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Effect of Value Added Tax Collection Strategies on Revenue Performance in Rwanda. Case Study of Rwamagana District

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Abstract: ***Taxation is an important element in the management of the national economy. The purpose of taxation in Rwanda is to finance government planned activities. However, collecting different revenues is a major challenge due to narrow tax base and cases of non-compliance among taxpayers. The agency in charge of collection of tax put in place different strategies to mitigate those challenges. This study entitled the effect of value added tax collection strategies on VAT collection performance in Rwanda analyzed the effect of three different strategies in collection of VAT on revenue performance using a case study of Rwamagana district.The study was guided by the following specific objectives: To determine the effect of Electronic billing machine on the performance of VAT collection in Rwamagana district, to assess the effect of administrative fines on the performance of VAT collection in Rwamagana district and to examine the effect of training of taxpayers in VAT filing on the performance of VAT collection in Rwamagana district. The study used descriptive survey design. The target population was made up by a total of 328 people from Rwamagana district taxpayers registered in VAT and the employee of RRA involved in VAT collection. A sample of 180 persons was used but only 176 respondents return the questionnaires. Data were collected using structured questionnaires. Multiple regression analysis was used to establish the effect of VAT collection strategies on revenue performance. And it has been found that all the three strategies have a significant positive effect on VAT collection performance and without them the VAT collection performance would be very poor. These findings provided a practical and useful tool for RRA to establish barriers to compliance and put in place proper and adequate mechanisms to encourage voluntary compliance and minimize non-compliance cases, and for the academicians it will be a useful tool for the empirical reviews.***

1. Background of the study

In developing countries, taxation is an important element in the management of the national economy (Lyme and Oats, 2009). The purpose of taxation in Rwanda is to finance government planned activities. However, mobilizing sufficient tax revenue is a major challenge due to narrow tax base and cases of noncompliance among taxpayers. Tax non-compliance is a major challenge confronting tax administrations (Terkper, 2009).

"VAT" - value added tax - has spread throughout the world since its introduction in 1955. Its format has changed and now incorporates what was once an offshoot - "GST" (goods and services tax). France was the first country to introduce VAT effective from April 10, 1954. By 1969, only eight nations had adopted VAT, out of this Coted'Ivoire was the first country in Africa to introduce VAT in 1960. Since 1979 VAT has been adopted as the main form of an indirect tax by many countries in different parts of the world. (Misrak, 2008) Value Added Tax (VAT) is a general consumption tax assessed on the value added to goods and services. In other words, it is a consumption tax because it is borne ultimately by the final consumer. In many countries it is regarded as one of the main source of government. VAT is an indirect tax levied on domestic consumption of goods and services as well as on imported goods. It can be considered as the most important tax innovation of the second half of the twentieth century. VAT is primarily collected by business firms or individuals at all stages of production and distribution beginning with importers and producers of raw materials and 2 ending with retailers. In line with this perception, VAT is implemented in many developed as well as developing countries. (Hailemariam, 2011).

Nowadays, many countries in the world have made VAT part of their tax system, where Rwanda's standard VAT rate is 18%, Nigeria and Algeria have the minimum and maximum standard VAT rate in Africa with 5% and 21% respectively. (Misrak, 2008). The history of taxes in Rwanda indicates that the first tax legislation was inherited from colonial regimes. This tax legislation included the Ordinance of August 1912, which established graduated tax and tax on real property. There was another Ordinance on 15th November 1925 adopting and putting into application the Order issued in Belgian Congo on 1st June 1925, establishing a profits tax. This law was amended from time to time in order to comply with the changing economic environment. Such other legislative instruments include the 1973 law governing property tax, the tax on licence to carry out trade and professional activities, the Law No. 29/91 of 28th June 1991 on sales tax /turnover tax (now repealed and replaced by the Law No. 06//2001 of 20/01/2001 on the Code of Value Added Tax (VAT). A substantive Law Governing Customs was enacted on 17th July 1968 accompanying the Ministerial Order of 27th July 1968, putting into application the Customs Law. The administration and accountability of taxes and duties in Rwanda was initially under the Ministry of Finance and Economic Planning. This was later vested into an independent body - the Rwanda Revenue Authority - that was established by law no 15/97 of 8th November 1997(RRA, 2012). In 2005, the parliament adopted law number No25/2005 of 04/12/2005 on tax procedures, amending Decree-Law of December 28, 1973 relating to

Personal Tax, Law No 06/2001 of January 20, 2001 on the Code of Value Added Tax and Law No 9/97 of June 26, 1997 on the Code of Fiscal Procedures. Similarly, Law No 16/2005 OF 18/08/2005 2005 on direct taxes on income was adopted replacing Law No 8/97 of 26/6/1997 on Code of Direct Taxes on Different Profits and Professional Income, and Law No 14/98 of December 18, 1998 establishing the Rwanda Investment Promotion Agency, especially in its Articles 30, 31 and 34. The parliament also adopted Law No. 21 of 18/04/2006 establishing the customs law, replacing the Law of July 17th 1968 concerning the Customs law as amended and completed to date. However, on July 1, 2009, Rwanda adopted the EAC Customs Management Act 2004, An Act of the Community to make provisions for the management and administration of Customs and for related matters (Op cit).

The Rwanda Revenue Authority was established under Law No 15/97 of 8 November 1997 as a quasi-autonomous body charged with the task of assessing, collecting, and accounting for tax, customs and other specified revenues. This is achieved through effective administration and enforcement of the laws relating to those revenues. In addition, it is mandated to collect non-tax revenues. The Authority is also responsible for providing advice to the Government on tax policy matters relating to revenue collections. It performs other duties in relation to tax administration, as may be directed from time to time by the Cabinet. The Authority was established as part of the reform programme by the Government of Rwanda designed to restore and strengthen the main economic institutions of the country. Additionally, the Government wanted to improve its resource mobilization capacity while providing the public with better quality and courteous services. In a bid to mobilize more resources the Authority is therefore required to assist taxpayers in understanding and meeting their tax obligations thus raising their compliance. Enterprises are required to register for VAT if their turnover is above 20 Million Rwf for any period of 12 month or 5 Million Frw in three consecutive months in the last quarter of the 4 year. The final consumer pays the tax and not the person registered for purposes of collecting and accounting for and paying VAT to RRA (RRA, 2017).

2. Statement of the problem

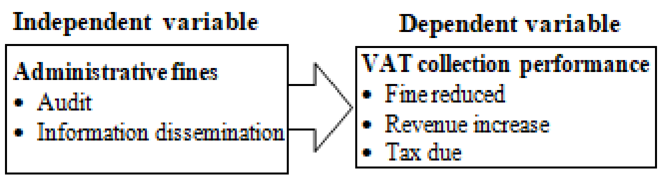
Compliance with taxation laws Tax compliance is a major concern for all tax authorities and it is not easy to have all taxpayers comply with the tax requirements (James and Alley 2009). Good compliance rates guarantee the government of the much needed revenue to finance the planned activities. Non-compliance denies the government the required revenue. From RRA'saudit records about400audits are carried out in a typical year –a very small number. VAT is investigated much more commonly (more than 8 percent of the firms) than other tax types, with PIT and CIT real regimes being revised by RRA only in 2.3per centand 1.4 percent of the cases, respectively. The average level of misreported VAT due is more than RWF 500,000. This relatively high level can be explained by at least two factors. First, large taxpayers with high turnovers are usually registered for VAT and are also typically more likely to be subject to an audit. Second, the higher frequency of VAT revisions by the RRA may reflect higher enforcement pressure in this tax type. This is consistent with the recent introduction of electronic billing machines (EBMs) in 2013, aimed precisely to increase tax compliance (Giulia, Nara and Christopher, 2016).

A recent paper on EBM in Rwanda shows that there has been a sharp increase in EBM users from 306 taxpayers in the first quarter of 2013, to 924 taxpayers in the last quarter of the same year (Eissa et al. 2014). By the third quarter of 2014, there were already 3,943 registered EBM users. The unfamiliarity of taxpayers with the EBM machines, as well as the transmission of transaction records to the revenue authority in real time, which makes tax evasion more difficult, may have contributed to the relatively high share of VAT revisions done by the RRA. However, the VAT compliance level remain low despite the fact that Failure to register as a taxable supplier, to submit the VAT return on time, to pay VAT due on time, or the submission of an incorrect return, will render the taxpayer liable for interest and penalties. Available information indicates that a significant percentage of registered taxpayers are Nil or Non-filers (PricewaterhouseCoopers International Limited, 2015). This research proposes to determine the effect of VAT collection strategies on revenue performance in Rwanda with a case study of taxpayers in Rwamagana district.

3. Objective of the Study

To assess the effect of administrative fines on the performance of VAT collection in Rwamagana district.

4. Conceptual Framework



Research Design
Research designs are types of inquiry within qualitative, quantitative, and mixed methods approaches that provide specific direction for procedures in a research study (Creswell, 2014). This study used descriptive research design. Descriptive design in data collection helps to collect accurate data on and provide a clear picture of the phenomenon under study.

Population of the Study
The population refers to the group of people or study subjects who are similar in one or more ways and which form the subject of study in a particular survey. Thus the target population defines those units for which the findings of the survey are meant to generalize (Paul, 2008).

The study population was made up by278taxpayers registered in VAT in Rwamagana district and 50 staff of RRA related directly to VAT collection which in total gave 328 peoples.

Sampling technique

During this study, the researcher used the sample size of 180 respondents due to the fact that it cannot be easy to collect data from all beneficiaries and staff of RRA. The sample size determined by using Slovin's formula.

5. Data analysis and Discussion

5.1 Administrative fines and VAT collection performance

Table 4.2: Mean and standard deviation per variable

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Use _of _EBM	176	3.00	5.00	4.4148	.55919
Administrativ Fines	176	3.00	5.00	4.3352	.66428
Taxpayers_training	176	3.00	5.00	4.4432	.62988
VAT_collection_ performance	176	2.00	5.00	4.3807	.66545
Valid N (listwise)	176				

Source: Primary data, 2018

The study used 5 point Likert scale statement from strongly disagree to strongly agree by ascendant order. The Table 1 shows the descriptive statistics namely min, max, mean and standard deviation for each variable. For variables information dissemination, beneficiary consultation and beneficiary participation, the minimum was 3 and the maximum was 5 which means that none of respondents disagreed nor strongly disagreed with the statements, rather they agreed and strongly agreed with the statement but some of them were undecided regarding the statements. The mean for those three variables varies from 4.33 to 4.44 which means that many of the respondents agreed and strongly agreed with the statement regarding each variable. For the variable project sustainability, the min was 2 and the max was 5; this implies that among respondents some disagreed with the statement and some were undecided.

The mean in this case was 4.38 which show that a great number agreed and strongly agreed with the statement regarding project sustainability. The standard deviation varies from 0.56 to 0.66. This means that there was a certain low degree of heterogeneity in the answers of respondent.

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.818[a]	.669	.663	.38615

a. Predictors: (Constant), Administrative fines

The table 2 helped to appreciate how much the model as a whole contributed of Administrative fines on VAT collection performance. The coefficient of determination (R^2) of 0.669 means that 66.9% of the variation in project sustainability is caused by beneficiary involvement practices. Only33.1% of the variation VAT collection performance is not explained by the model. In order to assess if the model is a good fit for the data the p-value given by the analysis of variance (ANOVA) was computed and results are shown in next Table 3.

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	51.848	3	17.283	115.906	.000[a]
	Residual	25.647	172	.149		
	Total	77.494	175			

a. Predictors: (Constant), Administrative fines
b. Dependent Variable: VAT collection_performance

The table 3 shows that the p-value for the overall regression relationship was (p = .000), this value is much less than the level of significance of 0.05which means that there are almost zero chances over one thousand that the model as a whole can be removed from predictors without affecting the sustainability of the project. This indicates that there was a statistically significant effect of VAT collection strategies on the VAT collection performance. In order to appreciate statistically how much the change in value of one independent variable affected the performance of VAT collection while other variables remained constant, the regression coefficients have been calculated.

These results are somehow in line with those of Kirchler (2009) who found that deterrence is effective when there is a combination of effective imposition of fines and frequent audits to detect cases of non-compliance and to conclude that penalties and audit probabilities have a strong impact on tax compliance.

6. Conclusion

At the end of this study and according to the specific objectives one could make the following Conclusions: This study demonstrated that there is a strong relationship between administrative fine and VAT collection performance. The study found out that administrative fines have a great effect on VAT collection performance in Rwanda. It showed that the increase of one unit in administrative fine would increase the VAT collection performance by .289 units if other variables remain constant.

7. Recommendations

Administrative fines revealed to be an important factor in VAT collection, thus the agency in charge of VAT collection should emphasize on audit to prevent tax fraud and to penalizethose who have not goodwill to pay VAT.

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