

# **Strengthening Consumer Participation in VAT Compliance Strategies**

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# Enforcement of VAT

- Value-Added Tax (VAT) is one of the most important sources of revenue collection in countries around the world
- Electronic Billing Machines (EBM) is a powerful enforcement initiative to ensure high compliance on VAT base
  - Required when generating invoices
  - Produces detailed information about firm's activity to RRA
- However, issues regarding non-compliance persist, especially at the final stage of value chains when firms sell to final consumers
  - Due to limited incentives of customers to ask for receipts

# Consumer incentive schemes

- Governments around the world have implemented different policies to stimulate consumer participation in enforcing VAT
  - Lottery
  - Rebate system
  - Whistle-blowing
- Evidence suggests that effectiveness of specific policies varies with economic, administrative, and social context
  - Calls for country-specific diagnosis and policy design
- Joint research-policy engagement to seek innovative ways to design cost-effective incentives that ensure consumer participation in VAT enforcement strategies
  - Harvard University
  - Columbia University
  - Georgetown University
  - London School of Economics

# Survey-based investigation

- Research question: What are constraints to consumer participation?
- Design survey in collaboration with Rwanda Revenue Authority
- Survey design
  - 550 respondents from major cities across Rwanda
  - In-person and phone surveying
  - Sampling of areas with high number of EBM-using firms
- Themes
  - Knowledge about EBMs
  - Constraints on consumers asking for EBM receipts
  - Knowledge of, and participation in, EBM receipt lottery
  - Beliefs about alternative incentive schemes (including VAT rebates)

## First step: Diagnosis

**Finding #1: Potential participation in current lottery scheme is constrained by sign-up criteria, not usage, and lack of knowledge about scheme**

- Potential eligibility based on *usage* is high
  - Vast majority (>95%) have phone + bank/mobile money account
- Potential eligibility based on *sign-up* is constrained
  - 31% ineligible because do not have access/do not use internet
  - Large variation across parts of country (from 15% to 45%)
- 40% of respondents did not know about the EBM lottery

# First step: Diagnosis

## Finding #2: Sequence to obtain receipt breaks down due to shopping in non-EBM stores, and due to not asking for receipt in EBM stores



- Approximately 40% of purchases are made in non-EBM stores
- Only 15% of customers in EBM stores ask for receipts
- Receipt given when requested 90% of the time
- Approximately 8% of purchases end with a receipt in customer's hands

## First step: Diagnosis

### **Finding #3: participation is mainly driven by simple cost-benefit analysis**

- Main benefits from participating in lottery
  - Possibility to win lottery (81%)
  - Motivated to do the right thing (15%)
  - Others' participation (4%)
- Main cost from participating in lottery
  - 55% report having to pay 'price penalty' if ask for receipt in EBM store

## First step: Diagnosis

### **Finding #4: participants are young and follow the TV/Radio, but often participate only once**

- Describe EBM lottery participants compared to average citizen
  - 82% say the participants follow the news/TV/Radio more
  - 35% say they are younger
  - Only 11% say they are more wealthy/educated
- Intensity of participation (based on administrative data)
  - 58.6% only submit once to the lottery (determined by unique phone number)
  - Of those who participate more than once, average duration of participation is 2 months

## Second step: Design

Question: how to design a high-potential and feasible policy solution?

- When asked to consider potential reforms to current policy, respondents emphasized returns to effort that would be
  - More frequent (even if smaller in monetary value)
  - More certain
- This could be designed under the form of
  - Continued lottery, but with smaller and more frequent prizes
  - VAT rebate

## Second step: Design

Question: how to design a high-potential and feasible policy solution?

- Rebate system could alleviate several constraints diagnosed in survey
  - Increase frequency of payment and remove uncertainty inherent to lottery scheme
  - Set rebate rate such that ‘price penalty’ in EBM stores is lessened
- But transition to rebate system may prove difficult
  - Misunderstanding about eligible vs ineligible stores may discourage participation
  - Set-up costs for participants may be higher than lottery system
  - Transition from lottery to rebate may create confusion

# Conclusion

- Currently engaged in round-table discussions with RRA to test which policy designs would be most cost-effective and sustainable
- Very grateful for any comments, thoughts, and suggestions:  
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