

Deterrence and Tax Compliance: How Tax Administrations and Taxpayers Interact In Developing Countries(2013-2017)

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Abstract:

In Sudan as in other developing countries, people must comply with the tax systems. The government of Sudan requires taxpayers to assess their tax liabilities, file tax returns and pay their tax liability. It has a detailed tax law that specifies tax and the penalties for avoidance, late filing late payment and non-payment. Tax compliance has been dealt with in literature almost exclusively by studying the behavior of taxpayers. Here we raise the question, what is tax morale? Here among the main objectives is, the study of the behavior of taxpayers' compliance towards paying their liabilities, hypothesizing that, taxpayers' compliance has no significant effect on tax evasion and tax total revenues. This study aims at clarifying the effects of noncompliance on tax revenue collection performance in Sudan tax system in the period 2013-2017. Depending on quantitative method, the main results of the study is to show that Tax compliance in regard to all types of taxes as a whole is very low and in particular to the BPT and personal income tax (PIT) and value added tax is somewhat high.

Keywords: compliance, taxpayer, total revenues, liabilities .

الردع والالتزام الطوعي الضريبي
كيف تتفاعل الادارات الضريبية والممولين في الدول النامية
(2013-2017م)

أ.عوض بابكر عيسى - ديوان الضرائب

المستخلص:

يعتبر النظام الضريبي في السودان شانه في ذلك شان كل الدول النامية الاخرى, يعتر ملزما للممولين ويجب الالتزام به. فالسلطات الضريبية في السودان تطلب من الممولين ملء اقراراتهم الضريبية وتقييم التزاماتهم الضريبية فيها ومن ثم ارجاعها للسلطات الضريبية مع سداد تلك الالتزامات . يوجد في النظام الضريبي بالسودان تفاصيل محددة وعقوبات في حالات التهرب الضريبي مثل , تقديم الاقرارات الضريبية بعد مواعيدها الرسمية او التأخر في سداد الالتزامات الضريبية او عدم السداد نهائيا فقد تم التعامل مع ظاهرة عدم الالتزام الضريبي بطرق متخصصة لدراسة سلوك دافعي الضرائب وهنا يمكن اثاره الاسئلة الاتية, ما هو الالتزام الضريبي؟ وما هي علاقته بالتهرب الضريبي؟ وهل يمكن نشره كثقافة في المجتمع والعقاب للمخالفين ام الاثنين معا. فهناك فرضية ان عدم الالتزام الطوعي ليس له اثر على التحصيل و الإيرادات العام. تتمحور هذه الدراسة في اثار عدم الالتزام الطوعي في السودان في الفترة 2013 الى 2017 كما تبين اهم النتائج فيها ان الالتزام الضريبي فيما يختص بضريبة الدخل و الدخل الشخصي والدمغة ضعيف جدا ولكنها تزيد فيما يختص بالقيمة المضافة.

كلمات مفتاحية: الالتزام الطوعي، الممول ، الإيرادات العامة، التزامات.

1- Introduction

Tax evasion and tax avoidance can be combined into a single tax compliance framework with which to build a single message about the integral role of morality in taxpayer behavior. However, a turn to morality to avoid delineating in law between that which is illegal (evasion) and that which is not (avoidance) is counter-productive to the pursuit of coherent tax policy in the long run. The turn to morality is understandable in that it attempts to define a space for social pressure to mount against ongoing perceived tax injustice. But the turn is dangerous in that it confirms the legitimacy of a century-old tradition of using non-legal, “soft law” standards to push tax policy in a given direction. Doing so has potentially grave consequences for the future of tax policy on a global scale.⁽¹⁾

Turning to soft law mechanisms to regulate taxpayer behavior implicitly accepts as appropriate an existing global system in which taxation in practice has involved little more than an international political contest situated fundamentally in the logic of “pay-to-play” and “might makes right.” It is not a foregone conclusion that countering this dominant and entrenched structure must be done on its own terms. But accepting soft law terms without question suggests that failure *is* a foregone conclusion.⁽²⁾

This study fleshes out the case for caution in employing morality as a cause of minimizing total revenues and causing tax evasion and tax avoidance, it suggests that the alternate view that taxpayer behavior must be managed by law rather than social sanction has the best chance of driving tax policy toward greater coherence in the long run. In a previous study using data from Sudan and two different years from the period 2014 to 2015, we establish a systematic relationship between external intervention (in this case, how the tax officials deal with taxpayers) and intrinsic motivation (in this case, individuals’ tax morale).⁽³⁾

1.1-Objectives of the study

This study has the following objectives.

- Study the behavior of taxpayers’ compliance towards paying their liabilities.
- To see the tax authorities’ behavior in regard to tax morale
- To see the impact of noncompliance on tax evasion and the effect of penalties.
- And finally how to improve taxpayers’ conceptions towards compliance.

1.2-Research Questions:

The study explores following questions to be answered.

- What is tax morale?
- Hat is the effect of tax morale on tax evasion?
- Tax morale, is it improvable, punishable or both?

1.3-Literature Review

Improving tax administration has long been a matter of concern to those concerned with developing countries. For developing countries to benefit from the opportunities afforded by globalization - or to rebound from the blows it may deal out - they must be able to mobilize adequate fiscal revenues. However, the tax system constitutes one of the major interfaces between citizens and state in any country so how taxes are administered may affect not only the political future of the government of the day but also, more fundamentally, public trust in government. Tax administration may thus play a critical role not only in shaping economic development but in developing an effective state.⁽⁴⁾

However, "...optimal policy requires simultaneous consideration of the design of the tax code and of the administrative structure created to enforce it"⁽⁵⁾

Good tax administration focuses on the collection of information in a world in which "...information is observable with error, to varying degrees, and its quality depends greatly on the type of administration and enforcement in place".⁽⁶⁾

Until recently, little good information was available on tax administration and even less scholarly attention was paid to the mundane but important reality of how tax systems actually worked in developing countries. Now, however, the pioneering effort of the OECD to collect comparative information about tax administrations in OECD member countries has been extended to a wider set of countries, and several recent empirical studies have already appeared drawing on this new data base.⁽⁷⁾

The absence of good comparative data did not slow the flow of advice over the years from many sources to many developing countries about how they might improve their tax administrations.⁽⁸⁾

1.4- Methodology

a- Hypothesis of the study

The study hypothesizes some relationships of variables given below; (H1) There exists positive relationship between tax compliance and tax evasion.

(H2) There exists negative relationship between tax compliance and tax deterrence.

(H3) There exists positive relationship between tax morale and tax authorities' behavior.

2-Taxpayer Models and Morale:

2.1-Models of taxpayer Compliance

Following the path-breaking approach,⁽⁹⁾ tax compliance is studied by using the subjective expected utility maximization calculus. In that model the extent of deterrence, in the form of the probability of being detected and the size of the fine imposed, determines the extent of tax evasion. This concentration on the taxpayers is well reflected, for instance, in the comprehensive survey on tax compliance.⁽¹⁰⁾ In contrast, the behavior of the tax authority has been somewhat neglected. This study argues that important insights on tax compliance and tax evasion can be gained by looking at how the tax authority interacts with the taxpayers. Taxpayers respond in a systematic way to how the tax authority treats them. In particular, the taxpayers' willingness to pay their taxes, or tax morale, is supported, or even raised.⁽¹¹⁾

The importance of tax morale has been realized by many scholars, but to our knowledge has so far not been studied in the context of the tax authority's behavior. In a previous study here findings in figure (1) below shows that the nearly 60 % of the sample believe that the government has the right to enforce tax and the tax rules are clear while the remaining 40 % neither believe that the government has the right to enforce tax nor perceive the tax rules are clear. Over 60 % of the sample believes that the

fee owned to the government and not be easily calculated. Almost 88% of the sample believes that they cannot avoid paying taxes.⁽¹²⁾

Figure (1)

Attitudes of Taxpayers on Tax Rules Clarity, Tax Evasion, Tax Fee and Legitimacy of Tax Authorities

Source: International Journal of Economic, Commerce and Management

This is a first attempt at analyzing the interaction between the tax authority and the taxpayers, affecting tax morale. A model of the behavior of the tax authority is developed, based on Crowding Theory, which establishes a systematic relationship between external intervention (in this case, how the tax officials deal with taxpayers) and intrinsic motivation (in this case, individuals' tax morale). The emphasis is placed on the empirical analysis of the theoretical propositions derived. Findings also showed that over 90% of the sample perceive that the taxes are too high compare to their incomes and that tax should be imposed on the rich only.⁽¹³⁾

The majority of the sample stated that they may not comply with tax as they do not receive a direct benefit from the government and that the government is utilizing tax revenues. They believe that they may also avoid tax because the authorities are not transparent. . This result offers a perspective rarely taken into consideration with regard to the issue of tax compliance: deterrence is only one of the motivational forces in getting people to pay their taxes. Quite another is the set of policies available to the tax authority to bolster taxpayers' tax morale.⁽¹⁴⁾

2.2-Tax Authorities' Behavior and Tax Morale.

In line with much ⁽¹⁵⁾ we assume that the objective of the tax authority is to maximize expected net revenue, i.e. tax revenue less administration costs. In contrast to most other studies, the administrative costs do not solely consist of audit costs. Rather, the tax officials take into account that the way they treat the taxpayers systematically affects the latter's tax morale, and therefore their

willingness to pay taxes, which in turn affects the cost of raising taxes. The tax authority optimally chooses that way of dealing with the taxpayers that maximizes net tax returns.. Two diametrically opposite ways of treating taxpayers can be distinguished:(16)

(i) A respectful treatment supporting, and possibly even raising, tax morale. we assume that the objective of the tax authority is to maximize expected net revenue, i.e. tax revenue less administration costs. In contrast.

(ii) An authoritarian treatment undermining tax morale. The tax officials can choose between these two extremes in many different ways. The feeling of being controlled in a negative way, and being suspected of tax cheating, tends to crowd out the intrinsic motivation to act as an honorable taxpayer and, as a consequence, tax morale will fall. In contrast, if the tax official makes an effort to find out the reason for the error by contacting the taxpayer in an informal way (e.g.by phoning him or her), the taxpayer will appreciate this respectful treatment and tax morale will be upheld.⁽¹⁷⁾

The relationship between taxpayers and tax authorities can be modeled as an implicit or relational contract. It then involves strong emotional ties and loyalties, and goes well beyond transactional exchanges. Social psychologists (18) have been using this concept for a long time, calling it a ‘psychological’ contract to set it clearly apart from formal contracts, which are obeyed because the parties respond to the explicit and material sanction previously agreed upon. Psychological contracts have been successfully used to analyze relationships within the firm. The basic idea that external interventions, in the form of rewards or sanctions, may crowd out intrinsic motivation, has recently been introduced into economics and is supported by much empirical evidence.⁽¹⁹⁾ Tax officials are assumed to be aware of the effects on taxpayers’ behavior suggested by Crowding Theory. In order to maximize net tax revenue, they aim at minimizing the cost of collecting taxes. They

know that a disrespectful treatment of taxpayers undermines their tax morale and therewith raises the cost of collecting taxes. Tax authorities will only behave in a respectful way towards taxpayers when there is a substantial extent of tax morale to begin with. Tax officials are at the same time well aware that tax payments do not solely depend on tax morale but that extrinsic incentives play a major role. In particular, deterrence for tax evasion has to be used to prevent taxpayers with low tax morale, or lacking tax morale altogether, from exploiting the more honest taxpayers and from escaping paying their due share. A combination of respectful treatment and deterrence is possible and, as will be demonstrated in the empirical part, is widely practiced.⁽²⁰⁾

Respectful treatment can be split into two different components. First, the procedures used by auditors in their contact with taxpayers are to be transparent and clear. In the case of arbitrary procedures, taxpayers feel helpless and get the impression that they are not taken seriously. Such behavior reduces their perception of being obligated to pay taxes. Second, respectful treatment has a direct personal component in the sense of how taxpayers' character is respected by tax officials. If they treat taxpayers as partners in a psychological

tax contract, instead of inferiors in a hierarchical relationship, taxpayers have incentives to pay taxes honestly.¹⁷

Several types of taxpayers are taxed: individuals and companies about various forms of taxes. The main tax is calculated on income (IT), which is proportional to the level of income of the taxpayer. Companies, in addition to paying the tax on income (income tax) also pay various other taxes such as the Goods and Services (VAT) with tax contribution to the GDP that amounted to 0.4% in 20, with comparison to Kenya 3.8 of GDP, Ethiopia 1.6 of GDP and Uganda 1.1 of GDP for the same year 2014., table (1) below refers to that.⁽²¹⁾

Table 1
Worldwide rank of ease of doing business and paying taxes

South Africa	44	35
Zambia	47	84
Kenya	166	109
Ethiopia	40	111
Uganda	93	123
Tanzania	129	127
Sudan	103	135
Mozambique	107	139
Sierra Leone	76	141

Source : (<http://www.doingbusiness.org>)

Deterrence has two different aspects as well. On the one hand, in order to keep up a psychological tax contract between the tax office and the taxpayers, honest taxpayers must be confident that they are not exploited by dishonest taxpayers. Thus, deterrence for major violations of the tax code reduces tax evasion. On the other hand, any taxpayer may make a mistake, so that minor offenses can be penalized less, without undermining the psychological tax contract. A non-linear punishment schedule, with low fines for minor tax evasion and high penalties for tax fraud, will thus serve the purpose of shaping tax morale. The follow results can be derived from these considerations:

- a. The more fully the tax authority observes formal and informal procedural rules, the lower tax evasion is.
- b. The more the individual citizens' rights and character are respected, the lower tax evasion is.
- c. The less minor offenses are penalized, and the more taxpayers are given the benefit of the doubt, the lower tax evasion is.
- d. The more clearly the legal obligations and the penalty in case of evasion are indicated, the lower tax evasion is.⁽²²⁾

3-Motivations for tax compliance

Taxpayers differ in their motivation to pay.⁽²³⁾

Whereas some might be motivated to pay taxes because of audits and severe fines, others might pay taxes because they feel a moral obligation to contribute their fair share. Theoretically, it is assumed that these different motivations also determine differences in tax compliance.⁽²⁴⁾

Taxpayers with dismissive motivations are expected to see it as less important to pay taxes correctly than taxpayers who are morally motivated to comply with the tax law.⁽²⁵⁾ However, little empirical research has been conducted on the relationship between motivation and tax compliance. Consequently, it cannot be determined if and how tax authorities should respond to taxpayers' motivations.⁽²⁶⁾

Is tax compliance driven only by extrinsic motivations related to deterrence and tax policy, or is there also a role for intrinsic motivations such as morals, norms and duty? The economic theory of tax compliance building focuses only on the former and predicts low compliance under low audit probabilities or penalties. This prediction stands in sharp contrast to the empirical observation that tax compliance is high in modern tax systems despite very low audit probabilities and modest penalties. The literature has proposed.⁽²⁷⁾

three ways of resolving this compliance puzzle.⁽²⁸⁾

First, modern tax systems make widespread use of third-party information from firms and the financial sector, which creates a divergence between observed audit rates and actual detection probabilities conditional on evading. Hence, the notion that deterrence is weak is to some extent an illusion.

Second, theory assumes that taxpayers have perfect knowledge of deterrence parameters, but in practice there may be misperception. Survey evidence suggests individuals tend to overestimate audit probabilities and penalties associated with tax evasion.⁽²⁹⁾

Third, individuals may comply due to a wide range of non-pecuniary motivations including moral sentiments, guilt, reciprocity, and social norms. We label all such motivations under the umbrella term intrinsic motivations. The importance of such intrinsic motivations for compliance is the hardest to measure and study empirically, and therefore the least well understood.⁽³⁰⁾

Enforced motivation is based on the deterrent effect of audits and fines. Taxpayers holding an enforced motivation only pay taxes when they fear audits and fines and therefore think there is no alternative to compliance. Such a motivation is related to the broader concept of extrinsic motivation.⁽³¹⁾

Taxpayers comply because it leads to a comparatively better financial outcome than non-compliance, i.e., not being fined. Enforced motivated taxpayers feel a large social distance between themselves and the tax authorities and the state. Consequently, enforced motivated taxpayers likely have negative attitudes and feelings towards paying taxes. They may even condemn the tax collecting state as a thief. The state and its tax authorities are perceived as taking money in terms of taxes from taxpayers with the help of coercion and force.⁽³²⁾

Voluntary motivation to pay taxes is based on positive reciprocity. The tax law is respected and tax authorities are perceived as service providers who should assist taxpayers to comply with the law. Taxpayers in turn reciprocate and are voluntarily motivated to pay their taxes without the need of enforcement. However, the voluntary motivation does not represent a true intrinsic motivation to be compliant.

Taxpayers do not value the tax system itself, they rather accept its necessity, give in and capitulate.⁽³³⁾

Voluntary motivation reflects a view that taxpayers are compliant because of the law and because of tax authorities who collect taxes within a professional bureaucratic system. Taxes are paid

voluntarily because this is easier than to evade them. Nonetheless, voluntary motivated taxpayers are interested in engaging in tax avoidance and in reducing their tax payments within the legal framework.⁽³⁴⁾

Committed motivation is an intrinsic motivation to be tax compliant. Tax compliance is internalized and seen as a moral obligation. Tax authorities are perceived to share the same values as the citizens and the way taxes are collected and spent is appreciated. Taxpayers feel committed to the tax system and have the feeling that they actively contribute to societies' well-being.⁽³⁵⁾

Committed taxpayers do not need explicit rules and strict bureaucracy, because they follow the spirit of the law and not just the letter of the law. For committed taxpayers honest taxpaying is seen as a natural and automatic activity, and that is widely clear in figure (1) above.⁽³⁶⁾

4-The impact of noncompliance on tax revenues:

4.1- Threat of punishment and tax compliance:

Taxpayers are expected to be deterred by threat of punishment from the tax structure, namely through tax audits, penalties and tax rates. Prior research mainly focuses on the impact of threat of punishment on tax evasion because the changes in the tax structure are anticipated to change the way people behave in fulfilling their tax obligations. However, the direction of tax research has shifted since 1990s in order to try to understand the positive attitudes of taxpayers rather than the negative attitudes of taxpayers. This is because despite the slim chances of being audited or reasonable penalties being imposed on tax evasion, most people are willingly abiding by tax laws. In general, there is a large body of theoretical and empirical evidence to support the view that threat of punishment such as higher audit probabilities and penalties encouraged compliance and higher tax rates discouraged compliance. However, there are other studies that pointed to different direction. There-

fore, the aim of this study is to determine the impact of threat of punishment on both compliance attitudes of individual taxpayers namely voluntary tax compliance and tax avoidance attitude in a study. However, the only tax structure element employed in the present study was the tax audit and penalty to measure the threat of punishment variable. Fear has been used by tax authorities as a means to force taxpayers to conform to tax laws given that a taxpayer is viewed as a “perfectly amoral, risk-neutral or risk-averse, utility maximizing individual who chooses to evade tax whenever the gain exceeded the cost”⁽³⁷⁾.

The economic deterrence approach was developed based on the economics-of-crime model, introduced to optimize the public and private policies in fighting illegal behavior since threats of punishment are expected to encourage lawful behavior.⁽³⁸⁾ Basically, it is assumed that the tax compliance decision is made by a taxpayer under uncertain circumstances, strictly due to the fear of the possibility of being caught and penalized.⁽³⁹⁾

The threat of punishment, consisting of tax audits, tax penalties and tax rates, is used in most countries to deter taxpayers’ non-compliance behavior. In general, most of prior studies showed a positive correlation between audit probability and compliance.⁽⁴⁰⁾

However, the impacts of audit probabilities on tax compliance are varied depending on the group of taxpayers. For example, audit probabilities were found to have strong influences on tax compliance for sole proprietors but only little effect on salaried taxpayers .

Hence, tax audits that specifically target a certain group of taxpayers seem to be more effective in increasing tax compliance rather than random audits. Further, audit probabilities may only affect taxpayers who have the intention to evade.⁽⁴¹⁾

Spicer and Thomas (1982) suggested that taxpayers may only abide by tax laws when they have definite information about the

possibilities of being audited.⁽⁴²⁾

One of the central problems that any tax administration encounters is cheating, corruption or evasion and the prevalence of shadow economies. High incidences of tax evasion relate to high tax rate, low probability of detection and law, permanently lead for tax evasion figure 2 below. Tax evasion is usually associated with undervalued and officially unrecorded transactions, which relate to the so-called underground economy.⁽⁴³⁾

The shadow economy is known by different names, such as the hidden economy, gray economy, black economy, cash economy or informal economy. All these synonyms refer to some type of shadow economy activities.⁽⁴⁴⁾

We use the following definition: The shadow economy includes all economic activities which are hidden from official authorities for monetary, regulatory, and institutional reasons. Monetary reasons include avoiding paying taxes and all social security contributions, regulatory reasons include avoiding governmental bureaucracy or the burden of regulatory framework, while institutional reasons include corruption law, the quality of political institutions and weak rule of law.⁽⁴⁵⁾

Table 2 and figure 10 below shows the size of shadow economy in six countries but due to the unavailability of data for 2016 and 2017, we can see that according to the last estimate of the International Monetary Fund in regard to Sudan informal economy, the number is almost twice that of Burundi, Botswana and Serra Leone. That definitely adds to the amount of tax evasion in the country.⁽⁴⁶⁾

Table 2

Size of the shadow economies of
Selected Countries

Country	2013	2014	2015	2016	2017	Average country %
Gambia	40.9	43.8	43.8	-	-	42.8
Burundi	36.9	36.2	35.6	-	-	36.6
Sierra Leone	38.1	37.0	35.4	-	-	36.8
Botswana	22.8	22.1	23.9	-	-	22.9
Malawi	35.0	34.0	33.5	-	-	34.2
Kenya	29.9	28.6	33.4	-	-	30.6
Sudan	45.4	55.0	60.0	-	-	53.5
Sample average	49.8	51.3	55.1	-	-	42.9

Source: World Bank, International Comparison Program database
Figure (2)

Amounts of tax Evaded 2013-2017

(Million pounds)

Source: Tax annual reports

4.2-Influence of penalties on compliance

In Malaysia, the tax structure, consisting of tax rate, audit rate and penalty rate, is apparently influential on taxpayers' compliance behaviors as evident in an experimental study involving two groups of undergraduate students.⁽⁴⁷⁾

A mixed-methods study (a survey and an experiment) also

demonstrated the same findings except for tax audit which was found to be less effective for salaried taxpayers. This may be because the scheduler tax deduction is imposed on the majority of salaried taxpayers in Malaysia. However, the penalty rate appeared to be the most influential tax compliance determinant of tax compliance attitudes in a comparison study of taxpayers' compliance attitudes before and after the implementation of the (Self-Assessment System) SAS. Despite the tax structure being evident to deter the non-compliance behavior of taxpayers, the enforcement of the rules was viewed to be rather loose which may reduce the integrity of the (In Land Revenue Board of Malaysia) IRBM in the eyes of taxpayers. Overall, the threat of punishment remains significant in deterring the negative intentions or attitudes of taxpayers.⁽⁴⁸⁾

The main principle of a survey is to gather original data directly from a population through a survey of a fraction of the population to reflect the larger population.⁽⁴⁹⁾

It is regarded as an excellent method in rationalizing an individual's attitude towards certain issues, hence a self-administered survey was utilized in this study for that purpose table (1) below. As evident from the table below There were mixed attitudes that shaped the respondents' compliance attitudes in terms of the impact of the threat of punishment as shown in Table 1. A large number of respondents appeared to disagree with the third (ToP3) and second (ToP2) items with a percentage of 62 and 40, respectively. They believed in a high possibility of being audited and a high chance of being discovered and punished by the IRBM.⁽⁵⁰⁾

On the contrary, more than 45 percent of the respondents appeared to agree that the potential of being tracked by the IRBM was unlikely if it involved the understatement of income or overstatement of expenses (ToP4). The respondents' awareness of the type and extent of penalties and risks indicated similar percentag-

es, around 30 to 35 percent in all three categories of attitudes for the first item (ToP1). The overall mean score of 2.85 illustrated the respondents' disagreement but the inclination was towards a neutral attitude table (3) beow.⁽⁵¹⁾

Table 3.

Attitudes towards the threat of punishment

T

oP1	I am NOT aware of the type and extent of penalties and risks that exist for income tax evasion in Malaysia.	108(35.7)
95(31.5)	99(32.8)	
ToP2	It is unlikely for taxpayers to be discovered and punished by the IRBM if they were to evade income taxes	122(40.4)
99(32.8)	81(26.8)	
ToP3	I do NOT pay taxes as required by the regulations because I know the probability of being audited is very slim.	188(62.3)
63(20.9)	51(16.8)	
ToP4	The IRBM rarely finds out if someone has overly understated their income or overstated their deductions	104(34.4)
62(20.5)	136(45.1)	

Source: IRB

5-Improving taxpayers' compliance

In a society the tax climate is determined by the interaction between taxpayers and tax authorities. In a 'service and client' climate, taxpayers do not expect authorities to automatically suspect them of being tax evaders. Evidence suggests that recognizing good tax behavior with strategies of rewards has a positive effect on voluntary tax compliance. Here we can see averages of tax compliance in the Sudan 2013-2017 figure (3).(52)

Figure (3)

Averages of compliance 2013-2017

Source: Taxation chamber Annual Reports 2013-2017

Improving tax revenue collection is an important priority for developing economies throughout the world. Not only do tax revenues tend to be low as a share of GDP in absolute terms in low income countries, they are also low as a share of GDP relative to higher income economies. Finding mechanisms to improve tax collection is challenging on at least two fronts:

- (a) lack of good data on tax compliance; and
- (b) difficulty in finding effective instruments for improving compliance given institutional constraints.⁽⁵³⁾

Measuring tax compliance and evaluating its determinants is challenging in any context. Examining these issues in developing countries is particularly difficult due to the large size of the informal sector. Taxpayer surveys may be able to capture a representative sample of the population, but they rely on self-reports. Firms and individuals may be unwilling to report their registration and tax payment status accurately. Such self-reported survey data may be particularly problematic when used to evaluate the causal effects of interventions designed to improve compliance, especially if taxpayers have incentives to show that the program was “successful” (e.g., in the case of financial incentives).⁽⁵⁴⁾

On the other hand, administrative data, even if good quality, is restricted since it will only capture individuals and firms that are already formal or in the tax net to some degree. Administrative data samples are therefore often highly censored given the narrowness of the tax base in many developing economies. This creates limitations in understanding tax formalization, an important compliance margin. With administrative data alone, for example, it may be difficult to determine whether a firm that appears in a registration database is a new firm or a previously informal firm becoming formalized. In addition, tax data generally contain a very restricted set of taxpayer characteristics relative to survey data.⁽⁵⁵⁾

A tax climate in a society can range on a continuum from an antagonistic to a synergistic climate. The characteristics linked to these climates then, respectively, vary from a ‘cops and robbers’ attitude on the part of both tax authorities and taxpayers, to a ‘service and client’ attitude.⁽⁵⁶⁾

In the synergistic climate, a posture of cooperation will prevail with low social distance and likely voluntary compliance. It can be argued that the South African Revenue Service (SARS) displays a ‘service and client’ attitude. This is evident from its adoption of the tax compliance model developed by the Cash Economy Task Force (1998) for the Australian Tax Office, based on the influential work on motivational postures of taxpayers .In this model, the assumption is made that the majority of taxpayers are voluntarily compliant and should accordingly be approached by tax authorities with an attitude of service. The tax compliance model is illustrated by Figure (4) below.⁽⁵⁷⁾ Figure (4)

The tax compliance model

Source: SARS, 2012:4

There are many ways in which IT is being used to improve tax administration, and not only in advanced economies . Further technological opportunities will doubtless emerge, Biometrics, for instance, are a possible replacement for social security or other taxpayer identification numbers (TINs), with potential for improving taxpayer services (by for instance reducing the time needed for checking taxpayers’ identity in communicating with Revenue Administrations (RAs)) and limiting the opportunities for identity theft to be used to create fictitious tax refund claims, among these ways ⁽⁵⁸⁾ .

· Electronic invoicing: replacing paper invoices with electronic versions using mandated or otherwise certified electronic devices that are generated by—and update—suppliers’ and purchasers’ accounting.

systems, and sometimes the RA's transaction logs. This significantly reduces costs for both firms and (by enabling automated compliance control) RAs. Latin American countries were pioneers in this area; China and some European countries are using these methods to reduce missing trader VAT frauds.

- Pre-population of tax returns, using registration and third party data, is now routine in several countries.
- 'One-stop sites' for all interactions between citizens and businesses and government are being increasingly adopted—potentially allowing shared access to government databases across departments.
- '100% digital' administration characterized by almost entirely digital communication with taxpayers and the use of social media and apps, is the aim in The Netherlands and elsewhere
- EOI, especially automatic, discussed above, rests entirely on appropriate IT systems and conventions.
- Electronically submitted accounting *data* can be interrogated with audit software to quickly and cheaply validate returns and identify compliance risks.
- Technology-based compliance control is becoming more sophisticated, moving from a largely reactive selection of cases for intervention to supporting customer segmentation by channeling taxpayer contacts to the most appropriate services in real time. This is especially suitable for e-filing, call centers, and other automated processes.

6-Conclusion

In conclusion in developing countries tax policy is often the art of the possible rather than the pursuit of the optimal. It therefore not surprising that the economic theory and especially optimal taxation literature have had relatively little impact on the design of tax systems in these countries

In discussing tax policy issues facing many developing countries today, first-hand experience with the IMF (International

Monetary Fund) provision of tax policy advice to those countries. They consider these issues from both the macroeconomic (the level and composition of tax revenue) and microeconomic (design aspects of specific taxes) perspectives.

Tax policymakers in the developing countries face major and potential challenges in drawing these policies among them, although some progress has been made by many of them. But for instance weak capacity, corruption and missing reciprocal links between tax and public and social expenditures remain as challenges. Also the vicious circle of low tax morale and compliance, which reduce the lifeblood for funding services, needs to be broken. The external environment poses increasing challenges, the continued heavy dependence of many developing countries on trade tax revenues. For instance, it means that continued trade liberalization poses significant challenges in recovering revenue from other sources. Striking the right balance between an attractive tax regime for domestic and foreign investment, by using tax incentives for example and securing the necessary revenues for public spending, is a key policy dilemma. Competition between developing countries for investment can trigger a race to bottom. Developing countries face challenges like information exchange regimes and more generally like improving transparency in the reporting of financial data by multinational enterprises and as developed and developing countries alike gear up to take 'whole-of government' action to illicit financial flows besides their race in designing and implementing effective transfer pricing.

7-Results and Recommendations

Our analyses demonstrate the very low levels of current tax compliance in Developing countries. The results also reveal the limits of traditional enforcement mechanisms: in theory, Tax authorities should, at a minimum, be able to force register un-registered firms and require stop filing firms to pay at least the

minimum (package) required VAT. The high rates of informality and stop filing imply strong institutional limitations to traditional enforcement. Improved revenue collection may be hindered by severe limits on administrative capacity as well as lack of strong performance incentives and corruption.

In such settings, encouraging voluntary compliance through social recognition may provide a more feasible and cost-effective way to improve revenue collection. To the best of our knowledge, planned field experiment will provide the first direct tests of the causal effects of social recognition and rewards in the taxation context. The results from experiments will shed light on the underlying determinants of pro-social behavior and potentially provide an innovative and scalable policy mechanism to improve revenue collection in many developing economies.

The tax laws have to be amended to ensure appropriate filing and to strengthen the penalty provisions. The present provision which excludes taxpayers from being audited if they file tax returns showing income of more than 15% than that of the previous year, must be removed. These will remove any ambiguity regarding the treatment of inaccurate returns. To make the effort worthy and to coincide with the objective of this system, at least 5% of self-assessment cases should be brought under the direct purview of the Commissioner of Taxes. It could be done based on preliminary assessments and other information received by the concerned tax offices.

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