

BUILDING ZAMBIA'S TAX MORALE

Improving Zambia's Tax Revenue Mobilisation through Enhanced Tax Morale

As a society our attitudes and moral obligation to pay taxes, which is our tax morale; defined simply as "the intrinsic motivation to pay taxes," influences our nation's level of tax compliance. Key determinants of tax morale include; trust in Government, moral sentiments and perceptions on fairness of the tax system.

DETERMINANTS OF TAX MORALE

TRUST IN GOVERNMENT



The relationship between Government and the taxpayer; when citizens trust their government to use their tax contributions appropriately, they are likely to show a higher tax morale and compliance rate.

MORAL SENTIMENTS



If individuals feel a sense of guilt or shame at the thought of evading taxes, then it can be assumed that they would be less likely to evade.

FAIRNESS



If people believe that taxes are too high hence unfair or that the tax system is unduly complicated, the likelihood is that they would feel a moral justification to evade tax).

Research reveals that Zambia has a generally low tax morale as shown through levels of tax evasion, avoidance and non-compliance. **Between 2001 and 2010, Zambia lost US\$8.8 Billion in illicit capital flows** including tax evasion. Zambia is also estimated to lose approximately **US\$2 Billion on an annual basis from tax avoidance**. Significant tax revenues are also lost through Zambia's informal sector which amounts to 84.3% of aggregate employment, **totaling 4,491,943 people outside the tax net in 2012** (CSO, 2013).

TAX EVASION

Between 2001 and 2010 Zambia lost

\$8.8 Billion

Approx. **ZMW 52.8b** to illicit Capital flows.

\$8.8 Billion would cover **100%** of the 2014 **Zambian National Budget**.

ZMW 42.6b
2014 National Budget

TAX AVOIDANCE

Zambia is also estimated to lose approximately **US\$2 Billion on an annual basis** from tax avoidance enough to pay for both...

US\$ 750m

Eurobond

US\$ 1bn

Eurobond

Source: Financial Transparency Coalition. (2012).

While stricter legal enforcement through increased tax audits by ZRA and harsher penalties, have been adopted as a key strategy for increased tax compliance, less attention has been paid by Government to building tax morale. By building a culture of paying tax among Zambians primarily through efficient and effective use of tax revenues, Government is likely to significantly increase taxes collected.

WHAT DOES HIGH TAX MORALE MEAN FOR ZAMBIA AND ZAMBIANS?



Higher tax revenue mobilisations



Reduced informal sector



Lower enforcement costs

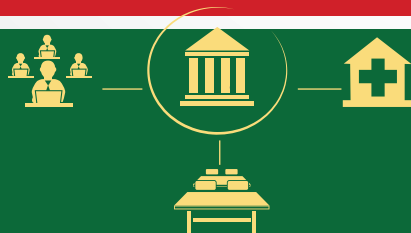


Increased investment in developmental projects



Stronger social contract between citizens and government strengthening democracy.

1



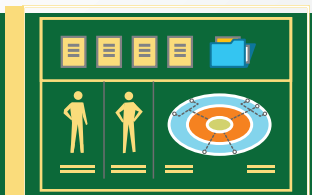
Strengthen link between tax collected and Government spending. This increases citizen participation in decision making.

2



Develop taxpayer profiles that pin-point non-taxpayers perceptions to paying taxes and design compliance strategies that account for concerns.

3



Continuously reform the tax system for simplification and equity and increase sensitization to citizens to build tax morale.

