

Investigation Of The Major Problems And Prospects Of The Value-Added Tax (Vat) Implementation In Tanzania: A Case Of Iringa Municipality.

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Abstract: Value Added Tax (VAT) as one of the important sources of government revenue, its implementation in Tanzania is at its infant stage. This study tried to explore the major problems and prospects of VAT implementation in Iringa Municipal. By considering the population size and availability of large numbers of VAT registered business firms, a total of 57 respondents from VAT collectors (registered business firms) and 44 respondents from VAT payers (consumers) were considered. The data gathered from both business tax payers and ultimate consumers were analyzed using software package of the SPSS version 20. In addition to this, to capture and incorporate all the non-quantifiable data and triangulate the data obtained through survey questionnaire, qualitative data analysis was employed. The results of the study indicated that the willful registration of the businesses has not yet come to the desired level, there is negative perception about the fairness of the payment through the businesses, substantial decline in the number of the customers following the implementation of VAT has been observed, many consumers believe that VAT has been the very motive for business firms to enforce higher price on products or services delivered.

Keywords: VAT, Consumers, Business Community

1. INTRODUCTION

The major goal of most governments in developing countries is to encourage and guide their economic and social development. These governments endure to reach out for the goal of government promoted and directed development. Wawire (2017) Pointed out the importance of government revenue in accelerating economic development. Whatever the predominant ideology or political state of a particular country, it must steadily expand a host of non-revenue yielding services such as education, health, infrastructure, and social security. Shah and Toye (1978) asserted that the link between taxation and economic development is a link between a universal desire and a form of government action that is believed to be a means to that end. Emphasized that one of the most important policy upon which most economists agree is that emerging nations must increasingly mobilize their own internal resources to provide economic growth. The most essential instrument by which resources are marshaled is through the implementation of an effective tax policy. Tax revenues play a vital role in Tanzania's economic development. This is evidenced by the attention problems of taxation and implementation as indicated in the new VAT Act, 2014 has been introduced with effect from 1 July 2015, the VAT rate rests at rate of 18% on any supply of goods or services in mainland Tanzania where it is a taxable supply made by a taxable person in the course of, or in continuance of, any business carried on. The new VAT Act, 2014 has complied with the VAT destination principle. The new VAT Act, 2014 has eradicated the VAT Special Relief and significant reduction to most of exempted items.

Moreover, a compulsory VAT registration is activated when the value of taxable supplies in a 12 month period is or is expected to exceed TZS 100 million or TZS 50 million in a 6 month period, a VAT registered person is required to lodge VAT returns on a monthly basis and make the payment, if any, of the same time when lodging the VAT returns. Tax Administration Act (2015) and the Vision 2025 contain reforms in all areas of tax policy. They stress the need to raise more revenue without increasing the burden of taxation on those who are already contributing to the exchequer. A lot of effort and time has been spent by the authority to improve the VAT so as to be more efficient and effective in contributing the government revenue. This study aims to investigate the multidirectional bottlenecks both from implementers and business community.

2. PROBLEM STATEMENT

VAT is an important source of public revenue and is being widely applied by more than 120 countries and areas, with coverage from the under-development area in Africa and Asia to the well-developed Western Europe and North America. It is acclaimed as the most important of the latter twentieth century and certainly the most breaking and with its significant influence on the domestic economy and the government policies. Most Less Developing Countries (LDCs) are currently dependent on external financial resources to fund their development activities. As a result, their budgetary problems become more aggravated. To change this situation, these nations should exploit and strengthen their domestic financial resource base in order to bring about sustainable development. Otherwise, it is difficult to achieve profound growth with dependence on external sources. External

sources are instable and outside investment cannot be a reliable major source of income to support the nation.

VAT in Tanzania is young. It came into realization in 1998 and plays an important role in the economy in terms of its contribution to ever-increasing domestic revenue and reducing budget deficit. However, domestic financing of development projects, its implementation at national and regional level is not free from multidirectional bottlenecks both from the side of implementers and business community

3. BACKGROUND AND LITERATURE SURVEY

VAT was first introduced in France by Director of the France Tax authority in 1954 to replace sales taxes. As VAT, sales taxes were intended to be charged to final consumers, or not. So once you could prove that you were not intending to consume the products you could easily avoid sales taxes(R. Bird & Gendron, 2007)

Unlike sales taxes, VAT requires sellers to collect output taxes of their sales of taxable goods and services without asking buyers about their intention of use of their purchases, and sellers deduct their input taxes from the output taxes. This requirement seem to encourage taxable suppliers to collect output taxes and remove the need of asking whether buyers are final consumers or not as all buyers would pay full price including VAT, irrespective of their position in the value chain(R. M. Bird & Gendron, 2006)

Over several years, several governments adopted the VAT system including European Union, UK, Tanzania, Ethiopia and Uganda. In Tanzania, VAT was adopted in 1998 as part of the tax reforms. As it was in France, it replaced the sales

tax Act, 1976 (section 72(1)) and hotel levies, entertainment tax and stamp duties for taxable persons (section 73, 74, and 75).On its inception VAT rates were standard rated of 20% and zero rated, but some goods and services were exempted. However in 2009 the standard rate was reduced at 18% and in 2012 a new rate of 55% of 18% was introduced to some supplies made to some persons with special relief(Sharma, 2017)

Today, over 160 countries have the tax. All members of the OECD and all leading economies in the world have a VAT (or very broadly comparable tax), apart from the US. For furthermost of the twentieth century, the principal federal tax on individuals in the United States has been on income, whether it is earned from labor (wages and salaries) or capital (interest, dividends, and capital gains). But a growing number of economists and politicians have concluded that the United States should replace the income tax-partially or entirely- with a tax on consumption(Misrak, 2008)

VAT Rate

According to International Monetary fund (IMF) report (2004), more than 4billion, 70%, of the world’s population now live in countries with VAT and VAT raises about \$18 trillion in tax revenue, roughly one-quarter of all government revenue. Nowadays, among 190 countries of the world, over 160 (84%) of them have made VAT part of their tax system; and from 53 members of countries of Africa Union, 44 (83%) of them have introduced VAT. Those African countries with their rates and year of introduction are presented in table 1;

Table 1 African Countries with VAT

No	Country	Year of Implemtation	Current rate (%)	No	Country	Year of Implemtation	Current rate (%)
1	Algeria	1992	17	23	Malawi	2002	16.5
2	Benin	1991	18	24	Mali	1995	18
3	Botswana	2002	12	25	Mauritania	1995	14
4	Burkina Faso	1993	18	26	Mauritius	1998	15
5	Burundi	2009	18	27	Morocco	1986	20
6	Cameroon	1999	19.25	28	Mozambique	2008	17
7	Cape Verde	2004	15	29	Namibia	2000	15
8	Central Africa Republic	2001	19	30	Niger	1994	19
9	Chad	2000	18	31	Nigeria	1993	5
10	Democratic Republic of Congo	2012	16	32	Republic of Congo	2012	16
11	Ethiopia	2003	15	33	Rwanda	2001	18
12	Egypt	1991	10	34	Senegal	2001	18
13	Equatorial Guinea	2004	15	35	Seychelles	2012	15
14	Gabon	1995	18	36	Sierra Leone	2009	15

15	Gambia	2013	40	37	South Africa	1991	14
16	Ghana	1998	12.5	38	Sudan	2000	17
17	Guinea	1996	18	39	Tanzania	1998	18
18	Guinea-Bissau	2001	15	40	Togo	1995	18
19	Ivory Coast	1960	18	41	Tunisia	1998	18
20	Kenya	1990	16	42	Uganda	1996	18
21	Lesotho	2003	14	43	Zambia	1995	16
22	Madagascar	1994	20	44	Zimbabwe	2004	15

4. METHODOLOGY

Iringa municipal has a resilient business movement because it is a pathway to Dar es Salaam, Arusha and Mwanza where most commodities from Southern highlands are taken to. Due to this many Company and Individual have invested and some others are considering to invest in order to win customers. Also the region office of TRA is in Iringa municipal, making the location suitable to conduct this study. This study employed a mixed approach with an emphasis given to quantitative survey supplemented by the qualitative research method. The quantitative research approach was applied to explore prospects and identify major problems or challenges observed in implementing and administering VAT and the perception of business community and final users of taxable items on VAT. In line with this, to capture some variables which are non-quantifiable we conducted comparative analysis in assessing the relevance/deviation of practice of VAT in relation to the content of the Tanzanian VAT law, qualitative methods of data collection and analysis is used. The study has implemented both primary data and secondary data to explore necessary information. As part of primary data source, a total of hundred and one (101) questionnaires were dispersed to VAT collectors (registered business firms) and VAT payers (consumers) to assess the perceptions major problems in the implementation VAT. Meanwhile, a Key Informant Interview (KII) with higher officials of Tanzania Revenue Authority was conducted. Moreover, in order to assess the compliance/deviation of practice of VAT from the national law of VAT, the content of the Tax administration Act 2015 was visited. In fact, information regarding the regional and national growth of revenue collected from VAT was obtained from secondary sources. The well filled questionnaires were equal to hundred (100) percent of the total number of administered questionnaires. The data collected were analyzed through percentages and frequencies in which the data were presented in table formats, pie charts and which were obtained using Excel and some using SPSS (Statistical Package for Social Science). The study was conducted during July 2018 to October 2018.

Sampling Procedure and Sample Size

In selecting sample respondents from the business community, non-probable sampling- judgmental/purposive sampling technique is used on their line of business so as to ensure business diversity. Whereas, convenience sampling/on the spot selection of respondents was considered while selecting final consumers for this study. Accordingly, 40 VAT registered business firms, and considering the population size and availability of large numbers of VAT registered business firms, 60 sample respondents of consumers were selected based on convenience sampling from the different zones. Consequently, this research study has total respondents of 100 from both registered business firms and final consumers.

5. RESULTS AND DISCUSSIONS OF THE FINDINGS

Perception of VAT Payer Businesses on the Implementation of Vat System

The VAT system implementation advancements and challenges cannot be completely understood without the understanding the perceptions and views of Tax payers. The sampling of the VAT payer businesses was thus aimed at identifying the major factors that affect the process of

Type of the business	Frequency	Percentage (%)
Services	22	38.6
Merchandise	15	26.3
Manufacturing	20	35.1
Total	57	100.0

effective payment, its fairness and all-inclusiveness through the eyes of VAT payer businesses.

Table 2. Business type of the VAT payers

As is shown on Table 2, the distribution of the business VAT payers of the sample, that most of the VAT payer businesses in the study concentrated in the areas of Service sector and Manufacturing business types with where they made up almost 73.7%, while the merchandise affiliated VAT payers constituted only 26.3%.

How did you hear about VAT and its implementation for the first time?

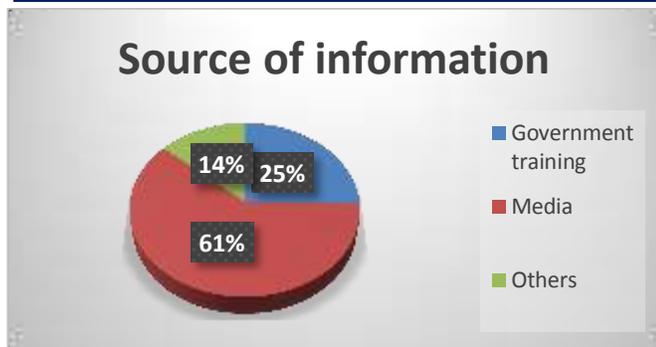


Figure 1. First time information about VAT

The information as to how the VAT payers educated about the beginning of the VAT system of taxation in their administrative zones are diverse. As per the data of the respondents, it discloses that there was no uniform approach which served the creation of awareness of the VAT system to the VAT payers. As indicated in Figure 1, out of the total respondents 57, 61% of them were able to learn about VAT from media channels. 25% confirmed that they have had attended government training program regarding the implementation and guidelines of the VAT system by concerned government authorities. On the other hand, 14% of them responded that they have had no formal channel either from media or training and just learned from their direct experience of VAT payment which they were demanded to be involved in by government VAT implementing authorities. The data shows that the media were fairest able to create the awareness on VAT system to potential VAT Payers before the implementation of the VAT system into practice.

Who do you think is the primary beneficiary of VAT?

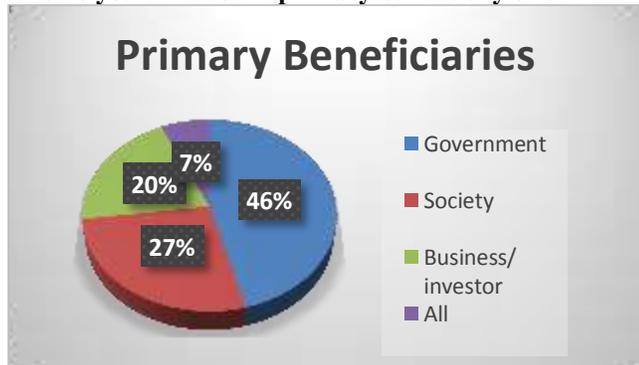


Figure 2. VAT Ultimate Beneficiaries

It is very important to know as to what is the perception of the VAT payers as to the benefit VAT can bring to the economy and how it benefits the government and private sectors. The response to the question as to who welfares from VAT tax collection shows not all VAT tax payers have the same understanding. 46% of the VAT payers responded that they think the government is the primary beneficiary while only 27% responded that the society is the primary beneficiary. 7% of the respondents on the other hand responded that both the society and the government are both beneficiaries of the VAT system, 20% of the respondents

have forwarded that businesses/investors are the sole beneficiary of the system

The data shows that while the intent that the benefit of the system goes to the society, most of the respondents felt that the government is the sole beneficiary of the system. Hence, there is a necessity for more creation of awareness on VAT payers as to the fact that VAT is important source of revenue of the government and yet the ultimate beneficiary is the society. Thus, it is obvious from this responses that there is a need for campaigns by government authorities in reshaping this perception of few VAT payer sections of the businesses that rely on that government is the only beneficiary of the VAT revenue.

Do you support for being VAT registered?



Figure 3. Compliance on VAT registration

In relation to creating healthy and correct perceptions on the VAT payment system, it is very understandable that the first step is creating the awareness of the importance of registration of VAT for those who are eligible to VAT paying status. The data for the request on the approval of businesses on their registration of VAT payment system is very suggestive on the fact that although the government authorities have disseminated information on the importance of VAT to VAT Paying businesses, the required correct perception on the system and the willful registration of the businesses has not yet come to the desired level. This is indicated on the data from Figure 3 that only 63% of the respondents positively answered that they had positive approval for the registration of VAT while the significant respondents went on explaining they were not registered with their willpower interest to the VAT system. The implication could be that, the habit and willingness to pay the required income tax based on value added income has not yet taken core into the perception of VAT paying businesses. This is also a sign that there is a need to exert more effort into alleviation of this perception problem by the concerned government authorities

Most of the respondents who support of being registered for VAT were also asked to pass on their reasons and they have forwarded different reasons which can be summarized into the following points:-

- It is good to register so as to help the government collect the revenue at minimum cost and therefore pursue the national development with minimum dependence from other countries.

- Some said they register because it's a legal requirement and other they said they fill as if it's their responsibility
- Similarly, as the controlling system of the authority is not well-developed, there are different business firms selling their product and services VAT free. Government should make an effort to enforce these businesses to register for VAT so that they contribute to the national warfare

How do you settle VAT during payments?

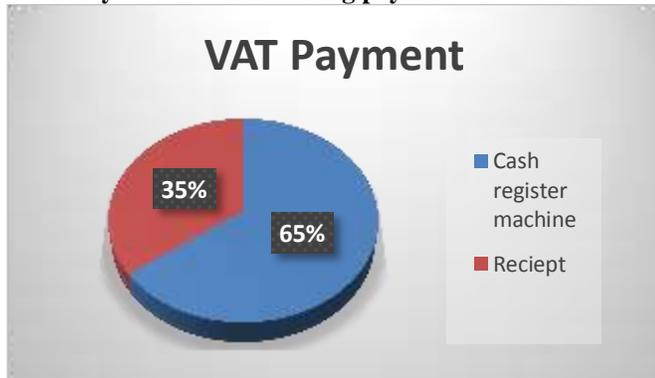


Figure 4. VAT payment settlements

If your answer for the above question is ' manual cash receipt', kindly, give us your main reason



Figure 5. Reason for using manual cash receipt

It is understandable the extent of success in settling VAT payments depends on the sophistication of the mode of payment. As is known, the more the modern the VAT paying and receipts registration system is, the more is the smooth and timely settlement of the payment is expected to be. The data on this regard showed that out of the sampled 57 VAT paying businesses, 65% of them are using cash registration machine while the rest, 35% of them use the manual cash receipt record papers. This shows that as most VAT payer business are located in electrified major cities, there is a significant task to incorporate the use of registration machines so that the VAT system will be effective in lessening VAT tax evasions.

But, not every VAT payer believes her/she is in a position to incorporate the modern system due to different reasons. As is indicated on the Figure, 28% of the respondents revealed that they don't have the ability to afford to purchase the

VAT registration machine while 35% of them explained that the machine is not available for them in their nearby market system and 37% of the respondents are on a waiting list to purchase the machine. This suggests that government concerned authorities (TRA) need to facilitate the ownership of the VAT registration machine either by providing loan or facilitating the availability of those machines to the VAT payers and rise the supply of the machine as well. Moreover, there may be a need for clear standards as to which VAT payer businesses should be already able to possess the machine and start their payment in modern system based on their VAT income level.

What measure do you take when you are out of receipts?

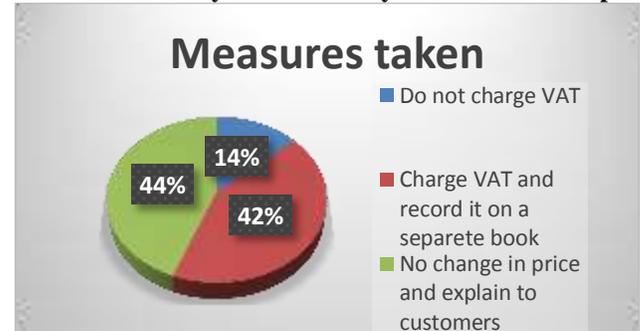


Figure 6. Action taken when out of receipts

Given the fact the manual receipt system depends on the approval of the receipt papers from the nearby Tax and Revenue authority offices and as the businesses have to responsibly provide themselves with the receipt notes, it is very important to identify how the businesses react to situations when they run out of the receipts. Out of the total manual cash receipt users, 35% of them have reported they face situation where they run out of the receipt notes while the rest 65% reported they have not come across this problem as they in time demand extra receipts from the revenue authority when they find it they are running out of it. The data on this issue showed that 14% of the VAT payers that face the problem prefer not to charge VAT at such incident and offer VAT free service to customers, 42% of them register it in separate record and charge VAT payment on their services while the rest 44% of the respondents stated they explain the case to their customers and charge prices without VAT. This would mean that whether they inform to their customers or not, at such situations, most of them are abstaining from implementing the VAT system and government is not getting the legally required VAT tax as it should be. This suggests that there is a need to ensure the supply of cash receipt notes from the revenue authorities must be maintained uninterrupted and strict punishments shall be enforced on those who don't provide customers on time the VAT receipt notes.

Do you think that there are VAT unregistered businesses in your area?



Figure 7. VAT unregistered businesses

If your answer for the above question is 'Yes', give the main reasons.



Figure 8. Reason for not registering

The other issues that are related to the perception of fairness of VAT across all businesses through the conception of the sampled businesses is whether they believe there are businesses that are suitable for VAT registration yet not registered. The response of sampled businesses showed the following result; 29% of the respondents believed that there are businesses that are not yet VAT registered but should have and 71% of the respondent they don't have the knowledge to comment on the question. While the reality on the ground requires further study on the potential and Actual VAT payers in Iringa municipal, there is no doubt this perception has to be curbed either through responsiveness creation or through actual assessment undertakings to include the remaining potential VAT payers into the actual payment scene.

But one important issue that the study tried to find out was what factors they believed have contributed to these VAT payers to believe there are more businesses that have to be VAT payers. 56% of the VAT payers reported that government assessment on income generation and eligibility for VAT registration is poor while 29% of them believed that some employees of the revenue collection authority office follow discriminatory assessment approaches. While this assertion has to be proved the extent of its credibility by further investigation by the Revenue authorities, this perception is suggestive the potential weakness sources of the VAT system, i.e. the effectiveness and precision of the assessment and establishing discipline and non-corrupt personality of the VAT implementing workers. It would generally imply that the VAT authority agency has to establish both the principles of fairness and equity in practice

and also it has to ensure this is what is happening to the perception of the businesses too. This would suggest for better facility, transparent, uncorrupted and capacitated human resource establishment that would solve this problems both at practical and perception levels.

Have you noticed a decline in the number of your customers since your business implemented VAT?

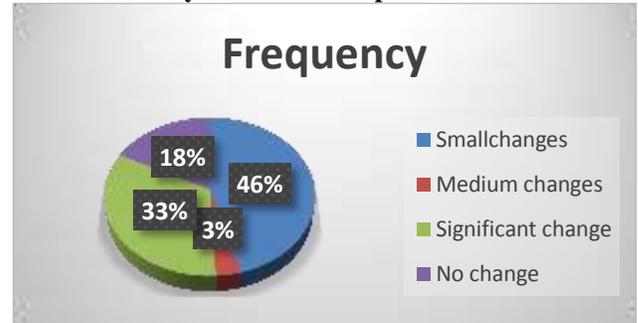


Figure 9. Change in the number of Customers due to VAT

Due to the reason that the price of goods and services is expected to increase with the introduction of VAT; it would be necessary to assess whether the system has fetched a change in the number of customers or not. As a result, based on the responses of the business firms majority of the respondents i.e. 97% have confirmed that there has been a significant turn down in the number of their customers following the implementation of VAT system.

Analysis on the perception of consumers/ community regarding VAT

As part of the survey, assessing the perception of the community is one stake objective of this paper.

Do you know why you pay VAT?

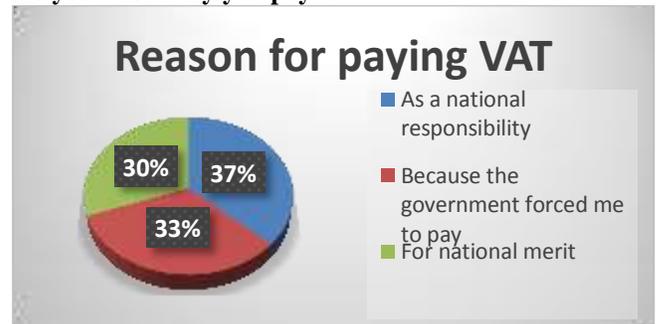


Figure 10. Reason for paying VAT

Do you believe the VAT paid by businesses is right?

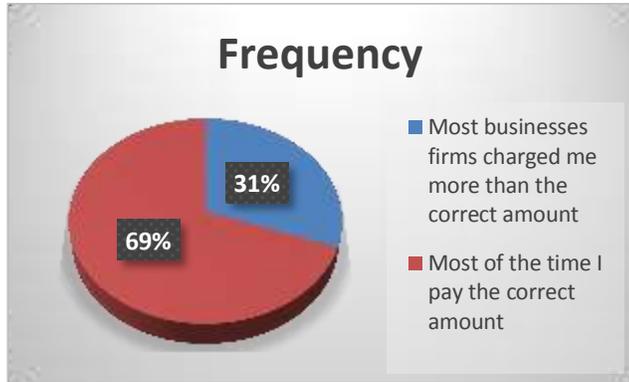


Figure 11. VAT Rationale and Fairness

In line with this, as indicated in the above Figure 11, some 37% of the consumer believed that they pay VAT as it is their national responsibility followed by some 33% of the respondents who complain that they are paying tax because they are forced by the government and 30% of the respondents perceive that VAT should be paid because it has a national value which could eventually benefit the society. The above statistical data shows that majority of the respondents have relatively good perception towards VAT.

Have you faced Tax evasion made by businesses?



Figure 12. VAT Evasion

Some 69% of the respondents replied that the VAT has been the very reason for business firms to impose higher price on products or services delivered and in some cases, they believe that the rate of the VAT charged is more than double since it is imposed on the total price of the product. Majority of the respondents also complain that VAT paid by them are not directly channeled to the government treasury since the tax revenue is mostly evaded by the business owners who are considered to be agents of the government in collecting tax.

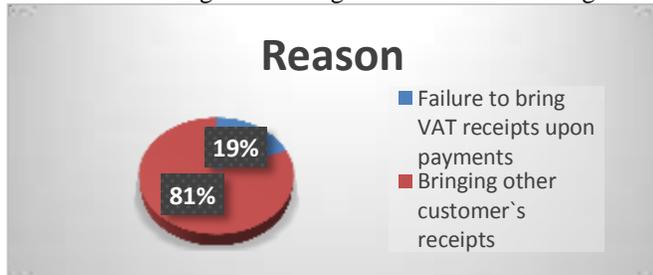


Figure 13. If yes, specify the ways of evasion

In most case, failure give VAT receipts up on payment, giving used VAT receipts are the major ways of tax evading

mechanisms used by the VAT registered firms. Some business enterprises also use power failure and unavailability of VAT receipts as reasons and as a means to evade the VAT revenue that would have been an income to the government and the country. In relation to this, many of the respondents suggest that the concerned government bodies should design a strong controlling mechanism and penalize those involved in such an activity.

Moreover, the sample respondents were asked to forward the core ways of evasion, accordingly, 19% respondents revealed that the business firms did not bring those receipts upon payments, 81% of the respondents stated that the business firms brought them other customers' receipt.

Do you pay your bill without receiving VAT voucher

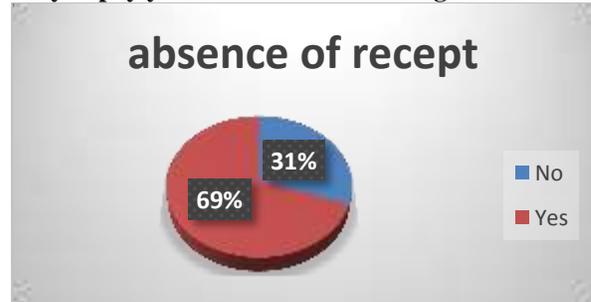


Figure 14. Payments in the absence of receipts

Almost 69 percent of the consumers also admitted that they pay the bill even without receiving VAT voucher due to reluctance or some other reasons. Likewise, it is reported that almost 31% never tear the VAT voucher they received. This clearly indicates that a lot has to be done in improving the awareness of the final VAT payer consumers since an income from VAT is the basis for the economic advance of the nation without which the country will always be dependent of foreign aid.

What action do you take when you aren't provided with the VAT voucher while you are ready to pay your bill?



Figure 15. Actions taken in the absence of VAT receipt

As the VAT bill has to be provided to customers, there is no doubt that the responsible request for the VAT bill by the payers does have a compelling effect on some irresponsible VAT payer businesses to implement the system properly. The responses to this request on side of customers showed the urge for requesting of the voucher is not yet well rooted into the habit of customers.

From the total, 23% of the respondents reported they ask for the voucher if not provided to them, while 14% of them

reported they reported to concerned VAT authorities. But, 36% of them responded they have passive objective to the negligence of the business but aren't involved in active reaction to force businesses provide them with the VAT bill. To the worst turn, 27% of the respondents reported they are totally indifferent whether they are provided with the VAT bill or not. The implication is simply that there is still a significant improvement required from customers in contributing to proper implementation of VAT system out of improved sense of national responsibility

6. CONCLUSION

This study was conducted to assess the major problems and prospects of Value Added Tax (VAT) in Iringa Municipal Tanzania. Data has been collected from VAT payers (consumers) and delegated VAT collectors (Business community) to assess their perception towards VAT and point out the major bottlenecks in its implementation.

Value Added Tax (VAT) is a general consumption tax evaluated on the value added to goods and services. In other words, it is a consumption tax because it is borne finally by the final consumer. In many countries it is viewed as one of the main source of government.

Nowadays, many countries in the world have made VAT part of their tax system, where Tanzania's standard VAT rate is 18%, Nigeria and Gambia have the minimum and maximum standard VAT rate in Africa with 5% and 40% respectively.

Based on the results of the analysis and discussions of the data of this study, the following conclusive evidences can be derived:

- VAT payers are from both areas of merchandise, manufacturing and service sectors.
- The data shows that while the intent that the benefit of the system goes to the society, most of the respondents felt that the government is the sole beneficiary of the system.
- The data for the request on the consent of businesses on their registration of VAT payment system is very suggestive on the fact that although the government authorities have disseminated information on the importance of VAT to VAT Paying businesses, the required correct perception on the system and the willful registration of the businesses has not yet come to the desired level.
- Although most VAT payer businesses are located in electrified major cities, significant of them have not yet started using the VAT registration machine(EFD)
- Significant portion of the VAT payers have negative perception about the fairness of the payment across the businesses.
- Many businesses have confirmed that there has been a significant turn down in the number of their

customers following the implementation of VAT system.

- Majority of the consumers get to know about VAT from government media, thus it can be concluded that the government media has played an important role in awareness creation of the system, nevertheless, significant number of the consumers have never heard of the system prior its implementation.
- Based on the survey it can be remarked that majority of the respondents have relatively good perception towards VAT on understanding the rationale for paying VAT.
- Many consumers believe that VAT has been the very reason for business firms to impose higher price on products or services delivered and in some cases, they believe that the rate of the VAT charged is more than double since it is levied on the total price of the product.
- Significant numbers of VAT registered businesses fail to offer VAT receipts up on payment, providing used VAT receipts as a means evade from the system.
- The level of enforcing business firms to provide bill during payments is low as majority of the consumers fail to ask for receipt during payments, similarly many consumers fail to rip down the receipt as it give the chance to use illegal businesses for tax evasion.

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