

Impact of Auditing on VAT Compliance: A Case Study of Small VAT Operators in Blantyre City of Malawi

Lovemore George Mwanandi
Private Industry Practioner

Abstract: The perception of many tax professionals and other scholars is that VAT auditing has a positive effect on compliance of VAT operators and the study was carried out to assess that belief. Quantitative data was collected from a sample of 353 respondents using probability sampling technique and 101 respondents responded positively representing a 29% response rate. The study established that there was a weak insignificant negative relationship between VAT compliance and audit and that only 1 % of VAT operator's compliance is explained by VAT audits. In the circumstance, the study informed that VAT audits do not make a substantial impact on VAT compliance in Malawi. This means that VAT compliance cannot in any way be affected by audit rates in Malawi and that audit productivity and effectiveness does not add much value to compliance and revenue.

Keywords: Value Added Tax, VAT compliance, VAT returns filing, Small VAT operators, Taxable person and VAT auditing.

I. BACKGROUND

Malawi has faced revenue in-sufficiency and non-compliance problems over the years and fail to provide adequately for social services, development projects and economic growth. The problem is so huge that its yearly budgets are always in deficit as revenues do not match proposed expenditures. There has been a large increase in fiscal deficit that has been attributed to the rapid expansion in expenditure and low revenue collection and it is a recurring feature of public sector financing (Malawi Government, Budget Paper, 2020). These problems have further been compounded by the freezing of donor aid by cooperating partners because of governance issues such as corruption commonly known as cash gate, Covid 19 and others. These problems have exposed very serious governance weaknesses and public financial mismanagement to the extent that government was plundered of more than MK 1 trillion that was stolen by June 2020. These problems have un-necessarily made Malawi very poor and almost bankrupt. The extent of the problem is that Malawi is failing to repay billions it owes several banks and suppliers of goods and services respectively (Malawi Government, Budget Paper, 2020). Almost all development partners suspended their support arguing that unless public finance management is tightened, they are not going to provide any budgetary support, and this left Malawi with no choice but to rely on domestic revenues for the provision of social services and development projects. Therefore, Malawi government through Malawi Revenue

Authority aims to strengthen the administration of taxes in order to improve some of the activities such as VAT operators' compliance and bring efficiencies that maximize tax collections (Malawi Revenue Authority, 2020).

1.2 Tax Compliance

Tax compliance refers to the fulfilment of all tax obligations as specified by the law freely and completely (Water Integrity Network, 2015). It has been observed that regulatory burdens fall disproportionately on small VAT operators internationally (Pope & Abdul-Jabbar, 2008). Their size and nature make the issue of tax compliance one of the important aspects because small VAT operators have access to limited resources and inadequate expertise to comply with the operation of VAT (Joshi, Prichard & Heady, 2014). Kasipillai and Abdul-Jabbar (2006) explains that non-compliance could either be failure to submit a tax return within the stipulated period or non-submission, understatement of income, overstatement of deductions and failure to pay assessed taxes by due date. In some cases, non-compliance may mean an outright failure to pay levied taxes. Studies done by Kasipillai and Abdul-Jabbar, (2006) have revealed that the problem of tax evasion is a widespread one in many countries. Additionally, Fagbemi, Uadile and Noah (2010) observed that the problem is predominant in developing countries as is the case with Malawi and therefore is hindering development by causing economic stagnation and other socio-economic problems. Non-compliance falls under four domains namely registration, filing, underpayment and payments as key risk areas.

1.3 Statement of the Problem

Compliance rates are steadily nose diving amongst VAT operators in Malawi. The declining trend is regardless of interventions put in place by Malawi Revenue Authority such as tip off anonymous, public sensitizations, voluntary compliance window (VCW) and use of electronic fiscal devises (EFD) that are aimed to revitalize the performance of VAT. The nose-diving trend is also observed globally (IMF, 2020). The above stated interventions could also be factors that affect the performance of VAT; however, the study only focused on VAT audit because of limitations in resources and therefore could be areas for further research.

The declining trend in the performance of VAT is a problem thought to be caused by tax evasion, which is a deliberate

refusal to pay taxes. Therefore, to fight this phenomenon various countries including Malawi are using VAT audit as an enforcement tool in their tax administration systems to improve VAT compliance (Modugu & Anyaduba, 2014). The declining trend is cause for worry by MRA, government and all stakeholders who have the view that VAT audits are not being performed adequately, yet the audits are central to the voluntary compliance framework of VAT operators (International Monetary Fund, 2020). Audits are said to have a direct deterrent or preventive effect on VAT operators. For instance, in a study done by Alm and McKee (2004), it was established that 1% increase in audit volume directly increased revenue. This means that a high volume of successfully completed audits bring positive impact on tax compliance and indeed revenue (Andeoni, Erand & Feinstein, 1998).

1.4 Specific Objectives

1. Assess the relationship of factors that influence VAT operators' compliance.
2. Examine the factors influencing VAT operators' compliance.

1.5 Research Questions

In order to examine and understand the impact of VAT auditing on small operators' compliance, the following research questions were formulated to guide the study:

1. What is the relationship of factors influencing VAT operators' compliance?
2. What is the extent of factors influencing VAT operators' compliance?

1.6 Research Hypothesis

The study hypothesized that there is a positive relationship between VAT operators' compliance and VAT auditing where VAT auditing is considered as a factor that influences the VAT operators' compliance. This position is also taken by Msangi, (2015) who found that tax audits are an effective and deterrent instrument for achieving high compliance levels amongst VAT operators. Engel et al., (2001) also, in another study, found that additional marginal audits and tax enforcement efforts produces high compliance rates.

1.7 Importance of VAT Compliance

High compliance levels unlock revenues that would otherwise be lost by way of tax evasion. Governments all over the world spend public money on behalf of their people in providing development amenities and other social services. Therefore, in order to catch up with these responsibilities, governments should put in place effective and efficient tax policies that propel voluntary compliance so that more revenue is generated and collected. In emerging economies, such as Malawi, taxes are the most important and reliable source of revenue but one major problem inhibiting the effective tax administration is the deliberate refusal to pay taxes. The study therefore has helped in pointing out areas that need to be

addressed in order to have effective and efficient tax policies that encourage VAT compliance so that VAT operators pay their tax obligations willingly. For example, Nigeria has devised a self-assessment tax policy that allows people to establish their own tax instead of government determining how much tax to pay. Using this policy, taxpayers are now required to file their tax returns and remit payment voluntarily (Atawodi & Ojeka, 2012). This development ensures that VAT operators file accurate information and VAT payment that reflect the true state of affairs in terms of their output and input VAT. Thus, the primary purpose of tax audit is to ascertain the extent to which taxpayers may have complied with the relevant statutory provisions of the VAT Act regarding their statements of financial position and other tax-related returns.

1.8 Significance of Designing Effective and Efficient Tax Policies

Consumers who are the payers of VAT are discriminated against under the regular taxation system because of compliance requirements, compliance costs and uniform VAT rates for small, medium and large consumers and enterprises. Therefore, the design of efficient and effective tax policies would motivate and encourage small VAT operators to pay their tax obligations. Policies that aim at reducing compliance costs and low tax rates encourage small consumers and enterprises to comply with taxes and in doing so allowing governments to increase tax revenue. Additionally, simplified tax provisions for small and medium enterprises reduce size of the informal economy and the number of non-complying VAT operators (Vasak, 2008). An overly and complex tax regime makes tax compliance unduly burdensome and often have a distortionary effect on the development of the small consumers and businesses. As such, they are tempted to morph into forms that offer a lower tax burden or no tax burden at all (Masato, 2009). This results into a tax system that imposes high expenses on the general public and society at large. Besides, a poorly designed and executed tax system leads to low efficiencies, high collection charges, waste of time on operators and revenue administrations, low tax revenue and deviation of optimum allocation of resources (Farzbod, 2000). Existing empirical evidence clearly indicates that small VAT operators are affected dis-proportionately by these costs so much that when they are scaled by sales or assets, their compliance costs become higher than large businesses (Weichenrieder, 2007). Thus Shahroodi (2010) stated that for a tax system to be efficient; the tax policy needs to be designed in such a way that the tax rates are appropriate and rational; the exemptions are lower in amounts; the revenue administrations are more efficient; the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense.

Tax policies should therefore be designed in such a way that they do not only directly affect small business operators but also indirectly push for voluntary compliance and their growth. Yaobin (2007) emphasised and declared that special

tax regimes for small business operators might be an appropriate policy instruments for minimising the cost of revenue collection. Dangers for having inadequate taxation measures for small VAT operators have been on the rise because of the potential of uneven tax enforcement thereby causing distortions in competition, voluntary compliance by larger enterprises and by wage earners (Koranteng et al., 2017). Therefore, government intervention should help maintain a balance while ensuring that countries exploit the social benefits from greater competition and entrepreneurship. Tax regimes and enforcement measures should therefore be simple, consistent and predictable. This shall encourage VAT compliance while lowering compliance and administrative costs. Thereby reducing uncertainty that is faced by small VAT operators as well as improve their levels of voluntary compliance.

II. CONCEPTIONAL FRAMEWORK AND LITERATURE REVIEW

2.1 Introduction

The study basically intended to provide answers between effects of VAT auditing and small VAT operators' compliance in the administration of VAT in Malawi. It was felt that the study would bring some solutions to the research problem and questions so that audits are carried out according to best practice. Studies that have been done on this topic present two schools of thought. The first school presents evidence that audits have a deterrence and reciprocity effects on tax compliance. The second school presents a contrary view and emphatically argues that auditing does not have a deterrence and reciprocity effect on tax compliance (Ortega & Sanguinetti, 2013).

2.2 Conceptual framework

The conceptual framework of this study originates from the model, and work of Allingham and Sandmo (1972) who observed long time ago that tax declaration decisions are made under uncertainty situation where failure to report one's full income does not automatically provoke a penalty. The study further stated that a taxpayer has two options, that is, whether to declare his actual income or cheat and declare less income, if they choose the latter strategy, their pay off will depend on whether or not they are investigated by the tax authority, if they are not, they are clearly better off than under the former strategy. If they are, then they are worse off. The choice of a strategy is therefore a non-trivial one. The ideology is based on the actual income that is exogenously given and known by the taxpayer and not the tax collector. Tax is levied at a constant rate on the declared income which is the taxpayer's decision variable. However, with some probability, the taxpayer will be subjected to investigation by the tax authority, which will then get to know the exact amount of his actual income. If this happens the taxpayer will have to pay additional tax on the under declared amount, at a high penalty rate.

2.3 Literature review

Most studies observed that audits have a positive impact on tax evasion. It is further claimed that in self-assessment systems, tax audit plays a very important role whose central role is to increase voluntary compliance (Shanmugam, 2003; Dubin, 2004; Palil & Mustapha, 2011; Salehi, Tarighi & Shahri, 2020). Further, Palil and Mustapha (2011) have argued that audit rates and the thoroughness of the audits encourages VAT operators to be more prudent in completing their VAT returns, report all sales and claim correct input VAT and deductions in ascertaining their tax liability. However, they also observed in contrast that, VAT operators who have never been audited before, were tempted to under report their actual sales and claim false deductions.

Palil and Mustapha (2011) also found that tax audits can change compliance behaviour of small VAT operators from negative to positive. However, Kleven, et al. (2011) found a contradictory result that reported that audits did not significantly correlate with evasion for all groups they studied. Tax audits were found to be more effective in inducing VAT operators to over claim deductions rather than encouraging them to correctly report their actual income. Evans, Carlon and Massey (2005) studied the tax compliance of small and medium size enterprises (SME) in Australia from another point of view whose objective was to examine the relationship between record keeping practices of SMEs and the potential exposure to tax compliance problems. The study found that audit history, including frequency, audit outcome and the type of audit on small business owners had a very significant indirect impact on tax compliance. The result also evidenced that the primary objective of the small business owners doing their record keeping is tax compliance were related rather than being part of their business management. Russel (2010) in his theory regarded tax compliance as a model synonymous to looking at a coin. The head side reflected factors that influence taxpayer's behaviour. These were business, industry, economic and psychological factors. These factors influenced VAT operators' when making decisions regarding VAT submission. The tail side reflected different taxpayer attitudes to compliance and their corresponding compliance strategies that best responds to each attitude. The model advocates for a deeper understanding of issues such as motivation, circumstances and characteristics of VAT operators so that tax enforcement and other actions should be specifically tailored to promote compliance. Consequently, with the right responses and interventions, revenue authorities can influence taxpayer behaviour in a positive way to achieve high compliance rates amongst taxpayers.

It is therefore established from the literature review that there is evidence indicating that indeed tax audits play an important role in increasing voluntary compliance (Bedada, 2016). Additionally, there are various opinions that exist for best ways of improving tax compliance. However, given the chance, a lot of businesses cannot pay their taxes unless there

is motivation to do so. Some other people believe that the best way to provide motivation is to increase incentives while others believe that the best way is to increase penalties (Feld & Frey, 2007).

Theories informing this study are broadly classified into economics and psychology-based theories:

2.3.1 *Economical or Deterrence Theories*

These theories place their emphasis on tax incentives. They suggest that VAT operators are amoral utility maximisers because they are influenced by economic motives such as maximisation of profits and probability to detection. As such, VAT operators analyse alternative compliance paths, for instance, whether to evade tax, the likelihood of being detected and the resulting repercussions. Then they choose the alternative that maximises their expected output after evaluating returns and adjusting risk. This process is referred to as “playing the audit lottery” by Trivedi and Shehata (2005).

2.3.2 *Psychology Theories*

These theories postulate that VAT operators are motivated to comply with their tax obligations by psychological factors and focus on their morals and ethics. The theories suggest that some VAT operators may comply even when the probability of detection is so low. As opposed to the economic theories that emphasize on increased audits and penalties as solutions to compliance issues, psychology-based theories lay their emphasis on changing individual attitudes towards tax compliance.

Therefore, the study combined use of these two theories because the reviews have demonstrated that tax audits play a significant role in increasing voluntary compliance because high audits rates and their thoroughness potentially encourage VAT operators to be more prudent in completing their VAT returns.

2.4 *Relationship between Factors that Influence VAT Operators' Compliance*

An economic and behavioural experiment done by Ritsema and Thomas (2003) studied the behaviour of non-compliant VAT operators by investigating factors such as age, education, marital status, income level and unpaid tax arrears. The study established that filing status, income and tax evading opportunities positively correlated to amounts of tax owed to tax authorities. Reasons advanced for these findings were lack of money by VAT operators to settle their tax obligations. This problem was common to VAT operators who owed higher tax amounts because they were not motivated by a sense of morality to pay tax arrears. The researcher's findings confirmed the view that VAT operators are very different in their motivation for failure to declare and pay taxes.

Alm and Michael (1992) used laboratory experiments to test compliance behaviour of different VAT operators. Tax returns

were selected for audit process considering deviation of each taxpayer's tax return from the normal return. The results indicated that it was difficult for individual VAT operators to coordinate and collaborate on tax evasion. The study also discovered that most tax authorities can minimize tax evasion by using information disclosed by VAT operators such as income or sales reported on their tax returns to determine and decide small VAT operators to be audited. When tax variances are established, the taxpayer is fined and asked to pay the additional tax. Probability was used to select VAT operators randomly for audit and each taxpayer had the chance of being picked for an audit exercise regardless of the status of tax returns. However, it was discovered that the method was weak as it was neither fixed nor constant. It became variable and endogenous, depending on the behaviour of both the taxpayer and tax administration. To overcome this problem, known individual malpractices such as deviations from industry norm regarding average tax returns were used and the method proved to be more effective in deterring tax evasions

An experiment conducted by Alm et al. (1991) involved graduates from University of Colorado, the subjects were given money as income ranging from 25 cents to \$2 dollars and were required to decide how much they were supposed to declare and pay tax. Using money from a group tax fund, participants were rewarded by sharing money equally amongst them. Each respondent was guaranteed a minimum of \$5 for participating and additional earnings that ranged between \$15 and \$25. The study found that tax compliance occurs because some individuals are oversensitive or overweight to low probability of an audit exercise. In addition, it was observed that individuals do not behave as if their preferences are linear. They often remit tax because of their expected utility as it can be seen that an increase in money respondents received as rewards, also increased their compliance level. These results suggest that compliance increases when taxpayer's value public goods financed by tax payments most. It was therefore concluded that individuals pay taxes in order to receive public services even when there is no probability of being detected and punished. However, the study has been criticized because it was in form of an experiment and used students more than the actual VAT operators. It has further been established that behaviour is dynamic and is bound to provide different results because thinking and reasoning are not linear.

2.5 *Extent of factors Influencing Small VAT Operators' Compliance*

In trying to examine the extent of factors influencing VAT operators' compliance many studies were reviewed. Most relevant study was done by Dubin, Gractz and Wilde (1990) who established that a dollar (\$) of revenue collected by the tax authority was a result of taxpayer audits and a further additional six dollars collected was as a result of the indirect effects. The most interesting breakthrough was that previous official communication pertaining to audit results announced

by the tax authority brought negative impact on subsequent compliance of the VAT operators while un-official communication of audit results made by VAT operators themselves increased tax compliance. The study was however considered weak because the depth of data analysis was very limited and shallow despite having adequate sample size because it was an experiment.

The work of Birskeyle (2013) was also reviewed. It was a study that was conducted in the United States of America and established that a volume of audits that were successfully completed had a positive and significant impact on tax compliance. It was further established that 1% increase in audit volume directly increased state revenue by approximately \$2. The study provided empirical evidence to the fact that audits have a deterrent effect on taxpayer compliance. Other important milestones that were observed were that opportunities to evade tax are provided by weak tax systems and educational qualification of taxpayers. These factors correlated to tax compliance levels of VAT operators. It was concluded therefore that there was positive correlation between auditing and compliance levels and any increase in audit coverage meant a substantial increase in dollar revenue. The study recommended an increase of resources to audit function in order tax authorities to achieve high levels of compliance.

Kinsey (1992), using an experiment, also found out that compliance increases greater with perceived probability of being audited. In that study it was established that a 10 % increase in the audit rate increased compliance by 2 %. However, the experiment was said to be weak and limited because it was difficult to create a real-world situation and that subjects were not representative of the population because of recollection bias, reluctance to report past behaviour and not to appear dishonest. Again, it was hard to distinguish whether VAT operators remitted taxes because they had a social duty or fear of an audit. In a survey done by the Internal Revenue Service Oversight Board, it was reported that 96 % pay taxes because of their civic duty and 62 % pay for fear of an audit. However, the problem was that the relationship between audit coverage and compliance are not linear and therefore impact of an audit cannot be uniform to all VAT operators because income levels come into play. Dubin, et al. (1990) also discovered that a decline of audit rates from 2.5 % in 1977 to 1 % in 1986 reduced income tax collection by \$41 billion. Another study done by Plumley (1996) confirms that audits significantly increase reported income. As a result, there are some auditing programmes that are more effective in encouraging compliance than others. For example, performing comprehensive audits deter evasion while issue oriented audits encourage evasion. The argument is that VAT operators are more likely to evade a single tax because they know that it takes time for a tax authority to make another set of audit round as it is very costly and time consuming for tax authorities to conduct these audits.

In the studies conducted by Blumenthal and Christian (2001), Alm and McKee (2006), Ebimobowei and Eze (2013) the results showed that there is a positive relationship between tax audit and tax compliance. This means that the compliance rate rises if the tendency of being tax-audited is high. If the taxpayers are informed that their fillings will be closely examined, there is a tendency for the taxpayers' behaviour to change in response to an increased probability of being tax audited. They found also that penalties and interest as enforcement tool had a significant inverse relationship with tax compliance which implied that an increase in penalty tended to decrease tax compliance. This finding is congruent with the Marrelli (1984), Marrelli and Martina (1988), Alm, Jackson and Gordon (1990), McKee (1992), who found that penalty rates had a negative association with tax compliance. For example, In Nigeria, Ebimobowei and Eze (2013) found that despite the penalties taxpayers still did not fully comply with taxes because the penalties were either weak or poorly enforced. This meant that penalties did not deter tax evasion. The findings were that the relationship between penalties and tax compliance was inversely significant. The result further revealed that there was a significant positive relationship between government spending and tax compliance. This connotes that an increase in government spending on the social and welfare needs of its citizens tends to positively influence tax compliance. The study established that in Nigeria there was a causality effect between tax audit and tax compliance. Again, in Marti (2010) and Marti, et al., (2010) studies performed in Kenya on taxpayers' attitudes and tax compliance behaviour, it was established that there was relationship between attitude and tax compliance.

However, it is evident from the reviews that not all studies agreed to the fact that audits have a deterrent effect on compliance. For example, Bergman and Nevarez (2006) conducted a research whose data was generated from Chile and Argentina and discovered that audits do not affect future individual compliance and that the gap between pre and post audit compliance rates widened. VAT operators that were not audited had a better compliance rate than those audited. It was further discovered that compliance levels slightly increased during audits and worsened after concluding audits. These results were against what tax officials believed because they contended that VAT operators refrained from under-declaring or miss-reporting sales during audits. It was therefore concluded that audited VAT operators consistently decreased their payments to tax authorities more than those not audited. They illegally reduce their tax obligations by manipulating sales in order to decrease output VAT and fake purchases to artificially increase input VAT. The use of fake invoices was the most popular strategy for evading VAT in both countries. Martinez-Vazquez and Rider (2003) also established that VAT operators take advantage of loopholes available in tax authorities to escape compliance. They established that there was a 50 % VAT reduction and noncompliance on audited VAT operators because they wanted to recover the additional tax and penalties they suffered at close of the audit. The

additional taxes compensated future noncompliance thereby forcing tax authorities to under collect VAT. Therefore, the study provided evidence for rejecting claims that tax audit directly increases individual compliance among operators and that penalties and other sanctions have a positive effect on tax evasion.

Therefore, the literature review has established that tax audits are a central feature to voluntary compliance framework, and they have a direct deterrent effect on audited VAT operators. In contrast, they have an indirect deterrent effect on VAT operators who have not been audited. Dubin, Gractz and Wilde (1990) established that a dollar of revenue collected by the tax authority was a result of audits and any additional six dollars collected was a result of the indirect VAT auditing. Birskeyle (2013) also established that the volume of audits that were successfully completed had a positive and significant impact on tax compliance. These studies further provided strong evidence that audits have a deterrent effect on taxpayers' compliance and that there is positive correlation of audit to compliance levels. Ebimobowei and Eze (2013) also established in their study that they performed in Nigeria that there is a causality effect between tax audit and tax compliance. Again, in Marti (2010) and Marti, et al. (2010) studies on taxpayers' attitudes and tax compliance behaviour they performed in Kenya established that there is relationship between attitude and tax compliance.

On the contrary, Bergman and Nevarez (2006) and other cited researchers disagree that audits directly affect compliance. They emphatically concluded that audited VAT operators consistently decrease net tax payable to tax authorities. Also, Martinez-Vazquez and Rider (2003) rejects the claim that tax audit directly increase individual tax compliance. It is also clear that most of these studies were done in developed countries with very few studies in developing countries such as Malawi evidenced through limited literature compared with the developed countries. A study conducted by Mazzolini et al. (2016) tested for heterogeneous effects of audits depending on its outcome. The study found that the audit's target effect was in place only when evasion was detected or when it was likely to be detected. This implied that it was not the audit alone that has positive effects on individual compliance behaviour, but the change in taxpayers' beliefs relative to IRA's ability to detect evasion that induced a higher post-audit tax compliance.

2.8 Chapter Summary

The chapter has reviewed studies made related to VAT compliance. Key issues that came out were that many studies have been conducted in developed countries with very few in developing countries because there is not much literature on developing countries. More also, latest literature on the topic was hardly available. The studies have presented two schools of thoughts whereby the first school has presented evidence that tax audits have a deterrence and reciprocity effects on tax compliance while the second school is of the contrary view

and has argued that tax audits do not have a deterrence and reciprocity effect on tax compliance. These studies have informed this study by pointing out that tax audits play a significant role in encouraging and increasing voluntary compliance and changes compliance behaviour from negative to positive. However, some researchers had opposing views and argued that audits did not significantly correlate with tax evasions. They indicated that there was potential exposure to compliance problems to the extent that audit history, frequency, outcome and audit type of small business owners had significantly and indirectly impacted on compliance. It has also been noted that small VAT operators are relative and dynamic, characterized by uncertainty, innovativeness and evolution. They are small in size; owner or family managed and require lower start-up capital. They are mostly sole proprietorships as such they are not separate legal entities and have a short lifespan with no perpetual continuity. They are usually labour intensive and usually serve larger manufacturing firms. As such, they represent a high-risk group in the tax administration and can only be encouraged to pay tax by conducting tax audits frequently. The next chapter will look at the research design, ethical considerations, research reliability, validity and study diagnostics tests.

III. RESEARCH METHODOLOGY

3.1 Chapter Overview

This chapter discusses the methodology used to collect data and states the research philosophy, research approach, research design, sample selection and size, data collection and analysis, limitations and duration of the study period. The methodology established a research paradigm and how data were collected using quantitative techniques. Both primary and secondary data were collected and analysed to draw conclusions and recommendations on auditing and VAT operators' compliance.

3.2 Research Philosophy and Approach

Philosophy of the study was premised on an Onion as provided by Saunders et al. (2016) where it is stated that data collection is a step by step process that is synonymous to peeling off an onion where one starts by peeling off or taking out the outer layer before reaching into the inner layer. The methodology was handled in a similar fashion in order to collect relevant data.

Positivism philosophy was chosen and used in this study because it assumes an objective world that can be measured by scientific methods where researchers can predict and explain causal relations among key variables (Chikhwenda, 2005). This philosophy focuses on the study objectives and advocates a stance of a natural scientist. Utilising positivism was important to this study because it emphasised quantifiable observations and statistical data analysis.

A deductive or top-down approach of handling matters was used in the study because the researcher intended to work from a broader and general perspective picture that

generalized issues to finer and specific issues. This approach was also elaborated by Yin, (2003) who stated that an existing theory can be used to formulate objectives, research questions and more theoretical propositions that can be used as a platform for organizing and analysing data. The study hypothesised that VAT auditing affects compliance amongst small VAT operators. This assumption led to the development of the main objective first and thereafter specific objectives.

3.3 Research Strategy

A cross sectional survey research design was used to observe and collect data from a subset of a population at a specific time (Lavrakas, P. J., 2008). Data was collected using questionnaires that were administered to the targeted respondents. It was quantitatively processed and analysed using descriptive and inferential statistics modes of the SPSS. In this case, the cross-sectional survey was very advantageous over other strategies because the researcher was in control of the data collection process. In this case, the survey was able to generate data whose findings were representative, and the data collection process was cost effective. Easterby-Smith et al. (2008) agree and recommends that cross-sectional studies should often employ surveys as their strategies.

3.3.1 Population

The study determined its sample from a population of 9839 small VAT operators that were found in a VAT register maintained by Malawi Revenue Authority as at 30th June 2020 in Blantyre, Malawi.

3.3.2 Sampling

Probability sampling technique was used to identify the respondents from the population because it provided a chance for each respondent to be selected and that the chance was calculated and known in advance. Furthermore, it increased the sample's representativeness, decreased sampling error and bias. Sampling is often associated with surveys and experimental research strategies (Saunders, et al., 2016).

3.3.3 Sampling Frame

Sampling frame was an important aspect of the study and constituted a complete list of all elements in the population from which the sample was drawn. It constituted all registered small VAT operators in Blantyre City.

3.3.4 Sampling Technique

Simple random technique was chosen and used considering factors such as geographical area over which the population was spread, nature of sampling frame which further influenced the probability of the sampling technique, structure of the sampling frame, the required sample size, and ease of the technique. Simple random sampling was used for selecting the respondents randomly from the sampling frame. A computer was used to generate random numbers and each of the cases was numbered in the sampling frame using a randomizer in an excel spreadsheet. The list of registered

VAT operators was copied and pasted into columns of an excel sheet and a function (= RAND ()) was created to generate the random numbers. The lists were sorted and rearranged in order from highest to lowest random numbers. This technique offered simplicity in assembling respondents in a fair way from the population of small VAT operators. It was felt that using random sampling, a reasonable generalization was established and achieved. Furthermore, in determining the sample size using a simple random technique, the researcher, pegged the margin of error at 5 % in order to achieve a high level of accuracy. This is a statistic expression of the amount of sampling error where the results would be close to characteristics of the population. Secondly, the confidence level was pegged at 95 per cent because a high level of certainty was desired and was achieved meaning that the sample really represented the population.

3.3.5 Sample Size

Statisticians have proved that when the sample size of a study is large, the distribution curve is somehow close to normal. Thus, the larger the sample size the more robust it will be, and a relationship called a central limit theorem occurs. Stutely (2003, p. 40) states that statisticians have shown that a sample size of more than thirty respondents result into a sampling distribution whose mean is close to a normal distribution curve and therefore makes generalisation possible.

Rao application software was used to select the sample size and a 5 % margin of error and 95 % level of confidence were inserted in the appropriate fields. The result was a sample size of three hundred and fifty-three (353) respondents. An excel spreadsheet was also used to arrange the names of small VAT operators into a frame and to generate random numbers in order to get a list of respondents.

3.3.6 Data Collection Methods and Instruments

Since the use of positivism philosophy focuses on quantitative data and assumes an objective world that can be measured scientifically the study was quantitative in approach. Such being the case, quantitative methods of data collection were used because positivism philosophy is more of quantitative and tend to generalize results. This approach, though, is contrary to (Wisdom & Creswell, 2015) :(Cresswell & Plan Clark, 2011 p 11) who recommends the use of mixed methods together because they generate quantitative and qualitative.

To avoid reinventing the wheel, secondary data was collected and the process involved reviewing of various documents in order to get a profile of registered VAT operators. This type of data was sourced from various offices within MRA structure. However, the secondary data had limitations because it was collected for other purposes and, as a result, it was not a useful resource in answering the research questions and achieving the study objectives. These limitations provided justification for the need and collection of primary data.

Primary data was collected using a questionnaire that was carefully developed in order to get vital information from the

respondents. In designing it, attention was put on issues such as clarity, use of clear language and expressions. A combination of measuring scales such as nominal, ordinal and rating were used. Nominal scales were used to collect bio data of the respondents as it served as a label in gender identification and other parameters that often do not require calculations. Ordinal scales were used to collect and arrange respondents' preferences according to their magnitude while rating scales were used to collect information relating to respondents' attitude that required them to estimate magnitude of characteristics of a compliant VAT operator, effects of VAT auditing and VAT operators' compliance and strategies for improving VAT operators' compliance.

The questionnaire was pilot tested on five small VAT operators selected randomly in order to understand how respondents answered the questions in order to make the necessary adjustments to the questionnaire from a different site. Pre-testing was an essential step in the questionnaire designing process and it helped to evaluate on how respondents generally responded to the questions. Closed questions with yes or no answers, multiple choice questions that required respondents to tick their favoured answers and spaces to fill in reasons for their choices were asked. Likert scales were used to determine the extent of attitudes on compliance. The questionnaire was personally distributed to the respondents. Qualitative and quantitative data was prepared, mathematically captured and computed on the SPSS using different measuring scales classified into nominal, ordinal, interval and ratio scales

3.4 Ethical Considerations

Love (2012); Saunders & Thornhill (2016) describes that ethics are principles and guidelines that help people to uphold beliefs they value, and it deals with values and morals. It is the application of moral principles and professional codes in collecting, analysing, reporting, and communicating research results from respondents. Ethics are based on people's personal values i.e. what one person or group considers to be good or right might be considered bad or wrong by another person or group. Again, considering what Cohen, Manion and Morrison (2004, p. 58) stated that "it is important to observe rights of respondents as human beings and should be respected at all times during studies". This implies that decisions regarding completion of questionnaires remain entirely in respondents' hands. Therefore, in this study, respondents were given a chance to withdraw from the study any time they felt doing so. They were not coerced to provide information which they felt was sensitive and or discriminating. They were provided with assurance that their responses shall remain anonymous and confidential. They were assured that their information would not be used in a way that adversely affected them and no financial rewards were made available for responding to the questionnaire. A statement to that effect was included on the questionnaire.

3.5 Research Reliability and Validity

Easterby-Smith et al. (2008, p. 109) defines reliability as "the extent to which data collection techniques and analysis procedures yield consistent findings". Reliability can be checked if same measures yield same results on all other occasions and similar observations are achieved. In this study, reliability was defined as the degree to which tools produced consistent results. Validity is defined as stance that findings are really about what they appear to be (Saunders et al., 2016). It means how well tests measure what ought to be measured and was necessary in this study in order to convince the stakeholders to make them believe the findings. The type of validity used in the study is formative because it ascertained the provision of information and made sure that measures covered a broad range of areas within the study.

3.7 Chapter Summary

This chapter presented the methodology used in this study. The positivistic philosophy and cross-sectional survey strategy were selected and justified for collecting primary and secondary data, analysis of data and presentation of findings. Probability sampling technique or rather simple random was used to identify the sample from a population of 9839 small VAT operators bearing in mind their geographical location. These respondents were identified because small VAT operators were the riskiest group than medium and large VAT operators. Additionally, tax evasion is rife amongst this group because their payment of VAT depends on many attributes considering that VAT is a self-assessment tax. Quantitative data was collected, prepared and processed using SPSS from 101 questionnaires that were received from a sample of 353 respondents representing 29 % response rate. Ethically, respondents could withdraw from the study any time they felt doing so and were assured that their information will remain confidential. A statement to that effect was disclosed on the questionnaire. A diagnostic test was made to assess the reliability of data using Cronbach's Alpha coefficient and it confirmed that the data was good and normal. The next chapter shall look at data analysis, findings and their discussion.

IV. DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

Raw data does not convey any meaning to its users until it is processed and turned into information that can be used to make judgements, interpretations, conclusions and recommendations. Miles, Huberman and Saldana (2013, p. 69) define data analysis as "the process of inspecting, cleaning, transforming and modeling data with the goal of discovering useful information, suggesting conclusions and supporting decision-making". Data analysis consists of actions such as examination, categorization, tabulation, and re-combination of data. In that regard, the researcher categorized data into various groups and made sure that

statistical techniques were fully utilised so that findings made sense.

Data analysis in this study was based on responses from small VAT operators using survey questionnaires. There were three hundred and fifty-three (353) questionnaires that were distributed to respondents in Blantyre and Limbe areas and out of the total questionnaires, the researcher, only received 101 questionnaires. This represented 29 % response rate and was significant representation of the sampled population. However, it failed to achieve the desired 50 % response rate because some respondents willingly pulled out from the study. It was noted during the field visits that most respondents were reluctant to divulge their tax affairs despite assurances that their information would not in any way be disclosed to business competitors and tax authority. The respondents still felt that the researcher would disclose their information to Malawi Revenue Authority and more also to the general public, some of whom are business competitors who may likely gain a competitive advantage.

The collected data was organised and captured in variable and data panes of the Statistical Package for Social Sciences (SPSS) version 25. This software was used to analyse descriptive statistics into frequencies, graphs and tables. Pearson correlation was used because the data was parametric (continuous variables) in nature. Furthermore, multiple linear regression was used to analyse the data in order to assess the relationships between factors and VAT compliance and more also examine the factors influencing the VAT operators' compliance.

4.2 Demographic Data of Respondents

Respondents' demographic data segmented the composition into males and females. The result indicated that 80% were male while 20% were female and were further segmented into attributes such as age, ethnicity, education qualification and marital status. The ages ranged between 25 and 70 years and this signified that issues of VAT auditing and compliance involves people of various age groups. However, the study revealed that out of 101 respondents that answered the questionnaire, those that were aged between 45 and 54 years were most observed. This trend suggests that issues of VAT compliance among small VAT operators and more also small businesses were frequently performed by respondents of this age group, perhaps because they are mature and responsible in their conduct of small business management. Furthermore, the results revealed that 88% of the 101 respondents were blacks while those of Asian origin were only 6.9%. This outcome indicated that VAT activities among small VAT operators and most small businesses were being performed by local Malawians, perhaps because they are now locally empowered financially by the organisations that provide capital in form of small loans. The individual respondents were either owners of these businesses or employees and so they transacted VAT activities on their own or on behalf of the owners. Their educational qualifications ranged from Primary School

Leaving Certificate (PSLC) to doctorate degree and the outcome indicated that most of them (28.7%) were those with diplomas and were seconded by those with Malawi School Certificate of Education (MSCE) (27.7 %). Respondents qualified to diploma level and above were mostly from accountancy background and accountancy was also the most popular qualification amongst the respondents. The explanation for this trend could be that VAT activities are mostly performed by individuals with accounting knowledge and skills. The results indicated that 82.2 % of the respondents were married while 11.9 % were single and 5.9 % of the respondents did not reveal their marital status. This result suggested that most respondents performing VAT activities are performed by married people who tend to be stable, mature and responsible. Table 2 below provides the summary of the demographic results.

Table 1: Demographic Data of Respondents

	Category	Frequency (N=101)	Percentage (%)
	Male	1	80.2
	Female	0	19.8
Age	25 – 34	6	15.8
	35 – 44	2	31.7
	45 – 54	8	37.6
	55 – 64	2	11.9
	65 – 74		3.0
Ethnicity	Black	9	88.1
	White		4.0
	Coloured		1.0
	Asian		6.9
Education Qualification	PSLC	1	10.9
	MSCE	8	27.7
	Diploma	9	28.7
	Degree	8	17.8
	Masters	2	11.9
	Doctorate (PhD)		3.0
Marital Status	Single	2	11.9
	Married	3	82.2
	Other		5.9

Source: Field Survey Data, 2020

The findings were also compared to the sample frame considering that only 29 % of the total sampled respondents are the ones that provided feedback while 71% did not respond to the questionnaire. The outcome of such a

comparison indicated that the demographic results provided a true representation of issues on the ground.

4.4 Relationship of Factors that Influence VAT Operators' Compliance

An assessment on the relationship of factors that influence VAT operators' compliance was performed using a Pearson correlation analysis to determine whether there is a relationship between VAT compliance and VAT audit. The result showed that there was no significant relationship between VAT compliance and VAT audit ($r = -0.093, p = 0.356$) (Table 5).

Table 2: Pearson Correlation Analysis between Compliance and VAT Audit

		VAT compliance	VAT audit
VAT compliance	Pearson Correlation	1	-.093
	P-value		.356
VAT audit	Pearson Correlation	-.093	1
	P-value	.356	

Source: Field Survey Data, 2020

Therefore, the alternative hypothesis (H_1) that there is a relationship between VAT audit and small VAT operators' compliance is rejected. As such the null hypothesis (H_0) was accepted concluding that there is no relationship between VAT compliance and VAT audit. These findings are consistent with Bergman and Nevarez (2006), Modugu and Anyaduba (2014), Manhire (2015), Martinez-Vazquez and Rider (2003) who found that tax audit did not directly increase tax compliance. Contrary to these researchers and findings are Alm and McKee (2004), Dubin, Gractz and Wilde (1990) and Birskyle (2013) who established that taxpayer audits were a central feature to the voluntary compliance framework and had a direct and deterrent effect on all audited VAT operators. Specific to African experiences, Modugu and Anyaduba (2014) discovered that tax audits did not make any substantial impact on the low tax compliance in Nigeria. Therefore, the findings of this study have suggested that noncompliance of VAT operators in Malawi is unaffected by the audit rates. This is an indication to Malawi Revenue Authority that VAT audit alone is not a tool for the enhancement of VAT operators' compliance in Malawi.

A further analysis using Eta correlation was performed in order to determine other factors that are associated to VAT operator's compliance. The analysis was between VAT operator's compliance and attributes such as religion, ethical behaviour, patriotism, VAT morale, honesty, personal qualification, marital status, economic necessity, government wastefulness, pride in development and penalties and interest. The study used Eta correlation for this analysis because it is the most appropriate tool in the examination of relationships between an interval variable and categorical (Table 6). Results of Eta correlation analysis showed that there was significant relationships between VAT compliance and ethical ($r =$

$0.215, p = 0.030$), education ($r = 0.460, p = 0.000$ and marital status ($r = 0.245, p = 0.049$), economic necessity ($r = 0.334, p = 0.001$), penalties and interest ($r = 0.596, p = 0.000$). These findings are like what other researchers found. For example, the study done by Alm and McKee (2004) indicated that compliance levels were high amongst VAT operators and they paid their taxes on time and without defaulting for fear of being charged penalties and fines. It is also noted that there was positive relationship between VAT operators' compliance and economic necessity because the compliance of VAT operators was affected by lack of money to pay their tax obligations to the tax administration as VAT operators opt to keep and use the money in the business than paying tax.

Table 3: Eta Correlation Analysis between VAT Compliance and other factors Influencing VAT Operators' Compliance

	N	Eta Correlation	P-Value
Religion	101	0.18	0.141
Ethical	101	0.215	0.030**
Patriotic	101	0.106	0.293
VAT morale	101	0.039	0.699
Honesty	101	0.065	0.516
Education	101	0.460	0.000**
Marital status	101	0.245	0.049**
Economic necessity	101	0.334	0.001**
Government wastefulness	101	0.114	0.258
Pride in development	101	0.161	0.107
Penalties and interests	101	0.596	0.000**

** indicates p-value < 0.05 (significant)

Source: Field Survey Data, 2020

This scenario is very common to VAT operators who owe tax authorities higher tax amounts because they are not motivated by any sense of morality to pay tax arrears (Ritsema & Thomas, 2003). VAT operators also get motivated to pay taxes when they see public goods such as hospitals and school projects that government provides in their communities using tax revenues (Alm & McKee (2006). The differences in VAT compliances by operators is dynamic and bound to behave differently at times and situations considering that their thinking and reasoning is not linear.

A study conducted by Ritsema and Thomas (2003) found that older aged VAT operators who were highly educated, married and high-income earners were more compliant to taxes. The current study indicates that compliance of VAT operators in Malawi is not strongly influenced by auditing alone but probably by other factors that are more influential in encouraging their willingness to voluntarily comply with the VAT obligations. Recent studies on tax compliance emphasises on the importance of exploring the impact of non-

economic factors from several perspectives such as individual VAT operators' internal values that derive their values, culture and religion towards tax obligations. Religious values held by most individuals are generally expected to effectively prevent negative attitudes and encourage positive attitudes in an individual's daily life and, hence, religiosity is presumed to positively motivate VAT operators to voluntarily comply with tax laws (Mohdali, 2016).

4.5 Factors Influencing Small VAT Operators' Compliance

This sub section of the study was aimed at examining the factors that influence VAT operators' compliance. To achieve this objective, respondents were asked to respond by taking one option (yes or no) to the questions. This was done to see if they considered factors such as VAT audit, ethical, education, marital status, economic necessity, government wastefulness, pride in development and afraid of penalties and interest as reasons for paying tax. A multiple linear regression analysis was performed, and results are reported (Table 7).

The results of multiple regression analysis showed that VAT audit ($t = 9.698, p = 0.004$), pride in development ($t = -4.140, p = 0.000$) and being afraid of penalties or interests ($t = -6.646, p = 0.000$) were statistically significant factors for explaining VAT operators compliance. The results also showed that although factors such as government wastefulness, economic necessity, marital status, education and ethical are related to VAT operators' compliance they are not statistically significant factors for explaining VAT operators' compliance. Furthermore, the results showed that the model is statistically significant ($F = 13.649, p = 0.000$) and 50% of the variation in VAT operators' compliance is being explained by VAT audits, pride in development and afraid of penalties or interest. However, when the model with only VAT audits was fit to the data, the results showed that only 1 % of VAT operator's compliance is explained by VAT audits. Therefore, findings of the study have informed that VAT audits do not make any substantial impact on VAT compliance in Malawi. The results have proved beyond any reasonable doubt that audit productivity and effectiveness does not add much value to Malawi Revenue Authority.

Table 4: Regression Analysis of the Factors Influencing VAT Operators' Compliance

Variable	Unstandardized Coefficients		T	P-value
	B	Std. Error		
(Constant)	33.338	3.438	9.698	.00**
VAT audit	-1.098	.371	-2.956	.004* *
Ethical				

Yes	2.010	1.062	1.892	.062
No (reference category)				
Education				
Yes	.264	1.253	.211	.833
No (reference category)				
Marital status				
Yes	4.569	2.577	1.773	.080
No (reference category)				
Economic necessity				
Yes	-.483	1.398	-.345	.731
No (reference category)				
Government wastefulness				
Yes	1.897	1.438	1.320	.190
No (reference category)				
Pride in development				
Yes	-5.401	1.305	-4.140	.000* *
No (reference category)				
Penalties and interest				
Yes	-8.364	1.259	-6.646	.000* *
No (reference category)				
<i>Adjusted R</i> ² = 0.503, <i>F</i> = 13.649, <i>P</i> = 0.000				

** indicates p-value < 0.05 (significant)

Source: Field Survey Data, 2020

The results of multiple linear regression analysis showed that VAT audit ($t = 9.698, p = 0.004$), pride in development ($t = -4.140, p = 0.000$) and being afraid of penalties or interests ($t = -6.646, p = 0.000$) were statistically significant factors for explaining VAT operators' compliance. The results also showed that although factors such as government wastefulness, economic necessity, marital status, ethics and education are related to VAT operators' compliance, they are not statistically significant factors for explaining VAT operators' compliance. Furthermore, the results showed that the model is statistically significant ($F = 13.649, p = 0.000$) and 50% of the variation in VAT operators' compliance is being explained by VAT audits, pride in development and afraid of penalties or interest. However, when the model with only VAT audits was fit to the data, the results showed that only 1 % of VAT operator's compliance is explained by VAT audits. Therefore, findings of the study have informed that VAT audits alone do not make any substantial impact on VAT compliance in Malawi. The results have proved beyond any reasonable doubt that audit productivity and effectiveness does not add much value to Malawi Revenue Authority.

4.7 Chapter Summary

This section presented data analysis, findings and discussion based on the responses from VAT operators. It is established from the study that compliant and non-compliant VAT operators depicted similarities and differences in characteristics such as attendance to religious activities, legal entities, business nature and turnover. The chapter also outlined factors that influence VAT compliance. Finally, the chapter presented tools for enhancement of compliance such as taxpayer education, tip-off anonymous, electronic bank payment and electronic filing. Additionally, the study has identified tools and strategies that can improve VAT compliance when properly used. The next chapter discusses the conclusion and suggests recommendations.

V. CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study considered tax compliance as synonymous to looking at a coin that has two sides and further advocated for a deeper understanding of issues such as motivation, circumstances and characteristics that can achieve high compliance rates amongst small VAT operators. The findings have provided insights in the area of VAT auditing and compliance of small VAT operators. For example, it has been noticed that VAT declaration decisions are made in uncertainty situations where small VAT operators have two options, that is, whether to declare the actual output and input VAT or cheat to declare less output VAT or vice versa. It has also been observed that some respondents have not been compliant at one point or another.

5.2 Conclusions

The study established that audits are not a very important feature to voluntary compliance framework of VAT operators even when they make their own self assessments. It has been noted that audits do not cause a significant impact on the compliance of VAT operators. As such, under normal circumstances, some VAT operators shall remain non-compliant because tax compliance decisions are made unitary and in uncertainty situations and failure to declare one's true tax liability does not automatically provoke a penalty or fine. An attempt has been made to present a comprehensive analysis of the responses the VAT operators made particularly regarding VAT audits and compliance. Subsequently, following an extensive review of relevant literature relating to tax audits and VAT operators' compliance in other climes and results of the study, it is therefore concluded that audits do not make any substantial impact on compliance of VAT operators in Malawi. It therefore behoves on the Malawi Revenue Authority to pursue more pragmatic and effective means of enhancing compliance in Malawi in order to consolidate and improve the performance of VAT and government's revenue.

5.3 Recommendations

For Malawi Revenue Authority to promote high VAT compliance rates among VAT operators in Malawi the following measures are recommended:

- i. MRA should combine audit with other enforcement tools such as civic education in order to stimulate compliance.
- ii. MRA should engage government to devise tax policies that promote compliance. For example, putting in place low tax rates.
- iii. MRA should devise pragmatic, practical and effective operation plans that enhance the impact of VAT audits in order to consolidate VAT compliance and revenue.

5.4 Contribution of the Study

5.4.1 Body of Knowledge

The study has empirically and significantly contributed knowledge and enriched the world of education especially in the field of Value Added Tax. It remains an additional insight for anyone who may wish to read further on the topic to the extent that that researchers may use the identified characteristics for further and future studies. The knowledge and information gained from this study shall help in the human development and empowerment of tax professionals in their day to day work performance. The study has added new knowledge to the limited literature available in the region.

5.4.2 Tax Policy

The study has shed light on matters of tax policy and in that context, government shall come up with efficient and effective policies that motivate and encourage small VAT operators to voluntarily pay their tax obligations. Tax policies that lessen the burden of the indigent people are appropriate and should be designed in order to close the gap between the poor and the rich. Poorly designed tax system leads to low efficiencies, high collection charges, waste of time among operators and revenue administrations, low tax revenue and deviation of optimum allocation of resources. Yaobin, (2007) emphasised the formulation of special tax regimes for small business operators and are appropriate policy instruments for minimising cost of revenue collection. In so doing, government shall help maintain a balance between large, medium and small VAT operators and reduce uncertainties faced by small VAT operators as well as improve their levels of voluntary compliance (Kasipillai, 2005). A good tax policy stabilizes the economy and redistribution of wealth of people in a country and more also ensures government to have a steady stream of revenue throughout the year (Mill, 2009).

5.4.3 VAT Compliance

VAT is the most important and reliable source of revenue for government and the study has pointed out areas that need to be addressed in order to have effective and efficient tax system that encourages VAT compliance so that VAT operators pay their tax obligations willingly. This development shall ensure VAT operators file correct and accurate information on returns and VAT payment. Thus, the primary purpose of tax audit is to ascertain the extent to which VAT operators comply with the relevant statutory provisions

of the VAT Act compared to their statements of financial position and other tax-related returns. Once this is established, Malawi Revenue Authority shall assess VAT operators using best audit practices. VAT audits once mixed with other strategies such as tax education, superior customer service and tax simplification programmes shall improve compliance of VAT operators.

5.5 Areas for Further Study

There is need for Malawi to increase its tax revenues to finance its services and economic development. As such, VAT was the preferred instrument to achieve that goal because it's less detrimental to growth than Income taxes. Currently, its performance is not encouraging and pleasing. Yet, it has been noted from the study that VAT auditing does not affect the compliance of VAT operators in Malawi. Therefore, a study on the concept of VAT operators' attitudes towards compliance should be undertaken in order to fully understand the real causes of high levels of noncompliance among VAT operators in Malawi. There is need to investigate on the factors that influence taxpayers' attitudes and its relationship between attitudes and tax compliance behaviour among small VAT operators. This subject has received a lot of debate in most forums and the outcome of such a study would lead into the development of necessary action plans that can be implemented by the Malawi Revenue Authority in order to improve on the VAT compliance and revenue for a better Malawi.

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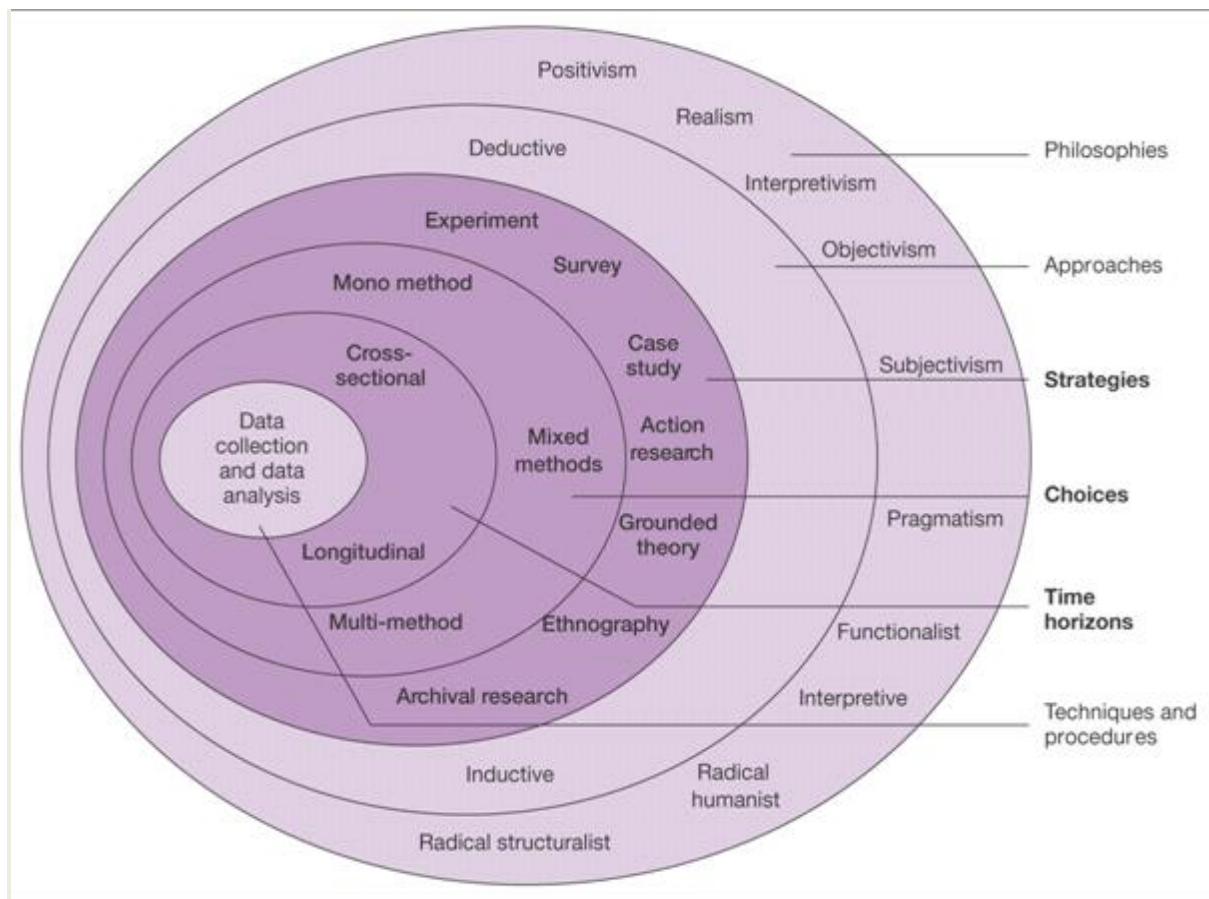
APPENDICES

Appendix 1: Categories of Registered VAT Operators

Type of Taxpayer	Turnover (MK million)	2014/15
Large VAT operators	Equal to or greater than MK750m	620
Medium VAT operators	Equal to or greater than MK500m but less MK750m	503
Small VAT operators	Equal to or greater than MK10m but less than MK500m	4339
Total		5462

Source: Malawi Revenue Authority, VAT Register, June 2020

Appendix 2: Research Onion as Adapted from Saunders et al. (2016)



Appendix 3: Template for finding sample size

What margin of error can you accept? 5% is a common choice	<input type="text" value="5"/> %	The margin of error is the amount of error the study tolerates. If 90% of respondents answer <i>yes</i> , while 10% answer <i>no</i> , the researcher may be able to tolerate a larger amount of error than if the respondents are split 50-50 or 45-55. A lower margin of error requires a larger sample size.
What confidence level do you need? Typical choices are 90%, 95%, or 99%	<input type="text" value="95"/> %	The confidence level is the amount of uncertainty the study tolerates. Supposing that the researcher has 20 yes-no of questions in the study. With a confidence level of 95%, the researcher would expect that for one of the questions (1 in 20), the percentage of people who answer <i>yes</i> would be more than the margin of error away from the true answer. The true answer is the percentage you would get if you exhaustively interviewed everyone. Higher confidence level requires a larger sample size.
What is the population size? If you don't know, use 20000	<input type="text" value="9839"/>	How many people are there to choose your random sample from? The sample size doesn't change much for populations larger than 20,000.
What is the response distribution? Leave this as 50%	<input type="text" value="50"/> %	For each question, what do you expect the results will be? If the sample is skewed highly one way or the other, the population probably is, too. If you don't know, use 50%, which gives the largest sample size.
Your recommended sample size is	353	This is the minimum recommended size of your survey. If you create a sample of this many people and get responses from everyone, you're more likely to get a correct answer than you would from a large sample where only a small percentage of the sample responds to your survey.

Alternate scenarios							
With a sample size of	<input type="text" value="100"/>	<input type="text" value="200"/>	<input type="text" value="300"/>	With a confidence level of	<input type="text" value="90"/>	<input type="text" value="95"/>	<input type="text" value="99"/>
Your margin of error would be	8.98%	6.77%	5.46%	Your sample size would need to be	82	116	196

Appendix 4: Fraction of Non-Filers against Filers

