

Understanding the perceptions of taxpayers and traders in Hargeisa: Endline report

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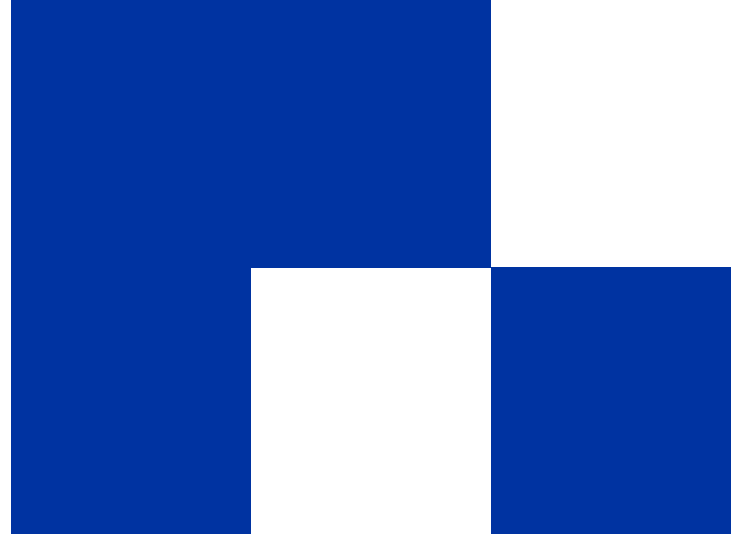


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Executive summary

With PROFR coming to an end in 2020, Busara supported PROFR to conduct endline research, in order to answer the following core research question:

“How have perceptions of fairness, effectiveness, efficiency and transparency of the tax system evolved amongst taxpayers and traders in Hargeisa since 2018, and why?”.

265 businesses were surveyed in Hargeisa during February - March 2020. This was followed by a qualitative research phase, where 37 in-depth interviews were conducted throughout March 2020.

On the next slides, we list some key findings and headline statistics from this work, as well as recommendations. A comprehensive appendix contains all the findings from this work.

Summary of findings [1/3]

Payment of taxes and customs duties

- There has been a significant increase in the percentage of businesses claiming to pay business income tax between baseline and endline - from 51% to 81% respectively. This has been most pronounced in small and medium businesses, as well as businesses in the construction, human health/social work activities and wholesale and retail sectors.
- Businesses remain most motivated to pay taxes because it is a legal requirement, and more so than at the baseline are discouraged to pay taxes because they believe the money to be stolen by corrupt individuals or wastes the money.
- The perception that government wastes taxpayer money is still high, but has been decreasing over the past two years, in part due to efforts to make information related to the tax system more widely available, including how the government plans to use tax revenues.

Changes to the tax system

- The majority of businesses have been directly impacted by perceived changes in the tax system over the past two years, particularly in the form of perceived increases in tax.
- More businesses than at the baseline are calling for major changes to the tax system (96% at endline), suggesting that the changes businesses have experienced over the past two years have not all been positively received. It is also possible that as taxpayers are receiving more information (due to a more active communications approach by government), expectations may be set higher and thus, greater change expected.
- Desired key changes are clarity of and access to updated information, standardized application of penalties, more women tax officers, greater transparency and more electronic reminders.
- This is also the case for the customs system, but not to as great an extent (84% of businesses want to see major changes)

Summary of findings [2/3]

Understanding how the tax and customs systems work

- Whilst the understanding of how taxes are paid has decreased since the baseline from 82% to 77% at endline, more people reported that it is easy to calculate their tax liability, increasing from 34% to 46% at the endline. This implies that whilst the complete payment process remains complex, there is increased understanding of how tax liabilities and customs duties are calculated.
- Ease of calculating customs duties and getting information related to the customs system has not improved over the past two years, however there has been a small improvement in perceived smoothness of the payment process since baseline.
- There is no substantial change in perceptions of access to information for taxes. Whilst more businesses use the internal revenue office and customs offices as sources of information than at baseline, figures remain low, and fewer people report using the Ministry of Finance Development website to access information than two years ago.

Smoothness and equity in the tax and customs system

- Fewer businesses are able to negotiate over their tax bill over the past two years - 67% are not able to negotiate at endline as compared to 61% in the baseline, suggesting a limit on corruption and potential to boost taxpayers' trust.
- This is seen to a greater extent for customs duties - where 69% of businesses paying custom duties responded that they are not able to negotiate at the endline compared to 48% at baseline.
- Professionalism of customs officials has improved over the past two years, however the professionalism of tax collectors from the municipality is still low. Improvements can still be made for both taxes and customs.

Summary of findings [3/3]

Smoothness and equity in the tax and customs system

- The perceived smoothness of paying taxes has not changed substantially between baseline and endline. However, a smaller proportion of businesses at endline found the process of paying customs duties to have issues or difficulties as compared to baseline (37% at endline compared to 46% at baseline).
- The time taken to clear goods for customs has dramatically decreased over the past two years - 90% of businesses claim that it takes 7 days or less for compared to the baseline (42%).

Levers and barriers in the current tax payment process [1/2]

Levers

- + **Written reminder:** Businesses receive written reminders specifying tax payment dates, providing certainty.
- + **Delivery method (by tax officers):** Letter reminders are delivered by tax collectors. This creates trust among business owners about the source of the information and gives it weight.
- + **Professionalism of tax officers:** Businesses reported that tax collectors from the central government are professional and that the tax officials in the tax payment offices treat them as a customer.
- + **Computerized service:** Businesses appreciate that the tax officers use computers. They believe that a computer based system is more accurate and less likely to lead to corruption. Tax officials using their computers to calculate tax liabilities enhances business owners' trust in the accuracy of the amount.

Barriers

- **Reminders do not specify tax liability:** The current reminder is about payment dates. Small businesses that do not keep financial records will have to go in person to tax offices to find out about their tax liability. More detail could be provided.
- **Short notice:** The reminders are usually received by businesses 2-7 days in advance. Businesses say this short notice period and sometimes affect their cash flow. A small number of businesses however have been receiving digitised reminders (email/SMS) part way through the month which is preferred.
- **Professionalism of tax officers:** Tax collectors from the municipality in particular are reported to be impolite and unprofessional.
- **Subjective amounts:** Negotiations and lack of familiarity with the tax system results in different tax liability for similar businesses. People think that some tax officials just make up rates to get extra money.
- **Businesses not keeping financial records:** Taxes for businesses who do not keep financial records are calculated based on taxes paid for the previous year. This forces businesses who experienced low revenue to pay higher taxes despite their financial loss.

Levers and barriers in the current tax payment process [2/2]

Levers

Barriers

- **Lack of standardized penalties for not complying:**
When businesses commit offenses, the local government (municipality) official tends to negotiate the amount on the spot, rather than apply a penalty that is standard and predictable.
- **Lack of transparency on how the tax is spent by the government:**
Businesses rarely hear about the Ministry's activities and development projects financed. This is likely to reduce motivation and willingness to comply with tax obligations.
- **Cash payment:** While businesses appreciate use of local currency, they are forced to carry large amount of cash to the tax offices. This is uncomfortable to some of the businesses.

Levers and barriers in the current custom duties payment process

Levers

- + **Tracking goods:** Businesses are able to track arrival of their goods and initiate customs payment process early. This saves them time and associated cost.
- + **Standardised valuation book:** Provides useful information regarding customs rates and helps businesses plan payments accordingly.
- + **Professionalism of customs officers:** Politeness and professionalism of the customs officers smooths communication and eases the clearance process.

Barriers

- **Unexpected changes in customs amount:** Businesses are not consulted in advance regarding changes that could affect the customs duty they pay. They mostly perceive the changes as increase in tax rates. The change in the customs duty they pay forces businesses to increase prices to their customers which ultimately could reduce sales and revenue.
- **Cash payment:** While business owners are very positive about contributing to their economy and appreciate usage of Somaliland shillings, taxpayers would like the convenience of electronic payments, which are currently not available to them.

Summary of recommendations [1/2]

Based on these findings Busara recommends the following:

1. Better communications to increase awareness

- Have **open forums** for dialogue organized with the Chamber of Commerce to communicate changes in the tax/customs systems in advance and collect feedback after implementing changes.
- Use **district level offices** to engage businesses as businesses' tax related issues vary across locations and sizes - where appropriate have targeted communications for specific districts and/or industries.
- Frame communication campaigns using motivators, found to be social norms such as "It is the law" and "it is the right thing to do".
- The campaigns' messages should use **gain framing** by making the personal benefits resulting from the tax payments salient; this could include showcasing the services and infrastructure provided by the government through taxpayer money.
- **Promote the Ministry's website** and facebook page, for example by **adding notes in the reminders** sent to businesses

2. Increase trust in the tax and customs system

- Increase professionalism of front-line tax collectors through giving more of them a **uniform** to allow easy identification and instill legitimacy and **extend taxpayer service training** to all frontline staff
- **Incorporate tax orientation into the business registration process** to improve awareness
- **A standard list of all the different penalties** should be published by the MoFD and displayed at all tax offices to instill confidence and legitimacy
- **Use public forums** organized by Chamber of Commerce to emphasise that negotiation should not be happening and reinforce the correct procedure.

Summary of recommendations [2/2]

Based on these findings Busara recommends the following:

3. Increase perceived ease of paying taxes and customs duties

- Create a **tax calculator** on the MoFD website where taxpayers can input basic financial information to get a rough calculation of their tax dues; the official calculation can still take place at the tax offices
- Assess the possibility to employ more/task shift such that there are **more women in the position of tax collectors**; they are perceived in a better light and some businesses tend to prefer interacting with female over male tax collectors
- Send email and/ or sms reminders regarding payment dates instead of letter reminders and If possible, reminders should provide information on the tax liability in addition to providing information on the due date.
- Create an option to **make tax and customs duties payment electronically**
- Support businesses with better recordkeeping practices. The majority of businesses currently keep written/computer records implying they have some practical experience that will enable them to understand and adopt best recordkeeping practices. The Ministry could use learnings from the tax officers' experiences to support the businesses adopt best recordkeeping practices

4. Launch a COVID-19 sensitive response

- When considering the responses to CoVID-19, include measures to assist business (e.g. more timely information, extensions of time to pay where appropriate etc)
- Given the widespread resentment towards increase taxes, the Government should adopt caution in communicating any rise in taxes as part of the revenue measures to combat COVID

Headline statistics

Headline statistics - payment

There have been **increases** in the percentage of businesses paying the following taxes over the past 2 years:

Baseline

Endline

51%

81%

of businesses pay
business income tax

28%

39%

of businesses pay
payroll tax

10%

19%

of businesses pay
rental tax

There have been **decreases** in the percentage of businesses paying the following taxes over the past 2 years:

Baseline

Endline

33%

27%

of businesses pay
sales tax

11%

9%

of businesses pay
contract tax

32%

23%

of businesses pay
customs duties

Top 3 reasons for paying taxes:

1. "It is the law that you have to" - 77% ranked it among the top two reasons for paying tax at endline compared to 75% at baseline
2. "So that government provides services"- 47% ranked it among the top two reasons for paying tax at endline compared to 34% at baseline
3. "It is the right thing to do" - 44% ranked it among the top two reasons for paying tax at endline compared to 56% at baseline

Top 3 reasons for NOT paying taxes:

1. "Money will be stolen or misused by corrupt individuals" - 84% ranked it among the top two reasons for not paying tax at endline compared to 79% at baseline
2. "Money will be wasted by the government"- 69% ranked it among the top two reasons for paying tax at endline compared to 77% at baseline
3. "There is no real risk of punishment" - 31% ranked it among the top two reasons for paying tax at endline compared to 27% at baseline

Headline statistics - process

Tax process

46%

say the tax payment process is difficult. It improved slightly compared to **47% in the baseline.**

65%

say that tax collectors are usually not polite or professional. It has worsened compared to **55% in the baseline.**

48%

say that the tax payment process is not smooth. This has slightly increased compared to **46% in the baseline.**

42%

say that it is not easy to work out what taxes they owe. It has improved compared to **52% in the baseline.**

46%

say that tax evaders will be caught and sanctioned. It has declined compared to **52% in the baseline.**

Customs

46%

say they find the process to pay customs duties difficult at endline.

49%

say that tax collectors are usually polite or professional. It has improved substantially from **33% in the baseline.**

41%

say that the customs duties payment process is smooth. It has improved slightly compared to **40% in the baseline.**

43%

say that it is easy to work out what customs duties they owe. It has declined slightly compared to **46% at baseline.**

Headline statistics - changes in the tax system

66%

say they have noticed changes in the tax and customs system over the past 24 months, **not all of these being positive**

96%

want to see major changes in the tax system. The demand for change has increased significantly compared to **61% in the baseline**

84%

want to see major changes in the customs system. The demand for change has increased substantially compared to **58% in the baseline**

70%

believe they do not have ways to speak out if they want to see change. It has worsened slightly compared to **62% in the baseline**

71%

believe that the government does currently receive enough funds. It has increased compared to **50% in the baseline**

55%

think the economy is not heading in the right direction. It has increased very slightly compared to **54% in the baseline.**

28%

think the government is heading in the right direction. It has worsened slightly compared to **33% in the baseline.**

Background and methodology

Overview of research, objective of the endline study, Sampling strategy, sample description, data analysis approach and limitations of the endline study

Overview of research

Busara has supported PROFR between 2018 and 2020 to design and conduct quantitative and qualitative research to answer the following key research question: **How have perceptions of fairness, effectiveness, efficiency and transparency of the tax system evolved amongst taxpayers and traders in Hargeisa since 2018, and why?”.**

Baseline research was conducted between March - July 2018 by designing and piloting a survey of taxpayers' perceptions of the tax system in Somaliland. In its second year, Busara led a round of follow-up qualitative research to complement and expand on the insights garnered from the Year 1 survey. An endline survey and complementary qualitative research was carried out between February and March 2020.

Baseline study

This research aimed at understanding the baseline perceptions, behaviours and experiences of traders and taxpayers in Hargeisa during the initial phase of the PROFR programme.

Qualitative study: 15 individual in-depth interviews and 2 focus group discussions took place with 27 businesses throughout March 2018 to inform the design of the quantitative survey.

Quantitative study: 251 businesses were surveyed in April and May 2018. Of the 251 businesses, 206 were selected using random walk sampling. The remaining 45 businesses were selected using a purposive sampling from available databases.

Midline study

The midline exercise had two key components: qualitative research (in the form of in-depth interviews and focus group discussions) as well as the transfer of core research skills to MoFD officials and researchers through a 3 day workshop.

Qualitative study: This consisted of in-depth interviews and focus group discussions (FGDs) with 27 businesses in February 2019. It aimed to understand how and why the perceptions of taxpayers had evolved over the past 12 months.

Endline study

This research aimed at understanding the how perceptions, behaviours and experiences of traders and taxpayers in Hargeisa have changed during the PROFR programme.

Quantitative study: 265 businesses were surveyed in February and March 2020. Of the 265 businesses, 102 were businesses that were sampled at baseline. The remaining were selected using random walk sampling and purposive sampling from available databases.

Qualitative study: 37 individual in-depth interviews were conducted with businesses throughout March 2020, in order to support and give depth to the quantitative findings.

Methodology for endline research

Review of quantitative and qualitative tools

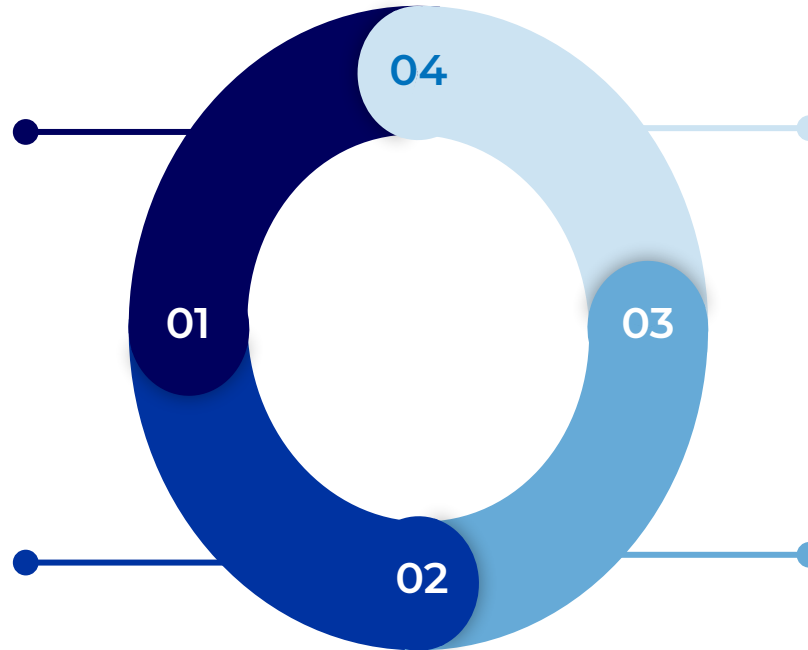
Based on feedback from the PROFR team and key government stakeholders, Busara reviewed and updated the baseline survey instrument to ensure the questions remained relevant and appropriate, were understood fully and the survey did not take too long to administer. Busara also reviewed the tools for the IDIs to be in line with the updated research questions and areas of focus.

Conduct of research

Quantitative survey: SORADI, a local data collection firm, administered the survey to 265 businesses in Hargeisa, across different sizes, sectors and locations. Busara conducted high-frequency data checks throughout to ensure high quality

Semi-structured in-depth interviews: Busara conducted 37 semi structured interviews with businesses in Hargeisa across varying sizes and sectors. They helped to explore the quantitative findings in more depth, giving the “how” and “why” behind the quantitative findings.

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Interpretation and recommendations

Together with the analysis of the qualitative data, we have identified areas where the largest shifts in perceptions and behaviours for taxpayers have been. These have been used to inform a set of recommendations relevant for PROFR and the MoFD.

Analysis of findings

We conducted in-depth data analysis in order to compare the study results of the baseline and endline. For the quantitative data, this included analysis on the overall baseline sample as compared to the endline sample, as well as robustness checks in the form of sub-group analysis and analysis of the businesses that we were able to survey during both the baseline and the endline. The qualitative interviews were transcribed, translated and analysed to support the quantitative findings

Overview of sample

For the quantitative survey, we attempted to follow up with as many of the same businesses that were surveyed during the baseline exercise and where this was not possible replace with a similar business through either a stratified random walk or purposive sampling. We achieved the following:

- **38%** of businesses surveyed during the endline were recruited from the **baseline sample**
- **55%** of the businesses surveyed during the endline were selected through a **stratified random walk**
- **7%** of businesses surveyed during the endline were selected through **purposive sampling**

Sample description

	Quantitative	Qualitative
Gender	Male: 84% Female: 16%	Male: 81% Female: 19%
Size of business*	Small (<5): 66% Medium (5-10): 11% Large (>10%): 23%	Small (<5): 38% Medium (5-10): 27% Large (>10%): 35%
Sector	Wholesale and retail: 25% Human health & social work: 15% Construction: 10% Accommodation and food service: 11% Others: 39%	Wholesale and retail: 51% Human health & social work: 5% Construction: 11% Accommodation and food service: 8% Others: 25%
Education	Primary education - 13% Secondary education- 19% Tertiary education: 4% University degree+: 62% Other: 2%	No formal education - 3% Primary education - 3% Secondary education- 12% Tertiary education: 6% University degree+: 73% Other: 3%
Location	26th June District: 28.8% Ga'can Libaax District: 35% Ibrahim Koodbuur District: 22% Others: 15.4%	

Limitations of the research

- **Causality** - we are not be able to assign causality within this study through the quantitative survey. This is because we do not have a control group and so therefore cannot determine what has changed in terms of perceptions due to other, external factors outside of PROFR's control/influence. Whilst we are able to ascertain some understanding of why and how changes have occurred through the qualitative research, this has been done with a smaller sample (through 37 in-depth interviews) and cannot be scaled to the larger population.
- **Attrition** - in the quantitative study, despite attempting to contact all 251 businesses who were surveyed at the baseline, only 102 businesses (38%) were able to be reached and agreed to participate in the endline survey. 42 out of the 251 businesses contacted had moved, or were shut down, 68 refused to participate, 1 was surveyed during the pilot study (and therefore excluded from the main study) and the remainder were not able to be contacted. We have conducted analysis of the sub-cohort (the businesses surveyed at both baseline and endline), to understand whether the general trends between the overall baseline and endline samples are in-line with what has been seen for those businesses and overall, have found those results to be in line with the overall sample.
- **Composition of the endline sample** - attempts were made to ensure that any replacement business was from the same location and sector, of the same size as the business it was replacing. Whilst this was achieved in the majority of instances, there were a few times when this was not possible. Furthermore, the baseline sample was not fully representative of the business landscape in Hargeisa at the time. Efforts were made during the endline to account for this i.e. we looked to sample less retail and wholesale businesses (that were oversampled during the baseline) and more businesses from the construction sector and large businesses. This means that the composition of the baseline cohort differs slightly to the endline cohort, which will impact comparability. This is also the case in the qualitative interviews, where we sought to oversample large and medium businesses and consequently interviewed a higher proportion of large businesses and much smaller proportion of small businesses than in the quantitative survey.

Recommendations

Recommendations to strengthen existing reforms and increase taxpayer base



**Better
Communications**
to increase awareness of
taxpayers & businesses



Increase Trust
in the tax & customs system



**Increase Perceived
Smoothness**
of paying taxes & customs



**Introduce a
COVID-19**
sensitive response

Better communications to increase awareness

Open forums for dialogue organized with the Chamber of Commerce

- Continue engagement with businesses through the Chamber of Commerce as 80% of the businesses are members.
- Businesses' tax related issues vary across the sectors and across districts. Use district offices to engage businesses and have industry specific engagements.
- Conduct periodic forums between taxpayers/businesses and MoFD officials via the Chamber of Commerce to communicate changes in the tax/customs systems in advance and collect feedback after the implementation of changes.
- Install feedback loops through periodic surveys of businesses on service quality and challenges.

Framing communications campaigns using motivators

- Communications campaigns should adopt framing using injunctive social norms, establishing a rationale for paying taxes (e.g. "It is the law" and "it is the right thing to do"). The injunctive norm can be reinforced by communicating compliance activities such as audit and enforcement programs for all businesses who do not pay their taxes to combat the perception that tax evaders are ignored.
- The campaigns should use gain framing by making the personal benefits resulting from the tax payments salient; this could include showcasing the services and infrastructure provided by the government through taxpayer money.

More active communications approach

- Promote the Ministry's services, website and facebook page, for example by adding notes in the reminders sent to businesses, to increase awareness and usage.
- Promote and publicize all changes such as - introduction of complaints process and self declaration forms - on multiple platforms (online and offline - advertisements, help desks and website) to improve information distribution and increase awareness.
- Promote the new Somali version of the MoF website.

Recommendations to strengthen existing reforms and increase taxpayer base



Better
Communications
to increase awareness of
taxpayers & businesses



Increase Trust
in the tax & customs system



Increase Perceived
Smoothness
of paying taxes & customs



Introduce a
COVID-19
sensitive response

Increase trust in the tax and customs system

Increase transparency in tax collection and spending

- Effectively promote the system of self assessment of taxes over negotiation of amount with tax authorities. Use public forums organized by Chamber of Commerce to communicate this distinction and to emphasise that negotiation should not be happening.
- Enhance awareness and visibility of government projects to show the business community how the taxes they pay support development; for example through releasing public reports and continuing to organise public meetings about budget expenditures.
- launch a campaign to explain the damage wrought by staff corruption and explain how businesses can help prevent it
- Incorporate tax orientation into the business registration process to improve awareness. This could include a briefing and a brochure (with a summary of all taxes, how they are applied, and their due dates) that is issued along with the TIN certificate

Standardize fines and communicate to businesses

- Arbitrary penalties and negotiations about taxes create a perception of corruption among taxpayers. A standard list of all the different penalties should be published by the MoF and displayed at all tax offices to eliminate the possibility of negotiation.
- All payments should be provided with requisite receipts to instill confidence and legitimacy; taxpayers should be empowered to report authorities if payments are made without receipts

Professionalism of front-line tax collectors

- Provide all taxpayer-facing tax collectors with a uniform to allow easy identification and instill legitimacy among taxpayers
- Extend taxpayer service training to front line staff such as roadside inspectors and municipal tax collectors to improve taxpayer perceptions and experience.

Facilitate use of grievance redressal mechanisms

- Make taxpayers aware of formal mechanisms that exist for raising complaints
- Introduce informal channels such as public forums through Chamber of Commerce and anonymous surveys where businesses get an opportunity to identify problems
- The authorities should monitor the nature of complaints that are being made by businesses through all platforms and take necessary action when they spot a pattern

Recommendations to strengthen existing reforms and increase taxpayer base



**Better
Communications**
to increase awareness of
taxpayers & businesses



Increase Trust
in the tax & customs system



**Increase Perceived
Smoothness**
of paying taxes & customs



**Introduce a
COVID-19**
sensitive response

Increase perceived smoothness of paying taxes and customs

Smoothen the tax calculation process

- Provide documents (leaflets/brochures) that provide clarity into the tax calculation process
 - Tailor tax information to different sectors, based on the concerns and problem specific to each sector.
 - Provide tools (e.g. a tax calculator) that provide rough estimates on the amount of tax due for various taxes and allows business to plan for payments; the official calculation can still take place at the tax offices
 - Make the tariff guide accessible via the website
-

Utilize more female tax collectors

- Assess the possibility to employ more/task shift such that there are more women in the position of tax collectors; they are perceived in a better light and some businesses tend to prefer interacting with female over male tax collectors
-

Electronic reminders

- Send email and/ or sms reminders regarding payment dates instead of letter reminders; this is more efficient and will give businesses time to prepare the payment to minimize the effect on their cash flow
 - If possible, reminders should provide information on how to work out the tax liability in addition to providing information on the due date.
-

Facilitate better record keeping

- Support businesses with recordkeeping as the vast majority keep written/computer records. Audit results should be used to identify potential improvements in recordkeeping.

Recommendations to strengthen existing reforms and increase taxpayer base



**Better
Communications**
to increase awareness of
taxpayers & businesses



Increase Trust
in the tax & customs system



**Increase Perceived
Smoothness**
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**Introduce a
COVID-19**
sensitive response

Launching a COVID-19 sensitive response

Two pronged approach on health and economy

- In developing and publicizing the government's response to COVID-19, consider existing taxpayer perceptions in framing the Government's approach to both the health and economic impacts of the pandemic.
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Better support to businesses

- In considering the responses to CoVID-19, include measures to assist business (e.g. more timely information, extensions of time to pay where appropriate etc)
-

Careful communication of revenue measures

- Given the widespread resentment towards increased taxes, adopt caution in communicating any rise in taxes as part of the revenue measures to combat COVID

Other recommendations

Additional recommendation ideas, include:

- **Continue using a computerized tax collection system** - the use of a computerized system has received positive feedback from businesses as it reduces perceived uncertainty and variation around the process by using a more formal system.
- **Enable electronic payment** - Electronic payments are preferred by businesses to avoid having to carry large cash amounts. The introduction of a system that would allow for electronic payment for both taxes and customs duties is in high demand by business owners.
- **Provide periodic information on taxes collected, including from large businesses** - in order to overcome perceptions that larger businesses are treated more favourably in comparison to small and medium businesses, the Ministry could look to release headline statistics every quarter, for example, which highlight the amount of taxes collected from large businesses (no identifying information, just aggregated statistics). Some businesses also reported that they are motivated not to pay taxes as “other businesses don’t pay”. Framing messaging in this way may help incentivise more businesses to pay taxes, as they would be more aware that other businesses, including large businesses are doing so.