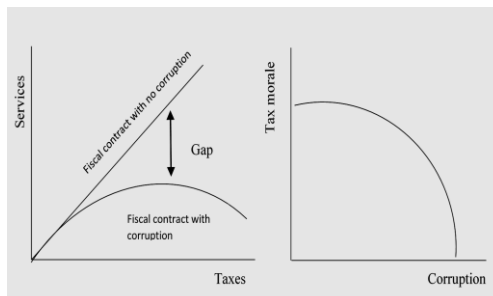## 1. Research Question

- Direct effect of corruption (loss of revenue)
- Indirect effects (tax morale)
- Does corruption experience matter for tax morale?
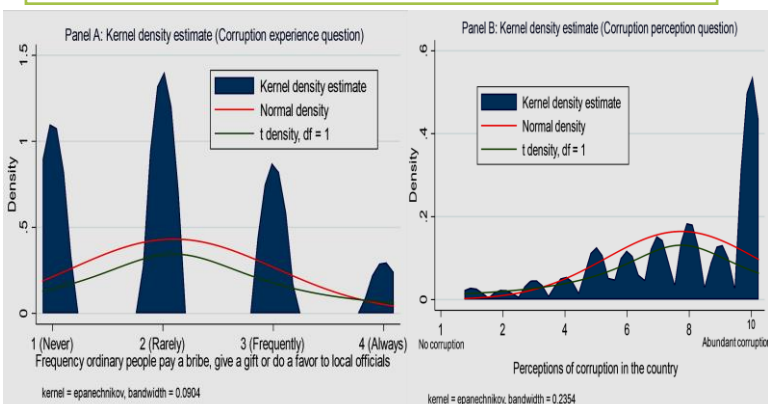
2. Tax morale is not tax compliance

- Intrinsic motivation to comply with tax systems,
- Non-pecuniary factors that influence tax behavior.

3. Corruption & tax morale

- Contractual relation between states and taxpayers.
- States trade services for tax revenues from citizens

3.1. Perception versus experience of corruption

Panel A: Kernel density estimate (Corruption experience question)
kernel = epanechnikov, bandwidth = 0.0904

Panel B: Kernel density estimate (Corruption perception question)
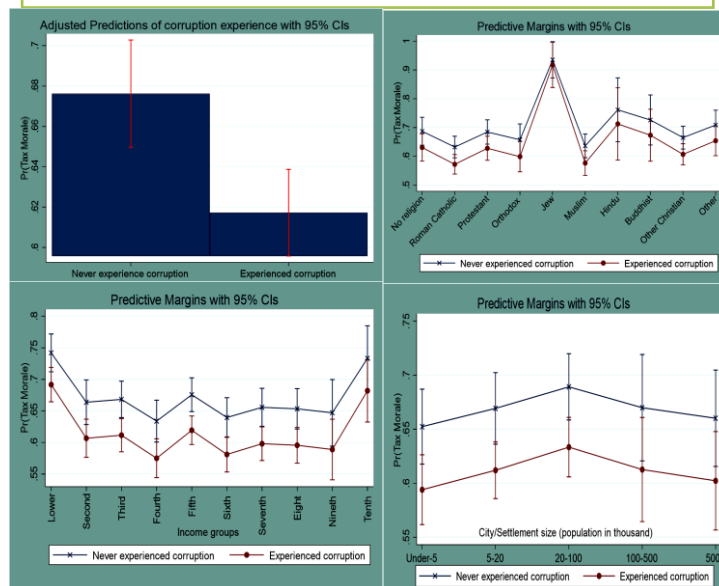kernel = epanechnikov, bandwidth = 0.2354

4. Data descriptions

- The WVS-7, collected during 2017 to 2020, covering 49 countries, 751 regions, and 70,867 individuals.
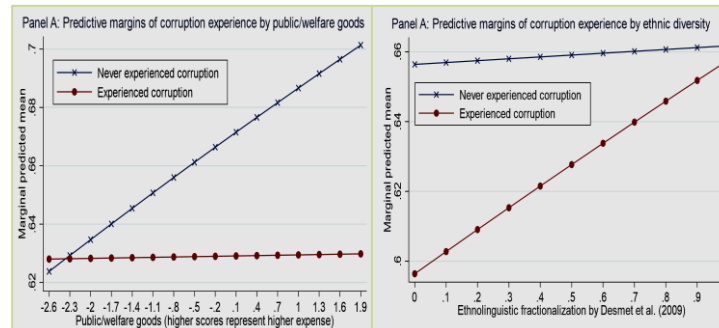- Other administrative data from WBG, TI, IMF etc.

5. Empirical design

$$Log(TXM_{irc}/1 - TXM_{irc}) = \mu_0 + \beta_1 Corr\_Exp_{irc} + \mu_1 X_{irc} + \pi_1 R_{rc} + \delta_1 C_c + U_{rc} + U_c + \epsilon_{irc}$$

- TXM_{irc} is the probability that individuals report that cheating on taxes is never justifiable for individuals i, live in region r within-country c.
- $Corr\_Exp_{irc}$ is the experience of corruption as yes or no
- X_{irc} is the vector of individual i's characteristics
- R_{rc} is local regional factors and C_c is country-level factors.
- U_{rc} and U_c are the random effect for mixed model
- ϵ_{irc} is the idiosyncratic residual
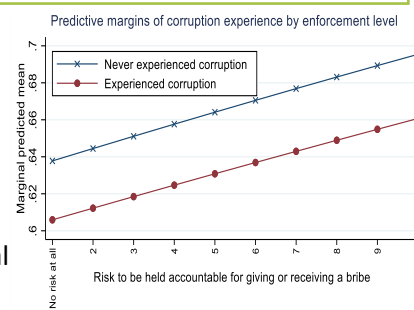
6. Results

7. Potential mechanism

8. Alternative explanation

8.1. Reduced expected cost of cheating after being exposed to corruption.
8.2. Tax morale peer effects (results holds after controlling for local average tax morale)

8. Conclusion

- If individual experiences corruption, his/her odds of showing full tax morale declines by 23.5%.
- Corruption experiences affect tax morale through ethnic diversity & welfare/public goods but not institutions
- Government corruption indirectly creates dishonest taxpaying citizens

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