A BIRD'S EYE VIEW ON CITIZENS' TRUST IN AND POWER OF TAX AUTHORITIES IN EAST AND SOUTH ASIA

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Abstract**:** *In tax behavior research, "slippery slope" framework represents an important instrument of assessing compliance, based on its two dimensions: trust in authorities (citizens' perceptions regarding authorities' disposition to work for the sake, safety and benefit of people) and power of authorities (authorities' ability to chase, catch and punish evaders). The increase/decrease of trust and power as well as their interlacement engender the type of compliance, i.e., voluntary or enforced, and ultimately the profile of the interaction climate between taxpayers and authorities. In this paper we explain taxpayers' trust in authorities and their perceptions of authorities' power with the help of socio-economic, financial, political, psychological proxies in eastern and southern Asian jurisdictions like China, Hong Kong SAR, India, Japan, Republic of Korea and Pakistan. For this purpose, we tackle several aspects, such as political regime, voice and accountability, political stability, citizens' involvement in public decisions, tax law transparency, degree in which citizens receive information about public expenditures and indicators, such as government effectiveness, rule of law, regulatory quality, control for corruption, weaving them into an attire of analytical insights meant to serve policy makers and inform laypeople.*

Keywords: *tax behavior, trust in tax authorities, power of tax authorities, tax system.*

JEL classification: F30; F62; G18; G28; H26.

1. Introduction

Asia has been standing in the spot light of history since the dawn of humanity, as being the source of the first people, civilizations, writing, languages, social structures, religious beliefs. Nowadays, Asia has started to regain a primary position in the limelight due to its countries' economic revival achieved within the late years of 20th century and early years of the 21st. Triggered in the 1950s by the Japanese boom, the process of economic growth, registering average annual rates of 7-12 %, has spread gradually among the Four Tigers (i.e., Hong Kong, Singapore, South Korea, and Taiwan), then to China, India, Indonesia, Thailand, Malaysia, Vietnam. Authorities' fiscal policies of boosting tax compliance levels, the manner of approaching taxpayers, as well as citizens' perceptions and attitudes toward all these strategies seemed to have contributed to the Asian economic outburst. The various sides of tax compliance behavior are enclosed within a climate of interaction between citizens and tax authorities. In the tax literature, two dimensions are assumed to have a sound impact on people's tax compliance behavior, i.e., trust in tax authorities and power of tax authorities. According to Kirchler, Hoelzl and Wahl (2008) [17], trust is deemed to represent taxpayers' perceptions of authorities' willingness to act in peoples' interests, providing high quality public goods and services. Power is considered to embody taxpayers' perceptions of authorities' ability to efficiently catch and punish tax evaders. These two dimensions and their way of influencing each other determine the level and type of tax compliance, i.e., voluntary or enforced. It is implied that a high level of tax compliance can be attained by raising the level of trust and/or power. Voluntary compliance is obtained through an increase in trust, whereas enforced compliance is reached when an increase in power takes place. One of the most common methods of empirically testing trust in and power of tax authorities and their enlacement is the survey based on the "slippery slope framework" (Kogler et al., 2013; Muehlbacher, Kirchler and Schwarzenberger, 2011; Muehlbacher, Kogler and Kirchler, 2012; Wahl, Kastlunger and Kirchler, 2010) [18]-[21]-[22]-[28]. To the best of our knowledge, there are no studies which measure the two dimensions captured in the "slippery slope" framework by means of diverse economic, political, financial or psychological proxies and particularize them to specific countries.

The paper aims to close this gap by explaining taxpayers' trust in authorities and their perceptions of authorities' power with the help of socio-economic, financial, political, psychological proxies, in some eastern and southern Asian jurisdictions, i.e., China, Hong Kong, India, Japan, Republic of Korea, Pakistan. In this regard, the study tackles several aspects, such as political regime, voice and accountability, political stability, citizens' involvement in public decisions, tax law transparency and indicators, such as government effectiveness, rule of law, regulatory quality, control for corruption, knitting a garment of analytical assessments concerning trust in and power of authorities meant to serve policy makers and inform laypeople. The structure of the paper is the following: section 2 presents an overview of Asian economic growth and tax systems, section 3 depicts the various aspects and indicators in relation to trust in and power of tax authorities in China, Hong Kong, India, Japan, Republic of Korea, Pakistan and section 4 offers a synthesis of conclusions and traces future avenues regarding the main topic of the article.

2. An Overview of Asian Economic Growth and Tax Systems

Asia comprises 60% of the world human current population (with China and India summing 1/3 of the worldly citizens), covers 30% of the Earth total land area and on average 30% of the world GDP. Samuel Huntington (1997) [14] has foreseen that around year 2020, in a top five world economies Asia would be represented by four countries, whereas in a top ten world economies Asia would place seven countries. Moreover, he has stated that Asian GDP would represent around the same year, i.e., 2020, 40% of the world GDP. The data presented in figures 1 and 2, determined for the period starting in 2008 and ending in 2012 (hence, 8 years ahead of his predicted date) tend to confirm Huntington's anticipations. Calculations were based on GDP (Nominal) and GDP (PPP) for a number of 42 countries belonging to the Asian continent, across the five-year period. GDP (Nominal) is expressed in millions of US dollars, while GDP (PPP) in millions of international dollars. The ratio of Asian GDP to World GDP is denoted in parentheses.

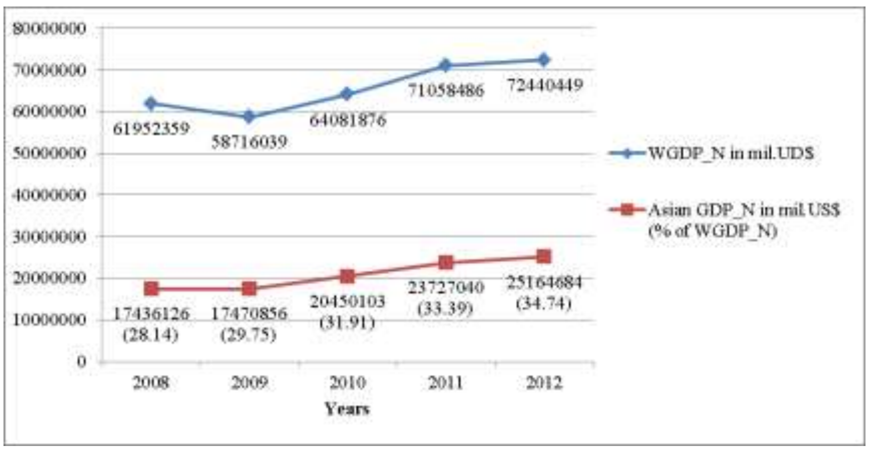

Figure 1. The evolution of Asian GDP (Nominal) with respect to World GDP (Nominal), 2008-2012

Source: Authors' computation based on World Bank Data (2008-2012)

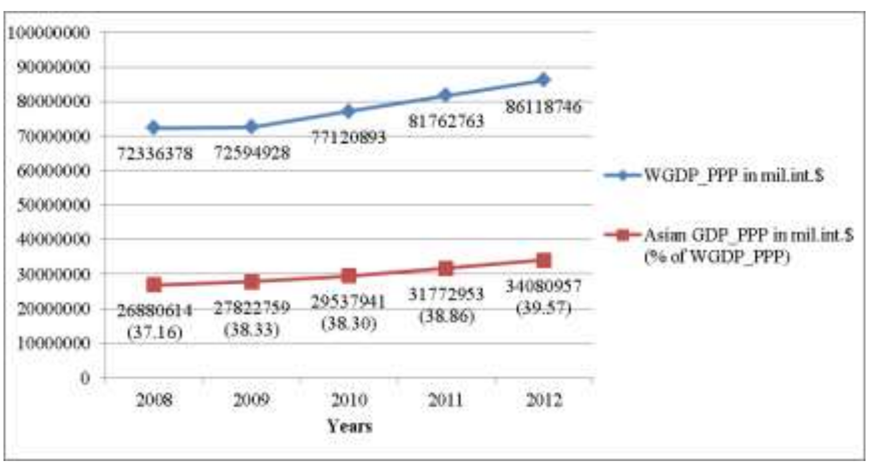

Figure 2. The evolution of Asian GDP (PPP) with respect to World GDP (PPP), 2008-2012

Source: Authors' computation based on World Bank Data (2008-2012)

One can notice that, if the Asian GDP as proportion of World GDP (both Nominal and PPP) continues to increase starting with 2012, we might find ourselves in the position of seeing Huntington's previsions come true even sooner than 2020.

Taking into account the pace and structure of economic growth, from the supply and demand perspective, the World Bank forestalls that China would become the largest economy in the world between 2020 and 2030 (Kuijs, 2009) [20], whereas India is expected to enter top three largest economies by 2050 (Cayuela Valencia, 2013; Dadush and Stancil, 2010; PwC, 2013) [2]-[4]-[24]. For that matter, in a comprehensive analysis concerning the economic development of Asian countries, Kohli, Sharma and Sood (2011: 3) [19] advance a 40-year high-aimed agenda called the "Asian Century" presuming that, if the region maintains its current path, "by 2050 its per capita income could rise sixfold in purchasing power parity (PPP) terms to reach Europe's levels today. It would make some 3 billion additional Asians affluent by current standards. BY nearly doubling its share of global gross domestic product (GDP) to 52 percent by 2050, Asia would regain the dominant economic position it held some 300 years ago, before the industrial revolution". These predictions, which many could perceive as intrepid, are engendered by the conviction that some of the fast growing converging economies in Asia (especially China and India) have the potential to claim the first positions in the world provided they reinvent themselves and think ahead of times in terms of national, regional and global policies.

To fully capture the global implications of such predictions, one should analyze in hindsight the combination of factors which have yielded the current economic status. As expert economist Vito Tanzi notices in a foreword tacking South and East Asian tax systems and reforms (Bernardi, Fraschini and Shome, 2006: xv-xx) [1], Asia's prominent development (especially for the southern and eastern countries) has stemmed from several governments' having the one-track mind of achieving economic growth. The aim set in the late 1970s has proven to be attainable, rooted in certainties like continuously growing population, massive urbanization and movement of labor capacities from agriculture to highly productive sectors like industry and trade. In the time span 1970-2005, the world trade share of Asian countries has doubled (Jaumotte et al., 2005) [15], making newly industrialized economies (e.g., Hong Kong, Japan) and developing economies (e.g., China, India) register striking performances. A key ingredient for such achievement was represented by the fiscal policies designed for granting considerable tax incentives in order to attract foreign investments. Compared to European countries which, in the late 1990s and early 2000s, registered taxation to GDP ratios of about 40%, Asian governments scored between 20% and 30% in the same period. Moreover, as Tanzi emphasizes, Asian governments have been generally more focused on allocation than redistribution (favored by Europe) and have made no priority out of equity or taxpayers' ability to pay their share. In fact, many of these governments have drawn low revenues from income or corporate taxes, thus providing light welfare based on low spending. Another explanation for this low welfare provision comes from the fact that, culturally speaking, enterprises and families have played an essential role on welfare by Asian tradition (Profeta and Scabrosetti, 2010: 49) [26]. The unraveling of the late 1990s financial crisis, which severely affected especially southeastern Asian countries, has stressed the shortcomings of scarce social protection systems.

Compared to the OECD members, Asian countries have relied more on indirect taxation, proportional low tax rates and the absence of a social security system. Due to a quite low fiscal burden, the Asian labor force has experienced few work constraints or incentives of hiding in the informal sector because of high taxation. Hence, the employment rate has been relatively high.

Nowadays, the features of the Asian tax systems have not changed drastically compared to the early 2000s. Asian countries are accounted as jurisdictions with the lowest tax burdens in the world, levying weak personal income, property tax or social contributions. Direct taxation has still not won the influence battle against indirect taxation, and the tax systems are perceived as inefficient because of low or unaccomplished levels of fiscal decentralization (Park, 2012) [23].

Some of the key factors which have contributed greatly to Asia's economic rise are fast urbanization, tax incentivized foreign investments and extensive use of natural and human resources. Nevertheless, the notable economic results have not been secured without a toll and costs which in the past might have gone unnoticed could hinder future growth. Mishandled urbanization process, rising corruption, sharpening income inequality among citizens and broadening economic development gaps between countries in the region, shortage of proper governance and transparency, diminishing government credibility, loose institutional capacity, lack of a supra-national authority to coordinate policies, the middle income trap menacing emerging economies, all of the above might put a stop to the current growth momentum (Bernardi et al., 2006; Kohli et al., 2011) [1]-[19]-[51].

For the goal of the "Asian century" to be reached within the specified period, Asian leadership should ponder their decisions, permanently adjust policies and strategies to meet global trends, slightly shift from economies focused solely on growth to economies stimulating social well-being, increase trust levels at national and regional level and, last but not least, meliorate citizens' perceptions of governing power by increasing transparency and accountability.

Starting from the indicators assessed by the Paying Taxes 2014 report [25], we computed the regional average on 40 Asian countries for each indicator and then compared it to the world average. The next figure plots the indicators considered: Total Tax Rate (TTR), Number of Payments (NP) and Number of Hours (NH), representing the time to comply.

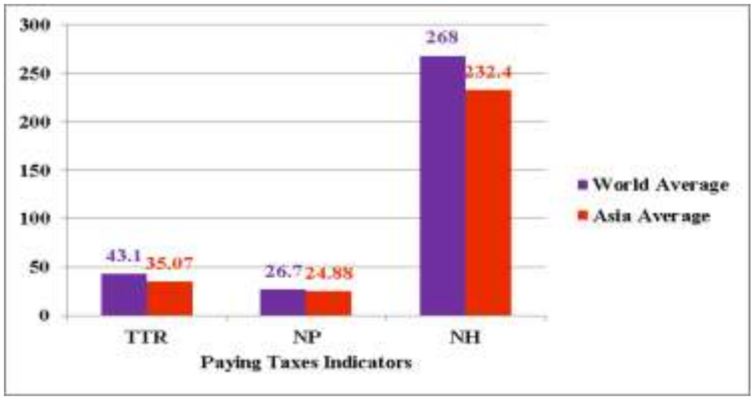

Figure 3. World and Asia averages for Paing Taxes Indicators 2014 (i.e., TTR, NP, NH)

Source: Authors' computation based on Paying Taxes 2014 Report

Since 2004 until 2012, the global averages for all three indicators has fallen, due to an array of improvements operated in the majority of countries at different levels of their tax systems. According to our calculations, the Asian averages follow this trend, though remaining close to the world averages. The time needed to comply expands over a wide range, from 12 hours in UAE to 872 in Vietnam. The smallest number of tax payments is found in Hong Kong and Saudi Arabia (3), UAE (4), Singapore (5), while the biggest number of tax payments is encountered in Tajikistan (69), Sri Lanka (58), Kyrgyzstan (51), Indonesia (52), Pakistan (47), Yemen (44), Uzbekistan (41). The highest Total Tax Rates are registered in Uzbekistan (99.3), Tajikistan (86), China (63.7), India (62.8), the lowest Total Tax Rates are found in countries like Qatar (11.3), Kuwait (12.4), Bahrain (13.5), United Arab Emirates (14.4), Saudi Arabia (14.5).

PwC (2014) [25] report offers some explanations regarding the evolution of indicators in the Asian economies between 2004 and 2012. The introduction and development of electronic filing systems and their adoption by the taxpayers has triggered a fall in the number of payments until 2012. The outlier is China with a decrease of 28 payments, followed by India 22, Malaysia 22 and the Philippines 12. Indonesia, China, Lao PDR have also undertook substantial measures of diminishing the time to comply by over 300 hours. The tax system development in the Republic of Korea during all these years has engendered a reduction of time to comply by 20 hours. Indonesia simplified tax filing and extended the use of electronic systems, while Sri Lanka continues to make important steps toward generalizing the online filing system for all taxes. One might single out Tajikistan, where two thirds of payments represent "other taxes" and no electronic filing system is used so far. In recent years, tax authorities have been making efforts to reform the tax systems and apply new practices. For instance, Uzbekistan has started implementing reforms to the administration of assessment and potential underpayments. China, Pakistan, Sri Lanka stand out for abating the profit tax rates. It is worth noticing that states like Singapore or Thailand carry out measures of simplifying tax collection systems, administering international best fiscal practices and improving tax transparency. The low values of the indicators attained by Qatar, Kuwait, Bahrain, Saudi Arabia and United Arab Emirates are explained firstly by the low number of taxes levied in this region, and secondly by their endeavors to adhere to a regional tax treaty network and to regulate the legislation introducing compulsory e-filing and e-payment for taxes. These Middle East countries have the lowest average Total Tax Rate (with approximately 20% below the world average) and the lowest time to comply (with approximately 41% below the world average).

3. Trust in and Power of Tax Authorities in China, Hong Kong SAR, India, Japan, Republic of Korea, Pakistan

The Asian jurisdictions considered for the subsequent analyses focused on trust in and power of authorities are China, Hong Kong SAR, India, Japan, Republic of Korea and Pakistan. The selection is based on several criteria including economic performance, development level and visibility in the region, but also other relevant aspects like the type of ruling power or demographic trends. These jurisdictions are of significant importance in the region, mainly because they are counted among the fastest growing economies in the world. One could add that, to a large degree, they pace development as well for other Asian countries. If during the 1970s and 1980s, Japan and Korea were commended as newly industrialized economies, the late 2000s conceded China and India a similar status. Data released by the World Bank concerning the GDP (Nominal) for year 2012 put China and Japan on the second and third position, followed by India (10th), Korea (15th), Hong Kong (37th) and Pakistan (44th), out of 190 jurisdictions. As for the GDP (PPP), China, India and Japan rank 2nd, 3rd and 4th respectively, succeeded by Korea (12th), Pakistan (26th) and Hong Kong (36th) [31]. The regional (and global) importance of these jurisdictions is heightened by the ascending demographic trend to which Pakistan and primary India will contribute a great deal in the upcoming 30 years [50].

Their successful story of economic growth ensured up till now by very distinct forms of governance (e.g., autocracy, democracy, monarchy) could imply that concepts like trust in authorities and power of authorities may be perceived slightly different here than in western countries.

Described as citizens' perceptions regarding authorities' disposition to work for the sake, safety and benefit of people and authorities' ability to chase, catch and punish evaders, respectively, *trust* and *power* could be best understood, captured, measured and explained in a broader context defined by aspects concerning political regime, voice and accountability, political stability, citizens' involvement in public decisions, tax law transparency and indicators such as government effectiveness, rule of law, regulatory quality, control for corruption.

3.1. Aspects regarding Political Regime, Voice and Accountability, Political Stability, Citizens' Involvement in Public Decisions

People's Republic of China is a sovereign state with a moderate socialist regime which exercises jurisdiction on 22 provinces, five autonomous regions, four municipalities and two special administrative regions. China's Constitution stipulates the opportunity of organizing referenda, but the legislation concerning this issue is obstructed in order not to generate unwanted results for the socialist regime. The president is the sole person who can call for referendum in times of major crisis. Since 1996, The World Bank has been determining annually The World Governance Indicators (WGI), covering 200 countries and territories. Voice and accountability (VA) and political stability (PS) are among the six dimensions measured. The indicator Voice and Accountability depicts the perceptions regarding people's ability to elect a government, their freedom to associate, to express and the media freedom (Kaufmann, Kraay and Mastruzzi, 2010) [16]. The indicator Political Stability and Absence of Violence/Terrorism describes the perceptions regarding the possibility of replacing a government through actions of violence or terrorism (Kaufmann et al., 2010) [16]. In 2012, China's rank concerning VA was 5, on a scale from 0 ("least accountable") to 100 ("most accountable"), whereas China's rank concerning PS was 28, on a scale from 0 ("least stable") to 100 ("the most stable"). The low VA and PS rankings are particularly due to the political regime which strictly supervises the activity in all areas of social life.

Hong Kong SAR is a special administrative region of China, run by a governor. Democratic elections are used to designate 50% of the Legislative Council's members, the other 50% being elected by the business environment representatives. Its Constitution, the Hong Kong Basic Law, provides a high autonomy degree of all sectors, except for foreign relations and national defense. The Constitution does not stipulate organizing referenda. According to WGI, in 2012 Hong Kong ranked 67 on VA and 80 on PS. As a consequence for enjoying a lot of freedom in almost all sectors, Hong Kong positioned high both when it comes to VA and PS. One can notice that, when compared to China, Hong Kong's higher VA and PS positions denote improvement in terms of openness, accountability and freedom.

India is a federal parliamentary constitutional republic with the most complex multi-party system (six national parties and over 40 regional parties) and a federal government which supervises the activities of the governments in its 28 states and seven union territories. The Constitution of India doesn't explicitly envisage the calling of referenda as a means of identifying citizens' opinion on legislative issues [43]-[38]-[41]. In 2012, WGI places India relative to VA and PS on the 58th position and 12th position, respectively. While the high value of VA can be attributed to the democratic government interested and actively involved in promoting a thriving socio-economic climate, the PS value is mostly a cause of different territorial disputes.

Japan is a parliamentary constitutional monarchy with a democratically elected legislature. The Prime Minister and members of the Diet (Japanese government - "Kokkai") are endowed with the highest level of authority, while the Emperor, holding limited power, is enshrined as a sacred symbol of the state. Stretched along its 6,852 islands organized in 47 prefectures, the nation of the rising sun is governed according to its 1947 Constitution, which stipulates that the sovereign power resides in people's hands (Article 1) and the Diet can call referenda (Article 96) [39]. The country ranked 83 in terms of VA and 78 in terms of PS. These high placements represent a sign that the "three arrows", i.e., bold monetary measures, fiscal stimulus, structural reforms, are efficiently spearheaded by the Japanese Prime Minister through his Abenomics policy (the portmanteau word of Shinzo Abe and economics).

The Republic of Korea is a presidential constitutional republic comprising 17 provinces. After the separation from North Korea in 1948, the political situation was tensioned, being characterized by several coups d'état and military dictatorships, especially during 1960s and 1980s. The end of 1980s brought the beginning of a democratic era, thus nowadays the Republic of Korea represents a stable democracy. The Constitution of the country provides that the President can submit problems regarding national defense, diplomacy, unification, economy or other aspects to a national referendum [33]. According to WGI 2012, its VA is 70, as a consequence of the high socio-economic development and its PS is 52, chiefly as an effect of ongoing menaces from North Korea.

The Islamic Republic of Pakistan is a federal parliamentary republic, divided in four provinces and four federal territories, representing the second biggest Islamic country in terms of population (after Indonesia). In seven decades bygone since the separation from India, the political situation in Pakistan has been marked by a continuum of instability, vacillating between military dictatorship and sporadic democratic governments [46]. Notwithstanding this, at least theoretically, the Constitution envisages direct inquiring of the citizens and calling for referenda at the initiative of the Prime Minister who needs Parliament's approval [47]. WGI 2012 displays rankings of 24 for VA and 1 for PS. The continuous socio-political instability, the lack of a strong leadership concerned with citizens' wellbeing and society's prosperity, and the absence of a sound opposition capable of managing accountability of the leaders are all possible explanations for the VA and PS low rankings.

3.2. Tax Systems and Tax Law Transparency

In China**,** the fiscal year starts on January 1st and ends December 31st, as in the majority of European countries. The category of individual taxpayers comprises residents, who can be: 1) citizens domiciled in China (holding a Chinese passport); 2) non-domiciled foreign nationals who live "in China for 365 days, without a single period of absence of more than 30 days consecutively or cumulative periods of absence of more than 90 days within the same calendar year" [40]. Tax legislation changes frequently, hence taxpayers have to make substantial efforts in keeping themselves up to date and complying, considering the legislation stipulates drastic sanctions for tax evasion acts. With regards to the business environment regulation process, 77% of Chinese citizens deemed in 2012 that it was insufficiently regulated by the Beijing government [11]. Wages and salaries are taxed progressively with rates from 3% to 45%, while personal service income tax can reach 40%. Businesses are subject to a standard tax rate of 25%, though it can vary depending on the activity sector (e.g., small-scale enterprises 20%; high-tech 15%). Investors are granted a manifold of incentives: a 15% preferential tax for new high-tech companies and a 50% deduction for R&D expenditures; high-tech businesses started in 2008 get also a two-year tax holiday and a three-year period of 12.5% tax; a 15% tax reduction while investing in western China; tax exemptions for sectors like agriculture, forestry, software, major infrastructure projects (Deloitte, 2013) [5]. Consumption is taxed by VAT rates of 6%, 11% and standard 17%.

Among the positive aspect of the Chinese tax system, one can notice: the low number of payments a company has to make to the state budget during the fiscal year (i.e., seven); the possibility to pay once four types of taxes and mandatory contributions; high number of taxpayers who use the electronic filing system to submit tax returns and pay fiscal obligations; levying a single tax on each tax basis (i.e., avoiding double taxation) (PwC, 2014) [25]. The Chinese government informs its citizens about the structure of the state budget. The country's law of obtaining information about the public and private sector is very strict and ambiguous in the same time. Only the state has a lawful mandate to investigate public and private companies, with the possibility of declaring illegal (even retrospectively) any attempt of data collection. In China, no company is allowed to sell private information to other company, hence due diligence business-like is illegal. The alternative highly used by Chinese and foreign companies is *guanxi*, a traditional social network system for obtaining information and benefits.

In Hong Kong SAR, the fiscal year begins on the 1st of April and ends the 31st of March. Residents are subject to low progressivity (2%-17%), but the lack of taxes on capital acquisitions, inheritance, estate or net wealth makes all the difference. Investors benefit also from a low fiscal burden: profit tax is 16.5%, they are exempt from dividend or capital gains taxes and offshore funds are not liable for taxation, if certain conditions are satisfied. Hong Kong is a true paradise for shoppers, as it does not levy VAT (Deloitte, 2013) [6]. Being a tax haven which grants incentives to non-residents, the vibrant city draws annually billions of dollars from the whole world. During last two years, capital inflows have dampened because of the campaign against tax evasion launched by several governments. To avoid being labeled as uncooperative tax haven by the OECD, authorities from Hong Kong have signed various disclosure agreements and double tax treatises. With respect to tax compliance costs, authorities have secured the highest efficiency: economic agents have to make the lowest number of payments to the state budget, namely three (PwC, 2014) [25]. In terms of business environment, 61% of Hong Kong residents believe it is not regulated enough (ETB, 2012) [11].

Korean fiscal year marks its beginning on the 1st of January and its ending on the 31st of December. In order to incentivize voluntary tax compliance, Korean authorities have mitigated since 2010 the administrative burden of filing returns by refining the online application, merging several local taxes, approving the aggregate payment with respect to four types of taxes and labor contributions. A notable result following the improvement of the online tax payment application has been the decrease in the total compliance time (PwC, 2014) [25]. Moreover, Korean authorities show high interest in stimulating investments by granting tax exempts in several areas (especially IT).

Korean employees are subject to progressive taxation of up to 41.8%, including the local surtax. Businessmen are also required to pay rates of 10%, 12% or 22%, depending on the taxable income value. Moreover, they benefit from several exemptions and tax credit opportunities. Goods and services are taxed by a 10% standard VAT (Deloitte, 2013) [7]. Referring to legislation, survey show that 45% of Korean citizens believe the market is insufficiently regulated by the government (ETB, 2012) [11]. The government of Korea is accountable when it comes to the use of public money [45], even though the country is assessed as "partially free by the organization Freedom House [36].

Yearly, Indian taxpayers begin their fiscal obligations on the 1st of April and end them on the 31st of March. An important characteristic of the tax system in India is the distribution of fiscal powers and responsibilities regarding budgetary expenditures among federal and state governmental authorities. The tax law is designed at the federal government level, but its prerogatives are not applied ad litteram across member states. The settlement of new tax levies belongs exclusively to the prerogatives of the legislative power. Indian tax system is grounded on a very intricate legislation and a high number of levies. According to Cussons (2007) [3], the country ranks first in terms of regulations with a total number of 9,000 pages of basic tax law. Despite this, 47% of the citizens believe the business environment lacks regulations. An element which enhances law intricacy is the fact that taxes can be imposed both by the federal and state governments, without a perfect coordination of legislation and administrative practices (e.g., notable differences between tax bases, tax rates, etc.). Hence, tax authorities interpret laws with a certain freedom. Notwithstanding this, to mitigate the administrative burden generated by its legislation, Indian authorities have implemented electronic filing of tax returns, including for consumption taxes. The strategy has proven extremely efficient, with consumption tax time diminishing from 113 to 105 hours (PwC, 2014) [25]. Indians employees pay income tax in progressive rates up to 30% plus cess, while businesses are subject to rates of 30% (if domestic) and 40% (if foreign) plus surtax and cess. Consumption taxes are relatively new for the Indian market (1st of April 2005) and it comprise of a 4%-5% general rate and a 12%-15% residual rate, varying across states (Deloitte, 2013) [8].

Information on the activity of the federal government is shared with the citizens on an average delay of 18 months. Generally, the emphasis is on the federal budget and its fiscal deficit. Data regarding budgetary outlays and the financial situation of Indian states are not available.

Japanese tax levies are collected from the beginning of April 1st until March 31st. Individual taxpayers are divided into three categories: 1) non-residents, namely people that have lived in the country for less than one year and reside elsewhere; 2) non-permanent residents, or people who lived in the country below five years but without the intention of living there permanently; 3) permanent residents, i.e., people who either have lived in the country for five years or intend to live there permanently [44]. According to the National Tax Agency, the income tax system is based on a combination of self-assessment and withholding systems. Personal tax rates can be rather steep, reaching progressively a 50% threshold. Year 2013 brought an additional 2.1% tax meant to cover massive losses after the Fukushima nuclear disaster. The positive outcomes of the Abenomics policy have been felt so far mostly by businesses, because the effective corporate tax rate has dropped from 41% to 38%. In order to balance the massive fiscal stimulus granted in 2013, VAT is being increased from 55 to 8% in April 2014 and later to 10% (Deloitte, 2013) [9]. The efficiency of the Japanese collecting process is enhanced by the online application for tax returns submission.

In Pakistan, there are two types of fiscal years: 1) calendar year (July 1st-June 30th) and the special fiscal year (approved by authorities). The category of individual taxpayers comprises all residents who live in the country for 183 days or more in that tax year, while corporate taxpayers refers to all economic agents registered on the grounds of the Pakistani law or which have a management and control team located entirely in the country. With respect to individuals, the tax code states that any resident obtaining a yearly taxable income above PKR 400,000 is expected to pay her share, in progressive rates from 5% to 10%. Self-employed are subject to rates ascending from 10% to 25%, corporate tax rate is set at 35%, while goods and services are taxed by 16% [Deloitte, 2013] [10]. On the account of increasing the tax rate for small economic entities, tax compliance level dropped in the last two years. Information concerning the federal government's activity, total public debt and budgetary outlays reach the citizens with a large delay. Data on tax expenditures are revealed only to members of the federal or regional government [37].

3.3. Government Effectiveness, Regulatory Quality, Rule of Law and Control for Corruption

According to our view, a suitable path for measuring trust in authorities and power of authorities is by using the World Governance Indicators (developed annually by the World Bank) as proxies: Government Effectiveness, Regulatory Quality, Rule of Law and Control for Corruption. The first indicator, Government Effectiveness (GE), encompasses the perceptions related to the quality of public goods and services, civil service and the extent to which this service is free from political influences, quality of implemented governmental strategies and government's commitment towards such strategies (Kaufmann et al., 2010) [16]. Regulatory Quality (RQ) includes the perceptions concerning authorities' capacity to implement efficient policies that stimulate private sector growth. Rule of Law (RL) contains the perceptions about the extent to which citizens comply with the laws of a society, relative to contract enforcement, property rights, security and judicial system, probability of crime and violence. Control for

Corruption (CC) comprises the degree to which public power is used as a means of obtaining personal benefits (i.e., petty and grand corruption) and the extent to which power is controlled by elites and private interests. As one can easily notice, this set of aggregate indicators deal with perceptions, concepts belonging to the psychological realm, with social dimensions, with economic and financial data, political constructs and legislative prescriptions.

The following figures depict the evolution of GE, RQ, RL and CC for China, Hong Kong SAR, India, Japan, Republic of Korea and Pakistan, spanning an eleven-year period from 2002 to 2012. On country basis, for each indicator we retrieved the yearly percentile rank among all countries, ranging from 0 (lowest rank) to 100 (highest rank).

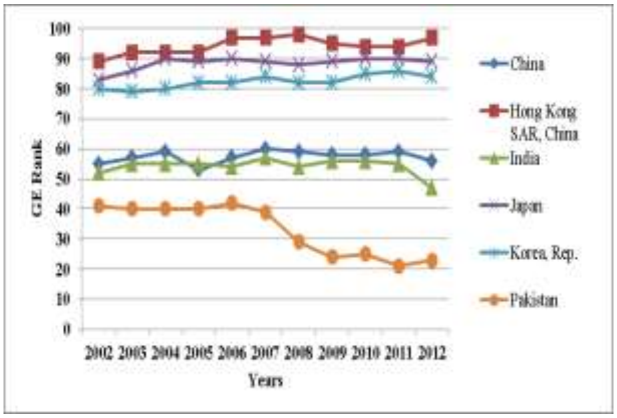

Figure 4. Evolution of Government Effectiveness
Source: World Bank Data (2008-2012)

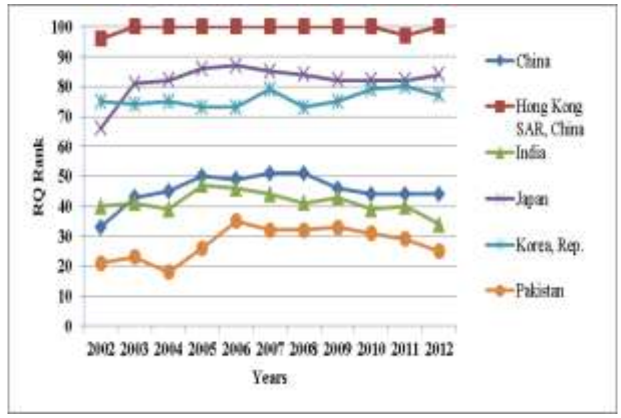

Figure 5. Evolution of Regulatory Quality
Source: World Bank Data (2008-2012)

Starting from the theory behind the development of GE and RQ, we concluded that these aggregate indicators relate to the trust in authorities dimension stipulated by the “slippery slope” framework (Kirchler et al., 2008) [17], which is said to increase tax compliance level, particularly voluntary tax compliance. High levels of trust generally go hand in hand with economic prosperity, increased compliance, state of the art public goods and services, high levels of well-being. With regards to the analyzed countries, Hong Kong SAR and Pakistan are the opposite outliers. Hong Kong SAR registers the highest levels in both GE and RQ, while Pakistan scores the lowest GE and RQ.

In the case of Hong Kong SAR, indicators often have reached the maximum scale due to its status of highly developed jurisdiction, with cutting edge technology, a thriving economy, booming financial sector and “tax haven” label. These results are in line with the Quality of Life Index 2013 developed by Economist Intelligence Unit, which considers Hong Kong the 10th best place to live in [30]. The data follows the same trend as the Human Development Index 2013, according to which Hong Kong ranks 13th in the world and falls in the category of “very high human development” (UNDP, 2013) [27]. At the other end, Pakistan’s plunging scores denote low quality public goods and poor economic performance, compared to the other five jurisdictions. The “low human development” insured by the government to the Pakistani citizens triggers also low trust and mitigates tax compliance levels.

In spite of the economic growth momentum, overall market optimism and massive infrastructure investment, China’s rankings confirm its “developing country” status, scoring lower than its developed Asian competitors (i.e., Japan and Korea). The country still has to improve the quality of public goods and services, as currently it ranks 101st among countries with “medium human development”. Such progress will yield high trust in authorities and more tax revenues in the state budget.

India follows the same trends like China, scoring lower with respect to government effectiveness and regulatory quality. The country faces a major trust roadblock and plunging tax compliance, as citizens become aware of the government’s diminishing capacity to provide governance and high quality public services. Instead, media is perceived as fundamental hub and upholder of public accountability due to the manifold of topics targeting ordinary people, from public corruption, crimes against women to natural resources (ETB, 2013) [12]. In terms of human development, India is the 136th country in the world, belonging to the category of “medium human development”.

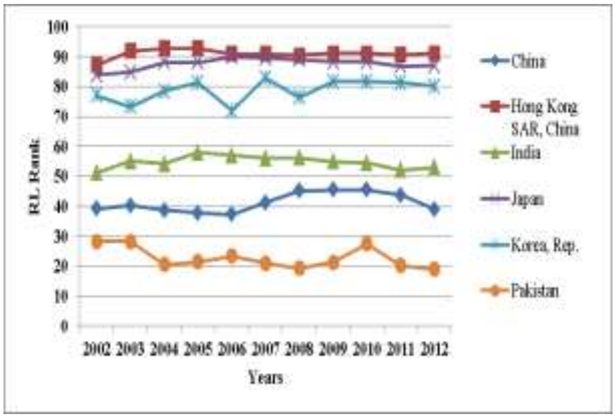

Figure 6. Evolution of Rule of Law
Source: World Bank Data (2008-2012)

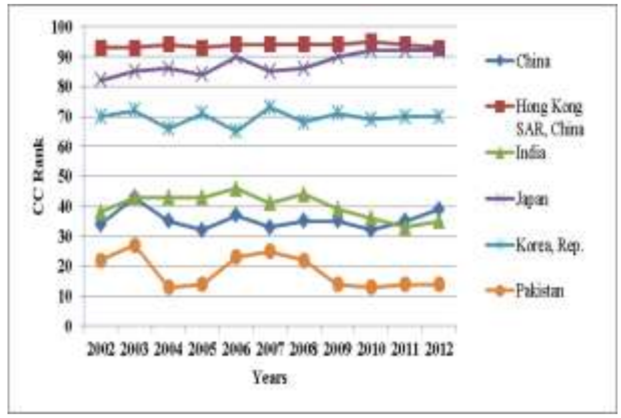

Figure 7. Evolution of Control for Corruption
Source: World Bank Data (2008-2012)

The power of authorities dimension comprised in the "slippery slope" framework is connected with the indicators RL and CC. Taxpayers perceive authorities as powerful if they are able and committed to apply the law following its letter and spirit, without following any personal interests, and to efficiently catch evaders.

According to figures 6 and 7, jurisdictions group in two major clusters based on RL and CC ranks: Hong Kong SAR, Korea and Japan, representing the developed ones, using more efficient anti-evasion strategies; China, India and Pakistan, as developing, still requiring improvement in this area. With the exception of Hong Kong, where there are no (or few) incentives for committing tax evasion, the tax laws in most of these countries state various sanctions for noncompliance.

Authorities from Hong Kong may be investigating less tax evasion, but they have a zero tolerance for corruption. If 40 years ago it was viewed as one of the most corrupt cities in the world, currently it almost cleaned the phenomenon through punishment, education and prevention policies. In order to stamp out tax evasion and enforce compliance, Korean authorities use sanctions (penalties and/or imprisonment), disclosure agreements with other countries and monitor offshore activities through a special unit of the National Tax Service (NTS). Until now, the company Hyundai has received the most staggering tax evasion penalty of 136 billion won (120 million dollars) for tax evasion and illegal share transactions [49].

In the developing cluster, India and Pakistan face severe tax evasion, because tax authorities are inefficient in implementing monitoring strategies and noncompliance sanctions are rarely inflicted. By far, China has the harshest sanctions against tax evasion, from a daily interest of 0.05% for unpaid tax, fines between 50%-500% to death penalty.

In many situations, tax evasion acts are also tainted by corruption, which corrodes authorities' power in the collective mind and makes them seem vulnerable to any incentives. Along with country governments, international bodies are also involved in mitigating fraud and corruption through various practices, including financial and non-financial disincentives ("naming and shaming"). For instance, the World Bank lists on its website names of individuals and firms sanctioned for fraud and/or corruption and declared ineligible to obtain future grants for an indicated period ("provisional" or "permanent" ban). Except for Japan, all the other five countries are represented in this list [52].

4. Conclusions

Using a variety of economic, social, political, psychological proxies, including indicators developed by the World Bank Group for the period 2002-2012, we explained trust in authorities and power of authorities, two main dimensions captured by the "slippery slope" framework, in six eastern and southern Asian countries, as following: China, Hong Kong SAR, India, Japan, Republic of Korea and Pakistan. Analyses denoted that countries scoring closer to the 100 maximum scale for all indicators (government effectiveness, regulatory quality, rule of law, control for corruption) are generally developed, host citizens who trust tax authorities and perceive them as powerful and efficient, and consequently register higher tax revenues due to increased compliance. Lower country score ranks characterize developing jurisdictions with less trust in and power of authority, rampant tax evasion and corruption and less tax compliance.

During the last three years, the mass of tax reforms operated in Asian countries have been mainly focused on increasing compliance by introducing or improving electronic tax filing systems. Furthermore, starting with 2013, a shift in citizens' expectations has been registered. While the private sector is called to make changes in the social environments where companies operate, create value, obtain profit, support the elaboration of public policies and regulations, improve and develop community living standards, government's sole onus is to continue offering protection (ETB, 2013) [12].

Considering recent developments in tax behavior, Russian authorities stand out for making compliance easier on earth and beyond, with the newly implemented "Taxpayer Personal Office for Individuals" online portal. In 2013, Russian astronaut Pavel Vinogradov, who was orbiting Earth at an altitude of 386 kilometers as member of the International Space Station, became the first taxpayer to ever pay taxes from space. He voluntarily complied with regards to his earthly income, but luckily for him the per diem value he received for exploring space was tax free. This cutting edge performance shows noncompliant earthlings that it becomes more difficult to avoid the scrutinizing eye of the tax man and the power of tax authorities, even in space [25]-[35]-[48].

Businesses in 121 countries surveyed by the World Bank deem tax rates as one of the first five hindrances of their activity and tax administration as one of the first eleven. These findings mirror reality, inasmuch as studies show that an increase by one percent in total tax rate generates an increase by three percent in tax evasion (Fisman and Wei, 2004) [13]. Moreover, the intricacy of tax administration is expected to fuel shadow economy and to put a damper on general trust, investment decisions and economic growth. In order to mend fiscal policies, heighten public accountability, improve tax compliance behavior and eventually attain an interaction tax climate of mutual trust, joint efforts from all parties involved in the interaction are claimed. Accordingly, authorities are called to make efforts for streamlining the administrative apparatus, mitigating time to comply, level as well as number of taxes and easing tax payment systems (PwC, 2014: 10) [25], individuals behind the veil of tax authorities must be held responsible for their decisions, media has to be independent from political influences and to uprightly report grant corruption and evasion cases, citizens need full access to information concerning public expenditures and the freedom to give voice to their discontent in the absence of transparent procedures of tax levying and wealth redistribution. These approaches shore up the pillars of democracy meant (as its etymology suggests) to empower taxpayers who, in turn, enhance their trust in authorities' power to assist and support them and to work for the general wellbeing.

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