

**VAT: Why the private sector complain so much, and what we may be able to do
about it
26 February 2007, 12.00am**

A. Presentations:

- **Ms Mistry, PWC, Zambia.** See presentation
- **Mr Celestin, Rwanda Revenue Authority.** See presentation
- **Yusuf Dodia, Zambia Private Sector Development Association.** There exists a need to broaden the VAT base in order to improve the cash flow, and be able to lower penalties/interest due. While the cost of collection is an issue, this can be reduced by computerization. Alternate VAT payment mechanisms should also be introduced.

B. Discussion highlights

- There does not exist a disconnect between introducing a high VAT threshold and widening the tax base because the base should be broadened by 1) making the cost of evasion greater than the cost of compliance 2) encouraging voluntary registration for small businesses. Also, there is no disconnect because VAT should be a tax on consumption and not businesses.
- How does one get buy-in and tackle resistance for increases in VAT rates (Nigeria)? This can be achieved through education and reduction of other rates (corporate income tax etc) since all taxes should be seen as a package.
- Various schemes exist for dealing with delays in VAT refunds e.g. Tanzania – risk profiling system based on gold/silver/other categorization; Lesotho – upfront VAT refund scheme for textiles exporters.
- Having in place punitive penalties depends on whether RAs would rather have tax evaders or tax defaulters (private sector perspective). Whereas defaulters still register with tax authorities, evaders do not appear on books (“killing the goose that lays golden egg”). From the perspective of RAs, why should penalties be affordable? Private sector businesses should be expected to keep proper records and not keep multiple books.
- Corruption is two-sided, where private sector operators are also corruptors. Selective integrity should not be acceptable.
- While exemptions can open avenues for corruption and taking away discretion is important, it is critical to keep flexibility.