



**THE IMPACT OF ORGANIZATIONAL CHARACTERISTICS AND
IMPLEMENTATION EFFICACY ON VAT COMPLIANCE
MODERATED BY GOVERNMENT SUPPORTS**



DOCTOR OF PHILOSOPHY

2022



Institute of Technology Management and Entrepreneurship

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Ruwaida Mohammed Ahmad Abduraqeeb

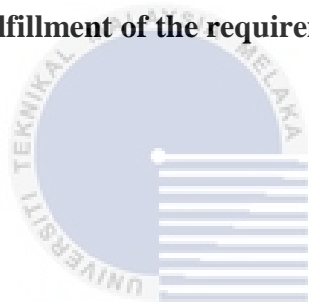
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GOVERNMENT SUPPORTS**

RUWAIDA MOHAMMED AHMAD ABDULRAQEEB

**A thesis submitted
in fulfillment of the requirements for the degree of Doctor of Philosophy**



Institute of Technology Management and Entrepreneurship

UNIVERSITI TEKNIKAL MALAYSIA MELAKA

UNIVERSITI TEKNIKAL MALAYSIA MELAKA

2022

DECLARATION

I declare that this thesis entitled “The impact of organizational characteristics and implementation efficacy on VAT compliance moderated by government supports” is the result of my own research except as cited in the references. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

Signature : *Ruwaida*
Name : Ruwaida Mohammed Ahmad Abdulraqueeb
Date : 1 September 2022

اونيورسيتي تيكنيكل مليسيا ملاك
UNIVERSITI TEKNIKAL MALAYSIA MELAKA

APPROVAL

I hereby declare that I have read this thesis and in my opinion, this thesis is sufficient in terms of scope and quality for the award of Doctor of Philosophy.

Signature

:


PROF. MADYA DR. SAFIAH BT SIDEK
Dekan
Institut Pengurusan Teknologi Dan Keusahawanan
Universiti Teknikal Malaysia Melaka

Supervisor Name

:

.....
Assoc. Prof. Dr. Safiah Sidek

Date

:

.....
2 September 2022



DEDICATION

In memory of Sheikh Zayed, who has motivated every emirati to envision a better future and work towards reaching that goal.

Further, I dedicate my work to my daughters, Aisha and Nouf who always encouraged me to pursue my education despite the challenges and hardships I faced.

Thank you.



ABSTRACT

Value Added Tax (VAT) has remained critical to several governments, including the UAE, on the urgent need to diversify revenue sources and create sustainable income supply channels. Nonetheless, compliance remains a critical challenge for government. In addition, there are limited studies that explore the determinants of VAT compliance in the UAE. Accordingly, the present study seeks to critically examine the role of organisational characteristics and VAT implementation efficacy in VAT compliance among Dubai SMEs, considering the moderating effect government support on these inter-relationships. The study helped to arrive at VAT governance framework that optimises compliance as fundamental to the fulfilment of the long-anticipated role of VAT as a delicate income source for the Dubai Government. To achieve this aim, the study follows the quantitative research methodology. It adopts the deductive theoretical reasoning and aspires to gather empirical data to test then research hypotheses with the help of the survey questionnaire. The study focused on the SMEs in the foods and beverages sector in Dubai, drawing a sampling frame of all SMEs within this scope from the Dubai Chamber of Commerce and Industry. Given a sample frame of 12,000 cases, a sample of 387 was collected based on questionnaire adopted from previous empirical studies. A pilot study involving 40 respondents were conducted to ascertain the validity and reliability of the data collection instrument. The collected data was analysed using Partial Least Squares – Structural Equation Modelling (PLS-SEM). The research found that positive SME characteristics and SMEs with high VAT implementation efficacy have significant and positive influence on VAT Compliance. The research also found that government support significantly moderate the role of SME characteristics and VAT Implementation efficiency in VAT compliance. The study contributes to theory by examining the VAT compliance behaviour from organisational perspective as well as its antecedents thereby closing an important knowledge gap on VAT compliance among SMEs in the UAE. The present study is of critical relevance to the conceptualisation of VAT regulatory model to spearhead the government’s economic agenda. The study recommends similar investigation to be conducted in other cities of UAE besides Dubai so as to have a holistic VAT compliance literature in the UAE.

**KESAN CIRI-CIRI ORGANISASI DAN KEBERKESANAN PERLAKSANAAN
TERHADAP PEMATUHAN CUKAI NILAI TAMBAH DIMODERASI OLEH
SOKONGAN KERAJAAN**

ABSTRAK

Cukai Nilai Tambah (VAT) adalah kritikal kepada beberapa kerajaan, termasuk UAE, kerana ia berkait dengan keperluan mendesak untuk mempelbagaikan sumber hasil dan mewujudkan saluran bekalan pendapatan yang mampan. Namun begitu, pematuhan terhadap VAT masih merupakan cabaran yang kritikal bagi kerajaan. Tambahan lagi, kajian yang meneroka penentu pematuhan VAT di UAE masih lagi berkurangan. Faktor Kajian ini bertujuan untuk mengkaji secara kritis peranan ciri organisasi dan keberkesanan pelaksanaan VAT dalam pematuhan VAT dalam kalangan perusahaan kecil dan sederhana di Dubai, dengan mengambil kira kesan penyederhanaan sokongan kerajaan terhadap hubungan di antara ciri-ciri organisasi dengan pematuhan VAT. Kajian ini ingin membangunkan satu rangka kerja tadbir urus VAT yang mengoptimumkan pematuhan sebagai asas bagi merealisasi peranan VAT dalam menyumbang kepada sumber pendapatan kepada Kerajaan Dubai. Bagi mencapai matlamat ini, kajian ini menjalankan metodologi penyelidikan kuantitatif yang mengguna pakai penaakulan teori deduktif. Data empirikal melalui soal selidik telah dikumpul bagi menguji empat hipotesis yang telah dibangunkan. Kajian ini memberi tumpuan kepada perusahaan kecil dan sederhana dalam sektor makanan dan minuman di Dubai, berpandukan kepada rangka persampelan bagi semua perusahaan kecil dan sederhana yang diperolehi daripada Dewan Perniagaan dan Industri Dubai. Berdasarkan rangka pensampelan sebanyak 12,000 kes, sebanyak 387 sampel telah diperolehi menggunakan soal selidik yang dibangunkan berdasarkan kepada kajian-kajian empirical yang lepas. Kajian rintis yang melibatkan 40 responden telah dijalankan bagi mengesahkan validiti dan kebolehpercayaan instrumen pengumpulan data. Data yang dikumpul telah dianalisa menggunakan Kuasa Dua Separa Terkecil – Pemodelan Persamaan Struktur (SEM). Kajian mendapati perusahaan kecil dan sederhana yang mempunyai ciri-ciri positif dan yang mempunyai keberkesanan pelaksanaan VAT yang tinggi mempunyai pengaruh yang signifikan dan positif terhadap pematuhan VAT. Kajian ini juga mendapati bahawa sokongan kerajaan menyederhanakan secara signifikan peranan ciri perusahaan kecil dan sederhana dan kecekapan Pelaksanaan VAT dalam Pematuhan VAT. Kajian ini menyumbang kepada teori dengan mengkaji gelagat dan antesenden pematuhan VAT dalam kalangan pengusaha kecil dan sederhana dari perspektif organisasi. Kajian ini mempunyai kaitan yang kritikal dengan konsep model kawal selia VAT untuk menerajui agenda ekonomi kerajaan. Kajian ini juga mengesyorkan pelaksanaan penyelidikan yang serupa dijalankan di bandar-bandar lain di UAE selain daripada Dubai bagi mendapatkan pengetahuan yang holistik mengenai pematuhan VAT di UAE.

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In addition to my own efforts, the success of this thesis depends on the guidance and encouragement of many others. My special appreciation goes to my supervisor Assoc. Prof. Dr. Safiah Binti Sidek for her guidance, sacrifice, and support during the period of this proposal. As well as, friends and colleagues for their constant moral support and encouragement.

My most sincere and heartfelt gratitude also goes to my family for their patience and maximum attention during the study period.



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LIST OF SYMBOLS

R^2 - Coefficient of Determination

f^2 - Effect Size



LIST OF ABBREVIATIONS

| | | |
|---------|---|--|
| AVE | - | Average Variance Extracted |
| BandO | - | Business and Occupation |
| DCCI | - | Dubai Chamber of Commerce and Industry |
| FandB | - | Food and Beverages |
| FTA | - | Federal Tax Authority |
| GCC | - | Gulf Cooperation Council |
| GDP | - | Gross Domestic Product |
| GoF | - | Goodness of Fit |
| GST | - | Goods and Services Tax |
| HOC | - | Higher Order Constructs |
| HTMT | - | Heterotrait – Monotrait |
| ICT | - | Information and Communication |
| IMF | - | International Monetary Fund |
| LOC | - | Low Order Constructs |
| OECD | - | Organization for Economic Co-operation and Development |
| PLS-SEM | - | Partial Least Squares – Structural Equation Modelling |
| SMEs | - | Small and Medium sized Enterprises |
| UAE | - | United Arab Emirates |
| VAT | - | Value Added Tax |
| VIF | - | Variance Inflation Factor |

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LIST OF PUBLICATIONS

The followings are the list of publications related to the work on this thesis:

1. Sidek, S., and Abdulraqueeb, R. M. A., 2022. The moderating effects of government supports towards VAT compliance among SMEs in UAE: A conceptual framework, *Mathematical Statistician and Engineering Application*, 71(3), pp. 84-102. (indexed Scopus)
2. Abdulraqueeb, R. M. A., and Sidek, S., 2022. Governance framework to optimize value added tax compliance among SMEs in Dubai, *Mathematical Statistician and Engineering Application*, 71(3), pp. 387-400. (indexed Scopus)



CHAPTER 1

INTRODUCTION

1.1 Background

Value Added Tax (VAT) is implemented globally to complement the existing sources of revenue to governments. The need for complementary source of government revenue is recently more pronounced in the oil producing countries than ever before as a result of dwindling oil revenue. In recent years, there is instability in the oil market. There are bubble and bust cycle of the oil and gas has made it so volatile and pose serious danger to the economic stability of the country. The global transition to sustainable energy has also threatened the global demand for carbon energy which came with revenue decline. UAE is not an exception to this economic reality. The UAE is amongst the oil rich countries of the world. Oil revenue has been one of the major source of revenue to the country. The country, like the Gulf countries have rely heavily on oil and gas revenues to fund their critical infrastructure and provide the necessary services needed by the citizens (Ezenagu, 2021). The need for VAT can be observed from the decline in UAE revenue leading fiscal deficit (Ainsworth and Alwohaibi, 2016; IMF, 2019; Kasim, Hanafi and Suki, 2020).

Evidence in support of the diminishing income prior to the implementation of VAT in the United Arab Emirates (UAE) is presented in Figure 1.1 and Figure 1.2, which is based on the latest Internal Monetary Fund (IMF) analysis of financial conditions of the UAE (IMF, 2019).

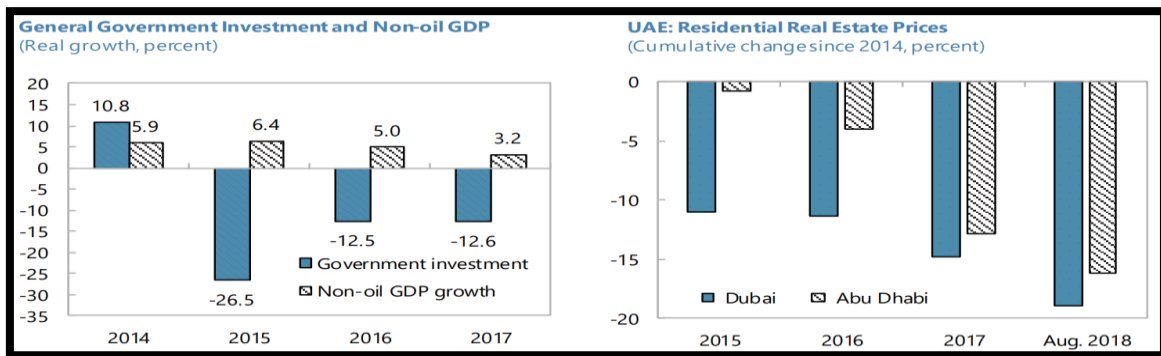


Figure 1.1: The UAE Government Investment and Negative non-oil GDP (Source: IMF, 2019)

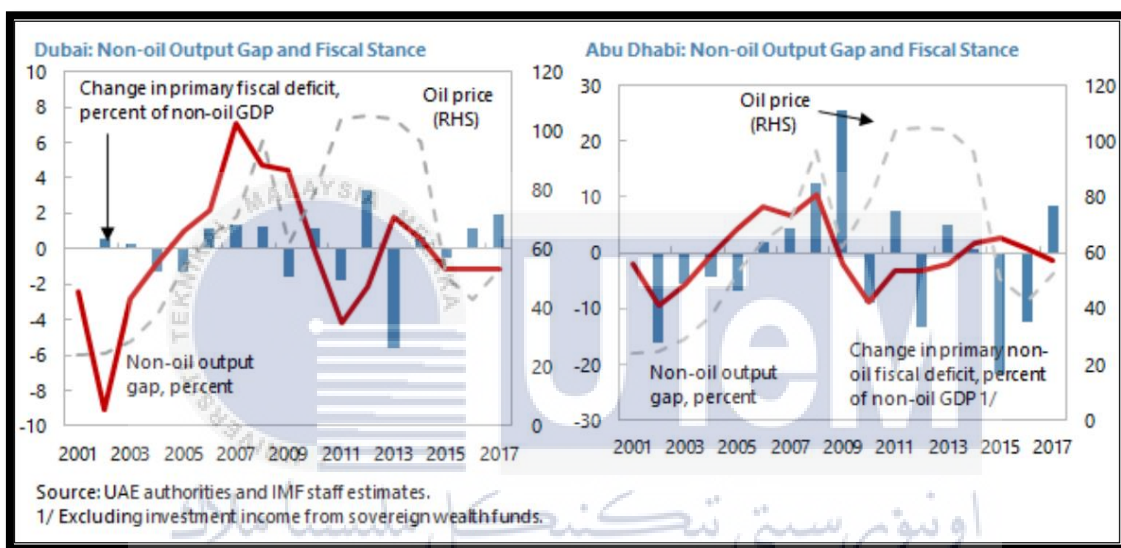


Figure 1.2: UAE Non-oil Output Gap and Fiscal Stance 2014-2017 (Source: IMF, 2019)

This evidence shows that the UAE government investment had negative growth, reaching -26 per cent in 2015. Overall revenue from residential real estates was falling year-on-year up to approximately -20 percent in 2018 (Figure 1.1). Non-oil output was largely unsteady with fiscal deficits recorded on non-oil GDP in both Dubai and Abu Dhabi (Figure 1.2). In response to these figures, the introduction of VAT was in time to support the fiscal deficits and diversify the government revenue sources (Malagila et al., 2020; Ainsworth and Alwohaibi, 2016).

Value Added Tax (VAT) has been defined as an indirect levy charged on the goods and services consumed within a particular economy (Emran and Stiglitz, 2005; Smith, 2019;

Webley et al., 2019). Usually paid to the government by tax revenue agencies, VAT is collected mainly from customers through businesses. VAT has been implemented in both developed and developing economies of the world; these include Canada, Brazil, South Africa, Spain and China, among other nations. The adoption of VAT policy in various countries followed diverse reasons depending on economic status. In developed countries, VAT has been introduced to conform to international agreement requirements of duties and tariffs reduction. In developing economies, VAT policies have often been seen as a strategy of broadening the tax base and increasing government revenue (Ramli et al., 2015; Alkhodre et al., 2019; Webley et al., 2019; Pagiola et al., 2003; Gelardi, 2013).

VAT is implemented in the UAE to generate more revenue (Zafarullah, 2018a; Malagila et al., 2020). An important issue of concern is the compliance of the taxpayers. The original introduction of VAT was projected to take place in two phases; compliance of companies with revenue exceeding Dh 375 thousand took place first, followed by the compliance of companies with revenue between, Dh 187 and Dh 375 thousand (Zafarullah, 2018a). The VAT in UAE was considered generally successful as the initial target was exceeded (Abbas, 2019; Malagila et al., 2020; Mansoor, 2019). However, despite these successes, compliance is not fully overcome and has been considered essential to create a sustainable revenue stream through VAT (Abbas, 2019). With a keen emphasis on SMEs, compliance remains critical as over 90 percent of the 296,000 businesses that registered for VAT in the first year of implementation were SMEs (Gurrib, 2017; Nagraj, 2019).

Ultimately, although the government stands to gain enhanced income from VAT submitted by the SMEs in the UAE, the risk of VAT evasion and corruption is a major challenge observed prior to the implementation of the UAE VAT Policy (Gurrib, 2017). Despite the use of advanced technology systems that permit auto-compliance (Nagraj, 2019), the majority of businesses lack satisfaction with government information provision (Gurrib,

2017). Sensitising all business owners about the components of the VAT law is one of the avenues to create sufficient excitement in the SME sector and lead to positive VAT mannerisms (Zafarullah, 2018a). Nonetheless, the challenge of compliance still remains as business owners may feel that the government is killing innovation in this sector and seek ways of avoidance (Gurrib, 2017).

After the UAE Ministry of Finance hosted a taxation briefing session for advisors, the message became clear to the Arab region regarding the initiation of VAT within the country (Ernst and Young, 2017). Despite voluntary sign-up for businesses that make between Dh 187 and Dh 375 thousand (Zafarullah, 2018a), failure to comply yet attracts heavy penalties from the UAE government. In this regard, it is not only in the interest of the government but SMEs to understand the working of the VAT law to avoid unnecessary penalties.

VAT compliance in the UAE may be argued as an outcome based on a multiplicity of factors. According to Jensen (2018), the new introduction of VAT and its administration will depend on the information available to the public. Thacker (2008) adds that tax calculation is a technical aspect of the business, and SME owners may experience a challenge in remitting the correct amounts and thus attract hefty fines from the government. Others have highlighted the fundamental role of government support, policies, capacity and overall efficiency in the implementation of taxes (Santhariah et al., 2018; Zafarullah, 2018a). Given these multiplicities of factors alongside other characteristics, behavioural and situational elements, compliance remains a key aspect of VAT success and sustainability (Gurrib, 2017).

SMEs, however, have their own characteristics and tax operationalisation or implementation efficacy/barriers that induce compliance or non-compliance. According to Al-Hilu et al. (2016), government taxes often increase the cost of production for companies