

# **Examining the Relationship Between Taxpayer Education, Tax Compliance and Tax Morale: A Study on Tax Education in Sierra Leone**

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The Monitoring Research & Planning (MRP) Department  
with the International Centre for Tax and Development (ICTD)



## **EXECUTIVE SUMMARY**

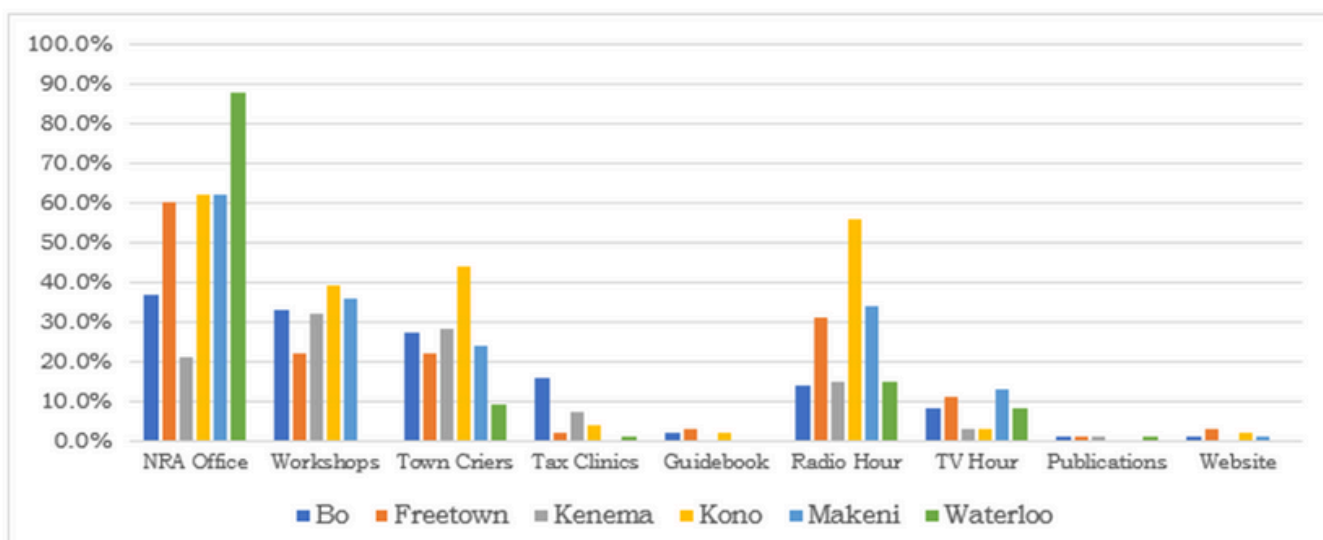
*This study examines the impact of the NRA taxpayer education programs on compliance and revenue collection. It evaluates taxpayer engagement, tax morale, and knowledge of the tax system. Using both primary and secondary data, the study finds that tax education positively influences self-filers, but non-filers remain sceptical about its effectiveness. Although taxpayers generally understand filing and payment procedures, confusion persists over some tax regulations, and concerns about tax misuse and corruption are common. Despite high compliance rates, many taxpayers still face challenges with filing. The study recommends tailored education programs for different taxpayer groups, enhanced support for self-filers and non-filers, and stronger efforts to build tax morale by emphasizing the societal benefits of tax contributions.*

## **INTRODUCTION**

Sierra Leone, like many developing countries, faces significant challenges in maintaining fiscal stability. A key factor in this stability is domestic revenue collection which plays a critical role in funding government spending, reducing dependence on external financing and managing public debt.

This study is motivated by the recognition that insights into tax compliance can significantly enhance revenue collection. It examines the role of taxpayer education in improving voluntary tax compliance, tax morale, and domestic revenue collection. It then provides insights into existing NRA taxpayer education programs and their impact on business owners and provides recommendations for designing effective tax education programmes to enhance tax morale, tax compliance and revenue collection.

**Tax Education Programme Participation Rates by Town**



## **AIMS AND OBJECTIVES**

This study aims to assess the effectiveness of NRA's taxpayer education initiatives in improving tax knowledge, promoting tax morale and compliance. The specific objectives are:

- To evaluate the level of taxpayer engagement by the NRA
- To assess the level of tax morale of taxpayers; and
- To assess the level of taxpayers' knowledge of the tax system.

This involves answering the following guiding questions:

- To what extent do taxpayer education initiatives by the NRA impact taxpayers' understanding of the tax system?
- How do taxpayer education programmes conducted by the NRA influence tax morale?
- What is the influence of the NRA's taxpayer education programmes on tax return filing?

## **METHODOLOGY**

The study employed structured questionnaires to gather data on taxpayers' demographics, engagement, knowledge, attitudes, and practices, aligned with the study's objectives. The questionnaire was divided into five sections, each focusing on specific data related to taxpayer behaviour and tax compliance.

The focus of the study was on active, registered businesses in six key townships: Freetown, Waterloo, Bo, Kenema, Makeni, and Kono. Data from the ITAS system indicated a total of 6,620 active businesses in these areas during the survey period. A target sample size of 1,500 respondents was set. The distribution of questionnaires aimed for 600 responses from Freetown and Waterloo, and 450 each from Bo and Kenema, and Makeni and Kono. Ultimately, 1,708 questionnaires were administered.

Tax morale knowledge was assessed using a set of six questions measuring taxpayers' beliefs about the fairness of the tax system and the proper use of collected revenue. Knowledge of the tax system was evaluated through ten True/False questions covering GST, PIT, CIT, and WHT.

Cross-tabulation was conducted to examine the distribution of responses across various business demographics allowing for a deeper understanding of potential patterns and relationships between taxpayer characteristics and their attitudes towards tax compliance.

### **Distribution of Respondents by Town and Tax Type**

<b>Town</b>	<b>CIT</b>	<b>GST</b>	<b>PIT</b>
Bo	2.6%	28.8%	98.1%
Freetown	6.6%	47.5%	89.9%
Kenema	3.5%	19.7%	91.1%
Kono	14.1%	32.9%	88.6%
Makeni	4.1%	42.9%	95.9%
Waterloo	10.8%	20.4%	89.2%
<b>Total</b>	<b>5.86%</b>	<b>35.37%</b>	<b>92.53%</b>

## FINDINGS

### Taxpayer Engagement

Findings related to Taxpayer Behaviour and Compliance:	<ul style="list-style-type: none"> <li>• Taxpayers who personally file their taxes (self-filers) are more likely to benefit from tax education programmes.</li> <li>• Among those who do not file taxes or have someone else file for them, a significant proportion disagree or strongly disagree that tax education enhances their understanding of the tax system.</li> <li>• Among self-filers, only a small percentage agrees or strongly agrees that tax education has improved their understanding of the tax system.</li> </ul>
Findings related to Education Level and ITAS Usage:	<ul style="list-style-type: none"> <li>• The highest percentage of taxpayers using ITAS is found among those with Tertiary Education, followed by Secondary Education, and then Primary Education.</li> <li>• However, non-usage rates remain relatively high even among individuals with higher education levels.</li> </ul>
Findings related to ITAS Usage by Town:	<ul style="list-style-type: none"> <li>• Taxpayers in various towns predominantly rely on external help for returns filing.</li> <li>• ITAS usage varies between towns, ranging from about 5.4% to 18.2%.</li> <li>• A significant proportion of taxpayers in Waterloo do not file taxes.</li> </ul>

### Tax Morale

Perception of Government Spending	<ul style="list-style-type: none"> <li>• Approximately 50.5% of respondents believe that the government uses tax money appropriately for public goods and services, while 19.6% disagreed, and 29.9% were uncertain.</li> <li>• 37.8% of respondents think that taxes collected end up in the hands of corrupt officials.</li> </ul>
Willingness to Pay More Taxes	<ul style="list-style-type: none"> <li>• A significant majority of respondents would be happy to pay more taxes if they knew the money would be used for the country and community's benefit (91.1% and 88.9%, respectively).</li> </ul>
Justification of Tax Cheating	<ul style="list-style-type: none"> <li>• A concerning proportion of respondents (64.8%) consider cheating on taxes justifiable if given the opportunity</li> </ul>

## Knowledge of the Tax System

Taxpayers' Understanding	<ul style="list-style-type: none"><li>• The majority of taxpayers demonstrate a satisfactory level of understanding regarding tax return filing and tax payment procedures.</li></ul>
Impact of Tax Education Programmes	<ul style="list-style-type: none"><li>• A substantial percentage of taxpayers agree or strongly agree with positive statements about tax filing and payments.</li></ul>
Relationship Between Duration of Filing and Tax Knowledge	<ul style="list-style-type: none"><li>• Taxpayers' knowledge of the tax system and tax laws improve significantly as the years of filing returns increases indicating that longer engagement with tax education programmes leads to greater knowledge.</li></ul>
Impact of Engagement Methods	<ul style="list-style-type: none"><li>• Different towns exhibit varying levels of tax knowledge based on the adoption rates of various engagement methods. Engagement methods such as NRA Office, NRA Office, Radio Hour, and Workshops tend to positively impact taxpayers' tax knowledge.</li></ul>
Specific Tax Knowledge	<ul style="list-style-type: none"><li>• GST registered taxpayers generally have good knowledge of certain aspects, but there are concerns regarding GST return filing frequency and knowledge of product categories attracting GST.</li><li>• CIT, a significant portion of respondents demonstrated an accurate understanding of CIT-related questions. In the context of turnover tax, a substantial proportion of respondents lacked awareness that turnover tax is not based on business profit.</li><li>• PAYE-registered taxpayers frequently misunderstood the maximum applicable PAYE rate.</li></ul>

# **POLICY RECOMMENDATIONS**

## **1. Targeted Tax Education**

Tailored tax education programmes that cater to the needs and characteristics of different taxpayer segments. These programmes should focus on enhancing understanding of tax regulations, obligations, and benefits.

## **2. Strengthening ITAS Adoption**

Awareness campaigns to promote the adoption of ITAS for tax filing. Provide user-friendly guides, tutorials, and workshops that cater to individuals with varying levels of education and technological literacy. Collaborate with service providers to continuously enhance the usability and accessibility of the ITAS platform.

## **3. Enhance Transparency and Trust to Strengthen Tax Morale**

Measures to enhance transparency in tax collection and expenditure processes. This should involve regularly publishing reports detailing the use of tax revenues for public services and projects and establishing mechanisms for taxpayers to access information about how their tax and non-tax contributions contribute to the welfare of society.

## **4. Offer Compliance Assistance**

Personalised compliance assistance for users by providing user-friendly resources, such as step-by-step guides, online tools, and frequently asked questions. Utilise digital communication channels and interactive platforms to facilitate easy access to information and assistance.

## **5. Strengthening Communication Channels**

Multi-channel approach to communicate with taxpayers. Invest in an informative and user-friendly website, social media platforms, and other media. These channels can provide real-time updates, answer FAQs, and facilitate direct communication between the public, taxpayers and the Authority.

## **6. Continuous Monitoring and Evaluation**

A system for monitoring the effectiveness of education and compliance initiatives. Regularly assess the impact of educational programmes, technology adoption, and compliance rates. Use feedback from taxpayers to redesign strategies and make necessary improvements.

## **7. Strengthening of the Public Awareness and Tax Education (PATE) Unit**

- A comprehensive taxpayer education strategy and policy with clear objectives;
- Transform the PATE Unit into a department, and grant autonomy for discharging its functions;
- Decentralisation of the PATE Unit to all operational departments and outstations;
- Regular and holistic training of PATE staff in customs, tax, and non-tax matters;
- Modernisation of the call centre and implementation of a policy to streamline all inquiries to the call centre; and
- Ensuring adequate and timely disbursement of funds for tax education purposes.