

An Analysis of Value-Added Tax (VAT) Awareness and Perception in Bahrain

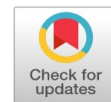
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Abstract: This study aims to explore the consumers' perception and awareness of VAT in the Kingdom of Bahrain. The current study employed a quantitative approach by surveying a number of individuals living in Bahrain. The study found low awareness among the respondents with regard to the implementation of VAT in Bahrain. The results indicated that there is neither a positive nor negative perception towards VAT among the participants. Additionally, significant differences were found among the participants when they are grouped according to the level of education and income for awareness and perception towards VAT in Bahrain. Therefore, the researcher recommended the government of Bahrain and the policy-makers in Bahrain to bring more effort in designing a mechanism of spreading awareness among the individuals in Bahrain.

Keywords: VAT, Consumer's perception, Consumer's awareness, Bahrain

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INTRODUCTION

The Current taxes in the GCC countries are low and their contribution to the government's budget is small. Therefore, these proposed the implementation of the VAT to enhance the revenues of the governments. Recently the VAT issue has attracted the public attention specifically in social aspects due to what has been spread about implementing of VAT by the Kingdom of Bahrain and the GCC countries. This kind of tax is considered a newly imposed tax in the GCC countries which brought up many concerns and arguments by the majority of the people living in the GCC countries, mainly because consumers may not be aware of the concept of this tax and its benefits to the country, society, and individuals.

The VAT is considered a modern tax which has been created in the twentieth century. VAT is also called Goods and Services Tax (GST), which is a tax on the consumption of services and goods by the consumers (KPMG, 2017). VAT or GST is currently implemented in more than 160 countries around the world (Goh, Cham, & Tay, 2017). The Value Added Tax is an indirect tax applied on goods and services, and also on the importation of goods (PWC, 2017). The Value Added Tax is levied at each stage of the company's supply chain. Eventually VAT will be afforded and paid by the end-users, which are the consumers. This Tax is collected by the seller and paid to the Government (PWC, 2017). According to the VAT framework agreement of the GCC countries, this tax will be applied to every business that provides services or sells goods in these countries. Saudi Arabia and UAE have taken steps towards the implementation of this tax in January 2018. But Bahrain announced that it would start this implementation at the end of 2018, at a rate ranging from 3% to 5% (Akhbar-alkhaleej, 2017; Boonvut, 2017).

It is expected that this step will enable the GCC countries to overcome some of their budget deficit and so will raise their growth rate. For example, UAE is expected to raise DH 12 billion from the VAT in 2018, DH18 billion in 2019, and DH 20 billion in 2020 (Salama, 2016).

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But do consumers in Bahrain understand the term VAT? Are they aware of the implementation of this tax? Do they have positive or negative perception towards the implementation of VAT in Bahrain? To answer these questions, this study aims to investigate the consumers' awareness and perception towards the implementation of VAT in Bahrain. This study is expected to enable the government in Bahrain to preempt with the public reaction on the proposed taxation policy as well as the public awareness and perception towards the future implementation of VAT.

Apart from the importance of the current study, it has some limitations that can be overcome by future studies; firstly, the study applied the quantitative approach to explore the respondents awareness and perception towards VAT. Employing a qualitative approach may add more valuable information and results. Secondly, the study was limited to exploring individuals' awareness and perception, exploring companies opinion which may reveal different results. Finally, the current study collected only 100 responses which might affect the generalizability of the current study results.

LITERATURE REVIEW

Bahrain will introduce VAT, which will be effective at the end of 2018. Due to the fact that Bahrain is new to this form of taxation, the value-added tax will have a significant impact on different consumers. In general there are few studies that explore the consumer's awareness and perception towards VAT system in developing and developed countries. In Bahrain, as per the researcher's knowledge and search efforts, there are no studies which investigated the consumer's perception and awareness towards the future implementation of the VAT. This study will fill the gap in the literature by providing an empirical study that investigates consumers' awareness and perception towards VAT in a developing country in general and in Bahrain in particular.

A study conducted by [Saira, Zariyawati, and Yoke-May \(2010\)](#) aimed to investigate the awareness of goods and services tax in Malaysia among consumers who have an Accounting background and those who don't have an Accounting background. The study found that 95% of respondents have knowledge on tax as a major source of revenue. However, 66% of accountants understand the GST, and only 42.31% of the respondents that don't have an accounting background do not understand GST. The majority of respondents had an accounting background and overall idea on the implementation of GST in Malaysia. The researchers' suggested increasing the knowledge of GST among citizens by the government. Additionally, the authors suggested putting more efforts to educate citizens about GST.

[Oladipupo and Izedonmi \(2013\)](#) investigated Nigerian peoples' perception and attitude to the VAT system in Nigeria. The study surveyed 1476 taxpayers grouped into three groups (professionals, general businessmen, and others). The results showed that most of the respondents have poor knowledge of VAT law in Nigeria. Additionally the researcher found no significant difference in the amount of knowledge of VAT law amongst the three groups. Another finding indicated that 78% of respondents did not know the difference between VAT and sales tax paid. The Businessmen responses showed less awareness of goods and services that are under VAT law. Additionally, the study found that the majority of Nigerians are aware that VAT law exists but never understood.

[Kumar and Sarkar \(2016\)](#) conducted research that aims to study the consumer's perception of VAT in India. The researcher surveyed 600 respondents in three zones of Uttar Pradesh. The researchers found that the majority of the consumers at different educational levels pay tax, but they are not much aware of the VAT. The authors recommended the government to reform the tax structure and minimize the tax rate. Moreover, they suggested in providing awareness of VAT to consumers through promoting tax education.

[Amsalu Botonka and Huka \(2017\)](#) conducted a study which aimed to explore the challenges posed by VAT for the administration in Ethiopia. The study focused on the impact of VAT on the common living population in the town in terms of earnings of the government, spending capacity of the people and the effect of the tax administration on the governance. The results of surveying 80 taxpayers indicated that there is a lack of understanding of the implementation of VAT.

[Goh et al. \(2017\)](#) reviewed the literature about the consumer's perception and awareness towards the implementation of GST in Malaysia. The researchers found that most of the Malaysian people have

low awareness and understanding toward GST. Moreover, it has been found that Malaysian consumers do not accept the new tax system because they lack the required knowledge regarding the tax rates and exemption.

Hilary Joseph, Kanakavalli, Joseph, and Kanakavalli (2018) carried out a study in India to evaluate consumer’s awareness on the goods and services tax applied, which in some countries refers to it as the Value added tax. The researchers found that most of the consumers in India are very aware of GST law by 94%.

According to the discussion above, it is important to note that there is no prior study has investigated consumers awareness and perception towards VAT in Bahrain; hence the current study has been undertaken to fill in the gap in the literature. This will enable the researchers in Bahrain to use the current study as a reference for any further studies in the same field.

RESEARCH METHODOLOGY

The current study aims to explore and analyze consumers awareness and perception of VAT in Bahrain. In order to address this aim, the current study employed the quantitative approach by surveying a number of consumers in Bahrain. Most of the previous studies in the same field followed the quantitative approach to investigate and analyze VAT awareness and perception among the tax-payers. Therefore, this study follows the same method (Amsalu Botonka & Huka, 2017; Hilary Joseph et al., 2018; Ketsiri & Pajongwong, 2016; Kumar & Sarkar, 2016; Murugaiyan, Jeyanthi, & Siddharth, 2017; Saira et al., 2010; Oladipupo & Izedonmi, 2013). Accordingly, the study questionnaire was guided by the literature. The survey questionnaire was developed and prepared electronically in English using Google Forms and distributed among 300 expected participants. The study employed the convenience sampling technique since this method is used widely in exploratory studies. However, only 100 questionnaires were collected with a response rate of 33.3%.

The questionnaire is divided into three sections. The first section collects the demographic information of the respondents. Section two of the study’s questionnaire is designed into a 5-point Likert scale to explore the consumers awareness and perception towards VAT in Bahrain. Table 1 shows the scale values and verbal interpretation of each value.

Table 1: Scale Value and Verbal Interpretation

Scale Value	Verbal Interpretation
4.50 – 5.00	Strongly Agree (SA)
3.50 – 4.49	Agree (A)
2.50 – 3.49	Not Sure (N)
1.50 – 2.49	Disagree (D)
1.00 – 1.49	Strongly Disagree (SD)

Source: Data Processing Results, 2017

In the last section the respondents are asked to rank seven suggested awareness ways that can be considered to improve consumers awareness of VAT.

The collected data has been analyzed using descriptive and ANOVA techniques. The descriptive analysis was employed to describe the respondents demographic profile and to explore their perception and awareness towards the implementation of VAT in Bahrain. ANOVA test was utilized to test the impact of the demographic variables on the client’s perception and awareness of VAT. Moreover, Cronbach’s alpha coefficient was used to test the internal consistency of the scales.

FINDINGS AND DISCUSSION

Internal consistency of the study's questionnaire

The researcher investigated the internal consistency of the study questionnaire in order to test the consistency and reliability of the study results, in other words this test will enable the researcher to determine whether responses are homogeneous or not. One of the most accurate measures of internal consistency is (Cronbach's Alpha). However, the Cronbach's Alpha coefficient varies between zero and one, if it is closer to one, the greater the internal consistency and reliability of the results (Hair et al., 2010). The reliability analysis as seen in Table 2 shows Cronbach's alpha coefficient values of Awareness and Perception higher than 0.7. This indicates that the questions provided that aimed to capture those concepts are reliable.

Table 2: Cronbach's Alpha coefficient

Variable	α
Awareness of Consumers towards VAT	0.799
Perception of Consumers towards VAT	0.741

Descriptive Analysis

Analysis of demographic profile

Table 3 shows the demographic profile of the participants. 65 percent of the respondents were women while only 35 percent of respondents were men. Whereas, 35 percent of the respondent belonged to the age group 30 to 40, 30 percent of respondents was less than 30, 22 percent of respondents were above 50, and 13 percent of respondents belonged to the age group 41 to 50. It indicates that middle-age adult had contributed more to the survey.

Table 3: Demographic profile of the respondents

Variable	Frequency	%
Gender		
Male	35	35%
Female	65	65%
Total	100	100%
Age		
Less than 30	30	30%
30-40	35	35%
41-50	13	13%
Above 50	22	22%
Total	100	100%
Income		
Under 500	17	17%
500-1000	40	40%
1001-1500	26	26%
Above 1500	17	17%
Total	100	100%
Education		
high school and under	8	8%
Diploma	7	7%
Bachelor	63	63%
Master	18	18%
PhD	4	4%
Total	100	100%

In terms of the level of Education of the participants, the majority of consumers hold Bachelor Degree (63 percent). Moreover, 40 percent of respondents have a monthly income between BD500 and

BD1000 and 26 percent of respondents income is between BD 1001/- and BD1500/-.

Consumers' Awareness towards the Value-Added Tax

Table 4: Respondents' awareness towards VAT

Item	1	2	3	4	5	*WA	**VI
I am familiar with the term Value Added Tax	16	16	24	18	26	3.22	N
I am aware that the government of Bahrain is going to apply VAT.	7	7	16	24	46	3.95	A
I am aware that Value Added Tax is applied to goods and services.	9	5	27	21	38	3.74	A
I am aware of the fact that I will pay VAT whenever I purchase a product or receive any service.	8	12	20	20	40	3.72	A
I know that some part of my tax amount is paid by the manufacturer, dealers, and after that, they levy the same tax on me.	16	14	26	22	22	3.2	N
I am aware of the VAT rate that will be applied in Bahrain.	18	7	30	11	34	3.36	A
The government provides different kinds of awareness of VAT.	46	16	30	3	5	3.05	N
Overall weighted Average: 3.46							

As seen in Table 4, the overall weighted average of the seven items (consumers awareness towards VAT) is 3.46 with verbal interpretation of Agree. Thus, consumers in Bahrain are aware of the implementation of VAT in Bahrain. However, the average responses of four items of this category have a verbal interpretation of Agree, while three items have a verbal interpretation of Not Sure. The findings indicate that consumers in Bahrain are aware of the implementation of VAT in Bahrain. However, they are not sure if they have the right knowledge of the term Value Added Tax. Moreover, the respondents are not aware of the different kinds of awareness campaigns conducted by the government regarding the implementation of VAT. In contrast the consumers are aware that the government in Bahrain will implement the VAT on goods and services.

The last section of the study's questionnaire suggested seven awareness methods that might improve awareness among consumers towards VAT in Bahrain. The respondents were asked to rank these methods from 1 to 7 according to their importance from the respondent point of view. Accordingly, these suggestions were ranked as seen in Table 5:

Table 5: Suggestions ranked by respondents

Item	Rank
Awareness program to college students.	3
Awareness programs at workplaces.	2
Awareness through social media.	1
Organizing Conferences/Seminars.	4
Awareness through Television and Radio Advertisement.	5
Awareness through News Paper Advertisement.	6
Awareness Programs to School Students.	7

According to the respondents' opinion, item No. 3 namely awareness through social media has been ranked no.1 by the highest number of the study's respondents, followed by item no.2 (Awareness programs at workplaces), Then item no. 1 (Awareness program to College Students) has been ranked no. 3, and then items number 4, 5, 6, and 7 were ranked in the fourth, fifth, sixth, and seventh ranks respectively. Accordingly, it is obvious that the respondents prefer awareness program of VAT through social media. This is not a surprising result since the majority of the study sample are young (below 40) who prefer social media to get any information. The second best way to increase the awareness towards VAT is given to the awareness programs at workplaces. So it is important for every employer to conduct workshops at their workplaces to educate their employees about VAT.

Based on the respondents' opinion, conducting awareness program for college students is also considered important. It is important to spread the knowledge about VAT among college students since these students are part of the country's economic system, therefore educating this part of the society in the early stages will help the government to save a lot of time and cost than making later efforts to create awareness in them. The fourth rank is given to organizing conferences and seminars about Value Added Tax through hosting economists and specialists in the field, also forming an association with the hosts. However, most of the respondents did not give a high rank for awareness through Television and Radio, and newspapers. This is expected since most of the respondents prefer social media.

Consumers perception towards the Value Added Tax

Table 6 Table reveals that the weighted average with respect to the respondent perception towards VAT is 3.1 with a verbal interpretation of Not Sure.

Table 6: Respondents' awareness towards VAT

Item	1	2	3	4	5	*WA	**VI
I know that VAT will increase the retail price of products and services.	7	12	12	17	52	3.95	A
I think that the earnings from VAT are a major source of revenue for any government.	14	10	21	25	30	3.47	N
I think the VAT revenue which is collected from commodities is used for the Kingdom's welfare.	15	15	38	18	14	3.01	N
I accept the implementation of VAT on goods and services.	54	10	23	9	4	1.99	D
Weighted Average: 3.1							

It can be deduced from the result that the consumer's perception of VAT is neither negative nor positive. Although the respondents were aware of VAT's effect on increasing the retail prices of the product and services, they were not sure if the earnings from VAT will be a major source of revenue for any government, and whether the government will use the revenue for the welfare of the public. However, the respondents does not agree with the implementation of Value Added Tax on goods and services in the Kingdom of Bahrain.

ANOVA Analysis

In order to determine the impact of the demographic variables on the consumers awareness and perception towards VAT in Bahrain, the study uses Analysis of Variance (ANOVA) test at 90% confidence level. Therefore, (ANOVA) is used to determine whether there are any significant differences among consumer's awareness and perception towards VAT, when the respondent are grouped according to gender, educational level, and income.

ANOVA results for gender

Gender impact on the participants awareness and perception is reported in Table 7. This shows that males have a higher mean than females for both factors, namely awareness and perception.

Table 7: Summary of ANOVA results when the respondents are grouped according to gender

Respondent's Gender		n	Mean	F Test	
				F -ratio	F sig.
Awareness	Male	35	3.4204	0.684	0.41
	Female	65	3.2659		
Perception	Male	30	3.1929	0.514	0.475
	Female	65	3.0577		

*p > 0.10

However, both males and females have neutral awareness and perception towards the implementa-

tion of VAT, with an average of less than 3.49 for both constructs. But according to the results reported in Table 7, no significant differences were found for both factors.

ANOVA results for age

Table 8 shows the ANOVA test when the respondents are grouped according to Age. As seen in this table, there are no significant differences for both participants awareness and perception towards Value Added Tax in Bahrain.

Table 8: Summary of ANOVA results when the respondents are grouped according to age

Respondent's Age	n	Mean	F Test		
			F -ratio	F sig.	
Awareness	Less than 30	30	3.005	1.789	0.154
	30 to 40	35	3.4531		
	41 to 50	13	3.4835		
	Above 50	22	3.4351		
Perception	Less than 30	30	2.8333	1.539	0.209
	30 to 40	35	3.2929		
	41 to 50	13	3.2308		
	Above 50	22	3.1023		

* $p > 0.10$

However, the respondents belonging to the age group 41 to 50 years scored the highest mean as for the consumer's awareness towards the implementation of Value-added tax in Bahrain. While respondents belonging to age group 30 to 40 years scored the highest mean for consumer's perception towards the implementation of Value Added Tax in Bahrain. But, respondents who are less than 30 years old scored the lowest mean for consumer's awareness and perception towards the implementation of VAT in Bahrain.

ANOVA results for the level of education

Table 9 shows the result of ANOVA test when the respondents are grouped according to the level of Education. At a 0.10 significance level, significant education level differences were found for respondents awareness and perception towards VAT in Bahrain that respondents who have Master degree have better perception ($M = 3.5833$) ($F = 4.225$; $p = .003$) and better awareness ($M = 3.8016$) ($F = 4.855$; $p = .001$) than other groups. The result indicates that there is a significant difference found when the respondents were grouped according to level of Education. Respondent that holds Master's Degree perceives the highest score of mean more than the other levels of education in both consumers' awareness and perception towards the implementation of VAT.

Table 9: Summary of ANOVA results when the respondents are grouped according to the level of education

Respondent's level of education	n	Mean	F Test		
			F-ratio	F sig.	
Awareness	High school and less	8	2.3393	4.855	0.001
	Diploma	7	2.9796		
	Bachelor Degree	63	3.3197		
	Masters	18	3.8016		
	PhD	74	3.7143		
Perception	High school and less	8	2.1563	4.225	0.003
	Diploma	7	3.3571		
	Bachelor Degree	63	3.0516		
	Masters	18	3.5833		
	PhD	74	3.2500		

* $p > 0.10$

ANOVA results for income

Table 10 shows a statistically significant difference when the respondents are grouped according to their income in relation to their awareness, but not for their perception towards the implementation of VAT in Bahrain. As seen in Table 10 below, respondents who have a monthly average income above 1500/- Bahraini Dinars have the highest mean for both factors, namely awareness, and perception towards the implementation of VAT ($M=3.7059$ and $M=3.2941$). This is due to the fact that the majority of the respondents who have high income (Above BD 1,500) are well educated (Bachelor or above)

Table 10: Summary of ANOVA results when the respondents are grouped according to income

Respondent's income	n	Mean	F Test		
			F-ratio	F sig.	
Awareness	Less than 500	17	2.8487	3.501	0.018
	500 to 1000	40	3.225		
	1001 to 1500	26	3.522		
	Above 1500	17	3.70596		
Perception	Less than 500	17	2.6324	2.069	0.109
	500 to 1000	40	3.1500		
	1001 to 1500	26	3.2212		
	Above 1500	17	3.2941		

* $p > 0.10$

CONCLUSION AND RECOMMENDATIONS

According to the study results, it can be concluded that most of the respondents have poor knowledge about the meaning and the purpose of implementing VAT in Bahrain. However, most of the participants know that the government is going to implement this tax in the near future, and this tax is applied to goods and services. The poor knowledge of VAT can be due to the low awareness campaigns conducted by the government to make individuals and companies in Bahrain ready for this new tax. Moreover, the majority of the participants in the current study do not accept the implementation of VAT in Bahrain because they think that this will increase the price of the goods and services, and will not improve the welfare of people in Bahrain. Therefore, they believe that this tax should not be a major source of income for the government. Therefore, it is recommended that the government in Bahrain needs to improve the mechanism of spreading awareness among the individuals in Bahrain. This can be achieved by using social media through posting some advertisements on Facebook, Instagram, and Twitter. This is because social media is the most preferred way to make people more aware of VAT according to the respondents opinion. Moreover, the policy-makers in Bahrain must put forwards more efforts to show the main purpose and rationale of implementing VAT by highlighting the advantages that it will make on the economy. This can be achieved by showing the expected revenue from this type of tax and how it will be used for the benefit of the economy of Bahrain. Moreover, the audit firms in Bahrain must take a major part in spreading awareness among consumers and companies by organizing workshops and seminars to discuss VAT issues in details. According to the study results, it can be concluded that awareness and perception walk side by side that whenever consumers have a high level of awareness towards VAT, the better perception they have towards this type of tax.

It is important to spread the awareness towards VAT among all consumers regardless of their level of education or income since the study results indicated that participants with a lower level of education and income have lower awareness and so less perception. Therefore, the policy-makers in Bahrain must concentrate on this part of the community. This can be achieved by visiting schools, universities, and workplaces to conduct public lectures and workshops to students, and employees. Another effective way to spread awareness among the individuals with low educational level is by incorporating a course about VAT among the curriculums in schools and universities. Making all of these efforts will remove any ambiguity regarding VAT and will make consumers more comfortable in paying this tax.

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