Information on Tax Compliance and Perceptions of Equity in Tax Policy in Brazil

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Sector(s): Political Economy and Governance

Location: Manaus region, Brazil

Sample: 15,000 households

Initiative(s): Governance Initiative (GI)

Target group: Urban population

Outcome of interest: Taxation

Intervention type: Information

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Partner organization(s): Columbia University, World Bank, City of Manaus Municipal Secretary of Finance and Information Technology, UK International Development

Low state capacity in developing countries has severe implications for tax compliance and the design of tax systems, due to challenges in correctly assessing tax liabilities and collecting payment. Researchers are conducting an evaluation that randomized the provision of information in a survey to improve the likelihood that citizens paid their municipal property taxes and understood the role that unequal tax burdens played in determining the likelihood of people paying their full tax burden in Manaus, Brazil.

Policy issue

Low state capacity in developing countries has severe implications for tax compliance and the design of tax systems. To improve compliance, some developing countries base tax liabilities on things that are easier to measure for the government and harder to misreport for taxpayers. However, these taxes often lead to unequal treatment among taxpayers, meaning that similar households are treated differently by the same tax policy. Until now, research has focused on revenue gains and how these gains outweighed possible losses, but less is known about how the fairness and perception of fairness in assigned tax burdens affects tax payments and a citizen's decision to pay. Can sharing information with taxpayers raise awareness of inequity between households and improve tax compliance?

Context of the evaluation

The property tax in Manaus, Brazil, is a key source of tax revenue, but many citizens do not pay taxes; in 2017, only 48 percent of taxpayers paid their property tax bills in full—the lowest compliance rate among all Brazilian cities. Neighbors in similar houses

face very different tax liabilities that depend on a few easily-observable characteristics and not on property tax inspectors' or homeowners' reports of property characteristics or values. The property tax (IPTU) liability depends on these measures and a standard scaling factor (rather than the appraised value of the house) that varies across 65 geographical zones, leading neighbors to be assigned different tax liabilities. As a result, adjacent properties along the boundaries of these zones can face very different tax liabilities despite being otherwise identical.



View of Manaus, Brazil.

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Details of the intervention

In partnership with the Department of Finance, researchers conducted an evaluation to understand the role that horizontal inequity plays in determining compliance to pay taxes. Researchers grouped properties into "sextets" of neighboring properties, living along the boundaries of different tax zones—three on each side of the tax border. They, then, randomly selected two properties on either side of the border of each sextet to participate in a survey between February and March 2019, totaling 15,000 households. The survey informed property owners of how the tax system worked and how their tax liability compared to one of two groups of peers; property owners were randomly assigned to learn how their tax liability compared either to their neighbors on the other side of the tax boundary or all houses of similar value across the city. Specifically, property owners learned about the existence of the inequity in tax liability and if they benefited or not from it.

With new information about the inequity in tax liability, property owners could change their behavior in one of three ways. They may respond to the overall higher tax liabilities by paying less of their taxes or not paying at all. They may also react to how their tax liabilities compare to their peers; that is, if property owners believe that they are treated worse than their peers, they may pay

even less of their taxes. In contrast, they may pay more of their taxes if they believe that they are treated better than their peers.

Researchers asked participants questions on their perceptions of fairness of the IPTU policy, randomly varying the order to test how property owners who initially perceived the policy to be fair differed from those who initially perceived the policy to be unfair. Based on the survey, they also assessed how receiving the new information affected other property owners' perceptions of fairness.

Researchers collected information on household characteristics, participants' perceptions of the tax policy and whether they supported it, and participants' intentions to pay their taxes. Researchers then compared property owners' intentions to comply with their tax liability to actual tax payments using administrative data for 2019.

Results and policy lessons

Study ongoing. Results forthcoming.