Managing VAT Non-compliance: A Case Study of the Mozambique Tax Authority

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ABSTRACT

In spite of tax policy and administration reforms, the way governments levy taxes, and the compliance approaches adopted by Tax Authorities (TAs) to maximize Value Added Tax (VAT) revenue collection, have influenced governance quality. While there is an ongoing debate on the effects of taxation on the quality of governance, there is a lack of empirical evidence on how compliance approaches have prompted strong and less arbitrary governance policies. This study examines how current reactive compliance approaches informed by “hard facts” have had a limited influence on VAT non-compliance management. The purpose is to develop an understanding of the reasons for and to promote a more proactive, VAT factor-focused and key actor-based compliance approach, within the framework of institutional theory.

The study used a qualitative approach. It adopted a case study research design with personal interviews, focus group discussions and document analysis as research techniques, with the participation of different stakeholders. Recognising the merits of reactive approaches in influencing tax compliance, the study revealed the dynamics of VAT non-compliance, within its multiplicity, complexity and social reality, to transcend the traditional approach, which focuses on offenders as units of analysis in VAT non-compliance practicability. This has enhanced mistargetting strategies and prevailing challenges to the dilemma. The findings have revealed that cause-driven enforcement strategies, which account for the VAT nature and structure, and the dynamics of social group interaction, were more effective in discouraging VAT non-compliance. Factors from the socio-psychological theory on tax compliance, were revealed to strengthen and complement the efficacy of economic factors, when acting as deterrent factors in VAT compliance. Although institutions have been revealed to shape the frame of taxpayer compliance, it could not fully account for the dynamics of distinctive interests amongst different VAT key actors, reflected in collusion effects at different levels. However, a systemic perspective could enable institutions to improve the effectiveness of VAT compliance.

DECLARATION

I declare that this thesis is my own unaided and original work. It is submitted in fulfilment of the requirements of the degree of Doctor of Philosophy in Public and Development Management in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or academic credit in any other University. The information and other sources have been duly acknowledged as required.

SIGNED:

Yolanda Maria da Silva De Figueiredo-Sabino

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DATE:

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DEDICATION

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LIST OF ABBREVIATIONS

AEO	African Economic Outlook
ARAs	Autonomous TAs
AT	Mozambican TA
ATO	Australian Taxation Office
B2B	Business to Business Transaction
B2C	Business to Consumer Transaction
BLTS	Base Law of Tax System
CEAM	Confederation of Economic Associations of Mozambique
CIT	Corporate Income Tax
DA	Document Analysis
DGA	Directorate – General of Customs
DGI	Directorate – General National/Domestic Tax
DNA	Directorate – National Customs
DNIA	Directorate – National Taxes
EMATUM	Mozambique Tuna Company
ERP	Economic Rehabilitation Programme
EU	Expected Utility Theory
FGD	Focus Group Discussion
FtFi	Face-to-Face interview
GDP	Gross Domestic Product
Gvt	Government
IMF	International Monetary Fund
IRCS	Interim Revenue Collection System
ILO	International Labour Organisation
IT System	Information Technology system
MAM	Mozambique Asset Management
MNR	Mozambican National Resistance
TA	Mozambique TA
OECD	Organisation for Economic Cooperation and Development
PIT	Personal Income Tax

RAs	TAs
SADC	Southern Africa Development Cooperation
SARS	South African Revenue Service
SARA	Semi-Autonomous TA
SISA	Transmission Tax
ST	System Theory
STST	Simplified Tax for Small Taxpayer
TA	TA
TUs	Tax Units
VA	VAT Agent/ accountant/ expert
VAT	Value Added Tax
VIA	VAT Invoice Agents

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Figure 1: Map of Mozambique

Source: https://pt.mapsofworld.com/mozambique/: Provincial Delegates of TA located in each Province

CHAPTER ONE
INTRODUCTION TO THE RESEARCH

1.1. INTRODUCTION

Although there is substantial written work on tax non-compliance, the literature has revealed that most of these focus on personal direct tax. Irrespective of the well-known paradox of vulnerability to fraud and evasion (Walpole, 2014; Slemrod, 2016; Tsikas, 2017), the economic importance of Value Added Tax (VAT) in raising significant revenues for governments has determined its increasing adoption by governments; including Mozambique. However, the prevalence and level of tax non-compliance continues to be high (Bolnick & Byiers, 2009; Nathan Associates, 2004; Castro, Varela, Shenone & Teixeira, 2009), and outstanding tax collection remained substantial, representing a ratio of about 34% of actual to potential collection (Castro, *et al.,* 2009). This was mostly, due to tax evasion, and particularly VAT-related fraud and evasion in Mozambique.

Recent studies have revealed that most Tax Authorities (TAs) heavily rely on audit and sanctions, door-to-door invoicing control and fiscal education (MF, 2011; MFb, 2012) to manage VAT non-compliance. However, these have proved to be ineffective in reducing VAT non-compliance opportunities. This ineffectiveness partly results from the non-existence of permanent enforcement programmes (Versano, 2007; Castro, 2005; Fjeldstad & Heggestad, 2012) and systematically organized actions to enforce compliance (Castro, 2005; Castro, *et al.,* 2009; Fjeldstad & Heggestad, 2012), complemented by poorly skilled staff, inadequate information and technology to assess and crosscheck tax information (Nathan Associates 2004; Castro, *et al.,* 2009). This has perpetuated management challenges.

While most researchers in the field recognized the prevalence of tax non-compliance to be counter to raising revenue (Nathan Associates, 2004; Castro, *et al.,* 2009, Fjeldstad & Heggestad, 2012) due to VAT-related fraud and evasion, there has been limited attention on VAT non-compliance management. Most of the existing research on tax non-compliance in Mozambique elaborated on the frameworks drawn from income tax assumptions and adopting approaches that cut across taxes (Castro, et al., 2009: Fjeldstad & Heggestad, 2012). Nathan and Associates (2004) and Fjeldstad & Heggestad's (2012) suggested approaches, were based on practical experiences from other countries. Although these approaches can provide insightful avenues to establish platforms for developing assertiveness in segmenting taxpayers, ensuring fiscal education; and to align strategic management of tax non-compliance in general; these revealed to be inadequate to target VAT non-compliance specificities.

Unlike the traditional sole and heavy reliance on audit and sanction, this study focused on the VAT compliance factor and key actors' interaction-focused approach, to understand how compliance approaches have prompted governance quality. It was beyond the scope of this study to focus on import VAT, but rather domestic VAT non-compliance management. It focused on VAT taxpayers registered in the normal regime, with a turnover equal to or more than MT 2.500 Million turnover (about ZAR 487.329,43 at 1 ZAR:5.13 MZN 2018/02/14 09:35 UCT) per year. The study explores how ineffective institutions enhance the practice of VAT non-compliance.

1.2. HISTORICAL AND POLITICAL CONTEXT TIED TO GOVERNANCE, TAX POLICY AND SYSTEMS

Empirical research in the development and economic fields do not extensively debate the centrality of taxation and its relationship to governance (Moore, 2007). While the literature suggests that the source of government income significantly shapes governance, the way governments raise revenue to finance provision of public goods, and services are revealed to have close affinities to the effectiveness of tax policy and systems (Moore, 2007). An understanding of the long history of the Mozambican tax system brought to light the links between the tax system and the economic growth imperatives, to respond to the political ideology of the time.

Ibraimo (2002) and Watty (2013) explain the evolution of the Mozambican Tax system, as characterized by tax reforms and design (nature and structure of tax). During the traditional era, loyalty to chieftaincy, culture and social identity, coupled with a reasonable amount of tax, did not meet with resistance. A general resistance to tax compliance (Ibraimo, 2002; Watty, 2013) emerged during the colonial era, irrespective of the fact that traditional leaders were retained in the system to collect tax on behalf of the colonizers (Ibraimo, 2002). The "*Musocco*", which was later called the "*imposto de palhota"* or Hut Tax (Ibraimo, 2002; Watty, 2013) was also maintained as a source of government income. As power relationships with communities deteriorated as a result of coercion and extreme use of authority to enforce compliance, as well as increasing the tax demands and imposing forced labour (Ibraimo, 2002; Watty, 2013), resistance to compliance increased. However, the oppressive colonial machinery was strong enough to overcome resistance and maintain financial sustainability. This resulted in a more complex tax system comprising coherent institutions with experienced and skilled tax officials (Ibraimo, 2002; Watty, 2013). Prevailing institutions of the period were in comformity to the objectives of the colonial state (Watty, 2013). Consequently, tax collection increased in spite of prevailing

tax injustice and higher tax rates. The 1967 tax reforms brought together different taxes in a single package, facilitating a clearer understanding of the system as complexities were removed (Watty, 2013). In this case, the legislated Diploma-law no. 2774 of 15th September 1967 and Decree-Law no. 47942 of 15th September 1967 were characterized by seven taxes, namely industrial contribution tax, professional and additional tax, tax on capital investment, complementary tax, minimum tax, consumption tax and stamp tax on sales. The government of the day introduced further taxes to increase government income, such as monopoly on textiles in Sofala, to fund colonial programmes in the Mozambican provinces (Watty, 2013).

With the arrival of independence in 1975, the Mozambican government followed a centralised planned economy and nationalised all enterprises, which contributed to a more monopolistic approach. Managers of the public companies were politically appointed. This not only undermined and weakened tax officers' authority in enforcing tax collection but was also detrimental to the performance of production by these companies. Additionally, with the high level of skilled emigration after independence, there was poor and generalized lack of labour and skills to run the economy (Ibraimo, 2002; Watty, 2013; 2015). Tax collection declined and increased the huge taxation deficits, largely caused by public enterprises running at a loss (Waldt, Niekerk, Doyle, Knipe & DuToit, 2002). The adoption of an inherited colonial tax system framework, to respond to a centrally planned economy that was informed by socialist ideology after independence (Ibraimo, 2002; Watty, 2013), partly explains Tax Administration incapacity to increase the levels of tax collections. This resulted in a disjuncture within the tax policy and system. Irrespective of the intention to align the tax system through Resolution no. 5/77 of 1 September, reforms of Decree no. 2/78 of 16 February for national reconstruction tax, Decree no. 3/78 of 16 February related to circulation tax, and Decree no. 4/78 of 4th March related to income tax (Watty, 2013), tax collection continued to decline. The fact that employed reforms overlooked the role of the tax system as an

instrument of economic development, urged the continued decline. However, the reforms brought to light the importance of the simplification of taxes and procedures and its conformity to community standards in taxation.

In 1982, the introduction of reforms was enacted via Decree no. 1/82 of 6 January in relation to the Income Tax Code. These were also related with aspects of fundamental principles, subjects of tax liability, exemptions, and determination of the taxable amount, liquidation, guarantees, supervision and penalties, amongst other aspects. Through the publication of Resolution no. 18 of December 3 and Decree no. 14/82 (Watty, 2013), reform was further enacted. Whilst these reforms brought some optimism to enlarge the tax base, the outbreak of the war of economic destabilization between the Government of Mozambique and the Mozambican National Resistance (MNR) in the early 1980s further undermined the platform for improving tax collection. The structural economic infrastructures were destroyed, thus efforts to enlarge the tax base were frustrated. This was due to the failure of the economic organizational structure, as prevailing tax system of the day, remained inadequate for generating income for the State (Ibraimo, 2002). This has further undermined the possibilities of improving the tax collection platform.

The introduction of the Economic Rehabilitation Programme (ERP) with the intention of strengthening the national economy, triggered reforms for the new tax system through the introduction of Law no. 3/87 of 19th January, with its subsequent alterations through Law no. 3/88 of 12th May, Law no. 8/88 of 21 December and Law no. 3/98 of 8 January. Although these reforms mostly related to direct taxes, the aim was also to increase tax collection to fund the State's public expenses and thereby maintain its effective functioning (Watty, 2013). The high degree of misalignment of general structural organization of the tax system has hindered its ability to respond to the objectives of the adopted socialist regime. On the other hand, the process of privatization provided platforms for the establishment of free

market systems and development through private initiatives and a market-oriented economy that increased the national income (Waldt, Niekerk, Doyle, Knipe & DuToit, 2002). This also saw a shift towards broadening the tax base and spreading the tax burden (Gildenhus & Knipe, 2000; 2002). The tax system was thus, informed by the demands of the market and limited to structural organization of general production, including access to tax activities. Although circulation tax was introduced to increase the level of tax collection, it also contributed to the increase in informal markets and a sharp increase in prices for both domestic and export goods, (Ibraimo, 2002). Nonetheless, outstanding taxes yet to be collected remained substantial.

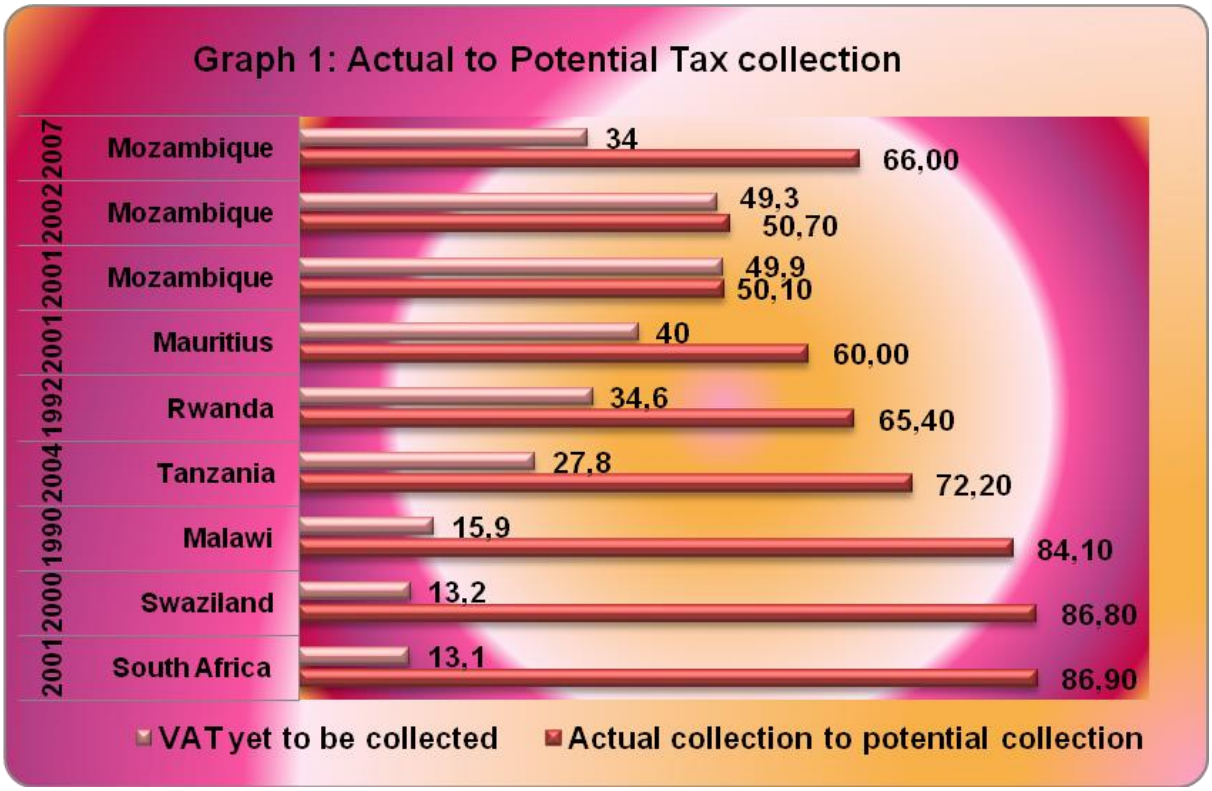
The tax reform undertaken in 1999 was largely marked by the adoption of VAT. It aimed at expanding the tax base and increasing capacity for revenue collection. The trend of VAT collection has generally improved since its introduction by Decree 32/2007 of 31st December 1999 that approved the VAT Code. This tax (VAT) has revealed to have the capacity to target the hard-to-tax group (informal operators) and to generate revenue (Terra, 1990; IMF, 2001; Ebrill, Keen, Boldin & Summers 2001; PWC, 2009; Cnossen, 2015), particularly in developing countries. It has constituted one of major sources of fiscal revenue as compared to other taxes (PWC, 2013; MFa, 2011; MFb, 2012). However, the nature of VAT and the complexity of implementing VAT, including its vulnerability to evasion, avoidance and fraud, have prompted its management challenges. The rationale of the study is posited below:

1.3 RATIONALE OF THE STUDY

Governance quality has revealed to be influenced not only by the effects of taxation, but also by the capacity and ability to be funded from different sources of government income (Moore, 2007). However, the paucity of knowledge of the dynamics of compliance approaches have overlooked ascertained strategies to target VAT non-compliance practicability and particularity. Consequently, despite tax policy and administration reforms (Bolnick & Byiers, 2009; Castro, *et al.,* 2009), VAT non-compliance management continues to be a significant challenge for the Mozambican TA (Nathan Associates, 2004; Castro, 2005; Castro, *et al.,* 2009; Fjeldstad & Heggestad, 2011; Fjeldstad & Heggestad, 2012). Amongst various other factors, the following six factors, below, has largely motivated this study:

a) Substantial levels of non-compliance, where about 34% of tax is yet to be collected in Mozambique, is posited to be mainly attributed to VAT-related fraud and evasion practices (Castro, et al., 2009). Despite administration reforms and improvements on the ratio of actual to the potential collection of all taxes, from 50.1% and 50.7% in 2001 and 2002 (Versano, 2007; Castro, et al., 2009), the ratio of 66% continues to be very low, compared to other East African countries, as shown in Graph 1.

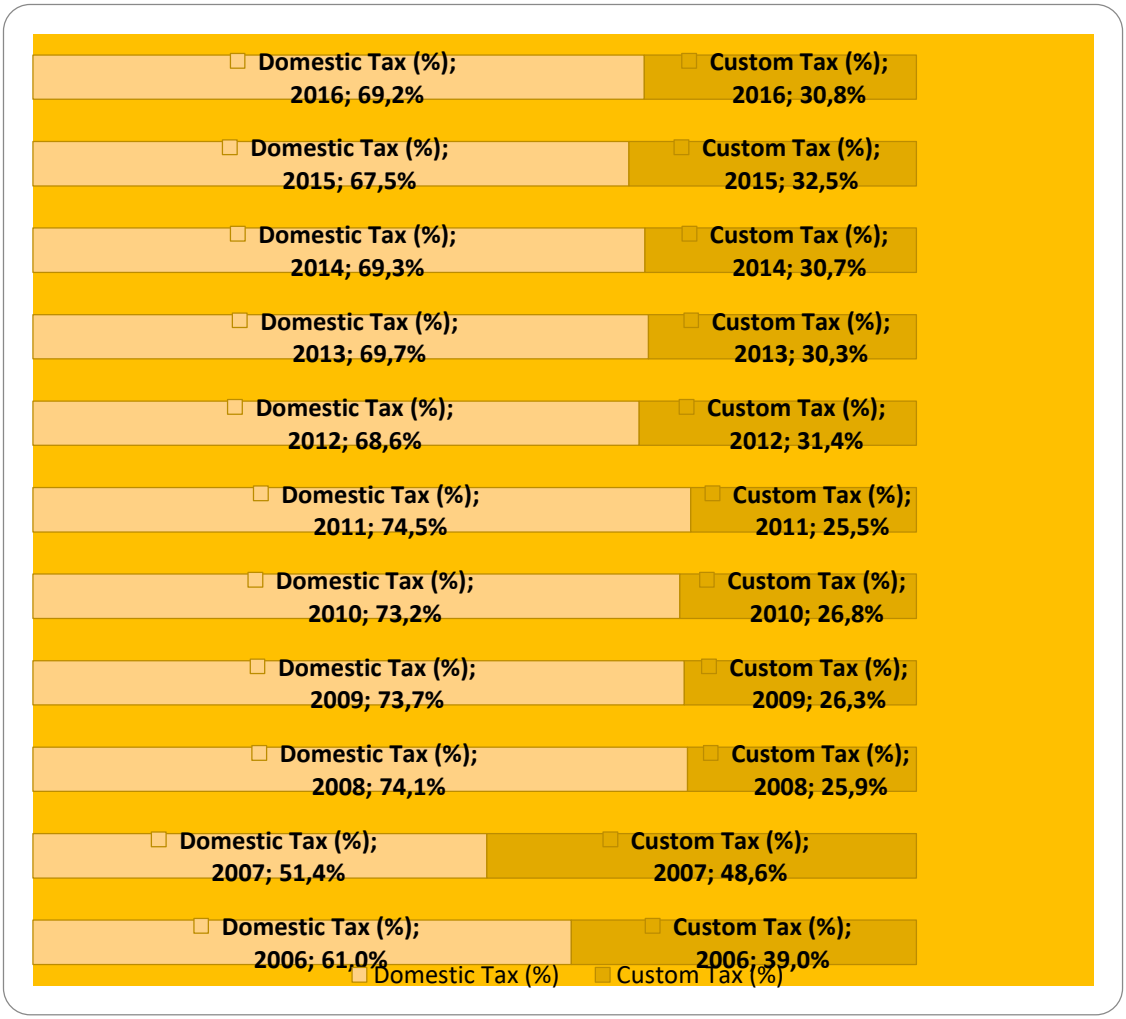
Graph 1: Actual to Potential Tax Collection



Source: Castro, et al., 2009

b) Data in Appendix 4.1, relating to tax collection levels, have revealed the need to increase TA capacity to reduce indices of tax non-compliance. The loss of custom revenue due to regional integration further urges the need to increase TA capacity to raise domestic tax. Thus, there is a need for effective interventive strategies to maximize domestic tax revenue collection to replace the loss of custom revenue and to increase domestic tax in fiscal revenue, as illustrated in Graph 2.

Graph 2: Proportion of Total Tax collected domestic vs Customs Revenue

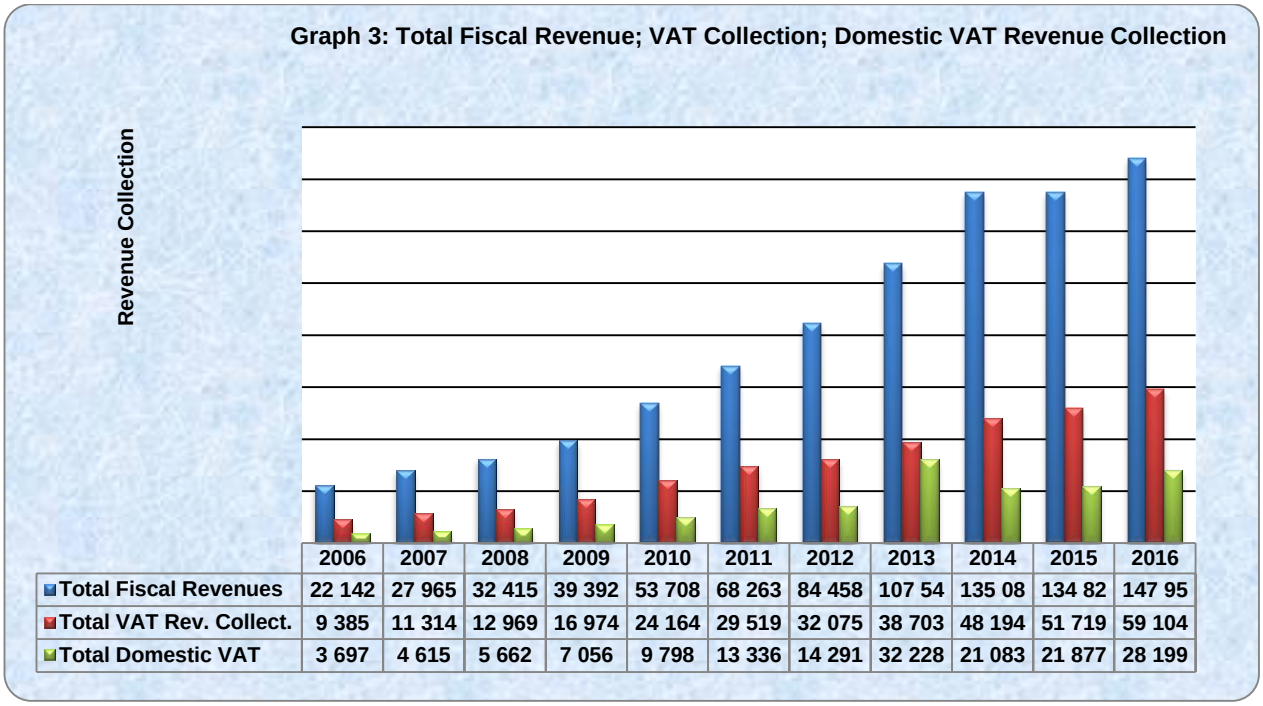


Source: Revenue Analysis Division, TA, 2017

c) During the period 2006 to 2016, domestic tax collection registered a significant increase. This included a substantial contribution of VAT, representing about 35% - 40% of the Total Fiscal Tax collected (Appendix 4.1) (MFa, 2011; MFb, 2012). This confirms the importance of VAT in generating revenue for governments, which is supported by those that advocate its economic importance for contributing up to one-quarter of all tax revenues in some countries (PWC, 2009, Tanzi & Zee, 2000) and with about 20% of total tax revenue in Organisation for Economic Co-operation and Development (OECD) countries (PWC, 2013). Graph 3 below illustrates the contribution of the domestic VAT; total VAT to the total fiscal tax

collection. Although TA Annual Reports from various years tend to attribute the increased levels of collection to fiscal education, training, legislation reform, auditing and building of fiscal posts, a substantial potential tax is yet to be collected. Support to this can be depicted from discrepancies between domestic and import VAT collection in Table 1, which urges reflections to discourage domestic VAT non-compliance in an attempt to increase VAT collection.

Graph 3: Total Fiscal Revenue; VAT Collection: Domestic VAT Revenue Collection



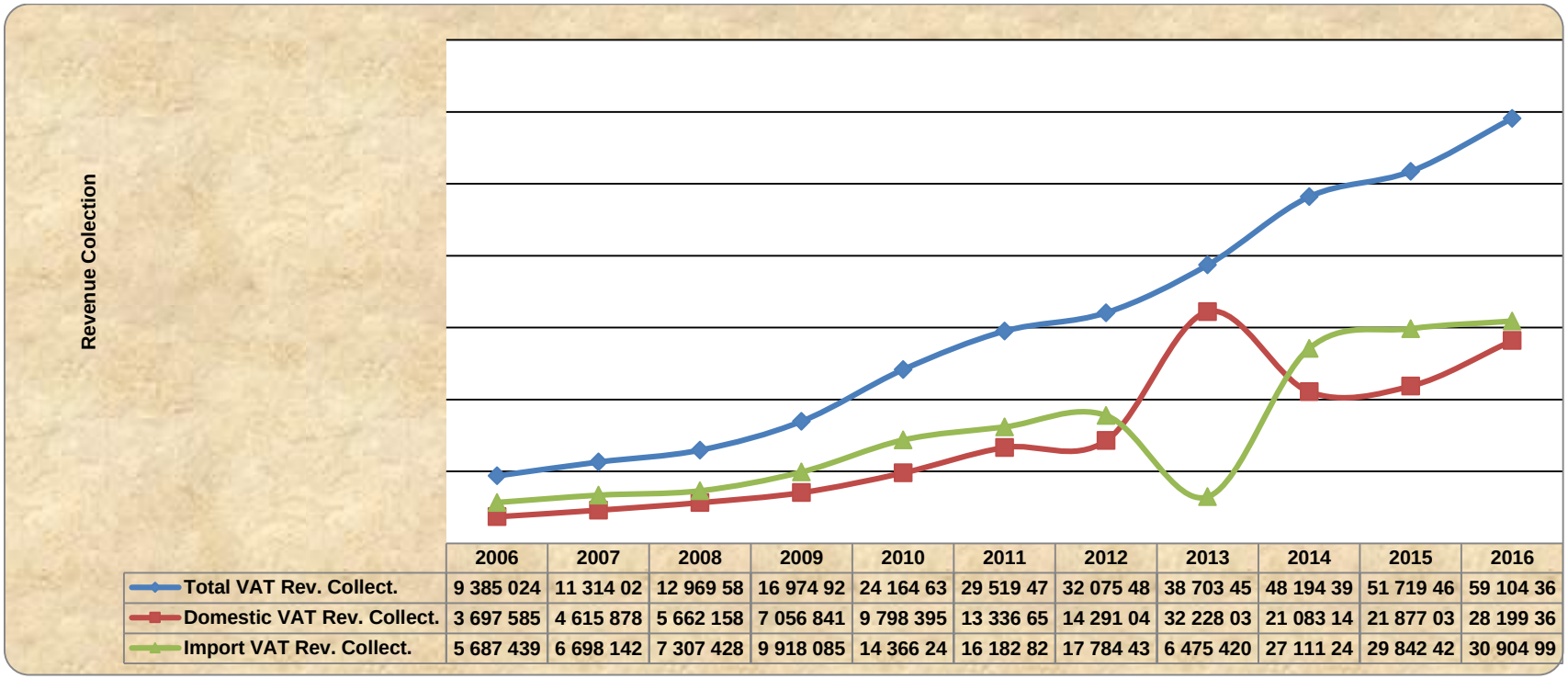
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Fiscal Revenues	22 142	27 965	32 415	39 392	53 708	68 263	84 458	107 54	135 08	134 82	147 95
Total VAT Rev. Collect.	9 385	11 314	12 969	16 974	24 164	29 519	32 075	38 703	48 194	51 719	59 104
Total Domestic VAT	3 697	4 615	5 662	7 056	9 798	13 336	14 291	32 228	21 083	21 877	28 199

Source: Revenue Analysis Division, TA, 2017

d) There have been improvements in tax collection since 2016, as depicted in Graph 4 below. However, this includes import VAT which has been steadily contributing with more than 50% of total VAT collected, comparing to domestic VAT except in 2012 and 2013. Although tax collection levels and experience have improved over time, the continued loss of Customs revenue of approximately 45% to 60% and 30%, in both developed and developing nations respectively, due to trade liberalization (Baunsgaard & Keen, 2005) makes VAT an alternative source of government revenue

(PWC, 2009; MF, 2011; Fjeldstad & Heggestad, 2011; Fjeldstad & Heggestad, 2012(b)). Moreover, empirical evidence suggests that domestic factors rather than global imperatives should greatly influence the size and structure of taxation for the majority of developing countries, despite the fact that globalization and other factors may promote further convergence of the tax system (Bird & Zolt, 2003). In this context when seeking to examine the VAT structure, between import and domestic VAT, there is some evidence that, the focus should be on clear, cognisant and objective strategies to maximize domestic VAT collection. Data reveals that domestic VAT collection continues to be very low, below 50% of VAT collected tax, in favour of import VAT, other than the years 2012 and 2013, as shown in Graph 4 below.

Graph 4: Evolution of VAT Revenue Collection



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total VAT Rev. Collect.	9 385 024	11 314 02	12 969 58	16 974 92	24 164 63	29 519 47	32 075 48	38 703 45	48 194 39	51 719 46	59 104 36
Domestic VAT Rev. Collect.	3 697 585	4 615 878	5 662 158	7 056 841	9 798 395	13 336 65	14 291 04	32 228 03	21 083 14	21 877 03	28 199 36
Import VAT Rev. Collect.	5 687 439	6 698 142	7 307 428	9 918 085	14 366 24	16 182 82	17 784 43	6 475 420	27 111 24	29 842 42	30 904 99

Source: Revenue Analysis Division, TA, 2017

e) Proportional analysis on the weight of Domestic and Import VAT over the total VAT collected, as depicted in Graph 4 above and Table 1 below, shows the need for further efforts by TA to increase the ability to raise domestic VAT. Additionally, these statistical data suggests the need to maximize Domestic VAT as Import VAT collection continues to collect more than Domestic VAT, except in year 2013. This not only revealed TA difficulties in managing VAT non-compliance, but also the complexity of management dynamics overall. Although VAT has significant capacity for taxing the "hard-to-tax group" when acting as final consumers/buyers (large tax base), TA capacity to enhance taxability of the informal sector is never an easy task, taking into consideration the prevailing administration inefficiencies. However, in their study, Bird & Zolt, (2003) have also advocated the need for applied efforts to improve VAT non-compliance management. In their elaboration, they suggest a heavy reliance on consumption taxes into the near future by developing countries, unlike in developed economies.

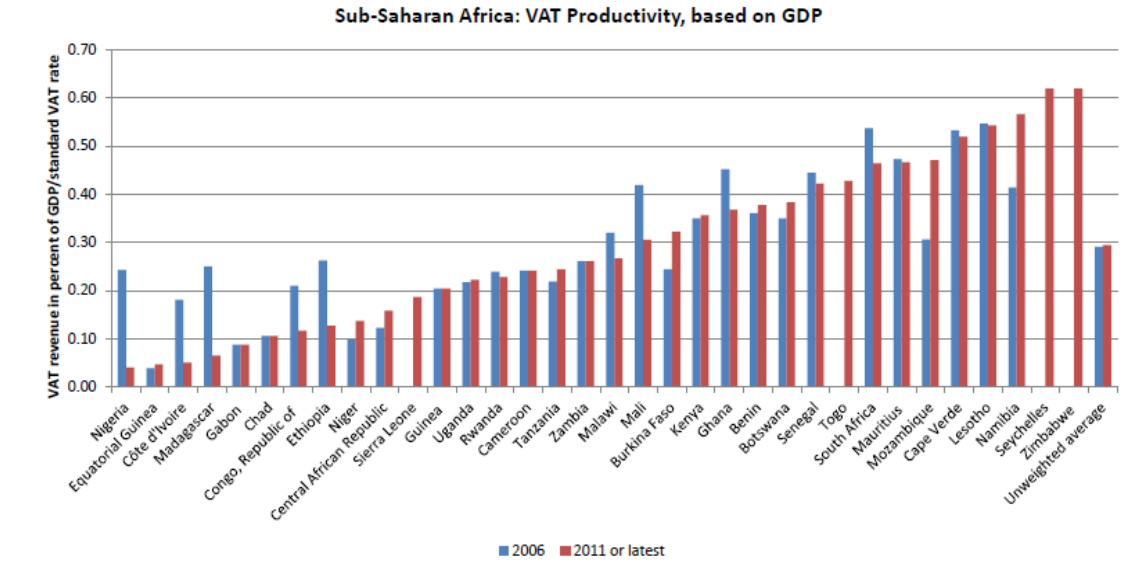
Table 1: Weight of Domestic VAT versus Import VAT on Total VAT Collection

Year	Total VAT Collected	% Domestic VAT	% Import VAT
2006	9 385 024.50	39.40	60.60
2007	11 314 020.45	40.80	59.20
2008	12 969 587.09	43.66	56.34
2009	16 974 926.12	41.57	58.43
2010	24 164 638.49	40.55	59.45
2011	29 519 476.07	45.18	54.82
2012	32 075 483.68	44.55	55.45
2013	38 703 459.86	83.27	16.73
2014	48 194 391.12	43.75	56.25
2015	51 719 462.06	42.30	57.70
2016	59 104 367.81	47.71	52.29

Source: Revenue Analysis Division, TA, 2017

f) VAT productivity reviewed across Sub-Saharan countries has revealed that since the introduction of TA up to 2011, VAT productivity varied amongst countries as outlined in Graph 5 below. While VAT productivity has improved in a few countries, in the majority of countries it has declined. Tax exemption and incentive policies on investment projects have partly explained the variations in VAT productivity. These policies have had negative impacts on fiscal Tax, and have undermined TA capacity to address VAT non-compliance.

Graph 5: Sub-Saharan Africa: VAT Productivity based on GDP



Note: VAT productivity based on GDP = [VAT revenue in percent of GDP]/[VAT rate]

Source: Presentation by Thomas Baunsgaard, Resident Representative, International Monetary Fund (IMF), Africa Tax Dialogue, Arusha, Tanzania, July 2014.

In this context, overlooking strategies to discourage and/or reduce VAT exemptions and incentives could postpone improvements in VAT productivity as captured in Shenone's estimations. Shenone, drawing on estimations for the period 2001 to 2002, revealed that VAT exemptions and evasion account for 2,7% and 6.8% of the Gross Domestic Product respectively, and that VAT productivity was about 26%, registering an

increase of 11% in the period 2008 to 2009 (Versano, Coelho, Martins & Shenone, 2010). In spite of this increased VAT productivity of 37% in the period 2008 to 2009, Versano, et al. (2010) estimates VAT exemption to represent 1, 8% of GDP, in cases where approximately equal reduction is observed in evasion and exemption (Alternative C). Similarly, increased productivity of VAT could also be achieved due to a reduction in evasion (Alternative A) and due to reduced exemptions (Alternative B) respectively, as presented in Table 2 where:

VAT Productivity = (Potential Revenue - Exemptions - Evasion) / 0.17% GDP

Or

0, 17 VAT Productivity = (Potential Revenue / GDP) – (Exemptions / GDP) – (Evasion/GDP).

Table 2: Mozambique: Estimated Exemptions and Evasion of VAT 2008-2009 (in % of GDP)

	Exemptions	Evasion	Total
2001-2002	2,70	6,80	9,50
2008-2009 “Alternative A”	2,70	4,90	7,60
2008-2009 “Alternative B”	0,80	6,80,	7,60
2008-2009 “Alternative C”	1,80	5,80	7,60

Source: Versano et al, 2010

In this case, awareness of the fiscal impact of tax incentive policies in a global and integrated framework that focuses on VAT impact as presented above, should not be overlooked in a VAT non-compliance approach.

g) Tax non-compliance has increased internationally. It also presents a challenge that is not being adequately addressed (McKerchar & Evans, 2009; Azmi, Sapiei, Mustapha & Abdullah 2016; Battiston & Gamba, 2016). Lack of revenue is reflected in the low tax ratios of around 15% in half of all African countries, making governments’ task of financing human and

economic development difficult (Cnossen, 2015). This is equally true of the Mozambican context. Notwithstanding the increasing growth of fiscal ratio of more than 100% from 2006 to 2013 as well as the sharp increase in 2014 to 25.40%, the fiscal ratio registered a steady decrease of 3.93% up to 2016, even though there was a steady increase in GDP in the period 2006 to 2016 as shown in Table 3 below.

Table 3: Total Ratio and Fiscal Ratio (2006-2016) (GDP Current Price 10 ^3MT)

Year	Gross Domestic Product-(GDP) Nominal	Total Tax Ratio (%)	Fiscal Ratio (%)
2006	211.133.444	13.17	10,48
2007	242.039.431	14.24	11.55
2008	279.331.437	14.03	11.60
2009	300.271.385	15.85	13.12
2010	344.838.946	18.43	15.57
2011	381.691.539	21.24	17.88
2012	433.121.498	22.73	19.50
2013	482.233.032	26.20	22.30
2014	531.776.821	29.40	25.40
2015	591.677.022	26.78	22.79
2016	689.213.148	25.69	21.47

Source: Adapted from Revenue Analysis Division, TA, 2017

Although the years 2010 to 2013 were a determinant in the increase of GDP, mineral extraction, had greatly contributed to this increase while this growth had a limited impact on domestic revenue collection (MF, 2013). The amount of tax yet to be collected remains far below the potential collection, and Budget deficit is still substantial. The level of the fiscal/tax ratio in Table

3 reveals the efforts of the Mozambique government to increase its capacity to mobilize tax collection. Such an improved performance in tax ratio, achieving the 22.90% of the convergent ratio specified by the Southern Africa Development Community (SADC) (MF, 2013), expressed in percentage of GDP to the country's economic and institutional environment (Cnossen, 2015) has been partly associated with the continued improvement of tax capacity. It is also associated with an increased tax buoyance, which is the percentage change in tax revenue divided by the percentage change in GDP. However, tax buoyance has remained low in Africa and particularly in Asia than elsewhere, despite the fact that on average revenues have grown more quickly than GDP in most of the countries (Bird & Zolt, 2003), including Mozambique.

h) Numerous small-to-medium enterprises characterize Mozambique's economic structure, with a small formal sector, compared to more advanced industrial economies. This also supports literature revealing higher evasion practice to prevail amongst small-to-medium enterprises, unlike larger companies (Castro, *et al.,* 2009; Adams & Webley, 2001). In this case, targeting VAT non-compliance would be appropriate in attempting to bring all transactions into the tax net, in the context of a weak industrial economy. This would secure the tracking of direct tax evasion (personal and corporate income taxes) (McRae, 2004). Although empirical studies have revealed the need for TA to rely on sanctions to influence compliance behaviour, these have also revealed that these could not fully account for the degree of actual compliance behaviour (Erard & Feinstein, 1994; Torgler, 2007). This calls for possible reflection on alternative socio- and fiscal-psychological factors in the paradigm.

1.4 PROBLEM STATEMENT

Despite tax policy and administration reforms (Bolnick & Byers, 2009; Nathan Associates, 2004), managing VAT non-compliance remains challenging for the Mozambique TA (Castro, 2005; Bolnick and Byiers, 2009; Castro, *et al.,* 2009; Fjeldstad &Heggestad, 2012; Pialarissi & Teixeira, 2012 Jul). While tax administration is necessary to improve the capacity of the government to levy taxes (Moore, 2007; Bahl & Bird, 2008), compliance approaches used to maximize revenue collection determine the quality of governance (effective provision of collective goods). In this case, the state-society relationship, could be either reinforced or undermined by compliance approaches. Whilst levying tax coercively (through more reactive approaches) has prompted poor governance in developing countries, less coercive taxation practices have been seen to influence better governance quality (Moore, 2007; McKerchar & Evans, 2009).

In spite of improvements on the ratio of actual to potential collection, ranging from 50.1% and 50.7% in 2001 and 2002 respectively, tax yet to be collected remains substantial in Mozambique (MFa, 2011) with a ratio of about 34% (Versano, et al.,2009). This has been mainly attributed to VAT (Shenone, 2004; Versano, *et al.,* 2007; Castro, *et al.,* 2009; Versano, *et al*, 2010) through VAT evasion, avoidance and VAT invoice related fraud (Club of Mozambique, 2018). Support to this is depicted from statistic evidence indicating that only 17.5% of 4 000 registered taxpayers in Maputo are issuing invoices (Club of Mozambique, 2018). While this can partly explain the reason behind the fact that more than 50% of VAT revenue collected by the Mozambique TA derives from imports rather than from domestic VAT (Table 1) (MFb, 2012; MFa, 2011), this also calls for strategic reflection to address inefficacies and failure in domestic VAT non-compliance management.

The enhanced over-collection of revenue (Graph 4) relative to the established targets (MFa, 2011) has contributed to increased levels of fiscal

ratio (Table 3) (MFa, 2011, MFb, 2012, MFd, 2014). However, this has been concealing the remaining substantial levels of non-compliance, extensive evasion, corruption and coercion, which characterize most developing economies (Moore, 2007; McKerchar & Evans, 2009), including Mozambique (Versano, *et al.*, 2007; Versano, *et al*., 2010; Castro, *et al.,* 2009). A number of factors have further deteriorated possibillities to strengthen the platform for tax non-compliance. Deficient tax administration to address VAT non-compliance and prevailing weak institutional capacity (IMF, 2013; Bolnick & Byiers, 2009; Castro, *et al*., 2009); the absence of systematically organized action and a permanent enforcement programme (Castro, 2005; Fjeldstad & Heggestad, 2012) are some of these factors. Additionally, the lack of an integrated programme and risk management system for tax non-compliance, an inadequate taxpayer data base and registration control (TADAT, 2015) have also negatively influenced efforts to improve management. Lack of a co-ordinated approach across functional areas to address risks; poorly structured communication and limited co-ordinated and co-operative arrangements whereby risks failed to be managed in a more consistent, logical and coherent manner (IMF, 2016) have also negatively contributed to strengthen the platform to address VAT non-compliance.

Current compliance approaches have mostly relied on the traditional reactive approach, using sanctions, a door-to-door invoicing campaign and fiscalization campaigns (MF, 2011). Attempts to improve compliance were resumed by introducing e-taxation (still in phase 1), e-registration and tax machines (still in the proposal phase). While this could improve the taxpayers' database, accessibility and tax payment operation through internet banking, establishing cross-check information within and across Tax Units (MFf, 2014), their isolated conceptualization, lack of alignment with, and overlooking the dynamics of key actor in the management of VAT compliance continues to offer limited options to address VAT non-compliance particularities. The tax base in Mozambique remains very small.

Although the country's economically active population is approximately 11.5 million, only about 1.6 million or 10% of the economically active population was registered as taxpayers in 2010, of which only 14.24% pay taxes whilst the majority of about 85,76% do not (MFc, 2012). Of these, about 68% were operating in the informal sector (Nathan Associates, 2004; Fjeldstad & Heggestad, 2011). This undermines not only the possibility of increasing revenue, but also of reducing economic inequities and the administrative complexities of tax (Cnossen, 2015).

This unfavourable context is further exacerbated by the fact that the existing body of literature, in both tax administration and taxpayer compliance has mostly emanated from developed economies (McKerchar & Evans, 2009, Ernest & Young, 2013). Additionally, these literatures have been drawn from income tax premises. Therefore, the dangers of pursuing enforcement strategies that are solely based on the reactive approach could be misleading. Moreover, suggested compliance approaches by Castro, et al. (2009), Fjeldstad &Heggestad (2012); Bolnick & Byiers (2009) and the IMF (2013), cutting across tax, revealed to be limited to target VAT non-compliance particularities. The Holtereud, Shelton and Osvik, (2016) risk management approach, have also revealed to be limited for not only, cutting across tax, but for being generalized too.

The paucity of knowledge, coupled with the incipient historical experience in managing VAT non-compliance literature in developing countries, has prompted this study to fill the gap of addressing this under-researched area in Sub-Saharan African countries. This study reflects on possible alternative approach, less associated with income tax premises, while providing adequate platform to reducing opportunities for VAT non-compliance in Mozambique.

1.5. RESEARCH QUESTIONS AND OBJECTIVES OF THE STUDY

This study required dimensions of reflections to prompt knowledge generation to the dilemma of VAT non-compliance. In furtherance of the objectives of the study, the following four research questions were posited to elicit the information needed to support the research:

a) How do institutions and the integration of compliance factors affect the success of a VAT non-compliance approach?
b) How does the relationship between key actors and players affect the successful implementation of the approach?
c) What and how do drivers of change affect the success of the approach to manage VAT non-compliance?
d) How and why does the contextual environment in which the approach to managing VAT non-compliance operates, affect the success of its implementation?

To fulfil the mandate of the inquiries, the following research objectives are proposed:

a) Reflect on how institutions and VAT compliance factors could be used to improve the effectiveness of an alternative approach for the management of VAT non-compliance by the Mozambican TA;
b) Reflect on how partnerships amongst key actors and players could be strengthened to discourage VAT non-compliance;
c) Show what and how drivers of change enhance the effectiveness of VAT non-compliance management;
d) Suggest a coherent and conducive platform informed by the context (micro and macro) environment and the tax system, which supports VAT non-compliance management organization and co-ordination.

1.6. PURPOSE OF THE STUDY

The purpose of this study was to reflect on how Government can levy taxes through less coercive and reactive taxation practice, while promoting improved governance. A possible alternative perspective on VAT non-compliance that is less associated with income tax premises was developed, within the uniqueness of Mozambican contextual characteristics and experiences. The core argument of the study emphasizes that traditional compliance approaches to VAT have failed to account for non-compliance particularities embedded in its social reality. In this context, VAT enforcement strategies, based on the notion of the "born tax-cheat' (Rottengartter, 2005), taking the individual (in this case the offender) as the appropriate unit of analysis (Lupton, 1999; Taylor, 2001; Rothengatter, 2005), overlooks the dynamics of VAT non-compliance (Feld & Schneider, 2010; Karlsson, 2011; Dwenger, Kleven, Rasul & Rincke, 2016). The danger of addressing VAT non-compliance through enforcement strategies and approaches, taking offenders as the unit of analysis, is that it limits its ability to account for the dynamics of VAT practicability. The study argues that compliance approaches informed by VAT nature and structure, major VAT compliance factors, and the interactions between key actors at various levels of co-operation may contribute to greater success in addressing VAT non-compliance compared to the approaches informed by income tax premisses.

The study therefore explored, firstly, how drivers of change have enhanced or hindered strategies to discourage VAT non-compliance. Second, the study described factors influencing VAT non-compliance (the context, tax system and informality; sanctions, VAT invoice administration and automatic cost-benefit association) and examined how key actors and their co-ordinating activities, informed by institutional premises, could improve co-operation to better comply with VAT. This provided an indication of how the TA could reduce opportunities for VAT non-compliance within the system in which it operates. Third, the explanatory dimension was employed

to understand why and how the context has influenced TA effectiveness in discouraging tax non-compliance in Mozambique. Researcher used a case study design. FGD (Focus Group Discussion), FtFi (Face to Face Interview) and DA (Document Analysis) were research instruments of the study. A multi-variant of 54 participants, including donors, tax officers, tax-payers, legislators, VAT invoice agents, VAT experts (accountants) and end consumers, composed the sample of the study. This thesis analysed the management of VAT non-compliance by the Mozambique-TA during the period 2006 to 2016.

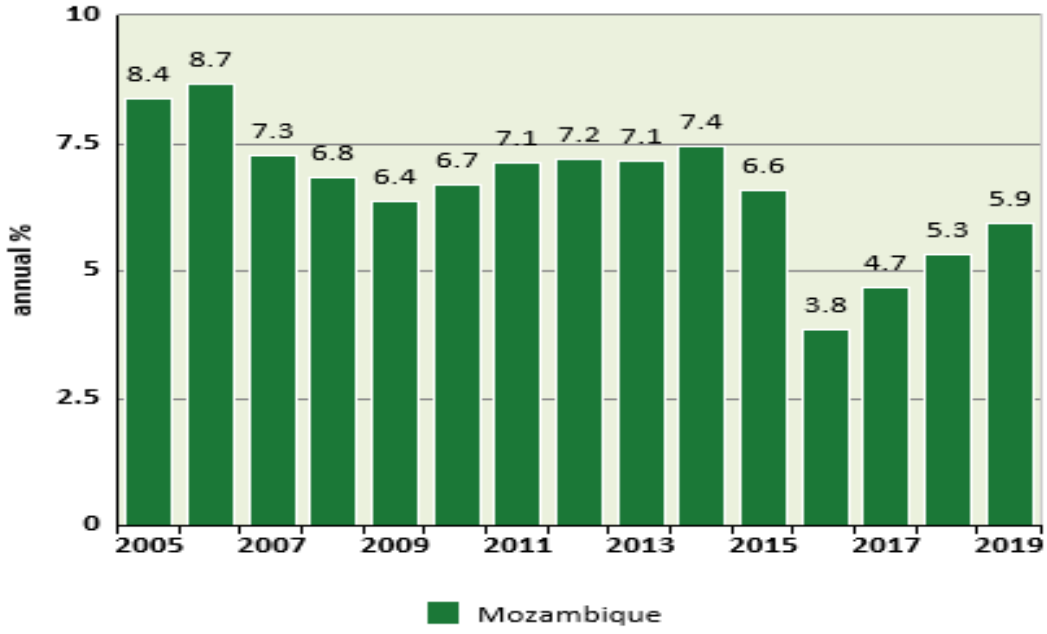
CHAPTER TWO
TAX POLICY, SYSTEMS, ORGANISATIONAL STRUCTURE AND CHALLENGES TO VAT COMPLIANCE

2.1. CONTEXTUAL CHALLENGES SHAPING VAT NON-COMPLIANCE MANAGEMENT

While some signs of recovery in the economy of Mozambique were seen, following a sharp slow-down in growth from 2015, partly due to a series of shocks that included reduced commodity prices and adverse weather conditions, Mozambique continues to face serious economic challenges. The discovery in April 2016 of undisclosed borrowing by public companies and the subsequent freeze in donors' financial support (IMF, 2017), exacerbated the deceleration of the economic growth in 2016 to 3.8% (from 6.6% in 2015). However, this was partly a result of using public debt in non-productive sectors, with weak capacity to generate economic linkages, thus, having insignificant effect to the value chain in the economy.

Domestic and external debts undermined GDP growth (Ibraimo, 2018). Examples of this are hidden debts incurred by three state-owned enterprises, namely Proindicus and MAM. In April 2016 it was disclosed that debts had been incurred of about $1.1 billion on several smaller bilateral loans ($0.3 billion) with a total of $1.4 billion, or around 11% of the 2015 GDP (IMF, 2017). These added to debt borrowed by EMATUM of about $0.85 billion which was revealed earlier in 2014 (IMF, 2017). However, efforts to overcome the economic catastrophe, such as the mix of monetary and fiscal policy, through mid-2016 have been limited and insignificant, largely because these efforts were isolated (IMF, 2017). This data is consistent with the AEO (2018) economic analysis of the country, illustrating the trend of real economic growth as a percentage of GDP, as presented in Graph 5a below.

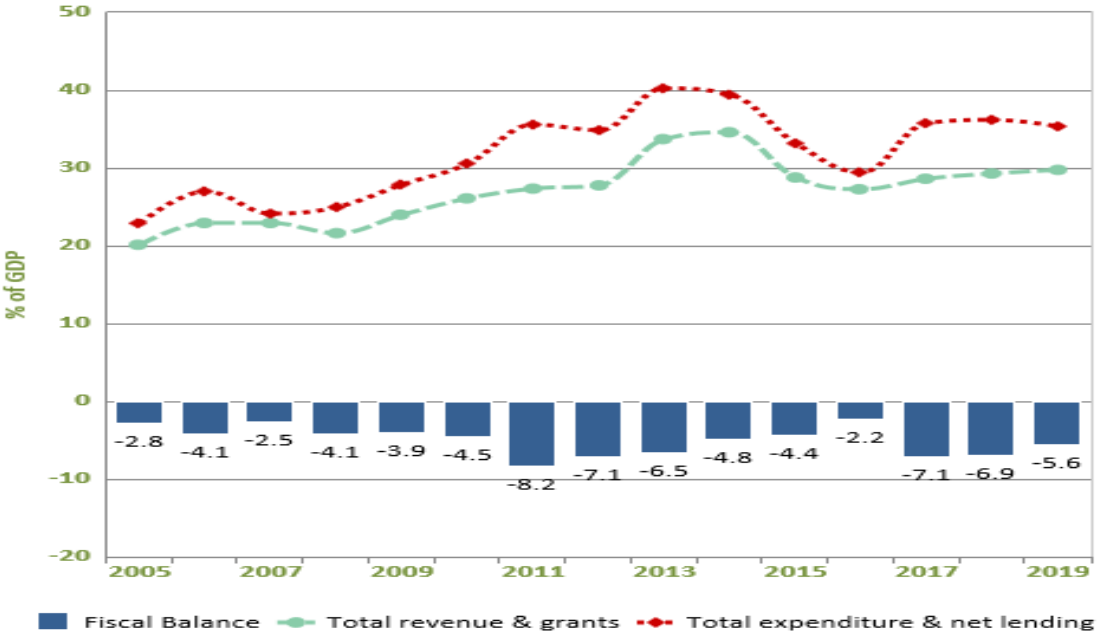
Graph 5a: Mozambique Real Growth GDP % 2005-2019



Source: AEO, 2018

Consequently, the current account deficit has continued to narrow (IMF, 2018; AEO, 2018) as depicted in Graph 5b below.

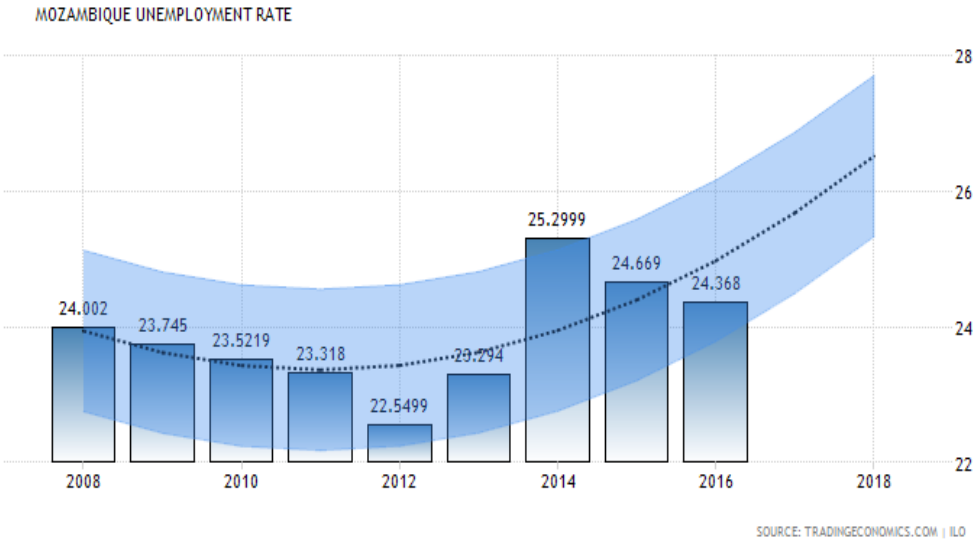
Graph 5b: Fiscal Balance, Total Revenue and Grants and Total Expenditure and Net Lending



Source: AEO, 2018

These economic indicators have not facilitated the reduction of inflation but rather have contributed to the average inflation remaining in double digits at 15% in 2017, and the 2017 fiscal deficit (on a modified cash basis) is estimated to have increased to about 8.2% of GDP compared to 7.6% of GDP in 2016 (AEO, 2018). This has negatively affected the business environment. A number of companies have closed (Club of Mozambique, 2016a; 2016b; 2017a; AEO, 2018) contributing to higher rates of unemployment in the country as illustrated in Graph 5c below.

Graph 5c: Mozambique Unemployment Rate



Source: Trading Economics, 2018

This data support earlier evidence indicating higher rates of unemployment of 27% in 2011 with little sustained formal employment and a dominating informal sector that accounts for about 68% of the labour force (World Bank, 2013) in a country with a total population of about 29.537.914 in 2017 (AEO, 2018). This is worsened by the size of Mozambique's informal sector in percentage of GDP, representing a 3,5% above sub-Saharan average (Charmes, 2012; Fjeldstad & Heggestad, 2012). Such a large informal sector is a threat to existing tax base. This might prompt migration of formal taxpayers to informal sector and operate informally, making TA non-compliance management even more difficult.

Although the incidence of poverty has declined, it remains high and affects approximately 46.1% of the 28 million people in 2016 (IMF, 2018). The country faces political uncertainty due to the resurgence of war in 2013, between the Government and RENAMO. The latter demands the decentralization and integration of its armed forces into the national army. Peace talks between the two parties are in process (World Bank, 2016). Meanwhile, the debt crisis has increased at an unsustainable rate and with several payments on external borrowing that have not been met (Hassoun, Makokera & Krogman, 2017; Orre & Ronnig, 2017; IMF, 2018).

This scenario emphasises the importance of maximization of tax collection, since such adverse economic conditions will not be conducive to expanding the already small tax base in Mozambique. Proliferation of informal sector and other related factors have inhibited access to potential taxpayers and postponed the enlargement of the tax base. Moreover, the prevalence of unfocused plans to target VAT non-compliance and the absence of clear taxpayers´segmentation has also contributed to the emergence of inadequate strategies to address the dilemma of VAT non-compliance.

Although the country's economically active population is approximately 11.5 million people, only about 1.6 million or 10% of the economically active population were registered as taxpayers in 2010, of which only 14.24% pay taxes whilst the majority of about 85,76% do not (MFc, 2012; MF, 2013). This has contributed to a substantial level of non-compliance, mainly attributed to VAT-related fraud and evasion (Shenone, 2004; Versano, et al., 2007; Castro, et al., 2009; Versano et al., 2010) which has been addressed through audit and sanction, door-to-door invoicing control and fiscal education by the Mozambican TA (MF, 2011; MFb, 2012; MF 2014; MF, 2011).

Existing legislative frameworks, to address VAT non-compliance, such as, the VAT Law No. 32/2007 and Regulatory Decree No. 7/2008; the General

Scheme of Tax Offenses Decree no. 46/2002; the Order of Minister of Finance of December 22, 2011; and VAT invoice regulatory procedures; have failed to offer more targeted, coherent and participative approaches to address VAT non-compliance.

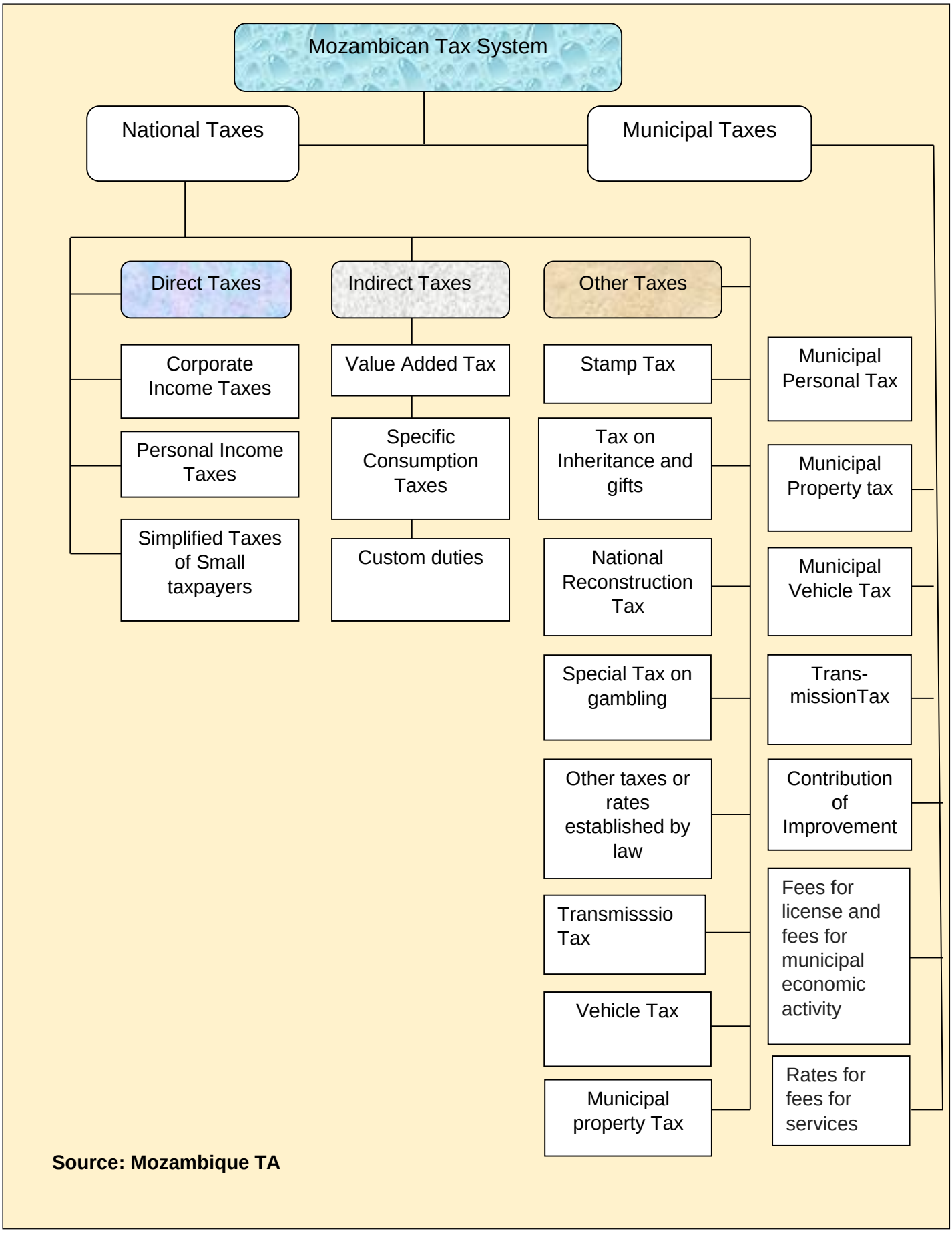
Efforts to strengthen the management of VAT non-compliance by the Mozambican TA resumed to the introduction of e-taxation and e-registration and tax machine (in proposal phase). Although this could improve taxpayers' database and accessibility and facilitate tax payment operations through internet banking and crosschecking of information across Tax Units, these projects were mostly designed to operate in isolation, limiting its practicability to address non-compliance. The tax collection environment is characterized by a reduced tax base, limited coverage of TA, composed by 68 fiscal posts since 2006 to 2014, 25 Fiscal Areas, four Large Tax Units (MFd, 2012; MF, 2014). Additionally, weak accountability programmes, poorly trained tax officers, corruption (Castro, 2005; Castro, et al., 2009; Fjeldstad & Heggestad, 2012), fragmented VAT laws and regulations, a dominant informal sector and high rates of illiteracy (Nathan Associates, 2004; Versano, et al., 2006; AEO, 2013) have also postponed possibilities of improving the effectiveness of the compliance approach, informed by the Tax system.

2.2. THE MOZAMBICAN TAX SYSTEM

The Mozambican tax system is broadly comprised by National and Municipal taxes. In this case, Value Added Tax (VAT), Income Personal Tax, and Income Corporate Tax, under the National taxes, have been the pillars for Government revenue collection. However, the flaw of the tax system results from a long process of evolution and reforms tied to its contextual environment (Ibraimo, 2002; Watty, 2013; Watty, 2015). Revision on tax legislation reforms has indicated that most of tax reforms mainly focused on direct taxes rather than indirect taxes (MFf, 2014). Current Mozambique's Tax System comprises national and local government taxes (Municipalities). The latter are subject to specific tax laws of Municipalities, such as Law no. 1/2008 of 16th January.

The effective management of VAT non-compliance presupposes a solid understanding of the Tax System Law no. 15/2002 of 26 June, which establishes organizational principles of the tax system of the country, as illustrated in Figure 2 below. The TA, through the directorates of DGI (Domestic Taxes) and DGA (Customs) has administered national taxes. VAT in this case is administered by the DGI in Tax units although customs has been collecting import VAT. Tax Units (TU) therefore account not only for the administration of VAT with its high level of complexity but also accounts for the management of Direct taxes and Other taxes that are still collected by the TA rather than local authorities. Attempts to examine and understand how TA has addressed Tax systems to improve the effectiveness of addressing tax (VAT) non-compliance have revealed inconsistent with VAT non-compliance particularities.

Figure 2: Mozambican Tax System



Source: Mozambique TA

2.2.1. Improving Tax System Capacity to reduce opportunity for VAT non-compliance

Tax systems is defined as a coherent set of institutions, rules and practices that are part of the social, economic and psychological universe (Betrame, 1976). Its role is to remove money from the private sector in an efficient, equitable and administratively cost-effective manner as possible (Bird & Gendron, 2006; Le, 2016). Effective Tax system also promotes the reinforcement of Government legitimacy, through sustained growth, redistribution and stability (Fjeldstad & Heggestad, 2012). However, it is not an easy task to design an effective tax system (Braithwaite, 2003; 2003a; Fjeldstad & Heggestad, 2012; Bolton, 2017; Braithwaite, 2017) for either developing or developed economies. No matter how effective a tax system may be, the way TA administer tax systems remain crucial (Mackercher & Evans, 2009) to discourage VAT non-compliance.

TA has used various ways to strengthen their tax systems. However, challenges in designing these tax systems differed amongst contexts in both developed and developing economies. Some developed economies attempted to improve tax system through the addressing of cash economy (Piccioto, 2007) and other countries designed tax rates that were conducive to improve the tax system (Agha & Houton, 1996). Some developing countries have used the simplification of tax law, the reduction of tax rates and the simplification of administrative procedures (Fjeldstad & Heggestad, 2011:92) to improve tax system. These reforms aimed at making taxes more transparent, predictable, simpler and cheaper while simultaneously less exposed to extortion or corruption (Fjeldstad & Moore, 2008). Other tax reforms are based on what was already in place (Bird, 2008; Owens & Hamilton, 2004), improving taxpayers' services and conditions and making efforts to fight corruption and promote integrity amongst tax officers (Ayee, Fjeldstad, Marais & Keanly, 2010). Studies on taxation in Mozambique, Tanzania and Zambia, have revealed the Tax system to be unfair, as taxpayers perceived the tax system in those countries, to favour the large

multinational companies, benefitting from exemptions and incentives Fjeldstad & Heggestad (2012:1). In his study, Moore, (2013; 2014) observes that tax reforms in Burundi and Rwanda, to have resumed in concerted moves. These have enabled the reduction of 1) increased discretion, 2) circumventing of opportunity for corruption and 3) the whole tax payment process was automated where the taxes due are paid through banks. For example, a mobile phone tax payment launched in September 2012 for businesses, with an annual turnover of between US$ 3000 and US$ 770.000.

Whilst it is not questionable that these reforms will reduce opportunities for tax non-compliance, it is important to note that other factors within the system must be considered, if corruption is to be addressed. This could partly relieve developing countries from single resources and aid dependence (Moore, 2014; Fjeldstad & Moore, 2008). Ali, Fjeldstad and Sjursen (2014) have also identified the continued efforts necessary for establishing effective systems to foster revenue mobilization in developing countries. This includes reinforcing government legitimacy; promoting sustainable development; improving government accountability through promoting government accountability to taxpaying citizens through good public financial management.

Government's lack of energy and commitment to sustain the achieved reforms and progress, has contributed to the removal of such reforms due to political turmoil, conflict or crisis (IMF, 2016). Consequently, TAs in some developing countries had changes of head of Tax administration, general directors and head of divisions, without ensuring that similar capacity as that of the previous heads was in place. In this contex, these TAs has brought previously achieved reforms to a standstill, compromising the 2023 sustainable development goal to secure robust and stable growth (IMF, 2016).

Equitable tax system has beard different definition, being mainly posited in two different levels: (i) focus on the details of how exactly different taxes imposes burdens on taxpayers who are in the same or different economic circumstances and (ii) the overall effects of the fiscal system on the income and level of well-being of different people (Bird & Brandon, 2006). Whilst the first level has been used by VAT taxpayers who relate their burden to VAT (a regressive feature), the second level is used by countries attempting to raise their revenue. This is explained by the fact that if level one could be adopted, it could influence the alteration of VAT rates and structures, which could only improve horizontal and vertical equity of a "limited group", thus worsening the legal burden and inequity (Bird & Gendron, 2006). However, from the perspective of social and economic inequality it is the overall impact of the budget system on the distribution of wealth and income that matters when it comes for tax design rather than the details of VAT or any other tax. Nevertheless, in most developing countries, the capacity to administer taxes remains challenging (IMF, 2001; Castro, 2005; Nathan Associates, 2004; Castro, *et al.,* 2009; Fjeldstad & Heggestad, 2012).

The nature of the tax, tax burden, fairness of taxation, tax base, and the environment in which it operates, amongst other factors, have revealed to promote an effective tax system. Such a system will nonetheless have flaws. The challenge is to identify the integrated design elements of the system, which would strengthen strategies to reduce opportunities for non-compliance. Studies have also found horizontally inequitable tax systems whereby taxpayers with equal capacity to pay approximately the same in taxes do not pay. In this case, the system excludes a significant portion of taxpayers from the system. This has contributed to the growth and dominance of the informal sector, which has also impeded the growth and development of the economy as a whole (ETAn & Stiglitz, 2005; Bolton, 2017; Houton, 2017).

In summary, the tax system revealed to be complex and tied to contextual aspects of the economy. While identifying integrated design elements to strengthen the tax system has been challenging for both developing and developed economies, not attempting to identify these elements and address them could further undermine tax administration performance. In spite of its associational relation, tackling the informal sector has been ignored in most of the tax systems reform and design for developing economies, including Mozambique. The failure to recognise 1) the centrality of a strong tax system in enhancing good governance, 2) the need to reduce political interference into the administration, 3) importance of schedules and terms of references; to consolidate the tax system, failed to prompt effective platform to strengthen and consolidade tax system. This has compromised equity objectives, legitimacy and state building.

Therefore, there is a need to enlarge the tax base, and bring those with capacity to pay tax ino the tax net, while improving institutions that reduce opportunity to non-comply. These could reduce the exclusion of significant taxpayers from the system. An attempt to identify the reasons for taxing the informal sector, or otherwise, in order to strengthen the tax system, is presented in the following section.

2.2.2 Informal Sector, Tax System and Broadening Tax-base Constraints

In the midst of multifaceted complexities of the tax system, informal sector has revealed not only to be dominant in developing countries (OECD, 2004; Feld & Schneider, 2010; Danquah & Osei-Assibey, 2018) but that a large share of business activities is located in the informal sector in developing economies (Joshi & Ayee, 2008; Fjeldstad & Heggestad, 2012). The “hard-to-tax group” is found in the informal sector (Fjeldstad & Heggestad, 2012; Joshi, Prichard & Heady, 2014) due to its complexity and heterogeneity, making its organization, control and management not an easy task.

Although studies have shown the size of the informal sector as being difficult to estimate (Hines; 2004; Charmes, 2012; Schneider, 2018), statistics dating from 1990s have posited the size of the informal sector in percentage of GDP to be 20% in Zambia (1998); 43,1% in Tanzania (1993); and 44,8% in Mozambique (1994), with a sub-Saharan average of 39,6%. Despite its increased proliferation up to the present time, the sector, remains with limited informal territorial planning and monitoring to possibly provide potential taxpayers in the future, thus, postponed the achievement of tax objectives (STV, 13/10/2016 News, 20:00 pm; the Proceedings from the National Conference of Local Authorities Mozambique).

There are two broad perspectives to the question of whether or not to tax the informal sector. The first known as the economic and administrative perspective, advocates the sense of not to tax the multitude of poor people (Terkper, 2003; Nathan Associates, 2004; Fjeldstad & Heggestad, 2012). This also facilitates tax officers to manage only a few thousand files effectively, as smaller taxpayers on simplified regimes accounted for only 0.4% of VAT revenue in Mozambique in 2004 (Ernst & Young, 2013; Fjeldstad & Heggestad, 2012). This urges the call for the raising of tax threshold. This position gained support from empirical findings revealing informal sector to present challenges to tax collection (Joshi & Ayee, 2008). The second perspective, posits a number of compelling public policy reasons for the taxing of informal urban economic activity for governance purposes (Fjeldstad & Moore, 2008). It also views informal sector as a threat to broadening the tax base. This is mainly due to erosion of taxpayers in the formal into informal sectors, because of unfair price competition in both developed and developing economies (OECD, 2004). Bird and Gendron (2006) provide a supporting argument that the tax system could be effective if there is a reduction to the size of the informal sector, through lowering and/or eliminating barriers to formality as a factor in the high compliance costs that the system often imposes on small business. Revision of both

perspectives, suggested the prevalence of paucity of knowledge on how informal sector could influence management of VAT non-compliance.

Arguments against taxing the informal sector, have based their explanation on the need to alleviate tax burdens and to enlarge the tax base. In their explanation, TA collects taxes from the few (registered in normal regime of VAT) than the majority that are registered in simplified and exemption regimes (Fjeldstad & Heggestad, 2012). Some researchers have discouraged taxing the informal sector on the grounds of pure efficiency (unworthy efforts to reap low productivity) (Terkper, 2003, Fjeldstad & Heggestad, 2012). Others have argued against for the fact that, tax officers find working with informal sector to be "unrewarding in terms of income supplementation" (Mackercher & Evans, 2009). These found that there was no incentive for employees to address informal sector (Joshi & Ayee, 2008; Mackercher & Evans, 2009). Tax officers also found it difficult and according to (Fjeldstad & Moore, 2008) even unpleasant and dangerous to work with. Another opposing argument suggests VAT compliance costs to be relatively high (Smulders, 2013; Eichfelder &Vallencourt, 2014; Faridy, Copp, Freudenberg & Sarker, 2014; Cnossen, 2015; Musa, Saad & Ibrahim, 2016; Smulders & Evans 2017).

Therefore, an environment where enterprises in the formal sector are forced to comply with VAT and those in informal sector are not brought into the tax net enhances increased perceptions of imperfect price competition amongst taxpayers that operate in formal sector (Bird & Wallace, 2003; OECD, 2004; Mackercher & Evans, 2009; Awasthi & Engeschalk, 2017). Under any form of consumption tax, those who operate entirely in the cash economy may remain unknown to Tax Authorities (Bird & Gendron, 2006).

This threatens the promotion of a more compliant environment and enhances taxpayers operating in formal sector to migrate to informal sector (Chen, 2005), as these consider themselves as being unfairly treated by tax

officers (Fjeldstad & Heggestad, 2012) and the VAT threshold to be high in developing countries (Keen & Mintz, 2004; Satterthwaite, 2018), with large informal sector. This might perpetuate their willingness to remain outside the tax net, as according to Hines (2004), consequently, undermining attempts to build state legitimacy (Joshi & Ayee, 2008). In spite of these multifaceted perspectives, of taxing the informal sector or not, governments have continued to rely on VAT to mobilize revenue (Bird & Gendron, 2006; Simionescu & Albu, 2016; Sharma, 2017; Silver, 2017).

However, a tax system with small tax base is unlikely to be effective, but rather, create feeling of tax burden and injustice. Reflection on how to broaden the tax base and find better way to tax informal urban economic sector in the medium or long term, urges for reforms to tax system in developing economies. The importance of setting the appropriate thresholds of taxpayers resides in facilitating administrative approach, adequate segmentation and strategies for taxpayers (Dhamika, Slemrod and Wilson, 2011; IMF, OECD, UN, WBG, 2017) to promote compliance in spite of challenges faced (Zolutukhina, 2017; Amodio, Choi, DeGiorgi & Rahman, 2018; Satterwaite, 2018). These works attempted to show how appropriate VAT threshold, being a key anchor of many small business regimes, is shaped by TA needs, administration and compliance costs.

In spite of the paradoxal debate of whether to formalise the informal sector or not, this sector revealed to be important in strengthening the tax system. In this case, the enlargement of tax base could be done by bringing the hard- to-tax group into the tax net. However, literature have also revealed that tax systems that are endogenously developed are, thus likely to be more effective than replications of tax systems constructed from other contextual realities. Thus, strengthening tax system requires more than tax policy reforms and structural re-organisation. However, tax system might fail to target compliance specifics if it is not informed by tax policies and it does not inform required institutions to discourage the practice of VAT non-

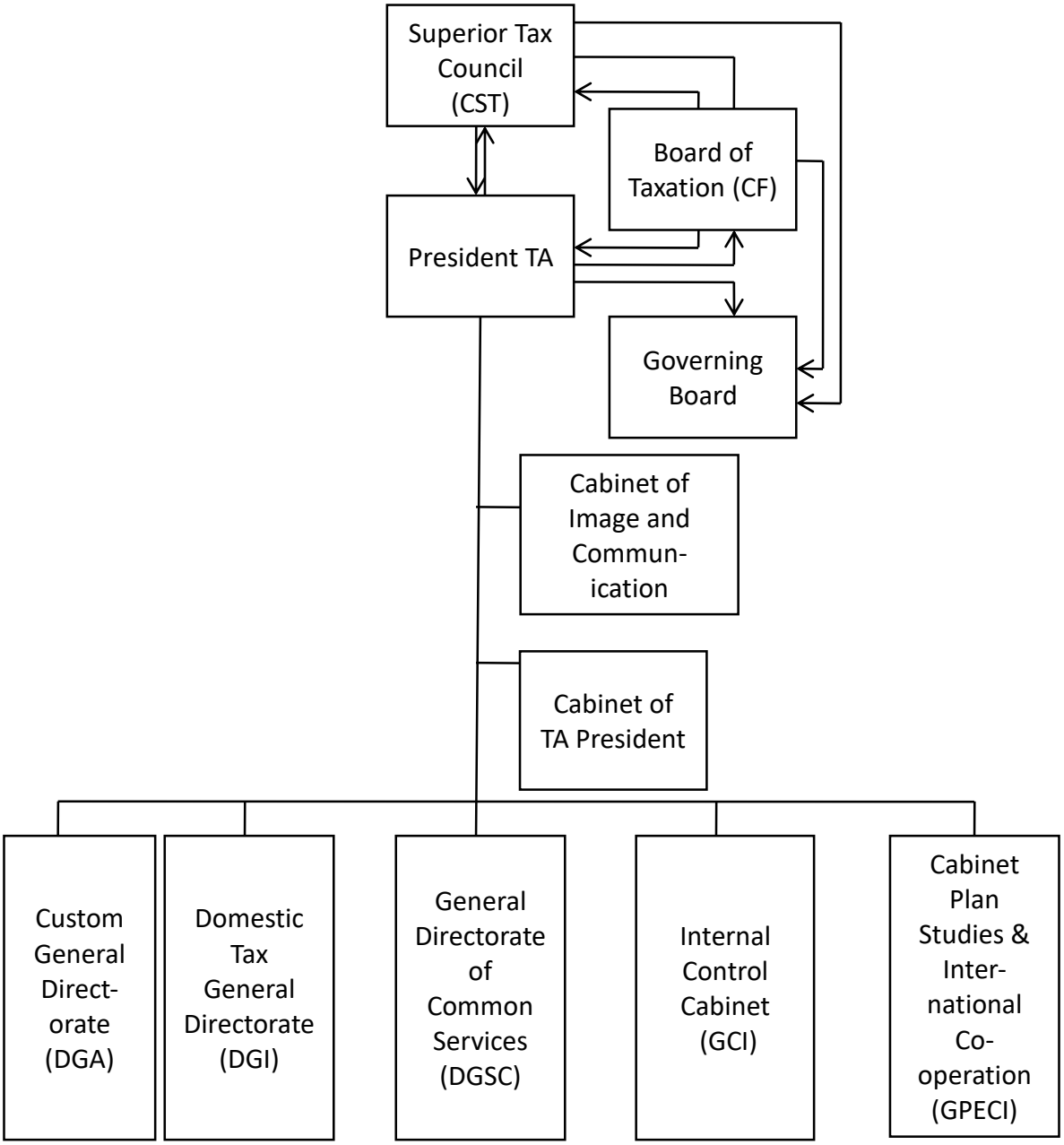
compliance. In this case, conformity of organization model to community standard is overlooked.

2.3 TA ORGANIZATIONAL MODEL/STRUCTURE (2006-2017)

In furtherance of the precepts assented on fiscal reform objectives, the introduction of the Mozambique TA Authority (TA) in 2006, comprised both DGI (Internal/Domestic Tax) and DGA (External Tax) with supporting Directorates. The TA was established through Law no. 1/2006 of 22 March 2006 and Law no. 2/ /2006 of 22 March 2006, which together created the TA and defined its composition and competencies. However, Law no. 19/2009 of 10th September 2009 altered articles 4, 6, 8 and 11 from Law 1/2006 of 22 March 2006 and Law no. 16/2017 of 30th December 2017.

These institutional reforms intended mainly to divert certain TA competencies to the Ministry of Finance, and in some cases, to minimise incompatibilities between the roles of execution and oversight. The organizational structure of the Mozambique TA suggests an understanding of the country's geo-political administration (provincial organization) and possible decentralization in administration. The TA administration was structured into three main regions, namely North (Niassa, Cabo Delgado, Nampula); Centre (Zambézia, Tete, Manica e Sofala) and South (Inhambane, Gaza, Maputo Provincia e Maputo Cidade), followed by Provincial Delegates who were responsible for the tax administration of both Domestic Tax and Customs Duties. However, above Regional level, the Central Administration comprised the following Directorates, as depicted in Figure 3 below.

Figure 3: TA Central Administration Structure (2006-2017)



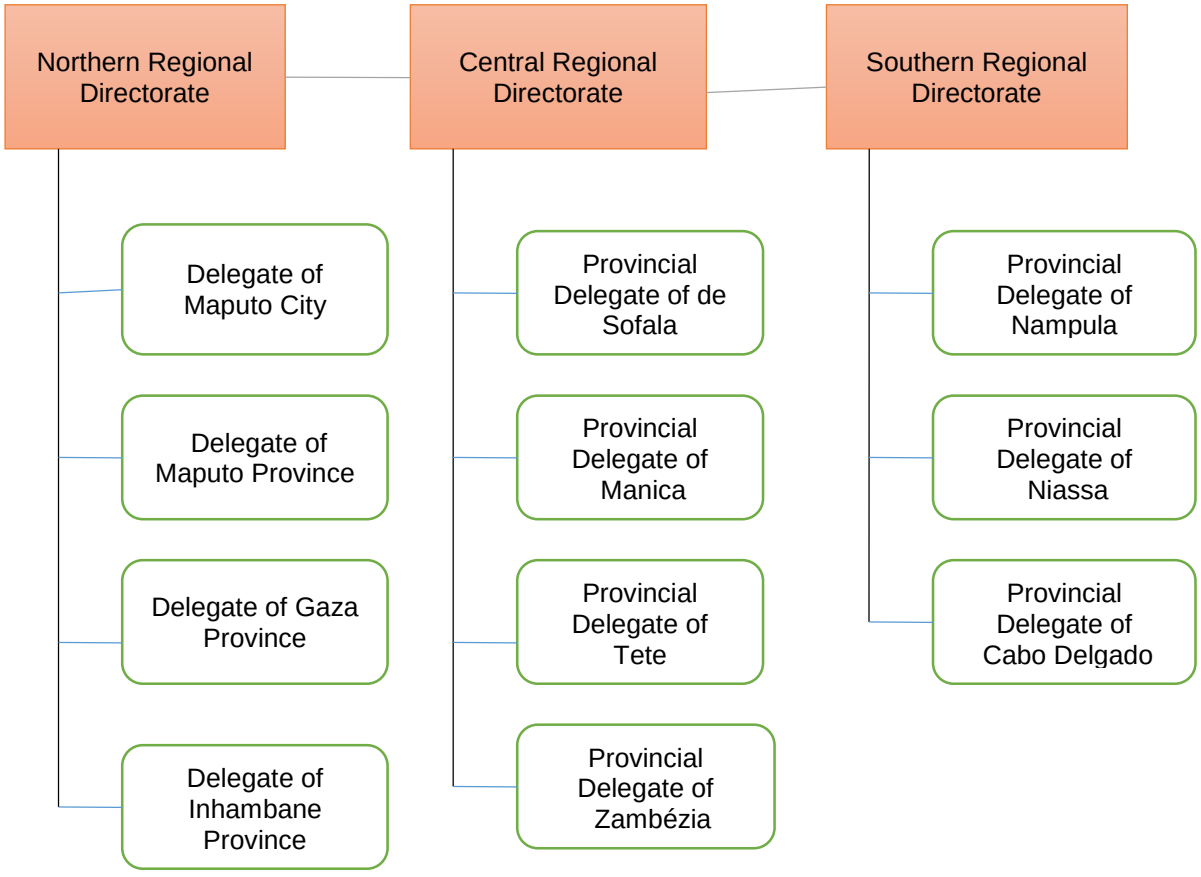
Source: TA: Cabinet of Plan, Studies and International Co-operation

Notwithstanding the current proposal for restructuring the Mozambique, TA that still awaits approval by the Council of Ministers. However, it does not bring with it substantial changes that could improve the ability to address VAT non-compliance. It somehow reduces a small number of directorates

and sections, but without an informed structural organization that could reduce administrative costs and reduce opportunity for tax non-compliance.

In Figure 4, administrative divisions supported Regional Directorates. These divisions were mainly for administrative purposes. The absence of tax non-compliance strategies and a focused approach to addressing tax fraud and evasion practices in a more logical and integrated way, have not aligned the administrative strategies sufficiently to address VAT non-compliance.

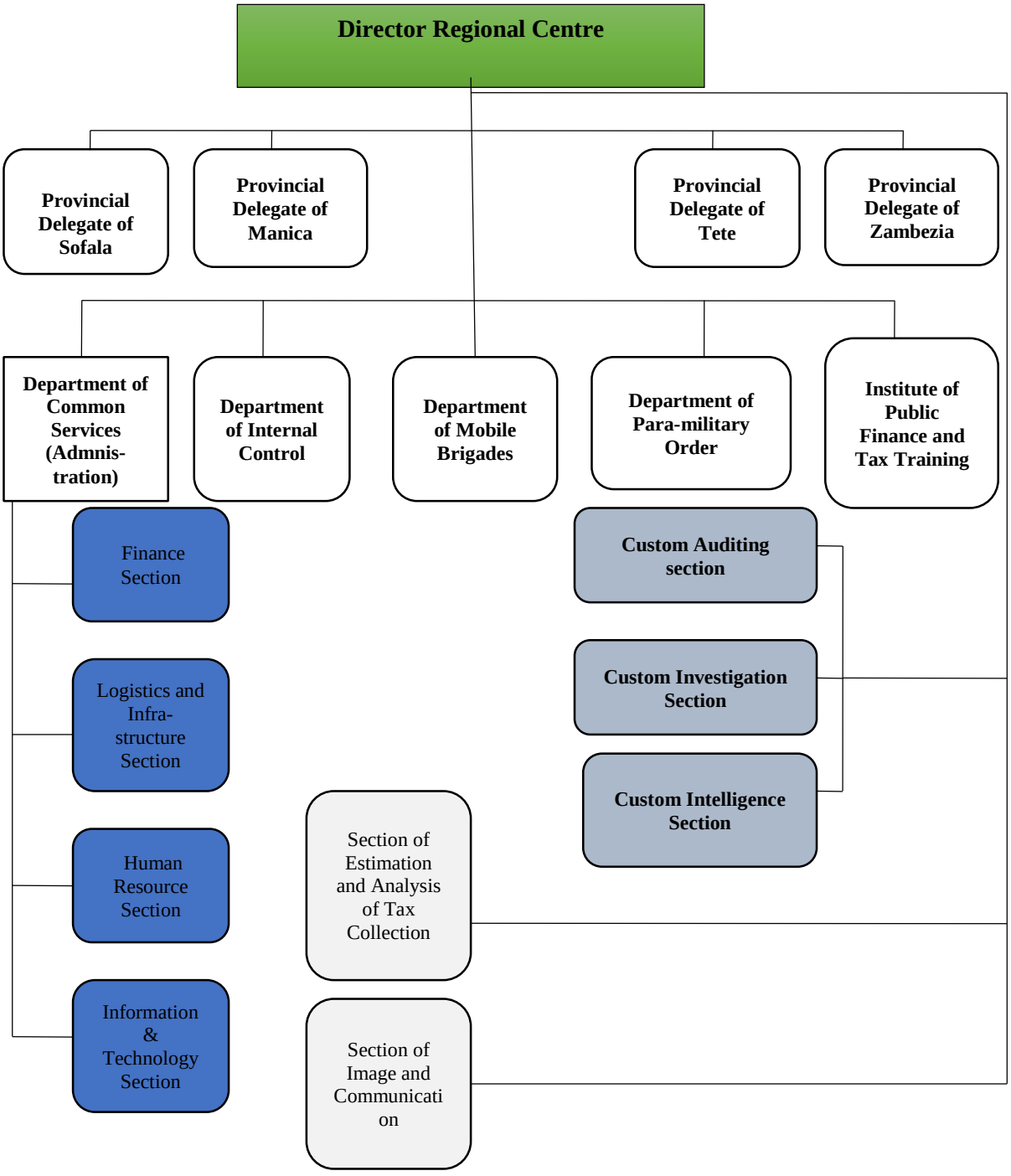
Figure 4: TA Regional Administration Structure (2006-2017)



Source: TA, Lei no. 1/2006 de 22 de Março

These structures have enabled the President and General Directors to be provided with the necessary information from both regional and provincial levels, where the bulk of the information is administrative in nature. There are considerable numbers of such informants who are not familiar with the operational and technical requirements of the tax system. The introduction of Regional and Provincial delegates served as the channel to communicate with General Directorates (GD). It has also reduced the prompt support for unsolved operational issues due to the misinterpretation and complexity of the VAT laws, and use of inadequate technology to address VAT non-compliance. These challenges have substantially undermined effective interventions for VAT non-compliance. The regional structure, which is heavily administrative with limited operational competencies and attributes, is presented below.

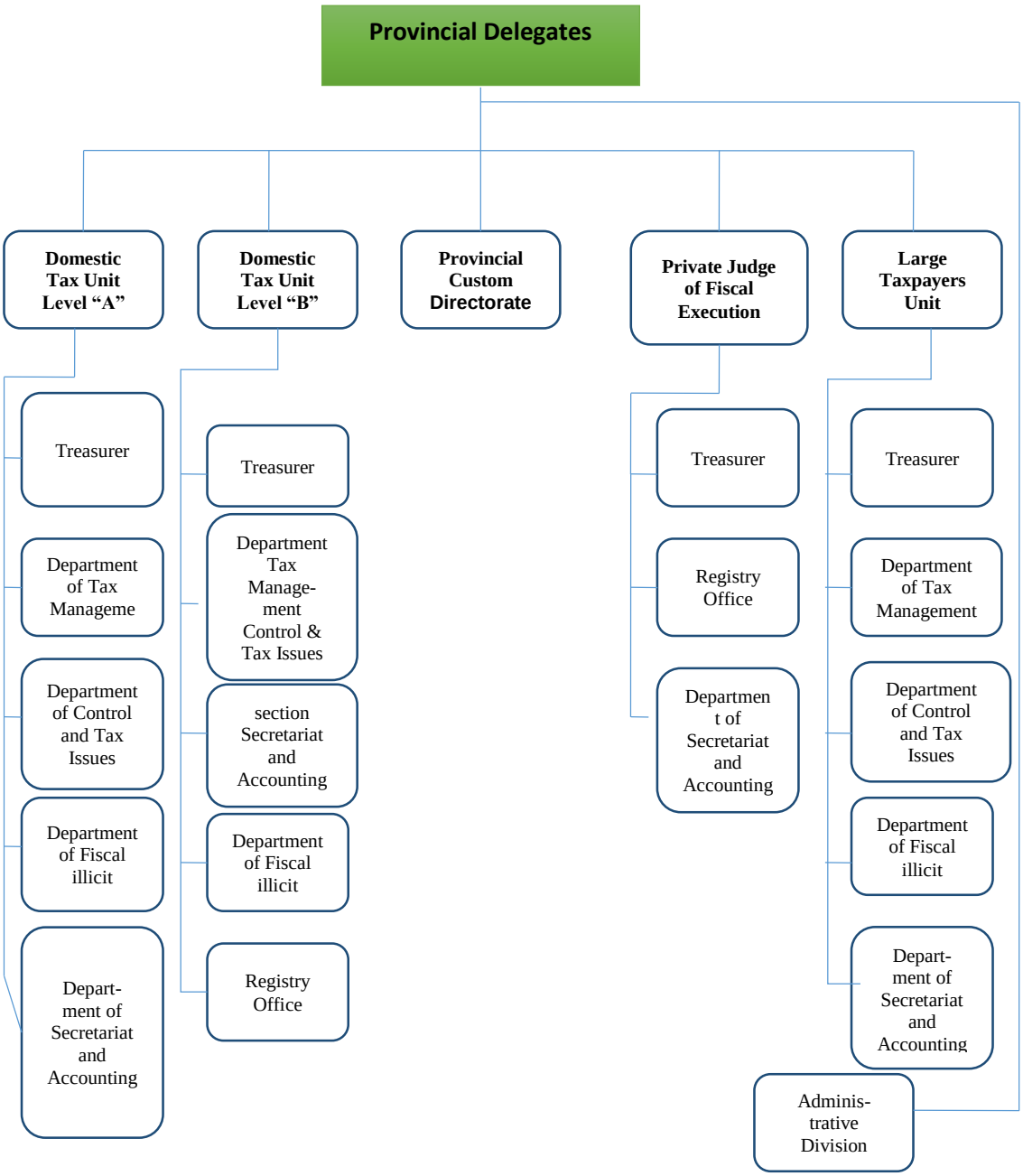
Figure 4.1: TA Regional Administration Structure and its Supportive Delegates and Departments (2006-2015)



Source: TA, Law no. 1/2006 of 22 March 2006

Regional structure is further composed of Provincial Delegates. Structural organisation of Provincial Delegates, in Figure 5, is composed of operational Tax units, from both domestic and custom taxes.

Figure 5: TA Provincial Administration Structure and its Supportive Areas and Divisions and sections (2006-2015)



Source: TA, Law 1/2006, 22 March 2006

Attempts to understand the best organisational structure of the TA, was done by reviewing the effects of Autonomous and Semi-Autonomous TA. The literature indicates that scholars were not lenient to relate increased performance only to Autonomous TAs (RAs), e.g. in Peru, Kenya and South Africa compared to the less autonomous ones (Uganda, Mexico, Venezuela) (Taliercio, 2004; Mckechar & Evans, 2009). Other scholars also related increased performance to various dimensions tied to contextual aspects (Gill, 2003; MacKerchar & Evans, 2009) as compared to the less autonomous ARAs (Vehorn & Brondolo, 1999).

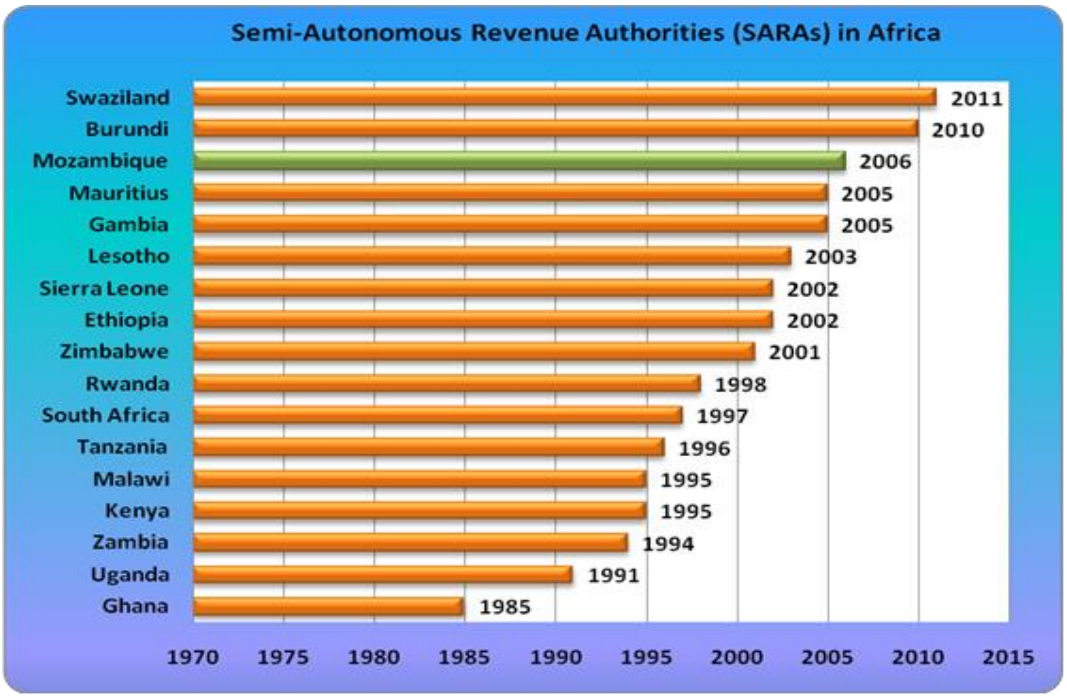
On the other hand, some scholars were cautious regarding this view of improved performance from ARs. Gallagher, note 49 p.133 disagreed that Autonomous RA had more advantages than the less autonomous, considering other relevant factors that should be accounted for performance. His arguments have been supported by evidences of the difficulties these TAs had with the short-term gains and their failure to be sustainable, for example, in Uganda and Zambia (Devas, Delay & Hubbard, 2001). This opposes Ebeke, Mansour & Graziosi (2016) findings concluding that the creation of SARAs in sub-Saharan Africa to be associated with increased revenue. Without denying the thesis that ARs could enhance increased performance, some scholars have also pointed the advantage of ARs to be short-term and also influenced by conceptual and practical problems with TA (Fjeldstad & Moore, 2008; Fjeldstad & Heggestad, 2011). This suggested ARs not to be a panacea as considered by the World Bank (Mackechar & Evans, 2009).

In spite of having “semi-autonomous” (SARAs) characteristics, TA has been able to provide ‘better pay’ and incentives to its staff, similar to Autonomous RAs (ARAs), and it has employed some increased demand for greater accountability and performance (Gill, 2003; Crandal & Kidd, 2010; Fjeldstad & Moore, 2008). However, the independence to promote and set articulated reforms for maximizing VAT compliance (Fjeldstad & Moore, 2008) and

make decisions regarding the allocation of resources to introduce and strengthen risk management approaches remains compromised in comparison with the situation of Autonomous RAs. This is exacerbated by the newly approved Law no. 16/2017 of 30th December 2017 which amends Law no. 1/2006 of 22 March 2006, which had established the TA, and thereby reduces TA competencies and attributes and autonomy in general.

The literature has also broadly associated SARAs with improved TA performance, but with limited claim to success, as performance was not well sustanined. In this case, political interference in tax administration, coupled with inadequate integrity measures that perpetuate the pervasiveness of corruption and tax evasion (Kloeden, 2011; Fjeldstad & Heggestad, 2012) negatively influenced performance. This contradicts the basis for the establishment of SARAs that aimed at ensuring greater insulation from political interference. It also contradicts advocates positing SARAs to influence greater flexibility in human resource policies (including compensation and operational practices and more secure financing (Kloeden, 2011). In Africa the proliferation of the Semi-Autonomous RAs (SARAs) (Kloeden, 2011) has been mostly encouraged by the technical support offered by donors, during the last two decades (Von Soest, 2007) and by May 2011 Africa had 17 SARAs in existence, as presented in Graph 6 below.

Graph 6: Semi-Autonomous TAs (SARAs) in Africa



Source: Adapted from Fjeldstad & Heggestad (2011)

Both ARs and SARAs objectives, have revealed to enhance maximization of revenue collection. However, the way these are established vary quite widely amongst countries, as these are tied to contextual particularities of each economy. Adittionally, the way TA tailor their institutions to maximize tax collection, TA structural organisation have also indicated to be crucial to build coherent platform to reduce non-compliance practices and opportunity (Mckechar & Evans, 2009; Fjelsdtat & Heggestad, 2011). The advantages and disadvantages of different organisational models are explained in section 2.3.1., below.

2.3.1 Advantages and Disadvantages of Different Organisational Models for TA

The literature reveals the existence of organisational models for tax administration, to develop under the premises of organizational theory. In this context, the organization of TAs could be firstly, through a product-based organisational option, where TAs could be organized based on the

type of tax, e.g. Direct Tax, Indirect Tax to administer tax collection. Secondly, there is the functional organisation model, where TAs could opt for different administrative functions performed by the TA, such as processing tax returns or auditing or collecting taxes. Thirdly, the client based which is related to the different types of taxpayers according to criteria such as scale of operation (large or small) or form of ownership (Vehorn & Brondolo, 1999; Ebril, Keen, Boudin & Summers, 2002; Gill, 2003; McKerchar & Evans, 2009). However, most of the TAs adopt a fourth approach, known as the Matrix approach, which is the combination of the three Organizational options (McKerchar & Evans, 2009).

Although researchers were lenient in recognizing the attributes of the organizational models, their contributions provided limited knowledge on how to implement these models. Some have elaborated the three organizational models for Tax administration (Mintzberg ,1983), interfaced the models with a proposed private organizational model (Gill, 2003:16), explained the advantages and disadvantages of each model illustrated in Table 4 below, as presented by Vehorn and Brondolo (1999).

Table 4: Summary of Advantages and Disadvantages of Different Organizational Models

Criterion Advantages	Organizational Models		
	Product-Based	**Functional**	**Client-based/ Type of Taxpayers**
Establishes clear accountability within organization and control for each tax	Yes	yes	yes
Improves opportunity for compliance by taxpayers	Neutral	yes	neutral
Enhances quality of taxpayers services	Yes	no	Yes
Permits different administrative procedures for different taxes	Yes	no	No
Produces lower administrative costs and high staff productivity (less duplication)	No	yes	No
Imposes lower compliance costs on taxpayers	No	No	Yes
Reduces opportunity for collusion and corruption	No	yes	No

Source: Vehorn & Brondolo, 1999

Empical findings have revealed the Organizational model of Tax Administration to influence administration performance (Ebril, Keen, Bodin & Summers, 2002: 135; Gil, 2003:17), revenue productivity administration and efficiency opportunities (Gill, 2003). In this case, the loss of efficiency opportunities could be enhanced through duplication of functions for registration, accounting, audit, collecting, training, IT and human resources (Gill, 2003). Low revenue productivity could be exacerbated by inadequate specialization of tasks, inability to concentrate resource on high-risk components of revenue base and excessive direct contact between

taxpayers and tax officers, creating prone environment for corruption (Gill, 2003).

In a functional option, tax officers are involved with all types of work, responsibilities within tax administration. These are allocated in taxpayer education and services, registration, audit, enforcement, legal advice, and information processing, while allowing tax returns to be processed in a single department rather than in many tax-specific departments (Gill, 2003). This has enabled the provision of better taxpayer services through a single point of access for taxpayer inquiries, a common registration function and system, facilitated a single possible integrated accounting framework, enforced collection and audit across taxes and provided common support functions as Human Resources and Information Communication Technology and Training (Gill, 2003: 18). Although the approach reduces the compliance burden on taxpayers for offering a single contact point, allowing for greater standardization of work processes across taxes and enhancing productivity, its limitations rests on creating an environment prone to treat all taxpayers as being homogenous. This overlooks the importance of taxpayers' segmentation (DCID, 2006), which asserts that each size cohort of taxpayers has different characteristics and tax compliance behaviours. This misleads the designing of adequate strategies for compliance and risks (Ebril et al., 2002; Gill, 2003).

Although this approach has been mostly adopted by developed countries, according to Gill (2003), the extreme heterogeneity of business taxpayers in developing countries makes the case for exploring this organizational design a persuasive issue. The literature searches reveal that most of the developing countries adopt a Matrix approach, with some features of Functional and Client-based organisational approach (e.g. the introduction of the Large Taxpayers Unit). Although these could not fully account for improved effectiveness in discouraging tax non-compliance, these enabled TAs to establish more customised taxpayers' services, improved

administrative efficiency, secured improved accountability and control, and enhanced compliance (Vehorn & Brondolo, 1999).

In this section, the importance of organizational models in promoting increased levels of performance has been posited and the advantages and disadvanteges of different types of models explained. However, the elaboration on organizational approaches was mostly drawn from realities of TA in developed economies, with a substantially high level of maturity and structural development. In taxation, contextual environment matters. Thus, a replication of these models, overlookind developing countries context, such as, taxpayers' heterogeneity, challenges to broaden the tax base, proliferation of informal sector, complexity of tax law and poor knowledge of tax law, could offer little for improving TA performance in developing countries in Africa. However, identifying factors to address from each of the models to respond to TA demands whilst enhancing TA performance, might not be an easy task.

2.4. BASICS OF VALUE-ADDED TAX (VAT), AND ITS VULNERABILITY TO NON-COMPLIANCE

Despite the existence of three common types of VAT, namely income, product and consumption (Le, 2003; Keong, 2005; Sharma, 2017; Taiwo, 2018), the literature reveals consumption-based with destination principle to be the most common VAT type used worldwide, including in Europe, Africa and also in Mozambique. The consumption tax is levied at each stage, from the production to distribution stage. Therefore, VAT is defined as a form of consumption tax that is collected by the seller (registered enterprise/business) from the final consumer and remitted to the Government using invoices (credit-invoice method). In this context the registered enterprise/business operates as an "unpaid tax collector" (PWC, 2013) within a self-assessment system.

Therefore, the complexity and multiplicity of consumption VAT, which is deducted through the credit-invoice method within a self-assessment system, demands from TA a dynamic framework, characterized by a certain level of organization, strategy and co-ordination amongst key actors (Lee, 2003; Shenone, 2004; Keong, 2005; Versano, Villela & Yackovlev, 2007; Castro*, et. al.,*2009). This has to ensure that final consumers pay VAT and demand an invoice and that taxpayers remit collected VAT to the TA. However, these demands are beyond the scope of most Mozambican contextual particularities, such as, taxpayers' capacity and reality in terms of tax knowledge (Castro, 2005; Castro, *et al.,* 2009). Moreover, poor tax knowledge and complexity of tax laws, have led to increased reliance on accountant / VAT expert to help with the self-assessment system, which revealed to be determinant to taxpayers' compliance decision.

The nature of VAT, its collection process and key actors interacting in the process, not only requires an effective platform to discourage non-compliance, but it also depends on TA choice of compliance approach. In this case, TA can either resuming itself, by viewing taxpayers as "tax collectors", and relieving them from the compliance burden, or capitalizing on the roles played by taxpayers by seeing it as an opportunity for establishing more participative, integrated and effective compliance efforts within an invoice-credit method. However, this demands much work, time and extensive financial, material and human resource capability to control crosschecking invoices (Shenone, 2004; Versano, Villela & Yackovlev, 2007; Castro, *et. al.,* 2009; Wawire, 2017) that would entail effective VAT non-compliance management.

Le (2003) and Keong (2005), extensively describe the mechanisms and forms of VAT revenue leakages and fraud, respectively. Whilst managing VAT non-compliance in the African context has not always been very successful (Nathan Associates, 2004; Fjeldstad, 2012; IMF, 2015; Simionescu & Albu, 2016), revisited literature has also posited that there is

no standard equation for tax management (Tanzi, 1991; McKerchar & Evans, 2009). However, with the advent of globalization and regional integration, given VAT economic importance, it urges that TAs improve the efficacy of management of VAT non-compliance.

2.4.1 An overview of VAT Spread, Critiques of VAT, and its Economic Importance

VAT (Value Added Tax) was first introduced in France in 1948, registering continued expansion and being increasingly adopted around the world, either as a new tax system or to replace other narrower forms of consumption tax, in both developing (Keen & Lockwood, 2010) and developed countries (Tanzi & Zee, 2001; PWC, 2009) since the 1960s. However, managing VAT non-compliance has not been an easy task for Tax Authorities. Keen and Lockwood (2010) explain that about 70% (104 out of 144) of developing countries worldwide have adopted VAT, while in Africa registered uptake increased from 2 to 30 countries in the 1990s and 73% of the Southern African Development Community (11 out of 15 SADC countries), including Mozambique (Ebrill, Keen, Bodin & Summers, 2001). Irrespective of its economic relevance, critiques of VAT note the limitations of its applicability (McRae, 2004) as it (i) allows the compliance burden to fall disproportionately on the poor and small business (regressive feature of VAT); (ii) can be inflationary, as business owners seize almost any opportunity to raise prices, leading to a possible higher cost of living; and (iii) requires complex and expensive operation.

However, the assumptions that inform these criticisms have disregarded certain aspects of the VAT structure and exemptions that were targeted to alleviate the tax burden on the poor. For example, (i) they overlook the selectivity (on goods and services) and exemptions on basic goods and services such as agriculture, education and health (VAT Law no. 32/2007 with Regulatory Decree no. 7/2008); (ii) the fact that possible inflation that results can be short-lived through stabilized price control; (iii) continuous

improvement and completion of the system by TAs can make VAT operation easier, thus playing an important role in the economic arena; (iv) the focus on VAT will not only secure VAT, paid by final consumers, but also bring all tax nets into the system (personal income and corporate tax). The criticisms and assumptions that oppose VAT are thus outweighed by the contribution that is made by VAT to public funds.

Despite susceptibility to evasion, the increasing economic importance of VAT has influenced its expansion and adoption (Cnossen, 1994; Terra, 1990; Ebrill, et. al., 2001) to the extent of being described as, “the best tax ever invented” in revenue terms (Cnossen, 1994; Ebrill et. al., 2001) and a perfect money machine (Terra, 1990). This positive view of VAT derives from its contribution, of about one-quarter of all tax revenues in some countries (PWC, 2009, Tanzi & Zee, 2000), about 20% of total tax revenue in Organisation for Economic Co-operation and Development (OECD) countries (PWC, 2013) and about one-third of all tax revenue collected (MFa, 2011; MFb, 2012) in Mozambique. Although VAT’s economic importance is undeniable, tax evasion remains substantial, ranging between 25% and 48% in both developed and developing countries respectively (Bergman, 2003), with a higher incidence on VAT (Shenone, 2004; Versano, Villela & Yackovlev, 2007; Castro, et al.,2009).

The rates of tax non-compliance in both developed and developing countries suggest that non-compliance levels are generally high in both developed and developing economies (Gauthier & Reinikka, 2001). This emphasizes the need to understand not only VAT complexities but also the most common types of VAT-related fraud and evasion in a particular country, to replace about 45% to 60% and 30% of the trade revenue sacrificed due to trade liberalization in both developed and developing nations respectively (Baunsgaard & Keen, 2005) and improve Governement financial sustainability. However, TA needs to be aware of possible

challenges, procedures and managerial option to discourage tax non-compliance.

2.5. TA CHALLENGES, PROCEDURES AND MANAGERIAL OPTIONS

Recent literature indicates the improvement of tax compliance to be a long-term process. Sustained effort and coherent strategy, based on a systematic approach, with identified major compliance risks and priority actions have revealed to enhance voluntary compliance (IMF, 2015). Compliance has also been referred to as being the degree to which taxpayers meet their obligations under tax law and where this is viewed as being a positive social value (Cummings, 2001; SARS, 2011:2; Fjeldstad & Heggestad, 2012). However, different levels of administration capacities amongst TA in different economies, demands realistic compliance approach (Fjeldstad & Heggestad, 2012; OECD, 2009; IMF, 2015), as there is no standard equation for addressing tax non-compliance. This is true even for TA in developed economies, as despite their enhanced capabilities, still lag in understanding VAT non-compliance (IMF, 2015) and vary widely in terms of VAT non-compliance (Brondolo, 2009; IMF, 2015).

Tax administration capacity continues to be one of the main difficulties faced by TAs in developing countries. Improvements in administrative procedures, revenue management and collection system (e.g. payment and withholding systems, registration, filing and payment enforcement, debt collection, audit, taxpayer services, and processing of appeals) (Norregaard & Khan, 2007; Moore & Mikky, 2013) have reaveld to be crucial to enhance effective TA administration. However, this should be done in a comprehensive manner since there is no single factor that solely influences VAT compliance. Nonetheless, there are specific factors that are considered key to influencing tax (VAT) compliance in particular contextual environments.

Compliance chains are crucial for strengthening the management of VAT (credit method) revenue collection. In the case of VAT structure (tax charged on output, with a credit for tax charged on inputs) makes

compliance decisions more complex, creating the possibility of “good” chains of compliance forming (IMF, 2015). In this context, a compliant trader has an incentive to, for instance, ensure that their suppliers are compliant in order to claim a credit themselves rather than deal with increased unrecoverable cost of inputs (IMF, 2015). On the other hand, “bad chains” can also be formed in cases where traders were non-compliant and these would prefer their suppliers to be non-compliant (De Paula & Scheinkman, 2010; IMF, 2015). Thus, creating a good VAT chain remains a policy challenge for most TAs (ETAn & Stiglitz, 2005).

Tax officer rotation and VAT agents have also challenged TA non-compliance management. An empirical study with a sample of 130 countries that covered the five years since 2009 revealed that over 60% of these countries had rapid changes in senior managers and in some cases, their positions were left vacant for long periods. This placed their business continuity at risk, reduced the coherence of strategic direction and effective reform management, constituting a major threat to reform and TAs effectiveness (IMF, 2015).

However, the failure to have a strategy and a comprehensive plan that assigns clear priorities to the tasks that must be performed, tailored to available resources (Bird & Casanegra De Jantscher, 1992), is mostly related to a poor understanding of the industry (McKerchar & Evans). This is also influenced by poor understanding of VAT compliance factors influence taxpayers’ behaviour and tax legislation that is not in comformity to Tax system (Bird & Zolt, 2003; IMF, 2015). Aditionally, taxpayers’ poor tax knowledge, the high rate of taxpayers’ illiteracy (Fjelstad & Heggestad, 2012; SARS, 2011), and inadequate ando complex tax policy have negatively affected compliance. Therefore, taxpayers’ perceptions of injustice, unfriness and unequal treatment have deteriotared their willingness to comply (Slemrod, 2007; Picciotto, 2007; McKerchar & Evans,

2009, Russell, 2010; Fjeldstad, 2012; IMF, 2015). However, tax officers' capacity matters.

2.5.1 Tax officers' Capacity Constraints

The literature indicates that tax officers play an important role in influencing VAT compliance. Their capacity, attitude and correct application of the law are likely to have a direct influence on VAT compliance. Dealing with the elimination of bureaucratic barriers in tax procedures and collection is not an easy task for most TAs. This is likely to have a strong influence on tax compliance as these provide many key opportunities to promote a more equitable taxation landscape with regard to both enforcement and compliance. Taxpayers are able to realise if a tax collection processes are efficient and effective.

In the context of globalization, the demands are even higher for taxofficers and there is a need to respond to the increased ways of tax non-compliance practicability. The ability to predict potential risk areas for evasion, identify factors and policies that will reduce opportunities for evasion, ensure that enforcement mechanisms are equitably applied, have a comprehensive understanding of tax matters, whilst ensuring positive relationships with tax payers and other stakeholders, are some of the examples of what is required (McKerchar & Evans, 2009; Ernst & Young, 2012). This has significantly shifted the role and the scope of tax officials, who are now required to have not only technical knowledge but also a wider range of skills to promote revenue mobilization (Gill, 2003; Ernst & Young, 2012), assented on effective tax policy applied with fairness.

2.6 TAX POLICY AND FAIRNESS DISCOURAGE VAT COMPLIANCE

Tax policy in developing countries is seen to be shaped by ideas, vested interests and institutions (Keynes, 1993; Bird & Zolt, 2003) which has hindered effective implementation of strategies to circumventing to non-compliance. In spite of tax policy design and structural reforms, the appropriate tax policy settings that can address VAT non-compliance is still lacking. This demands increased scope for reform in many countries (IMF, 2015), which, eliminates unproductive tasks, simplifying procedures and define TA administration priorities (Bird & Jantscher, 1992; Russell, 2010). However, these reforms should provide with administrative solutions that work for the community (practicability) (McKerchar & Evans, 2009) tied to compliance demands which are in conformity to community standard (Russell, 2010). This could avoid circumstances whereby perceived high costs in relation to a given risk can inadvertently lead to increased community dissatisfaction and thereby to a decrease in tax compliance (Russell, 2010; Nkwe, 2013; IMF, 2015).

This highlights the relevance of facilitating compliance by proximity to taxpayers (building tax units), fostering voluntary compliance (Braithwaite, 2003; Togler, 2007, Fjeldstad & Heggestad, 2012) at lower costs, rather than enforcing compliance which has a significant cost (Fjeldstad & Heggestad, 2012; Bergaman & Navarez, 2006). Unlike raising tax rates to mobilize revenue, which would result in high elasticity of taxable income with welfare costs (Saez, Slemrod & Giertz, 2012), spending to improve compliance (administrative measures) is likely to be a more efficient approach (IMF, 2015). However, building an effective TA also requires good governance that promotes through its enforcement mechanisms a more legitimate, credible and responsive state (Bird, Martinez-Vazquez & Togler, 2004; Fjeldstad & Heggestad, 2012). A less complex tax laws facilitate this.

2.7. COMPLEXITY OF TAX POLICY, PROCEDURES & MISINTERPRETATION DISCOURAGING COMPLIANCE

The complexity of tax law and compliance procedures has prompted misinterpretation of the law amongts taxpayers and taxofficers, including other stakeholders. Complex tax law has motivated increased compliance costs, which are likely to generate resentment, weakening taxpayers' moral conscience, or even prompting them to evade tax payment as a form of "punishment" against the tax administration (Franzoni, 1998). This has been similar in both developed and developing countries. The cost of taxpayers' compliance (income tax and VAT) in most of the developed countries was posited to be as high as 10% to 13% of total tax liability (Slemrod, 1989; Eichfelder & Vaillancourt, 2014; Smulders & Evans, 2017). Fjeldstad (2006) found that in Uganda, complexity not only raises compliance costs but also engenders further evasion and corruption.

In his approach to institutional and procedural rules governing tax compliance, Franzoni (2008) argues that the length and complexity of the process related to tax returns involving various bodies (tax administration and the court) and procedures (settlements, cross-examination and interviews) to affect taxpayers' attitudes to non-compliance in two ways: firstly, by determining the actual probability of being detected, and secondly, for affecting the degree of hostility in taxpayers' perceptions of the tax system; calling for greater efforts to simplify compliance requirements and tax laws (Feld & Schneider, 2010). Tax complexity has also led taxpayers to heavily rely on agents/accountants to help with tax deduction. This has influenced taxpayers' compliance behaviour (Nkwe, 2013; Ayu, 2018; Stevens, 2018), supporting advocates positing tax experts/accountants to have substantial influence on taxpayers' compliance (Franzoni, 1998; Webley 2001; Webley and Ashby, 2010).

In tax administration, institutions should be devised in a way that it is clear, understandable and transparent (McKerchar & Evans, 2009). This is

consistent with advocates OECD (2004, note 8, p. 48), “if taxpayers do not understand what their obligations are, any intervention to enforce compliance will be perceived as unfair”. However, attempts to simplify tax policy in developed economies have failed because they did not adequately develop tax policy in the context of wider economic reforms (Arnold, 1990; McKerchar, Meyer & Karlinsky, 2008). Arnold (1990) suggests a system of checks and balances, presupposed by an effective communication, where tax policy function is separated from tax administration and enforcement functions to be taken into account during the formulation of tax policy. This could increase the practicability and effectiveness of tax policy, rather than drawing tax proposals assented on purely theoretical views, ignoring its applicability to address compliance and administrative issues (McKerchar & Evans, 2009).

Clarification and interpretation of tax laws and regulations are important in the context of tax non-compliance management. This means that tax officers and taxpayers should not encounter discrepancies in interpreting the legislation. It should enable taxpayers, tax administrators and the judiciary to apply them efficiently, consistently and with certainty (McKerchar & Evans, 2009). They should be clear and accessible, clarified in language that can be readily understood by taxpayers and should be available, even in web-based, paper-based or electronic form (Feld & Schneider, 2010). Investments in these areas contribute to a sound relationship between taxpayers and tax officers (Braithwaite, 2001; Webley & Ashby, 2010) and enhance the level of taxpayer satisfaction (Webley, Adams & Elffers, 2006) with the services that are provided. Consequently, the perceptions of taxpayers regarding the efficiency of administration can also be influenced. When taxpayers perceive inefficiency in VAT invoice administration, given the importance of VAT invoices on credit-method they are more likely to react negatively and resist meeting their obligations (Lee, 2003; IMF, 2015; Keong, 2005). This also influences the perceptions of the fairness of the

system, which derive from identification with the state and confidence on the way that the system treats everyone equitably" (Piccioto, 2007).

Some developing countries have found that simplification of tax policy as a way of reform has contributed to improving the effectiveness of the tax system. Despite their efforts, the intended results have not been satisfactory. Fjeldstad and Heggestad (2012) suggests that the triple aim is (i) greater clarity; (ii) less complexity and more simplicity; and (iii) more equitable tax structure, that can be drawn on to address the challenges encountered in Mozambique, Tanzania and Zambia. However, these countries have generally improved their tax legislation, reduced tax rates, consolidated tax laws, simplified tax procedures, clarified the rules and developed a more transparent and predictable tax system (Fjeldstad & Heggestad, 2011; 2012). Irrespective of these achievements, more needs to be done in these countries to effect the necessary improvements. Effective tax law and combinations of penalties, sanctions and implementation of enforcement mechanisms remains a difficult task (Franzoni, 1998; Bergman & Navarez, 2006; Slemrod, 2016; Wahyudi, 2016).

Fjeldstad and Moore (2008) as well as Fjeldstad, Schulz-Hernberg and Sjursen (2012) concur that tax exemptions, generous incentives to large foreign companies and tax holidays will challenge the efforts of TA to build transparent and accountable tax systems. This influenced taxpayers' perception of inequitable and unfair Tax system (Braithwaite, 2003a, 2003b). As a result, resistance to non-comply with tax increased, informal sector became attractive and broadening tax base remained challenging, while bribery and corruption has also increased (Fjeldstad and Moore, 2008).

However, participation of stakeholders is crucial when promoting the simplification of the legal frameworks for VAT. The benefits of collaboration

amongst them will outweigh the costs involved. Mc McKerchar & Evans (2009) suggest the engagement of TAs with taxpayers and their professional advisers and associations in order to develop suitable business re-engineering outcomes, that benefit, both TAs and the business sector, as well as improve VAT invoicing administration.

2.8 VAT INVOICING CHALLENGES AND KEY ACTOR INTERACTIONS

Despite the paucity of literature on VAT invoicing, the practice of VAT invoice related fraud has been frequent in developing countries. This has been challenging the management of VAT non-compliance. The control of VAT invoices has been crucial for VAT collection, VAT returns and VAT administration in general (PWC, 2010). However, this control should also be extended to the company in charge of VAT invoices to ensure consistency of information (PWC, 2010:11).

Winn and Zang (2013), in a study on technology strategy to reduce VAT fraud, estimate that 55% of VAT revenue is lost to tax evasion and various deficiencies in tax administration, most notably the control of VAT invoices. This view is supported by Wang and Fan (2014) and Yin (2015) who concur that to a large extent tax fraud is not only the result of a lack of tax administration efficiency and accuracy in monitoring tax payments, since there has long been reliance on manual operations, but mostly due to the prevalence of fake VAT invoices. Chinese VAT has some components that are different as well as aspects of the classical European VAT, since it is firstly not a true broad-based tax, as it only applies to, tangible goods and a limited range of services, and secondly, it is production-based rather than consumption-based. However, the way it controls VAT invoices is nonetheless worth consideration in relation to this study. Common methods for evading VAT are seen to be similar across countries, and despite such differences in VAT implementation, common practices that are used to avoid VAT payment include invoices for fictitious transactions, illegal selling

of purchasing invoices, and failure to report VAT by not issuing invoices to purchasers (Winn & Zang, 2013).

In their control system, although VAT invoices are printed exclusively by an authorized agency, in accordance with the designated format set down by SAT, the control of these invoices, remains the responsibility of SAT and taxpayers who have to purchase invoices from their local tax bureau (Winn & Zang, 2013). However, while small-scale taxpayers cannot buy invoices for their own use, if they wish to sell goods to general taxpayers, they may request the tax authorities to issue invoices on their behalf (Xu, 2011; Winn & Zang, 2013; Yin, 2015). Despite this advancement, practical problems have nonetheless emerged, including bottlenecks in the paper trail; the difficulty of verifying the authenticity of VAT invoices; the lack of integrated processing systems which are unable to detect forged and fraudulent invoices; the use of forged VAT invoices for fictitious transactions; illegal sale or purchase of invoices; and failure to report VAT by not issuing invoices to purchasers.

Electronic Fiscal Devices (EFDs) are seen to play a critical role in improving Business to Consumer (B2C) VAT reporting as well as monitoring taxable B2C and Business to Business (B2B) transactions (Sumila, 2014; IMF, 2015). While in some studies EFDs proved to be effective only in cases where there is a comprehensive compliance strategy in place (Casey & Castro, 2015), in other cases EFDs brought benefits 2.5 times greater than the costs. However, these did not include the cost of compliance to taxpayers which is also considerable (Casey & Castro, 2015; Prokin & Prokin, 2016), making its effectiveness questionable. This has triggered some revision on the role of final/end consumers in the management of VAT non-compliance, as explained further in section 2.8.1 below.

2.8.1 The role of final / end-consumers in the management of VAT non-compliance:

Final or end consumers have been identified as being more than simply VAT payers but are also key actors in VAT collection processes. TAs have faced tough challenges in ensuring that final consumers demand invoices after purchasing goods or services from taxpayers. This is partly explained by lack of incentives to demand for VAT invoice (IMF, 2015; Mascagni, 2016; Slemrod, 2016). However, the growth of e-commerce (Waerzeggers, 2015) have increased the challenge to manage VAT invoice, making it more difficult for TA to identify where and when a sale has been made, particularly for intangible goods. This creates an environment prone to non-reporting or under-reporting of final sales (Reard & Feinstein, 1994; IMF, 2015).

The B2C compliance have proved to be significant in countries like Australia where they account for 29 percent of the large business segment and 25 percent of all tax collections. This situation is also reflected in Chile where under-reporting of B2C sales represents 60 percent of the VAT gap (Engel, Galetovic & Raddatz, 1998; IMF, 2015). To improve B2C compliance, TA have developed strategies to control and verify that taxpayers have issued invoices or receipts, transaction was registered, and that taxpayers had a sound accounting system.

In other cases, TAs attempted to use lotteries to encourage consumers to demand invoices. In Brazil, in 2007, São Paulo developed a reward scheme with sophisticated online support providing a mix of tax base and lottery prizes (Casey & Castro, 2015). Studies on the effectiveness of the VAT lottery found no specific impact on increasing effectiveness, and suggested the need for further evaluation (Fooken, Hemmelgarn & Herrman, 2015), while Nariomi cited in IMF (2015) found that revenue from retailers increased by at least 22 percent, increasing revenue (net cost of the rewards) by a fairly modest 0.3 percent of state VAT receipts (IMF, 2015).

In some countries tax reduction for paper invoices has been used by TA to improve compliance. In Bolivia and Turkey, for example, TAs allowed tax consumers to credit part of the payment shown on paper invoices that they submitted to TA against other liabilities, creating significant administrative and compliance costs (Fooken, Hemmelgarn & Herman, 2015; IMF, 2015). Tax reductions on credit/debit card payments were used in Argentina, where about five percent of the VAT payment was automatically credited to a bank account which amounted to around 1.1 percent of VAT collection. South Korea registered a forgone revenue of about 5 percent of VAT for allowing reductions in VAT payments (IMF, 2015). Irrespective of TA efforts in implementing varied schemes to improve compliance, the paucity of research on the evaluation of the schemes demands further reflections to use them as a key component of an effective compliance strategy (IMF, 2015). This is explained by cases where not all sales go through the cash register and in circumstances where a lottery ticket has much less value to the consumer than evading VAT on a high value purchase (IMF, 2015). A revision on the influence of public expenditure may therefore provide more information regarding its influence on individual behaviour.

2.9 THE INFLUENCE OF PUBLIC EXPENDITURE

Although the literature has revealed some links between tax and expenditure, its influence on tax compliance is limited. Recent studies indicate that the way tax revenues are spent and the extent to which taxation mobilizes citizens' political engagement influences their compliance behaviour (Alm et al., 1995; Andreoni et al., 1998; Fjeldstad & Moore, 2008). In other words, a contractual relationship exists between taxpayers and Government (Fjeldstad, 2001; Fjeldstad & Moore, 2008). However, literature has revealed the links between tax payment and public service delivery to be generally weak in many developing countries (Fjeldstad & Moore, 2008). Citizens had the feeling that they received little in return for taxes paid (Fjeldstad, Schulz-Herzenburg & Sjursen 2012; Fjeldstad, 2016).

Cummings et al. (2009) argue this with regard to “tax morale”. He posits that citizens and the State appear to develop their fiscal relationship according to a psychological tax contract. This contract establishes fiscal exchange between taxpayers and tax authorities, resulting in relationships and loyalties between “contract partners” from which compliance models are derived. This includes, people’s sense of moral obligation to pay tax; perception of the fairness of the tax system and the way they believe government spends tax money on public goods that will benefit taxpayers (Levi, 1988; Andreoni et al, 1998; Frey & Feld, 2002; Fjeldstad, Schulz-Herzenburg & Sjursen, 2012; Bello & Danjuma, 2014). Governments channels through which they hold themselves accountable to citizens and communication with taxpayers are deficient in develoibg economies (Fjeldstad & Moore, 2008), weakening the platform which could enhance State legitimacy (Fjeldstad & Moore, 2008; Fjeldstad, 2016). In this context, a review of tax education, technology and the role of donors in VAT non-compliance are presented below.

2.10 MANAGING TAX NON-COMPLIANCE: TAX EDUCATION (TRAINING, FISCAL EDUCATION), TECHNOLOGY AND THE ROLE OF DONORS

Taxpayer education is a central aspect of TA compliance management. Improved knowledge about tax systems can positively influence the attitudes of taxpayers (Eriksen and Fallan, 1996). Attitude matters in relation to tax compliance. Lewis (1982) suggests that if misconceptions about tax systems are replaced by tax knowledge, then compliance behaviour might improve and Robert, Hite and Bradley (1994) posit that taxpayers who have more tax knowledge tend to have higher tax morals.

Poor tax knowledge has not only been found to be a barrier to tax compliance (Misch, Koh and Paustian, 2011; Fjeldstad and Moore, 2008) but also make it difficult to understand tax-related legislation and procedures (Fjeldstad and Heggestad 2012:1). This has influence the management of

tax non-compliance. Drawing on a study undertaken in Zambia, Tanzania and Mozambique Fjeldstad and Heggestad (2012) suggest that education programmes should be tailored to specific taxpayer segments rather than as a programme targeted broadly. Concerted trainings and targeted fiscal education have provided the tax authorities with useful insights into the practical constraints and challenges faced by taxpayers. These have been consolidadted by fiscal campaign to encourage customers to demand for receipts when purchasing goods and services (Fjeldstad & Heggestad, 2012:1). These campaigns and training programmes were extended to communities in Tanzania (Fjeldstad & Heggestad, 2012). Similar moves in training and fiscal education were also registered by Mozambique TA, where leaflets, television, radio and newspapers were used to disseminate the information in local languages and Portuguese and TA collaborated with municipalities to propagate the new Simplified Tax for Small Taxpayers (STST). Additionally, memoranda of understanding were used as strategies for fiscal education.

In South Africa, the South African Revenue Service (SARS) has been creative in raising awareness on the social value of tax compliance. Their approach has been wider than the mere use of various means of disseminating tax information. Their focus has exceeded the relationship of TAs and stakeholders, and went further to build partnerships and alliances with trusted intermediaries. This is necessary when confronting challenges faced by the community or industry and their attitudes towards influencing compliance. SARs advertisement “Your taxes paid for this road/school/hospital” (Fjeldstad & Moore, 2008; McKerchar & Evans, 2009) instils the sense of a deeper partnership, feelings of ownership and fulfilment of the social contract between taxpayers and TA. Mastering the tax system and assisting taxpayers has been crucial in improving, not only perceptions of efficiency, but also, building relations and trust with taxpayers. Training programmes on tax issues have been carried out in most developing countries, despite challenges that still remain concerning

concerted training (IMF, 2001; SARS, 2012; Fjeldstad and Heggestad, 2012; IMF, 2016).

However, as part of the master plan for technology and information, the process of tax management was improved and the Interim Revenue Collection System (IRCS) in force in Mozambique TA benefited from corrective maintenance resulting in the project of E-Taxation which is in its pilot phase (MFf, 2014), although limited to addressing compliance risks. The particularities of countries and their context have tended to determine most reforms, as well as technology choice and adoption by TA (Russel, 2010, IMF, 2015). These reforms have been tailored to each country's circumstances, and administrative capacity (Russell, 2010; IMF, 2016). However, the absence of robust management information systems together with the streamlining of systems and procedures within tax administration has contributed to the failure to reduce opportunities for non-compliance (Bird & Jantscher, 1992).

Recent literature indicates that donors have played an important role in improving the capacity of developing countries to mobilise revenue. The role of donors in improving compliance in developing countries is explained by Fjeldstad (2012; 1-3) and in AT (2014). Donor support has been directed toward improved performance, tax reforms, tax modernization, operational plans, strategic planning, change management, revenue increase, enlargement of tax base and capacity improvement. However, lacks of commitment on the part of governments, particularly in developing countries, have tended to impede the consolidation of existing achievements by most Tax Authorities (IMF, 2001; IMF, 2016). However, TA non-compliance models and frameworks, revealed crucial in influencing compliance.

2.11 OVERVIEW OF TAX (VAT) NON-COMPLIANCE MODELS AND FRAMEWORKS USED BY TAS

Revised literatures suggest there is paucity of knowledge on VAT non-compliance approaches. A revision of approaches presented below, enabled to capture insights to their applicability in informing the study's approach to the Mozambican case. In this case, the study has grouped the revision into two main approaches. The first is assented on internal procedures and control and the second is based on tax compliance behaviour.

2.11.1 VAT Non-compliance Approach Based on internal Procedures and Controls

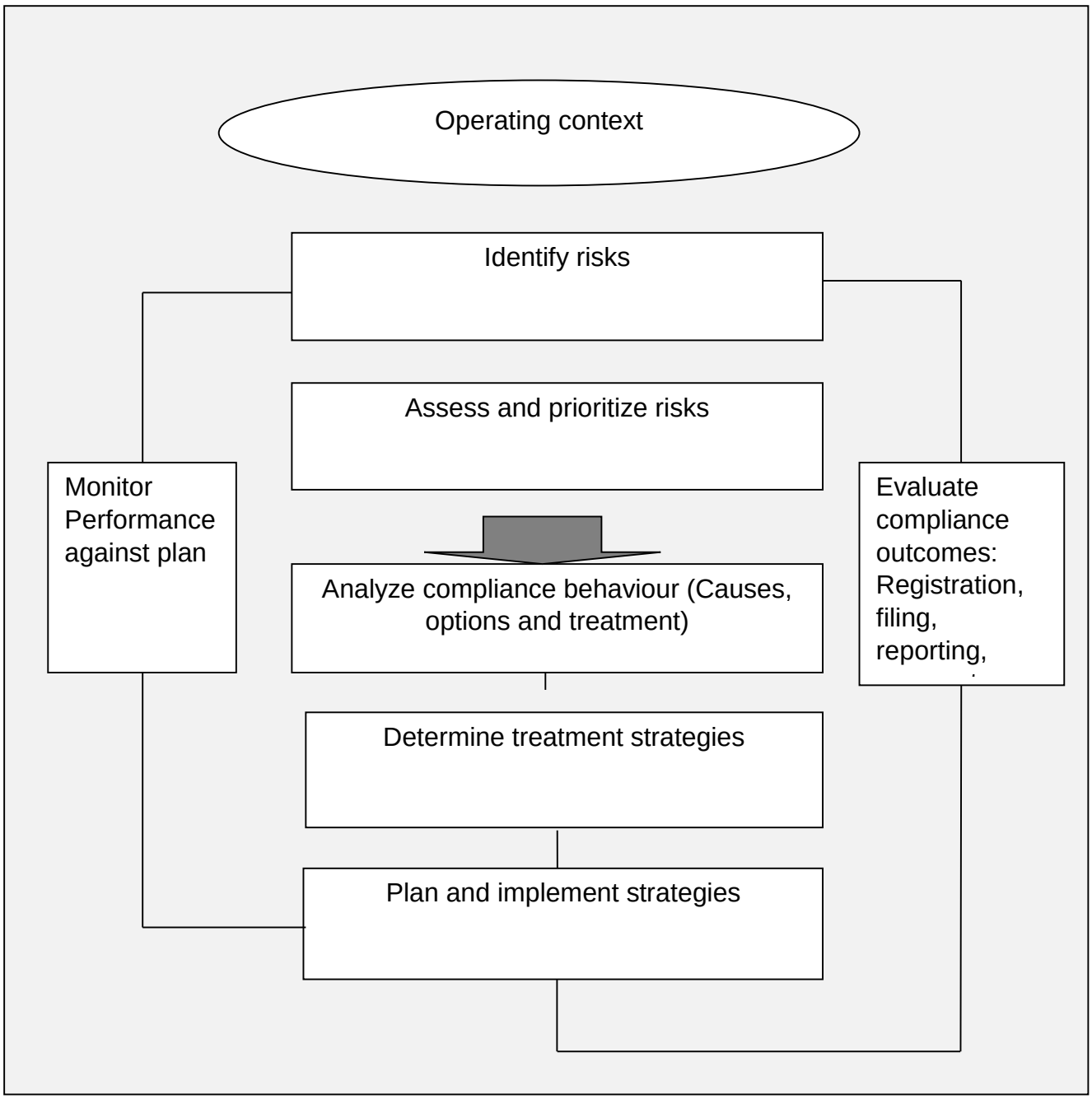
Taxpayers have increasingly responded to TA actions to curb evasion. This has precipitated the development of actions from TA to address this dilemma. Le (2003), building on Keong's (2005) VAT revenue leakage risk mapping, suggests that TAs should increase internal control of taxpayers, so as to discourage fraudulent registration and de-registration, improve VAT declaration, reduce fictitious purchases, and discourage non-remission of VAT collected to TA. The approach places more emphasis on compliance costs and administrative costs in discouraging VAT evasion, limiting their view on the operational management procedures related to enforcing and detecting VAT evasion and suggesting a reactive intervention to the challenge. Keong (2005) indicates how VAT revenue leakages, for both non-registered and registered taxpayers, occur and when, by positing fraudulent registration and de-registration, output VAT collected but not remitted, under-collection of VAT, and for input VAT he describes fictitious purchases, disallowed expenses, and purchases attributable to exempt supplies as the most common type of domestic VAT evasion for Registered Taxpayers, but does not elaborate more on the approach. Similarly, Le (2003), in reviewing Keong's VAT frauds, limits itself in identifying actions to reduce VAT evasion opportunities in a simplistic way without proposing an

alternative holistic approach to VAT non-compliance management. Although the approaches placed more emphasis on detailing how VAT is evaded and when, highlighting internal procedures and control for taxpayers, it overlooked contextual dimension and key actors' interaction in the process, driven by the dynamics of their compliance behaviour. This narrowed strategic horizon in the approach. Therefore, revisions on approaches based on Taxpayers' compliance behaviour are presented below.

2.11.2 VAT non-compliance Approaches based on Taxpayers' compliance behaviour

The management of VAT non-compliance by some OECD countries is largely based on the use of strategic planning and focused on the drivers of VAT non-compliance, rather than symptoms (McKerchar & Evans, 2009) when designing strategies for tax collection. Although the literature reveals that there was no single approach to compliance (IMF, 2015), other researchers have attempted to develop a broadly common framework to manage tax non-compliance. However, coherent structures revealed to be crucial for the approaches to influence taxpayers' compliance (Toro, 2005). Although identifying risks have targeted non-compliance practices, addressing them was not an easy task, as these have been found to be associated with different circumstances. OECD countries experience and tailored interventions have facilitated the applicabity of the approach to responds to community demands (OECD, 2009; IMF, 2015). However, Compliance Risk Management suggests that weak cooperations and limited capacity to identify and measure compliance risks and gaps remain significant constraints to fully applying the CRM approach. Therefore, the replication of the model in the Mozambican context, characterized by weak TA administration capacity, poork tax knowledge, inexisting risk compliance strategy and unclear identification of risk, remains questionable.

Figure 6: Compliance Risk Management

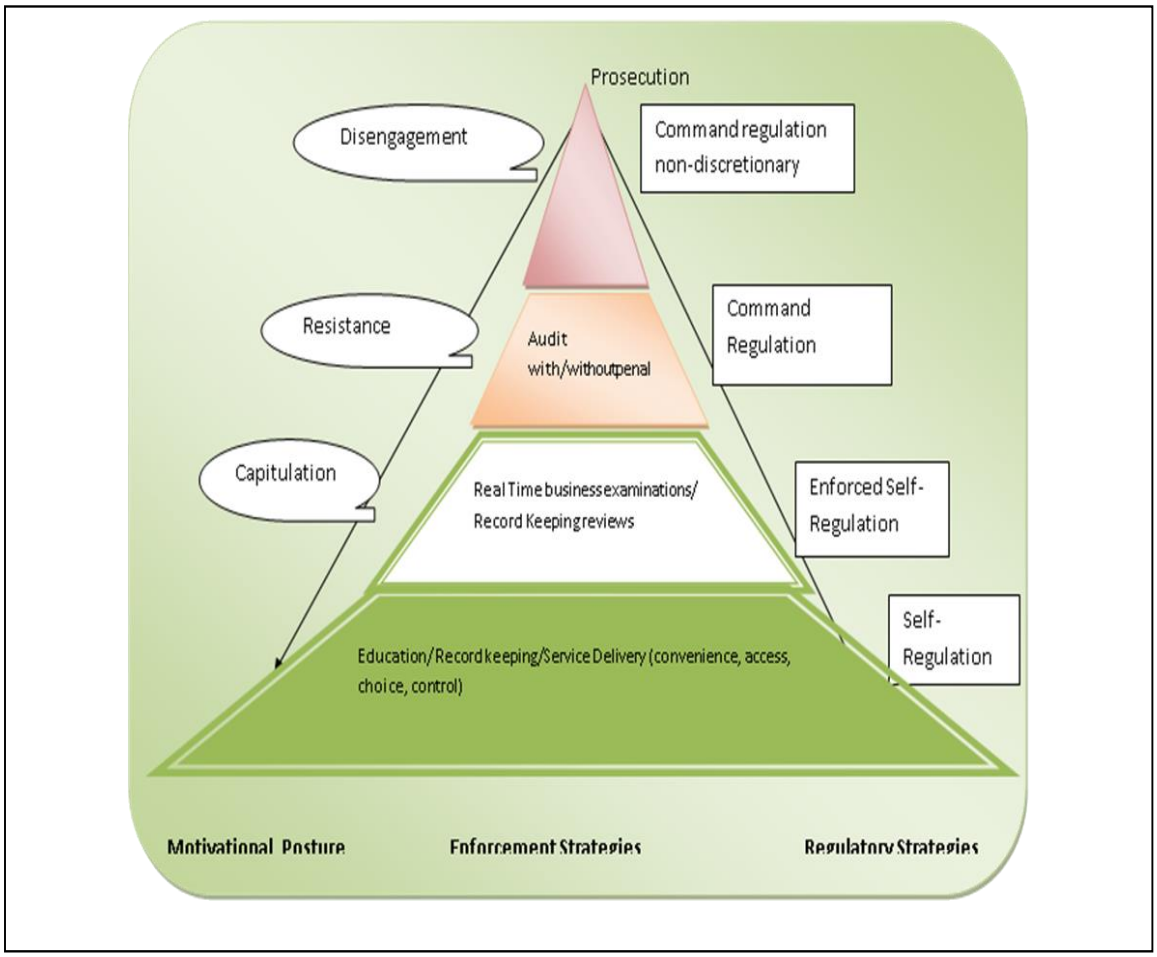


Source: OECD, 2010

However, the approach suggests crucial avenues, to take into account when pursuing improved VAT non-compliance management, which demands, not only contextual knowledge, but also, the need to have a strategic approach with coherent and logical initiatives to enhance VAT compliance (Castro,

2005; Castro, *et al.,* 2009), involving all VAT stakeholders. Without denying the relevance of internal controls, as well as taxpayers' segmentation which demands reasonable control, the Australian Tax Office provides a combination of motivational approaches of enforcement and regulatory strategies to ensure taxpayers are compliant (Braithwaite, 2001; Braithwaite, 2002).

Figure 7: Australian Tax Compliance Model

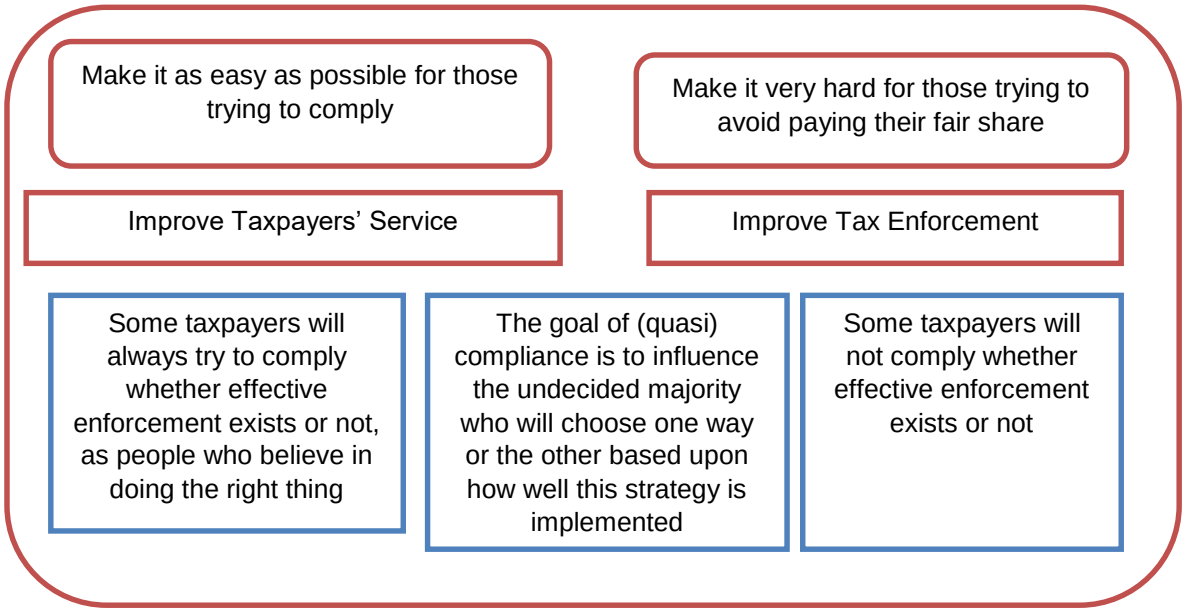


Source: Braithwaite, 2003

In a more focused orientation, despite ATO's consideration of legislation as one of the building blocks for taxpayers' compliance, it recognizes its limitation to build a tax culture. The approach aimed at ensuring the enforcement of compliance. It indicates the importance of audit and sanction, including prosecution as an enforcement strategy to influence tax

compliance, placing emphasis on tax officers and taxpayers in the process (Braithwaite, 2001; Webley & Ashby, 2010). This has overlooked key actors (VAT invoice agents, final consumers, VAT experts/accountants) interacting in the process of VAT compliance and their respective compliance dynamics, particularly over taxpayers' compliance decisions. Although the approach had segmented strategies, these were set to target all taxes. Thus, the danger of its replication for addressing the practice of VAT non-compliance is eminent. However, the merit of the approach lies in taxpayers' segmentation, providing premises for targetted VAT strategies. This reduces the prominence of sanctions used to improve compliance, and provides insights for improved overarching strategies to strengthen VAT non-compliance management, which tend to characterize SARs compliance approach.

Figure 8: SARS Tax Administrative Approach to ensure Compliance



Source: SARS (2011)

The development of the SARS compliance approach has been based on the assumption that taxpayers' behaviour is paramount for compliance policy within an overarching strategy (SARS, 2011; Fjeldstad and Heggestad, 2012). This orientation reduces opportunities for evading VAT.

The approach is supported by an improved taxpayers' mental accounting strategy, intensive training, qualified tax officers, improved penalty administration, improved interaction between SARS and taxpayers, targeted fiscal education, modern technology, and cross-checks of information and effective monitoring strategy (SARS, 2011; SARS, 2012; Fjeldstad & Heggestad, 2012). However, the approach suggests a robust TA organization and overarching strategy to discourage tax non-compliance. It enables to reintegrate those avoiding tax obligations, for targeting segmented taxpayers and for understanding their behaviour and the industry in which they operate. Similar to the OECD approach, it cuts across taxes and demands a new set of character traits and attitudes of tax officers to discourage VAT non-compliance (Ernest & Young, 2012). Such generalization, mostly influenced by economic theory that informs income tax advocates, might overlook VAT-related fraud and evasion practice specificities. Therefore, a faithful replication of the SARS compliance approach for the Mozambican context, as suggested by Fjeldstad and Heggestad, (2012), not only presuppose TA capacity to detect evasion, but demand internal organizational capacity to establish an overarching strategy to address VAT non-compliance. Despite these shortcomings, the approach provides important insights to strengthen the platform for alternative approach VAT non-compliance.

The general literature review has revealed the management of tax non-compliance to be dynamic, complex and tied to contextual environment, without conveying any standard equation for countries. While the compliance approaches suggesting increased internal controls ignored taxpayer compliance behaviour, their simplistic and individualistic nature, has also not enhanced to capture the dynamics of VAT non-compliance practice. On the other hand, those that based their overarching strategy on the segmentation of taxpayers, informed by income tax premises, have failed to account for the disassociation of reactive approaches, although their paradigms cut across taxes. Therefore, addressing VAT non-

compliance management presupposes an understanding of the dynamics of the tax system, interactions between the principal stakeholders, and tax policy regulating its management. While the merits of the command-and-control process are accepted, replications of approaches based on different contextual realities have failed to capture VAT non-compliance specificities. This might partly explain the challenges that TAs in developing countries encounter as they seek to reduce opportunities for VAT non-compliance. Therefore, possible theoretical insights informing the dynamics of VAT non-compliance management may be captured from the theoretical framework.

CHAPTER THREE
THEORETICAL AND CONCEPTUAL FRAMEWORK

3.1. INTRODUCTION

In the context of the wide spectrum of complexities related to VAT non-compliance management, there is no single overarching theory that can inform this research. A number of theories could be used to address the core problem of the study, such as organizational theory, institutional theory and psychological theory of tax compliance, amongst others. However, the rationale for selecting these theories, assented on the conceptualization of the researcher, taking into account the purpose of understanding and developing alternative approaches to managing VAT non-compliance. Institutional theory, psychological theory on tax (VAT) compliance and system theories were adopted to inform the study. Their importance is based on their influence on factors, subjects and interactions and their utility in the establishment of an effective platform for VAT non-compliance. The following sections present a conceptual framework, to show how these theories and related factors could interplay to discourage VAT non-compliance. This is preceded by revisions of theoretical framework of the study.

3.2 THEORETICAL FRAMEWORK

3.2.1 Institutional theory and its influence on compliance decision-making

A review of Institutional Theory is presented where strengths and critiques of the theory are articulated. This offered as a proposed analytical framework to inform the study. The use of this theory provides an insight into the understanding of the factors that may inhibit or enable TAs to devise VAT non-compliance approaches, with fewer practical limitations.

Institutional theory has gained influence in both research development and practice, from the old institutionalism to the new institutional theory. Although there has been a growing concern regarding the use of institutional theory to explain the phenomenon of tax non-compliance (Slemrod, 1990; Slemrod & Easterly, 1995), these were mostly focused on tax in general (Sachs, 2000; Bergman, 2002), with little attention given to VAT non-compliance.

In spite of a long history of institutional theory, the concept of institutions remains burdened with imprecise definition, multiple units of analysis and different methodological approaches. Institutions have been regarded as assuming different roles. North (1990, p.3) defines institutions as being, "humanly devised constraints that structure human interaction" with their enforcement characteristics, whilst King, Gurbaxani, Kraemer, McFarlan, Raman and Yap (1994, p.141) defines institutions as, "any standing entity that exerts influence and regulation over other social entities". Providing a less generalized definition, Scott (1994, p.206) views institutions as more than, "a state of existing social order, but process, including process of both institutionalization and de-institutionalization". It has also been defined as "enduring elements in social life that have a profound effect on thoughts, feelings and behaviour of individual and collective actors" (Lawrence & Suddaby, 2006). Regardless of the conceptual differences and approaches, researchers recognized institutions as constricting behaviour by setting rules to distinguish the legitimate from the illegitimate and their influence in shaping human interaction. Researchers have posited the influence of institutions in various different ways. Denzau & North (1994), advocated institutions to have different forms and to act as mental models, that not only shape people's compliance behaviour, but also, enable socializing actors. Institution is a law, as these are products of human agency, expressing choices resulting from institutional means (Lawrence & Suddaby, 2006; Peter, 2011). Narratives on institutions have emphasized salient aspects of structure that could predict the behaviour of the system (Hammond, 1996;

Pillay & Dorasamy, 2010) when analysing individual institutions (Peter, 2012). These could also account for historical foundations when seeking to understand how contemporary political systems were embedded in their historical development, including the socio-economic and cultural scenes (Hughes, 1993; Sbragia, 2000; Orren & Skowronek, 2004) and their concerns with norms and values (Storing, 1962).

The earlier institutionalism focused more on understanding the nature of governing institutions that could influence human behaviour. The need to direct the behaviour of individuals towards collective purposes (Peters, 2012) characterizes the role of governing institutions in the broader society, whilst identifying the need for balance in political structure (Sjostrand, 2016). Although the old institutionalism has been criticized as being insufficient to explain contemporary phenomena, such critiques have been somewhat unfair to the purpose and contributions from which new institutionalists developed their analysis. The tendency of distinguishing the old from the new instituionalism by shifting the focus from formal and material institution to informal (regulation, statutes and laws) and immaterial institutions (norms, beleifs and routines) has been limited in the face of multiple definitions and varying degrees of emphasis on particular types of institutions (Lang, 2018). In this context, common notions, collective norms, routines and practices are viewed as constituting instituted behaviour.

Although the new institutional theory has been a widely accepted framework for actor-centred studies, that deal with organisation, state and society, in dealing with different disciplinary approaches (Lang, 2018), contributing to a rich and important body of knowledge, it cannot be seen as a fully developed theory. Its attributes are important in influencing the VAT non-compliance approach of the study. Institutions shape signification (meaning making) via interpretation, enhancing simplified communication (Giddens, 1984); provide perception cues (Wieck, 1995). It also revealed to be a key source of meaning structure (Tolbert & Zucker, 1999) to avoid

misinterpretation and disregard for sanctions regulation. Empirical studies suggest that institution narrow down how and what sense can be inferred by individuals (Barley & Tolber, 1997); reduce variance in political behaviour and help improve possibilities of prediction (Peter, 2000). These studies have also posited it to improve understanding of contextual features that may impede development (Curries & Swanson, 2009); support and empower activities and actors (Scott, 2004); influence capabilities (Rheingold, 2002); and explain economic growth and how institutions are linked to it (North, Summerhill & Weingate, 2000). Institutions also influence actions where, through socialization processes, people internalize cognitive structures and consequently their roles become embodied in actors as habits or tastes and disposition (North, 1990). Its ability to provide information to the individual, including likely actions of other people, and influencing the perceptions that people have of reality in relation to the way people select, organize and interpret information, were posited by Dequech (1998).

Recent actor-focused perspectives have provided insights to understand how institutions change and how changes occur through the interaction of actors (Dacin, Goodstein & Scott, 2002; Zilber, 2002; Burns & Baldvinsdottir, 2005), their goals and institutional change (North, 1990). In support of this, North (1990) defines institutions as structural forces guiding actors' behaviour, or "the rule of the game", while organisations and individuals are seen as the players. These have revealed important traits to analyse the relationship of key actors in the process of VAT non-compliance management and their conflicting interests, goals and expectations that shapes the dynamics of collusion effects in VAT compliance. The roles are thus influential in the process of institutionalisation (Lawrence & Suddaby, 2006). Although Scott (2008) defines roles as the conception of appropriate goals and activities for particular individuals or specified social positions, a particular action associated with a particular actor could enable a role to emerge (Lawrence & Suddaby, 2006; Goretzki, Strauss & Weber, 2013).

These roles develop repetitive patterns of action or evolve through the operation of a wider institutional framework (Scott, 2008). However, the roles change overtime due to an improved understanding of specific actions, positions and goals of a group of actors, and due to the introduction of new external institutional framework in an organisation (Goretzki, Strauss & Weber, 2013).

Institutionalisation is seen as not only influencing roles of actors but also to influence actors in relation to roles, including flow driven by actors. In this case, actors might have an interest in, and work towards, performing specific roles or extending their actual roles to facilitate their own or other status influence in a particular social setting (Goretzki, Strauss & Weber, 2013). However, these actors have to make an effort to accomplish their goals. Additionally, the way these actors support, oppose or otherwise strive to influence institutionalisation determines its success (Di Maggio, 1988; Goretzki, Strauss & Weber, 2013). The institutional entrepreneurs (Di Maggio, 1988) also known as institution work (Lawrence & Suddaby, 2006) are actors who have an interest in a particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones. However, these are supposed to be skilled and assent their work on cooperation towards changing or creating new institution (Maguire, Hardy & Lawrence, 2004).

Scott (1994) provides a wider lens on the importance of institutions in various sectors and institutional premises related to other theoretical traditions. Consolidated arguments were developed on the linkages of institutional theory with the interests and agenda of the organization, law and society (Scott, 1994), policy analysis (Scott, 2008) and with organizations (North, Summerhill & Weigates, 2000; Scott, 2001). In spite of his rigorous methodologies, substantiated by theoretical criteria rather than an interest in improving the explanatory framework for solving a particular problem and augmenting the knowledge of institutions, his

approach offers limited insight into the creation of efficient institutions and organizations.

Unlike Scott, the definition of institution by North (1990, p.3) as, “humanly devised constraints that structure human interaction, constituted by formal rules (constitutions, laws, and property rights), informal rules (taboos, customs, traditions, codes of conduct, logo) and their enforcement characteristics”, informs the research interest in VAT non-compliance. North (1990) reveals the importance of efficiency, in not only creating institutions, but also, the role played by institutions in promoting efficiency, enhancing co-operation and influencing capabilities. These are used to create efficient institutions, to shape the road maps that people use to interpret the world and enhance co-operation (compliance with law) (North, 1990). North further considers complete information crucial for making optimal choices as a condition for institutional change through co-operation and the nature of enforcement to achieve it. However, institutional change occurs over time, as learning and beliefs embodied in individuals and organizations are cumulative and are passed on intra-generationally by the culture of a society. The differences in rules, players and the interaction between them as well as the technology employed, are explained by economic performance (or the success in addressing VAT non-compliance).

Irrespective of the relevance, institutional theory was criticised for offering a simplified description of the way institutions work (Lang, 2018). Particular critiques of North’s theoretical arguments (new institutionalism) concern its limitations to the applicability of the theory. The theory fails to provide (i) coherent explanations on political phenomena and the nature of co-ordination amongst humans (Peters, 2000); (ii) arguments on how institutions can be measured in a more dynamic and complex world; and (iii) under what conditions co-operation across organizations can exist without the imposition of institutional coercion to promote co-operative solutions (Peters, 2000). Furthermore, North attempts to explain how institutions

affect economic performance, based on the question of “how to improve institutional efficiency”, provide no answer to the question, and his nation-centred analysis might not withstand the increasingly integrated world where institutions cross borders (Friori, 2002). Further critiques to new institutionalism were advanced for not being fully developed theory (Lang, 2018) as well as the fact that most of its studies were focused on relationships between individual actors and organisations rather than on the particular formal setting (Baba, Bloomberg, LaBond & Adams, 2013). The over-emphasis of the institutional environment (importance of rational and irrational elements) shaping the structure of organisation are criticized by some scholars for underestimating the power and coalitions of interests in institutional studies (Terkel, 2015). Jessop (2001) suggests that the understanding of institutionalised practice is resistant to change, indicating the danger of underestimating the role of actors, in the belief that these derive from the sole deterministic character of institutions. New institutionalism has been posited to be a concept too abstract and too diverse to be directly translated to a clear analytical approach (Lang, 2018).

In spite of these shortcomings, the institutional approach provides insight to understand the dynamic of VAT non-compliance management. It enabled to understand how key actors’ interactions were shaped by individuals’ interests and coalitions, in an environment where enforcement mechanisms were poorly implemented. It shaded light to the limitations of communication platform and technology to reduce opportunity for non-complying with VAT. The theory also prompted a deep understanding as to the dynamic of processes within VAT non-compliance management frameworks and particularly why specific practices are preferred and others disregarded. This enabled an understanding of how and why managing VAT non-compliance remains challenging, and how the environment and actor behaviour and dynamic process of change could be achieved. Institutions offer useful conceptual frameworks for social sciences and it acknowledges the importance of the irrational and informal elements shaping not only the

structure of an organisation but also prompting dynamic change of the process. Therefore, the weaknesses explained above are outweighed by the purpose of the study. Its suitability lies in how effective institutions can promote co-operation (VAT compliance); how efficient institutions and organizations (TA) can be created to effect improved economic performance (discouraging VAT non-compliance); and how institutions shape human behaviour and interaction between actors. The nation-centred analysis therefore suits the research, as it is a unique case study.

Although North (1990) provides a good platform to start an analysis of institutional change, it is not a good place to end it, if deeper analysis of VAT non-compliance is to be carried out. The fact that institutions provide information influences how people view opportunities. This determines incentives and disincentives to compliant or non-compliant behaviour, whilst constricting individual actions. This, influences the direction of knowledge, affecting purposes, preferences and skills that are needed for the long-term development of society that structure the process by which a particular substantive content is established. These are crucial propositions in relation to a compliance approach for VAT. Therefore, revealed weaknesses were related to in-depth nation-centred analysis. However, these are outweighed by the purpose of the research. North's arguments, thus, provide insights to develop a platform for an alternative approach to VAT non-compliance whose theories are presented below.

3.2.2 The psychological theory on tax (VAT) compliance

In this part of the research, a revision of Economic Psychological, Socio-Psychological and Socio-economic Psychological theories (Fiscal Psychology) on tax compliance is presented to provide insights on how different factors have influenced taxpayers' VAT non-compliance behaviour. Understanding the dynamics of VAT compliance factors enabled to strengthen the platform on which the proposed approach was developed. This could prompt efficacy of tax collection by TAs, as strategies could be

embedded in theories and in a solid understanding of compliance literature. Therefore, a revision of Economic Psychological theory is presented below.

3.2.2.1 Economic Psychological Theory on Tax compliance: The effectiveness of sanctions in influencing tax (VAT) compliance

Reviewed literature is presented to show how the sole and heavy reliance on economic theory of tax compliance (sanctions) by TAs has failed to promote its capacity to manage VAT non-compliance behaviour. It also enabled to make an assessment on how and in which context sanctions have proved to be effective or counter-productive in influencing tax compliance. This enhanced a better understanding of the basis and pillars of sanctions as compliance factors. It also facilitated an understanding of the limits of this economic factor through analysis and evaluation of its weaknesses and strengths. Analysing sanctions from such a perspective enlightened avenues to inform how TA could address this compliance factor (sanctions) to influence VAT taxpayer compliance.

Sanctions were firstly considered as a tax compliance factor within the Economic theory of tax compliance, first applied by Allingham and Sandmo (1972) using Expected Utility Theory (EU) and with roots in Becker's (1968) economic deterrence model. Assuming that there is no possibility of avoidance and that the taxpayer is neutral, the EU explains the problem of income tax evasion because of taxpayers' decisions to maximize expected gains or losses (expected utility of income) when confronted with the choice of whether or not to evade taxes. It considers that the taxpayer faces a constant probability of being audited, face a penalty tax rate if caught evading taxes, in a given marginal tax rate and the level of true income (Pommerhene & Weck-Hannemann, 1996). Whilst economists theorize that greater penalties and audit probabilities should increase compliance (Slemrod, 2007), empirical studies have not only revealed that both penalties and audits can lead to greater compliance (Andreoni et al., 1998), but also, that, in some cases; higher penalties proved to be less of a

deterrent than higher audit probability. In other cases, fear of getting caught or being detected has been effective only in inducing truthful reporting where the assumption that taxpayers were risk neutral was relaxed (Reinganum & Wilde, 1985).

The economic theory is tied to positivist epistemological approach (quantitative in nature). It reduced its dimensions to numerical measures and assigned probabilities from which outcomes can be predicted using calculus. The theory emphasizes individual behavioural analysis, but fails to account for and explain why (original emphasis) people do not comply with VAT. It remains descriptive and underdeveloped. The simplicity of fundamental assumptions around economic theory tends to be impractical and unrealistic as it overlooks fiscal and socio-psychological factors that interplay in the dynamics of taxpayers' compliance behaviour. The theory ignores taxpayers' rational capacity that enables them to perceive the fairness of the tax system (Cullis & Morrisey, 1993; Webley & Ashby, 2010). It also neglects the fact that taxpayer can perceive inequity and act in response to it (Cowell, 1992). The theory obscures the influence of dissatisfaction with TAs (Wärneryd & Walerud 1982; Elffers, 1991) enhancing the belief that the system is inefficient (Wearing & Heady, 1995) in discouraging compliance. In this context, the capacity of taxpayers to capture information from the environment to construct their compliance decision is largely ignored. Evidence from research findings indicate that taxpayer capacity to capture information from institutional constraints (Bergman & Navarez, 2006; Cummings, Martinez-Vazquez & Torgler, 2009) positively influences compliance. The theory assumes that all people respond to a change in any one variable in an identical and predictable manner. It also assumes that taxpayers have full knowledge of the probability of being audited and that all taxpayers have the same level of risk preference (Franzoni, 1999; McKerchar & Evans, 2009). This tends to be generally unrealistic and ignores the empirical evidence that psychological dimensions can measure a utility, where individuals differ in

relation to utilities associated with different outcomes. In some cases, taxpayers were found to be averse to cost in terms of embarrassment, loss of esteem and social distress (Alm, McClelland & Schulze, 1992; Skinner & Slemrod, 2005) than being sanctioned due to non-compliance. The fact that the theory based its analysis through statistical procedure, it overlooks the possibility that the same information may lead to a different choice. For example, experiments have shown people to be more concerned with losses than missed opportunities for profit. In this case, people end up not accepting higher risk to avoid losing what they already have rather than trying to gain something they do not already have (Kahneman &Tversky, 2000).

In spite of these shortcomings, most of the models and frameworks developed around VAT compliance have been explained using economic theory in the last four decades (Andreoni et al., 1998; Kirchler, 2007; Alm, 2013). Although some researchers present economic approaches with some modification (Langham, et al., 2012) they are lenient on exogenous variables such as the probability of detection, the level of sanctions, tax rate and income, in explaining individual tax compliance behaviour (Yitzaki, 1974; Hessing, Elvers & Weigel, 1988; Andreoni et al., 1998; Adams & Webley, 2001; Kirchler, 2007). These are also referred to as the “hard facts” (Andreoni, et al., 1998; Lewis, 1997; Sandmo, 2005; Eichfelder & Kegels, 2013). This is supported by evidence of the relevance of deterrence strategies in addressing non-compliance. However, despite economic theory limitations, the economic deterrence model (sanctions) has been widely used by TAs to address Tax (VAT) non-compliance in developing countries (Andreoni, et al., 1998; Adams & Webley, 2001; Nathan Associates, 2004; Bergman & Navarez, 2006).

Attempts to understand the effectiveness of sanctions in influencing compliance, since TAs have relied on them to influence compliance behaviour for many years (Braithwaite, 2003; Langham et al., 2012) indicate

contradictory research findings. In some cases, severe sanctions were effective (Tanzi & Shome, 1993; Adams, 1996; Bergman & Navarez, 2006) in cases where, for example, the TA had the power to fine and close establishments for specified periods without the possibility of an appeal and in situations where adherence to the rules was largely upheld (Tanzi & Shome, 1993).

In other cases, sanctions have proved to be ineffective (Grasmick & Bursik, 1990; Sherman, 1993; Tyler, 2006) and counter-productive (Taylor, 2006; Wenzel, 2001; Gauthier & Reinikka, 2001; Fjeldstad & Semboja, 2001; Fjeldstad, 2001; Bergman & Navarez, 2006; Mittone, 2006; Kirchler, 2007) to enhance compliance behaviour. For example, in Tanzania and Botswana (Gauthier & Reinikka, 2001; Fjeldstad & Semboja, 2001; Fjeldstad, 2001), the perception of unfairness and injustice during sanctioning by TAs have been a determinant in the non-compliant environment. The increased use of sanctions as an enforcement measure by TAs to influence compliance has also led to increased overt dishonesty due to a growing environment of mutual distrust (Torgler, 2002; Kirchler, 2007). This discouraged development of a culture of conformity with the norms by governments (Bergman & Navarez, 2006; Mittone, 2006; Kirchler, 2007). In Argentina, for example, (Bergman, 2002; Sandmo, 2005) this has resulted in an environment of non-compliance as empirical evidence suggests that people's belief that non-compliance is widespread influences them to also not comply (Alm, 2012).

Regardless of contradictory theoretical predictions, researchers have been lenient in recognizing that the effective management of sanctions can influence tax compliance, although it cannot fully account for the degree of actual compliance behaviour (Erard & Feinstein, 1994; Andreoni et al., 1998; Slemrod, 2007; Torgler, 2007). This finding gained support from Alm, et Al. (1992) who suggests that compliance is not always caused by

weighting audit probability or an extreme risk aversion as advocated by Expected Utility Theory (EU).

Attempts to understand the determinants of the sanctions' effectiveness in influencing tax compliance revealed that the way risks are described, and the way in which decision-makers' preferences are expressed (descriptive and procedural aspects) (Casey & Scholz, 1991) influences taxpayers' compliance decisions. Literature reveals the prevalence of tax policy weaknesses that institutionalises possibility of resolving disputes through amicable settlements between taxpayers and the TAs, and in an environment characterized by weaker enforcement measures (Tanzi & Shome, 1993; Franzoni, 1999). This has opened up the space for corruption and injustice. The complexity and fragmentation of tax legislation has encourged taxpayers to seek tax experts (accountants) on tax matters (Braithwaite, 2005; Webley & Ashby, 2010), and these have been crucial in shaping their compliance decisions (Webley & Ashby, 2010). Thus, the study reflected on how to improve the deterrence effect of sanction, a VAT compliance factor.

Although sanctions are informed by the traditional economic theory drawn from income tax perspectives, these have proved to be effective and in some countries counter-productive in influencing tax compliance. However, its deterrence effect has been determined, by the countries contextual particularities. The economic theory assumption that individuals will pay their taxes due to threat of external sanctions provides not only an individualistic approach but also has less practicability, as sanctions cannot fully account for VAT taxpayers' compliance behaviour. The emphasis takes the taxpayer (individual) as the unit of analysis. The practice of VAT non-compliance is an event generated by structurally and contextually embedded dynamics, cutting across disciplinary lines. Therefore, a theory that account only for taxpayer utility maximization, considering taxpayers as unit of analysis, not only underestimates the influence of constraints in a

society, but it also, restricts taxpayers' rational capacity to make a cost-benefit analysis. The danger in drawing on such premises to address VAT non-compliance challenges is evident. This could mislead the identification, design and implementation of suitable strategies to target VAT non-compliance. This could also prompt the failure to recognise resultant forms of stereotyping and stigmatization of "unpredictable strangers" in designing strategies for VAT non-compliance management. Without disregarding the merits of economic tax compliance literature, and that of the effectiveness of sanctions in influencing compliance behaviour, its important to recognise, that sanctions' deterrence effects are likely to differ depending on the economic, social, political and cultural contexts. A wider dimension of analysis, taking into account socio and fiscal psychological factors into the framework to address VAT non-compliance, enabled researcher to understand and interpret how and when sanctions have been effective, how process and tax policy could be developed to improve the dynamic to strengthening or weakening its deterrence effectiveness. A review of the socio-psychological theory on tax compliance is presented in the section below.

3.2.2.2 Socio-Psychological Theory on Tax Compliance

Sociologists, unlike economists that used deterrence models, have explained tax compliance through a wider lens. They extrapolate predictions based in calculus that reduces complex human dimensions to numerical measures. Without denying merits to economic theory, sociologists emphasize the importance of a socially constructed environment to induce or discourage tax compliance. This provided insights to understand what and how social factors influenced Vat non-compliance and how these could be accounted for in a possible compliance framework.

The pertinence of the social psychological factor arises not only where economic factors have been inadequate and counter-productive (Tyler, 2001; Wenzel, 2001; Gauthier & Reinikka, 2001; Fjeldstad & Semboja,

2001), but also with the major difficulty of TA in detecting (non-recorded) cash transactions (Rothengatter, 2005). TAs lacks oversight in the cash economy (Rothengatter, 2005). In other cases, sanction is for various reasons regarded as minimal due to expensive and complex legal procedures (Rothengatter, 2005). Therefore, understanding how social factors could be capitalized upon to influence compliance decision-making became relevant. A revision of some social psychological models provided the researcher with insights to understand, the influences exerted by social factors in forming an intention, decision and preference to comply or not. In this context, the study selected Compositional Modelling, Theory of Reasoned Action, Attribution theory and Equity theory to highlight the avenues for proposed non-compliance approach by TAs.

Compositional modelling views personal preferences to determine the individual's deliberate or reasoned action. It recognises that people usually consider the implications of their actions before they decide on or form an intention to engage or not in a given behaviour (Atax, 2009), and that such intention, directly translates into behaviour, without any further influences (Azjen & Fishbein, 1980; ATAX, 2009). Although the model ascribes behaviour to the individual sphere, recognising some level of reasoning of implication and deliberate action to satisfy personal preferences, it overlooks the influences of social context.

This is explored in the Theory of Reasoned Action. Although the theory recognizes personal nature similar to compositional modelling, it also recognizes social influences as the second basic determinant in forming individuals' intentions. The theory assumes the individual's attitude towards behaviour to be either positive or negative and further suggests social influences (subjective norm) or the person's perception of social pressures to perform or not perform certain behaviour. This theory advocates that individuals tend to perform the behaviour (comply or not), when they evaluate it positively and believe that others (whose opinions they value)

think they should perform it (Cialdini, 2007; Roth, 1989). The testing of the theory in tax evasion research indicated that communicating to taxpayers about their personal and social responsibilities could improve taxpayer's intention to comply (Cialdini, 2007).

Kelly (1973) positing a deeper insight into the personal and social and/or external factors in Attribution Theory assumes that individuals rationally interpret and analyse events in order to understand casual structures. Instead, when judging their own behaviour, people normally tend to believe the cause of the behaviour is due to external attributes. For example, "I am a tax evader because government wastes my taxes, thus that is not my fault". However, when judging others, people generally attribute the outcome to being caused by their own internal attributes, for example, "he is a tax evader, because he is a bad person" (Lewis, 1982; Arrington & Reckers, 1985). This highlights the restoration of equity that has been advocated by Adams (1965) and reveals expanded dimensison of personal to social influences when judging causes of compliance.

The Theory of Equity suggests that individuals are more likely to comply with rules (Spicer & Becker, 1980; Kings & Sheffrin, 2002; Togler, 2002) if they perceive the equity in the system that determines those rules. In this context, in cases where there are perceived inequities, individuals will adjust their inputs into the exchange until equity is restored. This theory suggests that compliance could be improved by addressing inequities in the exchange relationship between government and taxpayers.

In light of these theoretical insights, a revision of socio-psychological factors, also known as the "soft facts" (Alm, Cherry, Jones & McKee, 2010; Eichfelder & Kegels, 2013) highlights various factors influencing tax compliance decisions such as fairness of the system and mental accounting (Thaler, 2000); efficiency in administration (Adams & Webley, 2001; Fjeldstad & Heggestad, 2012); co-operation (Frey &Torgler, 2007); social

norms (Culllis & Lewis, 1997; Wenzel, 2004; Webley & Ashby, 2010), culture (Schein, 1996; Sackmann & Phillips, 2004; Kirchler, 2007); attitude (Sackmann & Phillips, 2004; Torgler, 2003); institutional values (Kasper & Streit, 2000; Martinez-Vazquez & McKee, 2001); social identity (Adams & Webley, 2006; Webley & Ashby, 2010); cultural transmission (Togler & Schneider, 2002; Cummings, Martinez-Vazquez & McKee, 2001); and group communication (Bosco & Mittone, 1997).

Despite all these social factors, the study focused on effective VAT invoices administration and mental accounting, as elected design intergrated elements (Vat compliance factors), to influence compliance in Mozambican context. The approach could be more oriented, and capable to account for structural forces and culturally specific dynamics amongst social actors (Rothengatter, 2005). This enhances better understanding of taxpayers "situated action and vocabularies of motive" (Rothengatter, 2005) both produced by social actors. It also anables to capture social actors' management relationship and developed partnership in the dynamics of tax compliance (Stoke & Hewitt, 1976; Granovetter, 1985; Rothengatter, 2005). This implied targeting the micro (recursive complexities at an individual agency) analysis, within the context of the broader structural (macro) level crucial for improving practicability and promt individual and collective outcomes (Rothengatter, 2005).

Internal social control (through socialization and re-socialization) proved to be an effective and efficient avenue for both formulating and internalizing tax compliance norms, values and obligations as long as these are underpinned by a broad-based sense of national identity and concomitant civic loyalties (Rothengatter, 2005). Social factors have proved to influence "consequential situations and alternative "acts of social conduct" (Miles, 1963, p.44, in Rothengatter, 2005) that mitigate tax non-compliance, reducing the expensive forms of external regulatory enforcement initiatives

and providing tax administrators with the option of more suitable, meaningful and appropriate VAT non-compliance approaches.

3.2.2.3 Can the effectiveness of VAT invoice administration influence tax compliance?

The limitations of tax compliance theories in recognizing the importance of VAT-invoice administration to influence VAT compliance are discussed with the emphasis on the practice VAT invoice related fraud and evasion. Therefore, possible understanding of how invoice related fraud and evasion occur, the environment prompting the phenomenon and actors involved, could enlighten the establishment of an adequate platform to reduce opportunity for VAT-invoice related fraud and evasion.

The Socio-Psychological Theory on Tax (VAT) compliance revealed taxpayers' perceptions of the efficiency of the TAs Administration to influence VAT compliance behaviour (Adams & Webley, 2001; Fjeldstad & Semboja, 2001; Nkwe, 2013) in both developed and developing economies. TA, crucial to build compliant environment, relates such perceptions to taxpayers feeling of unequal treatment. However, the theory considers administration in general as cutting across taxes. Despite evidence of the importance of VAT invoices in tax compliance decisions, most tax compliance approaches have obscured the relevance of VAT invoice administration. This suggests an efficient invoice administration and strong internal controls (Anyaduba, Eragbhe & Kennedy, 2012) that could respond to the demands of consumption VAT based on credit method and the destination principle. Improved VAT invoice administration and control, is further urged by the fact that VAT invoices have revealed to be more important than money itself, in serving as a basis from which VAT revenue is collected (Ayres & Braithwaite, 1992; PWC, 2009; Anyaduba, et al., 2012).

In a more particular way, inefficiency in VAT invoice administration suggests that VAT evasion is mostly caused by the use of fictitious invoices (Murray, 1997; Liu & Feng, 2001; Ernst & Young, 2013). This supports findings demonstrating VAT evasion practices to be mostly attributed to invoice-related fraud (the use of fake and forged invoices) in Mozambique (Shenone, 2004; Nathan Associates, 2004; Bolnick & Byiers, 2009) and worldwide (Agha & Hauton,1996; Le, 2003; Koeng, 2005), influenced by existing inadequacies of tax administration. However, despite evidence of the importance of VAT invoicing, the role of key actors in this process have been overlooked compliance.

Other researchers, having recognized the importance of VAT invoices to influence compliance behaviour, have proposed as one of the alternatives the allocation of a reasonable reward (Ayres & Braithwaite, 1992), in example, China, Thailand and Vietnam (Arnst, Borges & Ribeiro, 2004). Tax lottery vouchers have been introduced in some developing countries. In this system, retail tax is calculated directly from receipts acquired by retailers, thereby facilitating the management and control of VAT collected. The customer has an incentive to request receipts because each receipt has a scratch lottery that may award a large premium versus the receipt amount.

Another suggested alternative is the reward system based on reporting violations against invoice regulations, aiming at involing consumers in monitoring processes on VAT invoice management (Ayres & Braithwaite, 1992). However, researchers do not elaborate more on how this should be implemented.

In this context, Ayres and Braithwaite (1992) and Alm, Cherry, Jones and McKee (2010) suggest an alternative to encourage consumers to request such invoices themselves by introducing a reward system on reporting violations against invoice regulations to increase the effectiveness of invoice management. Although the approach might have its merits, it fails to

elaborate more on how a TA could address VAT invoice related fraud ans evasion, bringing into the process other involving actors. It offers limited platform to discourage the acceptance of collusion offers between taxpayers and final consumers (agreement between the two to evade VAT payment, for competitive pricing in the market and “paying less” for goods or services, respectively) (Mittone, 2001).

The literature on how TAs are attempting to circumvent VAT evasion indicates a heavy reliance on the shifts from manual to electronic VAT invoice system (PWC, 2009) in both developed and developing countries, including South Africa, Kenya and Mozambique. However, e-invoicing and e-taxation cannot solely reduce the significant gap between actual and potential collection that prevails in Mozambique (Versano, 2007; Castro et. al., 2009) and in other African countries (IMF, 2001). Therefore, factors such as, operating systems, capacity of human resources, and stakeholder partnerships, are crucial to interplay with the technology.

Therefore, addressing VAT non-compliance demands more than the mere focus on switching from manual to electronic invoicing management. However, focusing on administration of VAT invoicing has been overlooked in most of the VAT compliance approaches; in spite of increased VAT invoice related fraud and evasion. This highlights the importance of improving the efficacy of VAT invoice administration through an efficient, coherent and more sustainable management control, unlike the adoption of proposed rewards systems that might be short-lived and financially unsustainable due to for rewarding purposes. Revisited literature on fiscal psychological theories of tax compliance, provided insights into the influences exerted by social factors in forming an intention, decision and preferences to comply or not.

Although a range of methodological approaches could demonstrate the models, this study selected Compositional Modelling, Theory of Reasoned

Action, Attribution theory and Equity theory to illustrate the process from which intention and/or decision is formed. This highlighted avenue for developing sustaining strategic action to discourage non-compliance. Whilst Compositional modelling views personal preferences to determine individuals deliberate or reasoned actions, whereby people consider the implications of their actions before they decide or form an intention to engage or not in a given behaviour, it neglects the influence of social context. On the other hand, similar to compositional theory, the Theory of Reasoned Action recognises the influence of personal nature but adds social influence as a second basic determinant, suggesting social influence (subjective norm) or the person's perception of social pressures to perform or not perform the behaviour as being important in determining tax compliance. The testing of the theory in tax evasion research suggests that communicating to taxpayers about their personal and social responsibilities could improve the taxpayer's intention to comply.

Attribution Theory, on the other hand, assumes that individuals rationally interpret and analyse events in order to understand casual structures. These, when judging own behaviour, normally attributes the cause to external factors. The Theory of Equity suggests that individuals are more likely to comply with rules if they perceive the system that determines those rules to be equitable and that compliance could be improved by addressing inequities in the exchange relationship between government and taxpayers. Despite the merits, these approaches, including the rewarding system, remain limited to explaining the dynamics of VAT invoice administration and control. These fail to capture interacting roles of key actors in the dynamics of VAT non-compliance. Therefore, an overview of mental accounting – which remains a crucial factor in VAT compliance literature – is presented to understand how individual mindsets influence compliance.

3.2.2.4 Managing mental accounting to influence tax compliance

Mental accounting is a tax compliance factor drawn from the socio-psychological theory of tax compliance. Described as a mechanism whereby income is framed in respect of personal finance, mental accounting is defined as the way business people think about the VAT money they collect (Thaler, 2000; Adams & Webley, 2001; McCaffery & Slemrod, 2006). Although largely ignored in the tax compliance literature, decision frames have proved to influence tax compliance (Winnet & Lewis, 1995; Adams & Webley, 2001; Webley, et.al., 2006). Adams and Webley (2001), using a combination of survey data based on twenty-seven people from the catering, flooring/furnishing and building sectors in the United Kingdom, when analysing whether taxpayers psychologically separated monies owed as VAT into separate mental accounts from that of the business turnover, they found that most business people saw VAT money they collected as theirs and therefore were reluctant to hand it over to the TAs.

This feeling of ownership of the VAT money collected was found to be associated with the way taxpayers understand or perceive (form and frame) VAT money collected (McCaffery & Slemrod, 2006), irrespective of the occupational group an individual belongs to or the norms of the group (Webley & Ashby, 2010). However, business owners (taxpayers) to whom it had been made clear that VAT money is only collected and never possessed, were found to be less associated with the frame of “loss” or ownership of VAT money collected (Adams & Webley, 2001).

Empirical studies suggesting alternatives to discourage the feeling of ownership have revealed that targeted VAT fiscal education and the redistribution of VAT money is necessary for taxpayers to establish an automatic cost-benefit association (Prelec & Lowestein, 1998; Thaler, 2000; Kamleitner & Holzl, 2009). It was also revealed an important premise to discourage the feeling of ownership. Adams and Webley (2001) who suggest that most business taxpayers had a limited understanding of the

relationship between public goods or benefits and tax paid supported this approach. Additionally, some taxpayers tended to be unaware of what they pay for (Adams and Webley, 2001). The findings also suggest more effective orientation of TAs to target taxpayers' mental frames and to discourage the frame of "loss" of VAT money collected when handed over to the TA. However, revisited literature indicates that TAs can improve mental accounting management through targeted fiscal education, effective and participative training and improved communication amongst stakeholders (SARS, 2011; SARS, 2012; Fjeldstad & Heggestad, 2012). This could improve the understanding of the precept or form of VAT money and the role of the taxpayer as tax collector.

Although mental accounting has been revealed to be one of the most important factors in VAT compliance in recent studies, the various interpretations are limited to the effects of framing and form of their mental separation of VAT monies, influencing their willingness (or not) to submit VAT to the TA. In this context, the approach failed to address one of the important assumptions of the socio-psychological paradigm that recognizes the taxpayers' rational capacity to obtain the information that shapes their compliance decisions from institutions and the environment through social interaction. The study addresses mental accounting within the premises of institutional theory, as it has the capacity to influence compliance behavior through cognitive, informal and motivational information, whilst recognizing the central role of the TA. Improved interaction and accountability between the government and taxpayers could find its basis in system theory. Consequently, the focus is on actions to help taxpayers to psychologically separate monies owed as VAT into a separate mental account from that of business turnover. In this case, if taxpayers do not separate accordingly, they may be more likely to try to evade VAT because of seeing it as "their" money (Adams & Webley, 2001; Webley, et al., 2006; Webley & Ashby, 2010).

In this context, in spite the fact that taxpayers' mental framework, enabled taxpayers to be informed and encouraged to modify their behaviour, it could not solely account for compliance. It is limited and fails to address one of the core postulates of the socio-psychological paradigm that recognizes taxpayers' rational capacity to obtain information from the environment. For example, TA regulations, codes of conduct, symbols, enabled through social interaction to shape their mental approach and behavioural response to the environment. Despite this shortcoming, the approach provided basis for developing a more practical and focused orientation to discourage non-compliance.

The Socio-Psychological Theory on Tax compliance as explained in the literature indicates that, although the theory provided insights into the predictions and understanding of human behaviour, and the influences of taxpayers' decision framing, it shaded light to the dimension of human complexity in the practice of VAT non-compliance. It brought to light the importance of contextual aspects in determining VAT non-compliance. Unlike the postulates of economic psychological theory on tax compliance, considering taxpayers (offenders) as unit of analysis, it elevates the influence of Tax system, administration and others socio-psychological factors, in addressing tax non-compliance. Therefore, a revision to the fiscal psychology theory of tax compliance, have enabled to understand how factors associated to it, could be accounted for in the proposed alternative approach for VAT non-compliance management.

3.2.2.5 Fiscal Psychology Theory (Economic-Socio-Psychological Theory) on Tax Compliance

Revisions to the Fiscal Psychological Theory on tax compliance has been motivated by the findings of empirical studies on tax compliance which suggest that neither Economic nor Socio-psychological models fully explain tax non-compliance. On the light of this backgrougnd, the study adopted this theory to inform the platform for improving VAT non-compliance management.

Fiscal psychological models inductively examine the attitudes and beliefs of taxpayers in order to predict actual behaviour. The basis of this reasoning is suggested by Ajzen and Fishbein (1980), positing attitudes to be unbiased indicators of real behaviour. The theory views tax enforcement as a behavioural problem that can be resolved through co-operation between taxpayers and tax collectors (Cullis & Lewis, 1997; McKerchar & Evans, 2009, Atax, 2009). However, improved co-operation can only be attained if greater emphasis is placed on the role of the tax system in providing positive stimulus (such as decreasing penalties). The theory suggests three ways in which it functions in contributing to the attitude of the taxpayer: taxpayers' tax mentality, feelings of tax tension, and tax morale (McKerchar & Evans, 2009). It posits that the more positive the taxpayer's attitude is towards paying taxes, the greater the level of co-operation with the TA and the greater the willingness to pay tax (Schmolders, 1970; Hasseldine & Bebbington, 1991). Nevertheless, fiscal ignorance may be a negative influence on taxpayers' attitudes (Schwartz & Orleans, 1967). This has also gained support from the OECD (2004), which suggests that compliance is most likely to be optimised when TAs adopt a citizen-inclusive approach to compliance. In this case, it has to be based on policies that encourage dialogue and persuasion, combined with an effective mix of incentives and sanctions. Gill (2003) suggests that TAs in their administration should consider a co-operative and positive engagement with taxpayers in a customer-service focused and user-friendly environment. This could be

more productive and efficient in influencing compliance than the traditional approach (use of sanctions and audit).

On the other hand, Lewis (1982) observes that the central frame of reference should be what taxpayers' perceptions actually are, rather than, what they are assumed to be, based on their rational and self-interested assumptions (Hasseldine & Bebbington, 1991). However, the importance of theoretical analysis is recognised as underpinning a relationship that can be tested in behavioural research. Recent discourse suggests that economic and socio-psychological theory can be seen as being complementary rather than diametrically opposed. The government, TAs and other organizations can implement such models to discourage non-compliance (Hasseldine & Bebbington, 1991). Hessing, et.al. (1988) proposed two broad categories, after the revision of ten theoretical models. These concerned the incorporation of aspects related to tax policy and administration, including perceptions, attitudes and beliefs of individuals into the models. These findings were supported by Lewis (1982) and Weigel, Hessings and Elffers (1987) in their studies. In his tax evasion model, Lewis contemplates a profile (age, sex, socio-economic, background, education and occupation) of taxpayers with high propensity to evade which can potentially be developed from an examination of taxpayer attitude and beliefs. This facilitates the identification of reasons for non-compliance and identifies appropriate measures to be taken to change such attitudes and behaviour.

The fiscal psychological theory of tax compliance provides crucial platform from which TA could develop strategies to target VAT compliance behaviour, as the theory accounts for both economic and socio-psychological factors. Although it places more emphasis in encouraging greater co-operation from taxpayers, the way in which such engagement and interconnectedness could be instilled to discourage non-compliance, suggests an understanding of the context informed by system theory.

3.2.3 System Theory and its influence on Tax Compliance Management

The System Theory (ST) provides insights into a possible approach to address VAT non-compliance. The concept of system has been extensively developed and employed in the last few decades. The core theory and precepts underlying the academic discipline of System Theory (ST), also known as general system theory or systemic theory, are credited to Karl Ludwig von Bertalanfyy (1901-1972) who developed one system theory in the1950s.

The General System Theory (Bertalanfyy, 1968) has been variously defined in the literature. It has been regarded as “a group of interaction components that conserves some identifiable set of relations with the sum of their components plus their relationships (i.e. the system itself), conserving some identifiable set of relationships to other entities (including other systems)” (Straussfogel & Schilling, 2009, p.151). Principia Cibernetica Web defines Systems Theory as the “transdisciplinary study of the abstract organization of phenomenon, independent of their substance, type or temporal scale of existence. It investigates both the principles common to all complex entities, and the (usually mathematical) models which can be used to describe them” (Heylighen, 2000). It has also been defined as “a set of related components that work together in a particular environment to perform whatever functions are required to achieve the system objective” (Midgley, 1992). Another definition, posits it to be a set (with common properties) of interacting units with relationships amongst them (Von Bertallanffy, 1968), where the sets are necessary if these units are expected to interact or form relationships.

These become associated with process, interrelation with interaction and opposites are unified through oscillation (Morgeson, Mitchel & Liu, 2015), bringing together principles of different fields of knowledge. This enables provision of solutions to “problems” that are expected to be addressed in isolation from interrelated components, in which all occurrences are

interconnections of relationship amongst components of the system (Boulding, 1953; Bánáthy, 2000; Sterman 2001; Iles & Yolles, 2003).

However, attributes of ST that could be applied to respond to the intention of the study have been revealed differently in various empirical studies. These include complex interactions, identifying dysfunction and functional processes, organizing thoughts about complex issues, understanding chaos, history, changes and unpredictable processes, and enhancing new practices and new ways of thinking (Midgley, 1992) within the dynamics of tax compliance. An understanding of the relationship amongst the three worlds (natural, social and internal) has enhanced this new view of complexity (Midgley, 1992). The new ideas are the result of combining the planes of knowledge (Koestler, 1964). Systems Theory also enables the examination of phenomena on different levels making valuable observations and interventions at all levels (Scheflen, 1981). However, Systems Theory not only examines the sum of interacting parts, it also looks at different levels of organization (Miller, 1978) and provides a general view of the problem under review, by making observations at one level and capturing adequate intervention for that specific level (Spronck & Compernolle, 1997). In spite of the popularity of system concepts and models and their influence across a broad spectrum of disciplines in the 1960s and 1970s, it came to be viewed with increased scepticism with the emergence of post-modern critique of the promise of technological progress that fuelled the counter-cultural movement of the 1960s (Hammond, 2012).

Irrespective of its importance, ST have been critized by various researchers, for being inadequate to describe individuals' responsibilities, since the sum is greater than the parts (Merkel & Searight, 1992) and limited to recognise individual perspectives emphasizing interaction (Willbach, 1989). The theory was also posited to be unable to speak of power or any other forms of linear casualties (Dell, 1989) and for failing to enable change in others through exercising power (Anderson & Goolishan, 1990; Dell, 1989). ST

also revealed to contradict human nature in “striving for power, control and definition of relationships (Dell, 1989). Other findings have indicated that ST serves only to justify the claims of power and prestige of the technocratic elite (You, 1993) and may be viewed as the ideology of the planner and the bureaucrat, rather than working well enough to be considered on its own merits. Whilst Dell (1989) as well as Bijker, Hughes, Pinch and Douglas (2012) and others were in agreement that System theory may not work especially well, in particular for addressing the problems of the cities in the 1960s; some authors considered these to be a limited explanation.

Inspite of the above counter-arguments to the ST, it is important to note that, scholars have posited their critiques to the practicability of complex regulation, inducing muti-interpretation and malfunction or failure in one part of the process (Caldwell, 2012; Cavalerie & Seivert, 2012; Burns, 2006; Fischer-Lescano, 2012). Critiques were also assented on the limited dynamic component characteristic that results in static interactions amongst components that negatively influence the performance of the system (Wagner, 1997; Elder-Vass, 2007; Hofkirchner & Schafranek, 2011). Underpinnings of the critics, have elevated suspects on the functionality of ST and was almost abandoned along with strategies and institutions that had previously supported it (Hammond, 2012), but the post-modernism have proved its importance.

In this context the counter-arguments have been minimized by some scholars who suggest that criticism is limited, overlooking many recent developments that cut across disciplinary lines, coupled by some lack of knowledge on aspects that encompass change and healing in systems. This is also supported by researchers positing that ST not only looks at wholes of interacting parts but also at different levels (Miller, 1978; Midgeley, 1992; Compernolle, 1986). System thinking continues to be an influential model of thought that remains the commonly held view of what the system idea has to offer (Morgan, 1989). The System has been constructed to predict

consequences of intended actions, from which it supports the choice of an optimal action to meet a desired solution or feedforward control (Jenkins, 1969; McPherson, 1981; Flood & Carsons, 1993). This gained support from Wolstenholme (1990) by creating a model of a real-world system. This studies the dynamics with the objective of improving problematic system behaviour located through the model. Senge and Sterman (1992) in examining the System dynamic at the Massachussets Institute of Technology promoted a high level of interest in system dynamics as it contributed to organisational learning.

ST attributes have been revealed to be crucial to inform the study for facilitating the interpretation of complexity and multiplicity, and dynamics of interrelation in an environment where VAT compliance management operates. It provides insights to understand how the tax system, VAT invoice administration and control, and key actors' interactions (interpersonal and intrapersonal), could be employed to discourage non-compliance, without reducing perceptual phenomena to the level of individual stimuli. This could, facilitate the understanding of the micro and macro processes inducing non-compliance. System theory premises provide insights that allow for examination of the interacting parts as well as the different levels of the parts (sub-system) within management process systems.

The review of the theoretical literature indicates that both the Institutional Theory and the Psychological Theory on Tax Compliance explain how compliance behaviour was influenced, although from different mechanisms and processes. Institutional Theory shapes people's compliance behaviour and co-operation that are crucial to enhance compliance. Hence, institutions as mental codes were used to improve the efficacy of sanctions, VAT invoice administration and mental accounting, in seeking to prevent VAT non-compliance, by using and implementing the institutions effectively. A revision on the economic theory of tax compliance, the socio-psychological

theory of tax compliance, and the fiscal psychology theory and system theory enabled to depict avenues to acquire an in-depth understanding on tax compliance factors' strengths and weaknesses, crucial to improve the practicability of the approaches to manage the VAT most common evasion practice.

Although sanctions, drawn from income tax perspectives and informed by the traditional economic theory, have proved to be an influential factor in VAT compliance, this does not fully account for VAT taxpayers' compliance behaviour. The fact that it places strong emphasis on taxpayers´ utility maximization behaviour, overlooks the strong influences that are generated by structural and contextual environment, embedded in the dynamic of the practice of VAT non-compliance. Its individualistic approach offers less practicability, and restricts taxpayers' rational capacity to capture information form the environment. It overlooks the influence of socio and fiscal psychology theories. Drawing on such assertions may undermine effective strategic orientation, leading to failure in recognizing resultant forms of stereotyping and stigmatization of "unpredictable strangers" in VAT non-compliance management. These deficits may be responsible to some extent for the continued high levels of non-compliance in both developed and developing economies, including Mozambique.

Developed within the frameworks of institutional premises, the study adopted the fiscal psychological approach of tax compliance. It recognizes the influence of both economic and social factors, in VAT non-compliance management, and views tax enforcement as a behavioural problem that can be resolved through co-operation between taxpayers and tax collectors. The adopted approach places more emphasis on the role of the tax system in providing positive stimulus (e.g. decreasing penalties). However, this could be assessed based on three factors, namely taxpayers' tax mentality, feelings of tax tension, and tax morale, in order to establish the attitude of the taxpayer. The study provides an alternative approach, developed within

the premises of institutional theory, integrate social and fiscal psychological factors to address VAT related fraud and evasion, within the context of Mozambican.

The effectiveness of sanctions in influencing compliance behaviour differs based on the economic, social, political and cultural contexts. A focused orientation reduces the opportunity for VAT fraud and evasion practice and enhances VAT non-compliance management. System Theory was used to enable the researcher to understand the internal and external environment in which VAT non-compliance management operates, the components involved in the process, the information system, and the objective to be achieved. The complexity of VAT non-compliance management within its interconnectedness of factors and complementarity demands a deep understanding of intrapersonal, interpersonal, intergroup and human engagement between the key role-players without reducing perceptual phenomena to the level of individual stimuli. Therefore, to capture emerging parallelism cutting across disciplinary lines system theory informed the conceptualization of the study's approach as presented below.

3.3 CONCEPTUAL FRAMEWORK

The context, problem and purpose of the study, definition of key concepts, potential for using particular attributes, relationship between attributes, theoretical arguments and their limitations towards proposed approaches, are presented, to refine the structure and direction of the research. The study explores how institutions could improve the effectiveness of VAT compliance factors in discouraging non-compliance. It capitalizes on institutional traits that offer an adequate framework for an actor-centred analysis. This could provide insights to the dynamics of VAT non-compliance tied to contextual reality in general, to understand how relationship between key actors and their interaction, related drivers of change and other social and cultural structures, could interplay within the dynamic of the practice of VAT non-compliance. These were analysed through the lens of System theory (ST).

3.3.1 Context, problem and purpose of the study

Managing VAT non-compliance remains challenging for the Mozambique TA, notwithstanding, tax policy and administration reforms, and improvement on technology, training, fiscal education, e-taxation and e-invoicing in their pilot phase (Nathan Associates 2004; Bolnick & Byiers, 2009; Castro, et al, 2009; Fjeldstad & Heggestad, 2012). Heavy reliance on sanctions, door-to-door invoicing control and fiscal education to influence VAT compliance has failed to discourage and reduce opportunity for VAT non-compliance. In spite of the increased levels of tax collection in the years 2006 to 2016 (MF, 2011; MFc, 2012; MFb 2012, 2014), VAT yet to be collected remains substantial (Versano, 2007; Castro et al, 2009). Therefore, as little attention has paid to compliance approaches that do not cut across taxes, this study aims to reflect on a possible alternative approaches to VAT non-compliance.

3.3.2 Definition of key concepts

The premise of reasonable understanding of VAT management resides in clarifying the terminology of Value-Added Tax (VAT). The study adopts a definition of VAT as being an indirect tax based on consumption of goods and services in the economy. However, its collection by Government requires businesses (referred to as vendors that act as agents of the Government) to register and to charge and collect VAT on the supply of goods or services. In this case, the mechanism of charging, collecting and paying the VAT to Government is based on self-assessment. This allows the business to determine its liability or refund of tax. In Mozambique, the VAT system adopts a credit input method, which allows businesses (vendors) to deduct the VAT incurred on business expenses (input tax) from the VAT collected on the supplies made by the business (output tax). In other words, the burden of the VAT is on the final consumer.

In this study, Tax (VAT) non-compliance comprises a range of activities that are unfavourable to a state's tax system, including tax avoidance that is tax reduction by legal means and tax evasion that is the criminal non-payment of tax liabilities. In Tax (VAT) Compliance Theory, Sanction is defined as a punishment for not complying with VAT laws (evading VAT) whilst Effective VAT invoice administration refers to the process of using proper institutions, the manner of treating, directing or conducting it, to discourage VAT invoice-related fraud and evasion. In this context, if taxpayers believed the TA to be effective in administering VAT invoices, these were most likely to comply with VAT (Adams & Webley, 2001). Mental accounting means the way business people think about VAT money they collect (Adams & Webley 2001; Webley & Ashby, 2010) and institutions have been defined by North (1990, p.3) as being "humanly devised constraints that structure human interaction. These are made of formal rules (constitutions, laws and property rights), informal rules (taboos, customs, traditions and codes of conduct) and their enforcement characteristics". The definitions above are adopted by this study. System refers to "a set of interrelated components that work

together in a particular environment, to perform whatever functions are required to achieve the system objective" (Bertalanfyy, 1930).

3.3.3 Understanding the VAT framework on Psychological Theories of Tax Compliance: Limitations of revised approaches

Revised literature has shown that little has been produced in terms of VAT non-compliance (Andreoni, et al., 1998; Webley, Adams & Elffers, 2002; Webley & Ashby, 2010), whose basics of theoretical assumption, have been inherited from income tax (Webley, Adams & Elffers, 2002; Webley, 2004; Langham, Paul & Hartel, 2012). Theoretical models developed for VAT compliance proved to be of less practical use (Tanzi & Shome, 1993; Cullis & Lewis, 1997; Webley & Ashby, 2010) in discouraging tax non-compliance and targeting the commonest type of VAT evasion practice and its dynamics.

Insights into to develop a framework that could target VAT non-compliance specificities, suggests an understanding of the limits of economic predictions, how sanctions could have its deterrence effect improved (Sackmann, 1989; Turner, 1991; Schein, 1996; Cullis & Lewis, 1997; Alm, McClelland & Schulze, 1999; Sigala, 1999; Torgler, 2005; Kirchler, 2007; Webley & Ashby, 2010), and how VAT invoice administration and control and mental accounting, could be integrated to strengthen the platform for reducing opportunity to non-comply with VAT. These factors are conceptualized within the frameworks of institutional theory, and enabled researcher to understand, how and why tax compliance approaches cutting across tax (for all taxes), have failed to target and capture the dynamics of VAT non-compliance specificities.

3.3.4 Potential for using the three attributes in proposed approach to VAT non-compliance management

The use of sanctions, VAT invoice administration efficacy and mental accounting in the proposed approach have their theoretical basis in the Fiscal Psychological school of thought (Cullis & Lewis, 1997; McKerchar & Evans, 2009), where, both economic and social factors interplay to exert influence on taxpayers' compliance decisions. Therefore, the adoption of sanctions in the approach, is motivated for being heavily used by the Mozambican TA to address VAT non-compliance, in the previous six years (MF, 2011; MFb, 2012). Despite its limitations in influencing tax compliance (Erard & Feinstein, 1994; Torgler, 2007), empirical studies have also shown sanctions to be effectiveness in influencing compliance behaviour (acting as a deterrent). However, contextual environment and existing enfrcement characteristics, have determined its effectiveness as deterrence factor.

The use of effective VAT invoice administration drawn from socio-psychological tax compliance premises is adopted, as this theoretical approach, suggests that, if taxpayers perceive efficiency in TA administration (Adams & Webley, 2001; Fjeldstad & Heggestad (b), 2012), they are most likely to comply and vice-versa. Thus an orientation to VAT-invoice administration could provide a solid foundation for reducing tax non-compliance, mostly attributed to targeting VAT-related fraud and evasion (Shenone, 2004; Versano, et al*.,* 2007; Castro, et al*,* 2009; Versano, 2010) through the use of fictitious and/or forged invoices (Lee, 2003; Keong, 2005).

Although the use of mental accounting drawn from the socio-psychological theory of tax compliance enables the study to identify avenues to target taxpayers' mental frames in relation to the way they view the VAT money they collect (Adams & Webley, 2001; McCaffery & Slemrod, 2006), TA should focus on compliance strategies that could target and reduce the frame of "loss" or ownership of VAT collected (Prelec & Lowestein, 1998;

Thaller, 1999; Kamleitner & Holzl, 2009), whilst improving taxpayers' perceptions of their role as "unpaid" tax collectors (Braithwaite, 2003). Institutions as attributes of the study provide important propositions to develop a platform for VAT non-compliance approach. It provides information to individuals, as well as, the likely action of people, influence people's perceptions of reality (selection, organization and interpretation of information) and provides information of likely responses if caught evading VAT. It further enables socializing actors, which is necessary for building deepened partnerships, participative management and co-ordination amongst actors, within the paradigm of System Theory. These premises provide important foundations on which to build the VAT non-compliance approach.

3.3.5 Relationship of key concepts in answering the study research questions

Although both institutional and tax compliance theories have existed for more than thirty years in attempting to explain people's compliance behaviour, these have explained the mechanisms and processes to influence co-operation or compliance behaviour differently. Whilst the Psychological Theory of Tax Compliance indicates that sanctions, effective VAT invoice administration and mental accounting influence VAT compliance behaviour (Adams & Webley, 2001; Andreoni, et al., 1998; Kirchler, 2007; Webley & Ashby, 2010) through distinctive mechanisms and processes, Institutions have proved to influence co-operation (compliance) (North, 1990) from the management perspective. However, this has been conditioned by organization capabilities, drivers of change, and relationships with VAT stakeholders based on effective interaction and co-ordination (North, 1990; Bergman, 2009). Besides these external relationships, these attributes are revealed to be strongly linked to influencing taxpayers' compliance decisions. Sanctions can be crucial to promote the building of exchange relationships between the TA and taxpayers. This could replace coercion based on the severity of sanctions,

unclear procedures and their application and unfair distribution of tax burdens amongst taxpayers (Braithwaite, 2000; Adam & Webley, 2001; Taylor, 2001), which alleviates taxpayers, from the feeling of injustice and unfairness of the system (Webley & Ashby, 2010). Government should thus, enable improvements in the efficacy of sanctions, in building exchange relationships. This could reduce overt dishonesty, discouraging a growing environment of mutual distrust (Torgler, 2002, Kirchler, 2007) and developing a culture of conformity to norms by Government (Bergman & Navarez, 2006; Mittone, 2006; Kirchler, 2007). On the other hand, the use of effective VAT invoice administration in the proposed approach, creates the perception that the Authority is being distributive and procedurally fair to all registered taxpayers. In this case cross-checking, tracking of VAT invoice fraud and evasion reduces the opportunity for VAT invoice-related fraud and evasion practices and the system could then be seen to operate for all taxpayers and not only to those who are detected in the event of auditing (Tanzi & Shome, 1993) which has influenced VAT evasion. This fills the gap left by the economic approach (sanctions) as it cannot fully account for the degree of actual compliance behaviour (Erard & Feinstein, 1994; Andreoni, et al., 1998; Torgler, 2007; Slemrod, 2007).

Similarly, effective sanctions and VAT invoice administration efficiency on their own cannot fully account for VAT evasion practices (the use of fake and forged invoices) to which VAT non-compliance is mostly attributed in Mozambique (Shenone, 2004; Bolnick & Byiers, 2009; Castro, et al., 2009). Targeting mental accounting could improve the taxpayers' perception of VAT money itself and their role as unpaid tax collectors and consequently discourage the taxpayers' aversion to remitting collected VAT from buyers to TA. Institutions could thereby improve TA capabilities to create effective sanctions, targeting VAT compliance, and make VAT invoice administration more effective in discouraging non-compliance, through improved communication, co-ordination, co-operation and interaction amongst exchanging actors. The influence of those attributes on compliance

behaviour is positively related to organizations' capabilities, the system in which they operate, the drivers of change (learning, technology innovation, performance review and evaluation) as well as the relationships with stakeholders crucial to the platform of an alternative approach to VAT non-compliance.

3.3.6 Theoretical premises to establish a platform for the proposed approach to VAT non-compliance management

The establishment of the VAT non-compliance management approach presupposed a solid theoretical understanding, of economic, socio-psychological and fiscal psychological factors influencing tax compliance. This results from the fact that behavioural aspects mostly drive tax compliance factors. Therefore, identified Vat factors are expected to borrow premises from institutional theory, to improve their effectiveness in discouraging non-compliance. However, consolidation of co-operation and reduction of distinctive individual conflict of interest could be assented on System theory.

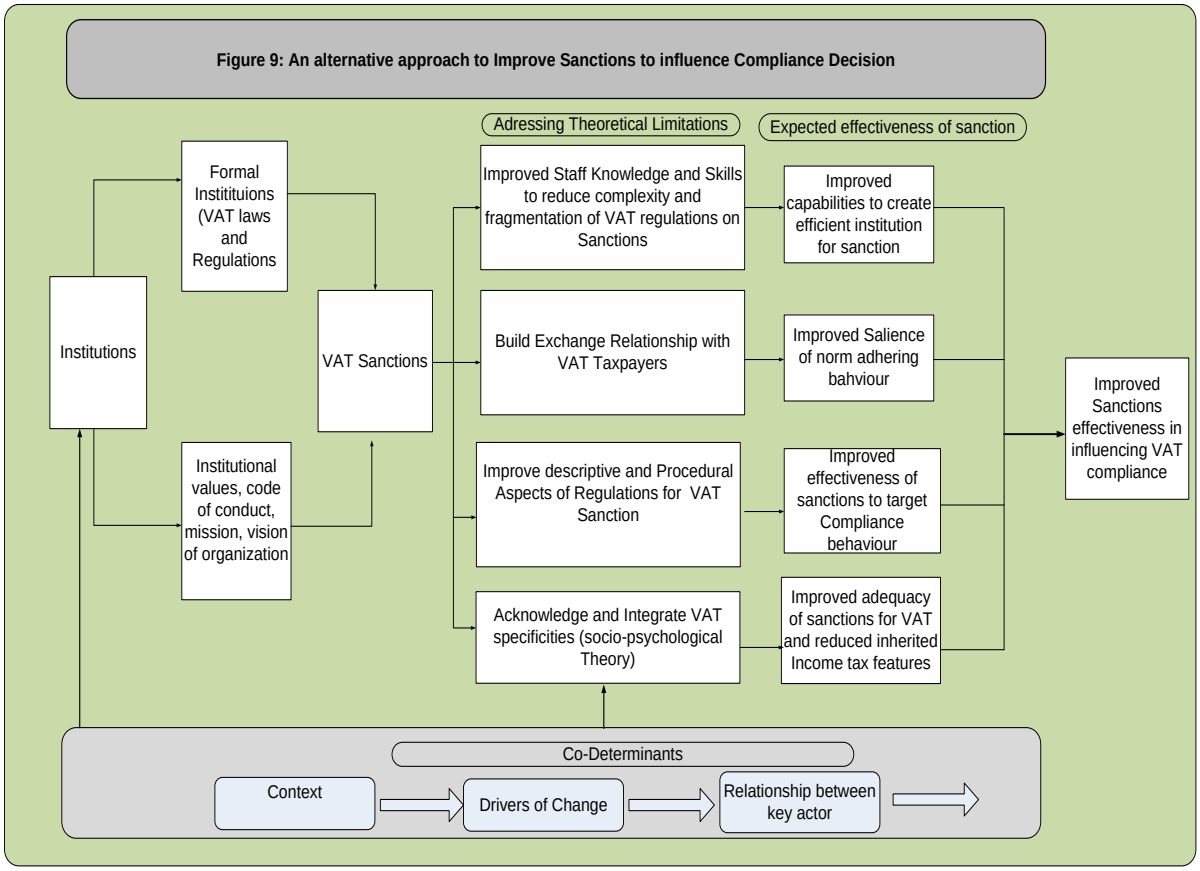
3.3.7 Management of VAT non-compliance: Improving deterrence effects of sanctions to influence VAT compliance

Regardless of economic deterrence limitations (Erard & Feinstein, 1994; Andreoni, et al, 1998; Slemrod, 2007; Torgler, 2007) the effectiveness of sanctions in influencing compliance behaviour, is positively related to the environmental context in which it operates (Tanzi & Shome, 1993; Adams, et al., 1996; Gauthier & Reinikka, 2001; Fjeldstad & Semboja, 2001; Fjeldstad, 2001; Bergman, 2009). The study proposes targeted actions which could contribute to improve the effectiveness of sanctions, as depicted in Figure 9 below, by working on descriptive and procedural aspects of sanctions, which inform the way risks of non-compliance and how decision-makers' preferences are expressed (Casey & Scholz, 1991). It also does this by, discouraging increased procedural rules, related to

possibilities of resolving disputes through amicable settlements between taxpayers and the TA. This creates opportunities for corruption and the taxpayers' perception that the tax burden is not being equally distributed (Franzoni, 1999). Furthermore, actions to reduce VAT complexity and legislation fragmentation (Franzoni, 1999; Webley & Ashby, 2010) are also analysed to enhance the compliant environment. These interventions are expected to improve the effectiveness of sanction as a dettrence factor and develop platforms to build collaborative relationships rather than the prevailing coercive relationships between taxpayers and tax officers. Figure 9 below, draws on the revised literature review and is conceptualized to address sanctions within the framework of institutional theory.

In this context, TA could assent on institutions to improve the effectiveness of sanctions in reducing non-compliance behaviour. However, to attain this, investment in knowledge and skills (North, 1990) is required in order to promote the capabilities of tax officers and legislators (law proposers), to not only reduce the complexity of sanction and the number of fragmented regulations (Franzoni, 1999; Webley & Ashby, 2010), but to also, shape taxpayers' perceptions of justice and fairness in the descriptive and procedural application of sanctions. Actions should therefore be directed to reduce loopholes and possible interpretation of sanctions and risks for not complying. Improvement of sanctions clarity and simplification, including its categorization and intervals, specified in the VAT Regulatory Decree no. 7/2008 and the General Scheme of Tax Offenses Decree no. 46/2002, could be made to reduce possibilities of misunderstandings and misinterpretations. Additionally, clarity on procedures for sanction could also discourage the possibility of resolving disputes through amicable settlement between taxpayers and the TA (Franzoni, 1999), from which in many cases corruption occurs (Fjeldstad & Heggestad, 2012).

Figure 9: Alternative Approach to Improving Sanctions to Influence Compliance Decisions



Source: Own, 2013

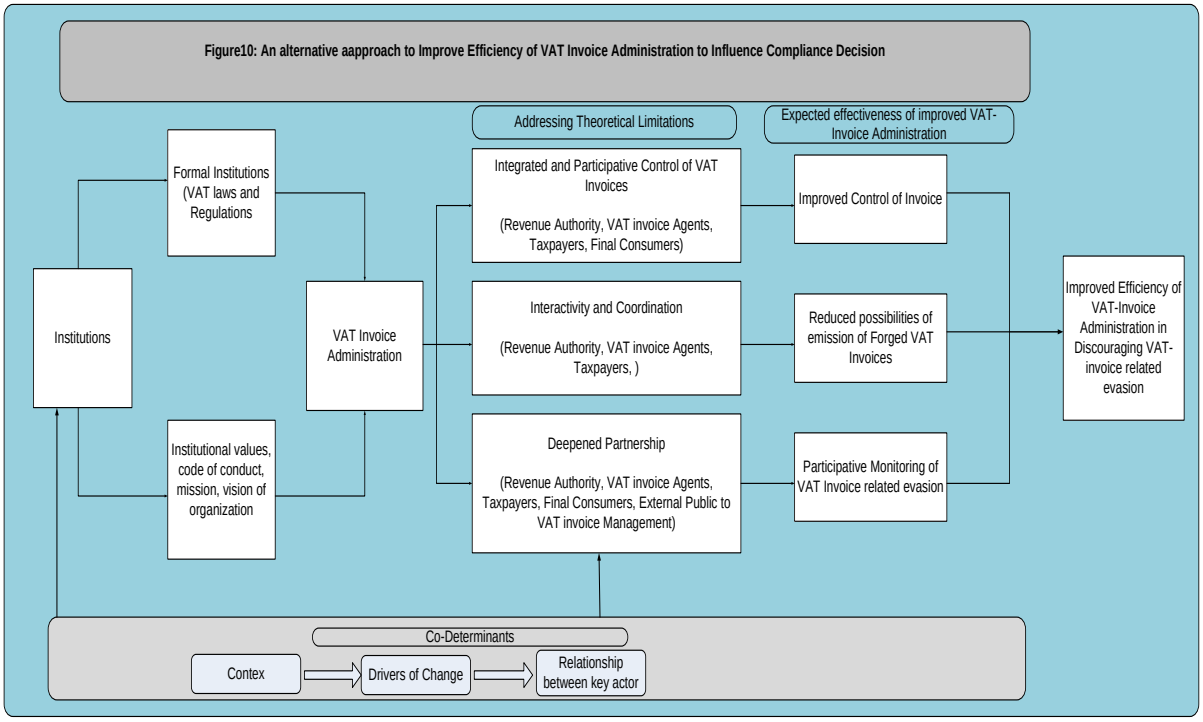
In this context, the institutional approach should be used to design and elaborate sanctions and ensure effective procedures are established, as part of the procedural roles as posited by Barley and Tolbert (1997). This could ideally become embedded in actors as a habit and encoded into ongoing actions, that are consistently repeated without further mediation. However, although an effective platform could be set to build an exchange relationship, sanctions could not be used to collect fines, but rather, to educate and build a tax culture of co-operation in VAT compliance. This action implies capable tax officers (Braithwaite, 2003) with skills to create, change, implement and manage sanctions, while accounting for rules, norms and beliefs, arising from ongoing interaction between key actors (North, 1990; Scott, 2008; 2008a), in the management of VAT non-compliance. The institutions could influence actions by enabling

socialization process, which facilitates people to internalize cognitive structures so that their roles become embodied in actors as habit and disposition (Bourdieu, 2018). However, the system in which it operates should be open to, and interact with, their environment, providing stimulus for co-operation. This is expected to improve the coherence and consistency of sanctions in enhancing compliance behaviour, that is necessary for the perception of TA efficacy and fairness. In this context, a revision on the effectiveness the Administration of VAT invoicing is presented below.

3.3.8: Improving the effectiveness of VAT invoice administration to enhance VAT compliance

Although the efficiency of the Tax Administration has proved to influence taxpayers' compliance decisions, empirical studies have also shown that, it has an impact on taxpayers' level of satisfaction or dissatisfaction with the TA (Adams & Webley, 2001; Fjeldstad & Semboja, 2001; Fjeldstad & Heggestad, 2012; Nkwe, 2013), and on taxpeyers' perception of fairness and equity of the system (Adams & Webley, 2001; Webley & Ashby, 2010). However, little attention has been given to the influence of VAT invoice in influencing compliance. A proposed approach to improve the effectiveness of VAT invoice administration and control, was assented on insights captured from the revised literature review and is illustrated in Figure 10 below.

Figure 10: Alternative Approach to Improve Efficacy of VAT Invoice Administration to Influence Compliance Decisions



Source: Own, 2013

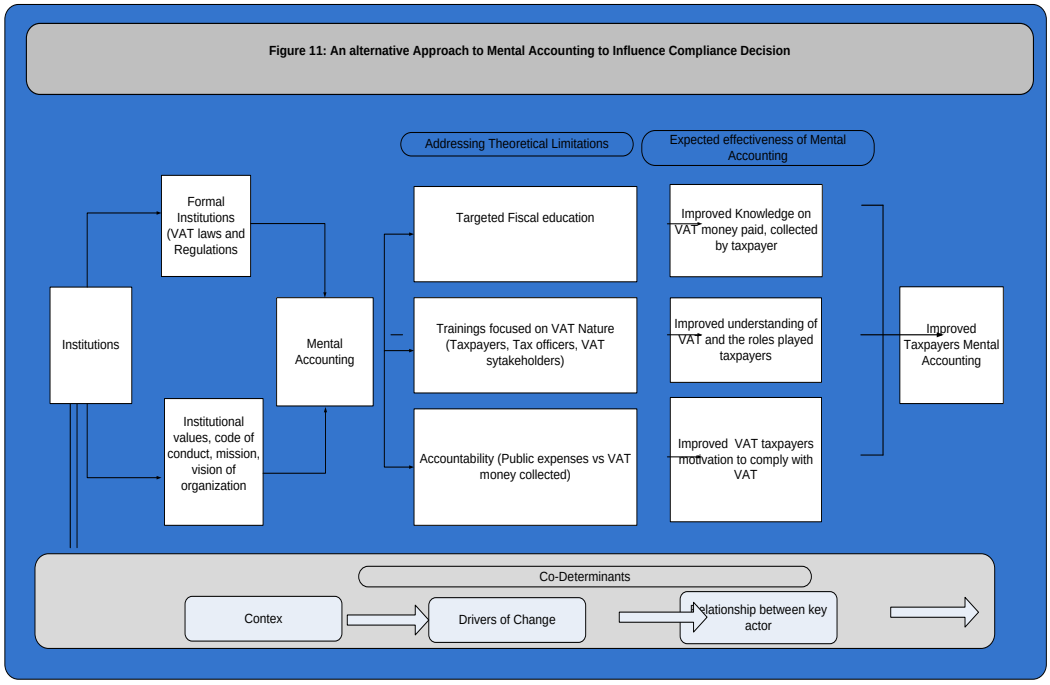
The study attempts to focus on effectiveness of VAT invoice administration and control by TA, to discourage its related fraud and evasion in Mozambique (Shenone, 2004; Bolnick & Byiers, 2009; Castro, et. al., 2009). In this context, integrated and participative control of VAT invoicing, improved communication and interactivity, deepened partnerships and relationships between key actors were addressed to discourage the use of fake and forged invoices. To attain this, institutions could be used to closely manage the whole orientation in creating a more capable, effective, coherent and sustainable platform to discourage VAT invoice-related fraud and evasion (Agha & Haugton, 1996; Le, 2003; Koeng, 2005). Despite the importance of effective invoice administration to ensure VAT is invoiced and collected from buyers by taxpayers “acting as unpaid tax collectors”, mental frames revealed to be critical in influencing the payment of VAT and the

remission of collected VAT by taxpayers to the TA. Thus, mental accounting approach, is further clarified below.

3.3.9 Management of VAT non-compliance: The Influence of mental accounting in VAT compliance

Recent literature in regard to tax compliance theory, reveals that the way business people think about the VAT money they collect (Mental accounting) (Adams & Webley, 2001; Webley, Adams & Elffers, 2006) to be an important factor in influencing taxpayers' compliance behaviour. In seeking to understand and explain how the deterrence effect of mental accounting discourages the practice of VAT non-compliance, the study drew on revisited literature, to conceptualize Figure 11 below.

Figure 11: Alternative Approach to Mental Accounting to Influence Compliance Decisions



Source: Own, 2013

Participative and systematically co-ordinated action in fiscal education (Erard & Feinstein, 1994; Fjeldstad & Heggestad, 2012); elaboration and implementation of targeted fiscal education; trainings for VAT stakeholders focused on the nature of VAT (SARS, 2011; SARS, 2012; Fjeldstad & Heggestad, 2012); the way Government performs (Braithwaite, 2003); and the redistribution of tax collected in the form of public expenses (Thaler, 2000), should be accounted for to improve mental accounting. Institutions as mental codes (North, 1990; Denzau & North, 1994; Scott, 2004) could enhance the framing of VAT money collected by taxpayers, as necessary to improve TA capacity to manage mental accounting (Webley & Ashby, 2010). Thus, it could provide the infrastructure in which, not only beliefs, but, norms and rules rest, to discourage the feeling of ownership of VAT collected and establish an automatic cost-benefit association (Thaler, 2000; Adams & Webley, 2001; Kamleitner & Holzl, 2009). This could be attained through improved Government accountability, targeted fiscal education and effective communication, which could be facilitated by institutions in providing information to the individual. This includes the likely action of other people and the perception that people have of reality in the management of VAT non-compliance (Denzau & North, 1994). These are fundamental to form and shape people's compliance behaviour. The proposed framework is illustrated below.

3.4 INITIAL CONCEPTUAL APPROACH TO THE MANAGEMENT OF VAT NON-COMPLIANCE

The approach of the research, as depicted in Figure 12 below, builds on the premises of Fiscal Psychological Theory on Tax compliance, which view tax enforcement as a behavioural problem, that can be resolved through co-operation between taxpayers and tax collectors (Cullis & Lewis, 1997; McKerchar & Evans, 2009). In this context, the approach broadens the scope of economic theory of VAT compliance, assuming "taxpayers pay taxes solely due to threat of being audited and sanctioned", that have been guiding most of TA worldwide in curbing VAT evasion. The main feature of

the approach is characterized by understanding the inefficacies of VAT compliance factors in addressing VAT taxpayers' compliance decisions, mostly influenced by tax system stimulus and TA administration. The research draws on evidence related to perceptions of the efficiency of Tax administration influencing VAT compliance and the extent of the impact on taxpayer satisfaction or dissatisfaction with the TA (Adams & Webley, 2001; Fjeldstad & Semboja, 2001; Nkwe, 2013), the perception of fairness and equity of the administration, which are all crucial in promoting a complaint environment.

In a more proactive perspective, the approach to target VAT non-compliance is based not only on institutional premises, but also a platform that presupposes the establishment of appropriate institutions to regulate key actors' interventions and their relationship, adopt adequate drivers of change, and set coherent platforms for improved relationships between key actors and the system in which it operates. Although institutions were used to formulate the infrastructure and roadmap from which the VAT non-compliance management approach was developed, the study focused on sanctions, VAT invoice administration and mental accounting, as selected VAT compliance factors, in alignment with the contextual uniqueness of Mozambique. However, the aim of understanding how and why co-operation or contestation prevailed in VAT non-compliance, was enabled by reflections towards ineffective interaction amongst those involved actors in the process.

Consequently, institutions as mental codes (North, 1990; Denzau & North, 1994; Scott, 2004) enhance the framing of VAT money collected by taxpayers to improve TA capacity to manage mental accounting (Webley & Ashby, 2010). This provides the infrastructure, where not only beliefs but norms and rules are located, to discourage the feeling of ownership of VAT collected and establish an automatic cost-benefit association (Thaler, 2000; Adams & Webley, 2001; Kamleitner & Holzl, 2009). It also allows to design

more aligned and focused tax laws and procedures, that will reduce the inefficacies of the three VAT compliance attributes. This was attained through improved government accountability, targeted fiscal education and effective communication, facilitated by attributes of institutions in providing information to the individual, including the likely actions of other people. This also influenced the perception that people have of reality (Denzau & North, 1994) in the management of VAT non-compliance, which is fundamental in influencing compliance behaviour.

The TA therefore has to create or reform institutions to reduce inefficacies of sanctions in influencing VAT compliance. These inefficacies have been depicted in the Mozambican context and literature review, focused on sanctions so as to demonstrate how it negatively contributed to taxpayers' compliance behaviour. The focus was on descriptive and procedural aspects of sanctions, as these inform the way risks of non-compliance are perceived and how decision-makers' preferences are expressed (Casey & Scholz, 1991) and the simplification, clarity and objectivity of procedural rules are attained. The elimination of such inefficacies discouraged corruption by resolving disputes through amicable settlements between taxpayers and the TA and contributes to a reduction of complexity and fragmentation around VAT legislation and regulations (Franzoni, 1999, Webley & Ashby, 2010).

Mental accounting is called to target VAT taxpayers' mental frames through participative and systematically co-ordinated action in fiscal education (Erard & Feinstein, 1994; Fjeldstad & Heggestad, 2012). The elaboration and implementation of targeted fiscal education, intensive training focused on VAT including all related stakeholders (SARS, 2011; SARS, 2012; Fjeldstad & Heggestad, 2012), and improved accountability of VAT collected are expected to improve mental accounting. However, actors and players involved have to be open to, and interact with, their environment, and providing stimulus for co-operation. In this context, investment in

knowledge and skills (North, 1990) could be focused to promote capabilities of tax officers and legislators to reduce the complexity of sanctions and the number of fragmented regulations (Franzoni, 1999, Webley & Ashby, 2010). This includes loopholes in sanctions regulations and risks for not complying; improving the clarity in relation to sanctions and simplifying categorization and intervals, as specified in VAT Regulatory Decree No. 7/2008 and the General Scheme of Tax Offenses Decree No. 46/2002, leaving no leeway for misunderstandings and misinterpretations. However, this could be attained through dedicated trainings, focused on principles of simplicity, transparency and fairness, which are necessary, for building exchange relationships between the TA and taxpayers. Procedures for sanctioning could therefore be simplified, clear and objective, discouraging the possibility of resolving disputes through amicable settlement between taxpayers and the TA (Franzoni, 1999), from which corruption often emanates (Fjeldstad & Heggestad, 2012).

Despite evidence of the substantial level of tax non-compliance due to VAT-related fraud and evasion, little attention has been given to a compliance approach specific to VAT non-compliance management. The research therefore seeks to capitalize on evidence related to perceptions of efficiency of Revenue administration influencing VAT compliance, that impacts on taxpayers' satisfaction or dissatisfaction with the TA (Adams & Webley, 2001; Fjeldstad & Semboja, 2001; Nkwe, 2013), the perception of fairness and equity of the administration, which are all necessary to promote a compliant environment. Establishing a co-ordinated approach with shared responsibilities could add value to existing communications and information, within VAT non-compliance management, and contribute to building relationships, that are necessary to target taxpayers' mental frames, that influence not only the payment of VAT, but also, remission of VAT collected by taxpayers to the TA. To attain this, there is a need to make an effective investment in knowledge and skills of key actors, to build their capacity to manage VAT non-compliance. However, this also depends on the

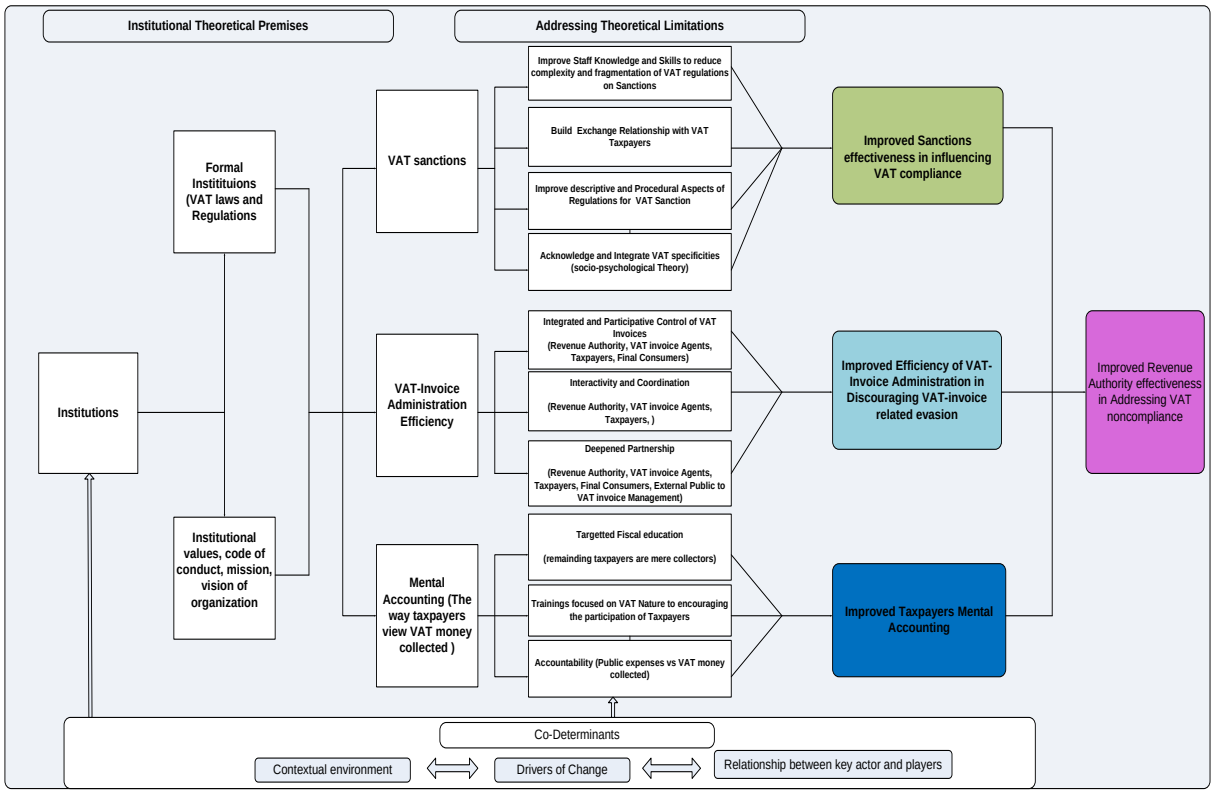
establishment of an effective key actors' relationship, between the TA, taxpayers, legislators, VAT invoice agents, final consumers, donors and associations/organizations. Institutions should therefore regulate their interaction, so as to reduce the opportunity for VAT non-compliance caused by VAT-related fraud and evasion.

In this context, sanctions inefficacies that influence compliance could be improved by institutions and their enforcement characteristics based on the principles of simplicity and transparency, and fair treatment of taxpayers. This could contribute to building the exchange relationship between tax collectors and taxpayers and to reduce the complexity and fragmentation of VAT laws and regulations. Taxpayers' perceptions of the TA' effective administration could increase, as fairness of procedures when applying sanctions to VAT non-compliers is generally observed. In this case, the approach implicitly strengthens taxpayers' legal rights, as it inherently encourages engagement of all VAT stakeholders and community participation on the creation or reform of institutions, but with the emphasis on VAT specificities (nature, key participants, procedure and responsibilities), to improve the practicability of a compliance management approach.

The non-existence of a permanent and effective tax compliance programme, particularly for VAT, as evidenced in the revised literature, demands coherent institutions for VAT invoice administration. This could reduce the opportunity for evading VAT, mostly manifested through taxpayers' fraudulent registration and de-registration; collection of output VAT not remitted to the TA; acceptance to the offering of collusion between taxpayers and buyers; selling and buying without VAT; making fictitious purchases in input VAT; and disallowed expenses, amongst other multiple types of fraud (Lee, 2003; Keong, 2005).

Although the introduction of e-registration and e-taxation is at the early stage in Mozambique, it is fundamental to realise that the adoption of these drivers of change (technology), can only improve taxpayers' accessibility and inter-connectivity, facilitating shared data amongst tax units. However, it is not a solution per se, for VAT non-compliance management. These remain ineffective without credible enforcement mechanisms. In this context, permanent compliance actions focused on VAT invoice administration, complemented by deepened partnerships, integrative, participatory and systematically organized management amongst key actors, with jointly co-ordinated procedures established, is likely to reduce opportunities for VAT invoice related fraud and evasion. Thus, VAT invoice agents and wholesalers should be central to improve VAT invoice administration. In this case, aspects related to the authenticity and credibility of VAT invoice have to be promoted by the TA. The development of such a co-ordination scheme and shared responsibilities could add value to existing communication and information within VAT non-compliance management.

Figure 12: Initial Proposed Reflection for TA VAT Non-compliance Management



Source: Own, 2013

An improved system to discourage VAT invoice related fraud would also contribute to a VAT-compliant environment as the development of exchange relationship; improved communication would also target taxpayers' mental frames. Thus, targeted fiscal education, and effective and participative training would improve taxpayers' precepts of VAT money collected and consequently influence the remittance of VAT collected to the TA. However, their mental accounting should be also sustained through effective Government accountability on VAT money collected and related expenses. This would reduce the frame of loss on taxpayers and consequently encourage VAT compliance. This focused orientation in addressing VAT non-compliance, sustained by fiscal psychology (socio-economic psychology on tax compliance), focusing on sanctions (economic factor), effective VAT invoice administration and mental accounting (social factors)

aligned with the frameworks of institutional theory, enables the TA to operate with both top-down and bottom-up approaches, realizing VAT specificities and its environment, for improved practicability in managing VAT non-compliance, as it implicitly offers factors that account for administrative and compliance costs that are necessary for effective anti-fraud action.

In this context, the TA should be proactive in managing VAT non-compliance by playing a central role in establishing avenues in which institutions that discourage opportunities to evade VAT are included in strategic plans, and risky management actions are directed towards identified non-complaint sectors and segmented taxpayers, based on the understanding of VAT compliance factors embedded in the system in which it operates. However, as the management of VAT non-compliance by nature involves many stakeholders with specific roles and responsibilities for ensuring a more compliant environment, a deeper partnership amongst them is required. This would enable the TA have knowledge of the business and industry of other stakeholders, and most importantly, to align the TA' strategic action to reduce opportunities for VAT non-compliance by strengthening ties that will counter evasion.

In spite of acquired knowledge and increased insights into TA interventions, the success of this partnership is also determined by the degree of effective communication amongst key actors. The introduction of e-taxation and e-registration in a pilot phase will facilitate access to taxpayers' information but this is restricted to the TA (across units) and some departments of the Ministry of Finance, and continues to overlook the relevance of prompt identification of non-compliers (risk management control).

Therefore, not only high quality, accurate and complete data continues to be increasingly important but tax officers need to also understand taxpayers' business and the taxes associated with it, be aware of new risks emerging

with globalization and new discoveries in natural resources and adhere to the rapid evolution of Tax Policy. Consequently, the complexity of tax policy requires more specialization on VAT non-compliance and approaches aligned to it, with improved co-ordination amongst key actors, as well as effective training, and alignment of technology to the Mozambican context. In addition, VAT non-compliance TV spots, targeted fiscal education, professional taxpayers, and priorities in strategy to address VAT non-compliance to reach other taxes, constitute the drivers of the required transformation that is needed to reduce opportunities to evade VAT.

It is this context in which institutions used to regulate and discipline procedures on the management of VAT non-compliance, should be created, reformed and established, complemented by an effective enforcement mechanism, sustained by complete information (North, 1990) amongst key actors, to reduce opportunities for VAT-related fraud and evasion. These targeted institutions are the agents of institutional change by discouraging evasion and for shaping the direction of the VAT compliance environment, its future institutions, and key stakeholders to curb VAT evasion. However, to achieve this holistic approach, conforming to community standards within the context in which VAT non-compliance operates is necessary, taking into account drivers of change, key actors and players and the most common non-compliance practices within the premises of system theory that cut across disciplinary lines. In this context, account for interconnectedness, interrelationships and complementarity, amongst different factors properties and particularities ha to be take. In this regard, research methodology followed by the study, is presented below.

CHAPTER FOUR
RESEARCH METHODOLOGY

4.1. INTRODUCTION AND SCOPE OF THE STUDY

This chapter explains the methodological framework that informs the study on the management of VAT non-compliance within the Mozambican context. The literature reveals that most previous studies on tax compliance were focused on income tax premises and cutting across taxes. This study targets the management of domestic VAT non-compliance by the TA, excluding import VAT and non-compliance from any kind of exemption. The approach was particularly set to target VAT taxpayers registered in the normal regime, with a turnover equal or more than MT 2.500 Million (about ZAR 853.242 at R1:2.93 on 22/8/2013) per year. Focusing on institutional theory and psychological theory on tax compliance, the study reflected on an alternative approach for VAT non-compliance management.

To attain this, the study first described how the management of VAT non-compliance is affected by inefficacies of current institutions in seeking to target compliance behaviour. This involved an exhaustive study of VAT legislation, regulation, decree and related documents to explore its (in) effectiveness in encouraging VAT compliance. Second, in an exploratory dimension the study explored how relationship of key actors and players and their partnership in VAT non-compliance management strategies, inhibited or enhanced the opportunity for VAT fraud and evasion. This was done by exploring some interpretative, leading and multiple questions on Focus Group Discussion (FGD), Face-to-Face Interview (FtFi) and Document Analysis. This enabled the researcher to visualise, how key actors could effectively participate in the design of management strategy, its implementation and co-ordination, to circumvent any opportunity for VAT non-compliance. Third, the study employed an explanatory dimension to

understand how and why the contextual environment in which VAT non-compliance management operates, might have enabled or hindered the management of tax non-compliance in Mozambique. This analysis was done through the understanding of tax system and TA structural organization, tax policy and contextual factors enhancing non-compliant environment.

The methodological framework of the study is structured into eight main sections, namely Section one: Research Paradigm: Qualitative Research Approach, showing its characteristics and applicability for the inquiry of the study; Section two: Strategy and a reflective account of the rationale for adopting single case study design; Section three: rationale for adopting single case study and rationale for using three research techniques in the research, and the researcher's role; Section four: validity and reliability strategy used in the study and developing researcher's rapport; Section five: data collection process and strategy: description of research procedure, primary and secondary data collection, respectively; Section six: sampling techniques, sampling strategy for the sites of the study and participants and the rationale for their selection, and selection criteria used for informants of the study; Section seven: accessing data in FGD for tax officers and tax payers, as well as face-to-face interview. Section eight: deals with the conducting of the three research techniques, namely FGD, FtFi and Document Analysis, organization and management of data and the chapter concludes with a summary. A description of the qualitative approach adopted in the study is presented below.

4.1.2. Research Paradigm: Qualitative Research Approach

Interpretivism underpinned the research for enabling the study of people, particularly in social sciences, under ontological advocates, positing the world to be dependent on the many subjective experiences of that world, which does not exist independently of experience. Epistemologically this

philosophical approach asserts that there is no possibility of “objective” knowledge of the world as this is informed by different experiences.

4.1.2.1 Background, characteristics and applicability to the study

Despite the 1980s transformation that qualitative research underwent to broaden its scope of inquiry so as to include a theoretical lens (Clark & Creswell, 2014; 2017) complemented by its wide use to understand particular events, roles, social situations or interactions (Seidman, 2013), the qualitative paradigm has its roots in cultural anthropology in American sociology (Kirk & Miller, 1986). The approach has been largely defined as an “investigative process where the researcher gradually makes sense of a social phenomenon by contrasting, comparing, replicating, cataloguing and classifying the object of the study” (Miles & Huberman, 1984).

The rich set of data acquired was largely obtained by understanding and explaining the meaning of social phenomena and human actions, from the point of view of participants, including their specific social and institutional context (Badenhorst, 2007; Leedy & Ormrod, 2001; Neuman, 2011) through talking to the participants, seeing them behave and act within their context (Creswell, 2013), and clarified their experience in the management of VAT non-compliance. This enabled the researcher to understand and describe participants’ verbalisation on the challenge of VAT non-compliance and capture how participants viewed the rules and regulations used in the management of VAT non-compliance. The approach also enabled to understand what participants said and how they behaved in the research settings (Kitzinger, 1995) during the focus group discussion and interview, registered on observation notes, research diaries, recordings and photos, which highlighted the approach, to the emergent design in addressing VAT non-compliance.

These traits were useful in providing insights into how TA deals with institutions and VAT compliance factors, and to understand how key factors

involved in VAT non-compliance management interacted, their perceptions on each one's role, how participants perceived the importance of drivers of change (learning, technology innovation, performance review and evaluation) in enhancing or inhibiting the effectiveness of VAT non-compliance management. These provided insights to establish a more conducive and disciplined platform of the approach. The reporting of multiple perspectives (Creswell & Brown, 1992), the use of multiple sources of data (FGD, FtF interview, document analysis) and the triangulation of observer, methods and theory in the approach, have revealed to be fundamental to understand the dynamics of VAT non-compliance management, as a whole. However, despite the holistic analysis of different perspectives of subjects, the researcher remained focused on in-depth analysis of a single case study. This has been largely influenced by the understanding of how things occurred (Wallen & Fraenkel, 2013; Merriam, 1998) and by paying attention to particulars (Creswell, 2013) as well as by interpreting the case rather than generalization, whilst trying to understand multiple realities (Lincoln & Guba, 1985). Such multi-layered analysis, enabled researcher to have a deeper understanding of the dynamics of VAT non-compliance and how this practice could be discouraged.

Unlike the quantitative approach, which draws on statistical inferences, relying on hard data (in the form of numbers), aiming at verifying or falsifying a relationship or hypothesis, with a focus on an outcome or effect found across numerous cases (Leedy & Ormrod, 2001; Neuman, 2011; Maxwell, 2012), ignoring much of the process phenomena (social and institutional) associated with a particular research question (Kaplan & Maxwell, 1994), the traits of qualitative approach mentioned above enabled the researcher to acquire a deeper understanding of VAT non-compliance management, embedded within the system in which it operates. The researcher could also understand "cases and context" including its cultural meanings that arise in the natural flow of social life of the seven groups of participants (VAT legislators, tax officials, VAT taxpayers, VAT-invoice agents, VAT

experts/accountants, donors and final consumers). This revealed information (Neuman, 2011) and enhanced the development of new theoretical perspectives (Leedy & Ormrod, 2001) concerning the dynamics of VAT non-compliance.

The paucity of literature and knowledge on VAT non-compliance management in Mozambique motivated the adoption of exploratory, descriptive and explanatory designs that allowed for the disclosure of existing problems with the phenomenon that clarified a poorly understood situation (Neuman, 2011). This prompted the researcher's focus on participants' perceptions, experiences and the way they made sense (Locke, et al., 1987; Merriam, 1988; Marshall & Rossman, 1989; Fraenkel & Wallen, 1990) of VAT non-compliance management challenges. To attain these, three research techniques were used in the study that enables corroborating evidence.

Although similar studies in Mozambique have used the qualitative approach (Castro, 2005; Castro, et al., 2009; Fjeldstad & Heggestad, 2012), their approach cut across taxes. Furthermore, these studies approach was limited to document review and mostly based on an impressionistic view of tax and administration reforms by the TA. These were also characterized by inconsistencies in statistical data within the period of the study (Castro, et al., 2009; Castro, 2005) assented on the basis of informal observation and cross-sectional variance rather than event-driven processes, as employed in this study. Additionally, replication of SARs compliance model, in Figure 8, into other contextual realities such as Mozambique, as suggested by Fjeldstad and Heggestad (2012), has revealed to be impractical.

The study adopts qualitative research, being an inductive approach, to explore VAT non-compliance management in Mozambique within its contextual uniqueness. This allowed the researcher to look at settings and subjects holistically, be sensitive to the effects on the subjects, and promote

an understanding of subjects from their own perspective (Taylor & Bogdan, 1984) which was necessary to the development of alternative approaches for VAT non-compliance. Strategies and a case study design are presented in the following sub-section.

4.2 STRATEGY AND RESEARCH DESIGN: A CASE STUDY DESIGN

A case study is an inquiry into an event by either an individual or an organization. It is produced through systematic research analysis and reporting and has often been used in developing new procedures in marketing, medicine and technology, having proved to be convenient in responding to questions of "how and why". The study adopted case study design as an appropriate research strategy to explore contemporary phenomena on the management of VAT non-compliance in its natural context (Benbasat, Goldstein & Mead, 1987; Yin, 1994) and the examination of social situations and dynamics present in single settings (Eisenhardt, 1989) as these unfold within VAT non-compliance management. The fact that case studies allow for collecting more detailed information, a lot richer and of greater depth as compared to other designs (Marshal & Rossman, 2014) it facilitates the unpacking and understanding of complex issues. In this case, the dynamics of VAT non-compliance management within its multiplicity (context-macro and micro-environment); design integrated elements; most common VAT fraud and evasion, taxpayers' pyramid (segmentation), informal sector – base management and enlargement); including interaction amongst key actors in the management process, have suited the design.

Case study enabled the researcher to make an intensive description and analysis of the VAT non-compliance management phenomenon, including its social unit such as an individual, group, institution or community, bounded in an integrated system (Stake, 1995; Merriam, 1998) and had proved to be appropriate where research and theory were at their early formative stage (Benbasat, et al., 1987). This allowed for disclosing the

limited understanding of factors and events of all dimensions, perpetuating the non-compliance dilemma. It also provided insights into the importance of individuals' experiences and the context of actions (Yin, 2017) in VAT non-compliance management by the TA and limitations of revised theoretical approaches.

The design enabled the researcher to make a holistic analysis of the phenomenon (Kerlinger, 1973), particularly employed when analysing collusion effects amongst key actors and their distinct interests, goals and perspectives in accepting or rejecting the offer of collusion. The design's ability to facilitate the use of multiple sources of data (Yin, 1994; Stake, 1995; Creswell, 2013) accommodated the use of three distinct research tools, namely focus group discussion, face-to-face interview and document analysis.

However, case studies also had some drawbacks when used as research design. Aspects related to being costly (research time, volume of data and analysis of data) (Kerlinger, 1973; Duncan, 1979) negatively affected the adequacy of the design in this study. Therefore, data organization and presentation and management were done, codification and emerging themes captured from thematic analysis. Irrespective of the stated drawbacks, case study attributes and advantages outweighed the weaknesses of the design in enabling the capture of information that could better inform the purpose of the study.

The common criticism of case study method mainly evolved around the problem of generalizing the findings (Isaac & Michael, 1995); for limiting data replication (Leedy & Ormrod, 2001; Yin, 2003), unlike multiple case studies that are said to offer more insights for replication and give greater certainty (Yin, 1994). The adoption of a single case study has also been said to fail to generate theory with much complexity and more convincing theoretical background (Neuman, 2011). However, this criticism had been

mainly driven by the fact that the clarification on the attributes of case study scientific validation was lacking in the early social science case studies. Others have allegedly posited cases studied to focus almost exclusively on the deep description of situation, with little attempt to provide theoretical explanation to generalize findings (Laughlin, 2004). Additionally, perhaps as an overreaction to natural science, critiques suggest that the cases may not be representative of the population and even if representative, the results were unique to that instance (Scapens, 1990). However, these critics were largely drawn from the premises of statistical sampling, deductive logic, centred on statistical inference and generalization, which is inherent to quantitative research (Yin, 1989; Scapens, 1990).

In this regard, Mitchel (1983) argues because of criticism, reasoning that critiques fail to recognize case studies' different criteria of generality unlike the traditional quantitative research method. This obscures case study specificities in terms of criteria; in terms of focus on theoretical inference to generalize findings, and to generalize nature of relationship between attributes, through related theoretically relevant characteristics reflected in the case, in a logical coherent way (Mitchell & Fields, 1983) rather than focusing on statistical inference (Hammersley & Atkinson, 1983; Silverman, 1985; Hammersley, 2008).

Current debates on the qualitative inquiry legitimacy are less frequent in the literature and there is consensus as to what constitutes qualitative inquiry (Creswell, 2014). In this context, as the study does not quantify but qualify, it enabled the researcher to examine the social situation as it unfolds, based on theoretical evidence (Leedy & Ormrod, 2000) within the real-life situation (Yin, 1989) of VAT non-compliance management. A strong case exists for the adoption of the design in present research as the strength gained from the ability to generalize using even a single case study relies not on having a bigger or more representative sample, but on the demonstration of the theoretical relevance of the explanation (Yin, 1989; Scapens, 1990; Clark &

Creswell, 2014) through the lens of institutional, psychological tax compliance and system theories, to understand the dynamics of VAT non-compliance practicability.

4.3 RATIONALE FOR ADOPTING SINGLE CASE STUDY DESIGN

The development of possible alternative approaches of VAT non-compliance, presupposes solid and coherent understanding of processes and dynamics behind the dilemma of non-compliance. Single case study, enables the understanding of units and processes involved in VAT non-compliance management, unlike the use of comparative analysis in a multiple case study. The latter could only instil greater generality of analysis (Glesne & Peshkin, 1992) and allow for literal replication and cross-comparison (Darke, Shank & Broadbent, 1998).

Moreover, attempted approaches to VAT non-compliance management were mainly drawn from income tax perspective, based on the economic theory assumption that “individuals will pay their taxes due to threats of external sanctions”. The literature indicates that there were social and fiscal psychological factors shaping tax compliance decisions, and that TAs should focus on them, to discourage Tax (VAT) non-compliance. Evidence for the relevance of countries’ contextual environment can be depicted from case studies by Bergman (2009) in Latin American countries and in Mozambique (Castro, et al*.,* 2005; Castro, et al.,2007); in Mozambique, Tanzania and Zambia (Fjeldstad & Heggestad, 2011); in Mozambique, Tanzania and Zambia (Fjeldstad & Heggestad, 2012); in Tanzania (Fjeldstad & Semboja, 2001); in Uganda (Hutton, Thackary & Wingender, 2014) and in OECD countries (Feld & Schneider, 2010).

It is in this context, coupled with the prevailing paucity of prior research on VAT non-compliance, that the study opted to adopt a single case study, to have in-depth knowledge of VAT non-compliance management and analyse the context within and outside the case boundaries (Mitchell & Fields, 1983)

of the Mozambique TA. The design enabled the capture of information related to potential weaknesses and the precise nature of inefficacies within VAT non-compliance management. It also enabled to ascertain whether related disorder (Mouton, 2010), abilities and disabilities (Yin, 2009) existed within the management. It further allowed for an understanding of how processes within the phenomena occurred rather than limiting it to symptoms to address the dilemma. Additionally, the TA explored internal procedures and administrative processes, key actors' partnerships and drivers of change in the management of VAT non-compliance to examine VAT non-compliance management.

As single case studies are unique to a particular instance (Yin, 1989; Scapens, 1990), it allowed the richness and depth of VAT non-compliance to emerge (Leedy & Ormrod, 2001; Yin, 2015) as well as its description, which provided insights, into informed practices for similar situations that were previously inaccessible to social science inquiry (revelatory case) to be analysed (Mouton, 2010). The design also provided insights into the areas where the VAT non-compliance management process was dynamic and not yet matured or settled (Darke, et al., 1998), and those aspects that were not yet clear or widely accepted in the organization as a whole. Consequently, the researcher could understand relevant theoretical prepositions for suggesting explanations for VAT non-compliance management, which remains a challenge to the Mozambican TA (Nathan Associates, 2004; Castro, et al., 2009; Fjeldstad & Heggestad, 2011). The adoption of a single case study also enabled researcher confirmation or challenging a theory and revealing cases that were previously inaccessible (Yin, 1994) based on theoretical generalization (Mitchell & Fields 1983).

However, from a different perspective, Eisenhardt (1989) recognizes the use of multi-layered analysis where a case has several cases in it to be sufficient to generate a theory from its multiplicity within a single case study. In spite of these shortcomings, a strong case exists for the adoption of a

single case study in this research. Critiques have also discouraged the use of single case studies with less than four (4) cases (Eisenhardt, 1989) which gained support from Denzin & Lincoln (2005). However, as single case study is characterised by embedded multiple units of analysis, it enabled the researcher to analyse VAT non-compliance from different key actors' perspectives (Neuman, 2011); to identify how certain conditions changed over time (2006 to 2016) that have contributed to the shaping of current VAT non-compliance management (Denzin & Lincoln, 2005; Mouton, 2010; Neuman, 2011); to reflect through related theoretical relevant characteristics in a logical and coherent way (Mitchell & Fields, 1983); and confirmed the use of analytical induction (Hammersley & Atkinson, 1983). These were insightful to strengthen the platform for the proposed approach. To attain this, three research tools were used in the study and the rationale for its use is presented in the following section.

4.4 RATIONALE FOR USING THREE RESEARCH TOOLS IN THE STUDY

The study used three research techniques to collect data in this study, namely Focus Group Discussion (FGD), Face-to-Face Interview (FtFi) and Document Analysis (DA), involving both primary and secondary data instruments. The use of three research techniques has been popular in social science and particularly in qualitative research, for adding value on needed information in relation to exhibited behaviour and enabling the understanding of how factors have affected others in a given studied event (Leedy & Ormrod, 2001). The use of multiple and different sources and methods by the study not only provided corroborating evidence (Glesne & Peshkin, 1992; Miles & Huberman, 1994) but also improved the validity of the study through triangulation, by capturing logic and inter-connectedness of factors within VAT non-compliance management.

Regarding the management of VAT non-compliance on the basis of complementary actions from different key actors with the aim of

discouraging VAT non-compliance, the Focus Group Discussion research technique provided insights to understand how social structure and context were formed (Patton & Cochran, 2002; Neuman, 2011) amongst key actors in the management of VAT non-compliance. It elucidated a better understanding of how different opinions, knowledge, experience, background and status informed the approach to VAT non-compliance and provided alternatives to improve its efficacy. The knowledge stimulated by group dynamics precipitated the production of new data on the management of VAT non-compliance, which would not have been as readily obtainable with the use of face-to-face interviews and document analysis.

The attributes of FtFi were useful to enrich data needed to reflect on the adequate contextual environment and tax system in which the management of VAT non-compliance operate. As the management of tax non-compliance was found to be tied to its contextual specificities, the study used semi-structured interviews to understand internal procedures and individual experiences and obtain nuanced information (Chadwick, Bahr & Albrecht, 1984) to understand the context (Ritchie & Lewis, 2003; Ritchie, Lewis, Nichols & Ormston, 2013) in which VAT non-compliance operates. The use of non-verbal clues, through this research tool, enabled the researcher to understand the views of interviewees using visual aids (Hammersley & Gomm, 2004), how they made sense (Newton, 2010; Creswell, 2013), of the VAT non-compliance phenomenon and their perceptions and values on the phenomenon which were necessary for generating rich data (Phellas, Bloch & Seale, 2011; Newton, 2010).

In addition, due to the fact that TAs managed VAT non-compliance based on a number of complex and fragmented legal frameworks, document analysis was used by the researcher to provide deeper insight into the facts (Bowen, 2009; Scott, 2017; Mason, 2017). This research tool allowed the researcher to examine and identify missing patterns and consistency (Merriam, 2009) in the Tax policy and regulations. These improved the

quality of reflection on the effectiveness of sanctions criteria and intervals, complexity of tax policy and procedures, amongst other aspects. This enabled the researcher to recognize missing patterns and examine trends that contributed to consistency in the alignment of actions pertaining to the management of VAT non-compliance management, which could not be captured solely through Focus Group Discussion and Face-to-Face Interviews. Therefore, peculiar attributes of research techniques have complemented each other and added value to the quality of data needed to understand and explain the dilemma of VAT non-compliance, crucial to improve its management.

4.5 THE ROLE OF THE RESEARCHER

In qualitative studies, the role of the researcher as the primary data collection tool pressuposes the identification of personal values and biases (Greenbank, 2003; Clark & Creswell, 2014; Simon, 2011) at the outset of the study. It also clarifies expectations and experiences the researcher has to qualify regarding his or her ability to conduct the research (Greenbank, 2003; Yee & Andrews, 2016). In this research paradigm, although the researcher's contribution can be useful and positive, it can also be detrimental (Maxwell, 2012).

The researcher's perceptions of VAT non-compliance management have been shaped by researcher's personal experiences as she served as Tax officer in the VAT section within the First Fiscal Area in Beira-Sofala in Mozambique in 2007, where she worked with all commercial sectors registered for VAT in that year. At this operational level, the researcher worked directly with taxpayers, inputting data into the tax software in use (SICR-Sistema Interino the Cobrança de Receita), controlling taxpayers' individual processes and files, notifying them in case of mis- or under-reporting VAT, amongst other tasks, and reporting to the head of the VAT section. The researcher obtained direct experience from the front desk, and

visits to commercial sites which facilitated the understanding of taxpayers' concerns, difficulties and challenges in the context in which they operated.

In the period 2008 to 2010, the researcher was promoted to the head of the Tax Management Division in the First Fiscal Area in Beira and became a member of the board of the Fiscal Unit Directorate, reporting directly to the Director. In this position, the researcher managed the collection of all taxes, in that Tax unit. The researcher also elaborated strategies and technical and periodic reports, undertook several dialogues with the Taxpayers' Association for various commercial sectors, worked directly with other provincial directorates for all ministries for improving Own and Consigned taxes, and managed taxpayers' compliance and non-compliance within the fiscal unit. This position enabled the researcher to understand the strategic orientation of tax collection adopted by TA at that time, as well as how taxpayers' associations were organized and dealt with their tax issues.

The researcher served as Head of Training Division (Pedagôgica) of the Finance Institute and Tax Training in the Central Region Directorate (responsible for training Tax officers in the Central Region) from 2011 to 2012, and got experiences related to training content for operational areas of TA, namely DGI (Domestic Tax) and DAG (Custom), crucial to understand the prospects of TA in improving tax officers' knowledge and service delivery and respective weaknesses. From 2014 to mid-July 2018, she was appointed as Domestic Tax Adviser at the Central Region Directorate of the Mozambican TA. As a member of the Board of the Central Regional Directorate of the Mozambique TA, due to this position, researcher was able to capture the TA philosophy of strategy to improve compliance. In July 2018, the researcher was appointed as Operational Director of Domestic Tax in Sofala Province in Mozambique, up to the present time.

Thus, researcher brings the knowledge of three structures of VAT non-compliance management, acquired at operational, management and

strategic levels of hierarchy in TA. This enhanced the researcher's awareness, knowledge and sensitivity to many of the challenges, decisions and issues encountered during the study and assisted the researcher in working with the study's informants. However, due to previous experience, the researcher brings certain biases to this research, which could have shaped the way the researcher viewed and understood the data collected as well as the way the researcher interpreted her experiences (Clark & Creswell, 2014). In this context, as researchers are subject to multiples sources of bias, that can weaken the validity of the data collection, analysis and interpretation (Miles & Hubberman,1994), the researcher developed validity and reliability strategies to ensure the study's account is accurate and insightful.

4.6 VALIDITY AND RELIABILITY STRATEGIES USED IN THE STUDY

Qualitative research has been criticized for failing "to adhere to canons of reliability and validation" (Duncan, 1979; LeCompte & Goetz, 1982, p.31) in scientific ranks. Critiques of this methodology pointed to the fact of it being biased (observation bias, interpretation bias, limited view; costly (research time, volume of data, analysis of data)). It was also posited to be of low external validity (low generality, little control over phenomenon, comparative analysis difficult, representativeness of case, difficult to replicate) (Duncan, 1979); and with the limited possibility of generalization of findings.

However, these critiques were based on the premise of quantitative research. Researchers emphasized statistical sampling, deductive logic, and centred on statistical inference (Lincoln & Guba, 1985), which are incongruent and inappropriate for qualitative research, as these failed to recognize the peculiarities of a case study, in terms of criteria, generalization of findings through related theoretically relevant characteristics in a logical coherent way (Mitchell & Fields, 1983) which depends on the use of analytical induction (Hammersley & Atkinson, 1983), unlike deductive logic by quantitative study centred on statistical inference.

Qualitative research can be recognized as a method with its own specificity and with its characteristics to assert validity and reliability qualitatively.

Qualitative validation has been posited differently in terms of its terminology. In some cases, it resembled internal and external validity, reliability and objectivity (LeCompte & Goetz, 1982); structural corroboration, consensual validation, referential adequacy and ironic validity (Eisner, 1991); credibility, transferability, dependability and confirmability (Lincoln & Guba, 1985; Mouton, 2011), but in spite of this, scholars were lenient in giving more emphasis to accuracy of findings, including the time spent in the field, and the detailed thick descriptions, necessary for holistically capturing the context. This explains the fact that there are no distinct validation strategies to qualitative approach, as it depends on the particularities of researcher limitations (Creswell, 2013), suggesting at least 3 strategies to be enough to confer scientific validation. In this context, the study used multiple strategies of validation as posited by Creswell (2013) to ensure that the study's account is accurate and insightful, due to the particularities of an "inside investigator", research involving participants with conflicting interests (tax officers and taxpayers), and unity of analysis (place) site selection. The study adopted the following approach to develop the researcher's rapport.

4.6.1 Developing researcher's rapport

4.6.1.1 Inside investigator, risk to the researcher

As an "inside investigator", the researcher's affiliation with the organization could result in not only biased responses (Mouton, 1996) but also greater risk of jeopardising information to report favourably in cases where participants disclose private information which could negatively affect the organization, as it could also be considered political and risky for an "inside researcher" (Glesne & Peshkin, 1992; Creswell, 2013). This could enhance the researcher to report facts favourably for the organization, or to obtain individual benefits as a worker. To overcome this, the researcher ensured

integrity, ethics and professional posture throughout the study, being accountable only to the University of the Witwatersrand, so as to avoid influencing information in favour of the Mozambican TA, irrespective of possible political influence that could undermine her working career as an individual (Mouton, 1996).

Unobtrusive methods to check the trends and patterns found using the reactive methods FGDs and FtFi as compared to less reactive DA were also used to reduce the potential bias possibilities of reactive methods. In this case, during the data collection process, the researcher visited the Tax Management Division, Audit and Fiscal Control Division, Tax Illicit Division and Secretary Division in the 1st Fiscal Unit in Maputo, where documents, forms, processes and letters of complaint from taxpayers were reviewed to check on matters of concern from taxpayers. This unobtrusive way of collecting data also enabled the researcher to check if there was any process or control mechanism of VAT invoice agents' activities, VAT invoice emitting (production) and sale (distribution to taxpayers) control.

In auditing and control division, the researcher checked for the most influential issues related to taxpayers' sanctions and procedures used to promote VAT compliance. In the tax management division, list and maps of taxpayers who present VAT forms with no sales or systemic reports and those who miss and under-report VAT and the probable related cause was also obtained, enabling the researcher to examine validity checks and plausibility of patterns, perceptions and experiences derived from tax officers and taxpayers' responses.

4.6.1.2 Researcher's attitude, image, demand characteristics and sites

As information obtained from research that examined colleagues and friends within one's institution is said to be vulnerable to bias (Glesne & Peshkin, 1992), the researcher informed the participants that all information obtained was specifically for scientific purposes, and emphasised objectivity and neutrality (Chadwick, et al., 1984). The researcher also ensured that topics were not inadvertently overlooked (Patton, 2002; Newton, 2010) in an attempt to improve relationships and trust with respondents, while maintaining a professional stance and avoiding influencing respondents' answers (Mouton, 1996). Checks and probes in case of doubt (Newton, 2010) were used by the researcher, particularly in the Tax officers' FGD to identify inconsistencies for further examination. This was related to cases where interviewees may have said what the interviewer wanted to hear or the opposite of what they thought they wanted to hear (demand characteristics) and privileged respondents' opinions to be communicated from their own perspective (Punch, 2001).

In some cases, where respondents saw researchers as a stranger, outsider or intruder, this could have caused respondents to become suspicious (Douglas, 1976). To avoid misinterpretation of the researcher as a government officer, where studies revealed that extreme responses are normally given by respondents (McLeod, Atkin & Chaffe, 1972), clarification on the research owner (University of the Witwatersrand) was promptly given since the literature has revealed that participants co-operated more with their responses when universities and large research organizations conducted interviews, unlike when this is done by government bodies. Attention was also given to the researcher's attire to ensure it was acceptable to those being interviewed (Denzin, 2005). In this case, the researcher used a wits t-shirt which appeared to make the participants more comfortable. As the place or environment where the interview is conducted influences the responses of the interviewees, (Opdenakker, 2006;

Chadwick, et al., 1984; Neuman, 2010; Creswell, 2013) Tax officers' FGD was carried out in a private university classroom in Maputo. This ensured fewer disturbances and more privacy (Neuman, 2010) and the academic environment rather than government and public places, being the interviewees' home (Neuman, 2010). This ensured that respondents had privacy and felt at ease providing credible answers on public/government related research topics in an attempt to reduce possible bias.

4.6.2 Member checking, and questioning several times in different ways

With regard to preliminary data interpretation, the researcher did not take the results of interpretation and conclusion from FGD and face-to-face interviews back to participants as no-one requested confirmation of the interpretation of responses (Erlandson, Harris, Skippers & Allen, 1993; Miles & Huberman, 1994; Creswell, 2013). However, in order to establish the credibility of the findings (Lincoln & Guba, 1985), the researcher made a preliminary interpretation of patterns and trends, well before closing FGDs. The assistant's preliminary notes and summaries later corroborated this. This exercise enabled the researcher to capture alternative language, such as "com IVA SEM Iva", "speaking the same language" "taxation is about taking and giving "critical observation or interpretations" (Stake, 1995, p. 115) and identifying what was missing (Creswell, 2013). Debate with participants with different experiences and backgrounds in TA divisions, enabled the researcher to capture multiple perspectives and the nuances of participants' opinions.

4.6.3 Triangulation

Three research methods were used to collect specific data in a single study. Therefore, triangulation (Miles & Huberman, 1994; Mouton, 1996) also known as multiple operationalization (Campbell & Fiske, 1959) enabled the researcher to balance out shortcomings of these methods (Mouton, 1996),

providing corroborating evidence (Creswell, 2013). The use of multiple and different sources, methods, observations and theories (Ely, Anzul, Friedman, Garner & Steinmetz, 1991; Erlandson, et al., 1993; Newman, 2011) ensured that perspectives about VAT non-compliance management could be obtained and supplemented by the use of more reactive (face-to-face interview and Focus Group Discussion) and less reactive methods (document analysis), enabling the phenomenon to be viewed and explored from multiple perspectives (Baxter & Jack, 2008).

4.7 DATA COLLECTION PROCESS AND STRATEGY

In this section, primary and secondary data are presented. Presentation of primary data is done according to research tools, namely FDG, FtFi and DA. These research instruments are described, followed by presentation of accessing data and conducting research tools. This is followed by presentation of sampling techniques, strategies for the sites of Study and Participants (Informants) and rationale for their selection.

4.7.1 Primary Data Collection

In order to understand how an alternative approach to VAT non-compliance dilemma could be developed primary data collection was carried out. In this process, FGD was conducted first. This enabled the researcher to know if the list of domains of the study were reflected in the participants' minds; if there was any important domain missing; if specific aspects of domains were missing; and to assist in understanding how people put the facts together (how they think things work) (Kruger & Casey, 2000; Neuman, 2011). This was necessary for pre-testing Face-to-Face interview questions and helped the researcher get ideas right by learning what people care about and how they think.

4.7.1.1 Focus Group Discussion (FGD) research technique

A Focus Group is a special qualitative research technique in which people are informally “interviewed” in a group discussion (Leedy & Ormrod, 2001; Patton & Cochran, 2002; Neuman, 2011). In this study, each FGD had twelve participants. This number was adequate for the Research Technique, as the literature suggests ten participants (Morgan, 1997; Patton & Cochran, 2002; Kruger & Casey, 2000) and a maximum of twelve respondents (Leedy & Ormrod, 2001), as appropriate for an effective FGD. In this context, additional 20% recruitment of potential participants (Morgan, 1997) was made in both FGDs, to overcome participants’ absence in FGD, which was less than 25% estimate of adequate over-recruitment as suggested by Patton and Cochran (2002). This research technique has been used in social science since the 1940s and experienced rapid growth in the past 20 years (Neuman, 2011). Although FGD is a group interview, it is distinguished from one-to-one interviews for relying on the interaction with the group which produced data and insights that would be less accessible without the interaction found in the group (Leedy & Ormrod, 2001; Neuman, 2011).

The composition of the groups enabled the researcher to obtain ideas and opinions from two distinctive participant groups (Tax officers and Taxpayers) through shared experiences and an in-depth understanding of contextual and social structure (Patton & Cochran, 2002) of VAT non-compliance management. Through FGD, the researcher also obtained more insights on how opinions and knowledge were formed in social context (Patton & Cochran, 2002) of the practice of VAT non-compliance. During the discussion, FGD provided insights into how people create meaning amongst themselves, rather than individually, with the possibility of shaping and re-shaping of opinion (Mouton, 2011; Neuman, 2011) stimulated by group dynamics and discussions that produced a new set of data. Therefore, clarity on difficulties encountered in interpreting what had been

observed (Creswell, 1994; Neuman, 2000) in the management of VAT non-compliance within its contextual environment could be obtained.

There were, however, some drawbacks that warranted researcher's attention and consideration, as these interfered with the study validity and reliability. The method was unsuitable for sensitive/personal topics and could be difficult to control (Patton & Cochran, 2002). However, it has also been discouraged due to researcher failure to reconcile differences that arise between individual-only and focus group context responses as well as the difficulties in distinguishing what is being observed (Creswell, 1998; Leedy & Ormrod, 2001; Mouton, 2010). Additionally, FGD have proved to be susceptible to a polarization effect (after-group discussion) and to facilitate the discussion of only few topics. This could induce to the producing of fewer ideas than individual interviews, with the risk that the moderator may unknowingly limit or open free expression of group members (Neuman, 2011).

In spite of these weaknesses, the fact that the unit of analysis of the study is the management of VAT non-compliance by the TA, and not directly taxpayers' VAT compliance behaviour, this reduced the sensitivity of the topic from a personal perspective. Additionally, validation strategies and reliability actions were used to enhance credibility of data obtained from FGD. To collect data, the researcher used participant letters of consent and a control map of participation in FGD. Introduction, purpose and Ground Rules Script were provided to participants, FGD Tax officers and Taxpayers guiding questions.

In order to reduce the possibility of bias, a private university room that provides an academic environment (Neuman, 2011) was found suitable to host FGD on VAT non-compliance management. Although some literature suggests the effectiveness of carrying out FGD on Saturdays to increase participation and have a favourable environment for the quality of data to be

obtained, this proved to be untrue in this study. FGDs occurred on a Friday (Tax officers) and Wednesday (Taxpayers) and all participants were present, most likely due to participant characteristics (workers) who used their working time to contribute to a topic related to working issues rather than on a Saturday when they would not be working. Therefore, clear instructions for participants and "stimulus" photographs and articles were provided before the discussion to enhance participants' focus on the studied case. Instead of three FGD as proposed earlier in the study, only two distinct FGD were undertaken. These two were adequate as confirmed by the literature, as more than one FGD produces valid results (Morgan, 1997; Neuman, 2011). The first FGD was carried out for Tax officials and Taxpayers considering segmentation by status during the selection process. These ensured participants could feel and speak comfortably (Newman, 2011). Friendship pairs and experts on the issue (Morgan, 1997) were avoided, and a moderator had to ensure that no single person dominated the issue, but rather that everyone comfortably shared their opinions and reasoning (Leedy & Ormrod, 2001).

The two FGDs, for Tax officers and Taxpayers, were conducted for an allotted time of 90 minutes and 1 hour 50 minutes respectively. This duration was within the bounds of an ideal time for conducting FGD, estimated at 45-90 minutes (Kruger & Casey, 2000) or 1-2 hours (Leedy & Ormrod, 2001). Within these periods, the moderator completed the questions to be discussed and the point of saturation was achieved (where no newer ideas were forthcoming) on the ten questions for each FGD, which was considered to be the ideal number of questions, as literature revealed twelve to be the maximum (Morgan, 1997; Mouton, 2011; Leedy & Ormrod, 2001). The FGD guiding questions (Appendix 3) (Morgan, 1997; Kruger & Casey, 2000) consisted of engagement questions (introducing participants to the topic), exploration questions (getting to the core of the discussion) and exit questions (to check if anything was missed in the discussion). However, in cases where information could not be captured by FGD, Face-to-Face

Interview and Document Analysis allowed the researcher to capture any new missed data from FGD.

In this context, in the process of primary data collection, FGD was conducted first, enabling researcher to know if the list of domains of the study were reflected in the participants' minds; if there was any important domain missing; if specific aspects of domains were missing; and facilitated the understanding on how people put the facts together (how they think things work) (Kruger & Casey, 2000; Neuman, 2011). These were crucial for pre-testing Face-to-Face interview questions and helped the researcher to develop ideas by learning what people cared about and how they thought of VAT non-compliance management. The way data were accessed is explained below.

4.7.1.1.1 Accessing data for both FGDs (Tax officers and Taxpayers)

While access to tax officers was facilitated by tax officers in the 1st Fiscal Area of Maputo, accessing data for the Taxpayers' FGD demanded reviewing previously set strategies. The year 2014 was marked by legislative and presidential elections in Mozambique. This contextual environment determined the establishment of the date for FGD, FtFis, accessing data, and gatekeepers. Therefore, letters to gatekeepers, namely TA to access Tax officers, Confederation of Economic Association of Mozambique (CEAM) (CTA - Confederação das Associações Económicas de Moçambique) to Access Taxpayers respectively had been sent earlier before the campaign. Although responses of some institutions were delayed, TA immediately reacted positively to the petition, followed by CTA in spite of its hesitation to accept, by asking if reasercher had the authorization of TA to do the research.

While such questioning could be interpreted as there was strengthened partnership, it also indicated that CEAM had less independence being an

organization from the private sector. It had strong political ties. Once the objective was clarified, the authorization was given. However, CEAM failed to join taxpayers of different sectors for FGD to occur, after three arrangements, one in November 2014 and two meetings in 2015 and 2016. Failure to meet on the agreed dates was justified by CEAM as “Taxpayers lack of interest to come in a meeting for research purposes”. However, in their arguments CEAM, particularly those responsible for the economic sector, revealed little interest in co-operating.

Therefore, researcher had to establish a contingent plan B to access Taxpayers through a Consulting and accounting firm Aries & Sercon. Contrary to CEAM arguments, taxpayers from different commercial sectors, promptly responded positively to the call by Aries & Sercon to participate in FGD of the study.

4.7.1.1.2 Conducting Tax Officers FGD

As the year 2014 was an election period, FGD was conducted after 15 October 2014 which was Election Day. The Tax officers FGD took place in the city of Maputo on Friday 07th November 2014, in spacious room where ISCTEM University (Instituto Superior de Ciência e Tecnologia) is located. The site was convenient, near the 1st Fiscal Area and with enough parking (Masedeh, 2012). This date was appropriate to work with tax officers, as there was relatively less work, to be done after closing monthly tax collection.

The twelve participants sat in U-shape formation, (Morgan, 1997; Morgan, 1997) but not more than twelve respondents (Leedy & Ormrod, 2001) for an effective FGD. The number of participants was within acceptable estimated intervals of ten (Morgan, 1997, Morgan, 1997). One desk was positioned in the centre of the U-shape, where the journalist who assisted with the recording placed the two different voice recorders (Olympus digital voice

recorder and a Radio-Mic Recorder from Radio of Mozambique. The use of two recorders ensured the discussion was recorded with good quality to provide back-up data. A team comprising a moderator (the researcher) conducted the Tax officers FGD and an assistant moderator (Honours in Financial Management) who helped in taking notes, noting body language and assisting with the distribution of material to the participants. The audio recording manager (Radio Mozambique journalist) assisted with the recording and organizing recorded data.

During the preparation and organization stage, the researcher wrote a detailed invitation letter for tax officers to participate in the FGD, devised a map to track invitation calls and confirmed the presence of preliminary participants in the FGD. The time, location and confirmation letters were organized and participants' letters of consent were distributed and signed before the FGD to obtain the prior consent of all the participants. This was followed by the Introduction, Purpose and Ground Rules Script provided to the participants. The selection of Assistant Moderator was done, based on economic or accounting background. After consenting to play the role as assistant moderator, a letter of confidentiality was signed and the researcher spent two days explaining his role during FGD. While searching for training to manage the voice recorder in Radio Mozambique (RM), the researcher was allocated a journalist named Adérito Lipangue who assisted with the recording. Researcher explained his role in the research, and after his agreement he signed the confidentiality letter and he brought an extra voice recorder to ensure that no data could be lost during FGD.

The twelve participants who had confirmed their participation in FGD were all present. The recruitment of participants was done within the 1st "Fiscal Area". Selection was done amongst taxpayers with not less than five years of experience in the process of tax managent. In the preparation phase, pseudonyms were allocated to each participant before arrival. They freely selected their position and choice. The assistant moderator helped to

distribute FGD guiding questions and rules to participants, ensuring that all working charts and markers were in place and ready for an effective environment for discussion. The data manager had prepared for effective recording of data by setting the two microphones in place after testing them.

The team presented themselves before FGD was conducted. The FGD for the Tax officer guiding questions (Morgan, 1997; Kruger & Casey, 2000) consisted of engagement questions (introducing participants to the topic), exploration questions (getting to the core of the discussion) and exit questions (to check if anything was missed in the discussion). Twelve questions were elaborated upon, as considered to be the maximum in a FGD (Morgan, 1997; Mouton, 2011; Leedy & Ormrod, 2001), while ten questions were considered the ideal number. After confirming the presence of all participants, clear instructions for participants and "stimulus" was provided before the discussion, phrases such as, "With or Without VAT", and in Portuguese "Com IVA SEM IVA". This enhanced the participants' focus on the studied case. The moderator (researcher) completed the FGD in 1 hour and 50 minutes. This duration is within the bounds of an ideal time for conducting FGD. The period of discussion was within/below an allotted time of 1-2 hours (Leedy & Ormrod, 2001).

4.7.1.1.3. Conducting Taxpayers' Focus Group Discussions

The Taxpayers' FGD occurred in the meeting room of an accounting firm on 12 August 2015, where the eleven invited taxpayers from different commercial sectors participated. The number of participants was within the acceptable estimate (Morgan, 1997; Patton & Cochran, 2002; Kruger & Casey, 2000) and less than twelve (Leedy & Ormrod, 2001) for an effective FGD. A comfortable meeting room was arranged. Unfortunately, the promptness in consenting to participate in FGD did not align with the schedules of the assistant moderator and journalist. The researcher (moderator) had to prepare the chart board, the marker, write the

pseudonyms and manage the attendance list and completion of consent forms. The Tax officers FGD was conducted by the moderator, who utilised the Olympus digital voice recorder centrally placed in the oval table. Notes were also taken by reaesrcher as a back-up to the recording. Only water was served to all participants and had been offered by the accounting firm where the FGD occurred.

During the preparation and organization stage, researcher explained the invitation letter for tax officers to participate in the FGD, confirmed the presence of participants and informed that during the discussion, particpants will be called by their pseudonyms. Consent forms were signed by participants. This was preceded by the introduction and purpose and of the study, which was read to the participants before the discussion started. The FGD for Taxpayers guiding questions (Morgan, 1997; Kruger & Casey, 2000) consisted of engagement questions (introducing participants to the topic), exploration questions (getting to the core of the discussion) and exit questions (to check if anything was missed in the discussion). Twelve questions were provided, considered to be the maximum in a FGD (Morgan, 1997; Mouton, 2011; Leedy & Ormrod, 2001) although ten questions would have been considered the ideal number of questions. The twelve questions solicited the views of the participants regarding trends around VAT non-compliance in an objective way.

However, the place was convenient for taxpayers as it was familiar to them, as they visited the accounting firm to discuss tax obligations and rights regularly. This strategy made the process of recruitment and accessibility very flexible. Thus, the use of the university classroom, as previously planned in the proposal phase, was replaced by meeting in the accounting firm. The recruitment of eleven participants was done with the help of the accounting firm, following the scheduled participation group according to participants and selection criteria**.** A total of eleven participants who were confirmed to be in FGD were all present in the discussion. To enhance the

focus of participants on the studied case, the moderator started the discussion by posing the following question: “Have you ever heard some taxpayers asking customers if they want to pay with or without VAT? Where is TA management failing to motivate that scenario?” The discussion took about 1 hour and 40 minutes which was within the bounds of an allotted time of 45-90 minutes (Kruger & Casey, 2000; Leedy & Ormrod, 2001). Respondents were very participative, open and some were critical of the TA administration towards tax collection, while being aware that the researcher was an officer of the TA. The taxpayers’ FGD had relatively higher tax knowledge compared to other taxpayers that were interviewed individually in the shops. Additionally, as some knew the researcher as a Tax officer, they exhausted their opinion with the expectancy of having their views shared with the TA with possible redress as a result. This expectation was enhanced by the Letter of Authorization the researcher had from the President of the TA. The participants’ trust towards the researcher and the work facilitated the open discussion on the issues. This contradicts with some validity strategies that posit taxpayers to criticize less when they know the person is somehow related to TA. This frank and sincere discussion in the FGD was crucial to understand how to the address the studied topic.

4.7.1.2. Face-to-Face Interviews (Ftfi) research technique

The use of interviews is common in qualitative studies, and particularly in case study design (Yin, 2009, Creswell, 2013). Although researchers shared similarities on the scope of their definitions, revised literature revealed this research tool to be burdened with imprecise definitions. Whilst Ritchie and Lewis (2003) describes it as managed verbal exchange, Frey and Oishi (1995) defines it as purposeful conversation in which one person asks prepared questions (interviewer) and another answers them (interviewee). On the other hand, from a different perspective, Kvale and Brinkmann (2009) and Rubin and Rubin (2011) view it as a series of steps in a procedure whilst Creswell (2013) defines it as a process embedded in a larger sequence of research.

Despite these varied definitions, revisions on the merits of Face-to-Face Interviews in qualitative studies have revealed to enable the researcher to acknowledge the importance of the phenomenon embedded (Phellas, et al., 2012; Newton, 2010) in VAT non-compliance management and provide deeper meaning, insight and understanding (Ritchie & Lewis, 2003) of the context in which it operates. Thus, non-verbal clues could be captured and were crucial to understanding the interviewees' opinions, using visual aids (Hammersley & Gomm, 2004) in aspects related to corruption and the dynamics of collusion effects. This tool also enabled the use of non-verbal information (Kruger & Casey, 2009; Stewart & Shamdasani, 1990) since social cues such as voice, intonation and body language of the interviewee (Opendakker, 2006) particularly VAT agents, taxpayers and Tax auditors, perceptions and values on the dynamics of VAT non-compliance, were important for generating rich data (Phellas, Bloch & Seale, 2012; Newton, 2010). Therefore, making of sense of the VAT non-compliance management phenomenon (Newton, 2010; Creswell, 2013) was facilitated, with the advantage of explaining complex questions to the interviewee if required. The fact that the researcher was familiar with the context and topic being studied assisted in identifying distortions or inconsistencies (Chadwick, et al., 1984; Creswell, 2013). Although Face-to-Face interviews have been widely used in past studies attempting to understand tax administration and tax evasion in Mozambique (Castro, 2005; Castro, et. al., 2009; PWC, 2009), most of these studies cut across taxes and was limited to administration and technical reforms in Mozambique (Shenone, 2004; Castro, et. al., 2009; Nathan Associates, 2009).

Unlike a highly structured interview used in Castro (2005) and Castro, et al. (2009) to analyse tax and administration reform implementation, which reduced the possibility of gaining in-depth understanding of the contextual environment (micro- and macro-environment), the Tax system, key actors' relationships and integrated design elements have substantially contributed

to the prevailing challenges in addressing VAT non-compliance. Adopting semi-structured interviews to collect data allowed the researcher to obtain a wide range of opinion in the original voice of the interviewees (Newton, 2010) representing a rich variety of key actors. Their views were explored in different facets within the dynamics of VAT non-compliance management (Chadwick, et al., 1984) and enlightened the researcher on different issues that had not previously been considered (Wimmer & Dominick, 1997) with the depth and extension of the study. As the management of VAT non-compliance was the unit of analysis of the study, the degree of sensitivity was not high as compared to studies by Shenone (2004) and Versano, et al. (2007) that aimed at examining taxpayers' non-compliance behaviour. The study left respondents at ease, with some feeling of control in the FtFi interview guiding questions (Appendix 3).

Despite its merits, this research tool had some drawbacks, which were mostly related to the live nature of face-to-face interviewing and the complexity of the language used. The effects of the Interviewer's personal attitude (Rice, 1929; Creswell, 2013) and the interviewer's personal characteristics such as sex, age, ethnic origin (Chadwick, Bahr & Albrecht, 1984; Denscombe, 2007; Newton, 2010) has been revealed by studies to slant interviewees' answers towards the opinions of the interviewer (Creswell, 2013). This could have created biased results if validity strategies were not accounted for. The probability of respondents being unwilling to provide information (Stewart & Shamdasani, 1990; Krueger & Casey, 2009); the fact that topics might be inadvertently missed and comparability reduced due to varied sequencing and wording in each interview (Chadwick, et al., 2012; Patton, 2002; Newton, 2010); the need for the interviewer to clearly structure questions (Cohen, et al.,2007); the need to both take notes and listen (Wengraf, 2001; Clough & NutBrown, 2007); and the creation of a good environment (Opdenakker, 2006) were some examples of face-to-face interview shortcomings that were encountered.

Furthermore, the interviewer's communication skills (Clough & Nutbrown, 2007); the ability to clearly structure questions (Cohen et al., 2007); to provide good instructions, phrase and negotiate questions, deal with sensitive issues and develop transcriptions (Suoninen & Jokinen, 2005); both recording and transcribing/coding, dealing with a situation when little is said during interviews, handling emotional responses and using icebreakers (Creswell, 2013); power asymmetry in the relationship of the interviewer and the interviewee (Kvale & Brinkmann, 2009) as the nature of the interview sets up an unequal dynamic between the interviewer and the interviewee (Kvale & Brinkmann, 2009; Creswell, 2013); power and resistance, distinguishing truth from authenticity, the impossibility of consent (Nunkoosing, 2005) and the ability to select interviewees capable of articulating the forces that interrupt, suppress or oppress them with the courage to expose their story and the difficult parts of it (Weis & Fine, 2000) were some examples of challenges faced by the researcher during interviews.

To overcome these shortcomings, the researcher had to develop a rapport and gain the trust of the interviewers (Patton & Cochran, 2002; Creswell, 2013) as presented in the Validity and Reliability section. Besides taking notes, interviews were recorded with the permission of the interviewees, reducing the effects of double attention (missing data) (Opdenakker, 2006). Of the 51 respondents, only one felt uncomfortable having the interview audio-recorded, but accepted being interviewed. The purpose and topic of the study were made clear to the interviewees at the start of the interview to put the interviewee at ease (Newton, 2010; Gomm, 2004) and facilitate the work. Thus, interview questions were clear and concisely elaborated to determine the quality of the response in relation to wording and placement (Bahr & Houts, 1971). Additionally, although the live nature of face-to-face interviews made the technique vulnerable, as the visibility of social cues could be disturbed by interviewers' effect, it was important to realise that this vulnerability produced richness and depth to the data, as its

participatory approach enabled prime data (codes, themes and interpretations) to be co-created and evaluated, thereby increasing credibility.

4.7.1.2.1 Accessing data for FtFi

Accessing data for FtFi was easy, using the 1st Fiscal Area of Maputo database and contacts to reach taxpayers. Through this means, the researcher accessed taxpayers who were in the normal regime and had once been audited and sanctioned. This group also included VAT invoice agents. The other method used to access taxpayers was by randomly moving from shop to shop. The same mean was used to access final consumers. However, to access donors, the researcher had to use the influence of the TA and therefore selected three donors to interview. The selection was done according to their considerable assistance to the institution under study. On the other hand, obtaining authorization to access legislators in the National Assembly took more than two months. The researcher had to contact them often about the document. Their alleged misunderstanding of the nature of the research motivated the delay, as internally the document was sent to the Department of Finance. In the last call the researcher had to reinforce verbally the objective of the study, explaining that their finance and accounting documents were not the matter of the study, but rather legislation on VAT. Accessing data for DA was much easier, within TA, due to the former President's authorization.

4.7.1.2.2 Conducting Face-to-Face Interviews

Collection of data from face-to-face interviews commenced in 2014 and finished in 2015, in which 31 individuals were interviewed, against the proposed 32. This was qualitatively found to best answer the purpose of the study (Creswell, 2013). The FtFi guiding questions comprised not more than 12 questions each (Opdenakker, 2006; Kvale & Brinkmann, 2009). Each

interview was conducted for not more than 90 minutes, an appropriate estimate for an effective interview (Creswell, 2013).

FGD interview guiding questions, for tax officers and taxpayers, enabled the testing of FtFi interview questions (Yin, 2009; Creswell, 2013), and its sequence to answer the inquiry of the study. The researcher had to have a plan and agenda for the interviews. Although the literature suggests one interview per day to be adequate, in this study, due to the participants' time limitations and the limited time available to the researcher, who had to travel more than 1200 km from Beira to Maputo to carry out the interviews, at least three interviews were carried out per day. In some days only one interview was done and in other days no interviews were done. This made it difficult to follow interview plan and agenda. To complete the FtFi, the researcher made three separate trips to Maputo for this purpose, one in November-December 2014, and the other two in February-March 2015 and July-August 2015.

With the exception of one interviewee (one of the three accountants), all participants consented to having their interviews recorded. This allowed for the elimination of any bias that could have emerged by doing more than one interview per day. The researcher (interviewer) used the Olympus Digital Voice Recorder VN-731PC 2GB 790h Low Noise Mic 7 to record the interviews. Interviews occurred at a time and place convenient to the interviewee, with attention being given to sufficient privacy and comfort for effective communication so that communication could be easy. The researcher had to adjust to the condition and place offered, but both had to consent to an environment that was acceptable. The earliest interview occurred at 8:30 a.m. and the latest at 10:30 p.m. Interviews took place mostly in working offices, shops, streets, one interview in a restaurant, five in private homes, and two in motor vehicles. The researcher had to manage the time and be prepared to pay for transport costs to reach the interviews. The collected data were organized daily. To access relevant data according

to the specific participants, the researcher divided the 31 participants into groups, namely Tax officers, Taxpayers, VAT invoice agents, VAT experts/accountants, Legislators and Final consumers. All participants converged in relation to certain points of relevance, the causes and processes of the phenomena, though they explained these in their own perspective. Information sheets and consent forms were provided to participants in advance. These were explained to them and then signed by the participants before the researcher started the interviews.

4.7.1.3. Document Analysis (DA) research technique

Document analysis is defined as the systematic examination of the contents of a particular body of material for the purpose of identifying patterns, themes or bias. It is typically performed on forms of human communication. The study used this social research technique to identify the needs, weaknesses and challenges of VAT non-compliance management. This longitudinal analysis (Glenn, 2009) enabled the researcher to understand not only the background information about VAT non-compliance management, but also to reflect on alternative approaches to VAT non-compliance management.

The data were collected from different types of documents, such as PARP I & II; 5th year Government Programmes; Law No. 15 Mozambican Tributary System; Law No. 1/2006, 22nd March that established the Mozambican TA and Law No. 1/2009, 10 September which amended articles 4, 6, 8 and 11 of Law No. 1/2006 of 22nd March; and Law No. 2/2006, 22 March. These documents established principles and general norms of judicial planning. Although different types of information were obtained from multiple and different sources (documents), these shared unique characteristics in relation to VAT non-compliance, as these directly or indirectly provided the guidelines to addressing tax non-compliance. The compilation of extracted data, in respect of these documents, enabled the researcher to understand the contextual complexity of VAT non-compliance management by the TA.

To understand how TA is addressing VAT non-compliance, more information was extracted from Law No. 32/2007, 31st December which approves the Code of Value Added Tax (VAT); Decree no. 7/2008, 16th April; General Scheme of Tax Offenses Decree no. 46/2002 in Mozambique. These provided more insights on how sanctions had been addressed, managed and used to influence VAT taxpayers' compliance. Attention was given to the description and procedure of sanction, its implementation to ensure justice and discourage unfair perceptions of taxpayers and sanction complexities. This was also extended to the tax officers' approaches which enhanced the building of mutually respectful relationships rather than coercive means, currently being applied.

In addition, information from the TA Strategic Plan, Annual Plan, TA Annual Reports, Tributary Superior councils communications per semester, TA Seminars of Tributary Policies, TA Booklets, newspapers from 2006 to 2016, the Order of the Minister of Finance from December 22, 2011 and regulatory instruments on VAT invoicing (authorization, emission and monitoring) were used to understand the current stage of VAT invoice administration, procedure, communication amongst involved actors, relationship, co-ordination and participatory management and responsibilities. In order to understand what, how, and why the current fiscal education programme continues to be ineffective in improving the way business people view VAT money (mental accounting), researcher carried out an analysis focused on fiscal education programmes in the institution since 2006 up to the present date. However, conception, language, transmission, target group, message, video clip information on tax compliance, fiscal dissemination training modules, fiscal education pamphlets and contents, were relevant to improve tax knowledge.

Analysis of all these documents provided deeper insight into the problem (Wharton, 2006) as missing patterns of VAT non-compliance management

could be recognized and trends examined. This contributed to the consistency in alignment of VAT non-compliance management actions. Thus, access to information which could be unlikely to be captured, if based solely on FGD and Face-to-Face interviews, was facilitated. This enabled the analysis of motivation, intent and purpose of documents and actions taken on VAT non-compliance management. Consequently, the adoption of this technique in the study added value to data collected from FGD and Face-to-Face Interviews. This is explained by the fact that Document Analysis does not intrude upon or alter the setting in ways that the presence of the investigator might and is also not dependent on the choices of individuals whose co-operation is essential for collecting data through interviews (Merriam & Associates, 2002). However, although documents were a useful source of evidence, they had limitations. As these documents were not originally produced with research in mind (Wharton, 2006; Merriam, 2009), some documents or materials were found to be incomplete (Merriam, 2009). The data were restricted to what already existed and some did not evaluate current needs, opinions or satisfaction. Documents were misfiled; some with inconsistent information creating gaps in data (missing data) as well as coding (Johnson & Reynolds, 2014). The method also required some time to select the documents and reading content analysis (Merriam, 2009), as some information was embedded in the language and assumptions of the text.

To overcome these shortcomings, the researcher used Document Analysis (DA) Worksheet Guide (Appendix 4) to enable internal and external analysis of documents to be done, complemented by a Document Analysis Matrix to gather information related not only to the tax environment but also to key actors and players and drivers of change, and to examine the relationship amongst stakeholders; sanctions, VAT invoice administration and mental accounting and cost-benefit association, in relation to VAT non-compliance management. In this context, indicators reflecting the influence of the external context on VAT non-compliance management and identification of

actions based on the SMART principle were presented. The researcher assessed whether (i) the documents reflected on sanction complexity, fragmentation, description, procedure and coercive relationships as obstacles to compliance behaviour; (ii) VAT Invoice Administration, concerning participatory monitoring, interactive co-ordination and deepened partnerships (collusion effects) hampered compliance behaviour; and (iii) automatic cost-benefit association, actions/strategies on accountability (public expenses versus VAT money collected) enhanced compliance behaviour. This approach provided a solid basis to understand how VAT non-compliance management was implemented, articulated and structured.

Consequently, Document Analysis not only informed the extent to which systematic approach, context and taxpayers' compliance behaviour were being taken into consideration, but it also provided information as to the way people saw things and how they wanted them to be seen or understood. This was of importance to the researcher, as it allowed for a depiction of a particular account of reality necessary for checks and probes into the management of VAT non-compliance. However, consideration was given to both external analysis (the type of document, the author, audience, and place) and internal analysis (content of document, credibility of document, evaluating evidence, developing a thesis and supporting arguments) that strengthened the researcher's analysis on VAT non-compliance management.

4.7.1.3.1. Accessing data for DA

The previous president of the Mozambique TA authorized and facilitated the researcher's access to the organization at all levels. The TA annual reports, technical reports, Memoranda of Understanding, donors' reports and other documents in the departments and library were easily accessed. This was cost-effective and time-effective, as it enabled the researcher to access simultaneously secondary information while also collecting data from FtFi.

The researcher used TA staff from the Directorate of Planning to introduce the researcher to the donors through e-mail, thereby facilitating researcher access to documents, to conduct the analysis.

4.7.1.3.2. Conducting DA

Various documents have been used to collect data for document analysis, as illustrated in the sampling section under selection criteria. In this context, Document Analysis guiding questions served as tools for collecting data, as presented in Document Analysis Matrix Transcript (Appendix 4) to gather and analyse extracted information from the documents, aligned to conceptually related topics to the study. An assessment of the document was carried out by making an introduction and providing background and a clear explanation of events by identifying the significance of the thesis and supporting arguments inherent to the studied unit and its endogeneity.

4.7.1.4 Data management and organisation

In order to refine the diverse and unstructured information of VAT non-compliance, primary data collected from face-to-face interviews (protocol guide field notes and observations) (Darke, et al., 1998; Creswell, 2013); FGD (audiotape recording, moderator's transcripts, assistant field notes) (Anderson, 2010; Yates & Legget, 2016) and DA (worksheets, observation notes, photographs, symbols, images, pamphlets) and data collected from reports, meeting minutes, and websites were organized, filed, backed up and stored in three copies. This was to safeguard against theft or breakdown or loss of device whilst allowing for tracing and recovering the work at any point of the research and ensuring replication (Yin, 1994; Creswell, 2013). To make sense of the whole database, the researcher read through text in its entirety several times, containing key concepts, looking for multiple sources of evidence and perspectives (Creswell, 2013; Silverman, 2016), and by looking at passages associated with each code

as an indicator of interest in a code (Asmussen & Creswell, 1995), contrary to Huberman & Miles (1994) who suggest making preliminary counts of data codes and the frequency appearing in the database. Collected data for FGD (Tax officers and Taxpayers) was retained in distinct folders and saved in five physical devices in different locations: one in the researcher's house, one in the office, one on the laptop and CDs, e-mailed to researcher, and on the recorder. Recorded interviews for both (FGD) were transcribed and the cleaning of transcripts through the stripping of non-essential words (reduction of data) was also done by the researcher, ending up with categories and themes that emerged in the two FGD. These data were summarised in tables, as per each distinct research technique. In this context, for recorded interviews, folders were created to organize data according to research techniques and particular informant groups. A systematic and verifiable process was used to capture participants' comments in a more understandable and useful way, based on elaborated matrices.

The organization of data started soon after FGD had finished, where the team (moderator, assistant moderator and data manger) sat to align the rough notes, including the non-verbal clues and observations, quotes, new ideas, visual aids, gestures, were organized in files and in tables using Excel spreadsheet, where responses have been categorized after transcription of recorded FGD, as per each intervention or response. This facilitated registration of information that could be easily forgotten. Recorded data were quickly tested for quality. Data were recorded in CDs and files kept in Gmail, USB, and working computer, to serve as a back-up. The researcher began by transcribing all Face-to-Face interviews recorded per participant ID intervention.

Data management occurred according to groups of informants, namely Taxpayers, Tax officers, Final consumers (end consumers), VAT accountants, VAT Invoice Agents, legislators and donors. The researcher

created a file for each of informant groups and tables/matrices were created per group and vertical and horizontal analysis of data in each group conducted in accordance with the Interview guiding questions. The data were managed separately. Folders were created and saved as per group of informants, in order to protect from theft or breakdown or loss of device whilst allowing for tracing and recovering the work at any point of the research and ensuring replication (Yin, 1994; Creswell, 2013).

In order to refine the diverse and unstructured information of VAT non-compliance, primary data were collected from face-to-face interviews (protocol guide field notes and observations) (Darke, et al., 1998; Creswell, 2013); FGD (audio tape recording, moderator's transcripts, assistant field notes) (Anderson, 2010) and document analysis (worksheets, observation notes, photographs, symbols, images, pamphlets) including reports, meeting minutes, websites. The researcher read through text in its entirety several times, containing key concepts, looking for multiple sources of evidence and perspective (Silverman, 2016; Creswell, 2013), and by looking at a number of passages associated with each code as an indicator of interest in a code (Asmussen & Creswell, 1995; Bailey & Bailey, 2017). This enabled the researcher to improve the management and reading memoing (Creswell, 2014).

The visualization, representation and classification of data were done based on the use of tabular and figure forms, providing a visual image of the information. A matrix comparing themes and categories was constructed where the cells contained text and not numbers. Hierarchical tree diagrams were used (Asmussen & Creswell, 1995) to distinguish factors important for VAT non-compliance management, showing different levels of abstract information. In classifying data from FGD and face-to-face interview, categories, themes or dimensions of information were disaggregated, with no more than 25 to 30 sub-themes and segments of data. These were aggregated into small manageable sets of themes (five to seven), to form a

common idea to be used to write a report. Silence or exclusions within the groups, or elements that were unusual in the text (Czarniawska, 2004) were analysed in metaphor and double-entendres used to capture multiple meanings and unconscious sub-text respectively (Creswell, 2014). Major issues that emerged from distinctive research techniques and informant groups related to the research question, overlaps and complementarities between key actors were identified, explored over time, across different circumstances and key actors' perspectives. This was followed by the interpretation, classification and description of data developed to show the "lessons learned" (Lincoln & Guba, 1985) within a social science construct of ideas or a combination of personal views. This had the possibility of being abstracted out beyond the codes and themes to the larger meaning of VAT non-compliance management data, thus a revision on secondary data is presented below:

4.7.2 Secondary data collection

Despite critiques on the use of secondary data in research (Kiecolt & Nathan, 1985; Thorne, 1994; Atkinson & Brandolini, 2001; Heaton, 2008), for failing to provide raw data, literature reveals its increasing importance to substitute, complement and build up patterns as well as cross-check research findings. Therefore, since VAT non-compliance management is implemented within the bounds of established institutions, the study collected information from documented sources on tax compliance with the focus on VAT. In this context, journals, TA bulletins, research findings and text books were used to collect secondary data.

4.8 SAMPLING TECHNIQUES

The literature reveals various sampling techniques which can be used in qualitative research (Suri, 2011; Etikan, Musa & Alkassim, 2016) to capture information relevant to the study. However, the suitability of these sampling techniques differed according to the study purpose. Some examples of these sampling techniques are ‘snowball’ also known as chain sampling, convenience sampling, opportunistic/emergent sampling, and purposive sampling, as described below.

Snowball or chain-referral sampling has been most popularly used in business studies, in cases where the required characteristics of samples are rare and difficult to find. It involves primary data sources nominating another potential primary data source to be used in the research, based on referrals from the initial subjects to generate additional subjects, i.e. once a researcher has made contact with one participant, this can help the researcher to recruit other participants to the study by providing contact details (Berg, 1988; Browne, 2005; Sadler, Lee, Lim & Fullerton, 2010). Although this technique has the advantage of recruiting the hidden population, and provides the possibility of collecting primary data in a cost-effective and time-effective manner, it also has its drawbacks. Oversampling a particular network of peers can lead to bias (Sadler, Lee, Lim & Fullerton, 2010); it may give rise to ethical concerns, as respondents may be hesitant to provide names of peers. Additionally, there is no guarantee of the representativeness of samples as it is not possible to determine the actual pattern of distribution of population. It is also not possible to determine the sampling error and make statistical inferences from the sample to the population due to no-random selection of samples (Sadler, Lee, Lim & Fullerton, 2010).

On the other hand, convenience sampling, also known as availability sampling, is a specific type of non-probability sampling method which relies on data collection from population members who are conveniently available

to participate in the study (Suri, 2011; Etikan, Musa & Alkassim, 2016; Neuman, 2016). Although certain researchers suggest that convenience sampling is the easiest and most convenient way of recruiting the sources of primary data collection, and is effective in the exploration stage of research, other researchers have discouraged the use of this sampling technique in dissertation, due to, the inability to generalise findings, and due to the relevance of bias and high sampling errors that may undermine the credibility of the study.

On the other hand, researchers have found opportunistic sampling to be appropriate for exploratory case study, when little is known about the phenomenon. It commonly occurs in field research, during the process of data collection, as the researcher gains more knowledge of the setting, taking advantage of events to make the decision on participants (Coyne, 1997; Russell & Gregory, 2003; Suri, 2011). A revision of these sampling technique characteristics and their weaknesses has precipitated the adoption of pre-determined purposive sampling in the study. This was motivated by the fact that purposive sampling is defined as a non-probability sampling method that relies on the researcher's own judgement when choosing members of the population to participate in the study (Malteredu, 2001; Suri, 2011; Palinkas, Horwitz, Green, Wisdom, Duan & Hoagwood, 2015). Therefore, in both FGD for Tax officers and Taxpayers respectively and FtFi in the study, participants were objectively selected to understand how key actors interplayed in the management of VAT non-compliance.

However, this technique has some drawbacks. It is posited by some researchers as being inappropriate for business studies due to the likelihood of errors in judgement by researcher, for having low level of reliability and high level of bias, and its inability to generalize research findings (Kuper, Lingard & Levinson, 2008). However, these limitations are outweighed by the study purpose. The technique enabled to identify key actors (Limited participants) in taxation field, with some level of understanding (Creswell &

Creswell, 2017) on the management of VAT non-compliance, revealing to be cost and time-effective. This enabled to capture reality from different groups and perspectives, crucial for strengthening the platform for VAT non-compliance. Although the study had adopted selection criteria for taxpayers to participate in FGD, access to them used some attributes of snowballing sampling techniques. In this case, one of interviewed accountants facilitated access to other participants for FGD by inviting and explaining to them the purpose of the study on behalf of the researcher.

4.8.1 Sampling strategy for the sites of study

According to Weiss and Fine (2000), there is a need to consider the appropriateness of the site in relation to the research purpose. In this context, having the management of VAT non-compliance by TA as the unit of analysis, the Central Directorate of TA and the 1st Fiscal Area of the City of Maputo were chosen to be the site of the study on the management of VAT non-compliance in the period 2006 to 2016, as presented in Table 5 below:

Table 5: Sites of Analysis

Central Directorate	**Central Directorate**	**1st fiscal Area of Maputo city**	**1st Fiscal Area in the City of Maputo**
	Legislative competencies (Proposals)		Interacts directly with taxpayers
	Financial and administrative autonomy on VAT non-compliance interventions		Interacts with VAT invoice agents and has the largest number (diversity in experiences)
	Strategic and Tactic Planners for actions on VAT non-compliance		Direct contact with taxpayers (collection, auditing)
	Interacts with donors		Tax experts (accountants) working on behalf of taxpayers

	Involved in setting rules for VAT invoice agents operations and co-ordination and control		Particularity of proximity to the Central Directorate with all its managerial mechanisms
	Where fiscal education and training is conceived and framed.		Implementers of the strategic and tactic plans

Source: Own, 2014

The selection of the site of study was induced by researcher's limited familiarity with the areas, thus, reducing possibilities of bias.

4.8.2 Sample: Participants (Informants) and rationale for selection

The study adopted pre-determined purposive sampling for qualitative research which allowed the researcher to subjectively select 54 participants, on their specific characteristics, with some level of understanding of the management of VAT non-compliance, unlike quantitative sampling techniques (Neuman, 2011), whereby it is the representativeness of the samples that matters (Flick, 2008; 2015) unlike the relevance of the topic in qualitative approach. This non-probability type of sampling enhanced the understanding of the meaning (Patton, 2000; Merriam, 2002), of VAT non-compliance dilemma, from the perspectives of the participants. These selection criteria ensured participants were familiar with institutional culture and were in a position to discuss significant events, and engage in routines in the settings in relation to VAT non-compliance management (Neuman, 2011). Table 6 below presents participant sampling and the rationale for their selection in the study. From these, 54 participated in the study.

Table 6: Sampling: Participants in the research and rationale for selection

Participants	No. FTFi Partic-ipants	No. FGD Tax-payers/ Tax Officers	Rationale for Selection
VAT legislators	4		These revise and have the final decision on the proposed law, amendment or discontinuity of the VAT law.
Tax officers	5	12	These are law proposers, management, designers, and implementers; interact with all VAT compliance stakeholders.
Taxpayers (Normal Regime)	8	11	A targeted group for alternative approach. An "unpaid" tax collector that collects VAT from final consumer and remits to TA.
VAT-invoice Agents	4		These are the "privileged" taxpayers who issue and sell invoices that are being forged and used for VAT evasion practice
VAT agents/ experts/ accountants	3		These are very influential in taxpayers' compliance behaviour, due to their tax knowledge and experience.
Donors	3		These are the mind-set of the TA, VAT non-compliance framework.
Final Consumers	4		These groups are the VAT payers, whose VAT paid to Taxpayers (Tax collectors) is sometimes not remitted to Government.
TOTAL	**31**	**23**	

Source: Own, 2014

In this context, informants of the study were divided into groups, namely, VAT legislators, tax officers, taxpayers, VAT invoice agents (VIA), VAT agents/experts /accountants, donors and final consumers.

4.8.3 Sampling: Participant (informants) selection criteria

The selection criteria adopted in the study, ensured participants had reasonable experience and knowledge to share on the topic of VAT non-compliance management. In this case, for Tax officials FGD, all participants had least 5 to 6 years of working experience, except two of them, that had four years of experience. One of them was a lawyer working under the Tax illicit department and the other working under the Fiscal education department. However, the two, appeared to be well acquainted with their working tasks and procedures. Tax official were selected from different divisions in Tax units. These selection requirements were also extended to the Central Directorate; particularly the ex-General Directors from 2006 to 2012. Researchers interviewed ex- General Directors to obtain more consolidated information, on tax compliance, since the introduction of TA in Mozambique. However, researcher ensured these were interviewed in the year 2014, as the longer they had been away from direct involvement, the more likely they could have reconstructed their memories (Neuman, 2011). On the other hand, Taxpayers registered in the 1st Fiscal Area in the City of Maputo were selected, according to different commercial sector and related conceptual themes under studied topic. As the management of VAT non-compliance presupposes complementary work from different key actors, the researcher divided key informants for Face-to-Face Interview into seven distinct groups, according to their specific roles in the management of VAT non-compliance. There were 31 participants interviewed and qualitatively found to best suit the purpose of the study (Creswell, 2013). Although selection criteria adopted in the research enabled the researcher to obtain information from the possible targeting group in the management of VAT non-compliance, accessing data were not an easy process in the research. In the following chapter data implication and interpretation is presented.

4.9 DATA IMPLICATIONS AND INTERPRETATION

The nature of the research implied probable limitations in accessing data. Researcher used different strategies and interventions to overcome the shortcomings. *First,* VAT sensitivity could have prevented respondents in FGDs and face-to-face interviews to openly share their ideas on how to improve VAT non-compliance management. Thus, researcher introduced herself as a researcher, accountable to WITS School of Governance only, to overcome this. Additionally, having VAT non-compliance management as the unity of analysis, rather than taxpayers' compliance behaviour, has enabled to reduce the level of sensitivity of the topic to participant groups. Researcher, on Participant Information Sheet and Letter of consent, also ensured the issue of confidentiality and anonymity. Collected data were triangulated, and in some cases, in FGD, researcher undertook member checking and made repetitions of the same questions in various ways to ensure accuracy of the information. *Second,* respondents in both Face to Face Interviews and Focus Group Discussions, in a situation involving an "inside investigator" could have feared to be open and critical in providing their views on current VAT non-compliance management. In an attempt to reduce bias that could exist from collected information, researcher considered as the site of analysis a different regional directorate, particularly in Maputo province, (1st Fiscal Area of Maputo) 1200 km away from Beira, Sofala Province, where the researcher is known to both tax officers and taxpayers. Triangulation of methods, participant and physical observation and repetition of questions in several ways, were also used to overcome biased information. *Third,* the fact that the focus of the study was not to quantify but qualify, a case study, and thematic analysis used to analyse data, have helped to disclose information on VAT non-compliance management. This has enabled to overcome the lack of access to find statistically credible and coherent information from the past years and the

year 2006 onwards, with the introduction of the Mozambican TA. Therefore, ethical concerns related to the study are presented below.

4.10 ETHICAL CONCERNS

The qualitative nature of this study placed the researcher at risk of substantial ethical issues, not only during data collection and analysis, but also in reporting qualitative data. Therefore, when using Face-to-face Interviews and FGD as data collection techniques, informed Participants sheets and Consent letters were distributed to participants of the research (Lipson, 1994) and a copy of the summary of study report distributed to participants as benefits. Researcher ensured data were collected in a way that was confidential, using pseudonyms rather than names and avoiding asking demographic questions. The use of ground rules for FGD ensured that both investigators and participants respected confidentiality of data. This protected informants' anonymity which was reinforced by assigning numbers/aliases to individuals (Creswell, 2013). In order to gain support from participants, researcher conveyed to respondents that they were participating in a study, explained the purpose of the study and participants were informed in their letter of consent that they can withdraw from the study at any time they wish. Complementarily, the researcher has developed a rapport as described in section on validity and reliability, to reduce biasness during data collection. The researcher adhered to the principles and standards guiding research, according to Human Research Ethics Committee of the University of the Witwatersrand attached to the study.

CHAPTER FIVE
UNDERSTANDING THE DYNAMICS OF VAT NON-COMPLIANCE

5.1. INTRODUCTION

The management, presentation and preliminary interpretation of data are organized under specific headings and/or different research tools and Informant groups. The rationale of presenting data as per the different research tools provides value on information concerning identified behaviour and how actions have influenced events (Leedy & Ormrod, 2001). It also provides corroborating evidence (Glesne & Peshkin, 1992; Miles & Huberman, 1994). This enhances improvement on the validity of the study through triangulation. It captures logic and inter-connectedness of factors within VAT non-compliance management.

As managing VAT non-compliance is based on complementary actions from different stakeholders, to discourage non-compliance FGD data from the field, provided insights to understand how social structure and context were formed (Patton & Cochran, 2002; Neuman, 2011) amongst key actors. It also provided a better understanding of how different opinions, knowledge, experience and background influenced VAT non-compliance. The discussion stimulated by group dynamics precipitated the production of new data on the management of VAT non-compliance, which was not accessible using face-to-face interviews and document analysis. Managing tax non-compliance revealed to cut across disciplinary lines and being influenced by contextual particularities. Therefore, Face-to-Face Interview enabled to have, a better understanding of individual insights, internal procedures and individual experiences (Chadwick, et al., 1984), the context (Ritchie & Lewis, 2003) and to capture of non-verbal clues of the studied topic and understanding the interviewees using visual aids (Gomm, 2008). It also enabled to capture how these made sense of the issue (Newton, 2010;

Creswell, 2013) and perceptions useful for generating rich data (Phellas, Bloch & Seale, 2012; Newton, 2010). Complementing DA data allowed the researcher to examine and identify missing patterns and consistency (Merriam, 2009) and provided deeper insights (Wharton, 2006, Creswell, 2013; 2014; 2016) to the dilemma of VAT non-compliance. This contributed to improved information that could not have been obtained solely based on FGD and FtFi.

Following organization and transcription of data and the cleaning up of transcripts, as per the research technique, data were organized as per informant group. The coding process was done by taking text data and segmenting sentences, paragraphs or images and these were converted into codes (Creswell, 2014; 2016). This was facilitated by the detailed descriptions that were provided, which enhanced categorical aggregation of data to establish patterns. Tables and figures were used to systematically organize and present the coding process of emerging concerns of the interviewees.

Case study has been used in some research in the field of tax compliance (Braithwaite, 1999; Fjeldstat & Hegestadt, 2012; IMF, 2015), in spite of some of their methodological limitations that may influence the validity of the findings. This study used self-report opinion/perception to understand the dynamics of the practice of VAT non-compliance. The use of FGD and FtFi enabled to capture insights on the honesty of the informants to disclose co-operation, could be enhanced to encourage VAT non-compliance. The study adopted Validity and Reliability strategies as presented in Chapter Six. However, self-reporting of data has also been used in traditional research in psychology and criminology (Thornberry & Krohn, 2000; Maxfield & Babbie, 2008; Murphy, 2008). Although the case study provided a rich dataset necessary for examining the perceptions of different informant groups, with all their limitations, validity strategies explained in chapter four, were used to overcome these shortcomings. The third research technique,

DA, was also used for data triangulation, to reduce inference of bias on findings, during the corroborating process. Interpretation of data were done taking into account the influence of the macro and microenvironment in managing VAT non-compliance.

Although the study research questions present certain sequences, for better elucidation of facts and events, the clarification and interpretation of collected data were not linearly done. Sections were related to the relevant information in VAT non-compliance management.

5.2. TAX POLICY INFLUENCE ON DESIGNING INTEGRATED ELEMENTS IN VAT NON-COMPLIANCE

In order to answer RQ 1 of the study, “How institutions and the integration of VAT compliance factors, affect the success of VAT non-compliance approach?” questions 1, 2, 3, 4 and 6 of both FGDs and FtFi and DA data were used. These are presented in different sub-sections, namely,

- 5.2. Tax Policy influence on design integrated elements in VAT non-compliance.
- 5.2.1. The dynamics of Ineffective Tax policy in discouraging VAT non-compliance.
- 5.2.3. The dynamics of VAT administration and invoice control in non-compliance.
- 5.2.4. Absence of risk management strategy in VAT non-compliance.
- 5.2.5. Informal sector and Managing VAT non-compliance.
- 5.2.6. Automatic cost-benefit association, Fiscal education and Accountability influencing compliance.

To understand the dynamics of VAT non-compliance in the Mozambican context, the study first identified the design of integrated elements (the most common VAT factors/events) enhancing or discouraging non-compliance. The collected data was also run quantitatively, to corroborate results emerging from qualitative thematic analysis employed in the study. Figures

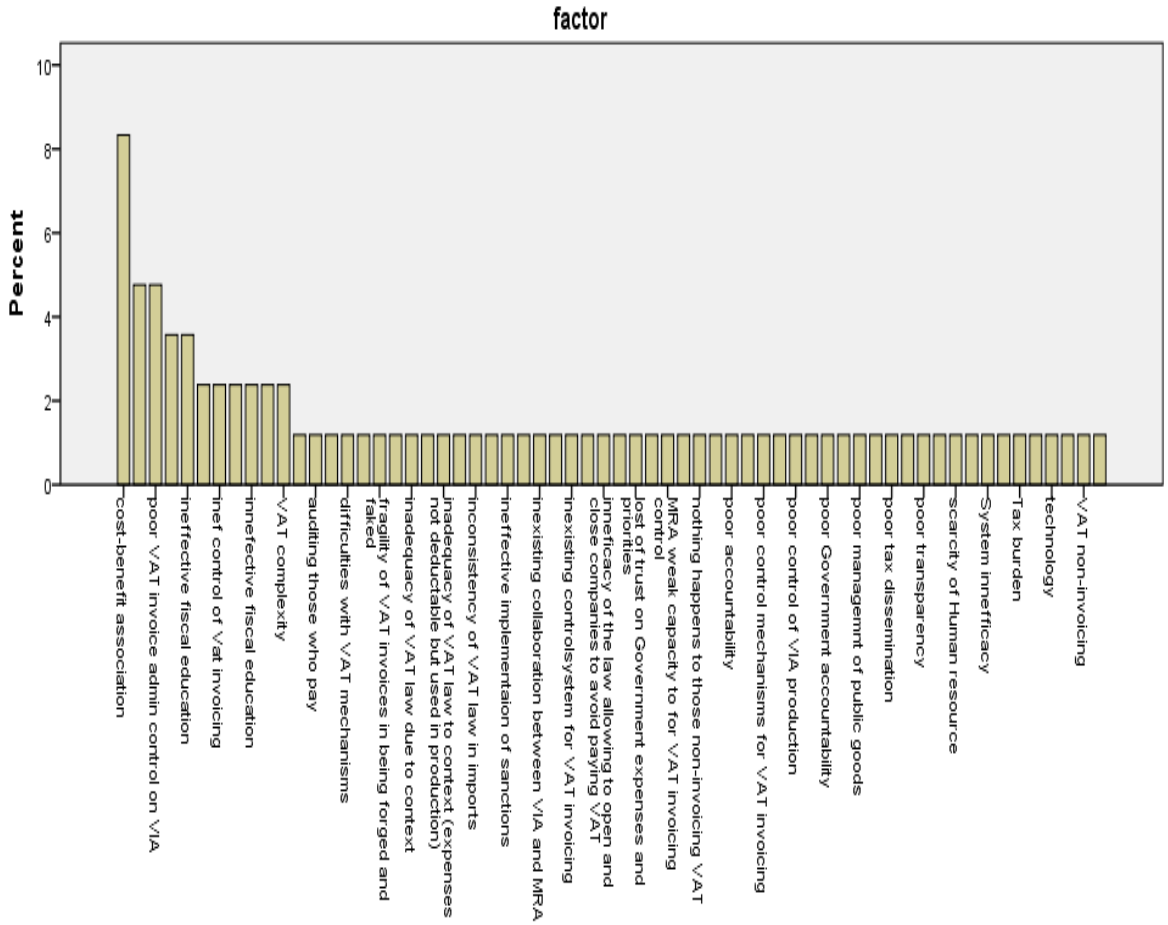
13 and 14 below, present quantitative analysis of the emerging themes. Table 7 illustrates the design of integrated elements, which are further presented in Graph 7 below.

Table 7: Factors/events facilitating VAT non-compliance

	Frequency	Percent	Valid Percent	Cumulative Percent
Cost-benefit association	7	8,3	8,3	8,3
Informal sector	4	4,8	4,8	13,1
Poor VAT invoice admin control on VIA	4	4,8	4,8	17,9
High tax rates	3	3,6	3,6	21,4
Ineffective fiscal education	3	3,6	3,6	25,0
Imperfect competition in the market	2	2,4	2,4	27,4
Ineffective control of VAT invoicing	2	2,4	2,4	29,8
Ineffective technology	2	2,4	2,4	32,1
Ineffective fiscal education	2	2,4	2,4	34,5
Tax officers' attitude	2	2,4	2,4	36,9
VAT complexity	2	2,4	2,4	39,3
Auditing the few	1	1,2	1,2	40,5
Auditing those who pay	1	1,2	1,2	41,7
Complexity of VAT law	1	1,2	1,2	42,9
Difficulties with VAT mechanisms	1	1,2	1,2	44,0
Valid feeling of maximizing profit	1	1,2	1,2	45,2
Fragility of VAT invoices being forged and faked	1	1,2	1,2	46,4
High Tax rate in high poverty incidence context	1	1,2	1,2	47,6
Inadequacy of VAT law due to context	1	1,2	1,2	48,8
Inadequacy of VAT law to context	1	1,2	1,2	50,0
Inadequacy of VAT law to context (expenses not deductable but used in production)	1	1,2	1,2	51,2
Inconsistency in adopting laws Impacting negatively to VAT (ISPC)	1	1,2	1,2	52,4
Inconsistency of VAT law in imports	1	1,2	1,2	53,6
Ineffective control of VAT invoicing	1	1,2	1,2	54,8

Source: Own, 2017

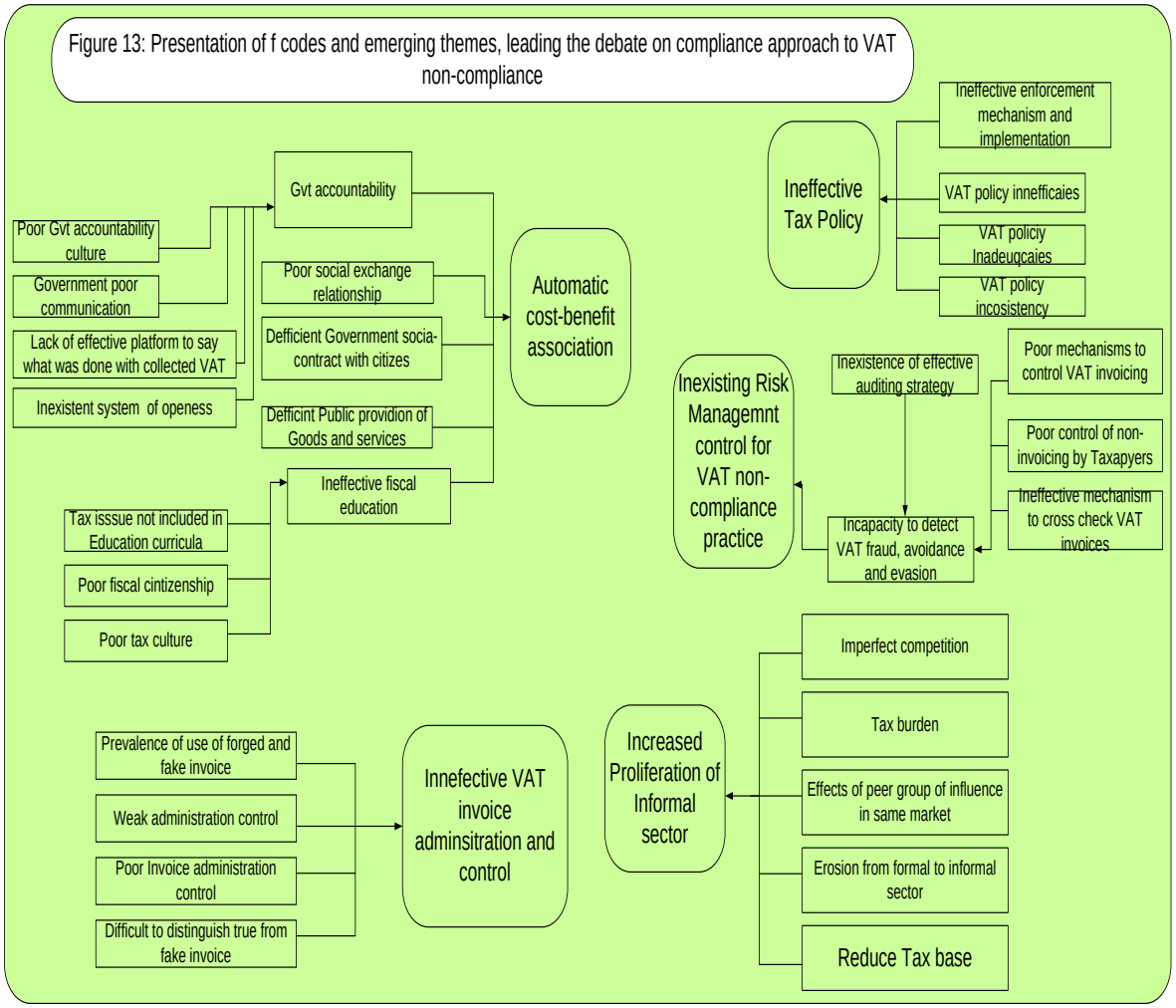
Graph 7: Factors/events facilitating VAT non-compliance



Source: Own, 2017

Therefore, following the steps of thematic analysis of data according to Creswell (2014), the process of codification enabled the examination of the data as presented in Figure 13 below. This provided insight to identify the design of integrated elements and their dynamics, influencing VAT compliance within the Mozambique context. These factors have been codified, and related themes emerged in Figure 13 below. It illustrates how these codes have been related and created meanings to their major themes.

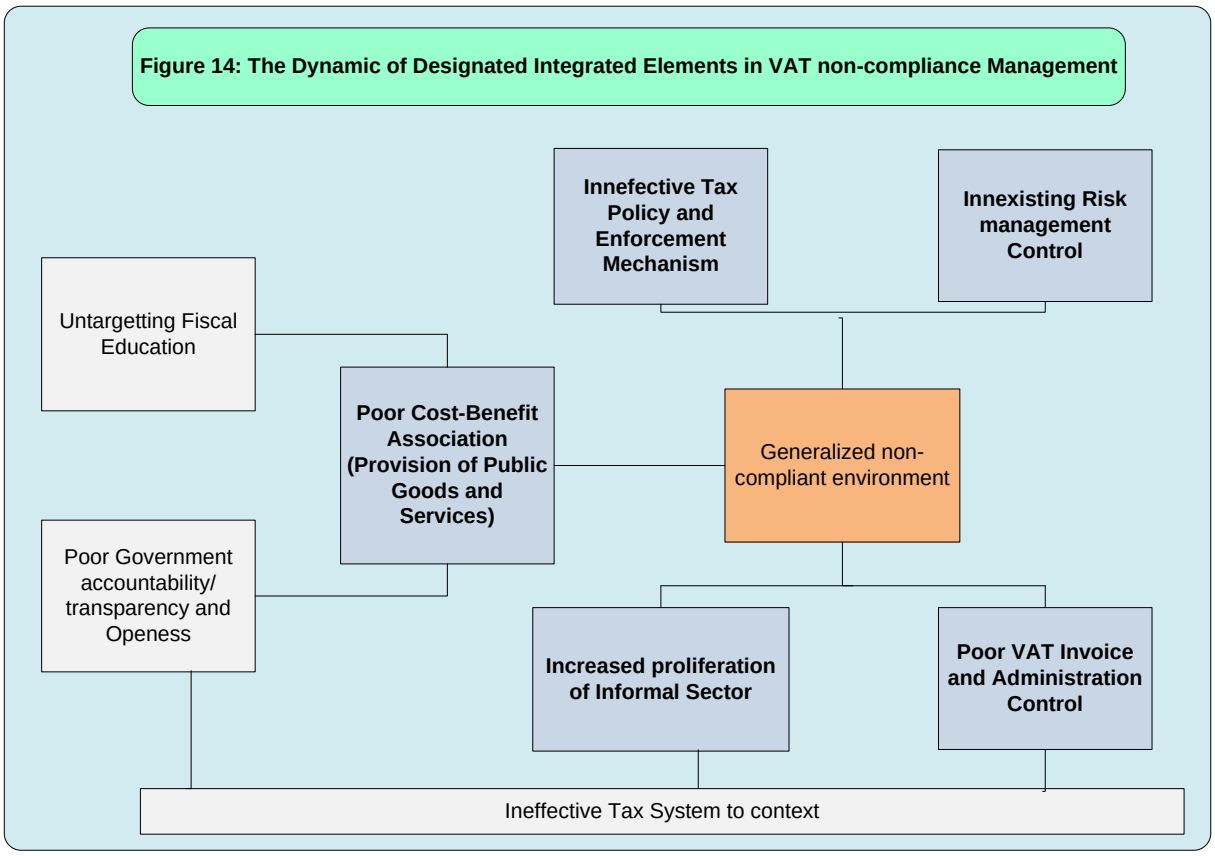
Figure 13: Presentation of the codes and emerging themes, leading debate on compliance approach to VAT non-compliance



Source: Adapted from Creswell, 2014

Further codification of the major themes in figure 14 below; have enabled to capture how their dynamics, relations and interactions could enhance non-compliant environment.

Figure 14: Dynamic of Designated Integrated Elements in VAT Non-compliance Management



Source: Own, 2017

Preliminary interpretation of each theme enlightened the study on what and how design integrated elements (VAT compliance factors) could be employed in a possible alternative conceptual framework for VAT non-compliance management.

5.2.1 The dynamics of ineffective tax policy in discouraging VAT non-compliance

In order to understand how tax policy (sanctions) has influenced taxpayers' compliance behaviour, or otherwise, within the Mozambican contex and how its inefficacies and limitations could be addressed, questions 6 and 7 can be utilised. Question 6 is, "What are the fragilities of VAT sanctions and penalties in influencing the taxpayer to pay VAT? Can you explain how

these could be improved?" and question 7 is, "What do you think about the complexity of VAT regulations? Is it complex, unclear, sometimes difficult to understand, suggesting multi-interpretations? Are graduations of sanctions and penalties unfair? What could be done to overcome these fragilities?" Data for FGD Tax Officers and FGD Taxpayers have been used. This enabled to understand the dynamics of Tax policy its complexity and multi-interpretation and fragilities of sanctions (unfairness, inequity) influencing compliance, presented in Figures 15, 16 and 17 which address complexity, inadequacy and inconsistency of Tax Policy respectively.

The Tax Officers in the FGD have revealed sanctions, fines and penalties in certain circumstances (e.g. misreporting and late reporting of collected VAT, VAT non-invoicing) to be insignificant to enhance taxpayers' VAT compliance. Taxpayers found it profitable to avoid compliance rather than being sanctioned. In this case, fines and penalties were insignificant compared to their "economic gain" for non-complying. This was true particularly for medium level taxpayers. For example, one respondent noted that *"...Some taxpayers prefer to non-comply because it's cheaper for them to do so…even after being sanctioned..."* (Tax off FGD A2 7th November, 2014).

Presenting a similar view, another respondent said that they
"…prefer sanction than complying with VAT laws, because the fines and penalties are insignificant…" (Tax off FGD D1, 7th November, 2014).

Further to this a respondentd observed that,
"…sometimes taxpayers make calculations. They find it profitable to be sanctioned than to comply, because the amounts are insignificant for them…" (FtFi 14, 2nd November, 2014).

The tax officers' responses in FGD noted that the complexity of VAT Law partly stems from the replication of Portuguese law into the Mozambican

context. Language traits have prompted penumbrae that influence not only the understanding of the law, but also, suggest its misinterpretation, while adding to the complexity of the VAT laws. In this regard, for example, one respondent noted the *"…complex issues in this legislation…"* (Tax off FGD C2, 7th November 2014). Yet another respondent added that *"...There is generalized perception of complexity of the Tax system…"* (DA, IMF Report May 2010, pg. 32).

In addition to the views above, Tax off. FGD A4 (7th November 2014) observed that, *"It's ok that we all speak Portuguese, but the way the Portuguese use the language to achieve their objective is slightly different from ours…".* Another respondent added that *"…I think this replication is what brings in difficulties in understanding…"* (Tax off. FGD A4, 7th November 2014).

A further comment was that *"…the only difference between Portuguese and Mozambican fiscal legislation is the articles. But descriptions are all the same…"* (Tax off. FGD A4, 7th November 2014). A related view on the complexity of Mozambican legislation was noted by Tax off. FGD A1 (7th November 2014): *"…the articles are too complex and difficult for taxpayers to understand. Even for us as Mozambique TA tax officers, we also face the same difficulties sometimes…".*

A respondent echoed this: *"…it's very complex, of which some of tax officers do not master them…"* (Taxp FGD AT2, 12th August 2015). The fact is that, *"…complexity of the law does not help…"* noted FtFi6, 18 August 2015. Adding to this, FtFi5 (date missing) observed that *"…the law suggests multiples of interpretation, they are fragmented too…"*

Respondent Taxp FGD AT11 (12th August 2015) concurred with the view saying that *"…in our VAT code, we can face three interpretations for the same paragraph…"* which, according to Taxp FGD AT1 (12th August 2015)

is a *"…Different interpretation, and changes the meaning of an article…"* since *"…Some of articles are not clear, and as legislation, it has to be clear as harmony is brought into the spirit of the law…"* (Taxp FGD AT11, 12th August 2015).

Another aspect adding to complexity of the law, had to do with excessive loss and fragmentation of tax laws, making its accessibility difficult for both taxpayers and tax officers. Adittionally, lack of aligned procedures amongst fiscal areas and within the same fiscal area have also contributed to complexity of VAT law, which enhanced the perception of inefficacy in tax administration. For example, Taxp FGD AT11 (12th August 2015) pointed out that *"...Too many regulations/articles that are not set in one legislation and access to it, is difficult..."* Following this it was noted that *"There is also a problem of contradictory information, those given from different Fiscal areas, or in the very same Fiscal Area…"* (Taxp FGD AT 7, 12th August 2015).

Tax policy and regulations' discrepancies and inconsistencies, in relation to the criteria of sanction application, have been observed amongst different levels of hierarchy, i.e. vertically (central and operational) and horizontally, amongst Tax units. This has motivated perception of unfairness and injustice and complexity of tax law. Not only taxpayers but also tax officers experience the same difficulty. For example, one respondent said, *"there is a problem of interpretation between TA tax officers and taxpayers, over legislation articles…"* (Taxoff FGD A1, 7th November 2014), *"and even us as technicians we are (not) included in proposal debates... we face the same difficulties in interpreting the laws."* (Taxoff FGD C2, 7th November, 2014). *In fact, there is "…no aligned procedures and there is divergent interpretation in some articles on VAT Law…"* (Taxp FGD AT 7, 12th August, 2015) since *"in our VAT code, we can face three interpretations for the same paragraph…"* (Taxp FGD AT11, 12th August 2015).

Adding to the complexity of tax law, the lack of a tax culture was also raised. To address this, respondents suggested permanent debates and training to be carried out for tax officers and taxpayers, to improve their understanding. In this regard, for example, Taxoff FGD A4 (7th November, 2014) suggested that the, *"Tax Norms Directorate" would take debates with Taxpayers to explain about the laws to taxpayers…".* Despite this, participants have shown themselves to be aware of the influence of Tax culture and judicial culture for enforcement mechanisms to work. Taxoff FGD (7th November, 2014) frankly recognized the prevalence of poor tax culture: *"…but we have to recognize that we have no juridical culture. Of course, there are some complex issues in this legislation…"*

Although the inefficacies of sanctions are seen as emanating from different contexts, data also revealed it to be prompted by ineffective audit strategy and procedures for medium-to-large and large taxpayers. The three-to-five year auditing period have revealed to result in higher amount to be paid or recovered by TA. The amount is so high and in some cases far less than the business capital. Thus, most taxpayers do not have enough money to pay their obligations inherent audited amount. This impracticability has opened space for amicable settlements and corruption, during negotions between TA and taxpayers for the payment of reasonable and realistic amount of tax due. For example, Taxoff FGD B2 (7th November, 2014) have suggested that, *"…audit of five-year penalization, through sanction, fine, interest and taxes are discouraging for being paid by taxpayers, because it is too high and sometimes even higher than the capital of enterprise…"*

VAT sanction has been revealed to be fragile, due to its inconsistency, entrenched in discrepancies when it is applied for different or similar tax offences. Respondents have shown their dissatisfaction towards differences in sanctions. For example, Taxoff FGD A1 (7th November, 2014) explains that in cases where for both lighter and heavier infractions taxpayers were given similar sanctions, *"…for lighter and heavier offences,*

penalties are the same…". Indeed, this has brought to light the importance of sanction criteria for taxpayers influencing its consistency. This was suggested by Taxp FGD AT 7 (12th August 2015) as one participant observed that *"…use of different criteria to apply sanctions amongst Fiscal Areas is questionable, because it's the same TA ...and discrepancies in interpretation of some articles in legislation, within TA top and operational levels when contesting at higher level…".* This was also supported by Taxp FGD AT11 (12th August, 2015) who noted the, *"…Inefficacy of legislation in giving room for discrepancies when using intervals and amount to be paid as sanction and penalty…".*

On the other hand, participants in the Taxpayers FGD have pointed to the inconsistency of VAT sanctions and regulation during its application, mostly in terms of criteria. For them, different measures are used for tax avoidance. In this regard, Taxp FGD AT11 notes that, *"Each Fiscal Area has its own method/criteria of applying sanctions…*", a view supported by Taxp FGD AT2 (12th August, 2015) suggesting that, *"...Graduation of sanctions needs to be standardized...",* and Taxoff FGD B2 (7th November, 2014) that, *"…Procedures of sanction and penalties applications are not aligned within TA, and particularly, amongst Fiscal Area…".*

VAT experts and accountants have highlighted the inconsistency of the law in not allowing deduction of some expenses such as mobile cell phones as costs in business enterprise, revealing inadequacy of tax law. There is also dissatisfaction with the punitive attitudes of tax officers and auditors, overlooking tax education premises; irrespective of their awareness of taxpayers' lack of knowledge. This group of respondents felt that TA procedures, complexity and misintenterpretation of the law, instead of facilitating, constituted an obstacle to taxpayers' compliance. In order to reduce or eliminate misinterpretation and complexity of the law, this group suggested, seminars and training, elaboration of guidelines for more harmonized accounting procedures and treatment of fiscal data, by both

accountants and TA auditors. For example, FtFti 22 (24th November, 2014) suggested that, *"…the problem of VAT law is misinterpretation… I have had several problems with this… I think it is really complex… TA could do seminars with accountants to improve our interpretation of the law…".* This was also supported by FtFti 23 (7th August 2015) who suggests that, *"…well…to be honest...the law won't be clear even for lawyers… its true that there is need for making clear those fundamental articles… through trainings and re-cycling trainings for accountants…".* Further flexibility was demonstrated by FtFti 24 (10th August, 2015) who noted poor accounting knowledge, non-alignment of VAT legislation with national accounting procedures, poor accounting knowledge of tax officers, and the need to standardize procedures.

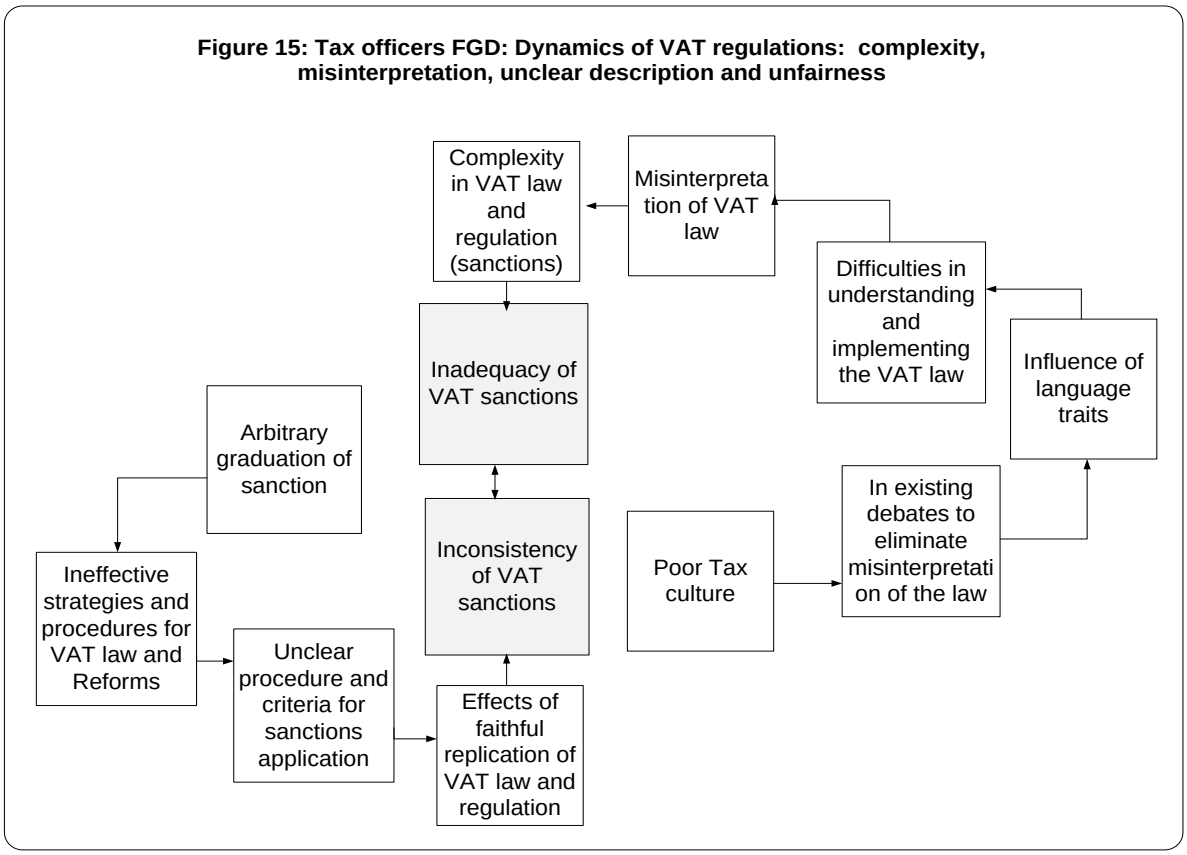
> *"There are situations in which some operations are taken to doubt… especially in term of financial flux... as tax officers might think financial flux is related to tax." For example, there is a case that happened, in which a company has to send money to a branch, to make some payment in another province. In this case, the moment I send money through emission of cheque, the moment the branch receives, and the moment I receive accountability of payment done are all different and in accounting these moments are separated… but Tax officers considered all withdrawals done as incorrect VAT deduction. Companies have differentiated ways of doing accounting… I think there should be a unique guideline that has to be designed to improve and standardize accounting and fiscal process…".*

Although end consumers appear less influenced by sanctions as compared to taxpayers, as suggested by FtFti 26 (02 September 2015), "*…No… not at all we have no knowledge and not even any information about the law… or possible penalties, if these exist…".* For these Participants, while taxpayers should know something about sanctions, it seems they did not even know the fact that they might be solidarily responsible if involved in

any circumstance of collusion with taxpayers, for not demanding a VAT invoice. However, end consumers believed that sanctions might work for taxpayers as these could have their business negatively affected or closed down, unlike themselves, who had “nothing to lose”.

Preliminary interpretation of tax policy has enabled a better understanding of the flow and pattern of factors shaping VAT law and regulation. This was done taking into account the perspectives of different informant groups. In this context, sanctions and VAT law (Fragilities, Complexity, Description and Interpretation), have highlighted the centrality of administration efficiency in promoting the effectiveness of sanctions in discouraging VAT non-compliance. Therefore, prevailing inconsistency, inadequacy, complexity and multi- and mis-interpretation of VAT sanctions have worsened its ability to be a deterrent factor.

Figure 15: Tax Officers FGD – Dynamics of VAT Regulations – complexity, misinterpretation, unclear description & unfairness



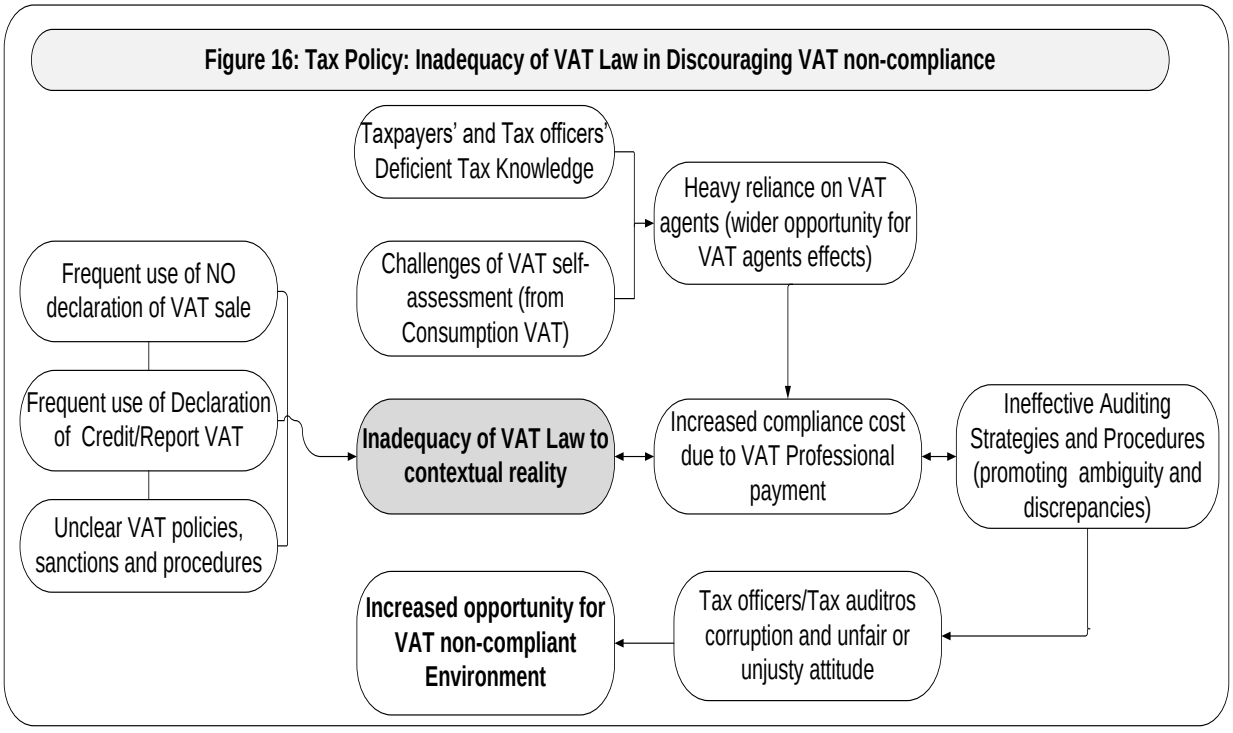
Source: Own, 2017

In this context, prevailing inefficacies in tax system and administration, deficient tax officer integrity, weak enforcement mechanism and sanctions inconsistencies and indaquacy of tax law have all enhanced opportunities for non-compliance.

5.2.2 Tax policy: Inadequacy of VAT Law in discouraging non-compliance

The theme of ineffective tax policy, referring to VAT law and particularly sanctions and auditing institutions has emerged from a combination of inadequate, inconsistent and unfair policies identified by informants as being ineffective in addressing VAT non-compliance.

Figure 16: Tax Policy – Inadequacy of VAT Law in discouraging VAT non-compliance



Source: Own, 2017

Analysis and Interpretation of inadequacy, inconsistency and unfairness of tax policy and its influence on VAT non-compliance have brogth to light the interconnetdeness, interrelation, diferentiations and complementarity of these factors in encouraging or discouraging the practice of VAT non-compliance and in understanding the dynamics of tax system.

Data have revealed the importance of adequacy of tax policy to respond to community demands. Therefore, replication of tax laws from other contextual realities makes it difficult to conform to community standard, due to its complexity, misinterpretations of tax law, multinterpretation of law, language traits, threshold adequability, tax structures and its fragmentation into Mozambican context. The encountered difficulty is further exacerbated by high rate of illiteracy of taxpayers, poor VAT knowledge for both taxpayers and tax officers, weak and inconsistent training, and poor tax and accounting knowledge.

Taxpayers' perception of being unfairly treated derived from disputed articles, and discrepancies of tax law and tax burden. In their elaboration, TA heavily concentrated on the few that pay taxes to maximize revenue collection. On the other hand, TA have barely contrated on taxpayers that presented VAT declaration without VAT payment or with credit/report. This have also enhanced perception of unequal treatment amongst taxpayers, which compromised perception of tax equity. For example, FtFi6 (18th August, 2015) indicates that, *"Sanctions applications are discretionarily applied to taxpayers, Tax Unit Directors do not observe the reasonability..."*. This is further supported by FtFi11 (02 September, 2015) indicating that, *"...the more VAT we collect and declare to Government, the more tax officers come to audit... they suspect and follow you..."*. FtFi1 posited additional support to this view (2nd September, 2015): *"...Tax injustice would motivate... I think TA has to work hard on ethical issues..."*

The view of tax auditors on active corruption and their excessive use of authority have also influenced the sense of taxpayers that they are not being treated fairly. Another factor perpetuating corrupt attitudes is the absence of control policy and strategy that is based on checks and balances in auditing process and strategy. The fact that there is no inspection or auditing control and coupled with poor tax auditors' integrity, have further undermined the

perception of the unfairness of tax policy and contributed to an environment that is susceptible to collusion.

The inadequacy of VAT policy derives not only from the economic perspective of tax compliance theory, but also from the social factors influencing compliance. Aspects related to corruption, tax ethics, tax knowledge and taxpayers' challenges of self-assessment in VAT deduction and complexity of tax law, amongst other factors, have prompted taxpayers' heavy reliance on tax professisonals/accountants. These have increased not only their compliance costs but also, also non-compliance opportunities in some cases. For example, FtFi7 (2nd November, 2014) explained that, *"... some legislation is done without considering the Mozambique context..."*

The absence of a platform to inspect on auditing work and tax auditors' attitude, have influenced taxpayers' compliance. However, this absence, have proved to differently influence on the group of taxpayers with possibility of paying tax professionals and those without. Whist the former ones have resisted negative impact of tax professionals' effect on compliance, the latter ones, have shown to hardly sustain the excessive authority power used by tax auditors and officials, due to their weak financial capacity and poor compliance knowledge. This makes them vulnerable and prone to accept the offer of collusion, as to avoid possibilities of increased compliance cost. These auditing inefficacies and the excessive use of authority to enforce compliance, have failed to discourage non-compliance. This has been reflected on FtFi 11 (2nd September, 2015) pointing out that, *"...there is a need to work over on absolutism and totalitarianism of tax auditors, shown in their appetite for taxes that could be paid to TA, as they severely sanction you...".* This was supported by FtFt12 (11th August, 2015) noting the *"Prevalence of heavy reliance on audit and sanction to enforce compliance…"*

Data have revealed tax professionals to influence taxpayers VAT compliance. These have even determined the amount of VAT to comply or to non-comply. Whilst data have in some circumstances suggested increased reliance on tax professionals resulting from the complexity of VAT law and poor VAT knowledge, in other circumstances, data have shown that taxpayers relied on tax professionals mostly to assist them to avoid compliance with VAT. However, this objective could be either deliberate due to poor cost-benefit association or enforced as a way to resist excessive use of authority by the tax auditor, disputes over differing interpretations of some articles, and for "speaking the same language" when it comes to achieve an amicable settlement between parties in dispute. For example, Tax off FGD A3 (7th November, 2014) indicates *"...the use of some VAT expert/Agents/accountants to help and advise them on how to avoid and evade VAT...";* and FtFi11 (2nd September, 2015) who noted that, *"...if you don't share the money with them, consequently paying little to TA... to have reduction of sanctioned amount."* This view was supported by FtFt 27 (11th August, 2015): *"...Taxpayers prefer to use third parties to go... they do this because the owners (taxpayers) say they might not understand with tax officers due to the language they use with VAT experts/accountant/agents...".* According to the DA, PARP/A 2006-2009 of 10th April 2016 (number 289. j.), *"I have also suggested the need to create Association for Accountants professionals."*

The inadequacy of VAT law to discourage declaration of VAT forms with no sales and with reporting amounts within the context of VAT compliance, as well as the prevalence of ineffective VAT registration control within the tax system in general have not been restricted to VAT avoidance by taxpayers, but have also cut across disciplinary lines. Some taxpayers, mostly foreigners and Portuguese nationals in particular, have exploited weaknesses in taxpayers' control and the inadequacies of VAT law, which allow to register as taxpayers and systematically submit VAT forms with no sales, for long periods, as to be liable to the acquisition of DIRE and reside

in Mozambique, thereby negatively influencing the efficacy of the migration management strategy. For example, Tax off FGD C3 (7th November, 2014) noted that *"...some taxpayers come to register just to get Dire and keep submitting declarations with no operations...".*

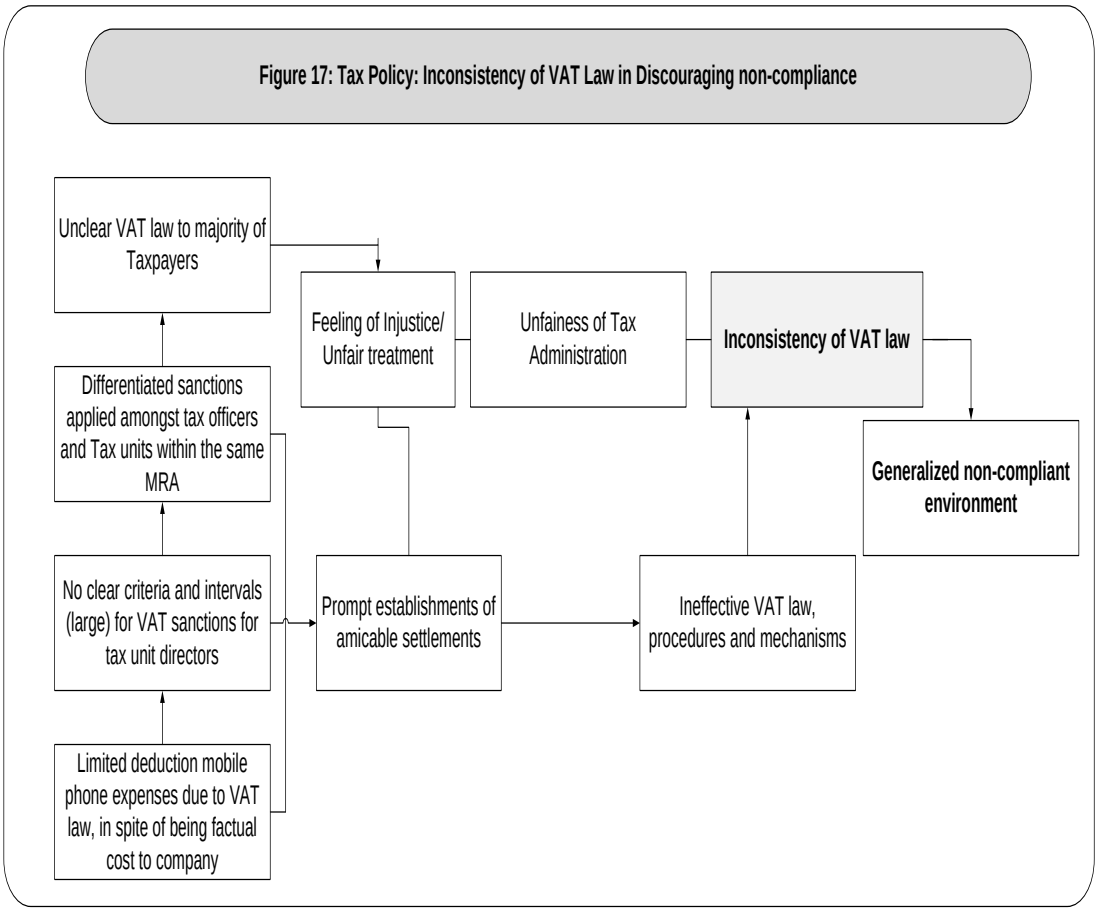
Tax policy is negatively influenced by the inadequacy of VAT law in the conformity of community standards. This results in perceptions of an unfair tax system. However, improvements of inadequacy of VAT law might have lacked, because most of reforms were focused to direct taxes (personal and corporate) during the evolution of tax system. This was coupled by deffcient taxpayer registration and control of transactions made by taxpayers in the market and in the Government platforms.

Inconsistencies of the VAT law and regulations were also a sub-theme on tax policy that discouraged VAT non-compliance. Data indicate that allowing VAT declaration without sales and with reports for a long period makes it more difficult to enforce VAT compliance. The use of self-assessment in an environment with inadequate VAT invoice administration makes the detection of VAT fraud and evasion and enforcement of VAT compliance even more difficult. In this context, FtFi 5 (24th November, 2014) notes *"...Inadequate strategy to discourage VAT related fraud and evasion practice..."*. This was supported by FtFi 3 (14th November, 2014) who indicates the *"...Inadequacy of strategies and priorities ... that might be related to political will...".*

In spite of most participants' recognition of the prevailing high VAT rate in Mozambique, both tax officers and taxpayers discussed the allocation of specific VAT amounts to be paid by taxpayers of different sector, instead of using VAT rates. In their view, this procedure seems to be acceptable to Mozambican community standards. This could respond to challenges of self-assessment, inadequate VAT invoice control and administration, scarcity of human resources, weak tax officer capacity, limited capacity to

monitor taxpayer compliance, inefficacies of technolog, and defaulting cross-checks of VAT transactions and overcome the dilemma of the low probability of being caught.

Figure 17: Tax Policy – Inconsistency of VAT Law in discouraging non-compliance



Source: Own, 2017

The inconsistency of Vat law was found in the application of VAT sanctions and in the differences (gaps) of sanctioned amounts paid amongst different taxpayers over similar practised infractions. This has ambiguity characterized by the absence of standard criteria and guidelines for VAT sanctions, has led to implicit or unfair application of sanctions and arbitrary decisions, within the same tax unit and between different tax units. This was noted by FGD Taxpayer AT2 (12 August, 2015) indicating that *"...graduation*

of penalizations needs to be standardized... discrepancies in application of sanctions...".

Despite prevailing regulations on VAT sanctions, the ineffective sanction criteria and application thereof, influenced by ambiguity, has resulted in poor transparency, lack of clarity and homogeneity of VAT sanctioning offences. These have increased the opportunity for collusion and corruption regarding settlements in the application of sanctions. However, the integrity of tax officers, directors and auditors revealed to be determinant in influencing the deterrence effects of sanctions. However, the effects of VAT law, procedures, mechanisms and technology have also limited their efforts. Theses factors were posited to be crucial in influencing VAT compliance.

The dynamics of tax policy in discouraging VAT non-compliance is mainly characterized for its inadequacy and inconsistency. In this case, the focus is on sanctions. The study revealed a poor tax culture, limited actions to eliminate misinterpretations, the influence of language traits of VAT law, and misinterpretation of the VAT law having contributed to the complexity of sanctions regulations. On the other hand, the inconsistency of VAT sanctions was explained as being a result of different degrees of sanction, ineffective strategies and procedures for VAT law and reforms, unclear procedures and criteria for sanctions applications, and the effect of replication of VAT law and regulations. However, in some cases, sanctions revealed insignificant, mostly for medium taxpayers, and non-government suppliers (group associational feature). These would prefer to continue evading, as they profited more, rather than fearing being sanctioned, which was insignificant and could be "negotiable", due to poor integrity on the part of tax officers and auditors as well as limited accounting and fiscal knowledge. This was exacerbated by poorly aligned procedures, and inconsistency in the degree and application of the sanction. This resulted in a feeling of unequal treatment, unfairness of the system and increased perception of administration inefficacies. This enhanced non-compliance.

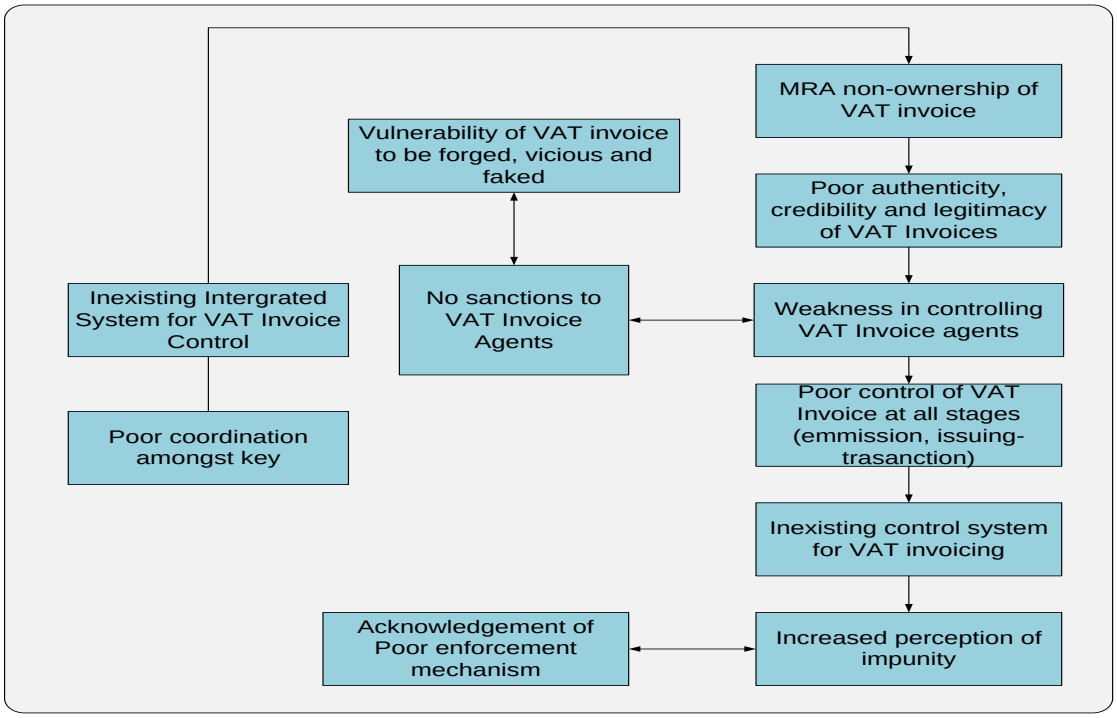
Empirical studies have revealed that efficiency of VAT administration has influenced taxpayers' compliance decision. This has also gained support from reseachers' positing the importance of VAT invoice on credit-method (Lee, 2003; IMF, 2015; Keong, 2005). However, this required ability for self-assessment and improved taxpayers geo-planning (organization and localization) to facilitate TA to access taxpayers in developing economies. Attempts to understand the influence of VAT invoicing administration and control on taxpayers' compliance, was possible through data collected from tax officers FGD and tax officers FtFi. Identification of the common VAT non-compliance practice, occurring time of non-compliance and how non-compliance opportunities could be widened, as well as trends and challenges of VAT non-compliance was done to unpack the dynamics of non-compliance. The examination of the data enabled reflection on how TA could improve compliance from Business to Consumer and Business to Business transactions.

Additional data to understand the influence of VAT invoice in tax compliance was captured from VAT Invoice Agents and VAT Agents/accountants. Aspects such as lack of integrated software to control VIA production of invoices and inexixting control platform of VAT invoices by TA, have facilitated VAT invoice related fraud and evasion. For example, FtFi 20 (6th August, 2015) noted that, *"…I think there is no control on that... I think electronic invoices should be effective…" some make a copy of our VAT invoice and nothing happens to them…" I think electronic invoices could be the solution".* Support for this came from FtFi19 (7th August, 2015) indicating that *"…Lack of VAT invoice control at all levels…" "…they know nothing will happen to them…" Citizens do not feel gaining any benefit…".* FtFi21 (5th August, 2015) concurred that there is, *"…inexistence of sealing of VAT invoice books for VIA, lack of authenticity of VAT invoices… and lack of sanctions mechanism…".* These have contracdicted with DA (20 May,

2016), PARP/A 2006-2009, advocates to the need for an *"Improve the efficiency of tax collection".*

The predominance of the informal sector which characterizes the context contributed to VAT invoice related fraud, avoidance and evasion. However, respondents appealed for investment of technology to improve the platform, from which co-ordination and weak partnership could be improved and strengthened. This could also enhance improved communication between VAT invoice agents and the TA, control of Vat Invoice Agents by the TA and the issuing of VAT invoices after transactions, crucial for strengthening co-ordination and deepening partnerships. For example, FtFi18 (6th August, 2015) suggested that *"...We VAT-invoice agents are failing... Finance is not controlling VAT invoice agents' production... if there is no approximation between the two …."*.

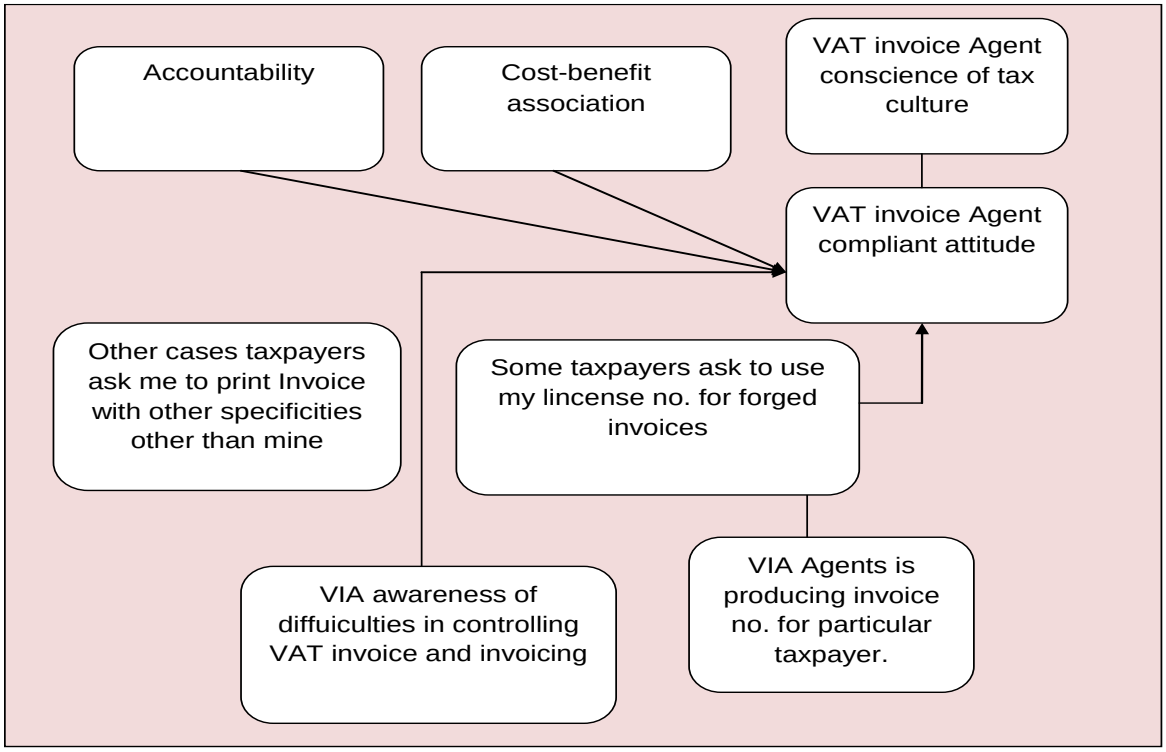
Figure 18: VAT Invoice Management Control



Source: Own, 2017

The prevalence of VAT invoice related fraud and evasion, dominated by forging, duplication and falsification of VAT invoices, was prompted by lack of strategy and ineffective policy to target the cause and not consequences of VAT invoice related non-compliance. However, poor cost-benefit association and government accountability, inadequate policy and incentive strategies, such as reduction on tax to import paper or machines have perpetuated the control of VAT invoice administration. This was seen in a response from FtFi 21 (5th August, 2015) *"... tax payers sometimes come to ask me to print VAT invoices with other specificities other than mine (license)... people use forged invoices..."*. Data indicate that VAT invoice related fraud and evasion also occurred due to VIA attitude and "collision" with other stakeholders. For example, FtFi18 (6th August, 2015) noted that "*... there are people who come to ask for VAT invoices using my licence number..."*. Therefore, the prevalence of invitations to evade VAT through the use of fictitious and forged VAT invoices, coupled by the lack of VAT invoice control at all levels and weak enforcement mechanism and perceived impunity, have not facilitated compliance.

Figure 19: VIA Compliant Attitude



Source: Own, 2017

Reflections on how TA could improve control over VAT invoice agents, suggests more co-ordinated actions and mechanisms that could start by facilitating the control of VAT invoice production. This was suggested by FtFi19 (7th August, 2015) *"...VAT invoice could be improved through stimuli and incentives, at first, and devices could be tested, to ensure TA has control of each VAT invoice that is produced by each VAT invoice agent..."*. In this context, incentive for VAT invoice agents, solid understanding of the tax law regulating VAT invoice authorization, including the emission and issuing process, have also revealed to be crucial to reduce VAT invoice related fraud and evasion. Designing strategies assented on these factors, could set avenues to improve communication platforms and build effective partnership, thus contributing to effective VAT invoice administration.

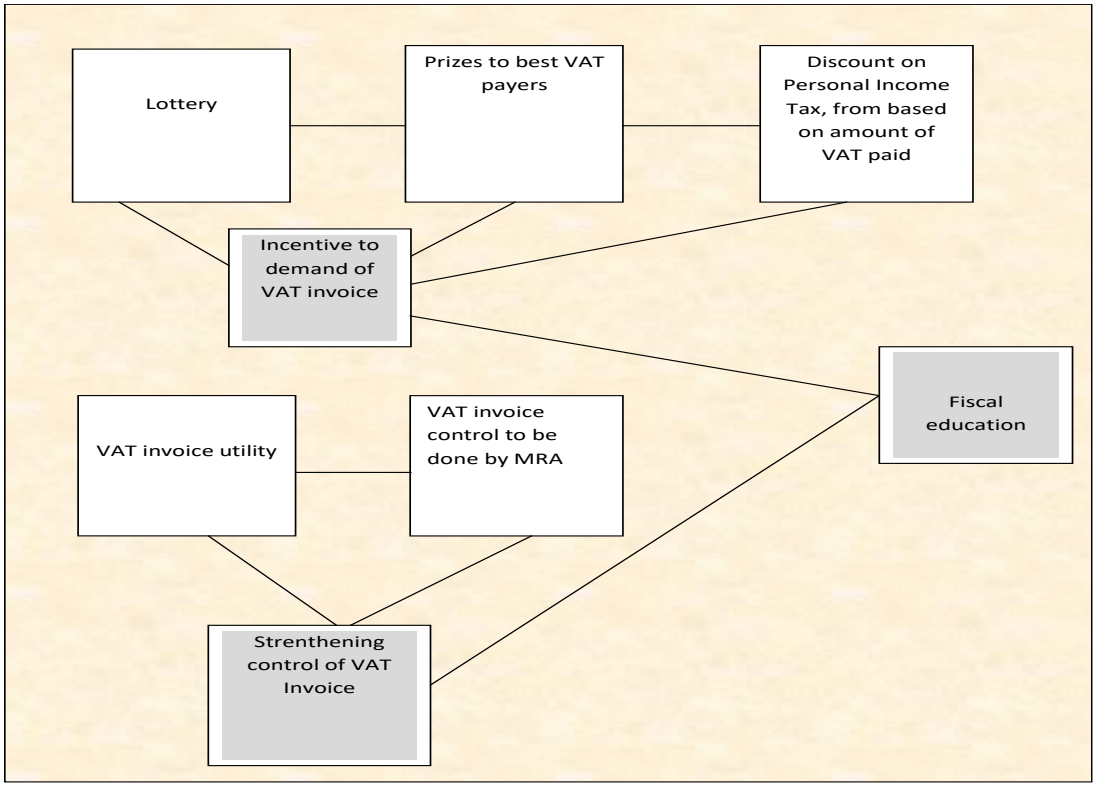
Respondents posited the influence of lottery in influencing compliance differently. Althoug some have believed its positive effect to tax compliance, most of them questioned the effect of lottery as an incentive to comply, due to its irrelevant utility to them. In this case, they suggested the inclusion of the amount of VAT paid to act as a discount in their Personal Tax Payment or alternatively the inclusion of VAT paid in IRPS (Personal income Tax) to be considered as expenses. Tax off FGD A1 (7th November, 2014) suggested that, *"...I think if we could borrow the idea that in IRPS, final consumers are expected to include their personal expenses to be deducted it would allow final consumers to include expenses to be deducted. The final consumer has to feel the utility of the invoices to them) ...".*

Although some respondents do not deny the importance of attribution of awards to influence VAT compliance, these believe rewards should be given to taxpayers that remit a considerable amount of VAT and most importantly, TA should strengthen VAT invoice control to discourage evasion. This was suggested by Tax off FGD A3 (7th November, 2014), *"... give prizes to best taxpayers. e.g. pay VAT up to 10.000, a certain prize…",* and supported by Tax off FGD A3 (7th November, 2014): *"...VAT invoice should be controlled by TA; otherwise non-compliance will not be reduced…".* Although incentives were proposed as a form of discouraging VAT invoice related fraud relative to VIA attitude, taxpayers and final consumers, data reveal that there should be effective strategies, which are more flexible: "…*Increase incentives for tax compliance …"* (Tax off FGD C2, 7th November, 2014).

The heavy reliance on audit and sanctions have proved to be ineffective to influence VAT compliance, in an environment where tax officers' integrity and relationship amongst key actors in VAT non-compliance management is prone to offers and acceptance of collusion and prevalence of corruption. Inefficacies of the tax system, tax policy, and VAT invoice administration have also not facilitated current strategies used by TA to address VAT non-

compliance. Therefore, the absence of an integrated system to administer and control VAT invoices and transactions have undermined the impact of field inspections, fiscalization and door-to-door invoicing control. These strategies have failed to target the nature and process of VAT invoicing in a more interactive platform amongts key actors.

Figure 20: Dynamics of Incentives for Demanding VAT Invoices

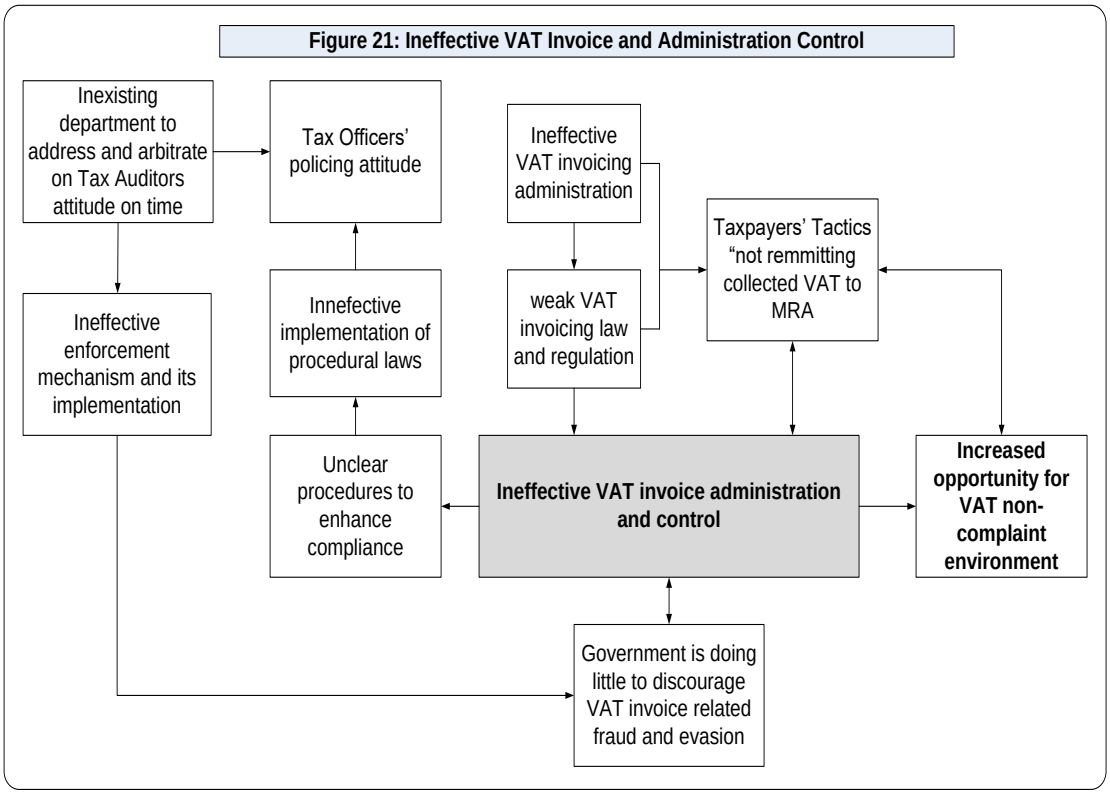


Source: Own, 2017

Reflections on how to understand the dynamics of VAT invoice administration and control have brought to light how the microenvironment influences non-compliance. Therefore, lack of technology that could facilitate the detection of VAT avoidance, poor training and trainers who lack capacity, limited tax auditors' capacity to implement complex legislation have opened up the space for VAT non-compliance opportunities. This is noted by advocates (DA IMF Report, June 2009): *"There is a need to adopt a solid and integrated management strategy at all levels of TA".* This was further supported by FtFi 26 (2nd September, 2015): *"I don't know who*

controls these VAT invoices… But the truth is we don't pay for VAT... and nothing happens to us…". For example, FtFi 26 (2nd September, 2015) suggests that, *"...But it is important to say that taxpayers have VAT invoices that are legal, and others forged… these do not go for accounting department…".* This was seconded by FtFi 25 (17th November, 2014) stating that*, "…I have been frequently asked to pay without VAT…".* This was also posited by FtFi 21 (5th August 2015) observed that, "*... I think TA is failing to effectively control VAT invoices... these can still be forged...".* On the other hand, taxpayers viewed the attitude of tax auditors as serving to nullify all efforts put in place by procedural mechanisms to target VAT non-compliance.

Figure 21: Ineffective VAT Invoice & Administration Control



Source: Own, 2017

Difficulties in tracking invoiced VAT and crosschecking of VAT transactions done on time and even during auditing, have all contributed to ineffective VAT invoice administration and control. Frequent non-invoicing of VAT in

the market has not only been influenced by the perception of a low probability of being caught, but also due to the high VAT rate. Perceptions of ineffective VAT invoicing administration and control have also created space for taxpayers to evade VAT payment and created opportunity for taxpayers to maximize collected VAT amounts for themselves. Taxpayers deliberately do not remit collected VAT to the TA. These have manipulated end/final consumers as to avoid them requesting for an invoice after purchasing goods/services. In fact, whether final consumers request or not for an invoice, after transaction, they will still pay for VAT as taxpayers have already included VAT in the price of the product. Therefore, the sale will be made without an invoice which makes it difficult to tax VAT. In taxpayers' manipulation, if final consumer rejects an offer of collusion, insisting in requesting for an invoice, taxpayers charge them double the amount VAT over the price for the good or service purchased. Moreover, increased perceptions of TA incapacity and inefficiency to the collect VAT output from taxpayers, due to the prevailing use of forged invoices and increased VAT rate have discouraged final consumers to comply with VAT. This is motivated by final consumers' perception that taxpayers will not remit to TA the VAT they pay, in the absence of risk management control.

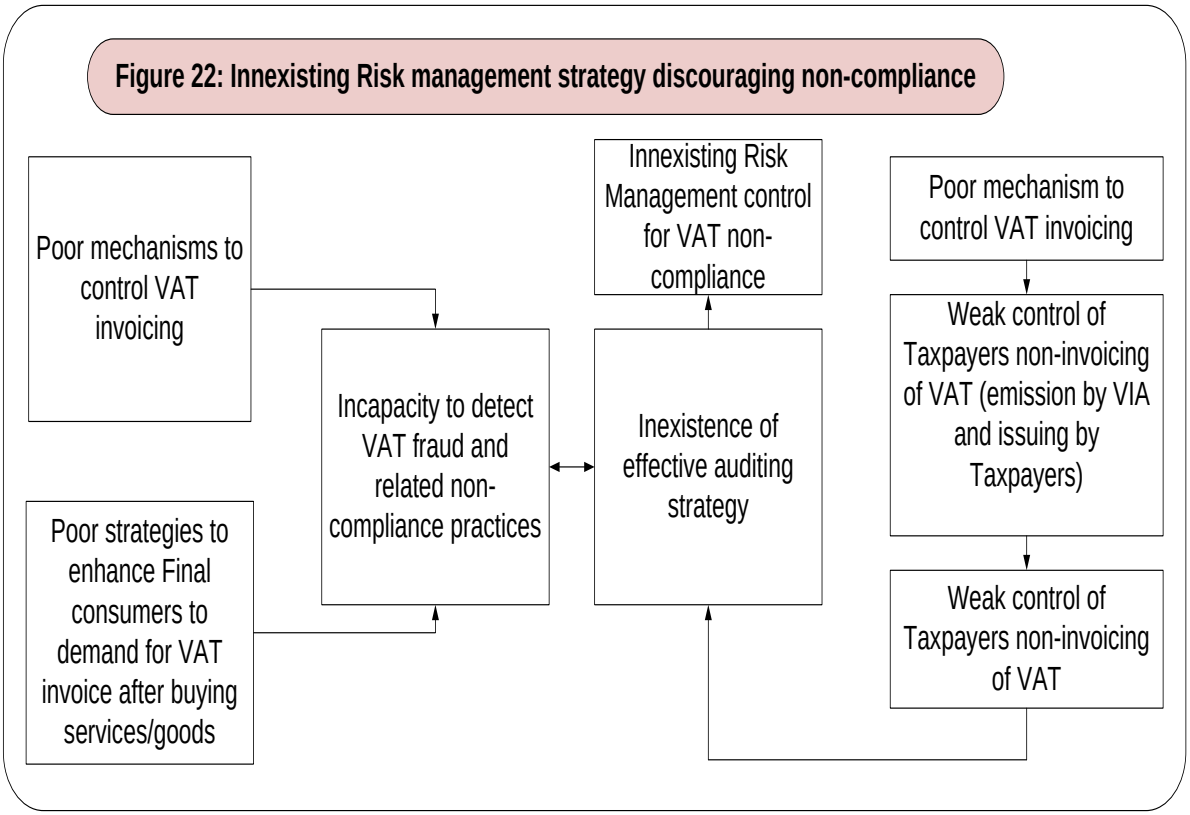
5.2.3 The absence of risk management strategy in VAT non-compliance

The enhancement or enforcement of VAT compliance has proved to be based on effective management. However, data from past studies (OECD, 2009; SARS, 2011; SARS, 2012; IMF, 2015; IMF, 2016) indicates that while compliance management should be imbued in a holistic and comprehensive approach across all TA operational areas, it should also be risk-driven in order to target VAT compliance. Another theme identified was lack of risk management controls for VAT non-compliance practice. This deterioration was exacerbated by the lack of a system of checks and balances, characterized by ineffective communication, where the tax policy function is not separated from the tax administration and enforcement function.

Supporting arguments were noted by FtFi 20 (6th August, 2015):*"…I think permanent control will increase co-ordination and build trust…".* This also gained support from FtFi 19 (7th August, 2015) who noted that, *"...well I haven't received one…. Inspection… besides the one during opening of the company (inspection) and I think there is no control on the VAT invoices...".* Further support was advanced by Taxp FGDAT7 (12th August, 2015): "… *the system should be established so that the GVT can track those who are not paying taxes …".* This implied the need for greater investment in technology. Therefore, FtFi10 (5th August, 2015) indicated that *"...TA should have computerized means to control sales, provenance of all goods, from industries, and wholesalers...",* supporting the view of FtFi5 (24th November, 2014) that *"...inadequate strategy to discourage VAT related fraud and evasive practice...",* and FtFi 9 (24th November, 2014) who noted that *"… lack of risk management to control VAT invoicing… makes tax officers' work difficult...".*

This has contributed to the impracticability and ineffectiveness of formulated tax policy, supporting Arnold's (1990) findings. Although technology was expected to determine the efficacy of VAT auditing, unsuitable auditing strategy and enforcement mechanisms, implementation and poor separation of administration and enforcement functions have revealed to be determinant.

Figure 22: Non-existence of Risk Management Strategy to discourage Non-compliance



Source: Own, 2016

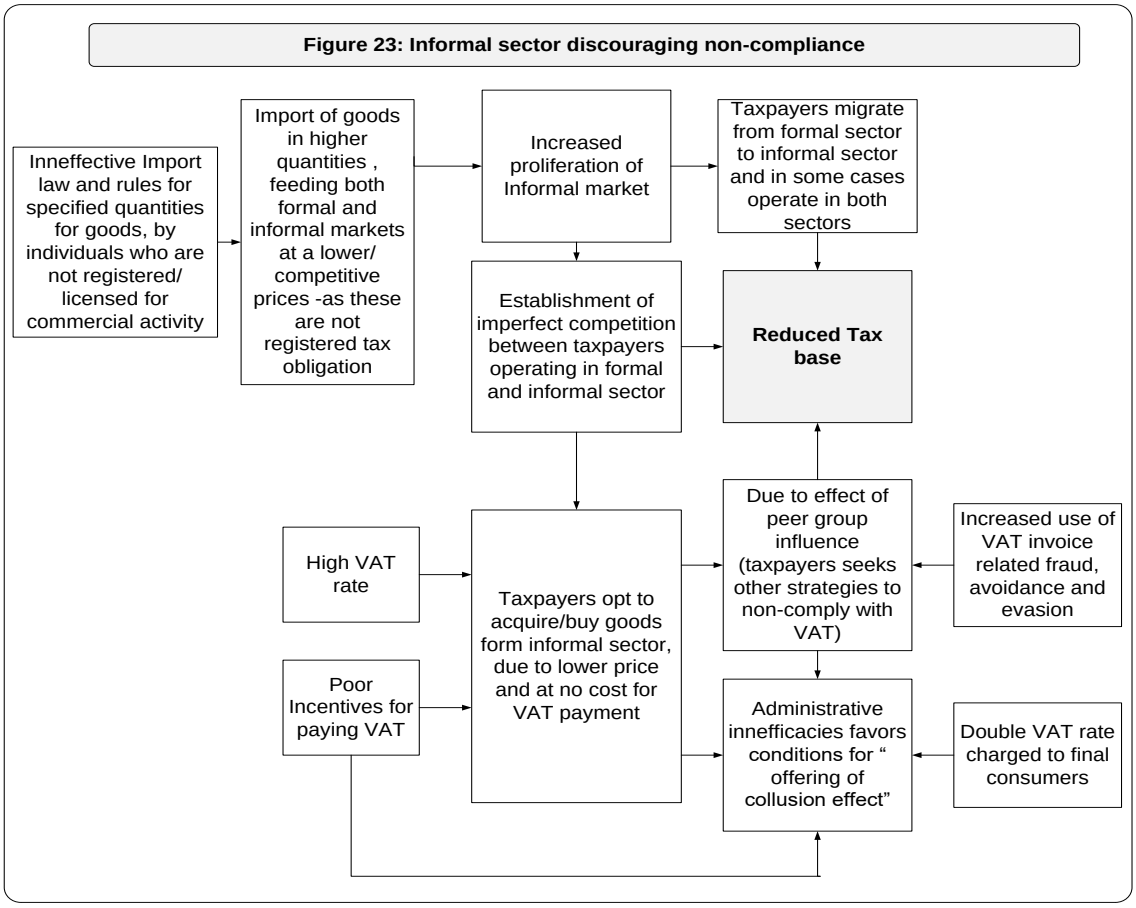
Although acceptance of collusion has been driven by individual motives drawn from the economic school of thought of tax compliance, in the Mozambican context weak VAT invoicing administration facilitated the acceptance of the outcomes of VAT collusion. The effects of growing informal sector further discouraged this in VAT compliance.

5.2.4 Role of the Informal Sector in managing VAT Non-compliance

Taxpayers VAT compliance have proved to be substantially influenced by the growing and consolidation of informal sector in the market. Whilst there are other factors which have motivated informality, findings have also pointed, government's lack of will to address this problem, resides in (i) political reasons (keeping electorates in the informal sector) to avoid friction,

particularly in municipal areas; and ii) to address the structural problems of unemployment. On the other hand, some respondents have posited that the people operate informally to avoid their tax obligations, making the enlargement of the tax base a difficult task. However, informal sector might provide potential taxpayers for VAT if it monitoring and organization is improved.

Figure 23: Informal sector discourages Non-compliance



Source: Own, 2017

Th growing informal sector (exempted from VAT) discourages formal taxpayers' compliance, reflecting the effect of peer groups, as formal and informal taxpayers operate in the same market. Formal taxpayers' resistance to comply with VAT results as a way of compensating for their compliance compared to people operating in exempted informal sector. For example, FtFi12 (11th August, 2015) notes, *"...the need to.... create*

mechanisms to control increased informal operators.". This was supported by FtFi11 (2nd September, 2015), *"There should be control of stock... the system cannot control this... for example, one can buy illegal goods for informal sector and bring it to the market and vice-versa...".* These views have been preceded by FtFi 3 (14th November, 2014) noting that "*... Inadequacy of strategies and priorities... that might be related to political will..."* as well as Tax off FGD AT7 (7th November, 2014) advancing that *"…as long as informal sector dominates formal sector, and as final consumers want to pay less, they will definitely go to buy from the informal sector…".* Although the informal sector derives from an external or exogenous environment, it directly affects the economic premises of tax compliance. In this case, compensation was done to minimise losses, so as to equalise the level of tax obligation amongst key players in the same market, and to align all the various tax obligations amongst those operating in the same market. This reflects the cost-benefit association where no-one wants to lose benefits from an agreed social contract, in this case between Government and taxpayers in the formal sector.

5.2.5 Automatic Cost-Benefit association, fiscal education and accountability influencing compliance

In general, fiscal education has been an ineffective strategy to address VAT non-compliance, not only due to its nature but also to contextual specificities of provision of public goods and services. In this context, FtFti 22 (24th November, 2014) notes, *"…Government have also to use collected VAT in a more responsible way…"*. Therefore, fiscal education has enabled tax popularization. However, targeting fiscal education revealed to be determinat to enhance compliance in an environment where automatic cost-benefit is deficient. For example, FtFi1 (20th November, 2014) suggests that "*...Sensitize end consumers to pay VAT... maybe by reducing VAT tax rate for Mozambicans given the people's contextual arena...".* FtFti 24 (10th August, 2015) concurred that *"…Most of the time… taxpayers do not*

understand legislation…, but this lack of information demands more dissemination of tax laws….".

The quality of the message in fiscal education, have also revealed to matter in tax compliance. Therefore, data have revealed the message of fiscal education to be generic, unclear and unreaching to taxpayers. FtFi1 (20th November, 2014) noted that *"...Fiscal education has to improve, and TA has to ensure Expenses unit (finance) give an indication of how collected taxes (VAT) are being spent. The songs are very imperceptible that only pleases TA and is not even understandable...".* FtFi2 (20th November, 2014) explained that "...*although fiscal education is productive, the message is still very general and taxpayers do not know how much they have contributed to it .... There is a need for a more focused strategy".*

The perception was that even if fiscal education is effectively done, the tax system is simplified, and the tax burden alleviated, the management of VAT non-compliance will still not be an easy task in an environment characterized by ineffective VAT invoice administration. Additionally, fiscal education is crucial for influencing the attitudes and behaviours of taxpayers in complying with tax. Critique of the fiscal education campaign resided on deficient capacity of tax officers to convey the message with some degree of knowledge, inappropriate content of the message, and poor literacy rates of the people.

According to FtFti 25 (17th November, 2014), *"... I have seen (spoken with indignation) TA using cartoons with some thought balloon… I think that could be the last alternative of publicity… why not use singers, actors, personalities, like MCel Vodacom who I can say are the great leaders of publicity on TV...etc? … we want to see the learning; I mean message… of that publicity. But it is difficult with TA publicity… for example, M-kesh have very effective reception because it tells that money could be lost if you move with cash… it's simple, easy to understand… But the majority do not*

understand the TA message… they need to change rather than wasting money…". This supports the need for effective fiscal education policy.

The cost-benefit association was seen to discourage VAT compliance of taxpayers. Taxpayers question how VAT revenue was utilised by the Government. In this context, FtFi15 (12th August, 2015) noted that *"…its complicated… I want to pay less 17%... the problem is why am I paying VAT… if our quality of life is worse, there are poor roads, poor sewage system…etc…This is what leads us to non-comply…".* Taxpayers shared this view, as noted by FtFi13 (12nd August, 2015): "*…Intense campaign… because no one wants to pay more… I think VAT has to be paid using invoices for cases that Government has not yet paid the supplier".* Taxpayers that supply goods and services to Government posited this last argument. In this case, it reveals delays in VAT reimburse to negatively influence VAT compliance.

On the other hand, cost-benefit association / Social Exchange Relationship have proved to be determinat in influencing VAT compliance. Data have revealed that poor quantity and quality of the public goods and services to discourage VAT compliance. This raises the issue of unfairness of the tax system, as taxpayers feel they pay more taxes than what they receive in return from Government. Taxpayers have also questioned government priorities in public spending, where they believe that the government ignores the provision of basic needs that benefit the majority in favour of sectors/areas benefiting the minority. For example, Taxoff FGD C2 (7th November, 2014) indicates that *"...Government is doing almost nothing to create thirst for taxpayers to pay taxes..."* while Taxoff FGD A1 (7th November, 2014) explained that, *"...Taxpayers don't have schools, desks, water and many other services; how can this influence compliance?"*

The failure to meet the existing social contract between Government and taxpayers was viewed by taxpayers as influencing negatively the social

justice in taxation and the effectiveness of fiscal education. Data revealed effective “cost-benefit association” to enhance reaching and targeting fiscal education. In cases were deficient cost-benefit association prevails it would not be worthwhile investing extensive funds on fiscal education strategy, because taxpayers will not comply if these perceive the prevalence of poor cost-benefit association and poor social exchange relationships between the Government and taxpayers. Therefore, fiscal education is being informed by the trend of cost-benefit association and social exchange relationships that emanate from poor government accountability, characterized by limited transparency of the system to the public; poor VAT payment accountability and the inadequacy of Government communication. For example, Tax off FGD B1 (7th November, 2014) noted, *“...Government is not informing or communicating what is being done with VAT collected to motivate payment...”.*

The strategy of TA of announcing the amount of tax collected over the monthly programmed Tax collection, in an environment where provision of goods and services, and accountability are still demanding, discourages taxpayers VAT compliance. It revealed counter-productive in an environment where, cost-benefit association is deficient. This proves that communication *per se*, is not enough to enhance compliance, but the importance lies in the content and objective of information being disseminated through the media. A taxpayer-centred approach to information, related to cost-benefit association and social exchange relationships between Government and taxpayers, could be more effective in enhancing compliance.

According to FtFi27 (11th August, 2015), *“… I think we have to start from afresh with this fiscal education... introduce in schools, ...we demand for government accountability.... and its unpleasant to watch collected taxes financing fancy things... we (as taxpayers) are less interested to watch on TV, TA monthly announcements on achieved tax “targets”, if government*

accountability on what they do with collected VAT… Is deploring... It is very disappointing…. we need to do something… to at least save the new generation...".

Therefore, an increased VAT accountability and transparency is important in order to establish a platform conducive to effective cost-benefit association/social exchange relationship, to enhance compliance. This could be attained through reduced efforts and costs on fiscal education. Taxpayers could have their views on compliance shifted simply due to monitoring and supervision of actions developed and provided in the process of accountability, which could exempt fiscal education. In this case, effective accountability, cost-benefit association / social exchange relationship could replace substantial efforts and costs of fiscal education. Adding to the light of this background, participants noted the cost-benefit association, informal sector and inadequate VAT invoice administration, to influence VAT compliance.

Factors that promote VAT compliance are encompassed in the integrated elements that shape the dynamics of VAT non-compliance practice and management. In response to Question RQ1, various factors and/or events have proved to be influential in various ways. Researchers have examined these factors quantitatively to corroborate evidence from the thematic analysis employed in the study. Frequency and factor analysis did not diverge from patterns of codes and themes that were qualitatively developed in this section. Therefore, codification of various factors prompted the emergence of five major design elements, namely ineffective tax policy (sanctions), ineffective VAT invoice administration, cost-benefit analysis, risk management control for VAT non-compliance, and the informal sector. Although these themes revealed to be influential in VAT compliance, their dynamics in the process has been differently explained. Additionally, their inter- and intra-relations are embedded in the social reality informing the context in which VAT non-compliance management operates.

Each element has found its deterrence effectiveness to be improved or deteriorated, whilst their sub-codes have been merged to codes (the major five). To understand the dynamics of Institutions as a deterrent factor, Tax policy has been disclosed and features such as (i) complexity, misinterpretation, unclear description and unfairness; (ii) inadequacy; and (iii) inconsistency were examined and events interpreted, enabling an understanding of how and why sanctions have failed to fully account for the failure to discourage VAT non-compliance. Preliminary analysis and interpretation of VAT invoice administration and control enabled the researcher to understand and capture its prevailing inefficacies, associated with the key actors' roles and VIA compliance attitudes. This prompted the disclosure of the dynamics of incentives for demanding an invoice. However, the prevalence of VAT non-compliance, was enhanced by the absence of risk management controls and a growing informal sector. This has reduced possibilities of the enlargement of tax base. The dynamics of fiscal education highlight the relationship with mental accounting and accountability and its effectiveness, influenced by perceptions of cost-benefit association. In spite of these factors, drivers of change have been determinat in influencing compliance approaches.

5.3 DRIVERS OF CHANGE, DIFFICULTIES AND CHALLENGES IN MANAGING VAT NON-COMPLIANCE

Having identified VAT compliance factors and/or integrated elements based on institutional premises, the data on how and why non-compliance management remains a difficult task and a challenge to TA, is presented in this section. This responds to the question RQ3 of the study: "What and how do drivers of change affect the success of the approach to manage VAT non-compliance?" The study illustrates this by explaining how drivers of change (Training, Technology, Tax policy) have increased the opportunities for VAT non-compliance. Data collected from FGD by FtFi, for Tax officers, taxpayers, final consumers, VAT experts, legislators and VAT invoice agents were used.

Question 4: “How do you explain continued resistance by taxpayers in complying with VAT” and Question 5–“What difficulties do you think non-compliers might face if they decide to start complying?” provide a complementary basis for the answer. Reflection on the data from Taxpayer FGD and Taxpayer FtFi enabled to understand the commonest way of VAT non-compliance practice. Tax officers FGD facilitated interpretation on reasons for continued challenges in VAT non-compliance; Tax officer FtFi enlightened on what difficulties you encounter in enhancing VAT compliance, and Taxpayers FGD, Taxpayers FtFi provided insights to understand difficulties in complying with VAT. Data was also captured from Tax officers FGD and Taxpayers FGD, to reflect on how fiscal education and training has influenced VAT compliance.

The lack of an integrated system to control VAT invoicing and weak procedural mechanisms has encouraged Group Companies and their respective branches to avoid or evade VAT in transactions amongst them. This has been enhanced by their awareness of inefficacies of fiscal legislation, TA administration inefficacy, and lack of technology (software) to detect company avoidance and evasion. For example, Taxoff FGD A2 (7th November, 2014) notes the, *“…Lack of integrated system…”,* supported by Taxoff FGD B1 (7th November, 2014) noting that, *“…Creation of companies to avoid or evade VAT…” and “…Poor control of taxpayer registration…”.* Further support came from FtFi7 (12th November, 2014) pointing to, *“...fiscal benefits, branches, company groups’ inadequacy of VAT invoice control...”.* Taxoff FGD A1 (7th November, 2014) indicated that, *“…VAT transactions are not being tracked…”;* Taxoff FGD AT7 (7th November, 2014) noted that the “…*system should be established so that the Government can track those who are not paying …”.* FtFi3 (14th November, 2014) indicates that *“... TA incapacity to control VAT invoicing...”* and FtFi15 (12th August, 2015) noted that *“…there is a need for a system that enables to get into files and access on average what the market offers for certain type of product and control…...”.*

However, in their view, E-taxation and fiscal machine projects had to be directed to certain segmented taxpayers first, as it incurs costs to taxpayers, and above all, should be preceded by the implementation of an integrated system, which could enable risk management. For example, FGD Taxoff C1 (7th November, 2014) observed that *"…I think TA was about to give steps that are greater than its own foot, by pretending to introduce fiscal machines before the central risk management exists…",* supported by FGD Taxoff A2 (7th November, 2014) who noted that *"…E-taxation projects still in pilot phase won't be 100% electronically. It will be somehow manual... thus, more reflection is needed on tits adequacy for the country…".* He continued that *"...E-taxation yes, but maybe just for large taxpayers. But for small taxpayers, we could control/trace them through purchases done by them from wholesalers/ suppliers...".*

However, the control had to include wholesalers in the process, to track business to business, as well as, business to consumer transactions. Therefore, co-ordinating activities amongst key actors and players revealed to be crucial to discourage non-compliance, as its practice is inherently tied to VAT nature and VAT invoicing. Data have indicated VAT invoice administration to be the bottleneck of VAT compliance improvements, due to poor control and lack of risk management for VAT invoice administration. For example, FtFi9 (24th November, 2015) indicated the ***"...** lack of risk management to control VAT invoicing…..".* This was supported by FGD Taxoff A1 (7th November, 2014): *"…Poor and insignificant control "of stock of goods and services" of taxpayers…"* and FtFi10 (5th August, 2015) *"...TA should have computerized means to control VAT invoices...".*

However, political will is needed to substantially influence effective tax reform (inefficacy, inconsistency and inadequacy and substantial tax exemption). Additionally, the adoption of adequate technological software is crucial to enable the tracing of VAT invoicing. In this context, FtFi3 (14th November, 2014) noted, *"... Inadequacy of strategies and priorities... that*

might be related to political willing...". This was supported by Taxoff FDG A2 (7th November, 2014) noting that *"…Inefficiency and inconsistency of the very VAT law on Construction Sector creating successive credits*…". Further support of this was gained from Taxoff FDG C3 (7th November, 2014), advancing *"...The use of presenting VAT forms with no sale to avoid and evade VAT... and sometimes for migration purpose for foreigners".* FtFi6 (18th August, 2015) explained the *"…TA fragility in creating mechanisms to control systematic credits, VAT forms with no sales in the last day of presenting declaration…".*

VAT reforms and training have partly contributed to difficulties and challenges encountered in interpreting and applying the law. In this case, the poor participation of tax officers implementing the law was identified as one of the reason. The poor quality of VAT training to address VAT non-compliance, has not incited expected improvements, as noted by FGD Taxoff B1 (7th November, 2014): *"…some ineffective laws, as proposed laws have always been made in a top-down way…".* This was further supported by FtFi4(6th August, 2015): *"…poor audit control..."* and FtFi6 (18th August, 2015) indicating *"...technical capacity of tax officers leaves much to be desired.... trainers are weak, and number of participants is very weak…",* supported by FtFi7 (12th November, 2014) who indicated *"…Scarcity of human resources for 18 000 taxpayers, difficult access to taxpayers…".*

However, commitment to improving tax officers' capacity has been undermined by the selection of trainees to participate in these trainings who are not sufficiently capacitated as yet. The existing programme for training does not address the topic of VAT non-compliance, but focuses instead, on procedures and deductions. For example, FtFi3 (14th November, 2014) indicates that *"...tax officer's integrity is still very wanting in the process of verification or auditing... there is a need for deontology training and selective criteria of tax officers and auditors ...in some casesauxiliary staff are sent for technical training…".*

VAT operational procedures and administration, involving compliance control, self-assessment of taxable VAT, worsened by inadequate technology to cross-check data, have made this task even more complex for tax officers. In their opinion, "sectorization" of VAT was seen as a resolution that could not only simplify administrative procedures and controls, but also reduce tax officers loads of work. Therefore, segmentation and sectorization could improve detection of discrepancies in the application of sanction and facilitate TA to make taxpayers segmentation. This revealed to be crucial to target strategies to reduce opportunities for non-compliance. This was indicated by FtFi15 (12th August, 2015): *"… It is important to study the taxpayers in the same market... to facilitate tax non-compliance...".* This was supported by FGD Taxoff A1 (7th November, 2014) who suggested that *"…the country was supposed to established VAT tax rate per sector, to facilitate VAT collection*…". In addition, FGD Taxoff A2 (7th November, 2014) indicated that *"…The fact of self-assessment in VAT is not an easy task for many taxpayers…",* further supported by FtFi11 (2nd September, 2015): *"VAT law has to be changed and paid according to licence acquired as per sector of operation…"*

Poor strategy on Government transparency and ineffective enforcement mechanisms, have exacerbated the perceived social contract relationship and cost-benefit association, and the dominance of the cash economy, have limited efforts to address non-compliance challenges. In this context, FGDTaxp AT2 (12th August, 2015) notes *"…non-use of taxes for investment through Sovereign Fund …".* This was supported by FGD Taxp AT1 (12th August, 2015) who notes the *"…prevalence of poor enforcement mechanism… by TA".* FGD Taxp AT11 (12th August, 2015) indicates the *"…need to reflect on a standardized criterion for sanctioning eliminating discrepancies on graduation, from one fiscal area to another, all within TA…".* Further support came from FGD Taxp AT2 (12th August, 2015): *"…sometimes, taxpayers sanction people that have submitted some documents that TA have lost and they really penalize them…";*

"…graduation of penalization needs to be standardized… discrepancies in application of sanctions". FGD Taxp AT1 (12th August, 2015) suggested that: *"…no use of Bank to pay our taxes… we pay using cash …"*, gaining support from FtFi15 (12th August, 2015) *"…Fiscal education, cost-benefit association, fair treatment, fiscal justice.* FtFi16 (18th August, 2015) stated that, *"…Government has to ensure which the money paid is used for the benefit of the public…"* and FtFi17 (3rd September, 2015) noted that, *"…but there is a need to do something to incentivise taxpayers to declare…"*

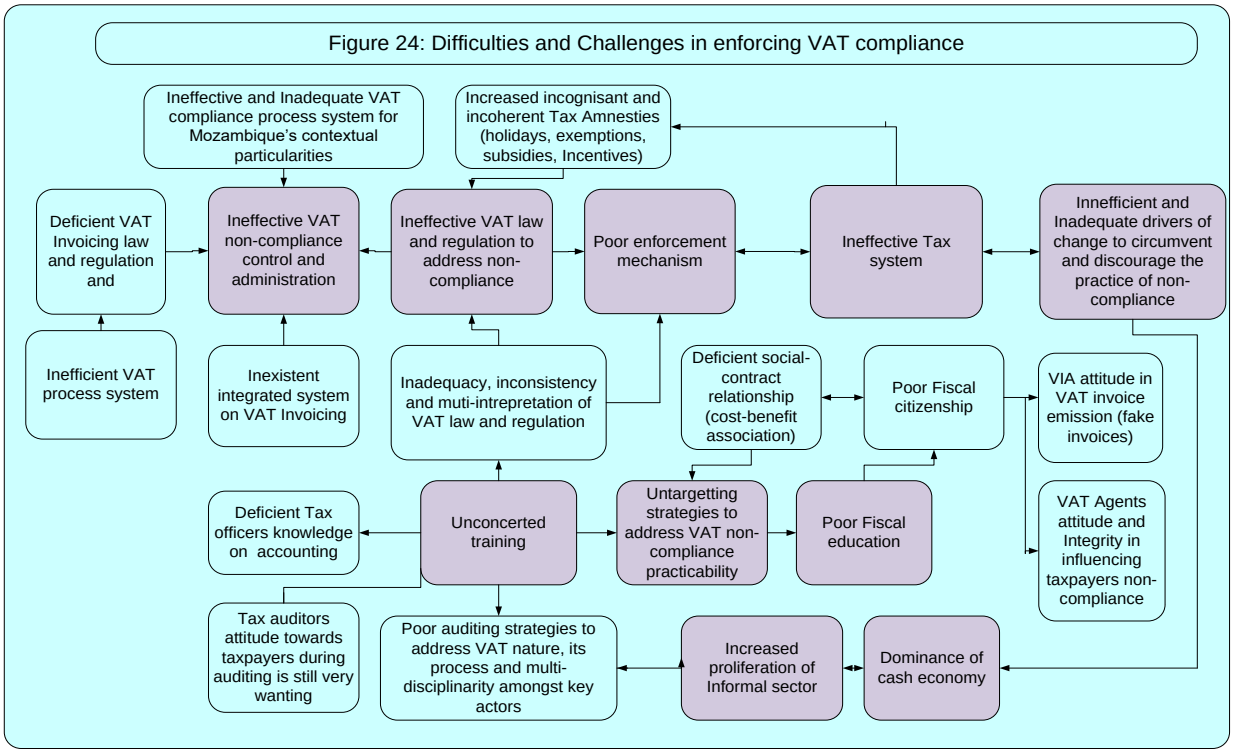
For tax officers, the fact that E-taxation, is not fully electronic system to collect and manage VAT, but instead, requires manual work in some phases of the process, have suggested that there is still lack of technological options to track VAT invoicing. Data also indicates that an effective risk management centre, where VAT invoices could be administered and controlled, allowing for a viable platform to establish a more integrated tax management system was preferable. Therefore, taxpayers are continually finding ways of avoiding or evading VAT. However, TA has an important role to play in improving institutional efficiency, system efficacy and fiscal education that influences taxpayers choosing to pay VAT.

The proposed e-taxation brings no added value compared to manual invoicing, concerning to enforcing VAT invoicing, but requires additional financial investment, that need to be well determined as to who will incur the costs, if its taxpayers or TA. For example, FGD Taxoff A1 (7th November, 2014) explained *"…but the adoption of fiscal machines would not make any change, because taxpayers would stop invoicing and start doing it manually…".* This was supported by FGD Taxoff C1 (7th November, 2014): *"…cost of fiscal machines for government… and if it is for taxpayers to buy them…. how to demand taxpayers to bear those costs?".* Further reflection on this came from FGD Taxoff B2 (7th November, 2014), *"...Ok… well, we want integrated systems, invoicing and fiscal machine. Then fiscal machine should be demanded for large taxpayers. Each transaction done by*

taxpayers (large ones) as the cost of fiscal machines and internet will not be a big problem, compared to small taxpayers. FtFi31 (13th August, 2015) noted that *"…E-taxation would be an option to improve non-compliance management …".*

Some respondents identified language weakness in conveying the message as well as the contents which were difficult to understand even by some educated people. They also recognised that capacity to understand had some impact. For example, FtFti 25 (17th November, 2014) suggested that *"…something is wrong with the language used in fiscal education that the TA authority disseminates on TV …because even people who are educated can hardly understand… I think the issue has to do with capacity to understand as well as for example, the end consumers that have low education level, who won't understand...".*

Figure 24: Difficulties and Challenges in Enforcing VAT Compliance



Source: Own, 2017

Final consumers strongly suggest that it is not fiscal education that has influenced their VAT compliance behaviour, because, these aren't satisfied with what they get in return, from the VAT they pay. For them, fiscal eduation is still limited, for not reaching the majority of taxpayers through wider coverage and for using inappropriate mass media. Additionally, the introduction of tax issues into the school curriculum from the elementary stage could be crucial to improve fiscal citizenship. For example, FtFti 25 (17th November, 2014) indicated that *"…I think fiscal education is important and helps… but needs to be improved, particularly using mass media… but it is quite limited it has to be extended to school, and residence areas…"*. This was supported by FtFi14 (2nd September, 2015): *"…TA normally use TV… ok, that there are many people with access to TV, but the great majority live in areas without access to television media. TA also do not reach people in rural areas with frequency, there is a need to go to residences, townships… peasants etc…" I think that's the only way fiscal education will gain its purposes…".* Further support for this came from FtFti 2 (20th November, 2014), who indicated that *"…what is being done its not influencing our compliance behaviour… but we can still save the new generation… introduce in schools … we have to start from the base… in primary schools… from what tax is."* FtFti 28 (1st September, 2015) noted that, *"...I think TA has no capacity to make individuals understand about VAT and its payment… Personally I don't pay VAT because I know I will never get it back... TA has to explain the importance of VAT… and show its benefits…".*

Drivers of change that could be used to address the challenges of VAT non-compliance include inadequate technology software, poor control mechanisms and procedures, ineffective tax laws, untargeted fiscal education, VAT training that is not sufficiently focused or practical, limited knowledge of tax officers tax knowledge (accounting and fiscal), the lack of an integrated system and risk management control, poor government transparency, accountability and cost-benefit association, lack of political

will to promote tax reforms and the adoption of inadequate technology, and limited reforms of VAT law. These factors undermine any effort to improve the effectiveness of VAT collection. Thus, political will and business-led vested interests, have not facilitated the adoption of an e-tax system that was in conformity to TA administration context and VAT procedural mechanism. However, the fact that the practice of VAT non-compliance is informed by social interaction, amongst key actors, facilitates the understanding on how partnership has influenced compliance.

5.4. Partnership and incentive schemes influencing compliance strategy

The failure to view VAT non-compliance management as goal-seeking, amongst key actors and players in the process, ignores the dynamics of VAT compliance factors, enhanced by stakeholder interaction. Data revealed inefficiencies in circumventing non-compliance, as subjects worked in isolation and not in a complementary way. Therefore, questions 5, 7, 8 and 9 of FGDs and FtFi provided insights for the researcher to answer RQ 2 of the research: “How does the relationship between key actors and players affect the success of the implementation of the approach?” In this case, data were collected from Taxpayers FGD and Taxpayers FtFi, on what motivates taxpayers to comply with VAT. Taxpayers FGD data were used to understand how TA motivates taxpayers to declare and remit invoiced VAT. Taxpayers FtFi enabled to reflect on how TA could enforce and enhance final consumers’ and taxpayers’ VAT compliance and how TA could motivate non-compliance taxpayers to declare and remit invoices. Tax officer FGD data were also used to shed light on VAT non-compliance management: key actors and collaboration and partnership. The examination of data related to the strategies used to enhance VAT compliance by key stakeholders; their attitude within the dynamics of VAT non-compliance; and possible incentive strategies to establish a platform for co-ordinating activities and strengthening partnerships.

5.4.1 The Role and Collaboration of VAT Invoice Agents in VAT non-compliance management

Invoicing is an essential component of VAT compliance, although it cannot fully account for VAT non-compliance. However, VAT invoice administration remains weak, facilitating the use of forged and falsified invoices. Factors and events underlying such situations influence VAT invoice emission, issuing and control. Understanding the dynamics of key actors involved in the VAT invoicing process indicate the need to establish a co-ordinating platform. The control of VIA licensing is not well known to most Tax officers, although these should be utilizing it in administration and audit control. This enhances an environment that is susceptible to the duplication of VAT invoice books with the same serial numbers used by taxpayers to generate a "fake invoice" (*factura boneco*). Distinguishing authentic invoices from the fake invoices has become almost impossible. For example, FtFi18 (6th August, 2015) explained that, *"..I feel there is room for an improved and strengthened partnership between VIA and TA …"*; and *"...as citizen… I want to believe that TA is doing nothing towards this… otherwise, business people would not say this so openly in front of people they do not know… sometimes final consumers voluntarily say I don't want to pay VAT...".* Further support of this came from FtFti 19 (7th August, 2015): *"…there is need for increased control mechanisms...".* This gained support from Tax offFGD (7th November, 2014) *"...Yah we are really in bad situation… we to be honest we aren't sure how these VIA authorisation work….* [General laugh] *... Though we are the ones who have to control it...".* FtFi 21 (5th August, 2015) concurred that *"…we (VIA) don't have any maps to show to you, about the sending of orders and series to ministry of finance… I think fifteen to fifteen days we were supposed to send the report to TA… but this is not happening….: If this is previewed in the law, I don't know, but it is not taking place…".* FtFti 21 (5th August, 2015) noted that, *"...increase and improve VAT invoice control… synchronize actions to reduce opportunity for taxpayers' freedom to VAT related fraud and evasion…".*

VIA has indicated the need for a better organised process for VAT invoice administration. The lack of collaboration has contributed to the lack of co-ordinated action that allows for the use of fake invoices to continue. For example, FtFi19 (7th August, 2015) notes that *"…it's a complex issue… as VAT-Invoice Agents… I don't know if there is any association of VIA, but I think that the association would not bring any solution to this… I think..."*. This was supported by FtFi21 (5th August, 2015): *"Yah… there is legislation that demands VAT invoice agents to request from Ministry of Finance to issue VAT Invoice…. but the system is fragile...There is no control…"*.

However, the failure to establish permanent communication linkages between the TA and VIA, given their crucial role in VAT invoicing and control, has prevented interventions that could minimise fake VAT invoicing. The absence of authentication has undermined the credibility of the system and reduced market trust. Hence, taxpayers and final consumers, increasingly use VAT invoice related fraud, avoidance and evasion. Furthermore, weak or poor implementation and enforcement mechanisms have failed to counter such incidents. For example, FtFi18 (6th August, 2015) explains that *"…I think communication should start from TA… as VIA are more linked to TA as we produce what TA demands… therefore communication should be permanent. Inspections and control should be done to avoid non-issuing of VAT invoices by taxpayers, as these are the group that benefit from this action in detriment to TA, VAT invoice agents..."*. He continued that *"…TA could bring VAT invoice agents to the management by giving them incentives, that would reduce willingness to accept forging VAT invoices… as incentives such as reductions of taxes on machines, and inputs for invoices*...". FtFi19 (7th August, 2015) added that, "*…In this country, it reigns with great impunity…"*.

Some VIA are lured to "maximize profit" through the production and sale of duplicated invoices. However, they seem unwilling to acknowledge the losses incurred when acting as "taxpayers" (VIA sell their production (VAT

invoice in this case) to taxpayers, because these taxpayers do not purchase VAT invoice books from VIA, as they use "fake invoices" also made elsewhere. In this context, FtFi 18 (6th August, 2015) notes, *"…taxpayers can come to order VAT invoice books once in six months…. this shows they are not using them… he just needs to have them for convenience purpose!... something has to be done to reduce the action field of taxpayers influencing final consumers not to demand an invoice…".*

Withouth denying the effects of the frequently used phrase "you want with or without VAT" and the deficient fiscal education, respondents have also recognized incentives schemes to detrmne their compliance decision. For example, FtFi 26 (2nd September, 2015) notes that *"…as final consumer I don't demand VAT invoices… only as I go on behalf of my working company… ... But it's important to say that taxpayers have VAT invoices that are legal, and others forged… so even if you demand… They can give you forged invoice just to satisfy you… a forged one…".* This reveals poor control of VAT invoicing and weak enforcement mechanism, and that Taxpayers have realised the weakness of the system. This contributes to increase non-invoicing that benefits third parties other than the GVT. In this case, FtFi 27 (11th August, 2015) noted that *"…Sometimes you want to pay VAT, but if taxpayers offer you to pay less and is not interested in having you paying more... [*laugh]… *not to accepting it – could be contra-sensus* [smile*]… everyone wants to pay less…".* This was supported by FtFi19 (7th August, 2015): *"…Therefore, most of the time, it is the taxpayers that induces or entices final consumers not to demand for an invoice…".* FtFi20 (6th August, 2015) added that *"…the final consumer is the most prejudiced in cases where he demands for an invoice at first, taxpayers charge him twice VAT, and in cases where he does not demand for an invoice he still pays for VAT…".*

Analysing VAT non-compliance from different angles and perspectives amongst key actors and players, incentives and cost-benefit association

was suggested as the basis for a partnership between TA (GVT) and VAT Invoice Agent (VIA). This was done in recognition to the increasing VAT invoice fraud, avoidance and evasion, mostly due to deficient VAT invoice controls from upstream (VIA authorization, production and selling) For example, FtFi18 (6th August, 2015) noted that *"…TA should have meetings, dialogue, discuss, seek for opinion, from VAT invoice Agents, and not stop by there on paper... but make things happen... I believe we can eliminate VAT invoice fraud and evasion caused by VAT invoice..."*

However, Tax officers FGD question 8 and Tax officers FtFi question 7 reflect on institutional collaboration and partnership amongst key actors in the management of VAT non-compliance, while giving some insight to the administration of VAT invoices by the TA, as explained in Figure 20. Responses revealed their doubts about the laws regulating authorization for production of VAT invoicing. For example, FGD Taxoff C2 (7th November, 2014) noted that *"...we don't even know who authorizes..."*. This was supported by FGD Taxoff C1 (7th November, 2014) indicating that *"…I think TA was supposed to contract maybe a company that could control all transactions invoiced in the country. This would also mean doing business. But in Mozambique everything is business. In this case VAT invoice agents would be strictly controlled…"*. Data have also demonstrated that VAT invoice administration was inadequate. For example, FGD Taxoff C3 (7th November, 2014) explained that *"...VAT invoice agents were supposed to report and send the lists of invoices issued, avoided and amended to TA…but are not doing so…"*. This was supported by FGD Taxoff D1 (7th November, 2014): *"...but VAT invoice agents are not reporting. We are not receiving these lists…"*. Further support came from FGD Taxoff D1 (7th November, 2014): *"...and the control of the VAT invoice agents is not being made in First Fiscal Area.... I will start to control from tomorrow…"*.

Administration and control procedures should be adequate to strengthen TA capacity. In the case of authorization, FGD Taxoff A1 (7th November, 2014)

explained that *"…VAT invoice agents' authorization actually doesn't need to coincide with the fiscal area of jurisdiction…".* This was supported by FGD Taxoff B2 (7th November, 2014) advocating *"…but with e-taxation, the authorization will have to obey the fiscal area jurisdiction, due to geographical location and communication supposed to establish…".*

In this case, the issue of authorization for production of VAT and authentiticity of VAT invoice revaled to be important for strengthening VAT invoicing. For example, FGD Taxoff A3 (7th November, 2014) explained that *"…the authenticity of invoices is not detectable…".* Further support, came from FGD Taxoff C1 (7th November, 2014): *"…it is not possible to detect which is false and which is true invoices…".* This also gained support from FGD Taxoff D2 (7th November, 2014): *"…I can't distinguish which is the true invoice or not…"*.

The study has suggested the inefficacies of VAT invoicing control, right form the production process, that could be improved by a better co-ordination amongts involved actors. For example, FGD Taxoff B1 (7th November, 2014) noted that *"…VAT invoice agents are actually the owners of invoices, they enumerate, send what they feel like to…"* This was supported by FGD Taxoff B1 (7th November, 2014), *"…there is no control of VAT invoices. There is no anticipated and permanent control of invoices…"*.

VAT invoice agents have pointed the need for a better organizing process in VAT invoice administration, improved enforcement mechanisms and their application, the involvement of final consumers and their awareness to the importance of VAT invoicing and Government accountability and the need to address informal sector. For example, according to FtFi19 (7th August, 2015), *"…I think making some reforms, inhibiting use of any VIA for issuing ... great impunity reigns in this country …".* Further support came from FtFi20 (6th August, 2015): *"…although training is important, there is a need to go to the base… final consumers need to know why demanding VAT*

Invoice… there should be a strong campaign to the base in rural areas… with attractive factors… something had to be done with informal sector and accountability… to improve legislation to ensure taxpayers invoice VAT…".

In their approach to developing partnerships that may contribute to a platform being established to facilitate the process of circumventing VAT invoice related fraud, avoidance and evasion by taxpayers and final consumers, the investment in technology is required. Such co-ordination is necessary in order to reduce opportunities for VAT invoice related fraud and evasion. This includes incentives such as reduction in tax to import paper or machines, where VAT Invoice Agents could be motivated to work hard to discourage VAT Invoice related fraud and evasion.

5.4.2 Taxpayers Cheating Attitude and the Role and Collaboration of Final Consumers in influencing VAT non-compliance

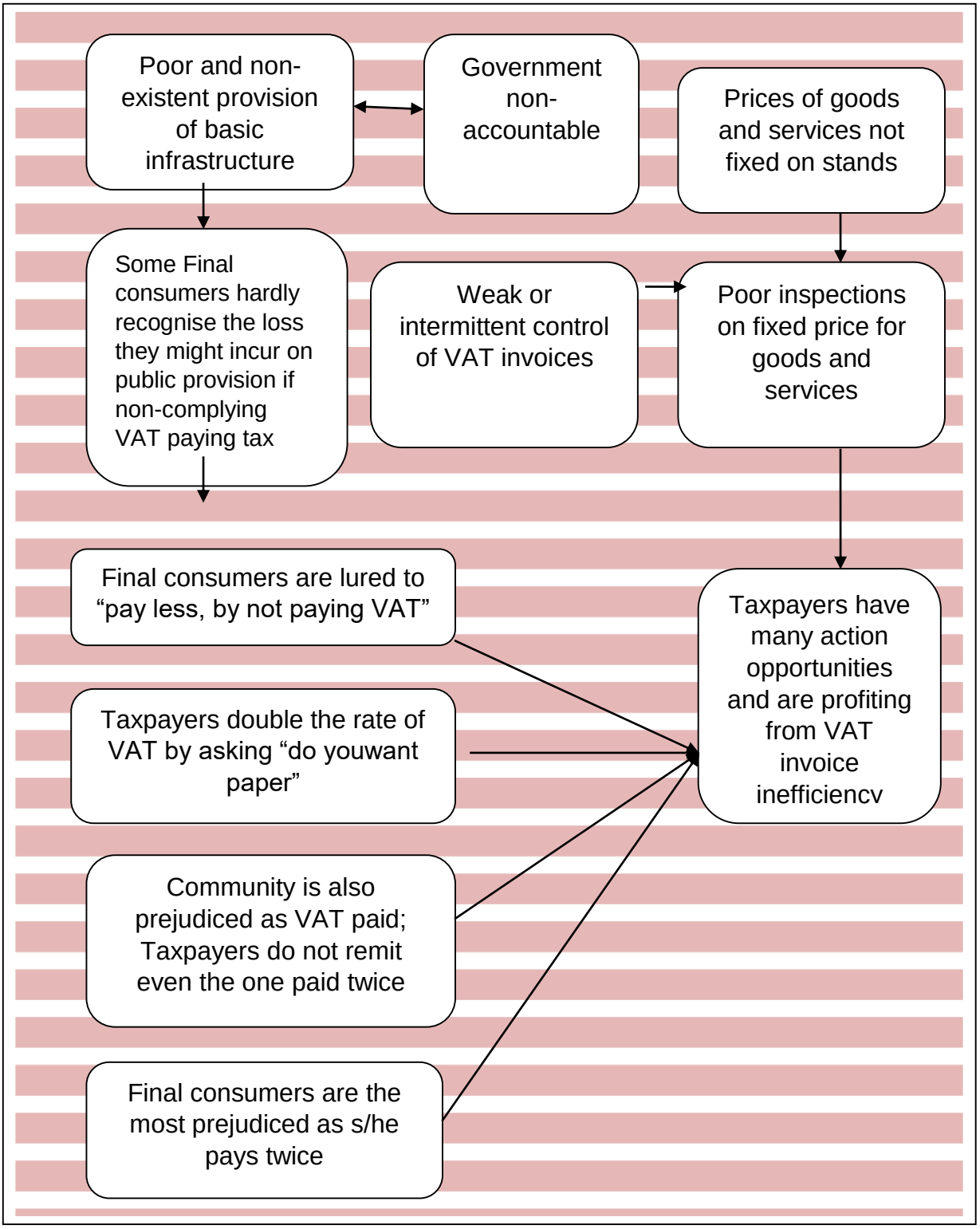
In this context, whilst deficient VAT invoice administration and control facilitated VIA to produce and sell false invoices, the taxpayers have been very astute in maximizing gain from this administrative system failure. Taxpayers have traditionally used the phrase "with or without VAT", to non-comply with VAT. Taxpayers have mostly been the first to offer collusion to different actors in VAT compliance. These dishonest attitudes derive from those taxpayers who know the law and their obligations related to VAT invoicing and also aware of deficient administration control.

Figure 25 below illustrates how taxpayers' actions contribute to non-compliance practice. In this context, taxpayers use the phrase, "you want to pay with or without VAT" irrespective of VAT inclusion in the price, which is mostly not allocated in front of the product or service being sold. Therefore, final consumers' poor tax knowledge and poor dissemination of the law obliging the fixing of prices on products and services being sold, have enhaced acceptance of offered collusion. For example, FtFi28 (1st September, 2015) explained that, *"…The moment I demand a VAT invoice,*

he says: "its ok, but I will include VAT" … but VAT is already included… sometimes they even say... I will give you Receipt and not Invoice... This is evading VAT… This is evasion!!…" It means he only wants his part… he ends up leading the government into deficit due to individual benefit…". Further support came from FtFi27 (11th August, 2015): *"… What I have discovered is that Taxpayers end up gaining twice VAT… when he/she asks us with or without VAT… he just uses that to scare you into demanding a VAT invoice… The VAT is already included in the price… it's a very silly joke that Taxpayers do… TA with its competencies… has to do something with Taxpayers… create a policy where prices should be fixed… and disseminate to the public … if there is or no such law… I don't know… even me an educated person… I have been cheated… when I demand for VAT invoice… I think fiscalization would be difficult… but dissemination of fixing prices with VAT and demand for VAT invoice… would probably help…."*.

These VAT invoices (whether authentic or not) are also used by taxpayers for fictitious purchases. These are used to increase their expenses and consequently avoid payment of certain increased amounts of VAT. Nonetheless, some VAT invoice agents have shown TA control and visit only during their opening activity, during inspection for operating the activity. They were lenient in recognising that there was no control, and the system was weak for allowing VAT invoice related fraud and evasion. For example, FtFi21 (5th August, 2015) noted that *". Yah… there is legislation that demands Vat Invoice Agents to request for Ministry Finance to emit VAT invoice… but the system is still fragile because it accommodates VAT invoice related fraud and evasion… there is no control...".*

Figure 25: Taxpayer Attitudes



Source: Own, 2018

Examining the data in order to understand why and how Taxpayers and final consumers have been resistant to declaring collected VAT and paying VAT to Taxpayers, have revealed lack of knowledge on VAT invoicing, despite their role in this operating area. FtFi19 (7th August, 2015) explained that *"…I don't have any idea…".* This was supported by FtFi20 (6th August, 2015): *"...I've got no idea...".* Taxp FGDA1 (7th November, 2014) noted that *"Even us, Tax officers… it's difficult to distinguish a true from a false invoice".* According to FtFi2 (20th November, 2014), "...*although fiscal education is productive, the message is still very general and taxpayers do not know how much they have contributed to it... there is a need for a more focused strategy…".* FtFi 26 (2nd September, 2015) agreed that *"…I have once worked for an accounting firm… and let me tell you… to distinguish certain issues, we had to give an expert… but it is not easy… we need to simplify the VAT law… most of the time when we could take the issue to the fiscal area, most of TA tax officers cannot interpret it well too… I think constant training would help ... so that tax officers would help to disseminate and interpret tax laws…".*

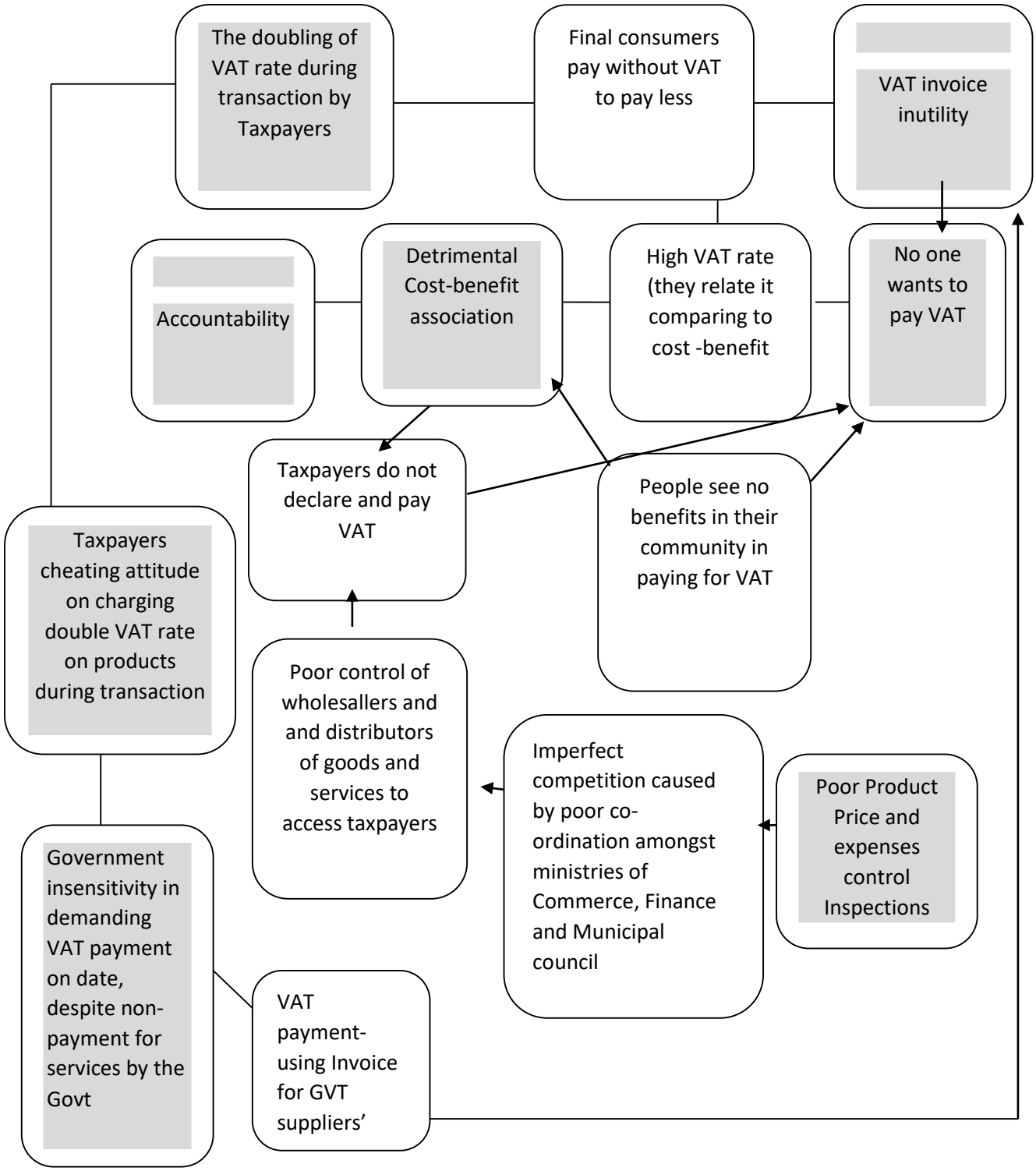
This information refutes certain arguments that taxpayers did non-comply with VAT because of their poor tax knowledge. However, Taxpayers who were seen to mostly avoid compliance belonged to a group that had enough money to pay for a VAT agent/ accountant/ expert. These have proved to have substantial influence in taxpayers' compliance decision. Therefore, increasing control over taxpayers and improving fiscal education could partly discourage non-compliance. The use of sanctions revealed not to enforce taxpayers to declare and remit VAT, but rather, an improved administration and control over taxpayers. For example, FtFti 22 (24th November, 2014) indicated that *"…Increase control over taxpayers… and fiscal education…" but Government have also to use collected VAT in a more responsible way…".* Support for this came from FtFti 23 (7th August, 2015): *"…Well taxpayers will always want to make profit... it's not easy to force them to declare collected VAT… I think accountants and auditors'*

associations have to play an important role in this… but I know it's difficult… but not impossible... it needs hard work. Although in case of infractions, taxpayers are sanctioned. But these send the charges to accountants… I think tax dissemination has to continue…"

It is in this context, that Tax officers suggest that VAT agents have strong influence over taxpayers' VAT compliance and amounts to be paid. This influence tends to increase over taxpayers with less tax knowledge, determining the amount of VAT to be paid and when payment should be done. On the other hand, data have also reaveled the prevalence of VAT agents that are compromising their professionalism and ethics in acting as TA collaborator, making VAT non-compliance difficult.

However, proactive intervention by TA in owning VAT invoice management upstream and downstream, including along the transaction process, could improve TA capacity to enforce/enhance taxpayers to declare and remit VAT collected. In this context, the end consumers who should refuse to become involved with collusion or illegal activity should also be involved in the process.

Figure 26: Factors discouraging taxpayers and final consumers to pay VAT



Source: Own, 2016

Data on taxpayers and final consumers' incentives to comply have shown how key actors felt towards social-contract/cost-benefit association.

In this context, effective strategies to address cost-benefit association within the dynamics of VAT invoicing, have revealed to be deficient, fiscal education campaign did not target VAT non-compliance and proposals of tax incentives, such as, lottery and prizes revealed to be ineffective by most participants. However, discount on personal income tax, electricity and water account and school fees were viewed as probable incentives to enhance or enforce final consumers to requent for an invoice after purchasing goods and sells. Therefore, if final consumers foresee no positive cost-benefit association on requsting for an invoice, these tend to accept collusion for non-invoicing. In this context, FtFi1 (20th November, 2014) noted that "*...AT need to sensitise end consumers to pay VAT... and reduce VAT tax rate for Mozambicans given the people's contextual arena...".* This was supported by FtFi2 (20th November, 2014): *"...fiscal education... although it´s not enough...".* According to FtFi26 (2nd September, 2015), *"…Taxpayers win… by collecting VAT and not remitting to government… but what matters… if we also don't know what government does with collected VAT…". "This is why sometimes I just don't demand for an invoice… I see no advantage to me at all…".* This was supported by FtFi28 (1st September, 2015): *"…the fact is, I know taxpayers won't pay…I also don't pay…I prefer to accept his offer…"*. FtFi20 (6th August, 2015) explained that, *"…we need to increase fiscal education campaigns, for Final consumers to demand for an invoice, but these should also feel and see that VAT paid have helped them, have sewage system resolved, transport issue sorted, road pavement... I think lottery experience can only work for developed countries… here we normally throw VAT invoices away or if we keep its just to know my own monthly expenses… maybe if it could add to IRPS expenses it would work…".*

Nonetheless, there was awareness of the importance of tax knowledge and the respondents felt that the concept of VAT money that they pay and its intended objectives need to be better explained. For example, FtFi1 (20th November, 2014) observed, "...*Fiscal education has to improve, and TA has to ensure the Expenses unit (finance) gives an indication of how the collected taxes are being spent. The songs are very imperceptible that only pleases TA and is not even understandable...".* FtFi21 (5th August, 2015) added that *"I think TA has to sensibitize final consumers on losses government might incur… It should be explained to them that VAT is not a cost… there is a need for campaigns in residence areas...". Most of final consumers do not know the meaning and importance of a VAT invoice… which contributes to schools, roads, bridges, hospitals etc… they have to be sensitized to know the losses of not paying VAT…"*. This was supported by FtFi28 (1st September, 2015), *"…tax officers have to master Fiscal legislation… because some of the taxpayers know better than them…".*

However**,** VAT invoice agents were sceptical of other factors like lottery rather than economic influence on final consumers to demand VAT invoices, irrespective of their tax knowledge and culture. Final consumers were sceptical about the use of lottery, but instead preferred the government to provide an effective fiscal education campaign and positive cost-benfit association. However, they suggest tax officers should be trained to better understand fiscal legislation as most taxpayers have some level of tax knowledge. Participants believe that the government could better prioritise VAT invoices by providing some incentives or benefits from the amount of each VAT invoice, which could increase its "utility". Examples include a discount on school fees by students who present a certain amount on VAT invoices, or a discount rate on personal income tax. There was a shared view that the government (TA) itself must give the same importance to VAT invoicing as it does to NUIT as it is demenaded in every sector. FtFi18 (6th August, 2015) noted that *"…I don't exactly know how TA could influence final consumers to demand for VAT invoice… because I don't think our*

people are prepared and believe in lottery… even considering as costs in IRPS…yes … it can be used but I think it can be used as a base of work… and to be improved when put in practice… But I still believe economic issues to determine more..."

This lack of importance or Utility of VAT invoices, weak enforcement mechanism to non-comply, have discouraged final consumers in demanding VAT invoices after purchasing. This was indicated by FtFi 28 (1st September, 2015): *"…I never mind… because VAT invoices have no importance to me…".* FtFi26 (2nd September, 2015) noted *"…I think it all has to do with importance of VAT invoice to us as final consumers… if a student, could benefit from discount if presenting VAT invoices for the yearly expenses; if workers, could have a card and include VAT invoices in salaries discount. Then being discounted instead of 20, but 18 or 15… I believe most of Mozambicans would demand a VAT invoice… or say if you have NUIT, you have to demand an invoice… I think for one to demand an invoice, has to see its implying advantages*…". FtFi26 (2nd September, 2015) explained at length that,

> *"…as final consumer I don't demand VAT invoice… only as I go on behalf of my working place… for taxpayers, demanding for an invoice might be important for accounting purpose… but for me as final consumer... (feeling of ruling herself), with my own money, without any benefits... ohhh… I don't feel obliged to do so. Moreover, I am not even aware or have the knowledge of impunity or illegality for not demanding for an invoice… well… I just don't see any benefit. I think SA experience should be reflected… I think TA have to find a legal mechanism to benefit final consumer… for example, who demands a VAT invoice can benefit from some discount, or at a certain amount of shopping would deserve discount, or LAM could also give a benefit to have a discount in buying flight tickets… or discount of IRPS to be paid. I think what TA gains from our salaries discount is far much less than what it could have gained from our consumption expenses…*

because we Mozambican people… are consumerist… this could encourage us as final consumers to demand for an invoice".

However, some final consumers, in spite of their awareness of deficient VAT invoice control, have revealed some fiscal citizenship. For example, FtFi25 (17th November, 2014) explained, *"… myself, I definitely demand for an invoice… I don't know if taxpayers remit or not … for me it's a matter of conscience… contributing to the Estate as citizenship and fulfilling tax obligations…".* This was supported by FtFi25 (17th November, 2014): *"...Well I always ask for VAT invoice... although I have been frequently asked to pay without VAT… they actually say this is with VAT and the other with no VAT… they give me option to choose…* [laugh] *I always ask with VAT… but many people opt for VAT invoice book with no VAT…".*

Taxpayers FGD revealed various factors influencing final consumers demand for an invoice. Although most of these factors have proved to be inherent to end-consumers' decisions, contextual aspects, TA administration and VAT non-compliance management have played a key role in the demand for VAT invoices after transactions. According to Final consumers and Taxpayers, FtFi27 (11th August, 2015) observed that *"…sometimes you want to pay VAT, but if taxpayers offer you to pay less, and is not interested in having you paying more*… [Laugh] *I would call it that it would be nonsense not to accept the offer… everyone wants to pay less…".* FtFi15 (12th August, 2015) added that *"…its complicated… I want to pay less 17%... the problem is why am I paying VAT, if our quality of life is worse, poor roads, poor sewage system etc? This is what leads us to that".*

These views are presented by different groups, such as taxpayers and TA administration. Taxpayers in FGD explained that final consumers do not comply with VAT due to inherent in economic, social and fiscal psychological factors on tax compliance, including a high VAT rate, tax

burden, poor incentive schemes and perception of taxpayers' dishonesty. Final consumers know that Taxpayers are aware that neither the final consumer, nor tax officers can distinguish an authentic invoice from a fake invoice, nor that VAT paid will not always be remitted by taxpayers to the TA. There is also a sense that this will not be detected and there will not be consequences.

VAT Invoice Agents explain that Final consumers (end consumers) are lured by taxpayers in terms of real price, and to be invited to "pay less" by not demanding an invoice. They suggest fixed price campaigns should be carried out, supported by strict inspections and controls. Theses controls could be extended to VAT invoice agents and co-ordination with taxpayers. For example, FtFi18 (6th August, 2015) notes, *"……Why not obliging prices to be fixed on products… inspections and control has to be made on fixed price… control should be tight on this, working teams should be in twos, and rotate in different areas… otherwise these might be corrupted..."*. This was supported by FtFi21 (5th August, 2015): "*…we don't have any maps to show you sending of orders and series to ministry of finance… I think 15 to 15 days we were supposed to send the report to TA… but this is not happening… if this is previewed in the law I don't know, but it is not taking place…"*

VAT invoice agents have highlighted their concern regarding the need for a better organizing process in VAT invoice administration and improved enforcement mechanisms. Respondents have also identified the issue of the growing informal sector and government accountability. FtFi19 (7th August, 2015) explained that *"…I think making some reforms, inhibiting the use of any VIA for issuing ... In this country it reigns with great impunity…".* Similarly, FtFi20 (6th August, 2015) notes that, *"…final consumers need to know why demanding VAT Invoice… there should be a strong campaign to the base in rural areas… with attractive factors… something had to be done*

with informal sector and accountability… to improve legislation, and to ensure taxpayers maintain in one VIA for issuing…".

Final consumer perspectives indicate that ineffective fiscal education and tax popularization campaigns and lack of accountability from the government on collected VAT may have an influence on compliance decisions. FtFi25 (17th November, 2014) mentions a *"...Campaign of tax popularization".* FtFi26 (2nd September, 2015) suggests, however, that *"…well I have never heard... any particular actions by TA towards VAT… I think end consumers have to know the importance of demanding an invoice… there is a need for fiscal education. What discourages me… is a lack of government accountability on collected VAT..."*. This was supported by FtFi27 (11th August, 2015): *"…in the past nothing happened, but I have to admit that lately through TV, there is some (fiscal education) publicity… but the effort is still in a hesitating way, it is very far from reaching its purposes…".* FtFi28 (1st September, 2015) observed that *"…well very few people want to pay VAT… but higher tax rates discourage…".*

The research reveals useful insights to understand the relationship between VAT compliance and the social contract between Government and taxpayers, including the increased tax rate and a political-psychological game" as well as lack of knowledge about requesting a VAT invoice.

According to FtFi2 (11th August, 2015):

> *"…I pay taxes as imposition…! It's difficult to see cause-effect relationship in terms of what we pay and what we get as citizens... [Shakes his shoulder]! …1) Poverty, cost of living… 17% makes a great difference...2) psychological... I think no-one feels that these taxes are collected to improve public lives… or to buy school chairs… How can we believe in responsible use of collected taxes? Its very disappointing when we see TA publicly announcing targets of collected tax being achieved… and then we see no results at all.*

Instead of coming to tell us what was collected in excess it is better to tell us what was applied in excess to public benefits. 3) Ignorance… what is VAT and what differences will it make in my life? Today he pays, yesterday he paid, but in fact in his real life nothing changes… his challenges and struggle to survive remain the same. Nothing changes anything at all…".

Final consumers have further blamed the Government's (TA) monthly information as discouraging compliance as well. They explained this pointing to TA information of over-reaching targets, and having access to ministry information on media, stating that these cabinets have also fulfilled the yearly plan by 99%, but the problem of chairs, public transport and health prevailed. Respondents were very concerned and disappointed with this. For example, FtFi27 (11th August, 2015) advanced that *"I think they have to find ways to disseminate more on where collected taxes are being invested… this would help… the very TA discourages us to comply with VAT… as every month TA announces its target achievements, and surpassing targets as well. On the other hand, Government Departments announce realization of execution plan by 99%, but the problem of chairs in schools, public transport and health prevails. Then we ask if all targets were achieved, how come the provision of public expenses is still below people's basic needs?"* Participants believe that Government could prioritise VAT invoices by providing some incentives or benefits from each VAT invoice requested. FtFi26 (2nd September, 2015) explained that

"*…I think it all has to do with the importance of VAT invoice to us as final consumers… eg. If students could benefit from discount if presenting VAT invoices for the yearly expenses; if workers could have a card and include VAT invoices in salaries discount. Then being discounted instead of 20, but 18 or 15… I believe most of Mozambicans would demand for VAT invoice… or say if you have NUIT, you have to demand invoice… I think I have to see advantages*

to demanding VAT invoice. Why not giving VAT invoice same importance as NUIT… every institution demands for NUIT...? And the same is not done for VAT invoice, there is disparity…"

FtFi27 (11th August, 2015) agreed that *"… sometimes you want to pay VAT, but if taxpayers offer you to pay less, and is not interested in having you paying more*… [laugh] *I would call it that it would be contrary not to accept the offer… everyone wants to pay less…".* FtFi25 (17th November, 2014) explained that, *"…myself, I definitely demand for an invoice… I don't know if taxpayers remit or not … for me it's a matter of conscience… contributing to the Estate as citizenship, and fulfilling tax obligations. I always ask for a VAT invoice... although I have been frequently asked to pay without VAT… they actually say this is with VAT and the other with no VAT… they give me option to chooseand I always ask with VAT… but many people opt for VAT invoice book with no VAT…".* Final consumers revealed the taxpayers' cheating attitudes regarding VAT compliance, as explained by FtFi27 (11th August, 2015) *"… what I have discovered is that Taxpayers end up gaining twice VAT… I have been cheated… when I demand for VAT invoice, for a product with price, they said that they had to include VAT… something has to be done...".* FtFi 28 (1st September, 2015) agreed that *"… the moment I demand for VAT invoice, he says, ok I will include VAT… but VAT is already included…"*

However, a cheating attitude was also found between Taxpayers and tax officers during audits. Participants identified Tax officers with an attitude of cheating, and most frequently those taxpayers (business people) with little tax knowledge would be the most affected. The latter have to pay a certain amount of money, so that tax auditors do not disclose the real value of calculated VAT. For example, FtFi28 (1st September, 2015) noted, "*...other factors are deliberately done by Tax officers... as they actually say "you could pay 'x' amount… but if you give me 'y'... I will close my eyes... and you will pay less…".*

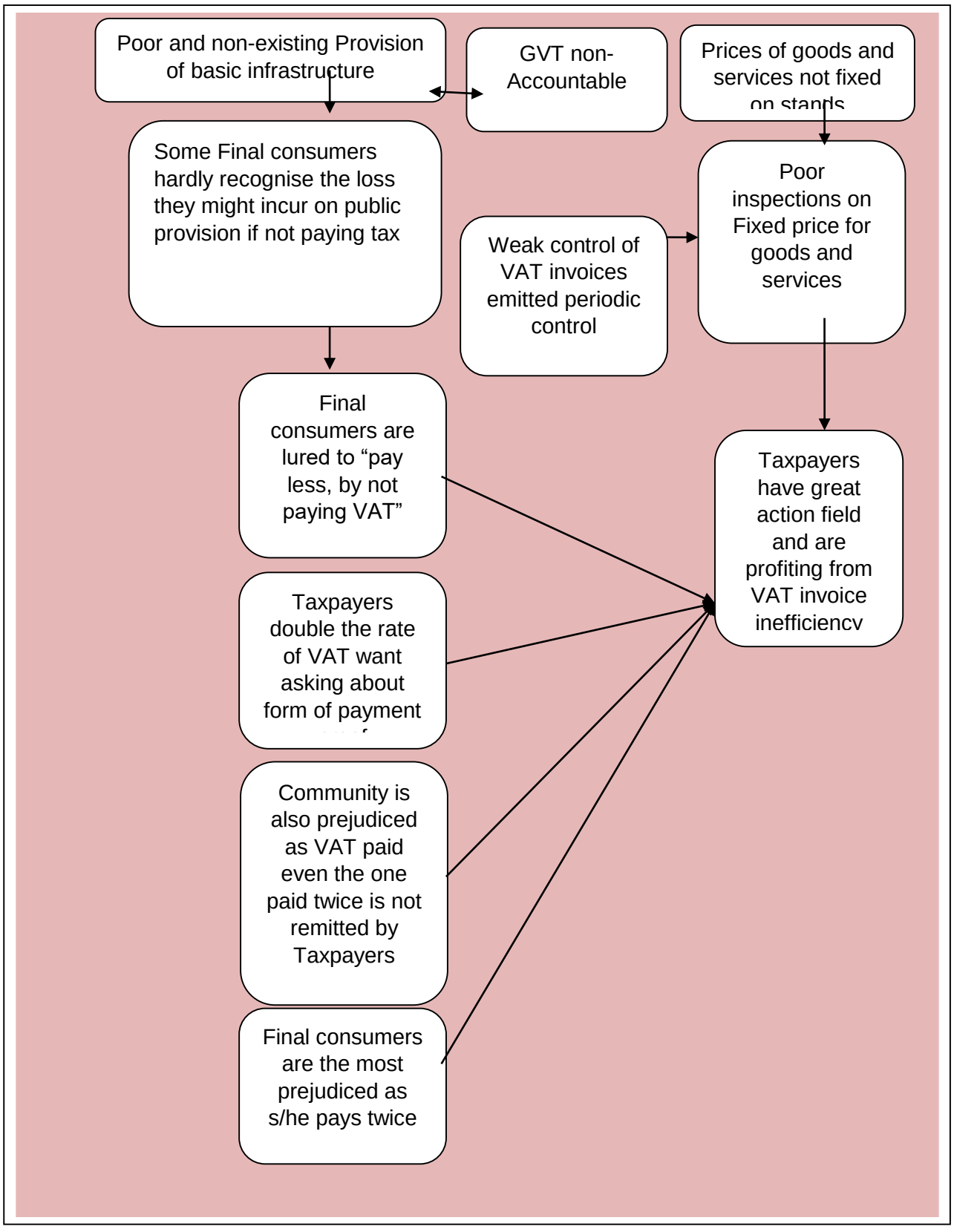
On the other hand, VAT agents suggested that the TA could encourage taxpayers to declare VAT by increasing control over taxpayers, improving fiscal education, and working closely with accountants and their association to improve their efficiency. Respondents did not favour the use of sanction to enforce taxpayers to declare and remit VAT. For example, FtFti 22 (24th November, 2014) explained that *"…Increase control over taxpayers… and fiscal education. Government have also to use collected VAT in a more responsible way*…". On the other hand, FtFti 23 (7th August, 2015) indicated that *"……I think accountants and auditors' associations have to play an important role on this… controlling all accountants (there are accountants acting and not registered in association… (Code of conduct… should exist… and be strong) but I know it's difficult… but not impossible... it needs hard work…."*.

For Legislators, the proposals include sensitization through fiscal education, the organization and inclusion of community leaders in the tax management system, reduction of the VAT tax rate given the high levels of poverty, simplification of VAT laws, training for actors involved in management of VAT and to facilitate self-assessment, and improved Government accountability around collected VAT. FtFi1 (20th November, 2014) concurred, *"...Sensitize end consumers to pay VAT... reduce VAT tax rate for Mozambicans given the people's contextual arena..."*. This was also supported by FtFi2 (20th November, 2014), *"...fiscal education... although it is not enough… reduce VAT tax rate, simplify VAT law..."*. FtFi2 (20th November, 2014) suggested that, *"...Training taxpayers, simplify VAT law, so that taxpayers can deduct, and know effects of VAT compliance on IRPS and IRPC by the end of the fiscal year..."; "...although fiscal education is productive, the message is still very general and taxpayers do not know how much they have contributed to it... there is a need for a more focused strategy"*.

In Face-to-Face Interviews, Taxpayers have revealed various factors to influence their compliance decision. For examples, incentives to demand VAT invoicing; cost-benefit association of paying VAT; the VAT rate; Government accountability; effects of the growing informal sector; fiscal education; Tax officers corrupt attitude; and integrity measures, are some factors indicated to influence their compliance. Additionally, poor control of TA VAT invoicing administration; fiscal education; and Taxpayers doubling VAT effect and tax knowledge to shape their VAT compliance decisions were listed as concerns.

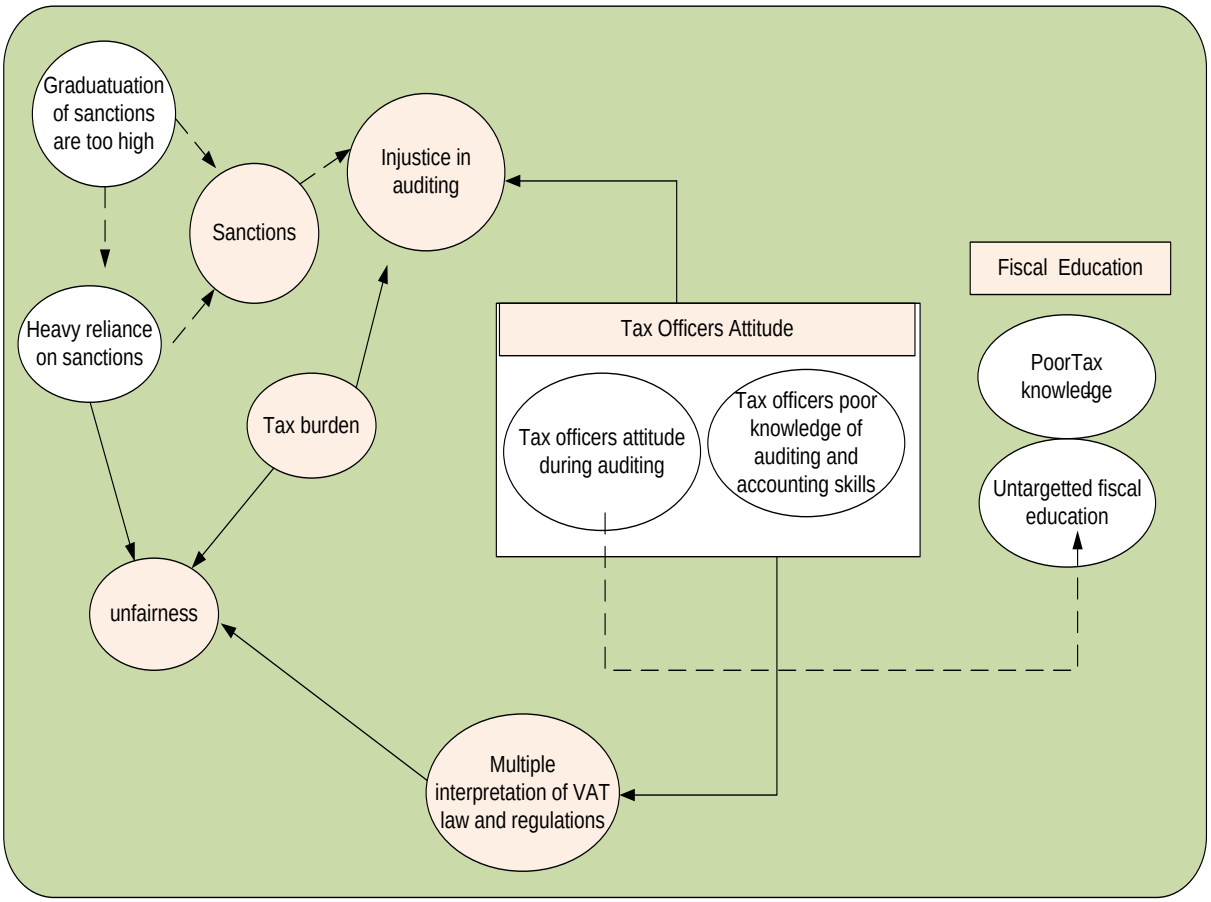
In terms of incentives to promote compliance, taxpayers suggested two schemes as tools to ensure that taxpayers demand VAT invoices. The First that could be used by TA was to provide a discount on other taxes, on a percentage of VAT invoiced and paid to TA. For example, FtFi10 (5th August, 2015) indicated *"…the need to create incentive, introduction of VAT invoices in their IRPS…".* Support for this came from FtFi14 (2nd September, 2015), advancing that *"…I think TA could find some ways of taking into account VAT invoices in IRPS as way of an incentive…".* Second, TA had to credit part of VAT invoices paid by compliant taxpayers into their account. For example, FtFi15 (12th August, 2015) observed that, *"…There is no incentive within TA, for example, I heard from Portuguese experience that a friend of mine got an extra amount in her account for being compliant…the truth is, in life, in general rules, who gives expects to receive something back…".* However, a summary of possible alternative interventions to enforce or enhance Final consumers and Taxpayers VAT compliance are presented in Figure 27 below. However, this does not fully account for compliance. VAT non-compliance in practice has revealed the need to understand the role and collaboration of Tax officers' attitudes and Tax Administration to ensure compliance.

Figure 27: TA Intervention to enforce or enhance Final consumers and Taxpayers Compliance



The responses from Tax officers in FtFi revealed that poor Government accountability, lack of cost-benefit association, inadequate and inconsistent VAT legislation and regulation, higher illiteracy rates, prevailing inconsistencies and inadequacies of VAT law, ineffective auditing strategy and risk management and control, to have substantially influenced VAT compliance. However, aligned interventions and stimulus for improved cooperation comperation to target VAT non-compliance, rather than the mere tax popularization was posited to be crucial to enhance compliance. In this context, an improved organization of TA internal procedures, could promote a more compliant environment. Contrary to this, respondents have noted with dissatisfaction, the existing proposal of auditing directorate reform that was never finalized, and the employment of tax officers that have no accounting or auditing background, as some evidence of lack of strategy alignment to the organization objectives. An environment characterized by a heavy reliance on sanctions and auditing to enforce compliance, unequal enforcement measures, perceptions of unequal treatment in auditing and sanctions, as well as ineffective VAT laws have provided opportunities for increased VAT non-compliance. This was exacerbated by the tax burden, poor fiscal education and the poor attitude of some Tax officers and auditors.

Figure 28: Factors influencing a non-compliant Environment

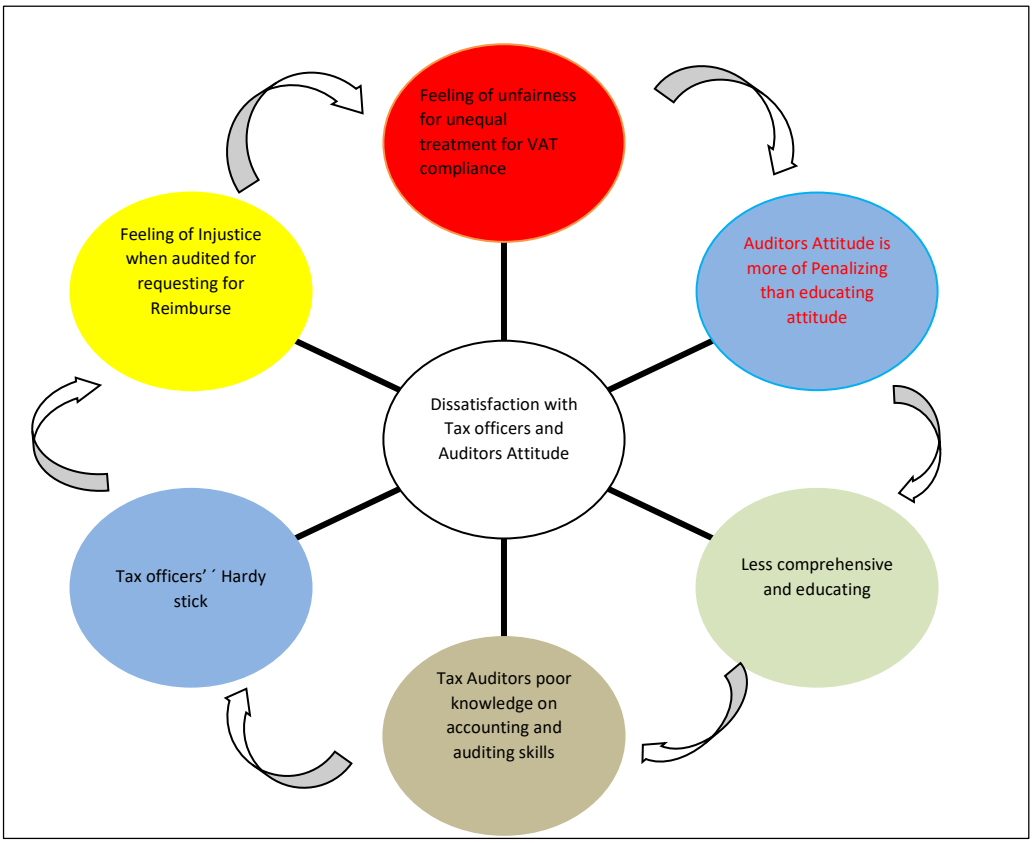


Source: Own, 2016

TA heavily relies on sanctions and auditing to enforce compliance, as reflected in tax officials and tax auditors using excessive authority, and in some cases prejudicing innocent taxpayers. Such a punitive attitude contradicts the fiscal education of the TA, but may also contribute to corruption. FGD Taxpayer AT2 (12th August, 2015) explains that *"...Tax Auditors' attitude is more of penalizing than educating*...". Further support was gained from FtFi9 (24th November, 2014): *"…If you (Taxpayer) claim for reimbursement of VAT… definitely you will be audited... we feel injustice… and there is no pedagogy in audit…".* FGD Taxpayer AT2 (12th August, 2015) observed that "*...Tax auditors do not try to understand why taxpayers did wrong, where and why the mistake was done...".*

In this context the influence of the attitudes of Tax officers and Tax auditors towards corruption emerges. Dissatisfaction with these members relates not only to the punitive attitude, but also, to the way they interpret and implement the law amongst taxpayers in similar circumstances, which contributes to the perception that taxpayers are overburdened. FGD Taxpayer AT7 (12 August, 2015) explained, *"…Unequal measures to enforce compliance…*. FGD Taxpayer AT2 (12th August, 2015) added that *"…Tax burden is very high in Mozambique… and sanctions are double. It's too heavy".*

Figure 29: Dissatisfaction with attitudes of Tax Officers and Auditors



Source: Own, 2016

Inefficiencies and inconsistencies of the tax laws, lack of clear interpretation and lack of a consolidated government approach, amongst different directorates in the same TA, have not enhanced compliance. This has

increased incidents of dishonesty due to a lack of mutual trust. Taxpayers were also concerned with the lack of accounting and auditing skills amongst Tax officers and auditors and the punitive attitude towards taxpayers. This confirms the view of Tax officers in FtFi that the necessary skills were not being identified and employed by the TA. FGD Taxpayer AT2 (12th August, 2015) noted that *"...Tax Auditors have poor accounting knowledge … ...the majority have done law, but lack accounting skills... this results in contradictions in interpretation of some accounting procedures during auditing...".* This was supported by FGD Taxpayer AT7 (12th August, 2015): *"...the law suggests subjective interpretation that sometimes collides with TA interpretation....".*

The excessive use of sanctions by the TA to enforce compliance was viewed, not only as undermining efforts to undertake fiscal education, but also inequities between different segments of taxpayers, according to their contextual specifics. This indicated a need for reflection on auditing strategy for the different taxpayer groups and a need to review the organizational models. Taxpayers in FtFi suggested that the growing informal sector, ineffective auditing strategy, weak field inspections, ineffective VAT invoicing administration to postpone circumventing of VAT non-compliance. Although Taxpayers in FtFi indicated a concern that the TA should improve its audit strategy, as shared by Tax officers in FtFi responses, there was also a need to address the issues in the growing informal sector to enhance compliance, of those taxpayers in the tax net.

In their elaboration, unfair or "imperfect competition" was influenced by the need for profit maximization amongst two distinct groups that operated in the market and shared the same customers. The ones operating formally (registered taxpayers), felt that unlike the exempted informal operators, they had to pay taxes, were audited, and beared the tax burden. The issue of the lack of proper auditing provision, poor control of VAT invoicing administration and the limited capacity of the TA to carry out regular field

inspections to check on prices of goods and services on the goods on shelves and poor control of stock in commercial sites. In this case, FtFi10 (5th August, 2015) observed that *"… No invoicing… There is no stock control… the system has no capacity to control this… the price has to be fixed on the goods… but taxpayers' (business) add more than 17% when one demands with VAT…" …* FtFi12 (11th August, 2015) indicated that, *"…Ministry of commerce, Municipal council, and TA have to co-ordinate to reduce imperfect competition and motivate all to comply, and make them capable to compete in the market…".*

Heavy reliance on auditing and an ineffective auditing strategy, as well as a lack of capacity amongst tax auditors, contributed to increased opportunity for non-compliance with VAT, as well as, a reduced probability of being detected evading VAT. Data have suggested that effective audit strategy and pre-warned audit campaigns were viewed as necessary in order to enforce taxpayers to declare and remit VAT paid by final consumers. Weak TA control on VAT invoicing, limited inspection on allocation of pricing on goods on sale, lack of fiscal education, limited information being shared about price law and VAT invoicing contributed to less compliance from final consumers who perceived themselves as being cheated by the process.

A strategic approach was suggested aligned to VAT nature and deduction phases. FtFi13 (12th August, 2015) suggested that *"…TA has to increase control, from the wholesale and distributors to access the small taxpayers… then compare sales and detect what has been invoiced and detected…".* This was supported by FtFi11 (2nd September, 2015): *"…there is no inspection of how much the product cost and what expense*…". Further supporting argument came from FtFi11 (2nd September, 2015): *"…VAT invoice per se demands price amount plus VAT, whilst it has been already added, this is increasing cost…"* and FtFi9 (24th November, 2014): *"...Improve VAT invoice mechanism of control from central risk management...";* FtFi4 (6th August, 2015) indicating the need to *"...improve*

VAT invoice mechanism of control... to reduce appetite for fraud and evasion"; and FtFi6 (18th August, 2015): *"…The need to improve audit control..."*. This was supported by FtFi3 (14th November, 2014): *"...effective audit strategy and pre-warned audit campaigns..."* FtFi5 (24th November, 2014) agreed on *"... the need to improve auditing mechanism..."* while FtFi7 (12th November, 2014) noted the need to *"...improve tax auditing mechanisms..."*.

Taxpayers (business owners) took advantage of the limited knowledge that final consumers had about VAT. These charged them VAT twice when a VAT invoice was requested. Moreover, there is no TA mechanism to detect this fraudlent act. In spite of this, business owners are not remitting most of the VAT actually paid by final consumers to the TA. These, use different means to avoid compliance, such as forged invoices for fictitious transactions, illegal selling of purchasing invoices, and not issuing VAT invoices to purchasers, amongst others.

Although fiscal education was posited to enhace taxpayers' awareness on the importance of VAT invoicing the absence of effective fiscal education targeting VAT invoicing; deficient Government accountability; ineffective audit control and VAT invoice control mechanisms have perpetuated failure to address the VAT invoicing challenge. FtFi25 (17th November, 2014) noted "*…tax popularization Campaigns …"* gaining support from FtFi3 (14th November, 2014) on the importance of: *"...fiscal education..."* and FtFi5 (24th November, 2014) noting *"...Fiscal education and training of tax officers and the people...".* However, FtFi27 (11th August, 2015) noted that *"…in the past nothing happened, but I have to admit that lately through TV, there is some (fiscal education) publicity… but it's still very far from reaching its purposes…".* On the other hand, FtFi26 (2nd September, 2015) suggested that *"…well I have never heard... any particular actions by TA towards VAT… I think end consumers have to know the importance of demanding VAT Invoice… what discourages me also is lack of Government*

accountability on collected VAT...". The importance of accountability was echoed by FtFi8 (18th August, 2015): *"...accountability...",* while FtFi9 (24th November, 2014) advanced the importance of *"...lottery...".*

Although they recognized the role played incentive schemes, such as, lottery and prizes in promoting compliance, respondents were sceptical about its effectiveness. This was due to uncertainty of winning, compared to the certainty of evading VAT and not being caught, thus, "maximizing profits". However, taxpayers viewed interventions related to cost-benefit association, to enhance requesting a VAT invoice. For example, FtFi14 (2nd September, 2015) noted that *"…I think TA could find some ways of taking into account VAT invoices in IRPS as way of an incentive… but not lottery, as they know their chances are not so certain".* This was supported by FtFi14 (2nd September, 2015) indicating that *"…I think lottery would not work… but it is important to make a sensitization campaign… final consumers accept paying without VAT to pay less. I don't agree "prizes" or incentive would be so certain mechanism…".* Further support for this argument came from FtFi17 (3rd September, 2015) indicating that *"…lottery is an option that might be seen as important… but there is a need to do something to incentivise the taxpayer to declare… because lottery is not so certain…".* Taxpayers repudiated the current Government deficiency in paying its suppliers of goods and services. For example, FtFi13 (12th August 2015) explained that *"…Intense campaign… because no one wants to pay more… I think VAT has to be paid using invoices for cases that Government has not yet paid the supplier…"*.

Respondents pointed to prevailing corruption, discouraging taxpayers to declare and remit collected VAT, suggesting action by TA against end consumers and fiscal education. For example, FtFi10 (5th August, 2015) explained that "*…there are two TA… as long as there will exist parallelism between TA and tax officers… whereby Taxpayers have to pay tax officers to alleviate sanctions… then taxpayers prefer to non-comply in future as*

these know they will be paying individuals (tax officers) than TA…". This was echoed by FtF11 (2nd September, 2015): *"… I think… set VAT amount per sector… improve ethical issues; have taxpayers that can respond to taxpayers' demands… Tax officers should not have an appetite for taxes that should go to Government coffers… Tax officers want to share taxes with the State… sometime taxpayers like me prefer to close down companies…".*

The preliminary interpretation of partnership, co-ordinating activities, enforcement strategy and incentives in managing VAT non-compliance revealed useful information to improve interaction. The roles played by key actors in enhancing or discouraging VAT non-compliance enabled an understanding of each actor's interests in their interactions, within the dynamics of VAT non-compliance. Whilst all of them identified ways to avoid their responsibilities, most of these avoidance tactics were facilitated by inefficiencies in VAT invoice administration. Therefore, understanding the relationship amongst key actors separate from the specific of VAT overlooks the dynamics involved in the process, until the offer and acceptance of collusion is realised. However, incentives were also a factor in their motivation to co-operate, bringing in the concept of a social contract to encourage co-operation and participative co-ordination.

5.5 CONTEXTUAL FACTORS AND TAX SYSTEM INFLUENCING VAT NON-COMPLIANCE

The contextual reality and Tax system in which the dynamics of VAT non-compliance management occurs has the understanding of factors and events determining the influence of micro and macro environment. Responses to questions 2, 3 and 11 of both FGDs and FtFi (Tax officers and Taxpayers) enabled the researcher to answer RQ 4: "How and why does the contextual environment in which the approach operates affect the success of the implementation of the approach?" Section 5.5.1. Factors or events, facilitating the practice of VAT non-compliance within the System

TA operates; 5.5.2. Contextual Reality influencing VAT non-compliance: Awareness of the Problem; and 5.5.3. These data enabled to understand how contexts (macro- and micro-environmental factors) have influenced VAT non-compliance application.

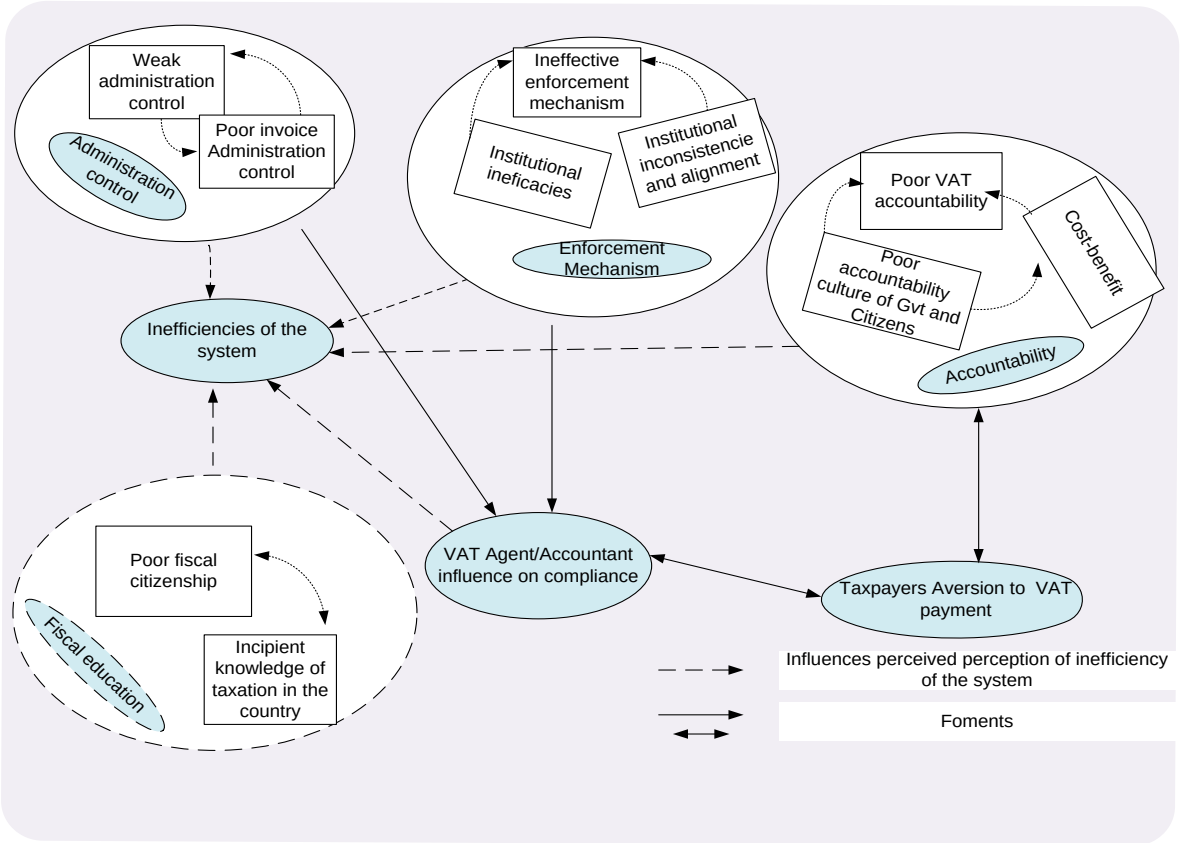
5.5.1 Factors or events facilitating the practice of VAT non-compliance within the system in which the TA operates

For tax officers, weak administrative control influences poor VAT invoice management. Notes from the FGD support this view, as Tax officers were not clear amongst themselves on the rules or reforms to VAT invoicing control and if it was the Ministry of Finance or General Director-National Tax who had to authorize it. Therefore, tax officers have indicated with some frustration the difficulties in accessing invoices for monitoring and audit purposes, drawing on improved VAT invoicing administration controls, similar to countries like South Africa, where control of invoicing can be done in real time of transaction within a computerized and more integrated VAT invoice administration amongst key role-players. In this case, Tax off FGD A1 (7th November, 2014) indicated *"…No cross-checks of VAT invoices…".*

This group of respondents noted the prevalence of poor fiscal education characterized by limited fiscal citizenship, tax knowledge, ineffective VAT laws and enforcement mechanisms exacerbated by poor Government VAT accountability. This has contributed to an environment susceptible to the emerging hegemony of VAT agents/ accounts/ experts/ professionals in influencing taxpayer compliance. In their understanding, poor fiscal citizenship, characterized by the taxpayers' poor tax knowledge and culture, and lack of tax education in the school education system, have all contributed to the need for a shared platform for VAT agents to find space to influence taxpayers' compliance. This partly justifies taxpayers' heavy reliance on VAT agents to determine to what extent they should comply with VAT. However, the reliance on VAT agents was said to be mostly found in those taxpayers with reasonable sales volumes who can afford monthly

payments. For example, Tax off FGD A3 (7th November, 2014), explained that *"…The use of some VAT experts/accountants to help and advise them on how to avoid and evade VAT…"* Taxoff FGD2 (7th November, 2014) noted: *"…Weak fiscal citizenship…"*... Taxoff FGD A1 (7th November, 2014) observed that *"…Citizens don't have the culture to pay taxes…"* while Tax off FG C2 (7th November, 2014) noted the *"…Non-existence of fiscal /taxes topics in the curriculum still at elementary phase in primary school…".* ".

Figure 30: Factors or events facilitating VAT related fraud and evasion within the System in which TA operates



Source: Own, 2016

Tax policy weaknesses, particularly around VAT law, have proved to be ineffective, inconsistent, and inadequate for the context of Mozambique. The weakness of tax policy, revealed to cut across disciplinary lines, and poor tax knowledge and complexity of the law have increased the reliance on VAT agents by taxpayers. This has revealed the need for simplification

of VAT law, which could conform to a generalized environment characterized by incipient tax knowledge, dominance of the tax system and its dynamics. This is also as noted by Tax off FGD C2 (7th November, 2014): *"…The system is still embryonic…"*.

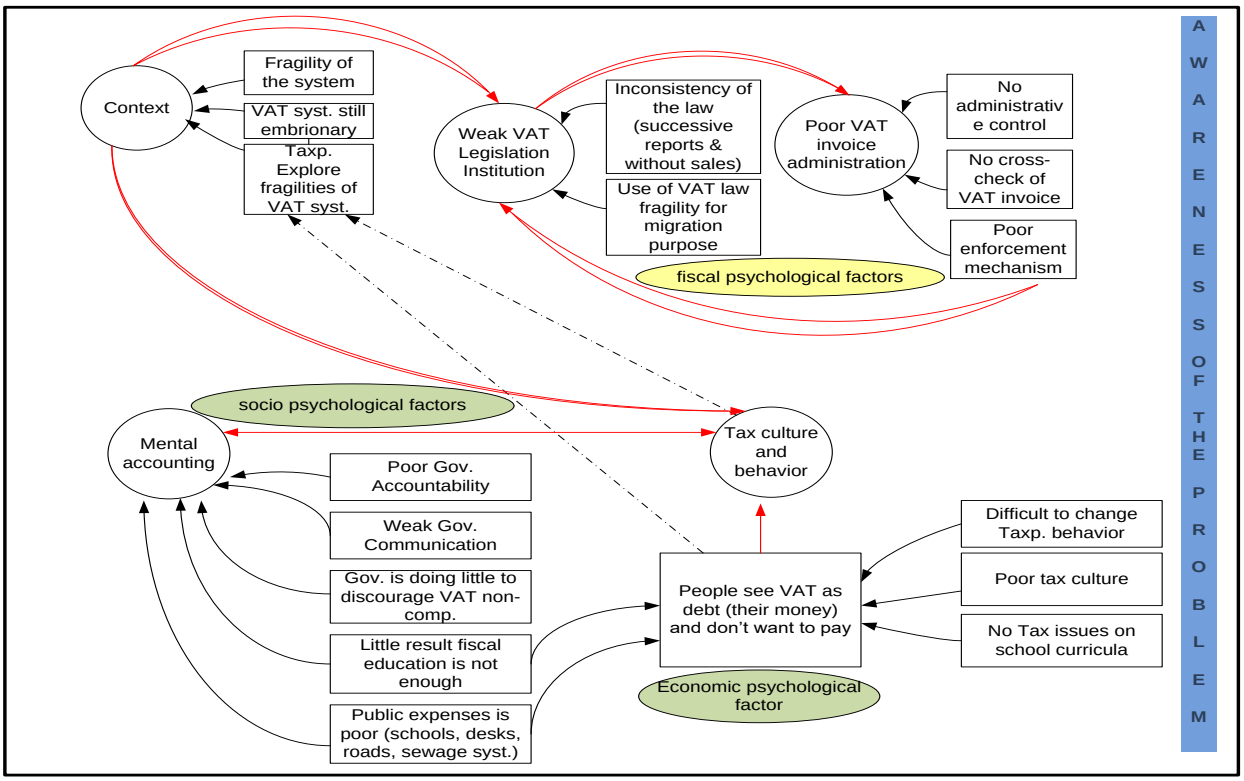
Additionally, weak enforcement mechanism, ineffective VAT law and ineffective VAT invoicing administration and audit strategy, and Government's limited VAT accountability has perpetuated difficulties to address VAT non-compliance. In this case, Taxoff FGD B1 (7th November, 2014) points out that *"…Government is not informing us on what is being done with VAT collected to motivate payment*…" while Taxoff FGD C2 (7th November, 2014) indicated that *"…Government is doing almost nothing to create a desire for taxpayers to pay taxes…"*.

For tax officers, no matter how sophisticated fiscal education may be to improve taxpayers' tax knowledge, culture and conscience, if the issue of Government accountability and the communication/exchange relationship, in terms of cost-and-benefit association and social exchange relationship is not properly addressed, then TA objectives on fiscal education will not be realised. Therefore, Tax officers viewed the taxpayers' aversion to paying VAT partly as a factor which derived from poor government accountability in the system. In this case, aversion resides in taxpayers' perceptions of Government failure to fulfil the social contract and cost-benefit association, as they feel little is being provided to them relative to the VAT they pay. Such deficient Government accountability contributes to a generalized poor accountability culture in the contextual environment, consequently, non-compliant environment.

5.5.2. Contextual Reality influencing VAT non-compliance: Awareness of the problem

Although tax officers are seen to be aware of the central role played by the contextual environment on the level of their performance, this is reflected not only through their awareness of the problem, as explained above, but also, in their ability to recognise other factors making the management of VAT non-compliance a difficult task. The interconnectedness and complementarity of these factors have brought to light linkages between factors of different schools of thought, embedded within various contextual realities.

Figure 31: Contextual Reality influencing VAT non-compliance: Awareness of the Problem



Source: Own, 2015

The interconnectedness of a chain of factors may occur before another event, and others may occur simultaneously or after an event. However, data have also indicated that there is no single dimensional approach to

understanding VAT non-compliance. Instead, the dimensions were all tied to the embedded contextual environment. In this case, contextual realities played central role in shaping factors/events enhencing compliance. However, poor institutional facilities, related to fiscal psychological factors, such as limited VAT invoice administration, poor enforcement mechanisms, weak legislation, and limited inter- and intra-sectoral networks, have reduced possibilities of improved efficiency in addressing the challenge of VAT non-compliance.

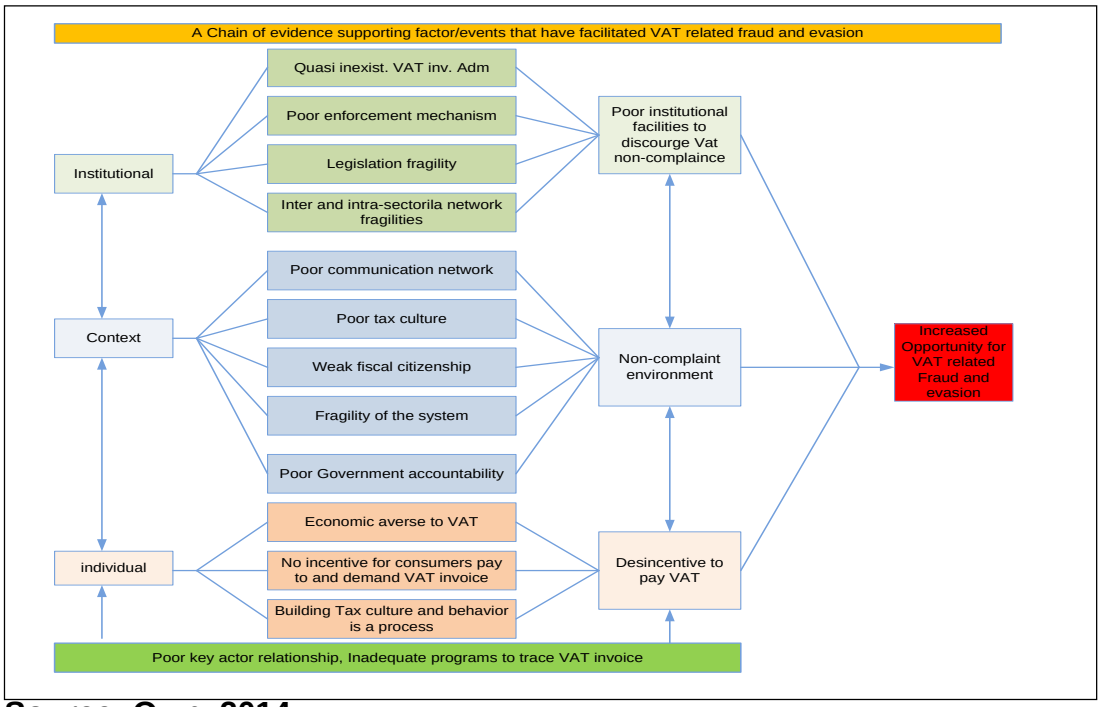
5.5.3 Factors / events influencing VAT non-compliance management

In this case, although auditing and sanction are heavily relied upon as a strategy to influence compliance, communication, “dialogue” with taxpayers, and proximity to taxpayers through the building of tax units are revealed to be more effective strategies to enhance compliance. Dialogue with taxpayer’s results from internal auditing process, whereby taxpayers’ VAT declaration forms are intercepted from being submitted as these may not meet expectations on declared amount of VAT to be paid. Therefore, tax officer attending to taxpayers are required to negotiate and to sensibilize taxpayers to correct/change the amount, mostly by increasing the amount. This attitude was most often experienced in the last days of the month, in an attempt to achieve targeted amount.

However, this type of management was challenging for operational areas that needed to meet the stipulated targets of the month, due to time pressure (last day for payment of VAT). Although it resulted in increased tax collected, including VAT collection, the quality of collected taxes can be questioned. The tax officers “dialogue” described above (sending back VAT forms in the last day) goes against the rights of taxpayers and the VAT law, which in article 32 stipulates that VAT is to be paid monthly and within 30 days and before the last day of the month following the month in which the transactions covered by the VAT took place. In these dialogues, contact

between tax officers and taxpayers' increases, unlike e-filing VAT. This also has its consequences although might build effective relationship. Tax officers are also seen to excessively use inappropriate enforcement mechanisms, irrespective of their recognition of taxpayers' rights.

Figure 32: Factors/Events influencing VAT Non-compliance Management



Source: Own, 2014

Categorization of factors/events influenmcing compliance, have been categorized into three gropus. The individual, contextual and institutional factors have revealed to jointly influence, the dimension of opportunity for the practice of VAT non-compliance, as presented in Figure 32 above. Therefore, linkages between the micro- and macro-environment factors have revealed to be informed by the tax system and shaped by institutions to improve their deterrence effectiveness. Analysis of the data provide information on the centrality of an effective Tax system and its influence on the context (micro- and macro-environment), design of integrated elements

and the most common VAT fraud and evasion in seeking to reduce opportunities for non-compliance with VAT payment.

CHAPTER SIX
REFLECTING ON ENFORCEMENT STRATEGIES AND CHALLENGES CONSTRAINING VAT NON-COMPLIANCE MANAGEMENT

6.1. INTRODUCTION

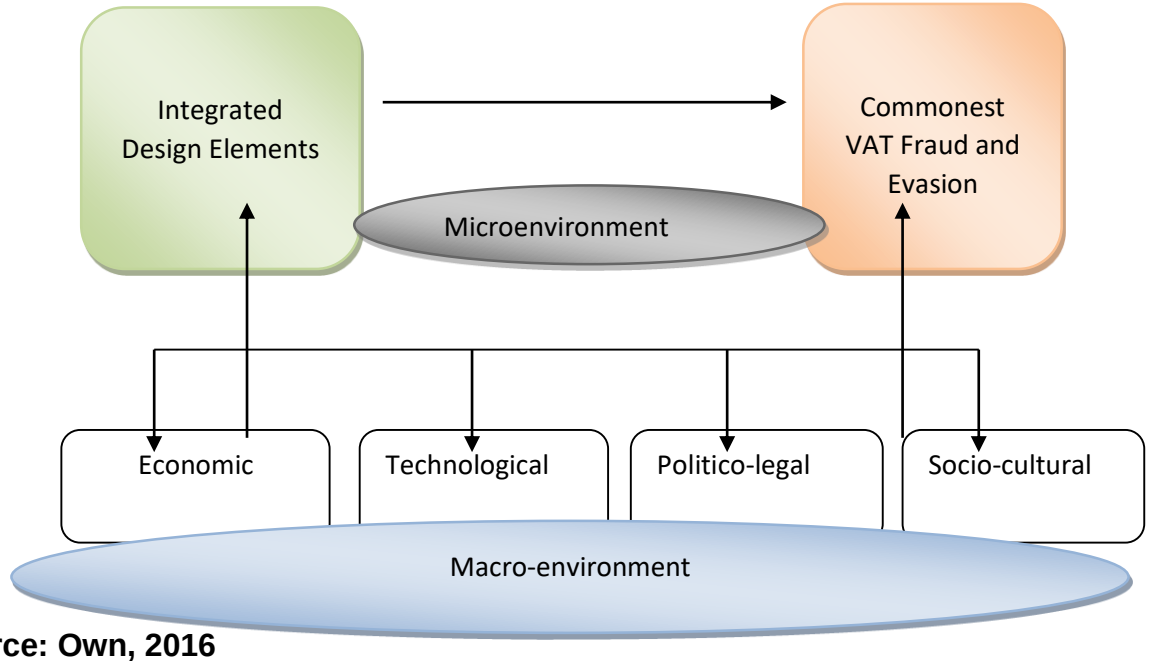
Data have been aggregated into smaller sets of themes (five to seven) to present what emerged from the respondents and Creswell's (2013; 2014; 2016) procedure of data analysis. In this case, data from Chapter 5 was consolidated into Items 6.2 Contextual environment and tax system influencing VAT non-compliance; 6.3 Enforcement strategies, Drivers of Change, Partnership and Challenges constraining VAT non-compliance Management; and 6.4 Emerging themes and strategy shaping VAT non-compliance management. These data have been refined to understand the context, system, enforcement strategies used by TA, partnerships, the common VAT fraud and evasion and emerging VAT compliance factors facilitating the practice of non-compliance. This analytical approach provides insights into the inquiry of the study.

6.2 CONTEXTUAL ENVIRONMENT AND TAX SYSTEM INFLUENCING VAT NON-COMPLIANCE MANAGEMENT

The understanding of contextual environment and tax system influencing VAT non-compliance management continues from preliminary analysis done in Chapter Five and in response to RQ 4: "*How and why contextual environment in which the approach operates affects the success of the implementation of the approach?"* The influence of contextual environment and tax system revealed to be enhanced by taxpayers' non-compliant

attitudes (Figure 29); final consumers', vat agents' and tax officers' non-compliant attitudes (Figure 28) and in multiple factors/events (Figure 30) prompting the practice of VAT non-compliance, including those from different schools of thought (economic, socio and fiscal psychological factors of tax compliance (Figure 31). Poor understanding of contextual environment has misguided strategies to enhance compliance. Analysis suggests a context that is more complex than the one proposed in the conceptual framework. Data have revealed contextual environment to enhance opportunities for the practice of VAT compliance and to positive and negatively influence the effectiveness of VAT compliance factors. It indicated contextual environment to be more of a mere informant to the organisation. Both micro and macro environments shape the attitudes of key stakeholders and widenen up opportunities to non-comply with VAT. More than providing information to spearhead strategy formulation (Low & Venter, 2011; 2014), the contextual environment (micro and macro) is revealed to be complex and necessary to strengthening the tax system and improve organisational performance, as presented in see Figure 33 below.

Figure 33: The Context Management of VAT Non-Compliance Operates



Source: Own, 2016

The macro-environment influences the VAT compliance and simultaneously the organisational performance. In this regard, socio-political factors enhanced the effectiveness of economic factors in circumventing non-compliance, and in some cases, it also proved to be counter-effective. The introduction of Mozambique TA in 2006 occurred in an environment with an average economic growth of 7.49% per year that lasted for a decade (2004 to 2014) (World Bank, 2016). Although tax collection also increased, this economic growth had insignificant impact on fiscal tax collection. This was mostly due to tax exemptions benefitting large multinational capital investments, with limited effects to the value chain in the economy. Moreover, the prevalence of tax exemptions, incentives and subsidies, the ineffectiveness of tax policy, complexity inadequacy and inconsistency of Vat law, have also prompted VAT related fraud and evasion. In this context, informant perceived the unfairness of the tax system over tax exemptions attributed to huge multinationals, as also depicted by Fjelsdat and Heggestadt (2012: 1). Their resentment towards the tax burden also emanated from heavy concentration on the small tax base in the country.

The findings have also revealed that politico-legal and institutional factors influence the effectiveness of economic factors to enhance compliance. The resurgence of localized armed attacks in 2013 by MNR in Mozambique has negatively influenced commercial activities. Amongst other factors, it has partly contributed to companies closing down at a greater rate. The discovery of “illicit debts” in 2013 and economic recession afterwards have further deteriorated possibilities for the enlargement of tax base and have reduced the already small tax base. Therefore, TA has increased focus on the few taxpayers. This has increased taxpayers feeling of tax burden, and their perception of existing “imperfect competition” with informal sector, have de-motivated them to comply with VAT.

The socio-cultural influence on the practice of VAT non-compliance, particularly amongst key actors’ relationships in the process revealed

important. The issue of peer group influence amongst taxpayers in the formal sector and during the process of “collusion effect” revealed that there are implicit agreements amongst certain groups that determine their compliance decisions. These tendencies extended to tax auditors and officials and VAT agents/taxpayers/owners. There are established networks and friendships. For example, informants posited that tax auditors and VAT agents “speak the same language” or can easily understand each other. Toke and Hewitt (1976), Granovetter (1985; 1995) and Rothengatter (2005) explain the importance of management relations and partnerships; aligning tax compliance dynamics on a meso-level; and the importance of changing individual and collective outcomes. This has gained support from Braithwaite and Levi (2003) who note the importance of internal controls through socialization and re-socialization. Additionally, these proved to be an effective and efficient avenue for both formulating and internalizing tax compliance norms, values and obligations, as long as these are underpinned by a broad-based sense of national identity and concomitant civic loyalties. Rothengatter (2005), Grant and Keohane (2005), and Togler, Schaffner and Macintyre (2007) suggest that improved government legitimacy results from the assumption of “consequential situation and alternative acts of social conduct. These findings support the views Cullis and Lewis 1997); Martinez-Vazquez and McKey (2001); Torgler (2003); and Webley and Ashby (2010) have on the influence of socio-cultural factors and cost-benefit association in compliance behaviour.

However, tax auditors’ attitudes proved to influence compliance environment (Figure 29). Institutional values and ethical conduct appear to be lacking, to the extent that, tax auditors do not fear consequences. Furthermore, data suggests that inadequate auditing strategies and procedures promote corrupt activities worsened by complexity and inconsistency of the law. Tax policy reforms undertaken by the TA have not resulted in clarity, transparency and reduced corruption (Fjeldstad & Moore, 2008). This reveals how overlooking the influence of microenvironment

factors in managing VAT non-compliance has not contributed to strengthening the tax system. Instead, it has misled TA formulation and harmonization of strategy to circumvent VAT non-compliance. Therefore, tax policy and tax system reforms and its evolution have failed to impose institutional values, culture and literature in designing economic policy. These microenvironment factors are important to understand the influence of endogeneity in designing economic policy (Pillay, 1996; Kasper & Streit, 2000; Martinez-Vazquez & McKey, 2001; Padayachee, 2010; Padayachee & Hart, 2010). In this context, the adoption of the tax system and replication of tax policy into the Mozambican context with inefficiencies and inadequacies, brought with it further challenges.

The findings suggest that Mozambique TA adopted the Matrix organisation as the organisational model/function with some features that are product-based, functional and client-based. However, the challenge in enlarging the tax base, and general lack of capacity within the TA administration, make it difficult to sustain the Matrix approach to administration.

Without denying the advantages of other models in establishing more customised taxpayer services and improved administrative efficiency, as observed by Vehorn and Brondolo (1999) and Gill (2003), matrix approach could not fully account for addressing VAT non-compliance in the Mozambican context. However, findings suggest that the management of VAT non-compliance could improve, if TA adopt Product Based Model. In this case, the organisation of TA based on the type of tax, e.g. (Direct Tax, Indirect Tax) rather than the Matrix approach, could eliminate misdirected strategies that fail to address VAT non-compliance. The adoption of technology enhances possibilities of improving the management of procedural mechanisms, deduction, auditing, risk management and the system in generaaddress compliance. However, its influence on institutional change remained limited. This was due to the prevalence of an ineffective and inadequate IT adopted by the organisation to circumvent the practice of

VAT non-compliance. The technology adopted by Mozambique TA failed to conform the environment and promote intended institutional change (discouraging non-compliance opportunities). This has partly failed to strengthen the tax system in Mozambique.

6.2.1 Tax system determines the effectiveness of VAT non-compliance management

Data on the current Mozambique Tax system (Figure 25) indicates that urgent and effective management of VAT non-compliance is required. The existing tax system can be traced back to early African traditional communities (Ibraimo, 2000; Watty, 2013). Attempts to strengthen the tax system did not go beyond tax reforms through introduction, alteration or elimination of taxes. Moreover, these tax reforms did not emanate from harmonized and consistent plan and were mostly focused on exemptions. Although reforms aimed at responding to the economic and political ideology of the day (Watty, 2013) failure to conform to community standards, and the economic and socio-cultural structures of Mozambican reality, failed to address non-compliance. Instead, weak tax systems have provided additional opportunities for tax avoidance. The “patchy reforms” that have been implemented have effectively opened up further opportunities for non-compliance. Adopting tax reforms derived from other contextual realities, has postponed possibilities to strengthen the tax system in conformity to Mozambican particularities. It promoted the perception of complexity, inadequacy and inconsistency of tax policy (VAT). It also enhanced perception of imperfect competition due to the growing informal sector. This contributed to the perception that the tax system is unfair and inequitable. The perceived unfairness of the tax system is supported by Fjelsdat and Rackner (2003), Hart (1985) and Chen (2005; 2012). These noted that taxpayers in the formal sector avoid compliance, due to exemption of VAT in informal sector.

Data also revealed that the TA has a strong focus on the few registered VAT taxpayers that are more easily accessible. Taxpayers perceive some feeling of unequal treatment and unfairness, when selected for audit by TA. This supports the findings that there is unequal treatment in sanctions applications and a lack of confidence that the system treats everyone equitably (Piccioto, 2007). The perception that the VAT rate is high prompts the feeling of tax burden. Informants suggest VAT amount to be set according to commercial sector and to be monthly paid. In their view, this could reduce tax officers "work load" and taxpayers' difficulties in self-assessment. This would also reduce the costs of VAT compliance and provide at least a partial solution to the concerns around inequitable treatment of taxpayers (Fjeldstad & Heggestad, 2012).

Establishing an effective tax system from contextual endogeneity, and adopting "sectorization", may provide an alternative for tax burdening, reducing the reliance on a small tax base that is already compliant (IMF, 2015; Keen & Mintz, 2004). It can also provide a solution to the need for reducing tax rates, consolidating tax laws and simplifying procedures, to make the tax system more transparent and predictable (Fjeldstad & Heggestad, 2011; 2012). Sectorization could also facilitate restructuring the VAT threshold crucial to enhance compliance and possibly enlarge tax base, form those who avoided VAT during self-assessment. This could promote administrative solutions which work for the community (Braithwaite, 2001; 2002; McKerchar & Evans, 2009; Russell, 2010). This could in turn, promote state legitimacy (Joshi & Ayee, 2008) in a tax system that is perceived to be inequitable (Padayachee, Smith & Valodia, 2000; Bird, Martinez-Vazquez & Togler, 2008). A revision on the enforcement strategies, drivers of change, partnerships and challenges undermining VAT non-compliance management, provides insight to understand, how their dynamics have influenced compliance.

6.3 ENFORCEMENT STRATEGIES, DRIVERS OF CHANGE, PARTNERSHIP AND CHALLENGES CONSTRAINING VAT NON-COMPLIANCE MANAGEMENT

Improved practicability in addressing VAT non-compliance presupposes a more co-ordinated platform amongst key actors. In this context, difficulties and challenges perpetuated within a non-compliant environment can be presented as an analysis of consolidated summaries of sections from Data Presentation Chapter 5, sections 5.3 and 5.4. Insights from the preliminary analysis of these sections were drawn to answer both RQ 2, “How does the relationships between key actors and players affect the success of the implementation?”, and RQ 3, “How do drivers of change affect the success of the approach to manage VAT non-compliance?”.

6.3.1 Enforcement strategies

Findings from this study, indicate a higher prevalence of VAT non-compliance amongst the small and medium taxpayers. It demonstrates how pervasive the actions of small, medium and large taxpayers are in fraud and evasion as well as avoidance, including the weakness of tax incentives as a non-compliance strategy. The ineffective or inexistent risk management approach to VAT non-compliance in developing countries, particularly in Mozambique, have limited strategies and action to address VAT non-compliance. The IMF (2015) suggests that this is common in both developed and in emerging markets, although countries of similar economic performance or different development stages vary widely in terms of VAT non-compliance (Brondolo, 2009; IMF, 2015).

The meaning of compliance precedes the analysis of various enforcement strategies used by Tax Authorities. Compliance was referred to as the degree to which taxpayers meet their obligations under tax law, and is seen as a positive social value (Cummings, 2012; SARS, 2011:2; Fjeldstad & Heggestad, 2012). However, contextual particularities and differentiated TA capabilities across countries (advanced economies, emerging markets and

developing countries) have justified the fact that there is no standard equation for addressing tax non-compliance, but rather, approaches should be realistic to achieve effective compliance improvements (Fjeldstad & Heggestad, 2012; IMF, 2015). From this perspective, the rates of non-compliance among small businesses are relatively high in both developed and developing economies (Graetz & Wilde, 1985; Gauthier & Reinikka, 2001; Gravelle, 2009). This is partly facilitated by the use of cash and B2C transactions, with limited bookkeeping capacity, and for being politically influential with capacity for mobilizing significant resistance (IMF, 2015).

Challenges in improving VAT non-compliance management have resided in the failure to identify compliance risks, the most common tax fraud and evasion, tax nature and type including procedural inefficiencies, and designated integrated elements that shape the tax system. Designed strategies have overlooked non-compliance particularities, misinformed orientation, failed to improve the coherence and systematic approach to VAT non-compliance. Improving tax compliance is a long-term process requiring sustained effort and coherent strategy informed by systematic approach (IMF, 2015). These requirements include alignment with the tax system, TA organizational model, organizational structure and the way in which taxpayers and their advisers operate (McKerchar & Chris, 2009).

The findings from the study place a heavy reliance on auditing and sanctions, door-to-door VAT invoicing fiscalization campaigns, and cash conferences in commercial establishments. However, these have revealed to be unsustainable and ineffective in promoting VAT compliance. Lack of technology to enhance the detection of fraud and evasion, scarcity of human resources, lack of capacity amongst tax auditors, and lack of integrity amongst tax officers, worsened its effectiveness. This identifies the need for accounting on enforcement strategies informed by the nature, type and structure of VAT when designing enforcement strategies. This was supported by ETAn and Stiglitz (2005), De Paula and Scheinkman (2010)

and the IMF (2015), suggesting effective strategies, to promote compliance and “good chains” of compliance forming, whilst discouraging non-compliance in circumstances of “bad chains” which can also be formed in cases where traders were non-compliant, and would prefer their suppliers to be non-compliant as well.

The findings reveal that enforcement strategies, cutting across taxes and mostly drawn for income taxes, fail to target VAT non-compliance specificities, as the latter considered tax offenders as the appropriate unit of analysis. This was also suggested by Taylor (2001); Dacin, Goodstein and Scottt (2002); and Rothengatter (2005) who provide descriptions of the disadvantages of this approach to income tax management. Findings suggest that the approach used to address VAT non-compliance (auditing, fiscalization, door-to-door invoicing) overlooks the entire complex socio-economic, institutional and contextual environment. Findings on the process of improving the deterrence effect of sanctions (Figure 41) provide further insights and responses to advocates suggesting that sanctions were ineffective in influencing taxpayers’ compliance decisions in Tanzania (Fjeldstad & Semboja, 2001; Gauthier & Reinikka, 2001), Botswana (Nkwe, 2013) and Uganda (Reinikka, 2001).

The revised literature suggests crucial reforms on administrative matters providing insights to a more effective enforcement strategy. These include administration efficiency and fairness of the system (Nkwe, 2013) in Botswana; implementation of a robust collection system (e.g. payment and withholding systems). Building capacity in the core tax administration functions (registration, filing and payment enforcement, debt collection, audit, taxpayer services and processing of appeals) (OECD, 2004; Russell, 2010; IMF, 2015), were also some of posited reforms. Additonally, reforms towards comprehensive plan that assigns clear priorities to the tasks that must be performed, tailored to available resources (Bird & Jantscher, 1992), reforms on procedural fairness for taxpayers to treat them with respect,

honesty and impartiality on matters of tax compliance, addressing complexity (Slemrod, 2003; Picciotto, 2007; McKerchar & Evans, 2009, Fjeldstad & Heggestad, 2012). Other reforms also aimed at improving the poor understanding of the industry (McKerchar & Chris, 2009) and alignment of tax law to tax system (Keynes, 1993; Bird & Zolt, 2003; IMF, 2015). Whilst in some developing countries registered notable improvements, in Mozambique this remains incipient and challenging.

The findings reveal tax officers' rotations, known as "OS" (Service Order) in the TA in Mozambique, being prompted by "unclear criteria", but vested with individual and "unclear management interests". This lacks strategic orientation to enhance value to the objectives of the organisation and human resources career development. Findings have also supported IMF (2015) advoctaes that rotation of taxfofficers to be important for discouraging corruption due to "bad exchange relationships" between tax officers and taxpayers. However, findings have further elucidated that rotations also enhanced the spread of ways and tactics of extortion and corruption, (peer effect) rather than reducing it, across country. This is facilitated by deficient TA capacity to tackle taxofiicers integrity and reduce opportunity to non-compliance.

James, Svetalekth and Wright (2006) and the IMF (2015) support the need for secure and stable teams for strengthening the TA, institutional reforms and improvements. Findings from this study partly support the fact that time is needed to build and train effective tax auditors and officers, and that their rotation needs to align with their existing capacity. This needs to add value in circumventing non-compliance. This finding complements empirical evidence demonstrating with a sample of 130 countries that within five years from 2009, over 60% of these countries had rapid changes in senior managers. In some cases, their positions were left vacant for long periods (James, Svetalekth & Wright, 2007) putting at risk business continuity,

coherence of strategic direction and effective reform management. This presented a major threat to reform and TA effectiveness (IMF, 2015).

Findings show that TA relies heavily on fiscalization, internal and external auditing, and door-to-door invoice campaigning as enforcement strategies for VAT non-compliance. However, these have overlooked the most common way of VAT fraud and evasion, which are inherent to VAT nature and deduction procedure. Although these strategies accounted for taxpayers' compliance behaviour it did, on the premise of economic theory (taking the offender as the unit of analysis) overlooking the influence of social and fiscal psychological factors of tax compliance (such as the context and administration efficacy). This has undermined focused interventions within compliance policy and overarching strategy.

The literature has advanced some compliance strategies and models used by TAs to discourage non-compliance. The internal procedure and control indicated by Keong (2005), building on Le (2003) places greater emphasis on compliance and administrative costs in discouraging VAT non-compliance. These reseachers have explored on the commonest type of domestic VAT evasion for Registered Taxpayers, output VAT collected but not remitted, under-collection of VAT, for input VAT fictitious purchases, disallowed expenses, and purchases attributable to exempt supplies. They also reflected on VAT revenue leakage, risk mapping, fraudulent registration and de-registration, and the need to improve VAT declaration, and to reduce fictitious purchases and non-remission of VAT collected to TA. However, the approach remained limited and simplistic. It failed to address the multifaceted and holistic challenges of VAT non-compliance as it overlooked key actors in the management of VAT non-compliance. Although their elaboration provided a contextual dimension and extension of evasion practice, these failed to provide any suggestion regarding appropriate approaches.

Although the research revealed the need to understand taxpayers' behaviour segmentation and the industry in which the businesses operate, to improve the effectiveness of VAT non-compliance management, similar to compliance model suggested by OECD countries, this was limited due to deficiencies of drivers of VAT non-compliance. The replication of ATO model considering taxpayers' compliance behaviour as the paramount for compliance policy and overarching strategy (Figure 6), in the Mozambican context could be difficult. However, merits to the approach in Figure 6, relies on recognition of operating context, in influencing non-compliance management, the identification of risks, including risk assessment and prioritization.

Findings have revealed the replication of the ATO model (Figure 7) to be inadequate for the TA reality. The strategies to target all taxes makes its replication inappropriate to address VAT related fraud and evasion practices, as it considers the offender (taxpayer) as the unit of analysis. This obscures the contextual and social dynamics embedded in the practice of VAT non-compliance. Additionally, although the approach accounts less for operational context and key players, its merit resides in providing options for taxpayers' segmentation, necessary to improve overarching compliance. However, faithful replication of the approach within Mozambique's operating context could still fail to address VAT non-compliance challenges. Findings also revealed an inverted taxpayers' pyramid, supporting Fjeldstat and Heggestad (2011), contradicting approaches of the taxpayers' pyramid and enforcement strategies suggested in ATO and OECD compliance approaches (2001).

ATO approach focuses more on taxpayers' segmentation and set targeted strategies for each segmented group, according to regulatory strategy and motivational posture. It suggests a combination of motivational approaches of enforcement and regulatory strategies to ensure taxpayers are compliant (Braithwaite, 2001; 2002). The approach, similar to the OECD Compliance

Risk Management approach, identifies and determines strategies to address non-compliance management. However, these are assented on four enforcement strategies, namely, 1) education/record keeping/service whereby self-regulation is used as regulatory strategy; 2) real time business transactions/report review having enforced self-regulation as regulatory strategy and capitulation is observed as motivational posture; 3) audit with or without a penalty where command regulation is used as regulatory strategy and resistance is observed as motivational posture; and 4) prosecution, where command regulation is non-discretionary, characterized by disengagement in motivational posture.

A faithful replication of the South African Revenue Service's (SARS) compliance approach for the Mozambican context, as suggested by Fjeldstad and Heggestad (2012), not only presupposes TA capacity to detect evasion, but demands internal organizational capacity to establish an overarching strategy to address VAT non-compliance. Nevertheless, adopting a more proactive approach, the SARS compliance approach has not only limited its unit of analysis on taxpayers (offenders) but also improved tax administration services and enforcement strategy. This based on three main segmented taxpayers: those who will always comply, the undecided about complying, and those who will not comply (SARS, 2011). Similar to the OECD and AT approach, the SARS compliance approach also cuts across taxes. Therefore, a faithful replication of the SARS compliance approach could also fail to respond to the challenges of VAT non-compliance.

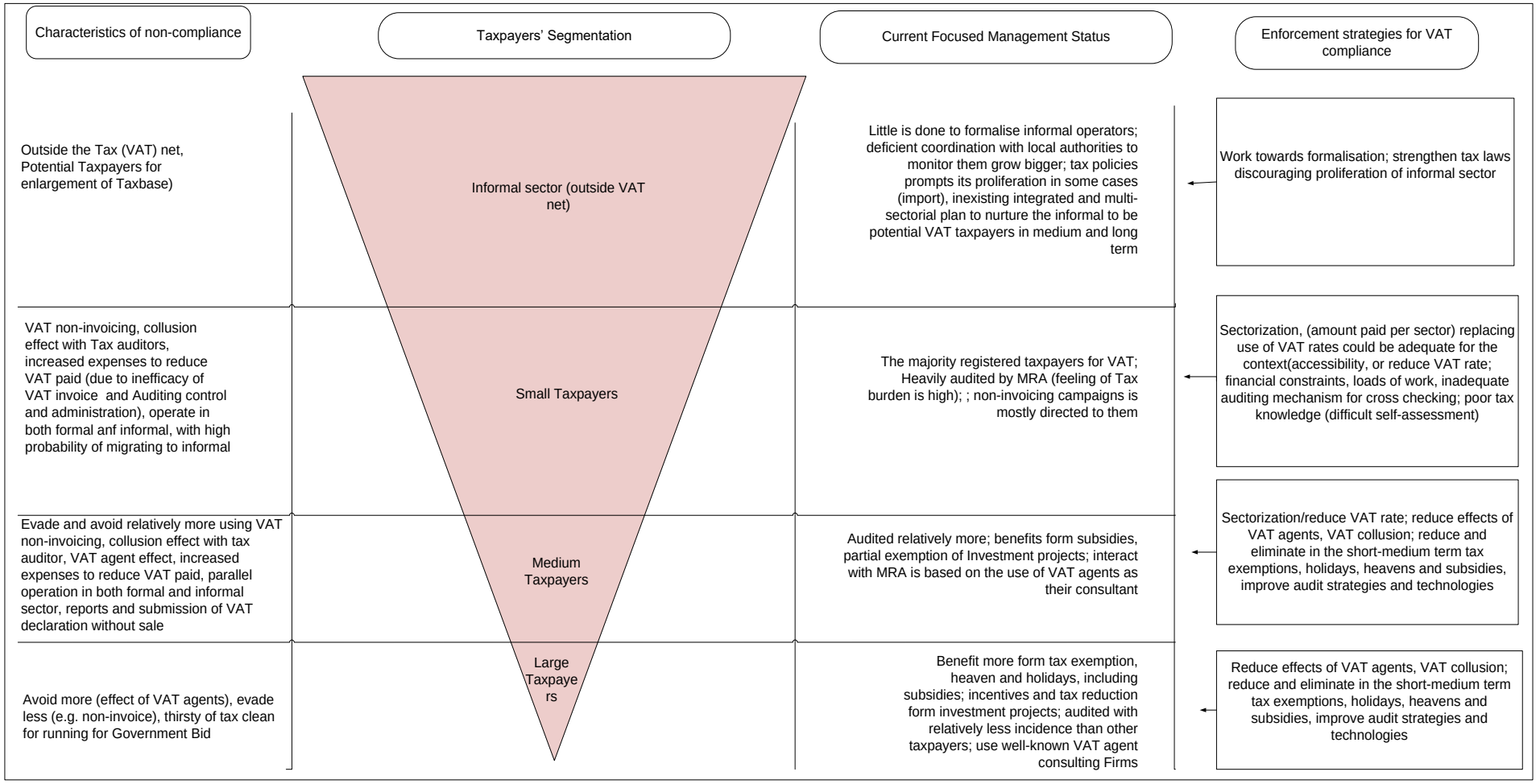
Such generalization, informed by economic theory premises and practices, fails to capture VAT-related non-compliance practices. The approaches suggest reintegrating those avoiding tax obligations and understanding their behaviour and the industry in which they operate. In this context, findings from the study have pointed to the importance of stratifying taxpayers and understanding the tax base for VAT with their respective dimensions in the

market. Moreover, failure to understand operating context, the tax system and the nature, lagistion and dynamics of the industry that taxpayers operate in, have also limited the understanding of motivation, cause, consequence and the common ways of VAT fraud and evasion.

Findings from this study have reaveled an inverted pyramid for the Mozambique context (Figure 34) evidencing the minority complying with tax obligations. These inverted pyramid characterizing Mozambique's taxpayers was also identified by Fjeldstad and Heggestad (2012) and SARS (2011:2), suggesting its adequacy for most developing countries, but with some different traits in terms of contents. However, adopting a similar compliance model to SARS could be challenging for TA, due to prevailing taxpayers' ignorance, inability or intent; ineffective taxpayer education and services; dominance of the informal sector, with weak enforcement mechanisms and implementation; unco-ordinated training and poorly qualified tax officers. Prevailing ineffective penalty administration; inadequate fiscal education, ineffective technology, limited verification of information; and ineffective monitoring strategy could difficult the adoption of the model. Thus, designing strategies with little or no scope of these factors has resulted in a weak and ineffective enforcement strategy.

This study reveals the importance of segmenting not only taxpayers with differentiated motivational attitudes towards tax compliance, aligned to specific enforcement strategy, but it has also brought to light, the need to differentiate between the key actors in the process of VAT non-compliance and enforcement strategy, to enhance compliance. An in-depth understanding of possible enforcement strategies for final consumers and taxpayers could enhance their compliance through an improved TA intervention as depicted in Figure 34 below.

Figure 34: Emerging Taxpayers' Pyramids



Source: Own, 2018

Emerging inverted pyramid in the study, indicate that few taxpayers comply with VAT and the majority do not, unlike those pyramids in compliance models from developed economies. Medium and small taxpayers compose the broader tax base, where the informal sector exerts its dominant influence. This suggests focused strategies to this segmented group in developing countries. It also discourages the adoption and faithful replication of regulatory and enforcement strategies of compliance models drawn from developed economies reality, which could lead to management misorietaion. Therefore, findings brought to light the relevance developing enforcement strategies as per disctinct-segmented group of taxpayers, to discourage non-compliance, as explained below.

6.3.2 Persuading Taxpayers to declare and remit collected VAT and for final/end consumers to demand an Invoice

Findings reveal that government delays in paying for goods and services provided by taxpayers (suppliers) influenced taxpayers' compliance behaviour. However, TA demands payments of VAT on these transanctions, that are not yet paid by GVT. It also revealed the delays of VAT reimbursements by the Government to influence taxpayers' compliance behaviour. These exacerbated the feeling of unfairness of the tax system, unequal treatment (MacKercher & Evans, 2009; Fjeldstad & Heggestat, 2011; 2012; IMF, 2015) in an environment characterized by detrimental cost-benefit associations. Additionally, poor social contract relationships, irresponsible public expenses, poor government accountability, expansion of the informal sector without any effort from the Government to halt or discourage it, the prevalence of a cash economy, and limited inspection and control of the price of goods and services have worsened opportunities to discourage VAT non-compliance. These have all contributed to the weak platform for any enforcement strategy for VAT non-compliance.

Although the establishment of additional tax units, dialogue with taxpayers, and greater publicity were intended to improve taxpayer compliance, reducing their cost of compliance, analysis suggests that, this has had limited impact on the intended objective. The complexity of the tax laws and the self-assessment of VAT deductions have partly contributed to taxpayers' heavy reliance on VAT accountants. This has not

only led to increased compliance cost, but it has also, paved associational networks to non-comply with VAT. Findings have also revealed that, addressing strategies to reduce taxpayers' compliance costs and improve their accessibility to Tax units, are unlikely to be helpful, where there is macro-economic influence, such as budget restrictions to ensure VAT procedures and mechanisms are effective. It also revealed to be unhelpful, if there is poor budget application and failure to pinpoint priorities to improve the implementation of the VAT system.

On the other hand, the eligibility to make bids for government contracts also promotes taxpayers' compliance. The willing for profit maximization revealed to be stronger than the effects of institutions in shaping compliance decisions. Instead, taxpayers complied with VAT, as a cost to be eligible for government bids, which are of much higher value than the VAT they paid over a year. This brings to light another level or category of cost benefit-association. Similarly, economic profit maximization revealed to subplant incentive schemes to comply, such as, lottery, diplomas and prizes, as taxpayers' enforcement strategies for VAT compliance.

The prevalence of forged invoices due to an inadequate computerized integrated system for VAT, weak control of imports from ports and borders, favouring the informal sector, ineffective VAT invoice administration, poor product price and expenses control and inspections and poor control of wholesalers and distributors of goods and services, characterizes inefficacies of VAT invoice and administration. These have discouraged taxpayers from declaring collected VAT and remitting it to the TA. Thus, revealing the importance of strengthening the role of the taxpayer in collaboration to improve VAT compliance.

Whilst VAT invoice administration inefficacy has paved way for increased VAT fraud, evasion and avoidance, it has also revealed the importance of partnership in fostering and discouraging VAT compliance. Studies have proved the benefit of collaboration amongst key actors in tax compliance, which by far outweighed the costs involved (McKerchar & Evans, 2009). Support for this approach has come from studies indicating the failure of TAs acting in isolation and not in comformity with community standards (IMF, 2015), irrespective of the centrality of contextual aspect in VAT non-compliance. The demand for improved partnership increases, as taxpayers act as

“unpaid tax collectors” (PWC, 2013), whilst receiving VAT paid by end/final consumers to remit to TA (Fjeldstad & Semboja, 2001; OECD, 2004; Anyaduba, Eragbhe & Kennedy, 2012; Fjeldstad & Heggestad, 2011).

Further to the collusion effect described by Mittone (2001; 2006) whereby taxpayers (business man) offer /accept collusion to or from final consumers, findings have revealed the doubling of VAT rate, on the sold goods and services, as prices already includes VAT. In this case, taxpayers want to sell more due to “competitive price” in the market and the end consumer wants to pay less for the product/service (without paying VAT). Taxpayers are commonly the ones “offering collusion” and end-consumers “accept the offer” so as to compensate for the perceived high VAT rate. The phrase, “with or without VAT” has revealed poor tax knowledge, ineffective product price inspection and limited fiscal education. The lack of collaborative partnerships across sectors including the Ministry of Commerce and Industry on price inspection inhibited enforcement strategy to discourage VAT non-compliance. In this case, fiscalization on VAT invoicing in the year 2016, increased. Tax officers moved to business establishments to check if these were issuing VAT invoices. This was not only costly but also required extensive labour. Adding to the ineffective price inspection or similar regulation, TA attempts to discourage end-consumers and taxpayers to non-comply with VAT, have failed to discourage the frequent use of the phrase “with or without VAT” in order to avoid compliance. This was also enhaced by ineffective and unsustainable door-to-door VAT invoicing campaign, the prevailing untargeted fiscal education, on T-shirts, conveying messages such as “I am fiscal…. stop non-compliance”.

Although strategy, through sensibilization enhanced taxpayers’ awareness to the need to pay taxes, end consumers remained resistant to comply with VAT payment (demanding VAT invoice after purchasing goods and services), due to the prevalence of a higher tax rate of 17% for VAT. They consider being too high to financially support VAT payment in each transaction they make. Moreover, the fact that VAT invoices have no importance to them further promoted disincentives to request them. This contributed to the “acceptance of collusion effect” between taxpayers (business people) and end consumers. However, the phrase “You want to pay with or without VAT” discloses taxpayers’ tactics to charge 34% of VAT to end consumers, in cases

where these request an invoice after transaction. In addition, ineffective VAT invoice administration and a high tax burden increase end consumers' perceptions that taxpayers do not remit collected VAT to TA. This occurs due to reduction of trust final consumers have towards TA inefficacies. Thus, end consumers tend not to comply too.

"Complicity Partnership" develops between taxpayers and VAT agents. In this context, multi-partnerships aim to enhance VAT non-compliance. An enforcement strategy that overlooks partnerships in addressing non-compliance will not be as effective. VAT agents use their tax knowledge to explore VAT legislation. In this case, VAT agents attract dishonest taxpayers and obtain monthly income from them, in exchange of enabling taxpayers to declare and remit less VAT collected. This contributes to the prevalence of VAT non-compliance. Although strengthening partnerships proved to be crucial in enforcing strategies, the study also indicates the importance of key actors' interests in a shared approach to strengthen the management of VAT non-compliance.

One mechanism that remains as proposal in TA, since 2012 to address these challenges was the lottery that intended to encourage end users to request VAT invoices. However, findings revealed this strategy to be misleading. Instead, taxpayers and final consumers found that non-complying VAT was more profitable than their scarce probability of winning a lottery. In this case, final consumers indicate that, incentives tied to their expenses, such as, deduction in their personal income tax, or providing a discount in school fees or any other public expenses (health, electricity or water), could be more effective on their compliance decision. This revealed not only the importance of certainty and achievability in enforcement strategy, but also the multidisciplinary approach in enforcement strategy. Above all, these cost-benefit associations in VAT invoice administration have shaped and informed the ineffective enforcement strategy for VAT non-compliance. However, understanding the common VAT fraud and evasion revealed to be crucial to reduce opportunity for VAT non-compliance.

6.3.3 Common VAT Fraud and Evasion

Taxpayers frequently use the creation of companies to avoid or evade VAT during the registration period. Poorly integrated systems, weak administration capacity, weak audit strategy and weak implementation of encforcement mechanism, have widened up opportunity for non-compliance. For example, the main company sub-contracts the small-created companies to reduce VAT amounts to be paid. This is done through, “increased costs” paid for goods and services rendered by smaller companies to the main company. In this case, taxpayers use these companies (in the group) to siphon off money from the main company through bribes, and this is common to medium and large and “group” companies.

While TA capacity to address these challenges is limited, the introduction of tax exemption and subsidies has contributed to a perception of unequal treatment. This has also been found in studies by Terkper (2003); Joshi & Ayee, (2008); Fjeldstad & Heggestad, 2012). Limited tax auditing capacity in a context where there are many challenges has contributed to tax fraud. For example, in construction sector, 40% attributed to the company that won the Public bid. However, subcontracted companies, also tax their sales on 60% instead of 100%, during the Monthly Deduction Period. In this case, subsidies not only increase complexity of VAT law, tax auditors’ workloads but also demands increased tax knowledge. It acts as means to enhance non-compliance in cascade.

Findings reveal substantial numbers of taxpayers who declare VAT forms with no sale and with successive credits. This appears to be common for diverse taxpayers and in diversified commercial sectors. However, there is limited TA intervention to address this dilemma. This prompts heavy concentration on the few that already pay VAT, worsening the feeling of taxburden and unfairness of tax system.

With regard to the most common tax fraud and evasion methods, Le (2003) and Keong (2005) describe the type and time of evasion (transaction, registration or deducting periods). These support findings from this study, where specific contexts give rise to non-compliance. Oldman and Woods (1983) cited in Agha and Houton (1996) provide an extensive list of common methods of evading VAT. For example, understating of

sales, inflating claims for VAT paid on inputs, falsifying tax invoices, claiming credit for tax paid on inputs used in producing goods that are exempt from VAT, not remitting colleted VAT to the treasury, non-registration for VAT, and diverting zero-rated exports to the domestic market, are forms of evading VAT.

Recognizing the use of these methods in the studied site, contextual forces have shaped and determined the most frequent, less cost and difficult way of evading VAT with little risk of detection. These have mostly rooted from inefficacies of the system influenced by factors from the micro and macro-environment and inefficacies of VAT invoice administration and control. Therefore, the phrase “You want to pay with or without VAT” revealed to be the most frequent way of evading VAT, commonly used during Transaction Period – B2C transaction. These were mostly inherent to small and medium taxpayers and revealed to be embedded in multiple schools of thought. However, Ineffective VAT invoice control, characterized by a more generalized non-invoicing of VAT, frequent use of forged invoice and prevailing “offer of collusion effect, inexistent control of prices fixed on goods on sale have, motivated taxpayers’ cheating attitude during B2C transaction.

Although the Mozambican tax system conforms with modern tax systems, its complexity revealed by far to conform to community standards. However, the problem is not the Tax system per se. Nevertheless, how factors or events, within it, influences the effectiveness of the tax system. The interplay of macro and microenvironment factors in the system influence TA capacity not only to raise revenue, but in particular to address the practice of non-compliance. The prevailing poor tax compliance environment is influenced by the dominance of a largely cash economy, expansion of the informal sector (promoting imperfect competition), and weak institutional values that exacerbate the perceived unfairness of the tax system. However, the influence of structural forces and cultural dynamics of TA as an organization, organizational structures, and organizational models inherited from other contextual realties, have failed to strengthen TA capacity to engage with the tax system and enhance compliance.

While the tax system is organised and presented per tax type, the Matrix model of TA suggests the management of all taxes in one tax unit. Generalizations of data of all

taxes and respective administration have overlooked the specific tax characteristics, particularly those embedded in a complex and heterogeneous environment like VAT. Political will (energy and commitment) and donor interests influenced Tax systems. These conditioned reforms and assistance in specific strategic area of priority of their interests. However, although the tax system on its own could not fully account for these non-compliance practices, the way it is developed, reformed and implemented has contributed to the increasing opportunities for VAT non-compliance. Therefore, understanding emerging design elements shaping VAT compliance environment could provide opportunities to develop more appropriate and effective strategies for VAT compliance.

Therefore, Enforcement strategies, Drivers of Change, Partnership and Challenges constraining VAT non-compliance management have been generally charecterized by (i) poor alignment of strategies to the system; (ii) enforcement strategies not aligned to tax (VAT) nature, type, structure, procedure and mechanism to account for non-compliance practicability; (iii) lack of sanctions and auditing income tax to address indirect tax issues. There is a failure to target the cause where TA deals with the consequences instead; (iv) Replication of different compliance approaches that are not suited to the Mozambican context have not addressed the specific challenges related to non-compliance and revealing emerging themes.

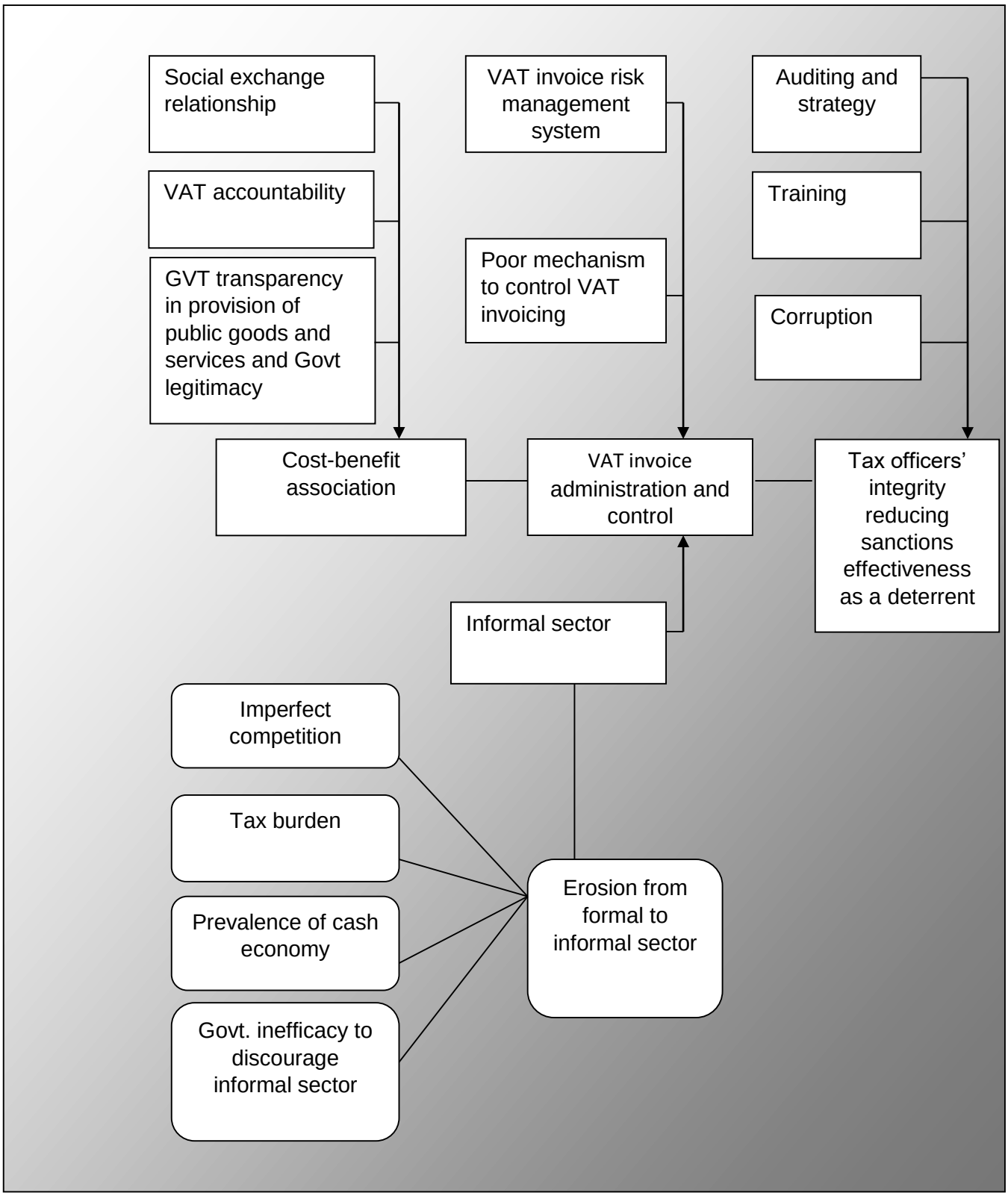
6.4 EMERGING THEMES AND STRATEGY SHAPING VAT NON-COMPLIANCE MANAGEMENT

6.4.1 Introduction

This section reflected on consolidated data from Chapter 5, Section 5.2., and Section 5.4. This enabled researcher to understand the dynamics of designated integrated elements shaping VAT non-compliance management. Further consolidation of emerging themes in Figure 14, in chapter 5; have resulted in three major themes, namely, cost-benefit association, VAT invoice administration and control, and Tax officers' integrity. These reveal to determine the effectiveness of sanctions as a deterrent factor for VAT non-compliance. Both cost-benefit association, andVAT invoice administration and control are revealed to be influential and interwoven to

influence compliance. In order to answer RQ1 of the study, “How do institutions and the integration of VAT compliance factors affect the success of a VAT non-compliance approach?” the study adopted a strategic platform that was VAT compliance factor-focused, within the dynamics of key actors’ interactions to address VAT non-compliance specifics.

Figure 35: Emerging design elements (themes) shaping VAT non-compliance management



Source: Own, 2018

6.4.2 The Dynamics of Cost-Benefit Association in influencing VAT non-compliance management

Irrespective of lack of historical evidence on the influence of taxation in state building, literature on tax and development reveals link between tax and expenditure. It also indicates that the way Gvt spend tax revenues and the extent to which taxation mobilises citizens' political engagement, (Alm et al., 1992; Andreoni et al., 1998; Fjeldstad & Heggestad, 2012) influences compliance. However, whilst the link between tax payment and public expenditure is stronger, in developed economies, it is weak in most developing countries (Fjeldstad & Heggestad, 2012). Citizens believe that they receive little in return for taxes paid (Surrey, 1973; Fjeldstad & Schuilz-Herzenburg, 2011) and the enlargement of tax base is still challenging (Fjeldstad & Heggestad, 2012).

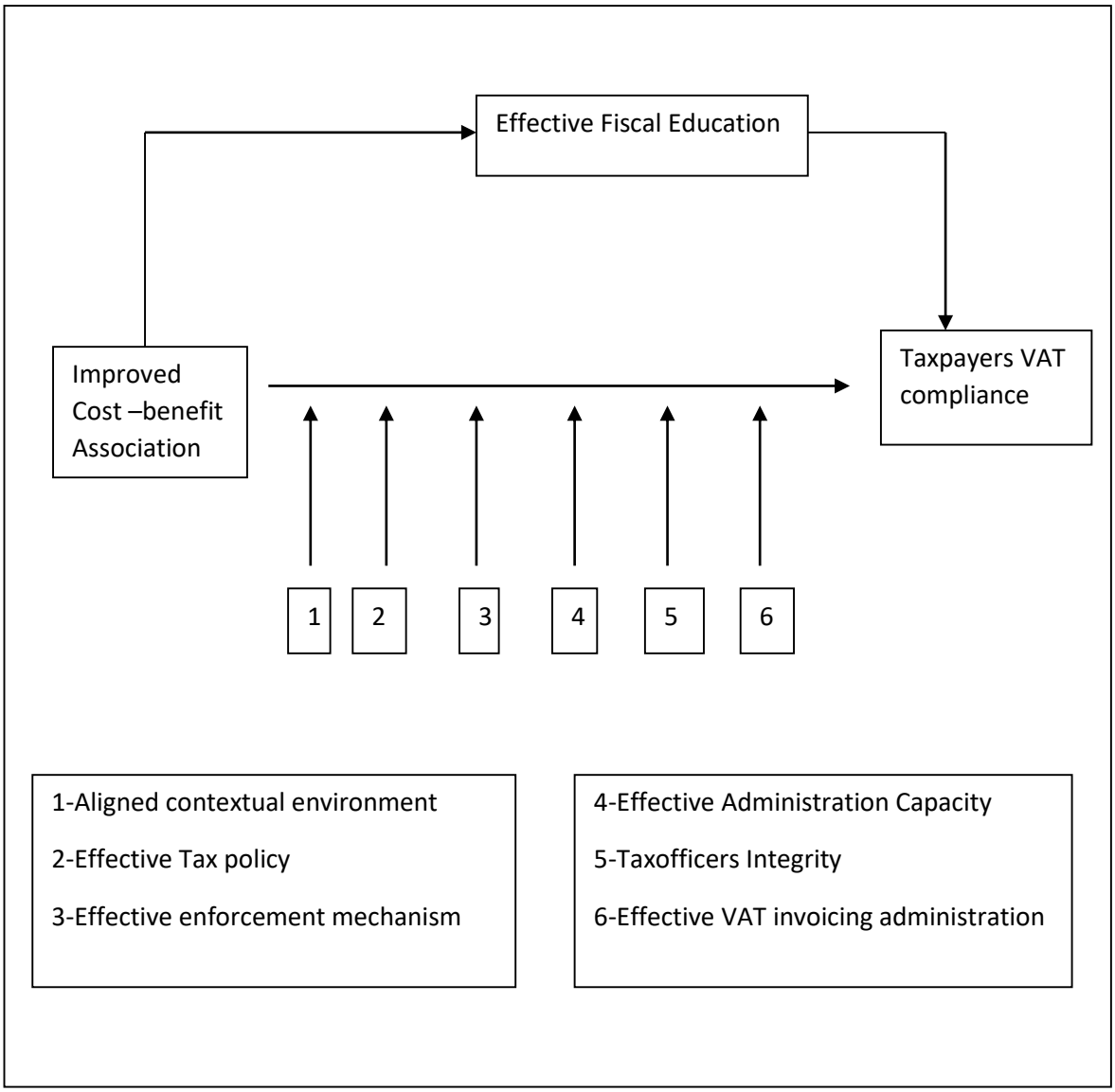
Findings indicate deficient cost-benefit association as an important factor influencing VAT non-compliance management in all participant groups. The limited quantity and quality of public goods and services, perceptions of social injustice and the poor social exchange relationship between taxpayers and government contribute to a reluctance to honour tax obligations. More to the mere quantity and quality of provision of goods and services, priorities given to these, were pointed to be not for the benefit of the majority or simply irresponsible, and to the benefit of the few privileged. The deficient cost-benefit association limits the ffectiveness of fiscal education in enhancing VAT compliance. Data have also revealed that the Government accountability, communication or dialogue with taxpayers and transparency on public matters, influences the effectiveness of fiscal education.

TA strategy of monthly announcing over-collection of taxes, including VAT, through the media, revealed counter-productive in improving fiscal education. Taxpayers prefer to hear how Government spends VAT, rather than how well these are being collected, since taxes are intended for public

benefit. The use of TA strategy, in an environment where public goods and services are lacking, contributes to public dissatisfaction with the TA administration, and consequently non-compliant environment.

On the light of this backdrop, and due to social injustice reflected in deficient social exchange relationship, taxpayers decided to non-comply with VAT. Data have also revealed that, improved cost-benefit association between Government and taxpayers could not fully account for the reduction of opportunity to non-comply with VAT. Fragile contextual environment, administration incapacity, ineffective enforcement mechanism complemented by detrimental tax offices integrity, posture and attitude, ineffective VAT invoice administration, played crucial role in enhancing opportunity to non-complying with VAT.

Figure 36: Cost-benefit Association influencing VAT non-compliance



Source: Own, 2018

This indicates the importance of developing simplified strategies to enforce or enhance compliance. if lower inefficiencies prevail, taxpayers tended to comply, as these perceive lower opportunities to non-comply and higher probability of being detected. However, even in the presence of taxpayers' recognition of the cost-benefit association, if higher inefficiencies prevail, taxpayers tended to non-comply, as these perceive wider opportunities to do so. This reduces the costs of implementing fiscal education, auditing and sanctions.

This reveals that there is little fear of sanctions. Therefore, the system itself needs to improve the social contract relationship in particular for small and medium taxpayers identified in the study as the most serious tax evaders.

The lack of accountability on how collected taxes are spent, poor Government communication, lack of Government transparency, and ineffective and non-permanent platform have influenced the effectiveness of factors 1, 2, 3, 4, 5 and 6 as depicted in Figure 36. This enhanced public perception of the cost-benefit association and determined success in addressing VAT non-compliance.

An effective cost-benefit association, supported by good Government accountability, will be a more effective strategy of fiscal education. Fiscal education either improved by better cost-benefit association from the macro-environmental level, or by more targeted fiscal education. Overlooking the importance of accountability between government and taxpayers is a common oversight in many developing countries (Fjeldstad & Heggestad, 2012). This undermines the strengthening of a democratic process through the promotion of effective tax systems (Fjeldstad & Moore, 2008; Fjeldstad & Heggestad, 2012). The critical importance of a fair tax system to promote development is supported by Budllender, Casale and Valodia (2010) and Grown and Valodia (2010).

The findings have also shown that, in the absence of an effective cost-benefit association, fiscal education efforts are unlikely to succeed, as taxpayers are more concerned with social exchange relationship / social contract. Although studies have revealed effective fiscal education to prompt taxpayers' compliance behaviour (SARS, 2011; SARS, 2012; Fjeldstad & Heggestad, 2012), these findings proved to be limited and simplistic. This echoes findings by Cummings (2001) which notes with respect to "tax morale" that citizens and the State appear to develop their fiscal relationship according to a psychological tax contract. The contract

establishes fiscal exchange between taxpayers and tax authorities, enhancing relationships and loyalties between “contract partners”. This presupposed compliance models that include (i) people’s sense of moral obligation to pay tax; (ii) people’s perception of the fairness of the tax system; and (iii) the way they believe Government spends tax money on public goods that will benefit taxpayers (Andreoni et al, 1998; Frey & Feld, 2002; Fjeldstad, 2012). However, this study, revealed cost benefit association, including quantity of goods and services provided quality, quantity and priority of provision of goods to the majority in the society to undermine fiscal education as compliance factor.

An automatic cost-benefit association is associated with mental accounting, through targeted fiscal education and redistribution of collected VAT money (Prelec & Lowestein, 1998; Thaler, 2000; Klamleitner & Holzl, 2009; SARS, 2011; SARS, 2012). Drawn from the socio-psychological tax compliance construct, mental accounting is defined as the way business people think about VAT money they collect (Thaler, 2000; Adams & Webley, 2001; McCaffery & Slemrod, 2006). Irrespective of the occupational group an individual belongs to or the norms of the group (Webley & Ashby, 2010), such a feeling of ownership of the VAT money collected was found to be associated with the way taxpayers understand or perceive (form and frame) VAT money collected (McCaffery & Slemrod, 2006). However, contrary to the findings of Adams and Webley (2001), business owners (taxpayers) to whom it had been made clear that VAT money is only collected and never possessed, were found in this study to be less associated with the frame of “loss” or “ownership” of VAT money collected.

Irrespective of the relevance of mental accounting in VAT non-compliance literature, its limited interpretation in relation to the the effects of framing and form of their mental separation of VAT monies, have failed to fully account for the inefficacies VAT non-compliance management. Instead, Findings reveal that taxpayers have high expectations around cost-benefit

association, as the latter, largely determines the choices that people make around VAT compliance (De Bruyn, Mclntyre, Mthethwa, Naidoo, Ntega, Pillay & Pintusewitz, 1998). The degree of perceived opportunity for avoiding detection due to the inefficiencies of VAT invoicing also determines the remission of collected VAT to the TA.

6.4.3 The dynamics of VAT invoice administration in influencing VAT non-compliance management

Both cost-benefit association and the way VAT invoicing is administered influence the management VAT non-compliance. This factor deriving from the microenvironment of the fiscal psychological theory of tax compliance is influential, even in cases where cost-benefit association prevails. In this case, and similar to factors 1 to 6 in Figure 35, VAT invoicing determines the efficacy of VAT non-compliance management. The fact behind this is assented on VAT nature and destination principle of VAT. This implies complex and multi-stage VAT deductions involving various key actors in the process. Irrespective of the various forms and ways of avoiding and evading VAT (Le, 2003; Keong, 2005), VAT invoicing administration, characterized by the absence of a VAT invoice risk management platform and technology, has encouraged VAT non-compliance. This is explained by strategic interventions that failed to address inefficiencies of the operating environment and enforcement mechanisms.

Findings reveal four main categories determining the VAT invoicing administration efficacy to promote VAT compliance in Mozambique:

1) The absence of VAT invoice risk management which inhibited detection of VAT invoice related fraud and evasion, characterized by ineffective control of VAT invoicing;
2) Poor authenticity of VAT invoices;
3) Weak control of VIA, in spite of its importance in VAT invoicing administration;

4) Limited collaboration and co-ordination of key players in VAT invoicing administration, which contributes to VAT invoice fraud and lack of oversight. VAT invoice agents contribute to VAT non-invoicing due to poor management and elements of corruption. The environment is thus, prone to a lack of proper VAT invoicing, related fraud and tax evasion.

The absence of adequate technology to provide authenticity of VAT invoice, control VAT invoicing and its sequential numbering, access business-to-business and business-to taxpayers' transactions, have failed to facilitate and consolidate the VAT invoicing platform to discourage non-compliance. Taxpayers' awareness of VAT invoice administration inefficacies and consequent higher probability of failure to detect VAT invoice related fraud and evasion, have further undermined TA capacity, to co-ordinate and control the VAT invoice administration system.

Efforts to improve technology to manage VAT non-compliance have resumed in adoption of e-taxation and fiscal machines. However, these softwares' attributes and capacity are far from discouraging and circumventing opportunities to non-comply. For example, for fiscal machine, TA downloads information from a device allocated by TA to business taxpayers. However, the information is only for registered transaction. The monitoring of invoiced VAT in taxpayers' transactions, done by the TA, is limited if taxpayers move to another business site, without communicating. Morever, the effects of cash economy, worsens control of real time transaction to manage all invoiced transactions. There is a suggestion to install video cameras in all businesses with Fiscal machines. However, this is not sustainable for Mozambique context. The implementation of proposals to address VAT avoidance, presupposes improved and adequate technology, control systems and human commitment in the processes. Thus, failure of integrate VAT invoices control, have contributed to perpetuate VAT invoice related fraud and evasion.

While an integrated system to control VAT invoicing could increase the probability of detecting, VAT invoicing related fraud and evasion, if inefficacies of other micro and macro-environment factors remained, taxpayers could still not comply. The poor enforcement mechanism and its application have been counter-productive in discouraging VAT non-compliance. However, the matter here is not only technology, but also, how the TA has owned VAT invoice administration. Thus, either with manual or technological integrated system, effective co-ordination amongst key actors in the process of VAT invoice administration reveals important factor. This contributes to the integration of the control system, particularly, in an environment dominated by the informal sector and a cash economy.

In spite of these factors from the microenvironment and fiscal theory on tax compliance, the informal sector has influenced non-invoicing of VAT in a multi- and intra-dimensional way. Taxpayers notice “imperfect competition” between those in the formal and informal sectors within the same environment/area. In this case, Government demands more audits from the formal sector while remaining “passive” to the growing of informal sector, exempted from tax. This imperfect competition derives from the peer group of influence as both operate in the same environment/area, competing for the same end consumers. Consequently, this contributes to the feeling of unequal treatment. Examples of this are tax policy and commercial laws, allowing individuals to import large quantities of goods through ports, air or road (borders), whilst these have no commercial licence and are not registered taxpayers. These are the ones feeding the informal market. This has contributed to the feeling of tax injustice and tax burden, and enhanced further reduction of the small tax base in Mozambique.

In this case, understanding the role played by key actors in the process has revealed strategic insights to build co-ordinating platform and partnerships. This has enabled the disclosure of strategic areas of intervention to

strengthen each key actor's role and depict factors obtruding the effectiveness of VAT invoice administration. Literature reveals that partnerships are necessary in influencing compliance. Consolidating partnership between TAs and taxpayers are revealed to be important to build trust and confidence in the management framework. Findings also highlighted the issue of system functioning, whereby; each actor performs a specific role in order to achieve a common objective.

The literature suggests a paucity of research on VAT invoicing influencing compliance. Existing work on this field, focused on VAT invoicing and its relation to demands on VAT return (PWC, 2010). This gives more emphasis on the time of compliance, overlooking its influence on administrative procedures and VAT compliance. The impact of VAT invoicing influencing compliance is seen as being unquestioned in both production and consumption VAT. In this case, although Chinese VAT, for example, has some different aspects when compared with classical European VAT, it is firstly, not a true broad-based tax, as it applies to only tangible goods and a limited range of services; and secondly, it is production based rather than consumption based. However, the way it controls VAT invoices is worth consideration in this study, as it is the control and administrative procedure for VAT invoicing that matters, no matter the type of VAT.

Studies in China shows evidence of the importance of VAT invoicing, its administration, authenticity and control (PWC, 2010) as being important for VAT non-compliance. Inconsistency of information on VAT invoicing on purchases within the TA system and those claimed on VAT returns have worsened the administration of the VAT invoicing administration system (PWC, 2010:11). This has emphasised the importance of technological strategies to address VAT invoicing related fraud and evasion. This echoes finding by Winn and Zang (2010) positing an estimated loss of 55% of VAT revenue, which was most notably due to, the lack of control of VAT invoices complemented by deficiencies in Tax administration. This finding was

supported by Liu (2007) who explained that extensive tax fraud was not only due to lack of tax administration efficiency and accuracy in monitoring tax payments, but mostly due to the prevalence of forged or fake VAT invoices.

Irrespective of the differentiation in VAT type and nature, the common means of evading VAT does not differ much from other countries' experiences. Liu (2007) notes that forged VAT invoices for fictitious transactions, illegal selling of purchasing invoices, and failure to report VAT by not issuing invoices to purchasers, together with a lack of integrated processing systems amongst different regions contribute to common ways of VAT fraud and evasion. This is confirmed by Lee (2003) and Keen (2005), suggesting that there should be more attention given to VAT nature, administrative procedure, transaction phase and VAT declaration period control, based on VAT invoicing, which is not being done by the TA as revealed in the study findings. Moreover, ownership of the VAT invoicing system as explained in the study means that invoices should be printed exclusively by an authorized agency, in accordance with a designated format set down by SAT, and where the control of these invoices is the responsibility of SAT. The taxpayers then have to purchase invoices from their local tax bureau (Yin, 2009). While large-scale taxpayers can buy invoices for their use, small-scale taxpayers cannot do so but have to request the government to issue invoices on their behalf (Yin, 2009).

Irrespective of this control system, practical problems emerged and remained unresolved. There are blockages within the system and it remains difficult to verify authenticity, despite exclusive print by an authorized agency. The lack of an integrated processing system makes it difficult to detect forged and fraudulent invoices; use of forged VAT invoices for fictitious transactions; illegal sale of purchase of invoices; and failure to report VAT by not issuing invoices to purchasers. This indicates that the system remains inefficient in discouraging VAT non-compliance. Therefore, segmenting control administration to VAT invoicing, according to the

transaction phase, could improve the effectiveness of VAT invoicing administration, but this requires some investment in technology. Cardonza (2012) and the IMF (2015) have found that TAs in most developed countries have used Electronic Fiscal Devices (EFDs) to improve compliance of Business to Consumer (B2C) transactions and to monitor taxable B2C and Business to Business (B2B) transactions. However, whilst in some cases the studies have concluded EFDs to be effective only in cases where there is comprehensive compliance strategy (Casey & Castro, 2015), in other cases, EFDs brought benefits 2.5 times the cost, and these did not include the cost of compliance to taxpayers, which is also considerable (Ikasu, 2014). Therefore, as key players' interactions revealed to determine VAT non-compliance, analysis as to how these have influenced compliance is presented below.

6.4.4 The dynamics of VAT invoicing administration and key players' interactions in discouraging VAT non-compliance

Although various key actors have proved relevant in VAT invoice administration, playing complementing roles to reduce invoice related fraud and evasion, data reveals their roles to have different dimensions and categories according to their effect in different stages of VAT payment. The fact that some key actors played multiple roles in the management of VAT non-compliance, urged reflections on how partnerships could be strengthened among stakeholders.

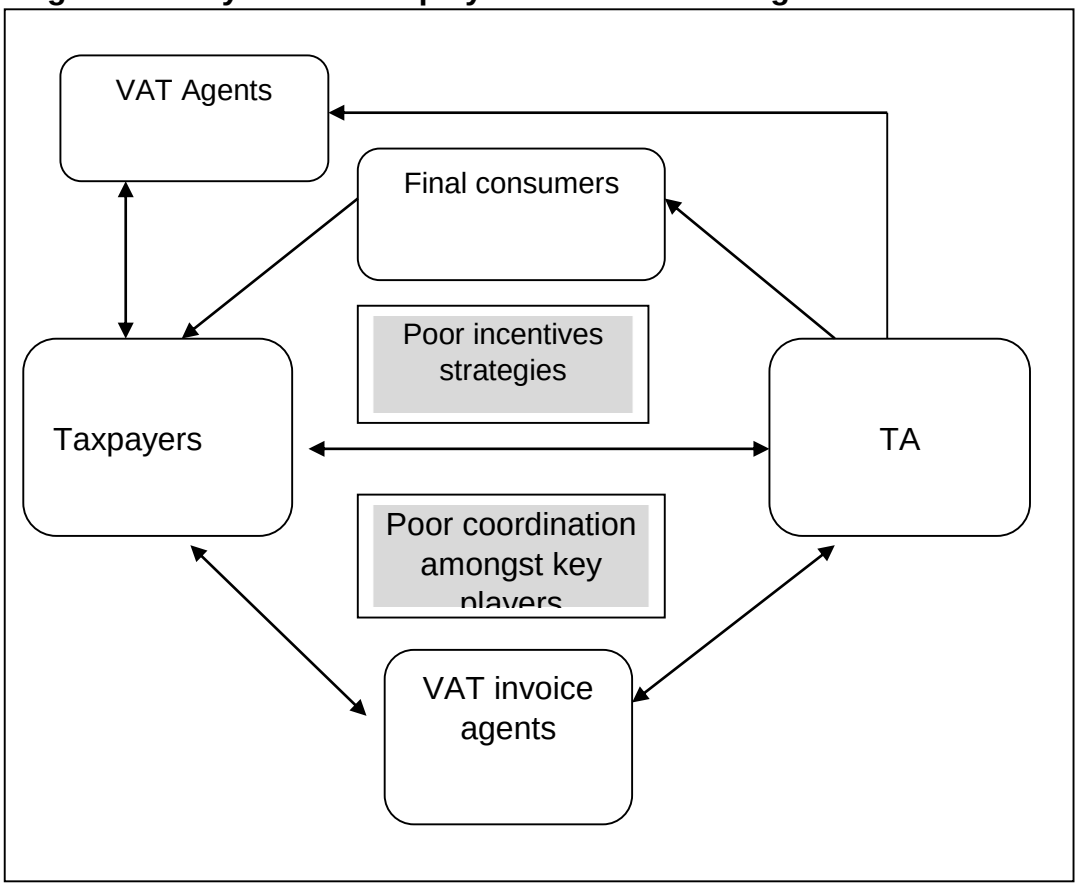
Findings revealed that TA needs to consolidate the platform from which co-ordination and partnership could be built, through the use of fiscal psychological factors. Inefficacies of VAT invoice administration, characterized by poor authenticity of VAT invoices and lack of monitoring influenced negatively on improved co-ordination. Findings have also revealed that an in-depth understanding of key actors' roles in the process was crucial to buid a systematic and long-lasting partnership to discourage VAT invoicing related fraud and evasion. Poor control of these key actors'

roles, and limited understanding of their intervention in the process, enhanced an environment prone to VAT invoicing related fraud and evasion.

Although VAT invoice Agents were the most relevant and elementary key actors in the process, these have not been the sole players in the process. Their interaction and co-ordination in VAT invoicing administration has strongly influenced the effectiveness of administration in their operating context. The VAT invoicing platform control within an environment characterized by increased proliferation of the informal sector, dominance of a cash economy, and limited control over VIA and their production was not informed by the tax system and context (micro-and macro-environment). These challenges are worsened by lack of integrated technology to manage sequenced VAT invoices and their use. Poor communication between VAT invoice agents and the TA undermined possibilities of improving co-ordination and partnership. Lack of control of VAT invoice administration, VIA and their VAT invoice production have opened loopholes for continued VAT invoicing fraud and evasion.

In spite of the liberalization of VIA authorization, allowing various VIA to produce VAT invoices, TA have failed to discourage Vat invoice fraud and evasion, mostly due to lack of an effective control system. VIA produced VAT invoices for any taxpayers without restrictions to the number and type of taxpayers, or fiscal jurisdiction. This neither facilitated control of VIA whose licence number is attributed by the Ministry of Finance. Additionally, the difficulty to distinguish the authentic invoices from the forged invoices, enhanced opportunities for forging and duplicating VAT invoices.

Figure 37: Key actors and players in VAT invoicing administration



Notwithstanding the role of VAT Invoice Agents (VIA) in producing VAT invoices on behalf of the TA, which in some studies has been compared to written cheques and is seen as the only means by which VAT is deducted, evidence has shown little control of this group (VIA) by the TA. Findings suggest that taxpayers and end consumers would not invoice or demand for an invoice, if they perceived VAT invoices were not credible or authentic. VIA prefer to avoid VAT invoicing unless incentives are provided. Improved partnerships failed to reduce opportunities for VAT invoice related fraud and evasion. However, opportunities to non-comply could reduce in cases where improved taxpayers' perception of VAT invoice administration control prevails. Poor control of this key group as well as limited communication reduced the effectiveness in the administration and the control of VAT invoice agents.

The findings also show that there are compliant and non-compliant VAT Invoice Agents (VIA). Similar to other key actors, cost-benefit association influences compliance attitude of VIA on the production of VAT invoices, through possible incentives given by the Government. Examples of these are the reduction on tax to import paper, toner and machines. This not only strengthens their compliance and but also discourages production of forged and ficticious invoices. It may consolidate partnerships and co-ordination among key actors in the process. This could be observed in cases where ineffective VAT invoice administration was perceived. Production of fake invoices by VIA, to be used as "*bonecos*" for "parallel invoicing" (*facturação paralela)* was generalized. Peer group of influence and the prevalence of maximization profit from the economic school of thought are also associated to the motives of non-compliant attitude. On the other hand, for compliant VIA, profit maximization did not exert any influence. These were not easily affected by peer group influence. However, with time, as their perception of a non-compliant environment and poor enforcement mechanism and implementation increased, their compliance deteriorated.

Some form of collusion may occur between VIA and taxpayers. VIA were confronted with two options: to either act responsibly with their attributions and competencies in issuing invoices and supplying to taxpayers or accepting the" offer for collusion" in producing and supplying false invoices to whoever order from them. In the first case, VIA opted to reject the view of collusion but have criticized the inefficacy of VAT invoicing and control and lack of incentives. Acceptance of collusion in the second option was prompted by poor VAT invoice administration and weak enforcement mechanisms. These have to some extent compelled them to engage in other businesses (other than printing invoices only). However, non-compliant VIA, attempted to maximize their profits by producing forged invoices to taxpayers, selling their authorization to others willing to produce their own VAT invoices, and using false licences. Moreover, the majority are not only licensed to produce VAT invoice, but also other products. Examples

of these are, pamphlets, T-shirts, and other goods, in attempt to improve their business productivity. This enabled to improve business profit/reduce deficit, as according to them, VAT invoice production was not profitable enough. VIA producing forged invoices could gain more profit from such activity than those producing authentic VAT invoices. This illegal form of maximizing profits enhanced the effects of peer group influence too.

As the law does not provide any limitation to the no. of production of invoice, over the authorized VIA, taxpayers that, produced forged VAT have used their authorization or other VIA lecense no. of authorization to produce invoices. These operated in the same market with compliant and honest VIA, enhancing imperfect competition. However, this way of gaining profit proved to be short-lived and detrimental to business and to the consolidation of partnership. Taxpayers did not order VAT invoices from VIA, as they could be easily produced elsewhere by someone who is not VIA. The non-functional strategy and ineffective policy for VAT invoice administration, and poor VIA business integrity contributed to VAT invoice related fraud and evasion. Although there are laws for VIA and invoices, these are not well known even by the majority of Tax officers, who are the implementers in this case. Thus, the laws are rarely being implemented. FtFi data supports this assertion, whereby VIA is inspected only before opening the business. Tax officers recognise the importance of monitoring VIA and VAT invoices, due to the burden of work it incurs and the difficulty of distinguishing a false from an authentic VAT invoice. This has further worsened VAT invoice and VAT Invoice Agents administration.

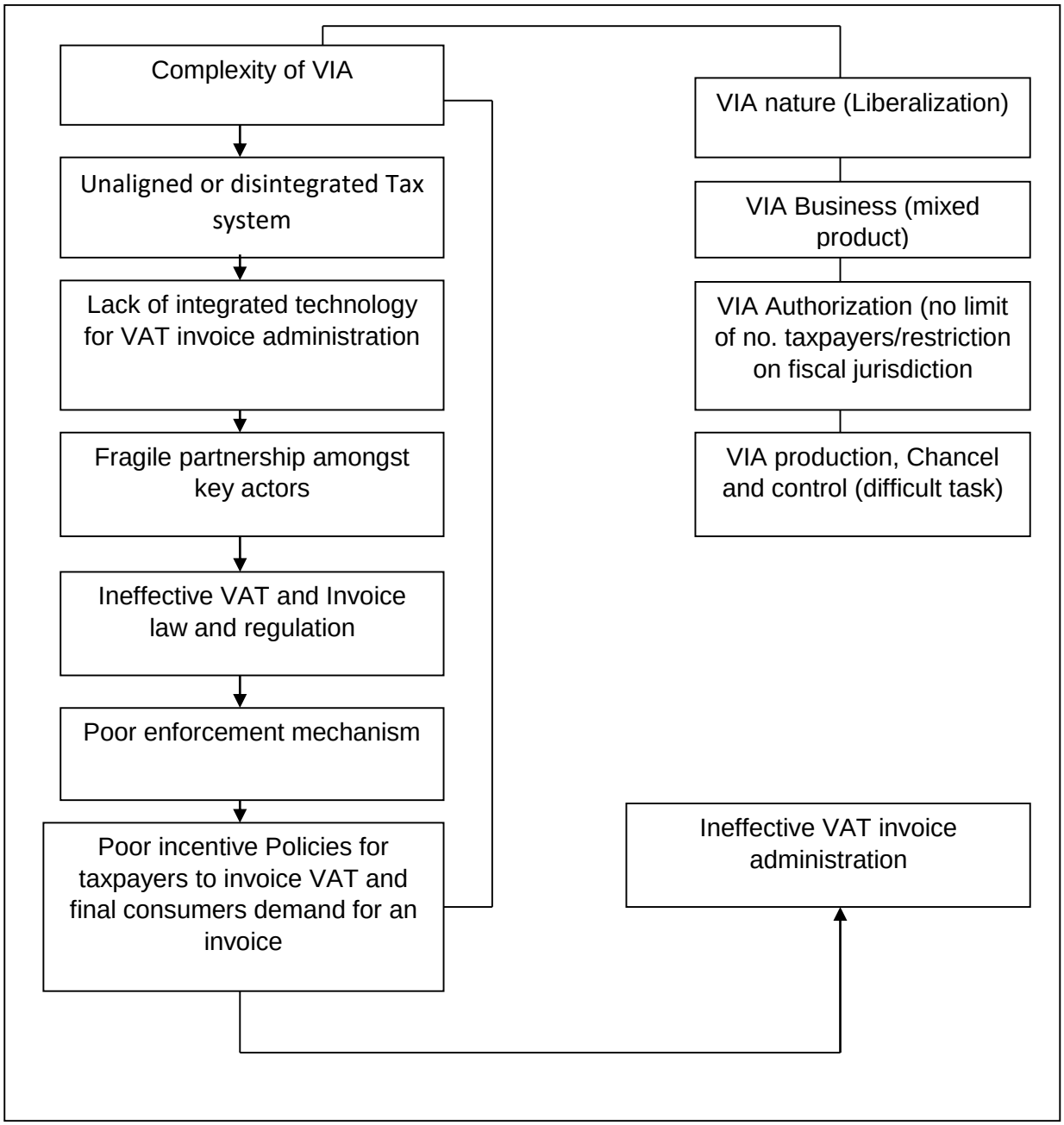
Taxpayers have also exploited VAT invoicing administration weaknesses while acting with VIA in the production phase of VAT invoices. These ordered “doll invoices” fake invoices that they used for parallel invoicing, cheating TA. Additionally, taxpayers used the frequent phrase “With or without VAT”, as an invitation to “offer collusion” to the end/final consumer. However, in this case, “acceptancy to the offer” (pay without VAT) implied a

gain to the Taxpayer during the transaction phase in two different ways. The first occurs when taxpayers have a competitive price of goods/services being sold in the market, compared to the one who charges VAT on goods and services. This creates imperfect competition amongst other taxpayers operating in the same market. The second way involves gaining VAT without invoicing. Taxpayers do not issue VAT invoices to end/final consumers during transaction although prices of goods and services already includes VAT. Thus taxpayers benefit from paid VAT without invoicing it. On the other hand, refusal to the “offer to collusion” (Pay with VAT) has been costlier to end consumers. On top of VAT already included in the price, taxpayers are charged another 17%. However, collected VAT is not always remitted to the TA. In cases where authentic VAT invoices were used, might be remitted to TA if taxpayers decided to comply exact deducted amount of VAT. Otherwise, taxpayers might also not remit collected VAT, in spite using authentic invoice. TA could use various ways of avoiding VAT, assented on accounting manoeuvres that increase costs to reduce the amount of collected VAT. On the other hand, in cases where parallel invoicing occurred, not complying with VAT was much easier and less costly to taxpayers. These profited more compared to VAT avoidance situations.

The TA should play a central role in managing VAT invoice and administration. Focus to reduce or eliminate VAT invoice related fraud and evasion revealed to be crucial. Therefore, establishing effective VAT invoicing policy, control mechanism and strategy to improve its authenticity and co-ordinating platforms amongst key actors, revealed to be important. These interacting forces amongst key actors, based on their respective interests, have provided insights into the dynamics of relationships. However, incentives could be given VIA, as cost-benefit association and accountability proved to influence VAT non-invoicing. Government efforts to address compliance in the informal economy have also been a determinant factor in fostering related VAT invoice non-compliance. Rapid expansion of

Informal sector enhanced imperfect competition, thus migration of formal operators to informal sector. This has demotivated formal taxpayers to pay VAT. It also influences VIA. These (VIA) tended to be VAT non-compliant. In this case, the informal sector (imperfect competition) served as a pull factors to VAT invoice related fraud and evasion.

Figure 38: Factors and context influencing VAT Invoice administration

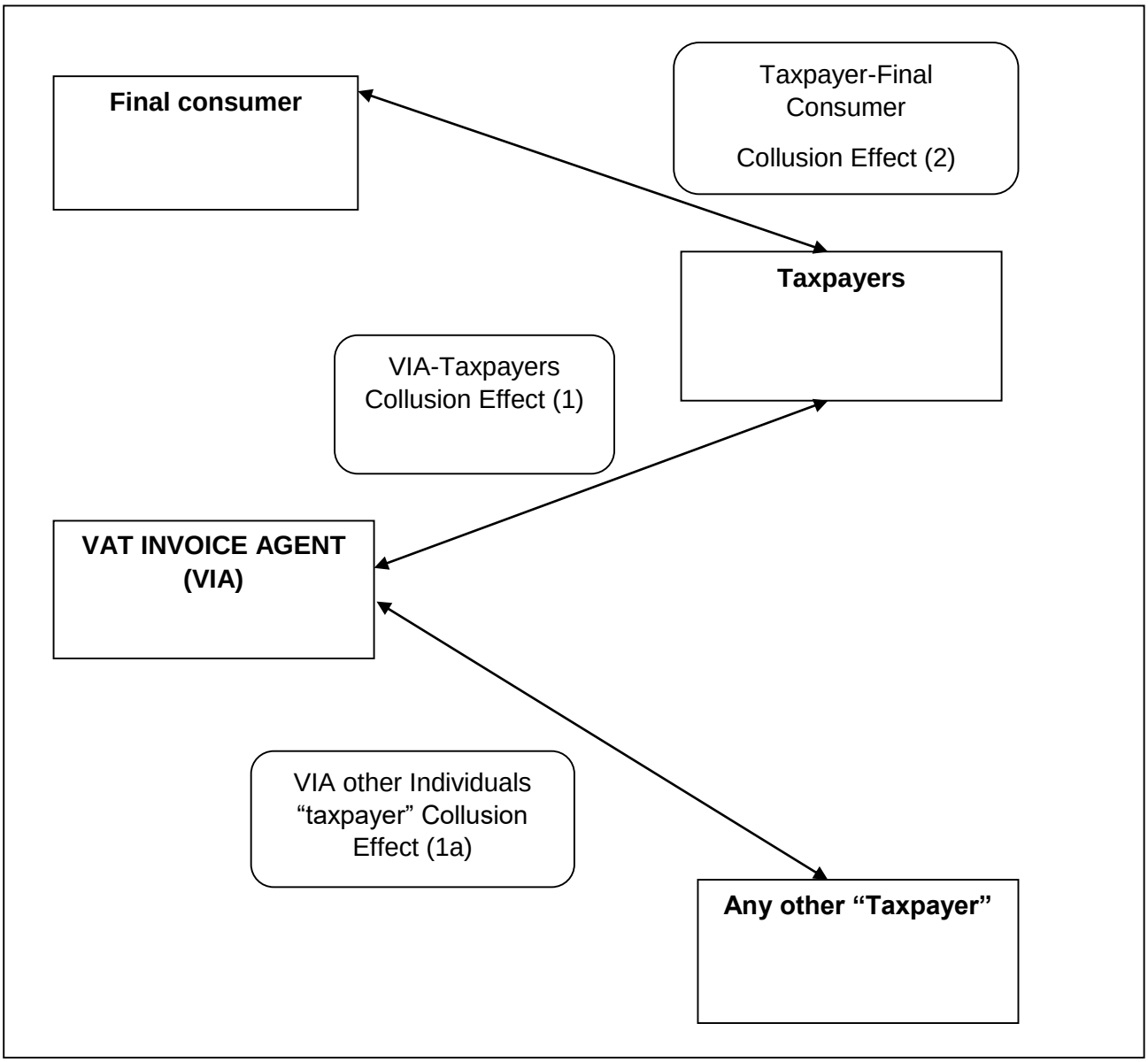


Source: Own, 2017

Although different participants have suggested incentives as one way to prompt and consolidate key actors' partnerships in VAT invoice administration processes, these were assented on stakeholders' interest. Whilst VIA expected the TA and Government to grant them tax exemptions or reduction over inputs (machinery, paper, toner) for being their means of collecting VAT on behalf of Government, final consumers wanted some importance (utility) to be given to VAT invoices demanded after transaction. These demanded incentives, such as, reduction on their Personal Income Tax or reduction on school fees, health, water or electricity expenses in their local communities. However, the question of why taxpayers have to be encouraged to invoice VAT has not been addressed despite efforts made by the government to provide incentives.

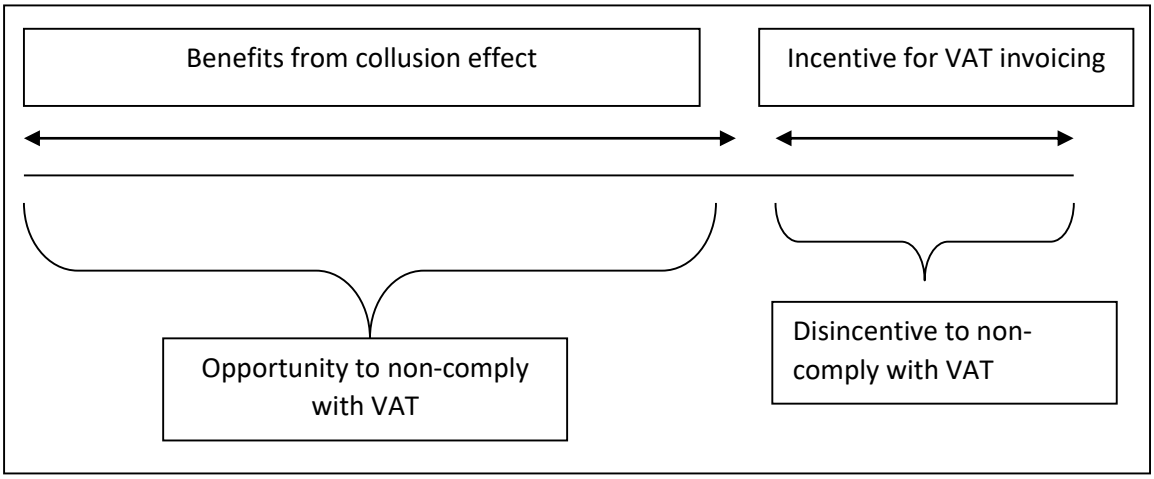
The complexity of VAT Invoice Administration and weak partnerships amongst key stakeholders, has contributed to an environment that is conducive to VAT invoicing fraud and evasion. Ineffective VAT laws and regulations and the absence of integrated technology for VAT invoice administration have exacerbated this. This also revealed to reduce the possibility of effective control of VIA and their business. Collusions between various role-players have also contributed to the continued VAT non-invoicing that undermines VAT collection. The way these key actors used to "maximize their profit", using collusion effects, have unpacked factors and reasons perpetuating VAT non-invoicing, in operating context, in differentiated moments and by distinct key actors in process. This was facilitated by VAT nature and destination principle.

Figure 39: The dynamics of VAT non-compliance within the collusion effect



Source:Own,2017

Figure 39(a): Benefits from collusion effects, incentives for VAT invoicing and opportunity to avoid VAT compliance



- If incentives for VAT invoicing is< Benefits from collusion effect, between VIA with taxpayers, in an environment with higher opportunity to non-comply with VAT, then this disincentive to stop producing fake/forged invoices will be less.
- The higher the opportunity for VAT fraud and evasion, the wider the room for collusion effect amongst key actors.
- The lower/reduced opportunity for non-complying with VAT, the narrower the room for collusion effect amongst key actors.
- Irrespective of these factors and roles, opportunity to non-comply has been a determinant in creating an environment prone to collusion effect. However, this was partly due to lower probability of being caught and weak enforcement mechanisms to discourage VAT invoicing related fraud and evasion.

Source: Own, 2017

A deeper insight into the dynamics of VAT non-compliance, related to VAT invoicing revealed that these are intrinsically related, not only with increased opportunity to non-comply, but also, comparisons between benefits from collusion effects and incentives to comply with VAT. The comparison not only brought to light the issue of maximizing profit, but also, provided insights into the interplay of cost-benefit association in the process of VAT invoice administration.

In this regard, the adoption of door-to-door invoicing by the TA to enforce VAT invoicing, have not only wrongly identified the causes and motivation for VAT invoicing related fraud and evasion, but also overlooked, focused strategies to address the challenge. Moreover, the strategy has proved to be unsustainable, due to scarcity of financial, human and material resources, and mostly for failing to enhance VAT invoicing. Additionally, it did not ensure/influence VAT invoicing in the absence of tax officers policing VAT invoicing during transactions in the shops. It is not clear from the existing data, whether VAT invoicing fiscalization intensified in 2016, resulted in increased VAT collection. Heavy reliance on door-to-door invoicing, use of auditing and sanction as compliance strategies, have failed to reduce or eliminate the frequent use of the phrase “You want to pay with or without VAT”. This is partly explained by the fact that, incentives for taxpayers to invoice Vat and for final consumers to demand for an invoice after transaction, remained irrelevant. Although many countries have used lotteries to encourage consumers to request receipts (Casey & Castro, 2014; IMF, 2015), studies on the effectiveness of a VAT lottery found no conclusion on lottery effectiveness (Fooken, Hemmelgarn & Herman, 2015). Contrary to this, Nariomi as cited in IMF (2015) found that it increased revenue from retailers by at least 22 percent and increased revenue (net of the cost of the rewards) by a modest 0.3 percent of state VAT receipts (IMF, 2015).

Incentive schemes were also used to prompt industrial growth and economic development (Padayachee & Valodia, 2001; Brondonio & Grenbaum, 2007; Klemm & Van Parys, 2009). This was also used in taxation, whereby TA use incentive schemes to encourage final consumers to pay tax (Slemrod, 2007; Klemm & Van Parys, 2009; Abeler & Jager, 2015). In spite of the paucity of literature on this topic, studies reveal different conclusions over its effectiveness in enhancing compliance. While some countries, such as, South Korea registered foregone revenue of about 5 percent of VAT, for allowing reductions in VAT payments (IMF, 2015), in cases where TAs allowed tax consumers to credit part of the payment shown on a paper invoice that they submitted to the TA, against other liabilities, created significant administrative and compliance costs in Bolivia and Turkey (Fooken, Hemmelgarn & Herman, 2014; IMF, 2015). On the other hand, in Argentina tax reduction on credit/debit card payments were about five percent of their VAT payment. It was automatically credited to their bank accounts and has amounted to around 1.1 percent of VAT collection. These

findings suggested close ties between incentive schemes and contextual realities. But the ties are mostly informed by the tax system, level of organization and capacity of the micro environment to successfully address the strategy. Findings from the study reveal that taxpayers would rather not comply with VAT regulations rather than take up incentives since a key motivation is the option of paying 17 percent less.

Improving compliance in the B2C segment has become an urgent matter due to the significance of B2C transactions in most countries, including Mozambique, as it accounts for 29 percent of the large business segment and 25 percent of all tax collections. Similarly, in Chile and in other cases, under-reporting of B2C sales represented 60 percent of the VAT gap (Engel, Galetovic & Raddatz, 1998; IMF, 2015). Some TA strategies to improve compliance in the B2C segment have resulted in the establishment of improved accounting systems. This system, ensured taxpayers issue an invoice or receipt, and transactions are registered. TAs was also empowered to temporarily close the business premises of taxpayers who repeatedly fail to issue invoices. The authority uses the power (IMF, 2015). Although these strategies might have worked in some countries, findings suggest that in Mozambique they have not worked well. The approach fails to capture key actors' interests, context and tax system specifics. Nonetheless, findings indicate that irrespective to these weaknesses, a reflection on informal sector can strengthen the platform to discourage VAT non-compliance within the Mozambican context.

6.4.5 The dynamics of informality in managing the tax base

The effective management of the tax base has determined managing VAT non-compliance. The literature suggests that managing the tax base presupposes a solid and coherent action, in conformity with contextual particularities, informed by the social psychological theory on tax compliance. These are implemented in accordance with the pre-established chronology of interventions, set in the medium to long term. The enlargement of the tax base is required for most African and developing tax system reforms, and Mozambique is not an exception (OECD, 2004; MacKercher & Evans, 2008). In this context the literature suggests factors to significantly influence VAT non-compliance management. Examples of these are market prospecting and mapping of potential taxpayers; administrative actions over existing taxpayers (declaration without

VAT payment, with credit/report; sectorization); tax exemptions, holidays and tax havens; sectorization of VAT taxpayers; and engaging with the growing informal sector and the cash economy.

Findings indicate that market prospecting and the mapping of potential taxpayers is crucial to enlarge the tax base. Lack of clarity on possible sources of VAT collection, and limited information about markets and their segmentation, as well as the uncertain prospects of taxpayers ceasing operations, have prevented the identification of different segments and commercial sectors vulnerable to VAT fraud or non-compliance. However, findings also provide insights to identify inefficacies and improve strategic interventions to address VAT non-compliance. The fact that TA lacks knowledge on market size, share and growth, inhibits possibilities of developing adequate strategies to enlarge the tax base.

The study revealed that administrative actions associated with internal audit procedure over existing taxpayers influence the enlargement of the tax base. Heavy reliance on the few taxpayers who comply with VAT, proved to be counter-effective in enlarging the tax base. Findings also revealed increasing the threshold for existing taxpayers enhanced the feeling of high tax burden, injustice and unequal treatment, compared to those operating informally that do not pay taxes. This increased the frequency of declaring VAT forms with no sales or with successive report/credit. Although findings somehow contradict to empirical findings, it also adds, to their suggestion on the fact that increased threshold reduce costs and enhance focused interventions in TA administration (Keen, 2016; Kanbur & Keen, 2014).

Strategies to enlarge the tax base, is undermined by TA focus on the few who pay VAT, ignoring taxpayers outside the tax net (informal operators) and overlooking registered taxpayers who submit VAT declarations without sales and with report/credit. TA traditionally gave little attention and consideration to these groups of taxpayers. Irrespective of the elaboration of monthly maps to control taxpayers submitting VAT declaration without VAT payment or with credit/reports, these data are hardly used to inform management intervention to discourage non-compliance. This has further worsened taxpayers' resentment. Their feeling of tax burden, injustice and unequal treatment, further deteriorates, posing a threat to compliant taxpayers. Thus,

broadening the tax base with the existing taxpayers', demands intelligence and working with all taxpayers within the system, although in differentiated segments, might suggest related actions to be engaged to discourage VAT non-compliance. This supports literature indicating that a tax system with a small tax base is unlikely to be effective, but rather create the feeling of a tax burden and injustice. Thus, setting the right threshold for taxpayers has proved to facilitate the distinct treatment in terms of administrative approach and strategy to enhance compliance (IMF, 2015).

Other administrative measures that created conditions for enlargement of the tax base, used by TA in Mozambique have been summarized in Objective 1 of the Strategic Plan of Mozambique TA 2009-2011. This enabled the institution to develop, publish and provide pamphlets, brochures, seminars and other material for fiscal education and tax citizenship (MF, 2012d). In this context fiscal education and tax popularization "*Todos juntos fazemos Moçambique*" have been disseminated through Mozambican Television, Soico TV, Radio Mozambique, community radios, songs and drama. Memoranda of Understanding with different segments of business associations, cultural, sports, religious, academic and informal markets, have been signed to promote fiscal education, tax popularization, and enlargement of the tax base, and consequent integration of the informal operator into the formal sector. Lectures, seminars and roadshows to promote the awareness of the population on the importance of payment of the tax were held (MF, 2012d).

However, findings indicate that these strategies do not substantially account for discouraging VAT non-compliance. The prevalence of a cash economy, proliferation of the informal sector, and limited interventions on these factors and events have further undermined the existing small tax base of the active population who pay taxes. This has postponed the enlargement of the tax base and its prospects within the formal regime of VAT, irrespective of the attribution of NUIT (TIN-Taxpayers Identity Number) done by TA in Mozambique since 2006. Efforts to enlarge the tax base, have also been frustrated by some public policy introducing tax exemptions and holidays with the objective of promoting development. These, have not attained their aims, but instead have negatively influenced tax compliance. Similar to literature findings, the study reveals that mostly foreign multinationals benefit from tax exemptions, whilst national medium and small enterprises are left with the payment of taxes, to ensure public

expenses. However, statistic evidence demonstrates the insignificant contribution of these multinational projects in tax collection, compared to other sectors. Although the introduction of sectorization of VAT taxpayers (for medium and small enterprise) as posited by respondents, might bring into the tax net most of the non-compliant taxpayers, it could only promote tax base enlargement, if new markets are open and the entrance of new taxpayers is registered. Sectorization was suggested as prompting justice, eliminating possibilities of VAT non-compliance, whilst reducing the burden of self-assessment that resulted in disputes between taxpayers and tax officers.

The enlargement of the tax base could also be attained by tackling the informal sector which is dominant in developing countries (OECD, 2004; MacKercher & Evans, 2008), where large shares of business activities are located (Joshi & Ayee, 2008; Fjeldstad & Heggestad, 2012; Schneider, Buehn & Montenegro, 2011). In spite of the importance of the size of the informal sector in percentage of GDP, for most developing countries such as 20% in Zambia (1998); 43,1% in Tanzania (1993); 44,8% in Mozambique (1994), with a sub-Saharan average of 39,6%; the issue of taxing the informal sector, where the hard to tax group are found (Bird &Wallace, 2006; Kloeden, 2011; Fjeldstad & Heggestad, 2012) has been a long-standing controversy (Joshi, Richard & Heady, 2014). This has proved to be complex and heterogeneous for most developing economies (OECD, 2004; MacKercher & Evans, 2009). Therefore, although IPME (Instituto de Pequenas e Medias Empresas- Institute of Medium and small entreprises) and other organizations in the country, have put some efforts into working to formalise informal markets, in order to achieve their objectives of formalization, more needs to be done. Literature suggests improved informal sector taxation enhace growth and governance to be potentially large under specific contexts. However, this remains uncertain (Joshi, Prichard & Heady, 2014).

The concept of the informal sector is embeded with imprecise definition, multiple units of analysis and different methodological approaches. Whilst Peattie (1987) defines it as being fuzzy but popular for encompassing the interests of a wide variety of groups, Hart (1987) as cited in Peattie (1987) referred to it as employment outside of formal labour markets. The International Labour Organisation (ILO) used it for referring to small and micro enterprises that were outside the purview of Government regulation and taxation. Although, with some modifications, Soto (1989) defined it as a source of

dynamism and growth, which was held back only by inappropriate government regulation and moving to a legal status of the business. Gerxhani (2004) and Kenyon (2007) considered firms to be in the informal sector, because these are not subject to rules and regulations, including labour laws, environmental laws, registration and taxation. It is in this last conceptual definition that the study considers informal sector.

The study does not aim at taxing the informal sector, but rather explores how the prevalence and rapid expansion of the informal sector has obstructed efforts by TA to enlargement of tax base and address VAT non-complaince. It aimed at reflecting how informal sector have incited adverse effects on the already existing taxpayers in the formal sector. Mozambique's highest size of informal sector in percentage of GDP is 3, 5% above sub-Saharan average. Fjeldstad and Heggestad (2012) and Scheider (2016) findings indicates informal sector exert adverse effects into existing taxpayers in the formal sector. These tend to migrate from the formal to the informal sector. In the light of this backdrop, failure to understand the two broad perspectives on the quest of taxing the informal sector has led to poorly informed and oriented institutions to address the concern.

The economic and administrative perspective advocates the sense of not to tax the multitude of poor people (Terkper, 2003; Nathan Associates, 2004; Fjeldstad & Heggestad, 2012). Critiques to bringing the informal sector into the tax net have resides on the fact that this sector is complex, heterogenous, and it could be a difficult task to control the informal sector in most developing economies (OECD, 2004; MacKercher & Evans, 2009). Critiques also posited to be difficult to estimate the sector (Fjeldstad & Heggestad, 2012; Schneider, 2016), the difficult to tackle the informal sector and for being demanding, but with few gains (Terkper, 2003; Joshi & Ayee, 2008, Fjeldstad & Heggestad, 2012). Moreover, potential revenue yields are low, administrative costs are high and tax incidence is likely to be regressive in informal sector (Keen, 2012). Additionally, tax officers find working with the informal sector to be "unrewarding in terms of income supplementation" (MacKercher & Evans, 2009), even unpleasant and dangerous to work with (Fjeldstad & Moore, 2008). Thus, informal sector enhanced lacking of incentive for employees (Joshi & Ayee, note 111 p. 190; MacKercher & Evans, 2009). For them, tackling the informal sector did not facilitate tax officers to handle a few thousand files effectively. Instead, taxofficers dispersed their efforts for

little gain. Although most of these studies have advocated the low priority of the informal sector on efficiency grounds (unworthy efforts to reap low productivity) (Terkper, 2003, Fjeldstad & Heggestad, 2012) this is supported by evidence indicating that smaller taxpayers on simplified regimes accounts for only 0.4% of VAT revenue in Mozambique in 2004 (Ernst & Young, 2012; Fjeldstad & Heggestad, 2012). Nonetheless effects of informal sector on existing and potential tax bases, is overlooked in VAT non-compliance management. This supports finding suggesting the urging of addressing the informal sector to reduce its expansion, crucial to sustain "tax morale" and enhance large firms tax compliance (Alm, Martinez-Vazquez & Schneider, 2003; Terkper, 2003; Togler, 2003).

On the other hand, literature suggests good public policy reasons for taxing the informal sector for governance purposes, to spread the tax net and to explore how to build capacity to tax the sector, more effectively in the long run (Fjeldstad & Moore, 2008), given the importance of the informal sector on tax morale (Alm, Martinez-Vazquez & Scheneider, 2003; Terkper, 2003; Togler, 2003; Sinclair, 2017). Informal sector undermines the broadening of the tax base, due to migration of taxpayers from the formal to operate in informal sector (OECD, 2004; MacKercher & Evans, 2009; Fjeldstad & Heggestad, 2012; Schneider, 2016). These results suggest that, although the shift of taxpayers from the formal to the informal sector due to imperfect competition undermines the broadening of the tax base, informal sector constitutes a challenge for formalisation of the economy. It presents a barrier to new entrants to the tax net. However, in cases where taxpayers aspired to grow and supply goods and services to the government, these opted to operate in both formal and informal sectors simultaneously. This supports findings indicating some taxpayers choose to pay taxes to access new opportunities (Joshi, Richard & Heady, 2014). In cases, where these had no similar interests or aspirations, migrating from the formal to the informal sector was the preferred option, supporting findings that reveal, differences in the underlying interests of informal operators and their aspirations in expanding the business or not (Joshi, Richard & Heady, 2014). This also justifed their motivation for operating informally, i.e., if the entrepreneurship (in informal sector) is the main income or it was to complement a salary, determined their interest in formalisation.

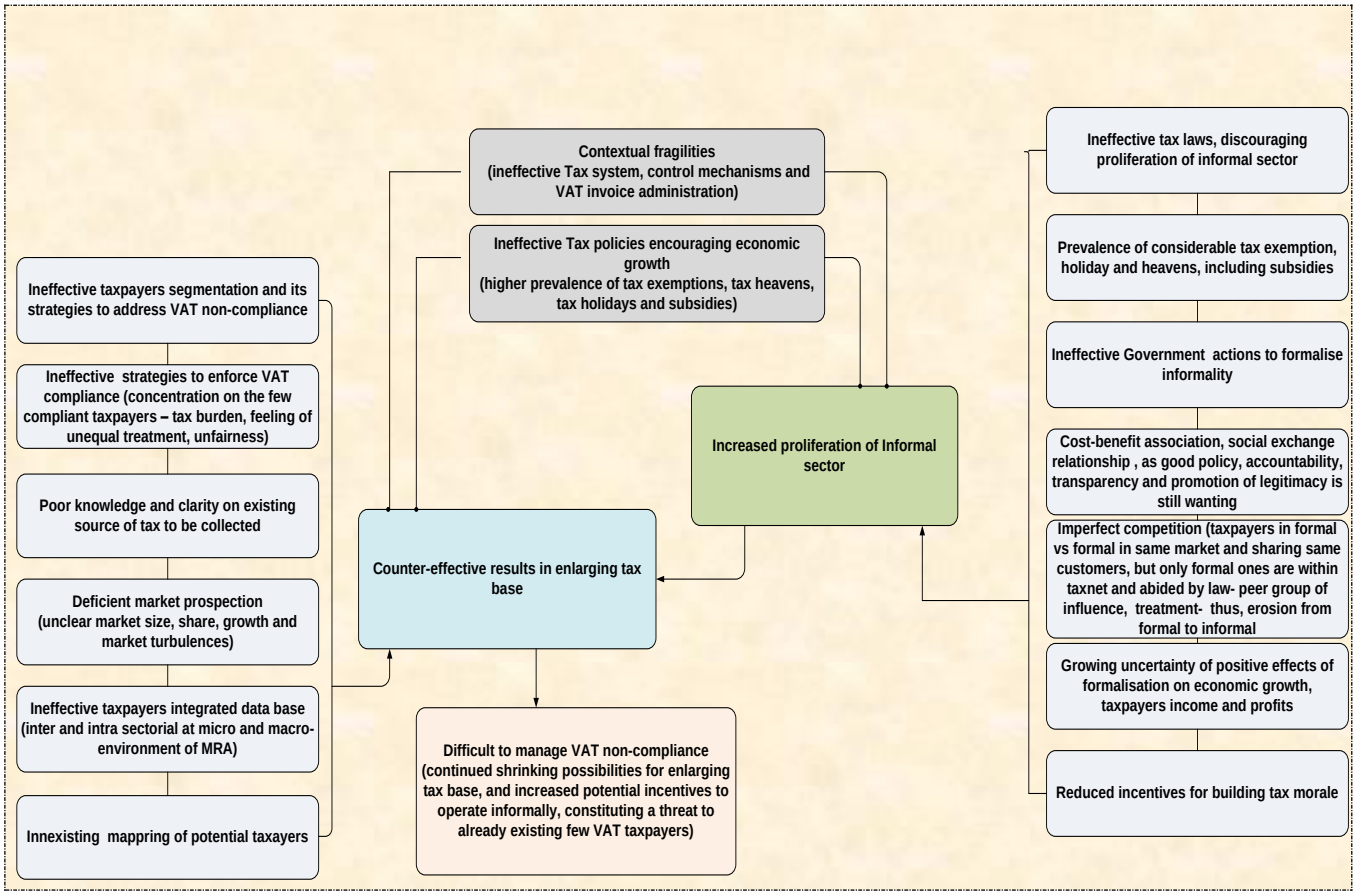
Encouraging firms to enter the formal sector implies addressing the costs and benefits of formalisation (Kenyon, 2007; Everest-Phillips, 2008; McCulloch, Schulze & Voss, 2010; Joshi, Prichard & Heady, 2014) and may expose firms to new forms of vulnerability (Tegera & Johnson, 2007; Schomerus & Titeca, 2012; Titeca & Kimanuka, 2012), mostly in border areas, or in fragile and conflict areas. Firms become more visible to state authorities. Researchers who propose formalisation may in some cases protect informal firms from harassment and arbitrary state behaviour (Schomerus & Titeca, 2012) based on power relations, exacerbating risks and providing new opportunities. This study reveals that the informal sector is the most relaxed sector to make more profit, for being exempted from tax. However, this prompted migration of formal to informal sector operators. This was further influenced by the lack of integrity of tax auditors which through corruption, created an environment prone to collusion. Power imbalances between the state and small firms that may be newly formalised make these firms vulnerable to unequal treatment and harassment. This often leads to formal companies closing down and being re-registered under a different name or alternatively deciding to operate informally.

The economic perspective of imperfect competition, based on cost-benefit calculation, is linked to the feeling of unfairness (Braithwaite, 2000; Adam & Webley, 2001; Taylor, 2001) and promotion of legitimacy, good governance and political accountability (Joshi & Ayee, 2008; Joshi, Prichard & Heady, 2014). The study revealed Ineffective tax policy and VAT invoice administration impacts on tax morale. Some import laws allow importation of large quantities of goods to the country, made by individuals not registered as taxpayers. The entry points of these goods are either by road, rail, air or sea. Additionally, there is limited control of these entry points/wholesalers. These imported goods have fed the informal markets and enhanced its rapid expansion. The fragility of the tax system, ineffective tax policy and the absence of a plan to address the informal sector, have hampered possibilities of intervention to bring informal operators into the tax net (STV, 2016). These also perpetuate their willingness to remain outside the tax net, thereby undermining efforts to strengthen state legitimacy (Joshi & Ayee, 2008).

Although there is evidence to support the benefits of formalization towards economic gains, its influence in increasing compliance is still uncertain. The migration from formal

to informal sector did not occur only due to perceived imperfect competition, but also due to effects of peer group influence. Taxpayers in the formal sector felt those operating in the informal sector were selling goods to the same customers, as theirs, but without any tax obligations. Indeed, although taxpayers move along the continuum, some seeking formalisation and others becoming informalised, the cost-benefit calculations remain the key informing factor (Joshi, Richard & Heady, 2014). Understanding the move along the continuum revealed crucial to inform any strategy to formalise the informal sector, with the objective of broadening the tax base. This provided insight to enhance retention of taxpayers in the formal sector and attract new entrants to the tax net. Therefore, this facilitates the task of the TA to address challenges of enlargement of tax base and consequently the management of VAT non-compliance. Thus, informal sector presents a threat to maintain the existing tax base and develop interventive strategies aimed to attract potential taxpayers. On the other hand, informal operator only contributes, when these, purchase goods or services from a registered VAT taxpayres (businessman), and if collusion effect is not verified, during transaction.

Figure 40: The dynamics of the informal sector influencing VAT non-compliance management



Source: Own, 2017

The bulk of research has focused on the technical design of appropriate policies to address compliance. These mostly based on theoretical models or the accumulated good practice from other countries, which focused on potential importance for revenue, growth and governance. However, these lacked formal statistical analysis due to the lack of appropriate data and plausible evidence on informal sector influence on taxation (Joshi, Richard & Heady, 2014). Nonetheless, these studies have identified the channels, taxpayers across firm types, underlying interests and their incentive or disincentive to comply with VAT. This provided insigths to inform the platform for management of VAT non-compliance by TA. In this case, the approach could be less reactive. A revision of a reactive approach is prented below to reflect its limitations in enhancing VAT compliance.

6.4.6 The dynamic of sanctions and Tax Officer integrity influencing VAT non-compliance management

The theory informing sanctions as a tax compliance factor provides insights to understand the dynamic of tax compliance factor influencing VAT non-compliance. The economic theory of tax compliance by Allingham and Sandmo (1972) used Expected Utility Theory (EU) to explain compliance. The theory based on the assumption that there is no possibility of avoidance and that taxpayer is neutral. It considered sanctions as a tax compliance factor. In this case, the EU explains the problem of income tax evasion to be assented on taxpayers' decisions to maximize expected gains or losses (expected utility of income) when confronted with a choice of whether or not to evade taxes. It considers that taxpayer faces a constant probability of being audited and face a penalty tax rate if caught evading taxes, in a given marginal tax rate and the level of true income (Pommerehne & Weck-Hannemann, 1996). In spite of some modifications in economic models, these were lenient in giving relevance to exogenous variables (Langham, et.al., 2012), such as the probability of detection and the level of sanctions; tax rate and income in explaining individual tax compliance behaviour (Yitzaki, 1974; Hessing, Elvers & Weigel, 1988; Andreoni, et al., 1998; Adams & Webley, 2001; Kichler, 2007). The theory suggested that all people respond to a change in any one variable in an identical and predictable manner. It suggests taxpayers have full knowledge of the probability of being audited and all taxpayers have the same level of risk preference (Franzoni, 1999; McKerchar & Evans, 2009). Moreover, it assumed individuals pay taxes because these fear sanctions.

However, addressing VAT non-compliance management has proved to be much more complex than the mere standards of economic models, as the practice of VAT non-compliance is embedded in its social reality. Irrespective of how sophisticated combinations of penalties, sanction and audits probability are, enforcement mechanisms remain a challenge (Malik, 1990; Scottchmer, 1992; Franzoni, 1998). The simplicity of this theoretical assumption, tied to a positivist and epistemological approach, tends to be not only descriptive and rather underdeveloped, but also impractical and unrealistic. It reduces its dimensions to numerical measures and assigned probabilities from which outcomes can be predicted using calculus and as posited by Kahneman and Tversky (2000). This neglects empirical evidence that

psychological dimensions can measure utility, where individuals differ in relation to utilities associated with different outcomes. In this case, the emphasis on taxpayers' utility maximization behaviour, taking the taxpayer (individual) as the unit of analysis, based on statistical procedure, overlooks empirical evidence revealing that the same information may lead to a different choice. This supports findings from experiments showing people to be more concerned with losses than missed opportunities to maximize profit. People rejected taking higher risk to avoid losing what they already have rather than trying to gain something they do not already have (Kahneman & Tversky, 2000).

The theory has also failed to fully account for the practice of VAT non-compliance. It overlooks fiscal and socio-psychological factors that interplay in the dynamics of taxpayers' compliance behaviour. It ignores not only taxpayers' rational capacity which enables them to perceive the fairness of the tax system (Alesina & Ageletos, 2005; Webley & Ashby, 2010; Jimenez & Iyer, 2016; Schneider, 2018) but also overlooks their ability to perceive inequity and act in response to it (Cowell, 1992). EU also ignores taxpayers' dissatisfaction with TAs (Wärneryd & Walerud, 1982; Elffers, 1991) and consequent belief that the system is inefficient (Wearing & Heady, 1995). It overlooks the capacity of taxpayers to capture information from the environment to inform their compliance decision. This research reveals that taxpayers' compliance decisions are influenced by information from institutional constraints. This echoes findings suggesting the importance of institution in enehancing co-operation (Bergman, 2006; Cummings, Martinez-Vazquez & Torgler, 2009). Taxpayers had positive motivation for compliance, as they are averse to cost in terms of embarrassment, loss of esteem and social distress (Alm, McClelland & Schulze, 1992; Skinner & Slemrod, 2005). This underestimates the influence of structural and contextual dynamics, embedded in the frameworks of the management of VAT non-compliance, cutting across disciplinary line and restricts taxpayers' rational capacity to make a cost-benefit analysis.

In spite of these theoretical limitations, most developed models and frameworks on VAT compliance in the past four decades have been typically explained using economic theory (Andreoni, et al., 1997; Kirchler, 2007; Alm, 2013). However, TAs has relied heavily on deterrence models or sanctions for many years (Andreoni, Erard

& Feinstein, 1998; Adams & Webley, 2001; Nathan Associates, 2004; Bergaman, 2009; Braithwaite, 2003; Langham, et. al., 2012) to enforce compliance. The danger in pursuing this approach to address VAT non-compliance, is that, it misleads identification of compliance factors and strategies to target VAT non-compliance specifics. This does not facilitate recognition of resultant forms of stereotyping and stigmatization of “unpredictable strangers” in VAT non-compliance management. Thus, perpetuates the prevalence of VAT non-compliance in both developed and developing countries, including Mozambique.

Although sanctions are used as enforcement strategies (Tanzi & Shome, 1993; Adams, 1996; Bergman, 2009) for most TAs, its effectiveness in discouraging tax non-compliance reveals contradictory in this study, mostly due to contextual particularities. In some cases, sanctions were found to be effective in discouraging tax non-compliance, although researchers were flexible in recognizing that it could not fully account for the degree of actual compliance behaviour (Erard & Feinstein, 1994; Andreoni, et. al., 1998; Slemrod, 2007; Torgler, 2007). Slemrod (2007) posits that greater penalties and audit probabilities could lead to greater compliance. Tanzi and Shome (1993) and Adams (1996), later supported by Bergman (2009) observed that severe sanctions are effective where, for example, the TA had the power to fine and close establishments for specified periods without the possibility of an appeal. In other cases, sanctions have proved to be effective where adherence to the rules was largely upheld (Bergman, 2009). Some researchers have found that the fear of getting caught or probabilities of detection are effective only in inducing truthful reporting where the assumption that taxpayers were risk-neutral was relaxed (Reinganum & Wilde, 1985). This supports findings suggesting higher penalties to be less of a deterrent than higher audit probability (Andreoni, et al., 1998).

The study indicates that the complexity of VAT non-compliance management could not be fully explained by the standards of economic models based on sanctions. TA strategies informed by this premise have failed to address particularities and complexities of VAT non-compliance in practice. The effectiveness of sanctions was related to tax policy. In this case, aspects related to description, interpretation, inconsistency, inefficacy and inadequacy of sanctions, and its criteria of

implementation and graduation, have all contributed to either reduce or strengthen the effectiveness of sanctions to discourage VAT non-compliance.

Furthermore, the effectiveness of sanctions, were reduced due to defficient tax auditors' attitudes, integrity, and ineffective audit strategy. Existing auditing procedures are difficult to control due to the incompatibility of functions. Those who audit are the same tax auditors that visit taxpayers' sites, reply to taxpayers' complaints (signed off by the Tax Unit Director) and establish the amount to be paid, amongst other responsibilities. Their function confers undue power on their position and role in the auditing process. This undermines the trust that taxpayers have over TA control of auditing process. Consequently, this contributes to the possibility of collusion from both parties (auditor and the taxpayer). Therefore, TA loses more in circumstances of an absence of an effective audity strategy, in favour of tax auditors and taxpayers. In most cases, VAT agents act on behalf of large and medium enterprises, while those without a VAT agent negotiate for themselves. Another factor reducing the deterrent effect of sanctions is the ineffectiveness of VAT invoice administration and control. This reduces the likelihood of being caught. Difficult accessibility, low capacity of taxofficers and used technology to detect VAT fraid and evasion, also deteriorates the low probability of being cauth. These have reduced taxpayers' fear of being audited and sanctioned, as advocated by economic models.

In this research, sanctions are seen as being effective mainly for certain segmented groups, such as large taxpayers. These groups are easily accessible to the TA, thus have higher probability of being audited. The incidence of 3-5-year audit periods in audit procedure, have resulted in relatively higher amount of sanction to be paid or recovered by the TA. In some cases, this tends to be, by far, more than the business capital. Therefore, most taxpayers would not have sufficient funding to pay for recovered tax through auditing. This opens space for amicable settlements between the two involving parts over the payment of these amounts in instalments. In some cases, reduction is even negotiated. Additionally, the prevalence of large intervals on sanction amounts also facilitates opportunity for corruption. Therefore, increased procedural rules resulting in the possibility of resolving disputes through amicable settlements between taxpayers and the TA has weakened enforcement measures

(Tanzi & Shome, 1993, Franzoni, 1999) and encouraged potential corruption and injustice.

However, sanctions revealed to be a concern for taxpayers who supply goods and services to the Government. In this case, taxpayers fear being ineligible to apply for Government bid, if caught being non-compliant. They are aware that tax arrears can be paid in instalments. However, taxpayers' higher perception of possibilities of "negotiating" reduces their fear of being sanctioned. In other cases, some small and medium taxpayers that are easily accessible to the TA, pay VAT due to fear of bearing high penalty rates and sanctions. This supports the research findings suggesting higher penalty rates or sanctions can effectively enforce tax compliance (Tanzi & Shome, 1993; Adams, 1996; Bergman & Navarez, 2006). The use of VAT experts by this segment is aimed to negotiate with tax auditors "speaking the same language" to avoid having their companies closed down or sanctioned. Therefore, lack of tax auditors' integrity weakens the effectiveness of higher penalties and sanctions to deter non-compliance. However, some small and medium taxpayers, though easily accessible to the TA, did not fear being sanctioned. These considered the amount of sanctions, fines and penalties to be insignificant than the amout they gain from avoiding and evading VAT. This segment of taxpayers preferred to be sanctioned than comply with VAT. In other cases, where taxpayers have little knowledge on negotiating schemes, these feared tax auditors' attitude. They "avoided being followed by them", making an effort to be compliant. They made sure to be in good books with tax officers, as they had to relate with them monthly in tax units.

This echoes findings suggesting compliance is not always caused by audit probability or extreme risk aversion as advocated by the Expected Utility Theory (EU) (Alm, et. al, 1992). Although some studies have revealed sanctions to be ineffective (Grasmick & Bursik, 1990; Sherman, 1993; Tyler, 2001, p. 5) and counter-productive (Taylor, 2001; Wenzel, 2001; Fjeldstad & Semboja, 2001; Fjelstad, 2001; Gauthier & Reinikka, 2001; Bergman & Navarez, 2006; Mittone, 2006; Kirchler, 2007) to discourage non-compliance, this study revealed this ineffectiveness to emanate from contextual particularities. For example, in Tanzania and Botswana (Gauthier & Reinikka, 2001; Fjeldstad & Semboja, 2001; Fjelstad, 2001) perception of unfairness and injustice during sanctioning by the TA has influence on the non-compliant environment. This

supports findings from Torgler (2002) and Kirchler (2007) suggesting that in cases where there is heavy reliance on sanctions to enforce compliance by TAs; it may lead to increased overt dishonesty due to a growing environment of mutual distrust. Bergman (2002), Sandmo (2005) and Alm (2012) note the view that non-compliance is widespread, influencing others to also not comply, thus, resulting in a non-compliant environment. This discourages the development of a culture of conformity to norms by government (Bergman & Navarez, 2006; Mittone, 2006; Kirchler, 2007) such as seen in Argentina. Without denying the effects of heavy reliance on sanctions, this study notes various factors contributing to the ineffectiveness of sanctions as deterrence factor for VAT non-compliance in Mozambique.

The description, clarity and interpretation of tax law determine the effectiveness in discouraging tax non-compliance. Tax policy in developing countries is shaped by ideas, vested interest and institutions (Keynes, 1993; Bird & Zolt, 2003; IMF, 2015), which influences tax policy design and structure. This may disregard the scope for appropriate tax policy settings to target VAT non-compliance practices. Therefore, based on the way risks are described and decision-makers' preferences are expressed (descriptive and procedural aspects) (Casey & Scholz, 1991), misinterpretation and unclear tax policy have resulted in discrepancies in interpreting the legislation. This undermines its application by taxpayers, tax administrators and the judiciary with efficiency, consistency and certainty reducing its capacity to target tax non-compliance. Thus, unclear, unambiguous and complex tax laws promote increased opportunities for non-compliance (OECD, 2004; McKerchar & Chris, 2009) and increases the risk of non-compliance (IMF, 2015). Consequently, increased resistance that is motivated by perceptions of unfairness undermines the effectiveness of the Tax Authorities' intervention strategies. This partly explains TA challenges to simplify tax laws in developing economies. These have mostly failed to develop tax policy in the context of wider economic reform in conformity with community acceptance (McKerchar, Meyer & Karlinsky, 2006).

However, the study reveals the complexity of VAT law to derive from the replication of the law from Portugal into the Mozambican context. Replication of VAT law, written to achieve Portuguese objectives within the Mozambican context, made the understanding and interpretation of VAT law even more difficult, given the poor tax

knowledge amongst the majority of taxpayers. Replication of the law negatively infers to success of addressing compliance and administrative issues to respond to community demands. The prevalence of fragmented legislation on tax non-compliance results from the absence of a plan for tax reforms. It is important to note that the study, found that difficult to understand and interprete VAT law, including poor clarity was verified in both taxpayers and tax officials. This has contributed to tensions in relationships between the parties. This has negatively influenced compliance. However, improved communication and clear information sharing have contributed to increased co-operation and compliance.

The decontextualization of the VAT legal framework highlighted the weakness of sanctions in discouraging VAT non-compliance. This is revealed in its inconsistency, inadequacy and to community standards. For example, expenses (costs of cell phone calls) that are incurred by commercial activities were not allowed. This contributed to non-compliance with VAT which taxpayers justified by their perceptions of unfair treatment and high costs of compliance in a developing country. This echoes findings suggesting non-compliance in developing countries to be four to five times than those in developed countries (IMF, 2015) and as high as 10% to 13% of total tax liability (Slemrod, 1989; Sandford, 1995; Slemrod & Yitzhaki, 2002).

The high cost of compliance contributed to shift the “automatic cost-benefit association” towards evasion. It also generated resentment that weakened taxpayers’ moral conscience. Instead, it prompted them to evade VAT payments as a form of “punishment” to the TA. Therefore, addressing tax evasion by increasing complexity of tax regulation would not only raise compliance costs but also influence the feeling of unfairness and injustice towards the tax administration, as seen in Uganda by Fjeldstad (2006). This also created an environment prone to corruption between taxpayers and tax administration officials. The complexity of tax schedules, procedures and mechanisms have increased the importance of reliance on VAT agents. These factors, instead of facilitating taxpayers’ compliance, served to discourage it. Perceived high costs in VAT compliance have inadvertently led to increased community dissatisfaction, thus decreased tax compliance (Russel, 2010; Nkwe, 2013; IMF, 2015). In such a context, compliance costs to taxpayers associated with its administration must be appropriate. Findings revealed that facilitating compliance by

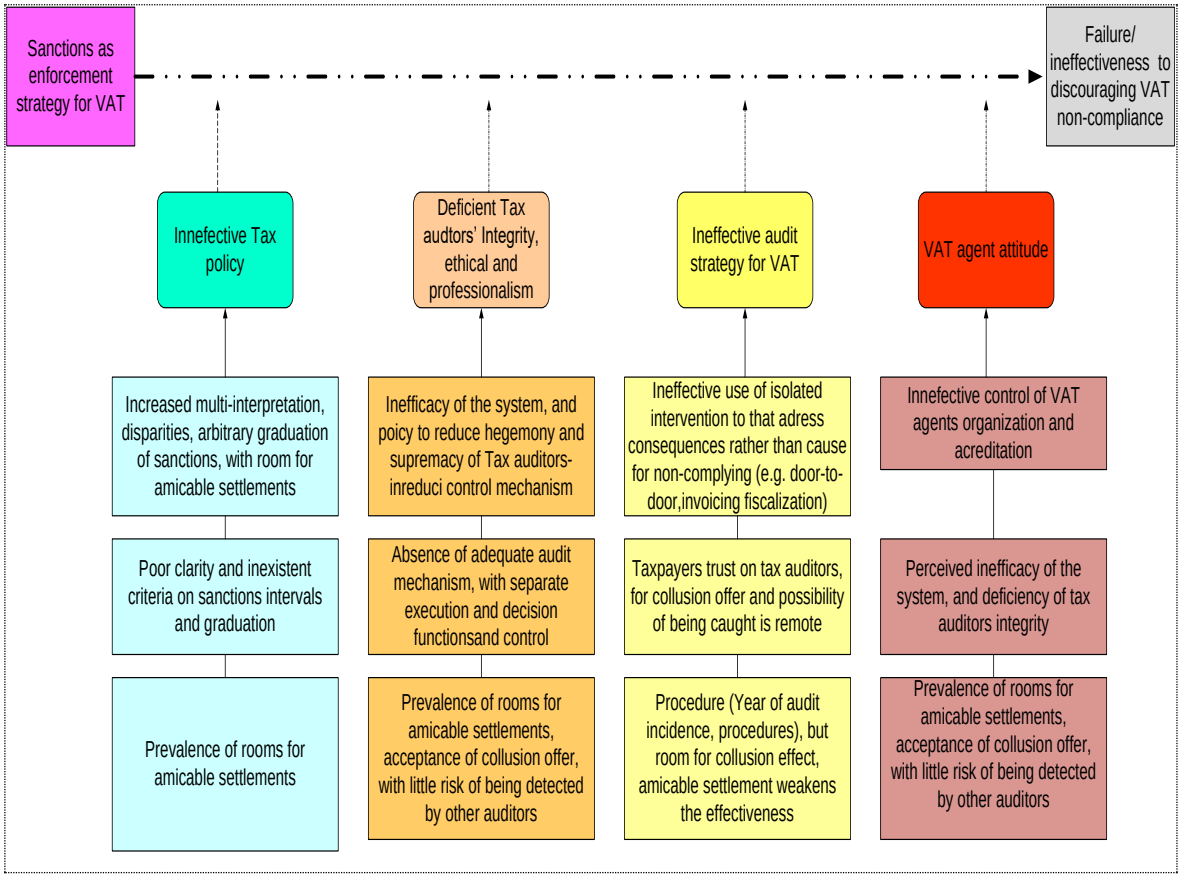
proximity to taxpayers (building tax units) to foster voluntary compliance without addressing the complexity of VAT law that incurs costs to taxpayers will not reduce compliance costs.

Empirical studies suggest that the influence of VAT agents/accountants on taxpayers' compliance results from their increased knowledge on tax legislation and enforcement policy and patterns, given the complexity of tax laws, to strongly influence the attitude of taxpayers towards evasion (Klepper & Nagin, 1989; Reignaum & Wilde, 1991, Erard, 1993). This gained support in studies by Franzoni (1998), Webley (2001) and Webley & Ashby (2010), who posited that tax experts have substantial influence on taxpayers' compliance behaviour, due to their poor tax knowledge and mental accounting. Similar to these findings, the study has additionally found that taxpayers also found in VAT agents, negotiators, who could advocate on their behalf and assist them to avoid VAT their obligations. Collusion between taxpayers and VAT agents reduced the amount of tax paid. This also applied in cases where taxpayers could avoid being audited and sanctioned. The attitude of tax agents is thus critical in influencing taxpayers' compliance. Ethical issues, professionalism and integrity amongst VAT agents are key factors in managing VAT non-compliance. VAT agents' relevance in managing VAT non-compliance increases VAT agents' interaction with both taxpayers and TA. This group of professionals (VAT agents) assist taxpayers (who pay their salary) with accounting services and act as government partner ensuring accurate deduction of taxable transactions and its consequent remittance to TA. Thus, cases where VAT agents' ethics and professionalism were in question have increased the challenges to address VAT non-compliance, and in some cases, the practice of non-compliance has further increased.

Findings indicate that using sanctions as an enforcement strategy to address VAT non-compliance would not fully account for non-compliance practices. Fiscal psychological factors have weakened the effectiveness of sanctions in discouraging compliance. Tax policy (those opening space for amicable settlements and arbitrary application of sanctions graduations), tax auditors' integrity, ethics and professionalism, auditing strategies, and effects of VAT agents, have determined the effectiveness of sanctions in enforcing VAT compliance. In this context, sanction has enabled the building of relationships to be constructed from different perspectives amongst different groups

(vat agent –taxpayer, vat agent- tax auditor and taxpayer-tax officer and tax auditor). It was an effective co-determinant for collusion between them, to co-operate in avoiding paying sanction. The more ineffective the factors in Figure 41 below, such as (tax policy, s; tax auditors' capacity, integrity, ethics and professionalism; audit strategy for VAT, and VAT Agent attitude) are, the more remote the effectiveness of sanctions will be in discouraging VAT non-compliance. Thus, heavy reliance on sanctions and audits for enforcing VAT compliance, tends to divert the proper focus on priorities to be given to fiscal psychological factors:

Figure 41: The dynamics of sanctions in discouraging VAT non-compliance



Source: Own, 2017

Thus, unlike the premise of economic models, the study notes that taxpayers did not comply with VAT because they were afraid of being caught or sanctioned. Moreover, its effectiveness to deter VAT non-compliance was weakend by contextual specificities characterized by ineffective tax laws, with room for amicable settlements, disparities

and arbitrary in graduation of sanctions; tax auditors' incapacity, deficient integrity, ethics and professionalism, ineffective audit strategy for VAT, and deficient VAT Agent attitude,

Unlike in economic theory, where audit and probability of sanction were used as strategies to enforce tax compliance, research findings indicate that taxpayers are not afraid of being sanctioned as tax auditors' integrity is deficient. Taxpayers could avoid being sanctioned through acceptance of an offer of collusion between tax auditor and taxpayer. The absence of adequate audit mechanism and procedures, with separate execution and decision functions, facilitated collusion and corruption. The sole and heavy reliance on sanctions and auditing to manage VAT non-compliance in an environment characterized by weak administration and poor professional integrity has failed to account for VAT non-compliance. This foundation overlooks social, political and cultural contexts embedded in the context in which the administration of VAT non-compliance operates and VAT nature and its complexity. The use of strategies associated with income tax theory, by TA, such as invoice inspection (*fiscalizaçao a facturaçao*) and auditing, have failed to capture the dynamics of social and fiscal psychological factor of tax compliance. These overlooked crucial assumptions in addressing VAT non-compliance.

Analysis on the dynamics of tax systems and designated integrated elements shaping the environment has enabled to understand priority factors to be taken into account in developing an overarching strategy. Four main factors, namely cost-benefit association, VAT invoice administration, informal sector growth, and sanctions have shaped the dynamics of VAT compliance. Although the first three significantly influenced VAT compliance, sanctions have proved to be less of a deterrent for VAT taxpayers. Explanation of this phenomenon is based on the nature of VAT and its complexity, and the effects of economic and psychological factors in reducing the effectiveness of sanctions.

The models and strategies used to address VAT non-compliance are generalized, impractical, in a context, characterized by an inverted taxpayers' pyramid. Moreover, the models are mostly tied to income tax assumptions, informed by the Economic psychological theory of tax compliance, taking the "offenders" as the unity of analysis.

Therefore, using audit and sanctions as key enforcement strategy, revealed to be ineffective to reduce VAT non-compliance. On the other hand, strategies involving cost-benefit association, VAT invoice administration and informality in managing the tax base suggested providing better options for reducing VAT non-compliance.

CHAPTER SEVEN

CONCLUSION

7.1 INTRODUCTION AND METHODOLOGICAL FRAMEWORK

This chapter presents a further consolidation of previous discussion and emerging themes from chapter 6 on Data Analysis. This aims to abstract findings in policies informing Tax (VAT) compliance theories. The three emerging concepts, cost-benefit association, VAT invoice administration and control, and sanctions (Tax officers' integrity and risk management proactive strategy) are further integrated. This intergration attempts to improve the effectiveness of VAT non-compliance approach, as discussed in Chapter 3 of the conceptual framework (with previously elected vat compliance factors). The study synthesizes the analysis of factors and events to fill in related theoretical gaps, on how to develop an effective compliance approach to VAT. In section7.2, the general conclusion emphasizes the knowledge gap, whilst checking for the flaw, through literature arguments and findings towards concluding remarks of the study. This is followed, by section 7.3. Specific conclusion, where the researcher interfaces the conclusion with theoretical and conceptual framework, as per specific emerging themes, that emanate from the data analysis and on major associational themes set forth. Lastly an alternative approach for VAT non-compliance in developing countries is suggested in section 7.4. This enabled to reflect on alternative approach for addressing VAT non-compliance in developing countries, assented on the main designated intergrated element in VAT compliance.

7.3.2 Design integrated elements strengthening VAT non-compliance approach

Policies and strategies informed by clear understanding of taxpayers' compliance behaviour, key actors' interactions within the process, and tax officers' knowledge of the industry taxpayers operate in, have provided insights to identify the integrated elements on which compliance approaches could be developed. This approach provides responses to the questions posed by the study: RQ1 is "How do institutions and the integration of VAT compliance factors affect the success of the VAT non-compliance approach?". This is examined in the sub-sections below under the

following themes: a) The dynamics and (in) effectiveness of sanctions in discouraging VAT non-compliance; b) Dynamics of VAT invoicing administration and control in discouraging VAT non-compliance; and c) Dynamics of cost-benefit association in discouraging VAT non-compliance.

a) The dynamics and (in) effectiveness of sanctions in discouraging VAT non-compliance

The study contends that generally, sanctions did not yield better compliance and the findings reveal sanctions did to some extent drive some taxpayers to “fear being sanctioned”. An example of this is a group of taxpayers who were previously moderate in VAT compliance, particularly those who supply goods and services to the Government. However, a deeper understanding of this fact indicated that this group of taxpayers did not in fact fear VAT sanctions. Instead, they were aware of increased opportunity to avoid compliance with VAT through collusion. They preferred to remain tax clean, to supply goods and services through Government bids. In this case, for this group of taxpayers, amount of possibly applied sanction was insignificant, compared to amount of VAT they avoided. For them being sanctioned (often and if caught) was more profitable than amount of VAT they frequently avoided and evaded. The innefective VAT invoice administration control and multi-sectorial network that is unabable to detect non-compliance of taxpayers that supply Governments with goods and services from any point of the country, facilitates non-compliance. However, this group is a minority of taxpayers registered in the normal regime.

TAs place heavy reliance on compliance factors informed by income tax premises such as sanction, auditing, door-to door invoice control, fiscalization campaigns and fiscal education through messages on T-shirts, in an environment characterized by ineffective tax system. In this case, similar to findings from other scholars (Mittone, 2006; Gauthier & Reinikka, 2001; Bergamen & Navarez, 2006; Kichler, 2007), sanction proved to be ineffective and counter-productive, but due to increased perceptions of unfairness, and failure of the ineffective tax system to reduce opportunities for collusion. Findings revealed irrelevance of sanction as a factor to discourage VAT non-compliance in the context of Mozambique. This irrelevance resulted from lack of integrity on the part of tax auditors, and inadequate enforcement mechanisms and

implementation. Unlike advocates from revised literature, positing compliant taxpayers to be loyal, this study revealed that compliant taxpayers also tended to non-comply, in such characterized environment. Therefore, strategies that fail to account for inefficacy of VAT invoice administration and control, not only increase the opportunity for VAT non-compliance, but also reduce effectiveness of sanctions and prompt profit maximization exploitation. The importance of cost-benefit association as a factor indicates the need for an inter-sectoral plan to address VAT non-compliance management. However, this has to assent on interventions from both the micro- and macro-environment of the TA.

Without denying the merits of the economic psychological theory of tax compliance, findings do not advocate for the removal of sanctions, or any other reactive approach in manage VAT non-compliance. Instead, unlike the simplistic view of improving deterrence effects of sanction in the original conceptual framework as presented in Figure 9, findings suggest, improving deterrence effects of sanctions to be complex and transcending tax compliance boundaries, as depicted in Figure 41. This expands the elaboration on Figure 9, whereby improving tax knowledge skills, reducing complexity and fragmentation of VAT law, building exchange relationships with VAT taxpayers, improving descriptive and procedural aspects of VAT sanctions, and acknowledging and integrating VAT, enhanced improvement on deterrence effect of sanction. Findings also bring forth the dynamics of endogenous variables, informed by the risk management approach for VAT non-compliance. However, successful implementation of this approach requires improved training content and quality, targetting non-compliance specifics.

Similar to other research findings, the study has revealed tax officers' policing attitude to undermine trust, fairness and perception of equal treatment amongst taxpayers. Taxpayers' dissatisfaction with tax officers and auditors, partly results from discrepancies, inconsistencies and inadequate sanctions procedures (reflected in inconsistency and multi-interpretation), during application of sanctions, by different tax units, including the Central Directorate of the TA. In this context, heavy reliance on sanction to enhance compliance, revealed to influence a growing environment of mutual distrust, which discouraged a culture of conformity to tax laws. Therefore, failure to improve tax policy inefficiencies, inconsistencies and inadequacies, based on

adequate human capacity and equal implementation of tax law for all taxpayers, has undermined the deterrence effects of sanctions in influencing compliance. Sanctions is extensive and intensively used as factor to enhance tax compliance, by most TAs (Allingam & Sandmo, 972; Langham & Hartel, 2012; Webley & Ashby, 2010; Fjeldstad & Heggestad, 2011; 2012; Swistak, 2016; Wahyudi, 2016).

A relatively few taxpayers carry the overwhelming burden of paying VAT to the TA. This has influenced the non-compliant environment through migration from the formal to the informal sector, partly justified by the premises of equity theory and peer group influence. In this case, the perception of taxpayers that not everyone complies with tax obligations, increased non-compliance. Therefore, taxpayers' feeling of tax burden has not improved the effect of sanction as a deterrent factor and has not facilitated the agenda of the enlargement of tax base. This finding supports on Alm (2012), Rose-Ackaerman and Palifka (2016) and Schenther (2017) relating to inefficiencies of sanctions as a deterrence factor and the intentions of taxpayers to compensate for costs incurred in audits.

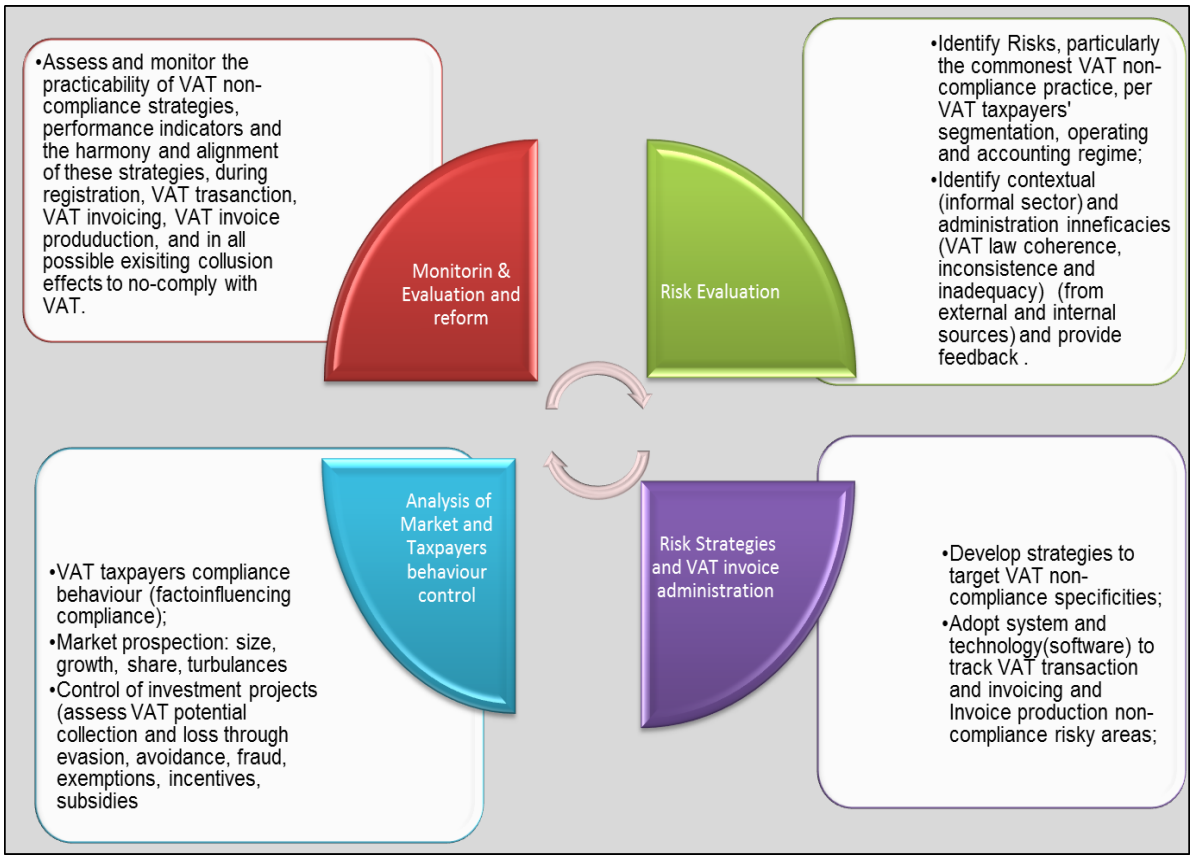
However, the absence of a risk management approach could reduce sanctions inefficiencies in reducing opportunities to mitigate non-compliance. However, findings reveal that limited experience in risk analysis and techniques in developing compliance strategy, as well as poor linkages to context and the tax systems can influence the effectiveness of risk management approach, as depicted in Figure 42. Four distinct phases characterize the development of a risk management approach to VAT non-compliance, informed by institutional premises and knowledge of tax compliance behaviour. In this regard, the *risk evaluation phase*, presupposes a solid understanding of common VAT fraud and evasion, taxpayers' segmentation and VAT type and regime. However, this is informed by institutional theory, whereby risk could be identified from contextual factors (micro- and macro-environment) and formal (law and procedures). A deep understanding of inefficiencies and inconsistencies of VAT law or regulation are crucial to identify factors that could lead to perception of administration inefficiencies. If not adequately addressed, this could expand opportunities to avoid VAT compliance. In *risk strategies and VAT invoice administration phase*, instituions inform strategies developed from VAT non-compliance specifics and adopted technology, which respond to contextual specifics and demand. However, to ensure

awareness of tax potential and prospective taxpayers and compliance tendencies, occurs in the third phase of the approach, *analysis of markets and taxpayers' compliance behaviour and control*. In the fourth phase, institutions, inform and develop *monitoring and evaluation and reforms*. It addresses inefficiences, inconsistencies and the inadequacy of law and procedures during implementation, to improve its capacity to reducing opportunity to for VAT non-compliance.

Ineffective tax (VAT) policy, deficient VAT audit strategy, poor VAT agent attitudes and poor integrity of tax auditors have strongly determined the effectiveness of sanctions as an enforcement strategy. Moreover, ineffective audit strategy, the absence of a proactive risk management approach enhanced the practice of collusion effect at all levels rather than encouraging compliance. This environment could hardly facilitate the addressing of prevailing inefficacies of sanction in the practice of VAT non-compliance.

While the risk management approach could provide insights to improve the traditional reactive approach (sanctions, door-to-door invoicing and fiscalization campaigns) to address VAT non-compliance, these could not fully account for the effectiveness of the proposed proactive approach, in the absence of improving tax auditors' integrity, improved tax policy, effective audit strategy and VAT agent attitudes.

Figure 42: An alternative VAT non-compliance Risk Management Approach



Source: Own, 2018

The successful implementation of the risk management approach is based on the assumption that TA is aware of the designated integrated elements, that shape the social reality of the practice of VAT non-compliance, as presented below, where two major themes emerge as key factors, namely, VAT invoice administration and cost-benefit association.

b) The dynamics of VAT administration and invoicing control in discouraging VAT non-compliance

This study provided insights into the dynamics of VAT invoice administration and control in the practice of VAT non-compliance. The original conceptual framework in Figure 10, developed from revisited literature. This reveals to be simplistic and limited to address the complexity of VAT non-compliance. Findings, suggest a framework that aimed to improve inefficiencies of VAT invoice administration and control by the TA,

by introducing institutions that enhanced co-ordination (interactivity and communication) and partnership amongst key actors and players in VAT invoice administration and their interaction (Figure 37). However, the absence of a strategy to address VAT invoice administration and control, have perpetuated VAT invoice related fraud. Examples of possible elements for the strategy are lack of conformity of VAT invoice administration and control to the tax system; the absence of risk management for VAT invoicing management and the adoption of inadequate drivers of change (technology, training etc), to address the dynamics of VAT invoice administration. Additionally, strategic interventions that overlooked the need to account for the most common VAT invoicing related fraud, avoidance and evasion, failed to target non-compliance related to VAT invoice.

The TA interventions based on door-to-door invoicing control, internal auditing, and "dialogue with taxpayers" during VAT declaration and fiscal education was ineffective to reduce and discourage collusion around VAT invoicing (Figures 39 and 39a). Heavy reliance on the reactive approach, drawn from income tax assumptions, partly explains this. Findings have also revealed fiscal education strategies (means, mechanisms and content) to be ineffective and the use of incentive schemes to promote VAT invoicing to be ineffective in Mozambique's context. A limited understanding of the dynamics of key actors at different stages (production, wholesaler, retailer and consumer) of VAT credit method of consumption VAT, has also contributed to opportunities for collusion during B2B and B2C transactions.

The study revealed the effectiveness of VAT invoice administration and control and opportunities for collusion being inherently associated with the nature and structure of VAT (tax). In this context, even in cases where technology such as the use of electronic invoicing by some taxpayers or e-taxation, are used to strengthen VAT system, it is unlikely to improve VAT invoicing administration (Figures 18 and 21).

Poor enforcement mechanisms and a limited understanding of the drivers of change and key actor relationships have further undermined weak control of VAT invoice authorization over VIA requests, use of fake VAT invoices, and ineffective control systems for invoiced VAT during transactions. The examination of the attitudes towards compliance of the key actors (Figures 19, 20, 24, 25 and 26) has revealed

conflict of interest prompting collusion. Moreover, while communication amongst key actors revealed central to co-ordinating activities, this also enhanced platforms for building relationships and developing partnerships. However, findings revealed the prevalence of lack of communication and engagement of key actors and players.

The findings have revealed that attempts to adopt incentive strategies to enhace compliance fail to address the conflict of interest amongst the main actors in the process. Therefore, the way in which taxpayers, final consumers and VIA benefit from non-invoicing and not issuing of invoices after final consumers' purchasing goods/services have influenced their compliance. Thus, the danger of dissociating these VAT specifics from management strategy, misleads enforcement strategy to address non-compliance. Unlike other studies, findings revealed lottery would not enhance VAT invoicing and demand for VAT invoices after transition, since the likelihood of winning the lottery is limited. On the other hand, the certainty of gaining from evading VAT in all purchases is realtively high, as collusions occur at all phases of consumption VAT.

The use of the credit method within an environment characterized by weak enforcement mechanisms, limited integrity of tax auditors and the absence of risk management approaches to VAT invoice administration and control facilitated the practice of collusion. Therefore, failure to examine these factors has not improved strategies to address VAT compliance. The study provides insights to understand the dynamics of accountability, transparency and good governance in influencing compliance. It suggests that perceptions of unequal treatment by the TA strongly influence taxpayer perceptions of the efficiency of the TA administration, to influence compliance behaviour. This supports the findings of Adams and Webley (2001); Fjeldstad and Semboja (2001); Nkwe (2013); Sharma (2017) and Tsikas (2017) on the views of taxpayers regarding the efficiency of the TA administration in influencing compliance behaviour. This finding aligns with the findings on the links between tax and expenditure, the way tax revenues are spent and the extent to which taxation mobilises citizens' engagement.

c) The dynamics of cost-benefit association in discouraging VAT non-compliance

The revised literature on tax compliance theories, informed the conceptual overview of mental accounting in Figure 11. These suggest mental accounting to be one of the major designated intergrated element. Thus, the study included in the general proposed approach in Figure 12. Chapter 4 in the theoretical and conceptual framework of the study provides further attributes of mental accounting. The aim of the study was to explore how mental accounting influences the management of VAT non-compliance. Thus, to improve the effectiveness of mental accounting, the study proposed (in fig 11) to address targeted fiscal education and training on VAT; key actor interaction and accountability (public expenses versus VAT money collected).

Contrary to the initial conceptualization, the study found little evidence of the influence of mental accounting on taxpayer compliance. This supports findings revealing that most business people view the VAT money they collected as theirs and therefore were reluctant to hand it over to the TA (McCaffery & Slemrod, 2006). Findings have also revealed that particularly those taxpayers to whom it had been made clear that VAT money is only collected and never possessed, were found to be the least compliant, irrespective of their increased knowledge on the association with the frame of loss of ownership of VAT money they collect from final consumers. This contracdicts findings from researchers, supporting increased tax knowledge reduce taxpayers frame of loss of ownership of VAT money they collect (Adams & Webley, 2001; Webley & Ashby; 2010). Instead, mental accounting revealed to influence more on a segment of those involved in VAT non-compliance management (Final Consumers and Taxpayers), and only during Business-to-Consumer (B2C) transactions. This limited inlfuence failed to capture the dynamics within the practice of VAT non-compliance. The study revealed that the feeling of automatic cost-benefit association through the lens of social contract or social exchange, influenced more taxpayers' compliance, than mental accounting (the precept of VAT money they collected). The study also revealed that taxpayers understand the relationship to public goods or benefits and tax paid, and they are aware of what they are paying for. This contradicts findings by Adams and Webley's (2001).

The automatic cost-benefit association revealed to enhance tax compliance. However, in circumstances where VAT invoice administration and control is deficient, even if taxpayers were satisfied with cos-benefit association, these tended to non-comply. This was true for both compliant and non-compliant group of taxpayers. This relationship between cost-benefit association and VAT invoicing administration and control determined the level and degree of opportunity to non-comply with VAT. Although this proposition converges with findings revealing personal and social/external factors influencing the rationality, interpretation and analysis of events, such as in attribution theory where people allocate blame for their own non-compliance elsewhere, the study has revealed the opposite (Lewis, 1982; Arrington & Reckers, 1985). Prevailing positive automatic cost-benefit association alone does not discourage VAT non-compliance, lending support to studies revealing taxpayers to have general impressions and attitudes concerning their own and others' terms of trade with Government (Fjeldstad, 2001; Fjeldstad & Moore, 2008).

Public expenditure services, government accountability, transparency and improved criteria for selecting priorities in the provision of public goods and services in a responsible civil service revealed to substantially strengthen the platform for establishing automatic cost-benefit association. This supports studies on effective Government expenditure influencing perceptions of government legitimacy and influencing tax compliance (Levi, 1988; Alm, et al., 1995; Levi, 1998; Andreoni et al., 1998; Thaler, 2000; Fjeldstad, 2001; Fjeldstad & Moore, 2008), suggesting that taxpayers view exchanging purchasing power in the market in return for Good governance. In this case, positive perceptions on benefits from the government provision of goods and services has increased probability of voluntary compliance and without material benefit compliance becomes less assured. This also echoes findings from Levi (1998) Thaler (2000) Fjeldstad & Moore (2008).

On the other hand, perceptions of deficient cost-benefit association between the Government and citizens undermine the feeling of social injustice. This prompts taxpayers' political engagement through taxation to reduce. The study also reveals that; automatic/positive cost-benefit association can simultaneously be an effective *fiscal education per se*. This can also be a *regulator* for an ineffective strategy of fiscal education. Therefore, TA could save money for fiscal education, if taxpayers perceive

automatic/positive cost benefit association. Thus, the benefit of positive automatic cost-benefit association is twofold. In this case, efforts and costs to improve fiscal education could be of little use, unlike in cases where, taxpayers perceive deficient cost-benefit association. Thus, existing social contracts between taxpayers and Government have proved to be the enabler and mechanism through which taxpayers' compliance could be more or less assured. This supports evidence from equity theory, as presented in Chapter 4, advocating that individuals are more likely to comply with rules if they perceive the system that determines those rules to be equitable; otherwise, in cases where inequities are perceived, individuals adjust their inputs to the exchange until it is restored.

However, the research findings also reveal that the automatic cost-benefit association could be weakened, not only in cases where VAT administration and control inefficacies were reduced or eliminated, reducing opportunity to avoid compliance, but also in cases where the exchange relationship (cost-benefit association) was perceived to be detrimental as a result of the inadequate provision of public goods and services. This brings forth an intrinsic relationship between public expenditure management (including quantity and quality of priority needs by taxpayers) and VAT non-compliance. However, in cases where there is VAT administration and invoice control administration effectiveness, factors such as, accountability, transparency and effective public expenditure revealed to be determinant to promote positive automatic cost-benefit association. This has strengthened evidence regarding the relationship between taxation and State building, crucial to build an effective tax system and legitimacy of the state. Table 8 below, illustrates the associational relationship, between cost-benefit association and VAT invoice administration and control providing insights to strengthen VAT non-compliance approaches.

Table 8: Automatic Cost-benefit Association and VAT Invoicing administration and control Matrix for VAT non-compliance management in developing countries

Concepts	Automatic Cost-Benefit Association	Public Expenditure	Accountability	Transparency	Incentives
VAT Invoicing administration and control	**Ineffective enforcement strategy to address VAT non-compliance particularities**	Improve fiscal education content and quality and quantity of Public expenditure	Promote policies that improve communication and Government accountability	Engender policies that reduces opportunities for collusion effects of levels 1, 1a) and 2; to reduce corruption	Develop policies for VAT key actors', goals and perspectives
	Absence of risk management approach and adequate drivers of change (technology) to proactively administer VAT invoicing	Articulate policies and frameworks through investment on risk evaluation, Strategies, analysis and monitoring & evaluation; that proactively reduce opportunity for the practice of VAT non-compliance and increase public investment	Promote institutions that enforces Government accountability and generalized accountability culture in TA, through, investment on Technologies that are computerized and self-monitored, and concerted trainings focused on GVT (TA)	Engender on institutions that promote the adoption of drivers of change acceptable to community standards, rather than those obscured and vested by political "business" interest. Policies targeting tax auditors integrity, reducing VAT law and regulation	Adopt effective drivers of change and functional risk management has enhanced perception of administration effectiveness, thus reduced feeling of injustice and unequal treatment – motivating compliance

			role and accountability	complexity, fragmentation, discretion, arbitrarily and opportunity for amicable settlements	
	Deficient Tax auditors Integrity, ethics and professionalism	Fine tune VAT invoicing administration and control and technology	Promote institutions that enable taxpayers' or any RA official to access to auditing reports and contestations, at any time and level of RA, and enable to protest	Develop enforcement mechanism and implementation within a check and balance framework (separation of powers) to ensure clarity is preserved	Establish and strengthen institutions that enhance Tax auditors' integrity, ethics and professionalism,
	Weakness of enforcement mechanism and its implementation	improve efficacy of tax law (simplicity, reduce multi-interpretation, consistent sanctions criteria, that and collusion effect)	Develop institutions within the frameworks of checks and balance,	Avoid policies that entices generalized VAT non-invoicing environment, impunity	Articulated policy intervention to address VAT invoice administration inefficacies and their impunity and address informal sector

	Building key actors exchanging relationship (social network)	Develop institutions that promote key actors' goals and interests, incentives to cooperate and improve public investment	Establish institutions that promotes Clarity in understanding in the procedural process, the network and reporting/feedback	Avoid policies and strategies adoption and implementation that increases perception of deficient Government (TA)	Promote communication, participation, responsive and feeling of ownership of management approach by each of key actors
	Fairness of Tax system and informality (conformity of tax system)	GVT accountability acceptable to community standard, in quantity, quality and priority.	Reduce inefficacies of VAT invoice institutions, in a systemic network,	Create institutions on policies that reduce perceptions on tax injustice, unequal treatment,	Work out on institutions to enlarge the tax base

Source: Own, 2017

In this study, automatic cost-benefit association and VAT invoice administration and control revealed being the major design elements shaping VAT non-compliance in Mozambican context. The proposed alternative approach incorporates these designated intergrated elements.

7.2 GENERAL CONCLUSIONS

(i) VAT compliance approach and enforcement strategy targeting compliance

The study revealed that the dynamics of VAT non-compliance transcend the discourse of the traditional reactive VAT compliance approach. The importance of adopting an adequate compliance approach to improve co-operation opened up space for less reliance on a reactive approach to address VAT non-compliance. It revealed Reactive approaches are misleading and fail to target VAT specifics. The use of door-to-door invoice campaigns, auditing, sanctions and inspections; informed by income tax (direct tax) theoretical premises are limited to capture VAT related fraud, avoidance and evasion. It also indicates that, while it is important to have endogenously developed tax compliance approaches, the way these approaches are designed to target VAT nature and its procedural aspects are equally important. The approach should be informed by the psychological theory of tax compliance (economic and social factors) whilst targeting tax type, nature and key actors in the process. This supports Tekel's (2015) position on the need to have a more dynamic understanding of institutionalised practice being resistant to change. This relates to the effective law and to what and how other factors interplay within the context to reduce opportunity for non-compliance.

The study revealed that enforcement strategies drawn from the traditional reactive approach were limited to accounting for VAT non-compliance specificities. These were drawn from motivational postures informed by income tax premises, and mostly aimed to cut across taxes. This partly explains the paucity of empirical evidence regarding the influence of the compliance approach in discouraging VAT non-compliance, despite existence of some literature on tax administration. Therefore, TAs rely on traditional practice, experience and the way of dealing with VAT non-compliance based on different socio-cultural and time-spatial backgrounds. Although institutions influence

applied organizational strategies and tactics (Peters, 2012), the faithful replication of approaches has undermined organisational capacity to learn from strategic orientation. These approaches overlook the importance of compliance factors (designated integrated elements), the context, tax system and key actors' interactions in influencing changes in non-compliance. The traditional approach taking the offender as the unit of analysis has failed to capture the multiplicity and complexity of the dynamics of VAT non-compliance particularities. This enhanced and perpetuated the challenges to reduce the opportunity for VAT non-compliance. In this case, institutions are limited to act as a structuring force to circumventing non-compliance.

The traditional approach to addressing VAT non-compliance specifics is not in conformity to the tax system and the context (micro and macro environment). A lack of the understanding of the dynamics of these factors has hindered avenues to strengthen the effectiveness of the VAT non-compliance approach. Understanding the dynamics of emerged design elements and key actors' interactions and their dynamics is necessary to enhance VAT non-compliance efforts.

(ii) Context and Tax System Influencing VAT non-compliance

The way TA understands the dynamics within the context and tax system in which VAT non-compliance management operates, determines success in addressing non-compliance opportunities. The limited way of addressing the tax system, through tax policy reforms, creation, elimination and alteration of tax policy, have overlooked the centrality of of an effective tax system in strengthening the VAT compliance approach. Therefore, TA failure to understand and recognise the importance of conformity of the context to the tax system and vice versa, the interdependence and complementary dynamics of the processes within the approach in a non-static evolution process, have not enhanced tax policy reforms to strengthen the tax system to address VAT non-compliance. However, adopting tax reform to streghten tax system, also supports findings in Ibraimo (2002), Watty (2013), Fjeldsdat and Heggstat (2011; 2012), Slemrod (2016) and Tsikas (2017).

The challenge of the TA is not only in developing a contextually informed tax compliance approach for VAT, but also, to identify the right equation and elements to

be integrated in the approach. However, this has not been an easy task for TAs. It demanded identifying the designated integrated elements (VAT compliance factors) shaping non-compliance in a particular social reality. This pressuposed (i) the understanding of common VAT fraud and evasion (ii) identifying existing opportunities for non-compliance (in law, platform, social networks), (iii) understand the dyamics of identified designated integrated elements to non-comply. In spite of TA "power" to promote increased co-operation, this study indicates that some macro- and micro-environment factors have determined TA effectiveness in enhancing co-operation. However, TA should be aware of the dynamics of the growing informal sector and its effects on the "vicious cycle" of challenges to enlarge the tax base. Clarity on Taxpayers' pyramids of the country has also revealed to be determinant to strengthen the proposed VAT compliance approach.

(iii) Informal sector, Tax benefits, TA administration procedure and the enlargement of tax base

The study reveals that the growth of the informal sector within the tax system has promoted perceived imperfect competition amongst taxpayers. Government inertia to discourage expansion of informal sector, partly explains this. Taxpayers find the informal sector operators selling their goods and services at a more competitive price than those operating formally. However, little is done to bring informal operators into the tax net. This supports the literature revealing migration of formal taxpayers to informal sector, due to perceived unfairness (Fjeldstad & Moore; 2008; Fjeldstad, Schulz-Hernberg & Sjursen 2012). The informal sector revealed to be a mechanism for taxpayers' non-compliance where a large share of business activities is located in the informal sector. This supports findings by Joshi & Ayee (2008) Fjeldstad & Heggestad (2012) revealing the negative influence of informal sctor to tax base. In spite of these multiple effects of the informal sector to influence VAT non-compliance, analytical attempts to address the challenge have been counter-productive for the management and expansion of the tax base.

The enlargement of the tax base was influenced by political interests conflicted with the basic premises of institutions. Government inertia in addressing the expansion of informal sector, in local authorities, revealed to be partly related to political election

purposes (willing to gain votes from this group). Another reason was to manage any possible upraisal from this group due to lack of employment and the absence of a plan for job creation. Similar to other researches by (Terkper, 2003; Nathan Associates, 2004; Fjeldstad & Heggestad, 2012), findings have also revealed that efforts to formalise the informal sector were undermined due to economic reasons (limited tax amount paid by small enterprises and workload and costs purposes).

Taxpayers find informal sector operators selling their goods and services outside the tax net at a more competitive price than VAT taxpayers do. In this case, Informal sector reveals to be *a factor* discouraging taxpayers' compliance, due to perceived imperfect competition amongst taxpayers. Taxpayers are discouraged to comply with VAT due to inequality aversion, strong repulsion towards GVT inertia towards informal sector and ineffective administrative and procedural actions by TA. Moreover, the heavy concentration of TA on the few that comply with VAT deteriorates their resentment, in an environment where informal sector rapidly expands. In another dimension, Informal sector also reveals to be *means/mechanisms* of taxpayers' non-compliance practice. This is persuaded by its "paradise and freedom", for being the most relaxant sector to operate in. Thus, becomes preferred destiny for taxpayers' erosion from formal to informal sector. Informality also prompts "peer group of influence" as formal and informal operator "share the same customers". This has partly supported evidences positing that a large share of business activity is located in the informal sector (Joshi & Ayee, 2008; Fjeldstad & Heggestad, 2012). This undermines attempts to enlarge the tax base, which further deteriorated, with the closing down of companies, economic and political instability and a deficient business environment.

Perceptions of unfair treatment by some of the taxpayers, due to tax benefits (exemptions, incentives and subsidies) attributed to foreign multinationals, and some large, and medium taxpayers, have affected the tax base negatively. The study also revealed the way the context and process influences the tax base. This adds to empirical findings that support tax exemptions, incentives and subsidies to influence taxpayer migration from the formal to the informal sector (Fjeldstad & Moore, 2008; Fjeldstad, Schulz-Hernberg & Sjursen, 2012). The absence of effective institutions has opened space for lobbying by industries or organizations and companies with politically vested interests, to avoid VAT compliance. Institutions that originally meant to promote

development through creation of value chain, which could enlarge the tax base, revealed counter-productive. Overlooking the effects of structural economic institutions towards taxation has undermined tax collection and threatened the legitimacy of the government. Therefore, whilst institutions may influence economic changes and development (North, 1990), ineffective institutions can also negatively influence the tax base, which could accelerate development.

The findings suggest that the growth of the informal sector will lead to a reduction of the existing VAT tax base due to imperfect competition. This will place an additional burden on the already limited taxpayer base. Some economic arguments against formalizing the informal sector advocate that, the small amount of tax paid by small enterprises vis-a-vis the work that would be required to manage such collection could not be effective, as thes operators are many and they would pay little. Instead, this suggested the increase of threshold (Terkper, 2003; Nathan Associates, 2004; Fjeldstad & Heggestad, 2012).

The study revealed inefficiencies in TA administration and procedure and the absence of a clear plan to enlarge the tax base. The apathy towards taxpayers presenting VAT forms with no sales or with systemic VAT credits did not improve tax collection. Thus, pressure (heavy reliance) on the limited number of compliant taxpayers, to collect taxes, continues. TA via tax units focused on achieving monthly targets based on short-term strategies. As achieving the monthly set targtes was an indicator for evaluating directors of tax units, little ttention is paid to the means and quality of collected taxes. However, individual interests in securing their posts as Directors or heads of divisons in tax units spearheaded all efforts to collect taxes. The study has also revealed that it is difficult to manage the tax base in a cumbersome tax system, where the TA has a poor understanding of taxpayers pyramids; unclear picture of the dynamics of informal sector operators, and that of “potential taxpayers”.

(iv) Key actors’ interactions enhancing or discouraging co-operation to compliance

The study revealed that a solid understanding of the practice of VAT non-compliance could prompt the bulding of an effective co-operation amongst key actors, to

circumvent and reduce opportunities for VAT non-compliance. It also indicated VAT non-compliance complexity as embedded in key actors' relationships. While distinct interests, agreements, in the process informed key actors' interactions, resulting group influence, prompted circumstances for an "offer" or "acceptance" of "collusion", discouraging VAT non-compliance. This occurred at all levels of the collusion effect described in Chapter 6. The study brought to light more actors and circumstances prone to occurrence of collusion within the VAT compliance chain. Mittone (2001; 2006) and Adam and Webley (2001) advocate taxpayers and final consumers' collusion effect. This results from a perceived imperfect competition due to 'competitive price" in the market. The phenomenon of collusion highlights institutional attributes of shaping compliance decisions and constricting behaviour (North, 1990; Peters, 2012; Lang, 2018) being outweighed by economic gains through effective partnerships. However, the partnership benefits only the two actors at different levels of collusion other than the State. In this case, moved by economic gains, it is collusion that establishes a stable structure for human interaction and not institutions, to discourage non-compliance.

Therefore, collusion amongst different key actors, with distinct interests, goals and perspectives, has supplanted institutional attributes to foster co-operation. It also challenged institutional co-operation through improved capabilities and administration efficiency (Rheingold, 2002). This enhanced the focus on what sense individuals can make (Barley & Tolber, 1997) and limited institutional influence to the improved perception of the likely action of other people that could discourage them from compliance (Di Maggio, 1988; Goretzi, Strauss & Weber, 2013). In this case, institutions fail to constrain the dominance of the motivational aspects prompting collusion through their interactive process in the pactice of VAT non-compliance.

Understanding the dynamics of collusion at all levels, in-group effects and exerting forces that influence co-operation or "exchange relationship", have been important to strengthen the effectiveness of the presented alternative VAT compliance approach. Institutional premises improve the influence of endogeneity (context) on institutional values and culture (Kasper & Streit, 2000; Martinez-Vazquez & McKey, 2001). It could also facilitate collaboration around compliance and conflicting interests amongst key actors, reflected in different levels of collusion exerted substantial opposing forces to

co-operation. Contrary to Rothengatter (2005), institutions have failed to promote practicability towards changing individual and collective outcomes. This approach was limited and simplistic, to address the multiplicity of VAT nature and non-compliance practicability, cutting across disciplinary lines. Therefore, the approach should be in conformity to contextual ties, involving different actors and players in the management process and distinct taxpayer segmentation. However, employing the lens of system theory prompts the achieving of a common objective, through awareness of essential interrelatedness and interdependence of parts involved in the phenomenon, which transcend disciplinary and conceptual boundaries of tax compliance literature.

(v) Potential functional model for TA to address VAT non-compliance

While there is no standard model, contextual realities could better inform the most suitable model for a social reality. The adoption of Matrix organisation as the organisational model has been common to most TAs (McKerchar & Evans, 2009) in developing countries (Vehorn & Brondolo, 1999). The TA in Mozambique has adopted characteristics informing Matrix organisation, with some features of product based, functional and client based approaches (Mintzberg, 1983; Vehorn & Brondolo, 1999; Gill, 2003; Ebril, Keen, Bodin & Summers, 2002). Without denying the advantages of the model, a context characterized by (i) rapid expansion of informal sector; (ii) challenges of enlargement of tax base and unclear taxpayers' segmentation; (iii) ineffective data base of taxpayers, the bsence of an audit strategy and absence of clear statistic of potential taxpayers 'data base' from municipal phase, is inadequate to respond to matrix approach demand, to address the dilemma of VAT non-compliance. Such contextual environment supports findings revealing the prevalence of ineffective auditing strategy and TAs administration inefficiency on VAT non-compliance (Adams & Webley, 2001; Frey & Torgler, 2007; Fjeldstad & Heggestad, 2012). A Product Based Model where organization of TA bases on the type of tax, e.g. Direct Tax or Indirect Tax, could gain more in administering tax collection. This approach conforms to the study's purpose by providing clarity to the practice of most of VAT non-compliance within its entire complex socio-economic, institutional and contextual environment (Dollinger, 1984; Milliken, 1987; Bloom & Michel, 2002). This eliminates possibilities of elaborating misleading strategies to address the complex and heterogeneous environment of VAT non-compliance management. However, there is a need to know

the designated integrated elements that could strengthen the possible framework to discourage VAT non-compliance.

(v) Influential, designated, integrated elements in the approach and their dynamics in enhancing or discouraging compliance

The study revealed sanctions and auditing to be less of a deterrent to discourage VAT non-compliance. This was due to lack of integrity, ethics and professionalism amongst tax auditors, weak enforcement mechanism and implementation, as well as deficient VAT administration and invoice control. However, factors such as TA power, trust and perception of effectiveness of VAT invoice administration and control influenced compliance. Therefore, relying on sanctions to discourage VAT non-compliance has been ineffective to address VAT non-compliance. The failure of sanctions as a deterrent goes beyond individual compliance behavior. In this case, the system and context in which sanction is applied suppresses its effectiveness. An environment with increased possibilities of amicable settlements and collusion, coupled by weak enforcement mechanisms reduces its detterent effect. Sanctions also fail to influence co-operation of individual and collective actors (Lawrence & Suddaby, 2006). As key sources of meaning (Tolbert & Zucker, 1996) and to provide perception cues. Its deterrent effect is prompted by weak enforcement mechanisms and implementation limiting the effectiveness of institutions to exerting influence and regulation over other social entities. This echoes finding by North (1990) and Gurbaxani, Kraemer, McFarlan, Raman and Yap (1994) and Scott (1994). A concern in relation to this particular finding was that taxpayers did not fear being caught as opportunity to escape from any imposed penalty non-complying was high. Taxpayers identify opportunities for collusion and corruption. This occurs along the VAT spectrum and in different moments, such as, deduction stage (production-wholesaler-retailer) and during key actors' interactions. Inadequate drivers of change to detect non-compliance and lack of integrity of tax auditors facilitated collusion.

On the other hand, addressing VAT administration and invoice control and automatic cost-benefit association revealed to be effective due to the effects of pro-social behaviour embedded in the practice VAT non-compliance. Both are interlinked and are complementary to enhance deterrent effect. Although Cost-benefit association

revealed to be influential, taxpayers still opt to non-comply, if their perception of increased opportunity to avoid compliance with VAT is high. Therefore, leveraging institutional premises enhance individuals' perceptions of social reality in the way taxpayers could select, organize and interpret information (Dequech, 1998: Houssa & Megersa, 2017).

7.3 SPECIFIC CONCLUSIONS

In this section, in order to promote an improved understanding of the dynamics of VAT non-compliance, the study explains below, the theoretical and conceptual framework as per specific emerging themes, their associational relationship, and major associational themes.

7.3.1 Ineffectiveness of Tax Authority' VAT non-compliance approach

a) Misleading management orientation to address the dilemma of VAT non-compliance

TA places a heavy reliance on enforcement strategies informed by income tax (economic psychological theory of tax compliance), emphasizing that "taxpayers pay taxes because they are afraid to be sanctioned". However, these have failed to target particularities of VAT non-compliance. The use of sanctions, door-to-door invoicing, and fiscalization campaigns have been expensive and impractical. The adoption of an enforcement strategy informed by other tax than VAT has not promoted institutional change. The lack of information on the dynamics of VAT non-compliance and its interaction with the contex and tax system has deteriorated possibilities of strengthening strategies. Failure of the TA to select optimal enforcement strategies to implement through institutional means (Borderick, 1970; Houssa & Megersa, 2017) have not enhanced institutional change to discourage non-invoicing. Findings have revealed limitations of instutional premises to prompt change (enhance optimal choice) with time and information as posited by North (1990), but only, in circumstances where the enforcement strategy was endogenously developed.

b) Challenges in replication of tax compliance approaches and tax system in a different context

Replication of compliance approaches from other contexts has been limited, and impractical to address VAT non-compliance. It overlooks considerations to the multiple and complex dimensions of the practice non-compliance and the context (micro and macro environment) and tax system in which it operates. Ineffective tax system and administration have prompted the use of VAT invoice related fraud and evasion (e.g. forged VAT invoicing, fake invoices; non-invoicing, presentation of VAT form with no sales and with systemic credits and collusion among key actors. Without denying the importance of institutional factors in promoting development (Curries & Swanson, 2009), this study, revealed that, institutions have been limited to focus on the interests and agenda of the organization, law and society (Scott, 1994), policy analysis (Scott, 2008) and with organization (Scott, 2001) in seeking to replicate compliance approaches. In this context, lack of understanding of contextual features might hinder development, as suggested in other studies. In this study, findings revealed that in VAT non-compliance, conformity of approaches to contextual realities, VAT practice type and form, and tax system informing it, limited the influence of institutions.

c) Misidentifying designated integrated elements in VAT non-compliance practice

The absence of an overarching strategy to address VAT non-compliance has perpetuated the use of isolated and non-informed compliance enforcement interventions, which address consequences, rather than, the causes of non-compliance practice. This hindered the TA's attempts to address the challenges. Consequently, poor knowledge of designated integrated elements (most common VAT compliance factor) informing VAT compliance practice, deficient taxpayers' segmentation, overlooking the role played by key actors and informality in VAT non-compliance management elimitated possibilities to target VAT non-comliance specifics. This reduced possibilities of implementing adequate strategies for specific segments of taxpayers to enhance compliance. The lack of proper data on the social impact of non-compliance has resulted in the design of enforcement strategies being weak and ineffective (Dequech, 1998; North, Summerhill & WeingTAs, 2000).

7.3.2 Context, tax system, key actors, informality and tax base shaping VAT non-compliance

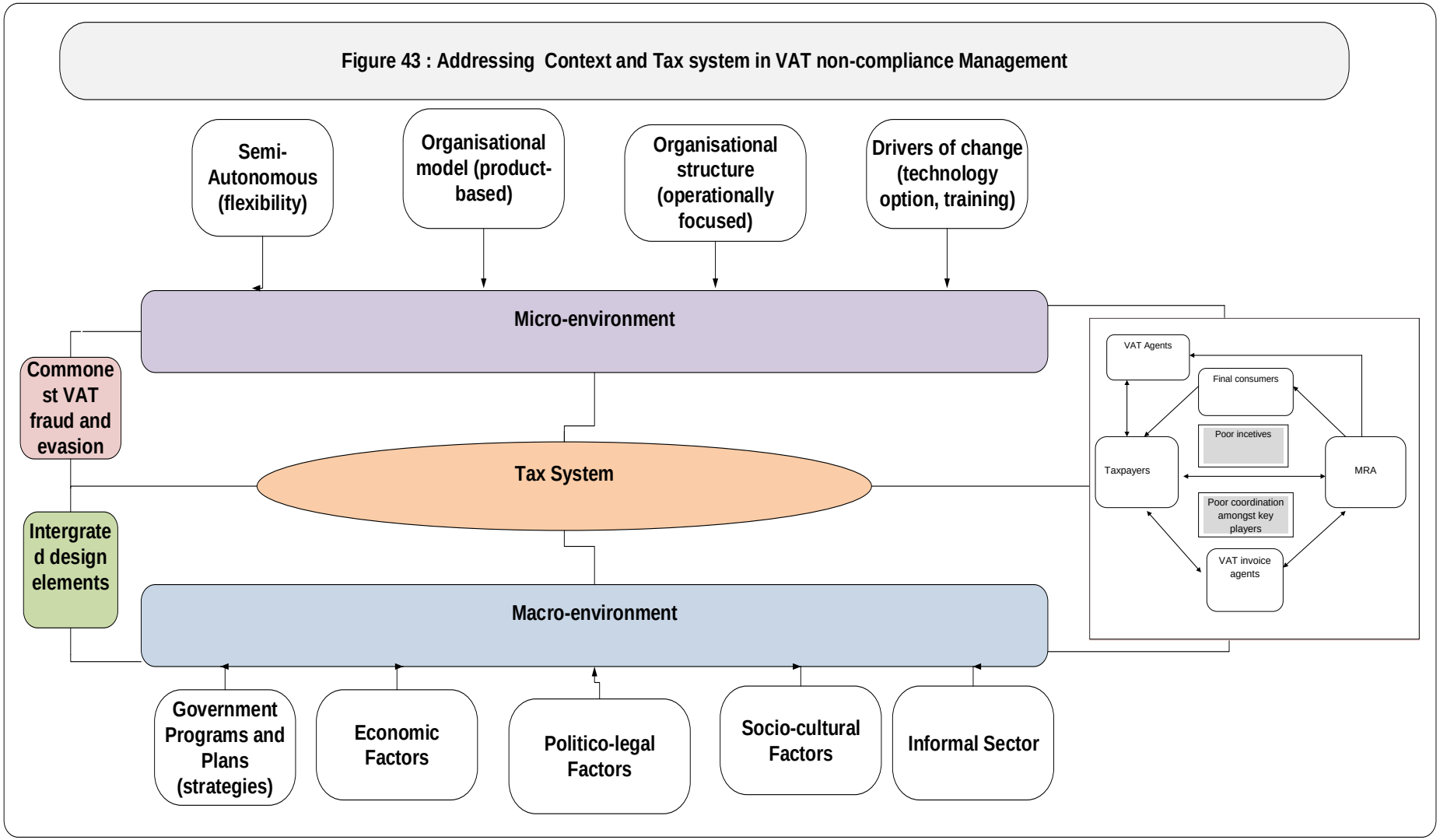
Policies that are not contextually informed weaken the effectiveness of tax system in enhancing compliance. A clear understanding of the general context provided insights for the researcher to answer RQ4: “How and why does the contextual environment in which the approach operates affect the success of the implementation of the approach”; RQ3: “What and how do drivers of change affect the success of the approach to manage VAT non-compliance?” and RQ2 of the research: “How does the relationship between key actors and players affect the success of the implementation of the approach?”.

This study revealed that the context (micro- and macro-environment) is informed by the tax system. However, factors deriving from the context it operates in strengthen or weaken the tax system. Moreover, adjustments to the tax system can be made to respond to specific contextual changes. Findings reveal the original conceptual framework as informed by revised literature in Figure 12, to be generalized, simplistic and limited. Although it accounts for the system, drivers of change and key actors’ relationships, it overlooks the centrality of the tax system in enhancing stability of the platform for non-compliance management, as depicted in Figure 42. The original conceptual framework, further explains the dynamics of the tax system, drivers of change and key actors’ relationships, overlooking their interaction and mutual dependence to reduce the opportunity to non-comply. This study in fig 42, interactions function as sub-systems within compliance. These are expected to respond to internal and external environmental changes. In their interaction, actors maintain focus to the centrality of the tax system; otherwise, interacting parts (sub-system) together could undermine the efforts made to avoid non-compliance (equilibrium), where inefficiencies could still provide non-compliance opportunities.

The findings revealed an inadequacy of prevailing tax systems in the Mozambican context, as depicted in Figure 2, as it is replicated from other contextual realities. The Law 15/2002 of 26th June 2002 informs the tax system. This resulted from successive tax reforms. The existing tax system fails to recognize the effects of contextual factors behind the complex interactions amongst stakeholders. It also fails to capture the

redundancies and dysfunction amongst different sub-systems within the dynamics of VAT non-compliance. Although the tax system is composed of national and local authority taxes, about 68 percent operate in informal sector that is expanding rapidly. Tax collection assents on the small existing tax base. This enhances a heavy concentration on the few taxpayers, who pay taxes. Moreover, the absence of effective institutions to address the informal sector undermines the tax base, through the migration of taxpayers from the formal to the informal sector. Disconformity of tax system with contextual specifics in which the practice of VAT non-compliance occurs, have overlooked the central role played by the tax system in the management of VAT non-compliance. This supports the influence of the organizational environment in developing the formal structures in an organization (Tolbert & Zucker, 1996; Gallager, 2005). The study provides a clearer understanding of how to strengthen tax systems to address VAT non-compliance.

This study shows how to strengthen tax systems to address the particularities of VAT non-compliance. This contradicts approaches that cut across taxes. These suggest improving tax system, through introduction of isolated tax reforms (Fjeldstad & Heggestad, 2011; Ayees, Fjeldstad, Marais & Keanly, 2010; Fjeldstad & Heggestad, 2012; IMF, 2013; Moore, 2013). Other scholars suggest the reinforcement of Government legitimacy (Franzoni, 1999; Frey & Togler, 2007; Fjeldstad & Heggestad, 2011; Fjeldstad & Heggestad, 2012; IMF, 2013; Moore, 2013; Watty, 2015) to strenghten the tax system. The study offers a platform to develop a tax system to address particularities of VAT non-compliance, as outlined in Figure 42 below. However, this implies a clear understanding of the context, tax system, integrated designated elements, commonly used vat fraud and evasion, and the dynamics of key actors' interactions. Analysing how to strengthen the tax system to address the dynamics of VAT non-compliance specifics, highlights a broader spectrum of factors, which could be endogenously constructed, as suggested in Figure 43.



Source: Own, 2015

Overlooking this holistic way of analysing the tax system has brought to light different factors influencing perceptions of the tax system, which enhanced/discoraged VAT compliance.

a) Tax policy reforms not contextually informed to strengthen the tax system

Tax policy reforms were heavily concentrated on exemptions, subsidies, incentives and tax heaven and holidays. Foreign multinationals, large and some medium taxpayers with political influence/ties mostly benefitted from these reforms. These investment projects and those operating within the free trade zone, in Mozambique (an environment dominated by the informal sector and a cash economy) prompt migration of taxpayers from formal-to-informal sectors, and in some cases, taxpayers operated in both formal and informal sector to avoid compliance. This presented a challenge, not only for the existing tax base but also prompted the reduction of possibilities for enlarging the tax base from the potential operators that are still in the informal sector. A perception of unequal treatment on the part of the TA arose between the formal and informal sectors and exacerbated the perceived horizontal and vertical inequity (Norregaar & Khan, 2007; Battison & Gamba, 2016; Bodea & Lebas, 2016; Olsen, Kang & Kichler, 2018). This could be addressed by enlargement of tax base, through sectorization, by improving the dynamics of VAT threshold and VAT invoice administration efficacy, bringing into the tax net, those that operate outside the tax net.

Although this might be consonant with attribution theory, as taxpayers' behaviour is attributed to external factor, such "taxpayer non-comply due to growth of informal sector", it neglects advocates of theory of reasoned action. This theory posits, "Personal and social responsibilities of taxpayers could improve their intention to comply". In spite of tax reforms, tax (VAT) laws remain complex and open to multiple interpretations. This occurs within different levels in TA, in an environment where tax knowledge is still very

low amongst taxpayers. This multiplicity and complexity of VAT law, coupled by poor tax knowledge among taxpayers, have incited corruption. Taxpayers have extensively relied on VAT agents/accountants to address both the self-assessment method in VAT deduction complexity and complexity of the tax law. However, this was not very much of a concern where VAT agents were compliant. It only presented a challenge to managing non-compliance in cases where VAT agents were non-compliant.

b) Reductionist way of understanding the inter-(intra) relations of context (macro- and micro- environment) and drivers of change influencing tax system

The findings reveal that the adoption of inadequate drivers of change (technology, training) facilitate opportunities for VAT non-compliance. The absence of a risk management approach that strengthens the platform to develop compliance approach frustrates efforts to address VAT non-compliance. The adoption of drivers of change were not in conformity to context and tax system and particularities of VAT non-compliance. In spite of the advantage of e-taxation, the study revealed its limitation to address Mozambican context. It is not readily accessible to most of taxpayers due to limited internet access. The majority are small and medium of taxpayers, where most VAT related fraud and evasion takes place. While improving drivers of change (training) promote positive changes from economic policy reforms (Fuller, Pillay & Sirur, 1995; Pillay, 2011; Pillay, Juan & Twalo, 2012), this study has suggested improvements to drivers of change, to occur in a manner that, the context and tax system inform the changes. Otherwise, adopted technologies will be limited to address VAT non-compliance. This supports empirical studies recommending the adoption of adequate drivers of change (training, technology) to strengthen the tax system (Pillay, 2003; 2006; 2011; SARS, 2001; 2012; Walpole, 2014; Sleenbergen, 2016). In this study, the reflection on VAT invoice administration and control, ilustrates the effects of inadequate drivers of change. It indicates the importance of adopting technology that can trace

VAT invoicing in real time, and a risk management program to support this work. This enhance improvements over lack of ownership of VAT invoicing and its authenticity. However, fiscal machines do not replace this attributes.

c) Overlooking the dynamics of social groups' interactions in strengthening the Tax system and the commonest VAT fraud and evasion

Unlike most studies on tax system, the findings indicate that tax system is conditioned and dependent on key actors' interactions. This supports findings of Slemrod (2016) and Tsikas (2017). However, in this study, key actors' distinct interests in the system prompt their interaction in to comply or non-comply with VAT. This may be explained by the fact that these social groups do not have common properties, as posited in systemic thinking. Perceived ineffective VAT invoice administration and control, and the absence of distinct incentives for each social group, are likely to increase their conflict of interest, and distance them from co-operating with TAs.

A simple analysis into the interaction of key actors along the compliance process has inhibited insights of the phenomena operating at different levels of the system. This also limited the understanding of how interactions among key actors' influence on the practice of common VAT fraud and evasion. A limited understanding of the most common practice of VAT non-compliance, does not contribute to developing informed and effective institutions to strengthen the platform for co-operation amongst stakeholders to address VAT non-compliance. This weakened the effectiveness of the tax system.

7.4 CONTRIBUTION TO KNOWLEDGE

Generally, this study expands on the tax compliance literature. It reveals how the taxation field can borrow from the premises of the institutional and system theories, and their attributes to strengthen the deterrence effects of VAT compliance factors. It adds to the literature on vat compliance factors (designated intergrated elements), by revealing the most influential VAT compliance factors within the contex of Mozambique. It provides insights into the dynamics of how these factors enhance/discourage VAT non-compliance. The study also enabled to disclose strategic insights that could strengthen the platform for enhancing an effective coordination and effective partnership, under the premises of system thinking. It brings forth the influence of key actors' partnership in circumventing VAT non-compliance opportunities. It revealed the dynamics of collusion effect, practiced at different levels, amongst key actors, and how their interests, goals and perspectives, have determined their compliance decision. The study also adds on methodological approach on VAT non-compliance for developing countries.

The study presents the contribution to knowledge in four main parts: Policy implication for tax (VAT) compliance approach; Policy implication on theory and practice; Methodological implications for Tax policy; and administration design for VAT non-compliance and Alternative Conceptual Framework for VAT non-compliance in developing countries. The study also suggests future research endeavours.

7.4.1 Policy implications for tax (VAT) compliance approach

The study strengthens institutional theory advocates positing the need to have complete information, to enhancing transformation or change in North (1990). It reveals that in tax compliance field of study, the element “complete information” was not enough to incite transformation or change. Instead, in order to bring change (to reduce opportunity to non-comply), compliance strategies developed from the lens of tax type, structure and nature have to be implemented adding to “complete information”. This could target the practice of VAT non-compliance embedded in its social reality. The study also brought to light that if compliance strategies are not VAT focused and structure targeted, even in circumstances where complete information exists, institutions fail to enhance process and to promote the necessary changes (enhance compliance).

It adds to the literature by showing that VAT compliance approaches are not rigid. Its effectiveness relies in developing the approaches, from their contextual reality and have to be in conformity to the dynamics of the practice of VAT non-compliance. The study discourages the replication of compliance approaches, drawn from other contextual realities, for obscuring the contextual and social dynamics embedded in the practice of VAT non-compliance. This strengthens scholarly voices promoting the limitation of heavy reliance on reactive approaches (Alm, McClelland & Schulze, 1992; Adreoni, Erard & Feinstein, 1998; kinner & Slemrod, 2005) to address VAT non-compliance.

The study provides insights on how to develop processes within the micro and macro-environement, that enhance less coercive strategies di-associated from income tax, to address VAT non-compliance. It adds to the importance of understanding the dynamics of VAT non-compliance within the context it operates (micro and macro environment), taking into account the inter and intra-relation of micro and macro environment, to capture elements that facilitate or discourage the practice of non-compliance.

The findings have also revealed limitations of prevailing compliance approaches to address VAT non-compliance, because these were designed taking into account the motivational posture of taxpayers. This provide insights to understand how compliance approaches reviewed in the literature, mostly informed by income tax premises (Braithwaite, 2002; 2003; OECD, 2009; SARS; 2011; Fjeldstad & Heggestad, 2012), have failed to capture the complex dynamics of VAT non-compliance in developing countries, characterized with the inverted pyramid with its segmented taxpayers and strategies. The study provides insights to enhance optimal choices for VAT compliance strategy. It provides information and show how to work it out in the strategy. In this context, institutions are revealed to be elementary mechanisms to enhance the conformity of approaches and respective strategies to address VAT non-compliance.

The study adds to the literature on improved co-operation, with an actor-focused perspective to improve compliance co-operation, observed in different levels of collusion (non-compliance practice). However, it also revealed that, in cases the dynamics of VAT non-compliance do not inform enforcement strategy, institutions, could hardly promote changes to the actions and roles of the actors, in improving co-operation to reduce VAT non-compliance. This contradicts Lawrence, et al., (2001); Lawrence (2008) advocates that instituitions influence actors' actions and roles. In this case, findings reveal that institutions fail to shape the road maps that people use to interpret the world (North, 1990) and enhance co-operation (compliance with the law), in cases where replication and adoption of compliance approaches prevails. This occurs because compliance approaches do not emanate from the specifics of the practice of VAT non-compliance, taxpayers' compliance behaviour and their enforcement strategy and segmentation.

This study adds findings indicating the importance of communication and exchange relationships in enhancing cooperation (Dacin, et al., 2002; Zilber, 2002; Burns & Baldvinsdottir, 2005). It reveals that institutions (VAT law and regulations) have failed to encourage co-operation in cases where key actors have distinct roles and conflicting interests and expectations. The study suggests that prioritizing effective VAT invoice administration and control revealed being the cornerstone to promote co-operation and provide insights for acceptable exchange relationships as enhancing deepened partnerships. This adds to the simplistic North (1990)' advocate that effective communication and interaction improve co-operation.

The study adds to compliance literature by revealing the pertinence of a cause-driven enforcement strategy. It revealed that strategies designed over consequences, rather than causes, have proved to be untargetting for the practice of VAT non-compliance. It brings forth the the importance of institutionally improved capabilities to identify the integrated design elements, in enforcement strategy, to address the challenge of VAT non-compliance. This is consonant with the importance of skills and capabilities posited in Rheingold (2002). The study suggests a compliance approach as presented in Figure 44, drawn from VAT non-compliance specifics in order to address the challenges.

7.4.2. Implications for theory and practice

a) The cornerstone of VAT invoice administration and control in designing VAT enforcement strategy

The study adds to the compliance literature on socio-psychological factors by revealing the importance and the dynamics of VAT invoice administration and control in determining compliance. This expands of empirical findings on TA administration inneficacy influencing compliance (Webley, 2001; Webley & Ashby, 2010). The study brings forth the central role of VAT invoice administration as not only a *factor*, but also a *mechanism* of VAT

non-compliance and a *platform*, from which VAT non-compliance could occur. As a *factor*, VAT invoice administration and control has influenced taxpayers' compliance. Taxpayers' awareness on increased inneficacies on VAT invoice administration, increase their perception on lower probability of being caught evading. These tend not to pay VAT. As a *mechanism,* taxpayers take advantage on the weakness of Vat invoice administration and control, and make use of VAT invoices to avoid, evade and make fraudulent transaction. As a *platform*, it is during VAT invoincing and transactions, those collusion effects of diferent levels occur.

Similar to Tolbert & Zucker (1996) and Peter (2000), this study also revealed the importance to capitalize institutions as key sources of meaning. This enables to avoid misinterpretation and reduces variance in improving possibilities of prediction in the practice of VAT non-compliance. This could improve the understanding of contextual features impeding development and reduction of opportunity to avoid compliance, echoing Curries & Swanson (2009) advocates on the importance of contextual reality to influence change. Therefore, a heavy reliance on VAT invoicing door-to-door fiscalization campaigns, checking physical cash in the business (MF, 2014; 2015; 2016, 2018) have proved to be strategically misleading in addressing VAT invoice related fraud and evasion. Its ineffectiveness in discouraging non-compliant behaviour is partly reflected in statistics positing that only between 2% to 10% of 100,000 registered taxpayers are invoicing VAT (Club of Mozambique, 2018) and the use of the phrase "you want to pay with or without VAT" remains common.

The study revealed that insights into the dynamics of VAT invoice administration and control (Figure 18) presupposes a strong understanding of common VAT fraud and evasion and the various roles of stakeholders. Creating or reforming institutions lacking this information as well as information related to actors' interactions is unlikely to target individual interests. Although partnerships have revealed to be crucial factor to

enhance compliance, there is a need to understand the role played by key actors involved in the process. This provides strategic insights to strengthen the platform enhance an effective coordination and partnership in the management of Vat invoice administration and control. In this platform, cooperation revealed to result from pulling forces driven by actors' interests, goals and perspectives within the process. This reflects in the dynamics of collusion effects, addressed by system thinking.

b) Institutions addressing non-compliance dynamics in collusion – Business-to-Consumer (B2C) transaction

The study expands on collusion effect literature, from tax compliance theory. It explains the dynamics of collusion effect in tax compliance theory, within the frameworks of institutional theory. The institutional entrepreneurs (Di Maggio, 1988; Sharma et al, 2010) also known as institution workers (Lawrence & Suddaby, 2006). These are actors who have an interest in particular institutional arrangement and who leverage resources to create new institutions or to transform existing ones (Maguire, et al., 2004). However, these are supposed to be skilled and inform their work on co-operation aiming to changing or creating new institutions (Perlman & Spicer, 2008). In this case, actors have an interest in performing specific roles, or extend their actual roles to facilitate their own or other status influence in a particular social setting (Lawrence, et al., 2001; Lawrence, 2008). Their roles are part of institutionalisation (Lawrence & Suddaby, 2006). However, accomplishing goals on a platform of various actors with distinct interests is not an easy task. The way actors support, oppose or otherwise strive to influence institutionalisation determines their success (Di Maggio, 1988; Goretzki, IIStrauss & Weber, 2013). Informed by this premise, key actors in collusion effect, play their roles to accomplish their distinct interests rather than the TA's interests. However, amongst them, not all actors understand their role, but only business taxpayers seem to understand the role of all involved actors, including TA's role in administrating VAT invoice and control in an innefective way. The central role paid by taxpayers in collusion

effect, is enhanced by their cumulative task as “unpaid tax collectors”. This has bestowed them trust by others players, to accept the offer of collusion with “minimum risk of being detected”. Neglecting the understanding of this dynamic, institution could fail to improve the effectiveness of tax policies to address collusion effect 2 (on B2C transaction) and collusion effect 1 (on B2B transaction). In this case, taxpayers due to their central role, identity interests, and influence on collusion, turn to be an “institutional entrepreneurs of collusion effect” in offering to collude on VAT compliance.

This research also expands on explanatory perspectives of collusion effects influencing VAT non-compliance (Mittone, 2001; Adams & Webley, 2001; Webley & Ashby, 2010) through emphasis on actors’ individual interests driving their non-compliance. In their explanation “an acceptance of an offer of collusion”, between taxpayers and final consumers, occurred due to “competitive price in the market”, whereby, final consumers’ want to pay less for goods and services”. The dimension of this traditional view of collusion is limited to Business to Consumer transactions (B2C) only, overlooking the the actors involved in the process and the dynamics of VAT non-compliance.

Although the study found that final consumer acceptance of an offer of collusion was due to economic motives of “paying less”, it also revealed their perceptions of an increased VAT rate of 17% relative to their monthly income. The economic structural policies tied to final consumer income were revealed to be influential in the acceptance of collusion effect. Indeed, it sustained the platform from which final consumers perceived unfairness of the system. This suggests the emerging of a sort of “cost-benefit association”, but in this case, concerning to what they get as “income earning to sustain the cost of living and the high VAT rate these have to pay”. This finding indirectly relates to the regressive nature of VAT (McRae, 2004) towards poor final consumers. It suggests incentive schemes tied to final consumer expenses, to be more effective than incentives related to

prizes, such as lottery or bank credits. This is consistent with evidence from Fooken and Hemmelgarn (2015), Casey and Castro (2014), the IMF (2015) and Brockman, Genschel and Seelkopf (2016), respectively.

The study adds to the tax compliance literature, on collusion effects and tax knowledge. It suggests equal information and tax knowledge over key actors' interaction in the approach to reduce and/or retain the non-compliance at different levels of collusion. It is in this case, that taxpayers manipulated final consumers, due to their poor tax knowledge. Taxpayers "psychologically forced" final consumers to accept the offer of collusion, by questioning them: "You want to pay with or without VAT". Final consumers frequently opted to avoid the 17% vat rate for considering the rte to be high and in some few cases (final consumers with more tax knowledge) to avoid paying double VAT rate, as VAT was already included in the price. This cheating attitude by taxpayers, finds its explantion on ineffective fiscal education and inadequate price inspection. The study reveals that, in a compliance approach, if one key actor has privileged tax information than others, and if the same has increased perceptions of TA administration inability to detect non-compliance through collusion, then acceptance of offered collusion to other actors will be higher.

c) The dynamics of collusion between Taxpayers & VAT Agents influencing non-compliance

The study adds to the compliance literature on collusion effect, by positing the prevalence of another dimension of collusion effect between taxpayers and VAT agents and the dynamics of the process as it informs corruption. This study expands on the tax compliance literature enhancing co-operation, communication and partnership, by revealing the prevalence of social networks during collusion to non-comply with VAT. Emerged social networks during the practice of VAT non-compliance, are confined within the system informing it. This goes beyond the frameworks of institutional premises, where coercion enhances co-operation. It adds with expanantory

dimension of collion offer by taxpayers. In this case, taxpayers offer collusion for: (i) profit maximization; (ii) lack of capacity to address complexity of VAT law; and (iii) feeling of unfairness resulting from tax auditors' policing attitude during auditing. This adds to the compliance literature on the effects of collusion influencing taxpayer compliance (Mittone, 2001; Webley, 2001; Mittone, 2006; Webley & Ashby, 2010) and the dynamics behind corruption in tax compliance (Davoodi & Tanzin, 2002; McGee, 2008; Fjeldstad & Heggestad, 2012; Ali, Fjeldstad & Sjurn, 2014; Cnossen, 2015; Baum, Gupta, Kimani & Tapsoba, 2017). The study also, provides explanatory dimension for VAT agents to accept the offer for collusion to avoid and/or evade VAT, which are for: (i) income earning; and (ii) the need to secure customers in a competitive market, eliminating the possibility of losing a customer to another VAT agent.

The study also adds to the the dynamic of exerting forces within the collusion effect, which is revealed to be not only interest-driven, but also, imbued in "general complicity partnership". This strengthens the affinity between the two (vat agents and taxpayers) and facilitates the intents of paying as little VAT as possible.

Findings also revealed the existence of a "complicity partnership" in the relationship between VAT agents and tax auditors. In this case, to maintain and gain trust from the "boss" taxpayers, the "VAT agents of the devil", have to build an "exchange relationship" with tax auditors. This bestows them with trust to "negotiate" any tax infraction on behalf of the taxpayer, as these are believed to "speak the same language". However, this was mostly associated with the lower skilled accountants, with less professional responsibility, ethics and integrity. Therefore, poor tax knowledge and tax complexity transcended the barrier of taxpayers' compliance cost, by influencing the building of "exchange relationships" and social networks that paved and consolidated avenues for further non-compliance.

d) The dynamics of collusion (1a) – Taxpayers / VAT Invoice Agents and Taxpayers- final Consumers influencing non-compliance

The study also adds to the compliance literature by bringing forth, another dimension of collusion between Taxpayers and VAT Invoice Agents. Taxpayers demand “fake invoices” from VIA and use them for “parallel invoicing” to evade VAT by invoicing “fake invoices”. The VIAs accept offers of collusion to maximize profits. Mutual beneficial situation enhances co-operation between the two players. Poor VAT invoice authenticity, and inneffective control, facilitated the use of parallel invoice and made it difficult to distinguish authentic invoices from forged invoices. Therefore, the dynamics of collusion effect amongst taxpayers and VAT Invoice Agents, can partly find its explanation on the premises of cost-benefit association. It is also comparable to the traits and attributes of equity theory, but in different perspectives. The relation to cost-benefit association is reflected when, VIA incentive schemes are identified as being tied to their expenses, such as reduction in inputs (raw material for printing machines) import price, similar to final consumers’ preferred incentive schemes. The comparison to equity theory is shown in cases where taxpayers’ cheating attitude aims to compensate for the task of an “unpaid tax collector”, as these felt they gained little in return. However, VIA, find their cost of production increasing, thus, being liable to non-comply.

It also adds to the literature on compliance by expanding on the dimension of collusion effect, involving taxpayers and final consumers. In this context, final consumers accepted an offer of collusion as they wished to compensate due to increased tax (VAT) rates and tax (VAT) burden. While equity theory informed this by suggesting that individuals adjust their inputs to the exchange until equity is restored (Spicer & Becker, 1980; Kings & Sheffrin, 2002; Togler, 2002), the difference in role-players, interaction between them and technology employed, explained the resistance of role palyers to comply with VAT. A revision of the associational and complementary relationships between cost-benefit association and VAT

invoice administration and control, elucidates the dynamics to enhace compliance.

e) Associational and complementary relationship between cost-benefit association, VAT invoice administration versus mental accounting

The study adds to the limitations of mental accounting as an effective compliance factor, and shows how cost-benefit association has subplanted it in the dynamics VAT non-compliance. Contrary to findings from other studies, this research found a distant and vague relationship between cost-benefit association and mental accounting in enhancing compliance. However, it found a strong associational and complementary relationship between cost-benefit association and VAT administration and invoice and control. Therefore, overlooking this associational and complementary relationship, could limit any management strategy to circumventing non-compliance.

It also adds to the compliance literature by revealing the importance of opportunity to non-comply, in determining compliance. It reaveled that even in cases where there is an effective VAT invoice administration and control, coupled with the prevalence of positive automatic cost-benefit association, if opportunity to avoid compliance increase, taxpayers would not comply (Figure 39a). It revealed positive automatic cost-benefit association to improve the effectiveness of fiscal education, and vice-versa. This suggests reduction of costs for fiscal education, if taxpayers in general perceive posivite cost-benefit association.

Contrary to some empirical findings, by Prelec & Lowesteing (1998); Thaller (2000); Klamleiter & Holzl (2009), this study revealed that nor effective fiscal education neither the establishment of an automatic cost-benefit association, influenced the feeling of ownership of collected VAT by taxpayers (mental accounting).

The study adds to the tax compliance literature on mental accounting. It revealed a limited associated relationship between taxpayers' mental accounting and the feeling of ownership of collected VAT, enhanced by improved understanding of VAT money. Instead, the study revealed that the group of taxpayers to whom it had been clear that VAT money is only collected and not possessed, were found to be more associated with the" frame of loss", contracdicting Adams & Webley (2001). Additionally, this group tended to evade more, allegedly due to their perceptions of increased compliance costs and negative cost-benefit association. This also contradicts to the views of McAffery (2000), Adams, and Webley (2001) in their findings. Instead, the study revealed that Taxpayers were more concerned with the social contract between them and government, than mental accounting. However, an automatic cost-benefit association, on its own, could not ensure an aversion to VAT non-compliance.

It also adds to the dynamics of vat compliance factors and their interaction in enhancing VAT compliance. Findings revealed that elements within VAT invoicing administration and control have to be equally effective to ensure the effectiveness of an automatic/positive cost-benefit association to enhance compliance (Figure 36). Otherwise, if one of the elements within the factor of VAT invoice administration and control have inefficiencies, it opens up the opportunity to non-comply. In this context, both compliant and non-compliant group of taxpayers take advantage of this emerging opportunity to non-comply. This finding contradicts advocates suggesting that taxpayers could accept higher risk to avoid losing what they already have rather than trying to get something they do not already have (Kahneman & Tversky, 2000).

It has also revealed that, if wider opportunity to non-comply is perceived, in an environmenent with poor tax auditors' integrity and weak enforcement mechanism and implementation, all taxpayer groups are found keen to risk

non-complying, the probability of detecting non-comply is very low. In this context, Institutions can only improve the effectiveness of cost-benefit association to enhance compliance, in cases where, it can be implemented in a multi-dimensionally way. It has to address VAT invoice administration and control, tax auditors' integrity, and enforcement mechanism. However, inadequate risk management strategy continues to provide loopholes for non-compliance opportunities in the management system.

f) Informal sector and *ad hoc* tax reforms, weakening tax system and impeding efforts to reduce non-compliance opportunities

The study provides an alternative explanation to the influence of the informal sector on tax compliance (Figure 23). It adds to the literature advocating opposing views (economic and social) of the informal sector influencing taxation. However, the arguments of both economic and social views of informal sector, in Chapter 6 section 6.4, sub-section 6.4.5, revealed to be limited by taking taxpayers as the unit of analysis. The arguments also revealed to be simplistic for resuming its explantion to administration facilities in managing compliance. These views overlooked the dynamic of informal sector in influencing VAT compliance. Revisited approaches mostly assent on taxpayers' perceptions of the fairness of the tax system (Tekper, 2003; Nathan Associates, 2004; Fjeldstad and Heggestadt, 2012).

The study provided an explanation on the influence of the informal sector on tax compliance, tax base, and its dynamics in strengthening/weakening the tax system. It revealed informal sector to be a factor, means, agent and platform of VAT compliance. As a *factor* of compliance, it prompts imperfect competition amongst taxpayers who will then, through equity theory, aim to restore equity, as formal taxpayers also feel not to comply in a generalized overt non-compliant environment. As *means* of compliance, taxpayers in the formal sector may shift to the informal sector, or may operate in both formal and informal sectors. This influences the size of tax base and possibilities of enlargement of the tax base. Some sort of "peer group of influence",

(formal sector perceive they are operating in the same market-though some do informally) motivates this to occur. The informal sector could be a determinant and a gauge for tendencies to increased / reduced taxpayers' VAT non-compliance, acting as an *agent* of compliance. As a *platform,* the informal sector has proved to enhance the interwoven and complementary interaction between context and tax system, to promote a more compliant environment as illustrated in Figure 44. Nonetheless, no strategy could be effective in the presence of an unclear and non-credible taxpayers' database, pyramid and segmentation.

The study adds to the tax compliance literature, by revealing that the greater the informal sector, the more taxpayers felt motivated to non-comply with VAT. Informal sector has revealed to be one of the designated integrated elements. It is imbued in the tax system and shapes the effectiveness of the context (micro and macro environment) to circumventing the practice of VAT non-compliance. The study also adds to the literature on informality and the tax system. It provided insights into how informal sector have hindered TA capacity to address tax (VAT) non-compliance as depicted in Figure 40. The study expands on on how the context (micro and macro environment) and Tax system influence compliance. It provided insights to understand how the genesis and evolution of tax system have substantially determined the effectiveness in reducing opportunity to non-comply with VAT. The study reveals that failure to understand the dynamics of context and the interaction amongst factors with the tax system have enhanced increased opportunity to non-comply with VAT. This supports findings in tax compliance studies, focusing on procedural perspectives of tax reforms and tax system (Slemrod, 1990; Bire, et al., 2004; Moore, 2013; Yogo, Njib & Martine, 2018).

The study also adds to studies on tax policy reforms. It revealed that replication of tax policy and tax systems influences the management of VAT compliance. It is in this case, that the genesis and evolution of tax policy

and tax system have revealed to be crucial in determining success in addressing VAT non-compliance. Additionally, the study also brings forth the negative effects of “patchy reforms” done in *ad hoc* manner. Most of these reforms overlook the need to reduce opportunity to non-comply. These reforms do not emanate in a clear planned framework, and are not in conformity to economic objectives. The absence of tax reform program and plan, have created an enviornment prone to the vulnerability of tax reforms that do not enhace effective tax system and its development.

g) Inverted taxpayers’ pyramid and related enforcement strategies for developing economies

The study contributes to the paucity of the tax compliance literature on VAT compliance in developing countries by bringing forth an inverted taxpayers’ pyramid (Figure 34) emerging from the findings. The study provides insights that add to the analytical perspective of taxpayers’ pyramids inherent in VAT non-compliance. This contradicts other taxpayers’ pyramids that cut across tax (Fjeldstad & Heggestad, 2012). The study allocates non-compliance characteristics and shows the non-alignment of current interventions with enforcement strategies in each segment, of the inverted pyramid. The resulting inverted pyramid and its properties have further enlightened the need to discourage the replication of compliance approaches developed from different contextual realities. Thus, replicating a taxpayers’ pyramid that is non-inverted (Braithwaite, 2002; 2003; OECD, 2009; SARS, 2011), these can be misleading.

The study also adds to compliance literature on taxpayers’ segmentation and tax base. It suggests management intervention to be in comformity to non-compliance characteristics and enforcement strategy. The way TA levy VAT, (either by rate /amount) is intrinsically related to VAT nature and type. This has also revealed to influence VAT compliance. In this contex, findings suggest that segmenting taxpayers and setting different thresholds was not

a strategy enough to be in conformity with VAT procedures and contextual specifics.

Instead, it revealed “sectorization” to be a mechanism through which VAT non-compliance could also be discouraged. In this case, the law attributes different VAT amounts to different taxpayers’ commercial activitiy groups, but for small and medium taxpayers. The VAT rate in the law would only apply for large taxpayers. However, this might raise an issue of tax justice, for cases where set amount for VAT are unrealistic to the commercial sector production. Irrespective of this, sectorization suggests to reduce taxpayers’ compliance cost on self-assement procedure and access to VAT expert. It also enables to alleviate the heavy concentration on the few taxpayers that already pay VAT. The study has also revealed sectorization to reduce tax officers’ workloads and TA auditing and fiscalization costs and complexity.

The study has also added to the compliance literature on VAT threshold and enlargement of tax base for developing economies. In this case, sectorization has revealed to be a way of restructuring the tax (VAT) threshold, without reducing the tax (VAT) base. This reduces the opportunity for possible taxpayers’ resentment of tax burden, perception of unequal treatment and unfairness, even in cases of horizontal inequity. However, examining limitations of sanctions as deterrent factor, enable to understanding how pro-social factors improve the effectiveness of economic factors within a compliance approach.

h) Ineffectiveness of sanctions and the way forward addressing inefficiencies

The study adds to the tax literature, evidencing the influence of sanctions in tax (VAT) compliance. It expands on how sanctions’ attributes have failed to target particularities of VAT non-compliance, within Mozambican context. It provides an insight to the dynamics of sanction as a deterrence factor and Identifies factors reducing its effectiveness. The study provides a platform

suggesting how to address inneficacies to improve the deterrence effect of sanction in fostering VAT taxpayers' co-operation, as depicted in Figure 41.

The study adds to tax compliance literature on economic factors influencing compliance, by providing a new perspective of explaining limitations of sanction (economic) in deterring VAT non-compliance, in an environment of compromised tax auditors' integrity and weak implementation of enforcement mechanisms. It also adds to literature on tax injustice, perception of unfairness and unequal treatment by TA. Findings have revealed that application of arbitray sanction amounts that are not in conformity to community standards, to deteriorate taxpayers' resentment on tax injustice. It brought to light that some business taxpayers would rather avoid VAT compliance and prefered take risk and face a sanction. This group of taxpayers had increased perception of "negotiating" sanctions with Tax officers.

However, this was partially true for business taxpayers who supplied goods and services to the Government. Similarly, this group did not fear sanctions, but feared being VAT non-compliant. This puts them at risk of not being elegible to supply goods and services to the Government. These taxpayers gain more from VAT avoidance and normally get assistance from VAT accountants. Increased tax (VAT) policy complexities, inadequacies and inconsistencies, as presented in Figures 14, 15 and 16 respectively, facilitates their non-compliance. Findings expands on literature positing the dynamics of sanction as compliance factor. It also expands providing a different perspective of the deterrence effects of sanctions in influencing compliance. These are depicted in empirical studies positing sanction as a productive factor (Tanzi & Shome, 1993; Adams, 1996; Bergamen, 2009) and as a counter-productive factor (Gramsmikc & Bursik, 1990; Sherman, 1993; Tyler, 2001, Fjeldstad & Semboja, 2001; Fjeldstad, 2001; Mittone, 2006; Kichler, 2007).

7.4.3 Methodological implications of Tax policy and administration design for VAT non-compliance

Unlike most empirical studies related to VAT compliance, the methodological perspective of this study went beyond the mere understanding of taxpayers' behaviour and their influence on tax compliance. The study unfolds the dynamic of VAT non-compliance, by analysing the emerging designated integrated elements, the roles of key actors and their interaction. Institutional theoretical premises inform the anlysis providing insights to understand how tax policy and strategies could improve the effectiveness of a compliance approach. In this regard, the study revealed two associational features (automatic cost-benefit association and VAT invoice administration) that enabled to capture the dynamic of VAT non-compliance management.

Unlike the "tradition" of using surveys and questionnaires as research instruments from the quantitative approach, this study used a qualitative approach (Leedy & Ormrod, 2001; Neuman, 2011; Creswell, 2014) and a case study research design. This enabled to understand, the multiplicity and complexity of the dynamics of VAT non-compliance. Case study design enabled to understand particular events, roles, social situations, interactions, provided clues, and avenues to address challenges on the dynamics of VAT non-compliance. A single case study enabled reaesrcher to make multiple layers of analysis (context, tax system, and taxpayers 'pyramids, risk management approach, design integrated elements, key actors' relationship) within a single case, but as a case in its totality (sum of layers). This helped to understand the multiplicity of the phenomena in the process of VAT non-compliance management.

The study made a holistic analysis of the dynamics of collusion effects and non-compliance in general. To achieve this, the study adopted Face-to-Face semi-structured interview (FtFi), Focus Group Discussion (FGD) and Document analysis (DA). However, in onder to triangulate emerging themes

on qualitative thematic analysis, the study also used quantitative data. The use of three research instruments enabled the capturing of the flow, pattern and suggested interventions to address contextual specifics. It assisted in interpreting how non-compliance practice occurred, the key subjects and proposed interventions to discourage it. It also enabled to understand how different key actors evolve and act in the dynamic of non-comliance. The study revealed that VAT non-compliance is being refined each day, due to the inefficiencies of VAT law and administration. Whilst FtFi provided insights into how VAT non-compliance management procedure occurred, DA enabled to provide evidence of misalignment and the lack of priority given to VAT non-compliance, irrespective of its impact on the taxation.

Unlike the heavy reliance on taxpayer behaviour as the unit of analysis for tax compliance literature, the study considered the management of VAT non-compliance as its unit of analysis. Central Directorates and Tax unit are the site of analysis, with various informant groups (key actors), instead of restricting participants to taxpayers and tax officers as in some studies (Fjeldstat, 2011; 2012; Smulders, 2013; Nahida et al, 2014). This enabled to assess the inter- and intra-relations of key actors in their collusion opportunities and to capture the emerging inefficiencies and loopholes in the system and institutions (tax policy).

The study contributes with an unusual sampling strategy and its selection criteria. Data obtained enhanced the interpretation of meaning and phenomena. Participants of the study were ex-General Directors with not less than 5 years in position, and not out from a post for more than 2 years on the date of interview (Neuman, 2011). Tax officers had to have at least 5-6 years of experience. These taxofficers came from all departments and sections in the Tax unit. The study selected Taxpayers operating not less than 5 years in various commercial sectors, but operating in normal regime of VAT, irrespective of having a simplified accounting regime or an organized accounting regime. VAT Invoice agents and VAT agents also had

a minimum of 5 years' experience, similar to legislators, except final consumers and donors. The use of thematic analysis enabled to identify factors and events, categorize them and consolidate emerging themes (integrated design elements).

The study contributes to the limited literature on risk management approach for VAT non-compliance (figure 43), particularly for developing countries, where the informal sector is expanding rapidly, in the midst of ineffective tax reforms. It provides avenues to establish a proactive strategy, inherent to VAT specificities, to reduce opportunities to avoid compliance. It also offers an alternative platform to understand and interpret how and why the management of VAT non-compliance continues to be a challenge for most TAs in developing economies. However, informality has posed serious challenges to the management of VAT non-compliance. The study also provides insights into the dynamics of VAT non-compliance in a particular contextual environment. Instead of adopting a replication of existing compliance approaches, the study, provides an alternative approach to the management of VAT non-compliance Figure 44.

7.5 ALTERNATIVE CONCEPTUAL FRAMEWORK FOR VAT NON-COMPLIANCE IN DEVELOPING COUNTRIES

Informed by systems thinking, the study examined the initial proposed Conceptual Framework (Figure 12) and the final developed approach to manage VAT non-compliance (Figure 44) to identify gaps that can be theoretically filled. This resulted in the concluding remarks in the proposed compliance approach, presented under the following two broad structures (7.5.1 and 7.5.2):

7.5.1 The context, tax system, informal sector, taxpayers pyramids, common VAT fraud and evasion and key actors and players relationships

The main feature of the initial conceptual framework (Figure 12) drawn from insights in the literature, was to capitalize on evidence related to the perception of inefficiencies in VAT compliance factors and how regulating attributes of institutional theory could improve effectiveness of these factors. The initial approach attempted to consolidate sanctions, VAT invoice administration and mental accounting, to improve the effectiveness of VAT non-compliance. In this context, to strengthen the efficacy of designated integrated elements (sanctions, VAT invoice administration and mental accounting) the study used institutions (formal and informal rules) and policy as mental codes (North, 1990; Scott, 2004). However, this occurred within a set of coherent, logical and cognisant platforms to address the challenges of VAT non-compliance. Whilst the creation/reform of these policies and the set of platforms had to be located within contextual characteristics, experiences and indigenous knowledge of tax non-compliance, these had to be in conformity with other co-determinants, such as, drivers of change and relationships amongst key actors. Therefore, consolidation of these attributes had to enhance the effectiveness of TA in managing VAT non-compliance. This consolidation occurred within the framework of systemic thinking, under the premises of the fiscal psychological theory on tax compliance. This theory considered tax enforcement as a behavioural problem that could be resolved through co-operation between taxpayers and tax collectors. The institutional premises could prompt the establishment of platforms to promote changes to tax compliance behavioural problems, amongst key actors. However, overlooking the centrality of tax system and co-determinants could weaken the platform.

There is an ongoing debate on how tax systems (Slemrod, 1990), in various economies (OECD, 2004; McKercher & Evans, 2008; Moore, 2013; Yogo, Njib & Martine, 2018) could be strengthened to enhance tax compliance.

These debates emanated from both quantitative and qualitative paradigms. The quantitative paradigm, mostly aimed at understanding the cause-effect relationship of tax systems with exogenous variables. Examples f these are: tax burden, economic growth distribution and stability (Fjeldstad &Heggestadt, 2012; 2012:1). The qualitative paradigm, mostly related to endogenous attributes. Some of exmaples are: the way the tax system is administered (McKerchar & Evans, 2008); fairness of taxation, tax burden and operating environment (Braithwaite, 2003a; 2003b; Fjeldstad &Heggestadt, 2012). Additionally, other studies also aimed at understanding tax system by analysing tax reforms to (i) increase tax office ability to address the cash economy (ATO, 1998), (ii) update, consolidate and simplify tax laws, simplification of procedures due to ambiguity of tax law (Fjeldstad & Heggestadt, 2012:1), (iii) increased discretion and reduced opportunity for corruption (Fjeldstad & Heggestadt, 2012; Moore, 2013). Some researchers have found single financial resources and aid dependency, accountability, government legitimacy and good public financial management (Pretoria Communique, 2008; Fjeldstad, 2012) to influence effectiveness of tax system. Other scholars have posited reforms on tax procedures and tax simplification, making it clearer, transparent and predictable, cheaper, less exposed to extortion or corruption (Fjeldstad, 2012); reform and tax administration, and improving administration capacity and tax agency organization models/options to co-determinants in strengthening tax system.

Although these studies explained how to strengthen tax systems, their elaboration was based on different perspectives, with distinct purposes and contextual reality. These studies aimed at restoring legitimacy of the state and encourage compliance, and factors influencing perceptions of fairness of the system spearheaded their orientation. This approach was simplistic and limited to understand the multiplicity and complexity of factors and key actors' interactions winthin the dynamics of VAT non-compliance. Thus, the

approache failed to enhance institutional reforms to strengthen the tax system.

The final conceptual approach (as depicted in Figure 44) provides new nuances to understand how to develop VAT no-compliance approach informed withing the bounds of system thinking. Without denying the merit of debate on the tax system, the study explains how to strengthen the tax system to discourage the practice of VAT non-compliance. The study examined undisclosed factors interacting and shaping the effectiveness of the tax system and explained their dynamics. The initial framework, suggests that institutions directly influence the effectiveness of VAT compliance factors. Instead, the final framework reveals institutions to be imbued within all dimensions and levels of VAT non-compliance management. Contextual realities and tax systems inform, shape and construct the dynamic process of creation of effective institutions. However, failures to account for the historic socio-economic and cultural development (Orren & Skowronek, 2004; Job, Stout & Smith, 2007; Nerre, 2008) undermine the understanding of the centrality of the tax system in reducing opportunities to avoid compliance. Whilst institutions enable this to occur, these fail to provide explanations for the interplay of macro- and micro-environmental phenomena, to strengthen the tax system and its central role in discouraging VAT non-compliance.

Counter to the initially proposed framework, considering co-determinants (context, drivers of change and key actors' relationship) as complementary factors, adding to consolidated VAT compliance factors, namely sanctions, VAT invoice administration and mental accounting for the success of the framework, the final approach has revealed the tax system, to be more than mere co-determinants and complementing factors. This included the context (micro- and macro-environment), common VAT fraud and evasion, design integrated elements, key actors' relationships, the growth of the informal sector and taxpayers' pyramids. These factors revealed to be

transversal and intrinsically interwoven. Thus, capitalizing this understanding can strengthen the non-compliance approach. The study has revealed that improving the effectiveness of VAT compliance approach, through strengthening the tax system, adds value to non-compliance management in general. This orienting perspective provided insights to the ways and mechanisms to (i) reduce inefficacy of policies to capture VAT non-compliance particularities; (ii) reduce inefficacy resulting in unfocused strategies for segmented key actors and their interaction; (iii) reduce the limited insights for possible avenues and platforms in developing effective incentive policies; (iv) oppose any acceptance of collusion; and (v) reduce the failure to identify areas of intervention to bring the broad spectrum of management orientation into the tax system. Therefore, overlooking the centrality of the tax system, ha not facilitated the reduction of opportunities to non-comply with VAT, as it fails to enhance effective institutional reforms.

The initial framework had overlooked the importance of informal sector in managing VAT non-compliance. It neglected how informality influenced the enlargement of the tax base and the inverted taxpayers' pyramid. The rapid expansion of informal sector has prompted counter-productive effects for the management of tax base and possibilities of its enlargement. This enhances "perceived imperfect competition" from formal sector operators. Consequently, taxpayers operating in the formal sector migrate to operate in informal sector, or operate in both formal and informal sector, and other opt to close down their business, to avoid VAT compliance. This echoes findings from researchers positing increased influence of the informal sector on tax base and compliance (Bird & Wallace, 2006; Kloeden, 2006; Fjeldstad & Heggestad, 2012; William, 2016; Schneider, 2018). Additionally, the lack of clear understanding of taxpayers' pyramids and segmentations has not enhanced enforcement strategy and effective institutional reforms, developed from contextual particularities.

In the initial conceptual framework, key actors and players were revealed to be open to and interacting with their environment. This provided stimulus for co-operation. In this perspective, investment in knowledge and skills, promotion of capabilities of tax officers and legislators, to reduce complexity of sanctions and numerous fragmented regulations, loopholes in sanctions (clarity, simplification of its categorization and sanctions intervals) leaving no leeway for misunderstanding, enhanced co-operation. However, communication and information enhanced effective relationships. In this case, concerted training and a co-ordinated approach amongst key actors with shared responsibilities were seen to be crucial to achieving an effective relationship. Although there have been substantial debates on how to improve co-operation amongst key actors in VAT non-compliance management, most of these converged into incentive schemes and their views were tri-polarised. In some cases, incentives proved to be productive (Tanzi & Zee, 2000; MF, 2015) but in others it proved to be counter-productive such as in Korea (IMF, 2015). In other cases, there was no conclusion on the relationship between incentives and compliance, creating significant administrative compliance costs (Fooken, Hemmelgar & Herrman, 2015), since, lottery tickets had much less value to the consumer than evading VAT on a bigger purchase (IMF, 2015).

The study similarly raises awareness on the pertinence of symbiotic relationships amongst key actors in the management of VAT non-compliance. Contrary to the initial conceptual framework, it revealed this symbiotic relationship to be complex and unstable. Thus, should not be overemphasized. Incentive schemes have failed to fully account for improved co-operation in this study. Instead, distinct interests, goals and perspectives amongst key actors shaped the dynamics and processes to achieve co-operation without the imposition of institutional coercion. This expands on limitation of North (1990) advocate of achieving co-operation by institutional coercion. In this case, findings revealed that institutional coercion do not enhance co-operation of individual and in-group, framed by

“complicity relationships”, reflected in different levels of collusion effect and in environment where administration inefficiencies prevail. This contradicts advocates by North (1990); Denzau & North (1994); King, Gurbaxani, Kraemer, McFarlan, Raman & Yap (1999) positing the influence of institutions in regulating social entities and enabling socialization.

Thus, tackling key actor relationships and enhancing deepened partnerships based on incentives was not feasible in the absence of a structural understanding of the dynamics of VAT non-compliance to improve co-operation. These were further weakened by: (i) the overlooking of taxpayers and key actors as partners that negatively influenced the building of trust, reflected in the authoritarian way of collecting VAT (dissatisfaction with tax officers and auditors attitudes); (ii) prevalence of poor and weak TA co-ordination over key actors’ roles in the management process; (iii) poor knowledge of inefficiencies of the tax system and factors facilitating collusion effect (taxpayers’ cheating attitudes; VAT Invoice Agents compliant attitude; VAT agent’s attitudes); (iv) weak and demotivating policies for stimulus for co-operation; (v) neglecting to view key actors’ co-ordination and relationships as systemic; (vi) overlooking VAT invoice administration as the centrepiece of the challenge for consumption VAT; (vii) prevailing tax reforms heavily concentrated on tax exemptions, holidays, heavens, subsidies and incentives; and (viii) increasing informal sector, prompting perception of imperfect competition, thus undermining the success of an approach to address VAT non-compliance.

Therefore, improving co-operation amongst actors’ pressuposes the addressing of collusion effects, within the frameworks of system theory. In this context, the study views key actors with their distinct goals, interests and perspectives, as interacting units with relationships amongst them. Similar to Von Bertallanffy (1975); Midgley (1992); Heylighen (2000), the study foudn that key actors work together in particular settings to achieve common objectives. However, this has to be informed by solid

understanding of designated integrated elements and the commonest VAT fraud, avoidance and evasion in VAT non-compliance management.

7.5.2 The influence of design integrated elements and common VAT fraud, avoidance and evasion in non-compliance management

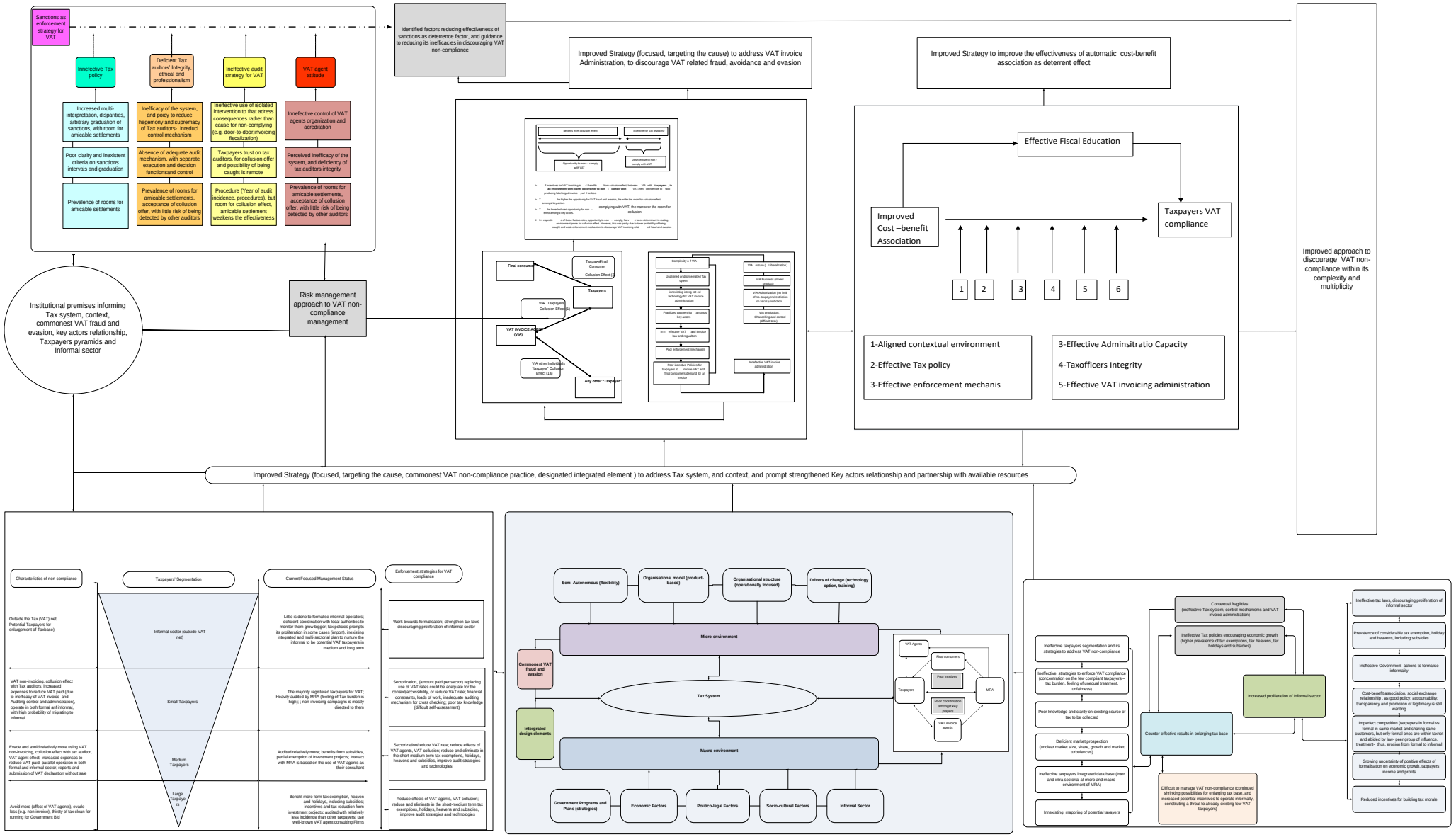
VAT invoicing administration and control revealed to play a central role in managing VAT non-compliance. However, most of the compliance literature overlooks its role as a compliance factor. This study reveals VAT invoice administration and control to transcend the mere bound of administration, but rather, to be the cornerstone of VAT non-compliance (Figures 18 and 21). VAT administration and control effectiveness revealed to be a compliance factor on its own, with multiple and cumulative effects on other compliance factors from different schools of thought. Moreover, findings also brought forth that innefective VAT invoice administration can (i) expand the opportunity for VAT invoice related fraud and evasion, given the consumption VAT nature, based on invoice credit-method; (ii) catalyse and enhance a fertile environment for occurrences of collusion at all levels; (iii) reduce the deterrent effects of sanctions (corruption, poor enforcement mechanism and implementation, tax auditors' poor integrity, ethics and professionalism); (iv) reduce the deterrent effect of automatic cost-benefit association, even in circumstances whereby taxpayers perceive prevalence of automatic cost-benefit association.

Although the study has revealed the cost-benefit association to be an element that, unlike mental accounting, can exert extensive influence within the complexity and dimensions of actors and players, VAT invoice administration and control, have revealed to determine the effectiveness of this deterrence factor. In cases that taxpayers perceive positive/automatic cost-benefit analysis (satisfied with provision of goods and services by Government for the tax they pay), if taxpayers perceive increased inefficacy of VAT invoice administration and control, taxpayers tend not to comply with VAT. However, this occurs in an environment characterized by weak

enforcement mechanism ans implemetantion and deficient tax officers and auditors' integrity (possibilities to negotiate any sanction if caught).

In the approach, the designated, integrated elements are interwoven. The concern here could not be limited to the understanding of this symbiosis, but particularly to an understanding of the dynamics behind them, individually and when interacting as a collective in a non-compliance approach, as illustrated in Figure 44. Although literature revealed institutional attributes to structure human behaviour towards collective purpose or intended objectives, this study revealed that, it partly failed to prompt a process of change in individual VAT compliance. The process of change in individual VAT compliance is embedded in a system that goes beyond tax compliance and institutional frameworks, to ensure circumventing of VAT non-compliance. Proposed approach reveals the dynamics of the practice of VAT non-compliance, to transcend institutional settings, whilst involving different interplay of elements and individual interests.

Figure 44: An alternative approach to VAT non-compliance for Developing countries



Source: Own, 2017

7.6 DIRECTIONS FOR FUTURE RESEARCH

This study highlights noteworthy aspects that could provide a focus for future research in VAT non-compliance management. The effects of political interference, political appointments of top management board members, and the influence of leadership in tax adminsitration could be further explored to understand how these have strengthened the tax system and compliance approaches in reducing opportunities for VAT non-compliance.

The effectiveness of strategies enhancing VAT non-compliance has been impeded by the almost complete absence of an audit strategy and policy and poor integrity and ethics of these professionals, and the lack of tax auditors' skills. Little research has been conducted to date to show how these factors determine the extent of VAT non-compliance in low-income countries. The research linking tax officers and auditors' integrity, ethics and professionalism to strategic intervention outcomes could enable the assessment of the impact of human resources in managing VAT non-compliance.

Future research could also be conducted to identify adequate training programmes to improve tax officers' and auditors' skills in creating and reforming tax systems and tax policy, VAT compliance procedures, implementation of enforcement mechanisms and respective reforms, to strengthen VAT compliance and reduce opportunities for non-compliance. Additionally, reflections on how incentive schemes based on taxpayers' expenses reduction, could be developed could stregthen knowledge to the dynamics of B2C VAT compliance. How Government could engender on actions that improve taxpayers' automatic cost-benefit assciation, is another topic of future studies, which could add knowledge to VAT compliace approaches. This could also be stregthened by reflections on how effective tax exemptions policy and procedures, could be developed and implemented, in a way that these, were less harmful to tax compliance motivation.

In spite of limited knowledge produced on VAT non-compliance approaches based on VAT invoices, the approach developed in this study is based on VAT invoice transactions but does not account for import VAT. Therefore, further research is needed that will propose an approach that accounts for import VAT, to strengthen the circumventing of VAT non-compliance at the borders or entry points. This also prompts research on how internet sales could be brought into management approaches for VAT non-compliance and how the adoption of e-taxation and e-registration could be accounted for in risk management approaches to VAT non-compliance. The segmentation of taxpayers and their capacity to embark on this system must be analysed to avoid additional demands being placed on the limited pool of registered taxpayers. Statistics indicate that there is less people using internet in Mozambique where in 2016, only 17.5% of the population used internet whereas 66.3% used a mobile phone device (World Bank, 2017). This context-specific fact suggests that alternative research on mobile payment of VAT could be carried out. This could be more appropriate for developing countries than e-taxation, given the challenges of the enlargement of tax base.

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APPENDICES

Appendix 1: Ethics Committee Approval

Research Office

HUMAN RESEARCH ETHICS COMMITTEE (NON-MEDICAL)
R14/49 De Figueoredo Sabino

CLEARANCE CERTIFICATE	**PROTOCOL NUMBER: H16/10/20**
PROJECT TITLE	Managing VAT non-compliance management: A case study of Mozambique Revenue Authority
INVESTIGATOR(S)	Mrs Y De Figueoredo Sabino
SCHOOL/DEPARTMENT	Wits School of Governance/
DATE CONSIDERED	21 October 2016
DECISION OF THE COMMITTEE	Approved
EXPIRY DATE	08 November 2019

DATE 09 November 2016 **CHAIRPERSON** (Professor J Knight)

cc: Supervisor : Dr H Zandamela

DECLARATION OF INVESTIGATOR(S)

To be completed in duplicate and **ONE COPY** returned to the Secretary at Room 10004, 10th Floor, Senate House, University. Unreported changes to the application may invalidate the clearance given by the HREC (Non-Medical)

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee. **I agree to completion of a yearly progress report.**

Yolanda de Figueiredo Sabino
Signature

14 / 11 / 2016
Date

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES

Appendix 2: Participants Informed Consent Form

Consent Form:

For Tax officers Face to Face Interview

I confirm that I have read and understood the Participant Information Sheet for the above study and have had the opportunity to ask questions. I understand you are exploring how and why the management of VAT non-compliance continues to be a great challenge for Mozambican TA. With the information I provide, researcher will be able to reflect on an alternative effective approach for Mozambican TA, which enhances a more compliant environment. I understand that I can help by sharing my opinion in the Face-to-Face Interview, in a place and time of my convenience, which should not last longer than 90 minutes.

Yes ☐ No ☐ Face to face interview can be **Audio Recorded** and if I am not comfortable with that, I ☐dvise the r ☐cher to take notes instead.

I understand that my participation is voluntary and that I am free not to answer questions, if I do not want to. I have also understood that I can withdraw at any time, from making part of the research, without giving reason. No one will know my answers except the researcher and the supervisor and my answers will be coded with Pseudo-names in the Report, to protect my identity. I agree to the use of anonymized quotes in the research, academic papers, conferences, seminars and book writing. I also agree that the reports in a thesis format be available at Wits world wide website, and findings to be used for academic papers, conferences, seminars and book writing with the permission of University of Witwatersrand. I understand that there is no direct benefit from participating in this research, and a summary of the research can be sent to me if I request for it. I have also understood that, in case I have any questions about the research, I can contact the researcher, 258 84 30 14 940 or + 27 84 80 77 167 / yolanda.sabino.at@gmail.com; the supervisor Dr HoràcioZandamela + 27 82 36 52 595; e-mail horacio.zandamela@wits.ac.zaand Human Research Ethics Committee of the University of the Witwatersrand, Senate House, + 27 -71 74 44 or + 27- 71 766 66.

Name of Participant	Date	Signature
_____	_____	_____
Name of Researcher	Date	Signature

Appendix 3: Interview Protocol Guiding Questions

Interview Protocol and Guiding Questions:

Time of Interview:_____

Date:_____

Interviewer:_____

Interviewee:_____

Position of Interviewee:_____

Engagement questions:

1. What TA actions you think have proved to be effective in discouraging VAT fraud and evasion?

Exploration questions:

2. What factors or events, within the context in which TA operates, have facilitated VAT related fraud and evasion? How do you explain?

3. Can you give examples on how taxpayers evade VAT? How could opportunities for evasion be reduced?

4. How do you explain continued challenges faced by TA, in managing VAT non-compliance? How could this be overcome?

5. As tax officers, what difficulties do you mainly encounter in an attempt to discourage VAT non-compliance?

6. What are the fragilities of VAT sanctions and penalties in influencing taxpayer to pay VAT? Can you explain? How could these be improved?

7. Do you think VAT regulations are complex, sometimes difficult to understand, facilitates multi-interpretations, the descriptions are unclear, sanctions and penalties graduations are unfair? How do you explain? If yes, what could be done to overcome these fragilities?

8. Who are the key actors in VAT invoice administration and what are their roles? What challenges do they face in the process? How could their interaction be improved to discourage VAT invoice related fraud and evasion?

9. How could TA motivate final consumers to influence VAT invoicing?

10. How could TA motivate taxpayers to declare and remit invoiced VAT?

11. How effective do you think, fiscal education, VAT training and its' contents have contributed to discourage VAT noncompliance? What are the weaknesses? How could these be overcome?

Exit questions

12. Do you think VAT non-compliance has improved / reduced since 2006? How and why?

Thank you for participating in this interview. Be assured your responses will be kept confidential!

Appendix 4: Analysis Template

Type of Document		External Analysis			Internal Analysis			
	Time Frame	**The Author**	**Audience**	**Place**	**Content of Doc**	**Believability of Doc**	**Evaluating the Evidence (conclusion)**	**Developing a thesis and supporting argument**

Appendix 4.1: Mozambique Tax Collection 2006-2016

(Unidade 10^3 Mts)	***2006***	2007	***2008***	2009	***2010***	2011	***2012***	2013	***2014***	2015	***2016***
Descrição											
	Cobrança	**Cobrança**	**Cobrança**	**Cobrança**	**Cobrança**	**Cobrança**	**Cobrança**	**Cobrança**	**Cobrança**	**Cobrança**	**Cobrança**
RECEITAS CORRENTES E DE CAPITAL DO ESTADO	**27 796 663.95**	**34 473 630.42**	**39 190 071.06**	**47 599 703.80**	**63 566 122.71**	**81 058 465.77**	**98 462 739.29**	**126 318 714.16**	**156 336 107.75**	**158 509 091.97**	**177 040 500.45**
RECEITAS CORRENTES E DE CAPITAL DE ADMINISTRAÇÃO CENTRAL	**27 796 663.95**	**34 473 630.42**	**39 190 071.06**	**47 599 703.80**	**63 566 122.71**	**81 058 465.77**	**98 462 739.29**	**126 318 714.16**	**156 336 107.75**	**158 509 091.97**	**177 040 500.45**
RECEITAS CORRENTES DE ADMINISTRAÇÃO CENTRAL	**26 463 606.42**	**32 623 559.36**	**37 449 815.91**	**46 071 680.60**	**62 167 904.28**	**79 268 349.26**	**96 682 551.79**	**122 694 474.36**	**153 449 063.49**	**155 412 491.33**	**170 898 003.47**
RECEITAS FISCAIS	**22 142 115.22**	**27 965 086.97**	**32 415 427.13**	**39 392 635.97**	**53 708 565.43**	**68 263 078.82**	**84 458 006.95**	**107 542 728.27**	**135 084 802.40**	**134 823 461.82**	**147 950 211.12**
IMPOSTOS SOBRE O RENDIMENTO	**6 351 397.17**	**9 271 538.22**	**11 722 747.19**	**13 726 832.79**	**18 480 060.05**	**24 895 834.30**	**36 796 476.01**	**49 385 510.17**	**63 097 198.03**	**57 919 080.31**	**64 273 016.01**
Imposto S/ Rendimento de Pessoas Colectivas	2 378 393.88	4 042 199.94	5 425 923.90	7 053 624.88	9 467 279.76	13 949 530.23	24 400 256.79	34 081 500.35	44 326 331.33	36 092 463.38	36 682 450.97
Imposto S/ Rendimento de Pessoas Singulares	3 784 358.05	4 859 063.16	5 957 210.73	6 341 546.22	8 629 236.14	10 583 961.94	12 007 193.28	14 841 220.55	18 345 212.59	21 311 245.12	26 858 306.86
Rendimentos da 2ª Categoria	300 206.69	418 127.34	511 502.82	618 187.75	740 832.49	828 629.14	915 553.57	1 019 548.47	1 122 949.05	1 254 950.74	1 523 165.37
Outros Rendimentos	3 484 151.37	4 440 935.82	5 445 707.90	5 723 358.47	7 888 403.65	9 755 332.80	11 091 639.72	13 821 672.08	17 222 263.55	20 056 294.39	25 335 141.49
Imposto Especial Sobre o Jogo	31 521.34	47 559.69	44 019.86	47 381.73	56 090.21	74 089.92	82 786.70	73 363.86	71 078.15	109 426.80	151 450.02
Taxa Liberatória das Zonas Francas	157 123.90	322 715.42	295 592.71	284 279.96	327 453.95	288 252.21	306 239.24	389 425.41	354 575.96	405 945.01	580 808.15
IMPOSTO SOBRE BENS E SERVIÇOS	**14 490 128.61**	**17 224 805.15**	**19 231 838.62**	**23 880 178.13**	**32 888 420.35**	**40 490 051.13**	**44 454 353.60**	**54 613 066.37**	**67 846 014.98**	**72 202 438.36**	**78 165 567.73**
Imposto Sobre o Valor Acrescentado	9 385 024.50	11 314 020.45	12 969 587.09	16 974 926.12	24 164 638.49	29 519 476.07	32 075 483.68	38 703 459.86	48 194 391.12	51 719 462.06	59 104 367.81
IVA nas Operações Internas	3 697 585.37	4 615 878.07	5 662 158.85	7 056 841.00	9 798 395.34	13 336 653.50	14 291 044.84	32 228 039.42	21 083 143.94	21 877 033.72	28 199 369.12
IVA na Importação	5 687 439.13	6 698 142.37	7 307 428.24	9 918 085.12	14 366 243.15	16 182 822.57	17 784 438.84	6 475 420.44	27 111 247.18	29 842 428.34	30 904 998.68

Imposto sobre Consumos Específicos de Produção Nacional	1 122 226.00	1 341 372.65	1 633 434.94	1 794 282.73	2 218 885.36	2 916 992.12	3 044 330.48	3 452 172.06	3 971 519.89	4 070 301.02	3 701 958.60
Cerveja & Refrigerantes	851 291.66	1 073 676.29	1 213 981.49	1 386 128.48	1 810 921.91	2 381 052.67	2 495 321.81	2 597 899.44	2 534 460.99	2 910 121.46	2 801 591.25
Tabaco	269 018.39	248 572.17	278 403.32	316 531.88	271 439.82	383 656.15	361 864.77	490 904.91	696 619.81	735 221.87	480 426.08
Outros Produtos	1 915.95	19 124.19	141 050.13	91 622.37	136 523.63	152 283.30	187 143.90	363 367.71	740 439.09	424 957.70	419 941.28
Imposto sobre Consumos Específicos de Produtos Importados	696 434.81	734 761.05	1 000 923.85	973 447.77	1 240 571.99	1 325 205.86	1 798 755.34	2 712 482.55	3 719 007.07	3 769 195.52	3 019 982.93
Impostos sobre o Comércio Externo	3 286 443.30	3 834 651.00	3 627 892.75	4 137 521.50	5 264 324.50	6 728 377.08	7 535 784.10	9 744 951.91	11 961 096.91	12 643 479.76	12 339 258.39
Direitos Aduaneiros	3 260 589.67	3 803 819.08	3 597 403.56	4 133 102.29	5 254 379.98	6 419 464.67	7 531 237.95	9 744 325.87	11 958 917.25	12 640 988.14	12 339 258.39
Sobretaxa	25 853.63	30 831.92	30 489.19	4 419.21	9 944.52	308 912.41	4 546.15	626.03	2 179.66	2 491.62	
OUTROS IMPOSTOS	**1 300 589.43**	**1 468 743.61**	**1 460 841.32**	**1 785 625.06**	**2 340 085.03**	**2 877 193.38**	**3 207 177.34**	**3 544 151.72**	**4 141 589.39**	**4 701 943.14**	**5 511 627.39**
Imposto do Selo	214 213.01	321 962.34	322 075.10	439 770.39	598 295.55	677 431.57	850 901.16	946 416.68	1 126 963.46	1 400 502.72	1 709 803.83
Impostos Sobre Veículos	39 707.88	42 188.40	47 167.79	54 584.71	62 152.08	15 702.49	7 916.87	4 021.93	7 994.74	3 776.17	3 646.31
Impostos Directos Extintos	26 999.36	13 263.23	4 951.50	1 530.15	6 729.18	12 257.30	13 579.28	3 123.30	3 813.21	74 634.08	4 287.36
Licença de Pesca	41 248.40	56 956.98	31 052.84	55 950.05	44 538.13	52 801.26	11 993.91	20 996.67	52 020.86	63 627.92	35 274.16
Taxa Sobre os Combustíveis	563 186.33	713 280.73	718 734.21	905 813.28	1 131 601.93	1 248 119.29	1 342 917.03	1 519 673.34	1 756 386.34	1 890 941.31	2 061 360.57
Royalties e Imposto de Superfície	38 227.71	62 888.54	57 091.43	42 662.24	59 722.33	67 458.61	89 881.15	50 040.31	63 828.65	58 688.60	57 874.20
Diversos Outros Impostos	377 006.75	258 203.38	279 768.45	283 172.37	413 197.12	755 147.60	808 833.09	884 632.03	980 727.16	1 024 566.44	1 417 712.57
ISPC				2 141.88	23 848.70	48 275.26	81 154.85	115 247.46	149 854.96	185 205.91	221 668.39
RECEITAS NÃO FISCAIS	**2 554 069.85**	**2 457 308.67**	**2 401 051.65**	**3 033 976.40**	**4 069 488.16**	**5 230 475.81**	**6 039 403.82**	**7 487 385.21**	**9 665 813.02**	**11 595 092.96**	**11 202 464.08**
TAXAS DIVERSAS DE SERVIÇOS	**184 740.99**	**422 502.86**	**243 512.56**	**429 364.57**	**430 284.02**	**568 040.25**	**749 555.13**	**1 035 233.59**	**1 269 612.07**	**1 853 615.32**	**1 709 877.84**
Taxas Diversas de Serviços	184 740.99	422 502.86	243 512.56	429 364.57	430 284.02	568 040.25	749 555.13	1 035 233.59	1 269 612.07	1 853 615.32	1 709 877.84
OUTRAS RECEITAS NÃO FISCAIS	**757 005.86**	**924 193.64**	**927 797.42**	**1 096 506.73**	**1 420 383.68**	**1 714 983.01**	**2 024 141.56**	**2 465 069.83**	**3 173 443.81**	**3 931 033.05**	**2 836 147.05**
Compensação de Aposentação e Pensão de Sobrevivência	601 294.21	678 553.98	777 340.50	891 739.86	1 160 951.09	1 420 545.79	1 674 978.95	2 107 999.35	2 816 125.28	3 445 260.20	2 273 473.94
Outras	155 711.65	245 639.66	150 456.92	204 766.86	259 432.59	294 437.22	349 162.62	357 070.49	357 318.53	485 772.85	562 673.11
RECEITAS PRÓPRIAS	**1 612 322.99**	**1 110 612.17**	**1 229 741.67**	**1 508 105.11**	**2 218 820.45**	**2 947 452.55**	**3 265 707.13**	**3 987 081.79**	**5 222 757.13**	**5 810 444.59**	**6 656 439.19**

					4 389		6 185	7 664	8 698		
RECEITAS CONSIGNADAS	**1 767 421.36**	**2 201 163.72**	**2 633 337.12**	**3 645 068.23**	**850.69**	**5 774 794.63**	**141.02**	**360.88**	**448.07**	**8 993 936.55**	**11 745 328.26**
TAXAS DIVERSAS					**3 004**		**3 904**	**4 499**	**5 749**		
CONSIGNADAS	**1 315 453.33**	**1 593 453.32**	**1 883 756.80**	**2 407 263.50**	**532.43**	**3 736 680.92**	**320.75**	**252.95**	**998.05**	**5 617 060.98**	**7 050 857.94**
					2 934		3 699	4 226	4 885		
Taxa Sobre os Combustíveis (consignada)	1 273 288.59	1 544 788.34	1 789 876.82	2 367 271.18	729.63	3 388 227.18	068.59	386.27	186.58	5 036 892.39	5 582 950.78
Taxa de Sobrevalorização da Madeira									577 178.55	296 090.45	1 098 031.65
							182				
Taxa de Serviços Alfandegários	8 329.72	8 513.88	7 222.47	14 940.91	22 868.76	62 610.05	909.64	213 405.78	221 916.34	197 940.39	170 507.02
Taxa de Sobrevalorização da Castanha de Caju	33 835.03	40 151.11	86 657.51	25 051.42	46 934.04	285 843.70	22 342.51	59 460.90	65 716.59	86 137.75	199 368.50
OUTRAS RECEITAS					**1 385**		**2 280**	**3 165**	**2 948**		
CONSIGNADAS	**451 968.03**	**607 710.40**	**749 580.32**	**1 237 804.72**	**318.26**	**2 038 113.71**	**820.28**	**107.93**	**450.02**	**3 376 875.57**	**4 694 470.32**
					240		346				
Assistência Médica e Medicamentosa	108 327.30	93 130.65	158 093.84	190 302.17	574.19	301 332.58	247.66	404 553.67	523 027.60	664 493.43	
					1 144		1 934	2 760	2 425		
Outras	343 640.73	514 579.75	591 486.48	1 047 502.55	744.07	1 736 781.13	572.62	554.26	422.43	2 712 382.14	4 694 470.32
					1 398		**1 780**	**3 624**	**2 887**		
RECEITAS DE CAPITAL	**1 333 057.53**	**1 850 071.06**	**1 740 255.15**	**1 528 023.20**	**218.43**	**1 790 116.51**	**187.50**	**239.80**	**044.26**	**3 096 600.63**	**6 142 496.98**

Source: Mozambique TA, Analysis Division, 2018