

VAT COMPLIANCE COST FOR SMEs IN ALGERIA

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(International Accounting).**

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ABSTRACT

Every organization tries to maximize its earnings by stringent cost control measures; however, only some costs are controllable, i.e., material, labor, etc., while others are not, i.e., taxes. In a country like Algeria, the overall tax rate is up to 30% for corporations, and these corporations, on average, spend 451 hours/year on tax compliance. Such a huge amount of time is spent for compliance due to the complex and ever-changing nature of the tax structure in Algeria. As SMEs are the main economic drivers for the Algerian economy, these SMEs are responsible for around 60% of Algerian's gross domestic product and employ 1.86 million people. This study is an attempt to explore the VAT compliance cost for the SMEs operating in the Adrar State of Algeria.

For this purpose, 360 questionnaires were distributed among SMEs operating in the Adrar State of Algeria, and 327 fully completed questionnaires were received. Descriptive statistics and cross-tabulation were applied to extract useful information. The researcher found that out of the 327, only 122 firms hire external advisors for tax compliance; of the 122 firms (38.3%) which hire external experts, they either utilize the services of different accounting firms or individual consultants. In addition, firms in Algeria spend 4,165,000 DZD in terms of external compliance cost. On the other hand, accounting and tax department's employees of sample SMEs, on average, spend 24,244 hours, for accounting and tax matters only. Out of the total hours, the value is 2,967,313 DZD (22.48%). Similarly, SMEs based on different categories (number of employees, number of years established and turnover) unanimously report that high tax compliance cost is significant and an extra burden on the company's earnings, which might discourage investors investing in SMEs, which are vital sources of employment and revenue.

Keywords: VAT, Compliance cost, Internal compliance cost, External compliance cost, SMEs, Algeria

ABSTRAK

Setiap organisasi cuba untuk memaksimumkan pendapatan dengan mengetatkan langkah-langkah kawalan kos ; Walau bagaimanapun, hanya beberapa kos boleh dikawal, iaitu, bahan, tenaga kerja, dan lain-lain, manakala yang lain tidak dapat dikawal seperti cukai. Di negara seperti Algeria, kadar cukai keseluruhan menjangkau 30% bagi syarikat, dan syarikat-syarikat ini secara puratanya menghabiskan 451 jam / tahun mengenai pematuhan cukai. Ini menunjukkan syarikat menghabiskan jumlah masa yang banyak bagi tujuan pematuhan ini kerana sifat kompleks dan sentiasa berubah-ubah struktur cukai di Algeria. Sektor SMEs (Perusahaan Kecil dan Sederhana) merupakan pemacu ekonomi utama bagi ekonomi Algeria, SMEs menyumbang kepada kira-kira 60% daripada keluaran dalam negara kasar Algeria dan menghasilkan tenaga kerja seramai 1.86 juta orang. Kajian ini adalah suatu percubaan untuk meneroka kos pematuhan VAT bagi SMEs yang beroperasi di Adrar sebuah Negeri Algeria.

Bagi tujuan kajian ini, 360 soal selidik telah diedarkan di kalangan SMEs yang beroperasi di Adrar sebuah negeri di Algeria, dan hasilnya 327 borang soal selidik yang lengkap diisi telah diterima. Statistik deskriptif dan merentas penjadualan telah digunakan untuk mendapatkan maklumat yang berguna. Penyelidik mendapati bahawa daripada 327, hanya 122 syarikat menyewa penasihat luar untuk pematuhan cukai; daripada 122 syarikat (38.3%) yang mengupah pakar-pakar luar, mereka sama ada menggunakan khidmat firma perakaunan yang berlainan atau perunding individu. Di samping itu, syarikat-syarikat di Algeria menghabiskan 4,165,000 DZD dari segi kos pematuhan luaran. Manakala bagi Jabatan perakaunan dan percukaian dalam skop SMEs secara purata menghabiskan 24,244 jam, atau kira-kira 10% daripada jumlah waktu kerja mereka hanya untuk menguruskan perkara perakaunan dan cukai sahaja. Daripada jumlah jam, nilai adalah 2,967,313 DZD (22.48%). Berdasarkan kategori yang berbeza dalam SMEs (bilangan pekerja, beberapa tahun ditubuhkan dan perolehan) sebulat suara melaporkan bahawa kos pematuhan cukai yang tinggi adalah penting dan beban tambahan ke atas pendapatan syarikat itu yang mungkin tidak menggalakkan pelabur melabur dalam SMEs yang amat penting sumber pekerjaan dan pendapatan.

Kata Kunci: VAT, kos Pematuhan, kos pematuhan Dalaman, kos pematuhan Luar, SMEs, Algeria

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LIST OF ABBREVIATIONS

Abbreviation	Description of Abbreviation
GDP	Gross Domestic Product
SD	Standard Deviation
SPSS	Special Package for Social Sciences
CFIB	Canadian Federation of Independent Business
FIAS	Foreign Investment Advisory Service
FBT	Fringe Benefit Tax
GST	Goods and Services Tax
IFC	International Finance Corporation
IRD	Inland Revenue Department
NAO	National Audit Office
OECD	Organisationfor Economic Co-operation
PAYE	Pay As You Earn
SBP	Small Business Project
USA	United States of America
VAT	Value Added Tax

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In many developed and developing countries, tax has become an important source of income. Bhatia (2009) regards taxes as revenues which governments of many countries for collector the purpose of providing infrastructural facilities and smoother public utilities. In addition, taxes are essential instruments required by the government; however, experience has shown that most taxpayers are not willing to comply voluntarily (Lucie, Chow & Halbesma, 2008). In this respect therefore, the government, at various levels, has taken it up as a challenge to find a solution for the purpose of ensuring that taxes are maintained as one of the adequate sources of revenue (Akinboade, 2014). Importantly, the compliance costs of taxation are the amount of resources expended by taxpayers, in addition to the amount of tax they are required to pay, in conforming to the requirements of the relevant tax legislation. The compliance costs are not only incurred by taxpayers, but by all the agents/parties involved in making possible the transfer of funds from the private sector to the government department that controls public money (Eragbhe & Omoye, 2014). In line with this, Blumenthal (1996) asserts that compliance cost at the corporate and larger entity level in a developed country like the United States of America (USA) is relatively low when compared to individual income taxpayers. Since the compliance cost constitutes an additional cost to taxpayers over and above the actual amount due to the government, it is likely that it is a burden and that most

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