

Tracking Covid-19's implications in Africa: tax burdens, tax attitudes, and the reach of tax relief



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Background

- ▶ Covid-19 is spreading in Africa
- ▶ Economic consequences
- ▶ Policy response in Africa
 - Containment measures, support for the most vulnerable
- ▶ Covid-19 and tax
 - Mitigate the impact of the crisis, and tax relief
 - Revenue losses
 - Financing for recovery (and continued revenue raising)



This project

Aim: tracking the tax implications of covid-19 in Africa

Research questions:

1. How are tax burdens changing during the crisis?
 - What is the reach of formal tax relief? National vs local taxes
 - What are the crisis's implications for informal taxation? → ICTD Blog on www.ictd.ac
2. How has covid-19 affected tax attitudes and perceptions?
 - Has the crisis made the connection between tax and public services more salient?
 - Attitudes to tax compliance
 - Has covid-19 affected perceptions on trust and fairness, and how?
3. What are the preferred options for raising revenue?
 - Is there public support for taxing the rich? → ICTD Blog on www.ictd.ac



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Fill the gaps, feel the pain: Insights from Sierra Leone on an epidemic's impact on local taxation, public services, and the poor



Authors: Vanessa van den Boogaard Date: Wednesday, 25 March 2020

Blog



Vanessa van den Boogaard



Vanessa is a Research Fellow at the ICTD and a Senior Research Associate at the Munk School of Global Affairs and Public Policy at the University of Toronto. She completed her PhD thesis on informal revenue generation and statebuilding in Sierra Leone, and has ongoing research on the topic in the Democratic Republic of the Congo and Somalia. Vanessa leads the ICTD's new programme on civil society engagement in tax reform and co-leads the research programme on informal taxation.

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To help respond to Covid-19, African governments should prioritise taxing the rich



Authors: Wilson Prichard

Date: Wednesday, 22 April 2020

Blog

<https://www.ictd.ac> in a new tab



Wilson Prichard



Wilson Prichard is an Associate Professor at the University of Toronto, a Research Fellow at the Institute of Development Studies, and Chief Executive Officer of the International Centre for Tax and Development. His research focuses on the relationship between taxation and citizen demands for improved governance in sub-Saharan Africa.

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Outline of this talk

- ▶ Survey data collection
- ▶ Covid-19 and policy responses
- ▶ Preliminary results
 1. How are tax burdens changing during the crisis?
 2. How has covid-19 affected tax attitudes and perceptions?
 3. What are the preferred options for raising revenue?

Survey data collection

Sierra Leone

- ▶ Baseline in March 2020
 - Freetown only
 - Sample: 700 property owners
- ▶ First follow-up wave in May
 - Freetown (same sample)
 - Provinces (+ 400)
- ▶ Further waves each month

Rwanda

- ▶ Baseline in February 2020
 - Nationally representative
 - Sample: 2,000 taxpayers
- ▶ First follow-up wave in May
 - Same sample
- ▶ Further waves every 2-3 months

- ▶ Phone survey
- ▶ Comparability across countries
- ▶ **Results are very preliminary!**

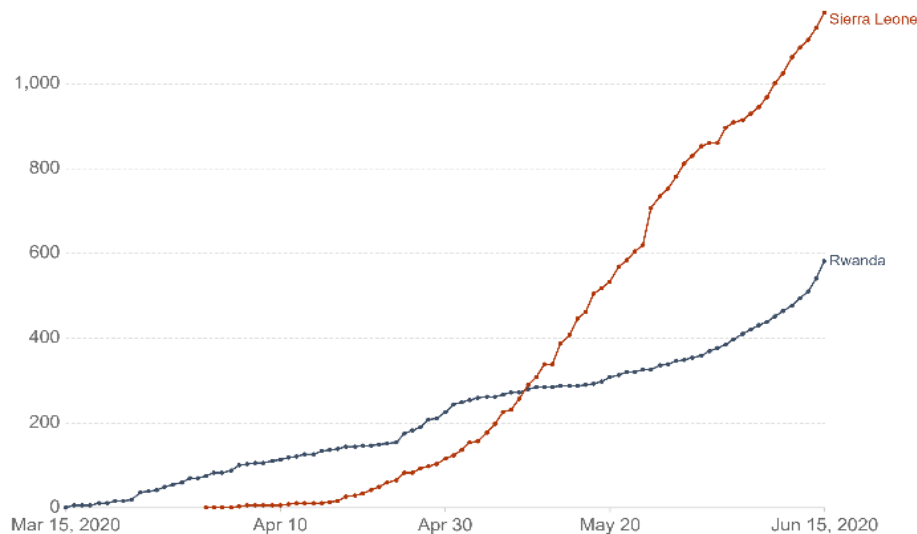
Covid-19 and policy responses in Sierra Leone and Rwanda

Covid-19 in Sierra Leone and Rwanda



Total confirmed COVID-19 cases

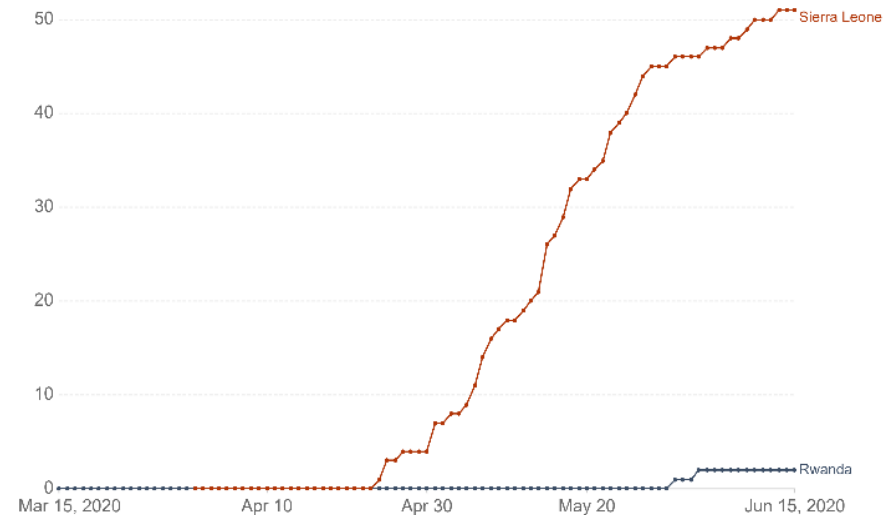
The number of confirmed cases is lower than the number of total cases. The main reason for this is limited testing.



Source: European CDC – Situation Update Worldwide – Last updated 15th June, 11:30 (London time) OurWorldInData.org/coronavirus • CC BY

Total confirmed COVID-19 deaths

Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.



Source: European CDC – Situation Update Worldwide – Last updated 15th June, 11:30 (London time) OurWorldInData.org/coronavirus • CC BY

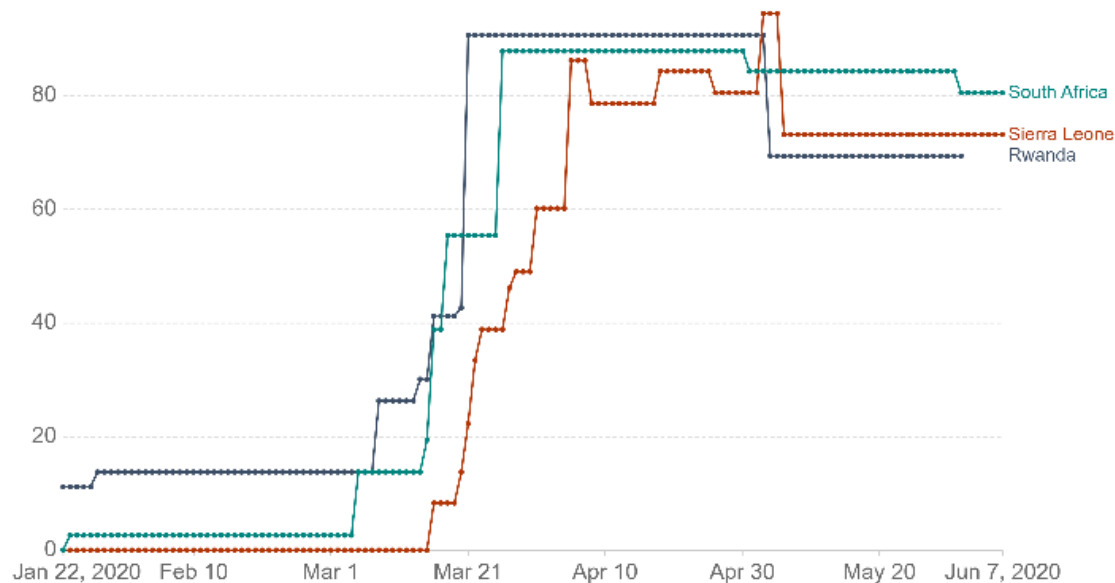
Policy responses



COVID-19: Government Response Stringency Index

The Government Response Stringency Index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest response).

Our World
in Data



Source: Hale, Webster, Petherick, Phillips, and Kira (2020). Oxford COVID-19 Government Response Tracker – Last Updated 17th June.
Note: This index simply records the number and strictness of government policies, and should not be interpreted as 'scoring' the appropriateness or effectiveness of a country's response.
OurWorldInData.org/coronavirus • CC BY

Policy responses

Sierra Leone

- ▶ Immediate containment measures
- ▶ Lockdown: 3-day, twice
 - Business closure: 83% remained open
- ▶ Support: targeted cash transfer, Veronica buckets, ...
- ▶ Tax relief: deferrals for businesses in some sectors, ...

Rwanda

- ▶ Immediate containment measures
- ▶ Lockdown: 5 consecutive weeks
 - Business closure: 20% remained open
- ▶ Support: free food, fixed food prices, ...
- ▶ Tax relief: deferred payments, fast-tracking of VAT refunds for SME, suspension of down-payments, softer enforcement, ...

Crisis relief

- ▶ Variation in extent and reach of relief
 - Sierra Leone: 20-40% receive any relief, e.g. Veronica buckets, soap, food
 - Rwanda: 70% receive any relief, e.g. tax, access to services
- ▶ Variation in the prominence of tax in crisis response
 - Sierra Leone: Tax relief never mentioned
 - Rwanda: Tax relief features prominently (51% mention tax deferrals)
- ▶ Main actors providing relief
 - Sierra Leone: Local government, chiefs, youth groups
 - Rwanda: Rwanda Revenue Authority, private companies/banks

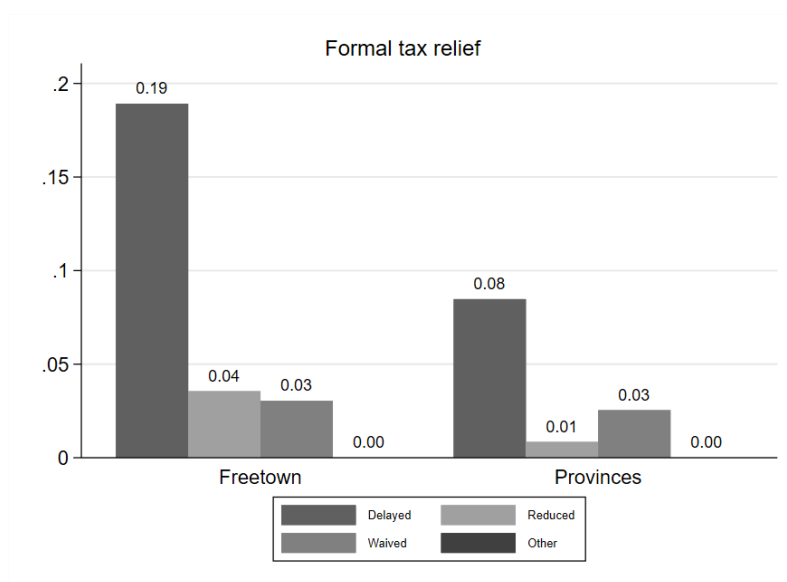
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How are tax burdens changing during the crisis?

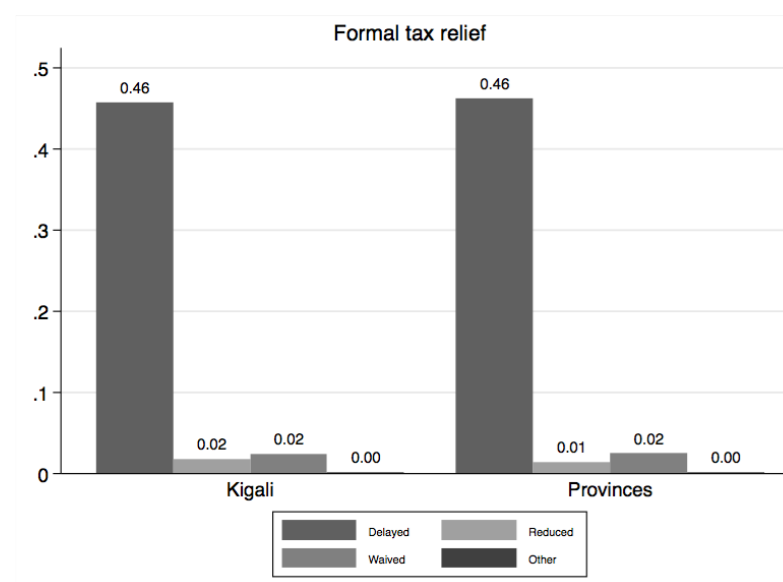
Crisis relief on tax



Sierra Leone



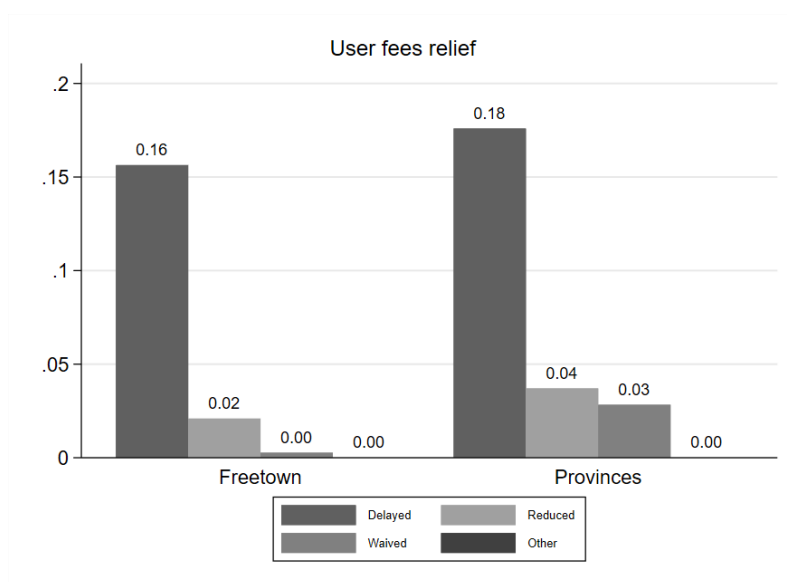
Rwanda



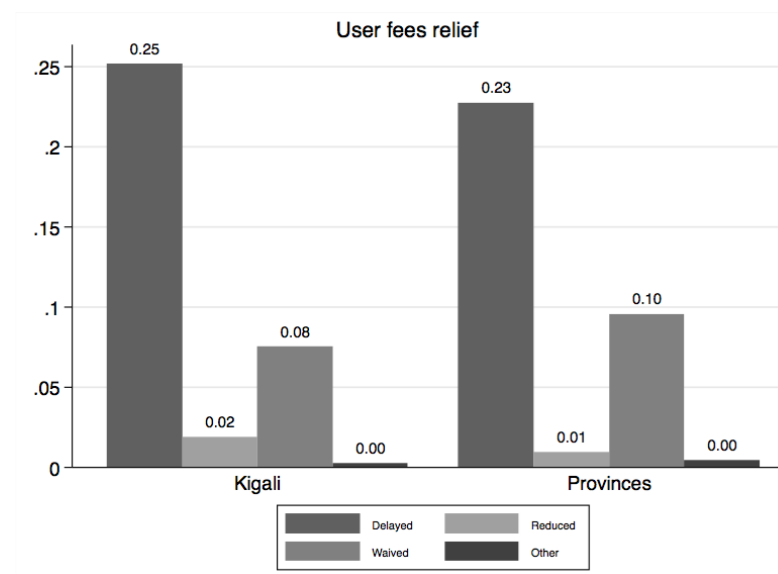
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Relief on local taxes and fees

Sierra Leone



Rwanda



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Crisis implications on informal tax

- ▶ Informal tax and contributions are widespread
 - Sierra Leone: 51% pay informal tax (vs. 58% formal tax)
 - Rwanda: 99% pays informal contributions (vs. 90% formal tax)
 - E.g. Communal labour, town cleaning, weddings, funerals, ...
 - 80% in Sierra Leone report having contributed to crisis-related projects (42% in Rwanda)
- ▶ How is informal tax changing during the crisis?
 - Relief for informal tax: 30% in Sierra Leone, 10% in Rwanda
 - Contributions seem to have declined or remained stable → Need to keep tracking
 - Very high and increasing perceptions on fairness of informal tax

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How has covid-19 affected tax attitudes and perceptions?

Has covid-19 affected tax attitudes, and how?



Compare attitudes to compliance before and after covid-19

▶ Unconditional tax compliance

- Sierra Leone : “Citizens should always pay taxes”
- Rwanda: “Some people not paying taxes on their income”

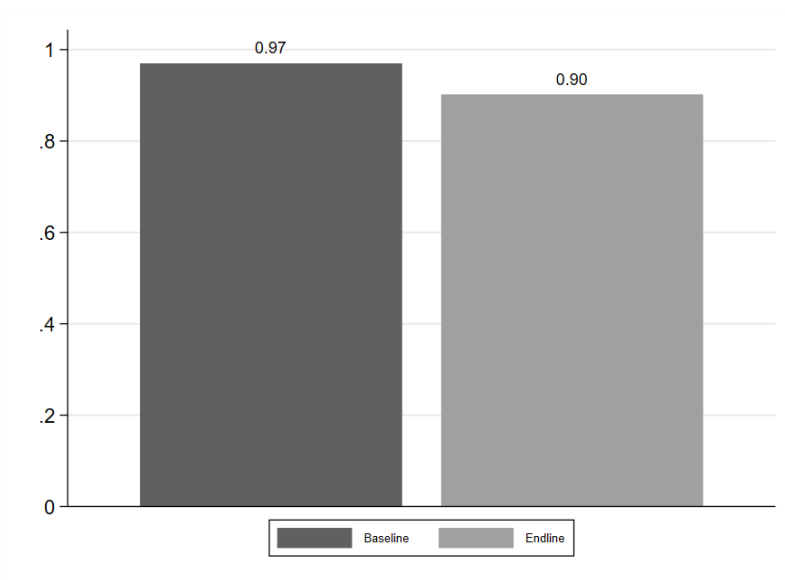
▶ Conditional tax compliance

- Sierra Leone
 - ▶ “Citizens should only pay taxes if the government represents their interests”
- Rwanda: choose between two statements
 - ▶ “Taxpayers must pay their taxes to the government, regardless of the quality of public services.”
 - ▶ “Taxpayers could refuse to pay taxes if they are not receiving public services of adequate quality.”

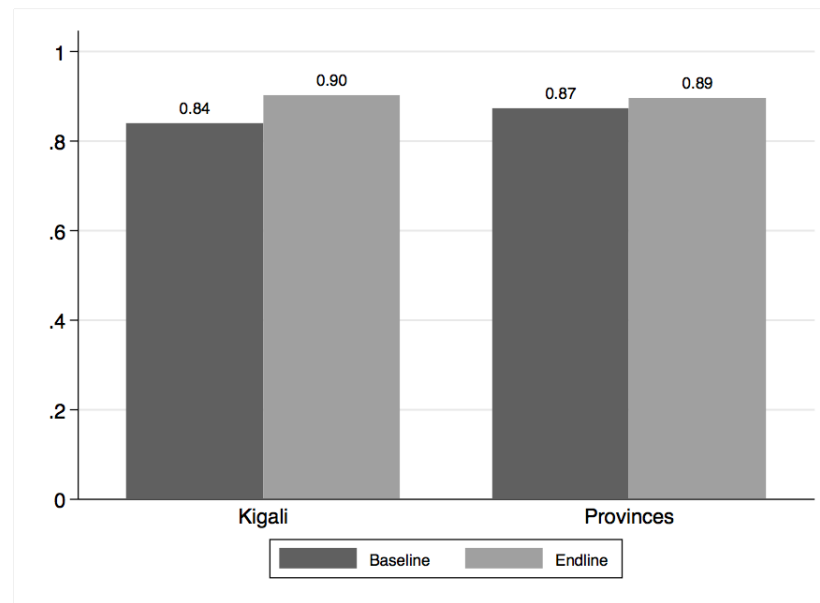
Unconditional compliance attitudes



Sierra Leone



Rwanda

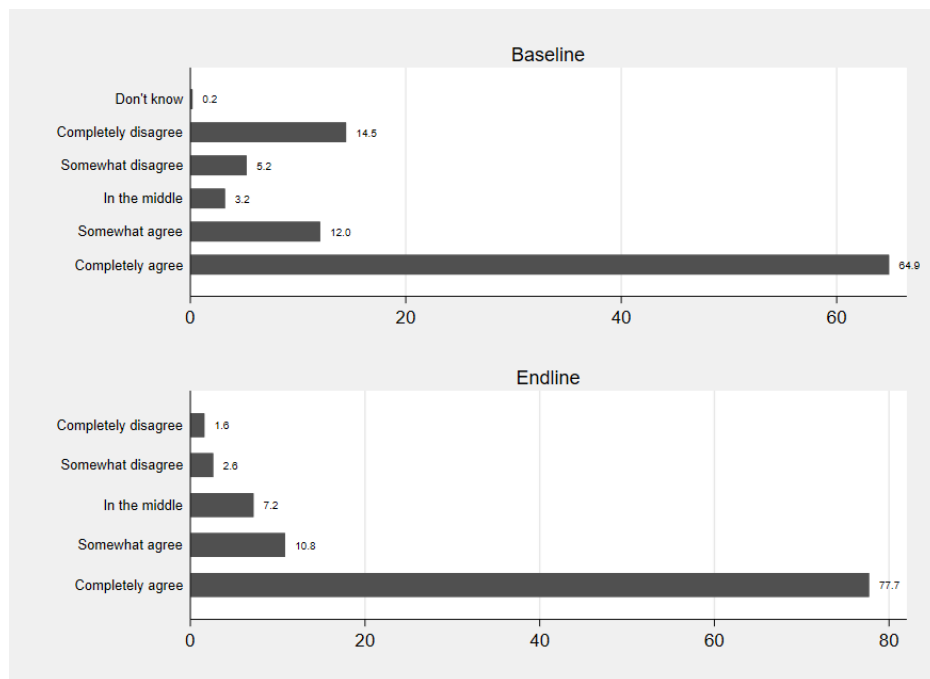


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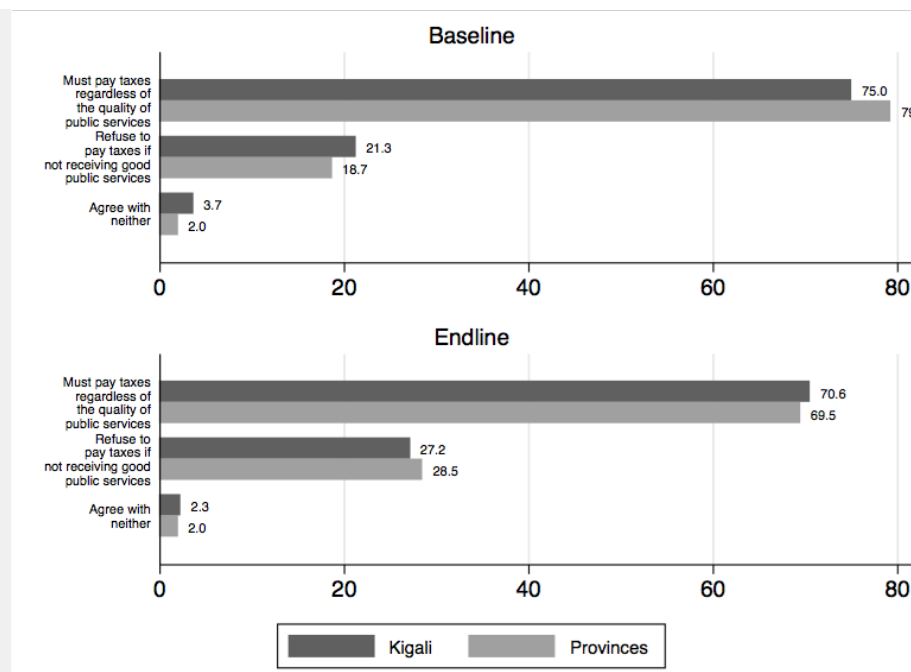
Conditional compliance attitudes



Sierra Leone



Rwanda



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Has covid-19 affected perceptions on trust and fairness, and how?

- ▶ Compare perceptions before and after covid-19

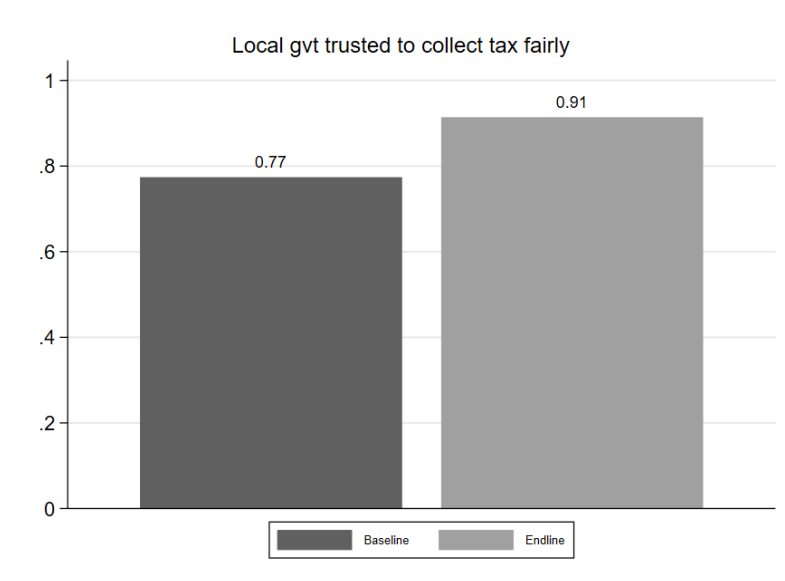
- ▶ Sierra Leone:
 - “The local government can be trusted to collect taxes fairly”

- ▶ Rwanda:
 - “The tax system is unfair”

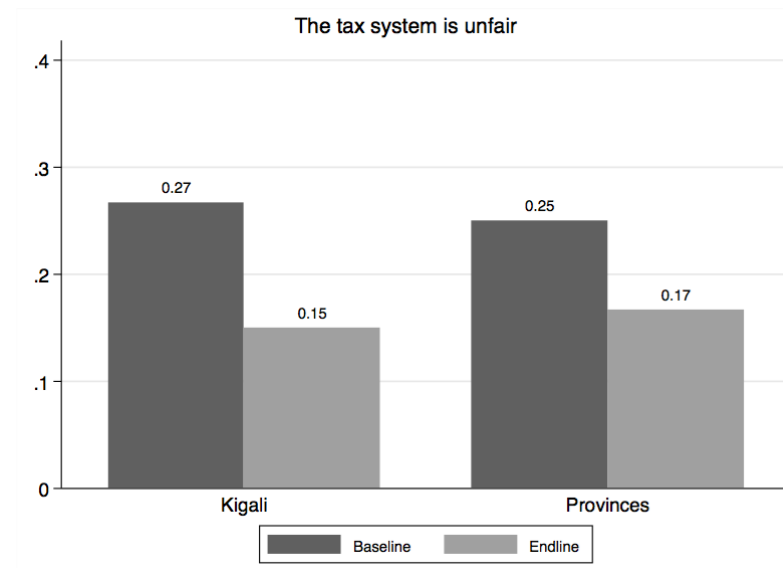
Has covid-19 affected perceptions on trust and fairness, and how?



Sierra Leone



Rwanda



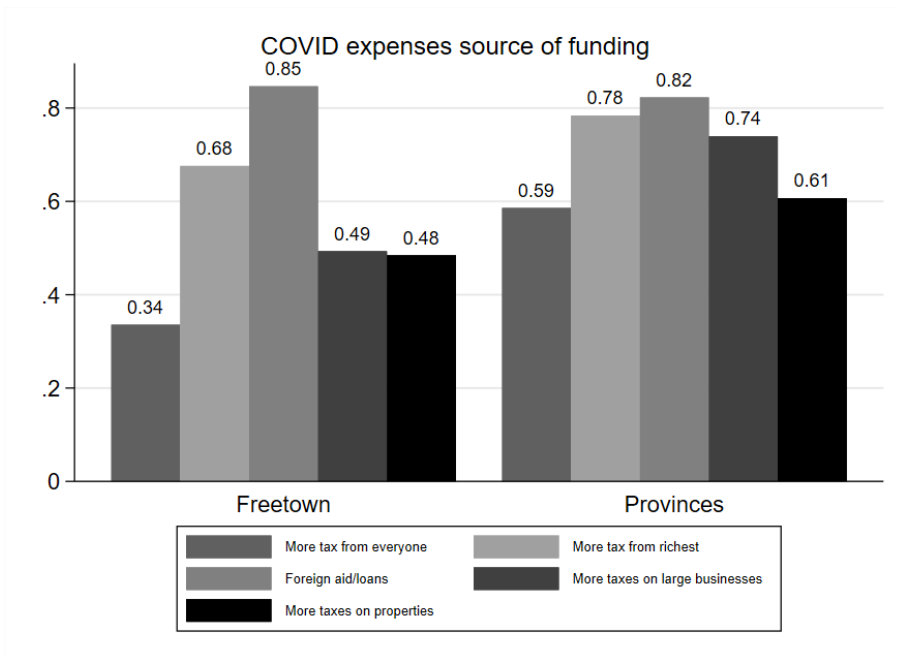
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What are the preferred options for raising revenue?

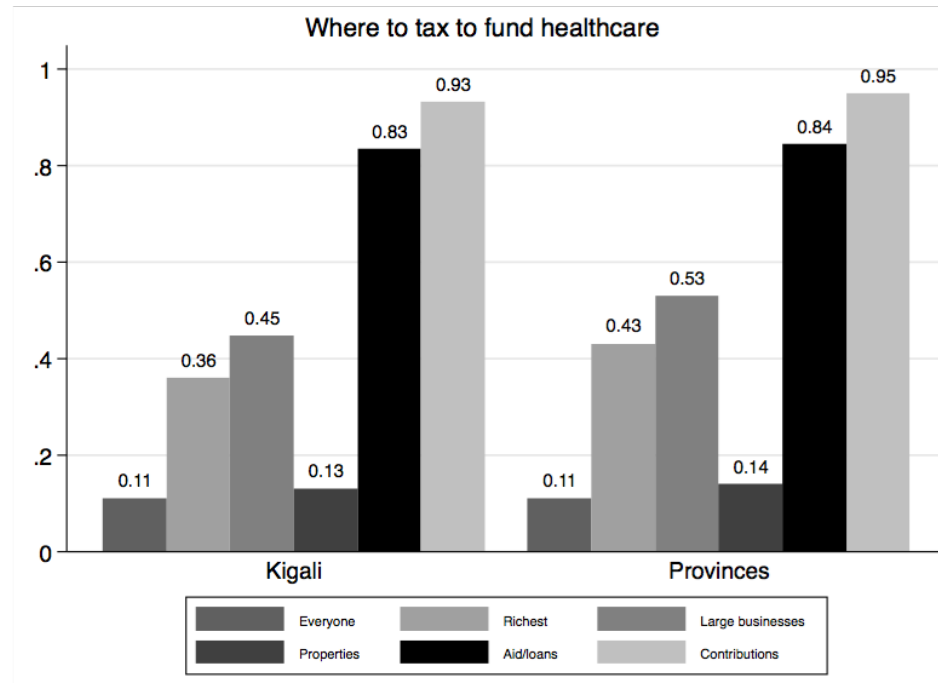
What are the preferred options for raising revenue?



Sierra Leone



Rwanda



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Summary of preliminary results

- ▶ Different policy responses
 - Tax relief: prominent and extensive in Rwanda, less so in Sierra Leone
- ▶ Similar results on attitudes and perceptions
 - Increase in conditional attitudes to tax compliance
 - Substantial increase in perceived fairness of tax
 - Support for taxing the rich and large firms, amongst tax options
- ▶ Next steps:
 - No increase in informal contributions, but need to keep tracking
 - Further data waves to track different phases of the crisis
 - More work to make results comparable across countries (samples)



Thank you!

To be continued...
Feedback welcome

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A note on tax and healthcare

Sierra Leone

- ▶ 87% are very confident in the healthcare system
 - Plus 9% somewhat confident
- ▶ 50% believes healthcare is funded by tax
 - Then: aid, both tax and aid

Rwanda

- ▶ 59% are very confident in the healthcare system
 - Plus 25% somewhat confident
- ▶ 70% believes healthcare is funded by tax
 - Followed by aid

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