

## The Impact of Informal Institutions on the Tax System Policy Responses Due to Covid-19: Evidence from CEECs

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*Informal institutions matter in the context of the tax systems of Central and Eastern European countries (CEECs), especially during the Covid-19 crisis. The purpose of this paper was to investigate the impact of the informal institutions on the stability of tax system policy responses due to Covid-19. The research is based on informal institutions of CEECs such as different values and norms, customs, or traditions. The research methodology focuses on secondary statistical data from 18,785 surveys from the European Social Survey Round 9 (2018) edition 2.0 and from 211 tax system policy responses due to Covid-19 of the OECD for 11 CEECs. The findings show that informal institutions such as trust in others or trust in legal system have a positive impact on the stability of the tax system of CEECs policy responses due to Covid-19.*

Keywords: Covid-19 Pandemic; Informal Institutions; CEECs; Tax System; Tax Policy Responses Due to Covid-19.

### Introduction

Nowadays, to react to contemporary challenges, tax systems of Central and Eastern European countries (CEECs) should have tax system policy responses due to Covid-19 with simple rules that are stable (small amount of changes) over time. Moreover, the Covid-19 crisis is raising the financial burden for governments and their current focus is on short-term immediate actions and targeted financial benefits to minimise the negative economic impacts (Loyttyniemi, 2020).

Greif & Mokyr (2017) or Godlewska (2021) underline that taxation as well as informal institutions existing in the country are the most important factors for economic development. The spread of the Covid-19 coronavirus has focused attention not only on saving lives but also on the survival of entrepreneurs (Wenzel *et al.*, 2020) for which tax reliefs and exemptions during a pandemic were critical. Policymakers should support entrepreneurs, disrupted due to lockdown policies, with a stable system of tax reliefs and exemptions (Kasprzak *et al.*, 2020). Moreover, Angelov & Waldenstrom (2021) highlight, based on the example of Swedish entrepreneurs, that Covid-19 restrictions were harmful to many of them. Blundell *et al.* (2020), argue based on the UK example, that Covid-19 may also deepen inequalities because lot of self-employed are or could find themselves without work.

If the CEECs' governments seek to finance additional spending to stimulate their national economies heated by Covid 19, they can do so by raising current taxes, borrowing money, or printing new money, and this may broaden future tax bases (Calcagno & Lopez, 2017). However, many scholars underline that the liberalization of tax systems is needed, especially in times of pandemic and post pandemic times. This should be one of the determining factors in CEEC socio-economic development, because without the implementation of effective and stable tax system policy

responses due to Covid-19 to ensure support of the taxpayer, this development will not happen. In the crisis times like Covid-19 pandemic, properly designed tax policy that support entrepreneurs and attract the interest of potential investors is of key importance (Basso *et al.*, 2018).

Krizanic *et al.* (2021) argue that institutional environment as well as tax system have key importance for economic growth and technological development. In addition, an attractive tax system is a stable over time system in which there is a small number of changes in tax bases or tax rates, or small number of tax payments per year, and the time needed to settle or pay taxes should be relatively short. The impact of institutions on the tax system is beyond doubt. Institutions have been frequently analysed, confirming their key importance for successful implementation of tax system policies (Bessonova & Gonchar 2015; Calcagno & Lopez, 2017; Mullings, 2018; Spruk & Keseljovic, 2018; Andriani *et al.*, 2021).

The impact of informal institutions existing in the country, the tax system' informal institutions and tax system policy practices, on tax system policy responses due to Covid-19 should support individuals like entrepreneurs to comply with rules such as tax rules or Covid-19 restrictions. However, without support of strong informal institutions, such compliance may not be possible (Bentkowska, 2021). Moreover, institutions are the rules of the game (North, 1994) and may impose constraints on entrepreneurs like tax rules of tax system policy responses due to Covid-19. Nevertheless, informal institutions like culture, values, and norms such as level of trust, cooperation, or reciprocity between entrepreneurs, or custom, may strengthen or weaken the stability of tax system policy responses due to Covid-19. The weak stability of tax system policy responses due to Covid-19, means lot of changes in tax bases and tax rates what may confuses entrepreneurs and hamper their ability to proper asses the risk connected with business activities in times of Covid-19 pandemic and post pandemic times. In addition,

informal institutions may replace, undermine, support, or compete with formal institutions like tax policy (Helmke & Levitsky, 2004; Grzymala-Busse, 2010; Godlewska, 2021).

The author defines informal institutions such as trust, traditions, customs, rules, creativity, and cooperation. Institutions enable actions like tax system policy responses due to Covid-19 that otherwise would not exist (Hodgson, 2003, p. 163). In addition, institutions may be reinforced by a self-enforcement mechanism (Godlewska & Morawska, 2020). That is why the informal institutions may be crucial for tax system policy responses due to Covid-19. Relations between tax system policies and informal social norms like trust are more multidirectional than often is supposed (Cole, 2017) and thus need further investigation.

According to Paniagua and Rayamajhee (2021) Covid-19 pandemics present large-scale externalities, but policy analysts treat pandemic challenges (like the deterioration in the condition of entrepreneurs affected by government restrictions) as homogenous problems to be solved disregarding institutional diversity. Institutions' impact on tax system policy responses due to Covid-19 has key importance because taxation and regulation, rule of law or protection of property rights may enhance economic freedom (Faria *et al.*, 2012). Moreover, Kindsfateriene & Lukasevicius (2008) underline that, tax policies are the most important factors for determining the attractiveness of business environment. This is especially needed for economic recovery in post pandemic times.

Moreover, Adam Smith (1755) highlights that "little else is required to carry a nation to the highest state of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things." In addition, Jun *et al.* (2022) underline that the need for economic study of instability evoked by Covid-19 pandemic. Such instability in tax system policy responses due to Covid-19 may have negative influence on entrepreneurs and provoked them to move to shadow economy. However, informal institutions may prevent it and support entrepreneurs tax compliance.

In the years 2005–2020, CEECs to introduce "easy taxes", undertook a variety of actions aimed not only at reducing tax rates, but also simplifying tax systems, e.g., by decreasing the number of tax payments or reducing the time needed by entrepreneurs to settle accounts with the tax authorities. However, Benno (2003, 2004) highlights low tax morale in transition countries due to weak informal institutions like a high level of corruption or low level of trust in the legal system. That is why the purpose of the paper was to investigate the impact of informal institutions on the stability of tax system policy responses due to Covid-19. This study responds to scholars' calls by addressing the problematic informal institutions that may influence the CEECs' stability tax system policy responses due to Covid-19.

The paper contributes to state-of-art knowledge on new institutional economics or taxation theory and policy, or Central and Eastern European studies. The practical contribution is related to the research on institutions related to taxes to find the key factors that influence the stability of CEECs' tax system policy responses due to Covid-19.

This paper is organized as follows. The first section presents the findings of a literature review of the impact of informal institutions on the tax system policy responses due to Covid-19, the second section describes the research

approach, and the final section discusses obtained results. The summary highlights the most important conclusions of the study.

## Literature and Hypotheses Development

The history of taxes, taxation and tax systems goes back to antiquity. Athenian, to avoid extreme inequality, adopted a taxation system for redistribution of wealth where taxation was partly obligatory and partly voluntary (Bitros & Karayiannis, 2008). Taxes were paid by Athenians in proportion to income, whereas voluntary undertaking of public expenditures depended on their wealth and sense of altruism, and to avoid tax evasion they disclosed publicly the names of all Athenians and "metics" who owned money to the city (Bitros & Karayiannis, 2008).

Mullings (2018) underlines those high taxes may cause bureaucratic inefficiencies or rent-seeking behaviours. Karceski & Kiser (2020) argue that high-tax states rely on regressive indirect consumption taxes like VAT, as opposed to the progressive direct income taxes like PIT or CIT that are dominant in low-tax states (Kiser & Karceski, 2017). A majority of CEECs rely on regressive indirect consumption, especially in Covid-19 pandemic times. However, governments that keep tax legislation stable like Covid-19 tax policies, taxes are "easy" and enforce the law, are perceived as trustworthy (Kaasa & Andriani, 2021) and taxpayers are more eager to pay taxes. Moreover, tax policies aimed at reducing income tax rates foster economic growth (Spruk & Keseljevic, 2018). Rothstein (2000) underlines the importance of informal institutions such as trust in the legal system for tax system stability because if trust is high, individuals are more likely to comply with tax regulations due to certainty that others do the same. Moreover, Graafland (2020) argues that costs of government policies and regulations such as tax system policy responses due to Covid-19 are lower in those countries where trust is high due to lack of need for complex supervision systems. Entrepreneurs or citizens of the CEECs may have a self-enforcement mechanism to obey the tax rules, however Benno (2003, 2004) highlight that it is a very rare behaviour, especially in countries with weak informal institutions. Public policies such as Covid-19 tax policies need informal institutions like trust in the government, trust in legal system or tax compliance behaviour, which make them effective (Lipsej, 2009).

### *Informal Institutions of Tax System*

Pilinkiene *et al.* (2022) underline the key role of a national states of CEECs as a promotor of national economies, especially in times of Covid-19 crisis and post pandemic times. Moreover, the economic shock of the Covid-19, according to Cassim *et al.* (2020) is larger than any previous ones due to the fact, that in first months of pandemic, national governments announced the intentions to allocate \$10 trillion. That is why CEECs' tax system responses due to Covid-19 are crucial for entrepreneurs affected by Covid-19 government restrictions which hamper their business activities, but also for investors which may be attracted by Covid-19 tax policies (Nabisaalu & Bylund, 2021). In Covid-19 pandemic times some entrepreneurs may avoid registration of their business activities due to a high level of taxes or registration fees (Nabisaalu & Bylund, 2021). That is

why informal institutions should support stability of tax systems or “easy taxes” as well as individuals’ tax compliance to avoid tax evasion or low tax morale.

Riambau *et al.* (2021) argue that tax systems through tax rates in combination with the size of the public sector may predict preferences for goods redistribution. Moreover, income taxes like CIT may affect tax competition within Europe (Delgado *et al.*, 2014), like between CEECs. Such tax competition may be very important in Covid-19 pandemic times, when government restrictions are harmful to many entrepreneurs, who are left alone without proper public aid. In addition, Cuenca Garcia *et al.* (2013) highlight the importance of institutional approach to tax systems analysis.

Rybaczewska *et al.* (2021) argue that Covid-19 pandemic has brought many uncommon and unexpected by entrepreneurs or citizens of the CEECs, regulations. These regulations are impossible to predict and hard to identify. That is why the stability of tax system policy responses due to Covid-19 is crucial for entrepreneurs to be able to find out on which help from the state they may count and to evaluate the risk connected with their further business activities. That is why informal institutions should support this stability of tax system for all individuals who are supposed to pay taxes to prevent tax avoidance or tax evasion. Moreover, Beno (2004) highlights the critical importance of informal institutions such as trust (measured as trust in the legal system, the government, the parliament, and the national officers) for tax morale and later for stability and effectiveness of a tax system.

Chavance (2008) underlines the role and importance of informal institutions like trust, social capital, business ethics, compliance with established rules for preventing tax evasion or informal economy and call for more institutional approach in economic studies.

Estrin & Prevezer (2011) underline the key role of informal institutions for understanding the functioning of corporate governance. Similarly, informal institutions like trust in the legal system or importance to follow the established rules is central for tax compliance and for tax system. However informal institutions like corruption or clientelism may undermine tax compliance.

Informal institutions like trust, cooperation, or culture are rules established and enforced through unofficial channels. Countries with weak rule of law like Romania, Bulgaria or Hungary among CEECs are those with low overall institutional development (Nurbayev, 2018). This low institutional development may lead to theft, litigation, or fraud and later to tax evasion or tax avoidance (Henrekson & Sanadaji, 2011). Nykiel & Kukulski (2017) argue that also in CEECs tax resistance is very popular among society and socially acceptable and manifests itself in two forms as tax avoidance and tax evasion. This is because informal institutions of CEECs (such as trust in the legal system, entrepreneurial culture, or inclination to follow the rules) do not support formal institutions like tax policy to enforce full compliance with the tax law. An explanation for the lack of enforcement may be also the fact that a majority of CEECs have a problem with patronage and nepotism, and corruption is a part of their business culture (Godlewska & Pilewicz, 2018; Godlewska, 2020). This highlights the importance of informal institutions like trust or cultural values that shape the interaction between individuals and their behaviours (Hardin,

2002). This is particularly relevant for voting, cheating on taxes, or contractual obligations (D’Amato *et al.*, 2021). The interplay between formal institutions like tax policies and informal institutions like trust in the legal system or trust in other remains underexplored (Alesina & Giuliano, 2015; Hodgson, 2006).

When tax systems are perceived as transparent and accountable, an individual’s compliance with tax rules increases (Andriani *et al.*, 2021). However, the complexity of the tax system may lower tax morale and support rent-seeking behaviour like tax evasion (Torgler, 2005; Andriani *et al.*, 2021). Informal institutions like a high level of trust or confidence in the government increases tax morale and respect for tax obligations like paying taxes, or decreases tax evasion (Torgler, 2005; Torgler, 2012; Andriani *et al.*, 2021).

Nelly (2010) argues that the tax reforms undertaken by CEECs during the transition to a market economy consisted of reduction of the progressivity of the PIT, significant lowering of the CIT rate, reduction of the differentiation of VAT rates, increase of the share of excise taxes, and introduction of eco-taxes and reforms of the social security systems. On the other hand, Grdinic *et al.* (2017) highlight that CEECs should one more time reform their tax systems and introduce progressive income taxation since PIT and CIT harms CEECs’ economic growth. Velichkov & Stefanova (2017) argue that the tax system of CEECs is based primarily on indirect taxation and the dominance of indirect taxation makes tax revenues highly dependent on the dynamics of domestic demand. Moreover, CEECs have the lowest levels of top statutory personal and corporate income tax rates among the EU member states, and most of them have flat taxation, which is associated with a small amount of direct tax revenue (Velichkov & Stefanova, 2017). The tax systems of CEECs in recent years have been subject not only to liberalisation but also new regulations, because of which new taxes such as i) exit tax; ii) solidarity tax; iii) retail sales tax; iv) banking tax or v) digital services tax, were introduced in some CEEC tax systems.

An attractive tax system for entrepreneurs according to the literature on the subject is a tax system that has a low level of complexity, i.e., it contains simple rules that are stable over time like Smithian “easy taxes”. The stability of tax law is of key importance for entrepreneurs. Unfortunately, not all the CEECs have stable tax law, especially in the Covid-19 crisis (OECD, 2021). From the entrepreneur’s point of view, the stability of the tax system is particularly important because it guarantees freedom of economic activity and minimizes transaction costs related to public levies (e.g., taxes, excise duty or customs duties), labour costs (e.g., social security or health insurance contributions), administrative costs (e.g., costs of concessions or permits) or opportunity costs (Perry, 2000; Stryn, 2014).

Buszko (2022) argues that the level of taxation is one of key factors fostering shadow economy performance of CEECs. Moreover, Williams & Horodnic (2017) highlight that the greater the asymmetry between formal institutions like tax system policy and informal institutions like trust to the legal system, the greater is the propensity to participate in the informal economy. That is why the stability of tax system policy responses due to Covid-19 should counteract enlargement of shadow economy and informal institutions are able to foster compliance with tax obligation.

**Methodology**

In this paper, author draw upon theories of institutional economics, taxation, the concept of externalities, or Central and Eastern European studies (see **Figure 1**). Conceptual model of the relationship between informal institutions and the CEECs stability of tax system policy responses due to Covid-19 highlight the importance of enforcement characteristics, market failure or supply – demand side of tax policies.

A tax system is understood by the author as tax regulations, all kind of taxes, as well as the complex central and local government administration responsible for collecting taxes.

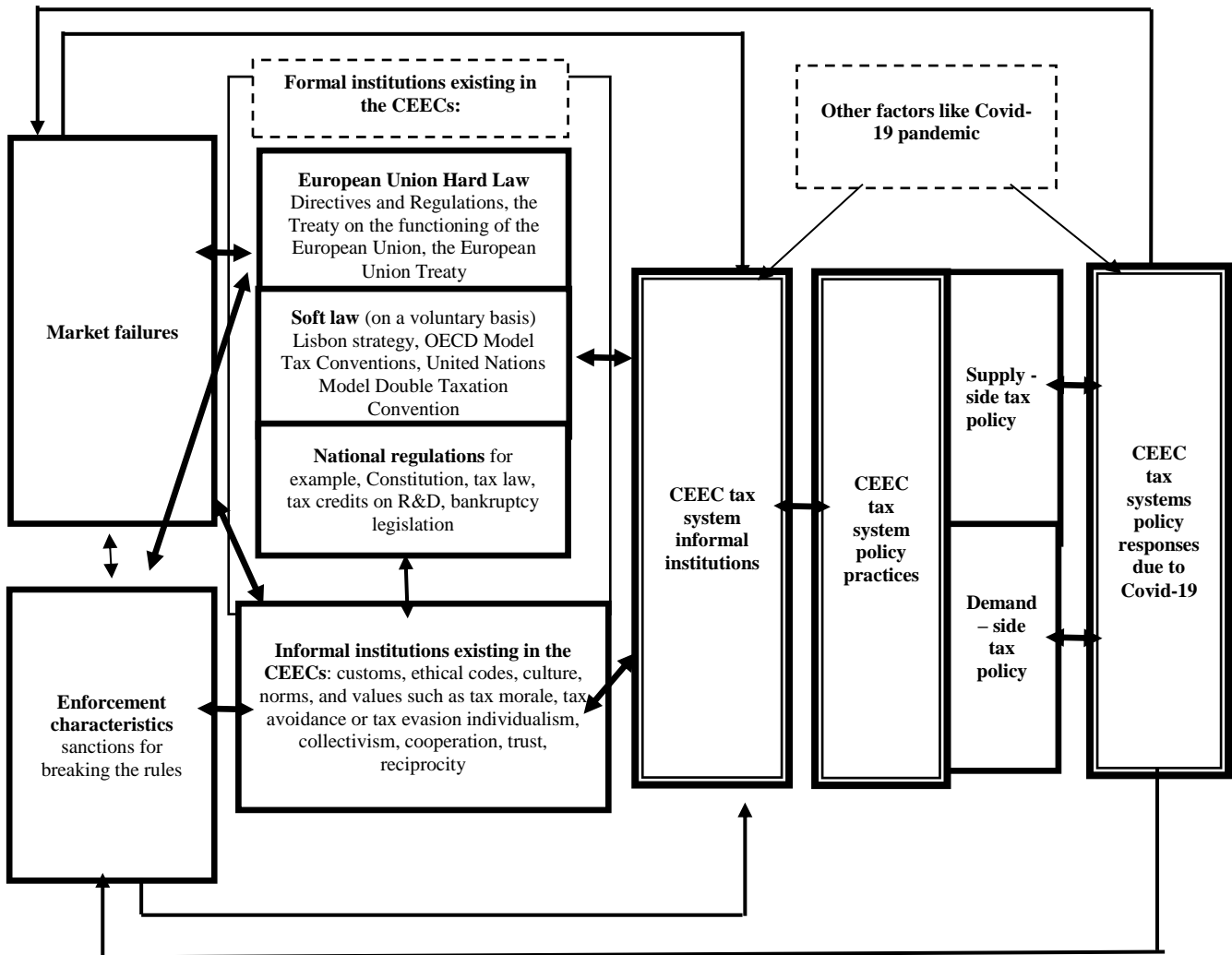
The research methodology focuses on independent variables like data from 18,785 surveys from the European Social Survey Round 9 (2018) edition 2.0 for informal institutions, and the dependent variable from the 211 Covid-19 tax system policy responses due to Covid-19.

The dependent variable was the stability of CEEC tax system policy responses due to Covid-19 and built based on 211 Covid-19 tax system policy responses from OECD report

(2021). The stability of CEEC tax system policy responses due to Covid-19 (covtaxs) was measured according to the number of introduced Covid-19 tax policies, number of changes to tax rates, or number of changes to tax bases as well as the magnitude of changes like neutral, decreases or increases of tax rates or tax bases (see **Table 1**).

The independent variables were following: i) trust in the legal system (tleg); ii) trust in other people (trst); iii) creativity (crea); iv) the importance of traditions and customs (trad); v) the importance of following the rules (rule), and vi) cooperation (coop).

The statistical results (see **Table 2**) showed a low level of the importance of traditions, customs, and rules among CEECs or low level of trust in others and in the legal system among CEECs. The correlations, among dependent and independent variables, were analysed (see **Table 3**). These correlations were statistically significant at the 0.01 level (2-tailed), albeit weak. However, the lower the level of creativity among the CEECs, the less changes of the tax system policy responses due to Covid-19. The Kolmogorov-Smirnov and Shapiro-Wilk tests rejected the assumption of normal distribution.



**Figure 1.** Conceptual Model of the Relationship between Informal Institutions and the CEECs tax System Policy Responses Due to Covid-19

*Source: Author's own compilation based on the literature on the subject*

Table 1

**Covid-19 Tax System Policy Responses**

Countries	Covid-19 tax policy responses index	Number of Covid tax polices	Changes to tax rate	Changes to tax base
Romania	1	1	complex decrease	complex decrease
Bulgaria	2	6	3 neutrals + 3 decreases	6 neutrals
Lithuania	4	13	11 neutrals + 2 decreases	3 decreases + 2 increases + 8 neutral
Czechia	5	13	6 neutrals + 2 decreases + 1 increase + 4 unknowns	3 decreases + 6 neutrals + 4 unknowns
Croatia	7	16	3 decreases + 8 unknowns + 5 neutrals	7 unknowns + 8 neutrals + 1 decrease
Slovakia	3	12	8 neutrals + 1 increase + decreases	4 increases + 4 decreases + 4 neutrals
Slovenia	9	26	1 increase + 1 decrease + 24 neutrals	4 decreases + 2 unknowns + 20 neutrals
Estonia	6	14	6 neutrals + 4 decreases + 4 increases	6 neutrals + 4 decreases + 4 increases
Latvia	8	24	10 neutrals + 4 decreases + 1 unknown + 9 increases	16 neutrals + 7 increases + 1 unknown
Poland	11	55	34 neutrals + 14 decreases + 1 new tax + 6 unknowns	39 neutrals + 1 new tax + 8 decreases + 7 unknown
Hungary	10	32	14 decreases + 9 neutrals + 3 increases + 2 new taxes + 4 unknowns	12 decreases + 10 neutrals + 2 new taxes + 4 unknowns + 4 increases

Source: Author’s own compilation based on OECD (2021). <https://www.oecd.org/coronavirus/policy-responses/tax-and-fiscal-policies-after-the-covid-19-crisis-5a8f24c3/> (accessed 30.01.2022).

The statistical analyses were conducted using IBM SPSS Statistic Program Version 26. The Kruskal-Wallis non-parametric test was employed. The selected test of difference significance allowed the author to verify the null hypothesis:

H0: IIVTAXA = IIVTAXB (there is equality of distribution functions of the level of creativity, cooperation, trust, and drive to follow customs and traditions, trust in the legal system and obedience to rules among citizens of CEECs in the compared population of CEECs with high and low levels of changes of tax system policy responses due to Covid-19) against the alternative hypothesis:

H1: IIVTAXA ≠ IIVTAXB (there is no equality of distribution functions of the level of creativity, cooperation, trust, and drive to follow customs and traditions, trust in the legal system and obedience to rules among citizens of

CEECs in the compared population of CEECs with high and low levels of changes of tax system policy responses due to Covid-19)

Where:

IIVTAXA - dependent variable determined by a given factor of informal institutional variables in the compared population of CEECs with a high level of changes of tax system policy responses due to Covid-19;

IIVTAXB - dependent variable determined by a given factor of informal institutional variables in the compared population of CEECs with a low level of changes of tax system policy responses due to Covid-19.

If the significance level was greater than or equal to  $\alpha = 0.05$ , there was no reason to reject H0. However, when the  $\alpha$  value was less than 0.05, the null hypothesis was rejected.

Table 2

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
trst	20436	0	10	4,42	2.530	-.057	.017	-.792	.034
coop	20391	0	10	4,37	2.408	-.014	.017	-.679	.034
tleg	19915	0	10	4,38	2.695	.024	.017	-.883	.035
crea	19901	1	6	2,86	1.343	.535	.017	-.441	.035
rule	19896	1	6	3,02	1.323	.382	.017	-.672	.035
trad	20558	1	9	2,63	1.478	1.560	.017	3.520	.034
ctax	20558	1	11	5,62	3.110	.166	.017	-1.140	.034
Valid N (listwise)	18785								

Source: Author’s own compilation.

Table 3

**Spearman Correlations Coefficient**

		trst	lhlp	tlgl	rtiv	rule	trad
covtaxs	Spearman's rho Correlation Coefficient	<b>.073**</b>	<b>.132**</b>	<b>.108**</b>	<b>-.077**</b>	<b>.143**</b>	<b>.029**</b>
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000
	N	20,436	20,391	19,915	19,901	19,896	20,558

Source: Author's own compilation.

**Results**

The null hypothesis must be rejected (see Table 4), because there is no equality of distribution functions in the compared population. The test results confirm the significance of differences between the effects of various levels of trust in others, cooperation, creativity, traditions and customs, trust in legal systems, rules on the controlled factor of changes of tax system policy responses due to Covid-19. There is a significant statistical difference between the level of changes of tax system policy responses due to Covid-19 and different levels of trust in others, cooperation, creativity, traditions and customs, rules, or trust in legal systems. CEECs like Estonia, Czechia, Lithuania, or Latvia with higher than in Poland, Hungary, Slovakia, or Croatia the level of i) trust in the legal system; ii) trust in other people; iii) cooperation; iv) following the rules; or v) creativity, have the less changes of the tax system policy responses due to Covid-19. Exception is Bulgaria and Romania with lower than in Estonia, Lithuania, or Latvia level of i) trust in the legal system; ii) trust in other people; iii) cooperation; iv) following the rules; or v) creativity, have the less changes of the tax system policy responses due to Covid-19. These results are in line with Williams & Vorley (2015) who underline that Bulgaria reformed in the past formal institutions like tax system policy but still have weak informal institutions and the asymmetry between them persist.

In Covid-19 crisis, some of CEECs have problems with delivery of public services like issuing documents or certificates for entrepreneurs. Such problems may have negative impact on tax compliance because Jansen & Calitz (2015) underline that poor delivery of public services may incentivised tax disobedience and result in non-payment of taxes. Tax disobedience later forces change in tax system policies to prevent it.

Governments that keep tax legislation stable like tax system policy responses due to Covid-19 are perceived as trustworthy (Knack & Keefer, 1997). Unfortunately, only a minority of the CEECs like Czechia, Estonia, Romania, or Bulgaria, have stable tax system policy responses due to Covid-19. A majority of the CEECs, like Poland, Hungary, or

Slovenia, make constant changes due to Covid-19 to the tax rates and tax bases of PIT, CIT, VAT, or social security contribution taxes or introduces new taxes what deepen uncertainty of the future for entrepreneurs. Surprisingly, Bulgaria and Romania, which have weak informal institutions, introduced at the beginning, in the face of the Covid-19 pandemic, tax reliefs and exemptions for entrepreneurs who are stable over the time.

Trust in the legal system and the importance of following the rules by CEEC societies matter for the stability of the CEECs tax system policy responses due to Covid-19. Similarly, Benno (2003) highlights that trust in the legal system has a significant positive effect on tax morale in transition economies like CEECs. The stability of CEECs' tax system policy responses due to Covid-19 differ from one another in four main categories of responses: i) decreasing taxes; ii) neutral to taxes; iii) increasing taxes or iv) introducing new taxes. Only Romania, Bulgaria and Lithuania decided to decrease taxes, unlike Poland and Hungary, who decided to introduce new taxes like retail sales tax to get income for anti-crisis shields for entrepreneurs affected by pandemic restrictions.

Moreover, Loytyniemi (2020) proposes to introduce at state level new coronatax. The Czech Republic and Croatia introduced tax policy responses due to Covid-19 that were mostly neutral to taxes, unlike Latvia or Slovakia, who decided to increase taxes to varying degrees.

Surprisingly, in contrast to Putnam *et al.* (1993), countries with weaker informal institutions (lower level of trust, cooperation, creativity, norms, values, custom or rules) like Bulgaria and Romania as well as countries with stronger informal institutions like Lithuania or the Czech Republic had the stable and "easy" tax system policy responses due to Covid-19. Weak informal institutions like trust, cooperation, creativity, or customs in Bulgaria or Romania, did not affect the CEECs' stability of tax system policy responses due to Covid-19.

In addition, Steel & Phillips (2020) argue that tax policy responses to coronavirus in lower-income countries should aim to provide targeted support, not broad-based stimulus.

Table 4

**Test Statistics<sup>a,b</sup>**

	trst	coop	tleg	crea	rule	trad
Kruskal-Wallis H	1 330.45	1 514.25	2 342.56	1 254.87	1 393.71	568.49
df	10	10	10	10	10	10
Asymp. Sig.	.000	.000	.000	.000	.000	.000

Source: Author's own compilation.

## Conclusions

This study provides a comprehensive view of the phenomena of impact of informal institutions on CEECs' stability of tax system policy responses due to Covid-19. Knowledge of the influence of informal institutions on stability of tax system policy responses due to Covid-19 is essential for CEEC policymakers. This study highlights that in the case of countries such as Bulgaria, Poland, or Romania, with low tax morale, it is important to identify the major determinants of informal institutions, which may stabilize the tax system and their "easy" tax policy responses due to Covid-19.

The results suggest that the higher the level of: i) trust in the legal system; ii) trust in other peoples; iii) cooperation; iv) following the rules; or v) the importance of traditions and customs, the less changes of the tax system policy responses due to Covid-19.

The author' contribute to filling the knowledge gap in institutional and taxation theory and research by showing that countries with weak informal institutions like Bulgaria or Romania were able, ahead of the Covid-19 pandemic, to introduce only a limited number of changes to their tax systems aimed at decreasing the tax bases and tax rates of key taxes for individuals and entrepreneurs like PIT, CIT, VAT and social security contribution taxes.

The investigated problem was significant, as properly designed CEEC tax system policy responses due to Covid-19 may be critical for entrepreneurs' survival in the gastronomy, shopping centre, sport, entertainment, or accommodation business who were affected the most by governmental restriction and lockdowns.

The created conceptual model, which combines the relationship between informal institutions and the tax system,

is the author's contribution to filling the knowledge gap in institutional and taxation theory and research. The original approach presented in this study showed that weak informal institutions did not hamper the stability of tax system policy responses due to Covid-19 restrictions in Romania or Bulgaria. Hence, the author found that the primary goal of this paper was fulfilled, namely, to indicate that informal institutions like trust in the legal system or importance of following rules have positive impact on the stability of CEECs' tax system policy responses due to Covid-19.

The practical implications for regulatory bodies highlight the need for the stability of the tax system policy responses due to Covid-19. Many changes to tax bases and tax rates as well as introducing new taxes may hamper the willingness of entrepreneurs to undertake new business activities in these uncertain pandemic times.

Strong informal institution support tax compliance and stable tax system policy responses due to Covid-19. Weak informal institutions will not be able to prevent escaping of entrepreneurs to shadow economy.

## Limitation of the Study

The author acknowledges certain limitations of this research. The first of these relates to using secondary data from the European Social Survey, Eurostat, European Commission or OECD. This limits the scope of analysis. Second, the author did not investigate all institutions that may influence CEECs' stability of tax system policy responses due to Covid-19, but only focused on informal institutions such as trust, tradition, customs, cooperation, or creativity. There are also other institutions such as economic institutions, like tax administration, which may impact the above-described stability of tax system policy responses due to Covid-19.

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