

APPENDICES

APPENDIX 1: The Survey Instrument:



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VALUE ADDED TAX (VAT) AMONG SMALL AND MEDIUM-SIZED ENTERPRISES (SMES) IN THE UAE: COMPLIANCE COSTS AND COMPLIANCE BEHAVIOUR

Note: All responses will be kept strictly confidential and anonymous.

SECTION A: GENERAL INFORMATION

Please tick (✓) one box or fill in the appropriate details as required.

1. Year of commencement of business:

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2. The main business activity of your company is:

(Please tick one box)

Trade	<input type="checkbox"/>
Industrial	<input type="checkbox"/>
Services	<input type="checkbox"/>
Other, please state <input type="text"/>	<input type="checkbox"/>

3. Your company will be registered for VAT:

(Please tick one box)

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>
Not sure	<input type="checkbox"/>

4. The average number of staff (full time) employed by your company in 2021 was:

(Please tick one box)

10 or less	<input type="checkbox"/>
11 – 50	<input type="checkbox"/>
51 – 100	<input type="checkbox"/>
101 or more	<input type="checkbox"/>

5. **The returns of your company at the beginning of financial year 2021 was:**
(Please tick one box)

AED50 million or less	<input type="checkbox"/>
AED51 million to AED250 million	<input type="checkbox"/>
AED250 million or more	<input type="checkbox"/>

6. **The turnover of your company in financial year 2021 was:**
(Please tick one box)

Less than AED187,499	<input type="checkbox"/>
AED187,500 to AED374,999	<input type="checkbox"/>
AED375,000 to AED500,000	<input type="checkbox"/>
AED500,000 or more	<input type="checkbox"/>

7. **Accounting record kept by:**
(Please tick one box)

Manual	<input type="checkbox"/>
In a partially computerised system	<input type="checkbox"/>
In a fully computerised system	<input type="checkbox"/>
Using external accountant	<input type="checkbox"/>

8. **What is your current position in the company?**

Chief executive Officer	<input type="checkbox"/>
Managing Director	<input type="checkbox"/>
Finance Manager	<input type="checkbox"/>
Accountant	<input type="checkbox"/>
Other (please specify) <input type="text"/>	

SECTION B: COMPLIANCE COSTS (INTERNAL AND EXTERNAL)

Internal Costs:

9. **Please ESTIMATE, the monthly wage rates by these people working exclusively on VAT activities within the company in 2021:**

	Average Wage Rate	
Manager / Accountant	AED	per month
Accounting Staff	AED	per month
IT Staff	AED	per month

10. Please ESTIMATE, the time spent by these people working exclusively on VAT activities within the company in 2021 (including time spent for attending courses, seminars and training in VAT):

	Total Hours
Manager / Accountant	per month
Accounting Staff	per month
IT Staff	per month

External Costs:

11. Please ESTIMATE the total cost incurred by the company in 2021 in compliance with both the VAT:

Upgrading computer system	AED
Courses, seminars and training for staff	AED
Consultation with a tax specialist	AED
Other additional costs (e.g. stationery, postage, travelling, etc.)	AED

SECTION C: PERCEPTIONS AND OPINIONS

Kindly respond to the following statements to indicate your opinion (by way of the tick on a 5-point scale) to each of the statements. There are no right or wrong answers. All responses are absolutely anonymous. Please tick (✓) one box for each statement.

		Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
12.	VAT rate is 'not fair' to be imposed to consumers.					
13.	The higher VAT rates were adjusted against inflation so that the government could achieve the income needed to meet its expected expenditures.					
14.	The increases in VAT rate result in larger tax revenues.					

15.	There is a formal government goal/ target in place for reducing tax compliance costs.					
16.	Compliance costs considerations are generally assessed when formulating tax policy proposals affecting the VAT.					
17.	There is an announced plan for specific VAT burden reduction initiatives.					
18.	The revenue body's formal planning documents reflect goals/ objectives for compliance cost reductions, and related strategies to achieve them.					
19.	VAT is not simple method of collecting tax.					
20.	VAT law is relatively complex.					
21.	Procedure for implementing VAT is difficult.					
22.	VAT is complicated so companies need to use the services of tax professionals.					
23.	Penalties for non-compliance should be increased.					
24.	A theoretical positive relationship between tax penalty and tax compliance exists.					
25.	Increase in tax penalty would lead to an increase in tax compliance and vice versa.					
26.	Sanction is the severe penalty to reduce the intent of non-compliance.					
27.	One instrument to change taxpayers' attitude towards tax matters is tax education.					

28.	Businesses receive tax incentives from the government in order to invest back in their businesses,					
29.	Tax relief provides more compliance.					
30.	Tax incentives provide more compliance.					
31.	Tax deductions provide more compliance.					
32.	I believe that compared to large companies, more favourable tax treatment should be given to small and medium enterprise.					
33.	The incentives which will be offered by the government to comply with VAT is enough.					

34. Read the following and kindly indicate your opinion (by way of a tick) to the following scenario based on your experience:

Mr. A, a self-employed businessman is considering not to include a cash sales of AED50,000 as his business income. Under the VAT regulation, a cash sales of AED50,000 should be included as business income to be determine the threshold limit. Persons having businesses with annual sales turnover exceeding AED375,000 are liable to be registered under VAT. However, he is almost certain that the tax authority will not audit him and would not know if the amount is not reported.

- a) What is the probability that Mr. A will not report the AED50,000 of cash sales as his business income?

Very Unlikely (1)	Unlikely (2)	Uncertain (3)	Likely (4)	Very Likely (5)

- b) Taking into account all known and likely business circumstances, to what extent do you agree with Mr A's possible action of not reporting the cash sales of AED50,000 as his business income?

Strongly Disagree (1)	Disagree (2)	Uncertain (3)	Agree (4)	Strongly Agree (5)

35. Read the following and kindly indicate your opinion (by way of a tick) to the following scenario based on your experience:

Due to the failure of Mr. A to report a cash consideration of AED50,000 as business income, it has resulted in the annual turnover in 2021 for Mr. A less than AED375,000. Under the VAT regulation, persons having businesses with annual sales turnover exceeding AED375,000 are liable to be registered under VAT. Actions taken by Mr. A is caused by the burden of the costs of complying with the VAT system but he is almost certain that the tax authority will not audit him and would not know if the amount is not reported.

- a) What is the probability that Mr. A will not registered for VAT?

Very Unlikely (1)	Unlikely (2)	Uncertain (3)	Likely (4)	Very Likely (5)

- b) Taking into account all known and likely business circumstances, to what extent do you agree with Mr. A's possible action of not registered for VAT?

Strongly Disagree (1)	Disagree (2)	Uncertain (3)	Agree (4)	Strongly Agree (5)

SECTION D: COMMENTS AND SUGGESTIONS

36. Please state if you have any other comments and/or suggestions regarding compliance costs on small and medium sized companies.

APPENDIX 2

Variance Inflation Factor (Analysis)

Effect Size						Variance inflation factor					
Compliance cost	Penalty	Probability of detection	Tax rate	Tax incentive	VAT compliance behaviour	Compliance cost	Penalty	Probability of detection	Tax rate	Tax incentive	VAT compliance behaviour
Compliance cost	1.752				0.003		1.000				-3.358
Complexity			0.857		0.092				1.000		-4.073
Penalty					0.094						-9.329
Probability of detection	1.806			2.908	0.323	1.000				1.000	-8.73
Tax rate					0.000						-1.858
Tax incentive		1.421			0.053			1.000			-13.159
VAT compliance behaviour											