


ICTD 5th Annual Centre Meeting

Effective Tax Rates in Ethiopia


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Outline:

1. Collaboration between Tax Administrators and Researchers
 2. Value of Collaboration between Researchers and Practitioners
 3. How to make useful the Collaborations in the future
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Introduction:

- ▶ Research has the greatest potential to impact change in practice and policy when it is conducted in collaboration with practitioners rather than conducted by an academic researcher alone, and its findings are meaningfully communicated to the people who influence policy and practice.
 - ▶ There are many reasons why practitioners (on behalf of an organization) might collaborate with researchers.
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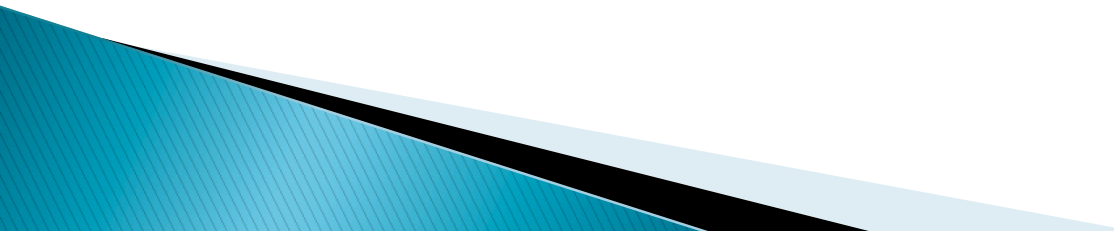
- ▶ One reason is **necessity**. More and more often, funders are requiring organizations to use evidence-based programs and/or to evaluate proposed programs for effectiveness.
 - ▶ Another reason to collaborate is **choice** - for example, when a researcher approaches an organization to propose a collaborative project and the organization agrees because it is invested in the findings and their implications for the clients, staff, and/or the organization as a whole.
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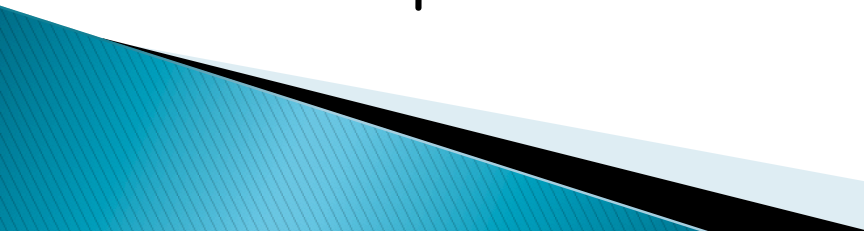
First of all I try to mention the collaboration work done for the effective tax rate,

Second value of collaboration in general and

Finally, I suggest on what should be done based on the feedback taken from the researcher and from my practical experience in the field.



1. Collaboration between Tax Administrators and Researchers

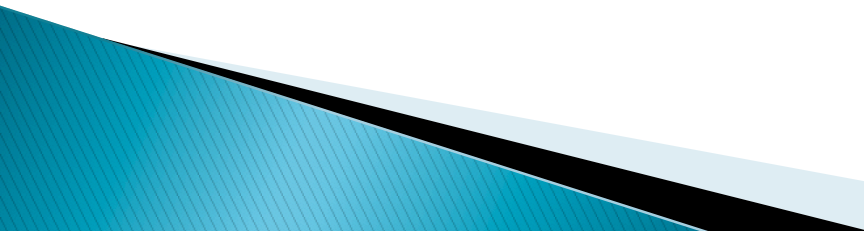
- ▶ Thanks to increasing availability of administrative data and the willingness of tax administrators to collaborate with tax researchers, data-intensive Research that relies on advanced information technology to facilitate data gathering, analysis, and sharing on Tax in the African context has been flourishing in recent years.
 - ▶ In the Ethiopian context 3 recent examples highlight the importance of this relationship.
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1. Collaboration between Tax Administrators and Researchers

A) Effective Corporate Tax Rate

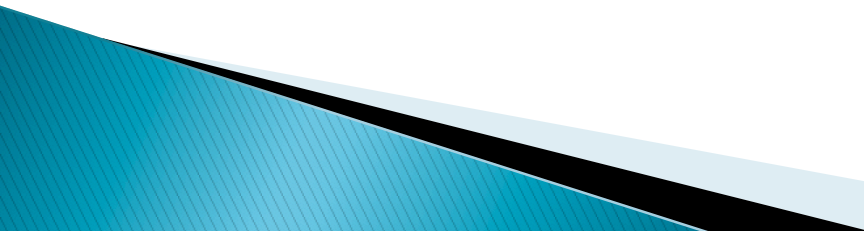
- ▶ We have provided researchers access to corporate financial statements and balance sheet data presented to the tax authority. This has enabled researchers to estimate the tax burden on corporations and firm characteristics that determine the heterogeneity in the tax burden.

B) Sales Registration Machines and Tax Compliance

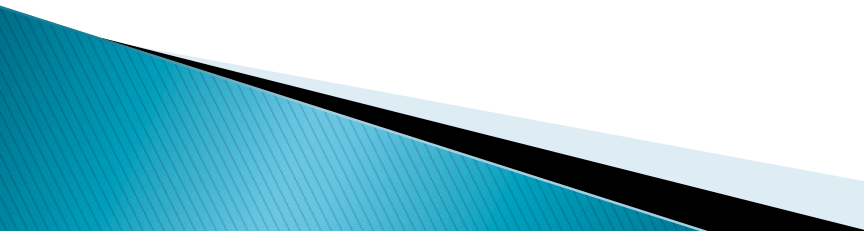
- ▶ Researchers were provided updated information on the amount of VAT tax payers are paying for a long period of time. This has enabled them to estimate the impact of introducing sales registration machine on tax compliance.
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1. Collaboration between Tax Administrators and Researchers


C) Coercion Vis-À-Vis Persuasion

- ▶ The tax authority provided researchers with the list of tax payers, the amount of profit tax these firms paid in previous years, helped them in distributing instruments meant to persuade or coerce tax payers to be more honest in their declaration, and the payment after these instruments are implemented.
 - ▶ This has enabled researchers to estimate the mechanism that is likely to lead to higher payment.
 - ▶ Besides the importance of their research results, researchers engaged in this project have provided the tax authority with various feedbacks that point to areas of improvement.
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1. Collaboration between Tax Administrators and Researchers

- ▶ For instance, on the effective Tax Rate mentioned above the absence of most disaggregated expense data points to the fact that it is difficult to investigate evasion through expense inflation.
 - ▶ In addition, they point out that the balance sheet data is much less complete than the financial statement data.
 - ▶ Improving this situation will help the tax authority in analyzing the database and further investigate discrepancies between the two as an indicator of evasion.
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2. Value of Collaboration between Researchers and Practitioners

- ▶ Collaboration provides practitioners with evidence upon which to base their practices, services, and policies,
 - ▶ And researchers with experience upon which to further their programs of research.
 - ▶ By working together and pooling their distinct knowledge, experience, and talent, researchers and practitioners can create uniquely comprehensive projects and products that have the potential to change practices, policies, and services.
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2. Value of Collaboration between Researchers and Practitioners

The benefits of researcher-practitioner collaborations within the revenue system and administration are many. To mention a few:

- i. Improve quality of research for the researchers.
- ii. Feedback from researchers suggesting ways to improve tax administration
 - ❖ Helps to make fairness on tax to be paid based on the findings,
 - ❖ enhance service delivery and thereby increase compliance
 - ❖ And ultimately increases revenue to the government.

2. Value of Collaboration between Researchers and Practitioners

To boost the value of collaboration let us mention two major ways in this regard:

- a) Value Practitioners' Involvement:
- b) "Walk in the Practitioners' Shoes":

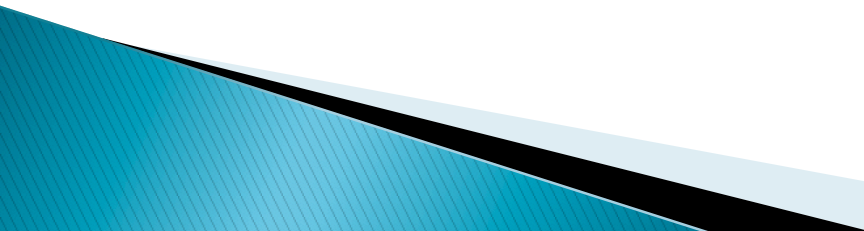
2 a) Value Practitioners' Involvement:

As one academic researcher explains,


"Just because we have PhDs doesn't mean that we have all the answers."

- ▶ For example, while researchers typically have a better understanding of study design and rigorous methods, practitioners tend to have more experience working directly with clients and a better understanding of the system in which the research is conducted.
- ▶ Additionally, since "researchers don't know what they don't know" about the existing system/administration in the given organization, practitioners can enhance researchers' understanding and correct misconceptions, thereby enhancing the study's credibility and the findings' utility.

2 a) Value Practitioners' Involvement:

- ▶ Therefore, researchers are encouraged to enter a collaboration seeking practitioners' involvement in the development of the study rather than with a firm plan already in place.
 - ▶ By facilitating balanced contribution from each party, open communication, and respect for each other's professionalism, expertise, and trust.
 - ▶ The collaboration has a chance to succeed because the researcher and practitioners are committed to integrating their complementary strengths, which ultimately will benefit the Tax development and the taxpayers.
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2 b). “Walk in the Practitioners’ Shoes”:

- ▶ Although researchers may be well informed about the system the practitioners work in or the taxpayers that they serve, there is no substitute for the researcher gaining direct experience of practitioners’ unique settings.
 - ▶ Researchers need to really spend some time thinking about what it is like to walk a mile in the shoes of these practitioners. (I.e. a successful collaboration is when the researcher is knowledgeable about the practitioner’s system or organization.)
 - ▶ Practitioner-Researchers and practitioners emphasized the necessity to deliver tangible products—not just those that are academic (e.g., peer-reviewed articles) or funder related (e.g., technical reports) but targeted to practitioners, organizations, and the community being served.
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2 b). “Walk in the Practitioners’ Shoes”:

- ▶ Tangible products can be in the form of measures to be taken; provisions for services or interventions; development of programs, trainings, manuals, and Regulation; fact sheets; journals; Web content; and so on.
- ▶ Communicating expectations and mutually agreeing on project goals are necessary for a collaboration to be successful. Practitioners with various levels of expertise and experience underscored that through commitment and shared goals, research collaborations can produce evidence that enhances practice and service, informs policy, and ultimately benefits the community, and taxpayers in particular, in many ways.
- ▶ In doing so, collaborations will ultimately provide valuable information to improve our organizations ability/capacity to better serve our clients’ needs.

2 b). “Walk in the Practitioners’ Shoes”:

- ▶ In general, it is important to work to ensure that researcher-practitioner collaborations continue and multiply, because they have the potential to yield profound benefits. They may provide the best solutions to tax administration & development.

3. How to make useful the Collaborations in the future

Though the provision of administrative data has increased the quality and quantity of research and the feedback therein suggests a way forward to future improvement for the tax authorities, there are various factors that may limit this virtuous feedback loop.


A) Capacity and Budget Constraint

- ▶ Among the issues mentioned by researchers as areas to improve is to reduce data entry errors and missing data. This requires sufficiently trained manpower that will implement these suggestions. Retaining those trained staff is also another difficulty facing the Revenue Authority as work force turnover for better payment is increasing these days.

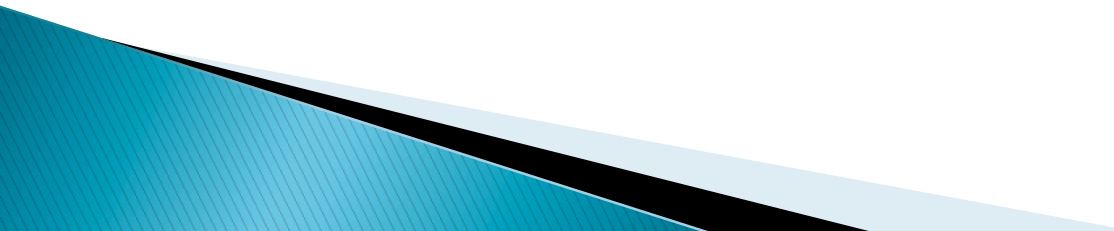
3.A) Capacity and Budget Constraint

- ▶ To minimize data entry error some more validation can be incorporated and the existing system should be enhanced by allocating enough funds. More over there are time consuming but very important (for researcher/the revenue authority) back logs of revenue data that are going to be captured by each branches and tax centers (Eg. monthly declarations, payroll sheet that are not yet entered for years, etc).

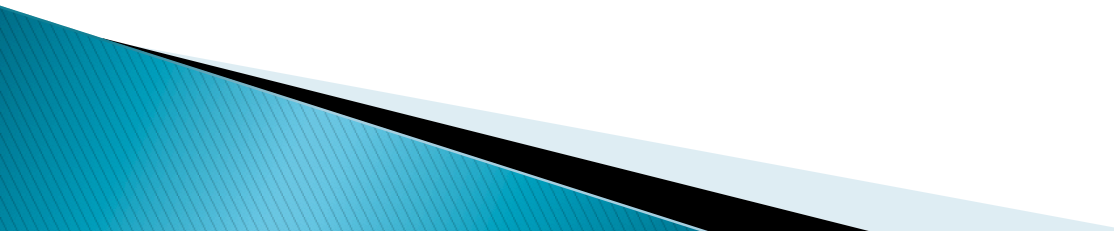
3.A) Capacity and Budget Constraint

- ▶ Nearly everything takes longer when it is done in collaboration—research or otherwise.
One researcher describes collaborative research as a marathon, and non-collaborative research as a 100-yard dash.
 - ▶ Though it is time intensive, budget for extra time for the back logs and collaboration work are rewarding and effective. Staff time and the associated costs (which were typically underestimated by researchers and practitioners), computers and other equipment, compensation of study participants or organization staff should be considered.
 - ▶ Budgeting for additional time and enhancement of the existing system, which often coincides with needing additional funds, will help to avoid frustration down the road and brings ultimate result.
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3.B) Ad hoc Collaboration

- ▶ The researches mentioned are done in an ad hoc fashion with independent researchers getting access to data and publishing their results. There is no formal mechanism in place that will incorporate these findings in to improving tax administration. As a result the research results tend to be confined in the academic sphere.
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3.B) Ad hoc Collaboration

- ▶ One way forward may be to increase integration between research department of ERCA, independent outside researchers, and data management of ERCA to create a repository of new findings that will be accessed by relevant stakeholders.
 - ▶ To effectively address the needs of researchers and provide a full portfolio of research support services, the integration may help to have proper knowledge of data management and preservation, funder policies and requirements, and grant writing.
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Reference:

- ▶ <https://www.erca.gov.et>
- ▶ <https://www.ncjrs.gov>
- ▶ Recommendations for establishing and maintaining successful researcher-practitioner collaborations, Wellesley College.

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Thank you!

