



Informal Taxation: What Have We Learned?

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Informal taxation

“Tax-like payments, made to both state and non-state actors, that are not mandated by law.”

Significance

- Livelihoods and welfare of taxpayers
- Fiscal decentralization and effectiveness of tax reforms
- State building and accountability

Focus of ICTD research

- Empirical understanding of informal taxation
- Policy implications of informal taxation

Findings from Sierra Leone

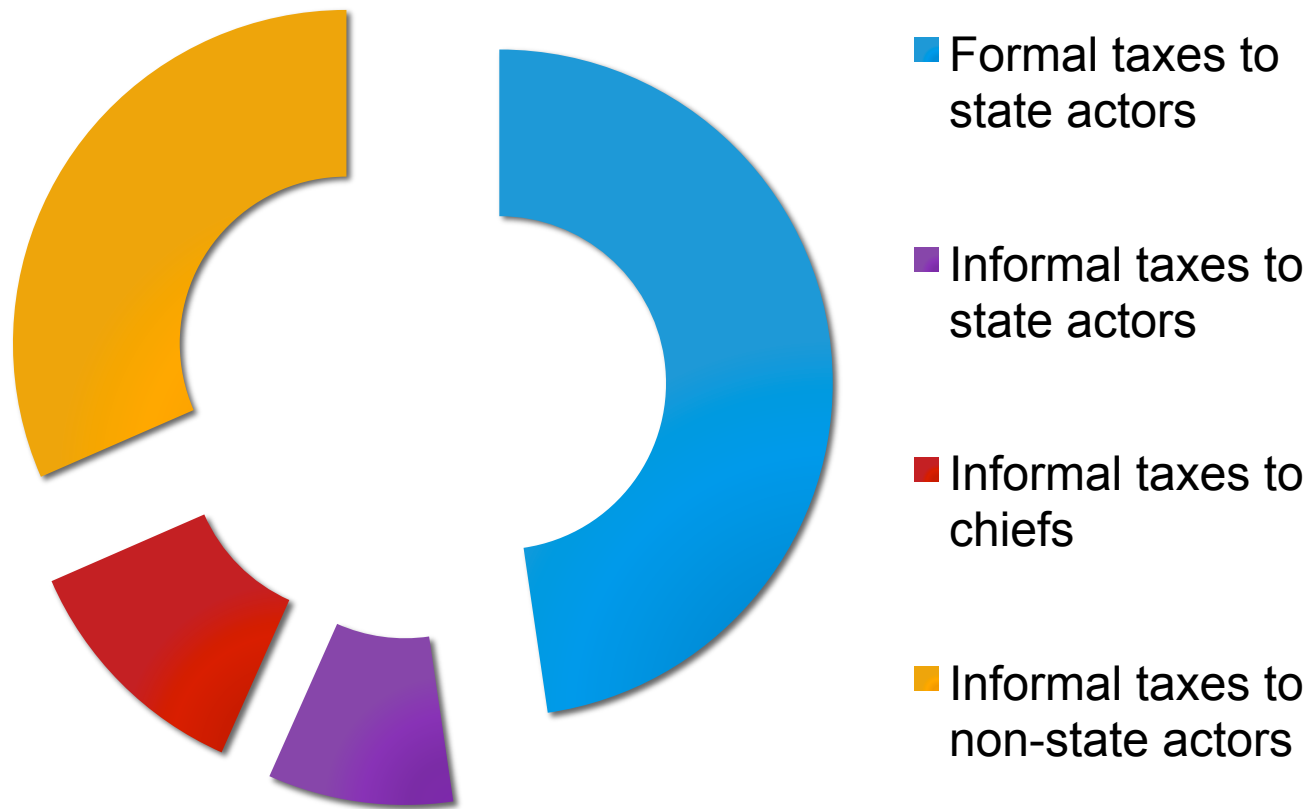


Classifying informal taxes

- **Formal State “Taxes”:** Statutory taxes under the law
- **Informal State “Taxes”:** Payments to state officials not mandated by law
- **Informal Taxes to Traditional Authorities:** Payments to traditional authorities, not mandated by law
- **Informal Non-State Taxes:** Payments to non-state groups including armed groups and community development associations, for services and/or protection

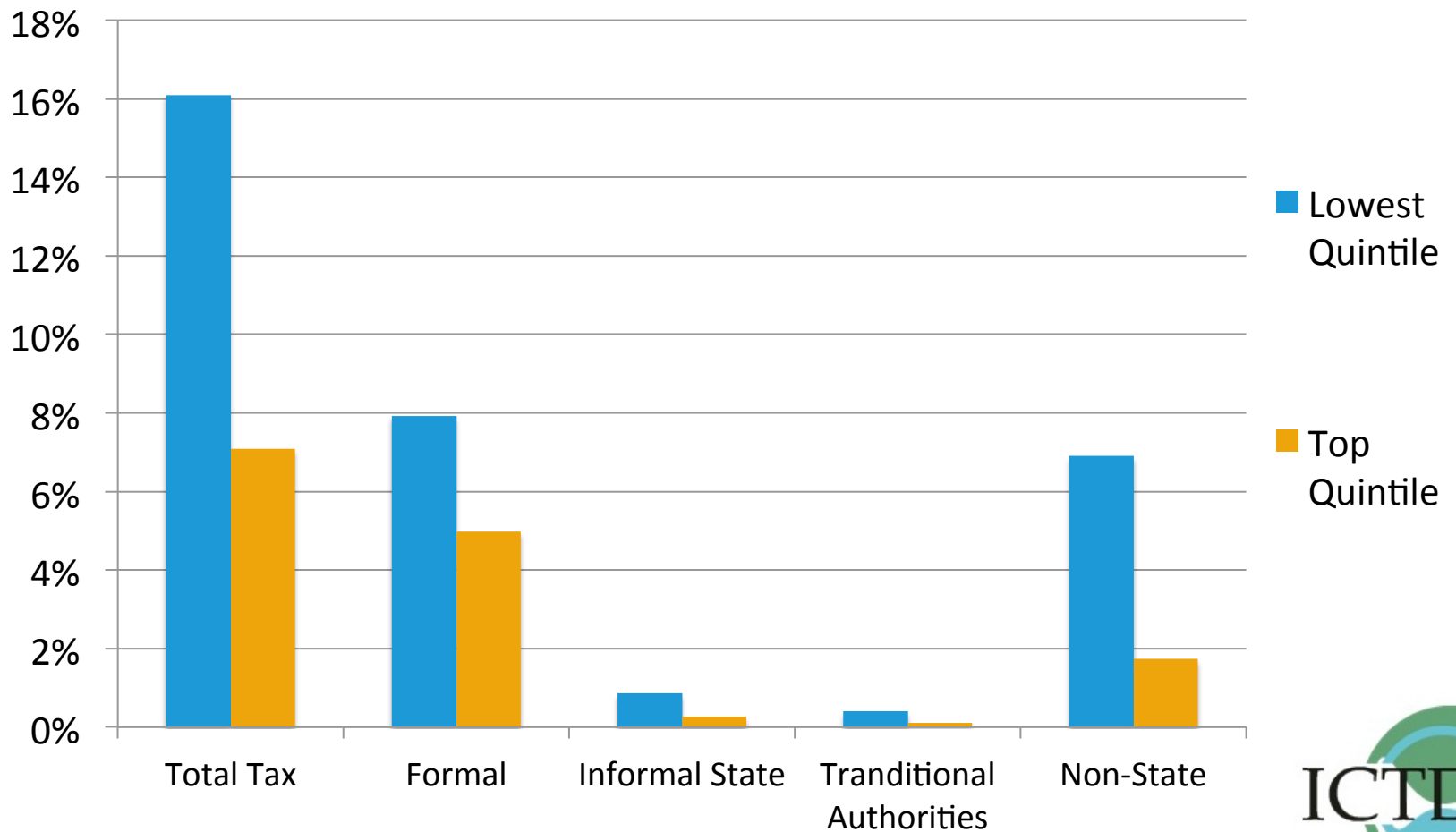
(1) Informal taxes are extensive

**Proportion of tax payments per household
per annum, by tax type**



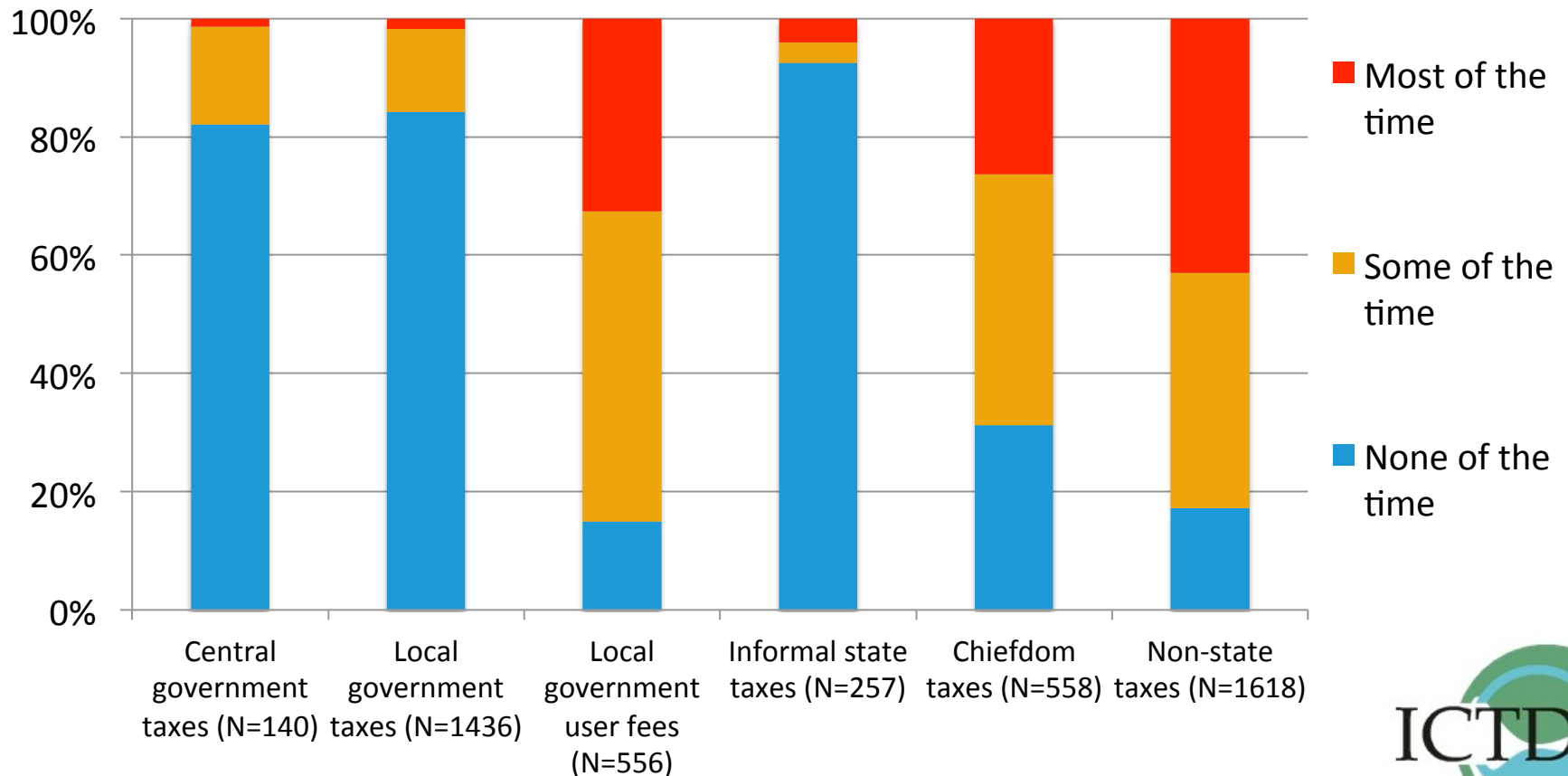
... and regressive

Tax payments as a proportion of income



(2) Higher trust in informal than formal

Mean proportion of taxpayers believing that the taxing actor uses tax revenues to benefit the community most, some or none of the time



Findings from elsewhere



Implications

- Informal taxation should be considered in assessments of livelihoods/poverty
- The “informal” is critical to thinking about reform of the formal
- Informal tax may meet citizen needs, implying desirability to explore “second best” or “hybrid” structures

Remaining questions

- Practical viability of “hybrid” models
- Meaning of relatively greater trust in informal taxation
- Relationship between informal taxation and state-society relations, compliance with formal tax systems

Thank you!
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