

Inter-American Center of Tax Administrations – CIAT

45th CIAT GENERAL ASSEMBLY



“TAX MORALE AS DETERMINING FACTOR IN IMPROVING THE EFFECTIVENESS OF THE TAX ADMINISTRATION”

Subtopic 3.1:

“THE DEVELOPMENT AND STRENGTHENING OF THE TAX CITIZENSHIP CONCEPT: THE TAX EDUCATION PROGRAMS”

**National Superintendency of Tax Administration
Perú**

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1. Tax education or tax culture programs in Latin America and their contribution to the tax citizenry focus.

Tax education is the strategy par excellence for the creation of a tax culture based on the concept of tax citizenry that involves taking the fulfillment of tax obligations as a necessary counterpart to the legitimate exercise of civic rights

In the last two decades Tax Administrations have expanded their collection and supervisory mission, towards a new role to society, aimed at the promotion of voluntary compliance through the adoption of tax education actions which aim to motivate citizens to adopt attitudes that are favorable for voluntary tax compliance and contrary to fraudulent or evasion behaviors.

a. The agents of change

Like most of the countries of the region, the Tax Culture Program of Peru covers three segments in which the educational strategy is self-evident: school children and higher education students.

All countries have identified that, in this effort, their main target audience are children and young people, especially those which are already incorporated into the school system because it is estimated that the education system would facilitate the application of teaching methods and is a life stage conducive to work and reflection on citizens' values, rights and obligations.

To reach them, countries that have developed tax education activities within the educational system, have found important allies: on the one hand, the governmental institutions responsible for education, which have played an essential role in the normalization of these efforts. And as a complement, regular basic education teachers because they are who guarantee the appropriate development of the tax culture subject, not only because they are the ones who develop the classes in the classroom, but especially for the decisive role they assume at the annual and daily programming phase.

Likewise, work has been carried out with higher education students, because it is a relevant group to the extent that they will soon become economically active citizens. In this regard, Mexico has set the pattern to follow, by including tax content courses in the curricula of some universities. University gatherings and knowledge competitions are being developed in Peru, and we have achieved the first incorporation of the subject in the curriculum mesh of the School of Education of a major private University.

As the third complementary component, constant work is developed in several countries of America with tax administrations officials to ensure that they act as educators prosecutors.

The AFIP of Argentina started with the "Dads and Moms go to school" Program through which tax administration workers go to their children's schools to explain in a pleasant way, what their work is about and the importance of the same for the well-being of the country. In this regard, it is convenient to mention that Chile, El Salvador, Costa Rica and the Dominican Republic have launched similar programs and we hope they will be incorporated by other countries in the region. Peru has delivered to each worker the Tax Culture consultation Book that puts together topics, definitions and examples that tax administrators do not necessarily see on a daily basis but that are important when they play the role of tax educators.

b. The contents

The contents of the tax education/culture programs were initially focused on the primary role of taxes as a source of fiscal revenues to finance the activities of the State and on how compliance with tax obligations is closely linked to the foundation of citizenship.

However, issues related to the budget cycle and the knowledge of the work of the institutions responsible for ensuring the proper management of public resources were progressively addressed. In this way, it has become essential to teach the children and young people that guaranteeing a proper management of public expenditure is as important as collecting sufficient public revenue to finance sustained development.

And following the political reforms, tax education now includes the teaching of existing tools for citizen participation and the creation of the channels to monitor, report and prevent the misuse of resources and corruption and to improve the quality of expenditure.

c. Tax citizenry

In the last international tax education seminars, it has been disclosed that, even though the Tax Administrations are leaders in this field and have the education sector as an essential partner, the work to train citizens - particularly on issues such as tax compliance - requires harmony between the main agents of the society and the economy. Thus, agreements and collaboration are currently being sought with other institutions of the State, of the sub-national Governments, of the private sector and, in general, of the civil society as a whole.

The common axis that raises the interest of all the institutions is to ensure participatory and responsible citizens who, furthering our objective, be aware of their tax rights and responsibilities. This is the reason why the term "tax citizenry" is being coined, whose scope has the ability to include the concept of social cohesion and reflects the desire of a high degree of consensus by the members of a community around a common national project that goes beyond the strictly tax topic and collections.

d. The future challenge

Despite the diversification of efforts and the increasing extension of tax education or tax culture programs and even when these programs receive a significant allocation of budgetary resources – as it is the case of Peru-, the work of developing the tax culture and citizenship through education still has not received the attention or the importance that this task requires and usually develops in isolation, running along paths parallel to the core business of the Tax Administrations. It is so the case that in the majority of countries in the region the number of officials assigned exclusively to this subject is insufficient. Also, the activities and goals of these programs compete at a disadvantage with the collection goals and even with the taxpayer services areas, which instead should be an important part of this educational endeavor.

However the achievements of our tax culture programs are very rich in content and educational materials, quite technical on the pedagogical aspect, enjoy great convening power among the units of other institutions dedicated to similar themes and in the educational communities, recreational spaces and even very valuable artistic pieces have been developed.

And most importantly, now the recognition of the importance of the tax citizenry subject that calls to this Assembly, imposes upon us a challenge which covers several aspects: planning, research, integration into the core business and goals as well as the adequacy of our organizations to give them the necessary resources fulfill a regulatory rather than operational work, which requires a positioning enabling the tax administration to incorporate a tax citizenry focus that is cross-cuts the Organization, its functions and goals.

2. The evolution of the Tax Culture Program in Peru and our concept of tax citizenry.

a. Recent evolution

Shortly after the beginning of Tax reform in Peru in, a cross-functional team was established, which developed a series of programs and activities with the purpose of contributing to the transformation of cultural perceptions and assessments of the Peruvian society with respect to tax compliance.

An agreement was signed in this stage, for the first time, with the Ministry of Education of Peru. Professors were trained in tax contents, they carried out of payment receipts school contests, itinerant exhibitions in major cities where theater shows and tax guidance were provided and plenty of informative and educational material were delivered.

However, it is only as of 2005 when the Tax Culture Program is included as an integral part of the Institutional Operating Plan and, in 2007, SUNAT establishes the "generation of tax awareness on the basis of strengthening citizen values" as a strategic institutional objective. It is in this context that the Tax Culture Program gained power by providing it with resources and including it with some tasks within the operational plans of the national level. It is also at

this time that a process of program modeling or configuration is carried out, which involved a diagnosis, conceptualization, and a new design, goals and explicit forms of intervention; the same ones that set the course of the work of the next few years.

b. Achievements

The Tax Administration of Peru considers that, in order to achieve its first goal, aimed at setting the bases for creating tax awareness in children and school-age adolescents in the education system, it must and has made important efforts that have allowed us to make a noteworthy progress in what respects to the incorporation of the topic in personal, social, citizen and civic training areas at all educational levels and modalities.

This has caused a great impact on the Peruvian society because it guarantees its compulsory teaching to over 7 million school children, which is almost 100% of our children and adolescents ages 3 to 19. Now we have the challenge of supporting teachers in this task, developing materials and strategies that ensure the quality of the contents transmitted for to the students, for which we already are a part of the National Teacher Training Plan of the Ministry of Education.

This experience has allowed us the satisfaction of exchanging valuable experiences with Paraguay, on the one hand, lending them technical assistance to reform their school curricula and, from them, we have received their visit where they have shown us their alternative educational work and, especially, with the topic of payment receipts school competitions.

The organization of tax knowledge competitions where universities and institutes compete have allowed for a more active participation of future professionals from different departments in the country, at the activities carried out for them by the program. We have recently expanded the geographical coverage of these university events, which has allowed us to reach places where young people do not always have the opportunity of attending seminars with the participation of speakers coming from the national government or from universities located in the capital. The next objective in this line is the inclusion of the tax culture topic in the study plans of higher education centers and, in that regard, we can now inform that tax contents are already a part of the curricular mesh of the school of education in one of the universities with the largest student population in the city of Lima.

Concurrently, we have multiplied the dissemination of the message in non-formal environments, such as parks, fairs, libraries and public auditoriums, using different alternative communications tools such as theater shows and with an itinerant learning space created to be installed in those public places adequate for cultural consumption by children.

It must be mentioned that SUNAT personnel from all offices at the national level has participated in most of these actions. Likewise, in order to achieve the goals, the different officials have had to become involved, carrying out constant coordination with education authorities, carrying out exhibits, attending events, holding dissemination meetings with the media outlets and even participating in program improvement and feedback. All this, although

it has implied strong efforts, has caused officials to take up the message as their own, going from supporting in the execution of the task to a renewed conviction that working in tax education is what the country needs.

c. Building the concept of Citizenship with a tax focus

Peru has been working, since 1994, on a theoretical framework that has been reformulated and full of experiences and studies of its own and from other Tax Administrations in the Region. This has allowed us to build, in addition to educational materials and teaching strategies, concepts and definitions, as well as to formulate citizen competencies and attitudes that we consider optimal to be used as points of reference for the educational strategies.

Our concepts and definitions of tax citizenry have evolved as we gain experience. Thus, during the first years we chose to emphasize on the Modern State and State of Law concepts, on the role performed by taxation and on the responsibility of the citizens in supporting the State; but we observed that this was not sufficient for the acceptance of the obligation to pay taxes, especially among teachers, which led us to include topics referred to the National Budget, the distribution of income and sources of financing.

Given its own historical, social and economic diversity, Peru has important social and anthropological studies about the citizen and pre-citizen practices of Peruvians. In order to respect our diversity, the conceptual framework of citizenship that we have adopted supposes minimum elements that define it.

First, in other realities subjects tend to be analyzed as a group of individuals, who generally do not have significant personal dependency relations with anybody or have broken with them and therefore are relatively autonomous as is the prevalence in Latin American, there are still obsolete modern pre-citizen practices such as personnel subjection, lack of autonomy in decision-making, deficient use and respect to individual and political freedoms.

It must be emphasized that citizenry can only be developed in a society of individuals (in the liberal tradition) and even sets of individuals (in the communist tradition enrooted in our societies) with no subjection, that is, autonomous to make their own decisions and do not need to be represented by any corporation to exercise their individual rights.

Second, a citizen is defined as an individual or a community of individuals entitled to act freely without any impediments that block or detour action; to decide and participate in public affairs; and, participate in the wealth and wellbeing produced by society.

Third, the existence of a citizen with rights entails a peculiar relation of society and individuals with the modern State, which acknowledges the clear predominance of rights over responsibilities and offers a series of constitutional, organizational and institutional guarantees and, likewise, resources to apply them, unlike the traditional relation, which emphasized responsibilities with the State over the rights of individuals.

Fourth, citizenship also implies a sense of belonging to a specific political community among whose members interdependence, responsibility, solidarity and loyalty relations are established. In general, these political communities have appeared when elites have been capable of integrating popular classes to the economic, social and political life of a specific country.

The last assumption is the existence of many types of citizenships in our country that arise from our own traditions and experiences with the State. Just like throughout Latin America, in Peru there are real or effective citizenships and citizenships for discourse and statistics.

Concretely, minimal citizenship and State definitions are linked in our educational activities with taxation, through what we call “The Virtuous Circle of Taxation” where citizens deliver their contribution to the State through the Tax Administration to receive, in Exchange, social benefits and public services as well as the efficient operation of government offices with the purpose of guaranteeing the true exercise of their citizen rights.

Our main strategy is to establish two learning moments: initially we start from the establishment of the ideal definitions and then cover the concepts based on examples designed according to the geographic, social, economic contexts and the circumstantial problems affecting or benefiting the public. Una vez incorporadas estas nociones resulta de fácil comprensión y sobretodo aceptación que estos bienes y servicios necesarios u obtenidos, deban ser financiados con el aporte de todos los ciudadanos.

The other concept refers to the *complete citizen* as the one who actively participates in complying with its duties, in decision-making and in overseeing public expenditure.

Finally, it is timely to mention that for this task we have important bibliographical references that are at the reach of everybody. On the one hand, the Political Constitution of Peru, which states citizenry definitions, State, common and general wellbeing, utilities, public assets, private assets, taxation, among others. And as a complement, we have developed a set of reading materials and in this item it is important to highlight the Consultation and Reference Manual¹, the same that is used by trainers and teachers as well as by tax administrators, due to its relative contents to our society, the State, citizenry, taxation and our country’s history.

3. Peru: the exploratory study of tax awareness supplies a theoretical and methodological model as a starting point and baseline.

“... in most studies fiscal morale is treated as a black box without discussing or even considering how it arises or how it is maintained. It is generally perceived as part of the meta-preferences of the taxpayers and it is used as a residue in the analysis that captures unknown influences on tax evasion.

The most interesting question is what facts from the rise and maintenance of fiscal moral”

Feld and Frey (2002 a, 88-89)

¹ SUNAT. Tax Culture, a reference book, published by the Institution. Lima, July 2010. .

For SUNAT, the issue of low compliance and tax evasion are not issues that the tax administration must solve on its own. On the contrary, it should start from a new conception involving not only the entire state apparatus but society-at-large, since we are all responsible of tolerating, promoting or being accomplices of said behaviors.

This conception is largely supported by the Tax Awareness Exploratory Study we developed in 2009 through surveys to individuals, which has provided us with the evidence of how tax compliance relates to tax awareness, as well as a model that represents the complexity of the variables that intervene in the creation of tax awareness among Peruvians.

We will present the main characteristics and virtues of the aforementioned study below.

a. One Step Beyond Educational and Values Approaches.

The Tax Awareness Exploratory Study contributed important evidence regarding the manner Peruvians relate to the tax topic.

On the one hand we can affirm that paradoxically Peruvians are people that mostly consider that “top pay taxes is good because it is the right thing to do and show citizen responsibility” but at the same time say that they would stop paying taxes if they had the opportunity of not being discovered. Similarly, most citizens believe that they do not have much information on taxes, although half of them know what taxes are about and ascribe to the same a fiscal and social function.

As expected, more than a third of those polled are opposed to paying taxes and state a set of reasons, which we chose to call *conditional cooperation* such as "I do not want to give money for nothing," " others do not pay," "others do and its not necessary for me to do it", "no one forces me to do so." ²

With these and other evidence properly tabulated, a definition for tax awareness or tax moral was designed, which is expressed by a multivariate probit³. type index. In this regard, the use of multiple variables has also been useful to establish profiles of complying and non-complying individuals at the national level and for each region, which in turn will facilitate the design of new strategies to improve the management and results in particular in the field of interventions related to education in civic and tax culture.

Reference shall be made in the following sub-paragraph to the key outcomes of the study with the intention of sharing new reflections and new decisions relating to tax citizenry and the co-responsibility shared by the State and society which would bridge the gap between political citizenship and the citizenry tax between the exercise of the rights and responsibilities, or rather, how can we move from practical passive citizens to active and participatory citizen practices.

² Exploratory study of Tax Awareness and Baseline 2009.

³ The univariate probit model relates an unobserved variable with an observed counterpart; the multivariate probit model is an expansion of the univariate one and allows work with an observed variables series.

b. The study of Tax Awareness confirms that the problem transcends the framework of the education system.

Learning to become a member of society begins as soon a person is born, that is, the primary socialization allowing it to understand the notion of others and submersed in the assume reality of what he/she is, taken by the hand of the father, mother and/or caregiver. At this stage an individual is not autonomous and, therefore, cannot choose what will be worthy of trust to learn and that will allows it to interpret the world and handle things and people in order to obtain results with the minimum of effort and avoiding undesirable consequences.

Later when the individual is ready to attend school⁴, another parallel process called secondary socialization begins. In this second phase, the affective relationships provided parents or caregivers during stage one and which was the condition without which socialization could have not happened, begin to become inconsequential for social learning.

At this time, they begin to be replaced by created pedagogical (intentionally or unintentionally) so that individuals learn to internalize specific sub-worlds. At this stage individual begin to process their autonomy and will increasingly be better able to choose to take or leave the new instructions offered in school or by others.

Social awareness as well as tax awareness has two dimensions because it is process and contents at the same time. This approach permits identifying two fundamental problems: one relating to the generation of tax awareness and the other with the contents of tax awareness.

With the purpose of facilitating communications between tax specialists it has been agreed to call each dimension tax awareness y tax culture, respectively.

The building of tax awareness is a process that intertwines structured and non-structured teaching events. These events are produced by formal and non formal institutions of society and the learning that takes place in the individual have a regulatory weight on their behavior and model their attitudes when an individual performs roles as a service user, consumer, customer or citizen.

However, as learning it is not an event exclusively produced in the field of the education system and as the tax awareness process development is a learning process within a social context; its approach should not be limited to educational programs or to Tax Education as it is called in many tax administrations. Moreover if we are now aware that the people that are mainly responsible for their education are not educators and tax administrators but all the all individuals in society and in particular those directly linked to the tax issues.

⁴ The individual also relates with other institutions, legal or legitimately accepted by their social environment, for example, church, folk customs, clubs and even gangs.

Thus the change that we are pursuing in the tax awareness of citizens, the narrowing of the gap between the discourse in favor of taxation and voluntary tax compliance behavior, should be elevated to the category of issue with public value for the scope that gives its social nature and the connotations that it has in the well-being of the countries.

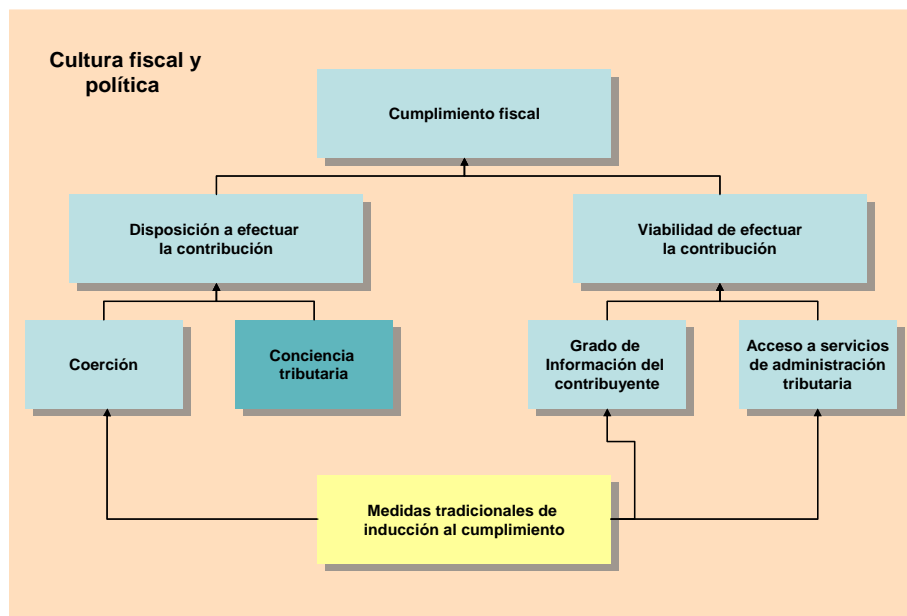
c. Real Citizenry: Personal values in the discourse and harmful practices in tax compliance.

The traditional response on what determines tax compliance is given by deterrence theory based generating fear regarding the possibility of detecting and punishing fraud⁵. This theory was born with the cold war and was also used to prosecute crime, proposes that the compliance decision is primarily based on cost-effectiveness analysis, by which people weigh the economic rationality the benefits of non-compliance against the risks of detection and penalty costs.

However, subsequent studies have shown that this theory has limited explanatory power and traditional methods of auditing through coercion and sanction only generate a fraction of the observable voluntary tax compliance. This has led to explore the importance of elements not associated with economic rationality in the prediction of voluntary tax compliance. So, recently, theorists and researchers attribute significant importance to what has been called tax awareness or "intrinsic motivation pay taxes", in which the building of the political culture has a role to play with respect to its adoption by the public.

⁵ Allingham, M., A. Sandmo (1972)

Graph 1: Tax Compliance Elements



Thus, from a perspective that we consider wider, it can be said that tax compliance is a consequence of two conditions: (i) the disposition to make a contribution ("actors want to pay") and (ii) the feasibility of making the contribution ("agents know and can pay"). The first condition is determined, on the one hand, by the effectiveness of the rules of coercion, the calculation made by agents through economic rationality, their degree of aversion to the penalty of fraud. On the other hand, the willingness to contribute is determined by the tax awareness of the agent, which determine its willingness to pay⁶ and which is often represented by a single indicator called fiscal morale or tolerance to fraud as a result of the legitimization, socialization and internalization processes of tax obligations (see Graph 1).

Accordingly in Peruvian society, tolerance to fraud was expected to be greater among those who do not comply with their tax obligations and vice versa between those who comply with their tax obligations.

⁶ Voluntariness is understood as compliance with obligations without the intervention of the responsible agent of the tax administration. The literature is vast and is associated with a wider field that investigates why people comply with the laws. Ellickson, R. (1991); Tyler, T. (1990)

Table I: Tolerance to Fraud and Tax Compliance (Peru 2009)

Toelrance to fraud	Percentage Distribution	% of the population that does not pay income tax	% of the population that buys contraband products	% of the population that makes purchases without a receipt
Does not tolerate	25%	29.8%	21.3%	23.0%
Low tolerance	21%	35.1%	32.8%	26.5%
Very tolerant	54%	37.1%	29.5%	29.1%
Total	100.0%	34.5%	28.1%	27.4%
Memo:				
Chi-cuadrado (6 g.l.)		100 859	260 610	100 763
Kendell-Taub		0.041	0.021	0.040

Source: 2009 Tax Awareness Survey and Baseline Study - Peru

According to the results of the survey (see Table I), 54% of the working population subject to the payment of income tax would classify itself as very tolerant, and is a group that shows the largest percentages of population that are in breach of the payment of said tax (37%)⁷. Furthermore, 30% of the population would classify as not tolerant at all to tax fraud and. of these, 29% does not comply with the payment Income Tax. (37%).

This result reveals, as expected, the existence of a positive association between the degree of social permissiveness to fraudulent behaviors and the level of tax compliance, although according to the Chi-square and Kendell-Taub statistical tests, there would be a weak association between two variables.

The latter reinforces the hypothesis that the tax compliance problem has a multidimensional nature.

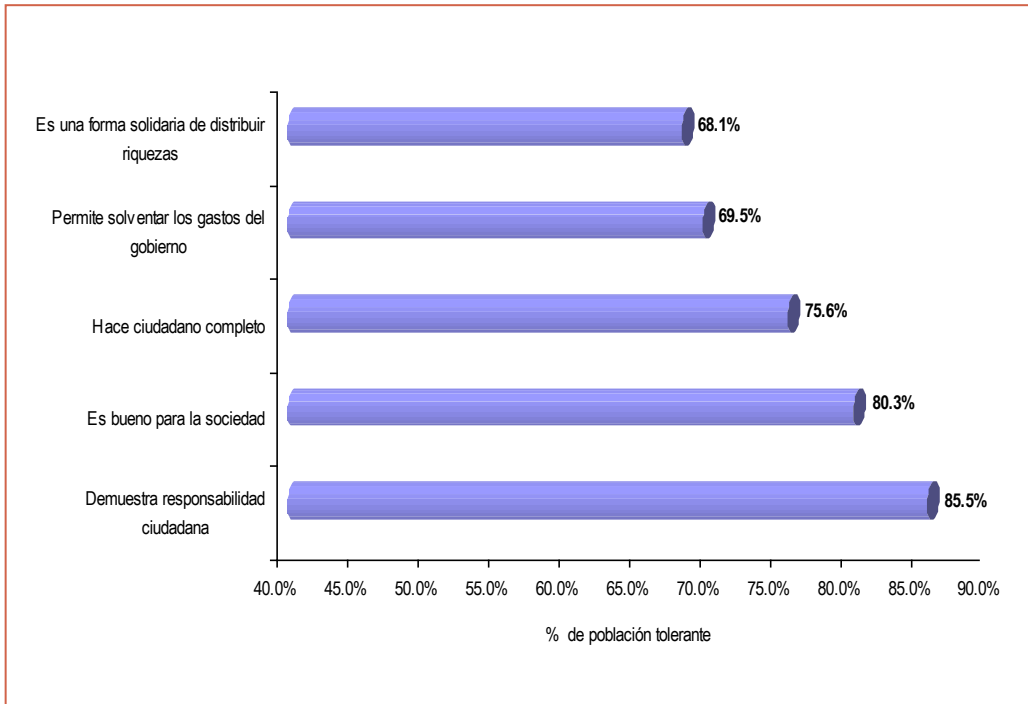
Regarding the relationship between the degree of tolerance to fraud and the propensity of people to buy products without payment receipts or smuggled products, the results are similar to is found in the case of payment of tax income from a tax policy perspective.

In this regard, it is important to take into consideration the following aspects that would characterize the population with high social permissiveness for fraudulent behavior or tolerance to fraud:

- Notwithstanding being a group prone to defaulting in their tax obligations, the social value they assign to paying taxes is high. Said in other words, their importance and the benefits they generate for society is acknowledged, because they allow individuals to show their civic responsibility (85%), allow to cover Government expenses (70%) or because it is a solidarity mechanism for distributing wealth among the population (68%).

⁷ The classification was carried out on the basis of the answer to question 66th of the survey, where they were asked "If you had the opportunity, would you pay less taxes than the ones you have to pay? On a scale of 1 (Completely disagree) to al 5 (Completely agree), those that answered 4 or 5 were classified as *very tolerant*. In turn, those who selected alternative 3 were classified as *slightly tolerant*, while those who are *not tolerant at all* correspond to those that answered 1 or 2.

Graph 2: Beliefs regarding the function of paying taxes

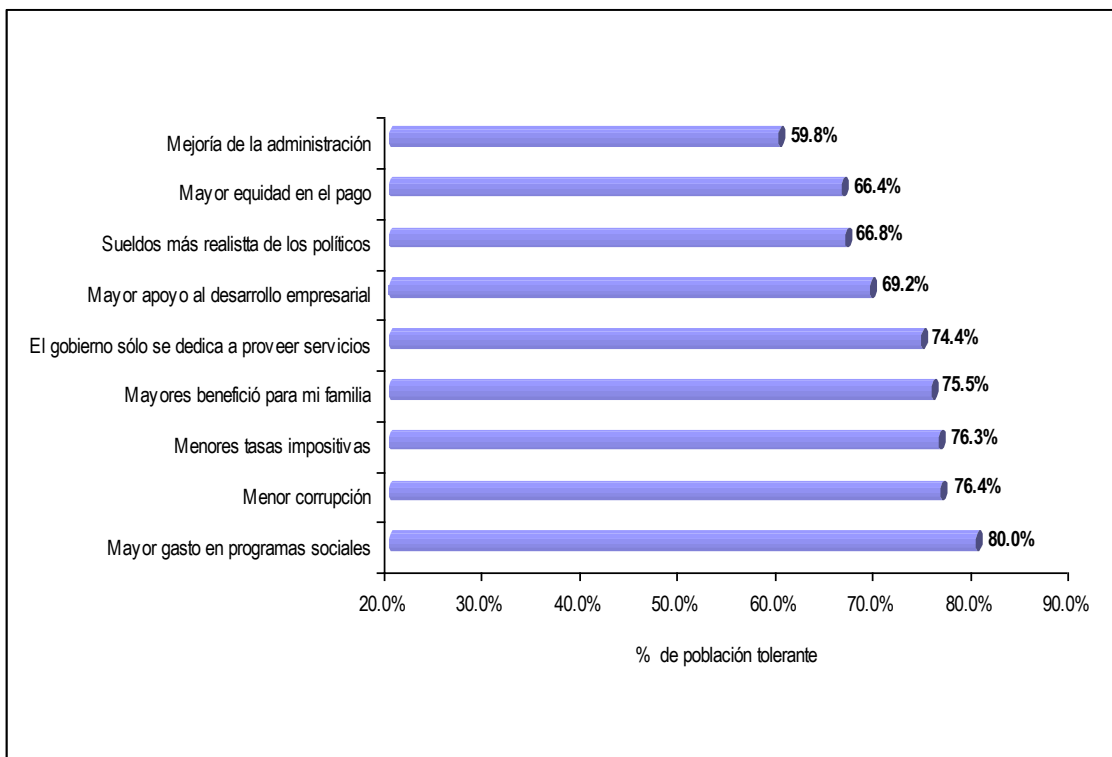


Source: 2009 Tax Awareness Survey and Baseline Study – Peru

- The reasons why these individuals would justify tax evasion are linked to factors relating to State corruption (56%), lack of income (55%), high taxable bases (52%), poor use of resources by the Government (52%), the perception that there are no benefits from the State's expenditure or investment (46%), among others. This indicates issues beyond economic factors, which regulate the behavior of the citizen as a taxpayer and which are somehow associated with the individual's perception regarding the way in which the State appropriates public funds. (See Graph 2).
- These results suggest a certain Citizen-State responsibility in the determination of the tax compliance level: it does not suffice with the citizen fulfilling his or her duty as a taxpayer but the State must also show that these resources are used adequately and that they generate a social return to guarantee the continuity in the payment of taxes (taxpayer loyalty creation).

This is consistent with what is reported by the population classified as tolerant to fraud with respect to the main actions under the responsibility of the State that would contribute to raise their willingness to pay taxes, among which we may identify: a greater orientation of resources towards social programs (80%), reduction of corruption levels (76%), concentration of State actions in the provision of services (74%), improvements in the tax policy equity conditions (66%), improvements in public administration management (60%), among other factors.

Graph 3: Factors that would promote a greater disposition to pay taxes among the population tolerant to tax fraud



Source: 2009 Tax Awareness Survey and Baseline Study - Peru

d. Significance and contribution of the indicators that define tax awareness: The Peruvian Model

Ever since deterrence theory, the tax administration is responsible for creating an increasing risk to discourage potential evaders and avoiders and, at the same time, develop various forms of access to information and facilitation of the return and payment procedures. From this perspective, in recent years, countries have made a great effort in simplifying formalities, create virtual tools and open service centers for taxpayers. Also, lately, emphasis is being made on control centers and the participation in public service centers that concentrate more than one institution. Under this predominant focus, tax administrations are placed in the center of the stage, as solely responsible for tax compliance.

However, the results obtained through the exploratory study carried out by the SUNAT, although they do not claim that the tools employed are incorrect, they do confirm that such an approach is at least incomplete. Therefore, in order to assess the importance of each of the analyzed determining factors on tax compliance, a statistical model was developed referred to independent individuals⁸ that allowed to estimate the probability that an individual working on his/her own evades paying income tax given: (a) the level of risk of being detected and penalized by SUNAT, (b) sensitivity to the cost of penalty, (c) the level of the moral cost (tolerance to fraud), (d) the degree of access to the Tax Administration services and (e) the level of knowledge about the tax system⁹. The relative importance of each of these variables on the level of tax compliance was determined from the measurement of marginal variations in the likelihood of evading the payment of taxes arising from changes in the levels of fiscal compliance determinants.

Table II: Perceptions regarding the Tax Administration and tax compliance

	% de población que no paga impuesto a la renta			
	Según percepción sobre la efectividad de la SUNAT para promover pago voluntario		Según percepción sobre la efectividad de la SUNAT para facilitar trámites de pago	
	Global	Independientes	Global	Independientes
No contactó a la SUNAT	43.9%	46.2%	43.9%	46.2%
Si contactó a la SUNAT	20.7%	22.3%	20.7%	22.3%
No es efectivo	27.1%	31.1%	38.6%	36.9%
Parcialmente efectivo	22.5%	21.3%	17.8%	18.0%
Efectivo	15.1%	17.7%	15.9%	20.7%
Total	34.5%	38.3%	34.5%	38.3%
Memo:				
Chi-cuadrado (4 g.l)	132 234	431 749	234 199	89 304
Kendell-Taub	0.089	0.240	0.132	0.112

Source: 2009 Tax Awareness Survey and Baseline Study - Peru

⁸ It refers to individuals that practice a profession or occupation independently.

⁹ This referential model did not include the socioeconomic characteristics of the individual as an independent variable due to his high correlation with the set of selected variables, mainly with the moral cost, which would have biased the measurement of the marginal contributions of each one of the variables on tax compliance.

The main results that deserve to be emphasized were the following:

- i. All the variables included in the model are important to explain the behavior of tax compliance levels in the country.
- ii. The negative signs to the "access to services" and "level of knowledge about the tax system" variables are indicating that the probability that a self-employed worker evades the payment of the tax decreases, the greater the use or availability of the services offered by SUNAT and the greater the level of information on tax matters. This result suggests that policies aimed at reducing the knowledge gap and facilitating the act of providing the service are effective in raising voluntary compliance with tax obligations of this labor segment.
- iii. The positive sign of the "moral cost" variable is indicating that the more tolerant the worker independent is to fraud, the greater will be the likelihood that it fails to comply with its tax obligations. This highlights the importance of carrying out policies aimed at improving tax awareness to raise the willingness to voluntarily pay taxes.

On the other hand, the results displayed in Table III, suggest that in the short term, interventions aimed at increasing access to and use of the services of the SUNAT and improve the levels of tax information in the population would have a greater relative effect on tax collection levels than actions aimed at raising tax awareness. In the first two cases, the probability of evasion could be reduced from 25% to 50%, while in the case of interventions to improve tax morale would help reduce the likelihood of evasion by 10%.

Table III: Marginal Changes in the Probability of Tax Evasion

Áreas de intervención	Probabilidad de evasión		Cambio marginal
	Sin intervención	Con intervención	
Conciencia tributaria	34.3%	31.0%	-10%
Conocimiento tributario	39.4%	30%.0	-23%
Acceso a servicio SUNAT	36.3%	17.9%	-50%
Efecto conjunto	49.6%	18%	-65%

Source: 2009 Tax Awareness Survey and Baseline Study - Peru

These results are reflecting the fact that the activities associated with the generation of tax awareness require lengthy maturation processes to change the attitudes of the population with regard to the payment of taxes and therefore its effects become evident in the long-term. In this regard, we would expect that marginal changes as a result of the implementation of such policy are higher in dynamic or temporary models.

e. Where are the differences in tax compliance levels regionally.

Modern citizen practices, as well as pre-modern citizen practices, are not homogeneous across the country. Likewise, experiences with the democratic political system and its tax subsystem are not homogenous either. In Peru, tax compliance and tax awareness levels vary from one province to another. The same happens with their reasons and arguments. Therefore, first of all, the variables involved in the tax compliance had to be explored, namely: coercion, fraud tolerance, degree of information and access to services, and select those which were significant.

On the basis of the levels of compliance in income tax payment found by the survey, the regions of Peru were classified into three groups. The first one clusters the regions with compliance levels below 25% (low compliance level), the second one includes those regions compliance percentages between 25 and 45% (moderate compliance level); while the third one groups the regions with a tax compliance level over 45%. Using this segmentation, an exploratory analysis of the characteristics of these groups of regions was carried out, in terms of tax compliance determinants, in order to identify a factor or factors that could explain the differences in the levels of tax compliance.

The results clearly show two discriminatory factors: perceptions of the risk of detection and criminalization by evaders and the degree of tolerance to fraud. Thus, the majority of the regions belonging to the group with highest level of tax compliance have a perception that the risks of detection by SUNAT, in case of committing evasion, are high; while distinct risks can be seen within the group with a lower level of tax compliance.

With regard to the degree of tolerance to fraud, the population of the regions belonging to the group with higher tax compliance is characterized for being tolerant, in contrast to the group of regions with lower tax compliance whose population is characterized by being very tolerant of tax fraud (see table IV).

Table IV: Classification of the regions according to tax compliance level determining factors.

Tasa de cumplimiento	Región	Probabilidad de ser descubierto	Sensibilidad al costo de la penalidad	Tolerancia al fraude	Grado de conocimiento	Uso de servicios SUNAT
Menor de 25%	Junin	Alto	No sensible	Muy tolerante	Medio	Bajo
	Tumbes	Alto	Sensible	Muy tolerante	Medio	Bajo
	Loreto	Alto	Sensible	Poco Tolerante	Medio	Bajo
	La libertad	Alto	Poco sensible	Muy tolerante	Bajo	Bajo
	Ayacucho	Medio	Poco sensible	Muy tolerante	Bajo	Bajo
	Huancavelica	Alto	No sensible	Tolerante	Medio	Bajo
	Piura	Alto	Poco sensible	Tolerante	Medio	Bajo
	Puno	Medio	Poco sensible	Tolerante	Medio	Bajo
	Ica	Alto	Poco sensible	Muy tolerante	Medio	Bajo
Apurimac	Medio	No sensible	Muy tolerante	Medio	Bajo	
Entre 25% y 45%	Moquegua	Alto	No sensible	Tolerante	Bajo	Bajo
	Arequipa	Alto	Poco sensible	Muy tolerante	Medio	Bajo
	Amazonas	Alto	Sensible	Tolerante	Medio	Medio
	Tacna	Alto	Poco sensible	Muy tolerante	Medio	Medio
	Ancash	Medio	Sensible	Muy tolerante	Medio	Bajo
	Callao	Alto	Sensible	Muy tolerante	Bajo	Medio
	San martin	Alto	Poco sensible	Tolerante	Medio	Bajo
	Ucayali	Medio	Poco sensible	Muy tolerante	Bajo	Bajo
	Cajamarca	Alto	Poco sensible	Muy tolerante	Medio	Bajo
	M. de Dios	Alto	No sensible	Tolerante	Bajo	Bajo
Mayor de 45%	Pasco	Medio	Poco sensible	Tolerante	Medio	Bajo
	Lima	Alto	Poco sensible	Tolerante	Medio	Bajo
	Huanuco	Alto	Sensible	Tolerante	Medio	Bajo
	Cusco	Alto	Poco sensible	Tolerante	Medio	Medio
	Lambayeque	Alto	Sensible	Muy tolerante	Medio	Bajo

Source: 2009 Tax Awareness Survey and Baseline Study - Peru

These results highlight the importance of implementing policies aimed at improving tax awareness in the population to increase voluntary compliance in the payment of taxes.

To that end, however, it was vital to understand the fundamentals that explain the tax moral in the country to select the most relevant type of tax policies for the Peruvian reality.

f. Tax awareness is multidimensional

Tolerance to fraud is an indicator commonly used as an approximation to tax awareness in studies on the subject. However, it has some limitations that may skew tax awareness behavior analysis and monitoring in a certain zone or country. It must be mentioned that these limitations (a) do not portray the multidimensional nature of this variable, (b) do not allow to determine its intensity or magnitude, it only reflects the incidence of tax awareness,

(c) do not possess some properties required in order to properly monitor the evolution of tax awareness to be able to draw comparisons between countries¹⁰.

To correct the above limitations, we selected fifteen variables shown in the following table.

Table V: Tax awareness dimensions, variables and indicators.

SOCIAL PROCESSES AND STANDARDS			
Procedural justice	Distributive justice	Reciprocity	Political factors
<ul style="list-style-type: none"> ◆ Institutional trust ◆ Institutional honesty ◆ Justice of standards ◆ Participative processes 	<ul style="list-style-type: none"> ◆ Fairness of tax burden ◆ Fairness in tax information exchange ◆ Compliance with the social contract 	<ul style="list-style-type: none"> ◆ Perception of the degree of tax evasion ◆ Trust in the members in the environment 	<ul style="list-style-type: none"> ◆ Perception of the degree of democracy ◆ Satisfaction with democracy

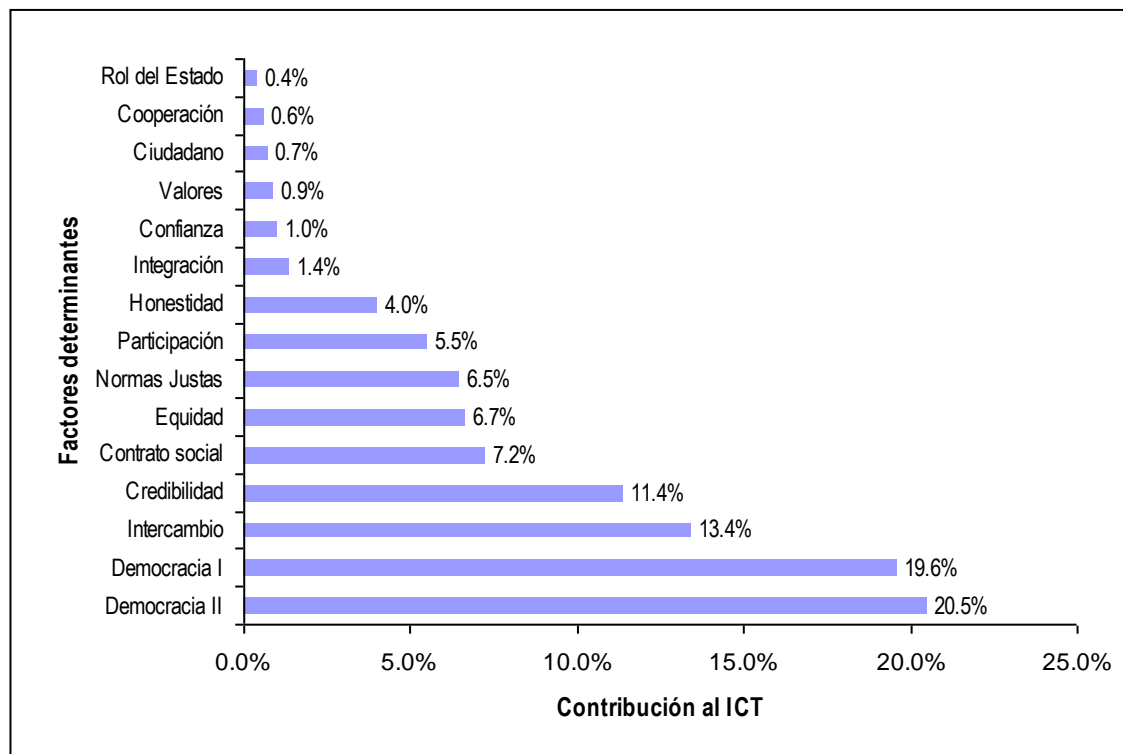
VISION OF THE WORLD		
Role of the State	Citizenry	Integration
<ul style="list-style-type: none"> ◆ Perception of the role of the State 	<ul style="list-style-type: none"> ◆ Typology of the citizen according to their relation with the State 	<ul style="list-style-type: none"> ◆ Perception of the degree of social integration

VALUES
Personal values
<ul style="list-style-type: none"> ◆ Dimension of the predominant value

Statistical exploration confirmed that the selected set of variables and their scales are reliable and consistent to adequately represent tax awareness, apart from being statistically significant.

¹⁰ In this respect, review chapter IV of the "Conceptual and methodological framework for the formulation of the tax awareness baseline" (2009).

Graph 4: Contribution to tax awareness according to determining indicators



Source: 2009 Tax Awareness Survey and Baseline Study – Peru

- ▲ The determinant factors related to the social processes and standards dimension are helping to explain 97% of the population tax awareness level, while personal values and factors associated with a vision of the world have a scarce contribution.
- ▲ This result is reflecting that the interaction of these elements for the generation of tax awareness, perceptions of the performance of the system and tax practices of the population are predominating over the evaluative aspects and the vision of the world of Peruvians.
- ▲ Given that the values and vision of the world are interacting in antagonistic way regarding perceptions related to processes and social standards (the system), the predominance of this last dimension is generating displacement towards less cooperative attitudes in a population as the Peruvian, which favors values of transcendence and shares a common collectivist vision of wellbeing.

In terms of determinant factors, those linked to the political aspects (democracy) are having a crucial importance in the generation of tax awareness of Peruvians, explaining 40% of its total level. In turn, the factors associated with distributive justice (fairness, social contract and exchange of tax information) and procedural (credibility, justice of standards and participation), each have a relative weight of 27%.

Finally, the results confirm the absence of reciprocity, since the associated variables have a scarce contribution in the determination of the level of tax awareness (1.6%). This result is attributed to (a) the influence of past behavior in persons who do not usually pay and (b) the conflict with the personal values that attenuates the intensity of the reciprocal behavior of the population.

In short, the determinant factors that are linked to macro aspects and with high social vulnerability, such as democratic order, generally have greater relative importance in the generation of tax awareness. In second place we find the determinant factors related to political or institutional aspects, while determinant factors associated with individual aspects have the lowest contribution.

Taking into account the results of the study, the functional scope of the Tax Administration in relation to the tax awareness and in the actions that can be deployed to positively modify their level, is not designed so that it can intervene on all the political or institutional aspects that model it. This why education and/or tax culture programs are limited to what the Tax Administration obtains jointly with the Ministry of Education and other public agencies, which is insufficient because it would not affect the set of the root of the... (Spanish text incomplete) That is why the results of studies such as the one developed by Peru must not only aim at measuring how we are, but mainly to substantially change the map of distribution of responsibilities regarding tax awareness, as a dynamic element of the tax citizenry.

4. Conclusions:

The study carried out by the SUNAT highlights the technical progress in this matter. Its importance lies in the contribution of previously unknown details that serve to adjust the strategies specifically to our heterogeneous social, economic and civic reality.

But it essentially reveals that accountability in the voluntary tax compliance and in tax awareness generation is not a matter that is exclusive to the Tax Administration. To this end it provides statistics, testing, data to objectively support the above:

- a. In Peru, the zones areas with greater non-compliance and lower-level of tax awareness are mostly those with perceptions of a very low performance of the democratic political system and the economic and social achievements obtained by the citizen. Secondly, there are the areas that attribute less credibility and confidence to decisions made by public institutions and, thirdly, the zones in which it is mostly considered that there is no fairness in the exchange of tax information.
- b. Being these processes dynamic, they depend on the variations in the indicators that make them up that largely depend on the decisions and political directions taken by political power.
- c. The effect produced by the variables that weight more on the tax awareness: political factors (perceptions about the performance of the democratic system and benefits that this provides), fairness in the exchange of tax information and credibility and

trust in public institutions, is lower in tax compliance when said variables increase favorably than when they deteriorate which is when they grow to a large scale causing a very negative effect on tax awareness among the population and affecting tax compliance.

Tax compliance and its driving force, tax awareness, are primarily determined by the performance of the political system, justice in the distribution of the tax burden and credibility attributed by the citizen to public institutions. Consequently, voluntary compliance and tax awareness as its driving force will not be efficiently or effectively impacted by tax education programs based on personal information and values managed exclusively by Tax Administrations and some of their allies.

5. Recommendations

a. Tax citizenry public policy to redistribute voluntary tax compliance responsibility.

For Peru, the results obtained in the exploratory study carried out by the SUNAT makes clear that the tax administration should move from being the sole actor in this stage to play a new role which seeks to obtain a legal and social mandate, as well as support political actors and stakeholders, to convert tax citizenry into a public policy that influences tax awareness and voluntary tax compliance.

b. Integrate Tax Culture or Tax Citizenry into the business and central functions of the Tax Administration.

- Consider the functional and organic standardization of education/tax culture programs, whose main purpose is to regulate and establish guidelines in a holistic manner to ensure the incorporation of the tax citizenry approach in the planning and business management processes.
- Incorporate the function at all operating levels involving the enforcement and taxpayer services functions.
- Integrate tax culture processes and products in the institutional goals, for which the proposal is to design work, monitoring and evaluation protocols, as well as process and product indicators, minimally standardized at the regional level.
- Include the professional profiles of educators, social scientists and communicators in the organization and functions manuals, as well as in the career line of the tax administrations.

c. New findings and challenges

The statistical tests applied to establish the significance and contribution of the indicators showed that they are reliable and consistent to adequately represent tax awareness.

Likewise, they suggest that the variables as a whole are relevant to explain tax awareness behavior in the country. However, reflecting, it might be excluding variables linked to cognitive

processes that influence tax awareness levels. For this reason, we put the following challenges to the consideration of the Assembly:

- Open more spaces for the dissemination of progress made research models on fiscal awareness/tax moral.
- Recommend the allocation of resources and personnel to venture into quantitative and qualitative social research of taxation.
- Convert research on non-economic issues related to compliance and tax awareness into a functional activity of the Tax Administrations, which require different professional profiles, of resources and organizational.
- Link the results of the research on tax awareness with the tax culture or tax citizenry programs to provide them with technical authority in this aspect.

ANNEX I

Tax Awareness Dimensions, Subdimensions and Indicators

VALORES (DISTAL) ¿Cuán prioritarios son los valores que sirven a intereses colectivos o sociales?
<p>En esta dimensión se analiza la estructura de valores personales de la población peruana, según la clasificación propuesta por Schwartz (1992), y se evalúa que tipo de valores predominantes en los individuos están contribuyendo hacia actitudes más cooperativas con el sistema tributario. El indicador utilizado para el análisis es la dimensión de valor (trascendencia, conservación, apertura del cambio y autorealización) predominante o priorizada por el individuo.</p>
Valores personales
<ul style="list-style-type: none"> • Dimensión de valor predominante

VISION DEL MUNDO (DISTAL): ¿Cuán integrado está el mundo de la vida con el sistema?		
<p>En esta dimensión se analiza diferencias en la moral fiscal de la población en función a la práctica social de sus derechos ciudadanos, a través de indicadores que mida las formas de percibir la legitimidad de la apropiación de los bienes públicos, la primacía de los intereses de la comunidad o de los individuos, las relaciones con los beneficios del mercado, entre otros.</p>		
Rol del Estado	Ciudadanía	Integración social
<p>Esta categoría de análisis incluye indicadores que midan la relación de primacía de los intereses de la comunidad y el rol del Estado para atenderlos.</p>	<p>Referido a indicadores que miden cuantitativamente los grados de ejercicio de los derechos de ciudadanía en una sociedad específica.</p>	<p>Referido a indicadores que miden las percepciones en los agentes sociales sobre los fenómenos de desintegración social que pudieran afectar la moral fiscal de la población</p>
<ul style="list-style-type: none"> • Percepción del rol del Estado 	<ul style="list-style-type: none"> • Tipología del ciudadano según su relación con el Estado 	<ul style="list-style-type: none"> • Percepción del grado de integración social

Dimensiones, subdimensiones e indicadores del Índice de Conciencia Tributaria

PROCESOS Y NORMAS SOCIALES (PROXIMAL) ¿Cuán dispuestos están los individuos a contribuir voluntariamente?			
Esta dimensión trata de evaluar de manera indirecta cuán internalizado tienen los individuos la norma de cumplir con las obligaciones tributaria atribuible a sus creencias y percepciones sobre la justicia procedimental y distributiva del sistema tributario, del grado de evasión en la sociedad, así como a su satisfacción (o insatisfacción) con el régimen democrático peruano.			
Justicia procedimental	Justicia distributiva	Reciprocidad	Factores políticos
Esta categoría de análisis está referida a la percepción de la población respecto de la justicia de las reglas o procedimientos que intervienen en el proceso de toma de decisiones de la política tributaria.	Referido a indicadores de percepción de la población respecto de la equidad en la distribución de la carga fiscal y la equidad en el intercambio fiscal.	Referido a indicadores de percepción sobre el grado de evasión en el país o de confianza en su entorno. Permite evaluar si las actitudes individuales hacia el pago de los impuestos está influida por la conducta tributaria de la sociedad.	Se incluye indicadores de percepción del individuo sobre el sistema político y de valoración sobre el grado de democracia existente u otros que afecten la moral fiscal.
<ul style="list-style-type: none"> Confianza institucional 	<ul style="list-style-type: none"> Equidad de la carga fiscal 	<ul style="list-style-type: none"> Percepción del grado de evasión tributaria 	<ul style="list-style-type: none"> Percepción del grado de democracia
<ul style="list-style-type: none"> Honestidad institucional 	<ul style="list-style-type: none"> Equidad en el intercambio fiscal 	<ul style="list-style-type: none"> Confianza en los miembros del entorno 	<ul style="list-style-type: none"> Satisfacción con la democracia
<ul style="list-style-type: none"> Justicia de las normas 	<ul style="list-style-type: none"> Cumplimiento del contrato social 		
<ul style="list-style-type: none"> Procesos participativo 			

ANNEX II

Survey Fact Sheet used for the 2009 Peru Exploratory Tax Awareness and Baseline Study

INFORME TÉCNICO	
Objetivo	El objetivo del estudio recolectar información de fuentes primarias en las zonas urbanas de las 26 regiones del Perú para desarrollar y asistir en la generación de indicadores que permitan comparar, a través del tiempo, los avances del Proyecto de Cultura Tributaria Implementado por la SUNAT.
Contenido	<p>Los temas de estudio considerados fueron los siguientes:</p> <ul style="list-style-type: none"> • Demográficos: <ul style="list-style-type: none"> - Datos de la vivienda. - Tenencia de bienes. - Datos socioeconómicos de los miembros del hogar. • Contenido del cuestionario: <ul style="list-style-type: none"> - Grado de información sobre tributación. - Datos de comportamiento tributario y conciencia tributaria.
Población	Público en general, hombres y mujeres, de 18 a 70 años de edad, pertenecientes a todos los niveles socioeconómicos, residentes en zonas urbanas.
Técnica	Investigación cuantitativa, de tipo concluyente. Se utilizó la técnica de entrevista directa y personal, en el hogar.
Instrumento	Cuestionario estructurado y pre-codificado, proporcionado por la SUNAT.
Metodología	Estudio probabilístico y polietápico (ver metodología utilizada).
Cobertura	Estudio a nivel nacional, considerando las zonas urbanas de seis zonas geográficas de Lima-Callao y 24 regiones del Interior del país (ver cuadro de distribución de la muestra estadística).
Muestra	Se realizó un total de 8,148 encuestas efectivas (ver número de encuestas realizadas).
Error global	+/- 1.1%, en la hipótesis más desfavorable, para un nivel de confianza de 95%
Actividades	<p>Las actividades realizadas fueron las siguientes:</p> <ul style="list-style-type: none"> • Elaboración de la versión final de los instrumentos a utilizar. • Prueba piloto bajo las mismas características en las que se desarrollará la encuesta final. • Selección y capacitación de encuestadores y supervisores. • Trabajo de campo, revisión de la calidad de las encuestas y supervisión del trabajo de campo. • Control de calidad previo al procesamiento de la información. • Procesamiento y validación de los resultados.
Prueba piloto	Se desarrolló una prueba piloto previa al inicio del trabajo de campo, la misma que nos permitió conocer la operatividad del cuestionario, estimar tiempos de aplicación del mismo y proponer mejoras al instrumento por aplicar (ver informe de la prueba piloto).
Fecha de campo	<p>El trabajo de campo se desarrolló en las siguientes fechas:</p> <ul style="list-style-type: none"> • En Lima : 19 de junio al 06 de setiembre de 2009. • En provincia : 30 de junio al 08 de setiembre de 2009.

