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THE IMPACT OF VALUE-ADDED TAX ON REVENUE PERFORMANCE IN SIERRA LEONE: CASE STUDY OF THE NATIONAL REVENUE AUTHORITY IN SIERRA LEONE

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Abstract:
Value Added Tax (VAT) is a significant source of revenue for many countries around the world and Sierra Leone is not an exception. In Sierra Leone, GST is synonymous with VAT. It is a consumption-based tax levied on the value added at each stage of production or distribution of goods and services. VAT is designed to be collected at multiple stages of the supply chain, with businesses collecting the tax from their customers and then remitting it to the government. The revenue generated from VAT can play a crucial role in funding various government initiatives, including infrastructure development, healthcare, education, and other essential services. However, it is important to note that the effectiveness of VAT in increasing revenue collection in developing countries can depend on various factors, including the design of the VAT system, administrative capacity, compliance culture, and the overall economic context. Implementing VAT effectively may require addressing challenges related to taxpayer education, administrative capacity building, and ensuring that the tax burden does not disproportionately affect low-income individuals. This research aimed to understand the relationship between VAT and the increase in revenue collection. Except for the periods during the Ebola Virus Disease (EVD or Ebola) and Coronavirus Disease 2019 (COVID-19) pandemic, the research findings revealed a positive relationship between VAT and an increase in revenue collection in Sierra Leone. Furthermore, the research revealed that there is an inverse relationship between the outbreak of a pandemic and revenue collection. VAT is likely to remain a fundamental part of tax systems in most countries due to its revenue-raising potential; however, it needs to be adapted and improved to meet society's changing needs and demands.

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Keywords: Goods and Services Tax (GST), Value-Added Tax (VAT), National Revenue Authority (NRA), Ebola Virus Disease (EVD or Ebola), Coronavirus Disease 2019 (COVID-19), Public Health Emergency of International Concern (PHEIC), Before Christ (BC), Organisation for Economic Co-operation and Development (OECD)

1. Introduction

The use of taxes to fund monumental projects like the Great Wall of China provides us with fascinating insights into the historical development of taxation and its role in shaping societies. The Chinese salt tax is a prime example of how governments have historically leveraged taxation to finance significant developmental projects (Mooij & Swista, 2022). The salt tax in ancient China was an essential source of revenue for the government, and its history dates back to the third Century Before Christ (BC). The Chinese salt tax underscores how taxation has been pivotal in funding major undertakings throughout history. It also serves as a reminder of the intricate relationship between taxation, government funding, and the development of societies and infrastructure. The legacy of the salt tax and other historical taxation systems has left a lasting imprint on global tax policy and administration. Lessons from such ancient tax systems continue to shape modern discussions on taxation and its implications.

The most crucial tax development of the last half-century around the world, except in the United States of America, has undoubtedly been the rise to prominence of the value-added tax (VAT) (Martinez-Vazquez & Bird, 2010).

The VAT has played a crucial role in the fiscal policies of many countries, and these have been achieved through:

a) **High Revenue Potential:** The ability of VAT to generate significant revenue for governments is one of its key advantages. This revenue stream often becomes an essential component of a country's fiscal policy, supporting public services, infrastructure development, and social programs;
b) **Administrative Simplicity:** Compared to some other tax systems, the VAT is relatively straightforward to administer. It is collected at various stages of production and distribution, minimizing opportunities for tax evasion and fraud. This simplicity reduces the administrative burden on both taxpayers and tax authorities;
c) **Economic Efficiency and Trade:** The VAT's structure encourages businesses to report their transactions to claim input tax credits accurately. This helps maintain accurate records and discourages underground economic activities. Moreover, the VAT is applied on a broad base, capturing a wide range of goods and services, which contributes to its efficiency;
d) **Impact on Growth:** The VAT's efficient design minimizes consumption and production patterns distortions. Unlike some other taxes, it does not directly discourage saving or investing, which can positively impact economic growth over the long term;

e) **Mitigation of Equity Issues:** While taxes can sometimes impact income distribution and equity, the VAT can be designed in a way that minimizes these effects. Certain items, like basic necessities, can be exempted or taxed at a reduced rate to ensure that the tax burden does not disproportionately affect lower-income individuals;
f) **Global Adoption:** The widespread adoption of the VAT across many countries showcases its adaptability to different economic and social contexts. Its success has contributed to its continued relevance and adoption in various regions.

However, the United States is a notable exception to the global trend of adopting VAT. The U.S. tax system primarily relies on income and consumption taxes, and introducing a national VAT has been debated and discussed. The global adoption of VAT carries multifaceted advantages and positive outcomes associated with the countries where VAT is adopted, and these include its efficient revenue generation, administrative simplicity, economic benefits, and potential for equitable design, which has contributed to its prominence in many countries' tax systems. However, the introduction of new taxes often faces opposition due to political and public perception issues. On the other hand, the relative simplicity of the VAT, along with its indirect nature, can make it more palatable to both policymakers and the public. This can lead to smoother implementation and development.

The National Revenue Authority (NRA) is the primary tax administration agency in Sierra Leone. It was established in 2002 by the National Revenue Authority Act to administer and enforce the collection of revenue on behalf of the government of Sierra Leone. The NRA is responsible for tax policy formulation, tax administration, and revenue collection. Its mandate includes registering taxpayers, collecting taxes, and enforcing tax laws and regulations. The NRA also provides taxpayer education and outreach programs to promote voluntary compliance with tax law (NRA Act of 200, Act No. 11).

The Goods and Services Tax (GST), a modern sales tax, was introduced in Sierra Leone on 1 September 2009. It is applied at a single rate of fifteen percent (15%) on the majority of goods and services supplied in Sierra Leone for local use or benefit. GST replaced seven existing taxes, including Import Sales Tax, Domestic Sales Tax, Entertainment Tax, Restaurant and Food Tax, Messages Tax, Hotel Accommodation Tax, and Professional Services Tax. GST is not a tax on businesses. However, registered businesses will have to regularly account for the tax they have collected (known as output tax). They will be able to deduct from the output tax the GST they have incurred on their raw materials, goods purchased for resale, and other legitimate business expenses that were directly related to the making of taxable supplies (known as input tax). They will pay only the difference to the National Revenue Authority (NRA). It is worth noting that GST is synonymous with VAT for the purpose of this research, and in Sierra Leone, the term GST is used instead of VAT.

Value Added Tax (VAT) is a significant source of revenue for many countries around the world. It is a consumption-based tax levied on the value added at each stage of production or distribution of goods and services. VAT is designed to be collected at multiple stages of the supply chain, with businesses collecting the tax from their customers and then remitting it to the government. The revenue generated from VAT can play a crucial role in funding various government initiatives, including infrastructure development, healthcare, education, and other essential services.

In Sierra Leone, the Goods and Services Tax (GST) is imposed through an enactment of the Goods and Services Act 2009 and implemented by the NRA. Unless specifically exempted, GST is charged on taxable supply of goods and services and taxable imports of goods and services. VAT is a significant source of revenue for many countries worldwide, and it has a rising prominence around the world, except in the USA; however, questions have been asked as to whether this has been the case in Sierra Leone. Hence, this research is focused on the impact of VAT on the revenue performance of NRA in Sierra Leone. In addition, the current consensus on indirect tax reform in developing countries often favours a reduction in trade taxes accompanied by an increase in VAT as this approach aims to modernize the tax system, enhance revenue generation, and promote economic growth, as this has been achieved in Sierra Leone.

2. Research Aim, Research Questions, and Research Hypothesis

2.1 Research Aim

This research aims to understand the relationship between VAT and the increase in revenue collection.

2.2 Research Question

Research Question 1: Does a relationship exist between VAT and the increase in revenue collection?

Research Question 2: Does a relationship exist between a pandemic and revenue collection?

2.3 Research Hypothesis

H_1: There is a positive relationship between VAT and an increase in revenue collection.

H_0: There is a negative relationship between VAT and an increase in revenue collection.

H_1: There is a negative correlation between the outbreak of a pandemic and revenue collection.

H_0: There is a positive correlation between the outbreak of a pandemic and revenue collection.

3. Research Methodology

A case study approach is used for this research. The case studies are used to "*explore and investigate contemporary real-life phenomena through detailed contextual analysis of a limited number of events or conditions and their relationships*" (Zainal, 2007). Case studies are a valuable tool in social science research because they allow researchers to explore and understand specific aspects of human behaviour, social interactions, or phenomena within their real-world contexts. This approach is particularly useful when seeking rich, contextually nuanced insights that are not readily accessible through quantitative methods alone. In addition, Case studies can be exploratory, descriptive, evaluative, or explanatory.

Data was collected from articles, the NRA website, and the NRA. The mixed method was adopted to analyze and interpret the data collected to achieve the research objective. Mixed methods research is a valuable research approach that combines elements of both quantitative and qualitative research methods to provide a more comprehensive understanding of research questions or phenomena. Mixed methods research is a flexible and powerful approach that can enhance the quality and depth of research in various fields, especially when dealing with multifaceted, real-world issues. It allows researchers to triangulate findings, validate results, and gain a more nuanced understanding of complex phenomena. Data were analyzed using the concurrent triangulation approach to inform the discussion and interpretation of data (Kamara, 2023). The concurrent triangulation approach is one of the common mixed methods research designs. It involves the simultaneous collection of both quantitative and qualitative data to address a research question or investigate a phenomenon (Creswell, 2009).

Furthermore, the concurrent triangulation approach is a well-established mixed methods design that is employed when researchers seek to leverage the strengths of both quantitative and qualitative data in their research to provide a more robust and comprehensive analysis of a research question or problem. Purposive sampling was used for the participants contacted to provide information on the information required. Purposive sampling is a sampling method used in research where researchers intentionally select specific participants or cases based on their expertise and judgment to ensure that the study's goals and objectives are met. It is a valuable approach when the aim is to collect data that are highly relevant to the research focus (Crewell, 2009). Hence, the population sample was limited to 30 participants, and questionnaires were distributed to 30 participants. However, the participants were assured of their anonymity. Quantitative and qualitative data collected from participants was compared to publicly available data to ensure validity and reliability. Descriptive and inferential statistics were used for data analysis. Descriptive and inferential statistics are valuable tools in mixed-method research to enhance the process of qualitative and quantitative triangulation. Triangulation involves using multiple methods or data sources to investigate a research question, and it helps researchers improve the validity and reliability of their findings.

4. Literature Review

The literature critique is addressed in this section to provide an understanding of the development of VAT, its applicable best practices globally, its contribution to revenue collection, its contribution to economic activity, its fundamental principles, and the like. German businessman Wilhelm Von Siemens is credited with coming up with the idea of a VAT in the 1920s (Charlet & Owens, (2010). The idea of a VAT was credited at this stage, it remained just an idea. Maurice Lauré, the joint director of the French tax authorities, is credited with building the idea of VAT into an actual taxation system. The VAT was first implemented in France in 1954. Following its introduction in France, manufacturing-level VATs were introduced in Côte d'Ivoire and Senegal in the 1960s, coinciding with their independence from France. Brazil also introduced a traditional VAT in 1965, and in the late 1960s, the VAT was adopted by fewer than 10 countries.

By 1989, 48 countries, primarily in Western Europe and Latin America, but also including some developing nations, had adopted the VAT. The spread of VAT in Europe was driven by its requirement for membership in the European Union (formerly the European Economic Community). The International Monetary Fund (IMF) played a fundamental role in promoting and supporting the adoption of VAT in various countries. The current trend is that VAT has been implemented in more than 140 countries and often accounts for a significant portion of total tax revenue. VAT has been used in most countries to increase government revenues, but in some cases, it has also allowed for reductions in income taxes and excise taxes. The historical development and global adoption of the Value Added Tax (VAT) system, demonstrate its significance as a revenue source for governments and its widespread use across various nations.

Value Added Tax (VAT) has become a fundamental part of many countries' tax systems, and yet the literature on certain aspects of the VAT, such as crediting and refund mechanisms, may appear sparse compared to the extensive body of work on other aspects of taxation (Keen & Lockwood, 2007). In recent years, there has been an increasing interest in studying the practical implementation and administration of VAT systems, as well as addressing issues related to tax evasion, fraud, and compliance. Researchers and policymakers have recognized the importance of designing and implementing VAT systems effectively to maximize their benefits while minimizing distortions and revenue leakage. As the tax landscape evolves and countries continue to refine their tax systems, it is possible that more research will emerge to address the specific intricacies of VAT, including crediting and refund mechanisms and their impact on economic efficiency and tax policy. Additionally, developments in technology and data analysis may provide new insights and solutions in this area.

Empirical research on the Value-Added Tax (VAT) has historically been limited in certain areas, and there have been relatively few studies examining its effects on various aspects of economies. Empirical work on the VAT has often focused on modelling the revenue generated by VAT and compliance with VAT regulations. Estimating revenue-maximizing rates is an important consideration for policymakers when trying to strike a balance between revenue collection and discouraging tax evasion. Desai and Hines (2005) conducted research on the impact of VAT on international trade, particularly in non-high-income countries. They found negative relationships between the presence of VAT and export performance and openness. This suggests that the VAT can have complex effects on trade dynamics. On the other hand, Ebrill *et al.* (2001) conducted research on the impact of VAT on the efficiency of tax systems. This is an essential aspect to consider, as VAT can interact with other taxes in a country's tax system, potentially influencing overall tax efficiency.

Mkadmi *et al.* (2021), in their research, focused on assessing the impact of tax policies on economic growth in Tunisia. This research paper aims to investigate the relationship between tax policies and economic growth in Tunisia over the period from 1995 to 2020. The researchers employ two statistical methods for their analysis: cointegration analysis and Autoregressive Distributed Lag (ARDL). They use two main variables to explain tax policy: tax revenue and the degree of fiscal freedom. The research finds that tax revenue and the degree of fiscal freedom both have a positive impact on economic growth. This suggests that when tax revenue increases and when there is a higher degree of fiscal freedom, the economy tends to grow. Specifically, the research highlights that tax revenues positively influence economic growth. This suggests that an increase in tax revenue can contribute to economic growth in Tunisia. The authors conclude that tax policy is considered a source of economic growth in Tunisia based on their empirical findings. This implies that well-designed tax policies and increased fiscal freedom can stimulate economic growth in the country.

The article "Value-Added Tax Continues to Expand" by Ruud de Mooij and Artur Swistak, published in the IMF's Finance & Development magazine in March (2022), provides an overview of the Value-Added Tax (VAT) and its historical development. The article emphasizes that the crediting mechanism of VAT is designed to avoid cascading or the payment of tax on tax. This is important because cascading taxes can create significant economic distortions, including higher prices for consumers and reduced economic efficiency. By allowing businesses to offset the VAT they pay on inputs, the VAT system seeks to ensure that the tax burden ultimately falls on final consumers. The article notes that the revenue generated by VAT varies across countries. Specifically, it mentions that VAT typically contributes between 4 percent of GDP in low-income developing countries and more than 7 percent in advanced economies. This suggests that VAT plays a significant role in the fiscal systems of many countries, particularly in more developed economies. Overall, the article provides a brief overview of VAT as a consumption tax, its mechanism to prevent tax cascading, and its varying contributions to the GDP of different types of economies. VAT is an important source of revenue for governments and is widely used across the world as a means of taxation.

The research paper titled "Effect of Value Added Tax Collection Strategies on Revenue Performance in Rwanda: Case Study of Rwamagana District," conducted by Minani Fidele and Patrick Mulyungi (2018) focused on the impact of various strategies for collecting Value-Added Tax (VAT) on revenue performance in Rwanda, specifically within the context of Rwamagana district. The research findings indicated that all three strategies—utilizing electronic billing machines, imposing administrative fines, and providing taxpayer training—had a significant positive impact on VAT collection performance. In addition, the research findings indicate a positive impact on revenue collection, providing valuable guidance for tax authorities seeking to enhance compliance and revenue generation. The study suggested that these strategies were crucial for improving VAT collection outcomes. The research's practical implications were highlighted as well. The findings were seen as valuable insights for the Rwanda Revenue Authority (RRA) in establishing barriers to non-compliance, implementing effective mechanisms to encourage voluntary compliance, and reducing instances of non-compliance.

The research by Yue Mei Guo and Yun Rui Shi, published (2021) provides policy implications for optimizing tax structures and alleviating local fiscal pressure. In addition, this research focuses on analyzing how the Value-Added Tax (VAT) reduction policy in China during the COVID-19 pandemic affected local fiscal pressure. The authors use a computable general equilibrium model to measure the impact of the VAT reduction policy on local fiscal pressure. The paper concludes that the VAT reduction policy has a positive impact on local fiscal pressure in China during the COVID-19 pandemic.

"The impact of VAT compliance on business" published by PwC (2009). The report provides an analysis of VAT and equivalent sales tax systems implemented in 145 different countries. It discusses the impact of VAT compliance on businesses and how it affects their operations. Additionally, it highlights the challenges faced by businesses in complying with VAT regulations and provides recommendations to overcome them. The report provides recommendations to help businesses overcome the challenges associated with VAT compliance. These recommendations are likely aimed at helping businesses navigate the complexities of VAT regulations more effectively. This report provides a valuable resource for businesses operating in various countries, as it sheds light on the impact of VAT compliance and offers practical insights and recommendations to address related challenges.

The article "An International Perspective on VAT" by Alain Charlet and Jeffrey Owens (2010) provides a comprehensive look at the global landscape of VAT, including its implementation, its critical role in government revenue generation, and the shared challenges faced by countries. It emphasizes the need for collaboration and coordination at the international level to make VAT systems more effective and efficient. In addition, the idea of a VAT was first proposed by Wilhelm Von Siemens, a German businessman, in the 1920s. However, the VAT system was not implemented until 1954 in France, under the direction of Maurice Lauré, who is considered the father of VAT. The article provides an overview of the history and development of VAT, as well as the challenges and opportunities for its future evolution

The article titled "Impact of VAT on Economic Development of Emerging Nations" by Angus O. Unegbu and David Irefin (2011) explores the influence of the Value-Added Tax (VAT) on economic and human development in emerging nations, with a particular focus on Adamawa State in Nigeria. In essence, this study highlights the importance of VAT revenue allocations in shaping economic and human development outcomes in emerging nations. However, it also underscores the need for a more nuanced understanding of the distribution and perception of VAT impacts across various regions and the importance of aligning VAT policies with broader development goals. Further research in this area can provide valuable insights for policymakers in emerging economies.

The study titled "Assessment of Value Added Tax and Its Effects on Revenue Generation in Nigeria" conducted by Abdul-Rahman *et al.* (2013) focuses on evaluating the impact of Value-Added Tax (VAT) on revenue generation in Nigeria. The authors suggested that the government should work on improving the way VAT is collected. This may involve streamlining processes, reducing administrative burdens, and making it easier for businesses and individuals to comply with VAT regulations. In summary, this study provides empirical evidence of the significant impact of VAT on revenue generation in Nigeria. The recommendations underscore the importance of both integrity and efficiency in VAT collection and administration. These findings can be valuable for policymakers and tax authorities in Nigeria as they work to optimize VAT collection and revenue generation efforts while ensuring transparency and fairness in the tax system.

An article published by IMF (2020) opined that forecasting tax revenue during the pandemic is a complex and challenging task. The uncertainty and economic disruptions caused by the pandemic make it hard to predict how tax revenue will be affected accurately. Conventional forecasting methods, such as using tax buoyancy and the responsiveness of tax revenue to changes in GDP or macroeconomic elasticities, may not provide accurate estimates of revenue decline. This is because the pandemic's impact on various sectors and businesses is highly asymmetric. Furthermore, the IMF acknowledges that forecasting tax revenue during the COVID-19 pandemic is a challenging task that requires a departure from traditional approaches. It emphasizes the importance of considering sector-specific information and maintaining flexibility in updating forecasts as new information becomes available to improve the accuracy of revenue projections.

Xiang *et al.* (2021) argue that the COVID-19 pandemic has had a significant and complex impact on the world economy. Their research highlights the importance of considering both economic and health factors when designing policies to address the long-term economic consequences of such pandemics. It also underscores the need for a balanced approach to policy formulation, taking into account the evolving nature of the pandemic and the changing effects of policy interventions. They use a model that links labour supply to pandemic conditions and health capital. They found that health capital can reduce the impact of COVID-19 on output and consumption and that public health policy and economic stimulus can promote recovery. They apply their model to China's economy.

OECD (2020) article discusses the challenges and opportunities for subnational governments (SNGs) in responding to the COVID-19 crisis and the role of inter-governmental fiscal relations in supporting them. The article, in addition, highlights that SNGs are key players in addressing the health, social, and economic impacts of the pandemic, but they also face significant fiscal pressures due to lower revenues and higher spending needs. The article also provides an overview of policy responses taken by different levels of government to support SNGs, such as grants, loans, guarantees, tax deferrals, transfers, and regulatory changes. Furthermore, the article also identifies some good practices and recommendations for improving the coordination, efficiency, and effectiveness of fiscal relations across levels of government, such as strengthening dialogue, information sharing, monitoring and evaluation, and ensuring fiscal sustainability. In summary, the OECD brief underscores the significance of inter-governmental fiscal relations in responding to the COVID-19 crisis and highlights the critical role that subnational governments play in this context. It emphasizes the need for cooperation and coordination among governments at various levels to ensure that policy responses are both effective and equitable across different regions within a country.

"Tax and Fiscal Policies after the COVID-19 Crisis" (OECD, 2021). The article discusses how tax and fiscal policies can help countries recover from the COVID-19 crisis and address long-term challenges such as aging, climate change, inequality, digitalization, and automation. It provides guidance on how to design tax policy in a comprehensive way that balances equity, growth, and sustainability goals. It also identifies some of the key factors that can affect the success of tax reform implementation. The OECD emphasizes the need for comprehensive tax policies that take into account multiple objectives. These objectives include equity (fairness in the tax system), economic growth (supporting economic recovery and sustainable growth), and sustainability (addressing environmental concerns). The OECD report further highlights the complex challenges governments face in the wake of the COVID-19 pandemic and the importance of designing tax policies that address not only short-term fiscal concerns but also long-term structural challenges. Achieving a balance between equity, growth, and sustainability in tax policy is crucial for ensuring a resilient and prosperous post-pandemic recovery. In summary, the main objective of this report was to provide a first look at how tax policies can support inclusive and sustainable growth beyond the COVID-19 crisis. It addresses how tax policy can be designed comprehensively so that fiscal systems can deliver a balance of equity, growth, and sustainability, highlighting some of the key considerations that policymakers should take into account to ensure optimal tax policy design and the successful implementation of tax reform.

The working paper by Martinez-Vazquez and Bird (2010) provides an overview of the evolution and performance of the Value-Added Tax (VAT) globally, as the most important tax development of the last half-century has undoubtedly been the rise to prominence of the value-added tax (VAT). It discusses the main issues and challenges faced by VAT design and administration, such as exemptions, thresholds, rates, compliance, and coordination. It also explores the future prospects of the VAT as a revenue source and a policy instrument in different contexts and scenarios. The paper concludes that the VAT is likely to remain a key component of tax systems in most countries, but it needs to be adapted and improved to meet the changing needs and demands of society. The paper explores the prospects of VAT as a revenue source and policy instrument. It recognizes that VAT is likely to remain a fundamental part of tax systems in most countries due to its revenue-raising potential. However, it also acknowledges the need for adaptation and improvement to align with changing societal needs and demands. It emphasizes that VAT systems should be adapted and improved to address evolving economic and social circumstances. This might involve revisiting VAT rates and exemptions to ensure fairness and efficiency, enhancing compliance measures to reduce tax evasion, and considering the role of VAT in environmental and social policy objectives. Furthermore, the working paper underscores the enduring importance of the VAT in modern tax systems and its adaptability to changing circumstances. It acknowledges the challenges faced in VAT design and administration while highlighting the need for ongoing reforms to ensure that VAT continues to contribute to government revenue and policy objectives effectively. As tax systems and economic environments evolve, VAT systems may need to evolve as well to remain effective and relevant.

The OECD's (2017) International VAT/GST Guidelines, published in 2017, play a significant role in providing guidance and best practices for the treatment of cross-border transactions, particularly those involving services and intangibles, under Value-Added Tax (VAT) or Goods and Services Tax (GST) systems. The OECD's International VAT/GST Guidelines provide a framework for addressing challenges related to the taxation of cross-border transactions under VAT/GST systems. While they are not legally binding, they represent a consensus among countries on best practices and principles to ensure that international trade is subject to appropriate taxation and that double taxation and non-taxation issues are minimized.

As the importance of VAT in tax systems continues to grow worldwide, as evidenced in the empirical review, there is a need for more comprehensive and nuanced empirical research to better understand its effects. Researchers have an opportunity to examine a broader range of topics related to VAT, including its impact on economic growth, income distribution, tax evasion, administrative efficiency, and the relationship between the introduction of VAT and its impact on the increase in revenue collection. Therefore, this research focuses on VAT and its impact on the increase in revenue collection in Sierra Leone.

5. Goods and Services Tax / Value Added Tax in Sierra Leone

In accordance with the Goods and Services Tax Act (2009) [3] implemented by the NRA, Sierra Leone's Goods and Services Tax (GST) is a modern form of sales tax—a tax on the domestic consumption of imported and locally-produced goods and/or services, paid as a percentage of their value at the time they are imported, sold, exchanged, or delivered. From the start date of 1st September 2009, GST has been applied at a single rate of fifteen percent (15%) on the majority of goods and services (including imports) supplied in

Sierra Leone for local use or benefit. It has replaced seven existing taxes—Import Sales Tax, Domestic Sales Tax, Entertainment Tax, Restaurant and Food Tax, Messages Tax, Hotel Accommodation Tax, and Professional Services Tax—thereby simplifying and streamlining the present system of indirect taxation and reducing the cost of administration for the Government, the National Revenue Authority (NRA) and businesses. GST will be collected from customers only by registered businesses (mainly large businesses) when they make supplies of those goods and services that are not specified in the GST Act 2009 as exempt or zero-rated. However, GST is not a tax on businesses. Although registered businesses will have to make regular accounting of the tax they have collected (known as output tax) they will be able to deduct from the output tax the GST they have incurred on their raw materials, goods purchased for resale, and other legitimate business expenses that was directly related to the making of taxable supplies (known as input tax). They will pay only the difference to the NRA. It was not possible to reclaim Sales Tax on business expenses under the previous regime. Therefore, operating costs for registered businesses will be reduced as a result of GST, and they will have the opportunity to pass on savings to their customers (NRA Website) [21].

In Sierra Leone, GST is synonymous with VAT. Under Sierra Leone's GST Act 2009, there are four categories of goods and services collectively known as 'supplies") [21]. These are:

- **Standard-rated Supplies** are those goods and services that are taxed at a standard rate of their total value in money at the point of sale, exchange, or importation. There is a single standard rate of GST in Sierra Leone of fifteen percent (15%). All goods and services provided for use or benefit in Sierra Leone (including imports) will attract GST at the standard rate unless explicitly specified in the GST legislation as 'zero-rated' or 'exempt' supplies, or where an item is outside the scope of GST.
- **Zero-rated Supplies** are those goods and services that are taxable but for economic reasons, are taxed at zero percent (0%). Examples of zero-rated supplies are exports (except the exports of minerals, including gold and diamonds), and goods shipped as stores on ships or aircraft leaving Sierra Leone. Zero-rating is important for exports since it maintains Sierra Leone's competitiveness in world markets.

Standard-rated supplies and zero-rated supplies are together known as 'taxable supplies'.

Some examples of taxable supplies are:

- the sale of new and used goods, including those under a hire purchase agreement;
- renting and hiring out of goods;
- business stock used for private purposes;
- the provision of a service - for example, hairdressing or hotel accommodation;
- charging admission to enter into premises, and;
- the majority of imported goods.

Exempt supplies are those supplies that are not taxed for social, economic, or difficult-to-tax reasons. Exempt supplies include rice, piped water, fuel, books, educational and medical services, specified pharmaceutical supplies and financial services, and minerals for export, including gold and diamonds. Only one item is listed as 'outside the scope of GST' namely the transfer of a going concern. There is also relief from GST for some institutions and in certain circumstances, for example, for foreign embassies and for goods imported for rehabilitation or relief following a natural disaster).

In summary, the Goods and Services Tax (GST) in Sierra Leone is a modern form of sales tax that replaced seven existing taxes in 2009. The article on the NRA website provides information on how to register for GST, the different categories of supplies, and how to file GST returns.

6. Results and Discussions

As Value Added Tax has continued to spread across the world, international trade in goods and services has likewise expanded rapidly in an increasingly globalized economy. The basic VAT principles are generally the same across jurisdictions insofar as they are designed to tax final consumption in the jurisdiction where it occurs according to the destination principle (OECD, 2017). VAT design and implementation can significantly impact a country's economy and its ability to provide public services (Bird & Zolt, 2011). The design and implementation of VAT have far-reaching consequences for a country's economy and its ability to fund public services. Policymakers must carefully consider various factors, including revenue generation, equity, economic growth, and administrative efficiency, when designing and adjusting their VAT systems to achieve their fiscal and policy objectives. Bird and Zolt's (2011) research provides insights and valuable guidance in this regard.

Data analyzed from 2006 to 2021, indicated in Figure 1 below, indicates that there is a positive relationship between VAT and an increase in revenue collection at NRA, except during 2014 and 2015, when the effect of Ebola resulted in a fall in revenue collection. The Ebola period in Sierra Leone started in May 2014 and ended in March 2016; however, the effect of Ebola continued to affect the fall in revenue collection in 2017. The revenue collection increased in 2018 and 2019 and fell in 2020, which is attributed to COVID-19.

Except for the outbreak of Ebola and the COVID-19 pandemic, the introduction of VAT in Sierra Leone has had a positive impact on revenue collection. Furthermore, before the introduction of VAT in 2010, revenue collection by NRA from the period 2006 to 2009 was low compared to the period 2010 to 2021, when VAT was being implemented by NRA in accordance with Sierra Leone's GST Act 2009. In addition, the implementation of GST in Sierra Leone from the start date of 1st September 2009 is applied at a single rate of fifteen percent (15%) on the majority of goods and services (including imports) supplied in Sierra Leone for local use or benefit. The GST implementation in Sierra Leone brought with It the benefits of the replacement of seven existing taxes—Import Sales Tax, Domestic Sales Tax, Entertainment Tax, Restaurant and Food Tax, Messages Tax, Hotel Accommodation Tax, and Professional Services Tax—thereby simplifying and streamlining the indirect taxation and reducing the cost of administration for the Government, and businesses. Therefore, operating costs for registered businesses will be reduced as a result of GST, and they will have the opportunity to pass on savings to their customers (NRA Website).

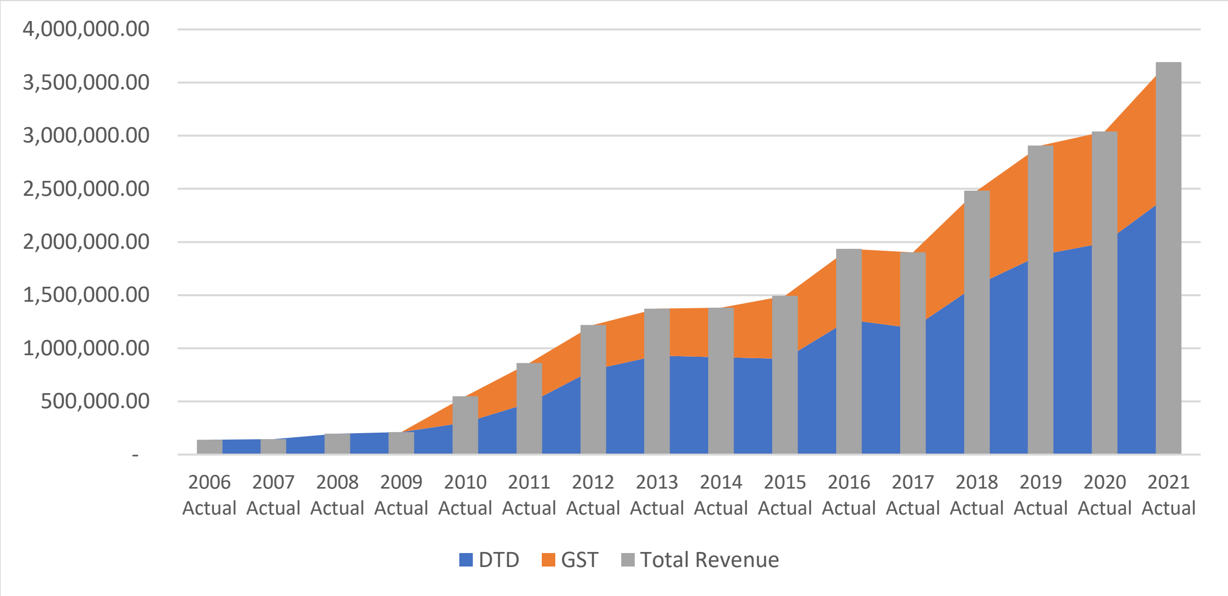

Figure 1: Revenue Performance

The literature critique on VAT reveals that VAT can increase revenue collection in developing countries by broadening the tax base and reducing tax evasion (Mooij & Swistak, 2022), and these facts established in the literature are further substantiated in our analysis in Figure 1 with a noticeable improvement in revenue collection when GST was implemented compared to prior years without GST. Value-added tax is often seen as a tax policy tool that can increase revenue collection in developing countries for several reasons, as mentioned as follows:

- **Broadening the Tax Base**: VAT is a broad-based tax that can potentially cover a wide range of goods and services. This broad base means that a significant portion of economic activity can be brought into the tax net. In many developing countries, informal sectors and unregistered businesses comprise a substantial part of the economy. VAT can be structured to include these sectors, thereby broadening the tax base.
- **Reducing Informal Economy**: VAT encourages businesses to formalize their operations and register for tax purposes. This formalization can lead to greater transparency and accountability in economic activities. It can also reduce the size of the informal economy, where tax evasion is prevalent.
- **Transparency and Compliance**: VAT requires businesses to maintain detailed records of their transactions and report their tax liabilities. This transparency can make it more difficult for businesses to engage in tax evasion or underreport their income.

- **Reducing Tax Evasion**: VAT operates on a self-policing mechanism, as businesses have to account for the VAT they collect and pay to the government. This can discourage tax evasion, as businesses risk detection and penalties if they fail to comply.
- **Incentives for Voluntary Compliance**: VAT systems often provide incentives for businesses to voluntarily comply with tax regulations. For example, they may offer input tax credits, allowing businesses to offset the VAT they pay on purchases against the VAT they collect on sales, which can reduce their overall tax liability.
- **International Trade**: VAT can also enhance revenue collection from international trade. When imports are subject to VAT at the border, it can be easier to monitor and collect taxes on imported goods. Additionally, exports are often zero-rated or exempt, which can promote export activities.
- **Stable Revenue Source**: VAT typically provides a stable and predictable source of revenue for governments. This stability can be especially valuable in developing countries where other sources of revenue, such as income or corporate taxes, may be more volatile.

However, it's important to note that the effectiveness of VAT in increasing revenue collection in developing countries can depend on various factors, including the design of the VAT system, administrative capacity, compliance culture, and the overall economic context. Implementing VAT effectively may require addressing challenges related to taxpayer education, administrative capacity building, and ensuring that the tax burden does not disproportionately affect low-income individuals.

Furthermore, while VAT can broaden the tax base and reduce evasion, it should be designed and implemented in a way that considers the potential regressive impact on low-income households. This can be done by exempting or reducing the tax rate on essential goods and services and implementing social safety nets to protect vulnerable populations. This approach has been implemented in Sierra Leone as articulated on the NRA website (NRA Website) and in the NRA Act of 200, Act No.11).

Based on the aforementioned data analysis and data critique, there is a general consensus between the research data analysis and the literature critique that a positive relationship exists between VAT and an increase in revenue collection. Furthermore, GST reforms have simplified the tax system, broadened the tax base, increased revenue mobilization, and reduced tax evasion (Kamara & Kamara, 2023); the digital reforms, on the other hand, have improved tax compliance, revenue collection, service delivery, and transparency in tax administration (Kamara & Kamara, 2023) in Sierra Leone.

On the other hand, there is a negative correlation between the outbreak of a pandemic and revenue collection. The revenue collection dropped from 11% (2013) to 1% (2014). The drop in revenue collection was a result of the increase in the Ebola pandemic as most of the businesses were not fully functional; this trend indicates an inverse relationship between revenue collection and the outbreak of the Ebola pandemic. Another revealing trend was the significant drop in revenue collection in 2018 (2%), which was the year of Presidential, Parliamentary, and Local Elections in Sierra Leone.

Does the drop in revenue be attributed to an increase in political tension that slow down the businesses in Sierra Leone? This calls for another research.

The first cases of novel coronavirus (nCoV) were first detected in China in December 2019, with the virus spreading rapidly to other countries across the world. This led WHO to declare a Public Health Emergency of International Concern (PHEIC) on 30 January 2020, and to characterize the outbreak as a pandemic on 11 March 2020 (COVID-19). The declaration of COVID-19 as PHEIC brought economic activity to a near-standstill. The COVID-19 pandemic spread with alarming speed, infecting millions and bringing economic activity to a near-standstill as countries imposed tight restrictions on movement to halt the spread of the virus. As the health and human toll grows, the economic damage is already evident and represents the largest economic shock the world has experienced in decades (World Bank, 2020).

The near-standstill affected the NRA revenue collection as indicated by a drop from 15% (2019) to 4% (2020), as shown in Figure 2 below when COVID-19 was declared a PHEIC. The revenue collection trend from 2019 to 2020 further explains the inverse relationship that exists between the increase in the outbreak of a pandemic and the decrease in revenue collection by the NRA as economic activity was brought to a near standstill as countries imposed tight restrictions on movement to halt the spread of the virus.

On the other hand, with the decrease in the infection rate of COVID-19 in 2021, the revenue collection increased from 4% (2020) to 18% (2021) as indicated in Figure 2 above. On 5 May 2023, more than three years into the pandemic, the WHO Emergency Committee on COVID-19 recommended to the Director-General, who accepted the recommendation, that given the disease was by now well-established and ongoing, it no longer fit the definition of a PHEIC. This does not mean the pandemic itself is over, but the global emergency it has caused is, for now. A Review Committee to be established will develop long-term, standing recommendations for countries on how to manage COVID-19 on an ongoing basis (COVID-19). The transition from PHEIC to a well-established and ongoing disease requires its monitoring of economic activity and its effects on revenue collection.

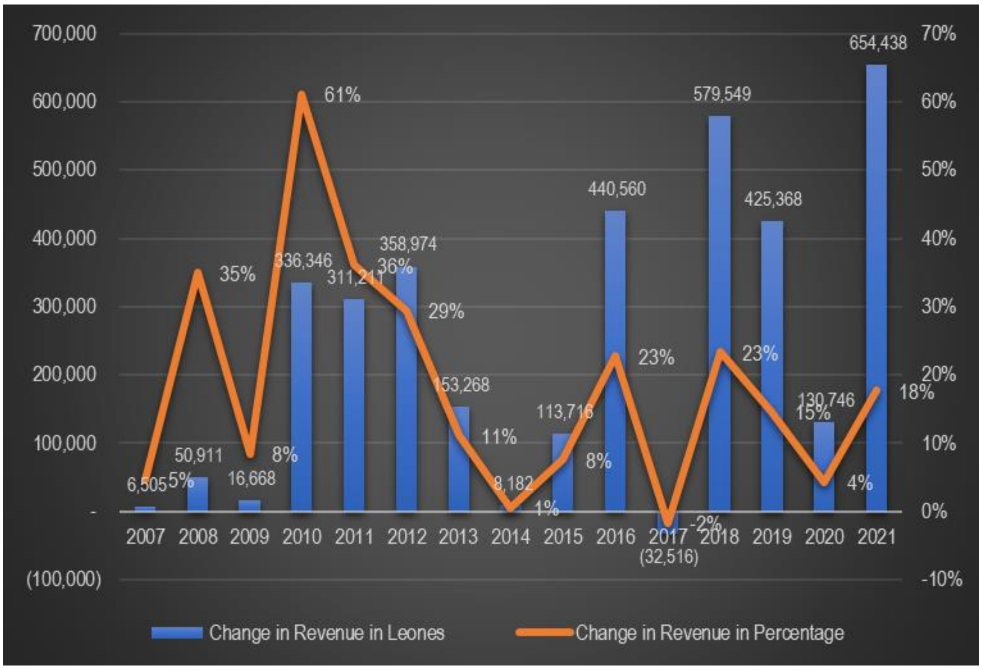

Figure 2: Change in Revenue Trend

In summary, the analysis of the model equilibrium suggests that infectious disease outbreaks, such as the COVID-19 pandemic, reduce labour supply, leading to a negative impact on economic output (Xiang *et al.*, 2021) and hence impeding revenue collection. When the pandemic is under control, the research suggests that the resumption of production becomes feasible. In such circumstances, implementing an economic stimulus package can contribute to economic recovery.

7. Benefits of VAT implementation and VAT impact on the economy

7.1 Benefits of VAT

The popularity of VAT for its revenue-generating effectiveness underscores the significant benefits that come along with its implementation. According to the OECD (2022), VAT is a tax on consumption that is levied on the value added to goods and services by businesses at each stage of the production and distribution chain. VAT is collected by businesses on behalf of the government and is usually charged as a percentage of the final price paid by the consumer. VAT is considered to be a neutral and efficient tax that can raise significant revenue for public spending while minimizing distortions in the economy.

Some of the potential benefits of VAT are:

a) VAT can broaden the tax base and reduce the reliance on other taxes that may have more negative effects on economic growth, such as income taxes or corporate taxes.
b) VAT can enhance tax compliance and reduce tax evasion by creating a paper trail of transactions and a self-enforcing mechanism, where businesses have an incentive to report their purchases and sales to claim input tax credits.

c) VAT can improve the fairness of the tax system by taxing consumption rather than income, which may be more difficult to measure and more prone to avoidance. VAT can also be designed to reduce the tax burden on low-income households by exempting or applying lower rates to basic goods and services, or by providing targeted cash transfers or subsidies.
d) VAT can facilitate international trade and investment by avoiding double taxation or cascading effects that may arise from other types of consumption taxes, such as sales taxes or turnover taxes. VAT can also harmonize with the tax systems of other countries and reduce administrative costs for cross-border transactions.

It's important to note that while VAT has these potential advantages, its effectiveness and fairness depend on its design and implementation. The specific VAT rates, exemptions, and administrative practices can vary significantly from one country to another, and these differences can affect the extent to which these benefits are realized. Additionally, the impact of VAT on different income groups and its overall economic effects can vary based on how it is structured and applied. Therefore, VAT policies should be carefully designed and evaluated to ensure they achieve their intended goals while minimizing unintended consequences.

In conclusion, while VAT alone may not be a silver bullet for promoting economic development, it can indeed be a valuable tool when implemented effectively. It can raise necessary revenue, reduce income inequality, and contribute to sustainable economic growth when part of a comprehensive tax and fiscal policy strategy. However, the specific impact of VAT can vary from country to country, depending on various factors, including the overall tax system and economic context.

7.2 VAT Impacts on the Economy

VAT typically contributes between 4 percent of GDP in low-income developing countries and more than 7 percent in advanced economies. This suggests that VAT plays a significant role in the fiscal systems of many countries, particularly in more developed economies (Mooij & Swista, 2022). The design and implementation of Value Added Tax (VAT) can have a substantial impact on a country's economy and its capacity to provide public services. Bird and Zolt's work from 2011 highlights some of the key aspects and considerations associated with VAT systems. Here are some of the ways in which VAT can affect a country's economy and public services:

- **Revenue Generation:** VAT is a major source of revenue for governments. The way it is designed and implemented can influence the total revenue collected. Higher VAT rates or a broad tax base can generate more revenue, which can then be used to fund public services such as healthcare, education, and infrastructure.
- **Efficiency and Compliance:** A well-designed VAT system can be more efficient in collecting taxes and reducing tax evasion. When VAT is collected at multiple stages of production and distribution, it can create a paper trail that makes it harder for businesses to evade taxes. Increased tax compliance can lead to more funds for public services.

- **Inflation and Consumer Behaviour**: VAT can impact inflation rates and consumer behaviour. When VAT rates are high, it can lead to increased prices for goods and services, affecting the cost of living. Governments must carefully consider the impact on the general population and lower-income groups.
- **Distributional Effects:** The way VAT is structured can have distributional effects. Regressive VAT systems, where lower-income individuals pay a higher proportion of their income in taxes, can exacerbate income inequality. Policymakers need to design VAT systems with measures to mitigate these effects, such as exempting essential goods or providing targeted subsidies.
- **Economic Growth:** A well-implemented VAT system can contribute to economic growth by reducing tax distortions and improving the business environment. A predictable and stable VAT system can attract investment and promote economic development.
- **International Trade:** VAT can affect a country's international competitiveness. The treatment of imports and exports in the VAT system can impact trade flows. Exporters may benefit from VAT refunds or zero-rated exports, while imports may be subject to VAT at the border.
- **Administrative Costs**: The administrative costs of implementing and enforcing VAT can vary depending on its complexity. Efficient administration can reduce costs and improve the overall effectiveness of the tax system.
- **Policy Objectives:** VAT can be used to achieve specific policy objectives, such as environmental sustainability or promoting certain industries. Governments can provide VAT incentives or exemptions to support these goals.
- **Tax Evasion and Fraud:** The design and implementation of VAT should also consider measures to prevent tax evasion and fraud, which can undermine the revenue collection and, by extension, the provision of public services.

In summary, the design and implementation of VAT have far-reaching consequences for a country's economy and its ability to fund public services. Policymakers must carefully consider various factors, including revenue generation, equity, economic growth, and administrative efficiency, when designing and adjusting their VAT systems to achieve their fiscal and policy objectives. Bird and Zolt's research and insights provide valuable guidance in this regard.

8. Conclusion and Limitation

Much of the early literature on VAT primarily focused on the broad theoretical foundations of consumption taxation. This includes discussions on the optimality of taxing final consumption rather than intermediate stages of production. This general theory is applicable not only to VAT but also to other forms of consumption taxes. While the broad principles of consumption taxation apply to VAT, the specific mechanisms that distinguish VAT from other consumption taxes, such as the crediting and refund mechanisms, have received comparatively less attention. These mechanisms are essential components of VAT systems and have a significant impact on efficiency and revenue collection. The efficiency gains associated with VAT came from its ability to reduce tax cascading, which occurs when taxes are levied at multiple stages of production and distribution. The VAT credits and refunds allow businesses to offset the taxes they pay on inputs, ultimately reducing the tax burden on final consumers. However, the effectiveness of these mechanisms can vary, and their potential imperfections can lead to efficiency losses. The success of these tax reforms depends on careful planning, implementation, and monitoring. While reducing trade taxes and enhancing VAT can be part of a broader strategy for economic development, it should be accompanied by complementary policies to ensure that the benefits are broadly shared and that the tax burden is equitable.

In African jurisdictions, as in other parts of the world, it is essential to adapt tax systems to the realities of the digital economy while also considering the capacity of tax authorities to effectively implement and enforce these changes. Striking a balance between capturing revenue and encouraging innovation and economic growth in the digital sector is a complex task that requires careful policy design and international cooperation. However, it's important to note that while VAT can be a substantial revenue source, its impact on different sectors of the economy and society can vary based on tax rates, exemptions, and implementation policies. Governments often need to strike a balance between revenue generation and the potential impact on consumers and businesses. Additionally, the effectiveness of VAT as a revenue-generation tool depends on factors such as tax compliance, economic conditions, consumption patterns, and the efficiency of tax administration. Over time, changes in these factors can influence the overall revenue collected through VAT. In conclusion, VAT can indeed serve as a driving force for revenue generation to support various aspects of a country's development, including infrastructure, healthcare, and education, among others. However, it's important for governments to manage VAT policies carefully to achieve both revenue goals and broader societal objectives.

8.1 Recommendations to Practice and Future Researchers

Although VAT can be a substantial revenue source, its impact on different sectors of the economy and society can vary based on tax rates, exemptions, and implementation policies. Governments often need to strike a balance between revenue generation and the potential impact on consumers and businesses. it's important for governments to manage VAT policies carefully to achieve both revenue goals and broader societal objectives. Furthermore, VAT systems should be adapted and improved to address evolving economic and social circumstances. This might involve revisiting VAT rates and exemptions to ensure fairness and efficiency, enhancing compliance measures to reduce tax evasion, and considering the role of VAT in environmental and social policy objectives. Ongoing reforms to ensure that VAT continues to effectively contribute to government revenue and policy objectives is fundamental. As tax systems and economic environments evolve, VAT systems may need to evolve as well to remain effective and relevant.

Research on the exploratory study of the impact of Presidential, Parliamentary, and Local Elections on Revenue Performance in Sierra Leone. The Case Study of the National Revenue Collection is recommended to future researchers.

Conflict of Interest Statement

This research is free from any conflict of interest, and there are no anticipated ethical issues.

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