THE ROLE OF TAX MORALE IN ENHANCED TAX COMPLIANCE:
Increasing Domestic Revenue Collection through Improved Tax Morale
Message from PMRC

PMRC's vision is “Unlocking Zambia’s Potential”. We recognize that it is only discussion and debate on social and economic policy issues critical to poverty reduction that ultimately leads to policy reform to support a robust and thriving economy.

We achieve our Vision by:

• Producing high quality, relevant and timely policy analysis, policy monitoring, and reform proposals
• Promoting and encouraging an informed public debate on critical social and economic policy issues.

ABBREVIATIONS

<table>
<thead>
<tr>
<th>BN</th>
<th>Background Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI</td>
<td>Corruption Perception Index</td>
</tr>
<tr>
<td>MMD</td>
<td>Movement for Multi-Party Democracy</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>VAT</td>
<td>Value-Added Tax</td>
</tr>
<tr>
<td>UNIP</td>
<td>United National Independence Party</td>
</tr>
<tr>
<td>ZRA</td>
<td>Zambia Revenue Authority</td>
</tr>
</tbody>
</table>
The Role of Tax Morale in Enhanced Tax Compliance:

Increasing Domestic Revenue Collection through Improved Tax Morale
The degree of tax compliance\(^1\), in a country’s population plays a critical role in shaping its tax revenue base. While high levels of tax compliance bolster revenue collection, low levels of compliance erode tax bases and pose a significant threat to developmental efforts. The role of enhanced tax enforcement mechanisms such as tax audits and administration of fines and penalties by tax authorities is widely acknowledged as having a major impact on improving tax compliance. However, the role of ‘tax morale’ in engendering tax compliance, which is the focus of the current study, has tended to receive much less attention\(^2\).

Tax morale, is defined as “the intrinsic motivation to pay taxes arising from the moral obligation to pay taxes or the belief in contributing to society by paying taxes”\(^3\) and has been shown to have a significant bearing on tax compliance. The prevalence of aspects of tax avoidance and evasion are thus linked to issues of low compliance which are in turn affected by low tax morale among citizens.\(^4\) Zambia has recorded significant tax losses from tax evasion and avoidance practices in the recent past. Between 2001 and 2010, Zambia lost US$8.8 Billion in illicit capital flows.\(^5\)

---

4. OECD Committee on Fiscal Affairs; Development Assistance Committee Task Force on Tax and Development. (2013). What Drives Tax Morale?
This loss of finance consisted of funds lost from corruption, proceeds of crime and tax evasion. Tax evasion\(^6\) is particularly identified as being at the “‘heart’ of the world’s shadow financial system”\(^7\) and constitutes a significant component of illicit financial flows”\(^8\). Tax avoidance in Zambia was similarly estimated at approximately US$2 billion lost on a recurrent annual basis due to tax planning activities by multi-nationals, primarily operating in Zambia’s mining sector.\(^9\) Tax non-compliance, especially from the informal sector, is yet another challenge to tax collection, which in the case of Value-Added Tax (VAT) tax gap is estimated at 50-60% in developing countries.

Recent research studies\(^10\) have partly attributed Zambia’s failure to maximize tax revenue collection to low tax morale. Similarly, the 2011 Report to the G-20 lists low tax morale second, amongst the major challenges facing tax revenue mobilization in developing countries.\(^11\) The current Background Note (BN) therefore explores what is meant by tax morale within the context of tax compliance and seeks to assess the role of tax morale in building tax compliance. The Background Note traces Zambia’s tax morale from pre-colonial eras to the present in Zambia identifying factors that have contributed to high or low tax morale and Government’s approach to tax compliance. The study further draws upon experiences from other countries to show the potential benefits that could arise from generation of high tax morale.

---

\(^6\) Tax evasion is defined by Frazioni (1998) as the deliberate failure by individuals to comply with their tax obligations. Tax avoidance, on the other hand occurs when “individuals reduce their own tax in a way that may be unintended by tax legislators but is permissible by law.”

\(^7\) Defined as “illicit economic activity (such as black market transactions and undeclared work) existing alongside a country’s official economy.” http://www.oxforddictionaries.com/us/definition/american_english/shadow-economy


\(^9\) Financial Transparency Coalition. (2012). 2012 citing a statement by the then Deputy Minister of Finance, Miles Sampa


\(^11\) IMF, OECD, UN AND WORLD BANK. (2011). Supporting the Development of More Effective Tax systems. A report to the G-20 development working group by the IMF, OECD, UN AND WORLD BANK
BACKGROUND

Tax compliance is defined as “the degree to which taxpayers meet their obligations under the tax law.” Franzoni (1998) outlines the components of tax compliance as typically including:

(i) True reporting of the tax base
(ii) Correct computation of the liability
(iii) Timely filing of the return
(iv) Timely payment of the amounts due

Tax compliance is a critical subject area both on account of its importance to maximised tax revenue collection and also due to the rise of self-assessment tax systems, such as that adopted by the Zambian government, which rely heavily on citizens declaring their own tax liability and coming forward to pay their outstanding tax obligations. Tax non-compliance may result from ‘ignorance, inability or intent’12, which calls for a multi-pronged approach to combating it. Studies have however tended to focus on administrative/enforcement factors as being the most important in deterring non-compliance. Economic models of deterrence for instance focused on the degree to which punitive fines and increased audits (or stricter enforcement) could serve to deter tax avoidance and evasion.13 While the importance of enforcement cannot be undermined, more recent literature has shown that fear of being arrested for tax fraud is not the only consideration of the public when it comes to paying taxes. Moreover, instances of increased Government enforcement have been shown to be costly and incapable of leading to complete compliance but rather can, in certain instances, result in citizens becoming more non-compliant due to excessively punitive enforcement measures.14 Further, there are many cases where taxpayers would be likely to get away with evading taxes, but still choose to pay taxes. This raises the question “what causes people to pay taxes?”

“Tax morale” has been identified as an important contributor to tax compliance hence it is anticipated that through a better understanding of tax morale, tax compliance can be improved. “Tax morale” is defined as “the intrinsic motivation for individuals to pay taxes”\textsuperscript{15}. Doerrenberg et al (2012: 1) further refine this definition by stating that tax morale is “the intrinsic motivation to honestly pay taxes”. Tax morale also relates to taxpayer attitudes or the moral obligation to pay taxes, which then influences their behavior. Studies into tax morale and tax compliance have mainly been undertaken in the United States, hence scholars such as Torgler (2007) sought to fill the gap in the literature by focusing their studies on Europe, Asia and Latin America. Most recently, research has been extended to developing countries as evidenced through the Organisation for Economic Development and Cooperation’s (OECD, 2013) tax and development study. The study sought to complement global analysis through the generation of more detailed regional information from Africa, Asia and Latin America. Fjeldstad and Heggstad (2012) narrowed their study even more by focusing on taxpayer culture in Mozambique, Tanzania and Zambia. Their study however, did not isolate tax morale as an area of study but maintained a regional focus. This PMRC study is thus timely as it focuses on the unique case of Zambia’s tax morale, tracing its evolution over time and seeking to generate greater details of Zambia’s case, particularly in light of the strong correlation between tax morale and tax compliance.\textsuperscript{16}

DETERMINANTS OF TAX MORALE

Various factors are noted to play a key role in the shaping of tax morale. Torgler (2003) identifies 3 key factors:

1. Moral rules and sentiments (e.g. shame, guilt, duty, fear);

2. The relationship between Government and the taxpayer

3. Fairness (e.g. belief that taxes are too high hence unfair justifying evasion and avoidance);


\textsuperscript{16} Organisation for Economic Cooperation and Development (OECD); Committee on Fiscal Affairs; Development Assistance Committee Task Force on Tax and Development. (2013). What Drives Tax Morale? OECD
Moral rules and sentiments such as shame, guilt, duty and fear are shown to shape tax morale in that if individuals feel a sense of guilt or shame at the thought of evading taxes, then it can be assumed that they would be unlikely to evade. This was, for instance shown in a study by Alm, Sanchez and De Juan (1995) where findings revealed that individuals who comply with tax laws view tax evasion as immoral, implying that they would feel as sense of shame or guilt if caught evading them. Bursick (1990) cited in Torgler (2003) similarly found that from his interviews with 355 respondents, anticipated guilt associated with tax evasion served as a much stronger deterrent than legal sanctions. However, if citizens feel that the tax system is unfair or unduly complicated, the likelihood is that they would feel a moral justification to evade tax. With regard to the relationship between the taxpayer and the Government, tax morale is observed to be higher when citizens trust their government to use their tax contributions appropriately. This was evidenced through a cross-regional study undertaken by the OECD that showed that citizens who expressed greater trust in their government displayed higher tax morale.

The degree to which individuals are likely to feel a sense of guilt or shame over tax compliance is also linked to the extent to which tax compliance has been ingrained as a social norm within a particular society. Torgler (2003) points out that the violation of social norms, which are defined as, “behaviour regularity that is based on a socially shared belief how one ought to behave which triggers the enforcement of the prescribed behaviour by informal social sanctions,” results in internal consequences such as guilt and shame as well as external consequences such as gossip and being ostracized from a community. Thus social norms can be viewed as a substitute or supplement to formal law enforcement and yet laws can also influence social norms. It follows that, if tax compliance came to be viewed as a social norm, there would be less of a need for enforcement activities by the revenue authority. However, Polinsky and Shavell (2006) also acknowledge that social norms alone would not be sufficient to ensure adherence to the law however the need for enforcement would reduce.

HISTORIC TO CURRENT EXPERIENCES OF TAX MORALE IN ZAMBIA

PRE-COLONIAL ERA

Taxation in Zambia can be traced to pre-colonial times when taxes took the form of tributes of grain or a portion of the harvest voluntarily paid to the chief.
Gluckman (1963) and Mainga (1973) cited in Nyambe (2013) for instance noted that Lozi kings systematically gave large quantities of tribute back to the people as they had need. There was, therefore, an apparent link between the tribute and social welfare and since it was done voluntarily, it can assumed that there was a willingness to pay on the part of the subjects on the basis that the tribute was used for their own good. Namangala (2004) substantiates this view and further states that during this period, there were no formal sanctions or enforcement procedures for non-compliance but rather the moral imperative propelled people to pay taxes. Moreover, tribute was made a sign of respect to the king. These observations seem to imply that tributes were viewed as a social norm which when violated led to disapproval from society and possibly feelings of shame and guilt to the evader. The experiences further support the arguments by Polinsky and Shavell (2006) that social norms reduce the need for legal enforcement as it seems there was less need for enforcement.

Figure 1: Tax Morale in Pre-Colonial Era

---

During colonial times, the colonial administration introduced a compulsory “hut tax” which forced ‘natives’ to work on European owned farms in order to pay the tax and so in essence resulted in forced labour. Chiefs, who had been co-opted through monetary incentives by British colonialists to collect taxes on their behalf, were despised by the indigenous people. The resentment of hut-taxes and forced labour amongst other things, eventually contributed to the overthrow of colonial rule.21 The change in attitude towards payment of taxes during this era can be directly linked to issues of fairness and perceptions of citizens towards the Government of the time. While tribute to the chief was associated with ensuring communal wellbeing, ‘hut-tax’ was viewed as colonial oppression – supporting views of the link between tax morale and trust in Government. However, it is interesting to note, that up to date (2014), Zambia’s high tax effort and strong tax revenue mobilization in comparison to other African countries is associated with systems created during colonial times22 that placed more emphasis on enforcement as opposed to building high tax morale among the citizenry.

![Figure 2: Tax Morale under Colonial Administration](image)

**POST-COLONIAL ERA (1ST AND 2ND REPUBLIC)**

During the post-colonial era, the Zambian government (under the leadership of the United National Independence Party – UNIP) managed to maintain monopoly over tax collection. There is no record of state rivals that arose to challenge the state’s power to tax.23 However, it is also evident that during this

---

time, Government’s expenditure on social welfare programmes increased, as did infrastructural projects. The absence of out-right resistance to taxes may thus imply that citizens appreciated that taxes were appropriately channelled to much-needed public projects. Additionally, while mining taxes increased, it is not clear whether other income taxes similarly increased, meaning regular citizens may not have experienced increasing tax hardships. What is evident is that wages were increased; hence sentiments towards the state may have been positive. The state’s approach to taxation during post-colonial times was however more reminiscent of colonial rather than pre-colonial times as Government relied on the fact that payment of taxes was law rather than a social norm.

THIRD REPUBLIC

Following the change of Government in 1991 from UNIP to the Movement for Multi-Party Democracy (MMD) significant reforms in tax revenue mobilization were undertaken. Initial reforms mainly entailed changes in tax administration, which led to the formation of a semi-autonomous revenue collection body in 1994, the Zambia Revenue Authority (ZRA), and also to changes in the design of the tax system. These initial changes could be classified as having been primarily aimed at enhancing legal enforcement, as a tool for increased compliance, rather than at influencing of social norms. They for instance focused on restructuring of tax collection rather than reform of tax morale. This in itself was a highly necessary measure, however the role of tax morale was not emphasised. The changes in the design of the tax system did, nonetheless, help to improve compliance as they involved simplification of the tax system which gives individuals less moral justification to evade tax. Individual customs duties were for instance drastically reduced from about 11 tariff bands in 1991 to only 4 bands in 1996.24

---

In 2006, modernisation reforms were launched by ZRA and continue to be implemented in a phased manner. These reforms have been deliberately aimed at enhancing the effectiveness and efficiency of tax collection through improved compliance, amongst other aims. ZRA for instance, substituted a system of tax collection according to tax-type for a system of collection according to taxpayer type, which reduced payment processes for taxpayers. A Tax Online system has been recently introduced, allowing citizens to file their tax returns online and not have to personally go to ZRA offices for all tax processes. ZRA has also shown a degree of appreciation for the importance of greater tax morale for improved revenue mobilization. A Tax Education Unit was for instance created by ZRA in 2012 with some of its aims including the following:

Objectives of ZRA’S Tax Education Unit

<table>
<thead>
<tr>
<th></th>
<th>To build excellent stakeholder relations, both internally and externally</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>To make revenue collection effective and efficient</td>
</tr>
<tr>
<td>3</td>
<td>To foster voluntary compliance</td>
</tr>
</tbody>
</table>

25. Zambia Revenue Authority, Zambia Institute of Chartered Accountants; Tax Update Presentation, 2014
The Tax Education Unit undertakes a wide variety of information dissemination and consultation forums ranging from lectures, training workshops, seminars and briefings aimed at educating taxpayers. A variety of communication mediums are also utilized ranging from print and television media to radio and internet.

These activities provide a positive indication of ZRA’s appreciation for the need to build taxpayer morale. However, the fact that tax education is not among the core activities of ZRA officials, and the subsequent lack of incentive for officials to participate in such activities, shows that the importance of tax morale is yet to receive the required priority level. Moreover, as at October 2013, there was no specific budget allocated to tax education posing resource constraints to effective taxpayer education. Another concern is that while the objectives of the Tax Education Unit indirectly contribute to ‘higher tax morale’, ‘tax morale’ itself does not appear to be a deliberate focus. Objectives 4, 5, 6 and 8.

---

27. ibid (2013)
7, for instance, are directed more at informing and ‘educating’ taxpayers about their obligations and rights from a top-down perspective and less at seeking to understand the perspectives of taxpayers and using that information to inform the operations of ZRA. Objective 8 does however show some appreciation for the need for feedback. Nevertheless, feedback seems to hold a lower priority level as is similarly observed by Fjeldstad and Heggstad (2012) who point out that the Zambian Government is yet to build effective dialogue mechanisms with taxpayers as current initiatives invite taxpayer feedback and consultation only after Government policy has been passed. This alludes to the fact that Government has not placed sufficient importance on fully grasping “why people pay or do not pay taxes” and then using that information to seek to build stronger tax morale.

A study of taxpayer perceptions on the fairness of the Zambian tax system was undertaken by ZRA in 2012, to investigate the possible impacts of these taxpayer education efforts in raising tax morale. This study revealed that 73% of respondents believed that ZRA staff were fair in their treatment of taxpayers. Fairness in the study was defined by whether taxpayers knew that ZRA allowed the following:

- The right to appeal;
- The right to pursue their rights and obligations; and
- Equitable treatment

If the respondent answered “yes” to all of the three questions, the perception of treatment was categorized as fair treatment. However, the interpretation of fairness in the study is questionable, as knowledge of the presence of an appeal process does not necessarily mean that the taxpayer believes that he will be fairly treated in the process or that it is effective. Moreover, in qualitative studies relating to perceptions, open-ended questions tend to be more insightful in analyzing individual perceptions. Rubin and Babbie (2009: 94) support the above observations and assert that “the chief shortcoming of closed-ended questions lies in the researcher’s structuring of responses” and further state that “the researcher’s structuring of responses may overlook some important responses.”
This shortcoming in methodology may explain why other studies on the fairness of Zambia’s tax system elicit different results. A study by Fjeldstad and Heggstad (2012), for instance, revealed that taxpayers in Zambia, interviewed as part of a regional study in 2012, expressed views that they believe that the current Zambian tax system is unfair due to the fact that it favours multinational organisations, through tax incentives and exemptions, at the expense of locals.28

Earlier studies by Chomba (2005) cited in Nyambe (2013) similarly showed that self-employed taxpayers in the informal sector felt that they already pay “too many taxes, levies and charges to too many institutions without receiving any value in return.” Nyambe (2005) further found that 50% of respondents in the study he undertook indicated that they felt the Zambian tax system is unfair and states that although ZRA has sought to capture taxes from the informal sector including marketeers, the response has been poor. Another important factor that is shown to contribute to low tax morale is the perception that ZRA officials are corruption and lack of integrity. This in turn confirms earlier stated observations that trust in government has a significant impact on tax morale.

While the results from the few studies on tax morale in Zambia provide useful insights into perceptions of the fairness of the Zambian tax system, they do not show whether payment of taxes is considered a moral issue in Zambia or a social norm, such that guilt and remorse ensue from non-payment. Nor do they indicate how tax compliance can be made a social norm. Studies that adopt a macro view and seek to compare experiences of tax morale between Zambia and other countries, overlook the internal differences in tax morale between segments of society within Zambia. Other studies like Chomba’s, focus on a specific target group, the marketeers while other elements that influence tax morale are not holistically considered. These loop-holes necessitate a more detailed study into Zambia’s tax morale and deeper insights into the policy and legislative framework surrounding tax compliance to better assess the degree to which it supports high tax morale.

POSSIBLE BENEFITS OF ENHANCED TAX MORALE

The improvement of Zambia's tax morale would hold significant developmental benefits for the country. Firstly, high tax morale assures higher tax revenues, which are in turn linked to improved public service provision and other economic developments in the country.

Comparisons Between Botswana & South Africa's Tax Morale

A comparison between tax morale in South Africa and Botswana for instance showed that tax compliance was higher in Botswana where aspects relating to tax morale such as perceptions of transparency, corruption and government effectiveness etc. were higher. Figure 1 for instance, shows that Botswana was ranked 24th while South Africa was ranked 34th in the Corruption Perception Index showing that Botswana is less corrupt making its citizens more likely to comply with tax laws. Figures 5-9 also show a relationship between perceptions of Government institutions and tax morale as Botswana which had stronger institutions was shown to have higher tax morale.29

Figure 4 - Corruption Perceptions Index: South Africa Vs. Botswana (1999)

Figure 5-9 - Governance & Country Indicators: South Africa Vs. Botswana (2000)

The study by Cummings et al (2005) compared governance indicators for Botswana and South Africa as perceptions of Government institutions influence tax morale. **Botswana showed stronger control over corruption** than South Africa which implies that South Africans would have less incentive to comply with tax laws.

---

The rule of law which measures “the degree of agents’ confidence in and compliance with the rules of society, is more than three times larger in Botswana” illustrating greater confidence in Government in Botswana.

Government effectiveness which shows Government’s ability to formulate and implement policies and also shows the quality public services, was also lower in South Africa than Botswana. This would point to a basis for a stronger willingness to comply with tax laws in Botswana.

South Africa ranked higher than Botswana with regards the ability to hold Government accountable for its actions which would contribute to high tax compliance in South Africa in this case.

Botswana’s Government was shown to be amongst the most stable in Africa while South Africa’s political history has been one of conflict hence Cumming’s study, showed that South Africans were suspicious of Government leading to a lower tax morale.

Overall, apart from voice and accountability, Botswana ranked higher than South Africa in all categories of governance indicators used in the study. Similar studies also showed that Botswana had stronger institutional quality than South Africa. The cumulative result is that Botswana was shown to have a higher tax morale than South Africa.

Studies by Alm, Sanchez and De Juan (1995) cited in Alm and Torgler (2005) also compared tax compliance levels in the United States of America (USA) against those in Spain and found that compliance was higher in the USA where it was considered more of a ‘social norm’ than in Spain. Furthermore, the USA, which has a higher tax morale is shown to have a smaller shadow economy (informal sector operating outside the tax-net) than Greece, which is characterized as having a ‘culture’ of tax evasion and an ‘abnormally’ high informal sector for a European Country- indicative of high tax non-compliance. Greece’s shadow economy amounted to 28.5%, 27.5% and 26.6% of Gross Domestic Product (GDP) in the years 1999-2001, 2002-2004 and 2005-2007 respectively. Conversely, the US shadow economy amounted to only between 6% and 8% during the same period recording 7.9% in 2005 and 8% in 2006. Greece’s high tax non-compliance is attributed to weak tax enforcement practices compounded by low tax morale.

Doerrenberg et al (2012) further confirm that tax morale is viewed as being advantageous to the economy because it reduces Government’s cost of financing the public sector. They additionally point out that when tax morale is high, the tax base is expanded hence because so many people are paying taxes, the tax rates can be reduced, improving the well-being of the entire population. Lower taxes are further shown to reduce economic distortions in the market and lead to reduced enforcement and administrative costs by government. Funds saved can in turn be channeled to other developmental activities benefiting national growth and development. Aside from economic benefits, higher tax morale contributes to stronger state-citizen relations and enhanced state resilience.

CONCLUSION

In summation, this Background Note has highlighted the challenge posed by tax evasion and avoidance compliance to tax revenue mobilisation. The Background Note has identified tax morale as an important determinant of tax compliance and has provided insights into the meaning of tax morale and the factors that shape tax morale. Key determinants of tax morale include: moral rules and sentiments, perceptions on fairness, and the relationship between government and the taxpayer. A review of the literature shows that in terms of Zambia’s history, tax morale seemed strongest in the pre-colonial era as tax compliance seemed to have been established as a social norm. During this time, enforcement costs by the chiefs were noted as being low. However, colonial rule saw deep resentment towards tax payment and eventually contributed to the overthrow of the colonial government. In the post-independence era, Government has continued to rely on legal enforcement to ensure tax compliance and only in recent years has Government placed greater importance on building high tax morale. The study shows that Zambia’s tax morale continues to be low and that inadequate focus has been placed on the need for dialogue with the citizenry on matters relating to taxation and on the use of this feedback to direct Government policy. In view of the significant benefits that high tax morale would yield in terms of economic growth and development, the Background Note establishes the need for a deeper analysis into Zambia’s current legislative and policy framework around tax compliance to assess the degree to which it encourages high tax morale.
REFERENCES


IMF, OECD, UN AND WORLD BANK. (2011). Supporting the Development of More Effective Tax systems. A report to the G-20 development working group by the IMF, OECD, UN AND WORLD BANK


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**

<table>
<thead>
<tr>
<th>TRUST IN GOVERNMENT</th>
<th>MORAL SENTIMENTS</th>
<th>FAIRNESS</th>
</tr>
</thead>
</table>

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.

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.

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).

**WHAT DOES HIGH TAX MORALE MEAN FOR ZAMBIA AND ZAMBIANS?**

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.

**TAX EVASION**

Between 2001 and 2010 Zambia lost...

$8.8 Billion

ZMW 52.8b

$4.8 Billion would cover 100% of the 2014 Zambian 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

US$ 1bn

Eurobond

Eurobond

**PMRC RECOMMENDATIONS**

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.