VAT rebate presentation for ATI Spotlight

21st June 2023

EBM rebate

- What issue are we trying to address?
- What is the proposal?
- How far have we got?
- How did we get there?
- What will the impact be?

➢VAT rebate objectives

Improving VAT compliance to increase tax revenue and fairness

- There is a **reasonable amount of VAT evasion** in business-to-consumer transactions
- When this happens, you **lose all the VAT** for that product i.e. across its whole supply chain
- It is **difficult to enforce** in business-to-consumer transactions because there is little incentive for the consumer and the trader
- Traders and consumers can both benefit from not applying VAT
- In business-to-business transactions, **there is a compliance incentive** for the buyer so they can reclaim input VAT

Using EBMs to support wider tax compliance

- Information is valuable for cross-checking under-reported incomes
- It is consistent with the purpose of EBM-for-all

➢ How does it work?

Giving consumers a share of VAT if they get an EBM receipt

- Gives consumers an incentive (10% of VAT due) to ask for EBM receipts
- Better if it is specified as a share of VAT
- Increases the ‘pressure’ on the trader to oblige
- Gets more accurate sales reporting through EBMs
- Reduces opportunities for evasion
- Increases tax revenues
- For a defined period of time i.e. not done indefinitely

How does it work?

Giving consumers a share of VAT if they get an EBM receipt

- **A defined % of VAT** on EBM sales made to consumers
  - May be a better option compared to % of sales price because:
    i. A larger number would be more appealing to consumers
    ii. Clearer that it excludes exempt/zero-rated sales and EBM sales for non-VAT registered taxpayers
- **Payments made quarterly** but with a 'live-time' balance they can see
- **Using mobile system** similar to mobile money
- **Cap on the quarterly prepayment** that can be given
- **Registration needed** beforehand

Consumer Behavior

- Understanding how the consumer respond to the rebate is key to policy's success
- If the policy proposed a rebate rate of 10%, that would be equivalent to a price (exc. VAT) reduction of 1.8%
- It is not easy to know how much to give to a consumer to establish new habit
- The higher the rebate the more consumer changes their habit
- The lower the value of transaction the lower the incentive and the lower the policy impact
- While the rebate gives more material benefit for high-value transactions, the monetary benefit for non-compliance is far higher for consumer

Consumer Behavior

Considering the drivers of behavior

- Consumers may perceive requesting receipts is unethical since it makes them tax enforcers, as suggested by a 2018 study in Tanzania on drivers of receipt request behaviour
- Peer pressure and social norms play an important part in whether consumers want to request receipts
- Even though the monetary benefit for non-compliance is far higher for consumer but other competitors will act as whistleblower considering the perfect competition

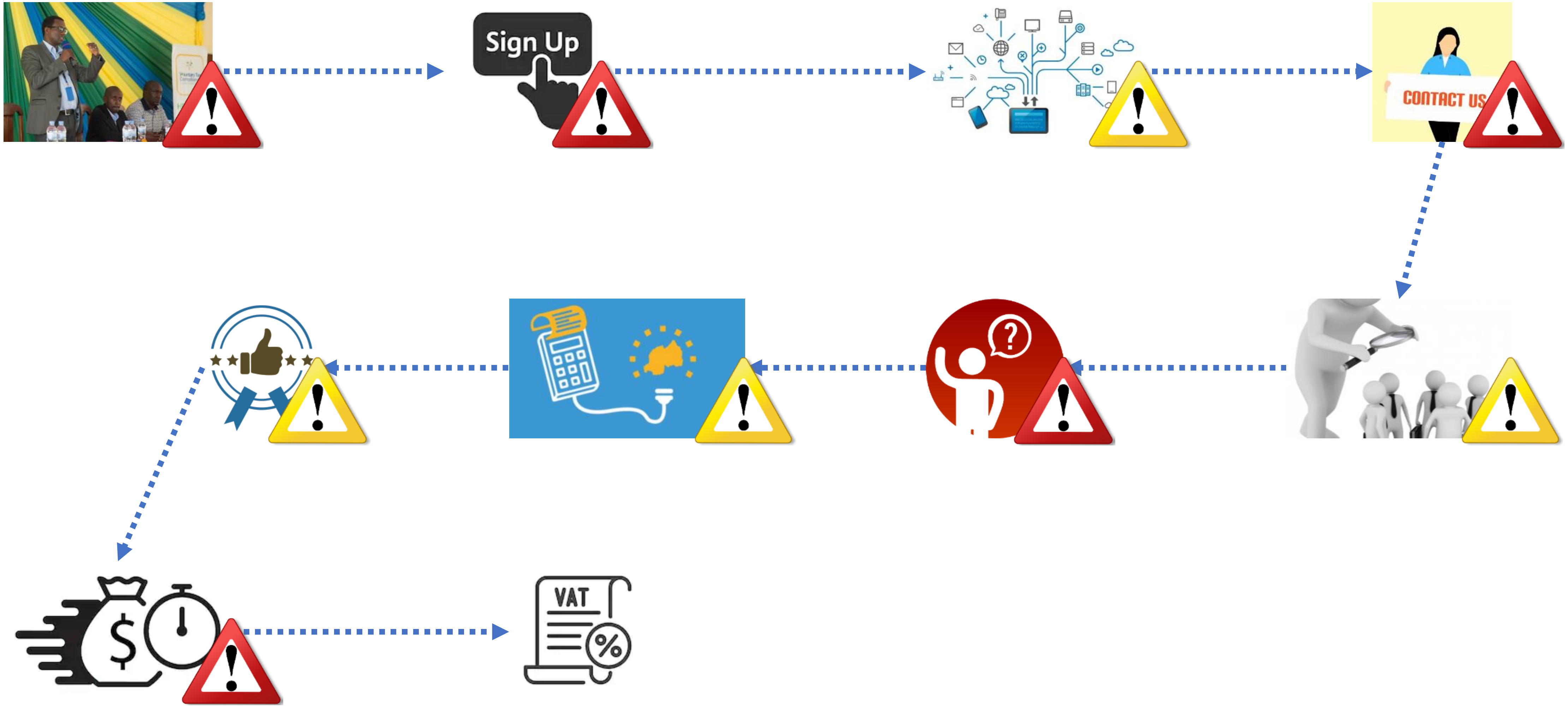
Collusion Issue

- The collusion issue could be reduced by existing measures
- Traders will already be wary of the risk and penalties from non-compliance
- RRA uses over 100 criteria to flag the likelihood of evasion
- Criteria changes over time
- Sales & input validation controls have improved enforcement in B2B transactions and ensured EBM sales match declarations
- For fast-moving transaction with few repeating customers it is difficult to bargain a VAT-free price
- The above measures does not necessarily reduce all sort of evasion as sellers can still sell without using EBM

Possible solution

- Introduce an award for denunciation
- The award must be paid out of penalty imposed on non-compliant taxpayer
- Increased awareness and accountability will be key
- EBM for all.
- Capacity building for risk department controls

Consumer journey is full of obstacles



Thank you!

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