



Tax Policy and Enterprise Development in South Asia

Summary & Comments on Harmonized Questionnaire

May, 2013

Summary:

The research partners were very appreciative of the effort put forth by GINI in putting together a harmonized questionnaire. After a rigorous review and pretesting of the questionnaire, the research partners responded with their comments and suggestions.

BNU, Pakistan and CPD, Bangladesh were simply of the opinion that the number of questions should be reduced, so as to not make the questionnaire too lengthy for the respondents. During the revision of harmonized questionnaire, GINI tried to reduce no. of questions and sub questions as much as possible. CPD also expressed concerns over the availability of firm level managed data related to all type of taxes as during pretesting, they found out that firms were either reluctant to provide that type of data or simply don't keep the record of it. IIDS, Nepal expressed minor concerns regarding some sections of the questionnaire which went unanswered by the respondents, those type of questions were eliminated. IPS, Sri Lanka was pleased with the comprehensive nature of the questionnaire and was glad to see the relevance of harmonized questionnaire with the original IPS submission. NIPFP, India recommended some modifications to questions to ensure clarity in the definition of the SME's as well as the registration process. The omission of some questions was recommended either due to duplicity or because respondents would not answer. However, NIPFP was of the opinion that it would be best not to conduct a survey based on a harmonized questionnaire.

GINI has attempted to address each specific comment raised by the research partners, and make the necessary amendments to the harmonized questionnaire. However, GINI recommends that partner institutions can amend this questionnaire with the addition of sections seeking local level information necessary to for this research. The following were the detailed comments and observations made by each institution which we have reproduced below as it is:

Beaconhouse National University, Pakistan:

BNU was simply of the opinion that the number of questions should be reduced, so as to not make the questionnaire too lengthy for the respondent.

Center for Policy Dialogue, Bangladesh:

1. The questionnaire is too long for the respondents. Some revisions to reduce the size should be considered.
2. It was observed that data related to all types of taxes (Income tax, VAT, property tax) as regards SMEs will be difficult to obtain.
3. Most of the SMEs do not maintain any formal ledger for their business, particularly for the tax accounting purposed.
4. SMEs do bear taxes on input of raw materials such as in the forms of withholding tax (Advance Income Tax (AIT) or Advance Trade VAT (ATV)). However, very few enterprises comply with taxes on sales or seek concessions on income tax.

Awareness among the SMEs with regard to tax compliance is very low.

5. SMEs tend to produce a wide variety of products. Instead of products to be identified at disaggregated HS level, it will be better to categorize SME production under broad industry classification (e.g. light engineering, handloom etc.).
6. It is difficult to acquire credible responses for many questions, particularly with regard to sensitive questions (sales, tax, capital etc.). As mentioned earlier, many SMEs do not maintain ledger and they can hardly recall these information.

Overall, we apprehend that with the information gathered on the ground, conducting a quantitative analysis will not be possible (because of dearth of data). We, however, will give our best effort and hope for the best. We also look forward to know the experiences from our partners from other countries and their suggestions.

Institute for Integrated Development Studies, Nepal:

1. HS code (8 digits): Instead of that, we are thinking to replace HS code with Nepal Standard Industrial Classification (NSIC) of four digits.
2. Non response rate is high on question No 16. During pretesting, most of the time respondents were agitated to answer questions no 16.
3. On compliance cost question of 41, it would be better to ask how much compliance cost did they bear during 2011 and 2012 rather than asking for last five years. From the pretest, it is found that most of the respondents did not know or forget how much they paid as compliance cost during last five years.
4. Non response rate is higher in Module F especially in part 2 (The process of land acquisitions) since there is weak implementation of property tax in Nepal.

Institute of Policy Studies, Sri Lanka:

1. In Module A we wish to include a question after 6 – is the enterprise BOI registered or not. This is important for the Sri Lanka case as there is a distinct dichotomy between the two groups.
2. Suggest amendment to Module C Question 22 to 27 – use Likert Scale type measure to record perceptions (Strong Agree.....Strongly Disagree) rather than the current “Yes, No, Don’t Know”.
3. We are concerned about Module G – how to question on these and who we will be asking. Out of Q’s 82 to 92 seem very general and in fact not related to tax issues. We will have difficulties in getting any good results in this section.
4. In Module D - suggest a follow up question after 35 to inquire as to the basis on which the enterprise received the incentive (e.g., because of specific sector of investment, because of geographical location of enterprise, because of capital

invested, because of special scheme, because of R&D-related, etc). This is very relevant, we believe.

5. Module B Q. 10, would be good to say “Top 5 products” and also add a column to indicate how much (%) of this was exported vs. domestic sales.
6. Module B Q. 17 – would like to see a section on “how is your business currently financed? (% wise) – equity (initial paid up capital, retained earnings), debt (informal borrowings, and if so why; formal borrowings – borrowed under company name or borrowed under personal; how much was working capital loan vs. investment loan)
7. In Module E we are keen to include a question on VAT refunds, given that it is a significant problem for Sri Lankan enterprises. Maybe after Q. 54
8. Not sure about usefulness of Q. 57 – some clarity needed
9. KII interview questionnaire is fine with us but depending on the official/stakeholder being interviewed we may have to adapt accordingly (dropping certain Q’s).

National Institute of Public Finance and Policy, India:

1. From the harmonized questionnaire it is clear that there is confusion on the definition of the Micro, Small and Medium Enterprises (MSMEs). It is evident from question number 14 (Module –B) and from some options of question number 20 (Module – C). From these two questions it appears that the survey questionnaire is not making the differentiation between the informal sector and MSMEs. The confusion on the same issue is also arising from the option in question number 20 (Module -C) and question number 17 (Module-B).
2. Questions on registration have to be more specific. The registrations are done with different government authorities. Even for different taxes; registration is done with different authorities. For example, in India, excise taxes one has to register with a different tax department than in VAT or property tax. This is not clear in question number 6 (Module-A) or registered under Factory ACT. The options in question number 7 (Module- A) are confusing because the objective of the question number 6 (Module –A) is not clear (registered with whom).
3. In the question number 6 (Module – A), regarding characteristics of Owner, caste of the owner should have been included, which unfortunately an important social stratification that exists in.
4. Some questions are very demanding on part of the respondent like question number 16 (Module -B). The respondent will be reluctant to answer what was the growth in different heading over last year? To cite few more example, Question number 28, 29 (Module -C) will also have similar problem.
5. Questions regarding Taxes in module- C are not clear like question number 21, reasons for not paying taxes; these have to be tax specific and cannot be combined

together. Question number 27 will have similar problem. Question number 22, 23, 24, 25 are not useful.

6. There are some questions which are a slight variations of one another, like question number 31 (Module-D) and question number 35 (Module- D). In such cases the respondents' answer will be similar, so no point in putting these questions separately.
7. The questions regarding borrowing (question number 17 module- B) are not comprehensive enough , no questions regarding amount of collateral required to have while borrowing or collateral is required at all, source of borrowing is not clear commercial bank, co-operative bank, money lenders etc.
8. No questions regarding the inputs used in the production which is required to understand the functioning of a unit.
9. The way output is sold may be very different in different countries like in India there is compulsory government procurement for MSMEs. Only question number 13 (module – B) is not sufficient to get proper data on the functioning of a unit.
10. The dependence on power may be quite high for some MSMEs, so expenditure on power may be high, so there should have been question on electricity bill. There are incidences of power theft (illegal connection) these are prevalent because of high cost of electricity.
11. The enterprises may be producing variety of products. The taxes (VAT, Excise) on each of them may be different; this fact has not been taken care of in the questionnaire.
12. The subsidy on interest payment and capital investment for MSMEs has not been considered in the questionnaire.

Given the complexities and different policy environment in each country, we don't think that it will be a good idea to conduct the survey based on a harmonized questionnaire. We would prefer to conduct the survey based on our own questionnaire and would certainly incorporate the relevant questions from the harmonized questionnaire.