Policy Brief

Number 2 • July 2023

Why mass tax registration campaigns do not work

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In recent years, policymakers and donors have become increasingly interested in the use of mass registration campaigns as a tool to expand the tax nets of lower-income countries. While registering taxpayers is common – and indeed necessary – practice for revenue authorities,[1] these mass campaigns seek to accelerate the process. They typically work through broad-based door-to-door drives or by leveraging third-party data, such as those from national identification authorities or utility providers.[2] Although the use of third-party data is essential to good tax administration, we argue that using them for the purpose of mass tax registration often leads to disappointment both in terms of revenue generation and taxpayer relations.

Revenue administrations have been optimistic about the potential impacts of mass tax registration campaigns, with enthusiasm rooted in at least three common narratives:

- First, it is often believed that there is substantial revenue potential in registering new taxpayers, which has been a particularly important motivation in the context of recent public debt and fiscal crises following the Covid-19 pandemic.
- Second, it is often argued that expanding registration decreases informality and unfair competition between informal and formal firms. It is believed that building a broad-based culture of tax compliance may increase overall perceptions of the fairness of the tax system and tax morale and could thus contribute to virtuous cycles related to taxation and accountability.
- Third, it is often suggested that registration may lead to benefits for firms, including higher productivity and access to credit.

However, recent research has revealed serious shortcomings in all these narratives. In practice, the revenue outcomes of many mass tax registration exercises have been disappointing at best. The evidence for positive effects on competition, tax morale,

[1] While taxpayer registration is not required for all types of tax collection, it is increasingly common and essential for the three most important (and growing) taxes in Africa: corporate income tax, personal income tax, and value added tax

[2] Tax registration can take place along a continuum from (a) routine and incremental to (b) campaign and mass. There are a wide variety of other channels through which firms get added to tax registers and engage with revenue authorities, though we focus on mass registration campaigns as a particular administrative strategy. We also recognize that firms that are not currently registered with national revenue authorities may already be registered with other state institutions, such as local governments.

and governance is sparse. And the suggested benefits for businesses often do not materialise.

Instead, there is evidence that mass tax registration campaigns can have perverse effects that have not yet been fully accounted for. They can have a negative equity impact, as they disproportionately target lower income earners and smaller firms. Their administrative costs are often high, both for taxpayers and revenue authorities. And they can leave taxpayers confused and frustrated.

Nevertheless, revenue authorities across a range of contexts continue to put considerable efforts into mass tax registration campaigns, often in pursuit of quick wins to improve performance indicators on the number of taxpayers captured in their registries. Both government policies and donor programming are still shaped by an unrealistic view of their potential outcomes. The disconnect between the promises of mass registration campaigns and their disappointing outcomes occurs because their key challenges have not been sufficiently recognised and the underlying assumptions have not been sufficiently questioned. A rethinking of tax registration is therefore needed.

The disappointing outcomes of mass tax registration campaigns

Mass registration campaigns have faced serious challenges in raising revenue and improving equity, resulting in unintended consequences and counterintuitive outcomes.

1. Revenue potential is often less than expected

Some of the enthusiasm around mass registration campaigns has been based on high expectations of the revenue potential of the informal sector. However, these expectations are often overly optimistic, as mass registration campaigns often bring in substantially less revenue than anticipated. The reason is largely that they target small and micro firms, while leaving higher income earners off the (tax) hook. Disappointing revenue outcomes are rooted in three specific issues:

First, mass registration campaigns typically end up targeting lower income earners, whose prospective tax liability is often less than anticipated. Estimations of revenue potential are often based on a broad concept of the 'informal sector' and are dependent on an assumption that a large percentage of the sector—and particularly high-income earners within the sector—can be captured through broad-based strategies. Critically, however, unregistered taxpayers within the informal sector are highly heterogenous and often include a large proportion of small businesses that would have little to no tax liability if registered. Mass registration campaigns are thus likely to disproportionately capture many small firms that are 'unproductive' from a revenue perspective, while leaving largely untouched higher income firms with much higher revenue potential. For example, 72 percent of businesses that were newly identified in a recent mass registration exercise in Freetown, Sierra Leone were retail traders; only 1 per cent of businesses captured included businesses in (the often higher-earning) professional services, finance or real estate sectors.[3]

Second, mass tax registration campaigns often underestimate – or ignore altogether – the immediate and longer-term administrative costs. Registering smaller taxpayers can be highly time and resource intensive, often costing more than the potential revenues at stake. Mass registration campaigns often lead to registers that are bloated

[3] Gallien, M.; Occhiali, G. and van den Boogaard, V. (2023) 'Catch Them If You Can: the Politics and Practice of a Taxpayer Registration Exercise,' ICTD Working Paper 160, Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2023.012

with inactive taxpayers – that is, those that either are not economically active or not compliant.

These types of campaigns also result in poor data quality— rife with inaccuracies, missing data, and duplicate identities—making the register almost unusable for the revenue administration, while being expensive to fix. For instance, evidence shows that taxpayers who were forcibly registered during Uganda's registration campaign in 2021 are about a fifth less likely to pay any tax than those who registered voluntarily—of which only about 9 per cent paid any tax. Such low compliance among forcibly registered taxpayers is due in part to the poor quality of data collection in the mass registration campaign, which led to a high number of duplicate identities and incomplete taxpayer information. This has made it impossible for the Uganda Revenue Authority to onboard new taxpayers and retrieve information on their business accounts.

Similarly, recent research from Rwanda shows that taxpayers recruited through mass campaigns are more likely to file nil returns that result in no revenue for the tax administration and very little information about their business.[4] As a result, mass registration campaigns also impose costs in terms of the resources needed to manage and clean the register, which often fills up with inactive taxpayers that are unproductive in revenue terms. Additional indirect costs may emerge if taxpayers have not (quasi)-voluntarily agreed to be registered, implying higher administrative and enforcement costs in the long-term.

Third, the benefits of tax registration can only materialise if it is part of a broader process, which is often insufficiently considered. While registration happens at a specific point in time, the realisation of its intended benefits – revenue generation in particular – requires continuous engagement with taxpayers and longer-term improvement in taxpayer services. Obtaining a taxpayer identification number can be a convoluted process involving coordination between multiple institutions. And this is only the beginning of taxpaying obligations, which require taxpayers to submit declarations, report the correct amount of taxable income, and then pay the taxes owed. It is not inevitable that newly registered firms will follow through with each of these steps.

For example, in Rwanda over half of all newly registered taxpayers typically fail to file a declaration in the year of registration and, if they fail to do so in the first year, they are very unlikely to ever do so afterwards. However, research found that attending a taxpayer education program right after registration substantially improved the probability of filing a declaration.5 This illustrates the importance of engaging with newly registered taxpayers beyond the point of registration, by supporting them in complying with the law, and comprehensively capturing incomes. All this generates new administrative challenges and costs, especially when taxpayer information is inaccurate. The act of registration is thus not enough to actually generate revenue.

2. The fairness of the tax system is often (counterintuitively) undermined

Mass registration campaigns often rely on a rationale based on fairness: everyone should pay their fair share of taxes, regardless of the size of their taxable income. While this is a reasonable argument in theory, in practice mass registration campaigns often lead to inequitable outcomes that undermine the fairness of the overall tax system.

[4] Mascagni, G., Fabrizio S., Mukama, D., Karangwa, J. and Hakizimana, N. (2022) 'Active Ghosts: Nil-Filing in Rwanda'. World Development 152: 105806. DOI: 10.1016/j.worlddev.2021.105806

[5] Mascagni, G.; Santoro, F. and Mukama, D. (2019) Teach to Comply? Evidence from a Taxpayer Education Programme in Rwanda, ICTD Working Paper 91, Brighton: Institute of Development Studies

Taxpayer perceptions of unfairness may increase if these exercises are perceived as political, if they are undertaken without sufficient taxpayer sensitisation, or if they disproportionately capture smaller firms while higher income people and businesses are – often quite visibly – let off the tax hook. Registration exercises that are perceived as unfair can also affect the relationships between revenue authorities and taxpayers and affect their future compliance attitudes and behaviour. There are at least four key issues to consider here:

First, mass tax registration campaigns often disproportionately capture small businesses, while missing higher income potential taxpayers, such as unregistered professionals. While the revenue generated through these campaigns is often limited, even small additional payments—in addition to the cost of registration itself—can represent a considerable burden for lower income taxpayers. Without a substantial revenue benefit for governments and without effective targeting of higher income earners, the social costs of these exercises can be high.

Second, while it's often assumed that individuals who are not registered with tax authorities do not pay taxes, many informal operators already pay a variety of taxes and fees in order to run their businesses. This includes payments to comply with presumptive tax regimes or to local governments. Without a good understanding of these realities, mass registration campaigns can increase burdens on lower income earners. If not accompanied by sufficient taxpayer sensitisation, they can also lead to confusion and frustration among newly registered taxpayers, who may struggle to distinguish between different tax authorities or perceive the added burdens as unfair.

Third, the benefits of tax registration for firms often do not materialize, thus failing to offset other negative equity effects. There are often additional barriers to firm-level benefits, particularly for small-scale operators or own-account workers, with, for example, higher productivity or access to credit not following directly from registration or the more complex and multi-layered process of formalisation. If the costs of registration are not offset by broader firm-level benefits, the overall effect for firms might well be negative, at least in the short term.

Fourth, tax compliance costs may further exacerbate these equity effects. While they are typically hard to measure, these costs are typically regressive and represent a substantial burden, particularly for smaller firms and own-account workers. The increasing use of mandatory digital tools for filing can pose an extra burden for newly registered taxpayers. This can have an impact on the success of registration and subsequent tax compliance. Revenue administrations explicitly recognize compliance costs for other taxes; for example, VAT policies typically include a registration threshold to exclude small firms from reporting obligations, weighing the compliance costs against the potential revenue benefit. However, when it comes to mass registration campaigns, revenue administrations almost entirely ignore compliance costs and the facilitation measures needed to address them. Mass registration campaigns often do not include a clear plan for taxpayer facilitation after registration and thus almost inevitably increase the administrative and psychological burden for taxpayers while fuelling frustration and perceptions of the unfairness of the tax system.

Rethinking registration

These challenges suggest that revenue authorities should do away with mass tax registration campaigns, but of course do not imply that revenue authorities should give up on registration altogether. How can registration efforts be made more effective and equitable?

1. Target higher income earners

Many of the negative revenue and equity outcomes resulting from mass registration campaigns are related to their lack of targeting. Broad-based campaigns often end up disproportionately registering smaller taxpayers, either because they make up the majority of unregistered taxpayers or because richer taxpayers find ways to evade registration. Rethinking registration requires thinking more actively about how registration exercises can better target higher income earners or identify tax evasion among registered taxpayers. Improved targeting may be achieved by using third-party data (e.g., on real estate holdings, corporate directorship and shareholding, and vehicle ownership), working through professional associations, or adopting sector-specific administrative strategies, including for high-net worth individuals. In some cases, this might mean developing a register of taxpayer characteristics.

2. Focus on outcomes beyond revenue

Domestic stakeholders and international donors often prioritise two outcomes of registration: the number of newly registered taxpayers and the amount of revenue generated. Rethinking registration means re-evaluating the goals of registration exercises. Focusing simply on the number of registered taxpayers can detract attention from higher-income earners, while focusing simply on revenue can lead to a disregard for equity concerns. Many of the wider potential positive outcomes of registration—such as sensitising taxpayers, building a stronger compliance culture, or providing a better evidence base for economic policymaking—can only be achieved if these goals are supported and rewarded. Consequently, rather than assuming that the benefits of registration exercises are self-evident, explicit stakeholder agreements about goals and targets may be a way to rethink registration in practice.

3. Fit registration to context

Rethinking registration requires moving away from one-size-fits-all mass registration campaigns and towards a more careful consideration of the context in which revenue authorities operate. This includes the current state of the tax register, institutional capacity within the revenue authority as well as other necessary institutional partners, the opportunity costs of focusing administrative attention on registration, and the nature of the potential tax base. For example, leveraging third-party data can be highly productive in contexts in which data is high-quality and can be used in a targeted way. On the contrary, their value may be much more limited, and their use even counterproductive, in contexts where digitised records are absent or of poor quality, the relevant institutions have limited capacity to use such data, and institutional coordination and data sharing would require substantial additional administrative capacity and resources. Further, the nature of existing relationships between taxpayers and revenue authorities is critical to the success of registration efforts. In a context where potential taxpayers have had little interaction with the revenue authority or where trust in the state is low, additional time for taxpayer sensitisation and education will be needed.

Further reading

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DOI: 10.19088/ICTD.2023.032

ICTD is proudly funded by

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