FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

AN EVALUATION OF THE EFFECTIVENESS OF THE NEW VALUE ADDED WITHHOLDING TAX SYSTEM IN ZIMBABWE

BY

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THIS DISSERTATION IS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE BACHELOR OF COMMERCE (HONORS) DEGREE IN ACCOUNTING IN THE DEPARTMENT OF ACCOUNTING AT MIDLANDS STATE UNIVERSITY.

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DEDICATION

This research project is a special dedication to my parents namely Mr M Marere and Mrs S Marere, and to my younger sister L Marere.

Above all, this work is a dedication to Jehovah Almighty, to whom I am grateful for the guidance, the intelligence, and the strength he has me over the course of my study. His grace is sufficient for me.

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ABSTRACT

The new value added withholding tax regime moved from the traditional VAT collection systems to tax deduction at source. Under the traditional VAT collection system, the registered VAT operator was the one who had the mandate of preparing the VAT schedule and remitting the whole tax amount. The new system however gave the mandate to remit some of the VAT to registered value added withholding tax agents, and that is to be remitted as a withholding tax. The value added withholding tax is expected to reduce tax non-compliance and tax evasion on VAT and thereby bolstering government revenue in the process. This study evaluated the effectiveness of the value added withholding tax with a special focus on the challenges it poses to the affected taxpayers as well as the tax authority in a bid to ascertain whether it makes a good tax. The research adopted a mainly qualitative approach and the primary data was collected using questionnaires. A sample of 35 respondents was used and a response rate of 80% was achieved. The research brought to light that the new tax regime is a very noble idea to combat tax non-compliance as well as tax evasion. However, the system is underpinned many challenges that make it fall short of it being suitable in Zimbabwe like the high administration costs for both the tax authority and the agent, the inconvenience caused by the new system to the registered value added tax agents as well as to the registered operators, the perceived inequity by the taxpayers and the lack of knowledge on the subject by the taxpayers. The research recommended that taxing authority (ZIMRA) should continue with the new value added withholding tax system subject to educating the taxpayers on the matter, tailor making the system to suit the Zimbabwean setup and automating the system to reduce administrative burden.

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CHAPTER 1: INTRODUCTION

1.0 Introduction

The level of tax compliance in an economy is a function of many variable especially for VAT since it is not easy for the government to monitor transactions as they occur at the tax payer's station (Hurst, et al., 2014). This chapter looks at the background of the study, spelling out the purpose of the study, statement of the problem, research objectives, the main research question and sub research questions, the study delimitations and limitations to be experienced during the research. More so, the chapter spells out the significance of the study and definition of terms.

1.1 Background to the study

Tax evasion is a subject of interest in many countries as it represents loss of government revenue. The twin devils (tax evasion and tax avoidance) have become problems in most developing countries, which seem to have defied solution and have bedevilled the Zimbabwe tax system ever since independence (Dalu, et al., 2012). Most developing countries are facing challenges in raising necessary revenue to finance government expenditure. Value Added Tax (VAT) (or Goods and Services Tax (GST) has become a major instrument in a large number of countries worldwide (Yesegat, 2016).

Ainsworth (2011) states that in Ecuador, the tax authorities responded to fraud in small and medium sized companies by extending VAT withholding to third party debit/credit card companies. The sellers in the small business sector in Ecuador frequently make supplies, charge VAT but do not report the transaction as well as not remitting to the authority. Ainsworth (2011) further indicated that VAT withholding is an attempt to limit tax evasion within the small business sector. In the United States, the government implemented a number of policies and laws to help improve the level of VAT compliance among tax payers. These measures included requiring withholding of tax at the source of income which means that the organisation paying for services of goods withholds VAT there on and forwards it to the government (Brockmann, et al., 2016).

Kanyi & Kalui (2014) postulated that the Kenya government's revenue is majorly generated from taxes such as PAYE and VAT. According to the (KRA, 2016) report there was a huge shortfall in revenue collection by 15.9 billion in VAT collections from imports. This has

raised questions over the effectiveness and efficiency of the VAT withholding system in Kenya. According to (Ainsworth, 2011) indicated that in 2010, Cameroon abolished its VAT withholding scheme in January due to complications in administering the system. Also in Senegal the VAT withholding system was abolished. (IMF, 2014) notes that VAT revenue for Senegal decreased following the abolition of VAT withholding by public agencies in the context of the 2013 reform of the General Tax Code.

Over the years (2014-2016) with the exception of 2017, the government of Zimbabwe has been failing to meet its targeted revenue and also failing to meet its annual expenditure (Zimbabwe ministry of finance budget statements, 2014-2016). This has put pressure on Zimbabwe Revenue Authority (ZIMRA) to increase its revenue collections

Table 1.1 Revenue Collections (2014-2017)

Year	Budgeted Revenue USD	Actual Revenue USD	Variance USD	Budgeted Expenditure USD	Actual Expenditure USD	Variance USD
2014	3.27 billion	3.04 billion	(0.23) billion	3.27 billion	3.42 billion	(0.15) billion
2015	3.54 billion	2.63 billion	(0.91) billion	4.58 billion	3.3 billion	1.28 billion
2016	3.16 billion	2.88 billion	(0.28) billion	3.32 billion	3.84 billion	(0.52) billion
2017	2.74 billion	2.81 billion	0.07 billion	3.31 billion	4.65 billion	(1.34) billion

Source: Ministry of Finance-Budget Statements (2015-2018)

The above table shows that the government was failing to meet their targeted revenue for each year with the exception of 2017. Non-compliance and lack of adequate law enforcement by the relevant tax authorities over the years (2014-2016) has resulted in sustained contributions of value added tax towards revenue collection. Zivanai et al (2014) states that if tax compliance and enforcement could be improved effectively it could significantly enhance its relative contribution.

The table below shows the breakdown of revenue contributed to the government over the past four years.

Table 1.2 Revenue distribution of Government (2014-2017)

YEAR	VAT	PAYE	CUSTOMS DUTY	EXERCISE DUTY	CORP TAX	OTHER TAX	NON-TAX REVENUE
2014	27%	24%	9%	14%	9%	3%	7%
2015	26%	22%	9%	20%	10%	7%	4%
2016	27.7%	21%	8%	18%	8%	8%	8%
2017	28.6%		7.9%	18.2%	11.6%	4%	6%

Source: Ministry of Finance-Budget Statements (2015-2018)

The above table shows that the government relies more on VAT collections to boost their revenue. The percentage contribution of VAT is higher than any other revenue heads for the past 4 years. The Zimbabwe Revenue Authority (ZIMRA) missed its annual VAT collection in 2015 by 16.67% and 1.46% in 2016 (Zimbabwe Revenue Authority (ZIMRA), 2015, 2016). It has been a challenge for ZIMRA to increase revenue collections since the dollarization process resulted in the weakening of tax administrations systems of ZIMRA.

However, the tax authority has been employing some mechanisms to remedy the situation and this has seen the revenue collection from VAT increasing in 2016 and 2017 by 6.5% and 3.2% from previous years respectively. The decrease of VAT collections in 2015 as compared to 2014 and the decline of an average of 30% of total revenue by the revenue head during the 2012/2013 fiscal years was the cause of concern (Zimbabwe Ministry of finance budget statements, 2016), hence the introduction of the value added withholding tax system as an additional mechanism to try to improve revenue collections. The researcher seeks to provide insight on the effectiveness of the new value added withholding tax system in Zimbabwe

1.2 Statement of the problem

The newly introduced value added withholding tax system secures the VAT collections for the government hence securing government revenue. However, these withholding tax systems (VAT withholding) increase revenue collections for the government in the short run but the prove less convincing in the long run as the initial gains from VAT withholding systems are being offset (Yesegat, 2016). These systems do not appear to be an appropriate proxy for active and efficient management, control and recovery of VAT.

1.3 Main research question

How effective is the new value added withholding tax system in Zimbabwe?

1.4 Research questions

a) Is the new value added withholding tax method and design suitable in Zimbabwe?

b) How effective is the administration of the new value added withholding tax system in Zimbabwe

c) To what extent are the registered VAT operators knowledgeable about the new value added withholding tax and other tax issues in Zimbabwe?

d) What measures did the revenue authority employ to address the challenges usually faced by countries that have adopted the value added withholding tax system?

1.5 Research objectives

The specific objectives of the study are to:

a) determine suitability of the new value added withholding tax method and design in Zimbabwe

b) ascertain the effectiveness of the administration of the new value added withholding tax system in Zimbabwe.

c) ascertain the registered VAT operators' knowledge level of the new value added withholding tax system and other tax issues in Zimbabwe.

d) establish mechanisms employed to address the challenges usually faced by countries that have adopted the value added withholding tax system.

1.6 Significance of the study

ZIMRA

This study will assist the revenue authority to assess the value added withholding tax system and employ possible solutions discussed in this study to enhance the effectiveness of the value added withholding tax system.

Researchers

The study can be used as a reference material in assisting future researchers undertaking similar study and other students interested in the field of taxation.

Other countries

This research will provide a basis of study and reference for other governments who wants to adopt the value added withholding tax system or improve it.

1.7 Delimitations of the study

The researcher concentrated much on evaluating possible challenges of the new value added withholding tax system and did not dwell on the rationale behind the new system.

Time

The scope of this study was between 2016 and 2017. That was because the new system of value added withholding tax came into effect in the third quarter of 2016, hence the data before then was irrelevant to the study.

Geographical location

This study was only based in Zimbabwe. Other countries were outside the scope of the study.

1.8   Limitations

Other registered operators considered the subject of taxation threatening because of the prevalent ZIMRA VAT audits. This made the respondents hesitant to provide the required information. However, to mitigate the challenge the researcher assured confidentiality to the respondents.

ZIMRA personnel were suspicious which caused them to be reluctant to offer their assistance. However, the researcher had to provide them assurance that their responses were for academic purposes only thus mitigating their suspicion and allowing them to offer their assistance without reservation.

Scheduling an interview with ZIMRA officers was difficult because of their busy schedule. The researcher however, resorted to the use of questionnaires that the respondents answered in their own time.

1.9   Assumptions

a) All the stakeholders (appointed value added withholding tax agent's staff, ZIMRA personnel, and VAT registered suppliers) would cooperate positively.

b) The respondents would give honest responses to the administered questionnaire items.

1.10   Definition of key terms

➢ ZIMRA- this is the body responsible for collecting tax or other revenue streams for the government of Zimbabwe. The revenue authority derives its mandate from the Revenue Authority Act Chapter (23:11) section 4 [Revenue Authority Act Chapter (23:11)]

➢ Tax-this is a compulsory levy on income goods or services usually imposed by the government for the purpose of generating revenue or discouraging the public from the consumption of a particular product (Income tax act chapter (23:06) section 7).

➢ VAT –this is an indirect tax on consumption, charged on the supply of taxable goods and services. It is levied on transactions rather than directly on income and profit and is levied on the importation of goods and services [Value added tax act chapter (23:12)].

➢ VAT Withholding-it is a tax deducted at source on acquisition of taxable goods and services by the appointed withholding tax agent (Nyangau, 2017).

➢ VAT Withholding Agent- a person who has been appointed as provided for in the finance act (chapter 23:04).

➢ Effectiveness –the degree to which a current system is successfully producing desired results (Ariwodola, 2001)
The functional definition for the purpose of this research will be " the degree to which the value added withholding tax system is successful in mitigating value added tax evasion and non con-compliance while at the same time preserving characteristics of a good tax (canons of taxation) and other key principles that define the effectiveness of a tax system"

Abbreviations and Acronyms

ZIMRA   : Zimbabwe Revenue Authority

VAT   : Value Added Tax

ZRA   : Zambia Revenue Authority

KRA   : Kenya Revenue Authority

1.11   Summary

In this chapter, the researcher has presented and discussed background to the study, research question and objectives, statement to the problem, significance of study, delimitations and limitations of the research. The next chapter will review the literature which seeks to discuss the views of scholars on the effectiveness of the value added withholding tax systems.

CHAPTER 2: LITERATURE REVIEW

2.0 Introduction

The efforts by the Zimbabwe Revenue Authority (ZIMRA) to harness the increase in tax evasion and non-compliance have resulted in the adoption of the new tax systems like the value added withholding tax.

It is for this reason that an evaluation of the effectiveness of the value added withholding tax is crucial. In this chapter, the researcher presented and discussed relevant literature on the subject matter. The researcher also looked at the experiences of other countries that have adopted the value added withholding tax system under empirical evidence in an attempt to appreciate the subject under study.

2.1 THEORETICAL LITERATURE REVIEW

2.1.1 The Deterrence Model Allingham and Sandro (1972)

Casal & Mittone (2015) states that almost all the studies on tax evasion consider the Allignham and Sandro (1972) model as the starting point. The theory assumes that taxpayers are rational being who make rational decisions. Miller & Oats (2012) pointed out that taxpayers pay their taxes due to the tax authorities because of fear of being caught and they are motivated by threats and penalties imposed on tax evaders. Tax payers make the decision to evade tax because their aim is maximization of utility but if chances of getting caught is high and high penalties are imposed hence a utility maximizing taxpayer will not evade tax.

2.1.2 Slippery Model Kirchler (2007)

Kastlunger et al (2013) postulated that compliance of tax payers depends on the effectiveness of the systems implemented by tax authorities and also the trust in the authorities and to some extent voluntary cooperation. Empirical evidence on Italian taxpayers has shown that severe fines lead to cooperation in a positive effect than on trust. Mia et al (2014) also pointed out that the trust in authorities and their power of deterrence has a major effect on tax compliance. It also assumes that tax conditions in a country vary from one point to another. It may be antagonistic which means tax payers and authorities operate as adversaries of one another. This is the situation prevalent in the Zimbabwean withholding tax since the public

think that ZIMRA wants to rip them off. In a synergistic environment, both the payers and authorities work together.

2.2 The cannons of taxation

Several characteristics determine the efficiency and effectiveness of a tax system. Nyakuenda (2014) states that a tax system characterised by these factors is often good when it comes to revenue generation. Adam Smith cited in (Ezeagba, 2014) laid these characteristics known as cannons of taxation which are equality, economical, certain and convenient. Wide based, adequacy and neutral are other characteristics laid by different scholars. Nyakuenda (2014) postulated that although taxes have changed since the time the principles were written they however remain good today. Musgrave and Musgrave cited in (Ezeagba, 2014) was also of the opinion that a sound tax system must be easily administered, efficient in resource use, equitable in burden distribution and must be able to meet macro-policy objectives.

2.2.1 Equality

Jarczok-Guzy (2017) highlighted that the base of a good tax is the ability to pay. A tax systems is equitable if it fair to all tax payers and the government. However, this is not the case as VAT registered operators who do not trade with appointed VAT withholding tax agents, their vat is not withheld. The VAT system as a whole does not take into consideration the ability of the taxpayer to pay tax but rather it is dependent on taxing value addition. The system also reduces the ability of the firms to pay taxes by reducing the soft loans on working capital obtained from the date of payment by their suppliers to the date of remittance to ZIMRA.

2.2.2 Economical

Oeta et al (2017) indicated that revenue collected as tax should be more than the cost of administering the tax. A sound tax system must not be expensive to administer and the greatest possible proportion of it should accrue to the government as revenue (Stiglitz, 2013). The system of administration should not be too expensive to both revenue collectors and tax payers.

The value added withholding tax is aimed at reducing the costs of following up on tax payers since it is applying the concept of tax deduction at source which will help the taxing authority (ZIMRA) to only make follow up on few institutions appointed as withholding tax agents.

However, the value added withholding tax regime adds a layer of administrative complexity of withheld VAT and for the tax administration (Krever, 2008) the new value added withholding system mainly adds additional burden on the tax payer while relieving the tax collector. The tax design bolsters government revenue and reduces the collection period of the revenue thereof at the expense of the taxpayer (the registered value added withholding tax agent). The researcher has sought to understand how this has caused the failure of the system to meet the economical cannon of taxation.

2.2.3   Certain

Nyaga et al (2016) quoted Adam Smith saying "the tax which an individual is bound to pay ought to be certain not arbitrary. The quantity to be paid, manner of payment, time of payment ought all to be clear and simple to the contributor, and to every other person. If the tax system is not certain it encourages insolence and corruption". (Sheffrin, 2013) states that a sound system must be able to adapt to economic changing circumstances, that is, should be flexible.

The certainty of the value added withholding tax was determined by an analysis of the mechanism of the tax in Zimbabwe. The tax has a due date for remittance and a due date for submission of the value added withholding tax schedule by the withholding tax agent thus enhancing the certainty of the tax. The act provides the amount or the rate at which to withhold giving credit to the tax on certainty.

However, on the same note there have been debates on whether to withhold on invoices issued before the effective date but paid after the implementation date. The VAT act is silent on the issue thus leaving more to be desired and compromising on the certainty cannon of the tax

2.2.4   Convenient

Hughes-Hallet (2014) stipulated that a good tax system should be designed so that every tax levy is in a manner or time which to be convenient for the taxpayer to pay. This entails that

the frequency of payment and the methods of payment should be convenient for the contributor to pay. The VAT withholding results has increased VAT burden for the supplier which has never has access to or use of the VAT payments and which may encounter difficulties obtaining any refund if the withholding leads to excess input tax credit (Krever, 2008). The new tax system also takes away the convenience accorded by remitting one's own return which include tax planning and ability to do something with the taxation received before submission.

2.2.5 Wide based

Bell (2014) indicated that a tax system should be as wide as possible to, that it should try to minimise incentive for tax avoidance, evasion and all activities that people indulge in so that they can lower taxes. A good tax system must be stable, reliable and predictable and should not be subject to constant change and multiple interpretations, enabling long term planning to individuals and businesses. The value added withholding tax system also leads to confusion by taxable persons who might consider freedom from further VAT obligations when their clients (agents) have withheld VAT and as a result will fail to declare the remaining VAT on the taxable supplies they have made.

2.2.6 Adequacy

For tax system to effective and efficient in generating revenue it should have adequacy as its characteristics. Lunn & Ruane (2013) states that taxes must be able to provide enough revenue to meet society's basic needs through the provision of sufficient public services.

2.2.7 Neutral

Gideon & Alouis (2013) stipulated that a good tax system should be neutral so that it does not affect economic decisions. They further explained that a good tax system should be transparent. Information about how the revenue obtained from taxes is used should be available to all taxpayers.

2.2.8 Summary

The fact that value added withholding tax system secures VAT collections does not mean that it is effective. The presence of these characteristics is likely to make a system operate effectively. The evaluation of the effectiveness of the value added withholding tax considered

these characteristics. The researcher measured the new value added tax against these characteristics. Thus an evaluation of whether value added withholding tax is actually a good tax was sought in determining the effectiveness of the new value added withholding tax system.

2.3 Overview of the value added withholding tax system

Value added withholding tax system is the application of the reverse charge process on transactions being done a given tax jurisdiction. Vat withholding systems give power to typical bodies and large taxable persons to withhold VAT. These bodies are required to remit the VAT to the government directly rather than paying the VAT to suppliers (Yesegat, 2016).

It is a tax withheld by appointed agents when they remit to their suppliers for the purchase of taxable goods or services. Value added withholding agents must withhold from VAT registered operators. Withholding agents shall withheld VAT on standard rated goods and services only when payments are being made to suppliers.

2.3.1   Value added withholding tax system in Zimbabwe

The commissioner general of Zimra may appoint any registered operator who purchases goods from other registered operators to be a value added withholding tax agent, in terms of the value added tax act [chapter 23:12] (ZIMRA, 2017). The VAT of only taxable goods and services are to be withheld by appointed agents. This system does not apply on zero rated and exempted goods and services. After the tax agent has withheld the VAT, a value added withholding tax certificate should be issue to the supplier by the agent. The agent shall prepare a schedule of supplier from which VAT was withheld and submit the return Rev 5 and the payments should be made on or before the 15th of the following month (Tapera, 2017).

The rate of withholding VAT shall be 10% of the value of supply or two thirds of the VAT element of every invoice. In cases where the supply is on payment terms, 10% shall be withheld from each instalment and should cumulatively build towards 10% of the total value of supply, while the supplier should account for VAT on the value of supply (ZIMRA, 2017).

2.3.2   Tax knowledge and education

Tax knowledge is a key factor in tax conformity (compliance) as it is linked to the tax payers' capability to comprehend taxation rules as well as their readiness to meet the terms (Simionescu & Albu, 2016). The facet of knowledge that links to conformity is the common perceptive with regards to taxation rules and facts regarding the opportunity to elude tax (Nyangau, 2017). The effect of knowledge on conformity conducts has been evaluated in numerous studies.

Tax knowledge helps to raise public understanding with regards to taxation guidelines, the function of tax in state growth and particularly to educate how and where the revenue gathered is utilised by the administration (Zhang & Qui-Sheng, 2017). Approach towards tax conformity can be enhanced through the improvement of taxation awareness. A tax payer needs to have an affirmative stance towards tax non-conformity. Self-assessment system needs taxpayers to comprehend all the rules and set of laws that preside over taxation (Adegbie, et al., 2016).

The introduction of a new system will gladly be appreciated by the tax payers, like the SAS, if they have sufficient understanding to comprehend the system. Therefore, the teaching programs prearranged by the tax authority are essential to augment taxpayers' capability to comprehend Self-evaluation and to raise their self-belief in satisfying their tasks as tax payers.

2.4 Objectives of the value added withholding tax system

2.4.1   Curb Non Compliance

Zhou & Madhikeni (2013) pointed out that a number of systems enforced by ZIMRA tends to target the formal sector which comprises of big companies which are registered operators. Yesegat (2016) stated that the fundamental reasons for using the VAT withholding includes the plan to ensure that small unregistered operators are forced to pay at least some VAT. It is noted that these systems provide a way of increasing revenue through VAT collections where the administration is weak, attitude to taxation are poor in small operators and where noncompliance is considered to be very high.

Bantrancea et al (2012) conducted a study that sought to assess the factors which shape tax compliance behaviour. They summarised the factors into socio-psychological, political and economic factor determinants. The socio-psychological factors identified were attitudes, norms, fairness perceptions and motivational postures. They emphasized tax complexity which they regarded to be the main political factor influencing tax compliance. The economic factors identified as major determinants of tax compliance were audit abilities, fines, tax rates and income. They concluded that an effective economic directions such as fines and other deterrent measures enhances tax revenue.

2.4.2 Curb Tax Evasion

VAT has become the major contributor of revenue in most developing countries. To increase further VAT revenue collections and mitigating the problem of tax evasion, a number of countries have adopted the value added withholding tax system (Yesegat, 2016)

The Zimbabwe finance minister Patrick Chinamasa announced the value added withholding tax in his 2016 midterm fiscal review it was aimed minimising the loos of revenue arising from failure to fully declare and remit VAT (tax evasion)

2.4.3 Curb Tax Avoidance

Value added withholding tax in Africa has become the main mechanism in solving the issue of tax avoidance as evidenced by the increase in number of African countries adopting the value added withholding tax system. Countries like Kenya, Rwanda and a number of West African countries have adopted the system (Yesegat, 2016).

2.5 The mechanics of value added withholding tax

A system adopted in a country must be reasonably related to its policy objective for example to reduce tax evasion in genera; or to simplify the system for small taxpayers (Bird, 2015).Withholding VAT (WVAT) is a system to account for and pay value added tax on the supply of goods and services by the operators making the payment (Zambia Revenue Authority (ZRA), 2017).

The commissioner general appoints taxpayers as agents for the withholding of VAT and such appointed will be written notice. Once appointed the legal incidence of the tax payable (VAT) on all supplies made to the value added withholding tax agent is shifted from the

supplier of goods and services to the purchaser (The value added withholding tax agent). This means that the responsibility to ensure that all the VAT that is due on the agents' purchases is properly accounted for and is remitted to the relevant taxing authority by the due date shifts to value added withholding tax agent (Zambia Revenue Authority (ZRA), 2017).

ZIMRA adopted the generic mechanism of the value added withholding tax system which has the aforementioned characteristics, they also went a step further and customised some of the system which include the rate of withholding. Instead of withholding the full VAT amount as the generic mechanism suggest the tax authority opted for the withholding tax agents to only withhold two thirds of the VAT component which is 10%vof the gross invoice value and thus mitigating the problem of refunds which is associated with the generic VAT tax system (ZIMRA, 2017).

2.5.1   Value added withholding tax administration

VAT administration pertains to how tax authorities discharge the responsible entrusted to them (Wollela, 2008). Administrative efficiency means that a tax should be easy and cheap to collect. Therefore, in tax policy design costs associated with the administrative options, both for the tax payer and the taxing authority, may have a significant bearing on what is included or excluded from the legislative definition of income (Tapera, 2017).

2.5.2   Efficient Tax Administration

A good tax administration should have management system, which carries the tax activities, tax laws that guide the tax management system and knowledgeable administration (Bird, 2015). He also stated that an effective tax system must have an explicit and sustainable political commitment, train staff, sufficient resources to tax administration, incentive for both tax payers and administrators, simplified tax procedures and decentralised tax administration and developing a good accounting system. An effective tax administration should address the issue of corruption on tax officials who collude with tax payers and the tax officials should be well trained be well trained on the modern ways of tax administration (Okoye & Gbegi, 2013).

2.5.3 Objectives of Tax administration

Nyaga et al (2016) stated that the main objective for tax administration is to improve revenue performance for the government. They also highlighted that the objective is to seal all possible loopholes in the management of taxes by tax authorities. Zivanai et al (2015) stipulated that the objective of tax administration is to increase voluntary compliance and reduce the tax gap, which is the difference between taxes paid and owed for all tax heads by tax payers. The other objective of tax administration is to ensure that tax is collected at the lowest cost and collected efficiently.

2.5.4 Challenges in administering Value Added Withholding tax

Evidently the challenges and costs of value added withholding tax administration are mainly borne by the appointed value added withholding tax agent (the taxpayer). Due to the wide use of enterprise resource planning systems (ERP) in the industry most of the appointed value added withholding tax agents had to reprogram their systems to encompass the additional responsibility which is a very costly exercise given that most of the customization of this sort is provided by external services. The agents also have the additional burden of preparing the value added withholding tax schedule at the end of every tax period depending on the VAT category of the agent as well as the additional burden of issuing a value added withholding tax certificate every time a payment is made and VAT withheld.

The challenges are also borne by the registered operator who is a supplier since they need to adjust their systems to cater for the component of the invoice amount which has been withheld by their customers. They are also having to incur the additional administrative burden of having to support their VAT return with the value added withholding tax certificate from the customers and of keeping the certificates for a long period as they constitute part of the financial documents.

VAT withholding also result in an increased VAT burden for the suppliers that has never has access to or use of the VAT payment and which may encounter difficulties in getting any refund if the withholding leads to excess inputs credits. VAT withholding schemes creates cash flow problems for compliant firms that do not receive their excess (Waerzeggers, 2008). (Fossat & Bua, 2013) also emphasize that while VAT withholding may have an initial positive impact in terms of revenue collections it also results in serious cash flow problems

for suppliers. Fossat and Bua (2013) further note that opponents of the scheme point to the increase in refund claims if withholding rates are set too high.

The taxing authority (Zimra) also faces some administrative challenges which include the ignorance of the tax payers especially the value added withholding tax agents on the application of the legislation. The need to ensure awareness of the new legislation is paramount to the effectiveness of the administration thereof because a vague legislation creates avenues for fraud, corruption, tax evasion and tax noncompliance. The taxing authority also have the additional burden of following up on the withholding tax agent to make sure that they are remitting all that which they are withholding because failure of which will result in the withholding tax agents withholding amounts from the suppliers and fraudulently transferring them to other operations and not remitting them to the taxing authority.

2.6 Reforms to improve value added withholding tax administration

Owing to the above highlighted challenges there arises a need to employ reforms that can curb the challenges. Reforms of the revenue administration are needed to enable it to keep up with the increasing sophistication of business activity and tax evasion schemes.

To curb the administrative challenges arising from illegal acts by the taxpayer the taxing authority will have to monitor the withholding tax agents by increasing the frequency of VAT audits and widening the VAT audits to encompass the auditing of a sample of payments made to check for compliance with the new legislation. The taxing authority will have to use risk analysis in the selection of cases for VAT investigations and auditing. Upon submission of the value added withholding tax schedule and the VAT schedule by the withholding tax agent and VAT registered supplier respectively the taxing authority ought to scrutinise the schedules and all the supporting documents if any to check for irregularities and signs of unscrupulous behaviour. The taxing authority (Zimra) will have also need to educate the taxpayers by conducting workshops and seminars in order to close off the avenues of tax noncompliance due to ignorance on the taxpayer's part.

To curb the administrative challenges arising within the taxing authority itself, Zimra can employ additional controls on the processes of the value added withholding tax administration and also it can reinforce its anti-corruption unit.

2.7 EMPERICAL LITERATURE REVIEW

Yesegat (2016) carried out a study on value added tax withholding in Ethiopia: Implications for Revenue Performance and Refund (Preliminary Finding). The study concluded that in Ethiopia, the application of VAT withholding is on relatively large business, which are able to supply to government agencies and institutions and this scheme excludes the majority of small and medium business. The scheme does not address non-compliance by small and medium enterprises. Yesegat (2016) further concluded that the VAT withholding scheme in Ethiopia has increased in VAT withholding related refund request and this has exacerbated the burden of VAT on tax authorities for tax officials to carry-out full verification of the increasing number of VAT refund requests. The delays in processing these returns have also led to constrained cash flows for businesses. Yesegat (2016), in general concluded that VAT withholding is considered not to be a perfect solution to the problem of non-compliance among small business let alone large ones. Yesegat (2016), suggested that the government should consider the possibility of abolishing the VAT withholding scheme and adopting an alternative approach for effective management and control of VAT non-compliance. The study further recommended that to mitigate the rate of non-compliance by small and medium business the government should regulate the number of registered operators by adopting an appropriate VAT threshold. Yesegat (2016), used the results on in-depth interviews held with selected taxpayers and officials from ECRA and EMoFEC. Yesegat (2016) used both qualitative and quantitative approach where the quantitative aspect used data that was obtained from ECRA and EMoFEC and this was supplemented by six interviews from selected tax officials and taxpayers affected by the scheme.

Nyangau (2017), carried out a study on effect of withholding value added tax on tax compliance in Kenya. The study revealed that and increase in VAT declared which indicated that the use of electronic tax register and withholding VAT tax have enhanced VAT collections resulting in more accurate VAT reporting. The findings also revealed that that VAT remitted among large taxpayers and medium/small was significantly different from the comparative analysis before the introduction of withholding tax. Nyangau (2017) compared data collected from medium/small, large and all the two-combined category of tax payers and the results of these categories concluded that there was a significant improvement in tax compliance after the enforcement of withholding VAT tax policies in Kenya. Nyangau (2017) recommended that the government needs to embark on more public awareness

campaign, efficient tax revenues utilization on public goods to encourage tax compliance and discourage tax evasion and avoidance. Nyangau (2017) adopted the explanatory research design and the population of the study comprised of taxpayers in Kenya (Large taxpayers and medium and small taxpayers) and the data was collected from a period of 7 years (2011-2017). The study used secondary data collected from Kenya Revenue Authority and the data was analysed through inferential statistics by specifically conducting the regression and correlation tests. SPSS was used to analyse the data and the findings were detailed in form of tables and figures. Also, trend analysis was used to detail the changes and variations in the withholding VAT Revenue growth and tax compliance over the 7 years.

Brockmeyer and Hernandez (2016) conducted a study on tax information and withholding: evidence from Costa Rica and find out that the mechanism of sales withholding lead to an increase in total tax payment but this increase is driven by incomplete reclaim of the tax withheld (refunds) and it further enhances compliance. Brockmeyer and Hernandez (2016) further indicated that there was no evidence that sales withholding reduces output, which suggests that the liquidity costs associated with the regime are negligible. Brockmeyer and Hernandez (2016) analysed data from anonymized tax return data and third party and withholding declarations from the General Directory for Taxation in Costa Rica and the data was presented in terms of tables and figures.

Lucia (2017) carried out a study controversies on the application of the VAT split payment mechanism. He concluded that the impact of VAT split payment mechanism will be a negative one on the business environment which generates additional costs on administration and creates difficulties in ensuring the cash flow necessary to run the business due to blocking in the VAT account of the amounts collected as collected VAT afferent to the supplies of goods and provisions of services until the deadline for payment of VAT. Lucia (2017) used secondary data to conclude the research basing on the data provided by State of Romania and statements made by entities. Lucia recommended that the government of Romania must analyse through the state institutions to solve VAT problem in the country (tax evasion and frauds) .

2.8 Research gap

The researcher noted that there is not much research that has been done on the new value added withholding tax and the few researches that have been done on the topic have not

stayed on the effectiveness of value added withholding tax (VAT split payments) as defined in the definitions section of the research. The researcher also noted that an evaluation of whether or not the tax is a good tax has been overlooked by the previous researchers. Owing to the gaps above the researcher sought to evaluate the effectiveness of the value added withholding tax by trying to determine whether it constitutes a good tax, is it sustainable and determining the administrative issues encompassing the system.

2.9 Summary

The chapter relayed some of the literature encompassing the study and it provided the bases for determining if the tax constitutes a good tax which are the canons of taxation. The researcher went further and conveyed the mechanism of the value added withholding tax which provided grounds of determining the sustainability of the value added withholding tax method and design. The chapter also discussed administrative issues surrounding the system giving special consideration to the challenges and reforms of the administrative issues. In the following chapter the researcher relayed the methodology with which he gathered primary evidence to answer the research questions as well as compliment some of the secondary data gather in the literature review.

CHAPTER 3 RESEARCH METHODOLODY

3.0 Introduction

A research methodology is essentially a statement of the object of the enquiry and strategies for gathering information, analysing the information and reporting the findings. This chapter covers the activities and procedures that the author used during the course of the research. The research methodology comprises of the research design, sampling techniques used and research instruments used in collection of data.

3.1 Research design

Paul and Ormrod (2013) defines research design as the overall method that you select to combine the difference components of the study in a consistent and clear way, whereby the research problem will be clearly addressed. They stated that it includes a blueprint for the analysis of data gathered. According to Pilkington and Pretorius (2015), a research design must be able to identify and describe the overall type of a study that will be conducted and the plan or framework for the whole process must be provided. Wyk (2012) identified three types of research designs namely; exploratory study, descriptive study and explanatory study. The researcher used a descriptive study of the effectiveness of the new value added withholding tax system in Zimbabwe

3.1.1   Descriptive research

Descriptive research aims to give an accurate presentation with more detail of the variable sunder study (Wyk, 2012). According Farthing (2015) descriptive research helps to determine the current situation more effectively that is what has happened in a scenario. This method is also helpful because it adds more data to ideas that have been pointed out by previous scholars (Farthing, 2015). Hale (2011) also supports the method in the sense that it brings out information relating to factors underlying a research problem.

3.1.2   Justification for the study

Descriptive research was used because it focused on determining the frequency with which something happens or to the extent to which two or more variables are related. It was suitable for this study, as the study ought to analyse the effectiveness of the new value added

withholding tax system in Zimbabwe. The researcher sought to provide an accurate picture of the value added withholding tax system in order to evaluate its effectiveness.

3.2 Population

Groves et al (2011) defined target population is an entire group of people regarded as relevant to the study so that conclusions can be drawn. Maher (2013) defines target population as a selected category of people who are suitable for a research to be undertaken. The city of KweKwe was used as a research unit. The targeted population consisted of operations officers of ZIMRA (those responsible for education and enforcement of the law), finance personnel of an appointed value added withholding tax agent (ZPC Munyati) and finance personnel of VAT registered suppliers who trade with an appointed Value added withholding tax agent.

The researcher chose to conduct the research in KweKwe because the tax laws of Zimbabwe are similar in all cities and thus making it possible to generalise findings to the larger population of Zimbabwe. The researcher also chose the above respondents because they are the parties affected with the new value added withholding tax system and they have knowledge on the effects of the new tax systems has on their day to day operations.

3.3 Sample and sampling techniques

3.3.1   Sample

Groves et al (2011) defines sample size as the number of units to be included in the study. It is a representative part of a target population taken to show what the rest of the population is like. A sample size as representatives from the target population (Sarantakos, 2012). The sample size chosen for this study was 35, which was comprised of 14 finance personnel from one value added withholding tax agent, 15 finance personnel from 5 VAT registered suppliers who trade with a value added withholding tax agent and 6 ZIMRA operations officers.

Table 3.1 Sample framework

	Total	Sample size	% sample size
VAT appointed agent	20	14	70%
VAT registered operators	25	15	60%
ZIMRA(operations officers)	10	6	67%
Total	**45**	**35**	**78%**

Table 3.1 shows a sample of 35 people created form a target population on 45 people. The table shows that every section (VAT agent, VAT operators and the tax authority) is represented by more than 50% of the targeted population.

3.4 Sampling techniques

A sampling technique is the name or other identification of the specific process by which the entities of the sample have been selected (Etikan, 2016). Sampling techniques can be classified into probability sampling and non-probability sampling. Probability sampling includes random sampling, systematic sampling and stratified sampling whilst non-probability sampling technique is also known as purposive sampling.

3.4.1 Purposive sampling

This technique is a non-probability sample which was adopted in the research on the evaluation of the effectiveness of the new withholding tax system. It is also referred to as judgemental sampling. Non probability implies that not every element of the population has an opportunity for being included in the sample (Oppong, 2013). The technique tends to single out individuals who are willing to cooperate by virtue of learning or experience. Judgmental sampling was used since there were limited number of individuals who possessed the trait of interest, that is who understood how tax system operated. This technique allowed the researcher to use judgement in grouping the respondents into relevant quotas and selecting the cases that would be most convenient to the study and enabled the answering of the research questions as well as meeting the objectives.

3.5 Research instrument

Soares (2012) defines instruments as the data gathering methods that shall be implemented to collect information for analysis. Research instrument used determines the extent to which the information produced will be relevant and reliable (Kimpton 2016). The researcher used questionnaires and interviews to collect data in order to meet the objective of this research.

3.5.1   Questionnaires

Cooper and Schindler (2013) defines a questionnaire as a document that consists of printed questions administered to respondents in order to obtain views of the participants on the research problem. The researcher made use of questionnaires, as they are easy to administer. Measurement and analysis was possible since all respondents answered the same questions. The researcher made use of 3 questionnaires one for VAT registered suppliers, another for Value added withholding tax agent and another for ZIMRA operations officers.

The questionnaires started with an introductory letter for introducing the research topic, assuring confidentiality and identifying the researcher. The questionnaire then moved on to the instructions for completing the questionnaire. Section A of the questionnaire captured the demographic and background information of the respondents; this was used for validating the respondents' participation in the study. Section B of the questionnaire consisted of questions relating to the research objectives. The questionnaires comprised of both open ended and closed ended questions. The questionnaire for ZIMRA staff had more questions that are open ended since they are the experts in the subject the researcher aims to explore.

3.5.2   Justification

The researcher used questionnaire to allow uniformity in the way questions are asked and to also unsure comparability of answers obtained. The use of questionnaires can be advantageous as questionnaires can be designed to regulate what the respondents know and define the questions to be asked making it easier for data analysis. The questionnaire were less time consuming for the researcher since the researcher gathered data from seven firms affected by the value added withholding tax system.

3.6 Types of data

3.6.1 Primary data

According to Hox and Boeiji (2013), primary data refers to information collected first hand by the researcher which is directly linked to the topic under study. The researcher collected original information by collecting data from respondents using questionnaires because they are easy to administer and also economical. Furthermore, the questionnaires give a description of the state of affairs as it exists at present, which is in line with the research design adopted by the researcher. It was imperative to collect primary data because of the advantages it offers to the research. Primary sources are most authoritative because a second party has not filtered those (Cooper & Schindler, 2013).

3.6.2 Secondary data

Secondary data is data collected from existing sources such as publications, internal records, or databases and may be available in hard copy or on the internet (Collins & Hussey, 2014). Information from secondary sources is information gathered by others for purposes that may vary from the current objective. The secondary sources in this study included Zimra quarterly performance reports, published Zimbabwe annual budgets, newspaper articles and other written text on the same subject matter. One of the reasons why secondary data was used in this study is that it is readily available. However, this source is not as authoritative as primary source, which is the reason why the researcher combined both secondary and primary data.

3.7 Validity and reliability

3.7.1 Validity

Thanasegaran (2012) postulated validity as the quality of data collected, that is the extent to which findings of the study addresses the objectives and questions of the study. In order to improve validity of this study, the researcher designed specific and appropriate questions that covered the area under study. The researcher also did a pilot test with the questionnaires and then corrected them before distributing them.

The answers to some of the questions in the questionnaire might result in tax payers being subjected to scrutiny with the tax authorities hence the respondents were a little hesitant to disclose such information. To ensure validity the researcher went a step further in identifying

himself as a researcher who is independent from the tax authorities. This was achieved by attaching an introductory letter to the research questionnaires and the letter was signed by his academic supervisor. The researcher addressed two types of validity as detailed below

Construct Validity

To ensure construct validity the researcher defined the operational meaning of effectiveness in the literature review because the generic definition of the word needed operationalizing in order to suit the research objectives of the study. The research was conducted in the context of the operational definition of the word effectiveness as defined in the literature review section of the research.

External Validity

To ensure the external validity of the study the researcher focused on Kwekwe, which can be generalised to the broader population mainly because the tax laws of Zimbabwe are similar in all towns and cities. The researcher also used convenience non-random sampling in conjunction with quota non-random sampling to ensure validity because it was feasible to do so given the resources that the researcher had. Furthermore, the researcher ensured that all affected parties (that is VAT withholding tax agents, VAT registered suppliers and the tax authority) were represented in the sample selected which made it possible for the researcher to generalise the results to the broader population.

3.7.2 Reliability

Thanasegaran (2012) defines reliability as to the degree by which to independent researchers studying the same topic within the same given framework come up with similar results. To achieve the highest degree of reliability, this chapter described in detail the process of gathering and analysing data. In addition, all the questionnaires are attached in the appendix section. The detailed description will increase the ability for other researchers to replicate this study under the same conditions.

The researcher also used a significantly large sample size of thirty five respondents to ensure that data reliability is preserved from distortions by individual outlying personalities. To avoid ambiguity, the researcher simplified the instructions on the questionnaire into an

understandable, simple let professional English, thereby controlling the test conditions and improving reliability.

The researcher adopted some of the research questions from questionnaires whose reliability has been tested because this will ensure reliability of the researcher's questionnaire. The assurance of anonymity of respondents by the use of questionnaires which did not require the respondent's identification resulted in more reliable responses than if they were in a personal interview because the respondents were able to answer the questionnaires in their natural environment and without any fear of their identities being revealed.

3.7.3   Pilot study

The researcher conducted a pilot study in order validate the questionnaire. This was done so as to establish clarity, validity and reliability of the research instrument employed. The study helped the researcher to reveal the misconceptions of the respondents and the need to rephrase some of the questions for clarity and relevance. A number of questionnaires were administered to a selected group of professionals and fellow students for recommendations and the changes to some tax questions which were confidential and could not be answered. The results of the pilot study were as follows.

Table 3.2 Results of the pilot study

Sample	Total number of questions	Number of questions approved
Professional 1	12	10
Professional 2	12	9
Student 1	12	10
Student 2	12	10

3.8 Ethical considerations

Various ethical issues that one needs to take into consideration when carrying out a research include voluntary participation, consent of participants, privacy issues, confidentiality,

avoiding harm to the participants, transparency, honest reporting of the results and reaction of participants (Saunders et al 2009).The researcher stood guided by the aforementioned ethical considerations through the research. The consent of respondents was sought to ensure that no undue influence or duress was used to get information. All information about the study was used for its purpose and the purpose thereof was communicated to the respondents so that the research will be transparent.

Information about the voluntary nature of participation and of the right to withdraw partially or completely from the process was communicated to the respondents. Respondents' identities were kept confidential meaning no questionnaire required respondents to fill in their identification. Responses from the respondents were kept under lock and key and the researcher was the only person who had access to the same. Observation of respondents' privacy took a centre stage and contacting of respondents was done during work hours only. The researcher also insured that the questions administered are not deceptive and abusive in anyway because this would have constituted unethical behaviour and would have undermined the transparency of the research. Time-consuming questions were avoided in designing the questionnaires since this would harm the respondents by taking a lot of their time and hence unethical. Lastly all the information gathered from the research was reported honestly and the researcher upheld the above mentioned ethical considerations in ensuring the success of the research project.

3.9 Data presentation and analysis

3.9.1   Data presentation

Responses were coded which involves assigning numbers or other symbols to answers so that responses can be grouped into limited number of categories. The researcher conducted data capturing, organisation and tabulation using spreadsheet. The researcher used percentages, frequency tables, bar graphs and pie charts in data presentation. The researcher chose those methods of data presentation because they accurately represented the data collected and they are easy to interpret. The answers to category type questions were presented using the bar graphs and pie charts as well as frequency tables where applicable. The ordinal questions were presented the same way as the category type questions since they are more similar. Cross tabulation was also used to bring out relationships across themes identified in the study because some themes can fully be appreciated/ understood in the context of other themes.

3.9.2   Data analysis

The researcher first prepared the data for analysis. The role of data editing is to inspect and correct omissions, ambiguities, errors in responses from participants. This check for completeness and accuracy in the data. The study made use of thematic data analysis. This method of data analysis is one that will look across all the collected data to identify the main themes that summarize all views collected in the study. Only the relevant main themes will be organized since the irrelevant themes will just be a waste of time and resources.

In particular, the researcher organised the data and reduced it through summarisation by coding and categorising the data. The researcher identified themes and patterns in the data and offered well-reasoned conclusions through interpretation of the findings. Data coding was purely inductive and grounded, meaning all the codes were drawn from the responses, and no proposed codes were brought into the data analysis which were not from the responses. The researcher selected this method of analysis for this study because it does not impose themes on the research findings but rather allows themes to emerge from the collected research findings thus becoming suitable for academic purpose.

The coded data was then captured into excel and SPSS for further processing and presentation. In SPSS, the researcher made use of the descriptive statistics analysis to process the data for presentation as bar graphs, pie charts frequency tables and cross tabulation analysis. The researcher opted for this method because it was more suitable to the type of the research which is a descriptive study and also because it is simple to explain.

3.10   Summary

This chapter has depicted the search methodology used to gather the data relating to the area of study. This chapter has identified the target population from which a sample was drawn. The rationale for sampling techniques used was also dealt with under this chapter. Furthermore, the chapter analysed the research instruments used to gather data unearthing their weaknesses and how these weaknesses were countered. The next chapter looks at how the data collected was analysed in more depth and presentation of the data gathered from the respondents.

CHAPTER 4: DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

The purpose of this chapter is to present data findings, data analysis and give an interpretation of the research finding. The researcher used 3 questionnaires to gather data from VAT registered suppliers, an appointed value added withholding tax agent and from the tax authority. Qualitative analysis of the findings was done using data reduction, coding, categorisation and through identification of themes and common patterns. Findings were analysed using SPSS to determine appropriate presentation tools. The findings are presented using tables, graphs, pie charts and in form of percentages. The findings were also compared and contrasted with relevant literature.

Table 1.1 Response rate

Respondents	Questionnaires sent	Responses received	Response rate
Contractors	3	3	100.00%
Transportation	3	3	100.00%
Manufactures	3	2	66.67%
Textile	3	3	100.00%
Retail	3	1	33.33%
ZPC Munyati	14	11	78.57%
Zimra	6	5	83.33%
TOTAL	**35**	**28**	**80.00%**

 Source: Primary data

As discussed in the previous chapter the researcher administered 35 questionnaires, comprised of 14 from one value added withholding agent (Zimbabwe Power Company[ZPC] Munyati Power Station) and 15 finance personnel from 5 VAT registered suppliers who trade with the selected value added withholding agent and 6 operations officers. The overall

questionnaire response rate was 80%. A response rate of 50% is considered adequate while that of 60% is good. Since the response rate is above 60%, the researcher proceeded to analyse data in this study.
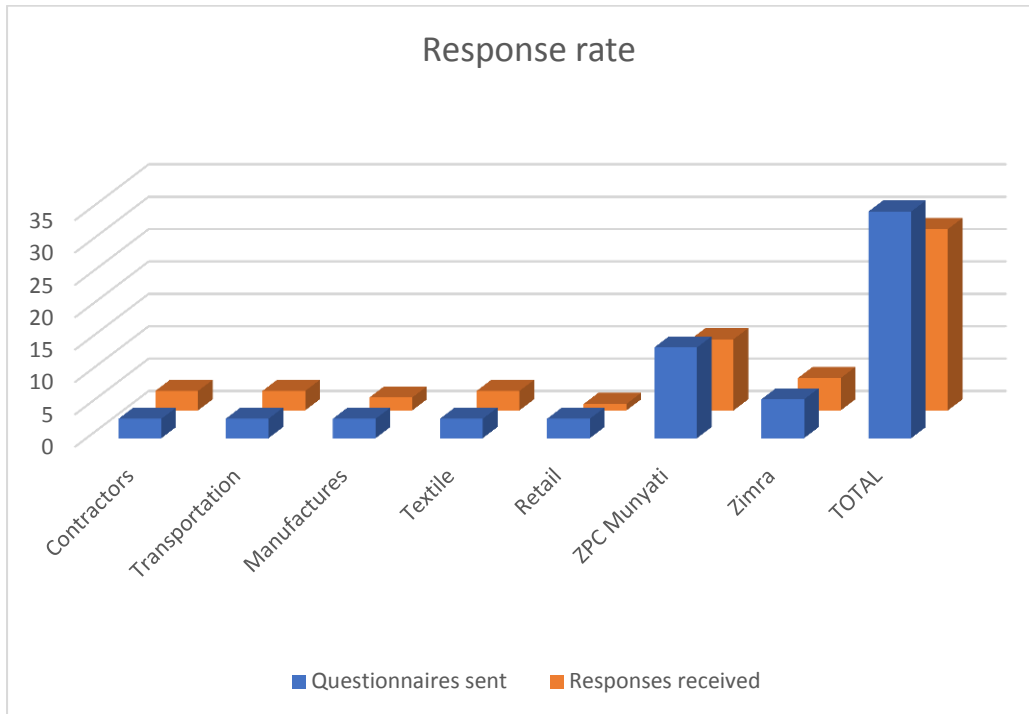
Fig 4.1 Response rate

4.1 Biographic and background information of respondents

4.1.1   Gender

Table 4.2 Gender composition

RESPONDENTS	MALE	FEMALE
Contractors	2	1
Transportation Industry	2	1
Manufacturing Industry	1	1
Textile Industry	1	2
Retail Industry	0	1

ZPC Munyati PS	6	5
Zimra tax officers	3	2
TOTAL	**15**	**13**

Source: Primary source

From the data below in the pie chart, 54%(15) of the respondents are male, while 46%(17) are female. This reflects that the study had no gender bias since it included both males and females.
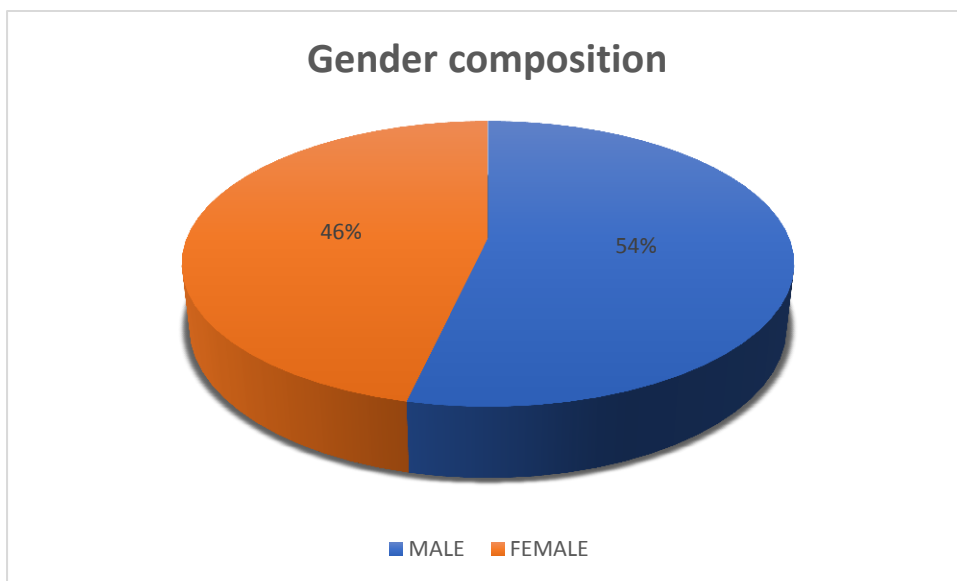
Fig 4.2 Gender composition

4.1.2 Age

Table 4.3 Age composition

Age	20-39 yrs	40-49 yrs	50-59 yrs	60 yrs and above
Number of respondents	14	8	5	1
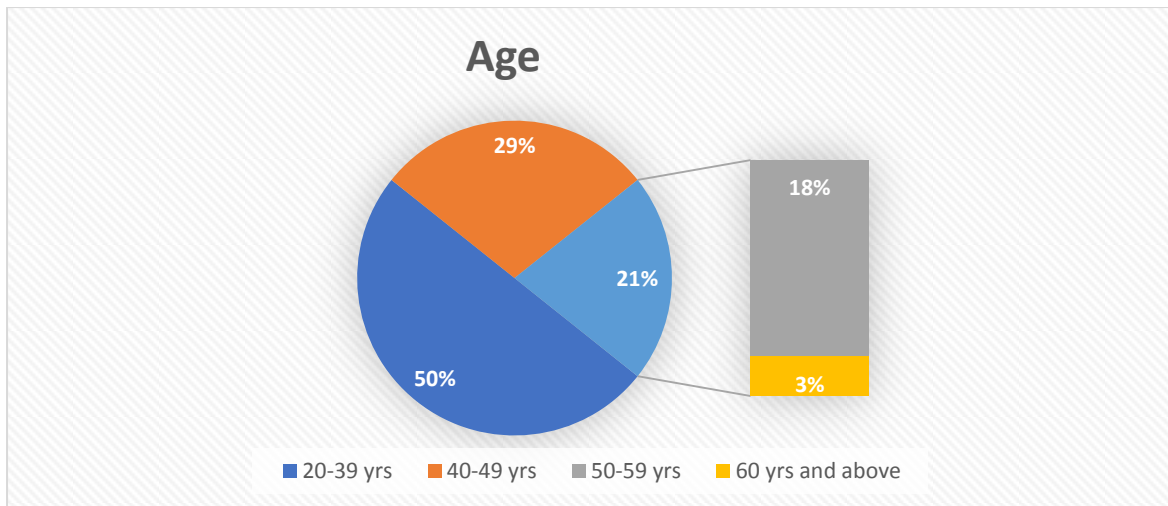
Fig 4.3 Age

50% of the respondents were between the age of 20-39 years, 29% were between the age of 40-49 years, 18% were between 50-59 years and 3% were above the age of 60. The information shows that the respondents were mature to answer the questions in the questionnaire since they were 20 years and above.

4.1.3 Academic qualifications

Table 4.4 Academic qualifications

	'O' level	Certificate	Diploma	Degree	Masters	Other
Contractors	0	0	1	2	0	0
Transportation	0	1	1	1	0	0
Manufactures	0	1	0	1	0	0
Textile	1	0	1	1	0	0
Retail	0	0	1	0	0	0
ZPC Munyati	0	0	3	4	2	2
Zimra	0	0	1	3	1	0
Total	**1**	**2**	**8**	**12**	**3**	**2**
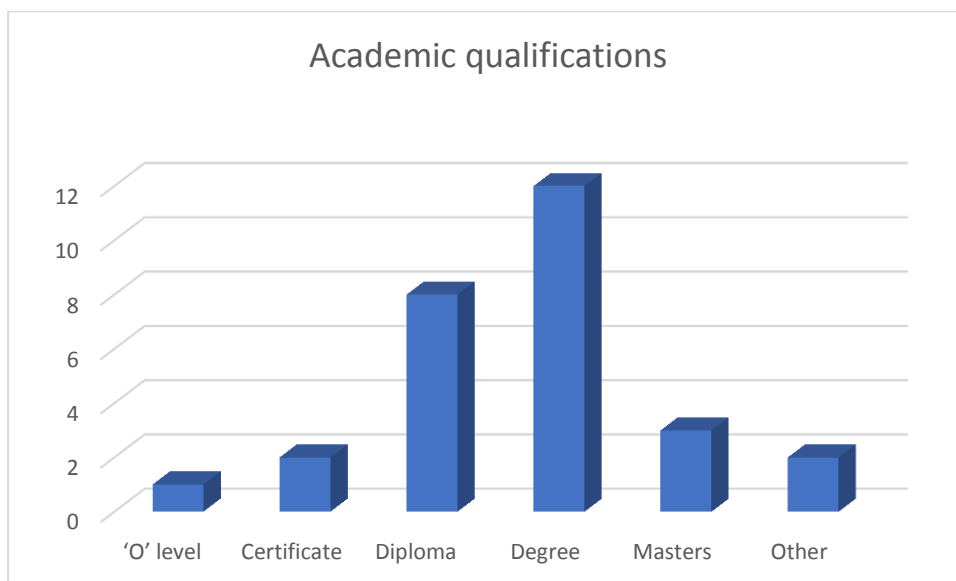
Fig 4.4 Academic Qualifications

The above table and graph shows the data captured by the questionnaires on the academic qualifications of the respondents. The majority of ZIMRA tax officers and council managers are holders of at least a university degree which shows that they are educated enough to be able to provide reliable and useful information. This also shows that ZIMRAs' tax officers who deal with administering value added withholding tax are well educated with. The results indicate that all the respondents had attained at basic education with the majority of which having attained a degree. This implies that the people who participated in the study were literate and had the ability to understand and answer questions without much assistance.

4.1.4   Work experience

Table 4.5 Work experience

Work Experience	Less than 1 year	1-5 years	6-10 years	above 10 years
Total	3	7	9	9
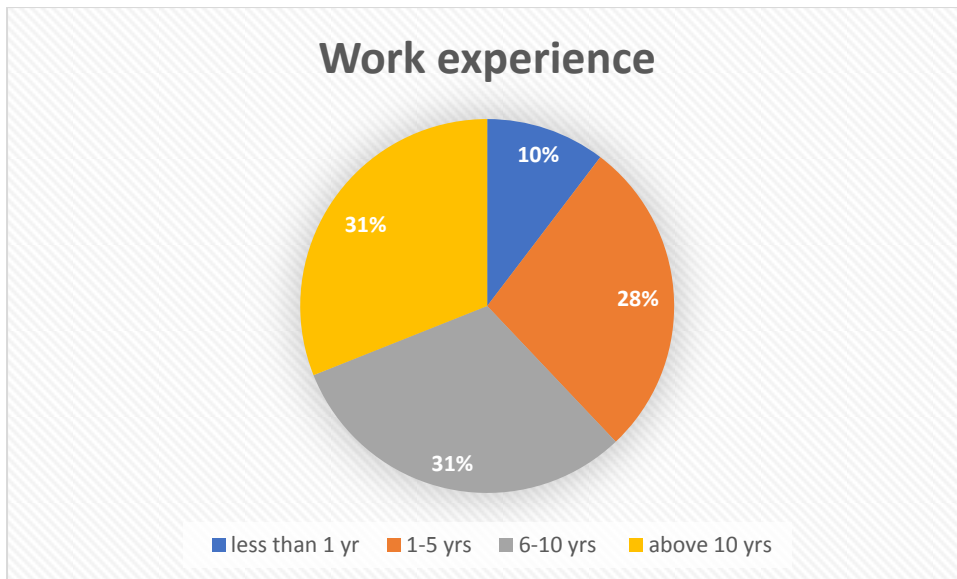
Fig 4.5 work experience

90% of the population are individuals who have been working in their respective organisations for more than 2 years meaning that they have been around long enough to know the pros and cons brought about with the introduction of the VAT withholding system. However, the 10% who have less than 1 year in their work experience only came in after the value added withholding tax was introduced which means that they lack some of the pre-implementation knowledge requires to assess the good or bad brought about with the new value added withholding tax system.

4.2 Knowledge of withholding VAT

Table 4.6 level of withholding VAT knowledge

	Very strong	**Strong**	**Fair**	**Weak**
Response from agent	1	6	1	3
Response from suppliers	2	3	5	2
Total	**3**	**9**	**6**	**5**
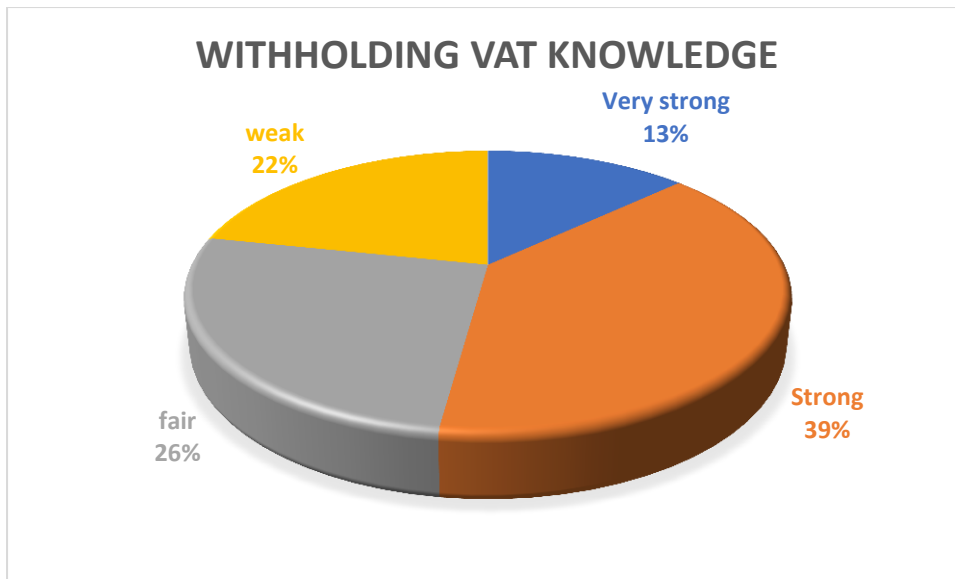
Fig 4.6 Withholding VAT knowledge

The above pie chart indicates that 52% of the respondents have a strong knowledge of value added withholding tax system while another 22% has a weak knowledge pertaining to the subject matter. The results indicate that the majority is able to provide well informed opinion on the subject matter as they have a strong knowledge pertaining to it. Upon further analysis it was determined that the individuals who had a weak understanding of the value added withholding tax system were from procurement and stores which was reasonable considering that they do not deal with value added withholding tax on a daily basis. The input from the individuals with the weak knowledge was still valuable because they had the knowledge on the impact of the tax system on the supplier-customer relationship. Conclusively, 12/23 respondents have strong knowledge and understanding on the tax system and they can give relevant information. This is well supported by Simionescu & Albu (2016) who states that knowledge is a key factor in tax conformity as it linked to the tax payers' capability to comprehend taxation rule as well as their readiness to meet their terms.

To allude to the knowledge ratings of the respondents the questionnaire also made an enquiry on the number of seminars each respondent attended pertaining to the VAT withholding tax and the findings have been summarised below.

Table 4.7 Seminars attended

Number of seminars attended	Zero	one	Two
Response from agent	3	4	4
Response from suppliers	4	6	2
Total	**7**	**10**	**6**
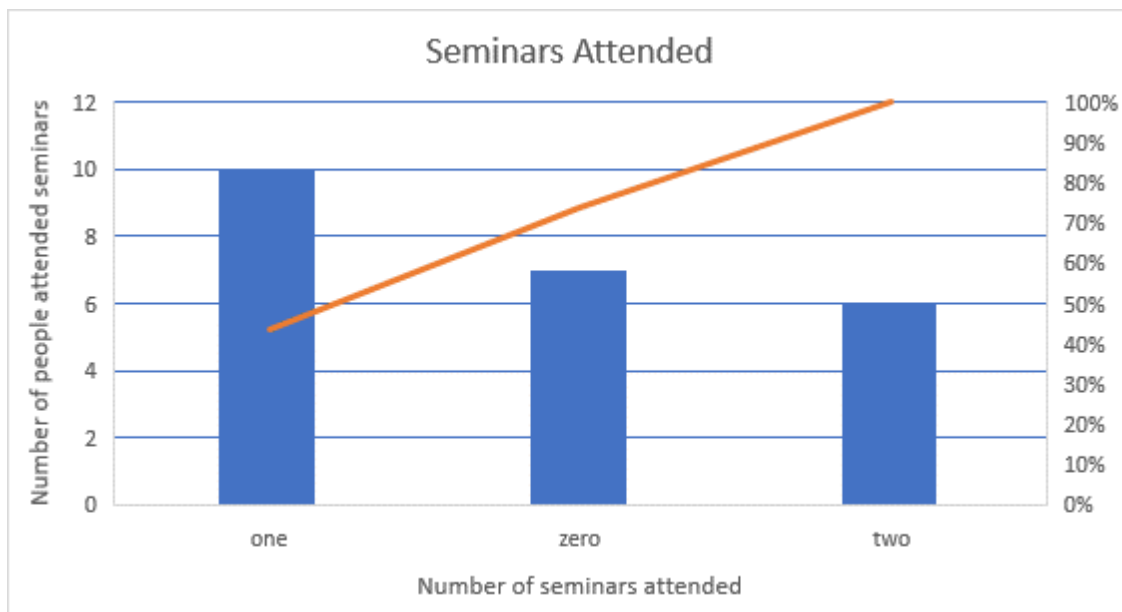
Fig 4.7 Seminars Attended

The bar chart above shows that the majority of the respondents attended at least one seminar. The number totals to 16 respondents which is alluding to the 12 respondents who claimed that they had a strong knowledge of the subject matter. However, a point worthy noting is that respondents who indicated a weak knowledge are the same individuals who have not attended any seminar which brings out the fact that without training seminars, the parties affected with the new value added withholding tax would not have adequate knowledge to adhere to the requirements of the tax.

4.3 Suitability of the VAT withholding method and design in Zimbabwe

4.3.1   The fairness of the system

Table 4.8 Is the system fair

	Yes	No
Response from agent	8	3
Response from tax authority	3	2
Total	**11**	**5**
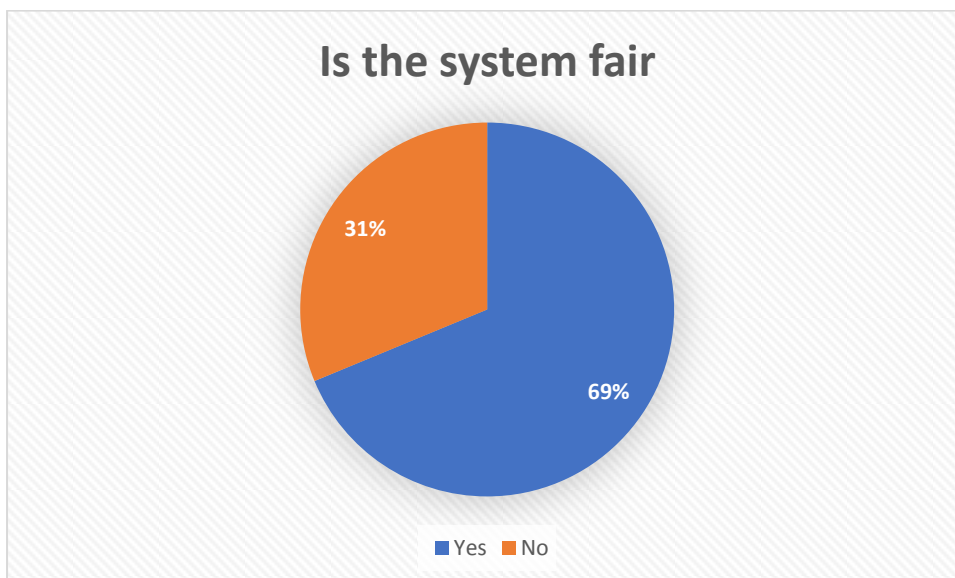
Fig 4.8 System's fairness

The above pie chart shows the response to the question asking whether or not the new value added withholding tax is fair administered to the VAT withholding agent and the tax authority. The research showed that 69% (11) of the respondents agree that the tax is fair. However, 31% (5) do not agree to the fact that the system is fair, which indicates that's the general perception of the respondents on the fairness of the system creates a healthy tax climate. According to the Slippery Model Kirchler (2007) there is likelihood of compliance by the tax agents hence achieving the main objective of the system since it relies heavily on the tax compliance of the VAT withholding tax agents to be effective. This is also supported

by the study conducted by Batrancea et al (2012) on the factors that shape tax compliance behaviour and one of them was fairness under socio-psychological factor determinants.

The (2) respondents from the tax authority who are of the opinion "no" gave their reasons being that the rate reduces the working capital of businesses between sales and VAT remittance. The supplier is also required to declare VAT even for sales which are yet to be paid meaning when they are paid the supplier will be charged a withholding tax when he had already paid the VAT upon declaring it.

4.3.2 Customer Supplier relationship

Table 4.9 Does the tax system affect the customer supplier relationship

	Yes	No
Response from agent	5	6
Response from tax authority	2	3
Total	**7**	**9**
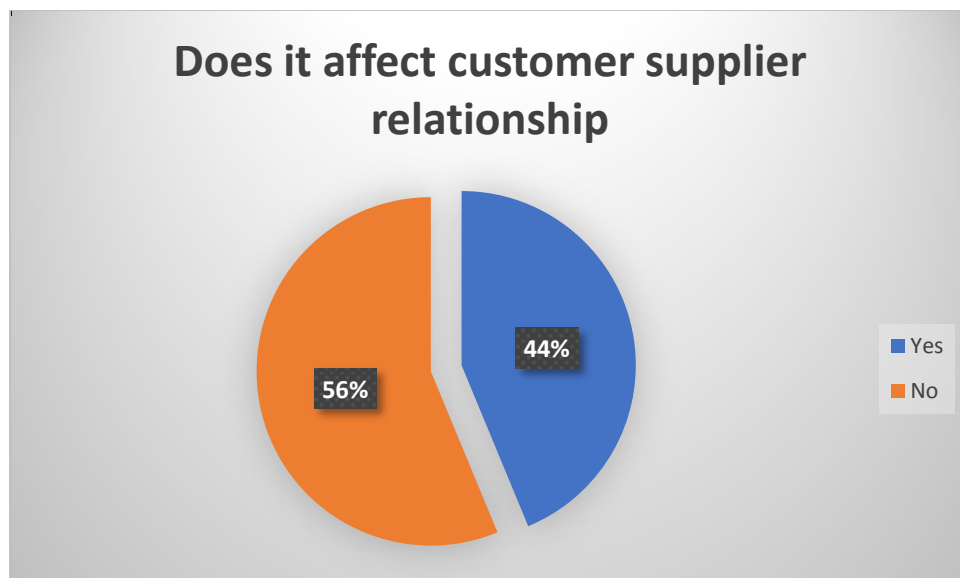
Fig 4.9 Customer supplier relationship

The above pie chart shows that the majority of 56% (9) believes that the system does not affect the supplier-customer relationship and the other 44% (7) believes that the tax law is of

effect to the relationship. A further analysis of the results which included checking the positions of the respondents in a bid to understand the background from which each respondent is giving their information from, gave a different view of the data. The analysis showed that the individuals who are of the opinion that the tax affects the supplier customer relationship are mainly from creditors management and procurement which means they are the ones who are always in constant contact with the suppliers thus their contribution was accorded more credit.

The reasons for the opinion that the supplier-customer relations where affected were captured in order to give a complete picture of the effect of the new value added withholding tax. The main themes in the reasons given included the fact the reasons listed below.

• The increased number of reconciling items on creditors reconciliations which are proving difficult to clear, most of which pertain to VAT withheld

• Decreased number of bids in the tendering process since appointment as an agent

• Suppliers complain that they are supposed to be the ones doing their own tax remittances not having them being deducted at source.

4.3.3   Cash flows

Table 4.10 Effects on cash flows

	Negative	No effect	Positive
Responses from suppliers	11	0	1
Responses in %	92%	0%	8%
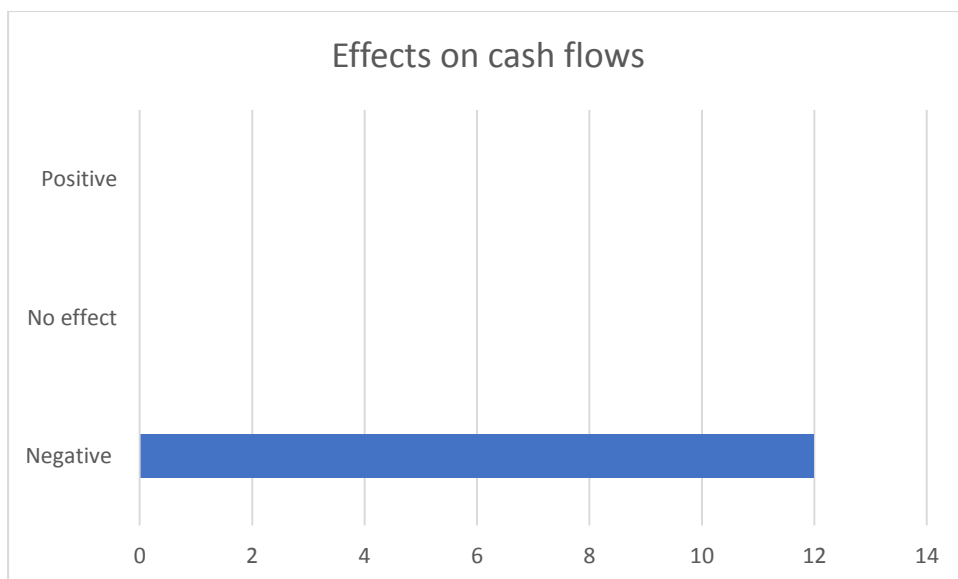
Fig 4.10 Cash flows

Almost the entire population agreed that the new system affects their cash flows negatively and 0% thought that the tax affects their cash flows positively. Taxpayers are allowed to offset their tax claims with VAT withholding in a period and the excess is claimable as refund and the refunds are being offset the following periods and this tends to affect the cash flows of companies. This is supported by Waerzeggers (2008) who says the tax system is believed to help in increasing revenue collections, it creates pressure on companies' cash flows for refunds usually take longer time and tax administration. Fossat and Bua (2013) also emphasize that while VAT withholding may have an initial positive impact in terms of revenue collections it also results in serious cash flows for suppliers.

4.4 Administration of the withholding VAT in Zimbabwe

4.4.1   Effectiveness of the withholding VAT system

Table 4.11 Is the withholding VAT system effective

	Yes	No
Responses from agent	8	3
Responses from tax authority	4	1
Total	**12**	**4**
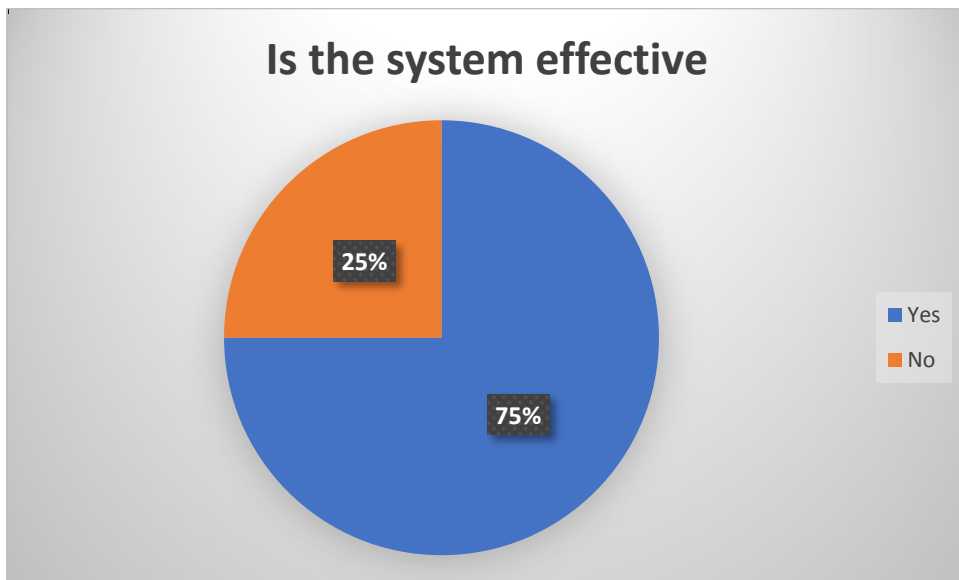
Fig 4.11 System's effectiveness
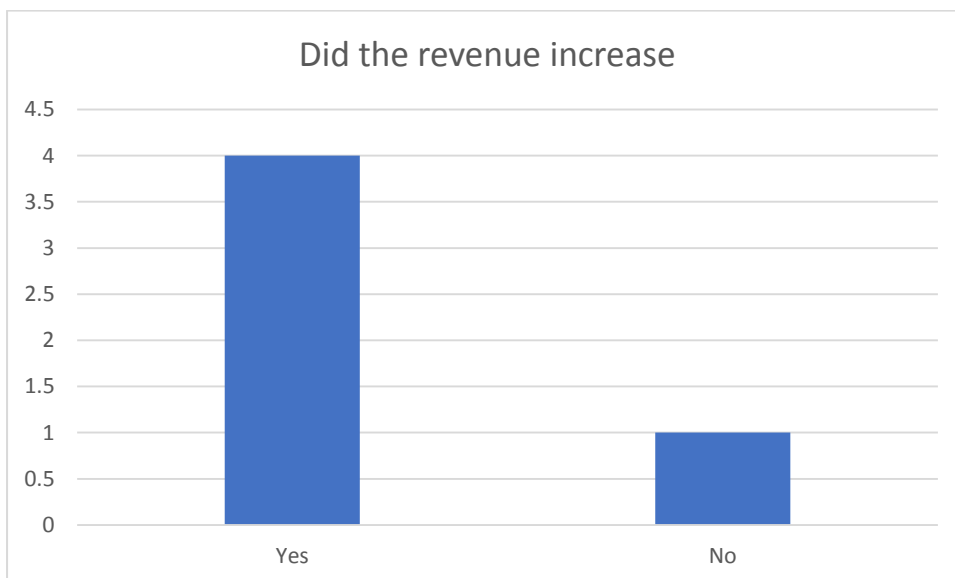
Fig 4.12 Revenue increase

The pie chart above shows that the majority population of 75% (12) are of the opinion that the tax is effective that is because the systems reduces tax evasion by the suppliers, it also increases the government revenue by providing an efficient tax collection system to the tax authority. This position is well supported by Fossat and Bua (2013) who sates that VAT withholding have a positive impact in terms of revenue collections. This is supported by the graph above on a research conducted from the tax authority where the majority are of the

opinion that the tax system has boosted the government's revenue since its introduction in late 2016.

The other 25% (4) in the pie chart above are of the opinion that the tax system is not effective because it brings about increased workload on filling the VAT return. The need to include also the VAT withholding schedule in filling the VAT return creates pressure at the end of the VAT period considering that the e-filling system is unable to service the current usage worse more with the addition demand. This is supported by Waerzeggers (2008) who indicated that these systems do not appear to be an appropriate proxy for effective and efficient management, control and recovery of VAT because revenue may be boosted in the short run but these gains will be wiped out in the long run.

4.4.2 Sufficiency of the value added withholding tax legislation

Table 4.12 Is the withholding VAT legislation sufficient

	Yes	No
Responses from tax authority	4	1
Response in %	80%	20%
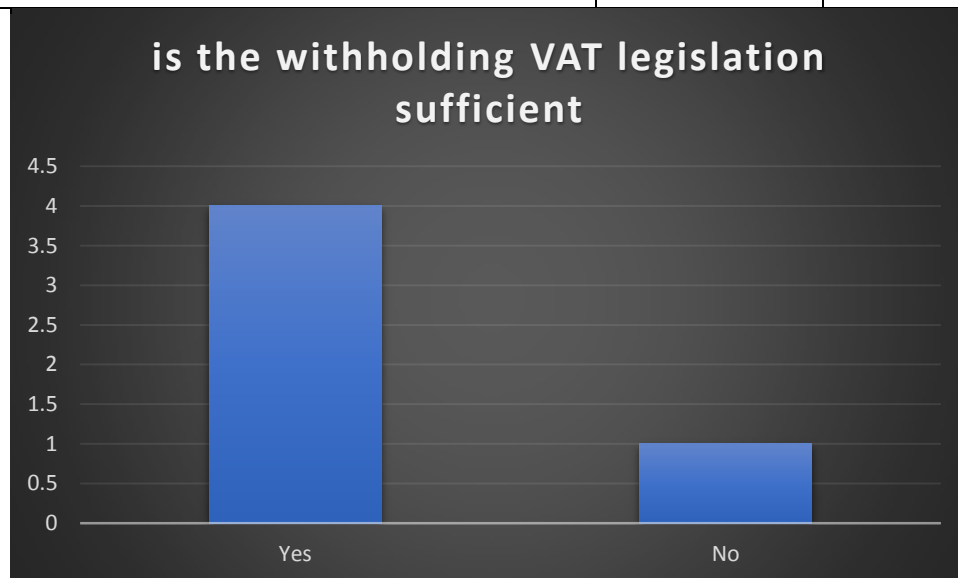
Fig 4.13 VAT legislation

The diagram above shows that 80% (4) of the respondents agree that the tax is sufficiently legislated however the other 20% (1) indicated that despite all the efforts by the tax authority

to legislate the new system there remain a need to improve on the legislation and this is because every system has a loophole.

4.4.3   Convenience

Table 4.13 Is the withholding VAT convenient

	Convenient	**Not Convenient**	**Not sure**
Responses from suppliers	3	7	2
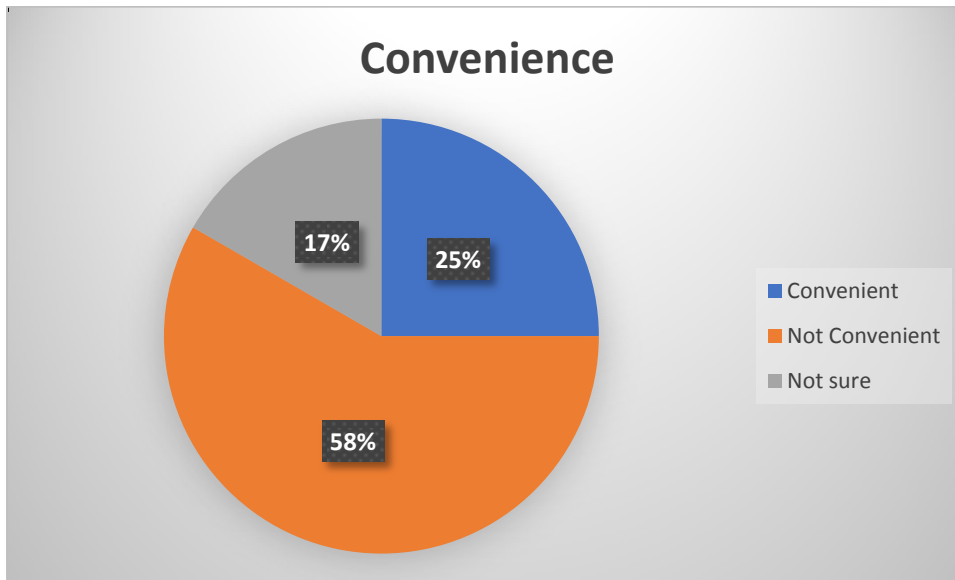
Fig 4.14 Convenience

The pie chart above shows that 58% (7) of the respondents are of the view that the new Value added withholding tax is not convenient which is in line with the 92% (11) who thought that the tax negatively affects the cash flows. Some of the respondents were indifferent as to the convenience of the tax system. Notably the 27% (3), which thought that the new tax system is convenient, are also appointed agents while at the same time they are suppliers. This was of particular interest because it is in line with the general theme from the responses given by the officers of an appointed agent (ZPC Munyati PS). The relation shows the appointed tax agents are advocating for the system though some have their reservations but in general that holds true.

The reasons as to why the suppliers felt that the tax system was not convenient were noted down and these included:

•   It gives rise to the need of claiming refunds which take a long time to be processed and

        for the refund to be approved there are a lot of time wasting procedures

•   It created a need to recruit more staff because the burden of making follow up on all

        the withholding tax certificates as well as to ensure adherence to all the requirements

        of the new system was too heavy to lay on the already existing staff

•   The VAT schedule is now even much difficult to prepare given additional items to

        Include.

4.4.4   Effective Administration
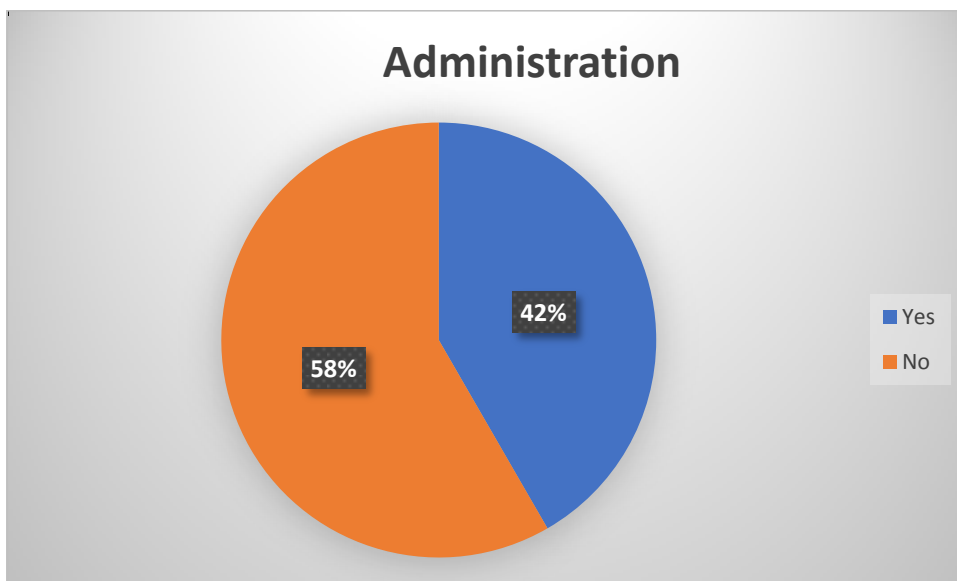
Fig 4.15 Administration

The pie chart above shows that only 42% (5) feel that the new tax is effectively administered while the majority of 58% (7) thinks that the system doesn't have effective administration and this is mainly because of the below mentioned reasons.

• The suppliers are not knowledgeable about the new value added withholding tax.

• The REV 5 form for VAT return has no slot provided for the value added withholding tax hence the deduction of the already withheld tax is having to be filled on another slot which is symbolic of the unpreparedness of ZIMRA to administer the tax system.

• The ZIMRA officials who are supposed to answer all of the suppliers' questions on the subject matter lack comprehensive knowledge in the issue hence some of the questions go unanswered as a result.

The 58% of the respondents who argued that the administration is ineffective are supported by Yesegat (2016) who indicated that in Ethiopia VAT withholding is causing disagreements between tax payers and tax officers and is imposing unnecessary pressure on the administration and tax payers.

4.4.5 Tax compliance and tax evasion

Table 4.14 Effect on tax compliance and tax evasion

	Agree	Don't Agree	Not Sure
Response from suppliers	7	4	1
Response in %	58%	33%	8%
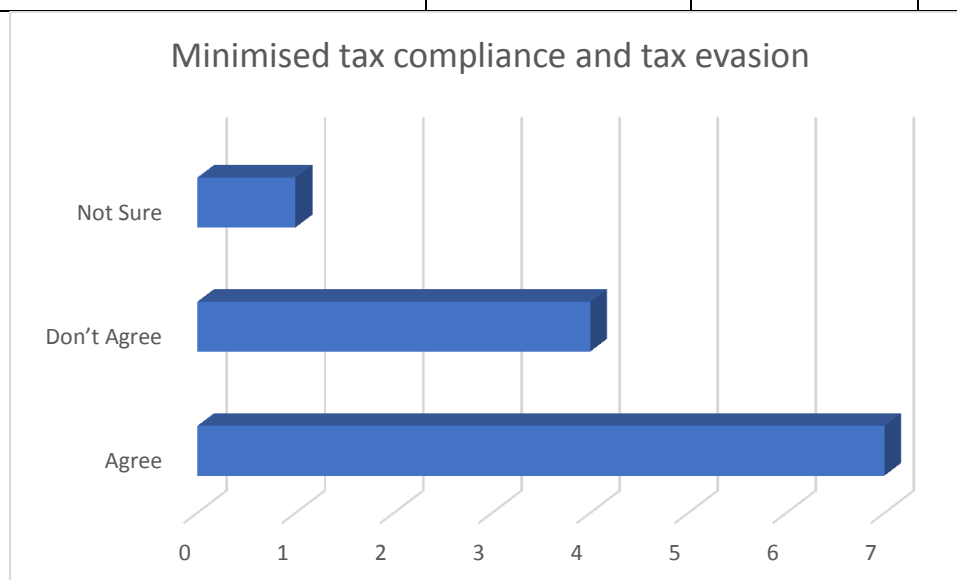
Fig 4.16 Ttax compliance and tax evasion

The researcher noticed that the respondents interpreted the tax compliance and the tax evasion question as the same question as the same questions hence the results were identical and this mainly because of the close relationship between the two concepts. The majority of 58% (7) indicated that the system has minimised tax non-compliance nor has it put a stop hold on tax evasion. However, a population of 33% (4) believes that the system has neither minimised non-compliance and put a stop hold on tax evasion. The 7 responses in support of the system having minimised tax non-compliance and put a stop hold to tax evasion were supported by Nyangau (2017) who stated that VAT withholding in Kenya has improved tax compliance.

4.5 Challenges faced in administering value added withholding tax system

The respondents were asked the challenges if any that are associated with the new value added withholding tax system and any recommendations they would like to give to minimise the challenges and the major themes were:

4.5.1   Responses from VAT withholding Agent

• Suppliers not considering VAT withholding certificates as a payment which continue

 to appear as reconciling items hence raising questions with auditors

• None delivery by suppliers

• Increased workload during the end of a VAT period

• Increased administration costs

• Prices quoted by supplier have gone up.

4.5.2   Recommendations

• More awareness campaigns

• Tax administration training

• Technological advancement in order to automate the process and reduce the administration cost.

4.5.3 Responses from tax authority

The respondents were asked the challenges if any that are associated with the new value added withholding tax system and the major themes were the fact that it increases the administration cost for both the tax agent and the tax authority. Another challenge posed by the system is that the system is creating strains in the supply chain.

4.5.4 Recommendations

• Increase number of agents

• Reduce the VAT withholding tax

• Facilitate setoff where a client is both supplier and an agent

• Allow agents to claim administrative expenses

• Conduct more awareness campaigns and specifically including both suppliers and agents in the awareness conventions.

4.5.5 Responses from suppliers

• Liquidity challenges worsened due to the shrinking working capital.

• Administration burdens especially for making follow-ups on the withholding tax certificates and record keeping of those certificates.

• Additional administration cost due to the recently arisen need to recruit

• Loss of customer portfolio because of reduced volume of business with all the tax agents in a bid to protect the company from the increasing liquidity challenges.

• In order to protect the business from the new system the suppliers have increased the prices for the registered agents and thus reducing the volume of the business

• ZIMRA denying some of the VAT withheld claims.

4.5.6 Recommendations

• Do away with value added withholding tax

• Reduce the withholding tax rate

• Educate the suppliers so that they may be able to develop a well-informed attitude towards the law.

• Automate the system so that as soon as the tax authority has received the information about the VAT withheld they also debit the client's account with the amount remitted by the agent and thus cutting on the administrative

4.7 Summary

In this chapter, the researcher evaluated and analysed responses to questionnaires. The results arising from the data collection techniques adopted were analysed and presented in text form and some of the explanations to the results were aided by the use of tables and graphs. The next chapter will summarize the research findings and outline the recommendations suggested by the researcher.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The main objective of the study was to evaluate the effectiveness of the new value added withholding tax. This chapter shows the conclusions drawn from a critical analysis of the findings and literature review presented in the previous chapters. The chapter also gives the recommendations made by the researcher and highlights areas of further studies.

5.1 Summary of major findings

The researcher found out that the withholding tax argents have a positive attitude towards the new value added withholding tax thus they believe the system is fair and effective, thus they consider the system suitable in Zimbabwe. The officers of the value added withholding tax agents are well educated on the subject matter, which is one of the reasons why they have a good attitude towards the new value added withholding tax system. The study also unearthed the fact that the VAT registered suppliers do not have sufficient knowledge on the value added withholding tax issue mainly because most of which have not even attended a single value added withholding tax seminar. The findings also show that the agents are mainly facing the problem of suppliers refusing the value added withholding tax certificate as payment, which results in the suppliers not delivering and the relations being jeopardised.

As the suppliers and the tax official respondents noted, the suppliers are now charging relatively high prices for goods and services supplied to withholding agents in a bid to reduce the impact of the amount withheld. The suppliers also highlighted that the value added withholding tax has left some suppliers with working capital challenges. Most of the respondents highlighted that the new value added withholding tax has increased the administration burden and along with the burden the costs of administering the tax have also, sky rocketed burdening the already failing firms. The responses also brought to light the fact that most of the affected parties agree to the fact that the new value added withholding tax will boost the government revenue. However, the literature reviewed brought to light that the boost in government revenue would only be in the short run and the increase will be offset in the end due to high administration costs.

5.2 Conclusions

In general objective of this study was to determine the effectiveness of value added withholding tax in in Zimbabwe. In line with the objectives, the researcher has sought to understand that the study has brought to light that the attitudes of the taxpayer towards the new value added withholding tax largely affect their decisions on compliance. The attitude of the taxpayer in this case is being largely influenced by their knowledge of the system. From the findings the researcher believes that unless the suppliers are educated on the subject matter the new value added withholding tax will be less effective in its objective to curb noncompliance.

The researcher tends to understand that the administration of the tax is less efficient because the cost of administration to the withholding agent as well as to the supplier is too high hence; all the benefits are offset by these costs in the end and also the VAT withholding is affecting the customer supplier relationship as suppliers are refusing to accept withholding VAT certificates as payments.

The researcher concluded that the system is a noble idea to cub tax noncompliance as well as tax evasion because it brings in the merits of tax deduction at source into VAT and also the value added withholding tax system is a remarkable revenue bolster as shown in the first chapter how it boosted the revenue of 2017 but it is not an effective tax system and is being underpinned by the high administrative costs, the inconveniency of losing customers and suppliers and as well as the poor knowledge of the system by the registered VAT operators.

5.3 Recommendations

5.3.1   Taxpayer Education

Zimra should intensify tax and public awareness campaigns to ensure that the taxpayers are educated enough on tax issues so that they may be aware of the mechanics of value added withholding tax. There is also need for the government to introduce tax education in the education system curriculum so that taxpayers are not completely ignorant. This will help to change the attitude of the taxpayers towards the tax issues.

5.3.2   Improving the Administration

To improve the administration of the new VAT withholding ZIMRA should automate the system such that both the agent and the registered supplier will be able to perform their VAT withholding obligations without necessarily having to rely on the tax certificate from the agent.

5.4 Recommendations for further study

The researcher suggests a study can be designed to find out the impact of VAT withholding on the economy's growth and this will give an indication on the effects of VAT withholding on the country's economic growth.

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Appendix A: Authority to carry out research

MIDLANDS STATE UNIVERSITY

P. BAG 9055   **Tel: 227411**

Gweru

Zimbabwe

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

Midlands State University

P. Bag 9055

Gweru

19 April 2018

To whom it may concern

Dear Sir/Madam

RE: REQUESTING PERMISSION TO COLLECT RESEARCH DATA FROM YOUR ORGANISATION.

My name is Nyasha Marere (Reg No: R143789M) a final year student at Midlands State University studying for a Bachelor of Commerce Accounting (Honours) Degree. I am conducting a research on the **effectiveness of the new value added withholding tax system in Zimababwe.** May you kindly grant me the permission to collect research data from your organisation. The research is purely for academic purposes and therefore the results will be treated with confidentiality and professionalism.

Yours faithfully

Nyasha Marere

Appendix B: Questionnaires

Tax authority- ZIMRA questionnaire

Instructions

a) Please respond to all the questions below.

b) Respond where applicable by either ticking in the respective answer box or briefly explaining where spaces are provided.

c) There are no right or wrong answers hence, please give the response that is closest to your opinion.

d) Please note that participation is purely voluntary and withdrawal from participation is at your discretion.

e) Please note that all your responses will be treated with strict confidentiality and the study will be used for academic purposes only.

Section A: Biographic Data

1) Gender   Male [ ]   Female [ ]

2) Age range 20-39 [ ]   40-49 [ ]   50-59 [ ]   60 and above [ ]

3) What qualifications do you hold? "O" Level [ ]   Certificate [ ]

   Diploma [ ] Degree [ ] Masters [ ] Other (specify) [ ]………..........

4) How long have you been working for Zimbabwe Revenue Authority?

   Less than 1year [ ] 1-5years [ ] 6-10years [ ] above 10years [ ]

5) What position do you hold?

Section B

1) Has the introduction of value added withholding tax improved revenue collection in comparison to the traditional ways of VAT collections, also taking into account the costs of collection?

Yes. ☐ No. ☐

Justify your answer.

----

2) Do you think VAT clients are adequately educated/trained/informed on the subject of VAT?

Yes. ☐ No. ☐

Justify your answer.

----

4) Is the legislation governing value added withholding tax administration sufficient to ensure maximum compliance by the value added withholding tax agents? If No, what improvements would you suggest should be made?

Yes. ☐ No. ☐

Justify your answer.

----

5) In your professional opinion, do you think the withholding tax rate of 10% of gross invoice amount or 2/3 of VAT is fair to the VAT registered suppliers?

Yes [   ] No [   ]

Justify your answer.

----

6) Are there adequate administration procedures in ZIMRA for successfully implementing value added withholding tax?

Yes [   ] No [   ]

Justify your answer.

----

7) Does the value added withholding tax affect the supplier customer relationship?

Yes [   ] No [   ]

Justify your answer

----

8) Is the value added withholding tax system effective?

Yes ☐ No ☐

Please elaborate your answer.

----

9) What are some of the challenges that ZIMRA and registered value added withholding tax agents are facing in administering value added withholding tax?

----

10)   What recommendations would you like to make that could improve the value added withholding tax design, method and administration?

End of Questionnaire

Thank you for your time and input.

VAT withholding agent -Zimbabwe Power Company (ZPC) Munyati questionnaire

Instructions

a) Please respond to all the questions below.

b) Respond where applicable by either ticking in the respective answer box or briefly explaining where spaces are provided.

c) There are no right or wrong answers hence, please give the response that is closest to your opinion.

d) Please note that participation is purely voluntary and withdrawal from participation is at your discretion.

e) Please note that all your responses will be treated with strict confidentiality and the study will be used for academic purposes only**.**

Section A: Biographic Data

1) Gender   Male [ ]   Female [ ]

2) Age range 20-39 [ ]   40-49 [ ]   50-59 [ ]   60 and above [ ]

3) What qualifications do you hold? "O" Level [ ]   Certificate [ ]

Diploma [ ] Degree [ ]   Masters [ ]   Other (specify) [ ] …….….........

4) How long have you been working in the accounts/ finance department of the entity?

Less than 1year [ ] 1-5years [ ] 6-10years [ ]   above 10years [ ]

5) What position do you hold?

....

Section B

1) How can you rate your knowledge on value added withholding tax issues?

Very Strong. ☐ Strong. ☐ Fair. ☐ Weak. ☐

2) How many training seminars on value added withholding tax have you attended? ☐

3) In your professional opinion, do you think the withholding tax rate of 10% of gross invoice amount or 2/3 of VAT is fair to the suppliers?

Yes ☐ No ☐

Justify your answer.

----

4) Does the value added withholding tax affect the supplier customer relationship?

Yes ☐ No ☐

Justify your answer.

----

5) Is the value added withholding tax system effective?

Yes ☐ No ☐

Please elaborate your answer.

----

6) What are some of the challenges that the appointed value added withholding tax agents have been facing in administering the VAT withholding from the registered VAT operators?

----

7) What recommendations would you like to make that could improve the value added withholding tax design, method and administration?

End of Questionnaire

Thank you for your time and input.

Registered VAT operators (suppliers) questionnaire

Instructions
a) Please respond to all the questions below.
b) Respond where applicable by either ticking in the respective answer box or briefly explaining where spaces are provided.
c) There are no right or wrong answers hence, please give the response that is closest to your opinion.
d) Please note that participation is purely voluntary and withdrawal from participation is at your discretion.
e) Please note that all your responses will be treated with strict confidentiality and the study will be used for academic purposes only**.**

Section A: Biographic Data

1) Gender   Male [ ]   Female [ ]

2) Age range 20-39 [ ]   40-49 [ ]   50-59 [ ]   60 and above [ ]

3) What qualifications do you hold? "O" Level [ ]   Certificate [ ]

Diploma [ ] Degree [ ] Masters [ ] Other (specify) [ ]………..........

4) What type of business is your entity involved in?

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5) How long have you been working in the accounts/ finance department of the entity?

Less than 1year [ ] 1-5years [ ] 6-10years [ ] above 10years [ ]

6) What position do you hold?

Section B

1) How can you rate your knowledge on value added withholding tax issues?

Very Strong. ☐ Strong. ☐ Fair. ☐ Weak. ☐

2) How many training seminars on value added withholding tax have you attended? ☐
3) Is the new value added withholding tax convenient?

It is convenient. ☐ It is not convenient. ☐ I am not sure ☐

Justify your answer.

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4) Is the administration of the new value added withholding tax effective?

Yes. ☐ No ☐

Justify your answer.

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5) The value added withholding tax has minimized value added tax non-compliance. What is your view on this statement?

I agree ☐ I do not agree ☐ I am not sure ☐

Justify your answer.

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6) The value added withholding tax system has put a stop hold on VAT evasion. What is your view on this statement?

I Agree ☐   I do not agree ☐   I am not sure ☐

Justify your answer.

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7) Does the value added withholding tax have an impact on the cash flows of the entity?

Yes, it has negatively affected the cash flows of the entity.   ☐

No, it has no effect on the cash flows of the entity.   ☐

Yes, it has positively affected the cash flows of the entity.   ☐

Justify your answer.

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8) What other problems can you say have arisen as a result of the new value added withholding tax?

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9) What recommendations would you like to make to improve the effectiveness of the value added withholding tax?

End of Questionnaire

Thank you for your time and input