

7 All Together?

Lack of Trust in the Tax State Unifies Ukraine

The post-communist transition began with a large state–society disconnect. In the aftermath of the 1989 and 1991 revolutions, societies across the region shared a deep disillusionment with their bureaucratic states, now viewed as dishonest and untrustworthy.¹ At a time in which 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. And, nowhere, perhaps, were they more difficult than in Ukraine.

Ukraine, which demonstrates the lowest support for paying taxes in the Taxpayer Compliance Attitudinal Surveys, becomes a critical case and is the focus of this chapter. The country's regional, linguistic and religious diversity; its location between largely Catholic Poland and Orthodox Russia; and its relatively stable and consistent state institutional structure across the country provide an excellent testing ground for discerning how much religion matters with respect to fulfilling an obligation to the state.

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 a more focused study on how such differences, which are not as easily discernible in Poland or Russia, can make an impact on state–society relations. Similarly to the red–blue state divisions in recent US presidential elections, the provinces of Ukraine in recent years have divided themselves starkly between the 'orange' (or 'yellow') 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, with consistently similar state institutions throughout the country, should illustrate this.

Yet, in additional comparative analysis of different regions of the country, what emerges as surprising, perhaps, is that not only do the respondents from the four main regions of the country – East, West, Centre and

¹ Rose-Ackerman, 2004a, p. 1.

Table 7.1 *Ukraine Taxpayer Compliance Attitudinal Surveys 2005, 2010, 2012 and 2015:*
Question: Would you follow the tax laws even if you do not consider them to be fair?

	<u>Poland</u>	<u>Russia</u>	<u>All of Ukraine</u>	<u>West Ukraine</u>	<u>Far West Ukraine</u>	<u>Central Ukraine</u>	<u>Kyiv Ukraine</u>	<u>East Ukraine</u>	<u>Donbas Ukraine</u>	<u>South Ukraine</u>	<u>Crimea Ukraine</u>
% would obey 2004	83	53									
% would obey 2005			36	36	37	36	47	38	43	32	26
% would obey 2010	77	52	44	43	47	44	50	39	47	49	57
% would obey 2012	na	na	39	33	36	38	43	39	44	39	58
% would obey 2015	na	na	45	46	50	46	44	44	43	39	na

Note: Appendix II: Question #22, percentage of responses.

South (not including Crimea) – not differ greatly when it comes to overall support for obeying tax laws, but the rationale for doing so also does not differ greatly between the otherwise seemingly different eastern and western parts of Ukraine with respect to how deterrence and trust issues impact individual-level decisions to support tax compliance. When they are paired alongside each other, the support for obeying tax laws, even if considered unfair, on the part of the Ukrainian regions is more similar to each other than to either Poland or Russia.

Moreover, what is also striking is the relatively modest, but significant difference in the level of support for tax compliance between Catholics and Slavic Orthodox Ukrainians in 2005, which appears to fade away by 2015. There are noticeable differences between those with different religious backgrounds in the earlier Ukraine Taxpayer Compliance Attitudinal Surveys, but the differences are not great and certainly not nearly as great as those between largely Catholic Poland and mostly Slavic Orthodox Russia. All of this suggests that differing societal and religious beliefs and values regarding state–society interactions do not hold predominant explanatory weight for variations in post-communist state–society interactions. Rather, trust – or lack of trust – in the state appears to matter more across critical Ukraine.

Brief Results for Ukraine Regions

As shown in Table 7.1, when broken down into the different regions of Ukraine, including the main East, West, Central and South divisions,² the 2005, 2010, 2012 and 2015 Ukraine Taxpayer Compliance Attitudinal Surveys illustrate that the percentage of those who responded affirmatively to the question ‘Would you follow the tax laws even if you do not consider them to be fair?’ varies little across the country. And, with the exception of Crimea in 2010 and 2012, such support for obeying the tax laws even if considered unfair is consistently lower than the overall levels of support in Poland and Russia.

² ‘West Ukraine’ is represented by Chernovitskaya, Ivano-Frankivsk, Lviv, Rivne, Ternopil, Volynsk, and Zakarpat Oblasts; Central Ukraine by Kyiv (city), Kyiv Oblast, Vinnitsk, Zhitomyr, Kirovograd, Poltava, Suma, Khelmnitskie, Cherkassa, and Chernigovskiye Oblasts; ‘East Ukraine’ by Dnepropetrovsk, Donetsk, Kharkov, Luhansk and Zaporizhskye Oblasts; and ‘South Ukraine’ by Kherson, Mykolaev and Odesa Oblasts. The Razumkov Centre, which carried out the survey, divides the country into these four main divisions, although for analysis here I have taken Crimea out of the ‘South Ukraine’ region. In addition to ‘West Ukraine’, ‘Central Ukraine’, ‘East Ukraine’ and ‘South Ukraine’, I have also conducted analysis on four additional, smaller regions: ‘Far West Ukraine’ represented by Ivano-Frankivsk, Lviv, Volynsk and Zakarpat Oblasts; ‘Kyiv Ukraine’ by Kyiv (city) and Kyiv Oblast; ‘Donbas Ukraine’ by Donetsk and Luhansk Oblasts; and ‘Crimea Ukraine’ by the Autonomous Republic of Crimea.

Table 7.2 *Suggestions of minimal tax non-compliance levels in Ukraine regions in 2010, 2012 and 2015**

	<u>Poland</u>	<u>Russia</u>	<u>All of Ukraine</u>	<u>West Ukraine</u>	<u>Far West Ukraine</u>	<u>Central Ukraine</u>	<u>Kyiv Ukraine</u>	<u>East Ukraine</u>	<u>Donbas Ukraine</u>	<u>South Ukraine</u>	<u>Crimea Ukraine</u>
2010	12%	21%	37%	40%	40%	37%	37%	43%	35%	29%	14%
2012	Na	na	42%	46%	42%	49%	53%	40%	39%	26%	27%
2015	Na	na	37%	38%	37%	35%	39%	37%	34%	43%	na

* Percentage of those answering the questions ‘Would you follow the tax laws even if you do not consider them to be fair?’ and ‘Are the tax laws in your country fair?’ who answered both negatively.

No Mean Replacement: Not included in the percentage calculations are respondents who did not provide an answer to either one or both of these two questions.

As the 2010, 2012 and 2015 surveys also asked respondents, in a separate section of the survey, whether they viewed the tax laws in their country as fair, it is possible to determine what percentage of Ukrainians in each region both found the tax laws to be unfair and stated they would not obey the tax laws even if deemed personally unfair. This provides a suggested minimum level of tax non-compliance in each region, as shown in Table 7.2.

Again, the entire country of Ukraine and the different regional divisions all show much higher support for non-compliance than in Poland and Russia, with the exception of Crimea in 2010. Hence, with respect to attitudinal support for tax compliance, the regions of the country – even in the Far West and Far East – resemble each other much more than emulating bordering Poland and Russia. The country is largely united – in a relatively high lack of support for paying taxes.

Testing the Theories of Taxpayer Compliance on Ukraine's Regions

Ukraine is divided into four main regions to test the significance of residing in Ukraine's western, eastern, central or southern parts. Crimea also is separated out in its own analysis, albeit with a large caveat regarding the number of respondents in the surveys there. In addition, to assess the impact of two extremes of differing civil society outlooks within the same country, the two Donbas provinces (Donetsk and Luhansk oblasts), which share borders with Russia, and four of the seven western provinces (Lviv, Ivano-Frankivsk, Volynsk and Zakarpattia oblasts), which are the most western oblasts and are located along the western border, are selected as representatives of the far east and far west regions of the country for comparative analysis. (The findings for the larger 'West' versus 'East' parts of the country were largely similar to those for the Far West and Donbas regions, as shown in Appendix VII, but the latter two will be the main focus of analysis for clarity. Additional analysis is also conducted on the Kyiv region as well.)

Far West and Donbas

Western Ukraine strongly supported President Viktor Yushchenko during the 2004 Orange Revolution and President Viktor Yanukovich's ouster during the 2014 EuroMaidan Revolution, and looks towards Poland and the West for future collaboration. Meanwhile, Eastern Ukraine actively supported Yanukovich prior to the 2013–2014 demonstrations, and its Donbas region became involved in a Russia-backed secessionist conflict in mid-2014. Eastern Ukraine is where Russian is

most commonly spoken and has strong trade and cultural links to Russia. Most of the country had been under Russian control except for portions of western Ukraine prior to 1945.

Eastern Ukraine has large firms, many of which have been tied to the gas and coal sectors, while Western Ukraine's economy is composed mostly of small and medium-sized businesses. These differences are borne out a bit in the 2010 survey (four years before the Donbas region was partially occupied), where five times more Far West Ukrainians regarded themselves as 'upper class' than Donbas Ukrainians did (1.14 per cent versus 0.21 per cent). Meanwhile, the proportion of respondents who stated that they were enterprise or institution division heads or entrepreneurs was nearly 32 per cent greater in the Far West than in the Donbas (6.08 per cent of Far Westers considered themselves as such versus 4.62 per cent of Donbas interviewees.) The proportion of respondents who identified themselves as employees or workers (skilled or unskilled) was 28 per cent more in the Donbas than in Far Western Ukraine (30.12 per cent of the Donbas respondents as opposed to 23.57 per cent of the Far West respondents.) However, the proportion of individuals who regarded themselves as agricultural workers or farmers (1.47 per cent of Far Westerners surveyed and 1.20 per cent of Donbas interviewees) and pensioners (27.81 per cent of Far Westerners and 28.51 per cent of Donbas respondents) was more similar.

In comparing the regression analysis of the question regarding whether one would obey tax laws even if personally considered unfair for the selected far eastern oblasts (the two Donbas provinces of Donetsk and Luhansk) with the far western oblasts (Ivano-Frankivisk, Lviv, Volynsk and Zakarpat), as shown under the labels 'Donbas' and 'Far West' in Appendix VII, one finds that the trust variables (trust in the president, parliament and government and distrust in tax bureaucrats) predominate for both groups in the 2005, 2010 and 2015 surveys (except for Far West Ukraine in 2010, when neither deterrence nor trust issues were very significant but previous contact with tax bureaucrats was.) In other words, when all of the independent variables are held even at their means and the proxy variables for trust in the state were individually altered from their lowest levels to their highest levels, the trust variables had much higher substantive effects than the proxy variable for the deterrence-based approach to ensuring tax compliance.³ 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

³ On substantive effects, see Chapter 6, Footnotes 21 and 22.

Table 7.3 *Ukrainian trust in the state by region*

	<u>All of</u> <u>Ukraine</u>	<u>West</u> <u>Ukraine</u>	<u>Far West</u> <u>Ukraine</u>	<u>Central</u> <u>Ukraine</u>	<u>Kyiv</u> <u>Ukraine</u>	<u>East</u> <u>Ukraine</u>	<u>Donbas</u> <u>Ukraine</u>	<u>South</u> <u>Ukraine</u>	<u>Crimea</u> <u>Ukraine</u>
Does your state/government fulfil its obligations to citizens?									
2005	10%	17%	15%	11%	10%	3%	2%	9%	8%
2010	11%	10%	6%	13%	7%	9%	13%	15%	6%
2015	7%	5%	5%	9%	8%	6%	5%	5%	na
Do you think you can trust your state/government to do what is right?									
2005	10%	18%	14%	12%	13%	3%	2%	7%	6%
2010	11%	7%	5%	11%	7%	12%	21%	16%	2%
2015	7%	6%	6%	10%	9%	5%	3%	6%	na

No Mean Replacement.

to be supportive of tax compliance. Generally speaking, trust is the more important ingredient for compliance with the state in both East and West Ukraine.

And trust in the state was lacking in both Far West and Donbas regions, just not at the same time in 2005 and 2010. In the 2005 survey, the trust divide between the two regions was stark. Some 78 per cent of Far Western Ukrainians trusted Yushchenko versus just 9 per cent in the Donbas. Similarly, 24 per cent of Far Westerners trusted the parliament as opposed to just 5 per cent of those in the Far East Donbas region. And 35 per cent of Far Westerners as opposed to 4 per cent of Donbas respondents trusted the government. Meanwhile, the next survey five years later yielded nearly opposite responses. In 2010, some 58 per cent of Donbas Ukrainians trusted Yanukovych, whereas only 16 per cent of Far Western Ukrainians did. Similarly, 37 per cent of Donbas Ukrainians trusted the parliament versus 7 per cent of Far Westerners, and 45 per cent of individuals in the Donbas trusted the government as opposed to 10 per cent of those in the Far West. (Trust in the tax bureaucrats and in fellow taxpayers was roughly the same across all regions of the country.)

Such a pattern for 2005 and 2010 also is mirrored in how East and West replied to questions regarding whether their state fulfilled its obligations to citizens and whether their state could be trusted to do what is right, as shown in Table 7.3. In replying to both of these questions, the East and particularly the Donbas region show the lowest support for the state in 2005 and among the highest in 2010. Similarly, Western and Far Western Ukrainians show the highest levels of trust in their state fulfilling its obligations and doing what is right in 2005, but among the lowest in 2010.

Meanwhile, with a new president, parliament and government, the 2015 survey saw trust in the state similar – and dramatically low – across both the Far West and Far East of the country, as only 18 per cent and a nearly identical 16 per cent of Far Westerners and of Donbas residents, respectively, trusted President Petro Poroshenko. Similarly, trust in the parliament was 5 and 2 per cent in the Far West and Donbas regions, respectively, and trust in the government was 6 per cent in the Far West and 2 per cent in the Far East. Thus, not only are both extreme sides of the country responding to questions regarding motivations for tax compliance similarly and in correlation with similar trust concerns, but also, by 2015, both far western and far eastern regions are unified in their high distrust of the new, post-EuroMaidan regime in Kyiv.

Moreover, in the logit regressions in Appendix VII, two very interesting anomalies can be observed that illustrate a negative attribute of having trust in the state. First, for Donbas Ukrainians, in 2005, the more one trusts the government, the less likely one would be to express support for obeying the tax laws – and the substantive effect for this was –76 per cent. Second, for Far Western Ukrainians, the more one trusted the president in 2005, the less likely one was to give support for tax compliance – the substantive effect for this was –41 per cent. This was repeated in 2015, when the substantive effect for trust in the president was –22 per cent. These two effects suggest that trust in the state matters, but it also can act negatively upon state–society relations. Why? One possibility is that if one identified with a particular branch of government (in 2005, 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 came to paying taxes because ‘your guy’ or ‘guys’ was in control at the top.

Comparing the Donbas with the four most western provinces shows that trust – or lack of trust – in the state is the prime motivation associated with deciding whether to support tax laws, even those personally deemed to be unfair.

Centre and South

Akin to the Far West–Far East comparison, Ukrainians in the Central part of the country, generally speaking, were more trusting of the president in 2005 than those in the Southern part of the country, with the reverse being the case in 2010 after the change in government. However, the differences are less stark than those above between East and West. In 2005, 49 per cent of Central Ukrainians and 32 per cent of Southern Ukrainians expressed trust in Yushchenko, whereas in 2010, 28 per cent

of Central Ukrainians and 55 per cent of Southern Ukrainians trusted Yanukovych and in 2015, 22 per cent of Central Ukrainians and 15 per cent of Southern Ukrainians trusted Poroshenko. With respect to trust in the parliament and the government, though, support was largely constant across both the Centre and the South. In 2005, 18 and 20 per cent of the Central Ukrainians surveyed trusted the parliament and the government, respectively, and the corresponding figures were 21 and 22 per cent in 2010 and 9 and 9 per cent in 2015. Meanwhile, in 2005, 18 and 21 per cent of Southern Ukrainians expressed trust in the parliament and government, respectively, while the figures rose slightly to 34 and 38 per cent, respectively, in 2010 before falling again to 6 and 8 per cent in 2015.

The logit regression analyses of the question ‘Would you obey tax laws even if you considered them unfair?’ for the Central and Southern regions of Ukraine both broadly mirror the surveys for the country as a whole, especially the overall 2005 result, where Ukrainians reacted largely and relatively equally in response to both coercive and trust-building measures.

For Central Ukraine, the 2005 survey finds that withdrawing the deterrent threat of punishment and a lack of trust in street-level tax bureaucrats have nearly equally strong substantive effects. Withdrawing deterrence fully made respondents 16 per cent less likely to voice support for obeying unfair laws, whereas distrusting tax bureaucrats made them 15 per cent less likely to do so. For the 2010 survey, Central Ukrainians reacted a bit more strongly to trust-building measures. Affirming full trust in Yanukovych corresponded with being 14 per cent more likely to be supportive of compliance, and voicing complete trust in the government corresponded with being 20 per cent more likely to be supportive of compliance. Meanwhile, trusting the parliament and distrusting tax bureaucrats corresponded with being 26 and 22 per cent less likely to obey the tax laws, respectively. Withdrawing the deterrent threat in 2010, interestingly, also made one more likely to support compliance with the tax laws. In 2015, for Central Ukrainians, both withdrawing deterrence and the ‘trust in the state’ variables had strong significance in explaining why some individuals decided to support obeying tax laws even if deemed unfair, but the substantive effects for the trust variables, which ranged from 18 to 24 per cent, were slightly greater in magnitude than the substantive effect for withdrawing deterrence, which had a value of 12 per cent.

For South Ukraine, the 2005 survey finds that Ukrainians are nearly equally influenced by the withdrawal of deterrence and by their trust in parliament with respect to deciding whether to be supportive of

complying with the tax laws even if deemed unfair. Trust in government, though, had the biggest substantive effect. If Southern Ukrainians stated that they trusted government, they were 41 per cent more likely to agree to comply with tax laws they deemed personally to be unfair. In 2010, trust variables had slightly greater impact, as fully trusting the government made one 38 per cent more likely to support compliance while withdrawing deterrence made one 31 per cent less likely to voice a willingness to obey. Ironically, not trusting other taxpayers to comply coincided with a 40 per cent increase in the likelihood of voicing support for obeying the tax laws, perhaps because Southern Ukrainians may have been more willing to distance themselves from the 'bad' behaviour around them. The 2015 survey shows a very different result for Southern Ukrainians, whose decision to support obeying tax laws even if deemed to be unfair only had one significant explanatory variable – the 'trust in the president' variable, which held a large substantive effect of 51 per cent.

Generally speaking, southern Ukraine has been more distrusting of the government in Kyiv (with an exception when Yanukovich was in power, as shown in the 2010 survey) than central Ukrainians. Further, when it comes to explaining why some citizens choose to obey tax laws even if deemed unfair, those in the South were more responsive to 'trust in the state' variables than their fellow citizens in the Centre. The comparison, therefore, highlights the extra importance for the central state to pursue the trust of citizens in the South, even considering that trust in Kyiv is low across the entire country.

Crimea

Crimea is a different case altogether. Unlike the other regions of Ukraine, it is the only one with a majority ethnic Russian population and, of course, it was annexed by Russia in the spring of 2014. And, while the sample size drawn from Crimea was the smallest, the overall support for complying with the tax laws was more similar to that of Russia in 2010 and 2012 (but not in 2005). Compared with the other regions above, the 2010 survey sample from Crimea had the lowest percentage of the population with a higher education (24 per cent) and the lowest percentage who identified themselves as being 'upper class' (0 per cent), but, contrary to being described often as a retiree area, the region did not have the greatest number of individuals above 60 years of age, as the Central, East and Donbas region samples had slightly larger numbers of respondents in that age group. Further, in addition to having a percentage of those who were employees or workers (skilled or unskilled) that

was among the highest of the regions, Crimea also had the highest number of those employed in the agricultural sector (7 per cent, over double the national average.) Meanwhile, the number of enterprise or institution division heads or entrepreneurs was the lowest in the country, at 3 per cent, half that of Far Western Ukraine.

'Trust in the state' levels (president, parliament and government) were the lowest of the Ukrainian regions in 2005 – with trust in the president at 13 per cent, in the parliament at 9 per cent and in the government at 11 per cent – and the highest in 2010 – with support at 77, 74 and 76 per cent, respectively. Yanukovych, after all, owes his 2010 victory to the support he received in Crimea. This support contributed directly to high levels of compliance in Crimea in 2010 and 2012 compared with the rest of the country.

Unsurprisingly, then, trust plays the strongest role for Crimea in both the 2005 and 2010 logit regressions. In 2005, Crimeans were 31 per cent less likely to express support for obeying tax laws if they trusted Yushchenko (although this particular finding was not significant) and 54 per cent more likely to obey if they trusted the government. In 2010, only one respondent out of 199 had previous contact with a tax bureaucrat, causing that variable to drop out in the regression. In a regression that excludes prior contact with a tax bureaucrat, Crimeans were 33 per cent less likely to state that they would obey the tax laws if they said their behaviour was affected by the withdrawal of deterrence and were 66 per cent less likely to do so if they trusted Yanukovych. Trusting the parliament in 2010, however, made them 94 per cent more likely to voice support for compliance. Hence, in Crimea, the lack of popularity of Yushchenko and the stronger support a few years later for parliament – balancing along with the effects of increased support for a new president and government – likely account for the dramatic shift in willingness to support tax laws even if deemed unfair from 2005 to 2010 and 2012.

Bureau Contact for Ukraine Regions

In the logit regressions of the 2005, 2010 and 2015 surveys for the Ukraine regions, having had contact with a tax bureaucrat during the previous five years only mattered significantly for East and Donbas Ukrainians in 2005 and for West and Far West Ukrainians in 2010 with respect to the question of whether one would obey the tax laws even if they were considered unfair. For the rest of the country, and for East and Donbas in 2010 and West and Far West in 2005, previous bureaucrat contact did not appear to have any impact on decisions to support complying with the tax laws in the regressions. Moreover, the impact

Table 7.4 *Nature of contact with Ukrainian tax bureaucrats by region: Those who stated that they would obey tax laws even if personally considered unfair as a percentage of those who were satisfied with both the conduct and the result of their previous meetings with tax bureaucrats*

	<u>All of</u> <u>Ukraine</u>	<u>West</u> <u>Ukraine</u>	<u>Far West</u> <u>Ukraine</u>	<u>Central</u> <u>Ukraine</u>	<u>Kyiv</u> <u>Ukraine</u>	<u>East</u> <u>Ukraine</u>	<u>Donbas</u> <u>Ukraine</u>	<u>South</u> <u>Ukraine</u>	<u>Crimea</u> <u>Ukraine</u>
2005	51%	48%	53%	47%	75%	40%	29%	79%	na
2010	54%	38%	33%	56%	60%	63%	54%	59%	na
2012	59%	69%	77%	51%	50%	63%	50%	62%	na
2015	70%	65%	67%	73%	91%	72%	68%	64%	na

No Mean Replacement: na = too low number of respondents with prior contact in Crimea in 2005–2012 surveys; Crimea not surveyed in 2015.

Light grey shaded = lower than 50 per cent.

of having had such contact, where it mattered, was negative, except in South Ukraine, where, while insignificant in the regression in 2005, the substantive effect showed slight significance.

Table 7.4 depicts the impact of having met with a tax bureaucrat previously by showing the willingness to obey tax laws even if deemed personally unfair of those who had good experiences with tax bureaucrats (being satisfied both with how one was treated and with the result one received.) Shaded in light grey are the regions where more than half of the respondents still would not agree to obey the tax laws even after such good encounters with tax bureaucrats.

Further, the difference in the willingness to obey tax laws between those who did not have prior contact and those who did was most negative in the East and, especially, in Donbas Ukraine in 2005, but in the West and, especially, in Far West Ukraine in 2010. In those areas, one was more likely to agree to obey tax laws if one did not have interaction with bureaucrats than if one did have such interaction and the experience was satisfactory all around.

These results, shaded in grey in Table 7.4, seem a bit counterintuitive. As examined in Chapter 6 and based on the work of Tom Tyler, it is the nature of previous interactions with authorities that can have a positive or negative effect on one's willingness to obey the state in the future. Given that East and Donbas Ukrainians in 2005 and West and Far West Ukrainians in 2010 who had previous contact with tax bureaucrats were less likely to be supportive of compliance than those who did not have such contact, does this mean that the nature of the interactions with tax bureaucrats in these regions was somehow more negative?

Table 7.5 *Percentage of those with good prior tax bureaucrat experience who trust the Ukrainian president (Yushchenko in 2005, Yanukovych in 2010 and Poroshenko in 2015)^a*

	<u>All of</u> <u>Ukraine</u>	<u>West</u> <u>Ukraine</u>	<u>Far West</u> <u>Ukraine</u>	<u>Central</u> <u>Ukraine</u>	<u>Kyiv</u> <u>Ukraine</u>	<u>East</u> <u>Ukraine</u>	<u>Donbas</u> <u>Ukraine</u>	<u>South</u> <u>Ukraine</u>	<u>Crimea</u> <u>Ukraine</u>
2005	51%	79%	67%	55%	67%	28%	19%	50%	na
2010	59%	47%	41%	64%	63%	60%	78%	65%	na
2015	42%	50%	52%	51%	47%	33%	44%	32%	na

^a Percentage of those who had prior interactions with tax bureaucrats that were found both to be satisfactorily conducted and to have produced satisfying results who trust the Ukrainian president.

No Mean Replacement: Calculations were made only of those who had stated that they had had contact with a tax bureaucrat in the previous five years and had provided answers for the following three questions: ‘Do you trust the president of Ukraine?’ ‘Were you satisfied with the results of your meeting with the tax service employees?’ and ‘Were you satisfied by how the tax service employees spoke with and treated you?’

na = too low number of respondents with prior contact in Crimea in 2005–2012 surveys; Crimea not surveyed in 2015.

Light grey shaded = lower than 50 per cent.

Actually no, in all of these four cases, more respondents were satisfied both with how they were treated in such past interactions and with the results of such interactions with the tax bureaucracies. Rather, in these particular regions, even those who were satisfied with both the conduct and the result of meeting tax bureaucrats in the past were more likely to be unsupportive of complying with the tax laws. In fact, this is a finding that is unlike the other regions or in Poland and Russia as a whole, where previous positive interactions (in terms of satisfied conduct and results) always coincided with support for compliance at a level above 50 per cent. Clearly, something other than the nature of these tax encounters in East and West Ukraine is having an impact here.

Given that Yanukovych replaced Yushchenko in 2010 and that the East broadly supported the former and the West the latter (with little support for Poroshenko across the country in 2015), Table 7.5 explores the trust levels for the president across the different regions of Ukraine in the 2005, 2010 and 2015 surveys for all respondents, as well as for those who had previous contact with tax bureaucrats and were satisfied with both the conduct and the result of such interactions.

What emerges is that, in 2005, less than 50 per cent of Ukrainians who had good prior bureaucratic contact in the East and the Donbas (and in Crimea) expressed trust in Yushchenko; elsewhere in the country, those

Table 7.6 *Tax awareness across Ukraine regions*

	<u>Poland</u>	<u>Russia</u>	<u>All of Ukraine</u>	<u>West Ukraine</u>	<u>Far West Ukraine</u>	<u>Central Ukraine</u>	<u>Kyiv Ukraine</u>	<u>East Ukraine</u>	<u>Donbas Ukraine</u>	<u>South Ukraine</u>	<u>Crimea Ukraine</u>
During the past five years, have you had business with employees of the tax service? (% Yes)											
2004	49%	23%	na	na	na	na	na	na	na	na	na
2005	na	na	15%	12%	11%	17%	14%	12%	9%	20%	11%
2010	38%	24%	12%	16%	15%	12%	13%	12%	11%	12%	0.5%*
2012	na	na	12%	12%	11%	13%	7%	9%	8%	13%	14%
2015	na	na	19%	16%	15%	21%	20%	19%	14%	17%	na
What is the personal income tax rate in your country today? (% correct answer)											
2004	na	38%	na	na	na	na	na	na	na	na	na
2005	na	na	9%	9%	10%	8%	4%	12%	12%	9%	7%
2010	22%	46%	10%	13%	17%	7%	9%	7%	9%	6%	50%
2012	na	na	13%	12%	14%	8%	6%	14%	20%	17%	28%
2015	na	na	13%	13%	15%	15%	18%	11%	13%	9%	na

* In the 2010 survey, only one respondent out of 199 in Crimea stated that he or she had had contact with a tax bureaucrat in the previous five years.

Light grey shaded = lower than Ukraine average

who had good prior interactions with tax bureaucrats voiced trust in Yushchenko to a greater extent. Similarly, in 2010, less than 50 per cent of Ukrainians who had satisfactory prior interactions with tax bureaucrats in the West and Far West regions affirmed trust in Yanukovych, whereas elsewhere in the country that year those who had good prior bureaucrat contact were more trusting of Yanukovych. Finally, while support was low across the country in 2015 for Poroshenko, the lowest levels of support – even from those who approved of their interaction with the tax bureaucracy – were in the East and South.

Hence, it is likely that it was the nature of the extreme lack of trust among these populations that overrode even satisfying past experiences to account for a low willingness to comply with the state's tax laws. Thus, trust – or lack thereof – in the state, as represented by who was president at the time, trumps good street-level interactions across both East and West. Trust matters most of all, but for who and when, depends upon who is in charge of the state.

Tax Awareness across Ukraine Regions

While a more thorough and vastly more intensive study would be required to assess whether the tax system interacts with taxpayers consistently across the unitary state of Ukraine, the Taxpayer Compliance Attitudinal Surveys do illustrate to what extent awareness of and interaction with the tax system vary across the country. Table 7.6 illustrates what percentage of the Ukrainian public interacted with the tax bureaucracy nationally, across the regions, and in comparison with Poland and Russia, and what percentage of the public knows the correct personal income tax rate.

Compared with their neighbours to the East and West, Ukrainians have been the most disconnected from their tax regime, with less knowledge of and less interaction with the tax system. Yet, across the country, that disconnection was fairly similar, without great disparities from the national average in any region. True, Ukrainians in both the Far West and the Donbas areas were less likely than the country as a whole to have had previous meetings with tax bureaucrats, but such interactions were generally no more than one-third less than the already low national average. Western Ukrainians were more likely than their fellow countrymen in the Centre, East and South to know the correct personal income tax rate, but no region had a level of knowledge of the tax rates approaching that of Poland or Russia. In short, no single region of Ukraine can be shown to be either consistently more or less aware of the tax regime than other parts of the country – suggesting that efforts that

try to raise tax awareness among citizens should not be restricted to any particular region. Such a finding related to governance is different from other research, such as that of Ralph De Haas, Milena Djourelova and Elena Nikolova, who have found stark differences between East and West Ukraine when it comes to attitudes supporting market-based economies and democracy.⁴

Religion and Civil Society

In recent years, explanations for why some post-communist states have been able to govern their peoples better than others have pointed to differing conceptions of what constitutes a civil society. Such competing visions of civil society are perceived to have been mediated through both long and short-term relationships between states and societies. John Elster, Claus Offe and Ulrich K. Preuss, among others, have argued that the conditions that favoured consolidation of the post-communist transition in Central and Eastern Europe are those relating to a set of values and beliefs, or ‘inherited world views’, that are shared within a society that were formed in the past, which carries the transition forward in different ways.⁵ So, do country-specific values and beliefs matter with respect to state–society relations?

With respect to post-communist Europe, there is a much-observed religious divide corresponding roughly to that between Catholicism in Central Europe, including Poland, on one side, and Slavic Orthodoxy in the former Soviet Union states, including Russia, on the other. Poland has developed a civil society that possesses citizens who are more politically active and demand greater openness and transparency on the part of the state than the countries to its east. This is deemed to have come about, in significant part, through the historic role the Catholic Church played during the Polish People’s Republic and its collapse in 1989. Once the regime established by outside forces met its demise and a new Polish state was built, citizens then could place greater trust in their state, allowing the development of the particular type of civil society that is, perhaps, familiar in more consolidated democracies.

Juan Linz and Alfred Stepan also have sought to explain 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

⁴ De Haas, Djourelova and Nikolova, pp. 92–107. ⁵ Elster, Offe and Preuss.

church to help it resist state opposition.⁶ Hence, the Catholic Church could be considered as supporting ‘a more robust and autonomous civil society’.

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, as noted earlier. The Catholic view of civil society, Oleg Kharkhordin has argued, can be found in Polish Solidarity literature. ‘Solidarity spoke about the conflict between civil society and the state, while in practice it followed the example of the Catholic Church – a most serious stronghold of Polish national liberation in the 19th and 20th centuries and the only real bulwark of resistance after the imposition of communist rule.’⁷ Hence, the vision of civil society from which the new Polish state was born in 1989, was based in some significant part upon the Catholic foundations of Polish society.

The Orthodox Church, on the other hand, does not stand as much in opposition to the state, providing a different outlook as to how an ethical society should be constructed. ‘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 have written. ‘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.’⁸ How the state’s bureaucrats behave towards citizens in society would appear to depend upon how committed state leaders and the Orthodox Church are to greater transparency and civic oversight.

Along the same lines, Russia’s society some two decades after communism often has been described as one in which citizens are less prone to be active in demanding transparency on the part of the state and less trusting of it. The development of Russia’s civil society, in particular, could be seen to be due in part to a different type of long-term 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 an oppositional role to the state like the role the Catholic Church played in Poland could be seen as having prevented greater transparency and openness from developing. And, because Russians do not view themselves as participating in political life, they would be more

⁶ Linz and Stepan, p. 453. ⁷ Kharkhordin, pp. 954–955. ⁸ *Ibid.*, p. 453.

likely to have greater distrust of the state and negative views of the bureaucrats that interact with them. So, differences in religion, or even, perhaps, in religious-based conceptions of state–society relations, may help explain from where long-term distrust of the state can come.

Thus, to aid in the re-creation of a constructive state–society relationship, differing religious conceptions of civil society can help explain the nature of and fundamental basis for society's trust in the state and the state's trust in society. The implication of these distinct outlooks would be that Catholicism, through the Church, promotes an associational life in society that is more independent from the state and that associations, including the Church itself, challenge the state from the outside. This implies that a civil society will respond to the state when individuals trust the state and are in tune with its objectives. In contrast, an Orthodox outlook implies that the state and society should be unified for a civil, ethical life to be achieved.

In order to examine the extent to which the relative legacy of particular religious viewpoints on civil society in post-communist Europe matters for explaining long-term trust/distrust in the state and how they affect state–society interactions on the ground, 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 per cent Catholic, most of whom are geographically concentrated in western Ukraine.

Moreover, while the majority of Catholic Ukrainians are Greek Catholics and Poles are Roman Catholics, one can still regard Ukrainian Catholics as holding a distinctly different outlook on civil society than their Orthodox compatriots and one that is more in line with that of Polish Catholics. The Greek Catholic Church in Ukraine is subordinated to the Pope in Rome, has been influenced heavily by the Polish Catholic Church over the centuries, follows the same doctrine (but not rites) of all Catholics, and stood in opposition to the Soviet state, which persecuted it much more than Orthodox Ukrainians and Catholic Ukrainians who converted to Orthodoxy. Therefore, the distinctions between branches of Catholicism should not have significant impact on utilizing Ukraine as a testing ground for differing religious perspectives on state–society relations.

Tax Compliance and Religion in Ukraine

Further analysis along the East–West political and economic divide of Ukraine and along the mostly 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 – can provide insight as to whether different religious outlooks on civil society provide a background for how citizens react to their states.

In comparing the willingness of Catholic and non-Catholic Ukrainians to obey tax laws, there are differences, as shown in Appendix VII, suggesting that the culture and practice of different religions lead to the construction of very different relationships between citizens and their states. The four far western oblasts of Ukraine (grouped together as ‘Far West Ukraine’) are as a whole nearly split equally between Catholics and non-Catholics. Trust matters more for both Catholic and non-Catholic Ukrainians in the west than the proxy variable for being motivated more to support tax compliance by the state’s deterrence approach in 2005, 2010 and 2015 (with the exception of Catholic Ukrainians in 2010, for whom neither trust nor deterrence variables mattered), but as with this regional area as a whole, in 2005, trusting the president makes Catholics as well as non-Catholics less likely to support obeying tax laws.

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 tax laws even if deemed unfair) in the overall Ukraine regression for 2005, trust issues matter most for Catholic Ukrainians in 2005, 2010 and 2015, as Appendices VI and VII illustrate. 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 were 54 per cent in 2005, 25 per cent in 2010 and 41 per cent in 2015 more likely to be in favour of compliance.⁹ Hence, Catholic Ukrainians do appear to respond to the state more out of trust – similar to Poles in 2005 and 2010.

While not entirely surprising, given that 91 per cent 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 in 2005, 2010 and 2015 – ‘trust in the state’ variables are practically

⁹ The Ukrainian regressions utilized a trust scale, which is a composite of trust in the president, the parliament and the government and trust in the state to do what it right and to provide goods and services, but when trust in the parliament is disaggregated out it becomes very, very much more significant, with a strong substantive effect. Further, interestingly, about 97 per cent of those Catholic Ukrainians in 2005 who trusted the parliament also trusted the president and the government (but nowhere 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. (Also interesting to note is that if Catholic Ukrainians voted for president in 2004 Orange Revolution election, they were 31 per cent more likely in 2005 to support complying with the tax laws.)

equivalent in substantive effect to the deterrence proxy variable in 2005, but such trust variables have stronger substantive effects than deterrence does in the 2010 survey, while they are broadly all similar in the 2015 survey.

Perhaps these differences between Catholics and non-Catholics in Ukraine help 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, in 2005, Catholic Ukrainians were only nearly 13 per cent more likely to state that they would obey tax laws even if deemed unfair than their Slavic Orthodox countrymen (47 per cent to 35 per cent)¹⁰ whereas Poles were 27 per cent more likely to state that they would obey such a law than Russians (83 per cent to 56 per cent.) Meanwhile, by 2010, the gap was even narrower, as Catholic Ukrainians nationally were only 5 per cent more likely to state that they would obey the tax laws than their fellow Orthodox citizens (48 per cent to 43 per cent), whereas Poles were more likely to state that they would obey than Russians by 25 per cent (77 per cent to 52 per cent). And, in 2015, the gap was just 2 per centage points in Ukraine. Catholicism, in and of itself, may account for contributing to a more compliant population, but it does not appear to be enough to explain the entire cross-national differences.

Perhaps, though, the degree to which one is committed to (or indoctrinated by) a particular religion might make one be more in line with a particular religious outlook on civil society interaction, affecting how one reacts to the state. This could be measured through assessing the impact on compliance of attending church frequently. However, this does not appear to be the case in Ukraine. Only 36.22 per cent of all Ukrainians in 2005 who told pollsters that they attend church once a week or more also stated that they would obey tax laws even if considered unfair – compared with 35.70 per cent of Ukrainians who attended church less often. In 2010, the corresponding figures also were nearly identical, at 43.44 per cent and 44.97 per cent, respectively. Moreover, both Catholics and Orthodox who stated that they attended church once a week or more were less likely (by a slight margin) to state support for tax compliance than those who attended less often. Only 42 per cent of frequent Catholic churchgoers (as opposed to 47 per cent of all Catholics) stated that they would obey the tax laws and only 31 per cent

¹⁰ This figure does not change regardless of whether we are speaking of Greek or Roman Catholic Ukrainians, as 47 per cent of Greek Catholics (who overall represent 8.23 per cent of those participating in the Ukraine 2005 survey) and a similar 48 per cent of Roman Catholics (0.83 per cent of the Ukraine 2005 survey) stated that they would obey the tax laws.

Table 7.7 Religion and the Ukraine Taxpayer Compliance Attitudinal Surveys

	Would Obey Tax Laws Even If Considered Unfair 2005	Would Obey Tax Laws Even If Considered Unfair 2010	Would Obey Tax Laws Even If Considered Unfair 2012	Would Obey Tax Laws Even If Considered Unfair 2015
Ukrainian Catholics (9 to 10% of survey)	47%	48%	na	46%
Ukrainian non-Catholics (90 to 91% of survey)	35%	43%	na	44%
Ukraine (all respondents) (100% of Survey)	36%	44%	38%	45%
Far Western Ukrainian Catholics (51 to 56% of Far Western Regions are Catholic)	45%	53%	na	48%
Far Western Ukrainian non-Catholics (44 to 49% of Far Western Regions are non-Catholic)	30%	42%	na	51%
Far West Ukraine (all respondents)	37%	47%	36%	50%

of frequent Orthodox churchgoers (as opposed to 35 per cent of all Orthodox) expressed similar support for complying with the tax laws. (In 2010, only 46 per cent of frequent Catholic churchgoers (as opposed to 48 per cent of all Catholics) and only 43 per cent of frequent Orthodox churchgoers (as opposed to 45 per cent of all Orthodox) supported obeying the tax laws.) Hence, it appears that the *degree* of ‘exposure’ to a religious outlook on civil society may not matter directly on an individual level.

Therefore, in testing how much weight religious background within a society holds in explaining governance issues, the research here also suggests several findings that give great caution when associating the ability and methods of governance with the existence of a Catholic/Orthodox divide across Eastern Europe. First, namely, as mentioned, the Orthodox–Catholic gap in Ukraine in support for tax compliance narrows to 5 per cent in 2010 and to 2 per cent in 2015, as shown in Table 7.7. Similarly, trust issues mattered more for non-Catholic Ukrainians in 2010 than they did in 2005.

Second, the fact that a majority of Ukrainian Catholics in 2005 (and 2010 and 2015) did not state that they would be compliant with any

tax law suggests that religion does not alone (or predominantly) make for ‘better citizens’. Such a ‘Catholic effect’ – even if stronger in 2005 than in 2010 and 2015 – is insufficient to cause a majority of Catholic Ukrainians to support abiding by the tax laws even if deemed unfair.

Third, the fact that the differences in attitudinal support for tax compliance within Ukraine were much smaller than the differences between neighbouring Catholic Poland and Orthodox Russia also suggests a weak relationship between religious preferences and governance. Hence, the significantly higher support in willingness to obey the tax laws of Poles than of Russians, previously observed in other surveys, would not likely be due to the largely Catholic makeup of Poland or the Slavic Orthodox composition of Russia.

Moreover, the fact that the underlying motivations for obeying or not obeying are quite similar between the far eastern and far western portions of Ukraine, as shown at the beginning of this chapter – that is, that at both sides of the country those motivations are based on issues related to trust – also suggests that underlying religious differences across Eastern Europe might not matter greatly.

Finally, as shown in Table 7.7, within the Far Western regions of Ivano-Frankivsk, Lviv, Volynsk and Zakarpat Oblasts, where the population was almost equally divided between Catholics and non-Catholics, there are sizeable differences between the two groups’ willingness to obey tax laws even if deemed unfair that are even larger than the differences between Catholics and non-Catholics in the country as a whole in 2005 and 2010. This suggests that the differences noted here are associated less with some aspect of being of one religion or another than with being in one particular area of the country or another. On the other hand, of course, such differences between Catholics and non-Catholics in the Far Western regions are nearly bridged in the 2015 survey, as they are for the country as a whole. Moreover, even though the Far Western region contains more Catholics than elsewhere, comparing the overall results for the Far Western Region with the overall results for all of Ukraine finds that in 2005, 2010 and 2012 the differences between that region and the country as a whole are not that large, suggesting that regardless of internal differences within this part of the country, overall the effect compared to the nation as a whole is limited.

Tax Compliance, Nationality Self-Identification and Language in Ukraine

In addition to religion, Ukraine has been said to be divided both by nationality and by language. In the 2015 survey, additional questions

Table 7.8 *National self-identification and the Ukraine Taxpayer Compliance Attitudinal Surveys*

	Would Obey Tax Laws Even If Considered Unfair 2015
Russian Nationality (8% of survey)	47%
Ukrainian Nationality (89% of survey)	44%

were asked of respondents to discern their impact on willingness to obey a tax law even if one considers it to be unfair. When asked which nationality they considered themselves to be, 8 per cent stated 'Russian' while 89 per cent identified themselves as 'Ukrainian'. Yet, as Table 7.8 shows, stating that one was 'Russian' correlated only with a minimal difference (3 per cent) in willingness to show support for tax compliance than if one identified more with being 'Ukrainian'. Hence, it would seem that even if one identified more with being 'Russian', one was just as willing, or perhaps a bit more, to follow Ukraine's tax laws than if one identified as 'Ukrainian'.

Similarly, respondents in 2015 were asked about the languages they mainly speak at home, and Table 7.9 shows that the differences between those who favoured one language or the other are not great. In fact, it made no difference whether respondents said they spoke Russian or both Russian and Ukrainian equally at home. And those who said they spoke Ukrainian at home were just 6 per cent more likely to voice support for obeying tax laws, even if they disagreed with them. Hence, language does not appear to be a significant variable that dramatically divides the Ukrainian public with respect to their personal views on tax compliance.

Thus, even if there is some evidence for the existence of a religious or language effect, there may well be limits to the impact of religious outlooks and language on post-communist governance. It may, in fact, not matter greatly how or whether long-held and local religious, regional or

Table 7.9 *Language and the Ukraine Taxpayer Compliance Attitudinal Surveys*

	Would Obey Tax Laws Even If Considered Unfair 2015
Russian speakers (29% of survey)	42%
Ukrainian speakers (42% of survey)	48%
Speakers of both (28% of survey)	42%

cultural outlooks on civil life play a significant role today in how society frames its trust (or distrust) of the state. Instead, the answers as to where that deep societal distrust in the state in Russia and, even more significantly, across all of Ukraine, comes from would appear to be found in more recent and current interactions that citizens have with their states, as shown in Chapter 6 and the first half of this chapter.

Given that neither religious, nationality, linguistic, nor regional differences are that salient across Ukraine with respect to explaining citizen willingness to undertake a critical obligation towards their state, Ukraine appears to be a much more unified country than is expected. That is, trust, or rather the lack of it, across the country appears to account greatly for the very low levels of tax compliance. Trust in the state may vary by region with respect to who is in power in Kyiv, but the entire country is vulnerable to low levels of compliance based on low levels of trust. To improve the government's ability to implement policy, increased confidence in the state is needed across the board, all together.

To address that great need, the next chapter concludes with some tax administration policy suggestions by which transitional states such as Ukraine can create and build up levels of trust on the part of citizens in their state so that greater tax compliance can be achieved.