



# Improved knowledge on tax issues builds interest, increases compliance

"Taxpayer education strategies should be tailored to fit different segments of taxpayers paying different taxes."

## COMMENTARY

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**W**ould you like an official value added tax receipt with that 40-inch TV? No problem, that will only cost you an extra \$42.

\* We watched a woman in downtown Nairobi in this very situation. She left with the TV, but without the receipt. Would you choose differently?

But do you know how much money the government loses each time you buy goods from vendors who don't issue you with VAT/ETR receipts? Do you understand that by doing this you are actually helping these businessmen evade taxes, and deny the government much needed revenue to provide free primary education; fund hospitals; build roads etc?

A new study by the International Centre for Tax and Development (ICTD) suggests that improved knowledge about tax may change the way the customer and the vendor act and that this is especially true for VAT. People pay more taxes when they understand tax issues better.

The study, titled "The Added Value of Value Added Tax: People are More Willing to Pay Tax," indicates that taxpayer education is an important part of addressing tax compliance, and is a central component of revenue administrations' efforts to

building a taxpaying culture in developing countries. The study shows that exposure to VAT in particular makes people take a greater interest in tax issues and makes them more willing to pay tax.

Questions may arise as to why the focus would be on VAT, when there are many other taxes levied upon the taxpayers. VAT has a wide reach as every consumer — urban and rural as well as the formal and informal businesses — is exposed to it. Whenever we buy our bread, milk, beer, coffee, airtime, we pay VAT. Kenya currently levies a VAT of 16 per cent, Uganda levies 18 per cent and Tanzania is 20 per cent.

VAT is also known to be the biggest source of indirect tax in most African countries. In fact, about 80 per cent of the countries in sub-Saharan Africa levy VAT, which contributes about one-quarter of the total tax revenue for these economies. The popularity of this tax in Africa is linked to its ability to enhance tax compliance, in comparison

with more narrow-based taxes such as personal and corporate income taxes. Also, developing countries can no longer continue to rely on aid, given the increased austerity in traditional donor countries.

Raising money and resources needed to finance development

and service delivery, therefore, is becoming a priority for most African countries.

Raising enough revenue is, however, dampened by the fact that there is widespread tax avoidance and evasion, leaving only a tiny fraction of people and companies to bear the bulk of tax burden in these countries.

This could be due to a number of reasons, such as weak administrative capacity to collect taxes, and the fact that the rest of the population is either too poor to remit or lacks knowledge on the need or how to pay these taxes.

However, it is taxpayer education that the study found to be more useful in driving or addressing tax compliance, and as a central component of revenue administrations' effort to build a tax paying culture.

Overall, improved tax knowledge could in turn foster greater citizen engagement around matters of taxation, public spending and good governance, and increased participation by people in the informal economy.

A different (but related) study based on a recent AfroBarometer Survey found that VAT-related tax knowledge encourages greater tax compliance among citizens. This was observed in Kenya, Uganda, Tanzania and South Africa, where tax knowledge is found to be correlated



with a tax compliant attitude.

Appreciating the fact that taxpayer education is key to building and encouraging a tax-paying culture, revenue authorities in sub-Saharan Africa are employing various approaches to bridging the information gap. The authorities are seen cooperating with the media, religious authorities and artists to share the taxpaying message.

They are also using various channels like the media (TV and radio programmes), tax clubs in schools and tax information meetings in shopping centres.

The Kenya Revenue Authority has a taxpayers' education programme, which seeks to create tax awareness to enhance voluntary tax compliance. The Mozambique Revenue Authority, on the other hand, engages existing and potential taxpayers on radio and TV broadcasts to increase uptake, whereas the Tanzania Revenue Authority broadcasts radio programmes on tax, and has started tax clubs in secondary schools to improve tax knowledge among the young citizens.

In order to be effective, taxpayer education strategies should be tailored to fit different segments of taxpayers paying different taxes. VAT can be used to educate people outside the reach of direct income taxation, and would be a useful starting point when tailoring tax education strategies for groups that haven't been predisposed to taxes, especially those in the informal sector, as this may help

improve awareness of personal obligations and contributions.

Taxpayer education, as a single strategy, may not be successful on its own, as it is only one component of a broader strategy to enhance taxpayer compliance. Tax administrations therefore need to devise a mix of strategies such as improved tax legislation, simplified tax payment procedures and tax audits in order to improve tax compliance.

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Value added tax of 16 per cent is paid on groceries sold in Kenya. Picture: File