

Updating our understanding of taxpayers' perceptions

Somaliland



Partner
OPM (Full name?)
Prosperity From Revenue
- (PROFR)

Sector
Governance

Project Type
Lab experiment

Sample Size
27 businesses

Behavioral Themes
Taxpayers' Perceptions



Summary

With an overall objective of enhancing revenue collection in Somaliland, OPM contracted Busara to conduct research to understand taxpayers' perceptions. This research project was carried out in two phases: in 2018, Busara conducted the first phase involving qualitative and quantitative research to understand the perceptions of taxpayers in Somaliland. In March 2019, Busara conducted a second phase that involved qualitative research only. It aimed to capture changes in perception of the Somaliland tax system over a period of 12 months (2018-2019).

This case study is primarily focused on phase two of the research project that included qualitative research. It expanded on the insights garnered from the first phase of qualitative research, and the taxpayers' perceptions survey conducted in 2018. Busara interviewed 27 businesses in Hargeisa through interviews and focus groups.

The analysis of the qualitative research resulted in the following overall findings:

- Businesses accept a duty to pay tax, and preferred messaging highlighting this framing
- Businesses want greater transparency in the tax payment process
- There is high demand from businesses for information that demonstrates how tax revenue is spent by the government
- Businesses feel that the customs process is more efficient as compared to taxes, however most businesses perceived an increase in customs duties over the past 12 months.



A Behavioral Science Approach

There is increasing research to show that perceptions of taxpayers affect how and whether they pay taxes at national and local levels.

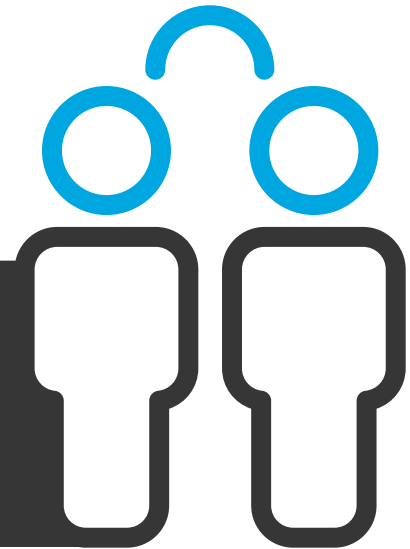
Survey evidence across Africa indicates that citizens:



Believe governments have a right to tax them, and



Recognize it is their duty to pay taxes



Citizens, however, do not trust that paying taxes helps meet their demands for better public services. While effective enforcement leads to better compliance, so is addressing citizens concerns about fairness, equity and reciprocity.

These are different in each context.

Our research sought to answer the following key research questions:

How have perceptions of the tax system evolved amongst taxpayers and traders in Hargeisa over the past 12 months, and why?

What are the differences in perceptions between national - and municipality -level taxation, and why?

What are the preferred communication channels for receiving information related to taxation?



Design

We conducted qualitative research that aimed to capture changes in the perception of the Somaliland tax system over a period of 12 months (2018-2019). A qualitative study was chosen as it would enable in-depth and detailed insights from taxpayers regarding their beliefs, attitudes and behaviors on paying taxes.



The qualitative study followed a 4-step process as follows:

1 Review of qualitative tools

Based on feedback from the Prosperity From Revenue (PROFR) team and key government stakeholders, Busara reviewed the tools for both In-Depth Interviews (IDIs) and Focus Group Discussions (FGDs) to be in line with the updated research questions.

2 Conduct in-depth interviews (IDIs) and focus group discussions (FGDs)

Busara conducted 20 in-depth interviews and 2 focus group discussions between March 4th to March 14th 2019. They were all conducted with businesses in Hargeisa.

The number of female business owners interviewed for the Phase 2 research was 16 percentage points higher compared to the qualitative study conducted in 2018 (men: 87% vs. women 13%). In 2018, the qualitative study sampled 7 micro and 8 small/medium businesses; no large businesses were interviewed. This is as compared to 2019 where we sampled 15 micro, 9 small/medium and 3 large businesses.

3 Interpretation and recommendations

The analysis of the qualitative data brought out key findings that then informed the recommendations relevant for PROFR and the Somaliland government.

4 Analysis of findings

The audio files from the in depth interviews and focus group discussions were translated, transcribed and thereafter analyzed by Busara.



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Results



Taxes

- Businesses feel a duty to pay tax, but there needs to be greater transparency in the tax collection process;
- There is a need for a more efficient national/municipal tax payment process;
- There is a demand for information about how the government is spending tax revenue

“Tax is an individual responsibility upon every citizen and the country uses them as revenue.”

There are clear demands for more information about what government is spending revenues on. The majority of businesses felt they did not have a clear idea what the government spends taxes on, and have shown a keen interest to know which projects and services the government (national and municipal) is providing.



Communication

- There needs to be more direct, frequent and timely communication about taxes between the government and the citizens

“Really no formal communication – just hear-say that tax has been increased. I’ve never seen any pamphlets that have been written.”

Communicating with taxpayers and traders should focus on the duty to pay tax. The best ways to communicate with the public regarding taxation (ranked) are:



Radio



Television



Social Media



Economy and Politics

- The economy is declining and politics has influenced tax increases

Business owners have become less optimistic about the economy over the past 12 months. Business owners have indicated that the cost of operating a business has increased over the past 12 months, though very few indicated this was because of taxation. This does not appear to have affected the view that paying taxes is a duty.



Customs

- Customs procedures are more efficient as compared to taxes;
- Customs duties have increased over the past 12 months.

“The customs procedures are very good. Other than the high taxes, the services are great.”

Taxpayers have seen improvements in customs procedures over the past 12 months, and want less face-to-face contact with collectors. Customs clearance times have improved - taking between 1-3 days. Taxpayers, especially small businesses, indicated the level of professionalism of collectors as an issue. Businesses favour ideas that minimise contact with tax collectors.



Discussion and Exploration

How perceptions amongst taxpayers and traders in Hargeisa have evolved

- Businesses feel that the customs department has improved over the past 12 months. The clearing process has become easier and faster. Reasons given for the improvement include:
 - stricter processes;
 - increased confidentiality;
 - greater issuance of receipts.
- Customs duties keep increasing each year; the perception is that customs duties have been unnecessarily increased over the past 12 months.
- Another change in perception over the past 12 months is that the economy has been declining. It is perceived that this is because of inflation, which has caused the local currency to lose value.

Why perceptions amongst taxpayers and traders in Hargeisa may have evolved

From our research, the following changes were highlighted as having influenced perceptions amongst taxpayers and traders over the past 12 months:

- Introduction of a new government, including the most recent appointment of a new Minister of Finance and Ministry staff. Businesses seem optimistic and open-minded about the change that this government can bring.
- Implementation of more stringent working schedules for government staff at the Ministry of Finance which has resulted in a perception that more is being done to improve the taxation system.
- Customs tax clearance procedures were revised to make them more efficient and this has been reflected in improved perceptions towards the customs system from businesses that import/export goods.
- Depreciation of the local currency (change in exchange rates) over the past 12 months was cited by many business owners to have been a key reason behind higher costs of operating a business.

Recommendations

Based on our findings, we have a number of recommendations in the following areas:

- Leverage the continuing optimism about the government;
- Clarify and publicise how taxes are being spent;
- Increase transparency through information and feedback;
- Improve tax collection processes.