

MRA Essay Competition

Second Runner-Up

Name : Krshtee Sukhbilas

School : Mahatma Gandhi Institute

Title : Why is it important to be a compliant taxpayer?



Taxes are compulsory charges imposed on individuals and businesses, backed by the law. Compliance is the act of obeying an order, rule, or request. Therefore, tax compliance occurs whereby citizens make tax payments and produce and submit information to tax authorities on time and in the required formats.

Tax compliance is defined by the Organization for Economic Co-operation and Development (OECD) as “(the) degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner”. While it is crucial that inspectors adopt measures to enforce tax compliance, citizens should also realise that paying taxes is not only a civic right but also a civic privilege, as doing so allows them to play an eminent role in contributing to the socioeconomic development of the country.

We live in the twenty first century, an era filled with dynamic societies characterized by industrialisation, digitalisation and consumerism. These have given rise to several social ills such as unemployment, exploitation, inequalities, poverty, severe widespread of diseases and environmental degradation. To combat these malevolent issues, most governments from all around the world, from global superpowers such as the USA to developing ones like Mauritius, make use of taxation systems which they try fervently to control.

The government imposes taxation, be it direct or indirect and progressive or regressive or proportional, as a fiscal instrument to achieve its macroeconomic objectives and thus boost political, social, environmental and economic welfare and development. Tax is a means, not an end. It allows the state to raise finance for its current and capital expenditures. Moreover, it aids in reducing income and wealth disparities, protecting domestic firms and workers, tackling market failures (negative production and consumption externalities) and lastly in stabilising the economy for instance to decrease inflation rate in the country.

However, tax evasion is still popular in several countries especially developing ones. According to the Inter-American Development Bank the average tax evasion in Latin America and the Caribbean is between 25-50%. Such situations might indeed make people better off when taking into account high administrative and compliance costs as well as deadweight losses resulting from tax compliance. Administrative costs are expenses incurred by the revenue collection agency including, for example, the cost of employing tax inspectors.

Compliance costs are costs imposed upon firms and consumers in complying with the rules of the tax system, including the costs of additional record-keeping required because of liability to tax, and the extra accounting costs of devising methods of tax avoidance. Deadweight losses arise through the economic distortions caused by taxation and can be negative if the taxes are imposed upon activities that cause externalities, thus resulting in loss of consumer and producer surplus.

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On the other hand, it has been proven over the last decades that the benefits of tax compliance by far outweigh its inefficiency. Non-compliance to tax causes financial burdens on an economy resulting from the loss of government revenue, which in turn leads to underdevelopment. For instance, Pakistan has huge tax gaps which is putting a strain on the government to meet the needs of its growing population whereby in 2012 its tax revenue was just 8.5% of its GDP compared to around 39% in the UK.

Along with lower revenue, tax evasion also leads to higher costs for the government. It is said that tax evasion costs governments approximately \$200 billion per year (The hidden wealth of nations). According to the UK government, 2 billion British pounds have been tracked down from offshore tax dodgers since 2010 as compliance has become a high priority on the agenda of the government. The Internal Revenue Service of the USA has also reported that tax evasion is a pretty lucrative business, costing the federal government on average \$458 billion per year between 2008 through 2010. These costs lead to budgetary constraints which might lead to the government increasing taxes to meet the costs or reducing public expenditures, leading to a loss of social welfare.

Tax compliance conversely leads to higher public finance, lower costs, less legal issues, better public relations, lower inequality and a more prosperous society.

Benjamin Franklin said that in this world, nothing can be said to be certain except death and taxes. These years, with states across the globe facing serious budget deficits and recent tax evasion scandals (the case of Panama Papers), the need to deter, detect and prosecute tax evaders are stronger than before. A tax evader is subject to criminal and civil penalties. The type of fraud will determine the applicable penalty.

The price of tax evasion is often higher than the price of tax compliance. In Mauritius itself, the Mauritius Revenue Authority (MRA) Income Tax Act 1995, 146B (offences relating to property tax) states that "Any person who - (a) fails to declare in his return of income under Sub-Part C of Part VIII, the gains payable under section 10A; (b) fails to pay the gains required to be paid under section 10A; (c) submits information relating to gains in his return of income which is false or misleading in any material particular; (d) otherwise contravenes any provision of section 10A, shall commit an offence and shall, on conviction, be liable to a fine not exceeding 50,000 rupees and to imprisonment for a term not exceeding 2 years".

This is also the case internationally whereby according to the Internal Revenue Service (a U.S. government agency responsible for the collection of taxes and enforcement of tax laws) for individuals who attempt to evade or defeat paying taxes, "Upon conviction, the taxpayer is guilty of a felony and is subject to other penalties allowed by law, in addition to (1) imprisonment for no more than 5 years, (2) a fine of not more than \$250,000 for individuals or \$500,000 for corporations, or (3) both penalties, plus the cost of prosecution (26 USC 7201)". Also, The United Kingdom taking the cue from the United States, which has implemented the Foreign Account tax Compliance Act, has now signed agreements with all its dependent jurisdictions dealing in offshore accounts with a commitment to disclose information to its main European partners and ensure transparency. In China, capital punishment against white collar crimes such as tax evasion was legal until 2011.

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Public awareness about tax evasion has also increased, with the recent publication of the “Panama Papers,” which are leaked documents from a Panamanian law firm that showed how some wealthy Americans have used offshore companies to hide money from the I.R.S. Those tax non payers have not only faced skyrocketed penalties but also severe stigmatisation in the media. As a result, tax compliance has, for the last years, more attention on a global level for example the OECD’s Global Forum on Transparency and Exchange of Information and international tax compliance agreements such as FATCA and CRS.

Therefore, tax compliance is beyond doubt more important than ever, for individuals to avoid severe penalties which could lead people in financial troubles, health issues such as stress, loss of their peace of mind and a damaged reputation.

Oliver Wendell Holmes, a jurist who served as a former Associate Justice of the Supreme Court of the United States said “taxes are what we pay for a civilised society”. Taxation is a key ingredient of the social contract between citizens and the economy and thus key to building an effective government. Tax Evasion undermines the efforts of the government to promote welfare and social cohesion. It erodes the credibility of legitimate democratic institutions, while propagating anti-social mentalities.

Moreover tax evasion and avoidance leads to higher inequality. It results in less flow of money from the heavy pockets of the rich to the empty ones of the poor. Income and wealth is owned by a few while majority of people suffer from lower standards of living. The rich get richer and the poor poorer. Also, tax evaders are often people who can transfer their income into foreign banks or jurisdictions, which usually means that they are better off. In avoiding their duties and responsibility towards the society, they are placing a greater burden on tax payers who have to pay more tax, despite sometimes earning less than the tax evaders. Thus, people should pay taxes to reduce stratification and create a more egalitarian society with less hegemony from the rich and higher social harmony.

Tax compliance is indeed crucial for businesses primarily to prevent them from facing legal issues such as tax evasion penalties which could affect their cash flows and even make them go out of business if they fail to pay. It also leads to higher employee retention as it creates a peaceful working environment whereby workers are less stressed the firm will get caught, especially managers and accountants who have to prepare dishonest reports. Besides, paying taxes in a way ensures the security of the firm’s image and reputation while evading taxes might lead to fall in brand loyalty resulting in lower sales and profits.

Additionally it is important that businesses pay taxes so that the government gets revenue to provide more them with extensive and efficient infrastructure such as better road networks and modern harbours which boost trade. The state can as well provide better free education and health services so as to provide firms with a healthy educated workforce whose productivity is higher; thereby they can lower their costs as well as increase their efficiency, output, sales and profits.

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Most importantly, being a compliant taxpayer allows us to contribute to government revenue which is used to finance public sector spending, typically on public goods, merit goods, administration, welfare benefits, subsidies and creation of jobs. A range of government expenditures can be covered such as free education, health and public transport for students and elderly people, social security such as pensions for the elderly, widowed and disabled, and unemployment benefits. The tax individuals pay are also used to fund the construction and maintenance of public schools, libraries, hospitals and parks as well as improvement of the country's infrastructure, mainly road networks, airports, harbours, reservoirs and power stations.

These will allow the country to economically thrive and achieve the government's goal of a prosperous, functional and orderly society. Living standards of citizens increases along with aggregate demand and aggregate supply which fuels production, output, employment and income, thereby resulting in a rise in the country's Gross Domestic Product, boosting economic growth.

In my opinion, in this fragmented and isolating world we live in, paying taxes should not be considered as a burden, but as an opportunity to help each other and to contribute to our society's welfare and prosperity. The government can adopt several measures to increase tax compliance for example by further criminalising tax evasion and introducing harsher penalties but unless citizens understand the value of taxation, tax evasion will remain one of the most pervasive economic crimes since decades.

We do not inherit our world from our ancestors but we borrow it from our children. Why don't we all pay our taxes to provide them a more colourful world?