



Effects of the Taxpayer Register on the Tax Administration

*Kirenga John¹ & Dr. Mpakaniye Jean Paul²

¹Faculty of Economics, Social Sciences and Management, INES-Ruhengeri, Rwanda

²Dean and Lecturer, Faculty of Economics, INES-Ruhengeri, Rwanda

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*Corresponding author: Kirenga John

Abstract

Rwanda, as any other country in the world rely on resources to finance national expenditure for economic development. Tax collection is perceived to be the highest contributing factor to this achievement. For efficient and effective collection of taxes, Rwanda has moved away from administrative assessment system to a system of self-assessment which relies on mostly taxpayers to voluntarily comply with their tax obligations to register, keep proper records, file correct returns and pay due taxes on time. Therefore, this study was aimed at assessing the effects of the taxpayer register on the tax administration.

A targeted sample size of all 16 registration officers were selected and participated in the study. Primary and secondary data was used in this research. Data was collected with the help of structured questionnaires. The study used both descriptive and inferential statistics in the analysis. Descriptive statistics was used to describe the social demographic characteristics of respondents. The study results showed a statistically significant relationship between taxpayer register and the tax administration. The research findings indicates that 44.4% of respondents' opinions highlighted that the cause of inaccurate taxpayer register in RRA is capturing of wrong information at the point of registration, while 41.7% highlighted mistakes made by RRA officers and 13.9% highlighted automation of the systems. The study results can assist the policy makers and the tax administration to address the root causes of inaccurate taxpayer register so as to eradicate once for all the inaccuracy of the taxpayer register in Rwanda Revenue Authority.

INTRODUCTION

The registration of taxpayers and management of the taxpayer registry underpins key administrative processes, such as filing, payment, assessment, and collection of taxes ^[2]. Thus, one of the most important functions of any revenue administration is to identify potential taxpayers, register them, and properly manage the collected information for easy access and use.

Almost all tax systems use the Taxpayer Identification Number (TIN) to monitor taxpayers. In every country that successfully adopted improved technology for tax administration, allotting identification number has been a necessary requirement. Without such a number, information can neither be stored properly nor used effectively. Countries may use a number unique to the tax system or linked to other government services. Some countries have begun issuing ID cards to citizens that contain the TINs as well as other information ^[1].

In most countries, registering a business is not only a law fulfilment; it is also a way of enabling it to expand and flourish because businesses are widely encouraged and different incentives are given only to registered businesses. Depending on individual countries domestic tax provisions, any person, who starts up a business or other income generating activities, is obliged to register with the tax administration within a particular period from the beginning of the business. She/he is also obliged to register for Value Added Tax (VAT) within a specified period if she/he carries out taxable activities and her/his turnover exceeds a certain threshold ^[6].

Thus, the registration of taxpayers has been impacted by different registration policies, systems, and procedures. In the past years, some tax authorities used different systems, and now the redeveloped systems such as E-Tax has been rolled out. While future registrations have followed the new policies and procedures, there has not been a migration program for the existing data to ensure currency and accuracy. With the existence of different stakeholders with taxpayer

information in different Countries, there has been a risk of different policies for registering a business depending on which business agency portal, or office the taxpayer visited ^[4].

In most tax bodies, the register has some outdated, inaccurate or incomplete taxpayer information such as addresses, incorrect or incomplete industry classification under the International Standard Industrial Classification of activities (ISIC), old and different classifications, existence of duplicate Taxpayer Identification Numbers (TIN), incorrect or inappropriate tax regime, TINs that exist in the current electronic tax systems but not in the previous tax systems, inconsistent reporting between tax authorities and other stakeholders about the number of companies because these stakeholders have got different mandates from those of the tax authorities. In addition, most tax administration do not put a lot of attention to the registration function, they instead focus on revenue generation, ignoring the fact that it is those taxpayers who bring in revenues ^[6].

This has led to the existence of an inaccurate and incorrect taxpayers' register that does not facilitate tax compliance. This challenge has been due to a number of factors that seem to cross cut among tax authorities in less developed and or developing countries ^[6]. Factors such as non-registration for all the eligible tax types; inaccurate registration details; incomplete records (taxpayer profiles missing key registration details); registration of non-existent taxpayers; misclassification of businesses in ISIC; existence of duplicate/multiple registrations (clients issued with more than one TIN); mutation of taxpayers; weak initiatives to detect businesses and individuals who fail to register; unclear registration processes and procedures; ICT system inadequacies; and inability to identify or flag dormant and inactive taxpayers – are the most ones discovered as a problem about the matter ^[6].

The reasons why the focus is on the taxpayer register is first and foremost, registration is the pillar of the tax administration on which all other functions such as filing, payment, assessment, auditing, enforcement, reporting depend on registration. Secondly, the integrity of the taxpayer register is fundamental to effective tax administration since it facilitates compliance monitoring of taxpayers. Since there is no academic research conducted on taxpayer registration, this study was proposed with the intention to bridge this gap, so that the determinant of taxpayer registration function on the effectiveness of Rwanda Revenue Authority is assessed.

THEORETICAL REVIEW OF THE TAXPAYER REGISTER

There are several theoretical and empirical studies on taxpayer register and tax administration. These studies provide mixed reactions on the relationship between taxpayer register and the tax administration. Mayega *et al.*, (2019) carried out a study in Uganda Revenue Authority (URA) on how clean is the taxpayer register? The study discovered considerable problems of inaccurate data and, primarily as a result of the activities of tax agents, a high level of duplication of the same telephone numbers and email addresses, and possession of multiple Taxpayer Identification Numbers (TINs). These inaccuracies reflect a number of factors, including inadequate design of registration forms and procedures, and the low priority given to verification and the accuracy of the taxpayer register ^[15].

Against this background, our study investigated data quality issues within the URA, with a focus on the taxpayer register. The study focused on the taxpayer register for two main reasons. First, registration of a taxpayer is the building block of tax administration on which hinges the effectiveness of other processes and procedures such as filing, payment, assessment, collection, auditing, reporting (ATAF, 2017). Second, the integrity of the taxpayer register is fundamental to effective tax administration. It facilitates compliance monitoring (IMF, 2015a).

The URA is charged with registration of all entities for tax purposes, including individuals, companies, trusts, partnerships, government, political sub-divisions of government and listed institutions that (a) have chargeable income; or (b) are potentially liable to non-tax charges such as motor vehicle registrations, transfers and stamp duty. As at August 2018, a total of 1,320,748 taxpayers were on the tax register; of them, 71,066 (5%) were registered for non-tax purposes.

Between 2009-10 and 2017-18, the number of registered taxpayers had increased 70 times, from less than 20,000 to 1.3 million. This is largely because new IT systems have made it easier and cheaper for the URA to identify and register taxpayers: (a) e-tax, that was rolled out in September 2009; (b) the implementation in 2015-16 of the Taxpayer Register Expansion Programme (TREP), that involves collaboration between the URA, local governments, and the Uganda Registration Services Bureau (URSB) in the registration of informal businesses; (c) a project for registering landlords' rental incomes; and (d) the introduction of a block management system in Kampala. However, this rapid increase in the number of registrations seems in part to explain the inaccuracy of the taxpayer register. The number of inaccuracies has increased in recent years, as the total number of registrations has become larger. For example, 80% of the duplicate TINs that we identified were issued between 2014 and 2018.

Olatunji and Oludayo (2018) examined the impact of the taxpayer identification number on revenue generation in Ekiti State of Nigeria. Specifically, the study examined the trend of internally generated revenue over a period and

investigated the impact of full adoption of taxpayer identification number on the revenue generated in Ekiti State, using a single equation model in which revenue generation proxies by internally generated revenue was made a function of full adoption of the TIN as latent variable. The result revealed that full adoption of taxpayer identification number exerts a significant positive impact on internally generated revenue of the state of Ekiti. It was concluded that full adoption of the taxpayer identification number in Ekiti State has the capacity to spur revenue generation.

Ligomeka (2019) in his study on evaluating the efficiency and effectiveness of the Malawi Revenue Authority (MRA) in undertaking some functions. The MRA is an interesting case study because, when judged by the standard criteria for effective tax administration, as carried out under the IMF Tax Administration Diagnostic Assessment Tool (TADAT), the MRA appears to perform very poorly, even by the standards of low-income countries. As will be noted in the next section, these observations are in conflict with the facts that the MRA (a) is rather effective at capturing a relatively high proportion of gross domestic product (GDP) in tax (above the average for Sub-Saharan African (SSA) countries every year since 2009).

The main finding of the study is that the apparent paradox – the poor performance of the MRA even by the standards of low-income countries on one side, and the institution’s effectiveness at capturing a relatively high proportion of GDP in tax and the collection of a high proportion of direct taxes through CIT and PIT on the other – is largely explained by the relative efficiency of the Large Taxpayer Unit (LTU). The LTU is responsible for managing only 2% of total taxpayers yet collects over 70 per cent of domestic tax revenues.

Anyone operating a business in Malawi is required to register with the MRA for tax purposes, either under the standard income tax regime or the turnover tax regime. Businesses whose annual gross income is below MK10 million (equivalent to approximately \$13,516) are registered under the turnover tax regime, while those whose annual gross income exceeds MK10 million are registered under the standard scheme. Taxpayers in the standard regime are further classified as either small, medium, or large. A special department known as the Large Taxpayer Unit (LTU) within the Domestic Revenue Department manages large taxpayers. Initially, a business chooses the type of taxes to register for. Individuals operating a business that is not incorporated register for personal income tax (PIT) and Pay as You Earn (PAYE) for their employees. Unincorporated businesses may also register for.

The MRA database shows that taxpayers registered under the turnover tax regime make up 35 per cent of all registered taxpayers but account for just 1% of total tax revenue collected by the institution. Regardless, the MRA continues to register taxpayers under the turnover tax regime. In total, more than 70,000 taxpayers are registered with the MRA. However, in the 2015/16 fiscal year, only 32,000 were classified as active. Taxpayers classified as active are those that have filed a tax return or made a tax payment within the past three years. MRA officers have suggested that some taxpayers register with the MRA so that they receive a registration certificate and a Taxpayer Identification Number (TIN), which enables them to deal with the government and other registered traders. Once taxpayers have the MRA registration certificate, most do not pay the turnover tax. The MRA does not routinely follow up with inactive registered taxpayers to determine whether they have stopped operating or they have just stopped paying taxes (one way of establishing whether taxpayers who do not file tax returns, or make any tax payment, are still economically active is by using third-party information).

Registration processes vs the tax administration

Existing literature reveals that simplifying the registration process for taxpayers is one of the means through which developing countries have introduced to encourage compliance of taxpayers. Evidence suggests that offering greater access to registration does encourage entrepreneurs to formalise. For instance, Oviedo (2009); USAID (2005) concluded that after Montenegro reformed its registration process, it recorded an increase in the number of registered taxpayers from 6,001 in 1991 to 21,724 in 2003.

Colombia provides another example where business service centers were created within the premises of the local chamber of commerce in six Colombia Municipalities, with the goal of ensuring business registration is “one step, one day, one place, with one interaction, one pre-requisite, and at a minimum cost” (Oviedo, 2009). While statistical evidence suggests that reducing the time and cost required for firm registration can contribute to increases in the number of formally registered firms, the magnitude of the corresponding effects is still subject to controversy (Guillermo, 2007).

Automation vs. the tax administration

Tax administration in developed and developing countries play many roles including, collecting revenues, process returns and information, limit tax evasion, provide services to taxpayers and in other countries implement social programs through the tax system. Like any other government agency, tax administrations need to make difficult choices in allocating scarce resources among different types of taxes, different administrative functions and different type of technology to be adopted (Moore, 2007).

Most tax administrations have adopted the use of technology and systems to track taxpayers by use of the Taxpayer Identification Number (TIN). Tax administrations that have successfully adopted the improved technology allot a unique identification number as a requirement. Without such a number, information can neither be stored properly nor used effectively. Countries can use a number unique to the tax system or one linked to other government agencies. Several countries have begun issuing “smart” IDs to citizens that contain TINs as well as other information. Improvements in technology allow governments to coordinate the numbers assigned with respect to various government services and financial services to TINs issued by tax administrations. The coordination will make it difficult for those without TINs to access government services such as passports, drivers’ licence, register cars, transfer of property (Soos, 1990).

Franzen (2007) study conducted in Dar es Salaam, Tanzania indicated that, public officials are more effective as revenue collectors than their private counterparts. Fjeldstad and Haggstad (2012) concluded that, measures are required to improve the accountability of revenue collectors and elected officials. The foregoing, according to the scholars, can only be achieved through political goodwill from the national government. Kayaga (2010) in her study of tax policy challenges in Uganda as one of developing countries opined that, new technology alone is not sufficient if the government does not recognize the need for skilled tax officials. The scholar further avers that, effective tax administration requires qualified tax personnel with requisite skills to maintain these systems and operate them to their fullest potential.

Taxpayer attitudes vs tax administration

This sub-section gives a discussion of the importance and the role of tax knowledge, in determining taxpayers’ attitudes towards tax compliance in tax administrations. Tax knowledge is a key component of a voluntary compliance tax system particularly in determination of an accurate tax liability. It has been showed that tax knowledge is most weighty factor which determine taxpayers’ compliance behaviour under the self-assessment system. This is empirically supported by the findings revealing that possessing adequate tax knowledge would lead to higher compliance rates^[16].

On the hand however, the absence of tax knowledge may be the responsible cause of non-compliance behaviour among taxpayers, either intentionally or unintentionally. It was suggested by McKerchar^[18] that small business taxpayers in Australia, are not even aware of their tax obligations and this may lead to unintentional non-compliance behaviour. Therefore, it can be said, one saying that tax knowledge strongly affects tax compliance in tax administrations is not a liar. Nicoletta^[17] reported that taxpayers with positive attitude towards tax evasion tend to be less complaint while taxpayers with negative attitude towards tax evasion will be more compliant.

Kirchler *et al.*,^[16] showed that the tax attitude depends on the perceived use of the money collected and therefore is connected to tax knowledge. In fact, tax knowledge was shown to be very important for a taxpayer to be able to comply with the tax laws and regulations. Thus, not only the level of education received by the taxpayer matters but also the knowledge related to personal taxation, exemptions, reliefs, rebates and tax credits. It is in this perspective that Eriksen and Fallan^[19] claimed that a successful means of preventing tax evasion is to provide more tax knowledge to larger segment of society in order to improve tax collection.

AN EMPIRICAL REVIEW OF THE TAXPAYER REGISTER

Musya^[10] undertook a study to examine the part played by internal control system in the collection of revenue by county governments in Kenya. The study hence failed to show the major challenges facing revenue collection at KRA. A study conducted by Okoth^[12] sought to find out, the extent to which revenue is collected and utilized at Kakamega Municipal Council (KMC). The study however was carried out in Municipal Council and hence it was limited in scope. Further study is required to determine the challenges affecting revenue collection in large organizations like KRA.

Gabrielle^[5] noted that many positive developments in revenue administration were achieved during the implementation of the First Phase of the Revenue Administration Reform and Modernization Programme but he failed to show the challenges faced during implementation of revenue administration reforms like implementation of ICT based tax collection system which may be a revenue collection challenge.

A study by Ndunda^[11] established how competence of revenue clerks and tax compliance influence optimal revenue collection. However, the study was only narrowed to employee’s competency and therefore did not explore all the major challenges that affect revenue collection at KRA. A more comprehensive study is hence required to analyze other challenges that affect revenue collection at KRA.

Fati^[3] carried out a study to eliminate or reduce to minimum the challenges in the process of revenue collection in Ghana property rate collection. The study used the interpretative case study approach to obtain study individuals in their natural settings and also obtain deeper understanding of the event. It was discovered that revenue trend has not been stable in revenue collection since the government did not have a full or comprehensive register of all taxable activities or levies in their jurisdiction. There existed no system to track invoices and payments. Data on services, facilities, levies were handled manually and consequently subject to fraud, abuse and significant revenue loss.

METHODOLOGY

Research approach

Quantitative and qualitative research approach was adopted in this study. Quantitative research approach involves collection and production of quantitative data so that they can be quantitatively analysed with the help of statistical calculations from which conclusions can be made [8]. Qualitative method was used to generate non-numerical data in order to get in-depth information about the variables. These approaches helped the study to identify determinant of tax compliance.

Research design

Research design may be defined as the plan of conditions for collection and analysis of data in a manner that is in the context to achieve the research aim with economy in the procedure. A research design is the set of methods and procedures used in collecting and analyzing measures of the variables specified in the research problem [14]. Descriptive research studies are studies concerned with describing the characteristics of a particular individual, or of a group, on the other hand diagnostic research studies determine the frequency with which something occurs or its association with something else [8]. Descriptive/diagnostic study design was adopted in this study. Descriptive study was used to describe the characteristics of the respondents whereas diagnostic study design was used to identify the determinant of tax compliance as well as to find out their possible association.

Data processing and analysis

This research used both descriptive and inferential statistics in the analysis. Descriptive statistics was used to describe the social demographic characteristics of respondents. The inferential statistics involved Multinomial Logistic Regression to estimate the significance of independent variables in influencing the dependent variables. The SPSS software was used as a tool of analysis.

Model specification

This research intended to estimate eight models: the first four models aimed at assessing the determinants of the tax administration in Rwanda Revenue Authority while other four models aimed at determining the relationship between taxpayers' register and the tax administration in RRA. The variable tax administration was measured in three sub variables (tax assessment, declaration, payment and collection).

Model 1: The equation to be estimated is expressed as follows:

$$Y1 = \beta0 + \beta1X1 + \beta2X2 + \beta3X3 + \dots + \epsilon$$

Where $Y1$ is tax assessment, $X1$ is taxpayers' register support to effectively know that taxpayers have accurately submitted their assessed returns, $X2$ is systems to facilitate taxpayers assess themselves due taxes and $X3$ is tax laws to support self-assessment of taxes. $\beta0$, $\beta1$, $\beta2$ and $\beta3$ are the coefficients of the corresponding predictors variables estimated. ϵ is the error term which reflects that the relationship between the explanatory variables and the response variables is not deterministic.

RESULTS AND DISCUSSION

Data were presented, analyzed and interpreted basing on the study objectives and hypothesis stated in chapter one of this study. The results are discussed in two sub-sections; namely, the descriptive analysis and empirical findings.

Fig 1: Causes of inaccurate taxpayer register in RRA

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Capturing of wrong information at the point of registration	16	44.4	44.4	44.4
	Mistakes made by RRA officers	15	41.7	41.7	86.1
	Automation of the systems	5	13.9	13.9	100.0
	Total	36	100.0	100.0	

Figure 1 above shows the causes of inaccurate taxpayer register in RRA. From the table, 44.4% of respondents' opinions highlighted that the cause of inaccurate taxpayer register in RRA is capturing of wrong information at the point of registration, while 41.7% highlighted mistakes made by RRA officers and 13.9% highlighted automation of the systems.

CONCLUSION AND RECOMMENDATIONS

To conclude this study whose objective is to assess the causes of incorrect taxpayer register in Rwanda Revenue Authority, the determinants of the tax administration in Rwanda Revenue Authority and determine the relationship

between taxpayers' register and the tax administration in RRA. The major findings of this study are summarized in the underlying subsections organized according to the objectives research.

From what has been studied, analyzed, presented and found in this study, it can be concluded that the most cause of inaccurate taxpayer register in RRA is capturing of wrong information at the point of registration followed by mistakes made by RRA officers and lastly automation of the systems.

Systems to facilitate taxpayers assess themselves of the due taxes, taxpayer register supports the tax administration to effectively know that taxpayers have accurately submitted their assessed returns, tax laws to support self-assessment of taxes and online system to facilitate taxpayers file their returns influence tax administration in RRA.

In order to alleviate the glitches of inaccurate taxpayer register, RRA should make improvements on capturing of correct taxpayers' information at the point of registration followed by lessening mistakes made by RRA officers and lastly automation of the systems.

For effective tax administration, RRA should focus on improving online system to facilitate taxpayers file their returns, taxpayers register support to effectively know taxpayers assessed returns, use of electronic means to pay due taxes, tax laws to support self-assessment of taxes, awareness on tax obligations and how to use electronic system, capacity to identify non-filers, taxpayers' awareness of the consequences of delay or non-remittance of tax and taxpayers' awareness of sanctions for non-payment of taxes, taxpayers ability to keep records, file and pay tax without intervention of tax officials, systems to facilitate taxpayers assess themselves due taxes and taxpayer register support in effective payment of taxes.

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