

COMPLIANCE COSTS OF VAT FOR SMES IN ALGERIA

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Abstract

This study focuses on the tax compliance cost of VAT for SMEs in Algeria. The objective is to examine the internal compliance costs of VAT. This study used questionnaire survey to collect data from the respondents. Results obtained reveal that on average, Algerian SMEs spend 24,244 hours/month on the work related to VAT matters. Based on these total hours, a value of DZD 2,967,313 are spent on staffs' salaries specifically for VAT-related work. This study also found that SMEs use low cost software to control their overall compliance cost. The result also shows that managers spend less time as compared to accountants for VAT compliance purposes but spend as much time as account staff for such matters. This study suggests that Algerian government needs to review the tax policy and tax administration with a view to reduce the tax compliance costs for VAT specifically for the case of SMEs in Algeria.

Keywords: *Cost, VAT, SMEs*

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Introduction

In many developed and developing countries, tax has become an important source of income. Bhatia (2009) regards taxes as revenues which governments of many countries collect for the purpose of providing infrastructural facilities and smoother public utilities. However, experience has shown that most taxpayers are not willing to comply voluntarily and in this respect, the government at various levels has taken it up as a challenge to find a solution for the purpose of ensuring that taxes are maintained as one of the adequate sources of revenue (Akinboade, 2014).

Voluntary compliance with the tax laws and regulations among taxpayers is highly desired by the tax authorities around the world. However, tax compliance comes with its own cost. Compliance costs of taxation are the amount of resources expended by taxpayers, in addition to the amount of tax they are required to pay, in conforming to the requirements of the relevant tax legislation. The compliance costs are not only incurred by taxpayers, but by all the agents/parties involved in making possible the transfer of funds from the private sector to the government department that controls public money (Eragbhe and Omoye, 2014). Compliance cost at the corporate and larger entity level in a developed country like the United States of America is relatively low when compared to individual income taxpayers. Since the compliance cost constitutes an additional cost to taxpayers over and above the actual amount due to the government, it is likely that it is a burden and that most taxpayers want to evade tax by not declaring their true financial position and revenue (Faridy, 2014).

Compliance is a topical policy issue especially in developing countries. This is important since governments across different countries are continuously trying to improve their tax and revenue collection process for the purpose of financing their budgets. Although the concept of tax compliance cost and its impact are yet to be studied exhaustively, Value Added Tax (VAT) compliance cost specifically for small and medium enterprises (SMEs) is an important element that remains under-analyzed.

Compliance cost for SMEs is particularly important as SMEs in most developing countries constitute the bulk of business taxpayers. As such, their compliance levels have significant influence on government tax revenue collection (Maseko, 2013). In Algeria for example, SMEs constitute 94% of nationwide businesses network; and more importantly, generate 52% of the total production of the non-oil private sector and nearly 35% of the VAT of the economy (MISMEPI, 2012). Between 2002 and 2012, SMEs accounted for 99% of all declared investment projects in Algeria (NOS, 2012).

Furthermore, the SMEs engaged over 1.8 million people in 2012, recording a 6% increase in the employment rate against 2011, averaging 2.61 jobs per SME in 2012 (MISMEPI, 2012). Consequently, SMEs have helped in the financing of public infrastructure, especially that its per sector share of private investment revealed that 17% was from the manufacturing sector; 46% from transportation; 35% from building and public works; while fishing and agriculture generated 2% taxes (MISMEPI, 2012). Alink (2010) emphasizes that the refusal of SMEs to comply with tax regulations, especially in the form of non-registration for tax, improper filing of returns, under-reporting of sales and profit, improper or poor record-keeping, etc., constitute major threats to revenue generation efforts of the government.

In Algeria, VAT is charged on all economic activities, such as commercial and industrial handicraft and other professional activities. Based on this, its compliance with respect to cost-related factors has become an important issue for the SMEs. In Algeria, all goods or services for export by definition are not subject to VAT. However, if VAT is charged under such a situation, the tax is usually refunded. The purpose of this is to stimulate and encourage export activities while imports are discouraged. Broadly, two different types of VAT rates are often applied in Algeria. The first rate is 7% and is applicable to commodities, products, wares, operations and merchandise which are related to materials for agriculture, plants and domestic buildings, printing, plants and domestic animals, products of traditional crafts, etc. The second rate is 17% and is meant for operations that are related to goods and services that are covered or subjected to another rate. Registration generally is required for entities that have an annual turnover of Algerian Dinar (DZD) 100,000. A business must register within 30 days of becoming liable. Filing and payment of monthly returns and the tax payable are due by the 20th of the following month.

Given the important position that SMEs occupy in the Algerian economy, its failure to comply with VAT regulations could cause a great economic distortion as it concerns decision-making for the optimal allocation of resources. For instance, the increased burden on SMEs may discourage new start-up businesses, which in turn, can reduce tax revenue (Djankov et al., 2002). Importantly therefore, investors may avoid starting a new business, thus adversely affecting the growth of SMEs.

Even though many studies have been undertaken in both developed and developing countries with respect to tax compliance cost (see for example Evans, 2008; Yesegat, 2009; Hansford & Hasseldine, 2012); to the best knowledge of the researcher, very limited published studies are available in the context of Algeria. Therefore, the objective of this study is to investigate the costs of compliance for VAT in Algeria. The study is the first in Algeria to study VAT compliance costs for SMEs. It is aimed at examining and measuring the internal labour & non-labour tax compliance costs of VAT for SMEs in Algeria.

Literature Review

Tax compliance costs have been extensively studied globally. Researchers have been explaining and reviewing the evolution of tax compliance costs over the last six decades (Sandford, Godwin & Hardwick, 1989). Vaillancourt et al. (2008), for instance, carried out a study on tax compliance cost in Canada and argue that more research needs to be conducted for the purpose of curbing the problems that are associated with government revenue generation.

In addition, extensive reviews of tax compliance costs have also been conducted by Rametse (2006), Yesegat (2009) and Abdul-Jabbar (2009) for the purpose of reviewing and specifying the importance and burdensomeness of tax compliance costs. Evans (2008) also carried out an overview of administrative and tax compliance costs. His study revealed three important findings that arise from the literature: compliance costs are regressive; compliance costs are high and significant; and compliance costs are not reduced over time. Furthermore, the findings of Pope (2009) are also aligned with Evans's (2008) first two conclusions. In addition, Pope (2009) emphasizes the political sensitivity of tax compliance costs and asserts

that many governments of the world do not give serious commitment to the efficiency and simplicity of tax policy and do their best to minimize research and/or publicity on the topic.

As for studies on VAT compliance cost, a study by Brunton (2005) in New Zealand found that VAT (or GST in the case of New Zealand) is the most time consuming of all taxes surveyed. The mean for the internal compliance costs of the GST were estimated at NZ\$1,852. With regard to psychological costs, the study found that owners/partners, managers, clerks and unpaid family or friends report higher levels of stress associated with GST compliance. Similarly, a study by the Inland Revenue of New Zealand (2010) found GST to be the most time consuming of all taxes surveyed. Mean GST compliance costs are estimated to be \$2,185.

In a recent UK study carried out by Hansford & Hasseldine (2012), the outcome with respect to the VAT division shows a total of 219 hours on average is spent annually on VAT compliance. This equates to more than half of the in-house time spent on tax compliance. On average, VAT compliance costs are approximated to be £6,062, representing more than 40% of the internal tax compliance costs.

In the Netherlands, VAT is found to be the second most expensive tax to comply with, with its costs of compliance is estimated at 6% of VAT revenue (Allers, 1994). A high costs-revenue ratio for VAT is also reported by Malmer (1995). In Sweden, the Swedish VAT compliance costs are estimated at 2.5% of the VAT revenue. Moreover, the average costs of handling VAT are found to be more than twice the costs of complying with preliminary taxes and payroll charges and are also highly regressive (Malmer, 1995).

In a major Australian study on GST start-up compliance costs for small businesses conducted by Rametse & Pope (2002), the mean gross start-up compliance costs for small businesses was estimated at A\$7,600. The start-up compliance costs expressed as a percentage of turnover show substantial economies of scale. Although this study did not focus on recurrent costs, its findings are important as they highlight the regressivity of GST compliance costs upon small businesses.

Glover & Tran-Nam (2005) estimated the GST recurrent compliance costs/benefits for small businesses in Australia. The estimated average gross recurrent compliance costs of GST are A\$2,481, while the average net costs amount to A\$1,244. They noted that even though the recurrent costs are smaller than the transitional costs estimated in an earlier phase of the project, they are still high for small businesses, indicating that these costs still comprise some elements of transitional costs. In addition, small business taxpayers appear to suffer some psychological costs over and above the monetary costs.

Blažić (2004) investigated the VAT compliance costs in Croatia. He used the services of a commercial polling agency to conduct face-to-face interviews with a total of 339 companies. The VAT compliance costs are estimated at HRK968.13 million, which constitutes around 4.5% of VAT revenue. The findings of the study also indicated that out of all the taxes surveyed, VAT is the most costly.

In Slovenia, Klun (2003) conducted a survey on a random sample of 750 VAT taxpayers to estimate the compliance costs of VAT. Aggregate VAT compliance costs are estimated at 25% and 2.5% of VAT revenue and GDP respectively, when weighted by annual turnover. Klun (2003) concluded that the operating costs in Slovenia are increasing, a trend that is opposite to that in most developed countries. The study excluded the compliance costs related to collection of VAT on imports as well as the time spent by friends and family on VAT activities of the business.

The VAT in Ukraine appears to be the most time consuming when compared to other countries. Companies in Ukraine spent, on average, 650 person-hours on VAT functions in 2007 (IFC, 2009a). In Uzbekistan, the average time spent on preparing VAT invoices amounts to 94 man-hours per year, which represents a burden of approximately UZ\$28 billion in terms of labour cost for all legal entities in Uzbekistan (IFC, 2010b).

VAT is found to be the most time consuming of all taxes paid in Armenia, with record-keeping being the most onerous VAT activity. An interesting finding is that large companies spent, on average, 108 hours searching, studying and analysing VAT legislation in 2009 (IFC, 2011a). This shows that VAT can be very complex. In Nepal, tax compliance costs are found to be high for VAT. Overall, average VAT compliance costs are estimated at Nepalese rupees 14,756 (IFC, 2012a). Furthermore, VAT compliance costs are found to be high for businesses that partially outsource tax compliance services (IFC, 2011a).

More recently, Lignier & Evans (2012) conducted an electronic survey of a sample of 3,500 small businesses, with a response rate of 4.5%, to investigate the tax compliance costs of those businesses. GST was found to be the most time consuming of all taxes. A total of 287 hours were estimated as Internal GST compliance time and this is estimated to be equivalent to AU\$11,950. This cost is higher than other monetary costs since it represents about half of the total internal costs.

Generally, the outcomes of the VAT compliance costs researches from developed nations reveal that tax compliance cost is regressive in nature and this is in line with previous research findings from developing countries. Another conclusion reached by previous studies is that VAT is more burdensome than other taxes. Furthermore, when VAT compliance services are outsourced, it tends to lead to higher compliance cost. Overall, VAT compliance costs are high (whether incurred internally or externally) and more burdensome for smaller businesses.

Based on the extensive review of VAT literature across the countries, it is discovered that published studies which investigate VAT compliance cost are very limited in Algeria. It is in this regard that this study intends to fill the gap as its findings shall help to improve VAT administration and management particularly in Algeria.

Research Methodology

Previous studies have come up with the way and manner in which tax compliance costs should be defined and measured. This study follows Evans (2013) in splitting down the internal gross tax compliance costs into two broad categories as follows:

- Implicit costs which represent the time spent by the unpaid helpers, taxpayers or internally paid employees.
- Incidental costs (non-labor costs) which refer to the overhead costs incurred by the business enterprises including costs of computers, equipment, travel expenses, stationery etc.

However, not all factors for implicit and incidental costs as suggested by Evans (2013) are tested in this study due to certain constraint such as the availability of data. Items such as unpaid helper and cost of equipment and stationeries are not applicable in the context of this study.

This study used questionnaire survey to collect data from the respondents for the purpose of investigating the VAT compliance cost for SMEs in Algeria. The questionnaire in this study used a five-point Likert scale adopted from Mansor & Hanefah (2008) and Faridy (2014). The questionnaire has 29 items and is divided into two sections: Section A consists of general information on SMEs and Section B focuses on internal compliance cost of VAT for the SMEs.

In this study, the researcher focuses on the SME operators within Adrar State in Algeria. Adrar is the second largest province in Algeria and it is a large administrative region. The SMEs selected include sole proprietorship, partnership and limited liability enterprises. The SMEs were identified by the number of employees (not more than 250 employees) and their fixed capital which ranges between DZD 200 million to 2 billion ((MISMEPI, 2012).

In Algeria, irrespective of its legal establishment, SME is defined as any business producing goods and services and employing one to 250 persons, with annual turnover not exceeding DZD 2 billion or total balance sheet not exceeding DZD 500 million (MISMEPI, 2012). Importantly, this definition clearly differentiates between SMEs and micro-enterprises based on three criteria which are the number of employees, total turnover and total balance sheet (See Table 1).

Table 1: Definition of SMEs in Algeria

Business Size	Number or Employees	Total Turnover (DZD)	Total Balance Sheet
Micro	1 - 9	≤ 20 million	≤ 10 million
Small	10 - 49	≤ 200 million	≤ 100 million
Medium	50 – 250	100 million - 2 billion	100 - 500 million

Note: 1US\$ = 75 DZD

Source: MISMEP (2012a)

For this study, the populations consists of 2,164 private sector SMEs (MISMEPI, 2012). Based on Sekaran (2013), the appropriate sample size for this study is 338. The sampling process of this study is based on simple random sampling technique. The SMEs were

randomly selected from the registered taxpayers in the database of the Adrar State tax department. The data collection was conducted in the year of assessment 2014. The employees of the tax department in Adrar State were requested to distribute and collect the questionnaires from the selected sample as the SMEs have to visit the tax department for tax payment purposes on a regular basis of at least once in a month. The researcher managed to obtain 327 completed questionnaires from the sample which represented a 96.7% response rate. The response rate of the survey is summarized in Table 2.

Table 2: Response Rate for VAT Compliance Cost Survey: Response Rate

	Respondents
Questionnaire Distributed	338
Questionnaire Returned	327
Response Rate	96.7%

Result and Discussion

Demographic Profile of Respondents

Table 3 shows the demographic characteristics of the respondents with regards to their position in the SMEs. It shows that 185 (56.4%) respondents are either owners/directors/partners/trustees of the SMEs; 31 respondents are managers other than proprietor (e.g., finance managers); 50 respondents are accountants (employees of the SMEs); 50 respondents are other employees; and 11 respondents are accountants (not employees of the SMEs but performing duty as accountants).

A total of 45 of the respondents in this study belong to the industrial products sector; 129 from trading sector; 113 from services sector; and 40 from construction sector. From the total of 327 respondents, 22 respondents are from the SMEs which have more than or equal to DZD 20 million of turnover; while 174 and 131 of the SMEs have turnover of \leq DZD 200 million and between DZD 100 million to DZD 2 billion respectively. A total of 51 SMEs from the total of 327 recruited 1 to 9 employees; while 185 and 91 SMEs recruited 10 to 49 and 50 to 250 employees respectively.

Among the surveyed respondents, only 19 SMEs have been paying VAT for more than 10 years; while 51, 103, 120, 34 SMEs have been paying VAT for 7 to 9 years, 4 to 6 years, 1 to 3 years and less than 1 year respectively.

The survey on the rate of VAT for the SMEs shows that 100 respondents are paying 7% rate for VAT; while the other 227 are paying 17% rate for VAT. The amount of monthly VAT paid by 110 SMEs was more than DZD 100,001; 137 SMEs paid DZD 60,001 to 100,000; 60

SMEs paid DZD 30,001 to 60,000; 18 SMEs paid DZD 10,001 to 30,000; and only 2 SMEs paid less than DZD 10,000 per month.

Table 3: Demographic Profile of Respondents

Characteristics	Numbers	Percentage (%)
Position		
Owner/director/partner/trustee	185	56.44
Manager other than proprietor (e.g. financial manager)	31	9.50
Accountant (employee of the business)	50	15.33
Other employee	50	15.33
Accountant (not employee of the business)	11	3.40
Total	327	100
Sector		
Industrial products	45	13.9
Trading	129	39.4
Services	113	34.5
Construction	40	12.1
Properties	0	0
Total	327	100

Turnover of Business		
≤ DZD 20 million	22	5.3
≤ DZD 200 million	174	54.1
DZD 100 million - DZD 2 billion	131	40.6
Total	327	100
Number of Full-Time Employees		
1 - 9	51	15.5
10 - 49	185	56.6
50 - 250	91	27.8
Total	327	327
Years of Experience in Paying VAT		
Less than 1 year	34	10.4
1 to 3 years	120	36.7
4 to 6 years	103	31.5
7 to 9 years	51	5.6
10 Years and above	19	4.8
Total	327	100
VAT Rate Paid by SMEs		
0%	0	0
7%	100	30.6
17%	227	69.4
Total	327	100

Monthly VAT Paid		
Under DZD 10,000	2	0.6
DZD 10,001- 30,000	18	5.5
DZD 30,001- 60,000	60	18.3
DZD 60001- 100,000	137	41.9
DZD more than 100,001	110	33.6
Total	327	100

Internal Tax Compliance Cost

The main objective of this study is to identify and measure the internal tax compliance costs of the Algerian SMEs via quantitative method (monetary cost and time spent). The findings of this study are summarized in Table 4.

Table 4: Internal Compliance Cost of VAT

Q. 1: Does your company have its own internal staffs who manage VAT related matters?			
Response	Frequency	Percentage	
Yes	205	61.7	
No	122	38.3	
Total	327	100	
Q. 2: How many internal staff is involved in managing VAT related matters?			
	Average Staff Involved per Company	Total Staff	Total Company
Number of Staff	5	1,062	205

Q. 3: (a): Salary received on VAT related activities:

Designation	Less than DZD 10,000	DZD 10,001 to 20,000	DZD 20,001 to 30,000	More than DZD 30,000	Total
Manager	14	184	7	0	205
Accountant	1	71	105	28	205
Account staff	35	139	30	1	205
Clerk	111	91	3	0	205

Q. 3: (b): Proportion of time spend out of 176 total hours (per month) on VAT related activities:

Designation	Less than 10%	10% to 20%	30% to 40%	50% and above	Total
Manager	21	179	5	0	205
Accountant	2	81	122	0	205
Account staff	40	153	12	0	205
Clerk	111	94	0	0	205

Q. 4: Scope of work related to VAT matters:

Designation	Computation	Advice	Planning	Total
Manager	1	122	82	205
Accountant	2	107	96	205
Account staff	169	36	0	205
Clerk	203	2	0	205

Q. 5: Does the company provide computerized facilities to manage VAT related matters?

Computerized facility	Frequency	Percentage (%)
Yes	201	98.4
No	4	1.6
Total	205	100

Q. 6: Please provide the name of the software used and the costs incurred (approximate) regarding VAT related matters:

Software	EXCEL	PC Compta	Cielcompta	Sage Compta	Elbassit	Total
Number of SMEs	6	112	40	3	40	201
Percentage	2.9	55	20	1.5	20.6	100%

Q. 7: Costs borne by SMEs for the use of software:

	Less than DZD 50,000	From DZD 50,000 to 100,000	From DZD 100,001 to 150,000	From DZD 150,001 to 200,000	More than DZD 200,001	Total
Number of SMEs	1	10	110	81	3	205

Results in Table 4 show that out of 327 SMEs, 205 SMEs have their own internal staffs who manage VAT related matters, representing 61.7% of total SMEs; while 122 SMEs do not have any internal staffs who handle the matter. Results for question 2 show that on the average, 5 staffs are involved in managing VAT related matters for each SME.

Response for question 3 (a) shows the salary received by persons holding different positions in the SME for VAT related activities. The results reveal that most of the managers totalling 90% (184) receive a salary of DZD 10,001 to 20,000; while 7% (14) receive less than DZD 10,000; and 3.5% (7) managers receive salary of DZD 20,001 to 30,000. Salary received by 51% (105) accountant ranges from DZD 20,001 to 30000; 34% (71) of the accountants received salary between DZD 10,001 to 20000; 14% (28) of the accountants received salary more than DZD 30,000; and only 0.47% (1) accountant received salary of less than DZD 10,000. As for the account staff, 67% (139) received a salary from DZD 10,001 to 20000;

16% (35) received salary less than DZD 10,000; 15% (30) received salary between DZD 20,001 to 30000; and only 0.5% (1) received salary more than DZD 30,000. In the case of clerical staff, 54% (111) received salary less than DZD 10,000 from VAT related activities; 44% (91) clerks received between DZD 10,001 to 20000; while the remaining 2% (3) clerks received salary between DZD 20,001 to 30,000 from VAT related activities.

Response for question 3(b) in Table 4 shows that 87% (179) of the managers spend 10% to 20% of their total time on VAT related work; 10% (21) managers spend less than 10% time; and only 2% (5) managers spend 30% to 40% of their time on VAT related activities. A total of 59% (122) accountants spend 30% to 40% of their time on VAT related activities; 40% (81) spend 10% to 20% time; and 0.5% (2) spend less than 10% time on VAT related activities. For account staff, 74% (153) spend 10% to 20% time; 19% (40) spend less than 10% time; and only 6% (12) spend 30% to 40% of their time on VAT related activities. Clerical staffs seem to be less concerned with VAT related activities: 54% (111) spend less than 10% of their time on VAT related activities; while the remaining 46% (94) spend 10% to 20% of their time on VAT related activities.

Response for the question 4 shows that 60% (122) managers spend their time in advising; 40% (82) of the managers spend their time on planning; and only 0.5% (1) manager spends his time on computational work. A total of 52% (107) accountants spend their time in advising activities; 47% (96) accountants spend their time in planning; and only 0.93% (2) in computational work. Account staffs are mostly involved in computational work representing 82% (169) staffs and the remaining 18% (36) staffs involved in advising work. Most of the clerical staffs are also busy in computational work. A total of 99% (203) clerks only do computational work and only 1% (2) clerks participated in advising activities.

Results for question 5 show that 98.4% (201) of the SMEs provide computerized facilities for VAT related tasks; while 1.6% (4) SMEs do not have such facilities. Table 4 also shows that for question 6, 2.9% of the SMEs use EXCEL; 55% use PC Compta; 20% use Cielcompta; 20.6% use Elbassit; and only 1.5% use Sage Compta in calculating and estimating their VAT.

Responses for question 7 show that 54% of SMEs spend DZD 100,001 to DZD 150,000 on software for compliance of VAT; 39% spend DZD 150,001 to 200000; and 1.5% spend more than DZD 200,001 on such software. Blazic (2004) emphasizes that the cost of computer software and hardware should be computed while studying the cost of internal tax compliance cost. She suggested that computer software can reduce human effort and time for the computation of accounting and tax related matters even though it is costly. The results obtained from this study shows that firms usually utilize low cost software to control the overall compliance cost as 60% of the respondents said that their software cost is up to DZD 1,250,000 on an annual basis.

Results obtained from the questionnaire also reveal that the SMEs operating in Algeria spend DZD 13,195,000 per month (Table 5) on the salary for employees for accounting and tax matters. Out of this total cost, DZD 2,967,313 per month was spent on salary related to VAT compliance matters (Table 5). Four main categories of employees are identified through the questionnaires i.e., manager, accountant, account staff and clerk. Table 5 shows that the percentage of total salary received for VAT related work is DZD 458,312 (15.07%); DZD

1,250,875 (26.34%); DZD 921,750 (29.40%); and DZD 336,375 (14.80%) for manager, accountant, account staff and clerk respectively.

Table 5: Internal Tax Compliance Cost (Salary of Staff for VAT-Related Work)

Particular	Less than 10,000 DZD	10,001 to 20,000 DZD	20,001 to 30,000 DZD	Above 30,000 DZD	Total Cost
Manager	105,000 VAT:11,812*	2,760,000 VAT:402,750	175,000 VAT:43,750	0 VAT: 0	3,040,000 VAT: 458,312 % of total = 15.07
Accountant	7,500 VAT:1,125	1,065,000 VAT:182,250	2,625,000 VAT:1,067,500	1,050,000 VAT: 0	4,747,500 VAT: 125,0875 % of total = 26.34
Account Staff	262,500 VAT:472,500	2,085,000 VAT:344,250	750,000 VAT:105,000	37,500 VAT: 0	3,135,000 VAT: 921,750 % of total = 29.40
Clerk	832,500 VAT:124,875	1,365,000 VAT:211,500	75,000 VAT: 0	0 VAT: 0	2,272,500 VAT: 336,375 % of total = 14.80
Total Value					13,195,000 VAT: 2,967,313
Method of calculation: (Hourly rate x number of hours devoted for VAT x number of respondents) Hourly rate = salary / 176 Number of hours for VAT = 176 x time spend on VAT E.g. for Column 1: Hourly rate = 7500/176 = 42.61 Number of hours for VAT = 176 x 7.5% =13.2 42.61 x 13.2 = 562.45 (one respondent) 562.45 x 21 = 11,812*					

Note: Calculations are based on monthly basis

Table 6: Internal Tax Compliance Cost (Time Spent by Staff on VAT-Related Work)

Particular	Less than 10 hours	10 to 20 hours	30 to 40 hours	Above 50 hours	Total Hours
Manager	277.2*	4,725.6	308	0	5,310.8 % of total hours = 21.90
Accountant	26.4	2,138.4	7,515.2	0	9,680 % of total hours = 39.93
Account Staff	528	4,039.2	739.2	0	5,306.4 % of total hours = 21.89
Clerk	1,465.2	2,481.6	0	0	3,946.8 % of total hours = 16.28
Method of calculation: Time spend on VAT x number of respondents E.g. for Column 1: 13.2 x 21 = 277.2*				Total Hours	24,244 hours

Note: Calculations are based on hours/month

Results obtained from this study also show that accounting and tax department employees spend 24,244 total hours/month of their work hours for VAT matters (Table 6), with the total value of DZD 2,967,313/month as shown in Table 5. The percentages of hours spend are 21.90%, 39.93%, 21.89%, and 16.28% respectively for manager, accountant, account staff and clerk as shown in Table 6. The result is in accordance with Balzic (2002) that managers spend less time as compared to accountants for tax and accounting compliance purposes because managers believe that accountants are better equipped to handle such type of matters. Managers spend as much time (21.90%) as account staff (21.89%) for tax compliance matters.

Conclusion, Limitation and Future Research

This study aims to explore the VAT compliance costs for SMEs in Adrar State in Algeria for the year of assessment 2014. SMEs play a vital role in the development of any country. For instance, in Algeria, the contribution of SMEs to GDP for 2012 was 60% and they employ approximately 1.86 million workers. SMEs are the majority business taxpayers in most developing countries and as such, their compliance levels directly influence government tax revenue collection.

Results of this study reveal that VAT compliance cost for SMEs is high in Algeria. This high cost of compliance can discourage investments in SMEs that contribute a large share of GDP in Algeria. It was found that on average, Algerian SMEs spend 24,244 hours per month on VAT compliance matters i.e. about 50% from their total working hours per month. A value of DZD 2,967,313 is spent on salaries for VAT related work i.e. about 23% from total salary related to accounting and tax matters. This study also found that SMEs normally use low cost software to control the overall compliance cost as 60% of the respondents said that their software cost is up to DZD 125,000 on an annual basis.

SMEs in Algeria are the backbone of the Algerian economy, contributing almost 60% to GDP. However, the rate of tax and the compliance cost for this sector is very high which can discourage investors to invest in SMEs. Therefore, the government needs to review the tax policy, structure and legislation, and tax administration with a view to reduce the tax compliance costs for VAT specifically for the case of SMEs in Algeria.

There are two main limitations of this study that have to be acknowledged. First, the data was collected from only one state in Algeria while other states might differ in their business perspectives. Second, VAT compliance cost as a percentage of GDP or total tax compliance cost has not been considered in this study. Future studies can be conducted by making GDP as the base for the percentage of expenses incurred on compliance cost. Moreover, future studies can use different ways to collect data, including qualitative methods. Future studies can expand the sample to all Algerian states so that the result could be generalized to the whole of Algerian population.

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