Title: Bargaining Over Taxes

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Abstract:

We show that bargaining over taxes constitutes a central feature of tax compliance in low state capacity environments. Using administrative records from Zambia, we document systematic deviations from predictions of standard models of tax compliance. Taxpayers bunch sharply in dominated regions above tax schedule discontinuities and at round-number payments. These patterns are inconsistent with standard models, but can be explained by bargaining between tax collectors and taxpayers, or which we provide additional evidence from our own taxpayer survey. Finally, we show that allowing for bargaining in standard models of tax compliance leads to Pareto-improvements if state capacity is sufficiently low.