

SUMMARY REPORT

Attitudes towards taxation in Myanmar:

INSIGHTS FROM URBAN CITIZENS

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Attitudes Towards Taxation in Myanmar: Insights from Urban Citizens

Paying taxes is at the heart of the social contract between government and citizen. When people pay taxes, they fulfill a core duty as citizens. Conversely, the act of paying taxes can empower citizens to demand that their government work better. Decades of authoritarian rule left Myanmar with a fractured social contract, limited provision of public goods, and one of the world's lowest tax takes. Yet, times are changing. People's expectations of what services their government should provide are rising. Taxes have begun to be reformed, and Myanmar's tax take is beginning to grow.

Are the Myanmar people ready for tax reform? This depends in part on what citizens think and believe about taxes and the tax system. To date, evidence on this is scarce and based largely on the views of government officials. But how accurate are those views?

This Asia Foundation research project sets out to systematically assess the tax attitudes of urban citizens in Myanmar. It investigates what urban citizens believe and understand about taxes and the tax system, with a focus on three of the most important taxes in Myanmar. The research uses data from the 2017 *City Life Survey*, conducted by The Asia Foundation and the Yangon School of Political Science. This summary highlights the importance of taxes for Myanmar, presents the full paper's methodology, summarizes the main findings, and examines the conclusions that can be drawn from the *City Life Survey* and their implications for government.



The full report *Attitudes Towards Taxation in Myanmar: Insights from Urban Citizens* can be found at www.asiafoundation.org

TAXES AND TAX COLLECTION IN MYANMAR

Decades of deliberate neglect of Myanmar's tax-administration system have left Myanmar with one of the lowest tax takes in the world.

Taxes are a sustainable and reliable way to generate government revenue. This revenue is allocated by government to pay for public goods (such as roads), social services (such as health care), direct payments to individuals (such as pensions), and salaries for government workers. While Myanmar is rich in natural resources, the revenues from these resources have too often been captured by elites. Developing countries that rely on revenues from natural resources tend to have a weak or exclusive social contract. Taxes, on the other hand, require

WHAT ARE TAXES?

Taxes are a compulsory payment made by individual taxpayers or businesses to a government agency, the proceeds of which go into the public purse to be allocated according to budget priorities. Unlike fees (e.g., a garbage-collection fee), taxes are not tied to particular government services.

Citizens can pay taxes

- as home owners or occupants;
- as consumers, buying goods or services;
- as owners of a business;
- as employees, receiving a wage or salary.

the acceptance or tacit approval of citizens and businesses. When citizens pay taxes, they expect something from their government in return. The taxpaying process is thus at the heart of the

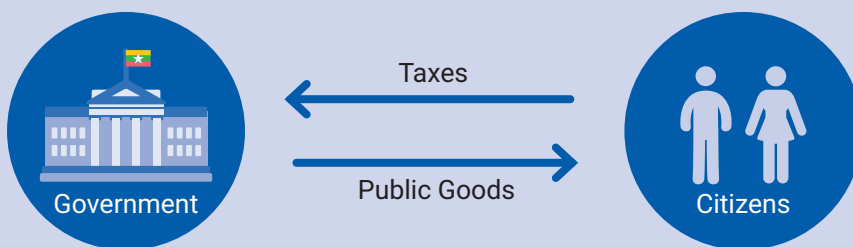
relationship between citizens and their government.

Myanmar is in the midst of a democratic transition and the overhaul of a bureaucratic system that has been held back by decades of authoritarian misrule and international isolation.

Reforms are under way, but as it stands, Myanmar's tax receipts in 2016–17 were only 6–7% of GDP. This compares to 10–20% of GDP for countries with similar income levels. That Myanmar has such a low tax rate is no accident. The state has provided few public goods or social services, and so has felt unable to raise taxes without risking instability.

FIGURE 1

The social contract



THE ASIA FOUNDATION'S MYANMAR TAX-ATTITUDES RESEARCH

Many government officials are wary about tax reform out of a belief that Myanmar's citizens are strongly opposed to taxation.

Such a low tax take means there are fewer resources available to fund

public goods and essential services such as roads, health care and education. Yet, many government officials believe they can only reform taxes after services improve. It is often stated that citizens are fervently antitax. "Increase taxes?

There will be riots on the streets," warned one policymaker.

The reality, however, is more complex, and this study set out to examine what residents of urban areas of Myanmar actually think about taxes

and the taxpaying experience. To get the most reliable responses possible, we focused on urban residents, whose understanding of taxes and the tax system is usually better. Our initial hypothesis, that the public's understanding of taxes is poor, was confirmed by the study.

As the research probed deeper, a more nuanced picture of urban citizens' tax attitudes emerged. Respondents were less antitax in their views than government officials believed, seeing tax payments as a civic duty, agreeing that the government has an unconditional right to tax, and saying that the income, commercial, and property taxes were all "fair." More than 60% would even support tax increases if they were accompanied by service improvements.

However, these findings should not be interpreted as a license for the government to simply raise taxes. The research finds that there is more room for tax reform than many government officials believe, so long as government improves the way tax

policy is communicated and does a better job of explaining what taxes people need to pay and where the tax money is spent.

Myanmar's tax system is complex, with many taxes collected by many different agencies. Three of the taxes most relevant to urban citizens were included in this study.

Income tax was the most important source of tax revenue, at 3.2% of GDP, in 2016–17 according to the World Bank's 2017 *Public Expenditure Review*.

Those earning below 2 million kyat (approximately USD 1,500) in one year pay no tax. Income above this amount is taxed at progressively higher rates, reaching 25% on all income above 30 million kyat. Tax relief is provided for spouses and children. Income tax is collected by the Internal Revenue Department (IRD) for the Union budget.

Commercial tax is generally charged at a rate of 5% of the sales price of a good or service. Commercial tax

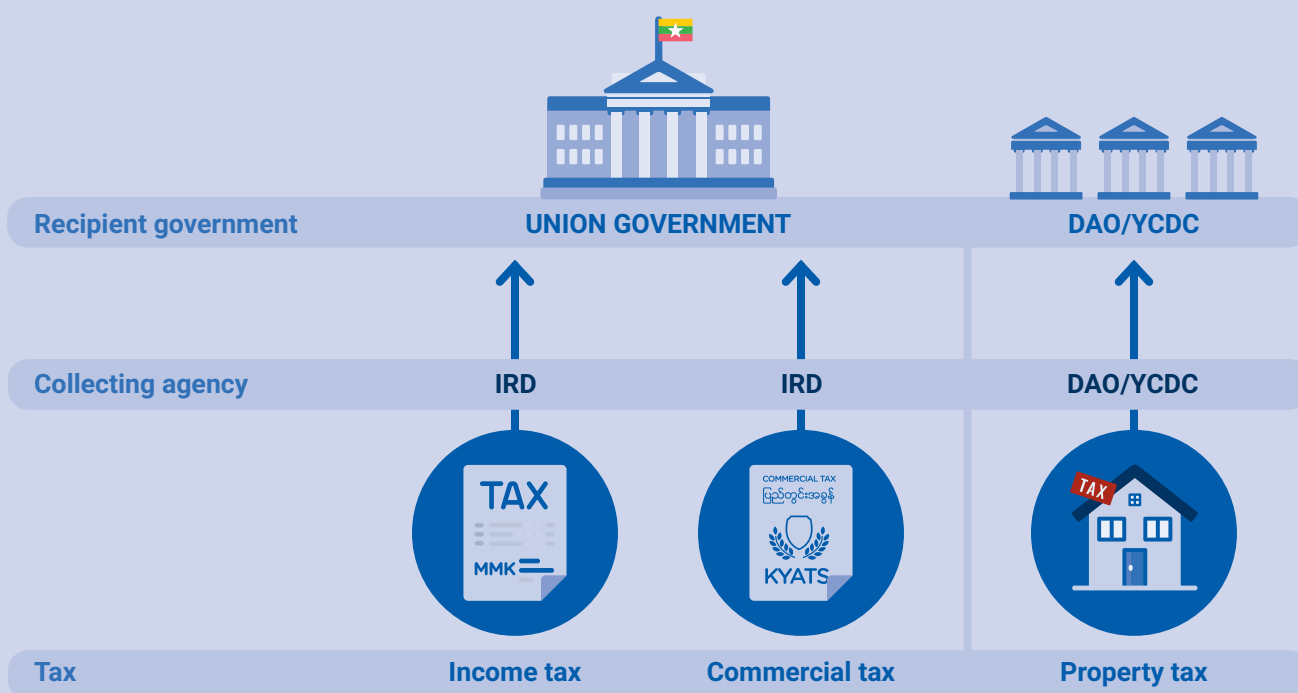
was the second-most important tax, at 2.6% of GDP, in 2016–17. In most countries, this kind of tax is regressive, but in Myanmar, where commercial tax is only enforced in urban areas and in the formal or modern sector, the country's poorest citizens generally do not pay it. It is collected by the IRD for the Union budget.

Property tax accounts for a very small share of government tax revenue (approximately 0.03% of GDP in 2013) due to the small amounts levied. However, it is a salient tax. It is widely paid, and the taxpaying experience is frequent and noticeable.

Property tax is collected by Development Affairs Organizations (DAOs) and, in Yangon, by the Yangon City Development Committee (YCDC). They are responsible for a broad range of essential urban services, and they fund these through taxes and fees collected from citizens and businesses.

FIGURE 2

The collecting agencies and main recipients of income, commercial, and property tax within the scope of this study



Methodology

The focus of the study is urban citizens' attitudes towards taxes, rather than businesses' attitudes. It examines what citizens as consumers, employees, and homeowners or occupiers think about the taxes they pay, the tax system, and the taxpaying experience.

The Asia Foundation's research used a mixed-methods approach to understand urban citizens' attitudes towards taxation. It drew primarily on the results of the 2017 *City Life Survey*, a large-scale survey of urban residents in 27 wards in five urban areas of three cities.

As taxation is a subject that can be difficult to understand, the questions were simplified, definitions were provided, and the survey was modified following testing. Focus group discussions were conducted to interrogate the results of the survey and provide insights into the taxpaying experience of citizens.

The Asia Foundation's past programming experience with tax officials and policymakers of Myanmar's municipalities and state and region governments had suggested that there is a broad consensus on citizens' understanding of and attitudes towards taxation. This research therefore sought to explicitly test some of these consensus views. It compared the results of the large-scale survey with views expressed in key-informant interviews and a small-scale survey given to government officials.

The research draws primarily on the 2017 *City Life Survey* conducted by The Asia Foundation in partnership with the Yangon School of Political Science. The *City Life Survey* is the first of its kind in Myanmar, tracking public perceptions and lived experiences of urban life on a longitudinal basis. The same sets of

survey questions will be asked over several years, allowing for analysis of trends over time, while Myanmar is in the midst of considerable economic, political, and social change.

In total, 1,400 men and women were surveyed, representing five urban areas in three cities around Myanmar. These areas were Kyauktada, Thaketa, and North Dagon (all in Yangon Region), Hpa-an (Karen State), and Taunggyi (Shan State).

The survey asked questions about general tax attitudes, then built on those questions by asking about the three taxes of particular interest in order to test specific hypotheses. The full *City Life Survey* included 12 demographic questions and 106 substantive questions covering city livability, access to government services, tax attitudes and understanding, economic opportunities, identity, community and wellbeing. All but two were multiple-choice questions.

Face-to-face interviews using paper questionnaires were conducted between September 28 and October 17, 2017, across all five urban areas by a team of 20 enumerators and four supervisors.

The sampling strategy consisted of three stages of randomization to ensure that respondents were statistically representative within each of the five urban areas. Wards were randomly selected within each of the five urban areas. Households were then selected at random; and within households, the members were selected at random. In high-rise buildings, apartments were also chosen at random.

Quality-control measures were implemented throughout the data-collection process. In total, 21% of the interviews were subject to a back-check. These checks included

direct observation during the interviews (200 interviews, 14%) or a return visit or telephone call from the coordinating office to the home where the interview took place (98 interviews, 7%).

Municipal tax officials survey. A small-scale survey to explicitly test municipal tax officials' and policymakers' views of the public's attitudes was conducted with 36 officials. These included one mayor, four ministers, and 21 bureaucrats.

Focus group discussions. Two focus groups were conducted in December 2017, in Taunggyi and Hpa-an. For both, the format consisted of an open-ended discussion of taxes followed by a structured set of specific questions on taxes and tax attitudes.

Interviews with tax officials. Semi structured interviews were conducted with government officials working in departments related to the three taxes examined in this report.

This study, and the *City Life Survey*, from which it draws its data, is solely focused on the perceptions of urban citizens. According to the 2014 census, 30% of Myanmar's population lives in urban areas, and its cities are growing in size and complexity. The study was conducted among citizens in urban areas, as they tend to have higher levels of education and more exposure to the state.

Urban citizens also tend to have greater familiarity with and understanding of taxes. Initial research, however, indicated a low base level of understanding, even among educated interviewees. The survey was therefore conducted on urban citizens as they had the highest likelihood of understanding the questions being asked.

The selected townships and cities exhibit a range of population sizes,

levels of development, and ethnic composition that suggests the findings are illustrative of other cities in Myanmar. Other large cities that were not included in the study—Mandalay, Mawlamyine, and Bago—fall somewhere between Yangon and Hpa-an in terms

of population size and level of development. As such, the findings of the study may well apply to larger cities such as these.

This study is not intended to be representative of all of Myanmar's citizens, or all of those living in

urban areas. It does, however, provide the first analysis of citizens' tax attitudes within Yangon, where most income and commercial tax is collected, and the first comparison of attitudes between a primary, a secondary, and a tertiary city in Myanmar.

Findings

The full report includes a detailed examination of the survey findings in all five urban areas. Key highlights are presented in the box below.

SUMMARY FINDINGS

➤ Myanmar's urban citizens are not strongly antitax.

- Ninety-four percent of respondents agree that paying taxes is a duty.
- Almost as many (81%) agree that government has an unconditional right to tax. This compares to just 50% of more rural respondents in a survey by the International Growth Centre in 2016.
- Income, commercial, and property taxes are considered fair (70%, 70%, and 72%, respectively).
- There is evidence that urban citizens would be willing to pay more tax if government improved (60% would support higher property taxes if accompanied by improved social services).
- Many suggested that urban citizens should pay substantially more taxes than they currently do. In a hypothetical example respondents imposed an average tax burden three times larger than it was in 2016-17.

➤ Urban citizens prefer a progressive tax system where the rich pay more of their income as tax than the poor.

➤ At the same time, Myanmar's urban citizens have a poor understanding of the tax system.

- Sixty percent reported not knowing which level of government gets most of each of the three taxes. Of those who did venture an answer, more than one-third mistakenly thought that income tax was the most important tax for DAOs and the YCDC, rather than being a tax that funds the Union budget.
- Women are less likely to have heard of income and commercial taxes than men.
- These findings on the public's poor understanding of taxes are in line with the perspectives of local government officials who interact with the public.

➤ Yet, almost 90% of respondents agreed with the statement that they wished that more information were available on what taxes they had to pay and on how the government spends taxes.

➤ Property tax is the most prominent and widely paid of the three taxes studied. It was also rated the fairest tax. It is an experience that is both regular and visible. Yet, a large number of households that should be paying property tax are not.

➤ Government officials consistently attributed to urban citizens more negative attitudes towards taxation than the *City Life Survey* actually found.

The source of tax attitudes and the role of media and government in tax education and communication

Tax attitudes are shaped by how citizens think about their government and their fellow citizens. These views are influenced by personal experience, and by information received from other people, with media and government playing central roles.

The full report sets out a conceptual framework that identifies four factors that play a key role in influencing citizens' attitudes towards taxes. These factors help explain why Myanmar citizens are not as antitax as many government officials believe. This framework must be considered within the context of this historic moment in Myanmar's democratic transition.



GENEROSITY

Tax attitudes are influenced by the extent to which taxpayers believe their fellow citizens deserve their support. Numerous studies have ranked Myanmar's citizens as the most charitable in the world. Many people regularly donate time and resources to support social causes (such as flood relief) and to fund public goods (such as road building and maintenance). The democratic transition can be thought of as a social cause that many people are willing to support.



GOVERNMENT RESPONSIVENESS

If the state is regarded as illegitimate, corrupt, inept, or only there to benefit a small elite, then citizens may have negative attitudes towards taxation. In Myanmar, the state has historically

delivered little to the people, and government tax officials interviewed consider this a key challenge to raising taxes. Yet times are changing and 67% of *City Life Survey* respondents agreed that the Union and state and region governments have become more responsive. In addition, more respondents were confident that their taxes go where they are needed most (47%) than were unsure (26%).



STRENGTH OF FELLOWSHIP

Taxpayers generally recognize that the benefits of taxation are shared with other people through the state's provision of public goods and redistribution of resources. If their tax money is shared with people they like, feel a strong bond with, or have shared interests with, then they tend to have more positive attitudes towards taxation. In Myanmar, the strength of fellowship is stronger at the local level than at the national level. What the overall impact of this is on tax attitudes is ambiguous and deserves further study.



TAX UNDERSTANDING

When a tax system is overly complex, or when public understanding of the tax system is poor, citizens are more likely to be suspicious of changes in tax policy. This research shows that even Myanmar's urban citizens have low levels of understanding. This may be making tax reform more difficult.



Myanmar people are charitable, and they have a willingness to pay more tax. The issue is that at the moment they do not trust the [government], because there is not enough transparency or accountability. The public wants to be involved, and they want more information.

Daw Nang Thuzar Win,
Kayin State Hluttaw Deputy Speaker

SOURCES OF INFORMATION ON TAX, GOVERNMENT, AND CITIZENS

Government has a key role to play in shaping citizen's attitudes towards taxes through the taxpaying experience, tax education, and communication of tax-policy changes.

Paying taxes is a form of direct engagement with the government. A person's opinion of taxation in their country can be affected by conversations with tax officials during the tax paying experience. In the case of property taxes in Myanmar these conversations take place outside tax payers homes every six months. Such interactions can have a profound impact on people's attitudes. But they are not the only thing that matters. All interactions

with government can affect citizens' opinions about their government and taxes. This could include a conversation with an MP at a rally or having to pay a bribe to acquire a driver's license. The nature of such interactions can affect citizens' opinions of the quality of their government and whether it serves the people. This in turn affects their attitudes towards taxes.

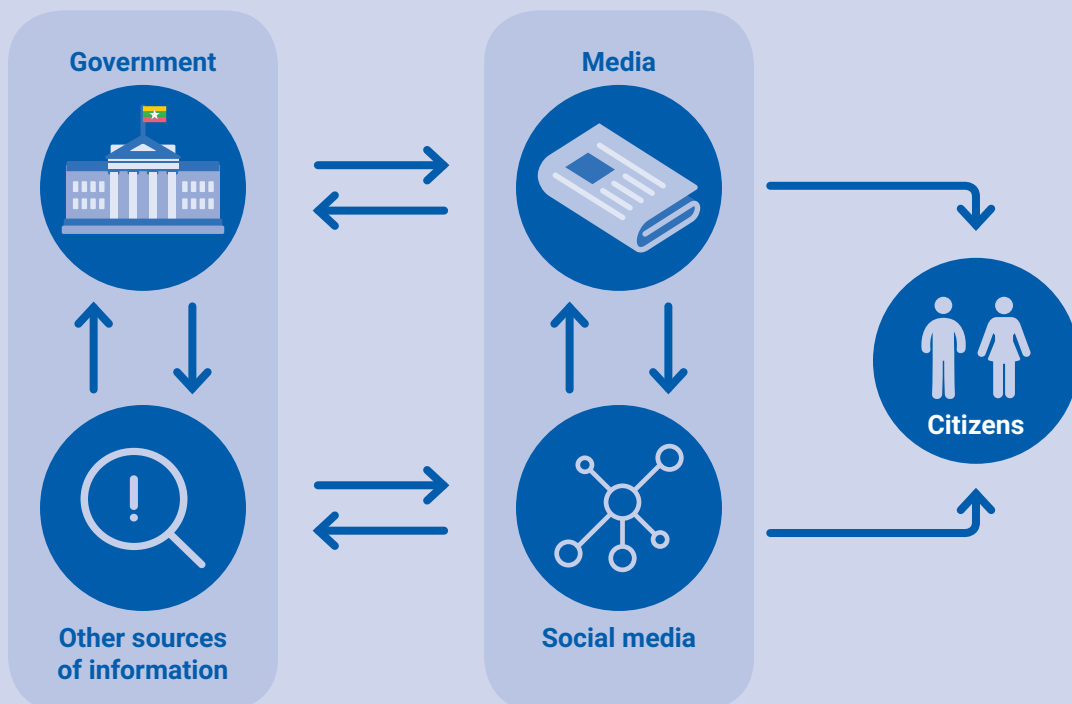
People's attitudes towards their government and taxation are also influenced by information from many other groups. These third parties are diverse and difficult to categorize. They include political parties, Civil Society Organizations (CSOs), think tanks, religious figures,

and celebrities. The links that three of these groups have with taxes are summarized below:

- Myanmar's main political parties do not yet have clearly articulated policies regarding taxes. There is no obvious partisan split.
- Think tanks, or policy institutes, analyze government policy and share information to inform the public and policymakers. In Myanmar, The Renaissance Institute's review of Myanmar's property tax system, the Open Myanmar Initiative's online budget dashboard, and Spectrum's work on Citizen's Budgets are all examples of this work.

FIGURE 3

Modern information flows



- CSOs, such as religious and charitable groups, are active in communities throughout Myanmar. They collect donations and fund some public goods. They are trusted sources of information and could play an even bigger role in disseminating information about tax issues.

Media outlets play a critical role in sharing information. They are important sources of tax information, and often base their tax stories on government news releases. But the media in Myanmar have a poor understanding of the tax system, which causes problems for popular perceptions of taxes when issues are misrepresented. Taxes are routinely mischaracterized in the Myanmar media. For instance, stamp duty (a transaction payment on property) is routinely confused with property tax (a regular payment for living in

a city). Without a concentrated effort to improve the quality and availability of tax information from government, the information shared by other groups is likely to remain low quality.

The rapid rise of social media, which in Myanmar is dominated by Facebook, is beginning to allow actors (including the government) to bypass traditional media filters and directly engage with a large number of people. While respondents in our focus group discussions raised concerns about the reliability of the information, a growing number of people get most of their news via Facebook. Social media increases the ability of citizens to get information directly from government, CSOs, and analysts and also directly from fellow Facebook users.

THE ROLE OF GOVERNMENT

Historically, the Myanmar government has not seen it as its role to educate citizens on taxes and the tax system. Poorly communicated tax policy can damage citizens' attitudes towards government, can worsen their existing tax attitudes and make tax-policy changes harder.

While this research presents evidence that urban citizens are not as antitax as is often stated, their good will cannot be taken for granted. Citizens want to know why tax-policy changes are happening, what taxes they are supposed to pay, and where their tax money goes.

Tax education aimed at citizens in Myanmar is almost nonexistent, and what information is available is rarely simple or engaging. Tax information itself is rarely provided in mediums that can be accessed by most of the public. When asked what tax education is available to

the public, some tax officials claimed to have tax information available on their agencies' websites. The officials complained that a majority of the public are unaware and are not using the websites, but few have adapted to that reality.

When the government fails to fulfill its role as a messenger, the information gap is filled by other sources, and inaccurate information can proliferate. The survey clearly found that Myanmar citizens want more information on taxes, and with government not providing the answers, people turn to these other sources. With social media on the rise, alternative explanations of what a policy means for citizens can spread very quickly, which in turn can undermine government efforts at tax reform. This makes it even more imperative that government get its messaging right early on and shares the information in ways that are accessible and easily understood.

Poorly communicated tax policy can damage citizens' attitudes towards government, can worsen their existing tax attitudes and make tax-policy changes harder.

Conclusions

- **Myanmar's urban citizens do not exhibit strong antitax attitudes, contrary to the views of many tax officials and policymakers.** Almost all respondents (94%) agreed that paying taxes is a civic duty. Eighty-one percent agreed that citizens should pay taxes even if they don't agree with the government. Income, commercial, and property taxes are considered "fair".
- **Government officials surveyed consistently underestimated *City Life Survey* respondents' acceptance of taxes.** On average, government officials thought that just 64% of our respondents would agree that paying taxes is a civic duty (compared to an actual rate of 94%) and that 52% would agree that property tax is fair (compared to an actual rate of 72%).
- **Myanmar's citizens are extremely generous with their time and resources and are willing to fund public goods and social causes.** Myanmar consistently tops the World Giving Index in charitable behavior. There is a long history of citizens pooling resources to fund public goods and social causes. While paying taxes is a new experience to many Myanmar people, it is one way people contribute to public goods, and three-quarters of respondents felt paying taxes brings them merit.
- **The state has historically been unresponsive to citizens' needs, but urban citizens believe things are improving.** Nearly half of respondents said they were confident that their taxes go where they are needed most.
- **Despite evidence that urban citizens are largely receptive to taxation, it cannot be assumed that they will happily accept any and all tax changes.** How these policy changes are communicated is critical.
- **Poor understanding of taxes and poor communication of tax-policy changes are fostering mistrust of government.** Only 55% of respondents have heard of income tax, and 69% are familiar with commercial tax. Respondents overestimated the revenues available to DAOs and the YCDC, which can lead to mistrust and suspicions of corruption. Government has provided little tax education to citizens.
- **Citizens want more information on taxes and the tax system.** Almost 90% of respondents wished they had more information on what taxes they are supposed to pay. Eighty-nine percent wished they had more information on where their taxes are spent. These findings offer strong support for the Myanmar government's publication of Citizen's Budgets at the Union and state and region level.
- **Improving the taxpaying experience and providing more information will encourage positive interactions between government and citizens.** Current property tax bills are misleading. Tax collectors are not trained how to talk effectively with citizens, and they are often ill informed about where tax revenue is spent.
- **Myanmar's policymakers face a careful balancing act with tax reform.** If tax-policy changes are implemented without more careful attention to their design and how they are communicated, citizens' stock of good will could be quickly exhausted. But too much caution or inaction could have the same effect. Taxes are needed to fund the public goods and services that people increasingly expect from their government.

Recommendations for government

Based on the results of this study, the following can help make tax reform more viable and improve citizens' perceptions of government as accountable, transparent, and there to serve their needs.

- **Seize the moment and be more ambitious in tax reform.** This research finds evidence that, at this historic moment in Myanmar's transition, urban citizens are more open to tax reform than is often claimed. Yet, it is critical that reform be kept in line with collecting agencies' limited administrative capabilities.
- **Improve citizens' understanding of the tax system.**
 - **Avoid making the tax system overly complex.** Complexity can worsen taxpayer behavior and can be antidemocratic.
 - **Improve tax education.** Citizens want to know what they are supposed to pay, how much they should pay, and to whom it goes. This information can help reduce citizens' concerns about corruption and government ineptitude.
 - **Show citizens what taxes are spent on.** Union government's publication of citizen's budget since 2015, with some state & region governments now following, are a strong step in the right direction.
- **Ensure that tax-policy changes are informed by a more realistic understanding of citizens' attitudes, preferences, and taxpaying experiences.** Tax reformers should look to better understand citizens' attitudes before designing tax changes.
- **Improve the taxpaying experience.** Recognize the important role that tax collectors and officials play through their personal interactions with citizens. Provide guidance and training on how to engage the public in a more informative and service-orientated manner.
- **Improve government communications about tax policy.** All policy changes should have a clear communications strategy. Key messages should be developed, including a clear rationale for the policy change that appeals to citizens. Evidence should support this. Messages should be in a language that is easily understood by the audience.

INTERNAL REVENUE DEPARTMENT

- **Change the current communication campaign, which emphasizes that paying tax is a civic duty.**
- **Shift the focus of communications to providing information on what taxes citizens are supposed to pay, how to pay them, and where they are spent.** There is clear demand for this from citizens, and evidence from other contexts shows that this can improve taxpaying behavior.
- **Commission research into businesses' attitudes towards taxation and views of the taxpaying experience.** This report has shown that many views of citizens' attitudes are at best incomplete.

MUNICIPAL GOVERNMENT

- **Make adding more houses to the tax register a priority for reform.** Property tax is currently viewed as fair. But if property taxes are raised from their currently very low levels, the gap between households that pay and those that are not on the register will widen. To make the system even fairer, more households should be added to the register before households are asked to pay much more.
- **Develop training modules in each state and region for tax collectors.** The training should include how to engage with the public and manage difficult conversations. It should also teach tax collectors how to convey what the DAO spends its revenues on. Most tax collectors tend to be young women, and such training is important to reduce their risk of harm or intimidation.
- **Explore ways to publish spending information in formats that are engaging and can be understood by citizens.** This could include traditional approaches, such as posters and meetings with citizens, or newer approaches, such as social media or mobile applications. Experiment with different forms of tax bills that present the information citizens want and help improve their attitude towards taxes and the government more broadly.



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