

6 Citizens, Subjects and Slackers and Paying Taxes

To function properly and to provide for the welfare and security of its citizens, every state must undertake the critical task of raising revenue from its populace. When it comes to collecting taxes, the most critical ingredient, no doubt, is the attainment of a sufficient level of compliance on the part of society. Citizens must agree to the levels of taxation required of them and must file tax returns accordingly. Payment of one's dues to the state is the hallmark of becoming a citizen, and it is a duty that all citizens, including those in the new states that emerged from communism in Eastern Europe and the former Soviet Union, must take up.

In gauging specifically how well residents in new states such as Poland, Russia and Ukraine become true citizens, who are capable of fulfilling their obligations to their governments, it is necessary to measure how compliant the populace is with taxes.

The Taxpayer Compliance Attitudinal Surveys of 2004, 2005, 2010, 2012 and 2015 (see Appendix I), introduced in Chapter 4, indicate not only that the Polish polity is far more willing and compliant in its attitude towards paying taxes than the Russian and Ukrainian polities are, but also that Russians respond to their state with greater fear of deterrence, albeit perhaps more in 2004 than in 2010, while Ukrainians, showing the lowest levels of support for obeying the law, react to state efforts to increase tax compliance with less fear and little trust, especially in 2005.¹

The important question, then, becomes 'why?' Why are Poland, Russia and Ukraine so dramatically different attitudinally with respect to paying one's share to the government? Where does such tax compliance (or lack thereof) actually come from?

This chapter will address this question. Three main theories of taxpayer compliance will be explained. First, I will consider the deterrence

¹ Great care was given to ensure that the Polish, Russian and Ukrainian survey questions were as equivalent as possible in terms of meaning and interpretation. Final versions of the questions were made in consultation with linguistic specialists at each survey firm to make sure that all survey questions were worded naturally for the ears of native speakers and equivalent in meaning to the questions used in the other country surveys.

theory, which emphasizes that those governments eager to extract tax revenues from society should provide the public with sufficient fear of the consequences if one does not pay. Second, notions of trust in government to provide goods and in other fellow citizens to pay their fair share (also referred to as the theory of ‘quasi-voluntary compliance’) will be examined. And, third, paying taxes on the basis of prior experience and interaction with the tax authorities will be explained through a theory that suggests that obeying the law is dependent upon prior encounters with the tax bureaucracy.

These theories will be tested utilizing the Polish (2004 and 2010), Russian (2004 and 2010) and Ukrainian (2005, 2010 and 2015) Taxpayer Compliance Attitudinal Survey data. The findings suggest that an important aspect of the theory of ‘quasi-voluntary compliance’ that relies on taxpayers’ trust in their government to fulfil its obligations to society holds up well in all of the surveys. Within the Russian and Ukrainian 2004–2005 surveys (but not the Polish 2004 survey), the deterrence theory, however, was shown to be just as significant, but had an even greater effect in increasing the predicted likelihood of expressing support for tax compliance in the Russian 2004 survey. In the 2010 Polish, Russian and Ukrainian surveys and in the 2015 Ukrainian survey, in contrast, citizens’ trust in their states mattered more across the board in accounting for why taxpayers would support complying with tax laws.

Furthermore, with respect to examining the impact of having had prior interaction with bureaucrats, the results are quite different for the three cases and across the multiple surveys, as they show that the nature of the past conduct of the tax officials can make a critical difference in terms of future support for complying with tax laws.

How Do Polish, Russian and Ukrainian Attitudes Differ with Respect to Paying Taxes?

While nearly equivalent percentages of respondents to the Poland and Russia Taxpayer Compliance Attitudinal Surveys conducted in 2004, 79 per cent and 71 per cent, respectively, stated that a citizen should always follow the tax laws even if he or she considers them to be unfair (Question #21), only 57 per cent of Ukrainians in 2005 stated the same. Figures for the 2010 surveys were quite similar: 81 per cent of Poles and 74 per cent of Russians in 2010 stated that a citizen should always follow the tax laws even if he or she considers them to be unfair, while only 64 per cent of Ukrainians in 2010 concurred. (The corresponding figures for Ukraine in 2012 and 2015 were stable at 59 and 61 per cent,

respectively.) Hence, obligations for citizens are viewed as significantly more limited by Ukrainians.

Interestingly, though, in both Russia and Ukraine (but not in Poland), there is a dramatic difference when it comes to whether individuals state that they would follow the tax laws even if they personally did not consider them to be fair. Whereas 83 per cent of Poles in 2004 (and a similar 77 per cent in 2010) would follow the tax laws in such cases, only 53 per cent of Russians in 2004 (and a nearly identical 52 per cent of Russians in 2010) and 36 per cent of Ukrainians in 2005 (and a somewhat similar 44, 39 and 45 per cent of Ukrainians in 2010, 2012 and 2015) would do the same (Question #22). Expressed another way, and as shown in Appendix III, when compared with the answers to Question #26 regarding whether or not the respondent viewed his or her country's tax laws as fair, in 2010, a minimum of 12 per cent of Poles, a minimum of 21 per cent of Russians and a minimum of 37 per cent of Ukrainians (42 per cent in 2012 and 37 per cent in 2015) did not appear to have any intention of complying with their countries' tax laws. Hence, in both Russia and Ukraine, there appears to be a disconnect between what obligations individuals believe to exist for citizens at large and what individuals state that they would do personally, and this has been sustained throughout the era of President Vladimir Putin in Russia. Such a disconnect between citizens' and one's own personal obligations does not appear to exist in Poland.

Other findings of the surveys indicate that the disconnect between citizens and their state is greater in Ukraine than in Russia. For example, remarkably, according to the survey (Question #36), far fewer Ukrainians (9 per cent in 2005; 10 per cent in 2010; 13 per cent in 2012; and 13 per cent in 2015) than Russians (38 per cent in 2004 and 46 per cent in 2010) stated that they knew the correct personal income flat tax rate, suggesting a populace that is further removed from the activity of the state.²

Clearly, Poland's population differs dramatically from those of Russia and Ukraine with respect to attitudes on fulfilling tax obligations to the state, and generally Ukrainians appear to be less compliant attitudinally than their neighbours to both the East and West. It is also extremely important to note that in Ukraine the 2005 survey came exactly one year after the Orange Revolution and that the 2015 survey came some twenty months after the EuroMaidan Revolution. Despite the efforts of those

² An additional factor might also contribute some lack of knowledge of the PIT rate in Ukraine: Ukrainian legislation allows an 'entrepreneurial' flat tax of as little as 200 hryvnia (or U.S.\$40) per month, for which any self-employed individual qualifies.

who organized the extraordinary 2004 and 2014 events to bring in a government more accountable to the people, Ukrainian citizens appeared to have the lowest levels of support for paying taxes to their state.³ This suggests that the efforts to re-make the citizen–state relationship in Ukraine towards more mutually constructive ends for both state and society will remain a tremendous challenge for Ukraine’s political leaders.⁴

Obviously, these survey figures are tricky measurements, complicated especially by the fact that this is the first set of survey questions designed to test tax compliance theories in these states, all of which have a history of authoritarian rule. Moreover, the surveys were taken just at two points in time in Poland and Russia and four points in time in Ukraine. Further, any reforms or improvements with respect to tax law or tax procedures undertaken in recent years by the state may not have caught up in the minds of respondents as they form their current overall attitudes towards paying taxes. In addition, while attitudinal decisions are important components of behaviour, surveying attitudes towards compliance is not precisely the same as measuring tax compliance itself.⁵ Finally, of course, as discussed in greater length earlier in Chapter 4, the Taxpayer Compliance Attitudinal Survey Question #22, chosen as the main dependent variable for analysis in this chapter, seeks to replicate as

³ The International Finance Corporation (IFC) has found a similar low level of support for paying taxes on the part of Ukrainian firms. Only 16 per cent of respondents in the IFC’s 2004 survey of some 2,800 small and medium-sized businesses stated that they paid their taxes in full the previous year, with 20 per cent stating that they underreported their income by more than 20 per cent (IFC, 2004, p. 58). A year later, the IFC found in its 2005 survey that only 18 per cent indicated that companies similar to theirs did not underreport revenue for tax purposes and that one in four respondents who underreported revenue estimated that the amount concealed from tax was more than 50 per cent (IFC, 2005, p. 29).

⁴ It should be noted that the survey taken in Ukraine came at a time of relative economic strength compared with the 1990s, but that Ukraine’s strong economic growth did slow in 2005. (According to the Economist Intelligence Unit (EIU) website, the rate of GDP growth for Ukraine in 2004 was 12.1 per cent, while in 2005 the rate is estimated to have been 2.4 per cent.) Meanwhile, the stark differences between the Polish and Russian states are even more remarkable considering that the surveys were undertaken at a time in which there was a relative downturn in the Polish economy and a time of relative strength in the Russian economy in comparison with previous years. (According to figures compiled from EIU data, the average GDP growth rate for Poland from 2001 to 2005 was 3.0 per cent, whereas the average for Russia was 6.1 per cent and for Ukraine 7.7 per cent over the same period. This contrasts with average GDP growth rates of 3.73 per cent for Poland from 1991 to 2000, and -3.61 per cent and -7.71 per cent over the same period for Russia and Ukraine.)

⁵ The limitations of such survey data should be emphasized here: Survey data reflects what respondents tell interviewers rather than actual compliance; hence, further research such as individual-level data over time constructed from tax returns or audit results would be required to make the link more conclusively.

much of a real world scenario as much as possible, one in which individuals choose every day to follow the tax laws or not, even in cases where they disagree with them.

Nevertheless, it appears that the Russian and Ukrainian publics are with their state to a significant degree less with respect to fulfilling their citizenship obligations and paying their tax dues than the Polish public. The question, then, is why?

Why Do Polish, Russian and Ukrainian Attitudes Differ Dramatically with Respect to Paying Taxes?

Within social science, there is a lack of consensus as to which conceptual model or theory best explains variation in taxpayer compliance. There are few activities that governments engage in that pose more difficulties with respect to issues of trust and compliance than tax collection. States generally can take three main approaches, none of which are mutually exclusive, to improve tax compliance on the part of their citizens – deter taxpayers into complying by fear of punishment, gain citizen trust so that taxpayers will comply quasi-voluntarily, and improve ‘customer service’ by emphasizing procedural fairness as the tax system interacts with taxpayers. For a compliant society interacting with a citizen-based state, the expectations would be that tax compliance depends largely on trust in the state and/or satisfaction with tax bureaucrats’ level of customer service from prior encounters. For a society interacting with a deterrent-based approach to tax collection, tax compliance would be expected to depend largely on citizens’ being susceptible to deterrence.

Generally speaking, with respect to the tax policy area, Poland’s tax administration has a work philosophy that is more compliance-driven and outward-focused. The tax system there is less focused on reaching a monetary target, which promotes a philosophy that treats taxpayers more like clients. Meanwhile, in Russia and Ukraine, the focus has been more target-driven, which makes tax inspectors merely try to fulfil quarterly or yearly targets and go after those taxpayers who have already paid, as more revenue can be obtained from those known to have it.

The Deterrence Model

Economists, as Joel Slemrod has explained, by and large have viewed the task of tax collection as a problem of ‘rational decision making under uncertainty’ – one in which ‘cheating on your taxes is a gamble that either pays off in lower taxes or, with some probability, subjects you

to sanctions'.⁶ The assumption, then, within the Hobbesian deterrence model is that the fear of being detected or punished by the coercive powers of government embodied in the tax administration will reduce illegal or noncompliant behaviour for the betterment of society at large. The model also suggests that compliance will increase as the odds of being detected and the penalties for tax evasion also increase. Hence, only out of rational self-interest will citizens comply with the will of their state.

According to the results of the Taxpayer Compliance Attitudinal Surveys, when asked what they would do if the risk of punishment was completely taken away, 53 per cent of Poles in 2004 (47 per cent of Poles in 2010), 40 per cent of Russians in 2004 (45 per cent of Russians in 2010) and 34 per cent of Ukrainians in 2005 (38 per cent of Ukrainians in 2010; 29 per cent of Ukrainians in 2012; and 39 per cent of Ukrainians in 2015) stated that they personally would be more likely to evade paying taxes if they thought they could get away with it (Question #16 in Appendix I.) Hence, more Poles than Russians and Ukrainians seem to indicate that on an attitude basis, at least, they would be more responsive to a relaxation of a punishment risk.⁷ Later, I will explore how significant a susceptibility to a relaxation of deterrent measures is in explaining differences in overall attitudes towards tax compliance.⁸

⁶ Slemrod, p. 2.

⁷ When adding in those who stated that it was 'difficult to say', the totals for the Polish, Russian and Ukrainian survey responses to Question #16 are the same. Nevertheless, one possible reason for the disparity between Poles, Russians and Ukrainians on the issue of evasion without risk of punishment might be different connotations of what it means to evade. Perhaps for some Poles 'evasion' could mean hiding some taxable income, while for Russians it might be non-payment altogether. Further surveys testing attitudes towards different gradations of cheating might be beneficial here.

⁸ While this Question #16 and that chosen for the dependent variable in the logit analysis (Question #22) both ask respondents about tax evasion, the concepts behind the questions are theoretically distinct. Asking individuals whether they would be more likely to evade taxes if there were no punitive consequences is not the same as asking whether they would evade a tax law personally deemed unfair (or one they disagreed with) regardless of whether the state employed deterrent force or not. The former question asks about individuals' views on the effectiveness of removing the risk of punishment for themselves personally, while the latter asks about the extent to which personal notions of fairness (regardless as to what those personal notions of fairness actually are or how they differ from individual to individual) could outweigh the fulfilment of the civic duty to pay one's share in taxes. Hence, the first question is about deterrence and parses out deterrence as to whether it works at all or not. The model shows the impact of deterrence – how big is that impact on compliance with tax laws that one deems to be unfair, that one disagrees with. Indeed, in examining the distribution of the variables constructed from Questions #16 and 22 to be used in the logit analysis, for example in the 2004–2005 surveys, the responses are not clustered together. Roughly 12 per cent of Russians surveyed would neither obey tax laws nor evade if they knew there would be no punishment, roughly 25 per cent of Russians would not obey tax laws and would evade if they knew there would be no punishment, 38 per cent of Russian would obey tax laws and would not

The Two Trusts

Other social scientists have begun to argue within the last twenty years that the payment of taxes constitutes a transaction made on the basis of trust, which comes in two forms: trust of the government to provide goods and services to its citizens and trust in other citizens to also pay their own taxes. Citizens and the state will benefit if such trust can be maintained.

Margaret Levi, in *Of Rule and Revenue*, has introduced the concept of quasi-voluntary compliance with respect to the payment of taxes to the state in a manner that reduces the costs of enforcement. '[Quasi-voluntary compliance] is *voluntary*', she writes, 'because taxpayers choose to pay. It is *quasi-voluntary* because the noncompliant are subject to coercion – if they are caught.'⁹ To occur, quasi-voluntary compliance requires the two forms of trust previously mentioned. 'Quasi-voluntary compliance', she continues, 'will occur only when taxpayers have confidence that (1) rulers will keep their bargains and (2) the other constituents will keep theirs.'¹⁰ Hence, taxpayers will comply in a quasi-voluntary manner if they have some confidence and relative certainty that the state will provide the goods (and/or services) that it has promised and if the taxpayers also have similar confidence and certainty that others are also complying with the state so that the goods (and/or services) will be paid for. (An additional, important component of trust in the state is of a more moral, less material nature – trust that the state acts and will act fairly towards its citizens.)¹¹

Once quasi-voluntary compliance declines, Levi is very pessimistic about the opportunities to reconstitute and rebuild it. Re-establishing it, she concludes, 'often requires an extraordinary event – such as war, revolution, or depression – that makes people willing to negotiate a new

evade if they knew there would be no punishment and 26 per cent of Russian would both obey tax laws and evade if there was no punishment. For the Polish 2004 survey, the corresponding percentages were 2, 5, 38 and 55 per cent, respectively. Similarly, for the Ukrainian 2005 survey, the corresponding percentages were 24, 26, 30 and 20 per cent, respectively. Likewise, the scale reliability coefficients of the variables are very low in the Polish survey (0.1108), low in the Ukrainian survey (0.2263) and still not high enough to form a scale in the Russian survey (0.4103.) All of this suggests that the concepts behind the questions were most likely distinct in the minds of the respondents as well as of the author of the survey.

⁹ Levi, 1988, p. 52. ¹⁰ *Ibid.*, pp. 52–53.

¹¹ Similarly, Sheffrin and Triest, in an econometric analysis of the U.S. 1987 Taxpayer Opinion Survey, found that 'attitudes are important determinants of compliance behaviour. They find that having a negative attitude toward the tax system and perceiving other taxpayers as dishonest both significantly increase the likelihood that a person will evade taxes.' (Sheffrin and Triest, cited in Ickes and Slemrod, p. 391.)

bargain'.¹² In the aftermath of its 2004 Orange Revolution and 2014 EuroMaidan Revolution, Ukraine, for example, may have been given a rare second and even rarer third shot within a twenty-five year period at rebuilding the state's relationship to taxpayers. (Indeed, in the first few months of 2005, preliminary reports stated that tax and customs revenues were significantly higher than usual there.¹³)

Trust in the Government to Provide Goods Leaving aside trust in other taxpayers for the moment, Levi states that the government leaders 'must create confidence in their credibility and their capacity to deliver promised returns for taxes' and 'must convince taxpayers that taxpayer contributions make a difference in producing the desired goods'.¹⁴

According to the results of the Taxpayer Compliance Attitudinal Surveys, 21 per cent of Poles in 2004 (23 per cent in 2010), 42 per cent of Russians in 2004 (35 per cent in 2010) and 52 per cent of Ukrainians in 2005 (53 per cent in 2010; 55 per cent in 2012; and 47 per cent in 2015) believe that there are many dishonest tax service employees in their country, with nearly a third of respondents in these countries stating that it was difficult to say (Question #3 in Appendix I.) This provides one assessment as to how citizens view bureaucrats at the bottom of the political system with regard to trustworthiness. Clearly, Ukrainians are more distrusting of tax bureaucrats than their neighbours both to the East and to the West, and it appears that there were a bit fewer Russians who distrusted their bureaucrats in 2010 than six years earlier. (Additional assessments as to how trustworthy are actors at the top of the political system – namely, the president in Poland, Russia and Ukraine and the parliament and government in Poland and Ukraine – are included in the analysis of what accounts for differences in overall attitudes towards tax compliance as further proxy measurements for how trustworthy the state is in the eyes of citizens.¹⁵)

¹² Levi, 1988, p. 70.

¹³ On 18 August 2005, Ukraine's Prime Minister Yulia Tymoshenko stated that Ukraine already has collected 50 per cent more in budget revenue so far in 2005, compared with 2004. 'All of the tax rates are exactly the same, yet the revenue received is 1 1/2 times greater', Tymoshenko said (Reynolds, Garfield).

¹⁴ Levi, 1988, p. 53.

¹⁵ The author does recognize that there are limits in utilizing such measures of trust in individual political personalities such as Presidents Aleksander Kwasniewski, Bronisław Komorowski, Vladimir Putin, Dmitry Medvedev, Viktor Yushchenko, Viktor Yanukovich and Petro Poroshenko, for example, as the survey questions asked do pick up respondents' additional perceptions of their leaders and their politics rather than focusing entirely on their perception of their leaders' honesty or trustworthiness. (This is less the case with measures of trust in institutional bodies such as the parliament or government.) Nevertheless, the questions chosen for analysis here are the same as those

While not available for the Polish and Russian surveys in 2004, additional survey questions do suggest that there is a significant lack of trust in the state. With respect to the provision of goods and services, in 2005 only 9 per cent of Ukrainians believe that their government fulfils its obligations to citizens, in 2010 and 2012 only 10 to 12 per cent believe that their state fulfils its obligations to citizens, and in 2015 only 6 per cent (!) believe that their state fulfils its obligations. From 2005 through to 2015, some 50 to 60 per cent of Ukrainians flatly deny that their state or government fulfils obligations (Question #55). Meanwhile, the figure for Poles and Russians in 2010 who believed their state fulfils its duties to citizens was much higher at 21 and 24 per cent, respectively, and only 26 to 27 per cent viewed their state as not fulfilling its tasks. Clearly, Ukrainians do not believe that they get much from their state, and the downward trend in 2015 is not encouraging for the Ukrainian state.

Moreover, when Ukrainians were asked whether they could trust their government to do what was right in 2005 and their state to do what was right in 2010 and 2012, only 9 or 11 per cent stated that they could (Question #56). Further, the figure was little more than half that in 2015, when only 6 per cent could trust their state to do what was right. Similarly, the 2015 survey saw a drop to 7 of the percentage of those who view the state as relating to all citizens in an equal, fair manner – down from 15 per cent in 2010 and 2012 (Question #57.) Again, Poles and Russians are a bit more trusting of their state, with 21 and 26 per cent, respectively, stating in 2010 that they can trust their state to do what is right, and with 21 and 20 per cent, respectively, stating that they trust their state to treat all citizens in an equal, fair manner. Hence, as trust in the state on the part of citizens involves both a material trust that the state will continue to provide goods and services and a moral trust that the state will treat its citizens fairly, Ukrainians appear to be stating flatly after both revolutions that they cannot trust their state to do either, and the latest data on the levels of Ukrainians' trust in their state are the lowest ever recorded in these surveys.

Trust in Other Taxpayers to Pay Their Fair Share As mentioned, those who view tax compliance as based on a combination of trust relationships also give significant relevance to whether or not taxpayers have confidence that their fellow citizens also will pay their dues to the state. In Poland, Russia and Ukraine, distrust in others paying their fair share in taxes is, perhaps surprisingly, quite high. According to the results of

used regularly by the respective polling firms in their surveys used for tracking changes in such attitudes.

the Taxpayer Compliance Attitudinal Surveys, some 69 per cent of Poles in 2004 (65 per cent in 2010), 77 per cent of Russians in 2004 (67 per cent in 2010) and 70 per cent of Ukrainians in 2005 (69 per cent in 2010 and in 2012; and 72 per cent in 2015) believe that there are ‘many people’, as opposed to ‘few people’, in their country who evade taxes (Question #13 in Appendix I.)¹⁶ In contrast to some of the other survey data presented in the first part of this chapter, levels of trust in one’s fellow citizens, at least with respect to paying one’s tax dues, might not be dramatically different in the three states.

Prior Personal Experiences and Interaction with the Tax Authorities

Some theories that explain civic obedience rely on whether citizens have had past interactions with relevant government officials.¹⁷ In the Taxpayer Compliance Attitudinal Surveys, survey questions were utilized to explore whether previous experiences with the tax authorities affect citizen views on complying with the law. According to the surveys, nearly half of all Poles in 2004 (38 per cent in 2010), a quarter of all Russians (in both 2004 and 2010) and only 12 to 19 per cent of all Ukrainians stated that they had dealt with tax service employees within the previous five years on matters of business (Question #6 in Appendix I.) Of these individuals, 51 per cent of Poles in 2004 (50 per cent in 2010), 30 per cent of Russians in 2004 (37 per cent in 2010) and 27 per cent of Ukrainians in 2004 (30 per cent in 2010; 28 per cent in 2012; and 31 per cent in 2015) had overall positive impressions of their individual contact with the tax bureaucrats, while 19 per cent of Poles in 2004 (17 per cent in 2010), 29 per cent of Russians in 2004 (27 per cent in 2010) and 30 to 32 per cent of Ukrainians (in 2005, 2010, 2012 and 2015) had negative impressions (Question #7.) Hence, while Poles overall had more positive impressions, nearly as many Russians and Ukrainians had negative impressions as positive ones.

¹⁶ It should be noted that levels of trust in others in Russia generally today are not high, which might also provide some cultural context regarding levels of trust in fellow taxpayers and, in turn, regarding attitudes towards tax compliance generally. For example, according to a poll conducted by the Bashkirova and Partners market research firm in June 2005, only 25 per cent of Russians agreed that, ‘generally most people can be trusted.’ In addition, while Russia places somewhere in the middle of some 80 nations polled in the World Values Survey as to whether one should trust people in general, Russia and Bulgaria were the only two nations in Eastern Europe where more people said they did not trust ‘most people in this country’ than said they did, according to a 2004 poll conducted by the Centre for the Study of Public Policy at the University of Strathclyde in Glasgow. (See Fak.)

¹⁷ See, for example, Tyler.

Testing the Theories of Taxpayer Compliance

How do the different theories on tax compliance, derived largely from the study of the US case, test against data on attitudes associated with tax compliance? As mentioned, the expectations for a compliant society interacting with a citizen-based state would be that tax compliance depends largely on trust in the state and/or satisfaction with tax bureaucrats' level of customer service. For a society interacting with a state that employs a more deterrent-based approach to tax collection, tax compliance would be expected to depend largely on citizens' being susceptible to deterrence.

Appendix IV presents the results of tests of the different variables representing the tax compliance theories discussed through logit analyses of the 2004 and 2010 Poland and Russia and of the 2005, 2010 and 2015 Ukraine Taxpayer Compliance Attitudinal Surveys, respectively. The dependent variable in these tests is whether one agrees to obey the tax laws even if they are personally deemed to be unfair (Question #22 in Appendix I.)¹⁸ Before proceeding, though, it is important to emphasize that the analysis presented here is not an evaluation of the behaviour of Poles, Russians and Ukrainians, but rather an examination of the links in attitudes that are essential part of behaviour decisions whether or not to comply. Moreover, as mentioned earlier, it is important to recognize that there are challenges in conducting quantitative surveys on these sensitive topics in countries with a tradition of authoritarianism. Further, no one, to the author's knowledge, has undertaken such a comprehensive survey on attitudes in these transitional countries to test tax compliance theories. Hence, the data here are suggestive, not definitive.

With regard to the independent variables in the regression analysis, they are divided into four categories.¹⁹ Viewing evasion as OK if one

¹⁸ Regarding the choice of the dependent variable, this dependent variable was most favourable to Poles as well as to Russians and Ukrainians. For example, in the 2004 and 2005 surveys, with near even splits (in Russia, 53 per cent of Russians would obey a law personally deemed unfair while 28 per cent would not and 19 per cent were unsure; and in Ukraine, the corresponding figures were 36, 37 and 27 per cent, respectively) provides opportunity to explain Russian and Ukrainian non-compliance. For obvious reasons, respondents were not asked directly about their own payment of taxes, nor were the respondents subject to any type of outside assessment to see if their taxes were paid in full. However, this survey question was the most direct question on what a respondent personally would do with respect to making a choice regarding tax evasion. Hence, despite the limitations of such an exercise, the focus here to examine what impacts attitudes towards tax compliance as a proxy for tax compliance itself.

¹⁹ With the exception of Age and Income, all of the independent variables, as with the dependent variable, are coded 0 and 1. Mean replacement replaces missing values at

could get away with it (Question #16) is a proxy variable for the deterrence theory, as it will help examine whether the extent to which one is susceptible to a relaxation of deterrent measures affects attitudes towards tax compliance.

The second category comprises a set of variables that examine the 'two trusts' behind theories of 'quasi-voluntary compliance' – the need both to trust the state to deliver the goods and the requirement to trust others to pay their fair due before one agrees to pay one's own taxes. The first of these variables in this set focus on trust of government – its leaders at the top (Presidents Aleksander Kwasniewski (2004), Bronisław Komorowski (2010), Vladimir Putin (2004), Dmitry Medvedev (2010), Viktor Yushchenko (2005), Viktor Yanukovych (2010) and Petro Poroshenko (2015)); in Poland and Ukraine, the parliament and the government as a whole; and in Russia (2010), the prime minister (Putin) and parliament (State Duma) – as proxy variables for trust that the government fulfils its obligations to its people.

Meanwhile, for additional versions of the regression analysis, scales were compiled in the Ukraine 2005 surveys and in the Poland, Russia and Ukraine 2010 and 2015 surveys to reflect respondents' general trust in the state at the top of the system. The Trust in the State Scale for the Poland 2010 survey is a composite of trust in the president, the prime minister, the Sejm, the Senate and the government and trust in the state to do what is right and to fulfil its obligations to its citizens. The Trust in the State Scale for the Russia 2010 survey includes trust in the president, the prime minister, parliament (the State Duma) and the government and trust in the state to do what is right and to fulfil its duties. Further, the Trust in the State scale for Ukraine 2005 and 2010 surveys is a composite of trust in the president, the parliament and the state (government in 2005) and trust in the state (government) to do what is right and to fulfil its duties.

Further, for all surveys, the variable 'Many Dishonest Tax Bureaucrats' (Question #3) serves as a proxy for trust in the lower levels of the state bureaucracy, while 'Many People Evade Taxes' (Question #13) is a good proxy for estimating one's views as to whether others pay their dues.

Whether or not one has had contact with tax bureaucrats within the previous five years (Question #6) allows us to test whether prior contact, in and of itself and irrespective of the nature of that

the mean, but mean-replaced variables were not used as the dependent variable in these logit regressions.

contact or its outcome for some individuals, matters with respect to attitudes towards tax compliance. A final set of control variables also are considered.²⁰

Poland 2004 As Appendix IV illustrates, the logit regression provides evidence to suggest that the Polish public does not react significantly to the first approach option for the state (deterrence) in 2004, but does to the second approach through ‘trust in government’. First, the deterrence theory, as measured by the proxy variable regarding what one would do if the risk of punishment were taken away, is shown to be insignificant. How one would respond to the withdrawal of the risk of punishment does not appear to have anything to do with whether one would say they would obey the tax laws. Second, prior contact with the tax bureaucrats also does not appear to matter significantly – although the analysis presented here does not separate out the impact of having had *unsatisfactory* prior contact on tax compliance. Moreover, income and being male are shown to be significant. (The fact, though, that the higher the income, the less willing Poles appear to be compliant suggests that compliance does not depend upon an individual’s ability to pay.) In addition, age and having graduated from a higher education institution do not matter (although the latter’s substantive effect, described below, does show some slight significance).

While binominal logit analysis is an appropriate method for analyzing dichotomous dependent variables, coefficients in such analysis – at least compared to those in ordinary least-squares regression – lack substantive meaning. To remedy this, a measure of the substantive effect of each variable is made by calculating what is referred to as a ‘first difference’ of the change in the predicted probability in the dependent variable. Here, the ‘substantive effect’ is the change in likelihood of declaring that one would obey tax laws even if personally viewed as unfair when the variable in question is shifted from its minimum to its maximum and all other independent variables are held even at their means.²¹ Such estimates for

²⁰ Those control variables concern socio-economic and additional effects and include the monthly income one declared as part of the omnibus survey, who actually files one’s personal income taxes (Question #2), whether one is male, one’s age and what is the highest education one has achieved.

²¹ The substantive effects presented in Appendices IV, V, VI and VII reflect the change in likelihood of declaring that one would obey tax laws personally viewed as unfair when shifting the variable in question from its minimum to its maximum for all variables with the exception of ‘Age’, which is varied from one standard deviation below the mean to one standard deviation above the mean.

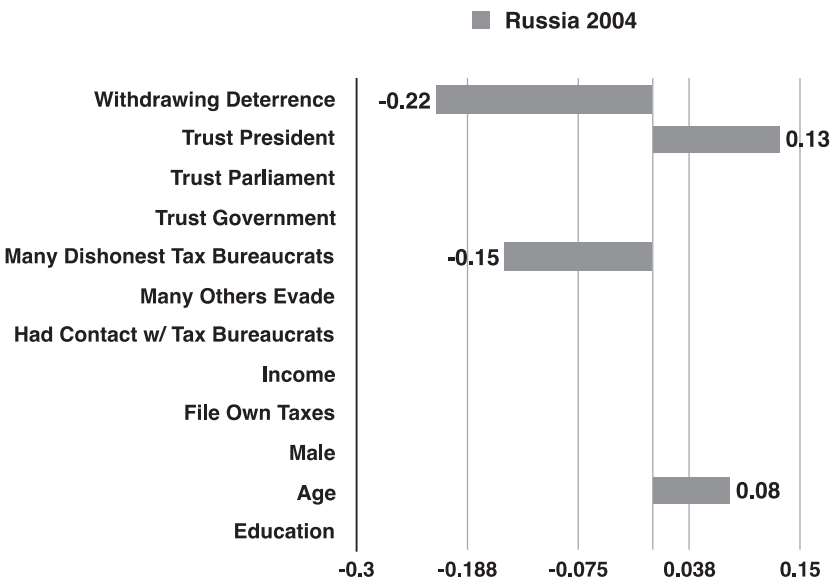
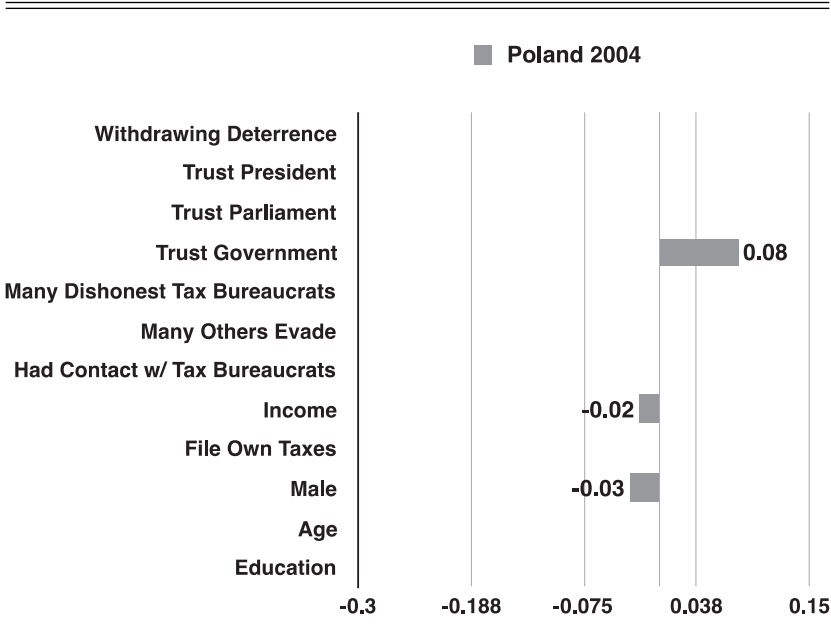
the variables (with substantive effects that have p -values estimated to be ≤ 0.05) are depicted graphically in Table 6.1.²²

The variable with the most significance and with the largest substantive effect in the Polish survey was a proxy variable for ‘quasi-voluntary compliance’. Namely, obeying tax laws appears to depend more than any other variable in Poland on whether one trusts the government – which in Poland’s system of government directs, leads and bears the most direct responsibility for policy making in the country (as opposed to the president or the parliament at large). The other proxy variables for the main theories tested were not that significant, and hence do not appear in Table 6.1 for Poland. Noticeably and peculiarly, trust in other citizens is not significant.

Poland 2010 As Appendix IV also illustrates, the logit regression suggests that six years later the Polish public did react to the deterrence measures taken by the state in balance with a number of other variables that assess ‘trust in the state’, both at the higher and lower levels in the state, measured either individually (Versions 1 and 2) or as part of a Trust Scale (Versions 3 and 4). (Versions 3 and 4 are, perhaps, a more complete assessment of Trust in the State, as they encompass a variety of trust questions regarding one’s view of the state at large and is comparable with regressions undertaken in the 2005 Ukraine, 2010 Russia and 2010 Ukraine surveys, but as some of these questions were not asked in 2004, Versions 1 and 2 are provided to make possible a comparison between the 2004 and 2010 Poland surveys.) Collectively these ‘trust in the state’ variables – either the measurements for trust in the president or the parliament or those for the Trust in the State scale of seven variables and the separately measured trust/distrust of tax bureaucrats – do have greater substantive impact on one’s willingness to obey tax laws than the deterrence measure alone. As before, prior contact with tax bureaucrats

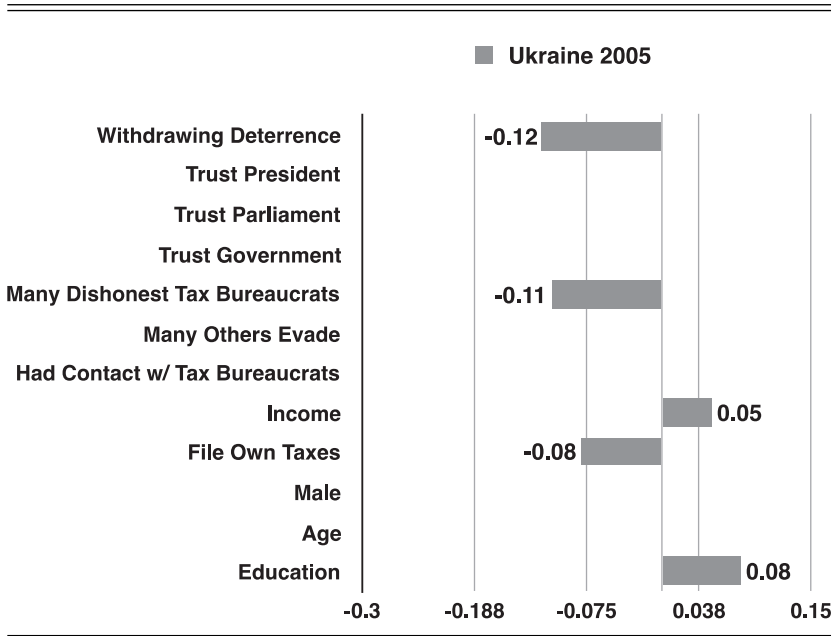
²² The substantive effects presented in Appendices IV, V, VI and VII contain an indicator of statistical significance but no standard errors. While it is not possible to calculate a probability distribution of a first difference, we can simulate this distribution using stochastic simulation as described in King, Tomz and Wittenberg. Therefore, instead of calculating one estimate of each first difference, 1,000 estimates of the first difference are calculated using the program Clarify, Version 2.1, Tomz, Wittenberg and King, 5 January 2003. The value listed for the substantive effect is the mean of those simulations. To provide a measure of uncertainty in deriving the substantive effects, the p -value is estimated by the proportion of simulations that are greater (or less, if the mean is negative) than zero. So $p \leq 0.01$ means that at least 990 of the simulations were greater than zero for a positive variable, $p \leq 0.05$ means at least 950, etc. One article that employs such a method of estimating substantive effects is Markowski and Tucker, 2005.

Table 6.1 *Citizens, subjects and slackers: Substantive effects that are significant in the Poland, Russia and Ukraine 2004–2005 Taxpayer Compliance Attitudinal Surveys*



(cont.)

Table 6.1 (cont.)



Note: Substantive effects possess p -values ≤ 0.05 .

does not appear to matter significantly. Moreover, being male again is shown to be significant, as now is education.

Hence, as shown in Appendix IV, the variables that together have the most significance in both the Polish 2004 and 2010 surveys were the proxy variables for 'quasi-voluntary compliance'. By and large, obeying tax laws even if they are considered unfair appears to depend more than any other variable in Poland on whether one trusts the state. Therefore, if, as has been shown in the first part of this chapter, the Polish polity is viewed as more compliant with respect to taxes, it might very well be because the Polish state has maintained some degree of trust with its citizens that it will continue to fulfil a significant proportion of its obligations to its citizens to ensure that life will be still be better – despite voter apathy, corruption scandals and the rapidly changing nature of the Polish political party system.

One of the implicit assumptions regarding these countries is that Poland, unlike its eastern neighbours, has developed a civil society that possesses citizens who are more politically active and demand greater

openness and transparency on the part of the state. This is deemed to have come about, in significant part, due to the historical role the Catholic Church played in the Polish People's Republic and its collapse in 1989. Once a regime established by outside forces met its demise and a new state was built by, for and of Poles, citizens then could place greater trust in their state, allowing development of the particular type of civil society that is, perhaps, familiar in more consolidated democracies. As such, this greater trust in the state aids societal compliance.

Russia 2004 As for the results of regression analysis of the Russian 2004 survey, shown in Appendix V, the contrast with the Polish 2004 and 2010 survey results is quite striking. The logit regression provides evidence to suggest that deterrence theory does hold significant weight among the Russian public. Meanwhile, the theory of 'quasi-voluntary compliance' appears to be applicable in part, as proxy variables for trust in the president but not for trust in other citizens are quite significant. As for prior contact, it was not very significant in the regression, although it was somewhat close to significance. (The p value was 0.166.) Additionally, age seems to be significant. Like prior contact, possessing high education was not very significant in the regression, but its substantive effect picks up slight significance. Interestingly, income has no effect at all in Russia, while having filed one's taxes oneself only has slight significance (the p value was 0.193).²³

For Russia, the independent variable with the largest 'substantive effect', as shown in Table 6.1, is the proxy variable for the deterrence theory. However, somewhat close behind with respect to size of 'substantive effect' are several of the variables that are part of the 'quasi-voluntary compliance' theory, such as, among others, trust in the president and distrust in tax bureaucrats, suggesting that Russian tax compliance may very well hinge somewhat on the degree to which citizens trust the state.

Russia 2010 Six years farther along into the Putin-Medvedev era of governance, Russians show that they are no more supportive of obeying tax laws even if they find them to be unfair. The logit regression shows that the deterrence proxy variable continues to hold significant weight among the Russian public. Meanwhile, the theory of 'quasi-voluntary compliance' is applicable, as proxy variables for trust in Putin

²³ As income and education variables do possess some strong relations to one another, additional regressions were run to show whether income would matter if education were dropped out (it did not) and to see whether possessing high education would still matter without including income (it did and became stronger.)

(as prime minister, this time), trust in the State Duma and trust in tax bureaucrats are quite significant (Versions 1, 2, 5 and 6). A 'trust in the state' scale, composed of five questions, also was found to be quite significant in a separate regression (Versions 7 and 8).

However, what is interesting to note is that (in Versions 5 and 6) trust in the president (Medvedev in 2010) now appears to have the opposite sign from 2004. That is, the more one trusts Medvedev, the more one is less likely to support complying with tax laws with which one disagrees. Having had prior contact was not that significant in the regression, nor was filing taxes oneself.

In 2010, the independent variables with significant substantive effects are the proxy variable for the deterrence theory and those for the theory of quasi-voluntary compliance. Unlike in 2004, the deterrence variable, while sizeable, is smaller than that the variable for trust at the bottom of the state system (the tax bureaucrats). In short, when the 2004 and 2010 Russian surveys are compared, what has really changed – besides the change in the effect of trust in the new Russian president – is that the coercive threat of the state does not have as strong an effect as before. This raises the question of whether the Russian state is 'feared' just a bit less than earlier in the Putin era.

Further, with respect to socio-economic variables, the Polish 2004 and Russian 2010 surveys also give support to the theory, derived from the study of tax compliance in the United States, that men are less compliant than women. In Russia 2010, being male meant that, other things being equal, you were nearly 4 per cent less likely to state that you would obey tax laws. The 2010 Russian survey also showed that the older you are, the more likely you were to state that you would be compliant.

Ukraine 2005 Although Ukrainians in 2005 appear to have somewhat lower levels of support for tax compliance than Russians, the results from the regression analysis examining why Ukrainians support obeying a tax law even if it is personally deemed unfair suggest that Ukrainians are influenced almost equally by their reactions to the state's deterrent measures and by their own trust in government. With respect to the three main theories on how citizens respond to state efforts to increase tax compliance, two sets of variables stand out as strongly significant and nearly as great in terms of 'substantive effect'.

Table 6.1 illustrates that alternating the proxy variable for the deterrence theory (whether one would respond to relaxation of the coercive threat to pay) from its lowest to its highest values while maintaining the other independent variables at their means decreases the likelihood that a Ukrainian respondent would state that he or she would obey tax laws

by about 12 per cent. Meanwhile, as is shown in Appendix VI, alternating the trust in state scale variable from its lowest to its highest values increases the likelihood of saying that one would obey such a law by 2 per cent. Similarly, distrusting tax bureaucrats decreases the likelihood of stating that one would obey tax laws by 9 to 11 per cent (depending on whether the Trust in the State scale is used in the regression). Hence, such numbers indicate that unlike Poland in 2004, deterrent measures do matter and unlike Russia in 2004, trusting government matters nearly as much.

Interestingly, like the Polish 2004 and 2010 and the Russian 2004 surveys, the secondary type of trust that is part of the theory of quasi-voluntary compliance, trust in other citizens to pay their taxes, does not matter at all for Ukrainians in 2005. This suggests that, for the most part, Poles, Russians and Ukrainians do not place themselves in relation to others in society when deciding whether to agree to obey a tax law even if it is personally deemed unfair and that citizens of all three countries do not respond as 'rationally' in terms of estimating whether the state has enough tax revenue from others to be able to deliver goods and services back to its citizens.

Having had any previous contact with tax bureaucrats, regardless of whether the interaction was good or bad, does not appear to have any impact whatsoever on whether Ukrainians state that they would obey a tax law that they personally deem to be unfair.

With respect to the socio-economic variables tested, whether or not one files one's own taxes appears to be significant but has a negative sign, suggesting that those who file their own taxes in 2005 are less likely to be observant of tax laws than those who do not. Also, education appears to be significant. As in Poland in 2004, levels of income matter with respect to tax compliance attitudes in Ukraine. However, unlike the case with Poles, the higher the income of Ukrainians, the more likely they are to agree to obey tax laws. This finding conflicts with some theories from the study of tax compliance patterns in the United States, but suggests that wealthier individuals in Ukraine can afford to pay their taxes. Curiously, while those with more income in Ukraine might be more likely to pay taxes in Ukraine themselves, those who stated that they do file taxes on their own actually are less likely to state that they would obey tax laws even if they considered them unfair. As for education, the findings are more consistent with the Russian 2004 case than with the Polish one – that is, lower levels of education correspond with lower levels of support for tax compliance.

Overall, the mixed nature of the survey results in Ukraine for 2005 – that is, the fact that proxy variables for reacting to state deterrence and

for trusting the state matter with respect to attitudinal support for tax compliance in near equal amounts – does suggest that Ukraine does not strictly follow the pattern of either Poland or Russia. Poland appears to be a case that possesses a compliant society interacting with a citizen-based state such that tax compliance depends largely on trust in the government. Russia, on the other hand, has a society interacting with a state that strongly employs a deterrence-based approach to tax collection, where the significance of the effect of coercive measures is still strong in 2010, albeit with perhaps a bit smaller effect.

Ukraine is a different case altogether. The employment of deterrence – perhaps to an extent that is not as great as in Russia – is the state's primary tool for ensuring tax compliance through the State Tax Administration of Ukraine. Yet the greater freedom of information on the shortcomings of the state and its political leaders in Ukraine in November 2005 might have allowed Ukrainians as a whole to balance their support for tax compliance between reactions to deterrent measures of the state and their trust in the state. The fact that deterrent force might not be as great in Ukraine as in Russia might be due to the fact that in late 2005, when the poll took place, Ukrainians were better informed about their state's government and politics. (In addition, it has been suggested by several experts in Kyiv that the dynamic of corruption on the part of state workers changed after an Orange Revolution 'honeymoon' period from January through August 2005, increasing around the time of Yulia Tymoshenko's dismissal as Prime Minister in September 2005, if not a bit before.²⁴)

Moreover, the fact that Ukrainians might not be as trusting of their state as Poles are of theirs might account for the fact that Ukraine had the lowest rate of support for obeying a tax law deemed unfair among the three states surveyed. Indeed, as Questions #55 and #56 in Appendix I illustrate, only 9 per cent of Ukrainians in 2005 feel that the government fulfils its obligations to its citizens, and similarly, only 9 per cent of Ukrainians agree that their government can be trusted to do what is right. Clearly, Ukraine's post-Orange transition from a coercive and corrupt state to a more open, democratic one has come about without rebuilding citizens' trust that their state can act fairly and can deliver goods and services, and the failure to create and draw upon such trust may very well curtail the state's capacity to administer its own policies.

²⁴ Interview with Igor Lavrinenko, Centre for Political and Legal Reforms, Kyiv, 24 July 2006; and interview with a director at an international business association, Kyiv, 8 August 2006.

As shown in Table 6.1, the substantive effects from the analysis of the first, basic surveys from 2004–2005 suggest that the three cases can be labelled ‘Citizens, Subjects and Slackers’ in terms of the citizen–state tax relationship. Ukrainians acted neither as true ‘citizens’ (i.e., out of trust, like the Poles) nor as ‘subjects’ of their state (i.e., out of fear, like the Russians), but rather sought to avoid interacting with their state altogether, as tax ‘slackers’.²⁵ That is, Poles in 2004, who possessed a high willingness to obey the tax laws, reacted more out of trust towards government when expressing support for obeying tax laws even if they disagreed with them. Russians in 2004 showed that their fear of being caught had more of an effect on their willingness to obey tax laws than their trust in the state. And, Ukrainians, with effects for trust and fear in balance coupled with low levels of support for obeying tax laws even if they are deemed unfair, can be termed ‘slackers’ with respect to observing tax dues.

Ukraine 2010 The big story for the Ukraine 2010 survey is, as for Russia, that trust variables matter more than they did in the earlier survey, but unlike the case in Russia, deterrence matters far less. As shown in Appendix IV, alternating the proxy variable for the deterrence theory (whether one would be respond to the relaxation of the coercive threat to pay) from its lowest to its highest values while maintaining the other independent variables at their means decreases the likelihood that a Ukrainian respondent would state that she or he would obey tax laws even if deemed unfair by about 3 per cent. Meanwhile, alternating the ‘trust in the state’ variable (Versions 3 and 4) from its lowest to its highest values increases the likelihood of saying that one would obey such a law by 8 per cent. (Trust in the government and trust in the parliament, when shown separately in Versions 1 and 2, have somewhat high levels of predicted likelihood as well.) Similarly, distrusting tax bureaucrats decreases the likelihood of stating that one would obey tax laws by 10–11 per cent, nearly identical to the decrease in 2005.

Hence, five years after the Orange Revolution, the 2010 Ukraine survey indicates that trusting the state may matter the most when it comes to explaining why Ukrainians continue to demonstrate the lowest levels of support for paying taxes among citizens in all three countries.

²⁵ It is important to emphasize that the selection of the term ‘slackers’ is applied to Ukrainians only within the context of taxpaying and does not imply in any way that Ukrainians ‘slack’ in any other particular sphere of activity; moreover, given their environment and state–society relations, it may even be considered to be quite ‘rational’ on an individual-level basis for Ukrainians to ‘slack’ in the area of tax compliance at different points in time.

Ukraine 2015 Some twenty months after the EuroMaidan revolution, the Ukrainian public, perhaps due to the departure of Yanukovich's regime, appears to be reacting out of trust concerns as demonstrated by strong substantive effects in the logit regression. Namely, while taking away the deterrent threat completely may make Ukrainians 9–10 per cent less likely to state that they would obey tax laws, altering trust in Poroshenko from its lowest to its highest levels has a larger impact of 18 per cent. Distrusting the tax bureaucrats in 2015 also made Ukrainians 10–11 per cent less likely to obey the tax laws. Additionally, distrusting other taxpayers by confirming that many people evade taxes has an almost equal impact of 17–18 per cent, but the effect is positive – quite the opposite of what Margaret Levi would predict. That is, the more Ukrainians in 2015 recognized that others evade taxes, the more likely they were to state that they themselves would be compliant. This phenomenon did not occur in any of the other surveys, and is, perhaps, due to a desire on the part of Ukrainians in 2015 to distinguish oneself as being and behaving differently from perceived lawlessness and improper behaviour elsewhere. Finally, while filing one's own taxes appears to have no effect, having more income and being older were factors associated with a greater willingness to obey.

Why Focus on Individual Attitudes and Not Those of Businesses?

Before moving on, it is important to observe that the results from the analysis of these surveys likely would not have been much different if these respondents were solely managers, business owners, individuals who file taxes themselves (because they have more than one source of income or more complicated tax returns) and/or individuals who interact with tax bureaucrats (even if most Russians and Ukrainians, at least, do not.) While conducting a survey of business attitudes (or especially of the attitudes of those within businesses that are directly responsible for the paying of taxes) in transition environments is especially challenging, as mentioned in Chapter 4, these public opinion surveys actually do include the attitudes of those in business in Poland, Russia and Ukraine.

Moreover, three questions included in the analysis highlight factors attributable to those in business. Namely, the survey – and the logit regressions analyzed above – did ask respondents whether they were a company director, top manager or entrepreneur or not (highlighted in the variable 'occupation'); whether they have had previous contact with tax bureaucrats (more common for those involved in business than ordinary citizens); and whether they filed their taxes themselves (rather than had their employer do so for them, which is more common for employees than it is for entrepreneurs or executives).

In none of the eight surveys was 'occupation' deemed to be significant at $p \leq 0.10$, either in the logit regression or as shown by the p -values for the substantive effects, although one, but not all, of the Ukraine 2005 regressions (Version 4 in Appendix VI) did have some slight negative significance. (If significant, for those Ukrainians with higher-status jobs, the likelihood that one would obey tax laws deemed unfair decreases about 6 per cent.) Having had previous contact with the tax bureaucrats also never appeared to be significant in any logit regression at $p \leq 0.01$, $p \leq 0.05$ or $p \leq 0.10$, although the substantive effects for having had prior contact did pick up slight significance at $p \leq 0.10$, a broader confidence interval, for some versions of the Russia 2004 and 2010 and the Ukraine 2010 regressions.

Similarly, filing one's own taxes was not a significant factor in any of the Polish and Russian survey regressions, but substantive effects for this variable did pick up similar slight significance at $p \leq 0.10$ in the Polish 2010 and Russian 2004 regressions. Where filing one's own taxes mattered significantly was in the Ukraine 2005 and 2010 surveys (but not in the 2015 survey). In these cases, the influence was negative – that is, the more Ukrainians were likely to have filed their own taxes, the less likely they were to state that they would comply with tax laws even if considered unfair. Further, the size of the substantive effect for this variable was smaller than for others that were significant – especially in the 2010 survey. Hence, for these years, needing to file one's own taxes was associated with even less willingness to obey than the already low levels offered by Ukrainian respondents as a whole (36 and 44 per cent in 2005 and 2010).

Thus, with respect to the dependent variable in question, the level of support for obeying tax laws expressed by individuals who share 'business-like' factors appears to be broadly similar to the level of the public at large across all eight surveys, with the slight possibility that the support for tax compliance might even be a bit lower than for the general public in 2005 and 2010 in Ukraine.

Finally, as other socio-economic variables were selected as control variables based on their significance in explaining taxpayer compliance, largely in US studies, it is important to observe that none of these additional variables uniformly had influence or lacked influence in the Polish, Russian and Ukrainian surveys. With respect to income, having more income was correlated with less willingness to obey tax laws in Poland in 2004, but not in 2010; had no effect in either Russian survey; and was associated with greater willingness to obey in Ukraine in 2005 and 2015, but not in 2010. This finding does not, therefore, help resolve the question of whether wealthier taxpayers are more willing to be compliant (because they have more money to offer the state) or less

willing to be compliant (because they are more reluctant to relinquish money the more they acquire it).

Being male made one less likely to support tax compliance in Poland in 2004 and 2010 and in Russia in 2010, but had no effect in Ukraine in any year. Such results suggest that men are unlikely to be more supportive of tax compliance than women, but do not definitively find that they are always less likely to be supportive of compliance. Being older was associated with less willingness to comply in Poland only in 2010, but had a positive effect on supporting compliance in Russia in 2004 and 2010 and in Ukraine in 2015, with no effect in other years. Education also produced mixed results, with the more educated possibly being willing to support tax compliance more in 2004 in both Poland and Russia and in 2005 in Ukraine. Being more educated, however, was associated with less support for compliance in Poland in 2010 and had no effect in other years. Hence, with respect to other socio-economic variables, the Taxpayer Compliance Attitudinal Surveys only give support to the theory that men are likely to be less supportive of compliance than women.

Testing Tyler's Theory for Those Who Had Prior Encounters with Tax Bureaucrats

Some of the questions for the Taxpayer Compliance Attitudinal Surveys are adaptations of survey questions used by Tom Tyler in his book *Why People Obey the Law*, which argues that the procedural aspects (conduct of the government officials) of prior previous experiences with the law affect citizen views of the legitimacy of the authorities, which in turn affect the degree of compliance. Likewise, in the survey questions developed for Poland, Russia and Ukraine, inquiries are made not only as to what the citizens' views are with respect to why people pay taxes but also about their previous experiences with the tax authorities and personal assessments of the tax administration's work.²⁶

²⁶ Tyler measures support for legitimacy in two ways: as the perceived obligation to obey the law and as support for legal authorities. Perceived obligation to obey the law was measured as the percent of people who agreed that 'a person should obey the law even if it goes against what they think is right' and other such statements. (See, especially, Tyler, pp. 40–56.) Such a measure of legitimacy, at least with respect to perceived obligation, is very similar to the dependent variable selected here in this chapter's analysis of attitudes towards tax compliance regarding whether one would obey tax laws even if they were perceived personally to be unfair. As mentioned earlier, a direct measure of compliance (i.e., did you pay your taxes?), or preferably, an outside assessment of whether taxes were paid in full, is not presented here. Hence, the dependent variable selected is an attitudinal proxy for tax compliance. While it would be enormously helpful and ideal to have a separate measure of compliance, for now, the measure chosen, which does shares

In the 2004–2005 Taxpayer Compliance Attitudinal Surveys, 470 Poles – practically half of all those surveyed in Poland; 410 Russians – about a quarter of all surveyed in Russia; and 583 Ukrainians – about 15 per cent of all polled in Ukraine – had contact with members of the tax administration during the previous five years. In 2010, 760 Poles – 38 per cent of those surveyed, 707 Russians – still just a quarter of all surveyed, and 489 Ukrainians – about 12 per cent of those surveyed – stated that they had contact with tax bureaucrats. Meanwhile, in 2012, 232 Ukrainians – 11 per cent of those surveyed – and, in 2015, 746 Ukrainians – 15 per cent of those surveyed – stated that they had met with tax officials.

What is interesting is when specific close tests are undertaken of the two Tyler specific variables (Conduct and Result) to establish whether it is the judgements about the justice or injustice of past experiences – the procedures and/or the outcomes of these experiences – that influence attitudes towards tax compliance. Question #9 in Appendix I asks respondents who had prior contact with the tax administration whether or not they were satisfied by how the tax service employees spoke with and treated them. Similarly, Question #8 inquired whether respondents were satisfied with the results of their meetings with tax service employees.

A closer examination of the interaction of the responses to these questions is provided in Table 6.2, which presents charts of the percentages of those who stated that they would obey tax laws deemed unfair. In the Poland 2004 case, any combination of being satisfied or unsatisfied with respect to Conduct or Result does not seem to impact whether one would obey tax laws even if one considered them unfair. (Indeed, the percentages of those who would obey in the different boxes of the table vary only from 88 to 96 per cent.) Meanwhile, the Russian 2004 survey yields entirely different results. For Russians, in 2004, if one is satisfied with either Conduct or Result or with both, then the percentages of those who would obey tax laws is about the same (72 to 76 per cent.) However, if one is dissatisfied with both the Conduct and the Result, the percentage of those who would obey drops down to 56 per cent.

For the Russia 2004 survey, it appears that it is the interaction of bad Conduct and bad Result that depresses compliance. (In contrast, in Poland, bureaucratic conduct may be important to taxpayers, but does appear to affect attitudes towards compliance.) Satisfaction with

a great deal with Tyler's concept of legitimacy, will have to do. Thus, due to the lack of a direct measure of compliance, a true, two-step model approach replicating Tyler exactly cannot be followed for now.

Table 6.2 *Taxpayer Compliance Attitudinal Surveys: Percentage of prior tax bureaucrat contact respondents who would follow the tax laws even if personally considered to be unfair*

Poland 2004 Taxpayer Compliance Attitudinal Survey			
		Were You Satisfied with the Result of Your Contact with the Tax Bureaucrats?	
		No	Yes
Were You Satisfied with the Conduct of the Tax Bureaucrats?	No	96% N = 79	88% N = 25
	Yes	93% N = 29	94% N = 330
Poland 2010 Taxpayer Compliance Attitudinal Survey			
		Were You Satisfied with the Result of Your Contact with the Tax Bureaucrats?	
		No	Yes
Were You Satisfied with the Conduct of the Tax Bureaucrats?	No	74% N = 84	87% N = 68
	Yes	83% N = 36	85% N = 500
Russia 2004 Taxpayer Compliance Attitudinal Survey			
		Were You Satisfied with the Result of Your Contact with the Tax Bureaucrats?	
		No	Yes
Were You Satisfied with the Conduct of the Tax Bureaucrats?	No	56% N = 95	76% N = 25
	Yes	72% N = 29	75% N = 213
Russia 2010 Taxpayer Compliance Attitudinal Survey			
		Were You Satisfied with the Result of Your Contact with the Tax Bureaucrats?	
		No	Yes
Were You Satisfied with the Conduct of the Tax Bureaucrats?	No	63% N = 135	63% N = 43
	Yes	66% N = 50	68% N = 364

Table 6.2 (cont.)

Ukraine 2005 Taxpayer Compliance Attitudinal Survey			
		Were You Satisfied with the Result of Your Contact with the Tax Bureaucrats?	
		No	Yes
Were You Satisfied with the Conduct of the Tax Bureaucrats?	No	45% N = 154	42% N = 31
	Yes	42% N = 31	51% N = 184
Ukraine 2010 Taxpayer Compliance Attitudinal Survey			
		Were You Satisfied with the Result of Your Contact with the Tax Bureaucrats?	
		No	Yes
Were You Satisfied with the Conduct of the Tax Bureaucrats?	No	42% N = 137	56% N = 25
	Yes	55% N = 33	54% N = 187
Ukraine 2012 Taxpayer Compliance Attitudinal Survey			
		Were You Satisfied with the Result of Your Contact with the Tax Bureaucrats?	
		No	Yes
Were You Satisfied with the Conduct of the Tax Bureaucrats?	No	33% N = 58	40% N = 12
	Yes	67% N = 12	59% N = 96
Ukraine 2015 Taxpayer Compliance Attitudinal Survey			
		Were You Satisfied with the Result of Your Contact with the Tax Bureaucrats?	
		No	Yes
Were You Satisfied with the Conduct of the Tax Bureaucrats?	No	48% N = 242	59% N = 32
	Yes	50% N = 42	70% N = 284

Conduct is important. But how important depends upon its interaction with another variable (Result). As Tyler delineated, there are, indeed, two types of negative experiences associated with contact with the law. Attitudes towards tax compliance when Result is negative, or unsatisfactory, can be significantly affected by what Conduct is. Hence, in the Russian 2004 case, for those who had such prior contact with the tax administration, it is the interaction of Conduct and Result that makes a difference.

The Poland 2010 and Ukraine 2010 surveys follow a similar, albeit less pronounced, pattern. That is, for Poles, in 2010, of those who are satisfied with either Conduct or Result or with both, the percentages of those who would obey tax laws even if deemed unfair is about the same (83 to 87 per cent.) However, of those dissatisfied with both the Conduct and the Result, the percentage who would obey drops to 74 per cent. For Ukrainians, in 2010, the corresponding figures were 54 to 56 per cent of those who would obey tax laws if they were satisfied with the Conduct or Result or both, dropping to 42 per cent if they were dissatisfied with both Conduct and Result.

The patterns with the Russians in 2010 and the Ukrainians in 2005 are relatively flat, and it is difficult to discern significant differences. However, what differences there are illustrate that if the 2005 sample of Ukrainians and the 2010 group of Russians are satisfied with both Conduct and Result, they are a bit more likely to obey tax laws, whereas if they are dissatisfied with Conduct, with Result or with both, the percentage who would obey drops a bit. This would imply that tax officials would have to offer *both* satisfying Results *and* satisfactory Conduct when interacting with Ukrainians and Russians today in order to raise levels of taxpayer compliance – a greater burden to hurdle than that of the Polish tax administrations. Further, it is also interesting to note that Russians who *are dissatisfied* with both Conduct and Result still respond favourably to obeying the tax laws to a greater extent (56 per cent in 2004 and 63 per cent in 2010) than of those Ukrainians who *are satisfied* with both Conduct and Result in the 2005 and 2010 surveys (51 and 54 per cent, respectively.)

In the much smaller 2012 Ukraine survey, fewer respondents answered these questions with respect to prior tax bureaucrat interaction. Nevertheless, the survey marked the first time that Ukrainians with positive prior experiences expressed a willingness to obey that was higher than that of the Russians who were dissatisfied with both Conduct and Result in 2004. Moreover, the percentage of Ukrainians who stated that they would obey tax laws even if deemed unfair after having experienced both unsatisfying Conduct and Result was the lowest – 33 per cent.

Finally, the 2015 survey strongly shows that Ukrainians who are satisfied with both how they are treated and the result of meeting a tax bureaucrat will be much more likely than not to obey tax laws even if they are personally considered unfair.

Why Ukrainians Who Pay Taxes Choose to Be Compliant

The blatantly transparent schemes whereby Ukrainians attempt to avoid taxes have amazed the Western executives who work in the country. One foreign lawyer was stunned to learn that a car dealer would opt for a 'power of attorney' document instead of taking title on a U.S.\$80,000 vehicle that was being traded to him in order to avoid paying a tax of 1,000 hryvnia (U.S.\$200) on the title ownership.²⁷ There is also a wide perception that more salaries are paid in envelopes under the table in Ukraine than in Russia.²⁸

Some have surmised that less fear of the state, compared with that in Russia, has existed in Ukraine since the start of the 1990s, in large measure due to a general weakness of the state and the disorganization of policies from the start of the transition to democracy. More recently, during the prolonged period from March to August 2006, when a new government coalition had yet to appear, there was a decrease in the functioning of the tax system because of great uncertainty as to what policies would emerge from rapidly changing but indefinite political developments and the lack of political will to implement current policy in general.²⁹ In addition, the greater lack of faith in the government than in other post-communist states may also be due in part to the fact that Ukraine has lacked an 'imperial mentality', which has contributed to a lack of desire on the part of Ukrainians for their state to be 'great' and 'strong'.³⁰ Further, Ukrainians are said to have a more deeply held belief that they should try to solve their own problems without the help of the state and judge for themselves what is fair and reasonable rather than accept the state's word on obligations of citizenship.³¹ Indeed, the

²⁷ Author's interview with partner, tax and legal services, leading international accounting firm, Kyiv, 27 July 2006.

²⁸ Author's interview with Valeriy Kochetov, director, National Centre of Monitoring of Compliance and Defence of the Constitutional Rights and Basic Freedoms of People, Kyiv, 26 July 2006.

²⁹ Author's interview with senior partner, leading local tax and legal firm, Kyiv, 3 August 2006.

³⁰ Author's interview with Kochetov.

³¹ Author's interviews with senior STA official and with partner, tax and legal services, leading international accounting firm, Kyiv, 2 August 2006; and with senior partner, leading local tax and legal firm, Kyiv, 3 August 2006.

findings on Ukraine tax compliance correlate with an observation of John Lough and Iryna Solonenko, who remarked that, ‘In contrast to their counterparts, Ukrainians do not have a historical experience of successful identification with the state despite depending on it. As a result, they tend to distrust the government and seek ways to work around it.’³²

Just as those who evade taxes do so without fear of the state, in many ways, those who do comply with the state do so without regard for what the state does or does not do. Some tax lawyers argue that Ukrainian firms are today more likely to comply not out of either fear of or trust in the state but because of external competitive pressures. These pressures include the need to gain access to capital markets abroad in order to find foreign investors, which before investing will hire auditors to verify that a Ukrainian firm has its accounts in order.³³ Additionally, local banks require proof of income earned officially from their clients who wish to take out loans and receive financing for cars and mortgages, providing a further incentive for firms to place everything on their books.³⁴ Others have attributed post–Orange Revolution increases in tax compliance not to any changes in the STA’s interaction with the public but to amendments in tax legislation that have led to decreases in tax rates.³⁵ Finally, the trust that has existed in the state, as one tax lawyer surmised, has been due to a trust that things will get better in the future, that better laws will be adopted, and that the state will be more responsive to its citizens.³⁶ Hence, in the opinions of those who work with leading firms in Ukraine, neither a stick nor a carrot provided by the state is the underlying motivating factor that influences decisions by companies to comply with the tax laws. One local tax lawyer has summed up the state’s relationship with society in the arena of tax collection as ‘not so much *strakh*, but *bezsylyya*’ (‘not fear, but impotence’).³⁷

Conclusion

A strong belief in the limitations of duties to the state and a firm trust in the government seem to suggest that in both 2004 and 2010 Poles are

³² Lough and Solonenko, p. 13.

³³ Author’s interviews with partner, tax and legal services, leading international accounting firm, Kyiv, 27 July 2006; and with partner, tax and legal services, leading international accounting firm, Kyiv, 1 August 2006.

³⁴ Author’s interview with partner, tax and legal services, leading international accounting firm, Kyiv, 1 August 2006.

³⁵ Author’s interview with tax manager, Kyiv office of one of the Big Four international accounting firms, Kyiv, 26 July 2006.

³⁶ Ibid.

³⁷ Author’s interview with partner, tax and legal services, leading international accounting firm, Kyiv, 2 August 2006.

paying their taxes out of notions consistent in part with quasi-voluntary compliance.

With respect to Russia and Ukraine, there is support within the analysis of the Taxpayer Compliance Attitudinal Surveys for at least two of the three main theories of tax compliance discussed here, suggesting a much more complicated path towards becoming citizens. Russians appear to have reacted significantly to the 'deterrence' method of tax collecting in 2004 and continue to react more strongly to the 'deterrence' method than Poles and Ukrainians in 2010. The fact that citizens are susceptible to deterrence in Russia is indicative of a society interacting with a relatively more deterrent-based approach to tax collection. Russians may actually react more to deterrent measures – or to the removal of such measures – when it comes to shaping their attitudes as to whether to comply with their state's tax laws. This scenario, though, becomes a bit more complex for Russia as the Putin era progresses, with overall support for tax compliance appearing to be identical to that in 2004, but with deterrence having less of an impact than before in motivating those who choose to support compliance. Nevertheless, 'deterrence' still maintains a significant role in motivating Russians to pay.

Meanwhile, the fact that, in the Ukrainian surveys, the 'trust in the state' variables are estimated to predict an increase in the likelihood of expressing attitudes in support of tax compliance about as large as the 'deterrence' proxy variable in 2005 and are significantly more substantive in impact in 2010 and 2015 does suggest that the deterrence efforts of the Ukrainian state may not have had as strong an impact on its populace as those of the Russian state did on its taxpayers earlier on under Putin. Ukrainians' attitudes towards paying taxes are based almost equally on their degree of fear of the state and their lack of trust in it in 2005. And 2010 and 2015 attitudes towards taxes are based almost solely on their lack of trust in the state in those years. Thus, while the legitimacy of the state matters for Poles, Russians and Ukrainians as they begin to fulfil their duties of citizenship by paying their dues, precisely how Russians and Ukrainians as a whole view and comprehend that legitimacy might be more varied and much more complicated than the manner in which the Polish polity views its state.

Therefore, the implications from this research are twofold. First, post-transition governments and their tax administrations must find ways to create and build up levels of trust on the part of citizens in their state. How government behaviour impacts upon societal trust – that is, how the state maximizes or minimizes the levels of trust that society has – will affect, then, how well the state goal of ensuring the public's tax compliance is accomplished. And, second, these governments and tax administrations must also emphasize 'procedural fairness' in order to improve

compliance with state regulations. Good 'customer service' can make a real difference.

The survey of Russian tax officials that was undertaken in the fall of 2011 reveals that, in many ways, tax officials share similar attitudes towards taxes, the tax system and the state to those of Russian citizens, highlighting how even those working in the tax system must be aware of such trust issues and the need to emphasize good 'customer service'. Namely, as shown in survey Questions #21 and 22 in Appendix I, like their citizen counterparts, Russian tax officials are more solidly behind supporting the notion that citizens should follow the tax laws than they are in upholding the view that they themselves should do so (91 versus 75 per cent). Moreover, only 47 per cent of Russian tax officials agreed that the state fulfils its obligations to its citizens (Question #55), 50 per cent can trust their state to do what is right (Question #56), some 23 per cent (with 7 per cent declining to reply) stated that if the state does not fulfil its obligations to its citizens then tax evasion is justified (Question #28), and 51 per cent stated that the state treats all citizens equally fairly (Question #57). While the numbers differ from those for citizens, many officials appear to have a trust gap with the state themselves. Further, more than one in five recognized that if an enterprise were to follow all the demands of the tax organs then it would be ruined (Question #2, in Appendix II) and about a third of all tax officials stated that inspectors were unable to catch out all who fail to comply (Question #3, in Appendix II), indicating that there may be some uncertainties as to how the system treats citizens in practice.

But how can states accomplish the two policy objectives – to build up trust and to emphasize 'procedural fairness'? Specific suggestions are offered in Chapter 8. In general, though, the post-transition tax administrations should look for ways to rationalize their bureaucracies and to make them more society- and outward-oriented. Locating and implementing policies that both build levels of public trust in the state and increase the level of customer service provided by the tax administration personnel can help taxpayers become true citizens, who are capable of fulfilling their obligations to their governments.