TAX AND CORRUPTION: A GLOBAL PERSPECTIVE

Chris Evans[1], Richard Krever[2] and James Alm[3]

No society is immune from corruption[4] and, within any society, taxation plays a pivotal role in relation to such activity – which can be both positive and negative. On the positive side, the tax system can provide the kind of regulatory framework and institutional foundations which can help to eradicate or constrain corrupt practices. On the negative side, corruption reduces tax compliance.[5] Even perceptions of corruption, whether 'grand' or 'petty', seriously undermine taxpayers' intentions to report actual income or sales.[6] The relationship between tax and corruption is therefore complex and critical.

Two events with the common theme of "Tax and Corruption", held in Australia in April 2017 and in South Africa in October 2017, explored this complex and critical relationship. In Sydney, in a symposium convened by UNSW Sydney, hosted by KPMG and sponsored by the Asia Development Bank Institute, the focus was on tax and corruption in the Asia-Pacific region. In Johannesburg, in a symposium sponsored by the South African Institute of Chartered Accountants and convened by the University of Pretoria, UNSW Sydney and the University of Western Australia, the focus shifted to Africa. Despite the regional variations, the two events canvassed many of the same themes and came to many of the same conclusions, affirming the view that, whilst there will always be country-specific aspects, the issues raised by the relationship between tax and corruption are, more often than not, global.

Each event was attended by between 30 and 40 invited delegates from all over the world, including representatives from academia, the tax profession, international organisations, the business community and civil society, as well as senior tax administrators and policymakers. The symposia, each of which lasted for two days, were designed to provide safe environments in which research, thoughts and ideas relating to the problems of tax and corruption, and possible solutions or ways forward to tackle some of the problems, could be freely debated. Both followed broadly similar formats.

After welcomes from senior representatives of the organising institutions, each symposium commenced with a keynote address designed to contextualise or set the scene for the papers and presentations to follow. In Sydney, the keynote address on the topic of "Corruption, Complexity and Tax Evasion" was delivered by the former Director of the Fiscal Affairs Department of the International Monetary Fund, Dr Vito Tanzi. The Johannesburg keynote address was provided by Professor James Alm of Tulane University, USA, who spoke to a similar title ("Corruption, Taxation and Tax Evasion"), but with entirely different content and emphasis. Dr Tanzi's address explored the thesis that tax evasion is facilitated by corruption and that corruption, in turn, is facilitated by tax complexity. His presentation argued, and provided evidence to support the argument, that tax systems have become far more complex than they need to be, with a resulting impact upon corruption and evasion. In contrast, Professor

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[1] UNSW Sydney and University of Pretoria.
[2] University of Western Australia.
[3] Tulane University.
[4] Transparency International (2016).
[5] Alm, Martinez-Vazquez & McClellan (2016).
[6] Rosid, Evans & Tran-Nam (2016).

Alm's keynote examined three specific questions. Firstly, on a general level, what are the causes and consequences of corruption? Secondly, on a more specific level, what is the relationship between corruption and taxation? Thirdly, on an even more specific level, what is the relationship between corruption, taxation and tax evasion? He concluded with a discussion of how this evidence can be used to control corruption, making use of a different, if related, body of work on tax evasion.

Early sessions at both events explored the relationship between tax and corruption from the broader macro-economic and social perspectives. They considered issues such as the complex relationships between corruption, inequality and economic growth, as well as the economic and social costs of corruption and how those could be mitigated. In addition, they provided a general overview and analysis of the problems of corruption in the Asian-Pacific and African tax environments, and considered international and national legislative and strategic frameworks governing corruption. The sessions also analysed the state of the current literature and research designs and methodologies adopted in academic publications on tax and corruption.

Both events featured sessions devoted to the challenges and possible solutions for specific countries in the two regions. Hence country-specific presentations were made about tax and corruption in Australia, Cambodia, China, Indonesia, Japan, Korea, Mongolia, New Zealand, Papua New Guinea, the Philippines and Thailand at the Sydney symposium, and in Ghana, Nigeria, South Africa, Tanzania and Uganda at the Johannesburg event.

The topic of corruption in revenue agencies was also a key sessional theme at both events. In Sydney, the session included a paper on best practice in Australia designed to detect and combat internal revenue officer fraud. Case studies relating to East Timor, Indonesia, the Philippines and Vietnam were used to illustrate the potential for, and threat of, corrupt activity at all levels of officialdom in revenue agencies in both developed and emerging economies. The Johannesburg symposium featured a presentation on integrity as the keystone to good tax, which was delivered by a former Australian Commissioner of Taxation. Other presenters separately explored the principles and practice of tackling corruption in developing countries, and how petty tax corruption of revenue officials impacted upon manufacturing innovation.

Later sessions focussed on responses to combat corruption, ranging from transparency ("Is sunlight the best disinfectant" was the compelling title of one presentation) and disclosure (including whistle-blowing) through to the many aspects of policy, legislative and administrative or institutional reform and governance designed to tackle corruption in the tax environment.

Despite a total of 26 presentations being made in the Sydney symposium and 21 in Johannesburg, plenty of room was left for discussion and debate in all sessions; an opportunity not missed by the participants.

A large number and variety of themes emerged from the two symposia. Inter alia, it was noted that corruption has many faces and definitions, and that significant work was being done on the drivers and the effects of corruption in the tax world. However, it was recognised that, despite the increasing amount of research into corruption, this research is difficult to carry out, largely due to data and measurement issues. Moreover, a lot of the research was very case, context or country-specific, with the result that any solutions were also often likely to be case, context or country-specific.

One valuable outcome of the symposia was the critical questioning of current responses. A senior tax administrator, for example, pointed out that the practice of "rotating" staff to disrupt any ties that might be built between taxpayers and tax officers has the negative effect of preventing the organisation from building up higher levels of expertise in particular areas or losing the value of that expertise where it already exists. Also, the problem it seeks to address is actually symptomatic of a broader, structural, tax administration issue. Ties between taxpayers and tax officials only pose a risk if the tax assessment and appeal processes rely on individual contact between taxpayers and tax officials. Having a modern administration system employing rigorously applied processes that separate assessments, collections and appeals from individual contacts in place can remove the need for rotations.

There were a number of other lessons that emerged from the papers and presentations. For example, it was clear that corruption is widespread, linked to tax evasion, and often driven by greed, but also by poor governance/institutions and monopoly power in such institutions. Other factors included: a lack of transparency; complicated and/or discretionary tax systems; poor enforcement; perceptions of unfairness in taxation and services; poor government services; low government wages; and a lack of integrity/ethics/morality. The point was also strongly made that responsibility did not simply lie with public officials: business was not blameless, since corruption is generally a two-sided transaction. Corruption was shown to have clear (and usually detrimental) effects on innovation, fiscal citizenship and tax compliance.

Much of the content of the presentations and papers, and the discussions they prompted, focussed on potential means by which corruption in the tax environment could be addressed. Corruption can, very clearly, be reduced by a host of possible strategies. Some which emerged were: increasing enforcement; instilling integrity/ethics/morality in government officials (and their business counterparts); increasing transparency, along with the power to act on transparency; establishing anti-corruption bodies and laws; changing human resource management practices; reducing tax compliance costs; eliminating or restricting discretionary practices in taxation (ensuring revenue authorities were precise on what is allowed and what is not allowed, even if this increases tax complexity); focussing on "basic" implementation of taxes on domestic taxpayers; educating the "next generation" of citizens and tax administrators (accepting that many of the current generation may be lost); improving institutions and building capacity; having the political will to address corruption; and protecting the "whistle-blower".

Although it was obvious from the array of high-quality research papers and discussions that much more is now known about corruption than when the explosion of corruption research began in the 1990s, there was, nonetheless, a feeling that the papers, presentations and discussions often merely confirmed what participants knew (or thought they knew) when they walked into the events. Arguably, it is more important to establish the new things that participants learned and to establish the areas on which participants changed their minds. It is also critical that further research is undertaken to address some of the "unknowns" that emerged from the proceedings. For example:

- there is a widespread perception that corruption is widespread, but exactly how much corruption is there? That is, can country-level estimates of the extent of corruption be calculated?
- there is a widespread perception that corruption has many (harmful) effects, but exactly how large are these effects?

- there have been many suggested anti-corruption policies, but do any or all of the many proposed and enacted anti-corruption strategies actually work?
- the focus is typically on anti-corruption policies in the public sector, but what about policies that might work via the private sector?
- many have said that it is essential to instill "integrity/ethics/morality" to reduce corruption, but what are the specific actions that can be taken to do this, so that people will "do the right thing"?
- we want to think that there are "best practices" that should be enacted, but can we always expect policies that work in one country to work elsewhere?

This was, perhaps, the most valuable outcome of the two symposia: the identification of areas where much more research is needed. Such research also clearly needs to provide the empirical data upon which future evidence-based strategies can be developed, potentially involving a host of methodologies, including the judicious use of field experiments, laboratory experiments, administrative data and other approaches.

A selection of papers from the two events have been refereed and will be published in December 2017, in a Special Issue on Tax and Corruption of the *e-Journal of Tax Research*.

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