Reading List

Tax Administration and Compliance

Essential Readings

Bird, R.M. (2015) "Improving Tax Administration in Developing Countries", Journal of Tax Administration Vol.1:1

This paper offers a good overview of most of the issues concerned with enhancing tax administration, briefly covering the political economy of taxation; which type of information and processes are required to efficiently administer taxes and how the lack of some of the above can affect developing countries; and how to assess which essential tasks involved in revenue administration might be underperforming. This paper also offers a set of general rules which might be helpful in achieving more successful tax administration reforms.

Vazques-Caro, J. and Bird, R.M. (2011) "Benchmarking Tax Administrations in Developing Countries: A Systemic Approach", International Studies Program Working Paper 11-04

Assessing the quality of any given RA is not an easy task, as how revenue is raised (process) has a deep influence on how much revenue is raised (output). Both papers critically focus on the process of "benchmarking" a revenue authority, i.e. how to identify performance gaps in revenue administration. In doing so, they cover all the processes involved in tax administration itself. The first paper is slightly more academic in nature, with a model of "capability to raise revenue" developed in the first half and then applied to Zambia. The second paper has a slightly more practitioner-oriented approach.

Prichard, Wilson, Anna Custers, Roel Dom, Steve Davenport, Michael Roscitt. 2019. "Innovations in Tax Compliance: Conceptual Framework." World Bank Policy Reseach Working Paper. Washington, D.C.: World Bank.

This paper presents a conceptual framework for developing more effective approaches to tax reform and compliance. The framework proposes that by combining complementary investments in enforcement, facilitation, and trust, reformers can not only strengthen enforced compliance but can also (a) encourage quasi-voluntary compliance, (b) generate sustainable political support for reform, and (c) create conditions that are more conducive to the construction of stronger fiscal contracts. A key challenge for governments lies in finding the right combination of these three measures—enforcement, facilitation, and trust—to achieve revenue and broader development goals. The framework proposes greater reliance on locally grounded binding constraints analysis, coupled with careful attention to understanding politics and the drivers of trust in particular contexts, to guide analysis of how best different investments may be combined, prioritized, or sequenced. This framework can help policy makers to think about the right combination of strategies in specific contexts, and thus to allocate resources most effectively.

Mascagni, G. (2018), From the Lab to the Field: a Review of Tax Experiements. Journal of Economic Surveys, 32: 273-301.

Tax experiments have been gaining momentum in recent years, although this literature dates back several decades. With new developments in methods and data availability, tax experiments have gradually moved away from lab settings and towards the field. This movement from the lab to the field has happened against the background of the 'credibility revolution' in applied economics, which has seen more rigorous methods applied to policy relevant questions, and of the availability to researchers of administrative data from tax returns. These developments have allowed significant advances in the experimental literature on tax compliance. This paper reviews this literature, giving particular attention to field experiments using administrative data, but putting them in the broader context of the compliance literature. A particular effort is made to take a global perspective, in a literature that is only recently seeing the emergence of evidence from Africa, Latin America and Asia.

Dom, R. (2019) "Semi-autonomous revenue authorities in Sub-Saharan Africa: Silver bullet or white elephant", The Journal of Development Studies 55(7), pp. 1418-1435

The paper provides a robust assessment of the effect of introducing an independent revenue authority on revenue performance of African countries. Reducing discretionary political control on revenue collection has long been a key goal of public financial management reforms in developing countries, as this was seen as key to increase compliance and a more stable policy environment, both functional to increase revenue mobilisation. However, the paper finds no evidence that countries with independent authorities in the continent significantly differ from countries without one, under many different tax indicators ranging from tax-to-GDP ratio to revenue volatility.

Giulia Mascagni, Andualem T. Mengistu, Firew B. Woldeyes (2021) Can ICTs increase tax compliance? Evidence on taxpayer responses to technological innovation in Ethiopia, Journal of Economic Behavior & Organization,Volume 189, 2021, Pages 172-193

The widespread introduction of ICTs and digitised data management systems is one of the most important developments amongst African tax administrations in recent years. However, very little evidence is available on their effectiveness to increase compliance and on how taxpayers respond to these changes. This paper starts filling this gap by reporting three sets of results from Ethiopia. First, the authors evaluate the impact of a technological innovation, the adoption of electronic sales registration machines, on taxpayers' self-reports. The authors find a positive impact on tax revenue, which increases by at least 12% for income taxes and 48% for VAT. However, taxpayers respond by simultaneously adjusting both reported sales and costs, thus yielding net revenue gains that are proportionally lower than the increase in sales. Second, the authors use a letter experiment to show that the main mechanism through which the machines increase tax revenue is compliance, rather than any change in real business activity. Third, they document how the revenue administration does not make use of available data to its full potential, as many discrepancies remain undetected. However, machine adoption improves the accuracy of those taxpayer records, reducing discrepancies.

Khan, A., Khwaja, A., and Olken, B. (2016) "Tax farming redux: Experimental evidence on performance pay for tax collectors", Quarterly Journal of Economics 131(1), pp. 219-271.

The paper evaluates a performance-pay scheme for tax collectors introduced in Pakistan. Theoretically, performance pay schemes have potential for both increasing the amount of revenue collected and for increasing collusive behaviour. Their particular set-up must be carefully considered, and their introduction accompanied by increase in monitoring, in direct audits to identify collusion and in penalties for rent-seeking behaviour. From the evidence of their experiment, the authors conclude that such schemes may indeed have some potential to generate additional information and revenue in developing countries.

Best, M. et al. (2015) "Production versus revenue efficiency with limited tax capacity: Theory and evidence from Pakistan", Journal of Political Economy 123(6), pp. 1311-1355.

The study presents a thorough empirical assessment of the coexistence of profit and turnover taxation on corporate income revenue collection and evasion in Pakistan. The authors show that firms respond to this policy by bunching around the threshold correspondent to the switch between turnover and profit taxation to minimise their tax liability. Regardless, as turnover taxes are harder to evade, this leads to a substantial reduction in corporate income tax evasion. Linking this finding to the theoretical framework they develop, the authors argue that a switch to pure turnover taxation might lead to substantial increases in tax revenue with only a marginal effect on aggregate profit.

Basri, M. Chatib, Mayara Felix, Rema Hanna, and Benjamin A. Olken (2019) Tax Administration vs. Tax Rates: Evidence from Corporate Taxation in Indonesia. NBER Working Paper Series, no. w26150. Cambridge, Mass: National Bureau of Economic Research, 2019.

Developing countries collect a far lower share of GDP in taxes than richer countries. This paper asks whether changes in tax administration and tax rates can nevertheless raise substantial additional revenue – and if so, which approach is most effective. The authors study corporate taxation in Indonesia, where the government implemented two reforms that differentially affected firms. First, the authors show that increasing tax administration intensity by moving the top firms in each region into "Medium-Sized Taxpayer Offices," with much higher staff-to-taxpayer ratios, more than doubled tax revenue from affected firms over six years, with increasing impacts over time. Second, using non-linear changes to the corporate income tax schedule, the authors estimate an elasticity of taxable income of 0.59, which implies that the revenue-maximizing rate is almost double the current rate. The increased revenue from improvements in tax administration is equivalent to raising the marginal corporate tax rate on affected firms by about 23 percentage points. The authors suggest one reason improved tax administration was so effective was that it flattened the relationship between firm size and enforcement, removing the additional "enforcement tax" on large firms. On net, the results suggest that improving tax administration can have significant returns for developing country governments.

Mascagni, G., Dom R. and Santoro F. (2021) The VAT in practice: equity, enforcement and complexity ICTD Working Paper 117 First published by the Institute of Development Studies, Institute of Development Studies

The value added tax (VAT) is supposed to be a tax on consumption that achieves greater economic efficiency than alternative indirect taxes. It is also meant to facilitate enforcement through the 'self-enforcing mechanism' – based on opposed incentives for buyers and sellers, and because of the paper trail it creates. Being a rather sophisticated tax, however, the VAT is complex to administer and costly to comply with, especially in lower-income countries. This paper takes a closer look at how the VAT system functions in practice in Rwanda. Using a mixed-methods approach, which combines qualitative information from focus group discussions with the analysis of administrative and survey data, the authors document and explain a number of surprising inconsistencies in the filing behaviour of VAT-remitting firms, which lead to suboptimal usage of electronic billing machines, as well as failure to claim legitimate VAT credits. The consequence of these inconsistencies is twofold. It makes it difficult for the Rwanda Revenue Authority to exploit its VAT data to the fullest, and leads to firms, particularly smaller ones, bearing a higher VAT burden than larger ones. There are several explanations for these inconsistencies. They appear to lie in a combination of taxpayer confusion, fear of audit, and constraints in administrative capacity.

Further Readings

Ali, M. (2018) “Regulatory Burdens in Tax Administration and Firms’ Compliance Costs in Africa”, ICTD Working Paper 78

Zolt, E.M., and Bird, R. M. (2005) “Redistribution via Taxation: The Limited Role of the Personal Income Tax in Developing Countries,” UCLA Law Review (52), pp. 1627–95

Ali, M., Shifa, A., Shimeles, A. and Woldeyes, F. (2015) “Information technology and fiscal capacity in a developing country: Evidence from Ethiopia” ICTD Working Paper 31

Bird, R. and Zolt, E. (2008) “Technology and taxation in developing countries: From hand to mouse”, National Tax Journal 4(2), pp.791-821

Kumler, T., Verhoogen, E., & Frías, J. (2015) “Enlisting employees in improving payroll-tax compliance: Evidence from Mexico”, NBER Working Paper No. 19385.

Casey, P. and Castro, P. (2015) “Electronic Fiscal Devices (EFDs). An Empirical Study of their Impact on Taxpayer Compliance and Administrative Efficiency”, IMF Working Paper WP/15/73

Eissa, N. and Zeitlin, A. (2014) “Using mobile technologies to increase VAT compliance in Rwanda”, Draft submitted to CSAE Conference

Araujo-Bonjean, C. and Chambas, G. (2003) “Taxing the Urban Unrecorded Economy in Sub-Saharan Africa”, International Studies Program Working Paper 03-17

Mascagni, G., Santoro, F. and Mukama, D. (2019) “Teach to Comply? Evidence from a Taxpayer Education Programme in Rwanda”, ICTD Working Paper 91

Mascagni, G., and Nell C. (2021). “Tax Compliance in Rwanda: Evidence from a Message Field Experiment.” Economic Development and Cultural Change, February 17, 2021, 713929. https://doi.org/10.1086/713929.

Mascagni, G., Santoro, F., Mukama, D., and Hakizimana, N. (2020) “Active Ghosts: Nil-Filing in Rwanda,” ICTD Working Paper 106

Moore, M. (2020) What is Wrong with African Tax Administration? ICTD Working Paper 111

de Paula, Á., and Scheinkman, J.A. (2010) “Value-Added Taxes, Chain Effects, and Informality.”, American Economic Journal: Macroeconomics 2 (4)

Pomeranz, D. (2015) “No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax”, American Economic Review 105 (8)

Santoro, F. Groening,E., Mdluli, W. and Shongwe, M. (2020) How Best to Nudge Taxpayers? A Tailored Letter Experiment in Eswatini. ICTD Working Paper 112

Santoro, F. (2021) To file or not to file? Another dimension of tax compliance - the Eswatini Taxpayers' survey, Journal of Behavioral and Experimental Economics, Volume 95, 2021.

Slemrod, J.B. (2019) "Tax Compliance and Enforcement", Journal of Economic Literature 57 (4)