

# The Jungle Of VAT

ALLOW me to put my view on the complicated issue of value added tax as it roused my interest when I saw the letter in your newspaper of October 5, 2001.

It is interesting to note that this topic has come at a time when many people are concerned with the impact the attack on USA is going to have on many businesses and its consequences in spilling over to the consumers. I personally feel that the Ministry of Finance should again look at this tax (VAT) as to me I believe that it will definitely leave people with less income to spend because of high taxes at different stages in the vat process.

If one looks at the way VAT is handled, one feels that the Ministry should reduce the income tax in order for people to cope with the VAT which came

into existence. In your letter not much is given in terms of the whole system of VAT. To me VAT as it stands for value added tax is worse than any other tax system as it tries to cater for each movement within the product movement.

Take milk for example which is subjected to a 15 per cent VAT. The milk might move from Farmer/Producer and sold to Wholesaler, who will sell to Retailer and finally to Consumer.

In each of these stages, value is added (eg in form of transport, warehouse, etc) and VAT is applied at each stage as value is added.

Let's prove it from this example:

Producer: cost (\$10) + profit (20%) + VAT (15%)=\$13.80

Wholesaler: cost (\$13.80) + profit (20%) + VAT (15%)=\$19.04

Retailer: cost (\$19.04) + profit (20%) + VAT (15%)=\$26.28

Consumer: cost=\$26.28

Rather than your view: cost (\$10) + profit (20%) + VAT (15%)=\$13.80.

I used the above calculation because in Namibia

there are few (if not no) products which go directly from the manufacturer to consumer because of either the overheads which might be involved and thereby opting for the indirect method of using the middle person to reach the consumers. These middle people will then create additional taxes as they attempt to change prices because of the costs they have incurred.

Now with general sales tax, the last person in the process is the one to collect or charge this tax and thereby reducing the cost of the product to consumers. Why would the Government opt to introduce a system which is not different from the previous one anyway, if there is no difference between VAT and GST. The other thing is that this VAT is discriminatory as it classifies some products with 30 per cent ignoring the fair principle. Finally I would repeat the request to the ministry to reduce income tax as VAT has proved to me to be a lion in sheepskin.

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