Possible Value Added Tax Simplification Measures for Small Businesses in Botswana – Lessons from New Zealand

TSHEPISO MAKARA AND ADRIAN SAWYER

Tshepiso Makara is a Lecturer in the Faculty of Business, Sheridan College, Perth, Australia. Adrian Sawyer is a Professor in the Department of Accounting and Information Systems, University of Canterbury, Christchurch, New Zealand

---

The Value Added Tax (VAT)[1] system in Botswana, introduced in July 2002, has since gone through several reforms. This includes: an increase in the VAT rate from its introductory rate of 10 per cent to the current 12 per cent in 2010; two increases in the registration threshold from the initial P250,000 (AUD32,000)[2] to P500,000 (AUD64,000) in 2010, and from P500,000 (AUD64,000) to the current P1,000,000 (AUD128,000) in 2015 and; an increase in the number of zero-rated and exempted goods and services. Such reforms complicate the VAT system and increase VAT compliance costs, especially for small businesses. This paper explores possible VAT simplification measures for small businesses in Botswana, using the New Zealand GST system as a benchmark for a simplified VAT system. The New Zealand GST system is globally known as a model system, which has influenced GST designs in many countries. This study concludes with VAT policy implications for Botswana and potentially for similarly placed countries. The study recommends: broadening of the VAT base, reduction of VAT returns filing frequency and introduction of cash accounting for small businesses, as measures to simplify the VAT system in Botswana.

Keywords: Value Added Tax, Goods and Services Tax, Simplification, Small Businesses

---

[1] Also known as GST in other countries. These terms will be used interchangeably in this paper.

[2] The exchange rate of Botswana Pula (BWP) to Australian Dollar (AUD) as at August 2018 was 0.128: <www.xe.com>.

1. INTRODUCTION

1.1 Overview

This study aims to investigate possible measures that can be employed to simplify the Botswana VAT. The study draws on the policies employed by the New Zealand government to simplify their GST system. Small businesses are the main focus of this study because they are important to the economy of Botswana. Small businesses in Botswana are defined as enterprises employing between five and 25 people with an annual turnover of around P60,000–P1,500,000 (AUD7,680–AUD192,000).[3]

The VAT system in Botswana is perceived to be burdensome and unreasonably complicated.[4] To begin with, small businesses have to file VAT returns every two months and use an accrual method of accounting for VAT. In addition, some goods and services are VAT exempt. A complex VAT system makes compliance burdensome and elevates VAT compliance costs, particularly for small businesses. Prior studies indicate that the VAT is regressive and falls with disproportionate severity on small businesses.[5] Recent VAT compliance costs studies in Botswana reveal that the VAT system in Botswana is costly, burdensome and falls with disproportionate severity on small firms.[6] To this end, this study investigates possible VAT simplification measures for small businesses in Botswana, using the New Zealand GST system as a benchmark for a simplified VAT/GST system. The New Zealand GST system is globally known as a model system. It is hoped that the recommendations that will emanate from this study will enlighten the government of Botswana (and potentially those of similarly placed countries) on possible ways through which the burden of VAT compliance on small businesses can be reduced through simplification of the VAT system.

---

[3] Ibid.

[4] Makara and Rametse, "Taxpayer Attitudes, Compliance Benefits Perceptions and Compliance Costs of the Value Added Tax System in Botswana" (2018) 13(1) *Journal of the Australasian Tax Teachers Association* 246.

[5] These studies are summarised in the study by Tshepiso Makara and Jeff Pope "Estimates of the Compliance Costs of Value Added Tax in Botswana" (2013) 19(3) *New Zealand Journal of Taxation Law and Policy* 183.

[6] See Makara and Pope, above n 5; Makara and Rametse, "Estimates of the Cash Flow and Managerial Benefits of Value Added Tax in Botswana" (2017) 23(4) *New Zealand Journal of Taxation Law and Policy* 422; Makara and Rametse, above n 4.

1.2 Methodology and Limitations

This study employs the case study research approach. It is well known that case study research involves an in-depth, detailed study of an individual or a small group of individuals or an event. Such studies are typically qualitative in nature, resulting in a narrative description of behaviour or experience.[7] This paper reviews the literature in order to investigate key elements of an optimal VAT design. In addition, the study examines the Botswana VAT and the New Zealand GST design features for its comparative case studies, with the aim of identifying possible VAT simplification measures that Botswana can adopt.

It must be noted that Botswana and New Zealand differ in many respects, such as, socio-economic environments, governance, political climate, size, tax structure and the development and administration capabilities of the revenue departments. As such, comparing these two countries may be problematic and "…more likely to mislead than enlighten".[8] Moreover, differences in definitions and other areas of focus can lead to a comparison of 'apples and oranges'.[9] Notwithstanding these risks, an investigation of the VAT/GST design features of the two countries is cautiously made, since such differences do not mean that Botswana cannot learn anything from the New Zealand GST system. Throughout this paper we use VAT and GST interchangeably, as well as the relevant label for a particular jurisdiction.

In terms of a theoretical perspective, this paper adopts an institutional theory perspective. By institutional theory, we are focussing on the effects of institutions in society on political outcomes, including policy formation and legislative changes.[10] It is not the intention of this paper to provide a detailed overview of institutional theory and its application to tax research.

---

[7] Robert K Yin *Case Study Research Design and Methods* (5th ed, Sage: Thousand Oaks, CA 2014).

[8] Cedric Sandford *Tax Compliance Costs: Measurement and Policy* (Fiscal Publications, Bath, 1995) 405.

[9] International Finance Corporation *The Costs of Tax Compliance in Ukraine* (IFC, Washington DC, 2009) 95. Retrieved from www.ifc.org/Ukraine/IC.

[10] See further the discussion of institutional theory by Lisa Marriott *The Politics of Retirement Savings Taxation: A Trans-Tasman Comparison* (CCH Australia Ltd: Sydney 2010).

The remainder of the paper is organised as follows. Section 2 discusses the overall design of a VAT and identifies features of a VAT that make it either complex or simple. Section 3 reviews the Botswana VAT and the New Zealand GST designs. Possible VAT simplification measures for Botswana are identified in Section 4, while Section 5 concludes with policy recommendations.

2. DESIGN OF A VALUE ADDED TAX SYSTEM

2.1 Synopsis

The design of a VAT system is important as it affects the manner of tax compliance as well as taxpayer compliance costs. Certain features of a VAT, such as the number of VAT rates, exemptions and zero-rating of certain goods and services, complicate a VAT system. A complex VAT design has higher compliance costs that burden smaller businesses the most. Such a burden may be perceived as unfair and, consequentially, can arouse negative attitudes in taxpayers. This section does not aim to cover all aspects of a VAT system design. Readers interested in an in-depth discussion of the design of a VAT are referred to other studies.[11]

2.2 Definition of a Value Added Tax

The VAT is the predominant form of consumption tax across the globe,[12] being now implemented by over 150 countries worldwide.[13] It is alleged to be the most important single tax in developing and transitional countries,[14] while in the European Union (EU), it is said to be the cornerstone of tax policy and the economic system.[15] In Africa, the

---

[11] For example: Alan Tait *Value Added Tax: International Practice and Problems* (International Monetary Fund, 1988); Sijbren Cnossen "Design of the Value Added Tax: Lessons from Experience" in Javad Khalilzadeh-Shirazi and Anwar Shah (eds) *Tax Policy in Developing Countries* (World Bank, 1991); Liam Ebrill, Michael Keen, Jean-Paul Bodin and Victoria Summers *The Modern VAT* (International Monetary Fund, 2001); International Tax Dialogue *The Value Added Tax: Experiences and Issues* (International Tax Dialogue, 2005) <www.itdweb.org>; Richard Bird and Pierre-Pascal Gendron *The VAT in Developing and Transitional Countries* (Cambridge University Press, 2007).

[12] Susan Symons, Neville Howlett and Katia Alcantara *The Impact of VAT Compliance on Business* (Price Waterhouse Coopers, 2010) 5.

[13] Stephane Buydens *Consumption Tax Trends 2010: VAT/GST and Excise Rates, Trends and Administration Issues* (Organisation for Economic Co-operation and Development, 2011) 11; Ine Lejeune *The EU VAT Experience: What are the Lessons?* (Tax Analysts, 2011) 257.

[14] Bird and Gendron, above n 11, 1.

[15] Lejeune, above n 13, 257.

proliferation of VAT, has been phenomenal, with the majority of the African countries adopting a VAT of some sort.

Martinez-Vasquez and Bird assert that the success of VAT reflects a number of factors. To begin with, VAT has a high revenue raising potential and is relatively simple, conceptually at least. In addition, VAT enhances economic efficiency, trade, and growth. Its relatively mild consequences on income distribution and equity may be alleviated with ease. Furthermore, fewer and relatively less complex political economy issues seem to interfere with its introduction and development, compared with other potential revenue raising taxes.[16]

In addition, the spread of VAT across most continents signifies its value as a source of revenue in many countries.[17] In the Organisation for Economic Co-operation and Development (OECD) alone, VAT generated around 20 per cent of total tax revenues in 2015,[18] and for many countries the VAT yield can be anywhere between less than one per cent and over ten per cent of Gross Domestic Product (GDP).[19] Keen and Lockwood assert that the VAT raises about 20 per cent of the world's tax revenue and also that approximately four billion people are affected by it directly.[20] Principally, countries that have a VAT generally have higher government tax revenues than those that do not.[21]

2.3 Value Added Tax Design

2.3.1 Overview

The design of a VAT is important, not only to its success in achieving high compliance and meeting revenue targets, but also to the magnitude of VAT compliance costs

[16] Jorge Martinez-Vasquez and Richard Bird *Value Added Tax: Onward and Upward?* International Studies Program Working Paper, 10-26 (Andrew Young School of Policy Studies, 2010) 1.

[17] Ebrill et al., above n 11, notes that, at the time, many countries had a VAT which raised, on average, 25 per cent of their tax revenue.

[18] Organisation for Economic Cooperation Development *Revenue Statistics 2017: Tax Revenue Trends in the OECD* (OECD, 2017) 3.

[19] Ebrill et al., above n 11, 8.

[20] Michael Keen and B Lockwood *The Value Added Tax: Its Causes and Consequences,* IMF Working Paper No 183 (International Monetary Fund, Fiscal Affairs and Secretary's Departments, 2007) 3.

[21] Ebrill et al., above n 11, 8.

incurred by businesses in the process of complying with the VAT system. Good tax design seeks to minimise the real costs to society that are inherent even in the best designed taxes.[22] Krever affirms that "…to a very large extent, the potential effectiveness of a VAT depends on the fundamental design of the legislation as well as the way the design is translated into law."[23] Complex VAT design leads to significant compliance costs. It also increases the possibility of noncompliance because it gives taxpayers the incentive to avoid tax by misclassifying goods or services as exempt or zero-rated.[24]

According to Lejeune, the design of a best practice VAT requires a balance to be established between the objectives of three stakeholders: the government, businesses and citizens. The government's principal aim is to increase the revenue necessary to fund public services (essentially: infrastructure, health, welfare security, and education), to attract and retain businesses as well as create new jobs and secure existing ones. The objectives of businesses, on the other hand, are to participate in 'global' competition and maximise profit. Citizens usually seek a non-regressive and non-inflationary tax.[25]

Key factors, namely VAT rates, zero rating, exemptions, as well as the registration threshold, are the cornerstones of VAT design. These factors determine: how much government revenue will be raised from VAT (after considering the administrative costs); the magnitude of compliance costs borne by taxpayers (businesses); and the regressivity of the VAT upon final consumers (citizens). The authors suggest that the manner and frequency of VAT returns filing are also important cornerstones as they have a direct bearing on the compliance costs borne by taxpayers. The elements of a conceptually simple VAT, as suggested by the United States Government Accountability Office (USGAO),[26] are displayed in Table 1. Ideally, a conceptually

---

[22] Richard Bird and Eric Zolt "Tax Policy in Emerging Countries" (2008) 26 *Environment and Planning C-Government and Policy* 73, 76.

[23] Rick Krever *VAT in Africa* (Pretoria University Law Press, 2008) 9.

[24] United States Government Accountability Office *Value Added Tax. Lessons Learned from Other Countries on Compliance Risks, Administrative Costs, Compliance Burden and Transition: Report to Congressional Requesters* (United States Government Accountability Office, 2008) 4-5.

[25] Lejeune, above n 13, 264.

[26] United States Government Accountability Office, above n 24, 12-13.

simple VAT would have a single rate, a zero threshold, be inclusive of all goods and services, with the exception of exports (at zero per cent), and use invoices for sales/purchases verification.

Table 1: Elements of a Conceptually Simple VAT System

Element	Definition
Single tax rate.	One rate applies to the base.
Broad, non-exclusionary tax base.	All goods and services are subject to the VAT, including financial transactions and real estate.
All business, government, and non-profit entities are taxed.	All entities are subject to paying VAT on purchases and required to charge VAT on qualifying sales of goods and services.
Destination principle.	Goods and services are subject to taxation in the jurisdiction in which they are consumed. Therefore, imports are subject to VAT in the importing country, and exports (taxed at zero per cent) are excluded from the domestic tax base.
Credit invoice mechanism.	Tax calculations are based on valid invoices and sales receipts for each transaction by subtracting the taxes paid on all input purchases from taxes collected on all output sales.

Source: United States Government Accountability Office, above n 24, 12-13.

2.3.2 Value Added Tax Rate(s)

The rate, or number of rates, at which VAT is imposed is a significant element in the design of the VAT. Tax administrations generally levy more than one VAT rate (being the standard rate and reduced rate(s)) on goods and services. The most common type of reduced rate is a zero rate, commonly applied on exports, and certain basic goods and services that are usually consumed by the poor and the less well-off.[27] The application of a zero rate on exports ensures that the VAT is borne entirely by the final consumer in the country where consumption takes place, and is not recoverable in a foreign jurisdiction (often referred to as the destination principle of the VAT).

[27] The government of Botswana imposes a zero rate on certain goods and services. See Government of Botswana, *Value Added Tax Act* (Government of Botswana, 2001) 72-83 and Government of Botswana *Value Added Tax (Amendment) Act, 2015* (Botswana Government Gazette, 2015) A.1-2: <www.burs.org.bw>. New Zealand has a zero rate only for exports and for transfers of what is known as a 'going concern'.

In terms of the goods and services consumed by the 'poor', the use of the lower or zero rate(s) is intended to reduce the regressivity of the VAT on such consumers (equity considerations). It has, however, been argued that the use of lower or zero rates for redistribution purposes is practically limited, because the rich generally spend more, in absolute terms, on the rate-reduced commodities. Thus, the rate decrease benefits the rich more than the poor.[28] Additionally, where there are other income redistribution instruments, it is less likely that social benefits will be derived from setting more than one rate of VAT.[29] Ebrill et al. maintain that personal income tax provides a more effective way of redistributing income.[30] Remaining issues of regressivity can be dealt with without the VAT, such as through income supplements and welfare payments from the government.

Furthermore, having several VAT rates in a country complicates the VAT and increases its complexity,[31] and resultant compliance costs, especially for small traders.[32] As the number of rates increases, tax forms become more complicated and compliance costs tend to increase considerably. Moreover, a VAT system with many rates distorts consumer and producer choices, and invites rent reeking.[33] The basic rule in VAT design is to have as few tax rates as will satisfy the preference of politicians.[34] Similarly, Cnossen suggests that the differentiation of VAT rates should be kept to a minimum.[35] However, others propose that a conceptually simple VAT should have a single rate that applies to all goods and services.[36]

---

[28] International Tax Dialogue, above n 11, 14-15.

[29] Ebrill et al., above n 11, 74.

[30] Ibid.

[31] Cnossen, above n 11, 82.

[32] For example, Milka Casanegra de Jantscher *Problems of Administering a Value Added Tax in Developing Countries,* International Monetary Fund Working Paper WP/86/15, (International Monetary Fund, 1986) 3; Krever, above n 23, 19.

[33] Matt Benge, Marie Pallot and Hamish Slack "Possible Lessons for the United states from New Zealand's GST" (2013) 66(2) *National Tax Journal* 479, 480.

[34] Tait, above n 11, 42.

[35] Cnossen, above n 11, 83.

[36] For example, United States Government Accountability Office, above n 24, 12; Bird and Gendron, above n 11, 108.

Applying a single rate of VAT to all goods and services (with the exception of exports, at a zero rate) generally simplifies compliance.[37] The reason a single rate reduces the burden of compliance is because: it makes record-keeping easier by eliminating the need to separate goods and services into different categories. Also, a single rate removes the incentive to intentionally misclassify items.[38]

With regard to the magnitude of the VAT rate, a high rate is seen to be more effective than a low one. Tait maintains that levying a VAT at a low rate below 10 per cent might be considered a poor allocation of resources.[39] In terms of increasing the VAT rate, as is common with many countries,[40] Buydens advises that countries should consider the efficiency of rate increases compared with broadening the VAT base and decreasing the number of reduced rates.[41] He suggests that reducing the number of exemptions to broaden the VAT base would enhance the efficiency and neutrality of the tax. Essentially, this offers an effective alternative to increasing VAT rates.[42]

2.3.3 Exemptions

Value added tax exemptions[43] refer to the complete exclusion of certain goods and/or services from the tax base. Exemptions contradict the principle of neutrality which requires VAT to be a broad-based tax,[44] and lead to breaks in the VAT chain,[45] by

---

[37] Ebrill et al., above n 11, 78.

[38] Ibid 78-79.

[39] Tait, above n 11, 39.

[40] Botswana increased the VAT rate from 10 per cent to 12 per cent on the 1st April 2010. Many other countries, for example, South Africa, Ghana and Singapore, have increased their VAT rates. In the OECD, 12 countries (Chile, Germany, Greece, Iceland, Mexico, Netherlands, New Zealand, Norway, Portugal, Slovenia, Switzerland and Turkey) have increased their VAT rate since 2000. See Buydens, above n 13, 72-74.

[41] Buydens, above n 13, 15.

[42] Ibid.

[43] Value Added Tax exemptions often include basic education services, basic health service, financial services, real estate and construction. See Ebrill et al., above n 11, 91-99. The different VAT exemptions by OECD countries are outlined in a recent OECD study of consumption tax trends. See Stephane Buydens *Consumption Tax Trends 2012: VAT/GST and Excise Rates, Trends and Administration Issues* (Organisation for Economic Co-operation and Development, 2012) 86-88. In Botswana, the VAT exempt goods and services include accommodation, education services, health services provided by a public medical facility, financial services and supply of domestic passenger transportation. See Government of Botswana, above n 27.

[44] Buydens, above n 13, 15.

[45] Ebrill et al., above n 11, 85.

denying the businesses that trade in exempt supplies to claim the input VAT. Other problems of exemptions include tax revenue effects, distortion of input choices, an incentive to self-supply, disruption of the destination principle, an incentive to import VAT exempt inputs, strenuous record-keeping for partially exempt traders, and exemption creep.[46]

Value Added Tax exemptions also result in the imposition of tax-on-tax (cascading) and introduces inequities in the VAT system which distorts production decisions.[47] In addition, the exclusion of some goods and services from the tax base distorts consumer choices and reduces the tax revenue.[48] Tait asserts that the more exempt goods and traders there are, the greater the possibility that value added is unintentionally taxed at different rates.[49] Moreover, increased exemptions could possibly entice other traders to claim exemption for themselves and thereby erode the tax base. Accordingly, theoretically and practically, exemptions should be kept to a minimum,[50] and limited to basic health, education and financial services.[51]

2.3.4 Value Added Tax Registration Threshold

The choice of a registration threshold is very important in the design and implementation of VAT.[52] Value Added Tax registration thresholds differ from one country to another across the globe. For example, the VAT registration threshold in Australia, New Zealand and South Africa is set at AUD75,000, NZD60,000 (approximately AUD54,000) and ZAR1 million (AUD92,868),[53] respectively. In Botswana, the VAT registration threshold is P1,000,000 (AUD128,000).[54] A low registration threshold requires smaller businesses to adhere to the stringent

---

[46] Ibid 83-90. Exemption creep is a situation whereby exemption creates direct pressure for further exemptions.

[47] For example, Tait, above n 11, 50; International Tax Dialogue, above n 11, 8.

[48] Cnossen, above n 11, 78.

[49] Tait, above n 11, 50.

[50] Ibid.

[51] For example, Cnossen, above n 11, 83; International Tax Dialogue, above n 11, 15.

[52] For example, Ebrill et al., above n 11, 113; Michael Keen and Jack Mintz "The Optimal Threshold for a Value Added Tax" (2004) 88(3-4) *Journal of Public Economics* 559, 559; International Tax Dialogue, above n 11, 16.

[53] The exchange rate of South African Rand (ZAR) to Australian Dollar (AUD) as at August 2018 was 0.09: <www.xe.com>.

[54] See the Botswana Pula – Australian Dollar exchange rate, above n 2.

requirements of the VAT (for example, proper record-keeping, VAT collection and remittance, and timely filing of VAT returns). This imposes a disproportionate compliance burden upon the smaller traders, which, in turn, may evoke negative attitudes (and tax evasion) from small businesses.

On the contrary, a high registration threshold results in differential treatment of businesses, which, in turn, leads to distortions in competition in favour of small businesses below the registration threshold. Such distortions, implied by additional costs in the form of the tax liability and compliance costs, affect the VAT registered businesses.[55] To this end, some argue that a low threshold is necessary to reduce incentives for malpractices such as sales suppression.[56] Indeed the choice of an optimal VAT registration threshold is a very contentious issue.[57]

Essentially, some sort of balance is required when deciding on the level of the registration threshold. Shome maintains that small businesses should be taxed for two reasons. To begin with, the contribution to the tax by small businesses, when combined with the medium-sized taxpayers, can be large at over a quarter of total revenue. Second, there is likely to be a strong effect upon the economic growth emanating from ignoring a large amount of potential tax revenue from particular sectors.[58]

In contrast, Keen and Mintz assert that the revenue that is lost by raising the registration threshold and dropping many small businesses from the tax base, can be traded-off against the compliance costs saved by the taxpayers.[59] Similarly, the International Tax Dialogue (ITD) affirms that balancing the government's need for revenue against tax compliance costs suggests that it will generally be optimal to levy the tax only on taxpayers above some critical size, and entirely exclude all those below it from the

[55] Ebrill et al., above n 11, 120.

[56] Benge et al., above n 33, 495.

[57] Keen and Mintz, above n 52, 559-560.

[58] Parthasarathi Shome *Tax Administration and the Small Taxpayer* Policy Discussion Paper No. 04/2, (International Monetary Fund Publications, 2004) 3-4.

[59] Keen and Mintz, above n 52, 562.

tax.[60] With regard to most developing and transitional countries, it is likely wiser to set the registration threshold too high than too low.[61]

2.3.5 Value Added Tax Design and Tax Compliance Costs

As mentioned earlier, a VAT system can be either simple or complex depending on the number of VAT rates, the presence and number of zero-rated and exempt goods and services as well as the level of the registration threshold (whether it is relatively high or low). Other factors that affect the nature of a VAT system are the frequency of VAT returns filings and the system used in VAT returns filing (whether submitted online or in person).

Many governments often incorporate small business 'special treatment clauses' or concessions in their tax policies in an attempt to mitigate the burden of tax compliance which often falls disproportionately upon this sector. In reality, in many countries, small businesses expect, and generally receive, special tax treatment or tax concessions.[62] However, concessions in the form of lower VAT rates or exemptions lead to considerably higher compliance costs because businesses have to separate their stock at the checkout counter according to the tax treatment. Large businesses can automate this process and amortise the initial setup costs over high volumes of sales. Small businesses, on the other hand, rarely have automated checkout systems. They are, therefore, forced to amortise the costs of compliance over a much smaller sales volume. Thus, the burden of differentiating fully and lower taxed products falls inequitably on small firms.[63]

Pope asserts that recurrent tax compliance costs are minimised under a simple tax which incorporates a single rate, a high threshold and a minimum of special exemptions, reliefs and provisions.[64] Tax payment arrangements such as less frequent returns and

---

[60] International Tax Dialogue, above n 11, 23.

[61] Bird and Gendron, above n 11, 3.

[62] Jeff Pope "Small Business Taxation: An Evaluation of the Role of Special Treatment Policies" (2008) 10(2) *The Business Review, Cambridge* 14, 14.

[63] Krever, above n 23, 19.

[64] Jeff Pope *The Compliance Costs of Major Commonwealth Taxes in Australia* (thesis submitted to the Faculty of Business of Curtin University of Technology in fulfilment of the requirements for the degree of Doctor of Philosophy, 1993) 81.

simplified methods of calculating the GST liability may be made in favour of small businesses to alleviate their burden of GST compliance.[65]

3. VAT/GST DESIGNS IN BOTSWANA AND NEW ZEALAND

3.1 The Design of the Botswana VAT system

The VAT system in Botswana was introduced at a rate of 10 per cent in July 2002. In April 2010, the Botswana Unified Revenue Service (the BURS) increased the VAT rate to 12 per cent.[66] This increase came about as a result of the 2009 recommendations made by the International Monetary Fund (IMF) (to strengthen tax administration and to increase the VAT rate and fuel levy to rates of nearby countries). The increase was aimed at enhancing the VAT revenue and possibly reducing Botswana's dependence on mining revenue in the longer term.

The Botswana VAT system, modelled on the traditional European VAT, allows for certain goods and services to be exempt while others are zero-rated.[67] The VAT exempt goods and services consist primarily of financial, medical, accommodation in a dwelling and educational activities. Zero-rated goods and services comprise basic foodstuffs[68] in their natural state, and not mixed with other products, exports, international transport services and paraffin.[69]

---

[65] Jeff Pope "Estimating and Alleviating the Goods and Services Tax Compliance Cost Burden upon Small Business" (2001) 11(1) *Revenue Law Journal* 6, 16.

[66] International Monetary Fund *Botswana: 2009 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Botswana* Country Report No. 10/172, (International Monetary Fund, 2010) 18.

[67] Botswana Customs and Excise, *A Guide to Botswana's Value Added Tax* (Government of Botswana, 2001) 41. Exempt supplies, such as education services and public medical facilities, are not subject to VAT. They are not counted as part of a business's taxable turnover. Zero-rated supplies are those that attract VAT at the rate of zero per cent, such as exports and basic food products. Sections 10 and 11 of the first schedule of the Botswana Value Added Tax Act provide a comprehensive list of exempt and zero-rated supplies.

[68] These include foods that are consumed mainly by the poor such as millet grain, wheat grain, maize cobs, flour, sugar, maize meal and millet meal.

[69] This list is by no means exhaustive. Readers interested in a complete list of zero-rated goods and services are referred to Botswana's *VAT Act No 50:03* available from http://www.burs.org.bw/phocadownload/Revenue_laws/CAP%2050-03%20Value%20Added%20Tax%20Act.pdf

Registration for VAT is compulsory for any business that makes taxable supplies of P1,000,000 (AUD128,000)[70] or more per annum, or expects that this limit will be exceeded during the following 12 months. Compulsory VAT registration is not required if the business can clearly demonstrate that the value of the taxable supplies exceeded P1,000,000 due to the termination, or significant and permanent reduction in the size or scale, of a taxable activity carried on by the person; or the replacement of capital goods.[71] Voluntary registration is open to businesses with a taxable income below P1,000,000 and this is done at the discretion of the Commissioner General of the Botswana Unified Revenue Service (BURS). The *VAT Act No. 50:0*3 states that while a business can register voluntarily, the option to de-register can only be exercised two years after the date of registration. Failure to apply for registration when required is an offence that attracts high penalties. The penalties include fines, interest penalty for late payments and imprisonment.[72]

The BURS classifies the VAT registered businesses into three groups namely A, B and C. Groups A and B comprise businesses with a turnover below P12 million (AUD1.5 million) whereas Group C encompasses businesses that have an annual turnover exceeding P12 million. These groups are also distinguished by the manner in which they file VAT returns.[73] Large businesses (Group C)[74] file VAT returns monthly while groups A and B file VAT returns bimonthly on alternate months.[75]

During the financial year 2014/15, the BURS introduced an online VAT returns filing system (e-filing). However, the BURS notes that "there has been a slow uptake of the use of e-services as most taxpayers continue to file manually".[76] Thus the frequency and manner of VAT returns filing in Botswana pose a question of the complexity of the

---

[70] See the Botswana-Australia exchange rate, above n 2.

[71] Price Waterhouse Coopers *Overview of VAT in Africa*. (Price Waterhouse Coopers, 2011) 2. Retrieved from http://www.pwc.co.za/en/publications/overview-of-vat-in-africa.jhtml.

[72] Botswana Customs and Excise, above n 67, 36.

[73] Group A and B businesses file VAT returns on alternate months. This was done mainly to reduce congestion at the VAT office during the VAT returns filing period.

[74] The BURS set up a Large Taxpayer Unit (LTU) to administer the tax affairs of large enterprises that contribute the largest portion of tax revenue.

[75] Botswana Customs and Excise, above n 67, 26.

[76] Government of Botswana *BURS Annual Report*, 2015 (Botswana Government, 2015) 29.

country's VAT system and the burden of VAT upon businesses, especially small ones. The BURS has to encourage e-filing of VAT returns by offering free and ongoing training related to e-services and, where possible, subsidies related to computers and the internet for small businesses.

3.2 Botswana Value Added Tax System Reforms

The VAT system in Botswana has since gone through multiple reforms. The first two reforms came in the form of an increase in the VAT rate and VAT registration threshold. The VAT rate was increased from its introductory rate of 10 per cent to a current 12 per cent, while the registration threshold, which started off at P250,000, increased to P500,000 in April 2010.

On the 23rd January 2015, the Botswana government amended the VAT registration threshold by increasing it to P1,000,000 (AUD128,000).[77] In addition to the threshold amendment, the government introduced some new zero-rated goods into the VAT system in 2015.[78] While, an increase in the number of zero-rated goods may reduce consumption costs of the poor, such a move actually complicates the VAT system and increases VAT compliance costs, especially for small businesses.

Value added tax amendments require businesses to update their VAT accounting systems in order to meet new requirements. These reforms complicate the VAT system and make compliance arduous. Moreover, they increase VAT compliance costs and arouse negative attitudes in taxpayers, which in turn may lead to tax evasion.

Value added taxpayers in Botswana have indicated that they find VAT requirements to be burdensome. The businesses that find VAT to be onerous and unreasonably complicated reported higher average VAT compliance costs and also that they resent doing their VAT work.[79] This could possibly explain why Botswana faces an ongoing challenge of VAT non-compliance as evidenced by growing VAT arrears (see Figure 1). The BURS mentioned that there is a culture of low tax compliance in the Botswana

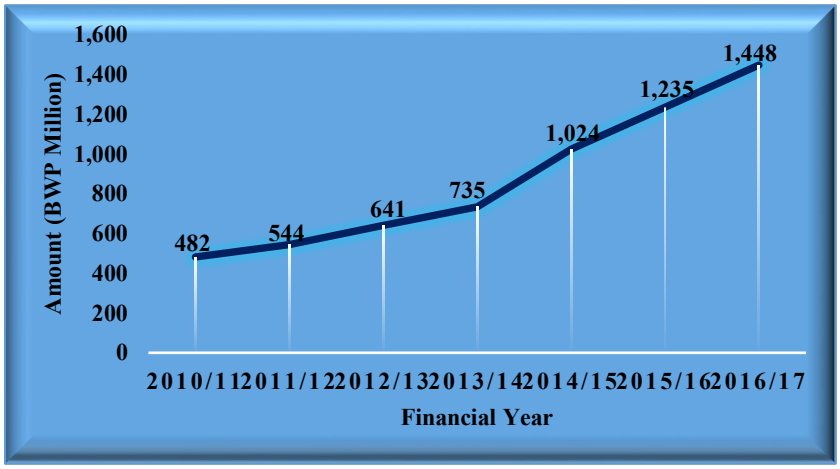
[77] See the exchange rate of Botswana Pula to Australian Dollar above, n 2.

[78] Government of Botswana *Value Added Tax (Amendment) Act, 2015* (Botswana Government Gazette, 2015) A.1-2: <www.burs.org.bw>.

[79] Makara and Rametse, above n 4, 246.

market, among small to medium businesses, and that there is a need to engender compliance with revenue laws.[80]

Figure 1: Value Added Tax Arrears



Source: Authors – Derived from the BURS Annual Reports (2012; 2013; 2014; 2015; 2016; 2017)

3.3 The Design of the New Zealand Goods and Services Tax System

In New Zealand, GST was introduced on 1 October 1986. The New Zealand GST is broad-based and is currently levied at a rate of 15 per cent[81] on almost all goods and services. The VAT registration threshold in New Zealand is currently NZD60,000 (AUD54,300).[82] The New Zealand GST system is considered to be a model system that represents a contrasting approach to that of the traditional European model. As part of a radical reform package in the mid-1980s, New Zealand introduced a broad-base low rate value added tax known as a Goods and Services Tax, while concurrently lowering marginal tax rates significantly (from a top rate of 66 per cent to that of 33 per cent), eliminated most exemptions and credits in the tax system, and embarked on major reform to tax filing obligations of individuals. When New Zealand introduced its GST system in 1986, it was at a rate of 10 per cent and a registration threshold of NZD24,000. The GST rate in New Zealand has been increased twice, with the latest increase coming in 2010 when the rate went from 12.5 per cent to 15 per cent.

[80] Government of Botswana *BURS Annual Report*, 2012 (Botswana Government, 2012) 14.

[81] The original rate was 10 per cent in 1986, increasing to 12.5 per cent in July 1989 and 15 per cent from October 2010.

[82] The original threshold was NZD24,000 in 1986, increasing to: NZD30,000 from October 1990, NZD 40,000 from October 2000 and NZD60,000 from April 2009.

New Zealand's GST is known for having an extremely broad base, very few exemptions, and having a focus on efficiency. For example, Vial observes that the NZ GST is not only "… an international benchmark for indirect tax design but that it has the highest C-efficiency ratio in the OECD (at 93.5 per cent).[83] The C-efficiency is the ratio of VAT revenue to consumption expenditure, divided by the standard tax rate, expressed as a percentage. Politicians have resisted major changes to the GST since its introduction, with the exception of increasing the rate twice and the registration threshold three times, increasing the breadth to include certain excluded areas (for example, certain financial services and certain electronic transactions), and remedial legislative amendments.

Maples and Sawyer[84] explore the international impact of the New Zealand GST model in contrast to that of the traditional VAT model. They identify 18 "GSTs" that have been developed with the initial starting point being New Zealand's GST. With the exception of a few jurisdictions (including Singapore), the other jurisdictions have moved away from the "purity" of the NZ GST to introduce multiple rates, more exemptions and the like.

In terms of aspects of New Zealand's GST that work in support of small businesses, they may file GST returns every six months, provided certain criteria are met. Specifically, their turnover cannot exceed NZD500,000 (AUD452,500) in past 12 months or not be expected to exceed in next 12 months. Otherwise, they will need to adopt standard two monthly period (a one month return period applies for large taxpayers). There are several methods for accounting for GST that apply for small businesses. The standard method is the invoice (or accruals) basis, or the payments basis (a type of cash accounting system). The payments basis applies to non-profit bodies, persons with less than NZD2 million (AUD1.81 million) taxable supplies for a month, or where the Commissioner of Inland Revenue (Commissioner) is satisfied this basis is appropriate. A third method is known as the hybrid basis (introduced in 1991)

---

[83] Peter Vial, "The Sustainability of the New Zealand Tax Base: Are we at the End of the Road for the New Zealand Tax System?" (2009) 15(1) *New Zealand Journal of Taxation Law and Policy* 17, 22; citing Richard Krever and David White (eds), *GST in Retrospect and Prospect* (Thomson Reuters 2007) viii.

[84] Andrew Maples and Adrian Sawyer, "The New Zealand GST and its Global Impact: 30 Years On", (2017) 23(1) *New Zealand Journal of Taxation Law and Policy*, 9.

which can be used by any person or business registered for GST. It has some cash flow disadvantages in that input tax credits cannot be claimed until payment is made but output tax must be paid at the earlier of the issue of an invoice and receipt of payment.

There are no special rates or lower rates for any items, other than the limited situations where the zero rate applies (exports and transfers of a going concern). Certain land translations have also been exempted form GST. Thus the standard rate of GST applies to almost all transactions. That said, it remains a relatively complex tax to apply as reflected in the ever growing legislative provisions and challenges faced by the courts. During the 1990s and 2000s, New Zealand undertook a rewrite of its Income Tax Act. The Tax Rewrite Project did not extend to rewriting other major tax statues, such as the Tax Administration Act 1994 and the Goods and Services Tax Act 1985. A call has been made to no avail rewrite the Goods and Services Tax Act 1985 from New Zealand's highest court, the Supreme Court:[85]

> ". . . it is to be hoped that once the redrafting exercise on the Income Tax Act is completed the team will move on to the [GSTA 1985], which is not, and never has been, a user-friendly statute".

In summary, New Zealand's GST reflects the purist and most efficient GST model anywhere around the world. It has remained robust since its inception against conceptual reform.

4. POSSIBLE VALUE ADDED TAX SIMPLIFICATION MEASURES

4.1 Overview

It has been suggested that complex VAT requirements lead to high VAT compliance costs.[86] The compliance costs of VAT and other taxes do not affect businesses equally. As a result of the fixed cost nature of tax compliance costs, small businesses carry a burden of these costs that is not proportional to their size. The regressivity of tax

[85] Rt Hon Peter Blanchard, ''Some Basic Concepts of New Zealand GST'' in Rick Krever and David White, above n 83, 91 at 92.

[86] Makara and Rametse, above n 4.

compliance costs puts small firms at a competitive disadvantage,[87] and leads to a competition policy concern by conflicting with the aim of establishing a 'level playing field' between all types and sizes of business.[88] Thus, complex VAT requirements place small businesses at a competitive disadvantage. The following section discusses the possible policy measures that can help to simplify the VAT system in Botswana.

Key policy recommendations for the possible simplification of the Botswana VAT are suggested. These recommendations are inspired by the design of the New Zealand GST, which is popularly known as a model GST.

4.2 Introduction of the Cash Accounting Method for Value Added Tax

The system of cash accounting is seen as a measure that can simplify the VAT system. Cash accounting allows businesses to account for VAT only when they receive cash for taxable supplies or when they make payment for goods and services bought. This system has been used in some countries such as the United Kingdom, where it was reported to lead to cost savings and benefits for businesses.[89] In Australia, the cash accounting system was introduced as part of the simplified tax system. Small businesses with an aggregated turnover of less than AUD10 million can account for GST on a cash basis. Such businesses account for GST on the Business Activity Statement (BAS) covering the period during which they received (made) payment for sales (purchases).[90] The payments (or cash) basis method has been available in New Zealand from the commencement of its GST, with the hybrid basis[91] available since 1991.

---

[87] Michael Godwin and Cedric Sandford "Simplifying VAT for Small Traders" (1983) 13(52) *Accounting and Business Research,* 281.

[88] Jeff Pope, above n 65.

[89] National Audit Office *HM Customs and Excise: Cost to Business of Complying with VAT Requirements* (HMSO, 1994) 7.

[90] Australian Taxation Office *Accounting for GST on a Cash Basis*. Retrieved from https://www.ato.gov.au/business/gst/accounting-for-gst-in-your-business/choosing-an-accounting-method/?anchor=Accounting_for_GST_on_a_cash_basis#Accounting_for_GST_on_a_cash_basis.

[91] The hybrid basis is a system where a GST-registered entity accounts for GST on its sales (and other income) using the invoice (or accruals) basis and accounts for its GST on purchases and expenses using the payments (or cash) basis. In order to use this basis of accounting for GST, a business must apply in writing to the Commissioner of Inland Revenue for approval.

A recent study on the cash flow and managerial benefits of VAT in Botswana found that Small and Medium Enterprises (SMEs) (Groups A and B businesses), which had settlement periods of three months, incurred cash flow costs of BWP9 million in 2010/2011.[92] An introduction of the cash accounting system will eliminate this cost for businesses.

4.3 Reduction of Value Added Tax Returns Filing Frequency

The frequency of VAT returns filing in Botswana is a major concern, especially for small businesses. Small and medium-sized businesses file their VAT returns every two months, while larger businesses file VAT returns monthly. A reduction of VAT filing frequency, from bimonthly to six monthly, will reduce the burden and magnitude of VAT compliance costs for small businesses. Eligible small businesses in New Zealand are able to file VAT returns every six months. In addition to a reduction of VAT compliance costs, administrative costs incurred by BURS will also reduce, allowing the revenue authority to focus resources on large taxpayers that contribute the larger share of the VAT revenue.

4.4 Broadening (and altering) of the Value Added Tax Base

The presence of zero-rated and exempt goods and services complicates a VAT system. A recent study by Makara and Rametse reports that 77 per cent of businesses that trade in VAT exempt and zero-rated goods and services find the Botswana VAT system to be unreasonably complicated and, as such, have concerns when undertaking their VAT work.[93] As mentioned earlier, the BURS has reported that there is a culture of noncompliance among small businesses in Botswana and the revenue authority grapples with mounting VAT arrears. The authors suggest that the BURS should adopt a broad-based VAT system, similar to the New Zealand GST system, which has minimal exempt and zero-rated goods and services. Given the economic circumstances of Botswana, the VAT should also increase its threshold for registration. With regard to the foods consumed by the poor, the Botswana government can consider introducing income supplements and welfare payments in order to simplify the VAT.

[92] Makara and Rametse, above n 6, 440.

[93] Makara and Rametse, above n 4, 261.

New Zealand more recently included online services within the scope of its GST[94] and proposes to include online services in the GST tax base with effect from late 2019.[95] In contrast, certain land transactions have been made zero rated for GST purposes in order to simplify the operation of GST with respect to land transactions. The Compulsory Zero Rating (CZR) rules[96] were introduced in 2011 and require a 15 percent transaction that would normally attract GST at 15 percent to be zero-rated if:

- The transaction involves land (any interest in land will be sufficient);
- The vendor is GST-registered; and
- The purchaser (or recipient, such as a nominee) acquires the property to carry on a taxable activity and not as a principal place of residence. The residence exception covers associates of the purchaser.

5. CONCLUSION AND LIMITATIONS

This article has investigated optimal design features of a VAT. Specifically, the paper has discussed the design features of the Botswana VAT and the New Zealand GST in order to identify possible policy measures that can help simplify the VAT system in Botswana. These policy recommendations are cautiously made owing to the size, economic, political and governance differences in the two countries.

Prior studies have reported that small business taxpayers in Botswana perceive the VAT to be burdensome and costly. This could be due to the frequency with which small businesses are required to file VAT returns in Botswana. Other problem areas include the use of accrual method of accounting for VAT and the presence of exempt and zero-rated goods and services. This paper recommends that the BURS should consider introducing the cash accounting method for VAT, reducing the frequency of VAT returns filing for small businesses from bimonthly to semi-annually, broadening the value added tax base and increasing the VAT registration threshold. More work is

[94] See Taxation (Residential Land Withholding Tax, GST on Online Services, and Student Loans) Act 2016.

[95] See further: New Zealand Government (2018), *GST on low-value imported goods: An offshore supplier registration system: A government discussion document*, Wellington, May, http://taxpolicy.ird.govt.nz/sites/default/files/2018-dd-gst-low-value-goods.pdf.

[96] See further: Inland Revenue, "Goods and Services Tax – Compulsory Zero-rating of Land Rules (General Application)", *Interpretation Statement 17/08* (September 2017); available at: https://www.ird.govt.nz/technical-tax/interpretations/2017/interpretations-2017-is1708.html.

necessary to investigate the complexity of the VAT system in Botswana further, in order to uncover the reasons for the noncompliance culture that is reported to be prevalent among small businesses. Future studies should also look into the VAT e-filing system and investigate why small businesses are slow in accepting and using this system.

This study has a number of limitations. First, the comparison undertaken with Botswana is with one jurisdiction only, namely New Zealand. The recommendations may have differed should one or more countries have been included or if the sole comparative country was different, such as Australia. Second, the paper focuses on major components of the respective VAT/GST of the two countries, and does not explore the complexities of the legislative provisions in detail, or the associated case law.