

The Politics of Taxation and Tax Reform in Times of Crisis: Covid-19 and Attitudes Towards Taxation in Sierra Leone

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Summary of Working Paper 166

A key question facing governments is whether the pandemic has changed attitudes towards taxation and what this means for tax reform. Given that the history of tax policy in high-income countries reveals a link between periods of crisis and significant shifts in attitudes towards taxation, could the same be true in low-income countries? Little research has been done on this potential dynamic and taxpayer perceptions of progressive tax reform in these contexts is not well understood.

In this paper we explore the impacts of the Covid-19 pandemic on attitudes toward taxation and unpack what the crisis reveals about the dynamics and politics of taxation. We use novel survey data from Sierra Leone collected before the pandemic, shortly after the pandemic's onset, and for almost a year afterwards. Four key findings emerge:

1. Immediately after the onset of the crisis there was **increased support for taxation** in Freetown, despite escalating economic challenges.
2. In the wake of the crisis, taxpayers express **increasingly conditional attitudes toward taxation**; that is to say showing greater general support for taxation but more likely to believe that one is justified in refusing to pay taxes if the government fails to deliver services in return.
3. We find **rising and sustained support for progressive taxation** over the course of the pandemic.
4. Although immediately after the onset of the pandemic there was an initial increase in willingness to pay more for taxes for services, the paper finds **evidence of that support eroding over time**. This potentially reflects a combination of continued economic hardship, declining feelings of social solidarity, and some disappointment with government taxation.

These findings have significant implications for understanding immediate responses to the pandemic and the broader politics of taxation and tax reform.

Taxation, Equity and Covid-19 in Sierra Leone

A broad assessment of the economic impact of the pandemic and state relief efforts in Sierra Leone reveals limited closures of businesses, but considerable depression in revenues and increases in food insecurity. While pandemic relief efforts concentrated on support related to preventing the spread of Covid-19, direct economic or tax reliefs were limited.

Overall, higher income individuals were more able to access relief, either because of a stronger ability to navigate government relief programmes, more extensive networks within government or their inclusion in the formal tax system. Meanwhile, there is evidence that individuals across the country faced new informal taxes to help finance the pandemic response, reflecting the limited reach of state relief. Taken together, the data points toward a government commitment to curb the spread of Covid-19, but sharp limits to the reach of broader economic relief – with the likelihood that for many groups any such relief was matched, or even exceeded, by new informal burdens.

Taxpayer Attitudes

The pandemic, and its accompanying boost to social solidarity, seems to have created an initial window of opportunity for strengthening tax systems and, in particular, for more progressive taxation. However, that window appears to have been conditional: amidst significant economic hardship taxpayers appear to have staked their willingness to pay more taxes on the government being able to demonstrate they were being used effectively.

There are nonetheless some signs for optimism for those who hoped that the pandemic might open the space for more effective, progressive or accountable tax systems. In Sierra Leone, there has been a sustained increase in support for progressive taxation. While there has been no sustained increase in unconditional tax morale, there

has been no decline either during this period, despite substantial economic challenges and hardship. Perhaps of greater interest is the fact that citizens have come to hold an increasingly contractual view of taxation, with expectations of service provision in exchange for tax payment. This in itself may be a positive long-term outcome for the development of stronger fiscal contracts as taxpayers come to demand better services in return for their compliance.

Overall, this evidence points to important avenues for future research about perceptions of and possibilities for progressive tax reform in lower income countries. For one, there is a need for deeper interrogation of support for progressive reform and for greater understanding of the policy challenges around taxing the wealthy in practice.

As is the case in high income countries, the relative lack of policies to tax the wealthy, despite rising inequality and broad popular support for taxing the rich, remains an important puzzle. This paper provides a window into that question by highlighting the opportunities presented by the pandemic, but also the challenges in realising opportunities for reform.

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Further reading

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Credits

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