

ST. MARY'S UNIVERSITY

BUSINESS FACULTY

DEPARTMENT OF ACCOUNTING

ASSESSMENT OF CONTRIBUTE VAT TO PUBLIC FINANCE IN ETHIOPIA

By:-

Saba Alemu

Tsehay Alemu

Tirusew Getnet

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Addis Ababa

AN ASSESSMENT OF CONTRIBUTE VAT TO PUBLIC FINANCE IN REVENUE BRANCH OFFICE

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PREPARED BY:-

Saba Alemu

Tsehay Alemu

Tirusew Getnet

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FACULTY OF BUSINESS

DEPARTMENT OF ACCOUNTING

APPROVED BY THE COMMITTEE OF EXAMINERS

Department Head

Signature

Advisor

Signature

Internal Examiner

Signature

External Examiner

Signature

Declaration

We are undersigned, declare that this senior essay/project is our original work prepared under the guidance of Mr. Alula Hailu. All sources of materials used for manuscript have been duly acknowledged.

1. Name _____

Signature_____

2. Name _____

Signature_____

3. Name _____

Signature_____

Place of Submission _____

Date of Submission _____

SUBMISSION APPROVAL SHEET

The senior research paper has been submitted for examination with approval of our advisor.

Name: **Alula Hailu**

Signature: _____

Date: _____

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ACRONYMS

VAT-	Value Added Tax
FIRA-	Federal Inland Revenue Authority
MOFED-	Ministry of Finance and Economic Development
E.C-	Ethiopia Calendar
COMESA-	Common Market for Southern and Eastern Africa
GDP –	Growth Domestic Product
YTD-	Year To Data
SIGTAS-	Standard Integrated Government Tax Administration System It is the computerized method used by the FIRA in collecting and recording VAT
MOR-	Ministry Of Revenue

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Society is conceived of as a natural organism where each individual is considered as part of the organism and the government's place is thought of as the heart. In the same manner a country is an organic whole, it is not like a machine which can be taken apart and put together again. The goals of the society are set by the state or government. Government as described is part of an organ specifically a heart as it is well known that a heart cannot function without the support of blood and in the same instance government needs resources in fulfilling all that expected of it. (Federal Inland Revenue Authority Annual Report 2003).

These recourses cannot come on their own we find them somewhere; one important place for the acquisition of resources is from the society which it serves by protecting. Still the government cannot demand these resources from the society without giving something in return. Instead it shows for it in the development activities that are taking place and the defense of the nation both from internal and external enemy.

So the designing of taxes was established, which show cased the society getting all the benefit while at the same time paying for it. Therefore the concept of serving and protecting gave rise to public finance in which the financing of government operation was through the collection of revenues from the public.

Value add tax (VAT) is a form of sales tax collected by the government of destination state (i.e. state in which final consumer is located) on consumer expenditure. It is collected through business transactions

involving sale of goods within the state. VAT is a tax on consumer expenditure. It is collected on business transactions, imports and acquisition. Most business transactions involve supplies of goods or services (Britannica encyclopedia, 2006)

Value Add Tax was invented by a French economist in 1954. Maurice laure, joint director of the French tax authority, the direction general (des impôts, as taxes sur la valeur ajoutée) (TVA in French) was first to introduce VAT with effect from 10 April 1954 for large businesses, and extended over time to all business sectors.

Personal end Consumers of Products, Consumers and Services cannot recover VAT on purchases, but businesses are able to recover VAT on the materials and services that they buy to make further supplies or services directly or indirectly sold to end users. In this way, the total tax levied at each stage in the economic chain of supply is a constant fraction of the value added by a business to its products, and most of the cost of collecting the tax is borne by business, rather than by the state. (Britannica Encyclopedia, 2006).

Mainly this study will focus on the effect of introduction of vat on public finance.

1.2. Statement of the problem

Value Add Tax (VAT) was invented because very high sales taxes and tariffs encourage cheating and smuggling. It has been criticized on the grounds that it is a regressive tax. The "value added tax" has been criticized as the burden of it relies on personal end-consumers of products and is therefore, as any sales tax based on the consumption of essentials, a regressive tax (the poor pay more, in comparison, than the rich). A value Add TAX, like as any other tax, distorts what would have happened

without it. Because the price for someone rises, the quantity of goods traded decreases. Correspondingly, some people are worse off by more than the government is made better off by tax income. That is, more is lost due to supply and demand shifts than is gained in tax. This is known as a deadweight loss. The income lost by the economy is greater than the government's income the tax is inefficient (Britannica encyclopedia, 2006).

The increase in revenue mainly attributes to the modest increase in both direct and indirect taxes, mainly the foreign trade taxes. As well, national tax revenue as percentage of GDP has increased to 15.1% in 2002/03 from 10.9% in 1993/94. Despite, the series of reforms and increase in revenue, the overall budget deficit with and without grant has been increasing. For example, the overall budget deficit without grants as percent of GDP has increased from -5.2% in 1996/97 to -14.5% in 2002/03 (NBE, 2002/03). As mentioned above, there is a time gap.

Problem at implementation arise from a tax payer's and tax administration and lack of awareness of business enterprise to know about VAT advantages and application of it due to these not ready our self of to register this is the major problem in the country. Even form the registered merchant some are caught of breaking laws and commit tax related crimes. Between 2002/03 to 2011/12 without the study about the effect of introduction of VAT on public finance in Ethiopia. Therefore, the study was attempted to show the effect of introduction of VAT on public finance in Ethiopia from 2008 to 2012/13.

1.3. Research Questions

1. What do you think is the best way to control revenue distortion?
2. What action should be taken to change attitude of tax payers?
3. What problem is occurred in collecting VAT?
4. What is benefit of VAT register?

1.4. Objective of the Study

1.4.1. General Objective

The general objective of the study is to assess the main problem relating to the VAT administration and VAT payers in case of lideta sub city revenue branch office.

1.4.2. Specific objective

The specific objectives of the study are:-

- To identify the control revenue distortion.
- To identify the action taken to change attitude of tax payers.
- To identify the major problems related of VAT collection
- To identify benefit of VAT registered.

1.5. Significance of the study

This particular research is expected to offer the following purposes:-

- ❖ For the researcher it is an opportunity of relating academic knowledge with that of what is practiced with real world.
- ❖ For the administrator give a way it would raise the employees awareness towards VAT and show them the role they have to play.
- ❖ It paves way for other researcher and contribute some to those tax want to make further research and necessary for the identification of the obstacle at the collection of VAT.

1.6. Scope of the Study

The study focused on value added tax administration in Ethiopia. This study was restricted Ledita sub city Revenue branch office. The aim of the study will generally, to assess the main problem relating to VAT

administration and VAT payers in Lideta Sub city Revenue Branch office and the study covered three years 2011-2013.

1.7 Limitation of the study

There are many factors that limit our research. The main limitations of the study are:-

- Time and economic constraints
- Lack of adequate data –source are the remarkable one
- In addition to the above mentioned constraints poor transport access, financial, capacity of the research forced us to narrow our research limit to the Lideta Sub city ERCA branch.

1.8 Research Design and Methodology

The first step of the research project was to formulate a problem statement that describes the objectives, and the research scope. In order to achieve the objective of the study, the researchers have appropriately schemed the research design, population and sampling techniques, data gathering instruments and data analysis and interpretation.

1.8.1 Research Design

In answering the above research question and solve the problems the researchers will use descriptive research design which is selected because of the appropriate technique for the assessment of the role.

1.8.2 Population and Sampling Technique

The research considered the tax officers who are devoted to the day to day activities in ERCA Lideta Branch are selected as population.

From the total population of 226 branch employees we distributed 127 questioners (56.5%) and we collected 25 questioners. From the total population of tax payers who are engaged in various business areas in

Lideta Sub city, the researchers distributed 50 questioners; from the distributed questioners we collected 5(10%) questioners.

The study based on sampling basis. The sample respondents will be selected by non-probable convenient sampling method for tax payers and simple random sampling method for VAT employees (VAT department). Since the taxpayers are diversified the number of tax payers is very large and found in different locations. Due to these it was difficult to generalize the finding.

1.8.3 Data to be collected

- ❖ To conduct the research we used both primary and secondary source to collect the necessary data.
 - **Primary source:** mainly through questionnaires and interview from VAT officers and VAT payers (customers).
 - **Secondary source:** obtained from published and unpublished document like, literature reviews, books and websites which are found to be reliable to the study.

1.8.4 Method of data collection

For collecting the data suitable techniques were used based on the nature of the data.

- Questionnaires used to gather information from the sample population. The questionnaire consists of closed and open –ended questioner distributed to the tax payers and Lideta Branch of ERCA officers.
- Interview is collection of predetermine and structured questions those will be designed to address VAT administration problems and to asses tax payer's attitude.

The questioner and interview prepared to ERCA Ledeta branch employees whereas for tax payers only questionnaires. Moreover, proclamation directives manuals and different document issued by ERCA related to VAT has been used to investigate problem and recommend what thought to be done in the future.

1.8.5 Data Analysis Methods

After we collecting the raw data through questioner and interview the data is categorized, summarized and analyzed. Finally generalization is made based on the analyzed and summarized data to give solution for the research problems by using quantitative approach such as, percentage and table the qualitative sample will be used.

1.8.6 Organization of the paper

The research paper comprises four chapters and, they are organized as follows respectively.

Chapter one: - this chapter introduces the overall parts of the study briefly as well as outlines the background of the study, and it also incorporates statement of the problem, significances, objectives, methodology, data analysis, scope, limitation and structure of the study.

Chapter two:- is the second chapter about the review of related theoretical literature.

Chapter three: contained discussion data that analyzed using tabular forms and findings.

Chapter four: - this is the last part of the study is about conclusions and recommendations. This chapter, summarize the work performed by the researcher findings obtained from the study; and it reveals conclusions of the findings and finally it shows recommendations forwarded based on the findings obtained.

CHAPTER TWO

LITERATURE REVIEW

2.1 HISTORY OF VAT

Emergence and rapid spread of VAT is among the most important tax development of the later 20th c VAT invented in 1954 by a French economist Maurice Laurie who was joint director of the French tax authority. The theory is that the end consumer carries the burden of VAT, not the business, which is merely collecting the VAT on behalf of tax authority. According to international monetary fund report 2004, more than 4 billion, 70% of the world population now live in countries with VAT, raise about 18 trillion in tax revenue, roughly one quarter of all government revenue over 136 (72%) of them have made VAT part of their tax system, and from 53 member of countries of African union 33(60%) of them are introduced VAT (Gebrie, 2008:186-187).

2.1.1 VAT IN ETHIOPIA

VAT is a new tax system introduced in Ethiopia this tax system is not new to other countries. The modern concept of VAT was truly introduced in France in 1954. The concept of VAT was propounded first by American experts by 1920's. But at that time Americans failed to implement it. In Ethiopia, VAT was introduced since January 1/2003 designed to replace the cut dated sales tax which was served for more than four decades, which was collected at manufacturing level. VAT is taken as dispensable components of tax reforms in developing countries such as Ethiopia by considering it a miracle tax to replace direct and indirect taxes entirely. Since 1993 the Ethiopia government has made major economic shift from central planning to market oriented economic system. (Yohanes & Sisay, 2009:186-187).

2.2. VAT Refund

VAT registered person shall get refund if at least 25% of the value of a registered person in a single transaction of substantially all of the asset of a taxable activity provide a notice in writing signed by the transferred is finished with 21 days after the supply taken place is taxed at a zero rate the authority shall refund the amount of VAT applied as a credit in excess of the amount of VAT charged for the accounting period within a period of two months after the registered person files an application for refund accompanied by documentary proof of payment of the excess amounts.

In the case of other registered persons the amount of VAT charged for the accounting period is to be carried forward the next five accounting period is to be carried forward to the next five accounting periods and credited against payment for these period and any unused excess remaining after the end of this five month period shall be refunded by the authority with a period of two months after the registered person files an application for refund accompanied by documentary proof of payment of the excess amounts. Where the tax authority satisfied for refund application in over paid tax the tax authority shall.

- First apply the amount of the excess in reduction of any tax levy interest of penalty payable by the person under the customs proclamation the income tax proclamation and excise tax proclamation.
- The repay any amount remaining to the person amount to be refunded is more than 50 by.

When registered person is entitled to refund and the tax authority is satisfied but does not pay the refund within specified date the authority shall pay the person the refund plus interest set at 25% over and above

the highest commercial lending interest rate that prevailed during the preceding quarter (Gebrie, 2008: 119).

2.3 MEANING OF VALUE ADDED TAX (VAT)

Different authors who wrote about the tax have defined value added tax (VAT). According to Encyclopedia Britannica VAT is "A sales tax designed like other sales taxes to tax private consumption by individual of the goods or services subjected to tax" this definition failed to list out other features that distinguishes VAT from other kinds of taxes. One can understand from this definition VAT is a variety of sales tax and the tax is imposed on consumer. Black law dictionary on its parts provides that "VAT is a tax assessed at each step in the production of a commodity production on cost and its selling price" (Yohanes & Sisay, 2009: 66).

The VAT belongs to the family of sales tax a VAT may be defined as "a tax to be paid by the manufactures or traders of good and service on the basis of value added by them". It is not a tax on the value of the commodity being sold but on the value added to it by the manufacture or trader. They are not liable to pay the tax on the entire value of the commodity. But have to the tax only on the net value added by them in the production or distribution (Parameswaran, 2005:105).

It is broad tax based because it is charge in different stage at production and distribution chain rather than on – time imposition. It also affects sectors, that is, import manufactures whole seller and retailer sector. VAT is family at sale tax sales tax is a tax imposed on a sale of goods or services and computed as a percentages of the total tax collected at multiple stage. VAT is a self-assessed tax since the VAT liability is calculated paid by the tax payers (proc, No 285/2002).

2.4 NATURE OF VAT

VAT is characterized by the following features

- VAT is "general tax or comprehensive" that applies in principle to all commercial activities in valuing the production and distribution of good and provision of services.
- VAT is "consumption tax" because it is levied in sales of good and the provision of service rather than income, capitals or saving.
- VAT is "broad based tax" since the government collects such tax from all sectors that is importer, manufacturing whole sale, and retailer sector.
- VAT is "percentage of price" which means, the actual tax burdens is visible at each stage in the production and distribution chain.
- VAT is collected "fractionally" because each time the item is changes hand in the process of production and distribution the VAT is assessed on the incremental value.
- VAT is "neutral" because regress of how many transactions are involved VAT liability the amount of tax they have paid to other person on purchases for their business activities.
- VAT is indirect tax because VAT is paid total authority by the seller of the goods, who is the taxable person but it is actually paid by the buyers to the seller as part of the price.

The Federal Democratic Republic of Ethiopia (FDRE) has adopted VAT in to be a tax system in 2003. It has been introduced on January 1/2003, replacing the former sale tax system. The VAT proclamation no 285(2002) has been ratified by the house of people representatives six months before VAT implementation.

VAT is introduced in Ethiopia by proclamation (285/2002 replacing sale tax, with the following objective.

- To collect tax on the added value whenever the sale transaction is conducted since the former sale tax system did not allow collection is conducted.
- To minimize the damage that may be caused by attempts to avoid and evade the tax and ascertain the profit obtained by tax payers
- To enhance economic growth and improve the rational relationship between the gross domestic production and gross revenues.
- To enhance saving and investment as it is a consumption tax and doesn't a tax capital.

2.5 REGISTERED FOR VAT

2.5.1 Who has to be registered for VAT?

In Ethiopia, registration for VAT is categorized in to two:-

- obligatory registration
- voluntary registration

❖ OBLIGATORY REGISTRATION

Any person conducting a commercial enterprise or instancing to conduct commercial enterprises or intending to conduct a commercial enterprise may apply to be registered for VAT. However if the taxable turnover of the enterprise, which is gross income for 12 calendar monthly exceeds or is likely to exceeds birr 500,000, the person conducting the enterprise must be register for VAT with FIRA or The Federal Inland Revenue If the turnover is below birr 500,000 of business activity one may apply for voluntary registration (Gebrie, 2008: 201-202).

❖ VOLUNTARY REGISTRATION

A person, who carried on taxable activity and is not required to be register for VAT, may voluntarily apply to the authority for such registration. If

he/she regularly is supplying or rendering at least 75% of his good and services to registered persons (Gebrie, 2008: 202-203).

❖ BENEFIT OF VOLUNTARY REGISTRATION

Input VAT can be recovered if a person is registered. It will therefore be beneficial to voluntarily register where the person makes mainly zero-rated supplies.

The term any person for purposes of VAT registration includes:-

- Sale proprietor, company, incorporated body or unincorporated body, club or association.

A commercial enterprise:- this refers to any business of whatever nature and includes such as:-

- Ordinary business, example, shop, contractors, manufacture wholesaler etc.
- Trades and profession, example builders, engineers, accountants, lawyers etc.
- Activities of non-profit making bodies example societies, association (Gebrie, 2008: 202-203).

2.6. Registration procedure

Application for compulsory as well as voluntary registration must be made on application form called "application for VAT registration" on application for sale and the authority is required to register the person in the VAT register and issue a certificate of registration within 30 days of the registration containing details of.

- The full name and other relevant details of the registered person
- The date of issuance of the certificate
- The data from which the registration takes effect and
- The registered person's tax payer identification number

If registration is disallowed FTRA will have to notify the applicator and the reasons for the refusal. The tax authority may deny the application for voluntary registration if the person:-

- Has no fixed place of residence or business
- Does not keep proper accounting records
- Has no bank account
- Has previously been registered for VAT purposes but failed to perform his duties under the VAT law (Gebrie, 2008: 203).

2.7. Time of application

A person who carries on taxable activity and is not registered is required to file an application for VAT registration it shall fill an application for registration on later than the last day of the month after the end of the period if:-

1. At the end of any period of 12 calendar months the person made during that period, taxable transactions with a total value exceeding 500,000.00 birr or the last day of the month of the period if taxable transactions with a total value exceeding 500,000.00 birr.
2. At the beginning of any period of 12 calendar months when there is reasonable ground to expect that the total value of taxable transactions to be made by the person during that period will exceed 500,000 birr (Gebrie, 2008: 203).

2.8. Time of Registration

Registration takes place on one of the following dates depending up on which date comes first.

- In case of obligatory registration on the first day of the accounting period following the month in which the obligation to apply for registration arose.
- In case of voluntary registration on the first day of the accounting period following the month in which the person applied for registration or,
- On the date selected by the registered person on his application for a registration person who conducts taxable activity in a branch or division shall be registered only in the name of the registered person to register one or more of its branches or divisions as separate registered person. The tax authority allows when it's satisfied on such case that divisions or branches maintains and independent accounting system and can be identified by the nature of its activities or location (Gebrie, 2008: 204).

2.9. Cancellation of registration

VAT registered person can apply for cancellation of registration

- If tax payer ceased to make taxable transactions.
- At any time after a period of 3 years of the date of his most recent registration for VAT if the registration persons total taxable transactions in the period of 12 months then beginning reasonable are expected to be not more than 500,000.00 birr.

The cancellation of VAT registration takes effect

- At the time the registration person ceased to make taxable translation for example, if one close down or sell his business. However, if one has more than one business and is not closing down

or selling them all he may not be able to cancel it will depend on the level of taxable turn of remaining businesses.

- If the registered person has not ceased to do so at the end of the accounting period during which the person applies to the authority for cancellation of VAT registration.

When registered of VAT is cancelled, the authority is required to remove the person's name and all other details from the VAT register and the person is required to return back the issued certificate of registration. VAT registered person cannot charge VAT or issue tax invoices for any supplies made and cannot claim are fund of VAT incurred on any goods or services purchased from the date of the registration is cancelled(Gebrie,2008: 209).

TYPES OR KINDS OF VAT

The VAT can be determined in different forms. It may way depend up on the form of tax base. The forms may differ on the items to be included in the tax base.

The common type of VAT is given below:-

- A. Consumption VAT: in the type of VAT the firm is allowed to deduct from gross value of its product not only the non- capital input purchased from other firm but also the capital equipment purchased.
- B. Production VAT: in the production type VAT the value of the input purchased by the firm from other firms is not dedicated in full only the value of non-capital purchases in dedicated.
- C. Income type:- according to this form the firm is allowed to deduct the depreciation the capital goods (during the years) a part of the

full value of its non capita purchase. Here, firms cannot deduct the entire value of its capital goods purchased during the year but they can deduct the respective amount of depreciation attributable to that year (Parameswaran, 2005: 106).

2.10 VAT ADMINISTRATION

The VAT replaced the current sales tax on manufactured and imported goods and service on January 1/2003. The responsibility for the correct calculation and timely payments of VAT rests on the Tax payers himself. The VAT is a broad based tax on the consumption of goods and service. It is collected at all the stages in the production and distribution process beginning with the importers and producers of raw materials and ending with retailers cascading of the tax (i.e. tax on tax is avoided by providing for a credit for the tax paid at the preceding level unlike the sales tax system , where by relief is granted only to raw materials used directly in the production of goods under a VAT relief is granted for tax paid on capital goods, distribution and administration inputs . Sales of exported goods are not subject to the VAT.

Removing the tax content (on input) from exported goods makes the goods more competitive in international markets. VAT is a tax on consumer expenditure. It is collected on business transaction and imports. Most business transaction involve supplies of goods or service and VAT is payable if they are supplies made in Ethiopia, made by a taxable person, made in the course of furtherance of a business are not specifically exempted of zero – rated (Gebrie, 2008: 190-191).

2.11. Advantage and disadvantage of VAT

2.11.1. Advantage of VAT

The following are some of the advantages of VAT

A. It avoids cascading effect of tax (tax on tax)

VAT works on the principle of that when the raw material passes through various manufacturing stages and manufactured products through various distribution stages, tax should be levied on the incremental value at each stage and not on the gross sale price. This insures that some commodity does not get taxed again and again, and this there is no cascading effect. Putting the concept in simple terms, in VAT system, each input is taxed only once (Misrak, 2008: 310).

B. It is major comprehensive and equitable tax system

Even though the ultimate burden of VAT full on the final customer, VAT is collected by the government from all sectors that is from import manufacturing, whole sale and retail sectors. Therefore, it is a more compressive and equitable taxes system. On the contrary, sales tax is normally levied at one stage of whole marketing (Misrak, 2008: 310).

C. It reduces the possibility of the tax erosion

In the case of VAT the taxes are divided into several parts depending on the number of stage of production and sales. In each stage every transaction is made using VAT invoice approved by tax authority. In addition each VAT registered person (supplier) has to maintain appropriate records on their sale and purchase transaction. Those obligations make tax evasion difficult (Misrak, 2008: 310).

D. It has less tax burden

Under VAT system, the tax is collected in small fragments at different stages of production and sale. Hence, the VAT payers feel the burden of the less (Misrak, 2008: 310).

E. It is neutral

Regardless of the number of stages of production and distribution, VAT is collected in each stage, therefore; VAT is expected to be perfectly neutral in the location of resources in the form of production and commercialization (Misrak, 2008: 310).

F. It improves productivity

In VAT system, a firm has to pay tax even though it goes into loss. The firm cannot claim any exception for loss because it pays taxes on the value produced and not on profits. So, firms will always try to improve their performance and reduce the cost of production. As a result, the overall productivity of the country will be improved.

(Misrak, 2008: 310).

G. It promotes capital investment and saving

VAT is a consumption tax since one pays VAT on its expenditure and has the option to opt out so as not to be taxed. Furthermore, relief from tax on capital goods may encourage investment. Potential investors also consider tax legislation as one of the factors in making investment decision (Misrak, 2008: 311).

H. It enhances exports

Exports of goods and services in most countries that implement VAT are liable to VAT. At zero rates this may make exports internationally competitive and thus encourage exports (Misrak, 2008: 311).

2.11.2 Disadvantage of VAT

The following are some of the main disadvantages of VAT

A. It is regressive in nature

A straight forward single rate VAT with few exemptions would tax lower income groups (the poor) more heavily than the higher income groups (the rich). It is thus incongruent with the basic.

Principles of taxation which states that reason should be taxed according to his ability to pay. This makes VAT regressive tax system. In order to compensate for its regressive effect a number of countries have exempted basic goods particularly food items from VAT (Misrak, 2008: 311).

B. It requires advanced economic structure:-

The proper implementation of VAT system requires organization and advanced financial and economic structure as it is a complicated system. VAT system also requires proper record keeping of invoice at each stage of production and sale by both the seller and buyer. Hence, it becomes difficult to implement the system in all types of economy (Misrak, 2008: 312).

C. It puts additional burden on tax authority:-

In VAT system, the manufacturers, wholesalers and retailers have to fulfill various legal formalities in the form of manufacturers' various records, accounts, books, etc. The verification of those formalities puts an additional burden on the enforcing authorities (Misrak, 2008: 312).

D. It is uneconomical:-

VAT system involves high cost of administration, assessment, verification, collection, etc. Hence, it is highly uneconomical (Misrak, 2008: 312).

E. It has reams loopholes for tax evasion:-

Although VAT system requires proper record keeping of invoices at each stage of production and distribution by both the buyer and seller, it has ream loopholes for tax evasion. This may include the following:-

- Tax payers could over report sales of zero rated goods.
- Tax payers could use invoices they received for personal purchase to claim tax credits.
- It enables buyers and sellers to strike secret deals with regards the issuance of receipts.
- It could lead to the formulation of forged ponies' recipients to claim tax credit on input VAT, etc (Misrak, 2008: 312).

CHAPTER THREE

3. Presentation, Analysis and Interpretation of Data

3.1. Characteristics of the study population

This section focuses on interpretation and analysis of data collected from primary and secondary sources. The primary data were collected through the use of questionnaires for 25 respondents that work in Ledta sub city revenue branch office and interview to top level management of tax administer and five (5) questioners for merchants. The questionnaires are distributed based on simple random sampling technique. The collected data has been edited and complied and the results are presented using both qualitative and quantitative data analysis method. First the data are collected through questionnaires and interview and then analyzed by using tables.

3.2. Analysis of the findings of the study

The Questionnaires were prepared and distributed for 5 questioners for merchants. Therefore, these analyses are interpreted based on 25 respondents of the survey as follows

Table 3.1 Gender distribution respondents of employee

No	Description	No of respondents	Percentage
1.	Sex		
	Male	15	60
	Female	10	40
	Total	25	100

Source, survey Result, 2014

As indicated in the above table, 15(60%) of the respondents are males and the remaining 10(40%) are females. From this the greater numbers of our employee respondents are males as compare with females.

Table 3.2 The Age of respondents

No	Description	No of respondents	Percentage
2.	Age of respondents		
	18-24	10	40
	25-30	6	24
	30-35	4	16
	Above 35	5	20
Total		25	100

Source, survey Results 2014

As can be seen above from the table,10(40 %) of the respondents ages are found between 18-24, 6(24%) of respondents are between 25-30, 5(20%) of them are found above 35, and the remaining 4(16%) are between30-35 age. This shows that from our respondents the greater number of their age is found between 18-24.

Table 3.3 Educational level of respondents

No	Description	No of respondents	Percentage
3.	What is your educational level?		
	Elementary and juniors complete	-	-
	Certificate	-	-
	High school complete	-	-
	1 st degree	18	72
	Above degree	7	28
Total		25	100

Source, survey Results, 2014

Table 3.3 shows the educational levels of the revenue bureau employee of the branch office. As the above table, show, 18(72 %) of the respondents are degree holders and the remaining 7(28 %) are above degree. Besides these degree holders is greater than the above status employees. And this is important to give awareness to public and more understandable about VAT.

Table 3.4 Year of service in the bureaus and year of experience of employee

No	Description	No of respondents	Percentage
4.	How long a year of experience?		
	A. Less than a year	-	-
	A. a year	5	20
	C. above 2 year	11	44
	D. 1-2 year	9	36
Total		25	100
5.	How long have you been with branch office of the revenue bureau?		
	A. a year	10	40
	B. 2-4 year	11	44
	C. 4 year	2	8
	D. above four year	2	8
Total		25	100

Source, survey result 2014

As indicated in the above table, the employee year of service on their profession and their year of service in the branch office, a,5(20%) of employee have a year experience, 11(44%) of employee have above two year and the remaining 9(36%) of the employee have one up to two year of the experience. The above results shows that the bureaus have experience workers and that greater number of the year of experience are above two year. As their experience increases, their performance to give services also increases.

This may have a positive impact on the branch office. When we come to the second question 10(40%) of the employee give service in the branch office for one year, 11(44%) of them for 2-4 years, 2(8%) for 4years, and the remaining 2(8%) are above four year service in the branch office. That shows a long time period of a most employee stay with the branch office 2-4 year.

Table 3.5 shows a response of how you evaluate implementation of VAT in our Administration.

No	Description	No of respondents	Percentage
6.	How do you evaluate implementation of VAT in your administration?		
	A. Excellent	5	20
	B. Very good	11	44
	C. Good	9	36
	D. Fair	-	-
	E. Bad	-	-
Total		25	100

Source, survey Result, 2014

From the above table 5(20%) of the respondents are said the implementation of VAT in our administration is Excellent, 11(44%) of them say Very good and the remaining 9(36%) of them are said well. Because the number of customers increase from year to year.

Most of the responder responses the implementation of VAT practice in our administration is good

Table 3.6 A problem related to VAT application that have experienced by employer

No	Description	No of respondents	Percentage
7.	What are the major problems you have experienced to VAT application?		
	A. unwillingness of tax payers	3	12
	B. Fraud of tax collectors	4	16
	C. lack of awareness about VAT	12	48
	D. others	6	24
Total		25	100

Source, survey result 2014

The above table indicated that 3(12%) of the respondents response the major problem related to VAT application are unwillingness of tax payers, 4(16%) are fraud of tax collectors, 12(48%) of them are said lack of awareness about VAT, and the remaining 6(24%) are all of the above advised for these question. These show that the major problem of VAT application practice is the lack of awareness of tax payers about VAT.

Table 3.7 Feeling of VAT registered evaluated by employer

No	Description	No of respondents	Percentage
8.	How do you evaluate a feeling of VAT registered while they register for VAT?		
	A. VAT is an obligation	9	36
	B. VAT is debt	5	20
	C. VAT is useful	8	32
	D. VAT is bad	3	12
	E. others	-	-
Total		25	100

Source, survey Result, 2014

As shown above 9(36%) of the employer response for the question raised VAT is an obligation, 5(20%) of them are VAT is debt, 8(32%) of them said VAT is useful, and the remaining 3(12%) are responses VAT is bad. Therefore most of the feeling of VAT registered towards VAT is an obligation and useful respectively. It increased the governmental revenue.

Table 3.8 Shows a problem exist while collecting VAT?

No	Description	No of respondents	Percentage
9.	What are problem you have faced while collecting VAT?		
	A. Most of tax payers not pay a required amount on time	12	48
	B. All of tax payers not pay a required amount on time	4	16
	C. Less of tax payers not pay a required amount on time	5	20
	D. Least of tax payers not pay a required amount time	4	16
Total		25	100

Source: survey result, 2014

This table indicate that the employee response for a problem in they have faced while collecting VAT are as follows 5(20%) are most of tax payers not pay a required amount on time, 4(16%) are all of tax payers not pay a required amount on time, 12(48%) are response less of tax payers not pay a required amount on time, and the remaining 4(16%) are said least of tax payers not pay a required amount on time, so the results are a highest problem faced while collecting VAT is less of tax payers not pay a required amount on time.

Table 3.9 Shows the awareness of tax payers about VAT

No	Description	No of respondents	Percentage
10.	How do you evaluate the awareness of tax payers about VAT?		
	A. very high	2	8
	B. high	8	32
	C. low	12	48
	D. very low	3	12
TOTAL		25	100

Source: survey Result, 2014

From the above table the awareness of tax payers about VAT answered as follows by respondents 2(8%) are very high, 8(32%) are high, 12 (48%)low, and the remaining 3(12%) are very low. The results shows that the awareness of tax payers about VAT are low because there are no more aware people about tax due to the most number of tax payers are unskilled persons and a VAT registered paying VAT is not amore percent in our country even paying VAT is not a recent phenomenon in our country.

Table 3.10 the response of advantageous one from VAT more

No	Description	No of respondents	Percentage
11.	Who benefited from VAT more?		
	A. Tax payers	4	16
	B. Government	5	20
	C. Citizens of the country	16	64
Total		25	100

Source: survey result, 2014

As depicted in the above table 4(16%) of the respondents said the more benefited from VAT are tax payers, 5(20%) of the employee said a government, and the remaining 16(64%) are responses a citizens of the country. These result shows that the more benefited from VAT are citizens of the country. Since the VAT is collected from who gets much revenue it brings a good methodology and contribution of economy and it increase the investment opportunity and so on.

Table 3.11 Gender distribution respondents of merchant

No	Description	No of respondents	Percentage
12.	Sex		
	Male	3	60
	Female	2	40
	Total	5	100

Source, survey Result, 2014

As indicated in the above table, 3(60%) of the respondents are males and the remaining 2(40%) are females. From this the greater numbers of our respondents are males as compare with females.

Table 3.12 The Age of respondents of merchant.

No	Description	No of respondents	Percentage
13.	Age of respondents		
	18-24	-	-
	25-30	3	60
	30-35	1	20
	Above 35	1	20
	Total	5	100

Source, survey Results 2014

As can be seen above from the table, 3(60%) of the respondents ages are found between 25-30, 1(20%) of respondents are between 30-35, and the remaining 1(20%) are above 35 age. This shows that from our respondents the greater number of their age is found between 25-30.

Table 3.13 Educational level of respondents of merchant.

No	Description	No of respondents	Percentage
14.	What is your educational level?		
	Elementary and juniors complete	1	20
	Certificate	1	20
	High school complete	-	-
	1 st degree	2	40
	Above degree	1	20
Total		5	100

Source, survey Results, 2014

Table 3.13 shows the educational levels of the merchants of the sub city. As the above table, show, 1(20%) of respondents have an educational level of elementary, 1(20%) of the respondents have certificate, 2(40%) of the respondents are degree holders and the remaining 1(20%) are above degree. Besides these degree holders is greater than the above status of merchants and this is important to public and more understandable about VAT.

Table 3.14 Legal status of the business

No	Description	No of respondents	Percentage
15.	Status of the business		
	A. Share Company	1	20
	B. Limited partnership	-	-
	C. Private limited company	3	60
	D. Sole proprietor ship	1	20
	E. Joint venture	-	-
Total		5	100

Source: Survey result, 2014

According to the above table (Table 3.12) the legal status of tax payers are the following 1(20%) of the respondents have share company, 3(60%) of them are private limited company and the remaining of 1(20%) are sole proprietor ship. Therefore the highest levels legal status is private limited company.

Table 3.15 The area of business activity are engaged

No	Description	No of respondents	Percentage
16.	Business activity engaged		
	A. Whole seller	-	-
	B. Services	3	60
	C. Retailer	2	40
Total		5	100

Source: survey result, 2014

As in the above table3.11 of the respondents said, 3(60%) of the merchants are services giving, and the remaining 2(40%) are responses a retailers. These result shows that the more respondents are gives service.

Table 3.16 Show the type of sales recording method

No	Description	No of respondents	Percentage
17.	Sales recording mechanism do you use		
	A. VAT invoice	1	20
	B. Sales Machine	4	80
	C. Both	-	
Total		5	100

Source: Survey result, 2014

As indicate in the above table, 4(80%) of the respondents use sales machine and the remaining 1(20%) use VAT invoice. From this greater numbers of our respondents use sales machine as compare to that of VAT invoice.

Table 3.17 shows a response of what are the basic problems of VAT administration system in Ethiopia.

No	Description	No of respondents	Percentage
18.	Basic problems of VAT administration		
	A. shortage of awareness	3	60
	B. less number of employees	-	
	C. Employees don't have enough knowledge about VAT	-	
	D. Cost of collection is not proportional to collect the amount	1	20
	E. Bothe less not of employees and lack of knowledge about VAT	1	20
	F. All are Problem	-	-
Total		5	100

Source: Survey result 2014.

From the above table show the basic problem of the merchants, 3(60%) said shortage of awareness, 1(20%) said cost of collection is not proportional, and the remaining 1(20%) of them says lack of employees knowledge about VAT. From this the greater number of our respondents said that there is a shortage of awareness about VAT administration system.

Table 3.18 Declare timely and honestly

No	Description	No of respondents	Percentage
19.	Timely and honestly declare you tax liabilities		
	A. yes	4	80
	B. No	1	20
Total		5	100

Source: Survey result, 2014

The above table shows may have a positive impact on the merchants, 4(80%) of the merchants says yes, and the remaining, 1(20%) of them are says no. These shows the greater numbers of respondents are honestly declare the liability on timely.

Table 3.19 Show the cause of illegal acts

No	Description	No of respondents	Percentage
20.	Tax payers illegal acts		
	A. Higher rate of taxation	2	40
	B. complexity of tax	1	20
	C. Lack of experience	2	40
Total		5	100

Source: Survey result, 2014

As refer from the above table the cause of illegal acts answered as follows by respondents 2(40%) are higher rate of taxation, 1(20%) are complexity of tax, and the remaining 2(40%) lack of experience. Majority of respondents said that one of the illegal acts in a tax payer is high rate of taxation.

Table 3.20 Show the evaluation of the revenue office services by the merchants.

No	Description	No of respondents	Percentage
21.	The revenue office service evaluation		
	A. Excellent	1	20
	B. Very good	1	20
	C. Good	2	40
	D. Bad	-	-
	E. Worst	1	20
Total		5	100

Source: Survey result, 2014

According to the above table (Table 3.18) the evaluation of tax payers by merchants are the following 1(20%) of the respondents are says excellent, 1(20%) of them are says very good, 2(40%) says good and the remaining of 1(20%) are worst.

❖ Fiscal Policy and Public Finance Performance

The fiscal policy pursued in 2010/11 and 2011/12 focused on increasing tax revenue by effectively administering existing tax policies, and on increasing budgetary expenditures on capital investments and pro-poor sectors. The objective of the fiscal policy pursued was to enhance the capacity of tax revenue to finance the country's expenditure needs, and ensure a stable macroeconomic environment by maintaining the budget deficit at less than 2 percent. During the first two years of the GTP period, encouraging progress has been made in increasing tax revenue, maintaining a prudent fiscal stance and spending an increasing amount of government budget on capital investment and pro-poor and growth enhancing sectors.

Total Government Revenue

Total government revenue including grants was Birr 85.6 billion in 2010/11. It then increased to Birr 115.7 billion in 2011/12. The total government revenue of 2011/12 is 19.3 percent higher than the GTP target for the fiscal year, and 35.1 percent higher compared to the total government revenue of 2010/11.

Tax Revenue

In 2010/11 and 2011/12, tax revenue collected amounted to birr 59 billion and birr 85.7 billion, respectively. Tax revenue collected in 2011/12 is higher than its planned target by about 35 percent, while it is higher than the performance in the preceding year by over 45 percent. The 2011/12 tax revenue is in fact double the amount collected in 2009/10, which was only 43.3 billion birr. The primary factors for the improvement in tax revenue are the deepening of effective administration of the tax system and the education and engagement of the tax payer's community. The tax revenue as a percentage of GDP has been 11.7 in 2010/11 and

11.6 percent in 2011/12. These figures indicate that even though nominal tax revenue has been increasing rapidly, the growth rate is not commensurate with the rapid expansion of the size of the economy. The tax to GDP ratio of Ethiopia is also lower than the Sub-Saharan Africa average of 17 percent of GDP. In order to attain the GTP target of 15-17 percent by 2014/15, it clearly requires strengthening the tax administration system, further intensifying tax education and public engagement.

Source: Ministry of Finance and Economic Development, 2013

The major VAT assessment problem are the tax payers does not have good awareness about advantage of VAT, less of tax payer not paid the required amount on time, lack of an awareness of tax payer, low attitude of tax payers and involuntary of to pay, and the tax payers not perform accurately what they sold by supported document such as sales receipt and not use invoice collecting.

CHAPTER FOUR

Summary, Conclusion and Recommendation

This chapter presents summary, Conclusions and Recommendations based on the data results and discussion in the previous section of the study. The main objective of this study was to assess the contribute of VAT to public finance in Ethiopian Lideta sub city revenue branch office.

4.1 Summary

Accordingly the major findings of the study are summarized as follow:

- The majority of the employee of revenue branch office staff 15(60%) are male rather than female and more educated staff. When we see the merchant also the percentage is the same as the employee and more educated means 1st degree 2(40%).
- Based on the discussion with the employee the distortion of revenue can be managed properly if the merchant and the buyers make faithful at the time of exchange.
- The tax Payers 3(60%) reacts they have not got any awareness about VAT or shortage of awareness. The same as the taxpayers, the employees 12 (48%) agree the action taken to change the attitude of tax payers is low. Being not well aware by itself create a chance for the merchant to cheat the tax.

- Majority employees 12 (48%) are replied the problem of collecting VAT is the tax payers are not show willingness to pay a required amount on time.

- VAT registration offer a number of benefits to citizens, government & tax payers of the country. It improves investment made with in the country and it covered to expenditure of the government.

4.2 Conclusion

In the earlier chapter we tried to define what VAT is, how, when is applied and how it can bring significant change in nations economy. the result from the analysis, it is explained that if VAT is properly applied, it is very crucial instrument in the nation's economy building, unfortunately for VAT to become effective it has to involve all the members of the society that is the government as well as the tax payers.

All citizens are assumed to be tax payers, even though they don't have enough understanding. Being not well aware by itself create a chance for the merchant to cheat the tax. And the governments create awareness about the important and significance of paying tax for the development of the country.

VAT Registration is not equally distributed among the merchants this in turn creates unfair market competition, in addition the end user is forced to pay VAT more than once for a single item (indirectly pays more than 15% of the price).

The benefit of VAT registered is generally important for the taxpayers, government and citizens of the country. In general if the government successfully implements the new tax system and if it is free to take into consideration the criticism of the VAT payers and try to overcome all the problems raised in the implementation process. In the future the government can even finance above average all its expenditure from the fund inside the country which directly reduces the public debt and improve investment made within the country. VAT makes all citizens specially those who have high income and pays low tax, to contribute more for the nations revenue.

4.3 Recommendation

In order to implement the VAT successfully and generate more tax revenue in the future, we recommend the following points;

- ❖ FIRA has to conduct extensive seminars and workshops to tax payers to improve their awareness regarding VAT on a regular basis through TV and radio programs on a weekly basis. In addition, it has to use some other methods to aware the public such as giving education on public meeting conducted for some other purposes, distributing brochures and the likes.
- ❖ Conducting an advisory visit on the tax payer's premises to check how tax payers are applying it, this helps to reduce the problem of implementation.
- ❖ It has to staff adequately in terms of qualifications and number of employees. It also needs to give continuous training to its employees to improve their efficiency.
- ❖ FIRA has to make additional assessment on those tax payers who failed to comply with tax rules and regulations since there is high tax avoidance.
- ❖ Tax payers shall know that the payment of tax by them will benefit the country development and will be used for provision of social benefits to the public as a whole. As a result, they will be benefited directly or indirectly.

- ❖ In order to sustain in the market, tax payers should avoid the improper computation of VAT that results in price increase.

- ❖ In general for successful implementation of VAT, FIRA should make the public aware and build its capacity to performance its duties and responsibilities effectively and efficiently.

QUESTIONNAIRE FOR EMPLOYEES
ST. MARY'S UNIVERSITY
DEPARTMENT OF ACCOUNTING

Objective dear respondents this is a questionnaires intended to obtain relevant information on VAT administration in Ethiopia which is use for academic purpose. the finding of study greatly depend on your cooperation for which are grateful in advance to achieve this you are kindly requested to corporate giving response for following question , please tick (✓) on the box your choice and fill the blank space.

1. Sex: - male female
2. Age 18-24 25-30 30-35 >35
3. Education status:-
Elementary and junior complete high school complete
Certificate 1st degree above degree
4. Work experience: - less than a year 1 year
Above 2 year 1-2 year
5. How do you evaluate implementation of VAT in your administration?
Very good good fair
Bad worst
Others, please specify _____
6. What are the major problems you have experienced related to VAT application?
Unwillingness of tax payers Fraud off tax collectors
Lack of awareness about VAT
If others, specify _____
7. How do you evaluate VAT registered parties feeling while they registered for VAT?
VAT is an obligation VAT is debt
VAT is useful VAT is bad
Other, please specify _____

8. What are problem you have faced while collecting VAT?

- Most of tax payers not pay a required amount on time
- All of tax payers not pay a required amount on time
- Less of tax payers not pay a required amount on time
- Least of tax payers not pay a required amount on time

Others, specify _____

9. How do you evaluate the awareness of tax payers about VAT?

Very high high low very low

If your answer low specify _____

10. How do you judge the awareness of tax payers in your Branch?

- They have good awareness
- They have very good awareness
- They have less awareness
- They have poor awareness

If out these, specify _____

11. If your answer is poor, specify

12. If your answer is very high, specify

13. What are the attitudes of tax payers to Vat?

Very good fair satisfactory bad worst

Other, specify _____

14. Who benefited from VAT more?

Tax payer's government citizens of the country

If say tax payers, specify _____

15. In your opinion what are the major Vat assessment problem?

Please specify _____

Thank you for your reliable information.

APPENDIX II
QUESTIONNAIRE FOR MERCHANTS
ST. MARY'S UNIVERSITY
DEPARTMENT OF ACCOUNTING

This particular study is expected to serve ERCA as an input to highlight the problem of VAT administration the attitude of tax payers. However, the effect of the study is highly dependent up on your cooperation.

Therefore, we kindly request your kind cooperation in answers the question. We guarantee you that all the data gather will be held confidential and will be used only for academic purpose.

Please give your answer on the space provided and put (✓) mark in the box corresponding to your response.

1. Sex: - male female

2. Age 18-24 25-30 30-35 >35

3. Education status:-

Elementary and junior complete high school complete
Certificate 1st degree above degree

4. What is the legal status of your business?

Share company Sole proprietor ship

Limited partnership Joint venture

Private limited company other, specify _____

5. In which areas of business activity are you engaged?

Wholesaler Services

Retailer other specify

6. when your organization was first registered for VAT?

7. What are the basic problems of VAT administration system in Ethiopia?

Shortage of awareness

Less number of employees

Employees don't have enough knowledge about VAT

Cost of collection is not proportional to collect the amount

Both less no of employees and lack of knowledge about VAT

All are problem

Other reason _____

8. Are you declare timely and honestly your tax liabilities?

Yes

No

If your answer is yes please indicate your reason _____

9. What do you think about the cause of illegal acts of tax payers?

Higher rate of taxation

Complexity of tax

Lack of experience

Other reason _____

10. How do you evaluate the service that you have got in a revenue bureau?

Very good

Worst

Bad

Fair

Good

Thank you for your reliable information.