

Editorial

The Complex and Critical Relationship Between Tax and Corruption

Tax and corruption are global phenomena. No society is immune from corruption,¹ and within any society taxation plays a pivotal role in relation to such activity – which can be both positive and negative. Positively the tax system can provide the kind of regulatory framework and institutional foundations which can help to eradicate or constrain corrupt practices. On the negative side, corruption reduces tax compliance.² Even perceptions of corruption, whether ‘grand’ or ‘petty’, seriously undermine taxpayers’ intentions to report actual income or sales.³ The relationship between tax and corruption is therefore both complex and critical.

Two events with the common theme of ‘Tax and Corruption’, held in Australia in April 2017 and in South Africa in October 2017, explored this complex and critical relationship. In Sydney, in a symposium convened by UNSW Sydney, hosted by KPMG and sponsored by the Asian Development Bank Institute, the focus of 26 presentations was on tax and corruption in the Asia-Pacific region. In Johannesburg, in a symposium sponsored by the South African Institute of Chartered Accountants and convened by the University of Pretoria, UNSW Sydney and the University of Western Australia, the focus shifted to Africa in the 21 presentations made there. But, despite the regional variations, the two events canvassed many of the same themes and came to many of the same conclusions – affirming the view that whilst there will always be country-specific aspects, the issues raised by the relationship between tax and corruption are more than often global and are never simple.

Both events were interdisciplinary, involving tax specialists, lawyers, accountants and economists, and both were attended by between 30 and 40 invited delegates from all over the world, including representatives from academia, the tax profession, international organisations, the business community, civil society and senior tax administrators and policy makers. The symposia, each lasting two days, were designed to provide a safe environment in which research, thoughts and ideas relating to the problems of tax and corruption, and possible solutions or ways forward to tackle some of the problems, could be freely debated. Both followed broadly similar formats.

A selection of the 47 papers from the two events have been refereed and the ensuing ten articles, revised in the light of symposium feedback and referees’ comments, are now published in this Special Issue of the *eJournal* on Tax and Corruption. As Guest

¹ Transparency International, ‘Corruption Perceptions Index 2015’ <<http://www.transparency.org/cpi2015>>.

² James Alm, Jorge Martinez-Vazquez and Chandler McClellan, ‘Corruption and Firm Tax Evasion’ (2016) 124 *Journal of Economic Behavior and Organization* 146, 146.

³ Arifin Rosid, Chris Evans and Binh Tran-Nam, ‘Do Perceptions of Corruption Influence Personal Income Taxpayer Reporting Behaviour? Evidence from Indonesia’ (2016) 14(2) *eJournal of Tax Research* 387.

Editor I am grateful to all the participants at the two symposia, and to all the referees, for their invaluable thoughts and comments. I particularly appreciate the insightful summations made by my colleagues at the two symposia: Adjunct Professor Grant Wardell-Johnson of KPMG at the Sydney symposium; Professor Jim Alm from Tulane University at the Johannesburg symposium; and Professor Richard Krever, now at University of Western Australia, present at both of the symposia. I also appreciate the time and effort invested by the authors of the articles assembled here.

The two opening articles are designed to set the scene for the articles that follow in this Issue. They provide contrasting perspectives on the relationships between tax and corruption. Vito Tanzi, the former Director of the Fiscal Affairs Department of the International Monetary Fund, explores the thesis that tax evasion is facilitated by corruption and that corruption in turn is facilitated by tax complexity. His article, 'Corruption, complexity and tax evasion', argues, and provides evidence to support the argument, that tax systems have become far more complex than they need to be, with a resulting impact upon corruption and evasion. In contrast, Jim Alm of Tulane University and Yongzheng Liu of Renmin University of China, examine three specific questions in their article 'Corruption, taxation and tax evasion'. First, on a general level, what are the causes and consequences of corruption? Second, on a more specific level, what is the relationship between corruption and taxation? Third, on an even more specific level, what is the relationship between corruption, taxation, and tax evasion? They conclude with a discussion of how this evidence can be used to control corruption, making use of a different, if related, body of work on tax evasion.

Both of these articles explore the relationship between tax and corruption from broad macro-economic and social perspectives, and this theme continues with the article by Anja Baum, Sanjeev Gupta, Elijah Kimani and Sampawende Jules Tapsoba from the International Monetary Fund and Princeton University. In 'Corruption, taxes and compliance' the four authors re-visit the effects of corruption on the state's capacity to raise revenue, concluding that corruption is negatively correlated with overall tax revenue and most of its components, largely influenced by the way corruption interacts with tax compliance. The following article by Bernd Schlenther of the African Tax Administration Forum also considers, in the African context, the impact of corruption on tax revenues, tax compliance and economic development.

Articles selected from the papers presented at both the Sydney and Johannesburg events are also devoted to the challenges and possible solutions for specific countries in the two regions in which the symposia were held. Hence country-specific articles on tax and corruption in China (Nolan Sharkey and James Fraser), Indonesia (Christine Tjen and Chris Evans), New Zealand (Lisa Marriott), South Africa (Boela (AP) Swanepoel and Jacolize Meiring) and Vietnam (Ngoc Anh Nguyen, Quang Hung Doan and Binh Tran-Nam) feature in the following part of this Special Issue. These articles provide a general overview and analysis of the problems of corruption in the Asian-Pacific and African tax environments and consider international and national legislative and strategic frameworks governing corruption. The topic of corruption in revenue agencies is also a recurrent theme. Many of the articles focus on general and more specific responses designed to combat corruption, ranging from transparency and disclosure (including whistle-blowing) through to the many aspects of policy, legislative and administrative or institutional reform and governance designed to tackle corruption in the tax environment. Hence 'Is sunlight the best disinfectant' is the compelling title of the article about tax and corruption in New Zealand by Lisa

Marriott. The article appropriately reminds us that corruption cannot simply be labelled as a developing country issue – developed countries have their own issues and problems too.

Finally, an article by Heidi Zummo, Bronwyn McCredie and Kerrie Sadiq explores the relationship between aggressive tax planning and mandatory corporate tax disclosure. Although the article is less focused upon corruption than the others in this Special Issue, it nonetheless touches upon many of the themes that are prevalent throughout, including the importance of transparency – and the contribution transparency can make to increased public confidence in the integrity of rules, systems and institutions.

A large number and variety of additional themes emerge from the articles (and from the symposia that underpinned the articles). Inter alia it can be noted that corruption has many faces and many definitions, and that significant work is being done on the drivers and the effects of corruption in the tax world. But despite the growing research on corruption, that research is difficult, due largely to data and measurement issues. Moreover, a lot of the research is very case, context or country-specific, with the result that any solutions are also often likely to be case, context or country-specific.

There are a number of other lessons that emerge from the articles (and the papers and presentations at the symposia). For example, it is clear that corruption is widespread, linked to tax evasion, often driven by greed, but also by poor governance/institutions and monopoly power in such institutions. Other factors include a lack of transparency, complicated and/or discretionary tax systems, poor enforcement, perceptions of unfairness in taxation and services, poor government services, low government wages, and a lack of integrity/ethics/morality. The point is also strongly made that responsibility does not simply lie with public officials: business is not blameless since corruption is generally a two-sided transaction. Corruption is shown to have clear (and usually detrimental) effects on innovation, fiscal citizenship and tax compliance.

As noted earlier, much of the content of the articles focuses on potential means by which corruption in the tax environment can be addressed. Very clearly corruption can be reduced by a host of possible strategies. Some which emerge include: increasing enforcement; instilling integrity/ethics/morality in government officials – and their business counterparts; increasing transparency, along with the power to act on transparency; establishing anti-corruption bodies and laws; changing human resource management practices; reducing tax compliance costs; eliminating or restricting discretionary practices in taxation – ensuring revenue authorities are precise on what is allowed and what is not allowed, even if this increases tax complexity; focusing on ‘basic’ implementation of taxes on domestic taxpayers; educating the ‘next generation’ of citizens and tax administrators (accepting that many of the current generation may be lost); improving institutions and building capacity; having the political will to address corruption; and protecting the ‘whistle-blower’.

Although it is obvious from this array of quality research articles that much more is now known about corruption than when the explosion of corruption research began in the 1990s, there is nonetheless a feeling that the articles (as well as the papers, presentations and discussions at the symposia) often merely confirm what we already know (or think we know). Arguably it is more important to establish the new things that can be learned and to establish the areas on which those interested can change their minds. It is also critical that further research needs to be undertaken to address some of the ‘unknowns’ that emerge. These include:

1. there is the widespread perception that corruption is widespread, but exactly how much corruption is there? That is, can country-level estimates of the extent of corruption be calculated?
2. there is the widespread perception that corruption has many (harmful) effects, but exactly how large are these effects of corruption?
3. there have been many suggested anti-corruption policies, but do any or all of the many proposed and enacted anti-corruption strategies actually work?
4. the focus is typically on anti-corruption policies in the public sector, but what about policies that might work via the private sector?
5. many have said that it is essential to instill ‘integrity/ethics/morality’ to reduce corruption, but what are the specific actions that can be taken to do this, so that people will ‘do the right thing’?
6. we want to think that there are ‘best practices’ that should be enacted, but can we expect that policies that work in one country will always work elsewhere?

Perhaps this was the most valuable outcome of the two symposia and the current set of articles – the identification of areas where much more research is needed. And clearly such research needs to provide the empirical data upon which future evidence-based strategies can be developed, potentially involving a host of methodologies including the judicious use of field experiments, laboratory experiments, administrative data and other approaches. The articles in this Special Issue of the *eJournal* may represent the current state of play on the topic of tax and corruption, but they also remind us how much more there is to know.

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