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The development and testing of a diagnostic tool for assessing VAT compliance costs: pilot study findings

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Abstract

This article presents the findings of a pilot research project designed to evaluate the merits of a prototype diagnostic tool for gauging the nature and likely overall incidence of value added tax (VAT) compliance costs at the country level, and to assess its use in comparative cross-country assessments to promote reform. The project was conducted across 13 countries, representing a mix of advanced and developing economies from all continents.[1] Drawing on feedback from participants in the project, the findings appear broadly aligned with community and government expectations, and participants were generally of the view that the tool displays merit in assessing the likely aggregate (or relative) VAT compliance burden and its main drivers. The VAT diagnostic tool survey undertaken as part of the pilot also sought to gather insights into the degree of government and institutional recognition and attention being given to address tax compliance costs as a means of gauging a sense of the 'maturity' of each country's approach to compliance burden management, which was found to be weak in a number of the participating countries.

Key words: tax compliance costs; VAT and GST; diagnostic tool; compliance burden management

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1. INTRODUCTION

The problem of the heavy burden imposed on businesses by taxation has been a key concern for governments and academic researchers for many years (Sandford, 1973; Organisation for Economic Co-operation and Development (OECD), 2007; Eichfelder & Vaillancourt, 2014). A key component of that burden comprises the monetary and time costs expended by taxpayers in complying with tax obligations, whether relating to their own tax affairs or the tax affairs of others (such as employees or shareholders) for whom they have some level of responsibility. These costs represent a significant and often hidden burden for businesses. Academic studies suggest that the compliance costs of business taxes such as the Value Added Tax (VAT) or Goods and Services Tax (GST), corporate income tax (CIT), employment and payroll related taxes, and excise duties are significant and not reducing over time (Lignier, Evans & Tran-Nam, 2014; Evans, Lignier & Tran-Nam, 2016). Typically, they constitute anywhere between 2% and 10% of the revenue yield from those taxes and up to 2.5% of GDP (Evans, 2008).

The significance of this burden is keenly felt by all parts of the business community including its professional advisors who have first-hand experience of, and insights into, the burden of such costs on industries and the hindrance such costs impose upon international trade and economic development.[2] Another recent report by professional advisors noted that Australia's productivity is being choked by red tape, with the combined cost of administering and complying with public and private sector bureaucracy costing the nation AUD 250 billion every year (Deloitte, 2014, p. 4). The burden of tax compliance accounts for a very significant part of those costs (Deloitte, 2014, pp. 36-37).

Over the decades, a variety of approaches have been used to gauge the size and nature of this tax compliance burden. In early research efforts, surveys – postal surveys of a random selection of businesses – were frequently the main source of data (Evans, 2003). However, surveys along these lines require considerable time and effort and the results are not always conclusive given the low response rates sometimes achieved. As a result, more recent efforts to better understand the burden of tax regulations have entailed the use of other methodologies, in particular the European Commission's *Standard Cost Model* and the World Bank's *Doing Business (DB)* series (European Commission, 2013; Independent *Doing Business* Report Review Panel, 2013). While each of these methodologies has a number of useful features, they also present their own set of conceptual and practical limitations (Highfield, Walpole & Evans, 2017).

In 2012, officials at the OECD Centre on Tax Policy and Administration (including two researchers now associated with this project) commenced exploratory work to develop an alternative methodology (the exploratory work was published in Walpole, 2014). It was acknowledged from the outset that it would be impractical to ask all OECD member countries to undertake comprehensive compliance cost exercises for all their major taxes, given the time and costs involved and the many practical issues that would arise in ensuring that an agreed methodology was applied consistently across the countries involved. A more modest and practical approach was needed that suggested looking individually at each major tax.

[2] See, for example, KPMG, 'The importance of a global tax conversation' (Global Responsible Tax Project), https://responsibletax.kpmg.com/home, (accessed 23 October 2017).

Initial thinking about assessing the tax compliance burden associated with VAT systems suggested that it should be possible to develop a diagnostic tool that identifies the main factors that drive taxpayers' compliance costs, to identify a robust set of 'compliance burden indicators' that could be applied reasonably objectively for each factor, and to derive a method of scoring and possible weightings that reflect their perceived contribution to the overall VAT compliance burden. Applied systematically and regularly at the individual country level, it was envisaged that the tool could potentially provide insights as to whether progress was being made in an overall sense to reduce taxpayers' compliance burden and to identify those areas of tax system design and administration that require attention from a burden reduction perspective.

An additional consideration concerned the potential to undertake and publish large scale cross-country comparisons, given the attraction of using such comparisons to encourage 'poor performers' to give greater attention to address the compliance burden of their tax systems. Under this scenario, a large number of countries would be able to make comparisons between their tax systems and assess the likely impact of the policy and operational choices they make on compliance costs. The set of indicators would show how a country 'scores' against a comprehensive range of predetermined factors (and related largely objective indicators) that reflect important elements of tax compliance burden/costs (i.e., activities related to time and effort required to comply with tax obligations and, for some taxes such as VAT, offsets and detriments linked to the 'time value of money'). If it was possible to identify an appropriate weighting for each of the indicators, then that could be used to arrive at an aggregate, overall 'score' for the compliance burden of the tax in each country, which could be the basis for more meaningful comparisons than can be made using the indicators currently available.

The OECD's work was never advanced beyond the preliminary development stage as a result of other work priorities and was suspended in early 2013. In mid-2015, academics at the UNSW Sydney Business School agreed that the idea of the diagnostic tool, initially focusing on VAT compliance costs and building on the earlier OECD work, warranted further exploration. To this end, preliminary expressions of interest in advancing this new work were sought in 2016 from a cross-section of academics around the world, and the International Monetary Fund (IMF). The idea of the diagnostic tool and a proposal for further work was also introduced at an academic symposium on VAT held in Pretoria, South Africa in October 2016. With broad interest established in conducting further exploratory work, a formal pilot study was launched in early 2017.

This article details the findings, conclusions and recommendations of the pilot study conducted across 13 diverse economies with the assistance of academic researchers, and government and private sector officials, to test the strengths and weaknesses of the prototype diagnostic tool for assessing the VAT compliance burden. Section 2 of the article outlines the design and development of the prototype VAT diagnostic tool, while the conduct of the pilot itself, using an extensive survey instrument, is considered in section 3. The results of the survey are provided in section 4, and section 5 considers the key outcomes of the pilot project and identifies refinements made in the light of benchmarking against existing measures, feedback from survey participants and more detailed analysis provided at a workshop held in Sydney in April 2018 and attended by many of the survey participants. Finally, concluding comments and future directions for the project are considered in section 6. This article reflects the project position as at 1 July 2018.

2. THE DIAGNOSTIC TOOL

The design and development of the VAT diagnostic tool was a multi-stage process. The main steps that were involved are summarised below.

2.1 Step 1 – Identification of key causes ('factors') of tax compliance costs

The framework for the diagnostic tool was established through the identification of four key factors that were viewed as being influential in driving the overall incidence of VAT compliance costs. These factors were determined following a review of contemporary literature and from discussions with country tax officials when the original developmental work was carried out at the OECD. Further enhancements were made following the academic symposium held in South Africa in October 2016.

The key factors identified were as follows:

Factor A – Tax law complexity;

Factor B – Number and frequency of requirements to comply;

Factor C – Revenue body capabilities in meeting taxpayers' services and compliance needs;

Factor D – Monetary costs/benefits associated with the act of complying.

As the focus was only on the most critical aspects contributing to the VAT compliance burden (i.e., factors A – D), the pilot represented an opportunity for each factor to be properly assessed such that it would ultimately enhance the diagnostic tool's effectiveness.

2.2 Step 2 – Assignment of indicators to each key cause ('factor')

A comprehensive set of compliance burden indicators (21 in total in the initial iteration of the tool) were developed and categorised under Factors A – D. These indicators are largely objective and aim to maintain the consistency of the final weighted scores used for cross-country comparisons. A full list of the 21 indicators associated with the four factors, which are briefly summarised here, is contained in the Appendix.

Factor A is associated with the perceived degree of complexity and compliance burden resulting from core elements of the VAT policy framework (i.e., the VAT rate structure, VAT exemptions, the accounting basis applied and the types of rules available for prescribed industries). These core elements and associated indicators (four in total, relating to the VAT rate structure, the range of exemptions available, the availability of cash accounting for small businesses and the availability of simplified systems for prescribed industries) were selected on the basis of previous studies suggesting they have a direct impact on compliance costs. For instance, international bodies have observed that 'multiple rates increase compliance … costs and perhaps facilitate evasion' (International Tax Dialogue, 2013, p. 23 (and references there cited)).

Factor B is associated with administrative obligations and events arising under the VAT law (e.g., registration, filing, payment, record-keeping, audits, disputes) and the burden these impose on business. For example, the VAT registration/collection threshold has been established as a burden indicator in the diagnostic tool as its level can have a direct and significant bearing on the numbers of taxpayers brought within the VAT base and, therefore, the overall level of compliance costs and administrative burdens (Bain et al., 2015). A total of nine indicators were identified for this factor.

Factor C is assigned indicators (six in total) that provide more insight into how each country's revenue body operates in the context of helping taxpayers comply with their obligations. The indicators applied relate to the revenue body's website service, its online VAT payment and return filing services, its phone inquiry service as well as its ability to provide timely VAT refunds and/or private rulings. Theoretically, the provision of such services reduces tax law complexity and thus, compliance burdens (Smulders & Evans, 2017). The pilot study provided a means of determining the extent to which this occurs across the revenue bodies covered by the pilot study.

Factor D is allocated two indicators that explore aspects of the monetary costs and benefits involved in complying with VAT laws. These indicators provide information on the aggregate value of annual VAT refunds and provision for interest payments (if any) provided in the VAT for delayed refunds.

2.2.1 Other information

The tool used in the pilot also included a qualitative component that sought to gather information concerning the institutional attention directed towards VAT compliance burden issues by both government and the public sector (e.g., the Ministry of Finance (MOF) and revenue body). The data to be gathered aimed to provide some insights as to the actions being taken by governments and others and could serve as a catalyst for further action.

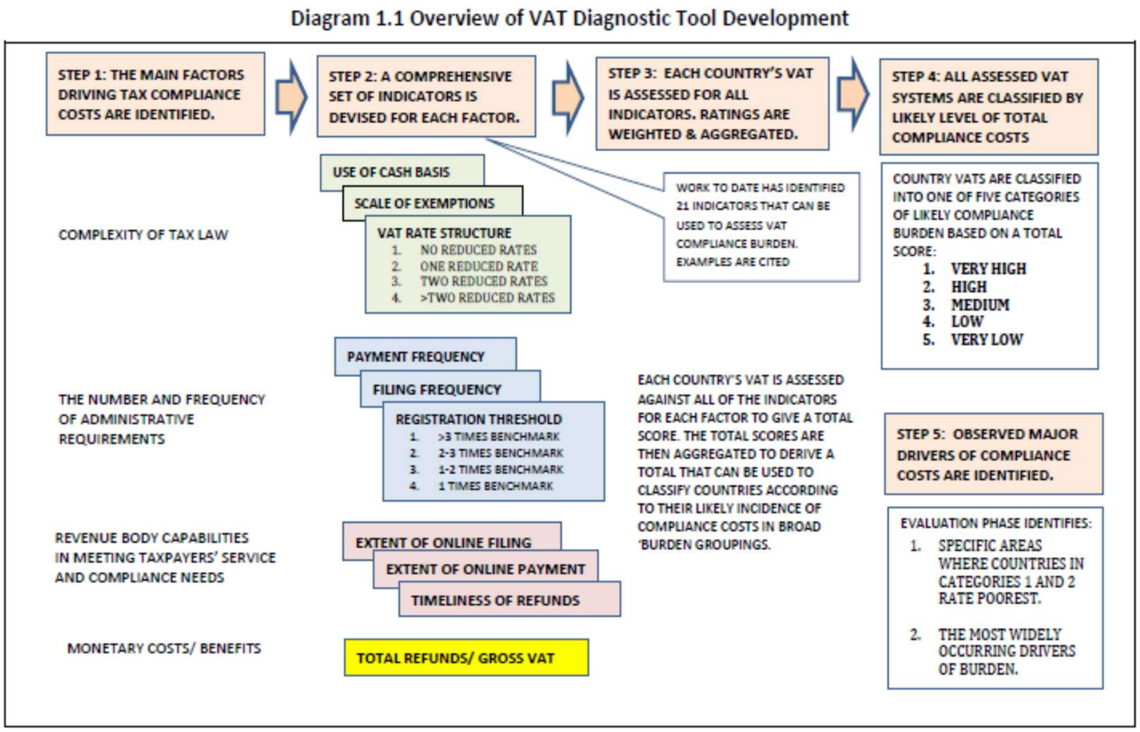
2.3 Steps 3-5 – Application of tool, overall compliance burden classification and evaluation

The prototype tool developed in Steps 1 and 2 was then sent to a leading VAT academic known to the researchers in each of the 13 countries. The 13 academics received comprehensive guidance notes along with the diagnostic tool. They were also informed that they would need to consult with tax professionals and representatives of the business community in their countries, and that some of the data required would also need to be sourced from their respective revenue authorities and/or ministries of finance. These consultations with relevant stakeholders took place in all 13 countries, although the academics took final responsibility for the completion of the tool.

Each participating country was then assessed against the 21 indicators and ultimately assigned a final weighted score corresponding to an assessed overall compliance burden rating ranging from 'very low' to 'very high'.

Figure 1 summarises the development of the prototype VAT diagnostic tool through the various steps: from initial identification of the four main factors that are considered to drive tax compliance costs for businesses in their interactions with the VAT regime in operation; on to identification of the 21 indicators considered to be relevant in determining the VAT compliance burden; population of the VAT survey instrument to reflect a country's scoring against each indicator; weighting of the relative impact of all indicators; and final classification of the compliance burden imposed by a country's VAT system by reference to five categories, ranging from 'very low' to 'very high'.

Fig. 1: Overview of VAT Diagnostic Tool Development



Source: authors

3. THE SURVEY

3.1 Survey participants

Thirteen countries were targeted for engagement in the pilot study. The sample of countries was selected on a convenience basis, usually based upon the availability of academic contacts located in those countries known to the researchers. However, the researchers were also mindful that, so far as possible, they wished to include a representative mix of countries, in terms of a geography, in terms of levels of economic development and in terms of the nature and structure of the VAT system in operation. As a result, the countries initially selected for the pilot comprised: Australia, Belgium, Canada, Chile, Croatia, Ethiopia, Greece, Indonesia, Malaysia, New Zealand, South Africa, the United Kingdom, and Vietnam. Belgium subsequently withdrew from the project and Egypt was included. With Egypt's inclusion, survey results were received in respect of the VAT systems operating in 13 diverse countries from all continents.

3.2 Survey design and implementation

The survey was designed to capture data required to assess the likely VAT compliance burden at an individual country level and to allow for cross-country comparisons and trend analyses. It was centred on the VAT diagnostic tool and was largely quantitative in nature.

First, participants were asked to evaluate and rate their country's VAT system applying the 21 compliance burden indicators comprising the diagnostic tool for the fiscal year ending in 2016. This process was to be informed by their own experience and research.[3] Secondly, they were required to provide an overview of the governmental and institutional recognition given to VAT compliance costs through the provision of 'yes' or 'no' responses relating to the existence of government plans and targets, revenue bodies' formal planning documents and formal consultative arrangements involving discussions on issues relating to VAT compliance costs. As this was a pilot study, participants were also encouraged to provide feedback on any issues they experienced when completing the survey form and/or during the information-gathering process.

Countries that had expressed their willingness to participate by 15 March 2017 were provided with surveys on 1 April 2017. All participants received a generic letter they could use, if deemed helpful, when approaching individual organisations for further information. It contained an assurance that all participating organisations would have an opportunity to review the preliminary findings of the survey and other draft materials, before their publication. Participants were required to provide periodic progress reports in May, June and July 2017. All preliminary responses were received and largely finalised by 12 November 2017.

Most participants were able to either fully or largely complete the survey form. During December 2017 and January 2018, efforts were made by UNSW Sydney researchers to validate a few of the indicators reported (e.g., VAT registration thresholds) using publicly-available data sources and to locate some of the missing data. This verification exercise resulted in a number of suggested data revisions and inclusions that were advised to participants. With participants' agreement, survey responses were then revised to take account of the new data, with country's ratings and weighted scores adjusted accordingly.

3.3 The development of weightings for each burden factor

It was agreed at the outset of the project to develop a means for scoring and weighting the compliance burden indicators being applied in the prototype diagnostic tool. For reasons of simplicity, the weighting was to be applied factor by factor, meaning that all related indicators for each factor would be deemed of equal significance. The development of a total weighted score was seen as a prerequisite to the derivation of a composite indicator that could be used to allocate participating countries into groupings as to their likely perceived overall incidence of VAT compliance costs.

Hence, a panel of five participating researchers (from Australia, Canada, Croatia, Indonesia and Vietnam) was established to develop an approach to this aspect of the project and a proposal for going forward was agreed upon. Following on from this, the academic representative from each of the 13 participating countries was given an opportunity to provide a judgment on the relative weighting of each of the four core factors identified as influencing a country's VAT compliance burden. Participation in

[3] Primary sources of information were generally derived from bodies such as the Ministry of Finance (MOF) and tax and accounting professionals whereas revenue bodies and legal databases served as useful secondary sources.

this phase of the work was voluntary and in the end eight contributions were received. Following a review of these contributions and some minor revisions by three participants, a set of weightings was settled for use, as shown in Table 1.

Table 1: Suggested Factor Weightings Provided by Participants

Country	Suggested Weightings			
	Factor A Tax law complexity	Factor B Administrative obligations	Factor C Revenue body capabilities	Factor D Monetary costs/ benefits
Australia	25	40	25	10
Canada	35	25	20	20
Croatia	20	40	30	10
Indonesia	35	30	20	15
Malaysia	30	30	35	5
New Zealand	25	35	25	15
S. Africa	25	35	35	5
Vietnam	35	35	20	10
Range	20-35	25-40	20-35	5-20
Median	25	35	25	10
Arithmetic Mean	28.75	33.75	26.25	11.25
Geometric Mean	28.2	33.4	25.6	10.1

Analysis made of the weightings provided by the eight participants pointed to a reasonable degree of consistency in the judgments made. All participants clearly rated Factor D as the least significant and relatively low. Six participants rated Factor C (revenue body capabilities) as of lower significance than Factor B (administrative obligations), one ranked them of equal significance, and one favoured Factor C over B. Judgments on the relative weightings of Factors A and B varied: two rated Factor A as more significant than B; four favoured B over A, and two ranked them of equal significance. The judgments concerning Factors A and B suggested that their final weighting for scoring purposes should be fairly close and, viewed more broadly, above the weightings for Factors C and D.

As agreed among the participating researchers, a 'geometric mean' computation of weightings was made for each factor and applied for determining the final weighted score for each factor. Weighted scores were then aggregated for each country to derive an overall weighted score, as shown in Table 2.

Table 2: Theoretical Scores (Weighted and Unweighted)

Factor	Minimum unweighted score	Maximum unweighted score	Proposed weighting	Minimum weighted score	Maximum weighted score
A	4	15	1.282	5	19
B	9	31	1.334	12	41
C	6	21	1.256	8	26
D	2	9	1.101	2	10
Totals	21	76		27	96

The final weightings also enabled the derivation of minimum and maximum theoretical scores reflecting an incidence of overall burden that was then used to derive groupings of very low, low, medium, high and very high in evenly spread score ranges (Table 3).

Table 3: Ranges of Compliance Burden

	Overall classification of compliance burden	**Proposed weighted score range**
Range of weighted scores: 27 to 96	Very Low	27.000 to 40.800
	Low	40.801 to 54.600
	Medium	54.601 to 68.400
	High	68.401 to 82.200
	Very High	82.201 to 96.000

4. SURVEY RESULTS

This section of the article provides an analysis of the 13 country survey responses for each factor and associated indicators comprising the diagnostic tool.

4.1 Factor A – Tax law complexity

As noted earlier and shown in the Appendix, there were four indicators identified for Factor A – Tax law complexity. Country ratings for this factor are set out in Table 4, followed by comments in relation to each indicator.

Table 4: Country Ratings: Tax Law Complexity

Country	Tax law complexity indicators			
	Indicator 1: Complexity of VAT rate structure	**Indicator 2: Range of exemptions**	**Indicator 3: Use of cash records is permitted**	**Indicator 4: Rules for prescribed industries**
Australia	1	3	1	3
Canada	1	2	4	3
Chile	1	1	2	1
Croatia	3	2	3	3
Egypt	2	2	3	3
Ethiopia	1	3	4	4
Greece	3	2	4	4
Indonesia	1	3	4	4
Malaysia	1	3	3	3
New Zealand	1	1	1	4
South Africa	1	2	3	4
United Kingdom	3	2	1	1
Vietnam	3	2	1	4
Mean Score	1.692	2.154	2.615	3.154
Median	1	2	3	3
Range	1 – 3	1 - 3	1 - 4	1 - 4

4.1.1 Indicator 1: Complexity of VAT rate structure

This indicator was derived by taking account of the number of reduced rates in the VAT (other than a zero rate for exports). Most countries reported having a relatively simple tax rate structure, with nine reporting either no reduced rates or only one reduced rate. The countries reporting two or more reduced rates were Croatia, Greece and Vietnam. During the validation phase Greece's participant reported that one reduced rate was in place until the end of 2017 for a few Aegean islands affected by the refugee crisis and was not taken into account for survey purposes.

4.1.2 Indicator 2: Range of exemptions

This indicator was derived by taking account of the estimated incidence of exemptions as a proportion of the overall VAT base. Most countries reported having a narrow or standard range of exemptions,[4] as reflected in the mean and median scores of 2.154 and 2, respectively. Countries reporting an extensive range of exemptions were Australia, Ethiopia, Indonesia, and Malaysia (where the GST was implemented in 2015[5]).

[4] This means that exemptions made up 0 – 20% of their estimated VAT base.
[5] Note that the Malaysian GST was subsequently repealed in August 2018.

4.1.3 Indicator 3: Use of cash records is permitted

This indicator was derived by taking account of the availability of the 'cash basis of accounting' as a means of calculating VAT liabilities, and (if applicable) the extent of its usage. Many countries rated poorly on this indicator, with eight reporting that either use of the cash basis is generally not permitted, or where such usage is permitted its usage is likely to account for less than 25% of the VAT population of taxpayers. Greece was one such country and it was reported that, while there is provision in the law for use of the cash basis, this entails fairly complex administrative procedures that in practice discourage its use by most taxpayers.

4.1.4 Indicator 4: Rules for prescribed industries and usage

This indicator was derived by taking account of the availability of simplified rules for calculating VAT liabilities in prescribed industries and (if applicable) determining how many taxable persons these industries accounted for in practice (as a percentage of the total taxpayer population). Most countries scored poorly on this indicator, as reflected through the high mean and median scores of 3.154 and 3, respectively. Across all survey responses, 11 participants reported either the non-existence of prescribed rules or where such rules were available their estimated use by no more than 25% of the taxpayer population.

In some countries, VAT laws authorise the Minister of Finance to issue simplified rules for specific industries where it may be difficult for them to follow regular bookkeeping and invoicing rules. An example would be article 12 of Egypt's VAT law, though it is seldom used. Egypt scored 3 on the survey, which suggests that simplified rules exist for taxpayers in one or more prescribed industries that account for 0-25% of VAT taxpayers.

It is important to note that participants who responded with the highest score (4) were not necessarily suggesting that simplified VAT rules did not exist in their country. For example, in New Zealand, simplified rules applied to all small taxpayers[6] whilst in South Africa, there were simplified VAT rules in financing and agricultural industries, though they had not been formally 'prescribed'. Unfortunately, these nuances are not reflected in the quantitative results.

4.2 Factor B – Number and frequency of requirements to comply

Country ratings for this factor are set out in Table 5 below, followed by comments for each of the nine indicators built into this aspect of the diagnostic tool.

[6] The rules were not limited to a set of prescribed industries.

Table 5: Country Ratings: Number and Frequency of Requirements to Comply

Country	Number and Frequency of Obligations Indicators								
	Relative size of the VAT registration threshold	Availability and usage of electronic registration	Payment frequency obligations for SMEs	Filing frequency obligations for SMEs	E-invoices between businesses & their usage	Reporting of e-invoices to the tax body	Length of record retention periods	Rate of VAT audits	Rate of VAT assessment disputes
Australia	4	1	1	1	3	1	2	1	1
Canada	4	4	1	1	2	1	2	1	2
Chile	5	1	3	3	1	1	2	3	2
Croatia	3	4	3	3	3	1	3	1	1
Egypt	1	4	3	3	2	3	2	3	3
Ethiopia	1	4	3	3	2	3	3	2	3
Greece	4	1	1	1	3	1	3	1	2
Indonesia	1	4	3	3	1	1	3	2	1
Malaysia	1	1	1	1	3	1	2	1	1
NZ	3	1	2	2	3	1	2	1	2
SA	1	4	2	2	1	1	2	1	2
UK	3	1	1	1	1	1	2	2	2
Vietnam	5	1	1	1	3	3	3	2	3
Mean Score	2.769	2.385	1.923	1.923	2.154	1.462	2.385	1.615	1.923
Median	3	1	2	2	2.000	1	2	1	2
Range	1 – 5	1 – 4	1 -3	1 – 3	1 – 3	1 - 3	2 - 3	1 - 3	1 - 3

4.2.1 Indicator 1: Relative size of the VAT registration threshold

This indicator was derived by taking account of the VAT registration threshold, as a percentage of the benchmark amount (i.e., a country's average per capita income). A few countries rated poorly on this indicator due to either having no registration threshold (i.e., Chile and Vietnam) or one set at a relatively low level (i.e., Australia and New Zealand).

The setting of the VAT registration threshold is an important issue in VAT system design and depending on its level can have a major bearing on the overall numbers of businesses caught within the VAT net and administrative workloads of the revenue body.

Examination of some survey responses prompted researchers to take a closer look at the level of registration threshold for all countries and a summary is set out in Table 6, along with the computation of the ratio 'threshold/ GNI per capita' to put them in a comparative and relative context. As will be apparent, there is an enormous divergence across survey countries which clearly must have implications in a tax compliance burden context.

Table 6: Registration Threshold/Gross National Income per Capita

Country	Standard registration threshold		GNI per capita for 2016 (USD)[7]	Value of threshold/GNI (%)
	National Currency	USD[8]		
Australia	75,000	54,769	54,420	101%
Canada	30,000	21,654	43,660	50%
Chile	None	-	13,540	-
Croatia	230,000[9]	32,689	12,140	269%
Egypt	500,000	63,856	3,410	1,873%
Ethiopia	500,000	23,605	660	3,577%
Greece	10,000	10,858	19,090	57%
Indonesia	4.8 billion	347,072	3,400	10,208%
Malaysia	500,000	116,200	9,860	1,178%
New Zealand	60,000	41,079	38,750	106%
South Africa	1 million	64,457	5,490	1,174%
United Kingdom	85,000	125,320	42,330	296%
Vietnam	None	-	2,100	-

As framed for the pilot survey, the diagnostic tool and its associated indicator in this area appears grossly inadequate as substantial differences in the threshold have minimal impact from a scoring and rating viewpoint. This was taken into account in the post-pilot analysis and is considered further in section 5 of this article.

4.2.2 *Indicator 2: Availability and usage of electronic registration for VAT*

This indicator was derived by taking account of the availability of electronic registration for VAT and (if applicable) the extent of its usage. Survey responses for this indicator fell into two categories: six countries where registration was still a paper-based process; and seven countries where electronic registration was available and was used by over 50% of applicants.

In comments accompanying its survey response South Africa noted that although businesses can register 'electronically', the process had to be physically verified meaning that, ultimately, it occurs 'on paper'. This comment raised an additional consideration – when using indicators that entail the use of 'electronic' services, should consideration also be given to practical requirements related to the use of those services? A similar observation was provided by Chile concerning e-filing. Again, these points are further considered in section 5.

4.2.3 *Indicators 3 and 4: Payment and filing frequency obligations for SMEs*

These indicators were derived by taking account of the frequency with which small and medium enterprises (SME) taxpayers were required to meet their payment and filing obligations. Survey responses for these two indicators revealed five countries where

[7] World Bank, 'GNI per capita, Atlas method (current US$)' (2016) World Bank Open Data, https://data.worldbank.org/indicator/NY.GNP.PCAP.CD.
[8] The value of the threshold expressed in US dollars as of 1 January 2016: *XE.com*, http://www.xe.com/currencytables/?from=USD&date=2016-01-01.
[9] Registration threshold is HRK 300,000 from 1 January 2018.

there was a 'one size fits all' monthly filing and payment regime for all taxpayers (Chile, Croatia, Egypt, Ethiopia and Indonesia). On the surface, this appears a significant issue for a country such as Chile where, with a zero registration threshold, there is a relatively large population of VAT taxpayers. On the other hand, the VAT registration threshold in Indonesia was in the region of USD 350,000-400,000, meaning that very few genuine small businesses would be impacted by a monthly filing and payment regime.

4.2.4 *Indicator 5: E-invoicing between businesses and their usage*

This indicator was derived by taking account of the legislative requirements on e-invoicing and the extent of its usage. Based on survey responses, there were no legislative barriers to the use of e-invoicing between businesses. However, from the responses provided, the practice of e-invoicing between businesses is far from maturity in many countries and only four reported estimated usage in excess of 50%. Significantly, the practice is not yet used widely in a number of advanced economies such as Australia and New Zealand where usage was reported as less than 25%.

4.2.5 *Indicator 6: Reporting of e-invoices to the tax body*

This indicator was derived by taking account of the circumstances where businesses are required to supply invoices to their revenue body. Survey responses indicated that this was not a significant compliance burden issue, with only three countries reporting that this has been mandated as a routine obligation of the VAT system (Egypt, Ethiopia and Vietnam). However, it has been observed that revenue bodies globally are increasingly embarking on the development of large computer-based e-invoicing systems where VAT invoice data is captured universally and cross-matched to verify taxpayers' reporting in their VAT returns.

4.2.6 *Indicator 7: Length of record retention periods*

This indicator was derived by taking account of the period taxpayers needed to retain their VAT records. In all 13 countries, taxpayers were required to retain their VAT records for at least four years, while the record-keeping requirement extended to over eight years – a long period by modern business standards – in five economies (Croatia, Ethiopia, Greece, Indonesia, and Vietnam).

4.2.7 *Indicator 8: Rate of VAT audits (yearly)*

This indicator was derived by taking account of the number of VAT audits each year as a percentage of the registered VAT payer population. Survey responses suggested this was not a significant compliance burden issue, with only one country (Egypt) reporting a rate of VAT audits in excess of 10% of the registered taxpayer population, and seven countries reporting a rate of auditing of less than 5% of the registered taxpayer population.

4.2.8 *Indicator 9: Rate of VAT assessment disputes (yearly)*

This indicator was derived by taking account of the number of VAT assessments disputed each year as a percentage of the number of VAT audits. Survey responses suggested that this was not a significant compliance burden issue, with only three countries (Egypt, Ethiopia and Vietnam) reporting a rate of VAT disputes in excess of 10% of the number of VAT audits. However, it should be noted that for four countries

(Canada, Chile, Greece and the United Kingdom), a 'mid-range' default indicator of 2 was selected in the absence of data in the original survey response.

4.3 Factor C – Revenue body capabilities in meeting taxpayers' service and compliance needs

Country ratings for this factor are set out in Table 7, along with comments for each of the six indicators identified for this factor.

Table 7: Country Ratings: Revenue Body Capabilities in Assisting Taxpayers

Country	Revenue body capabilities indicators					
	Revenue body's website	Standard of phone inquiry service	Rate of usage of online payment facilities	Rate of usage of online filing facilities	Timeliness of VAT refunds	Timeliness of private rulings
Australia	1	1	1	2	1	1
Canada	2	1	3	1	1	3
Chile	1	2	1	1	2	3
Croatia	1	1	1	1	2	2
Egypt	3	2	2	2	3	3
Ethiopia	3	3	4	4	4	1
Greece	1	1	1	1	4	3
Indonesia	2	2	1	1	4	3
Malaysia	2	3	1	1	4	3
New Zealand	1	1	1	2	1	3
South Africa	2	3	1	1	2	2
United Kingdom	1	2	1	1	1	1
Vietnam	2	2	3	1	4	3
Mean Score	1.692	1.846	1.615	1.462	2.538	2.385
Median	2	2	1	1	2	3
Range	1 – 3	1- 3	1 – 4	1 - 4	1 - 4	1-3

4.3.1 Indicator 1: Revenue body's website

This was a qualitative indicator that was derived by taking account of the 'comprehensiveness' of information provided for taxpayers on VAT obligations on the revenue body's website. To guide participants on how to assess 'comprehensiveness' practical guidance was provided and appeared at the end of the survey form used (see Appendix). From survey responses summarised in Table 7, it can be seen that the revenue authority websites in both Egypt and Ethiopia were assessed as providing very little to no information on taxpayers' VAT obligations, while another five revenue bodies fell into a category of 'reasonably comprehensive', assessed as failing to offer the full range of capabilities prescribed for the 'very comprehensive' category. As noted in section 5 below, this was considered to be another area where the integrity of this indicator could be strengthened by ensuring that it is based on a range of stakeholder assessments and, perhaps, also paying regard to 'ease of website navigation'.

4.3.2 *Indicator 2: Standard of phone inquiry service*

This was a qualitative indicator derived by taking account of the standard of the revenue body's call centre service, with particular attention being paid to its response time and the quality of advice provided.

Drawing on survey responses, revenue bodies in all 13 countries provide a dedicated call centre inquiry service. Generally, countries that scored well had a dedicated call option for VAT-related issues and a very fast response rate.[10] Meanwhile countries that had implemented VAT recently or hired call centre employees that were unable to provide technical advice scored poorly (e.g., Malaysia, South Africa).[11] Only three countries rated poorly on this indicator – Ethiopia, Malaysia (where the VAT in 2016 was only in its second year of operation), and South Africa.

4.3.3 *Indicators 3 and 4: Rate of usage of online payment facilities and online filing services*

These indicators were derived by taking account of the availability of online payment and filing services and (if applicable) the extent of their usage.

Most countries rated well on these indicators, achieving outcomes where at least 50% of taxpayers used online facilities to make VAT payments and to file their VAT returns. Ethiopia was the only country with no online VAT payment and filing facilities as well as a paper-based registration system. It is likely that its inability to introduce modern electronic services for its taxpayers for fulfilling VAT requirements has contributed to its high/very high compliance burden rating.

4.3.4 *Indicator 5: Timeliness of VAT refunds*

This indicator was derived by taking account of the length of time it took to refund 90% of excess VAT payments. Many countries rated poorly on this indicator, with six reporting that it could take up to three months or longer to receive a refund of excess VAT credits – Egypt, Ethiopia, Greece, Indonesia, Malaysia, and Vietnam. Notably, the actual incidence of VAT refunds (as a percentage of gross VAT) was less than 10% in Egypt, Greece and Vietnam, and between 10% and 20% in Ethiopia, Indonesia, and Malaysia. Slow payment of VAT refunds is frequently observed in developing economies and/or those in the midst of a fiscal crisis and this is apparent from the survey responses.

4.3.5 *Indicator 6: Timeliness of private rulings*

This indicator was derived by taking account of the length of time it took for revenue bodies to provide private rulings. Most countries rated poorly on this indicator, with eight reporting that rulings generally could not be expected in less than two months. In Malaysia, the rulings process was relatively slow as the practice of providing 'private rulings' is relatively new, and results were not well-publicised. In New Zealand, rulings generally took some time to finalise due to the extensive internal review process.

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[10] For example, in Greece, the caller could choose a dedicated open line about VAT-related issues and it was claimed that 80% of calls were responded to in less than 20 seconds.

[11] In Malaysia, VAT was still in its early stages of implementation, making it difficult for call centre employees to deliver high quality responses. In South Africa, employees who answered the phone did not have the knowledge or authority to assist. As a result, response rates tended to be slow.

Meanwhile, in Chile it was reported private rulings sometimes took over a year to be provided, as some of the questions being addressed were highly specific.

In practice, the requirement for VAT private rulings is likely to most frequently arise with large and medium-sized businesses. As such, while delays may represent a significant burden for those relying on them, their numbers are likely to be relatively insignificant.

4.4 Factor D – Monetary costs/benefits associated with the act of complying

Country ratings for this factor are set out in Table 8, along with comments for the two individual indicators.

Table 8: Country Ratings: Monetary Costs and Benefits

Monetary costs/benefits indicators		
Country	**Payment of interest on delayed refunds**	**Value of VAT refunds as a % of total gross VAT revenue**
Australia	1	5
Canada	1	5
Chile	1	4
Croatia	4	2
Egypt	4	1
Ethiopia	4	2
Greece	1	1
Indonesia	1	2
Malaysia	4	2
New Zealand	1	4
South Africa	1	4
United Kingdom	1	5
Vietnam	1	1
Mean Score	1.923	2.923

4.4.1 Indicator 1: Payment of interest on delayed refunds

This indicator was derived by taking account of whether interest was payable on 'late' refunds and the period of time that must elapse for this to occur. A country's compliance burden rating was ameliorated when interest was payable on excess VAT credits that were overdue.

Country responses for this indicator fell into two distinct categories: *'best practice'* where interest was payable on excess VAT credits unpaid after one month (nine countries fell into this category); and '*very poor practice'* where no interest was payable at all. Countries falling into this latter category were Croatia, Egypt, Ethiopia and Malaysia. For two of these countries, the value of refunds as a percentage of gross VAT was reported at 10% to 20% and refunds typically took more than three months, meaning that the compliance burden impact may be significant for the taxpayers impacted.

4.4.2 Indicator 2: The value of VAT refunds as a percentage of total gross VAT revenue

This indicator was derived by taking account of the amount of annual VAT refunds as a percentage of annual gross VAT collections, and its 'impact' ideally needs to be assessed in conjunction with indicators concerning the 'timeliness of VAT refunds' and where interest is paid on refunds paid 'late'.

In advanced economies where there are high volumes of exports and purchases of large capital assets, annual VAT refunds often represent more than 40% of total gross VAT collections (e.g., Australia, Canada and UK). For each of these economies, over 90% of refunds are paid within a month and interest is payable for refunds not paid after one month. Refunds were also prevalent (i.e. 30% to 40% of gross VAT) in Chile, New Zealand and South Africa, although Chile was unable to meet the 90% payment benchmark. Interest is payable on delayed refunds in all three economies. In developing countries such as Egypt and Vietnam, annual VAT refunds only accounted for less than 10% of annual total gross VAT collections.

4.4.3 Other information relevant to assessing the management of tax compliance costs

As noted earlier, the survey also obtained information relating to the attitude to, and management of, tax compliance costs by relevant government authorities. Country responses on this aspect are summarised in Table 9, followed by comments concerning each area reviewed. Overall, it can be seen that four countries (Canada, Chile, Indonesia and Malaysia) reported negative responses to all least four of the six indicators, whilst only Australia was able to claim positive responses to all six indicators.

Table 9: Other Information Gathered on the Management of Tax Compliance Costs

Country	Indicators of institutional posture and Government attitude to burden reduction (Yes/ No)					
	Formal goal to reduce compliance burden	Compliance costs are assessed in VAT policy proposals	Objective costs data captured from external sources	Announced government plan to reduce VAT burden	Revenue body's plan has burden reduction objectives	Formal consultative processes in place with business
Australia	Yes	Yes	Yes	Yes	Yes	Yes
Canada	No	No	No	No	No	No
Chile	No	Yes	No	No	No	Yes
Croatia	Yes	Yes	No	Yes	Yes	Yes
Egypt	Yes	No	Yes	No	Yes	No
Ethiopia	Yes	Yes	No	Yes	Yes	Yes
Greece	No	No	No	Yes	Yes	Yes
Indonesia	No	No	No	No	No	No
Malaysia	No	Yes	No	No	No	Yes
NZ	Yes	Yes	No	No	Yes	Yes
South Africa	No	Yes	Yes	No	Yes	Yes
UK	No	Yes	No	No	Yes	Yes
Vietnam	Yes	Yes	No	No	Yes	No

4.4.4 Formal government goals for reducing compliance costs/burden

Almost half of the countries surveyed (six out of 13) reported that formal goals have been set for reducing compliance costs. For example, in 2013 the Australian government established a deregulation agenda to achieve this objective.[12] Meanwhile, the Ethiopian government is committed to its Growth and Transformation Plan II (2015/16 – 2019/20), focused on improving tax collection efficiency and enhancing the public consultation process (National Planning Commission, Ethiopia, 2016, pp. 195-196). Similarly, in Vietnam, the ratification of the 2010 – 2020 tax reform strategy reflects the country's commitment towards reducing tax compliance costs through accelerated tax reforms.

Countries which introduced informal measures to combat compliance costs have also demonstrated low compliance burden ratings. In Canada, statements of intention to improve small business services have resulted in lower ratings. Meanwhile, Chile's VAT directive which compels it to take measures to make VAT more accessible for citizens (e.g., via the implementation of the e-invoicing system) has also been effective in reducing compliance costs.

4.4.5 Compliance costs considerations when formulating tax policy proposals

The majority of countries (nine out of 13) surveyed took compliance costs into account when formulating tax policy proposals. However, it should be noted that there are inconsistencies within the data. Although South Africa responded with a 'yes', this only reflects the responses from the South African Revenue Service (SARS); other participants from South Africa (tax academics and tax professionals) did not express the same view.

4.4.6 Objective costs data from external resources used to inform policy decisions

Only three countries (Australia, Egypt and South Africa) reported using objective data from external sources to inform their policy decisions. Every year the Australian Taxation Office (ATO) gathers objective data from taxpayers to gauge their compliance burdens.[13] This information is later used to inform the development of tax policies and compliance cost reduction initiatives. Once again, South Africa's positive response is reported as being problematic, as it only reflects SARS' view which contradicts the views of other participants.

4.4.7 Announced government plan to reduce VAT burden

Only four of the countries surveyed (Australia, Croatia, Ethiopia and Greece) announced that they were in the process of implementing government plans centred on VAT burden reduction initiatives. Greece has developed a major reform program designed to reduce its in-country VAT compliance burden. As part of this process, it has taken part in discussions focused on the VAT registration and deregistration process as well as the size of the current threshold. It was reported that by December 2017, tax

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[12] Since its inception (to 31 December 2016), annual compliance costs for businesses, individuals and community organisations have been reduced by AUD 5.8 billion (Douglas & Pejoska, 2017, p. 2).
[13] More information is available in Forum on Tax Administration (2010, p. 16), and the latest set of VAT/GST statistics published in ATO (2018).

authorities in Greece would have simplified the VAT legislation to ensure it aligns with the national Tax Procedure Code (European Commission, 2017, p. 68).

Although the Canadian Revenue Agency recently quadrupled its VAT registration threshold, the matter was not publicised and thus did not constitute an 'announced' government plan.

4.4.8 Revenue body's formal plans and goals/objectives for compliance cost reductions

Over half of the respondents surveyed (eight out of 13) confirmed that their revenue body's formal planning documents reflected their objective to reduce compliance costs. Those who responded with a 'yes' had compliance burden ratings ranging from low/medium to high/very high. This matter appears to have a minimal effect on a country's compliance burden rating.

4.4.9 Formal consultative arrangements to discuss compliance costs issues

The majority of the countries (nine out of 13) surveyed had arranged formal consultations to discuss compliance costs issues. In Malaysia, this took the form of a GST monitoring committee, whereby members (mainly representatives from various business associations) discussed GST issues periodically. In South Africa, discussions took place at a professional institute level (e.g., via the South African Institute of Tax Professionals and the South African Institute of Chartered Accountants). Other countries did not elaborate on the design of their formal consultations.

Further comment on these matters is set out in section 5.

5. KEY OUTCOMES FROM THE PILOT SURVEY AND POST-SURVEY DEVELOPMENTS

5.1 Key outcomes

The conduct of the pilot survey of 13 countries provided the research team with three key outcomes: an initial summary of country ratings, showing how each of the 13 countries compared to each other so far as the VAT compliance burden was concerned; an indication of the likely drivers of that VAT compliance burden; and an indication of the 'maturity' of each country's approach to VAT compliance burden management. Each of these three outcomes is explored in turn.

5.1.1 Country ratings

Table 10 below presents a summary view of country ratings provided as a result of the pilot survey of the 13 countries, summarising the responses in Tables 4, 5, 7 and 8 and their individual weighted scores applying the weighting factors identified in Table 2. Table 10 displays an assessment of the overall compliance burden for each country, drawing on the system of 'burden size' classification set out in Table 3. The lower the total weighted score the lower the overall compliance burden.

Table 10: Summary of Country Ratings

Country	Total weighted score for each factor				Total Weighted Score *(rounded to nearest whole number (actual value))*
	Tax Law complexity	Number/ frequency of requirements to comply	Revenue body's capabilities	Monetary costs/ benefits	
Australia	10.256	20.010	8.792	6.606	46 (45.664)
Canada	12.820	24.012	13.816	6.606	57 (57.254)
Chile	6.410	28.014	12.560	5.505	52 (52.489)
Croatia	14.102	29.348	10.048	6.606	60 (60.104)
Egypt	12.820	32.016	18.840	5.505	69 (69.181)
Ethiopia	15.384	32.016	23.864	6.606	78 (77.870)
Greece	16.666	22.678	13.816	2.202	55 (55.362)
Indonesia	15.384	25.346	16.328	3.303	60 (60.361)
Malaysia	12.820	16.008	17.584	6.606	53 (53.018)
N. Zealand	8.974	22.678	11.304	5.505	48 (48.461)
South Africa	12.820	21.344	13.816	5.505	53 (53.485)
U. Kingdom	8.974	18.676	8.792	6.606	43 (43.048)
Vietnam	12.820	29.348	18.840	2.202	63 (63.210)
Mean score	12.327	24.730	14.492	5.336	57 (56.885)
Median	12.820	24.012	13.816	5.505	55 (55.362)
Range	6.410 - 16.666	16.008 - 32.016	8.792 - 23.864	2.202 - 6.606	43 - 78 (43.048 - 77.870)

In turn, the country ratings in Table 10 suggested the following classification of countries into five broad bands ranging from 'very low' to 'very high'.

Table 11: Countries Rated by Classification of Compliance Burden

Very Low	Low	Medium	High	Very High
No countries ranked in this category	UK (43.048)	Greece (55.362)	Egypt (69.181)	No countries ranked in this category
	Australia (45.664)	Canada (57.254)	Ethiopia (77.870)	
	NZ (48.461)	Croatia (60.104)		
	Chile (52.489)	Indonesia (60.361)		
	Malaysia (53.018)	Vietnam (63.210)		
	South Africa (53.485)			

A number of observations can be made in relation to the allocation of country VATs into the compliance burden groupings (Table 11). In the first place, the 13 countries surveyed reflect overall compliance burden ratings ranging from 'low' to 'high', with none of the VAT systems assessed as falling into the 'very low' or 'very high' compliance burden categories. This may suggest that the diagnostic tool requires further development to ensure it is capable of more granular distinctions and refinements.

Second, the three countries with the lowest weighted scores are all advanced economies (Australia, New Zealand and United Kingdom), an outcome that is consistent with the known priority attention given by authorities in these countries over the last five to ten years to compliance burden reduction and the resources available to their respective revenue bodies to provide high standards of service (e.g., electronic services, comprehensive websites, and rapid refunds). However, the ranking of each of these countries, along with Canada and Chile, could be impacted by any reframing of the registration threshold, as alluded to earlier in this article, to better reflect its influence on numbers of taxpayers with VAT obligations and their resultant compliance burden.

Third, the three countries with the highest weighted scores are all developing economies (Egypt, Ethiopia and Vietnam), an outcome that is consistent with the many challenges faced by such countries and the resource limitations typically observed in their revenue bodies concerning the ability to offer high standards of taxpayer service. In the case of Egypt it should also be acknowledged that their taxpayers may have demonstrated greater reluctance and experienced a high level of burden because their VAT system was only introduced in 2016 (Law Number 76), replacing a sales tax system which had been in operation for 25 years.[14]

Finally, a number of the computed ratings, on the surface, appear lower than might otherwise have been anticipated. For example:

- with Chile's VAT operating with a 'zero' registration threshold, it obviously encompasses a very large number of small traders who, under current laws, have monthly payment obligations, with implications for the overall level of compliance burden;[15] as highlighted earlier in the article, it was considered that the registration threshold indicator might need to be reframed for the purpose of properly assessing likely 'compliance burden' impacts (see below).
- Malaysia's VAT was only implemented in mid-2015 (and subsequently repealed in August 2018); as a VAT system in its infancy one might have anticipated a slightly higher rating, particularly as it was administered by Customs, not the main revenue agency (see below).

5.1.2 Drivers of the VAT compliance burden

A key and ongoing concern for governments, tax administrators and researchers has been the identification of the drivers of the tax compliance burden (Sandford, 1973; Tran-Nam et al., 2000; OECD, 2007; Evans, 2008; Lignier et al., 2014). Although this was not the principal objective, or even a major focus, of the current project, the pilot survey did provide useful information (drawing on the data in Tables 4, 5, 7 and 8 above) on what factors are more likely than not to cause VAT compliance costs to be higher than might otherwise be the case.

[14] The literature on tax compliance costs acknowledges that where new taxes are introduced compliance costs often spike in the early years (Tran-Nam et al., 2000; Walpole, 2014). Thus, the phenomenon in Egypt is well known.
[15] Chile had 1.7 million VAT registrants in 2015: OECD, *Tax administration 2017*, Table A.77: https://www.oecd-ilibrary.org/taxation/tax-administration-2017/data-tables_tax_admin-2017-21-en.

The more commonly observed drivers of compliance costs in surveyed countries, admittedly within the boundaries set by the current design of the VAT diagnostic tool, were identified by country participants as being: (i) the VAT rate structure and scope of exemptions; (ii) the lack of availability/use of the cash basis for determining liabilities; (iii) the lack of availability/use of simple rules for prescribed industries for determining liabilities; (iv) the level of the VAT registration threshold; (v) the lack of availability/use of an electronic registration service; (vi) the timeliness of VAT refunds and private rulings, and (vii) the relative value of aggregate VAT refunds/gross VAT collections.

All of these drivers have been mentioned in previous literature, albeit not always in as much detail or depth. The outcomes of this project can therefore be regarded as confirmatory rather than innovative in this regard.

5.1.3 Maturity of VAT compliance burden management

The smooth and efficient functioning of tax systems is critical for both governments, taxpayers and others involved in their operation. Governments stand to benefit by achieving higher levels of taxpayers' compliance and lower operational costs than might otherwise be the case, while taxpayers and others benefit by incurring minimal costs for the responsibilities they assume under the taxation laws. However, these outcomes '*do not just happen*'. They can only occur in circumstances where the management of the tax compliance burden is the subject of a deliberate, appropriately targeted and ongoing approach overseen by those responsible for tax policy and administration.

The survey undertaken for the VAT diagnostic tool also sought to gather insights as to the degree of government and institutional recognition and attention being given to address tax compliance costs as a means of gauging a sense of the 'maturity' of each country's approach to compliance burden management. In brief, it raised a number of questions concerning the environment for compliance burden reduction (e.g., the existence of targets and plans for burden reduction, whether compliance burden reduction is considered in the development of tax policy, the gathering of external objective data, and external consultation arrangements). Drawing on survey responses from the 13 countries that are summarised in section 4 (including Table 9) the following observations can be made:

- seven countries reported having no formal burden reduction goal;
- four countries do not appear to assess compliance costs when settling tax policy proposals;
- ten countries do not seek to acquire objective compliance cost data to assist with tax policy decision-making;
- nine countries reported the absence of any government plan to reduce tax compliance burden;
- five countries reported the absence of compliance burden reduction objectives in the revenue body's business plan;
- four countries reported the absence of appropriate consultative processes; and

- five countries appeared widely 'deficient' in meeting the abovementioned expectations, responding in the negative to four or more of the questions raised.

Accepting the responses at face value, there appear to be opportunities for quite a few countries to bring a stronger emphasis to compliance burden management, and to ultimately enjoy the additional benefits that can result from such efforts. The overall lack of maturity of governmental responses also suggested to the researchers that the framing of a complementary composite indicator to reflect the maturity of each country's approach to compliance burden management, drawing on the sorts of data captured in this survey, might be worth exploration in conjunction with the development of the broader diagnostic tool.

5.2 Post-survey validation and developments

The ratings and findings summarised above were regarded as 'interim' and not final as they were subject to three further processes in the months after the conduct of the survey: an initial external validation exercise where the findings were benchmarked against other available comparable data; the opportunity for written feedback to be provided on the initial outcomes (supplied in the form of a preliminary draft report) from survey participants; and the conduct of a workshop in Sydney in April 2018 involving many of the survey participants and other stakeholders.

These processes, dealt with in turn below, led to further refinements of the VAT diagnostic tool.

5.2.1 External validation of the VAT compliance burden findings

An additional consideration in evaluating the diagnostic tool and its assessment of overall compliance burden concerned the existence of external information sources that might be used to help assess the reliability of the compliance burden classifications arrived at for the countries included in the pilot study. It would have been ideal to have been able to contrast the results of the pilot study with the findings of a reasonable number of other studies using traditional compliance burden cost assessment data. Sadly, that was not the case for most of the countries included in this study.

The only systematic study of country regulatory burden that is performed regularly is the World Bank's Doing Business (DB) Series (World Bank, 2018) and, specifically in relation to the tax burden, the Paying Taxes Indicator (PricewaterhouseCoopers (PwC), 2017). While this series is subject to various conceptual and practical limitations (Independent *Doing Business* Report Review Panel, 2013; Highfield et al., 2017) it does have a number of 'advantages': it is conducted annually; it covers over 180 countries; and it receives wide publicity and elicits a considerable degree of country reaction as evidenced from reported country developments. In the absence of any other series it has come to be seen as the global *de facto* measure of regulatory burden, including in the area of taxation.

The DB Paying Taxes Indicator, which is based upon a hypothetical case study company that may (or may not) be representative of the population of VAT payers in the countries under consideration, is comprised of three sub-components: the total tax rate; the number of tax payments annually; and the time to comply. The first two of these sub-components are not helpful for validation purposes as they relate to all taxes. The final sub-component is disaggregated by major tax type and there is separate recognition of 'consumption taxes', the most prominent being VAT/GST. The DB publication includes actual data for this sub-component, expressed as 'total time to comply annually'.

A comparison of the findings of the prototype VAT diagnostic tool and the 'time to comply' data for consumption taxes drawn from the DB series is provided in Table 12. For comparison purposes, the DB data has been used a proxy for 'compliance burden' and defined in size groupings as follows: 0-25 hours= very low; 26-50 hours= low; 51-75 hours= medium; 76-100 =high; and 100+ hours= very high.

Table 12: Compliance Burden: Comparison of the VAT Diagnostic Tool and WB Paying Taxes/Time to Comply (2016 Fiscal Year)

Country	Prototype Diagnostic Tool		WB Paying Taxes- Time to Comply (Consumption Taxes)	
	Weighted Score	Assessed Compliance Burden	Estimated Number of Hours to Comply in 2016	Computed Compliance Burden Classification
Australia	46 (45.664)	Low	50	Low
Canada	57 (57.254)	Medium	50	Low
Chile	52 (52.489)	Low	124	Very high
Croatia	60 (60.104)	Medium	52	Medium
Egypt	69 (69.181)	High	158	Very high
Ethiopia	78 (77.870)	High	72	Medium
Greece	55 (55.362)	Medium	69	Medium
Indonesia	60 (60.361)	Medium	78	High
Malaysia	53 (53.018)	Low	112	Very high
NZ	48 (48.461)	Low	47	Low
South Africa	53 (53.485)	Low	62	Medium
UK	43 (43.048)	Low	25	Very low
Vietnam	63 (63.210)	Medium	219	Very high

Sources: Authors' own research and Doing Business/Paying Taxes (World Bank, 2018/PwC, 2017).

In terms of the assessed overall compliance burden, the comparative data in Table 12 reveals an 'exact' match for four countries (Australia, Croatia, Greece and New Zealand) and a 'close' match for another six countries (Canada, Egypt, Ethiopia, Indonesia, South Africa and the UK). There are three 'outlier' countries (Chile, Malaysia and Vietnam).

It is worth noting that for both Chile and Vietnam the VAT system operates with a 'zero' registration threshold, an indicator used in the diagnostic tool but which, as acknowledged earlier in this article, appears inadequately framed to reflect the compliance burden resulting from the relatively larger population of taxpayers that inevitably arise with a low VAT registration threshold.

Concerning Malaysia, there are a number of factors that might explain, in part, the divergent results. As noted in its detailed survey response, Malaysia's GST operated in 2016 with a registration threshold set at around USD 116,000. This is more than double the threshold of Australia's GST, and in a much smaller economy (with GNI per capita less than one-third of Australia's). In addition, monthly filing and payment obligations are restricted to taxpayers with annual supplies in excess of roughly USD 1 million. In short, the vast majority of SMEs do not have compliance obligations under the GST, which is consistent with a relatively low overall compliance burden.

Notwithstanding the divergent results provided by the two methodologies for Chile, Malaysia and Vietnam (partially explained above), the results overall tend to be confirmatory, indicating that the prototype VAT diagnostic tool produces credible outcomes when compared to the only alternative index available at this time.

5.2.2 Country responses to the preliminary draft responses

Survey participants were asked to provide written feedback on the prototype VAT diagnostic tool and related processes following the release of the preliminary draft report.

With one exception, those responding participants indicated that the preliminary findings broadly aligned with community and government expectations and that in their view the tool displayed merit in assessing likely aggregate VAT compliance burden and its main drivers, and the maturity of the respective governments in terms of their strategies and policies relating to compliance burden management.

Participants from the UK considered that the outcome from the pilot project was at odds with what they would have intuitively expected. It was their view that, with an array of concessions and consequent definitional distinctions and complicated small business regimes, the UK VAT would be expected to be generating compliance costs that were far greater than in many other countries and it was therefore unlikely that VAT compliance costs in the UK would be the lowest among participating countries (as implied by the preliminary results). Related to this, the UK participants also questioned what the overall score and ratings might really reflect. As noted in the UK feedback:

> The value may be limited as it appears to give measurements in terms of relative burdens between countries that are unlikely to reflect relative burdens. The tests are revealing something, but perhaps not aggregate compliance burden. A burden can be measured in costs – how much do you pay directly to comply or indirectly through time (the opportunity costs because you could have spent your time doing something productive). The current variables may not be appropriate for this measurement.

Participants were also asked to provide any suggestions that they had for enhancing the tool, particularly in relation to the identification and design of compliance burden indicators. Extensive feedback was received from participants from most of the 13 countries involved in the pilot.

In terms of the weighting applied to ratings, participants responded that whilst it added value to the diagnostic tool, there should be further calibration in time to increase the accuracy of the diagnostic tool. The UK participant made the additional observation that:

> Factor weightings are of value for a closer reflection of overall compliance costs, but the relative weightings may need to be rationalised. Sijbren Cnossen pointed out that overall VAT administration costs are sensitive to two main factors, the complexity of the tax (the use of reduced or zero rates and

> exemptions) and the number of VAT registrants. This is also true with compliance costs, which are a direct product of complexity.

Participants' responses were mixed on their experiences working with external stakeholders in their respective countries and it was noted by some that more active participation from revenue bodies would enhance the reliability of assessments. Participants also suggested that external validation of the tool's findings could be strengthened by requesting data confirmation from external stakeholders, particularly for a few of the indicators that are qualitative in nature. One participant suggested using the Tax Foundation's tax competitiveness index for validation purposes.

Overall, feedback from participants on the VAT diagnostic tool was positive with the tool viewed as having the potential to be a significant development in assessing VAT and other compliance costs. Hence the written feedback received after the release of the draft preliminary report provided a strong foundation for the subsequent discussions that took place at a workshop involving stakeholders in the project held in Sydney in April 2018.

5.2.3 Workshop discussions on refinements to the diagnostic tool

At a workshop held in Sydney on 3-4 April 2018, project participants discussed the broader project and potential areas of refinement to the VAT diagnostic tool. As a result, a series of changes were made to the content and wording of the tool. The essential structure was maintained, with the four key factors retained. After extensive discussion, however, it was decided that the number of indicators should be increased from 21 to 29. Three additional indicators were introduced for Factor A (tax law complexity) to capture the scale of tax exemptions, the levels of VAT registration thresholds and the degree of optionality offered by the VAT regime.

Four new indicators were introduced to Factor B (the number and frequency of administrative requirements): information requirements for a typical VAT return; documentation requirements for exported goods and services; statistical data requirements; and the number of VAT verification actions. One indicator, relating to VAT registrations, was removed as it was covered by the VAT registration indicator newly introduced for Factor A.

Finally, two new indicators were introduced to Factor C, covering the level of support provide by the revenue body for newly registered businesses and the quality of the revenue body online transaction service (for example for return filing).

In addition to these changes to the number of indicators, a series of changes were also made to the internal wording of indicators and to the broader tool to reflect concerns raised and issues discussed at the Sydney workshop. The revised VAT diagnostic tool will be used for future country by country surveys.

6. Conclusions

The primary objective of the VAT diagnostic tool is to determine the likely magnitude of the compliance burden of a country's VAT system, expressed in terms of broad size groupings (i.e., very low, low, medium, high, and very high). It is not intended, nor designed, to provide a definitive ranking or quantification of the compliance burden of individual participating countries. A secondary objective is to identify aspects of policy and administration that contribute to the compliance burden and which most frequently arise across the population of targeted countries. Finally, the diagnostic tool is designed to obtain qualitative data about the level of 'maturity' of VAT compliance burden management shown by the government and/or revenue body responsible for the administration of the VAT regime in any particular country.

The prototype VAT diagnostic tool was rolled out in an extended pilot involving 13 geographically and economically diverse countries in 2017, co-ordinated by the Australian research team and supported by tax academics in each of the 13 countries. The local country academics were assisted, in providing the information relating to 21 separate indicators of compliance burden and other more qualitative data, by tax professionals and tax administrators in their respective countries. The Australian research team collated/analysed the data and verified and validated it so far as possible against objective published and publicly available sources. The ensuing classification of the 13 countries into a range of categories showing the level of the VAT compliance burden was then benchmarked against the only other known index, and country participants and other stakeholders were given the opportunity to provide further input by means of written feedback to a circulated draft preliminary report, and by involvement in a two-day workshop held in Sydney in April 2018.

The result of all these processes has indicated that the prototype diagnostic tool, with relatively minor refinements which have now been made, should prove capable of fulfilling the principal tasks for which it was designed: to provide a useful grouping of countries by reference to the level of the VAT compliance burden, to identify the key drivers of those burdens, and to indicate the level of maturity of compliance burden management by governments and relevant revenue bodies.

It now remains to roll out the VAT diagnostic tool on a far more extensive basis, with current plans to extend the project later in 2018 and the first half of 2019 to 47 of the 50 members of the OECD's Forum on Tax Administration which have a VAT regime in place.

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8. APPENDIX: SURVEY FORM (AS USED IN THE PROTOTYPE PILOT)

The Development and Testing of a Diagnostic Tool for Assessing VAT Compliance Costs

Research Results and Findings Form

Country	
Institution	
Completed by	
Email contact	
Phone number	
Organisations (and their contacts) who assisted with completion of research	1)
	2)
	3)
	4)
	5)

Compliance Burden Indicators: Rating Sheet

(Please record all responses as they relate to the 2016 fiscal year)

A. Tax Law Complexity

Indicator	Description of compliance burden indicators	Rating
The VAT rate structure	1. No reduced rates apply (other than a ‘zero rate’ for exports)	
	2. One reduced rate applies	
	3. Two reduced rates apply	
	4. Three or more reduced rates apply	
The scale of tax exemptions	1. Nil or very narrow (*) range of exemptions	
	2. Standard (*) range of exemptions	
	3. Extensive (*) range of exemptions	
	(*) Guidance for deciding what constitutes a narrow, standard and extensive range of exemptions is set out on the final page of this form.	
Cash records can be used by specified small businesses to calculate the VAT liabilities	1. The majority of small businesses required to pay VAT are able to use the “cash basis of accounting” for calculating VAT liabilities	
	2. Between 25-50% of small businesses required to pay VAT are able to use the “cash basis of accounting” for calculating VAT liabilities.	
	3. Less than 25% of small businesses required to pay VAT are able to use the “cash basis of accounting” for calculating VAT liabilities	
	4. Use of the “cash basis of accounting” is generally not permitted.	
There are rules for prescribed industries enabling simplified calculations of periodic VAT liabilities	1. Simplified rules exist for taxpayers in one or more prescribed industries that are estimated to account for over 50% of VAT taxpayers.	
	2.Simplified rules exist for taxpayers in one or more prescribed industries that are estimated to account for between 25-50% of VAT taxpayers	
	3.Simplified rules exist for taxpayers in one or more prescribed industries that are estimated to account for over 0-25% of VAT taxpayers	
	4. There are no simplified rules for taxpayers in any prescribed industries.	
COMMENTS (if you wish to elaborate on any responses/ratings please do so in this part)		

B. Number and Frequency of Requirements to Comply

Indicator	Description of compliance burden indicators	Rating
VAT registration threshold	1. Threshold is more than three times the [benchmark amount*]	
	2. Threshold is above [benchmark amount*] by between 200-300%	
	3. Threshold is above [benchmark amount*] by between 100-200%	
	4. Threshold is below [benchmark amount*] but no more than 50%	
	5. Threshold is less than 50% of [benchmark amount*] (*) Guidance for determining the rating for this indicator is set out on the final page of this form.	

Electronic registration	1. Businesses can register electronically: > 50% use this method	
	2. Businesses can register electronically: 25-50% use this method	
	3. Businesses can register electronically: < 25% use this method	
	4. Businesses required to register must file applications on paper.	
Staggered VAT payment periods for SME taxpayers	1. SME taxpayers generally need only pay their VAT liabilities (incl. by instalments) on a quarterly or less frequent basis.	
	2. SME taxpayers generally need only pay their VAT liabilities (incl. by instalments) bi-monthly.	
	3. Most taxpayers are generally required to pay VAT liabilities monthly.	
Staggered return filing periods for SME taxpayers	1. SME taxpayers generally need only file VAT returns on a quarterly or less frequent basis.	
	2. SME taxpayers generally need only file VAT returns bi-monthly.	
	3. Most SME taxpayers are generally required to file VAT returns monthly.	
The use of electronic invoices between businesses	1. Legislation permits use of e-invoicing between businesses and in excess of 50% of invoices are estimated to be prepared in this way.	
	2. Legislation permits use of e-invoicing between businesses and between 25 to 50% of invoices are estimated to be prepared in this way.	
	3. Legislation permits use of e-invoicing between businesses and less than 25% of invoices are estimated to be prepared in this way.	
	4. Legislation does not permit use of e-invoicing between businesses.	
Provision of copies of VAT invoices to the revenue body	1. Except for specific requests (e.g. re audits), copies of invoices do not need to be provided to the revenue body as a general rule.	
	2. A minority of businesses (i.e. <50%) are required to supply invoices to the revenue body.	
	3. Most businesses are required to supply invoices to the revenue body.	
Record retention periods	1. Records must be retained by taxpayers for up to 4 years.	
	2. Records must be retained by taxpayers for between 4 and 8 years.	
	3. Records must be retained by taxpayers for more than 8 years.	
The number of VAT audits	1. The no. of VAT audits each year is less than 5% of the registered VAT payer population.	
	2. The no. of VAT audits each year is between 5-10% of the registered VAT payer population.	
	3. The no. VAT audits each year is over 10% of the registered VAT payer population.	
The number of VAT assessments that are disputed	1. The no. of VAT assessments disputed each year is less than 5% of the no. of VAT audits.	
	2. The no. of VAT assessments disputed each year is between 5-10% of the no. of VAT audits.	
	3. The no. VAT assessments disputed each year is over 10% of the no. of VAT audits.	
COMMENTS (if you wish to elaborate on any responses/ratings please do so in this part)		

C. Revenue body capabilities in meeting taxpayers' service and compliance needs

Indicator	Compliance Burden Indicators	Rating
The revenue body's website	1. Revenue body's website has a very comprehensive range (*) of VAT information on taxpayers' VAT obligations.	
	2. Revenue body's website has reasonably comprehensive range (*) of information on taxpayers' VAT obligations.	
	3. Revenue body's website offers very little or no information (*) on taxpayers' VAT obligations. (*) Guidance for deciding what assessing the rating for this indicator is set out on the final page of this form.	
The revenue body's phone inquiry services	1. Revenue body provides a call centre inquiry service and a high standard of phone response time, as reflected in its service standards and performance.	
	2. Revenue body provides a call centre inquiry service and a reasonable standard of phone response time, as reflected in its service standards and performance.	
	3. Revenue body provides a call centre inquiry service but the standard of phone response times is generally poor or not known.	
	4. Revenue body does not provide a dedicated call centre inquiry service.	
The revenue body's online VAT payment facilities	1. Over 75% of VAT payments received from taxpayers are made using online (i.e. Internet-based) payment facilities.	
	2. 50-75% of VAT payments received from taxpayers are made using online (i.e. Internet-based) payment facilities.	
	3. 25-50 of VAT payments received from taxpayers are made using online (i.e. Internet-based) payment facilities.	
	4. Less than 25% of VAT payments received from taxpayers are made using online (i.e. Internet-based) payment facilities, or there is no such capability.	
The revenue body's online VAT return filing service	1. Over 75% of taxpayers use online filing facilities for submitting returns.	
	2. 50-75% of taxpayers use online filing facilities for submitting returns.	
	3. 25-50% of taxpayers use online filing facilities for submitting returns.	
	4. Less than 25% of taxpayers use online filing facilities for submitting returns or there is no such service.	
The revenue body's refunding of excess VAT payments	1. 90% of refund claims are paid with 1 month of receipt.	
	2. 90% of refund claims are paid within 2 months of receipt.	
	3. 90% of refund claims are paid within 3 months of receipt.	
	4. More than 3 months are required to pay 90% of refund claims.	
The revenue body's private rulings service	1. Rulings are generally provided within one month of being requested.	
	2. Rulings are generally provided within two months of being requested.	
	3. Rulings generally take longer than two months to be provided.	
COMMENTS (if you wish to elaborate on any responses/ratings please do so in this part)		

D. Monetary costs/benefits associated with the act of complying

Indicator	Compliance Burden Indicators	Rating
The payment of interest on delayed refunds	1. Interest is payable on excess VAT credits unpaid after one month or more	
	2. Interest is payable on excess VAT credits after two months or more	
	3. Interest is only payable on excess VAT credits after three months or more	
	4. Interest is not generally payable on excess VAT credits.	
The aggregate value of annual VAT refunds is identified	1. Annual VAT refunds < 10% of annual gross VAT collections.	
	2. Annual VAT refunds are 10-20% of annual gross VAT collections.	
	3. Annual VAT refunds are 20-30% of annual gross VAT collections.	
	4. Annual VAT refunds are 30-40 of annual gross VAT collections.	
	5. Annual VAT refunds > 40% of annual gross VAT collections.	
COMMENTS (if you wish to elaborate on any responses/ratings please do so in this part)		

Other information relevant to assessing the management of tax compliance costs

Institutional posture and attitude to tax compliance burden reduction
In addition to examining features of the VAT law and how it is administered at the country level, the diagnostic tool aims to gather insights as to the degree of government and institutional recognition and attention being given to address VAT (and other tax) compliance costs. Please ascertain the situation in relation to the statements below and provide any additional relevant information in the space provided.

Statement of position	Yes/ No
There is a formal government goal/ target in place for reducing tax compliance costs (or administrative burdens in general resulting from Government regulations)	
Compliance costs considerations are generally assessed when formulating tax policy proposals affecting the VAT.	
Objective data on tax compliance costs (or "administrative burdens") are captured periodically from external sources (by MOF, the revenue body, and/or an associated research body) to inform development of tax policy and/or compliance costs reduction initiatives.	
There is an announced government plan (not yet implemented) for specific VAT burden reduction initiatives (e.g. a higher registration threshold and relaxed return filing periods)	
The revenue body's formal planning documents reflect goals/ objectives for compliance cost reductions, and related strategies to achieve them.	
Formal consultative arrangements involving representatives of business and/ or the tax accounting profession are in place that provide an opportunity for compliance costs issues to be raised/ discussed.	
COMMENTS (if you wish to elaborate on any responses to the prior statements)	

Comments of any other aspects of using the diagnostic tools

Please provide details of any practical issues and observations experienced in completion of the diagnostic tool not already mentioned and any suggestions for refinement of the diagnostic tool.

Please send completed forms to: Chris Evans (cc.evans@unsw.edu.au) and Richard Highfield (richardhighfield@msn.com)

Guidance on specific compliance burden indicators

Area of law or administration	Guidance
A. Tax Law complexity	
The scale of VAT exemptions	To keep this assessment simple and to avoid subjective assessments, this indicator should reflect the estimated value of exemptions (as reflected in tax expenditure documents or publications with such data): • Very narrow range of exemptions- less 10% of estimated VAT base. • Standard range of exemptions- 10-20% of estimated VAT base. • Extensive range of exemptions- over 20% of estimated VAT base.
B. Number and frequency of obligations	
VAT registration threshold	The benchmark to be used for this indicator is 'average per capita income' as reflected in official published economic statistics.
C. Revenue body capabilities	
The revenue body's website	The indicator for this area of administration requires an assessment to be made of the comprehensiveness of the revenue body's website concerning the provision of adequate practical and technical advice on the requirements of the VAT system. The following guidance should assist in determining an appropriate rating (ideally in conjunction with tax professionals or representatives of businesses): • ***Very comprehensive:*** This website will have a dedicated section on VAT setting out practical advice (e.g. instructions, guides, forms, and calendars) on all aspects of the VAT system, and there will be clear guidance on how to find out more information where it is required (e.g. details of a phone inquiry service). There will be modules/ facilities enabling taxpayers to meet regular requirements on-line such as filing returns and making payments and taxpayers will have on-line access to their own personal tax history and tax accounting records. There will also be access to a legal data base where more detailed technical advice and guidance can be accessed by businesses and tax practitioners. • ***Reasonably comprehensive:*** This website will have a dedicated section on VAT setting out practical advice (e.g. instructions, guides, forms, and calendars) on most aspects of the VAT system, and there will be guidance on how to find out more information where it is required (e.g. details of a phone inquiry service). There will be modules/ facilities enabling taxpayers to meet regular requirements on-line such as filing returns and making payments. There will be limited or no access to a legal data base where more detailed technical advice and guidance can be accessed by businesses and tax practitioners. • ***Very little or no information:*** Use this rating where it is judged that the others are not applicable.