What’s in it for me? The potential for managerial benefits to improve tax compliance

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Abstract

A value-added tax (VAT) may induce businesses to make a clear decision as to operating outside the formal economy, with the VAT seen as a real cost. It is suggested that small and medium enterprises (SMEs) are more likely to contribute to the cash economy, so it is important to have a greater understanding of the factors that may make SMEs more tax compliant, especially with VAT. Potential motivators for complying with a VAT are the managerial benefits that arise from keeping tax records.

This article reports the findings from a survey of 240 SMEs in a developing country, with the findings suggesting that for non-compliant taxpayers, being aware of the potential managerial benefits from complying with VAT appears to be more persuasive than the imposition of penalties. In this way, compliance may be improved if taxpayers see “what’s in it for me” in terms of complying with a country’s VAT system.

Keywords: compliance; managerial benefits; tax; VAT.

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1. Introduction

The cash economy is an important issue for many countries around the world, with it constituting around 10 to 20% of global output in developed countries, and exceeding one-third in developing nations. Bangladesh is no different, as it is estimated that the informal economy in Bangladesh accounts for approximately 39% of gross domestic product (GDP). Such non-participation in the formal economy can have a negative impact on macroeconomic stability. Eccleston has identified that consumption taxes such as a value-added tax (VAT) or goods and services tax (GST) have become one of the most important revenue mobilising instruments in both advanced industrialised countries and developing countries. A touted benefit of the introduction of a VAT is that it can reduce the potential for a cash economy, as the demand by other VAT-registered enterprises for VAT input tax credits encourages other businesses to become VAT registered and part of the formal economy. This claiming of VAT input tax credits on business acquisitions is alleged to instil a self-policing mechanism, as the requirement for an invoice then provides a document trail for tax authorities. However, due to restricted resources and technical capacity, such policing may not be fully realised. In fact, a VAT may induce businesses to make a clear decision to operate outside the formal economy, with the VAT seen as a real cost to businesses.

There is evidence from Canada that the cash economy grew with the introduction of their VAT (known as a GST),\(^8\) with some postulating that the cash economy doubled.\(^9\) Similarly, there is evidence from the European countries that the cash economy still flourishes with a VAT.\(^10\) It appears that certain sectors are more prone to the cash economy, such as home repairs and renovation.\(^11\) Consequently, the introduction of a VAT itself will not eliminate the cash economy and non-compliance.

Non-compliance by businesses means a reduction in the overall taxes collected. This is a critical issue for all countries, but can be especially acute for developing countries that need a stable source of tax revenue, especially from a VAT, to fund public expenditure.\(^12\) It is suggested that small and medium enterprises (SMEs), especially micro and small businesses, are more likely to contribute to the cash economy than their larger counterparts. This is based on the argument that larger businesses have often greater external scrutiny and reporting requirements than smaller businesses.\(^13\) Consequently, it is argued that it is important to have an understanding of the factors that are likely to drive SMEs to be more tax compliant, especially with VAT.

Braithwaite has argued about motivational postures in a wheel of social alignment, where she suggests that tax compliance is influenced by the: (i) technical; (ii) perceptions; and (iii) the other.\(^14\) In terms of “perceptions”, she argues that this has three components, being perceptions of benefits, fairness and moral obligations. These components can work together to influence a taxpayer’s behaviour in terms of tax compliance. For the purposes of this article, what is of interest are taxpayers’ perceptions of VAT “benefits” and how they may influence behaviour.

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\(^11\) Spiro, above n 7. The areas of home repair can lend itself to the cash economy due to the transaction being between a business and a consumer, with the consumer generally not able to claim a VAT input tax credit for the acquisition, and the need for an invoice may not be required by the consumer as the purchase may be personal and non-tax deductible.


\(^13\) However, larger businesses may have more sophisticated ways to engage in aggressive tax planning to decrease their tax liability, rather than tax evasion.

The potential benefits of a VAT may include cash flow\(^\text{15}\) and managerial benefits.\(^\text{16}\) In particular, managerial benefits can arise from keeping tax records that provide businesses greater insight to their operations.\(^\text{17}\) The idea is that managerial benefits arise in the form of improved decision-making and control over the business as a consequence of the imposition of regular record-keeping for VAT.\(^\text{18}\)

However, a number of factors can influence the realisation of managerial benefits, including the perceptions of owner-managers that such accounting information can actually assist them in running their business.\(^\text{19}\) In addition, the perceptions of owner-managers about accounting and accounting information could influence the realisation of managerial benefits, which itself may be influenced by the owner-managers own characteristics of education, knowledge of accounting and business experience.\(^\text{20}\)

This article investigates whether SMEs perceive the existence of managerial benefits as a result of the imposition of the VAT in Bangladesh. Reported are the findings from a survey of 240 SMEs in Bangladesh of their compliance attitudes towards VAT, with participants identified as having either a compliant or non-compliant history. The findings suggest that for non-compliant taxpayers, being aware of the potential managerial benefits from complying with VAT obligations appears to be more persuasive than the imposition of penalties. The findings could be important in terms of how developing and transitioning economies go about improving VAT compliance, as the persuasive effect of managerial benefits may be influential. This may improve taxpayers’ attitude towards the tax system, with taxpayers seeing “what’s in it for me” in terms of complying with a countries’ VAT system.


\(^\text{16}\) For business taxpayers, managerial benefits occur as a result of better accounts and record-keeping systems. These benefits reduce the costs of audit and accounting fees for small businesses: P Lignier, (2009) “The managerial benefits of tax compliance: perception by small business taxpayers”, 7(2) eJournal of Tax Research 106-133.


\(^\text{19}\) Lignier, above n 16, p 114.

The remainder of the article is organised as follows. The next section provides an overview of the concept of VAT compliance cost and what it means for SMEs and record-keeping. Then section three briefly reviews the literature regarding the potential benefits of a VAT in regards to managerial benefits, including its meaning, prior studies about it, and problems that SMEs may face in realising them. This is then followed by the outline of the methods used in this study comprising of focus groups and a survey. Next, the findings of the study for both methods are provided. The subsequent section provides a general discussion of the overall findings before the final section concludes the article and provides suggestions for future research.

2. VAT compliance cost

While VAT may have the potential to provide managerial benefits, complying with VAT does impose a cost, in particular the compliance costs that businesses face in administrating and complying with the system. The Americans for Fair Taxation group defines tax compliance cost as the total time and money spent on filling out tax forms, keeping records, learning tax rules and other tax-related matters. Compliance costs include three major components, namely, monetary costs, time costs and psychological costs to the taxpayers. Monetary costs include money spent on tax professionals and expenses relating to taxation guides, books, communication and other incidental costs. Time costs are incurred by the taxpayer mainly on record-keeping for tax purposes, completing the tax return and preparing the tax details for the tax authorities or for tax professionals.

The requirement to keep records can be regarded as part of the in-house cost of tax compliance. In-house costs are the costs related to keeping tax records, calculating and completing return and paying taxes; the external costs are the costs for external advisers, learning about taxation laws, and dealing with the tax offices. According to Evans, compliance costs may include the costs of labour/time consumed in completion of tax activities; for example, the time taken by a businessperson to acquire appropriate knowledge to deal with tax obligations or the time taken in compiling receipts and recording data in order to be able to complete a tax return.

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The ability to keep appropriate records can be part of the complexity of the VAT system. Compliance complexity relates to the difficulty of maintaining sufficient records to satisfy the law, such as preparing and filing tax returns and responding to the tax authority’s notices and audits. Record-keeping appears to be a large component of VAT compliance cost. Of course being able to tease out which of the record-keeping is normal business practice compared to the additional obligations imposed by complying with tax legislation can be difficult, as they can be entangled. While this may be inevitable, it is important to appreciate that such record-keeping may assist businesses in making more informed decisions about their operations.

These VAT compliance costs include record-keeping for VAT purposes, preparation and filing of VAT returns, checking accounts, obtaining information about new procedures for filling VAT returns and changes in the law. A report published by United States Government Accountability Office in 2008 recognised that in VAT, as with other taxes, the compliance burden is mostly driven by record-keeping requirements, filing frequency requirements, and time and resources to deal with audits.

The World Bank Group (WBG) conducted several large-scale semi-structured questionnaire-based studies of tax compliance costs in transitional and developing countries from 2006 to 2012 (Armenia, Burundi, Georgia, India, Kenya, Lao PDR, Nepal, Peru, South Africa, Ukraine, Uzbekistan, Vietnam and Yemen). These studies considered the time and costs spent on compliance, not only with VAT, but also with personal income tax, corporate income tax and payroll tax. Through structured interviews, taxpayers were asked about their bookkeeping practices, their computer and internet access; their experience with tax inspections and audits; taxpayer morale; their reasons for any non-compliance (including failure to register for VAT and income tax); and their perceptions about the tax authorities and tax officers. The WBG studies documented extremely regressive patterns in the developing world, with small businesses incurring tax compliance costs of up to 15% or more of turnover.

Complex tax accounting requirements were associated with high tax compliance costs, while well-designed tax accounting software and e-filing in middle-income countries appear to yield significant reductions in such costs. The WBG studies also documented very high rates of tax inspections and audits (including any kinds of visits, official and unofficial, by tax authorities), which increased compliance costs.

Compliance costs studies specifically focusing on SME firms have been carried out in Australia, Malaysia, New Zealand, the United States of America (USA) and the United Kingdom (UK) as well as a multi-country study based in South Asia.

In terms of Bangladesh, recent research by the authors involving both compliant and non-compliant VAT payers measured the VAT compliance costs for SMEs in Bangladesh across a number of characteristics. Their results demonstrate that VAT compliance costs for Bangladeshi SMEs are regressive and that manufacturers have a higher burden of monetary compliance costs followed by those in the trading sector. The study also finds that as the size of business increases, the VAT compliance costs for compliant taxpayers increase as compared to non-compliant taxpayers. In a related study that considers the potential for a deterrent effect through penalties and audits for VAT compliance, it was found that there is a greater deterrent effect for SME taxpayers who have a compliant history compared to non-compliant taxpayers. Part of the reason for the reduced deterrence for non-compliant SME taxpayers appears to be due to tax officers being “managed” through bribes. In a nuanced study that considered the psychological and corruption costs as part of VAT compliance cost in Bangladesh, it was suggested that psychological costs are a substantial component.

31 Lignier, Evans and Tran-Nam, above n 26.
33 K Ritchie, (2001) “The tax compliance costs of small business in New Zealand”. In C Evans, J Pope and J Hasseldine (eds), Tax compliance costs: a Festschrift for Cedric Sandford (pp. 297-315). (St. Leonards, Prospect Media Pty Ltd).
38 Faridy, Freudenberg and Sarker, above n 37.
40 Faridy, Freudenberg and Sarker, above n 39.
of VAT compliance costs for SMEs in Bangladesh at around 15%.\textsuperscript{41} Also, the results suggested that the reduction of corruption would have the biggest influence on complying taxpayers, although it would still have some positive impact on non-complying taxpayers.\textsuperscript{42} It appeared that corruption was in part facilitated due to the large discretionary power in tax officers in Bangladesh being about to influence the price and/or the amount of VAT.

It should be acknowledged that, due to concerns about the Bangladesh VAT system, new legislation, the \textit{Value Added Tax and Supplementary Duty Act, 2012}, was passed by the National Parliament in November 2012. This new legislation should reduce ambiguities and the potential for corruption as the VAT will be imposed on the actual sales price instead of arbitrary tariff values or truncated bases; with taxpayers no longer required to have price declarations approved by VAT officers. While this new legislation was to commence originally in July 2016, it has faced continued resistance with its start date initially deferred to July 2017, and then more recently moved back to July 2019.\textsuperscript{43}

Currently, the standard statutory rate is 15%, the Bangladeshi VAT also has exemptions and zero-rating.\textsuperscript{44} However, the reality is that there are other rates in practice (4%, 4.5%, 5%, and 9%) that have emerged due to different methods of calculating the VAT.\textsuperscript{45} One of the greatest deviations from the standard practice is the value declaration of Bangladesh VAT system which provides tax officers to set the value to which VAT will apply.\textsuperscript{46} Given these dynamics, it is important to have a more considered understanding of the impact of Bangladesh’s VAT system.

Overall, it appears that compliance costs are regressive and the GST/VAT can cause the highest compliance costs. Internal tax compliance costs can make up the biggest element of total tax compliance costs, usually in excess of 50% of all costs. Within

\textsuperscript{41} Faridy, Freudenberg, Sarker and Copp, above n 22.
\textsuperscript{42} This impact of corruption is at all levels from big business, government officials, VAT officers and politicians.
\textsuperscript{43} Bangladeshi Parliament, in the annual budget session of June 2017, postponed the \textit{VAT and Supplementary Duty Act} implementation by two more years amid strong resistance from the business community. Bangladeshi business feared a negative legal impact on the prices of essential commodities, domestic manufacturing industry and the overall economy. NBR decided to revisit some key issues of the new law including multiple VAT rates, lowering the rate of uniform VAT rate from 15% and restructuring the tariff value and truncated system. See www .thefinancialexpress.com.bd/print/deferred-new-vat-law-faces-further-vetting-1507315480.
\textsuperscript{45} Ss 25 or 25a of the \textit{Customs Act 1969} (Bangladesh).
\textsuperscript{46} For a more thorough discussion about the Bangladesh’s VAT system see: N Faridy, R Copp, B Freudenberg and T Sarker, (2014) “Complexity, compliance costs and non-compliance with VAT by small and medium enterprises (SMEs) in Bangladesh: is there a relationship” 29(2) \textit{Australian Tax Forum} 281– 328.
these internal costs of tax compliance, most business time was spent in recording the information needed for the various taxes. This may be of particular concern for SMEs, as it may be the owner doing this activity rather than focusing on the core business.47

However there are arguments that this compliance behaviour can have benefits for taxpayers, and that technically the tax compliance costs should be reduced by these benefits. Indeed, net tax compliance costs are defined as the gross tax compliance costs minus the tax compliance benefits.48 The next section explores one of these benefits, being management benefits.

3. Managerial benefits

Managerial benefits arise in the form of improved decision-making and control over the business as a consequence of the imposition of regular record-keeping for VAT.49 Tran-Nam noted managerial benefits are “brought about by the need to have more stringent record keeping in order to comply with requirements of tax law”.50 Managerial benefits may include: improvements to the accounting information systems; improvement to controls; improved decision-making based on better (and more accurate) records; and advanced recording of transactions and time management.

The National Audit Office in the UK valued managerial benefits in respect of the UK’s VAT system as approximately 9% of gross tax compliance cost.51 However, this value is relative to the business’ size, with small businesses (with annual turnover less than £19,000) having managerial benefits worth approximately 28% of their total gross tax compliance cost. This would suggest that for smaller businesses, the potential relative savings (or benefit) of managerial benefits is greater than larger businesses. This is important given that tax compliance costs for small businesses can be regressive.

There is some empirical evidence of a perception by small business taxpayers that the need to comply with GST and other tax legislation has brought managerial benefits that might not otherwise have occurred.52 Lignier found that those small businesses in a taxing jurisdiction were more likely to consider they had accounting

47 Coolidge, above n 30.
48 Lignier, above n 16.
50 Tran-Nam, above n 18, p 55.
52 Lignier and Evans, above n 17.
records with reliable and useful information, compared to those businesses in a non-taxing jurisdiction.\textsuperscript{53} These findings would suggest that having tax obligations can improve the record-keeping practices of small businesses.

It should be acknowledged that smaller businesses are not likely to have mandatory reporting requirements. This can be due to their close ownership structure with little or no outside equity investment. This can mean that without tax obligations, small businesses would not have any mandatory requirement to report their financial position. The exception to this is when small businesses seek finance from a bank, and then financial statements can be required.\textsuperscript{54} Also, it appears that for small businesses, if it were not for their tax obligations, then only a small percentage of them would use the services of an accountant, as tax has been found to be the reason for a majority of Australian small businesses to seek an accountant’s assistance.\textsuperscript{55}

The use of accounting information appears to bear some relationship to employee numbers, as Lignier found that businesses are more willing to incur costs to obtain accounting information if there were no tax compliance obligations when they employed five or more employees.\textsuperscript{56} In comparison, micro businesses with no employees in 40\% of circumstances were not willing to pay to obtain accounting information in the absence of tax compliance obligations.\textsuperscript{57}

Consequently, tax obligations can be an important facilitator for small businesses to maintain records, which then have the potential to provide managerial benefits. A VAT can assist in record-keeping through encouraging the adoption of computerised accounting systems (CAS).\textsuperscript{58} Tran-Nam and Glover found that with the introduction of the GST in Australia, small businesses did specify that the use of CAS did allow them to have up-to-date records.\textsuperscript{59} However, the study did not report to what extent these businesses actually used these records to realise any potential benefits.

Small business owners can perceive that implementation of a CAS aided a reduction of both internal and external compliance costs, as more activities are completed internally.\textsuperscript{60} Effectively, this reduces the burden on operators, and allows for the

\textsuperscript{53} Lignier, above n 16, p 127.
\textsuperscript{55} C Evans, S Carlon and D Massey, (2005) Record-keeping: its effect on tax compliance (CPA Australia).
\textsuperscript{56} Lignier, above n 16, p 129.
\textsuperscript{57} Lignier, above n 16, p 129.
\textsuperscript{58} Lignier, above n 49, p 25.
\textsuperscript{60} Lignier and Evans, above n 17.
production of more accurate reports for use by external advisers.\textsuperscript{61} Results of the Lignier and Evans Australian study suggest that approximately 40% of respondents believed that keeping tax records for GST improved the quality and accuracy of their financial affairs.\textsuperscript{62}

In a recent study, Belle Isle, Freudenberg and Copp found that for Australian small businesses, only two management areas were clearly recognised as being of benefit from the obligation to comply with GST.\textsuperscript{63} These were that complying with GST helped participants maintain their record-keeping systems, and it assisted with their income tax obligations. This is broadly consistent with the studies conducted by Lignier\textsuperscript{64} and Lignier and Evans.\textsuperscript{65} However, Belle Isle, Freudenberg and Copp’s study found a strong negative perception about being able to utilise this GST information for business credit management and decision-making.\textsuperscript{66}

Also, it appears that the records generated for a VAT are more likely to be potentially more useful for management decisions than income tax.\textsuperscript{67} This may be because these VATs are generally reported more frequently compared to annual income tax returns, and that VAT is a transactional tax requiring recording of individual transactions compared to income tax which can be more aggregated.\textsuperscript{68}

Lignier has highlighted that compliance costs studies in developing countries rarely consider these managerial benefits.\textsuperscript{69} One study that examined this is Smulders et al’s compliance costs survey for small taxpayers in South Africa.\textsuperscript{69} While the survey was not confined to VAT, this research revealed that recording information and calculating tax, filing returns and paying tax are the most time-consuming activities for businesses. This research recognised that there were some managerial benefits from being VAT registered, such as proper record-keeping for the annual audit, which mitigated the overall compliance costs.

However, the existence of records should not be seen as the solution to all business decisions, as it has been estimated that only 20% of bankruptcy cases could be traced

\textsuperscript{61} Lignier and Evans, above n 17.
\textsuperscript{62} Lignier and Evans, above n 17.
\textsuperscript{63} Belle Isle, Freudenberg and Copp, above n 15.
\textsuperscript{64} Lignier, above n 16.
\textsuperscript{65} Lignier and Evans, above n 17.
\textsuperscript{66} Belle Isle, Freudenberg and Copp, above n 15, p 439.
\textsuperscript{67} Belle Isle, Freudenberg and Copp, above n 15.
\textsuperscript{68} Lignier, above n 16.
\textsuperscript{69} S Smulders, M Stiglingh, R Franzsen and L Fletcher, (2012) “Tax compliance costs for the small business sector in South Africa — establishing a baseline”, 10(2) eJournal of Tax Research 184-226. This emailed survey had a large sample size of 5,865 usable responses from 88,057 small business taxpayers, amounting to a 6.6% response rate.
to non-existent or poor quality accounting records. These difficulties can relate to accuracy, perceptions and use of business records; each of which is discussed below.

3.1 Problems in realising managerial benefits

While the concept of managerial benefits may appear to be simple, the reality of realising them “can be elusive” as Lignier notes:

“… the reality of managerial benefits can be elusive because it is dependent on how the accounting information generated by tax compliance activities is valued by business owner-managers and used in business decisions.” (emphasis added)

Below is a discussion about the issues of accuracy, perceptions and use of records and how they could impede managerial benefits being realised.

3.1.1 Accuracy

One of the issues that could be adversely affecting whether managerial benefits can be realised is the currency and accuracy of the records produced. Lignier observed that:

“For managerial benefits to be able to arise the ‘accounting information must possess fundamental attributes such as reliability, relevance, timeliness, accuracy, sensitivity and conciseness.”

For example, prior compliance cost research has highlighted how compliance cost can be miscategorised as a tax cost when it is more a cost about basic record-keeping for a business. A negative aspect of VAT has been identified as the compulsory need to maintain records of all sales and purchases in order to claim credits on transactions. This especially impacts on smaller businesses as many of them are not used to keeping extensive records.

This can be an acute problem for SMEs due to issues around record-keeping, particularly in a developing country context. Chowdhury specifies that SMEs in Bangladesh are a group of enterprises that have, among other things, incomplete

71 Lignier, above n 16, p 107.
72 Lignier, above n 16, p 113.
74 Shome, above n 3.
record-keeping. This can lead to poor information that can constrain opportunities for SMEs.

Another thing that needs to be acknowledged is that the information generated for tax purposes may result in different figures compared to accounting procedures. Lignier questions the benefit of tax compliance information for managerial benefits if the rules for determining taxable income are too divergent to accounting principles.

### 3.1.2 Perceptions of owners

Consistent with Braithwaite’s arguments about motivational postures, perceptions of taxpayers can in part influence their compliance behaviour. In terms of “perceptions”, she argues that this has three components being benefits, fairness and moral obligations. These factors can work together to influence taxpayers’ behaviour in terms of tax compliance. Accordingly, a factor that can influence the realisation of managerial benefits is the perception of owner-managers that tax information can assist them in running their business. In addition, the perception of owner-managers about accounting and accounting information may influence this as well. This perception of accounting information could be influenced by the owner-managers own characteristics of education, knowledge of accounting and business experience.

For example, Lignier found that an owner-manager is more likely to perceive that a business derives benefits from tax compliance when they have a better knowledge of accounting. If SME owner-managers do not perceive the tax and/or accounting information to have any use, then it is questionable to what extent they will use it.

Research has demonstrated that small business owners indicate that the limited use of financial reports can be a result of owners placing minimal significance on the information provided in the statement, especially with regard to income statements.

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77 Lignier, above n 16, p 113. Of course, it should be acknowledge that in many cases the accounting rules and procedures as set out by accounting standards could be unknown to SME owners who generally are not required to publish financial records and comply with accounting standards.
78 Braithwaite, above n 14.
79 Lignier, above n 16, p 114.
80 Lybaert, above n 20.
81 Lignier, above n 16, p 124.
and balance sheets.\textsuperscript{82} They believed that the main purpose of record-keeping and producing reports was for tax compliance requirements.\textsuperscript{83}

More importance can be placed on remaining up-to-date with the cash at bank balance, with this figure perceived to be a more accurate measure of performance.\textsuperscript{84} Research suggests that they still did not see the importance of using financial reports like a cash flow budget or cash flow statement to provide cash-related information.\textsuperscript{85}

This can mean that SMEs fail to realise managerial benefits as few have systematic management procedures in place.\textsuperscript{86} This lack of management procedures could result due to the owners’ lack of understanding of how to analyse the figures within the statements, and their reluctance to seek help to do so from their accountant.\textsuperscript{87}

### 3.1.3 Actual “use”

While there may be acknowledgment that records are better due to tax obligations, it is questionable to what extent there is use of these records in any meaningful way. For example, accountants who originally believed that Australia’s introduction of a GST would mean that small businesses would keep up-to-date accounting information which would result in an increase in financial management; it was concluded that this appears to not have been fully realised and smaller businesses still have difficulty maintaining control of their accounts.\textsuperscript{88}

Regardless of the abundance of research that suggests that use of financial statements is valuable to the ongoing success of small business, it appears that small businesses make limited use of financial statements to assist them in managing their business.\textsuperscript{89} Although a large proportion of small business owners believe that evaluation and use of financial statements is their responsibility, previous research in Australia suggests that only 20% of small businesses owners perform any form of ratio analysis,

\textsuperscript{82} AK Halabi, R Barrett and R Dyt, (2010) “Understanding financial information used to assess small firm performance: an Australian qualitative study", 7(2) Qualitative Research in Accounting & Management 163-179, p 171.
\textsuperscript{83} Halabi, Barrett and Dyt, above n 82, p 168.
\textsuperscript{84} Halabi, Barrett and Dyt, above n 82.
\textsuperscript{86} Belle Isle, and Freudenberg, above n 54.
\textsuperscript{87} DeThomas and Fredenberger, above n 85, p 20; Halabi, Barrett and Dyt, above n 82.
\textsuperscript{88} Belle Isle, Freudenberg and Copp, above n 15, p 441.
30% use reports for decision-making, 11% use the information to evaluate business performance and 10% use current financial information for future plans or budgets.\textsuperscript{90}

Lignier found that level of education and number of managerial benefits recognised was negatively correlated, with those with lower levels of education recognising more specific managerial benefits.\textsuperscript{91} However, further analysis indicated that accounting knowledge was a far more important predictor of managerial benefit perception than the basic level of education.\textsuperscript{92}

Another factor that appears to influence the realisation of managerial benefits is the industry that the business is located in. Sandford et al found that it was more likely that managerial benefits of VAT would be perceived to exist with businesses located in miscellaneous public service, professional services and primary sectors.\textsuperscript{93} Whereas, those business in the retail, wholesale and financial services sectors were less likely to perceive benefits of complying with the UK’s VAT system.

4. SME issues

Part of the reason that SMEs struggle to realise management benefits can be due to their inherent characteristics. Ness has identified that one of the three primary challenges is the management capabilities of the owner or manager.\textsuperscript{94} For example, due to the high concentration of small firms with four or less employees, it is not unreasonable to suggest that the majority of the Australian businesses are managed by their owners.\textsuperscript{95} A consequence of this is that the ownership role is a multi-tasking exercise with owners often required to be the production, financial, marketing and operations manager.\textsuperscript{96} Predominantly, the skills of small business owners are refined to the goods and services that they provide, and do not extend to these extra management tasks.\textsuperscript{97}

\textsuperscript{90} Dyt and Halabi, above n 89, p 5; Halabi, Barrett and Dyt, above n 82, p 167. Note: limitation of Australian research is that the number of participants were only 10.
\textsuperscript{91} Lignier, above n 16, p 124.
\textsuperscript{92} Lignier, above n 16, p 132.
\textsuperscript{94} The other two primary challenges are: the market in which they operate and their availability to external finance: K Ness, (2004) “Small business success factors in regional Queensland”, 12(2) Small Enterprise Research 1.
\textsuperscript{95} B Freudenberg, (2011) Tax flow-through companies. CCH and ATTA Doctorial Series No. 2 (CCH, Sydney).
Owners are left to develop management practices on an as-needed basis, which can lead to use of unstructured and inefficient practices.\(^9^8\)

Unfortunately, effective decision-making and planning is something that may not be established in small businesses, as they are often impromptu and not influenced by activities that are external to the business.\(^9^9\) Prior research indicates that planning of small businesses only extends to external information in the situation of considerable market or economic downturn.\(^1^0^0\)

While it is acknowledged there are challenges for SMEs to fully realise managerial benefits, it is important to consider how managerial benefits could influence compliance behaviour. The next section sets out the research questions to be addressed, as well as the methodology adopted to answer these.

### 5. Research questions

The overarching research problem which underlies this study is to explore to what extent managerial benefits could improve SMEs compliance with VAT law in Bangladesh. To address this, the following research questions were formulated:

- **RQ 1:** Do SME taxpayers perceive managerial benefits from complying with VAT?
- **RQ 2:** Does the perception of managerial benefits from VAT compliance influence VAT compliance behaviour for SME taxpayers?
- **RQ 3:** What is the potential relationship of managerial benefits and VAT compliance cost for SME taxpayers?

### 6. Methodology

A mixed methods approach was adopted utilising quantitative and qualitative methods. This type of mixed methods approach is most likely to maximise, as far as

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is practically possible, the internal and external validity of the results. While much of the earlier empirical literature on tax compliance costs and tax non-compliance utilised quantitative research methods, more recent studies have used a combination of quantitative and qualitative methods.

Permission was obtained from Bangladesh’s National Board of Revenue (NBR) to obtain lists of SMEs taxpayers that filed monthly VAT returns in the 2011-12 financial year. Consequently, this research is prior to the commencement of the Value Added Tax and Supplementary Duty Act, 2012, which is now set to commence from July 2019.

For the purposes of this research, participants were divided into three groups:

1. SME taxpayers who have no non-compliance history and registered with VAT for at least three years (referred to as compliant VAT payers, and abbreviated to CT);

2. SME taxpayers who have a completed and decided VAT non-compliance cases against them and have already paid the fines and penalties imposed on them (referred to as non-compliant VAT payers, and abbreviated to NCT);

3. NBR’s VAT officials from field level to policy level and who have been working with the NBR at least for eight years (referred to as VAT officials, and abbreviated to VO).

The three groups were sought to provide the ability to compare and contrast between the groups, as it was thought that there may be differences between complying and non-complying SME taxpayers. It was thought that the third group, VAT officials,

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103 Compliant taxpayers (CT) were those who had paid VAT to the National Board of Revenue and who had no dispute in respect of their VAT payments; or taxpayers who had had a dispute with the National Board of Revenue but had subsequently been vindicated by the National Board of Revenue, the tribunals, or the courts.

104 Non-compliant taxpayers (NCT) were those who had either not paid the correct amount of VAT to the National Board of Revenue (as assessed by National Board of Revenue’s VAT inspectors) and who had had a dispute in respect of their VAT payment but who ultimately lost their appeals through the National Board of Revenue, the tribunals, or the courts. For ethical reasons, taxpayers who were still engaged in ongoing dispute with the National Board of Revenue in respect of their VAT payment were excluded from the study.
would provide some perspective from those tax officers that administer and enforce the VAT system. The views of the VAT officials may support findings from the taxpayers, or they may serve to illustrate misperceptions between the groups. The VAT officials only participated in stage 1 focus groups.

The study relevant to this article was conducted in two stages. Stage 1 involved focus group discussions (FGD) with VAT payers of the SME sector (both CTs and NCTs) and VAT officials. Focus groups were used in stage 1 to provide a deeper appreciation of the factors that could be influencing VAT compliance in Bangladesh. The power of focus group discussions as a research tool lies in group dynamics. Advantages such as synergy, snowballing, stimulation, spontaneity and serendipity can occur as part of a focus group. As a fast and cost-effective technique for eliciting views and opinions, the focus group discussions have been found appropriate for obtaining insights into target audience perceptions. This method has been used in this research to gather primary data from SME taxpayers and VAT officials in order to develop the survey instrument in stage 2.

After completing the focus groups, a survey for stage 2 which was designed through three stages: first drafting of the survey; pilot testing; and revision of the initial draft. Finally, the content of the survey was submitted to independent readers for checking before commencing the actual survey. Stage 2 involved the mailing of a survey, seeking qualitative and quantitative data, from both complying and non-complying SMEs taxpayers. A survey was administered to provide the potential for large data collection to be able to measure certain characteristics, as well as to test for differences in characteristics. The survey instrument was designed using mainly closed-ended questions in order to gather numerical data, in the form of information which could be verified against documentation (such as the value of fees paid to professional advisers); in categorical form (such as tax rates applicable to different product categories); or in integer format (such as taxpayers’ ratings of their perceptions on a 1-6 Likert scale). Other open-ended questions were also included in the questionnaire, to enable the gathering of information which was not readily reducible to numerical form.

Participation in all stages was voluntary and no financial incentives were given for their time. As this study used human subjects, it was necessary to ensure that ethics approval was received before commencement of each stage.

6.1 Focus groups

The focus groups were conducted in Dhaka, the capital city of Bangladesh because of the respondents’ location. A total of 45 participants participated in the FGD consisting of 15 from CTs (11 were business owners and four were Directors of VAT of the enterprises), 15 from the NCTs (12 were business owners and three were VAT

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consultants from the selected enterprises) and 15 from VAT officials (nine were Joint Commissioners of VAT and six were Second Secretaries of VAT from the NBR). Because very few participants were fluent in English, the discussions were conducted mainly in Bangla, the common language especially among SMEs. The discussions were recorded and translated for transcription and any identifying names or references were removed from the transcription. The confidentiality and anonymity of the recorded data was confirmed by coding the participant and not using the participants’ names. The findings of the focus groups are presented later in this article.

6.2 Survey design

In stage 2, a survey was mailed to compliant and non-compliant SME taxpayers, with a view to gathering both quantitative and qualitative information on factors affecting VAT compliance. The survey consisted of four sections: (a) background/demographics; (b) complexity of VAT law; (c) VAT non-compliance; and (d) VAT compliance cost. Before the final survey was undertaken, 20 surveys were sent to SME taxpayers as a pilot survey to determine if the drafted questions were easily understandable to the respondents or not. After a two-week period, 12 completed responses were received, being a response rate of 60%. After the pilot test, few amendments of the survey instrument were made. One important amendment was related the valuation of time spent in complying with the requirements of VAT legislation.

Table 1: Stage 2 participants’ characteristics

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Compliant (N=152)</th>
<th>Non-compliant (N=88)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location of business/enterprise</td>
<td></td>
<td></td>
</tr>
<tr>
<td>City corporation area (Dhaka)</td>
<td>33 (21.7)</td>
<td>35 (39.8)</td>
</tr>
<tr>
<td>City corporation area (Other)</td>
<td>60 (39.5)</td>
<td>26 (29.6)</td>
</tr>
<tr>
<td>District town</td>
<td>33 (21.7)</td>
<td>15 (17.1)</td>
</tr>
<tr>
<td>Upazilla area</td>
<td>26 (17.1)</td>
<td>12 (13.6)</td>
</tr>
<tr>
<td>Primary business/enterprise</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>75 (49.3)</td>
<td>44 (50.0)</td>
</tr>
<tr>
<td>Construction units</td>
<td>16 (10.6)</td>
<td>12 (13.6)</td>
</tr>
<tr>
<td>Service rendering units</td>
<td>36 (23.7)</td>
<td>16 (18.2)</td>
</tr>
<tr>
<td>Traders (local, importers, exporters, commercial importers)</td>
<td>25 (16.4)</td>
<td>16 (18.2)</td>
</tr>
<tr>
<td>VAT-related record-keeping practice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A manual/paper system</td>
<td>65 (43.1)</td>
<td>30 (34.1)</td>
</tr>
<tr>
<td>A partially computerised system</td>
<td>58 (38.41)</td>
<td>39 (44.3)</td>
</tr>
</tbody>
</table>
Table 1: (Continued...)

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Compliant (N=152) n (%)</th>
<th>Non-compliant (N=88) n (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A fully computerised system</td>
<td>18 (11.9)</td>
<td>18 (20.5)</td>
</tr>
<tr>
<td>Tax adviser/external accountant</td>
<td>10 (6.6)</td>
<td>1 (1.1)</td>
</tr>
<tr>
<td>Average monthly VAT paid in FY 2011–12 (BDT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 400,000 (under US$5,172)</td>
<td>45 (29.6)</td>
<td>28 (31.8)</td>
</tr>
<tr>
<td>400,001–600,000 (US$5,173–US$7,759)</td>
<td>27 (17.8)</td>
<td>11 (12.5)</td>
</tr>
<tr>
<td>600,001–800,000 (US$7,760–US$10,345)</td>
<td>12 (7.9)</td>
<td>10 (11.4)</td>
</tr>
<tr>
<td>800,001–1,000,000 (US$10,346–US$12,930)</td>
<td>19 (12.5)</td>
<td>10 (11.4)</td>
</tr>
<tr>
<td>More than 1,000,001 (more than US$12,930)</td>
<td>49 (32.2)</td>
<td>29 (33.0)</td>
</tr>
<tr>
<td>Education level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below SSC</td>
<td>0</td>
<td>1 (1.14)</td>
</tr>
<tr>
<td>HSC</td>
<td>19 (12.5)</td>
<td>14 (15.90)</td>
</tr>
<tr>
<td>Certificate</td>
<td>2 (1.32)</td>
<td>3 (3.41)</td>
</tr>
<tr>
<td>Diploma</td>
<td>11 (7.24)</td>
<td>7 (7.95)</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>58 (38.15)</td>
<td>33 (37.50)</td>
</tr>
<tr>
<td>Master’s degree or above</td>
<td>60 (39.47)</td>
<td>24 (27.27)</td>
</tr>
<tr>
<td>Others (CA, LLB, MBA, PhD)</td>
<td>2 (1.32)</td>
<td>5 (5.68)</td>
</tr>
</tbody>
</table>

After the pilot test and refinement of the survey instrument, a total of 500 questionnaires were distributed to SMEs VAT payers from June 2013 to September 2013. The SME VAT payers were selected based on stratified sampling from NBR’s taxpayers list.

A stratified sampling method was used for the mail survey, as this method can be superior to random sampling because it reduces sampling error. Stratified sampling divides the population into strata groups. A sample is taken from each of these strata using either random, systematic or convenience sampling. On the merits of stratified sampling, Sarantakos stated that such samples are utilised when there is a need to represent all groups of the target population in the sample, and when the researcher has a special interest in certain strata. In this sense, the method is very economical and offers a high degree of representativeness.

Out of this total, 200 questionnaires were distributed to NCTs group and remaining 300 questionnaires were distributed to CTs. Two reminders were sent to the taxpayers to improve the response rate. Finally, the usable responses were 240 (152 from CTs

WHAT’S IN IT FOR ME? THE POTENTIAL FOR MANAGERIAL BENEFITS TO IMPROVE TAX COMPLIANCE

and 88 from NCTs). This gave an overall response rate of 48%, representing 51% response rate from CTs and 44% response rate from NCTs, respectively. This response rate is very favourable compared to other compliance costs studies (for example 6.6% by Smulders and others in South Africa),\textsuperscript{107} and could be attributed to the steps undertaken such as follow-up calls and reminders.

Since VAT extends to the whole of Bangladesh, mail survey data was collected from the target population resident in the business regions of city corporation area, district town and Upazilla area. Participants’ characteristics can be found in Table 1. Most of the respondents of the mail survey were well qualified in terms of academic qualifications, 35% holding a masters and 38% holding a bachelor’s degree. Bangladesh Bureau of Statistics data reports that as of July 2012, the proportion of the adult population (15-64) below the graduate level was 59%.\textsuperscript{108} Consequently, the sample is more educated than the general population in Bangladesh. This may have the advantage of the survey being completed more accurately, but it may not be representative for those businesses operated by less educated people. Nearly half (50%) of the respondents were from manufacturing business unit, which in terms of industries, indicates a slight under-representation of the construction and trading sector and an over representation of the manufacturing sector, compared to the overall VAT registered businesses.\textsuperscript{109} Approximately 45% conducted their business as a sole proprietorship, and this characteristic of the sample is similar to the general characteristics of SME businesses in Bangladesh, as 50% of the SMEs businesses are sole proprietorship and 35% SMEs are private limited companies.\textsuperscript{110}

Regarding the manner of keeping accounting records, 43% from the compliant group and 34% from non-compliant group indicated that their systems were fully manual. The rest noted that either their accounting systems were fully or partially computerised or their external accountants or tax advisers kept their accounting records. Overall, this is consistent with the general population, as the SME’s record-keeping system has been found to be mainly manually operated in Bangladesh.\textsuperscript{111} Of interest, it appears that NCTs had a greater percentage (20.5%) of businesses with fully computerised systems, whereas CT only 11.9% was fully computerised.

The questionnaire required respondents to report their monthly spending and the working hours required to submit VAT returns, including the total money spent each month on record-keeping, calculating and paying VAT; keeping all physical receipts, books and registers in an organised manner; preparing documents for refunds or rebates; and working time spent with courts and tribunals. It should be noted that some

\textsuperscript{107} Smulders, Stiglingh, Franzen and Fletcher, above n 69.
\textsuperscript{111} AM Saleheen, (2013) Taxation and good governance: the case of value-added tax in Bangladesh. (Flinders University of South Australia).
of the activities are not performed monthly. For example, meetings with divisional officers and commissioners, visits by VAT officials, price declarations and preparation for VAT audits, which can occur on an ad hoc basis. To allow for this, respondents were asked to estimate the monthly average time and money spent for these activities. A small percentage of respondents reported costs which were surprisingly high for their size and sector of the businesses. Where possible, such atypical responses were followed up and queried in detail. In some cases, they proved to be exaggerated, or estimated on a poor basis. The exaggerated information was excluded from the final results, but other cases revealed particular problems with their reporting systems.

7. Findings

To explore the issue of VAT compliance and managerial benefits, the findings from the focus groups (stage 1), and the survey (stage 2) are presented below.

7.1 Stage one

The basic knowledge about the potential benefits (cash flow benefits and managerial benefits) derived from VAT was found to be very low among the participants:

“For the first time, I am hearing these two words.” (CT 9)

“I have no idea about the issues. I think my VAT Consultant might have some knowledge about it.” (NCT 5)

“I don’t think our taxpayers’ have any idea about the managerial benefit or cash flow benefits of VAT. They are enjoying the facilities without knowing these.” (VO 3)

“After getting the concept from you, I think the largest benefit of my business in relation to VAT is cash flow benefits. Managerial benefits come automatically.” (CT 11)

“I think mental accounting is important for cash flow benefits. When a taxpayer has very good knowledge about cash flow benefits of VAT, he can do his mental accounting very confidently.” (VO 1)

The analysis also suggests that there was some confusion among respondents about the concept and the estimation of managerial benefits, although more than half of the respondents acknowledged that VAT improves the record-keeping system of their business:

“I think VAT improves my business recording keeping, accounting system and my financial system. Compared to excise duty, customs duty and income tax I find VAT more trade friendly. I think VAT accommodates more of business
people demand than excise duty. This could be the one reason why we following the VAT law properly.” (NCT 10)

“The main benefit of computerized data for VAT is that I can have quick access to any information I want anytime. I can go back to customer statements whenever the VAT officials want.” (CT 4)

Findings of stage 1 interviews didn’t yield any strong relationship between managerial benefit and tax compliance. While there was acknowledgment of improved record-keeping, there appeared little use of the records for management decisions, as opposed to records being used to meet tax obligations, such as when getting audited by VAT officers.

7.2 Stage two survey

Below is detailed the survey responses as they relate to the overall research questions of:

RQ 1: Do SME taxpayers perceive managerial benefits from complying with VAT?

RQ 2: Does the perception of managerial benefits from VAT compliance influence VAT compliance behaviour for SME taxpayers?

RQ 3: What is the potential relationship of managerial benefits and VAT compliance cost for SME taxpayers?

7.3 Recognition of managerial benefits

In terms of the first research question, compared to the focus groups, there was a strong recognition of managerial benefits of complying with VAT for both CTs and NCTs (especially for NCTs in terms of credit management as this was significantly different): Tables 2 and 3.

<table>
<thead>
<tr>
<th>The benefits of VAT</th>
<th>Not sure (%)</th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
<th>Agree and strongly combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT improves my business cash flow monitoring</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>11.8</td>
<td>1</td>
<td>12.5</td>
<td>20.4</td>
<td>41.4</td>
<td>13.2</td>
<td>54.6</td>
</tr>
<tr>
<td>NCT</td>
<td>13.6</td>
<td>5.7</td>
<td>12.5</td>
<td>20.5</td>
<td>45.3</td>
<td>2.3</td>
<td>47.6</td>
</tr>
<tr>
<td>VAT improves my business credit management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>11.8</td>
<td>1.3</td>
<td>14.5</td>
<td>22.4</td>
<td>27.6</td>
<td>22.4</td>
<td>50</td>
</tr>
</tbody>
</table>
### Table 2: (Continued...)

<table>
<thead>
<tr>
<th>The benefits of VAT</th>
<th>Not sure (%)</th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
<th>Agree and strongly combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCT</td>
<td>3.4</td>
<td>4.5</td>
<td>12.5</td>
<td>18.2</td>
<td>44.3</td>
<td>17.0</td>
<td>61.3</td>
</tr>
<tr>
<td>VAT improves business’s record-keeping systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>1.32</td>
<td>1.32</td>
<td>7.24</td>
<td>12.50</td>
<td>57.23</td>
<td>20.39</td>
<td>77.62</td>
</tr>
<tr>
<td>NCT</td>
<td>4.56</td>
<td>3.41</td>
<td>6.81</td>
<td>13.64</td>
<td>64.77</td>
<td>6.81</td>
<td>71.58</td>
</tr>
<tr>
<td>VAT improves the decision-making in our business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>6.58</td>
<td>1.32</td>
<td>3.95</td>
<td>15.79</td>
<td>52.63</td>
<td>19.24</td>
<td>71.87</td>
</tr>
<tr>
<td>NCT</td>
<td>2.27</td>
<td>5.68</td>
<td>6.81</td>
<td>14.77</td>
<td>59.09</td>
<td>11.36</td>
<td>70.45</td>
</tr>
<tr>
<td>VAT improves my knowledge of my business financial affairs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>3.9</td>
<td>1.3</td>
<td>6.6</td>
<td>16.4</td>
<td>53.3</td>
<td>18.4</td>
<td>71.70</td>
</tr>
<tr>
<td>NCT</td>
<td>2.3</td>
<td>3.4</td>
<td>3.4</td>
<td>19.3</td>
<td>63.6</td>
<td>8.0</td>
<td>71.6</td>
</tr>
</tbody>
</table>

### Table 3: Benefits of VAT – ANOVA results

<table>
<thead>
<tr>
<th>Reasons of compliance</th>
<th>Sum of squares</th>
<th>Df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT improves my business cash flow monitoring</td>
<td>1.882</td>
<td>1</td>
<td>1.882</td>
<td>.875</td>
<td>0.351</td>
</tr>
<tr>
<td>VAT improves my knowledge of my business financial affairs</td>
<td>0.363</td>
<td>1</td>
<td>.363</td>
<td>.314</td>
<td>0.576</td>
</tr>
<tr>
<td>VAT improves my business credit management</td>
<td>13.140</td>
<td>1</td>
<td>13.140</td>
<td>4.964</td>
<td>0.027*</td>
</tr>
<tr>
<td>VAT improves business’s record-keeping systems</td>
<td>0.153</td>
<td>1</td>
<td>0.153</td>
<td>0.149</td>
<td>0.700</td>
</tr>
<tr>
<td>VAT improves the decision-making in our business</td>
<td>3.890</td>
<td>1</td>
<td>3.89</td>
<td>2.652</td>
<td>0.105</td>
</tr>
</tbody>
</table>

R = 0.568, R Square = 0.322, Adjusted R squared = 0.198.
Std. error of the estimate = 0.429.

*p < 0.05; **p < 0.005.

Overall, this would suggest that managerial benefits are perceived by both CTs and NCTs, and that for NCTs, managerial benefits are the top two reasons for potential VAT compliance.
7.4 Managerial benefits as a reason to comply

To address the second research question about the potential relationship of managerial benefits and VAT compliance, Table 4 details the various responses in relation to compliance.

**Table 4: Reasons for compliance with VAT law in Bangladesh**

<table>
<thead>
<tr>
<th>Reasons for compliance</th>
<th>Not sure (%)</th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paying the correct amount of VAT is our civic duty</td>
<td>0.65</td>
<td>0</td>
<td>0</td>
<td>1.97</td>
<td>59.21</td>
<td>38.15</td>
</tr>
<tr>
<td>NCT</td>
<td>3.41</td>
<td>0</td>
<td>60.23</td>
<td>12.50</td>
<td>23.86</td>
<td>0</td>
</tr>
<tr>
<td>Paying the correct amount of VAT is an important contribution to the development of Bangladesh</td>
<td>0.66</td>
<td>0</td>
<td>0</td>
<td>2.63</td>
<td>59.21</td>
<td>37.50</td>
</tr>
<tr>
<td>NCT</td>
<td>10.22</td>
<td>6.82</td>
<td>11.36</td>
<td>15.91</td>
<td>34.10</td>
<td>21.59</td>
</tr>
<tr>
<td>VAT is a simple method of collecting tax</td>
<td>0.66</td>
<td>10.53</td>
<td>42.76</td>
<td>22.37</td>
<td>20.39</td>
<td>3.29</td>
</tr>
<tr>
<td>NCT</td>
<td>0</td>
<td>37.50</td>
<td>36.36</td>
<td>9.09</td>
<td>14.74</td>
<td>2.28</td>
</tr>
<tr>
<td>VAT improves business’s record-keeping systems</td>
<td>1.32</td>
<td>1.32</td>
<td>7.24</td>
<td>12.50</td>
<td>57.23</td>
<td>20.39</td>
</tr>
<tr>
<td>NCT</td>
<td>4.56</td>
<td>3.41</td>
<td>6.81</td>
<td>16.64</td>
<td>64.77</td>
<td>6.81</td>
</tr>
<tr>
<td>VAT improves the decision-making in our business</td>
<td>6.58</td>
<td>1.32</td>
<td>3.95</td>
<td>15.79</td>
<td>52.63</td>
<td>19.24</td>
</tr>
<tr>
<td>NCT</td>
<td>2.27</td>
<td>5.68</td>
<td>6.81</td>
<td>14.77</td>
<td>59.09</td>
<td>11.36</td>
</tr>
<tr>
<td>The likelihood that audits encourage me to comply with the VAT law</td>
<td>5.92</td>
<td>1.32</td>
<td>5.27</td>
<td>17.10</td>
<td>46.71</td>
<td>23.68</td>
</tr>
<tr>
<td>NCT</td>
<td>6.82</td>
<td>25.00</td>
<td>30.65</td>
<td>9.09</td>
<td>22.73</td>
<td>5.68</td>
</tr>
<tr>
<td>The likelihood that penalties and sanctions encourage me to comply with the VAT law</td>
<td>1.97</td>
<td>1.32</td>
<td>7.24</td>
<td>15.79</td>
<td>51.32</td>
<td>22.36</td>
</tr>
<tr>
<td>NCT</td>
<td>6.82</td>
<td>21.59</td>
<td>26.14</td>
<td>13.64</td>
<td>27.27</td>
<td>4.54</td>
</tr>
</tbody>
</table>

While it appears that CTs see improved business recording-keeping and improved decision-making reasons for complying with VAT, so do NCTs. While the strength of recognition of this benefit is strong for both NCTs and CTs (with no significant
difference between the two cohorts), what is interesting is to consider the ordering of the responses of the NCTs in terms of the seven factors listed that could improve their VAT compliance behaviour and compare this to that of CTs as shown in Table 5.

Table 5: Top 7 – reasons for compliance with VAT law in Bangladesh

<table>
<thead>
<tr>
<th>Rank</th>
<th>Reason for compliance</th>
<th>% Strongly agree &amp; agree</th>
<th>Reason for compliance</th>
<th>% Strongly agree &amp; agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>VAT improves business’s record-keeping systems</td>
<td>72%</td>
<td>Paying the correct amount of VAT is our civic duty</td>
<td>97%</td>
</tr>
<tr>
<td>2</td>
<td>VAT improves the decision making in our business</td>
<td>70%</td>
<td>Paying the correct amount of VAT is an important contribution to the development of Bangladesh</td>
<td>97%</td>
</tr>
<tr>
<td>3</td>
<td>Paying the correct amount of VAT is an important contribution to the development of Bangladesh</td>
<td>56%</td>
<td>VAT improves business’s record-keeping systems</td>
<td>78%</td>
</tr>
<tr>
<td>4</td>
<td>The likelihood of penalties and sanctions encourage me to comply with the VAT law</td>
<td>32%</td>
<td>The likelihood of penalties and sanctions encourage me to comply with the VAT law</td>
<td>74%</td>
</tr>
<tr>
<td>5</td>
<td>The likelihood of audits encourage me to comply with the VAT law</td>
<td>28%</td>
<td>VAT improves the decision-making in our business</td>
<td>72%</td>
</tr>
<tr>
<td>6</td>
<td>Paying the correct amount of VAT is our civic duty</td>
<td>24%</td>
<td>The likelihood of audits encourage me to comply with the VAT law</td>
<td>70%</td>
</tr>
<tr>
<td>7</td>
<td>VAT is a simple method of collecting tax</td>
<td>17%</td>
<td>VAT is a simple method of collecting tax</td>
<td>24%</td>
</tr>
</tbody>
</table>

When considering the ranking of the top seven reasons for compliance, this provides some indication that overall CTs are more inclined to be compliant, given that their responses are overall stronger in terms of agreeing with the factors (six of the seven indicators have 70% or greater agreeance). In contrast, for NCTs, only two factors (just) have 70% or greater agreeance. It is argued that in terms of changing behaviour, CTs are by their very nature more likely to want to comply and any non-compliance could be due to error rather than “intentional” non-compliance. According to Braithwaite’s
motivational postures, CTs appear to be largely driven by moral obligations, whereas for NCTs, the “benefits” appear to be a stronger factor.

It appears that for NCTs, managerial benefits of improved business record-keeping and improved decision-making could lead to improved compliance compared to the use of audits and penalties. However, it needs to be noted that the reduction in “deterrence” effect of audit and penalties in Bangladesh could be due to corruption that undermines their effectiveness.

### 7.5 Relationship with compliance cost

To explore the third research question as to managerial benefits’ potential relationship with compliance costs, findings suggest that overall NCTs tended to have negative attitudes towards compliance costs. More than half of the non-compliant respondents (64%) disagreed or strongly disagreed with the statement that “the VAT compliance costs of our businesses are insignificant”. In contrast, less than half of the CT respondents (37%) agreed or strongly agreed that the VAT compliance costs of their businesses are insignificant: Table 6.

<table>
<thead>
<tr>
<th>Compliance costs and non-compliance (CT = 152, NCT = 88)</th>
<th>Agree/strongly agree</th>
<th>Disagree/strongly disagree</th>
<th>Not sure/neutral</th>
</tr>
</thead>
<tbody>
<tr>
<td>The VAT compliance costs of our business are insignificant</td>
<td>37% 20%</td>
<td>46% 64%</td>
<td>17% 14%</td>
</tr>
<tr>
<td>Our core business suffers due to VAT compliance costs</td>
<td>37% 52%</td>
<td>38% 27%</td>
<td>25% 21%</td>
</tr>
<tr>
<td>Compliance with the VAT law is excessively burdensome and costly for taxpayers</td>
<td>50% 87%</td>
<td>27% 8%</td>
<td>22% 5%</td>
</tr>
<tr>
<td>The burden of compliance costs discourages the owners to fulfill VAT obligations</td>
<td>46% 68%</td>
<td>35% 17%</td>
<td>18% 14%</td>
</tr>
</tbody>
</table>

---

112 Faridy, Freudenberg and Sarker, above n 39.
113 Faridy, Freudenberg and Sarker, above n 39.
Table 7: Compliance costs and non-compliance (ANOVA)

<table>
<thead>
<tr>
<th>Compliance costs</th>
<th>Sum of squares</th>
<th>df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The VAT compliance costs of our business are insignificant</td>
<td>11.568</td>
<td>1</td>
<td>11.568</td>
<td>6.799</td>
<td>0.01*</td>
</tr>
<tr>
<td>Our core business suffers due to VAT compliance costs</td>
<td>6.050</td>
<td>1</td>
<td>6.050</td>
<td>2.792</td>
<td>0.096</td>
</tr>
<tr>
<td>Compliance with the VAT law is excessively burdensome and costly for taxpayers</td>
<td>5.701</td>
<td>1</td>
<td>5.701</td>
<td>2.493</td>
<td>0.116</td>
</tr>
<tr>
<td>The burden of compliance costs discourages the owners to fulfil VAT obligations</td>
<td>16.385</td>
<td>1</td>
<td>16.385</td>
<td>9.323</td>
<td>0.003**</td>
</tr>
</tbody>
</table>

ANOVA Table (one tailed and between groups). R = 0.649, R Square = 0.421, Adjusted R Squared = 0.268. Std. error of the estimate = 0.429.

* *p < 0.05; **p < 0.005.

The findings in relation to compliance cost demonstrate that CTs are more likely to demonstrate compliant behaviour compared to NCTS, as CTs overall had lower agreeance with the compliance cost factors and non-compliance, as CTs agreeance only ranged from 37% to 50% for the four factors. In comparison, NCTs demonstrated greater agreement with the non-compliance factors, with three of the four factors greater than 50% (52%, 68% and 87%). The survey findings demonstrate more than three-quarters (87%) of NCTs felt that compliance with the VAT law is excessively burdensome and costly for taxpayers. In contrast, only 50% of CTs thought this. The ANOVA results also demonstrate significant differences between CTs and NCTs with regard to two statements: “The VAT compliance costs of our business are insignificant” and “The burden of compliance costs discourages the owners to fulfil VAT obligations”. Consequently, it appears that for NCTs, a major reason for non-compliance is the perception that high VAT compliance costs discourages them for fulfilling their VAT obligations. Consequently, it appears that for NCTs (compared to CTs), the perception of compliance cost burden could be a larger influencer for non-compliance with VAT law in Bangladesh. Thus, anything that can reduce the compliance cost burden could have a larger influence on NCTs in terms of their compliance behaviour — one potential factor being the managerial benefits from VAT compliance.

It is suggested that if a tax department could highlight more about the managerial benefits of VAT compliance, this could reduce the perception of high compliance costs (as benefits can reduce the overall net compliance costs). This decrease in overall compliance costs could then potentially lead to better compliance.

Also, a total of 45% respondents (CTs and NCTs) agreed or strongly agreed that their core business suffers due to VAT compliance costs. Higher compliance costs can
significantly take away time and money from the taxpayers which could be spent on other business activities. This relates to the opportunity costs, when owners do not spend time on core activities of the business. However, if managerial benefits could be realised, then this could aid business decisions.

In terms of actual compliance cost experienced by CTs and NCTs, the results indicate that VAT compliance costs are higher for non-compliant than for compliant VAT payers: Table 8.\textsuperscript{114} This trend is generally consistent for both monetary and psychological costs. Part of the explanation for these extra costs for non-compliant taxpayers may be due to their non-compliant behaviour. That is, they are spending extra money to mitigate the objections against them, and paying extra money for external advisers or lawyers.

\begin{table}[h]
\centering
\caption{Average monthly VAT compliance costs}
\begin{tabular}{|c|c|c|c|c|c|c|c|c|}
\hline
\textbf{Group} & \textbf{VAT compliance costs in BDT (US$)} & & & & & & \\
 & \textbf{Monetary costs} & \textbf{Time (total hours)} & \textbf{Psychological costs} & \textbf{Total monetary costs} \\
& \textbf{CTs} & \textbf{NCTs} & \textbf{CTs} & \textbf{NCTs} & \textbf{CTs} & \textbf{NCTs} & \textbf{CTs} & \textbf{NCTs} \\
\hline
1 & 27,822 & 35,091 & 97 & 113 & 6,622 & 8,88 & 32,470 & 41,173 \\
& (371) & (468) & (62) & (88) & (500) & (549) \\
2 & 61,628 & 53,851 & 160 & 252 & 7,985 & 106 & 75,149 & 61,836 \\
& (822) & (718) & (181) & (106) & (1,001) & (824) \\
3 & 74,315 & 75,000 & 211 & 273 & 16,273 & 217 & 86,110 & 91,273 \\
& (990) & (1,000) & (153) & (217) & (1,148) & (1,216) \\
4 & 94,578 & 102,900 & 208 & 298 & 19,444 & 259 & 117,439 & 122,344 \\
& (1,261) & (1,372) & (304) & (259) & (1,565) & (1,631) \\
5 & 179,265 & 227,655 & 336 & 448 & 33,045 & 441 & 210,441 & 260,700 \\
& (2,390) & (3,035) & (415) & (441) & (2,805) & (3,476) \\
\hline
\end{tabular}
\end{table}

Notes: (1 BDT = 0.013 US$) (Group 1: monthly VAT less than BDT 400,000; Group 2: monthly VAT between BDT 400,001 to 600,000; Group 3: monthly VAT from BDT 600,001 to 800,000; Group 4: monthly VAT between BDT 800,001 to 1,000,000; and Group 5: monthly VAT BDT exceeding 1,000,000).

Two questions in the survey instrument related to distinct activities that constitute VAT compliance. These questions explored in-house compliance activities, learning about VAT, dealing with advisers, preparation of price declarations, and working time and money spent on audit, objection or appeal. The average money and time spent on these different activities relating to VAT are illustrated in Table 9.

\textsuperscript{114} For a full discussion of the VAT tax compliance cost, see: Faridy, Copp, Freudenberg and Sarker, above n 46.
In particular for this article, a particular focus was on the in-house activities as these are more relevant to the record-keeping. What becomes evident that in terms of in-house recording-keeping for each size of taxpayer, non-compliant taxpayers spend less time keeping their records. Also, as an overall percentage of their overall VAT compliance activities, in-house activities are a small percentage for non-compliant compared to compliant taxpayers. This could tend to indicate that NCT have inadequate or not as complete records compared to the compliant businesses. Indeed, it could be these insufficient records that are part of their overall non-compliance requiring them to spend more time on the audit and appeal process. Although, it should be recalled that NCT are more likely to have a fully computerised accounting system.

This would suggest that for managerial benefits to be realised, it may be questionable how good the records are of NCTs compared to CTs.

It would appear that CTs may have better records than NCTs, so if there were to be managerial benefits to be realised, these may be likely to be for CTs and not NCTs. Also, CTs have a greater percentage on in-house (and spending). NCTs spent less time (and cost on in-house) than CTs.

NCTs appeared to have similar time (measured by monthly hours) to that of CTs compared to actual monetary expenditure: Table 9. This could indicate that NCTs are more likely to spend time themselves to try to do VAT compliance activity and not pay for assistance. This also could relate to ineffectual book-keeping practices by NCTs compared to CTs, and thereby take more time to do similar book activities.

However, the results appear to be somewhat inconsistent with the previous literature on tax compliance costs. For example, Hansford and Hasseldine found that in terms of the hours spent on different activities, the UK’s SME taxpayers spent over three-quarters (79%) of their time on recording information needed for VAT, calculating tax, completing returns, paying VAT and tax planning and tax advice. Similarily, Gupta and Sawyer’s study for New Zealand and Lignier et al’s study for Australia demonstrated similar results to Hansford and Hasseldine. Hansford and Hasseldine stated that taxpayers should spend more time on in-house compliance activities and learning about taxes to keep themselves from committing any unintentional non-compliance and not falling foul of the tax agency. Accordingly, it may be a matter of concern for the NBR that Bangladeshi taxpayers appear to spend proportionately less time on in-house compliance activities compared to other jurisdictions, as these strategies could be very important to improve tax compliance.

115 Hansford and Hasseldine, above n 35.
117 Lignier, Evans and Tran-Nam, above n 26.
118 Hansford and Hasseldine, above n 35.
Table 9: Average money spent on VAT compliance activities by CTs and NCTs

<table>
<thead>
<tr>
<th>Components of average compliance costs</th>
<th>Average money spent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Group 1 (BDT)</td>
</tr>
<tr>
<td></td>
<td>CT</td>
</tr>
<tr>
<td>Recording information needed for VAT</td>
<td>3,500</td>
</tr>
<tr>
<td>Keeping all physical receipts in an organised manner</td>
<td>2,000</td>
</tr>
<tr>
<td>Calculating VAT and paying VAT</td>
<td>1,000</td>
</tr>
<tr>
<td>Keeping the forms and registers related to VAT</td>
<td>1,500</td>
</tr>
<tr>
<td>Preparing and making VAT monthly returns</td>
<td>3,422</td>
</tr>
<tr>
<td>Total costs for in-house compliance activities</td>
<td>11,422</td>
</tr>
<tr>
<td></td>
<td>(35.17%)</td>
</tr>
<tr>
<td>Total external activities</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>(15.39%)</td>
</tr>
</tbody>
</table>
### Table 9: (Continued...)

<table>
<thead>
<tr>
<th>Components of average compliance costs</th>
<th>Group 1 (BDT)</th>
<th>Group 2 (BDT)</th>
<th>Group 3 (BDT)</th>
<th>Group 4 (BDT)</th>
<th>Group 5 (BDT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total costs with price declarations, refunds, audit, objection and appeal</td>
<td>8,900</td>
<td>19,370</td>
<td>19,628</td>
<td>27,365</td>
<td>21,615</td>
</tr>
<tr>
<td>(BDT)</td>
<td>(27.40%)</td>
<td>(46.43%)</td>
<td>(26.11%)</td>
<td>(44.25%)</td>
<td>(25.10%)</td>
</tr>
<tr>
<td>Total non-routine expenses (speed money/bribes)</td>
<td>2,500</td>
<td>4,500</td>
<td>5,000</td>
<td>4,000</td>
<td>6,000</td>
</tr>
<tr>
<td>(BDT)</td>
<td>(7.69%)</td>
<td>(10.78%)</td>
<td>(6.65%)</td>
<td>(6.46%)</td>
<td>(6.96%)</td>
</tr>
<tr>
<td>Psychological costs for VAT</td>
<td>4,648</td>
<td>6,622</td>
<td>13,521</td>
<td>7,985</td>
<td>11,495</td>
</tr>
<tr>
<td>(BDT)</td>
<td>(14.31%)</td>
<td>(15.87%)</td>
<td>(17.99%)</td>
<td>(12.91%)</td>
<td>(13.34%)</td>
</tr>
<tr>
<td>Total VAT compliance costs (BDT)</td>
<td>32,470</td>
<td>41,713</td>
<td>75,149</td>
<td>61,836</td>
<td>86,110</td>
</tr>
</tbody>
</table>

Notes: (1 BDT = 0.013 US$) (Group 1: monthly VAT less than BDT 400,000; Group 2: monthly VAT between BDT 400,001 to 600,000; Group 3: monthly VAT from BDT 600,001 to 800,000; Group 4: monthly VAT between BDT 800,001 to 1,000,000; and Group 5: monthly VAT BDT exceeding 1,000,001).
The survey required respondents to report the time spent on different VAT activities. For the estimation of monthly time spent, an average of 22 working days consisting of eight hours per day was assumed. Measurement of compliance time was based on time spent on various VAT-related activities reported by the respondents for the 2012 financial year (1 July 2011 to 30 June 2012). Table 10 illustrates the difference between compliant and non-compliant taxpayers in time spent on different compliance activities. When considering the time spent, it appears that there is greater similarity between CTs and NCTs on in-house activities compared to money spent between the two. However, as a percentage of overall compliance hours, in-house activities are a lower percentage for NCTs compared to CTs, which seems to be due to the greater number of hours that NCTs spend with the audit and objection processes. This may reflect that CTs are lower risk-takers who spend extra time to ensure compliance and minimise the chance of mistakes. In particular, CTs spend more time on in-house compliance activities to assist with their compliance. Also, this would suggest, may be, that CTs would have the potential to gain greater managerial benefits compared to their NCTs given that their records could be more complete and accurate.

Table 10: Average time spent on VAT compliance activities by CTs and NCTs

<table>
<thead>
<tr>
<th>Components of spending time on VAT compliance</th>
<th>Average time spent (CT = 152 and NCT = 88)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Group 1 hours/ (%)</td>
</tr>
<tr>
<td>Total in-house compliance activities</td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>44(45.36)</td>
</tr>
<tr>
<td>NCT</td>
<td>45(39.82)</td>
</tr>
<tr>
<td>External activities</td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>10(10.30)</td>
</tr>
<tr>
<td>NCT</td>
<td>10(8.84)</td>
</tr>
<tr>
<td>Other time* with audit, objection and appeal</td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>43(44.32)</td>
</tr>
<tr>
<td>NCT</td>
<td>58(51.32)</td>
</tr>
<tr>
<td>Total hours</td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>97</td>
</tr>
<tr>
<td>NCT</td>
<td>113</td>
</tr>
</tbody>
</table>

Notes: *Other time include the time needed for price declarations, refunds, and rebate.

119 In Bangladesh, there are five working days in a week. Then the total general working days are 22 days in a month.
8. Recommendations

Overall, these results suggest that managerial benefits could be a motivational posture to improve VAT compliance for non-compliant VAT payers in Bangladesh, more so than moral obligations and penalties. This is especially the case as non-compliant VAT payers appear to use VAT compliance cost as a justification for non-compliance. Consequently, if the realisation of benefits could be achieved, this would reduce VAT compliance cost, and then this should, in a logical progression, mean greater VAT compliance by non-compliant VAT payers. However, there a number of inhibiting factors that mean this may not possible or its likelihood is reduced.

Nevertheless, it is suggested that the notion of record-keeping and potential managerial benefits deserves greater exploration given the strong initial motivational force illustrated here.

8.1 Perceptions

It is argued that the greatest potential hurdle to address is the perceptions of SMEs about possible managerial benefits, and then this is an important step in actually realising them. It is important that SMEs are made aware that their tax compliance activities mean that they have up-to-date records which they can use to assist in running their business. However, this needs to include the notion that accounting records and ratios are actually useful for business decisions. As it may be those without accounting knowledge or backgrounds will have negative perceptions about the usefulness of accounting information. Part of improving this perception is through education, record-keeping and providing tools to assist SMEs to realise managerial benefits.

8.2 Education

Reflecting on Lignier’s (2009) finding, it appears that greater accounting literacy will lead to improved perceptions of the existence of managerial benefits from tax information. The NBR in Bangladesh has recently established a “help desk” with all VAT Commissionerates and local VAT offices, with the aim of providing services to assist taxpayers in complying with the VAT law. This is seen as an important step in improving relationships with taxpayers. In addition, however, the NBR could consider establishing a SME businesses “Support Service Unit” to provide specific assistance and advice on VAT issues to SME taxpayers who are not represented by VAT consultants. This “Support Service Unit” could include assisting SMEs to realise managerial benefits and manage their cash flow while recognising the need to pay VAT. This ability to realise managerial benefits and manage cash flow is important to enable businesses to meet their VAT obligations. The positive side of VAT compliance, 120

For Lignier made the following observations: Lignier, above n 16, p 114: "The effectiveness of accounting information usage depends in large part of the perception that the decision maker has of the usefulness of that information".
such as the cash flow benefits and managerial benefits arising from VAT compliance, should be emphasised by the NBR to improve NCT attitudes towards compliance.

The NBR should also consider how it could work with industry bodies and the accounting agencies to provide educational tools about basic accounting to businesses. This basic accounting education could improve the perception of the usefulness of accounting information and thereby improve the likelihood that SMEs could use records to assist in management decisions.

8.3 Record-keeping

What this data would suggest is that it would not necessarily be the case that managerial benefits would be realised by NCTs as the current status of their recording-keeping could be deficient. Having accurate and current records is essential to being able to realise managerial benefits. Consequently, policymakers need to re-think the online VAT system and how a better record-keeping system might be applied to SMEs, at least initially. In addition to ensuring a more reliable electricity supply, this could include training, and funding or tax relief to purchase necessary equipment.

8.4 Tools

It is important that not only are the managerial benefits of complying with VAT highlighted to SMEs, that also the SMEs are provided the tools and the education to be able to realise these managerial benefits. It is submitted that SMEs do not have the resources (including time) or education to be able to fully comprehend what their tax records are telling them about their business operations.

The NBR should consider with industry bodies whether simple tools could be developed that demonstrate to SMEs how their VAT information could be used to manage their business. This could include important ratios as part of their VAT reporting statements.

9. Future research

The results of this study raise some interesting propositions about how managerial benefits may improve tax compliance, especially for taxpayers with a recent non-compliant history. Future research could consider how to improve perceptions and knowledge of managerial benefits. Also, future research could consider how to realise managerial benefits for SMEs. Future research could consider whether amendments to be introduced by the new Bangladeshi Value Added Tax Act, 2012 (to commence from July 2019) improve or hinder the realisation of managerial benefits, and its effect of tax compliance.

121 Of course, their lack of record-keeping may be part of a ploy to have insufficient records when an audit occurs making it difficult for the NBR to established the correct state of affairs.
Other research could test whether NCTs (compared to CTs) have sufficient/accurate records for managerial benefits to be realised. Research could also consider whether NCTs would actually change their compliance behaviour if they knew (and used) managerial benefits from their VAT compliance.

10. Conclusion

Value-added taxes are seen as an essential element in raising revenue for governments around the world to fund expenditure programs, especially for developing countries. While a VAT is perceived to have a self-policing mechanism through input tax credits, non-compliance and the cash economy still exist. While VAT can be a significant component of tax compliance costs for SMEs, a purported benefit is that VAT can provide businesses with timely information to assist their management decisions. Such management benefits should decrease the overall tax compliance costs. However, for SMEs, there can be a number of characteristics that may reduce the ability for SMEs to fully realise these management benefits.

This article reported a survey of compliant and non-compliant SME VAT payers in a developing country, Bangladesh. The survey found that there was a high level of perception of managerial benefits, and that for non-compliant taxpayers, it appeared that VAT leading to improved recording-keeping and better management decisions could encourage them to be more VAT compliant. While these management benefits were also noted by compliant taxpayers, compliant taxpayers appeared to be more motivated by moral obligations in their compliance, as well as the fear of penalties. This notion of management benefits appeared to have greater resonance for non-compliant taxpayers, as non-compliant taxpayers were more concerned about VAT compliant costs then compliant taxpayers. This would suggest that anything that could reduce compliance cost would be positively received by non-compliant taxpayers, and in this could also improve compliance behaviour.

However, the data suggested that there would be a number of issues for non-compliant taxpayers to actually realise these managerial benefits, particularly they had lower time and money spent on in-house recording keeping.

Consequently, a number of recommendations were put forward to make the realisation of management benefits more likely to occur. The notion of perception of the usefulness of accounting information, tax information and managerial benefits could be central to this.

If we are able to assist SMEs to see “what’s in it for them” by harnessing the managerial benefits of their VAT compliance, this could improve VAT compliance and business decision-making. It is suggested that this would lead to greater VAT revenue collected, as there should be improved business decision-making and increased economic activity. In this way, improving the “what’s in it for me” could have positive effects for the individual business, as well as the economy as a whole.