International Budget Partnership

Reflection points for civic actors on the politics of tax reform

Learning from the literature

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Paper

CONTENTS

BACKGROUND

How does meaningful tax reform happen, and how can civic actors engage with it?

The international community is increasingly focused on domestic resource mobilization, as aid budgets are set to shrink and countries have affirmed ambitious targets in the Sustainable Development Goals. Interest in the role of civic actors in tax reform in low- and middle-income countries has also grown (Wainer 2019; Sharp and Sweet 2019; Prichard et al. 2019). This is due in part to a recognition that without a strong grass-roots voice in tax, some of the goals of progressive tax reform—such as equitable tax systems that are based on strong reciprocal ties between taxpayers and the state—may not be met. Civic actors have a role to play in ensuring that tax systems are redistributive and that they are rooted in bargains that demand tax compliance in exchange for state performance and services. This is no easy task, as it requires mobilizing the public to take on powerful interests that oppose progressive taxation.

As part of IBP's new Tax Equity Initiative, we are developing research and tools to help civic actors deepen their engagement with tax reform and to learn from each other. As part of this work, we have carried out a detailed review of the academic literature on the politics of tax reform in low- and middle-income countries (LMICs). The main purpose of this review is to stimulate further reflection and action among civic actors about how tax reform happens, and how they can be more effective at influencing future reforms. The longer review with extensive citations is available here.

This document summarizes key points from the longer review and frames these findings around "reflection points": questions and suggestions for civic actors to consider as they plan work around tax reform. Those readers interested in the details and the sources behind these ideas can read the full literature review in tandem with this document.

The academic literature on civic actors in tax reform in LMICs is limited. This is both because this topic has not been of great interest to academics in the past, and because civic actors have not typically been involved in tax reform in LMICs. Nevertheless, as civic actors increasingly try to influence tax reforms, it is useful to know what the existing literature says about how the politics of tax reform has played out in different contexts. This creates a point of departure for understanding and strategizing about how civic actors can engage and what issues and factors they might need to take into account.

This reflection note, like the longer literature review, is organized around three main areas: **who** (the actors engaged in tax policy), **what** (key aspects of tax policy that matter for the politics of reform), and **how** (the process by which reform happens). At the end, I point to gaps in the literature that also raise questions for civic actors.

This is a work in progress: readers are encouraged to share feedback with IBP on the usefulness of this note and areas that may be missing.

WHAT IS TAX REFORM?

Tax reform means different things to different people. For many corporations and their accountants, it means cutting taxes or simplifying tax procedures. For IBP, the focus of tax reform is on major changes to the tax system, with a *particular emphasis on reforms that enhance revenue collection and progressivity*. Our focus is also on national tax systems, rather than subnational taxation. To define in simple terms a few of these concepts:

- The **tax system** generally refers to the taxes that account for the bulk of a country's revenue, their relative shares and who pays them.
- It is worth emphasizing that **who pays** is a product of both tax policy and administration. **Tax policy** concerns the types of tax, to what they apply (or do not apply) and their official rates. **Tax administration** concerns the extent of compliance and evasion, and tax administrator discretion over implementation, which can have a major effect on how the tax burden is distributed. The tax system is determined, therefore, by a combination of tax policy and tax administration.
- The **major types of taxes** are fairly consistent across countries today: a mix of personal income tax, corporate income tax, consumption taxes (such as Value Added Tax, or VAT), trade taxes, excise taxes, and social insurance taxes. Property taxes are another major source, though these are usually collected at the local level.
- The **relative share of total tax income from each tax type** varies considerably, however. For example, one country may collect 15% of total tax revenue from VAT (Nigeria), while another collects nearly 30% (Ghana). On the other hand, Nigeria collects almost 45% of tax revenue from corporate taxes, while in Ghana that figure is only 17%.[1]
- These different shares are of interest because different **taxes are paid by different groups**, or create more of a burden for them. Corporate income tax tends to fall more heavily on companies, while VAT puts a heavier burden on lower income groups. However, the actual burden of taxes is different in each country depending on different rates, rules and exemptions.[2]
- Aside from these major taxes, we should also not ignore "**small taxes**" that raise little revenue but are a significant burden for the poor. For example, a local market tax may be insignificant as a revenue

[1] Data from 2017, see: https://taxfoundation.org/oecd-report-africa-tax-revenue-in-african-countries/.

[2] There is also debate about the actual incidence of different taxes, which cannot be known precisely and requires estimation. For example, some economists believe that the incidence of corporate income tax falls entirely on corporations and their owners, while others believe part of the incidence falls on workers. For a taste of this debate, see: https://www.cbpp.org/research/federal-tax/corporate-tax-cuts-skew-to-shareholders-and-ceos-not-workers-as-administration.

source, but have a major impact on household budgets. Many if not all of these “small taxes” are local rather than national, so though important, they are not the primary focus of our literature review.

- Tax **reform** refers to major changes in policy or administration that affect the main tax types (or introduce a new major tax), including **who pays** them and **how much** of total revenue they account for. Examples of such reforms could include the introduction of a new tax (e.g., on mobile money) or a significant increase in the tax rate (e.g., a higher rate on top incomes) or administrative reforms like enhanced tax auditing to reduce evasion. A reform that had a significant impact on “small taxes” would also be considered a tax reform.
- More **progressive** reforms align the tax system more closely with the principle of *ability to pay*, which means that those who are more able to contribute to the revenue system pay a larger share of their income. **Regressive** reforms lead to the opposite outcome, requiring those with lower incomes to pay a larger share of their income.

Because every tax system is different, and every tax reform is unique, it is not easy to generalize about the nature of tax reform. The focus of this paper is on some aspects of tax reform, such as who is typically involved in tax reform, what the key characteristics of tax and tax policy changes are, and how the process of tax reform takes place, which may be relevant in multiple contexts.

1. WHO IS INVOLVED IN TAX REFORM?

The main actors in tax reform are typically states, business and the wealthy, taxpayers, and donors/creditors. In each case, we consider the nature and incentives of the actor, and some of the ways in which these actors might be composed of different sub-groups with varied interests or incentives. A section reviewing the limited literature on the role of civic actors in tax reform is included in the longer review.

STATES

The most important actor in tax reform is the state, and any efforts to increase tax revenues or alter the equity of the tax system will require state leadership and coordination. The literature views states as using a mix of tools to obtain revenue, including coercion. The dominant theme in the literature on the state is that states bargain with taxpayers over how much to collect and what to do with these funds, until some form of agreement is reached. This agreement is not permanent; there will be continued bargaining over time. The idea that some form of bargain is struck is also known as a “fiscal social contract” (Prichard 2015; Martin, I., Mehrotra, and Prasad 2009; Moore and Schneider 2004).

So what should civic actors consider when thinking about how to engage the state? Although the state is sometimes used to refer mainly to executives, we include legislators in this section as well.

Civic actors can seek opportunities to facilitate explicit bargains with states about revenue. Most states need revenue to fund their activities, but they cannot access this revenue without some form of bargaining with taxpayers. If states and taxpayers recognize this, and organize themselves effectively, they can enter into bargains that are mutually beneficial. Some form of bargain already exists in most countries, but making it explicit may help to enhance the bargaining power of citizens and to make tax bargains more politically palatable.

Reflection Point: Can civic actors enhance the visibility of the tax bargain or fiscal social contract in their country? Can they help to clarify the terms of tax bargains, by encouraging states to be *transparent about the sources and use of revenues*, and by clarifying (through amplifying the voices of citizen groups in media and government consultative spaces) what people are *willing to pay in exchange for specific services*?

Civic actors should be aware that not all states rely on tax revenue to the same degree. Bargaining may be less appealing to states that can extract resources from direct ownership of production, foreign aid or debt, printing money and so on. Taxpayers can strike better bargains where states are more dependent on tax revenue than where states can substitute other revenue sources for tax (Moore and Schneider 2004; Moore 2008). A number of states have preferred to rely on other types of resources rather than increase taxation. For example, in Bolivia, the government has found it easier to nationalize the hydrocarbon industry than to introduce personal income tax (UNRISD 2013). In East Asian "developmental states," tax revenue was less important than controlling the deployment of key factors of production (capital, labor) to support the state's industrial policy; most East Asian countries have had relatively low tax/GDP ratios (Sindzingre 2007). Thus "tax bargaining" is not equally available to all civic actors as a basis for engaging government. While all states need revenue, some may also simply choose to collect less and provide fewer services, which can obviously reduce tax resistance, but at the cost of declining services. The different approaches that states take in deciding how much revenue to collect and where to get it from are not always well understood by citizens.

Reflection Point: States make choices about whether to rely more heavily on taxes, aid, or rents from extractives over time, or to simply accept lower revenues and provide fewer services. Can civic actors make these choices more explicit, helping the broader public to understand the trade-offs involved in accepting different types and levels of revenue? Can civic actors pressure governments to manage non-tax revenue sources at least as transparently and at least as much in the public interest as tax revenues?

Civic actors seeking government allies should consider the different incentives of different state agencies with respect to tax reform. While states may generally seek revenue, not all parts of the state are equally interested in it.

- Ministries of finance may seek greater revenues to support expenditure, manage debt repayment, and ensure overall fiscal balance. But ministries of finance have broader development objectives beyond tax, and they may wish to promote foreign investment and other specific economic activities. This might lead to the pursuit of tax exemptions or tax treaties that reduce revenue, bringing ministries of finance into potential conflict with revenue authorities. Ministries of finance may also have a higher tolerance for debt financing versus taxation, especially if this allows them to pursue less popular projects.
- Revenue agencies may be concerned primarily with increasing revenue and less with equity. Such agencies are sometimes paid a commission based on collections, which encourages them to maximize revenue, rather than to consider the best or most equitable tax policies for the country.
- In some cases, revenue agencies, which interact directly with taxpayers unlike ministries of finance, may benefit from corruption that undermines revenue targets. For example, the Tanzanian tax authority has engaged in a mix of collusion with taxpayers and outright theft of tax funds. Even after reforms to create a more autonomous revenue authority in the mid-1990s and an initial dip in corrupt activities, data show an increase in requests for bribes just a few years later (Fjeldstad 2003).
- Specific agencies, such as mining or transport ministries, may be interested in increasing their own direct access to earmarked revenue or specific fees, but less interested in the overall revenue system. Line ministries do not generally have a strong role in tax policy or reform, but they may push to introduce earmarked tax revenues for their agency or sector. For example, the creation of new social insurance taxes to finance health or pensions may involve, or even be driven by, health and social security ministries, as was the case when Mexico introduced a new “popular health insurance” program in 2004 (Lakin 2010). Sector earmarking can lead to some conflict with ministries of finance, which tend to prefer general revenue that is not earmarked in order to maintain budget flexibility. However, in the Philippines, the ministries of finance and health were able to work together on the 2012 sin tax reform that earmarked revenue for the expansion of health insurance (Madore A, Rosenberg J, and Weintraub R 2015).

State agencies are likely to be most interested in increasing revenue or in using revenue policy to reward allies or punish enemies, but less interested in equity-enhancing revenue reforms; though, as in the cases related to social insurance above, some line ministries’ demand for earmarked revenue might be equity-enhancing on the expenditure side.

Reflection Point: Can civic actors map out these different state agencies and their incentives in the context of a tax reform, based in part on previous experiences of tax reform in their country? This may help in putting together a strategy to seek government allies and neutralize opponents of reform.

Civic actors should be aware that the powers the national legislature has over tax can be quite different across countries. Legislators are an important actor in tax policy in many countries, though not all. In some Commonwealth countries, legislators have little power to change tax or spending policy, though they provide oversight of these policies. In others, however, they are able to provide input into tax policy directly.

- Legislators may have more influence over tax policy if they are supported by a parliamentary budget office. For example, Kenya's Parliamentary Budget Office analyzed COVID-19 related tax changes in 2020, supporting parliamentary review of the government's response to the COVID-19 pandemic (Parliamentary Budget Office Kenya 2020). Parliament rejected some of the executive's tax policies, and altered others (increasing the exemption threshold for turnover tax, for example) (Kinuthia and Lakin 2020).
- Because legislators can gain the full benefit of extra government spending on projects for their constituents, while pushing off part of the costs to others through borrowing funded by everyone, they tend to prefer more spending with higher deficits and lower taxes (Lienert 2010). This is representative of a general collective action problem related to tax: everyone wishes to have more spending, but generally wants someone else to pay for it.
- Legislators can also manipulate revenue targets to fund additional spending (which then leads to a higher deficit when those projected taxes are not collected), as has been observed in a number of Latin American countries, though executives may also engage in this type of behavior (Hallerberg et al. 2009).
- In theory, legislators should exercise oversight of tax exemptions provided by the executive (Posner and Park 2007). However, they also have incentives to create such exemptions. Just as legislators like to target specific spending benefits to their constituents, they may pursue targeted tax exemptions for their constituents, and campaign contributors (Profeta 2017). As is the case with expenditures, legislators are also a target of lobbying by powerful interest groups on the revenue side of the budget. They have been specifically targeted by the tobacco industry in Kenya and Uganda, for example, through illegal advocacy activity and manipulation to undercut taxation and regulation of tobacco.[3] Such tactics are also applied to executive agencies, not only to legislators.

[3] See for example: Tobacco industry accused of 'intimidation and interference' in Kenya and Uganda – BAT's tactics to undermine the tobacco control bill.

Reflection Point: Can civic actors exert pressure on legislators, through direct advocacy and the use of media, to counteract the influence of powerful interest groups that are pushing for lower or more regressive taxes? Can civic actors hold legislators accountable when they inflate revenue estimates (rather than raise taxes), eventually leading to larger deficits than those agreed to in the budget process?

BUSINESS AND THE WEALTHY

Business is a key player in tax reform. First, large businesses and business associations tend to get involved in and have direct influence on tax policy. In capitalist systems at least, this cannot be eliminated – only managed. Second, taxing business is an important part of any progressive tax agenda, because that (along with wealthy individuals, some of whom keep their money in their own businesses) is where the money is (Everest-Phillips 2010).

While there are differences between "business" and the "wealthy," the lines between them can be blurry, so I discuss them together. Many wealthy individuals are business leaders, or hold their wealth in companies, and receive their income as dividend or rental income from these companies. Those that seek to evade taxes may form shell companies located overseas, to hold and distribute their wealth (Moore, Prichard, and Fjeldstadt 2018). It is often unclear what share of high wealth/high-income individuals is attributable to different types of activity, making them indistinguishable from business elites (Kangave et al. 2016). In sum, there may be wealthy elites who are not connected to business, but there is very little literature on them and how they differ from business elites.

Civic actors should expect business and wealthy elites to engage actively in tax reform, and frequently to oppose paying more taxes or making tax systems more equitable. These are often the most powerful actors in tax policy, acting both through formal and informal channels, and through advocacy but also through direct control (when business leaders are appointed or elected to public positions), campaign financing, and influence or control over media and the courts. Business influence to maintain low taxes does not necessarily take the form of opposition to tax or to high tax rates; it may well operate more indirectly through opposition to reforms to the tax collection authority and its enforcement capabilities. In Bangladesh, for example, large firms have generally opposed modernizing tax administration reforms and preferred to maintain a corrupt but predictable system of low effective taxes (Hassan and Prichard 2013).

However, civic actors should not assume that business is monolithic; there are often divisions within the business community over tax policy. Businesses are more likely to support increased revenues than greater progressivity, particularly if increased revenue will support markets for their products and if greater progressivity will increase their tax burden. There may be opportunities to forge coalitions with business around improving revenues, but this will hinge on agreement about how revenues are used and can break down when equity reforms are included. In El Salvador, for example, conservative business held influence over the state through a right-wing political party (ARENA). ARENA held the presidency for two decades and facilitated enhanced revenue and a modest reduction in tax exemptions, but the tax system remains highly regressive. Business was willing to increase tax revenue to help finance infrastructure that supported the expansion of El Salvadoran exports into the Central American region and the United States, but also worked to avoid heavily taxing the wealthiest Salvadorans (Schneider 2012).

Civic actors should look to divisions within the business community around the impacts of tax policy as creating potential for alliances on specific reforms, such as removing exemptions that only benefit certain sectors. Formal sector businesses generally like to see informal businesses enter into the tax net because they believe this leads to fairer competition. Smaller firms may wish to see incentives or exemptions removed for larger firms for the same reason. The 1986, U.S. tax reform saw part of the business community (particularly representing high-tech, services, and retail) ally with reformers to remove tax exemptions enjoyed by other corporations (particularly manufacturing and heavy industry), allowing for a revenue neutral reform that lowered rates overall (Mucciaroni 1990). In Ghana, larger traders that were part of the Ghana Union of Traders' Associations supported a turnover tax that brought smaller and more informal business into the tax net because it ensured fairer competition between these larger and smaller traders (Prichard 2009).

Civic actors should not assume that weakening business is always a positive development for progressive tax policy, because cohesive business associations can also facilitate bargaining for improved government services. When business is organized into cohesive associations (such as chambers of commerce), they may reject tax reform, but powerful individual businesses can also resist taxation. On the other hand, individual businesses find it difficult to coordinate in order to bargain with the state over the use of tax revenue, whereas cohesive, organized associations can sometimes engage in productive bargaining, leading to improvements in services. In Guatemala, for example, economic elites are divided: they are able to veto tax reforms, but less able to articulate a positive vision for state-building than the more cohesive elites in El Salvador discussed above (Cabrera and Schneider 2013; Schneider 2012). Business is more likely to support progressive policy when they are forced to by the existence of other organized interests, such as labor unions or broad civic coalitions.

As mentioned above, civic actors may find it difficult to separate out the interests and incentives of wealthy individuals from those of business, but the little evidence we have suggests that wealthy elites have less progressive views on tax and economic policy than other taxpayers, and use their wealth to finance political initiatives consistent with those regressive views. Data on the very wealthy are not easy to find, especially in low and middle income countries. Some evidence from Latin America suggests that the attitudes of wealthy elites are mediated by trust in political institutions, so overall, affluent elites that have higher trust in government are more supportive of progressive taxation (Berens and von Schiller 2017). It is not possible to say whether such views differ from those of business elites, however. Analysts have collected opinion data from small samples of the very rich in the United States showing that wealthy professionals (such as doctors and lawyers) are more likely than wealthy business leaders to support progressive taxation, hinting at some potential differences in interests or social norms between business and other wealthy elites (Page, Bartels, and Seawright 2013). Other data on economic elites in the United States also finds that they have very different policy preferences than those expressed by business associations, further supporting the idea that there may be politically relevant differences between the wealthy overall and business (Gilens and Page 2014). Nevertheless, these findings are based on limited samples and we do not know if they are relevant in LMICs.

Reflection Point: Civic actors should not assume that business/wealthy actors are monolithic. Are there divisions within the private sector? Are there potential allies who may wish to see taxes raised on others, whether to ensure fairness or to support specific investment policies? Business may be less likely to support reforms focused on equity, but are there businesses that will support overall revenue enhancement? Are there any wealthy elites that are not associated with business interests that have more progressive views and can be allies in tax reform?

TAXPAYERS

Civic actors must frequently confront one weakness of a tax bargaining model, which is that in low and middle income countries, there are many people that do not pay national taxes, or do not perceive themselves to pay taxes. In a number of countries, the share of people who pay direct taxes, such as those on income, is miniscule. In Rwanda and Zambia, for example, less than one percent of taxpayers account for over 90 percent of revenue (African Tax Administration Forum 2019). In India, approximately 7 percent of adults pay income tax.

Civic actors might want to understand how much tax ordinary people actually pay in their context. Many citizens who fail to pay income tax still pay other taxes, particularly consumption taxes. However, there is conflicting evidence about how much tax ordinary people actually pay (M. Moore, Prichard, and Fjeldstadt 2018). Most indirect taxes are rife with exemptions, many of which target basic needs, such as food, transport, school textbooks and inexpensive fuels (Gloppen and Rakner 2002; OECD 2014; Souza 2013). This ensures a degree of progressivity but also reduces the number of taxpayers or the amount of tax they pay (Inchauste et al. 2018). In addition, because the poor consume more informal goods (from subsistence, barter, micro-businesses, and so on), they may avoid consumption taxes even on goods for which there are no exemptions (Bachas, Gadenne, and Jensen 2020).

Civic actors should keep in mind that low-income households do pay a variety of "small taxes," including things like fees and charges, that constitute an important burden on their finances and may shape their views on taxation. These charges may tend to fall hardest on vulnerable groups, including women and ethnic minorities (M.

Moore, Prichard, and Fjeldstadt 2018; Bernstein and Lü 2008; Meagher 2018). However, many of these charges are local, some are specific to very narrow services, and some do not meet the definition of a tax, as they are administered by non-public entities without state sanction and never pass through government treasuries (what are sometimes called "informal taxes"). For example, in Sierra Leone, households report paying 35% of their "taxes" to non-state actors, including community groups and local gangs (Jibao, Prichard, and van den Boogaard 2017). More broadly in Africa, although they pay fees and charges of this type to local actors, many citizens do not interact with the national revenue agency in their countries at all (M. Moore, Prichard, and Fjeldstadt 2018).

All of this suggests that civic actors in some countries may find tax bargaining a challenging concept, especially in connection with the national government. Indeed, the nature of many citizens' engagement with the tax system may actually result in a stronger bargaining relationship between citizens and non-governmental agents than in any bargaining with government. For example, data from Lagos, Nigeria suggests that when residents have access to goods and services through community savings clubs or vigilantes that provide security, rather than government services, they are less supportive of paying taxes to the government (Bodea and LeBas 2014; Juul 2006; Meagher 2018).

Reflection Point: Does the nature of the tax system and who pays tax in a given country lend itself to the idea of a tax bargain between most citizens and the state? If not, are there other ways of framing taxation that are more meaningful to the poor and informal sectors? Other frames might relate to the need for resources for development, the promotion of fairness or to provide for basic needs or rights.

DONORS AND CREDITORS

Donors and the global community broadly have influenced the ideas around tax policy that are taken up by country governments (Moore, Prichard, and Fjeldstadt 2018; Dom and Miller 2018). Donors include multilateral agencies as well as individual countries that provide grants or other forms of concessional financing to LMICs, while creditors generally include countries and private investors, both foreign and domestic, who provide loans and buy debt at commercial rates. There is an overlap between donor and creditor countries, as some provide both types of financing. Creditors of all types expect governments to repay debts, so they also exert pressure on governments around tax and expenditure policy; this can lead to pressure to increase taxes or to cut spending, or both. This can happen indirectly through credit ratings agencies, which review tax and spending policies when rating government bond issues that investors are considering. Investment houses from rich countries can also exert direct pressure on debtor countries to adopt ideas and policies current in creditor countries around tax policy.

Civic actors should be aware that donor views on tax policy can be particularly influential, especially during fiscal or debt crises. Multilateral institutions have conditioned their support on (among other things) tax reform, and have been able to accelerate reforms when countries are most in need of support (Goode 1993; Souza 2013). This, in addition to various banking crises and pressure toward trade liberalization from the World Trade Organization, led many countries to shift their tax systems away from trade taxes and progressive income and property taxes toward internal consumption taxes at the end of the twentieth century (Martinez-Vazquez, Vulovic, and Liu 2009; Di John 2006; Mahon 2004; Hallerberg and Scartascini 2017). Individual country lenders and investors often follow signals from multilaterals about whether governments are following "good practices" with respect to tax and spending policies in guiding their own aid and investment decisions.

However, civic actors may also find that while donors may be successful at influencing policy change, they have less leverage as policy is implemented. In Bangladesh, for example, the IMF was successful at demanding VAT reforms from a cash-strapped government in 2012, but the government was ultimately able to implement these incrementally, weakening reforms over time (Hassan and Prichard 2013).

Reflection Point: Are there opportunities for civic actors to coordinate with international actors around tax policy and administration, given that donors are often better able to influence policy, while domestic civic actors can better monitor and advocate around implementation? Is there a bargain to be made where donors/creditors push for policy reforms that civic actors like, while civic actors monitor policies that donors/creditors like? Can civic actors coordinate with donors/creditors without encouraging governments to be more accountable to global actors than to their own residents?

2. WHAT CHARACTERISTICS OF TAX POLICY AND TAX REFORM ARE MOST POLITICALLY RELEVANT?

All tax reforms involve a unique combination of changes to existing tax systems. But the literature suggests that there are specific aspects of tax policy and tax reform that can trigger certain types of politics. Being aware of these factors can help civic actors to strategize about how to move the tax reform agenda forward.

We can think of the degree to which tax reforms matter to people as related in the first instance to three things: awareness about the current tax system and what different people and groups currently pay, an understanding of the proposed tax change and how it will affect them, and the degree of certainty about the impact of reform. These three ideas are captured by;

- *who is targeted by* a given tax (how wide or narrow the tax base is),
- *how visible* the tax is, and
- *how much risk* there is from proposed changes.

These are separate matters, but they overlap in most actual tax policies. In thinking about the nature of the tax reforms that are under consideration, civic actors should ask:

Who is targeted by a given tax? People tend to be more aware of taxes that affect them than taxes that do not. So, for instance, an income tax on formal sector workers or a wealth tax on the rich may not be of immediate interest to lower-income citizens working in the informal sector who do not face these taxes. But such taxes are likely to be of grave concern to formal sector workers or to the wealthy, and they may also be well organized to oppose them. Similarly, those who benefit (or could benefit) from tax exemptions are generally more aware of and more engaged in advocating for these exemptions, while those (say, low-income individuals) who do not even pay the tax from which others (say, businesses) are exempt in the first place, may not be aware of the exemption at all. Survey evidence from the United States shows, for example, that the very rich know much more about the taxes that they pay and the overall tax system's incidence than ordinary taxpayers do (Page, Bartels, and Seawright 2013). Though such data do not exist for most countries, it seems likely that such knowledge gaps also exist in many LMICs. As noted above, different taxes and exemptions for different sectors can also create divisions within business or other powerful interest groups that can lead to new alliances and open opportunities for reform.

Reflection Point: Can civic actors do more to connect progressive taxes that do not impact average citizens directly to something that they care about, such as the services that such taxes will fund, or local social norms that value fairness? Can this help to counterbalance strong opposition from smaller but powerful and well-organized groups that are directly affected by a tax reform?

The matter of who is targeted by tax and tax reforms intersects with whether reforms are mainly focused on increasing revenue, or relate more to enhancing equity. In general, there is a higher likelihood of obtaining broader support, including from business and the wealthy, for more revenue (paid for by all, or by others) than for greater equity, if equity is to be achieved by increasing taxes on those with higher incomes or wealth (Schneider 2012). Equity reforms that that reduce taxes on the poor rather than increasing them on the rich might also be more broadly popular with richer groups who otherwise can oppose tax reform.

Reflection Point: Can opposition from powerful actors, such as the rich, be overcome? Can pressure be brought to bear (e.g., through citizen mobilization) on decision-makers to counteract opposition to reform? If there is no way to neutralize powerful opponents of reform, can alternative reform proposals focused on increasing revenue, or decreasing the burden on lower-income groups, be pursued before reforms that increase the burden on the rich, or those most able to prevent reform?

How visible is the tax? Even if people do pay taxes, they tend to be more aware of taxes that are visible than those that are not. When a tax is highly visible, it may generate more opposition. Visibility is at least in part about *how a* *tax is paid*: For example, an income tax might be highly visible to wage earners as it directly reduces their incomes, while a consumption tax, paid indirectly by individuals (through higher prices), may be less so. Of course, this is not always true: indirect taxes on food and fuel can generate massive and disruptive protests, precisely because the prices of these items are highly visible. For this reason, VAT and other consumption taxes are often introduced with exemptions for essential goods, including food. This demonstrates the ways in which visibility overlaps with who pays, since targeted exemptions can be used to reduce the political salience of highly visible taxes.

Nevertheless, indirect taxes like consumption taxes are generally not as visible as other forms of tax, and even though many people pay them, they are not always aware of their status as taxpayers. In Uganda, some advocates argue that when the direct graduated (income) tax was eliminated, many Ugandans ceased to see themselves as taxpayers, even though they continued to pay VAT; as in other contexts, advocates have recommended the use of receipts that clarify how much of the price of goods and services is actually tax in order to raise the visibility of consumption tax payments (Kangave 2015).

Reflection point: Can civic actors raise the salience of taxes that are less visible to the public (through media campaigns, for example) in order to increase the support for (or opposition to) reform?

How much risk is there from proposed changes? Whether a tax reform excites support or opposition depends in part on how likely the reform is to be approved and implemented, and how certain it is who will pay more or receive the benefits of proposed changes. Any change to the tax system is potentially threatening and carries a risk of increasing costs for a number of taxpayers. This risk is heightened for complex reforms; it is clearer who will pay a single-use tax on beer than who will pay a schedular income tax with different types of income taxed in different ways. Moreover, for many taxes, the problem is that there might be support for reform if the government could guarantee that the revenue generated would be used for particular services, but there is considerable risk around this as well. A perception that tax revenue is not collected efficiently or used for public services can undermine support for tax and tax increases(Ali, Fjeldstad, and Sjursen 2014). Perceptions of unfair tax administration, where only some citizens are assessed, or where the rich are able to evade taxes that fall on the poor, have a similar effect. Evidence from Uganda in the 1990s shows that unfairness and corruption in the assessment of local taxes was a major driver of protest and rioting, eventually leading to the suspension of important sources of local revenue (Bakibinga, Kangave, and Ngabirano 2018).

Tax administration reforms can help to reduce the uncertainty associated with how tax reforms will be implemented and how revenue will be used by increasing confidence that government institutions are trustworthy and able to enforce the tax code uniformly. Global survey evidence from more than 70 countries suggests that tax compliance is higher when tax authorities are trusted and are able and willing (have the “power”) to audit and punish tax evasion (Fischer and Schneider 2009).

Reflection Point: Have civic actors clearly identified who will *not be affected* by a tax change, or who will see their *tax burden fall*? These are natural supporters of reform, if there is reasonable certainty about these changes. Can civic actors help to *tighten the links between revenue and expenditure* (for example, by clarifying what a tax hike is going to fund), to ensure that the benefits of increased taxation are more certain from the start, lending support to reform? Civic actors may want to *consider tax administration* reforms (as part of overall tax reforms) that could help to guarantee that tax changes are implemented, and implemented fairly, providing greater certainty about costs and benefits. For example, such reforms might include professionalizing the revenue agency, or increasing the use of tax audits to ensure compliance.

3. HOW DOES TAX REFORM TYPICALLY HAPPEN?

Civic actors can anticipate that, as with expenditure reforms, some tax reform follows the annual budget cycle. In most countries, tax changes are proposed each year along with the annual budget. However, tax changes can also be proposed at other times as part of bigger reform packages, or tied to other types of policy reform (e.g., such as a new tax tied to a social insurance reform). Some tax changes are incremental and do not substantially alter the tax system, while others could be considered major reforms. The latter happen less frequently, but still might be part of the annual budget process.

One quirk of tax policy in a number of countries is that annual tax and spending decisions are taken each year, but they are not taken together, which can undermine the significance of tax choices for the public and for legislators. In a number of Commonwealth countries, for example, the finance act follows the appropriations act by several months. Oddly, in some cases, such as Kenya, the budget is traditionally "read" when the appropriations are approved, and thus the pronouncements largely concern *approved* final spending but only *proposed* revenue.

Reflection Point: Can civic actors find ways to tighten the link between revenue and expenditure decisions, particularly in those systems where these are separated? Have they considered undertaking advocacy for and around a pre-budget statement, when revenue and expenditure forecasts are generally considered together in the budget process?

In addition, civic actors should be aware that tax policy changes may be the result of opaque or informal engagement between private sector and government actors, or as the result of the overlap between powerful political and economic elites. These processes are not well documented in the literature, though in some cases such influences are an open secret. For example, and as mentioned above, the influence of big tobacco on legislators is often well known.

Civic actors should keep in mind that tax reform is also made through tax administration, when revenue agencies decide to increase or reduce enforcement, or to change the rules about what should be taxed. These decisions may be difficult to observe or engage with directly if they are part of closed bureaucratic processes, though some decisions of this type can lead to media coverage or judicial review, opening them to broader scrutiny. And it is possible for civic actors to engage revenue authorities directly around issues of compliance.

Reflection Point: Are civic actors actively monitoring the various spaces where tax policy is made outside of the regular budget process, such as the legislature, the tax administration, and the courts? Have civic actors attempted to build a relationship with their tax agency around compliance matters as an area of mutual interest? Not all agencies will be open to such discussion, especially where the agency is directly involved in corruption or abuse. But some revenue agencies may be interested in a conversation about how to improve compliance.

Civic actors may find opportunities for tax reform advocacy as part of election campaigns, as tax policy and administration are partisan political matters in many countries. This is true even in countries where parties are not firmly institutionalized or ideological, though more programmatic parties will tend to have clearer and more consistent views on tax. In Ghana, party competition in the 1990s and 2000s revolved in part around tax policy (Prichard 2015). In Zambia, there is even evidence that the use of extractive revenues was an important electoral issues helping to structure partisan competition; this is noteworthy as it is often argued that extractive revenues weaken tax bargaining since they are not paid by ordinary citizens (Rakner 2017). Elections are also an important opportunity to try to influence who sits in office and their views on tax, though this is also longer-term work that may involve ongoing civic mobilization and advocacy to alter the incentives of politicians. In addition to elections, civic actors may be able to take advantage of other political opportunities, such as moments of crisis (including the COVID-19 pandemic) or scandal that inspire citizen protest, when broader issues of governance or inequality that indirectly relate to tax make it possible to push forward tax reform.

Reflection Point: Have civic actors analyzed partisan views on tax, or encouraged parties to take up tax policies in their election manifestos (where relevant)? Have civic actors attempted to influence the composition of executive and legislative bodies that will make tax policy (where such political action by civic actors is permitted) or the incentives they face when considering their political careers?

While it is not a viable approach everywhere, there are a number of cases where civic actors have been able to use courts to challenge tax systems and tax reform.[4] For example, Tax Justice Network Africa (TJNA) initiated a successful lawsuit in 2014 to stop Kenya's double tax agreement with Mauritius, while the Mexican civil society group, Fundar, began using the courts in 2010 to eventually force the release of information on the recipients of

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[4] See: https://www.internationalbudget.org/2020/09/friend-of-the-court-the-role-of-judiciaries-in-tax-reform/.

tax amnesties. In 2020, in Colombia, civic actors moved to court to challenge the entire tax system for lack of progressivity as required by the Colombian constitution. Even in China, communities have been able to file lawsuits against tax policy at community level, though these cases are hard to win (Bernstein and Lü 2008). Legal approaches to tax reform are greatly facilitated when a country has a progressive constitution and the possibility of public interest litigation. Many tax cases are challenged by a lack of standing, but some countries (in the Commonwealth, for example) have relaxed standing to allow citizens to bring cases as taxpayers, or permit outside experts to file amicus briefs in certain types of cases.

Reflection Point: Have civic actors considered the potential for bringing tax matters to court in their context, drawing on precedents from other jurisdictions where that is allowable? Is there a progressive legal context for such cases, and are civic actors able to establish standing or otherwise participate in public interest litigation in their country?

Civic actors may have opportunities to frame tax policy around values, ideas and perceptions that go beyond the objective characteristics of the reform and appeal to more than the self-interest of taxpayers. For example, when taxes are framed mainly in terms of what they finance (such as public services), and people have faith that those services can be delivered, resistance to taxation can be reduced. In Ghana, for example, increases in the VAT in 2000 and 2003 were earmarked for education and health financing. This was a key political strategy for overcoming opposition to increased taxation (Prichard 2015). Appeals to fairness and moral values can also be powerful frames for tax reform. An anti-evasion reform in Chile was passed over the objections of conservatives when the president successfully painted it as a moral issue of equity and fairness, going so far as to argue that it was not a tax reform at all, but simply a measure to enforce rule of law (Fairfield 2013). On the other hand, uncertainty about whether taxes will actually be collected, or used properly when they are, can dampen support for reform. Formal and less formal types of earmarking can help to raise certainty about the use of tax revenue, but will not eliminate doubts about corruption or misuse.

Reflection Point: Have civic actors fully emphasized the benefits derived from tax revenue? Have they appealed to fairness? Have they used available mechanisms, such as tying revenues to desirable expenditure, or even explicit earmarking, to raise the degree of certainty that citizens have about the link between revenue and expenditure, and the ability to implement taxes and spending?

SOME GAPS IN THE LITERATURE

The literature on the politics of tax reform has some important gaps. One of the most important is on the role of civic actors. As mentioned above, there is a very small literature here that we touch on in the longer literature review; more importantly, IBP seeks to help fill this gap with a set of new case studies (a synthesis of these will be available before the end of the year).

Though it was touched on above, there is fairly limited work that breaks down state actors by their competing interests and incentives (such as the different interests of finance ministries, revenue agencies and other government departments). There is also relatively little comparative work on the role of legislatures in tax policy.

While the basic outlines of the formal process of tax reforms are known, there are few detailed investigations of these processes, and even less documentation of informal processes. The latter is not surprising, since informality is something that many of the most powerful actors involved generally wish to shield, but there is room to build on the meager literature here, such as work from Bangladesh on how partisan political networks operate within the tax administration (Hassan and Prichard 2013).

Media have an important role to play in how people understand taxation, government and inequality broadly, as well as the specific content of tax reforms, yet there is almost no literature on media and its role in the politics of tax, particularly in low- and middle-income countries. This seems like a major gap in light of recent major investigations of, and subsequent social media debate about, tax evasion, such as the 2016 Panama Papers. Related to this, the literature also has little to say about the role of independent tax analysis, by civic actors, legislators or fiscal councils, though of course such analysis is part of what the media relies on to tell stories that influence broader views on tax.

Reflection Point: Have civic actors analyzed how media in their country reports on tax matters? Is there any media documentation of formal or informal tax processes, or any examples of media coverage of tax reforms that achieved significant attention, and where that media attention played a role in the reform process? Alternatively, are there cases of major tax reforms that did not receive media attention? Are there any lessons that can be learned from these cases? What can civic actors do to use other forms of communication, including social media, to influence the dialogue about tax?

CONCLUSION

This reflection note has drawn on the literature on the politics of tax reform to pose a number of strategic questions for reflection that may be of use to civic actors engaging in (or considering engagement in) tax policy and administration. This is a growing field, and this note will likely need to be updated as more civic actors participate in tax reform and we learn more about their impact. These experiences may in turn help to close some of the gaps in the literature that we observe, particularly around the role of analysis and media, while shedding further light on differences within and across state institutions in the incentives they face and their attitudes to tax reform. In the meantime, we hope that this note will encourage inspiration about how civic actors can approach tax reform in their contexts.

A note such as this one is by its nature and scope limited to asking pointed questions about tax reform, but civic actors might also reflect on the ways in which tax reform intersects with the broader political and economic system. The tax system is not an island, and opportunities for reform may be linked to broader progressive policy agendas or reforms of governance, such as democratization. These broader struggles imply the possibilities of broader alliances, but also raise questions of sequencing: should civic actors focus on trying to win short-term gains in terms of tax policy, for example, or focus more on long-term changes in the nature of politics and the state? These are not questions that the academic literature on tax reform can answer, but they are nevertheless part of any deep reflection process on the part of civic actors.

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