

TAX MORALE AND BEHAVIOR

CEA Event, Skopje

December 2021

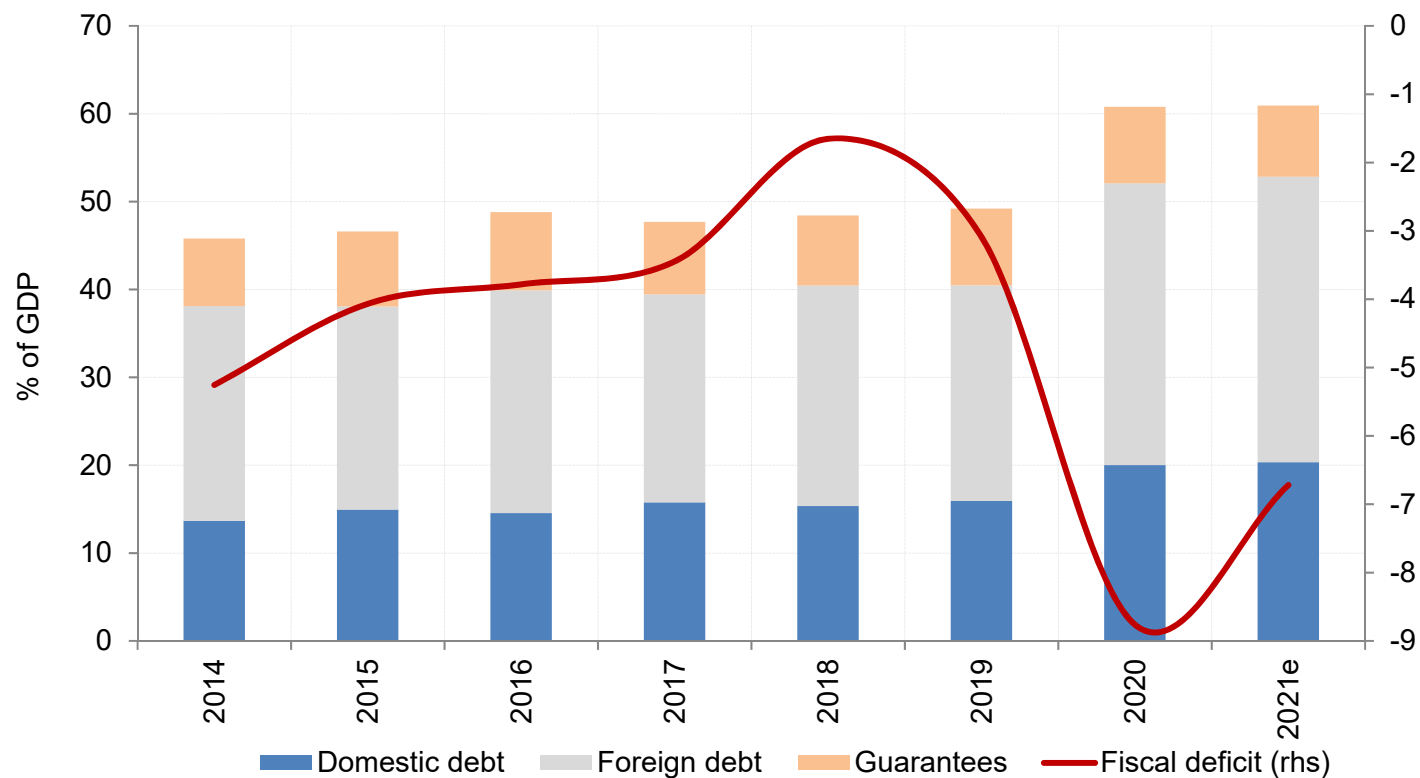


Key Messages

- Fiscal situation requires boosting revenues along with addressing spending inefficiencies
- Revenues to GDP ratio among the lowest in the European area due to high non-compliance and tax exemptions
- This creates unfair competition and erodes tax morale
- Multi-sectoral efforts are needed to improve taxpayers' behaviour – this is not about tax rates only

Fiscal situation worsened and debt is increasing

Public debt increased by over 11 pp of GDP in 2020, as deficit almost tripled.

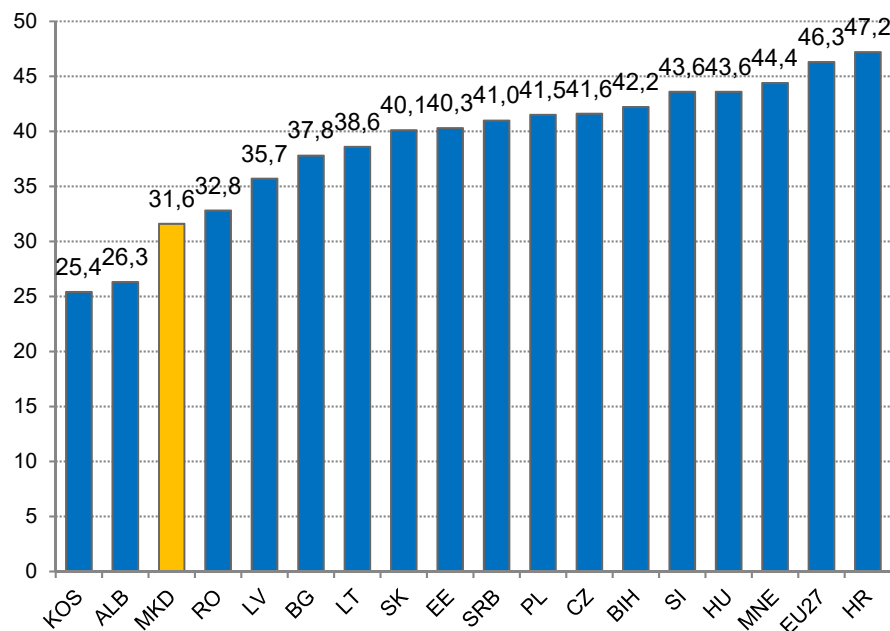


Source: World Bank staff calculations based on data from the MOF.

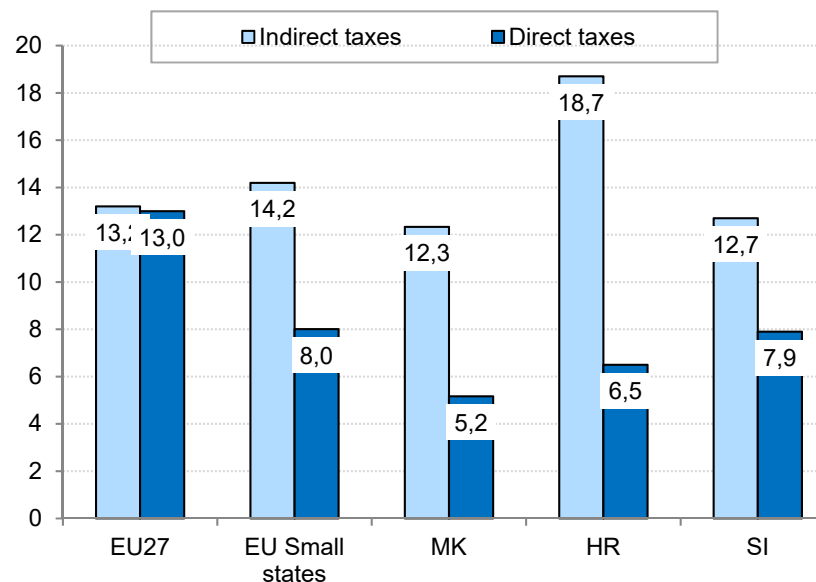
Fiscal consolidation plan will require improving compliance and boosting revenues

One of the lowest revenue to GDP ratio in Europe: low tax rates, high tax exemptions and relatively low revenue collection efficiency.

Revenues, 2020, percent of GDP



Tax revenues, 2020, percent of GDP



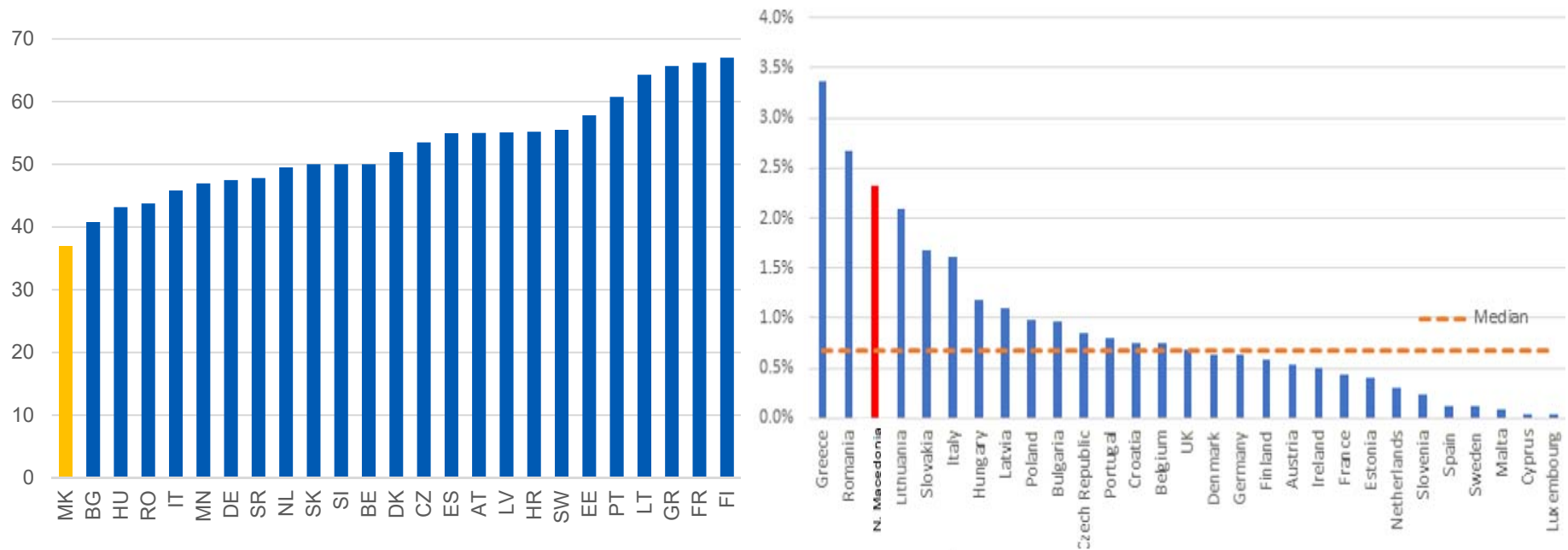
Source: World Bank staff calculations based on data from the Ministry of Finance and Eurostat.

Low direct taxation and missing indirect tax revenues

Despite low payroll taxes, labor informality is high. VAT gap is high as well: at about two-thirds of the countries VAT revenue; of which more than half attributable to non-compliance issues (taxpayer error, tax evasion, and administrative challenges)

Payroll tax rate, percent, latest

VAT Gap, percent of GDP, 2018



Source: World Bank staff calculations based on data from the Ministry of Finances, OECD, and Eurostat.

Low compliance also leads to unfair competition

	North Macedonia	Europe & Central Asia
Percent of firms competing against unregistered or informal firms	54.5	34.1
Percent of firms identifying practices of competitors in the informal sector as a major constraint	38.5	24

Source: World Bank Enterprise Survey 2019.

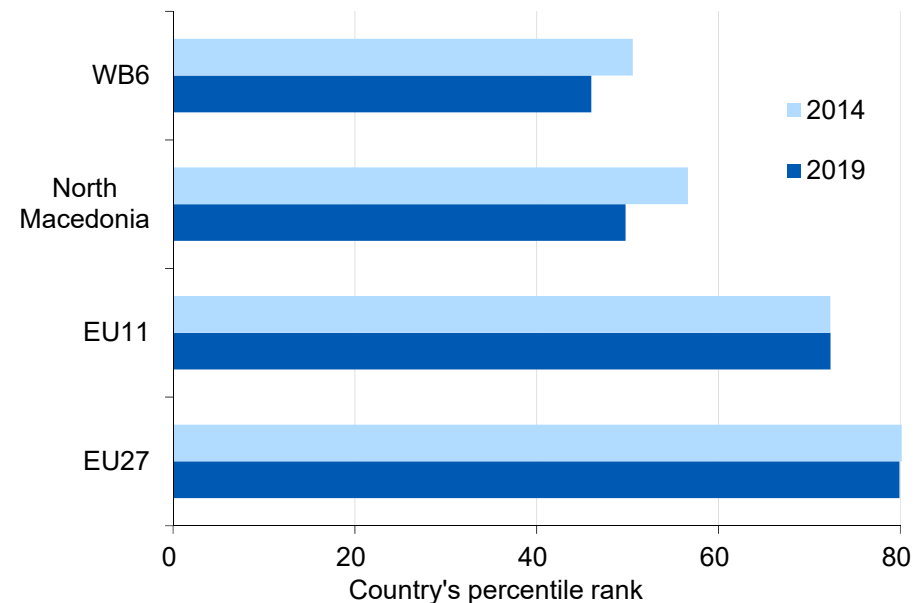
Affecting taxpayers' behavior and morale

Through (i) the level of tax and the compliance burden, (ii) fines and likelihood of detecting tax fraud by tax administration, but also (iii) trust to and satisfaction with public services.

Strengthening tax administration capacity

- Finalize the compliance risk management framework
- Strengthen operations of the Large Taxpayer Office
- Develop a comprehensive voluntary compliance strategy
- Collect tax arrears
- Strengthen the audit program through risk selection criteria for large taxpayers, increase the use of third-party data, and reallocate more resources to audit
- Establish the Tax Fraud Investigation function.

Strengthening governance and public services



Source: WB Governance Matters Composite Governance Indicators
Note: Includes Voice and Accountability, Political Stability, Government Effectiveness, Rule of Law, Control of Corruption, Regulatory Quality

Policies to strengthen tax morale and compliance

- Strengthen tax administration to deal with compliance, tax fraud, and collection.
- Ensure access to third-party data for improved detection of undeclared income and assets.
- Rationalize tax exemptions and review the scope of preferential tax rates.
- Ensure equal tax treatment, better online services, and simpler tax procedures.
- Improve satisfaction with and trust to public services



Thank you!

