in-person taxpayers' perception survey of 1,007 taxpayers – the first data collection effort of this type ever carried out in Eswatini – with rich administrative data provided by the Eswatini Revenue Authority (SRA). To the best of our knowledge, tax return data from Eswatini has not previously been studied. Also, the merging of different datasets is not common in the tax literature, which often relies only on survey-based self-reported measures of compliance.

With the administrative data available we identify two main categories: active taxpayers who filed returns for the 2018 tax year, and non-filers who failed to do so. We split the survey sample evenly across the two categories to allow comparisons. We are also

> "Tax authorities could improve filing rates by adopting both a deterrent and an assistance-related approach, and also by triggering the role of social norms."

able to track the filing behaviour of taxpayers, and define *perpetual* active/non-filers as those taxpayers who consistently filed/fail to filed every year in the period 2013–2018. Past filing behaviour is another key dimension unduly neglected by the literature.

What drives the decision to file?

We find that some key factors – economic deterrence, compliance costs and moral factors, e.g. intrinsic motivation and peer pressure – are highly correlated with filing, while others are not. More specifically, four out of the six theoretical motivations statistically significantly discriminate between active filers and non-filers. First, the perception of audit risk is positively related to filing – taxpayers with higher audit risk perception were 12 per cent and 11 per cent more likely to file last year and be perpetually active, respectively. Second, compliance costs are also important and account for a reduction of 16 per cent (15 per cent) in the probability of being (perpetually) active. Third, social norms affect compliance: adhesion to a social norm explains a fifth and a third of last year's and perpetual filing, respectively. Lastly, having a high tax morale implies an increase of 21 per cent and 12.5 per cent in the probability of filing last year or persistently, respectively. In contrast with conventional wisdom, we find that neither trust nor reciprocity motivations covary with compliance.

As a second set of results, we compare the evidence above with the results from a regression in which self-reported willingness to comply is the outcome. This is to show how this self-reported measure is in reality driven by different factors than those shaping actual behaviours. Our results mean that, while compliance costs and fiscal exchange correlate with actual and self-reported compliance in the same way, other key factors, such as social norms and deterrence, show different, if not opposite, patterns.

Lastly, we find that lack of tax knowledge, a key indicator of tax compliance costs, is strongly correlated with filing. One extra tax question answered correctly is associated with an increase of 14 per cent and 9 per cent in the probability of filing last year and being persistently active, respectively. Linked to that, background characteristics related to compliance costs, e.g. employing a tax accountant and having a more mature business, are also correlated with filing.

Key policy recommendations

- First, the study shows that enforcement is important. The SRA should continue stressing its role as a monitoring agency. Increased auditing efforts can be directed towards non-filers, who can be automatically detected on the database and contacted through cheap methods (SMSs).
- Second, the authority should focus more on improving taxpayers' awareness and knowledge. Educational initiatives could be tailored to non-filers more specifically, given that they lack knowledge of very basic concepts. This shift towards a service-based paradigm should also affect the way the SRA provides information to taxpayers, as it seems that currently getting information from the authority is not correlated with active filing.
- Third, another possible avenue of intervention would imply a major focus on the social norms of compliance, which appear to be strong in a small country such as Eswatini.
- Fourth, while it seems that trust, transparency and reciprocity motives are not important, the authority should not neglect them, and possibly find better ways of emphasising them in its communication strategy.
- Fifth, the tax administration could adapt its strategies to the fact that a gap exists between self-reported intentions and actual filing behaviour.

There is much exciting work to be done to exploit the combined potential of survey and administrative data to gain direct knowledge of the practical life of taxation in SSA, and eventually inform more realistic and successful tax policies.

Further reading

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Credits

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