

Using Technology to Improve Governance: Evidence from the Introduction of Electronic Tax Filing in Tajikistan

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Abstract

We study the impact of technology on governance outcomes, in particular, service delivery, corruption and tax payments, by examining the adoption and subsequent impact of electronic tax filing (e-filing) in Tajikistan. E-filing allows taxpayers to file their taxes online; in its absence, taxpayers submit their monthly tax declarations in-person to tax officials, resulting in high compliance costs and opportunities for rent-seeking behavior. Using a randomized experiment, we find that training firms to e-file and helping them register for e-filing is highly successful at promoting e-filing adoption, as 93 percent of treated firms start to e-file. In contrast, e-filing training alone does not result in any significant difference in adoption compared to a control group with a 59 percent adoption rate. Further, we find evidence of important selection mechanisms: firms reporting extortion from tax officials are more likely to e-file while firms with a higher likelihood of evading taxes (who may benefit from colluding with tax officials) are less likely to e-file. Once firms start to e-file, they spend almost five fewer hours each month complying with tax obligations and are less likely to have tax officials coerce their tax declarations. We find no average significant effects of e-filing on tax payments, but observe significant heterogeneity across firms: among firms with a higher likelihood of evasion (as measured by a risk index developed by the tax authority), firms that e-file pay about \$3,600 USD more taxes on average over one year. In all, the results suggest that e-filing helps to close the revenue gap between firms that were likely evading taxes and those that were not.