Increasing Tax Compliance and Improving Civic Engagement in Haiti

Researchers:

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Sector(s): Political Economy and Governance

Location: Carrefour, Haiti

Sample: 600 voter precincts

Initiative(s): Governance Initiative (GI)

Partner organization(s): Government of Haiti, Solutions, SA, Weiss Family Program Fund for Research in Development Economics, University of California, Berkeley

Tax collection and compliance are key challenges for low-capacity states, which are often characterized by a lack of public goods provision and low levels of citizen engagement with the state and society. Researchers are partnering with the mayor of Carrefour, Haiti to evaluate the impact of increased provision of public goods, tax collection efforts, and public exposure of tax compliance on measures of citizen engagement like taxes, voting, and community participation.

Policy issue

Taxes enable governments to expand their delivery of public goods such as health, education, and other social services. However, tax collection and compliance are key challenges for low-capacity states, which often lack sufficient public goods and have low levels of citizen engagement. While theoretical and historical work has explored the relationship between public goods, taxation, and the formation of democratic institutions, there is a considerable gap in rigorous evidence. Furthermore, previous work on improving tax collection and compliance has been limited to relatively high-capacity states with high pre-existing levels of tax compliance, such that this evidence may not apply to settings with low state capacity. Can increasing the provision of public goods, tax collection efforts, and public exposure of tax compliance improve tax compliance and increase citizen participation in Haiti?

Context of the evaluation

Despite some recent improvements in tax collection, the Haitian government collects less domestic revenue as a share of GDP (14.5 percent in 2018) than most countries in Latin America and the Caribbean (an average of 23 percent). Haiti's tax system relies heavily on indirect taxes, such as a sales tax or value added tax, which generate limited resources for the government and are regressive, such that low-income earners pay a greater share of their income in taxes than high-income earners. Individual property taxes represent the primary source of municipal tax revenue in Haiti and are the country's only progressive tax (i.e. taxes high-income earners more than low-income ones). In 2011, the Haitian government launched a digital system to oversee municipal finances, which led to immediate increases in tax participation, specifically individual property taxes, across participating municipalities. However, these gains have not been consistent; individual property tax revenue quadrupled in 2013, but fell by half the following year. Currently taxpayers repay less than 3 percent of taxes owed. This evaluation occurred in Carrefour, one of the largest cities in Haiti, where the mayor is eager to understand how to effectively improve tax compliance.

The government provides few public goods, while private companies almost exclusively provide water and electricity and most students attend private school. Baseline surveys suggest that trash collection is the most highly requested service from the local government. Though the government provides trash collection for free, households spend a significant amount of money each month in disposing of their trash through private (informal) arrangements.

Details of the intervention

In partnership with the mayor of Carrefour, Haiti, researchers are conducting a randomized evaluation to test the effect of increased provision of public goods, tax collection efforts, and public exposure of tax compliance on citizen participation in both formal and informal institutions. Beginning in 2018, the government introduced the following three treatments:

1. *Trash Collection to Increase Public Goods Provision:* Neighborhood blocs receive additional resources to increase the frequency and intensity of door-to-door trash collection services
2. *Tax Invoices to Increase Tax Collection Effort:* Property owners receive an invoice which includes a general reminder of tax obligations, the deadline, and information for how to proceed with payment. To test if individuals simply respond to receiving a physical letter from the government, researchers will send a placebo letter from the mayor's office listing upcoming bank holidays (with no mention of taxes) to randomly selected subsets of property owners.
3. *Signs to Increase Public Exposure of Tax Compliance:* To test if social pressure encourages people to pay taxes, a subset of the tax invoices also includes an additional notification that the mayor will place his seal on the exterior wall of each household that pays its property taxes before the deadline. Additionally, a randomly selected subset of invoices will also include information on the percentage of households who have paid their property taxes at least once, either in the past two or six years, which may create additional social pressure.

Researchers randomly assigned each of the 600 voter precincts in the entire city of Carrefour to one of the following six groups:

1. *Trash collection only*,
2. *Invoice only*,
3. *Invoice + sign*,
4. *Trash collection + invoice*,
5. *Trash collection + invoice + address sign*, or
6. *Comparison group*, which received neither increased trash collection, tax invoices, or signs.

The interventions primarily focus on the owners of 55,000 buildings which owe personal property taxes. Through surveys and administrative data from the mayor, researchers are measuring outcomes related to both formal participation (individual tax payment, voter participation, and municipal meeting attendance) and informal participation (community labor contributions, trash collection payments, and community meeting attendance). Researchers also randomly selected 2,000 property owners to complete more detailed surveys to better understand the potential effects of the interventions.

Results and policy lessons

Project ongoing; results forthcoming.