

STATES & LOCAL FINANCE



The IGR Initiative

MARTIN IKE-MUONSO

Martin Ike-Muonso, a professor of economics with interest in subnational government IGR growth strategies, is managing director/CEO, ValueFronteira Ltd. He can be reached via email at martinoluba@gmail.com

GOOD EDUCATION BROADENS our perspectives and helps answer some daunting and challenging questions. Likewise, tax education invariably helps us better understand tax issues and fashion our perceptions and attitudes regarding compliance. It is a generally held belief that the better the quality of tax education, the better the level of compliance. Tax education enhances the conviction of taxpayers to comply even in circumstances where the government appears not to be living up to its obligations. A simple example is the popularly held notion that the complexity of tax systems increases noncompliance. Educated people make tax laws that those not as educated may find challenging to understand. Such poor understanding dwarfs the conviction levels leading to an unwillingness to pay. Tax education helps to unknot these waves of complexity and makes it more straightforward for people with a lower level of education to understand it and possibly comply with tax payment obligations.

Taxpayers face three significant concerns when tax systems and laws are difficult to understand: alienation, unfairness, and evasion. The more complex the tax system and laws are to understand by some categories of taxpayers, the more they feel that the design intention was to alienate or marginalize them from the process. Ideally, all taxpayers should be able to know their obligations. Consequently, the communication of tax laws and the supporting systems must be easy to understand. Second, the fact that some categories of taxpayers are better able to understand the systems and laws and find it easier to comply with their obligations creates a sense of unfairness. Those who do not easily understand them for no fault of theirs feel that they are unfairly treated and marginalized. Third, not knowing about tax laws and taxpayer obligations creates abundant headroom for tax evasion. Nobody performs well in an act that he does not understand. And so, it is with complying with tax payments and filings.

The complexity of tax systems and laws is evident both in taxpayers' contextual and ethical expectations. The first is understanding that financing governments' developmental projects and programmes are primarily through taxpayer compliance. Since all citizens enjoy government protection, public goods provision, and other benefits, every citizen of taxpaying age has a compliance obligation. As simple as this statement sounds, it is complicated for many taxpayers to accept, mainly because of the poor performance of governments at sub-national levels. Second, the expectation also is that taxpayers should be able to understand and

assess and pay their tax liabilities. This expectation presupposes a moral duty on the side of the citizens to report their tax liabilities based on such self-assessment accurately. The state expects taxpayers to assess their revenues, expenses, and assets honestly and correctly to arrive at their tax liabilities. Only good tax education will enable such self-assessment or the seeking of assistance in its computation where such capabilities are lacking. Nobody likes to pay taxes, and therefore most taxpayers and their supporting advisors strive to find legitimate means of avoiding as much of it as possible. Again, the same tax education would enable the discovery of escape windows from tax obligations [tax evasions]. The third is the patriotic feeling of satisfaction in fulfilling tax obligations or avoiding the arms of the law for evasion. Yet, much evidence also shows that such patriotic feeling flows from a robust understanding of the essence of tax compliance.

While for the government that receives the revenue, on the one hand, taxpayers should honestly compute and render tax obligations, taxpayers, on the other hand, would not want to overpay because of the associated complex reporting requirements. Therefore, the taxpayer needs to understand tax laws, concessions, and payment expectations to avoid falling into this overpayment trap. It is much easier for taxpayers to deal with underpayments than overpayments. What may be required if caught in the former would be to pay up the outstanding arrears. At the same time, in the latter, 90% of the time, it is extraordinarily challenging to recover overpaid amounts within the same financial year. The usual advice is to carry over the exact overpaid amounts as part of the payments against the succeeding year. Therefore, what is evident is that the attitude and perceptions of taxpayers are guided considerably by their understanding of the rules and system of tax payment.

Notwithstanding the enormous importance of tax education for IGR expansion, it rarely receives the prominence that it deserves. Most compliance factors do not explicitly emphasize tax education. Tax education is often tucked-in as crosscutting within the five broad factors that typically affect taxpayer compliance. These factors comprise the presence of deterring factors, personal and social norms, fairness and trust in tax administrations, opportunity and complexity, government role, and the broader economic environment. Therefore, there is every reason for tax education to receive adequate emphasis as a cardinal factor in shaping taxpayers' tax compliance culture. The prioritization of education in that sense will require the IRS's better understanding of its roles, responsibilities and how best to elicit

Tax education, culture, and compliance



compliance from taxpayers. It will also help taxpayers better understand tax rules and laws and why they need to comply. Thus, tax education is one of the best platforms for stakeholders to hug themselves with win-win outcomes.

State IRS finds it quite challenging to increase taxpayer compliance when governments are not living up to the citizens' expectations. The theoretical expectation is that citizens pay taxes under the so-called social contract arrangement, and the government provides the dividends of such satisfaction of tax obligations. But we know that that is scarcely the situation. Governments hide behind the veil of the law to deploy punitive instruments forcing individuals and institutions to pay taxes even when they flatly fail on their obligations. Tax evasion consequently becomes a form of resistance to this unfair lopsidedness. There have always been concerns about how to compel those in government to see taxpayer obligation as payment for services they must provide. So how would the system push those in government to ensure that taxpayers are satisfied in much the same way entrepreneurs strive to satisfy customers paying for goods and services? These questions open fresh dimensions of tax education. Both those in government and those paying the taxes need substantial doses of education if we are to optimize the benefits.

Generally, tax education can take various forms, namely information provision on tax issues and policies and technical support for understanding tax laws, processes, concessions, payment timelines, tax rates and taxable items, etc. Taxpayers always require information on a basic understanding of and changes in tax policies [tax rates, taxable items, payment timelines, concessions, and other forms of tax incentives etc.]. Those already knowledgeable about tax issues utilize this kind of information to make the necessary adjustments in their compliance decision making. It can inform taxpayers' choices in asset acquisition decisions and how to time their payment sequences. On the technical side, tax education enables taxpayers to

better understand tax policy issues and support in tax assessment, filing of returns, and using applicable technologies for those processes. Second, tax education can also be structured to build and strengthen a culture of compliance through robust engagement with various stakeholders, including younger people who are not yet of taxpaying age. Tax education providers can utilize different media to elicit positive responses from target audiences and actual satisfaction with tax payment obligations. This window provides opportunities for proactively building patriotic responses from schoolchildren and tertiary students to tax payments in the future.

There is no doubt that the school system presents a good platform for long-term education on tax systems and laws and the need for citizens to have a positive culture of compliance. But beyond the role of the school in disseminating tax-related knowledge, tertiary institutions can partner with the IRS in the design of tax policies and processes. At the elementary level, the school has a responsibility to mould pupils to appreciate the civic obligations of tax payment. Alongside education on civic duties and patriotism, schoolchildren will learn how to be good citizens by obeying such laws as the payment of taxes and why taxes are essential in the modern public development process. Armed with this kind of knowledge, children can also challenge their superiors at home regarding their compliance with tax payments. At the secondary school level, the education gets slightly more advanced with an adequately designed curriculum around the meaning of tax, types of taxes, the implication of noncompliance, etc. Tax education at this level is technical so that they better understand what constitutes tax and what does not and the various stakeholder groups and taxation. Tertiary level tax education is usually even more advanced and encompasses a technical understanding of tax issues, tax policies, payment obligations, and their connection with broad fiscal policies.

Beyond schools, platforms are

various stakeholder groups that are veritable channels for educating taxpayers. At the informal sector level is market women, traditional institutions, traditional and social media, and civil society organizations. These channels help deploy robust education on tax matters that appropriately target the informal sector audiences. The challenge is that most IRS do not sufficiently leverage these platforms as consistently as they should to get the best results. At more sophisticated levels are trade unions, civil service unions, membership organizations etc., that the IRS should ideally cooperate with to provide far-reaching tax education to their members. Again, just as in the informal sector, most subnational IRS rarely explore this window at a sufficient scale.

Finally, three conditions generally limit the effect of altering citizens' taxpaying culture and compliance behaviour. A combination of factors such as poor government fiscal performance and imprudent financial spending, challenging economic conditions and low levels of deterrence seems to blur the responsiveness of citizens to tax education. These factors make tax education generally have limited impacts. Secondly, the IRS in most states has no capacity for expanded mobilization of participants in tax education programs. Combined with some of the discouraging factors mentioned earlier, a substantial fraction of those who should attend and receive this education withdraw or do not participate. Such a level of return in tax education equally reduces the education's effectiveness. Thirdly, tax education offered by most subnational IRS is often of low quality and therefore fails to create the right kind of impact in taxpayers' minds.

● business a.m. commits to publishing a diversity of views, opinions and comments. It, therefore, welcomes your reaction to this and any of our articles via email: comment@businessamlive.com