Strengthening Consumer Participation in VAT Compliance Strategies

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IGC Conference – July 2018
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
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

First step: Diagnosis

- 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
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
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
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: anders_jensen@hks.harvard.edu