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Does Political Culture Matter?

Deciphering the Whys of Ukrainian Tax Compliance

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EUROPEAN UNIVERSITY INSTITUTE
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Abstract

In gauging how well residents in the new post-communist states such as Ukraine become true citizens, who are capable of fulfilling their obligations to their governments, it is necessary to measure how compliant the populace is on an individual-level with respect to taxes. While there is a lack of data on taxpayer compliance rates in Ukraine in comparison to its neighbours, results from a series of unique Taxpayer Compliance Attitudinal Surveys designed and carried out by this author in 2004 and 2005 illustrate how Poles, Russians and Ukrainians view paying their dues. The data indicates not only that the Polish polity is far more willing in its attitude towards paying taxes than the Russian and Ukrainian polities are, but that Russians respond to the state with greater fear of coercion 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.

The Ukrainian survey also provides for additional comparative analysis of those in the different regions of the country. While respondents from the four main regions of the country—East, West, Centre and South—do not differ when it comes to overall support for obeying tax laws, the rationale for doing so does differ in particular between the East and the West. Moreover, what is also striking is the difference in support for tax compliance as well as the rationale for doing so between Catholic and non-Catholic Ukrainians.

The important question, then, becomes “why?” By linking issues of political culture to legacies of state-society trust, the paper shows that there is a distinct “Catholic effect,” which while not strong, shows that Catholic Ukrainians seem to react to a greater extent to state efforts to increase tax compliance more out of their levels of trust in the state than do non-Catholics. Hence, political culture is shown to have some impact in the realm of paying one’s dues to the state.

Keywords

Ukraine, Tax Compliance, Political Culture, Citizenship, Trust, Poland, Russia

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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 Ukraine, the State Tax Administration consistently has collected a relatively low percentage of its GDP in tax revenue from 1996 to 2001, during which there was a decline in tax revenue from 26 to 18 percent of GDP. During this same six-year period, the total amount of arrears averaged 25.7 percent of all taxes received by the State Tax Administration, placing Ukraine much closer to its neighbour to the East, Russia, than to its Western neighbour, Poland, and to other OECD states.¹

In gauging how well residents in the new post-communist states such as Ukraine become true citizens, who are capable of fulfilling their obligations to their governments, it is necessary to measure how compliant the populace is on an individual with respect to taxes. While there is a lack of data on taxpayer compliance rates in Ukraine in comparison to its neighbours, results from a series of unique Taxpayer

¹ Data on Ukraine compiled from World Bank figures. In comparison to the average tax collection rates in terms of percent of GDP for the OECD group of countries, Poland since the early 1990s has collected above the OECD average with respect to indirect taxes and has collected direct taxes at a rate that is not as high as the OECD states, but higher than Russia, which with the exception of just one or two years, collected both indirect and direct taxes at a lower percent of its GDP than both Poland and the OECD average throughout the same post-transition period up to 2003. With respect to tax arrears, the total amount of year-end arrears in Poland and in Russia averaged just 7.65 percent and 29.39 percent, respectively, of all taxes received by each state for the years 1995 to 2003. (By means of comparison, 4 to 6 percent has been the range typical for Canada, the United States, and Australia.)

Compliance Attitudinal Surveys designed and carried out by the Centrum Badania Opinii Społecznej (CBOS Public Opinion Research Centre) in Poland, the Public Opinion Foundation (FOM) in Russia, the Razumkov Centre for Economic and Political Studies in Ukraine and this author in 2004 and 2005 illustrate how Poles, Russians and Ukrainians view paying their dues. The data indicates 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 that Russians respond to the state with greater fear of coercion 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.

The Ukrainian survey of 4,000 citizens across the country provides for additional comparative analysis of those in the different regions of the country—known for having starkly different voting patterns and attitudes towards the European Union and Russia from one another—to be taken. While respondents from the four main regions of the country—East, West, Centre and South—do not differ when it comes to overall support for obeying tax laws, the rationale for doing so does differ in particular between the East and the West. Moreover, what is also striking is the difference in support for tax compliance as well as the rationale for doing so between Catholic and non-Catholic Ukrainians.

The important question, then, becomes “why?” Why do the regions differ? And, more interestingly, why do Catholic Ukrainians appear to have different attitudes towards compliance than their fellow non-Catholic citizens? Does the differing political cultures of east and west Ukraine matter? Does political culture help explain why Catholics appear to be more supportive of obeying the state’s laws on taxation?

After examining specifically the differences in tax compliance attitudes across Ukraine and in comparison with its neighbours, the first half of this paper will examine the basis for the political culture argument that has been utilized to explain differences in state-society relations across the post-communist region. The second half of the chapter will address the “why” questions with respect to regional and cultural differences across Ukraine. Hence, three main approaches that the state can take up in ensuring taxpayer compliance will be explored through quantitative analysis to show that Ukrainians overall react nearly equally to their state’s efforts to increase tax compliance through coercion as well as through increasing citizen trust in the state, but that east and west as well as Catholic and non-Catholic Ukrainians trust the state to such varying degrees, calling into question whether the types of citizen-state relationships built in the country do vary widely.

I. How Do Ukrainian Attitudes Differ with Respect to Paying Taxes Than Those of Poles and Russians?

In order to help delineate both the level of social compliance with respect to taxation in Poland, Russia and Ukraine as well as to discern why local citizens pay taxes to the extent that they do so at all, this author designed with the Centrum Badania Opinii Społecznej (CBOS Public Opinion Research Centre), the Public Opinion Foundation (FOM) and the Razumkov Centre for Economic and Political Studies in the fall of 2004 and in late 2005 a series of unique public opinion surveys, the results of which are presented in Appendix I.²

² Great care was given to ensure that the Polish, Russian and Ukrainian survey questions were as equivalent in terms of meaning and interpretation as much as possible. Final versions of the questions were made in consultation with the survey firms in each country. The Polish, Russian and Ukrainian versions of the survey questions are available from the author upon request.

While nearly equivalent percents of the two responding groups in Poland and Russia, 79 percent and 71 percent respectively, stated that a citizen should always follow the tax laws even if he or she considers them to be unfair (Question #10), only 57 percent of Ukrainians stated the same. Hence, obligations for citizens are viewed to be significantly more limited for 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 if they personally did not consider them to be fair. Whereas 83 percent of Poles would follow the tax laws in such cases, only 53 percent of Russians and 36 percent of Ukrainians would do the same (Question #11). 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. Such a “disconnect” between citizen and one’s own personal obligations does not appear to exist in Poland.

Other findings of the surveys indicate that such a “disconnect” between citizens and their state is greater in Ukraine than in Russia. For example, remarkably, according to the survey (Question #3), far fewer Ukrainians (9 percent) than Russians (38 percent) stated that they knew the correct personal income flat tax rate (13 percent in both countries), suggesting a populace that is further removed from the activity of the state.³

Clearly, Ukrainians appear to be less compliant attitudinally than their neighbours to both the East and West. It is also extremely important to note that the survey in Ukraine also comes exactly one year after the Orange Revolution. Despite the efforts of those who organized the extraordinary 2004 events to bring in a government more accountable to the people, Ukrainian citizens appear to have the lowest levels of support for paying taxes to their state.⁴ 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.⁵

³ An additional factor might also contribute some lack of knowledge of the Personal Income Tax rate in Ukraine: Ukrainian legislation allows for an “entrepreneurial” tax rate, for which any self-employed individual qualifies and which has a flat tax of as little as 200 hryvnia (or US\$40) per month.

⁴ The International Finance Corporation has found a similar low level support for paying taxes on the part of Ukrainian firms. Only 16 percent of respondents in the International Finance Corporation’s 2004 survey of some 2,800 small and medium-size businesses in Ukraine stated that they paid their taxes in full the previous year with a further 20 percent stating that they underreported their income by more than 20 percent. (International Finance Corporation (IFC), *Business Environment in Ukraine*, (Kyiv and Washington, DC: IFC, 2004), p. 58.) Similarly, a year later, the IFC found in its 2005 survey that only 18 percent indicated that companies similar to theirs did not underreport revenue for tax purposes and that one in four respondents who underreported revenue to the STA estimated that the amount of revenue concealed from tax to be at more than 50 percent. (International Finance Corporation (IFC), *Business Environment in Ukraine*, (Kyiv and Washington, DC: IFC, 2005), p. 29.)

⁵ It should be noted that the survey taken in Ukraine came at a time of relative economic strength compared to the 1990s but that Ukraine’s strong economic growth did slow in 2005. (According to the Economist Intelligence Unit country data website, the rate of GDP growth for Ukraine in 2004 was 12.1 percent while in 2005 the rate is estimated to have been 2.4 percent.) Meanwhile, the stark differences between the Polish and Russian states are even more remarkable when 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 to previous years. (According to figures compiled from Figures compiled from data on Economist.com and from the Economist Intelligence Unit, the average rate of GDP growth for Poland from 2001 to 2005 was 3.0 percent whereas the average for Russia was 6.1 percent and for Ukraine 7.7 percent over the same period. This contrasts with average GDP growth

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 are taken just at one point in time in each of these states. 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 attitudes overall 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.⁶

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

II. Differences in Legacies of Civil Society and Trust in the State

The post-communist transition began with a large state-society disconnect. In the aftermath of the 1989 and 1991 revolutions, societies across the region all shared alike a deep disillusionment with their bureaucratic states, now viewed as dishonest and untrustworthy.⁷ At a time in which so much was required of both state and society, such inherited distrust of the state on the part of society made the tasks at hand more difficult.

In recent years, explanations for why some state bureaucrats are able to govern their people better than others have pointed to differences in political culture, mediated through the relationships between states and societies. John Elster, Claus Offe and Ulrich K. Preuss have argued that the conditions that favored consolidation of the post-communist transition in Central and Eastern Europe are those relating to political culture, finding that the nature of the political culture, formed in the past, carries the transition forward in different ways.⁸

Gabriel Almond and Sidney Verba, who in many ways started an entirely new research program focused on political culture with their work *The Civic Culture* (1963), argued that in order for a particular regime type to work, a congruent political culture is necessary. They defined the term political culture to refer to “the specifically political orientations—attitudes towards the political culture and its various parts, and attitudes to the role of the self in the system.”⁹ Almond and Verba lay forth three “ideal types” of

rates of 3.73 percent for Poland from 1991 to 2000 on the one hand, and -3.61 percent and -7.71 percent over the same period for Russia and Ukraine respectively on the other.)

⁶ The limitations of such survey data should be underscored 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. For example, as Jeffrey A. Roth, John T. Scholz and Ann Dryden White observe, “survey research has consistently found that taxpayers who report high moral commitment to obey tax laws are unlikely to report cheating on their taxes. However, it is not clear whether this pattern reflects actual behavior or merely a desire to report behavior that is consistent with one’s proclaimed attitudes.” See Jeffrey A. Roth, John T. Scholz, and Ann Dryden Witte, “Summary,” in Jeffrey A. Roth, John T. Scholz, and Ann Dryden Witte, eds., *Taxpayer Compliance: Volume I: An Agenda for Research*, (Philadelphia, PA: University of Pennsylvania Press, 1989), p. 8.

⁷ Susan Rose-Ackerman, 2004, “Introduction,” in Janos Kornai and Susan Rose-Ackerman, *Building a Trustworthy State in Post-Socialist Transition*, (New York: Palgrave Macmillan, 2004), p. 1.

⁸ John Elster, Claus Offe and Ulrich K. Preuss, *Institutional Design in Post-Communist Societies: Rebuilding the Ship at Sea*. (Cambridge, UK: Cambridge University Press, 1998.)

⁹ Gabriel Almond and Sidney Verba, *The Civic Culture*, (1963), p. 13.

political culture: “parochial” (traditional), in which members do not participate in political life and are not aware of a distinct, centralized political unit; “subject” (authoritarian), in which members are highly aware of a centralized political unit, but do not view themselves as active participants; and “participant” (democratic), in which members see themselves as citizens and believe that they have the right and duty to participate in the political system. In particular, they argued that only a certain kind of political culture is appropriate for a democratic system—the civic culture, which is a mix of all three ideal types in which the first two keep the “participant” orientation in check such that participation is moderated by a bit of passivity.

One of the implicit assumptions regarding the three case studies here is that Poland, unlike Russia and Ukraine, has developed a political culture that is more similar to that of Almond and Verba’s “civic culture” and 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 during 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. (It is important to note that trust in the state is not synonymous with the other form of trust—trust in others, which has been referred to more popularly as “social capital” in the field of political science.) With respect to the nature of the transition’s aftermath, the 1989 transition was perceived in Poland dramatically differently by the state and the society than the 1991 transition in Russia. Poles viewed the transition as allowing for the creation of a new state of, by and for Poles whereas Russians, sitting at the heart of the Soviet empire, were very uncertain as to what the transition would bring for them—both as a nation and as individuals. To aid in the re-creation of a constructive state-society relationship, legacies of the past can be very beneficial in the building of trust in the present. And, with respect to tax compliance, a political culture-based hypothesis would suggest that greater openness and transparency on the part of the state and increased trust on the part of the citizenry in the state itself would lead to a greater willingness to fulfill one’s obligations to the state.

Along the same lines, Russia’s political culture in the decade and a half after communism often has been described as being somewhat similar to that of Almond and Verba’s “subject” (or authoritarian) type in which citizens who are less prone to be active in demanding transparency on the part of the state as well as are less trusting of it. The development of Russia’s political culture, particularly, has been seen to be due in part to a different type of historic church-state relationship, which has complemented a more subject-ruler relationship in everyday governance.

The absence in the Soviet Union of a non-state institutional actor that would play a role in society like the role the Catholic Church played in Poland prevented greater transparency and openness from developing. And, because Russians do not view themselves as participating in political life, they would be more likely to have greater distrust of the state and negative views of the bureaucrats that interact with them. Hence, political culture explanations for positive or negative perceptions of the state are based on the legacy of a civic culture in society (and not on the type of religion, in and of itself) as having an impact on transparency and on the level of trust of citizens in the state. So it is the legacy of a civic culture, born from religion-state relations, past rule, etc., that enables a healthier citizen–state relationship, whereby the citizen trusts and oversees the state while the state also trusts citizens and responds to them. Historical

and other factors create a legacy of civic culture (or legacy of civil society), which enables society to be more trusting of state and state bureaucrats to recognize their responsibilities to fulfill citizen expectations based on that trust. If there is trust in the state, there will be greater belief that the state can respond with citizens' needs.

With reference to variations in political cultural legacy, Juan Linz and Alfred Stepan explain further how the different natures of branches of Christianity can impact the type of support given to nascent democratic groups while carefully recognizing that Orthodox Christianity is not inherently anti-democratic. They argue that "Roman Catholicism as a transnational, hierarchical organization can potentially provide material and doctrinal support to a local Catholic church to help it resist state opposition."¹⁰ Hence, the Church could be considered as supporting "a more robust and autonomous civil society."

With respect to post-communist Europe, there is a religious divide corresponding roughly between Catholicism in Central Europe including Poland on one side, and Slavic Orthodoxy in former Soviet Union states on the other. "Concerning civil society and resistance to the state, Orthodox Christianity is often (not always) organizationally and doctrinally in a relatively weak position because of what Max Weber called its 'caesaropapist' structure, in which the Church is a *national* as opposed to a *transnational* organization," Linz and Stepan continue. "In caesaropapist churches, the national state normally plays a major role in the national church's finances and appointments. Such a national church is not really a relatively autonomous part of civil society."¹¹ According to this argument, whether the Orthodox Church supports civil society depends upon whether or not the state leaders truly are committed to democracy. How the state's bureaucrats behave towards citizens in society would appear to depend upon how committed state leaders and the Church are to greater transparency and civic oversight. And, of course, there need not be necessarily any correlation as to how widely or active Russian orthodoxy has been practiced today or in the late Soviet period. What is important to recognize is that a more subversive state-society dynamic relationship can develop even if the religion is not practiced on a cooperation between the state and the church, the ostensibly intimate relations between the president and the Patriarch Alexii II, the regular interaction between the federal and local authorities and the church became a fixture in the Russian media.¹²

In order to assess the extent to which the relative legacy of civil society that exists within certain political cultures in post-communist Europe matters, a close examination of the Ukrainian case is necessary. Whereas Poland and Russia are predominantly Catholic and Slavic Orthodox, respectively, in religious make-up, Ukraine maintains a population that is nearly 10 percent Catholic, most of whom are concentrated in western Ukraine. Further, the unique presence of a socio-political cleavage between Ukraine's provinces, some of whose histories trace back to Polish or Russian rule or both, allows for a more focused study on how such differences, which are not as easily discernable in Poland or Russia, can make an impact on state-society relations. Similar to the red-blue state divisions in recent U.S. presidential elections, the

¹⁰ Juan Linz and Alfred Stepan, Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe, (Baltimore, MD: Johns Hopkins University Press, 1996), p. 453.

¹¹ Ibid., p. 453.

¹² Shlapentokh, Vladimir, "Trust in Public Institutions in Russia: The lowest in the world," Communist and Post-Communist Studies, Vol. 39 (2006), p. 165.

provinces in Ukraine have divided themselves starkly in, two—between the “orange” west and the “blue” east. If attitudes and levels of trust towards the state can vary because of different types of society-state relations, born out of different legacies of civil society traditions and church-state relations, then the Ukraine case should illustrate this. And, examining such attitudes and trust relations in the arena of state obligations to pay one’s dues is an excellent place to start.

III. Why Do Ukrainian Attitudes Differ Dramatically from those of Poles and Russians 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—coerce 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 bureaucrat’s level of “customer service” from prior encounters. For a society interacting with a coercion-based approach to tax collection, tax compliance would be expected to depend largely on citizens’ being susceptible to coercion and deterrence.

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.”¹³ 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 percent of Poles, 40 percent of Russians and 34 percent of Ukrainians stated that they personally would be more likely to evade paying taxes if they thought they could get away with it (Question #9 in Appendix I.) (As a test of robustness, the Ukrainian figure also held up when those surveyed were asked whether they only pay taxes because they know that they will be punished if they don’t (Question #14), which yielded a similar variation in responses.) 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 threat.¹⁴ Later, we will explore how

¹³ Joel Slemrod, “Why People Pay Taxes: Introduction,” in Joel Slemrod, ed., Why People Pay Taxes: Tax Compliance and Enforcement, (Ann Arbor, MI: The University of Michigan Press, 1992), p. 2.

¹⁴ When adding in those who stated that it was “difficult to say,” the totals for the Polish, Russian and Ukrainian survey responses to Question #9 are the same. Nevertheless, one possible reason for the

significant a susceptibility to a relaxation of deterrent measures is in explaining differences in overall attitudes towards tax compliance.¹⁵

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 as well as trust in other citizens to also pay their own taxes. Citizens and the state will benefit if such trust can be maintained. And, as we explored above, the legacy of a society's political culture can have an impact on such levels of trust in the state.

Margaret Levi, in *Of Rule and Revenue*, introduces 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."¹⁶ 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."¹⁷ 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 such 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.)

Once quasi-voluntary compliance declines, Levi is very pessimistic about the opportunities to reconstitute and rebuild it. Re-establishing quasi-voluntary compliance,

disparity between Poles, Russians and Ukrainians on the issue of evasion without risk of punishment might be due to 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. In any case, further surveys testing attitudes towards different gradations of cheating might be beneficial here.

¹⁵ While this survey question (#9) and that chosen for the dependent variable in the logit analysis (Question #11) that follows later 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 regardless of whether the state employs deterrent force or not. The former question asks about individuals' views on the effectiveness of removing the risk of punishment on themselves personally while the second asks about the extent to which personal notions of fairness could outweigh the fulfillment of the civic duty to pay one's share in taxes. Indeed, in examining the distribution of the variables constructed from Questions #9 and 11 to be used in the logit analysis, roughly 12 percent of Russians surveyed would neither obey an unfair tax law nor evade if they knew there would be no punishment, roughly 25 percent of Russians would not obey an unfair tax law and would evade if they knew there would be no punishment, 38 percent of Russian would obey an unfair tax law and would not evade if they knew there would be no punishment, and 26 percent of Russian would both obey an unfair tax law and evade if there was no punishment. For the Polish survey, the corresponding percentages were 2, 5, 38 and 55 percent, respectively. Similarly, for the Ukrainian survey, the corresponding percentages were 24, 26, 30 and 20 percent, 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 authors of the survey.

¹⁶ Levi, *Of Rule and Revenue*, p. 52.

¹⁷ *Ibid.*, p. 52-53.

she concludes, “often requires an extraordinary event—such as war, revolution, or depression—that makes people willing to negotiate a new bargain.”¹⁸ In the aftermath of its 2004 Orange Revolution, Ukraine, for example, may have been given a rare second shot at rebuilding the state’s relationship to taxpayers, and indeed, preliminary reports stated that tax and customs revenues were significantly higher than usual there in the first months of 2005.¹⁹

Trust in the Government to Provide Goods. Leaving aside the 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” as well as “must convince taxpayers that taxpayer contributions make a difference in producing the desired goods.”²⁰

According to the results of the Taxpayer Compliance Attitudinal Surveys, 21 percent of Poles, 42 percent of Russians and 52 percent of Ukrainians 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 #5 in Appendix I.) This provides one assessment as to how citizens view bureaucrats at the bottom of the political system regarding their trustworthiness. Clearly, Ukrainians are more distrusting of tax bureaucrats than their neighbours both to the East and the West. (Additional assessments as to how trustworthy are actors at the top of the political system—namely, the president in Poland, Russia and Ukraine as well as 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.²¹)

While not available for all of the countries polled, additional survey questions do suggest that there is a significant lack of trust in the state in Ukraine. With respect to the provision of goods and services, only 9 percent of Ukrainians believe that their government fulfils its obligations to citizens, with some 50 percent flatly denying that it does (Question #12.) Similarly, only 15 percent of Ukrainians concurred that when they pay taxes, they feel that the money is returned to them and their close ones through government expenditures (Question #19.) Clearly, Ukrainians do not believe that they get much from their state.

Similarly, when Ukrainians were asked whether they could trust their government to do what is right, only 9 percent stated that they could while some 51 percent flatly said that they couldn’t (Question #13.) In addition, trust is also lacking in the tax administration as only 33 percent of Ukrainians believed that the tax service would never try to take more money from them than it should (Question #17.)

¹⁸ Ibid., p. 70.

¹⁹ On August 18, 2005, Ukraine’s Prime Minister Yulia Timoshenko stated that Ukraine already has collected 50 percent 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,” Timoshenko said. (Garfield Reynolds, “Ukraine Revenue Up as Tax Dodging Falls, Premier Says,” *Bloomberg News*, August 19, 2005, in “The Action Ukraine Report (AUR),” E-mail Listserv, No. 544, August 22, 2005.)

²⁰ Ibid., p. 53.

²¹ The author does recognize that there are limits in utilizing such measures of trust in individual political personalities such as Presidents Aleksander Kwaśniewski, Vladimir Putin and Viktor Yushchenko, for example, as the survey questions asked do pick up respondents’ additional perceptions of their leaders and their politics rather than merely focus 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 used regularly by the respective polling firms in their omnibus surveys used for tracking changes in such attitudes.

Furthermore, only 33 percent of Ukrainians (and 37 percent of Russians) believe that an ordinary citizen has a possibility to defend his or her interests before the co-workers of the tax service (Question #18.) 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 as well as a moral trust that the state will treat its citizens fairly, Ukrainians appear to be stating flatly one year after the Orange Revolution that they can not trust their state to do either.

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 to pay their fair share in taxes is, perhaps surprisingly, quite high. According to the results of the Taxpayer Compliance Attitudinal Surveys, some 69 percent of Poles, 77 percent of Russians and 70 percent of Ukrainians believe that there are “many people,” as opposed to “few people,” in their country who evade taxes (Question #4 in Appendix I.)²² 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.²³ 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, a quarter of all Russians and only 15 percent 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 those who did have prior contact with tax bureaucrats, more Ukrainians were dissatisfied than Poles and Russians with the outcomes of such meetings as well as with the manner by which the bureaucrats treated them in such meetings (Questions #7 and 8.)

IV. Testing the Theories of Taxpayer Compliance

How do the different theories on tax compliance, derived largely from the field of American politics, 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 bureaucrat’s level of “customer service.” For a society interacting with a coercion-

²² It should be noted that levels of trust in others in Russia generally today are not that high, which might also provide some cultural context regarding levels of trust in fellow taxpayers as well as, in turn, on attitudes towards tax compliance generally. For example, according to a poll conducted by the Bashkistrova and Partners market research firm in June, only 25 percent 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 Center for the Study of Public Policy at the University of Strathclyde in Glasgow. (See Alex Fak, “Lack of Trust Carries Heavy Toll,” The Moscow Times, July 5, 2005, p. 1, on-line edition.)

²³ See, for example, Tom R. Tyler, Why People Obey the Law, (New Haven, CT: Yale University Press, 1990.)

based approach to tax collection, tax compliance would be expected to depend largely on citizens' being susceptible to coercion and deterrence.

Appendix II presents the results of tests on the different variables representing the tax compliance theories discussed through logit analyses on the Poland, Russia and Ukraine Tax 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 #11 in Appendix I.)²⁴ 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 in order to test tax compliance theories. Hence, the data here is suggestive, not definitive.

With respect to the independent variables in the regression analysis, they are divided into four categories.²⁵ Viewing evasion to be OK if one could get away with it (Question #9) 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 variable(s) in this set focus(es) on trust of government—its leaders at the top (Presidents Vladimir Putin, Aleksander Kwasniewski and Viktor Yushchenko), and, in Poland and Ukraine, the parliament and the government as a whole—as proxy variables for trust in whether the government fulfils its obligations to its people. The variable "Many Dishonest Tax Bureaucrats" (Question #5) serves as a proxy of trust in the lower levels of the state bureaucracy while "Many People Evade Taxes" (Question #4) 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 as prior contact, in and of itself and irrespective of the nature of that contact or its outcome for some individuals, matters with

²⁴ Regarding the choice of the dependent variable, this dependent variable was most favourable to Poles as well as to Russians and Ukrainians. With near even splits (in Russia: 53 percent of Russians would obey a law personally deemed unfair while 28 percent would not and 19 percent were unsure; and in Ukraine, the corresponding figures were 36, 37 and 27 percents 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.

²⁵ 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 the mean, but mean-replaced variables were not used as the dependent variable in these logit regressions.

respect to attitudes towards tax compliance. A final set of control variables are also considered.²⁶

Poland. As Appendix II 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), 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 altogether. 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 an unfair tax law. Second, prior contact with the tax bureaucrats also does not appear to matter significantly.²⁷

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 personally viewed as unfair when shifting the variable in question from its minimum to its maximum and holding all other independent variables even at their means. Such estimates for the main theoretical proxy variables are found in Appendix III.²⁸

As shown in Appendix III, the variable with the most significance as well as with the largest substantive effect in the Polish survey was a proxy variable for “quasi-voluntary compliance.” Namely, obeying an unfair law 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

²⁶ Those control variables concern socio-economic and additional effects and include whether 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. In addition, whether one would vote in a parliamentary election if held the following Sunday (for Poles) or whether one did vote in the most previous presidential elections (for Russians in March 2004 and for Ukrainians, the third presidential round in December 2004) does provide some measure of one’s participation in what is regarded as another duty of citizenship.

²⁷ While business taxes do play a large part of the tax systems in both countries, the survey presented here is a poll regarding citizen attitudes towards taxes and not a survey of business attitudes towards paying taxes. However, the survey is not specific with respect to type of taxes—individual, corporate or other. Further, as is shown in Appendix II, individual attitudes towards payment of taxes in Poland and Russia are not affected by how one pays taxes, which would vary by type and status of one’s position at work. (This was not the case for the Ukraine survey as Appendix IV shows.)

²⁸ The substantive effects presented in Appendix III 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 Gary King, Michael Tomz and Jason Wittenberg, “Making the Most of Statistical Analyses: Improving Interpretation and Presentation,” *American Journal of Political Science*, Vol. 44, No. 2 (April 2000), p. 347-361. 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, January 5, 2003. The value listed for the substantive effect is the mean of those simulations. One recent article that employs such a method of estimating substantive effects is Radosław Markowski and Joshua A. Tucker, “Pocketbooks, Politics and Parties: The 2003 Polish Referendum on EU Membership,” *Electoral Studies*, Vol. 24, No. 3 (September 2005), p. 409-433.

other proxy variables for the main theories tested were not that significant. Noticeably and peculiarly, trust in other citizens is not significant. Hence, 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.

Russia. As for the results of regression analysis of the Russian survey, shown in Appendix II, the contrast with the Polish survey results is quite striking. The logit regression provides evidence to suggest that the 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 government as well as for trust in other citizens are quite significant. However, the latter type of trust seems to have an opposite effect than the theory would lead us to expect: namely, the more one perceives others to evade taxes, the more one is likely to say that they themselves would pay taxes. Perhaps, the more that some Russians view their post-Soviet society to be comprised of individuals who behave other than they should, the more likely such Russians are to dissociate themselves from such behaviour by identifying themselves otherwise. Finally, like the Polish survey, having had prior contact with the tax bureaucrats in and of itself also does not appear to matter significantly, although it was somewhat close.

For Russia, the independent variable with the largest “substantive effect,” as shown in Appendix III, 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 also on the degree to which citizens trust the state.

Ukraine. Although Ukrainians appear to have somewhat lower levels of support for tax compliance than Russians, the results from the regression analysis examining why Ukrainians have the support for obeying a tax law personally deemed unfair that they do suggest that Ukrainians are influenced almost equally by their reactions to the state’s coercive measures as 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.” Appendix III illustrates that 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 even at their means decreases the likelihood that a Ukrainian respondent would state that he or she would obey an unfair tax law by about 11 percent. Meanwhile, alternating the trust in government variable from its lowest to its highest values increases the likelihood of saying that one would obey such a law by 8 percent. Similarly, distrusting tax bureaucrats increases the likelihood of stating that one would obey an unfair tax law by 9 percent. Hence, such numbers indicate that unlike Poland, coercive threats do matter and unlike Russia, trusting government matters nearly as much as fearing it.

Interestingly, unlike the Russian survey, the secondary type of trust that is part of the theory of “quasi-voluntary compliance,” trust in other citizens, does not matter at all. This suggests that, unlike Russians, but like Poles, Ukrainians do not place

themselves in relation to others in society when deciding whether to agree to obey a tax law personally deemed unfair. (Perhaps, as well, Ukrainians may be more likely to blame, or distrust, their state that Russians, who are more likely to blame each other.)

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.

Overall, the mixed nature of the survey results in Ukraine—that is, the fact that proxy variables for reacting to state coercion and for trusting the state matter with respect to attitudinal support for tax compliance in near equal amounts—does suggest that Ukraine does not follow strictly the pattern of either Poland or Russia. Poland appears to be a case which 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 coercion-based approach to tax collection in an environment with decreasing opportunities through the media and through political contestation to be critical of the state or to become aware of the state's shortcomings. There, tax compliance appears to depend largely on citizens' being susceptible to coercion and deterrence.

Ukraine is a different case altogether. The employment of coercion—perhaps to an extent that is not as great as in Russia—is the state's primary tool of 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 coercive measures of the state and their trust in the state. The fact that coercive 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 a Orange Revolution “honeymoon” period of January through August 2005, increasing around the time of Yulia Tymoshenko's dismissal as Prime Minister in September 2005, if not a bit before.²⁹)

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 survey questions #12 and 13 in Appendix I illustrate, only 9 percent of Ukrainians feel that the state fulfils its obligations to its citizens and similarly only 9 percent of Ukrainians agree that their state can be trusted to do what is right.

Further, somewhat fascinatingly, when comparing the results from Survey Questions #9, 14, 15 and 16, concern about what others in society think (i.e., their friends and acquaintances) appears to have a further dampening effect upon Ukrainians' willingness to cheat on their taxes than how the state would view and/or react to them if they decided to evade. If they were able to escape punishment from the state, some 30 to 38 percent of Ukrainians said that they would freely evade whereas if, in addition to escaping punishment, their friends and acquaintances knew and wouldn't approve, only 24 percent of Ukrainians stated that they would try to avoid paying taxes.

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

²⁹ Interview with Igor Lavrinenko, Center for Political and Legal Reforms, Kyiv, July 24, 2006; and Executive Director, international business association, Kyiv, August 8, 2006.

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.

V. The Impact of Ukraine's Varying Political Culture Legacies on Trust in the Ukrainian State

While conducting regression analysis on the Ukrainian Tax Compliance Survey as a whole does portray a good picture of how Ukrainians overall react towards their state a year after a revolutionary moment, further analysis along the East-West political and economic divide of the country as well as the, somewhat coinciding, societal cleavage between Catholics and non-Catholics (almost entirely Slavic Orthodox) in the country—a religious mix that does not exist in the neighbouring states.

In comparing the willingness of Ukrainians as a whole, Catholic and non-Catholic Ukrainians to obey an unfair tax law (used as the dependent variable throughout this exercise), there are differences, as shown in the last line of Appendix IV, suggesting that the culture and practice of different religions leads to the construction of very different relationships that citizens have towards their state. And, perhaps this helps elucidate further the differences between largely Catholic Poland and largely Slavic Orthodox Russia with respect to attitudes towards tax compliance. However, one should be cautious in making such claims: Nationally, Catholic Ukrainians were only nearly 13 percent more likely to state that they would obey an unfair tax law than their non-Catholic countrymen whereas Poles were 27 percent more likely to state that they would obey such a law than Russians (83 percent to 56 percent.) Catholicism, in and of itself, may account for something, but not enough to account for entire cross-national differences in these cases.

Whereas the trust variables and the deterrence variable all had about equal weight, in terms of substantive effect (the change in likelihood that one would obey an unfair tax law), with the overall Ukraine regression, trust issues matter most for Catholic Ukrainians, as Appendix IV illustrates. That is, if all of the independent variables are held even at their means and trust in parliament is varied from its lowest to its highest levels, Catholic Ukrainians are 54 percent more likely to be in favour of compliance. The original Ukrainian regression utilized a trust scale, which is a composite of trust in the president, parliament and in government as well as trust in state to do what it right and trust in state to provide goods and services, but when trust in parliament is disaggregated out it becomes very, very much significant with a strong substantive effect. Further, interesting, I discovered that about 97 percent of those Catholic Ukrainians who trusted the parliament also trusted the president and government (but no where near the other way around). For a Catholic Ukrainian, then, to be trusting of the parliament, which at the time was very fractious and not aligned with the west-leaning president, who was the choice of the Catholic vote, he or she must have been more trusting overall of the state. And, in this regard, Catholic Ukrainians rely more on trust when interacting with their state than on fear—similar to the Poles. (Also interesting to note about Catholic Ukrainians is that if they voted for president in 2004 Orange Revolution Election, they were 31 percent more likely to support complying with an unfair tax law.)

While not entirely surprising given the fact that 91 percent of the country is not Catholic, non-Catholic Ukraine's attitudinal behaviour towards tax compliance is shown to be nearly identical to that of Ukraine as a whole—namely trust in the state variables

(shown here by the level of trust in local tax bureaucrats) is practically equivalent in substantive effect to the deterrence proxy variable.

Ukraine is divided into four regions to test the significance of the residing in Ukraine's western, eastern, central or southern parts.³⁰ To assess the impact of two extremes of differing political culture within the same country, three of the five eastern provinces (Donetsk, Luhansk and Kharkiv oblasts), which share borders with Russia, and four of the seven western provinces (Lviv, Ivano-Frankivsk, Volynsk and Zakarpattia oblasts), located along the western border, were selected as representatives of the far east and far west regions of the country for comparative analysis. Western Ukraine, which strongly supported the Orange coalition and President Viktor Yushchenko during the Revolution and looks towards Poland and the West for future political collaboration, and Eastern Ukraine, which actively supported the outgoing President Leonid Kuchma's prime minister, Viktor Yanukovich. Eastern Ukraine is where Russian is most commonly spoken and which has strong trade and cultural links to Russia. Most of the country had always been under Russian control except for portions of western Ukraine. Eastern Ukraine has many large firms, many of which are tied to the gas and coal sectors, while western Ukraine's economy, comprised mostly of small and medium-size businesses, has been struggling more throughout the transition. Hence, the 2004 presidential elections only further clarified the stark regional cleavage between the western and eastern portions of the country.

In comparing the regression analysis of the question regarding whether one would obey an unfair tax law for the selected eastern oblasts (provinces) with the western oblasts, one finds that the trust variables predominate for both groups—that is the proxy variables for trust in the state had much higher substantive effects than the proxy variable for the deterrence-based approach to ensuring tax compliance. Hence, Ukrainians in the far eastern portion of the country (where fewer Catholics live) have the same primary, underlying motivations (the degree of trust in the state) as Poles and western Ukrainians in deciding whether or not to be supportive of tax compliance.

Moreover, two very interesting anomalies can be observed. First, for eastern Ukrainians, the more one trusts the government, the less one would be likely to express support for obeying unfair tax laws—and the substantive effect for this was 69 percent. Second, for western Ukrainians, the more one trusted the president, the less likely one was to give support for tax compliance. These two effects suggest that trust in the state matters, but it also can act negatively upon state-society relations. Why? One strong possibility is the fact that if one identified with a particular branch of government (western Ukraine was more supportive of the president while eastern Ukraine, perhaps, was more supportive of those in the government), then one might feel as if one would not need to be as strict when it comes to paying taxes because “your guy” or “guys” are in control at the top.

Also fascinating is the fact that the eastern Ukrainians were the only ones affected by having had any sort of contact with tax bureaucrats in the past—and such

³⁰ The Razumkov Center for Economic and Political Studies in Kyiv, which conducted this survey, divides the country into four regional categories: West (Volyn, Zakarpattia, Ivano-Frankivsk, Lviv, Rivne, Ternopil' and Chernivtsi oblasts), Center (Vinnytsia, Zhytomyr, Kyiv, Kirovohrad, Poltava, Sumy, Khmelnytskyi, Cherkasy and Chernihiv oblasts as well as the city of Kyiv), South (Odesa, Kherson and Mykolaiv oblasts as well as the Crimean Autonomous Republic) and East (Dnipropetrovsk, Donetsk, Zaporizhia, Luhansk and Kharkiv oblasts.)

prior contact had a negative impact. This raises questions as to whether tax bureaucrats somehow behave differently in different regions of the country.

As Appendix 5 shows, the four far western regions of Ukraine analyzed here are as a whole nearly split equally between Catholics and non-Catholics. Trust matters more for both Catholic and non-Catholic Ukrainians rather than the proxy variable for being motivated more to support tax compliance by the state's deterrence approach, but as with the far western Ukraine area as a whole, trusting the president makes Catholics as well as non-Catholics less likely to support obeying unfavourable tax laws. Striking as well is the fact that the more non-Catholic Ukrainians view others in society to evade, the more likely that they would state that they *would* obey. While this goes against the rational notions of quasi-voluntary compliance, in certain countries or parts of countries there may very well be those who wish to distinguish themselves from the bad behaviour of others that they see around them.

VI. Conclusion

So the ultimate question here is whether political culture matters when examining the motivations for citizens to support paying taxes or not. The short answer is yes, but perhaps not as much as some might think. Catholic Ukrainians are more supportive of paying taxes than other Ukrainians, but not by much as most Catholics were not supportive of tax compliance. In addition, eastern Ukrainians, where Catholics number few, are almost as likely to be supportive of tax compliance as Catholic Ukrainians (41 percent of easterners would support whereas 47 percent of Catholics would.)

What does distinguish Catholic Ukrainians from non-Catholics in the country as a whole as well as within the far western region of the country is that they react to state efforts to increase tax compliance mostly with respect to whether or not they trust the state whereas others in the country react equally to the state's deterrence efforts or have the substantive effects of the differing significant proxy trust variables balance out. Hence, for the selected east and western Ukraine regions as well as for the non-Catholic portion of the west, positive substantive effects that emerged from trusting one level or branch of government were "cancelled out," so to speak, by a negative impact of another trust variable. And, for these cases, the deterrence effect proxy variable did matter. Meanwhile, when examining groups comprised only of Catholics, trusting the state, in one level or another, has an overall positive impact in determining whether to comply with the state's activity in the tax arena.

Without a doubt, additional on-the-ground research is required to assess whether there are different tax bureaucrat-citizen relationships in the different geographic regions of the country. Moreover, further information clearly is needed to explain why the positive "Catholic effect matters in Ukraine", where the Church had been less active than in Poland before and after the transition, as well as to explain why such a "Catholic effect" is insufficient to enable a majority of Catholic Ukrainians to support abiding by an unfair tax law. However, this exercise does show that even in the act of taxpaying—where presumably no one would want to take part—political culture aspects do matter, largely because of how they are mediated through perceptions of trust.

Appendix I: Poland, Russia and Ukraine Taxpayer Compliance Attitudinal Surveys

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In Poland, the CBOS Public Opinion Research Centre (Centrum Badania Opinii Społecznej) conducted this survey on November 5-8, 2004. The sample size was 988 respondents. The method employed was face-to-face PAPI, by which the interviewer filled out a paper questionnaire. The margin of error does not exceed 3.2 percent. (For additional information on the sample design, please view the CBOS web site at <http://www.cbos.pl>.)

For the Russian survey, carried out by the Public Opinion Foundation (Фонд Общественное Мнение) on October 23-24, 2004, nation-wide home interviews were conducted in 44 regions. The sample size was 1,500 respondents. Additional polls were made of the Moscow population, with a sample of 600 respondents. The margin of error does not exceed 3.6 percent. (For further information on the sampling strategy and method, please view the web page http://english.fom.ru/about_eng/818.html on the Public Opinion Foundation's web site.)

In Ukraine, the tax compliance survey was carried out nation-wide on 3,995 Ukrainians on November 20-29, 2005, by the Razumkov Centre for Economic and Political Studies. The method employed was face-to-face interviews. The response rate was 70.6 percent. The margin of error does not exceed 2.3 percent. (For additional information on the sampling method, please contact the author.)

All survey responses are rounded to the closest percent.

1. Do you consider yourself to be a taxpayer?

| | Russia | Ukraine |
|------------------|--------|---------|
| Yes | 66 | 61 |
| No | 30 | 30 |
| Difficult to say | 4 | 9 |

2. Who files your personal income taxes?

| | Poland | Russia | Ukraine |
|---------------------------|--------|--------|---------|
| I, myself, do | 54 | 13 | 7 |
| My employer does | 5 | 47 | 46 |
| No one does | n.a. | 6 | 13 |
| Somebody else does | 19 | 4 | 6 |
| I don't have to pay taxes | 19 | 24 | 17 |
| Other Situation | 3 | n.a. | n.a. |
| Difficult to answer | 1 | 6 | 11 |
| n.a.= not asked | | | |

3. What is the personal income tax rate in your country today?

| | Russia | Ukraine |
|-----------------------------|--------|---------|
| 13 percent (correct answer) | 38 | 9 |
| I don't know | 21 | 39 |
| Incorrect answer | 5 | 30 |
| Difficult to say | 11 | 28 |
| No response | 24 | |

4. Do many or few people evade taxes in your country?

| | Poland | Russia | Ukraine |
|--------------------------|--------|--------|---------|
| Many | 69 | 77 | 70 |
| Few | 17 | 8 | 14 |
| There are no such people | 1 | 0 | 1 |
| Difficult to answer | 13 | 15 | 16 |

5. Are there many dishonest people who work in the tax service?

| | Poland | Russia | Ukraine |
|---|--------|--------|---------|
| Yes, there are many dishonest tax service employees | 21 | 42 | 52 |
| No, there are few dishonest tax service employees | 43 | 25 | 20 |
| There are no such people | 2 | 2 | 1 |
| Difficult to say | 33 | 31 | 28 |

6. During the past five years, have you had business with employees of the tax service?

| | Poland | Russia | Ukraine |
|------------------|--------|--------|---------|
| Yes | 49 | 23 | 15 |
| No | 50 | 73 | 82 |
| Difficult to say | 1 | 4 | 4 |

7. Were you satisfied with the results of your meeting with the tax service employees?

(For those saying "Yes" in question #10.)

| | Poland | Russia | Ukraine |
|------------------|--------|--------|---------|
| Satisfied | 76 | 58 | 47 |
| Not satisfied | 23 | 33 | 40 |
| Difficult to say | 1 | 10 | 13 |

8. Were you satisfied by how the tax service employees spoke with and treated you?

(For those saying "Yes" in question #10.)

| | Poland | Russia | Ukraine |
|------------------|--------|--------|---------|
| Satisfied | 77 | 63 | 49 |
| Not satisfied | 22 | 34 | 41 |
| Difficult to say | 1 | 3 | 11 |

9. Is it possible that you would evade taxes if you were sure that you could get away with it?

| | Poland | Russia | Ukraine |
|------------------|--------|--------|---------|
| Yes | 53 | 40 | 34 |
| No | 34 | 38 | 40 |
| Difficult to say | 14 | 22 | 26 |

10. Should a citizen always follow the tax laws, even if he or she considers them to be unfair?

| | Poland | Russia | Ukraine |
|---|--------|--------|---------|
| A citizen should always follow the tax laws | 79 | 71 | 57 |
| A citizen should not always follow the tax laws | 14 | 17 | 28 |
| Difficult to say | 7 | 12 | 15 |

11. Would you follow the tax laws even if you do not consider them to be fair?

| | Poland | Russia | Ukraine |
|-------------------------------------|--------|--------|---------|
| Yes, I would follow the tax laws | 83 | 53 | 36 |
| No, I would not follow the tax laws | 6 | 28 | 37 |
| Difficult to say | 10 | 19 | 27 |

12. Does your government fulfil its obligations to its citizens?

| | Ukraine |
|-----------------------------|---------|
| Yes | 9 |
| Sometimes yes, sometimes no | 35 |
| No | 50 |
| Difficult to Say | 5 |

13. Do you think you can trust your government to do what is right?

| | Ukraine |
|-----------------------------|---------|
| Yes | 9 |
| Sometimes yes, sometimes no | 32 |
| No | 51 |
| Difficult to Say | 8 |

14. Do you pay taxes only because you know that you will be punished by the state if you don't?

| | Ukraine |
|------------------|---------|
| Yes | 38 |
| No | 40 |
| Difficult to say | 22 |

15. Is it possible that you could avoid paying taxes, if you were sure, that there would be no punishment, but your friends, acquaintances and co-workers would know and wouldn't approve?

| | Ukraine |
|------------------|---------|
| Yes | 24 |
| No | 45 |
| Difficult to say | 31 |

16. Is it possible that you could avoid paying taxes if you knew for sure that you would not have to go to jail and would not have to pay a large fine?

| | Ukraine |
|------------------|---------|
| Yes | 30 |
| No | 43 |
| Difficult to say | 29 |

17. Are you confident that the tax service would never try to take more money from you than it should?

| | Ukraine |
|------------------|---------|
| Yes | 33 |
| No | 35 |
| Difficult to say | 32 |

18. How do you suppose, does the ordinary citizen have a possibility to defend his or her interests before the co-workers of the tax service or does he or she not have such a possibility?

| | Russia | Ukraine |
|------------------|--------|---------|
| Yes | 37 | 33 |
| No | 43 | 45 |
| Difficult to say | 19 | 22 |

19. Do you feel that when you pay taxes, the money is returned to you and your close ones through government expenditures?

| | Ukraine |
|--------------|---------|
| Yes | 15 |
| No/No answer | 85 |

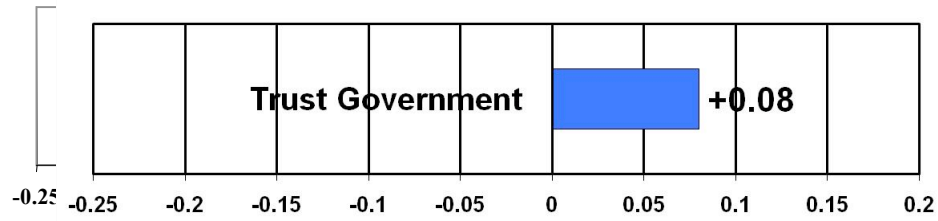
Appendix II: 2004/05 Tax Compliance Attitudinal Surveys
Logit Analysis of Tax Compliance Attitudes
(DV= Whether One Would Obey an Unfair Law)
Coefficients and (Standard Errors)
ALL TRUST PARL2 GOVT2 PREZ2

| | <u>Poland</u> | <u>Russia</u> | <u>Ukraine</u> |
|---|---------------------------|----------------------|--------------------|
| <u>Deterrence</u> | | | |
| Evasion OK If Could Get Away With It | -0.26 (0.32) | -0.97*** (0.12) | -0.46*** (0.08) |
| <u>Quasi-Voluntary</u> | | | |
| Trust in Government Scale | | | 0.08* (0.04) |
| Trusts President | -0.44 (0.44) | 0.59*** (0.19) | |
| Trusts Parliament | -0.36 (0.69) | | |
| Trusts Government | 1.82** (0.73) | | |
| Many Dishonest Tax Bureaucrats | 0.03 (0.52) | -0.69*** (0.21) | -0.39** (0.16) |
| Many People Evade Taxes | 0.18 (0.50) | 0.22 (0.24) | 0.11 (0.16) |
| <u>Prior Contact</u> | | | |
| Previous Contact with Tax Bureaucrats | 0.31 (0.29) | 0.19 (0.13) | -0.11 (0.11) |
| <u>Socio-Economic, Additional Effects</u> | | | |
| Income | - 0.0005** (0.0002) | 0.00003 (0.00003) | 0.45** (0.22) |
| I File My Income Taxes Myself | 0.23 (0.30) | 0.21 (0.16) | -0.26* (0.15) |
| Male | -0.52** (0.28) | -0.02 (0.11) | -0.06 (0.08) |
| Age | 0.0009 (0.008) | 0.01*** (0.004) | 0.002 (0.002) |
| Education | 0.69 (0.57) | 0.39* (0.24) | 0.41** (0.18) |
| Vote in Elections | 0.15 (0.28) | -0.06 (0.12) | 0.11 (0.13) |
| Constant | 2.41*** (0.79) | 0.20 (0.36) | -0.11 (0.25) |
| N | 886 | 1637 | 2891 |
| Method of Handling Missing Observations | Mean Replace | Mean Replace | Mean Replace |

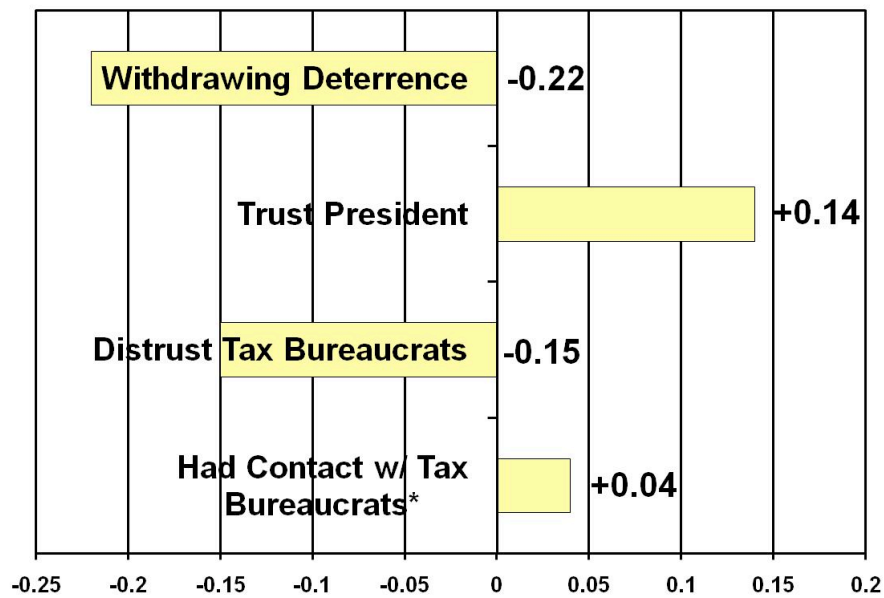
*p ≤ 0.10, **p ≤ 0.05, ***p ≤ 0.01

**Appendix III:
Substantive Effects of Significant Key Variables
on the Likelihood of “Obeying an Unfair Law”**

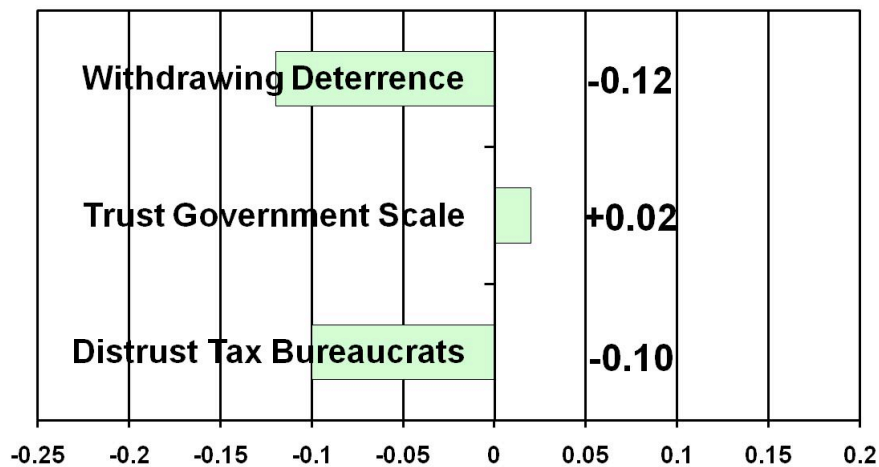
Poland



Russia



Ukraine



Appendix IV:
Ukraine 2005 Tax Compliance Attitudinal Survey: Logit Analysis of Attitudes Towards Tax Compliance (DV=Survey Question #17 on Whether One Would Obey Personally an Unfair Law)
Substantive Effects

| | <u>All of Ukraine</u> | <u>Catholic Ukraine</u> | <u>Non- Catholic Ukraine</u> | <u>East Donetsk Luhansk Zaporizhia</u> | <u>West Lviv, Ivan- Fr. Volynsk & Zakarpat</u> | <u>West Catholic</u> | <u>West Non- Catholic</u> |
|---|---------------------------|-----------------------------|--------------------------------------|--|--|--------------------------|-------------------------------|
| Deterrence | | | | | | | |
| Evasion OK If Could Get Away With It | -.012*** | -0.14** | -0.11*** | -0.09** | -0.24*** | -0.33*** | -0.11* ^a |
| Quasi-Voluntary | | | | | | | |
| Trust in State Scale | 0.02** | | | | | | |
| Trusts President Yushchenko | | -0.21* ^a | 0.005 | 0.38*** | -0.43*** | -0.37** | -0.42** |
| Trusts Parliament | | 0.54*** | -0.09* | 0.12 | 0.41*** | 0.55*** | 0.06 |
| Trusts Government | | -0.25* ^a | 0.07 | -0.69*** | -0.02 | -0.13 | 0.08 |
| Many Dishonest Tax Bureaucrats | -0.09** | 0.06 | -0.12*** | -0.14* ^a | 0.08 | 0.23 | -0.25*** ^a |
| Many People Evade Taxes | 0.03 | -0.09 | 0.03 | 0.06 | 0.13 | -0.10 | 0.42*** |
| Prior Contact | | | | | | | |
| Previous Contact with Tax Bureaucrats | -0.03 | 0.06 | -0.03 | -0.16** | 0.07 | 0.12 | 0.08 |
| Socio-Economic, Additional Effects | | | | | | | |
| Income | 0.04** | -0.12** | 0.06*** | 0.08* | -0.06 | -0.07 | -0.05 |
| I File My Income Taxes Myself | -0.07** | -0.16 | -0.06* | -0.02 | -0.13 | -0.28* | 0.01 |
| Male | -0.02 | -0.04 | -0.01 | -0.03 | -0.08* | -0.07 | -0.13** |
| Age | 0.02 | -0.14** | 0.03* | 0.13*** | -0.04 | -0.15** | 0.08 |
| Education | 0.10** | -0.16 | 0.11*** | 0.22** | -0.12 | -0.24* | -0.24** |
| Voted in Pres. Election Round 3 in Dec. 2004 | 0.03 | 0.32** | 0.01 | -0.003 | 0.03 | 0.06 | -0.09 |
| N | 2891 | 279 | 2618 | 531 | 417 | 206 | 209 |
| % of Country/Region | 100 | 9 | 91 | 100 | 100 | 48.9 | 55.73 |
| % Would Obey | 35.77 | 47.37 | 34.57 | 41.40 | 37.18 | 44.57 | 29.60 |

*p ≤ 0.10, **p ≤ 0.05, ***p ≤ 0.01 See Footnote #23 for an explanations of p-values in the second column.

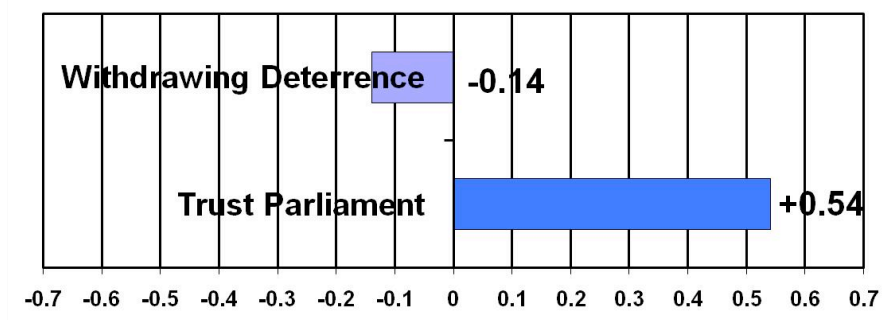
Does Political Culture Matter?

Mean Replacement was used to handle all missing observations in the logit regression from which these substantive effects were derived.

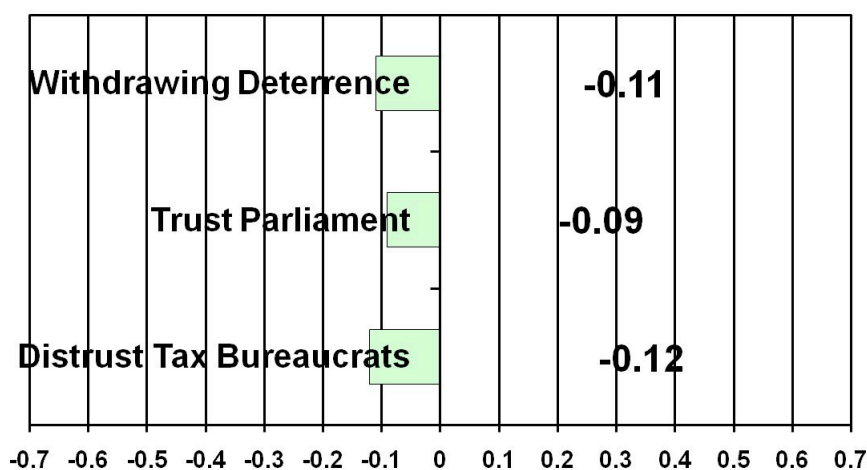
^a Theoretical proxy variable was not significant below the $p \leq 0.10$ level in the original logit regression, but had some significance in the substantive effect.

**Appendix V:
Substantive Effects of Significant Key Variables³¹
on the Likelihood of “Obeying an Unfair Law” for Ukrainian Cases**

Catholic Ukraine

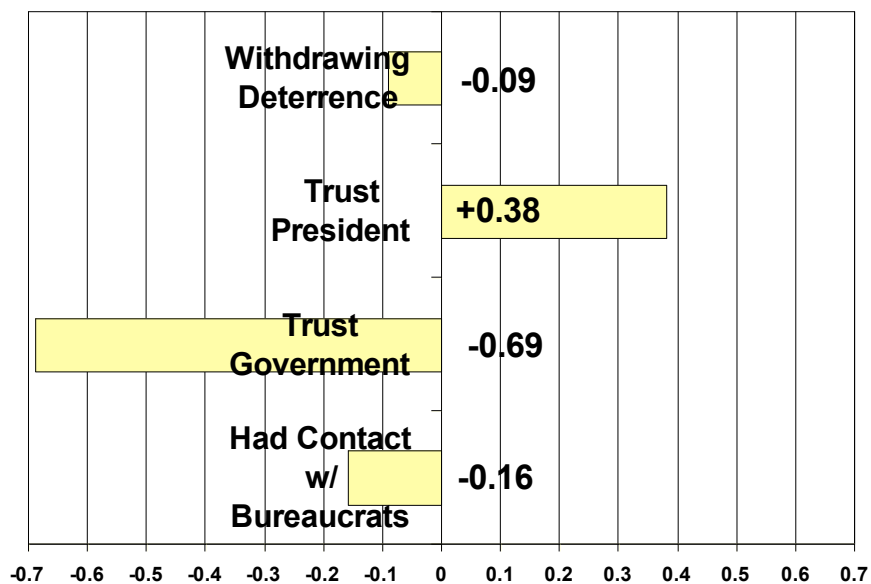


Non-Catholic Ukraine

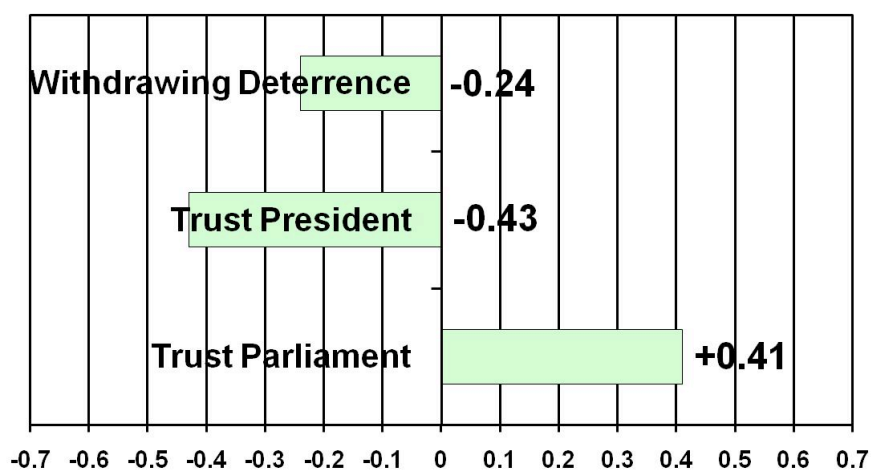


³¹ Significant variables shown are the theoretical proxy variables that were significant in the original logit regression as well as in the substantive effects simulation.

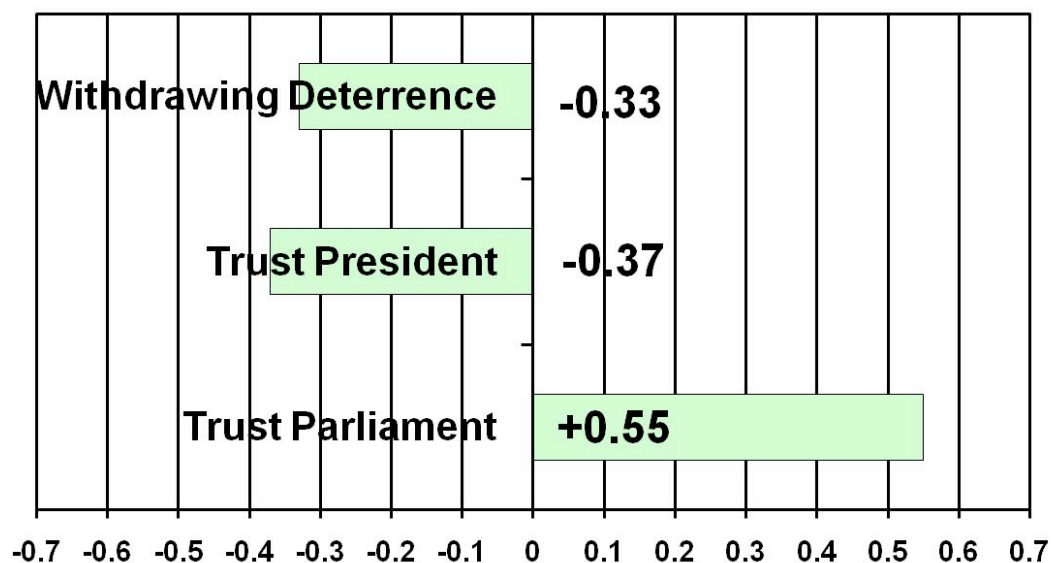
East Ukraine (Donetsk, Luhansk and Zaporizhia Oblasts)



West Ukraine (Lviv, Ivan-Frankivsk, Volynsk and Zakarpattia Oblasts)



Catholic West Ukraine (Lviv, Ivan-Frankivsk, Volynsk and Zakarpattia Oblasts)



Non-Catholic West Ukraine (Lviv, Ivan-Frankivsk, Volynsk and Zakarpattia Oblasts)

