

Acceptance Level of Value Added Tax (VAT) Implementation in Somalia.

Shafie Sharif Mohamed¹, Nasteho Asad Adan², Abdisalamn Fahiyeh³, Sacdiyo Sheikh Baana⁴

^{1,2,3,4}*Somali Researchers Association (SRA)*

¹shafie@sra.so, ²nastehoasad25@sra.so, ³abdisalamfahiyeali@sra.so, ⁴Diitasheikhbaana@sra.so,

DOI: <https://doi.org/10.70806/e84rm848>

Abstract

In August 2024, the Somali government introduced a 5% sales tax, sparking mixed reactions from various segments of society, particularly traders and consumers. Many opposed the tax, citing concerns over its potential negative impact on businesses and the economy. In response, we conducted a study to examine public concerns about the Value Added Tax (VAT) and assess its level of acceptance in Somalia

Purpose: To assess the public acceptance level of VAT implementation in Somalia

Methodology: The research employed a quantitative approach, using questionnaires as the primary data collection tool. The target population consisted of individuals directly affected by VAT, particularly those engaged in business activities. The study initially aimed for 400 respondents, but valid responses were received from 300 participants, resulting in a 75% response rate. A random sampling method was used to ensure fairness and diversity in the sample. Data were analyzed descriptively using SPSS version 27 for Windows to determine frequencies and percentages.

Findings: The findings reveal a significant gap in public awareness regarding the 5% sales tax. Additionally, the study identified a widespread perception that the tax is unaffordable. The belief that taxation disproportionately impacts lower-income groups is also reflected in the study's findings.

Research Limitations: This study focused solely on the level of public acceptance of VAT

implementation in Somalia. Therefore, the findings may not be generalizable to other countries.

Originality/value: To the best of our knowledge, this is the first study sheds light on level of public acceptance of VAT implementation in Somalia.

Key Words: VAT, acceptance, Somalia

Introduction

Taxation is a means by which the government collects revenue from individuals, companies, and other entities to finance state expenditures. It affects all consumers equally, regardless of their income source or economic status. Tax is considered one of the primary sources of government revenue, essential for driving economic growth and achieving financial stability. However, for over three decades, the Somali government has struggled to secure sufficient funding, with 70% of its budget relying on donor funding. To reduce dependency on foreign aid, the government sees VAT as a means to establish a stable and reliable revenue source. However, the introduction of VAT has sparked diverse reactions, arguments, and opinions within society regarding its implementation and impact.

This article looks into the public concerns about VAT implementation in Somalia.

Literature

One of the primary objectives of taxation is to generate revenue for financing government operations and public expenditures. Taxation is also recognized as a crucial tool for promoting national

economic development (Singh, 1995). In Somalia, the introduction of sales tax was established under Law No. 2 of January 7, 1984. According to Mohamud and Jibril (2024), the sales tax was included in the 2024 Budget Appropriation Act, approved by parliament in December 2023, and applies to most goods and services bought and sold for consumption in Somalia.

President Hassan Sheikh and the Ministry of Finance (2024) stated that Somalia aims to increase tax revenue to reduce its dependence on aid from donors and budgetary support from the World Bank, IMF, and other international institutions.

Margaret and Khorana (2011) argue that VAT presents an opportunity to broaden the tax base, allowing the government to generate additional revenue for essential public services, infrastructure, and social programs. However, when governments introduce new taxes, people often react with resistance and reluctance to comply. Mohammad and Husin (2016) found that non-acceptance of VAT was primarily due to unclear implementation purposes and fears of price increases.

Various studies indicate skepticism toward VAT, with concerns centered around its potential to raise the prices of goods and services, adding an extra financial burden on taxpayers. Shaari et al. (2015) and Mohammad (2016) revealed that VAT could disproportionately affect low-income households by increasing the cost of essential goods and services. Alappatt and Shaikh (2014) further noted that VAT could raise the prices of necessities such as food and healthcare, placing a heavier burden on lower-income groups and potentially leading to a regressive impact.

According to statistical analysis of the experiment's data, small companies are more likely to overstate purchases rather than underreport sales in order to lower their VAT liability when the VAT rate rises. An increase in non-compliance results from this. The degree of non-compliance increases with the size of the VAT rate rise. On the other hand, no meaningful connection between tax compliance and a drop in the VAT rate was found (Schoeman, 2021).

The Somali government implemented VAT collection utilizing electronic payments as a tax control instrument. Sharif (2024) found that financial technology has enabled the Somali government to collect taxes with minimum staff, contributing to a reduction in corruption.

According to the literature, VAT generally increases output over the long term, but at the expense of initial output losses. These losses are evident even when a corresponding change in monetary policy is made to accommodate the related increase in price levels.

Social media is one of the best platforms for governments to reach their citizens. A study conducted in Malaysia about VAT and GST (Shaari et al., 2015) found that the majority (90%) of respondents were aware of VAT implementation, primarily through social media, followed by traditional media like newspapers. Sharif (2024) claimed that 9 out of 10 Somali youth have a social media account, while 40% of elders also use social media.

Somalia is considering the implementation of VAT to reduce its reliance on foreign aid and other unpredictable revenue sources, with the hope that VAT will provide a stable and sustainable source of income. This study aims to address the research gap by examining the level of acceptance of Value Added Tax implementation in Somalia.

Methodology

This study focuses on the implementation of Value Added Tax (VAT) in Somalia. Data was collected from 300 individuals, all residing in Mogadishu, Somalia. The reason for choosing Mogadishu is that it is the capital city of the country and the only place where VAT collections are implemented.

Regarding the study sample, respondents were selected through random sampling, and the target was 400 respondents. Although the intended sample size was 400, only 300 responses were received, representing 75% of the planned target.

The study employed a quantitative research approach, and the data collected was analyzed using

SPSS software to ensure accurate and systematic results.

1. Data Collection Methods

The data was gathered using a questionnaire consisting of 15 close-ended questions. Various data collection methods were employed, including:

Online Surveys: Participants were sent the questions via online platforms to gather diverse perspectives from different communities in Mogadishu.

Telephone Follow-Up: Phone calls were used to administer the questionnaire, where participants were called, provided with the questions, and their responses were collected and returned to the researchers.

Direct approach: Participants were approached directly, and the questions were presented without conducting lengthy interviews.

2. Structure of the Questions

The questionnaire was designed to comprehensively capture public opinions on VAT, consisting of a total of 15 questions. Four questions were dedicated to gathering demographic information, such as age, gender, education level, and marital status. The remaining 11 questions focused on key topics related to the impact of VAT. To measure the responses, a Likert Scale with five levels was used, ranging from 1 ("Strongly Disagree") to 5 ("Strongly Agree").

ITEM	STATEMENTS	SD	D	N	A	SA
		1	2	3	4	5

With:

SD: Strongly Disagree

D: Disagree

N: Neutral

A: Agree

SA: Strongly Agree

This structure allowed for a detailed analysis of the public's perceptions and attitudes towards the newly implemented VAT system

3. Study Duration

The study was conducted six months after the introduction of VAT in Somalia. It specifically examined how the public and businesses reacted to this new change, with a focus on Mogadishu, as it is the country's economic, commercial hub and the only city implement VAT collections.

4. Theoretical Framework

This study is based on the Theory of Reasoned Action (TRA), which explains how individual decisions are influenced by two major factors: How an individual perceives VAT (beneficial or harmful) And Subjective Norm: The influence of others and societal expectations on an individual's decisions.

The questionnaire was adapted from a previous study on VAT implementation conducted by Junainah (2002). Appropriate modifications were made to achieve the research objectives. The questionnaire was designed in such a way that the statements were not too long and used simple words to enhance response rate. The questionnaire is divided into two sections; Section A and Section B. Section A covers the demographic profile, including gender, age, and marital status. Section B contains the main research questions. Data analysis was performed after the data collection using SPSS software to interpret the survey results.

Results and Discussion

The data collected was analyzed using descriptive statistics. This was represented in percentages, and tables. The data was analyzed quantitatively.

1. Demographic Profile of the Respondents

This study primarily aims to examine the level of public acceptance of VAT implementation in Somalia. The study was conducted in Mogadishu, Somalia, involving general communities.

2. Gender

Table 1 displays the demographic profile of the respondents, which reveals that male constituted 48.3% (145 respondents) and females 51.7% (155 respondents). Despite equal opportunities to respond, the female respondents outnumbered the male respondents in the overall sample.

Table 1 Gender distribution

		Frequency	Percent
Valid	Male	145	48.3
	Female	155	51.7
	Total	300	100.0

3. Respondents' Age

As indicated in Table 2, when broken down by age group, the largest proportion of participants were youth aged 20–30 (57.7%, 173 respondents), reflecting Somalia's predominantly young population, with over 70% being youth. The 31–40 age group came in second (25.3%, 76 respondents). The age groups of 41–50 years old (13.3%, 40 respondents) and 51–60 years old (3.7%, 11 respondents) were much smaller.

Table 2 Respondents' Age

Respondents' age			
		Frequency	Percent
Valid	20-30	173	57.7
	31-40	76	25.3
	41-50	40	13.3
	51-60	11	3.7
	Total	300	100.0

4. Marital Status

The marital status distribution of the sample shows that the majority of respondents are married, with 156 individuals, accounting for 52% of the total sample. In contrast, single individuals make up 48%, with 144 respondents. This indicates that both groups are well-represented, married individuals slightly outnumber singles.

Table 3 Respondents' marital status

Marital Status			
		Frequency	Percent
Valid	Single	144	48.0
	Married	156	52.0
	Total	300	100.0

5. Level of Education

In terms of educational attainment, 115 respondents (38.3%) had a bachelor degree, while equally 63 respondents (21%) had a Master and secondary certificate respectively. while 56 respondents (18.7%) had no formal education at all, just a tiny percentage held doctoral degrees (1%, 3 replies).

Table 4 Respondents' Education

Level of Education			
		Frequency	Percent
Valid	Informal Educ.	56	18.7
	Secondary	63	21.0
	B. Degree	115	38.3
	Master	63	21.0
	PhD	3	1.0
	Total	300	100.0

Descriptive Findings

After the demographic profile, the next section of the questionnaire contains eleven questions regarding VAT implementation in Somalia.

Respondents' acceptance scores were derived from their responses on a 5-point scale: 1 – Strongly Disagree 2 – Disagree 3 – Neither Disagree nor Agree 4 – Agree 5 – Strongly Agree

The total maximum score could not exceed 55 (11 questions x 5).

1. Existence of 5% VAT

Since a 5% VAT is required on every product or service sold, it is important for the general public to be aware of this tax. The study aimed to investigate whether people are aware of the existence of this 5% VAT. The descriptive statistics (Table 5) for the existence of VAT reveal that social perceptions of the 5% VAT are generally negative, with an overall mean score of 2.43 and a standard deviation of 1.36 (on a 5-point scale), indicating that the majority (75%) of respondents either strongly disagree or disagree that people are aware of the 5% VAT. These findings suggest a significant gap in awareness of VAT's existence, leading to the next question: Has the government conducted enough awareness campaigns on VAT?

Table 5 Existence of VAT

	Mean	Std. Deviation
People know 5% VAT	2.4233	1.36025

2. Campaign for VAT Awareness

Before new taxes are implemented, the government launches a public awareness campaign to convince citizens to pay VAT and show that paying taxes benefits various systems such as education, health, and social security. Respondents were asked whether the government had conducted enough awareness campaigns to convince citizens to pay VAT. The descriptive statistics (see Table 6) for the awareness campaign dimension indicate that respondent perceptions are generally low, with an overall mean score of 1.97. Of the respondents, 73.3% either strongly disagree or disagree, while only 15.3% agree, and 11.4% were neutral. This reflects that a low level of awareness campaigns has been conducted regarding VAT.

Table 6 Awareness Campaign

Item	Mean	Std. Dev.
Awareness campaign has been conducted	1.9700	1.20024

3. Affordability of VAT Charges

Somalia is one of the poorest countries in the world. According to the Poverty Report (2023), a large portion of the population lives below the poverty line, consuming less than \$2.06 per day. However, the Somali government has imposed a 5% VAT. The affordability of VAT charges reflects generally negative perceptions from respondents (see Table 7), with an overall mean score of 2.06. Over 67.7% of respondents strongly disagreed or disagreed that VAT charges are affordable for the population. This indicates that over two-thirds of respondents believe that society cannot afford the 5% tax.

Table 7 VAT affordability

	Mean	Std. Deviation
VAT amount is affordable	2.0667	1.27579

4. VAT will Increase Country's Economy

The Somali government argues that the collection of VAT will increase revenue, enabling the government to boost the economy through development projects. In this regard, respondents were asked about their perceptions of VAT's contribution to the country's economy. The findings for the responsiveness dimension indicate that societal perceptions are mixed, with a mean score of 2.74. Forty-seven percent of respondents strongly disagreed or disagreed. This finding implies that while the government collects sales tax, it is less likely to boost the economy. In other words, it will not perform relatively well in addressing the country's economic problems. Therefore, the government should focus on other means of revenue collection to boost the economy.

Table 8 Country's Economy

	Mean	Std. Deviation
VAT will increase country economy	2.7433	1.43212

5. VAT Contributes to the Public Service

The Government of Somalia argues that the implementation of VAT will make a significant contribution to funding public services. It highlights that, without honest taxpayers, vulnerable communities will not receive free and affordable education and health services. However, respondents believe the government will not invest VAT revenue in public services. Table 9 shows findings with a low mean response rate of 2.28, indicating strong disagreement with the statement. Respondents believe that the government will not allocate VAT revenue to public services such as health and education. This could be one of the main reasons for the non-acceptance of VAT, due to the unclear purpose of its implementation.

Table 9 Public Service Contribution

	Mean	Std. Deviation
VAT will contribute to the public service	2.2833	1.33504

6. Government's Reliance on Foreign Aid.

In 2024, the government budget approved by the parliament exceeded 1 billion dollars. However, donors are expected to contribute up to 70% of the total, while domestic revenue is predicted to account for the remaining 30%. According to the state run TV, the Minister of Finance stated that the implementation of VAT would help the government by contributing additional revenue to offset the budget deficit.

The study findings in Table 10 indicate that societal perceptions are mixed, with an overall mean score of 2.87. A close proportion of respondents agreed or disagreed (41% and 42%, respectively), while 17% were neutral.

Table 10 Reliance on foreign aid

	Mean	Std. Dev.
VAT helps the government to get through foreign aid	2.8712	1.41073

7. Does the government Benefit VAT More than Tax Payers?

The government of Somalia collects tax revenue from individuals and businesses at different levels: federal, state, and local. All levels are required to provide public services. However, critics claim that there are no public services available at low or no cost to citizens, including education, healthcare, and public transportation, and that there is no accountability for the revenue and expenditure. This raises the question: who really benefits when the government collects VAT?

The study, as shown in Table 11, found a mean score of 3.83, indicating that the majority of respondents strongly agreed or agreed that the government benefits more from VAT than taxpayers. This contributes to VAT rejection and non-compliance within society.

Table 11 Benefit of sales tax

	Mean	Std. Deviation
Government benefits sales tax more than the public	3.8300	1.30900

8. VAT Hits the Poor More than Rich

Value-added tax (VAT) is based on consumption rather than income, and lower-income households spend a greater share of their income on consumption than higher-income households do. Countries can generate revenue while minimizing the impact on the poorest households. The study aims to determine whether VAT has a greater impact on the poor than on the rich. Table 13 shows that the highest mean score (4.043) was observed regarding the impact of VAT on the poor community, with 78% of respondents agreeing and only 6% strongly disagreeing, indicating a solid negative impact on poor households.

Table 10 VAT Impact on low income

	Mean	Std. Deviation
The sales tax hits the poor more than the rich	4.0433	1.21369

9. VAT Leads Reduction of Business Transactions

VAT was designed to increase government revenue. In this context, the analysis must also consider the effects of other factors. When VAT is imposed, it often results in price increases, which may lead consumers to buy less. Respondents were asked whether they agree or disagree with this claim. According to Table 14, the study found a mean value of 3.49, with 60% of respondents believing that VAT can lead to a decrease in business transactions, or in other words, reduce sales.

Table 11 Respondents' marital status

	Mean	Std. Deviation
Sales tax can lead to a decrease in transactions	3.4967	1.30729

10. VAT Reduction

VAT compliance has been a hot issue among society, businesses, and politicians. One week, from 18th Aug. 2024 Somalia's biggest market, Bakaro, was closed, some business owners were arrested, and the parliament held discussions. The president also met with business representatives about VAT. Although the government insisted on collecting the 5% VAT, compliance remains very low among business centers, with VAT only being collected in the capital city, Mogadishu. To find a middle ground, respondents were asked, 'If the sales tax were to be reduced, how much would you recommend it be reduced?' A list of options was provided, including 4%, 3%, and 2%. The majority of respondents (40% and 58%, respectively) suggested reducing the tax to 3% and 2%, while only 2% recommended reducing it to 4%.

Discussion

The study reveals low public acceptance of the 5% VAT in Somalia, primarily due to inadequate awareness, perceptions of unaffordability, and skepticism about its economic benefits. Most respondents were unaware of the VAT, indicating insufficient government campaigns. This is consistent with findings by Mohammad and Husin (2016), who argued that poor communication leads to low acceptance. Many perceive VAT as unaffordable, especially for low-income groups, which aligns with Alappatt and Shaikh's (2014) observation of its regressive impact. Additionally, skepticism about the government's use of VAT revenues and its contribution to public services reflects a lack of trust in public institutions, similar to sentiments observed in South Africa (Schoeman, 2021). There is also a widespread belief that VAT benefits the government more than taxpayers, contributing to resistance and concerns about its negative impact on business transactions.

To improve acceptance, the government should enhance awareness campaigns, increase transparency in the utilization of tax revenue, and provide targeted subsidies or exemptions to support vulnerable groups such as hospitals and

necessary food items. Addressing these issues could improve compliance and establish VAT as a sustainable revenue source, reducing Somalia's dependency on international aid

Conclusion

The study highlights a low level of public acceptance of the 5% VAT implementation in Somalia, primarily due to inadequate awareness, perceptions of unaffordability, and skepticism about the government's utilization of tax revenues. Many respondents believe that VAT disproportionately burdens low-income households and favors the government more than taxpayers, reflecting deep-seated mistrust in public institutions. Additionally, the perceived negative impact on business transactions and the economy further hinders acceptance.

To improve public perception and compliance, the Somali government must enhance awareness campaigns, ensure transparency in the utilization of tax revenue, and consider targeted subsidies to protect vulnerable groups. By addressing these issues, VAT can become a more accepted and sustainable source of revenue, helping Somalia reduce its reliance on international aid and strengthen its economic stability.

Reference

- Alappatt, M., & Shaikh, J. M. (2014). Forthcoming procedure of goods and service tax (GST) in Malaysia. *Issues in Business Management and Economics*, 2(12), 210-213.
- Almarri, A.S. (2024), "How the law can ensure the success of value-added tax", *International Journal of Law and Management*, Vol. ahead-of-print No. ahead-of-print.
- Alshira'h, A. (2024), "How can value added tax compliance be incentivized? An experimental examination of trust in government and tax compliance costs", *Journal of Money Laundering Control*, Vol. 27 No. 1, pp. 191-208.
- Alshira'h, A.F., Alshirah, M.H. and Lutfi, A. (2025), "Forensic accounting, socio-economic factors and value added tax evasion in emerging

- economies: evidence from Jordan", *Journal of Financial Reporting and Accounting*, Vol. 23 No. 1, pp. 81-99.
- Mohamud F. & Ibrahim Jibril (2024) Examining Somalia's New Sales Tax <https://somalipublicagenda.org/wp-content/uploads/2024/11/>
- Mohammad Fadzillah, N. S., & Husin, Z. (2016). The acceptance level on GST implementation in Malaysia. *Gading Journal for the Social Sciences*, 1(2), 1-6.
- Richards, G. (1989), Some Macroeconomic Implication of the Value-added tax: Results from an Econometric Model , *Studies in Economics and Finance*, Vol. 12 No. 2, pp. 43-83.
- Shaari, N., Ali, A., & Ismail, N. (2015). Student's awareness and knowledge on the implementation of Goods and Services Tax (GST) in Malaysia. *Procedia Economics and Finance*, 31, 269-279.
- Schoeman, A., Evans, C. and du Preez, H. (2021), "The Effect of Changes in the Value-added Tax Rate on Tax Compliance Behaviour of Small Businesses in South Africa: A Field Experiment", Hasseldine, J. (Ed.) *Advances in Taxation (Advances in Taxation, Vol. 29)*, Emerald Publishing Limited, Leeds, pp. 65-88.
- Sharif, S., Osman, D., Isak, M., & Ahmed, A. (2024). Impact of Social Media on Students' Performance in Secondary School Examination. *Horn of Africa Journal of Social Science*, 2(1), 1-9.
- Sharif, S., & Sharif, A. (2024). The Economic Impact of Fintech Innovation in Somalia. *Horn of Africa Journal of Social Science*, 2(4), 39-59.
- Somali poverty report (2023) [https://nbs.gov.so/wp-content/uploads/2023/12 /Somalia-Poverty - Report-2023.pdf](https://nbs.gov.so/wp-content/uploads/2023/12/Somalia-Poverty-Report-2023.pdf)

Acknowledgements

We would like to express my sincere gratitude to all those who contributed to the success of this study. We are also deeply grateful to the reviewers for their constructive feedback and guidance, which greatly enhanced the quality of the study. A special thanks goes to Somali Researchers Association (SRA) members for their unwavering support, encouragement, and expertise throughout the research process. Without all of your support, this research would not have been possible.