

**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

***EVALUATION OF ETHIOPIAN TAX SYSTEM BASED ON SOME
SELECTED TAX PRINCIPLES EMPHASIZING ON FEDERAL
BRANCH OFFICES***

BY: ERMIA G/MICHAEL

ENROLMENT No: MBAAF/0072/2007A

**DECEMBER, 2016
ADDIS ABABA,
ETHIOPIA**

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BRANCH OFFICES***

**A THESIS IS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
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DECLARATION

I, the undersigned, declare that this thesis is my research work, prepared under the guidance of Asst. Prof. DejeneMamo. All sources of materials used for the thesis have been duly acknowledged. I confirm that thesis prepared on the Ethiopian tax system on the same topic earlier has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name Signature

St. Mary's University, Addis Ababa, 2016

ENDORSEMENT

This thesis has been submitted to St. Mary`s University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor Signature

St. Mary`s University, Addis Ababa, 2016

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List of Abbreviations

ECC: Ethiopian Chamber of commerce

ERCA: Ethiopian revenue and customs authority

FDRE: Federal Democratic Republic of Ethiopian

IMF: International Monetary Fund

LTO: Large taxpayers Office

OECD: Organization for Economic Co-operation and Development

VAT: Values Added Tax

Spss; Statistical Package for Social Science

Abstract

The paper evaluates tax administration of Ethiopian based on selected good tax principle that is certainty, convenience, neutrality and simplistic. The study used mixed method research approach. The target populations are 36517 in number, identified for this research and are all tax payer of ERCA on federal branches located in Addis Ababa which are paying tax return on east, west and large tax payer (LTO) branch offices and 396 sample were taken and Sample size from the total tax payers is determined by Taro Yamane`s formula and data were collected accidental sampling from tax payers of three selected branches through questionnaire and interview and Then, reliability and validity test was conducted in order to check the consistency of the data and the test confirmed that there is consistency. The collected data was analyzed through Excel and SPSS and the findings were described statistically and also presented using Tables. The findings of this evaluation revealed that certainty principle is well implemented by the administrator on the contrary a lot remain to be done the rest of three canons. Finally, the author suggests recommendation that could be used by the government in general and tax authorities in particular in the preparation future tax proposal reform and issuance of any directive, rule and procedure which is going to implemented need to encapsulate this canon as guiding route to improve service delivery and alleviating problem emanated from short coming from administration .

Keywords: certainty, convenience, neutrality and simplistic

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Chapter one

Introduction

1.1. Background of the study

The primary purpose of any tax policy is to raise the revenue needed to pay for government spending both in developing and developed countries. But the amount of revenue to be generated by a government from taxes for its expenditure program depends among other things, on the taxpayers to comply with tax laws of a country. Tax policy should therefore enable the government to determine the amount of tax revenue that is likely to be collected thus enabling the government spending, possibly aimed for redistribution. Taxpayers are supposed to act as if taxes do not at all affect their behavior, thus the goal for the government and the policy makers is to create a tax system and principle that does not influence taxpayers' behavior (Lena Hiort, 2015). In addition Fjeldstad and others scholar suggested that understanding how citizens perceive and experience taxation may provide an essential diagnostic of the realities for tax reform. Consequently, Taxpayers' behavior towards tax system has evoked great attention among many Revenue Authorities in the world especially in developed countries (Fjeldstad, Herzenberg and Sjursen, 2012).

A tax is defined as a compulsory contribution payable by an economic unit to a government without expectation of direct and equivalent return from the government for the contribution made (Bhatia, 2003). In most developing countries, like Ethiopia, the revenue generated by the government is quite less than the expenditures spent. This low revenue yield of taxation can only be attributed to the fact that tax are not properly enforced either on account of the inability of administration or on account of straight forward collusion between the tax administration and taxpayers. According to Organization for Economic Co-operation and Development (OECD, 2010), the primary mandate of most tax administrations is to ensure compliance with tax laws and improve taxpayers' satisfaction, thus a number of considerations need to be taken into account in designing a tax system.

Designing a tax system in accordance of good taxing principle can raise the revenue that government that needs to achieve its spending and distributional ambitions and minimizing economic and administrative inefficiency and boost customer satisfaction .Writers have categorized concepts that can be used in evaluation of a tax system in different ways. However, most of the criteria used in evaluating a tax system are founded on the traditional Adam Smiths' four canons of taxation (Adam Smith, 1776).

On the other hand other writers suggested their own tax principle that a given tax system need to exhibits. According to (Nellen, 2006), there are ten principles of taxation these are: Equity and fairness, certainty, convenience of payment, economy in collection, simplicity, neutrality, economic growth and efficiency, transparency and visibility (legitimacy), minimum tax gap and appropriate government revenues. equity, that is fairness with respect to the tax contributions of different individuals; certainty, that is a lack of arbitrariness or uncertainty about tax liabilities; convenience, that is with respect to the timing and manner of payment; and efficiency, that is a small cost of collection as a proportion of revenue raised, and the avoidance of distortionary effects on the behavior of tax payers (the principle of neutrality). These canons provide a framework within which various tax system proposals may be considered and can also be used to set a basis of evaluating of the prevailing taxing system. Admittedly, it is hard to design a tax system that incorporates all these principles, but there should always be endeavors to ensure that the majority are met.

This paper rely on the canons of taxation and the discussion focuses on evaluating and assessing the taxing system from the perspective of service quality and administrative issues of ERCA and based on this the author believe that the following canons pave to measure the variable mentioned that is certainty, convenience, neutrality and simplicity perspective.

1.2. Background of the organization

The Ethiopian Revenues and Customs Authority (ERCA) is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, the ERCA is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border. The ERCA traces its origin to July 7, 2008 as a result of the merger of the Ministry of Revenues, the Ethiopian Customs Authority and the Federal Inland Revenues into one organization.

According to article 3 of the proclamation No .587/2008, the Authority is looked upon as "an autonomous federal agency having its own legal personality". The Authority came into existence on 14 July 2008, by the merger of the Ministry of Revenue, Ethiopian Customs Authority and The Federal Inland Revenue Authority who formerly were responsible to raise revenue for the Federal government and to prevent contraband. Reasons for the merge of the foregoing administrations into a single autonomous Authority are varied and complex. First, the administration had inefficient system to control taxpayers who fail to declare their actual income in order to reduce their tax bill and the federal government's revenue. Second the administration was also far behind in protecting investors from adverse effects of contraband. It was a daily occurrence to see contraband goods displayed on and being sold in the streets of major towns of the country. These and other myriad problems call for solutions or significant change and in response to them. Finally from the merger it was expected to provide basis for modern tax administrations to cut through the red tape or avoid unnecessary and redundant procedures that had resulted delay and were considered cost-ineffective and resulted to be much more effective and efficient in keeping and utilizing information, promoting law and order, resource utilization and service delivery (www.erca.gov.et).

The ERCA has the following objectives:

- To establish modern revenue assessment and collection system; and provide customers with equitable, efficient and quality service
- To cause taxpayers voluntarily discharge their tax obligations,

- To enforce tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion,
- To collect timely and effectively tax revenues generated by the economy;
- To provide the necessary support to regions with a view to harmonizing federal and regional tax administration systems

1.3. Statement of the Problem

Taxation in developing countries is a challenging topic and has attracted increasing attention in the last two decades. During this period, many problems observed like poor administration, failing to collect sufficient tax revenues, lack of government and economic stability (Vadde&Gundarapu, 2012). According to Berry, 1991, service excellence has characteristics of service reliability, performing the service consistently and accurately. When an organization performs a service carelessly, it makes avoidable mistakes, when it fails to deliver as per promises; it erodes the customer confidence in its capabilities and undermines its reputation. In Ethiopia, in most cases, service is provided in manner that suits the administrative convenience rather than compliance to the tax payers (GossaBekele, 2015). This may be from Unclearness or insufficient knowledge on the governing tax principles and their benefits and lead to difficulty to reach the objectives (Lena Hiort, 2015).

A deeper and clear understanding of the principle would strengthen the possibilities for fiscal policy makers to reach their objectives. And thus competent revenue authority improve administration by adopting appropriate principles as well as setting up the benchmark for test of operations to achieve best and better performance and practices and improves public image by tax payers through their organization work processes, this enable tax payer to comply tax laws and ultimately increase tax return and taxpayer satisfaction. On the other hand the more complex or lack of simplicity of a tax system, the greater the costs for the government to administer it and the greater the compliance costs for taxpayers to determine their liability (Joseph, 2014). A complex tax system imposes psychic costs in the form of anxiety suffered by taxpayers concerned about getting their taxes done on time, having them done right, and worrying about an audit.

Incorporating simple tax principle it encourages greater compliance and lower costs through the use of less tax agents. Less complexity reduces the scope for tax avoidance and evasion (Alm , 1996). The principle of Simplicity relates not only to the tax legislation, but also to tax administration and its success lead to improved levels of voluntary compliance with the tax system. Unless the business tax system can achieve substantial voluntary compliance by the large majority of taxpayers, it will also fail to achieve the other national objectives and will probably not satisfy its revenue targets. In recent years the Ethiopian government has been undertaking substantial efforts in reforming and modernizing the revenue administration with the aim of simplifying the tax system and increasing government revenue. (Alemayehu andAbebe, 2005, Amin and John, 2010).Despite the efforts taken by government, there has been poor tax revenue collection, tax compliance has still remained a problem and the taxpayers continued to complain about the behavior of the ERCA. There are also poor handling taxpayer queries and complaints on tax matters, lengthy bureaucratic tax administrative procedures coupled with the nature of physical facilities in keeping and processing taxpayer information (Temtem, 2014).

John Tilley wrote the violation of the principle of certainty increases the cost of taxation and leads to a decline in taxpayer morality and unpredictability of the tax system as a whole and discourages foreign direct investment (John, 2005). It also causes cost for tax administration and compliance, inflicts psychological pain upon taxpayers, causing further strain the relationship between taxpayers and tax authorities. This state of affairs fosters apprehension and resentment against the fiscal authorities and erodes faith in the integrity of the whole tax system.

Neutrality principle says that a tax system need to treats similar economic activities in similar ways for tax purposes and tend to be simpler, avoid unjustifiable discrimination between people and economic activities, and help to minimize economic distortions (Amin and John, 2010). Nevertheless, it is necessary to discriminate between different activities for tax purposes. A neutral taxis one that does not influence whether parties will prefer one type of exchange over another (Kenneth, 2005). Similarly Amin Abdella and John Clifford emphasize on the paper called The Impact of Tax Reform on Private Sector Development validate that a neutral tax system, should have the smallest possible effect on a taxpayer's economic decisions about whether or how to carry out a particular transaction, neither encourage nor discourage taxpayers

from engaging in certain activities, and be neutral when determining how to measure income, the appropriate tax rate, and taxpayers' ability to pay (Amin and John, 2010).

In Ethiopia it is now accustomed to see every corner ` bazre ` and other small market to encourage those small enterprises and with intention to create market network between buyer and seller, but the item that are sold in such kind of markets are without tax in similar fashion same item could be sold with tax in the formal shop or market. Similarly scholar called Kenneth has said that item could be purchased original price plus sales tax, at local store. It also purchased through a catalog or over the Internet, but there is no sales tax to pay and offered free shipping (Kenneth, 2014). In supporting the idea of Kenneth OECD claim that Taxation should seek to be neutral and equitable between forms of electronic commerce and between conventional and electronic forms of commerce. Business decisions should be motivated by economic rather than tax considerations. Taxpayers in similar situations carrying out similar transactions should be subject to similar levels of tax, if not it affect principle of neutrality (OECD, 1998). On contrary there are forces that could urge to compel to compromise the principle neutrality. For instance, heavy taxes help to discourage the use of products such as alcohol and tobacco, while tax breaks encourage certain business practices, individual homeownership, and charitable giving, among other behaviors (Tadess, 2005).

Every tax ought to be levied and due at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it (Bakibinga, 2003). Lymer and Oats claim that tax payment moment, should be set at the most anticipated time, tax on income earned in employment is deducted at source as the employee is being paid that is the payer is supposed to receive one's relevant income (Lymer and Oats 2008).In general in Ethiopia payment mode, location tax office, information availability are challenging but are very important in helping to ensure compliance to tax payer. In short the more in convenient a tax is to pay the more likely that it will not be paid.

Finally the author believe that there are research made on customer taxpayer satisfaction on ERCA but there were no research which was conducted on evaluating Ethiopian revenue and custom authority from the aspect of good tax principles and the absence of empirical study on the case the actual gap identified which initiate the research and narrow the gap . Knowing the

taxpayers' perception as per the principle enhances tax regimes to satisfy taxpayers and help tax administration to mobilize adequate tax revenues

1.4. Research Questions

RQ1. Does the taxing system of Ethiopian revenue & customs authority exhibit the principle of certainty in its administration?

RQ2. Does the taxing system of Ethiopian revenue & customs authority exhibit the principle of convenience in its administration?

RQ3. Does the taxing system of Ethiopian revenue & customs authority exhibit the principle of simplicity in its administration?

RQ4. Does the taxing system of Ethiopian revenue & customs authority exhibit the principle of neutrality in its administration?

1.5. Research Objective

1.5.1. General objective

An effective taxing system needs to fulfill good taxing principles and hence the general objective of the paper is to evaluate whether ERCA taxing system exhibits the selected canons of good tax principles in the frame of the paper.

1.5.2. Specific objective of this study

Tax Revenue needs to be raised, for government spending the amount of revenue depends on the tax policy of the country and its administration. There are a number of tax policy considerations; having a good tax policy does not guarantee quality service delivery and administration. Good taxing system need to show some canon of principles therefore the specific objective of the study of the paper is:

- To evaluate the tax administration of Ethiopian revenue & customs authority taxing system as per the canon of neutrality.

- To evaluate the tax administration of Ethiopian revenue & customs authority taxing system as per the Principle of convenience,
- To evaluate the tax administration of Ethiopian revenue & customs authority taxing system as per the Principle of simplistic.
- To evaluate the tax administration of Ethiopian revenue & customs authority taxing system as per the Principle of certainty.

1.6. Significance of the Study

The research is very essential to evaluate the service delivery of ERCA from the view of customers and from this research ERCA will gain a deeper understanding of the business community filling and customize its services to better suit its client since it reflects the taxpayers' beliefs and also uses as benchmark and testing their operations to achieve best and better performance and practices and improves public image by tax payers, In addition, the research is important for future researchers as a reference material to develop a literature framework.

1.7. Scope of the study

The study focuses on ERCA on domestic revenue since the company has various branches throughout the country, the study emphasize on three branches that is large taxpayers, west and east Addis Ababa branch by their convince to the writer and amount of tax collection. The annual report 2007 EC reveled that, the total tax collected on the mentioned branches is more than 89% of domestic tax revenue of the country, out of 73 billion and 65 billion was collected in the three selected branches.

It is mentioned earlier that authors proposes their own tax principle. Different author propose their own different criteria that governs a tax system, but the paper focuses only four of the principles that is certainty, convenience, simplistic and neutrality and above all the researcher used tools mentioned on the methodology part.

1.8. Organization of the paper

The research has five chapters.

Chapter one has the introduction parts which include contain background of the organization Statement of the problem, basic research questions, objectives of the study, significance of the study, and delimitation/scope of the study organization of the paper and ethical consideration.

Chapter two covers Review of Related Literature, which deals with the Literature which is relevant to the study on previous studies based on the research topic.

Chapter three is Methods of the Study. Under this chapter, the researchers describe the type and design of the research; the subjects/participant of the study; the sources of data; the data collection tools/instruments employed; the procedures of data collection; and the methods of data analysis that used on the Research.

Chapter four Results and Discussion part these chapters summarize the results findings of the study, and interpret and/or discuss the findings.

Chapters five contain the Summary, Conclusions and Recommendations. This chapter comprises three sections, which include summary of findings, conclusions, and recommendations. The research summary of findings had drawn from the results that discussed under chapter four. The conclusions drawn from the summary of findings and specify any limitations that could have effect on the research conclusions. .

Chapter Two

Literature review

2.1. Theoretical Review of tax administration

A primary purpose of taxation according to Lerner is 'its effect on the public of influencing their economic behavior (Lerner, 1951). Tax systems are continuously changing as countries align their tax systems with evolving economic, political, and administrative conditions (Norregaard & Khan, 2007). The tax administration, therefore, must provide an even playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements. Failure to bring business activity from the shadow economy into the tax system puts compliant taxpayers at a competitive disadvantage, and ultimately leads to an erosion of the tax base (Baurer, 2005). Ethiopia has pursued this track of tax reform following the shift in the economic ideology of the government (Damme et al., 2008). Tax Administration the systems and procedures used to collect taxes has an important bearing on the efficiency, equity, simplicity and convenience. Reform of the administration of state taxes and the application of best practice standards can lead to lower compliance costs for taxpayers and lower administration costs for government. This is consistent with government policies aimed at reducing red tape for businesses and the wider community (Amin and John, 2010).

Some governments have done their commitment to improve tax administration through participation in various reform initiatives. These include the Standard Business Reporting project which aims to reduce the multiple reporting requirements of business harmonization of the payroll tax base, which reduces compliance cost for businesses operating across certain state boundaries, simplified legislative frameworks, and ongoing investment in information technology and data management systems.

Kangave define that administration tax refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study,

encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Kangave, 2005). The low revenue yield of taxation can only be attributed to the fact that tax provisions are not properly enforced either on account of the inability of administration to cope with them or on account of straight forward collusion between the tax administration and taxpayers (World Bank , 1999). Since taxes are an involuntary payment for government services (Parameswaran, 2005), taxpayers have a strong incentive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal). Tax administration, therefore, has to secure compliance with the laws by applying an array of registration, assessment and collection procedures.

2.1.1. Efficiency of Tax Administration

The condition for efficient tax administration is tax structure with minimizing compliance cost and distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of economy. Sand ford others laid out three separate categories of compliance costs in the tax administration (1) the fiscal costs associated with establishing and registering a company, the employee costs of running day-to-day accounting, the cost of expertise to understand and keep up with changes in policies and rates, the cost of submitting tax returns, and the cost of external accountants for operational and advisory services; (2) the costs of the time of senior management in overseeing the function; and (3) the psychological costs caused by being on the business to conduct their tax affairs properly, with financial and civil/criminal sanctions for failing to do so(Sandford et al.,1989). Badly conceived or unnecessarily complicated tax structure greatly complicates the operating function of the tax administration, while simple and transparent tax structure could affect it in the opposite way. So, the increase of efficiency of the tax administration could be attributed mainly to the simplification of the tax system (Mansfield, 1990). In developing countries, tax administration can be organized respecting the functional principle (collecting, recording, auditing, and enforcement) according to the type of taxpayers; the type of taxes; and type of enterprises in economy (OECD, 2010). Tax administration should develop around activities (such as recording or auditing) rather than according to the type of tax and taxpayers. More generally, tax payment needs to be assessed, collected and recorded more efficiently.

2.1.2. Procedures for Tax Collection

A good tax system should raise revenue and promote or support the growth of investments. It is imperative to understand that when a tax system supports the growth of investment undertaking, ultimately more investments triggers an expanded tax base that will lead to more tax revenue collection (Musonda, 2015)

It is expected that taxpayer's tax payments should be in line with their income and they are required to pay a tax in proportion to their level of income (Parameswaran, 2005). On the other part of the tax collectors, according to canon of taxation, collection of tax should be time conscious and convenient and the cost of collecting the taxes should not be high to discourage business. Adam Smith emphasize also that Every tax ought to be so contrived as to take out of the pockets as little as possible, over and above that which it brings into the public treasury of the state (Adam Smith, 1776).

Procedures undertaken by tax authority to ensure compliance are; filing return, filing return and return processing of tax, audit examination and tax collection and enforcement. Filing returns; taxpayers are required to file returns within specified months of the end of their tax accounting year. The return should be filed in quadruplicate and should contain all the particulars of the taxpayer. All documents respecting taxation should be presented to the tax authority office where the taxpayer has their file. Upon receiving a taxpayer's return, the tax authority officers examine the accuracy of the return by determining whether the return is properly completed, whether tax has been properly computed, and whether there are any penalty payments to be made by the taxpayer (Cohen and Sayag, 2010). Another procedure under taken by tax administration is Audit and examination. The role of tax audits and examinations is to check the accuracy of the information that taxpayers provide to tax authorities.

The audits range from simple field and desk audits to comprehensive audits (Baurer, 2005). Collection and enforcement is another procedure in the tax administration. When the taxpayer

has not made payment on the due date, and does not object to the tax assessed, tax authority can enforce payment in a number of ways. The tax administration may bring a suit against the taxpayer or request a person owing or holding money for the taxpayer to pay the money on a specified date or institute distress proceedings against the taxpayer's moveable property. In a wider context, the issue of enforcement includes offences committed by the taxpayer, and the penalties for these offences (Mesiku, 2011).

2.2. Tax Principles from author's perspective

A common encounter with the literature on principles or maxims or canons of taxation is that every writer has had her special list of principles, which while overlapping with others, in some respects reflect the idiosyncrasies of each author. Just as (Adam Smith, 1776) thought it appropriate to limit the principles of taxation to four, others have deemed it appropriate to extend the principles to a dozen or even more. (Stiglitz, 2000) summarized the characteristics of a good tax system as consisting mandatorily of a combination of the following principles. First, economic efficiency, the tax should allow for efficient allocation of resources. Secondly, administrative simplicity, the tax should be easy and inexpensive to administer. Thirdly, flexibility, the tax system should respond easily to changes in economic conditions. Fourthly, transparency, the tax burden should be easily ascertainable and be politically tailored to what society considers desirable. Finally, fairness, the tax system should be fair in its treatment of different individuals.

Other scholar called Nichols points out that, there is no "best" tax principle, but there are five interrelated criteria for evaluating taxes that is collectively, may be used to assess whether tax system has incorporated cannons of taxes and are moving closer to or further away from a better overall tax system. As per him criteria for evaluating what makes a tax bad or good. And it turns out that such criteria do exist: the five interrelated principles for creating a "good tax" is fairness, simplicity, neutrality, administrable, and sufficiency (Nichols, 2014). Perdices and Revuelta, have thought that taxation needed nine principles, which were sufficiency, flexibility, choice of sources upon which tax is applied, choice of kind of tax, generality, fairness, certainty, comfort and cost efficiency (Perdices and Revuelta, 2011). German economist, Neumark, was even more

elaborate and extended the principles of taxation into eighteen, which he then grouped into four major categories: Budgetary and Fiscal Principles: sufficiency; adaptability; Socio-political and ethical principles: generality, horizontal equity; ability-to-pay, redistribution, Political and economic principles: avoidance of fiscal interventionism; minimum impact on the decisions of agents; minimum impact on market efficiency; active flexibility, passive flexibility; promotion of economic growth; and Legal and technical principles: congruence and systematization; transparency, feasibility, continuity; cost efficiency; comfort (Neumark,2011). Although not as detailed as that other scholar , the American tax analyst Daniel J. Pilla developed ten principles of taxation which he called simplicity, non-invasiveness, efficiency, stability, visibility, neutrality, economic growth, broad-based, equality and constitutionality (Daniel J Pilla, 2012). A recent study commissioned by the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) mentioned twelve Principles of taxation: ability-to-pay, equality, adequacy, neutrality, broad-basing, non-retroactivity, compatibility, predictability, earmarking, restricted exemption, efficiency and simplicity (Tadesse ,2014)

2.3. Criteria of designing Effective good Taxes

The legislation designed to give effect to these objectives may necessarily conflict with one or more principles of tax design. For example, tax incentives may breach the principles of equity (discrimination between taxpayers), certainty (exceptions lead to rule complexity), and efficiency (increased compliance costs). However, the fact that implementation of economic policy objectives may breach the principles does not obviate the need for them, but ensures that there is a broad benchmark against which variations can be measured and explained (Lerner, 1951),

Taxes determine the fate of many things in life. It determines what is taxable and what not taxable, at least by omission, is if not by intent. They determine, in the technical language of taxation, what constitutes a tax base, the rate or rates under which the tax base should be taxed and who should pay the tax and who ultimately bears the economic burden of taxation (Tadesse, 2014). All these questions require the legitimacy of the criteria by which taxes need to determine all these things in life. Richard has divided these criteria into external and internal. The external criteria are the policy objectives or goals set for taxation, which are for him, as already pointed

above, economic growth, distribution and stability (Richard, 1992). The internal criteria are what he calls the attribute which people would like to see in their tax systems. Various writers have used different names referring to internal criteria. Some call them simply criteria, while others have called them by turns principles, canons or maxims.

Good revenue authority improve their administration and services by adapting and adopting appropriate principles as well as by being open to the benchmarking and testing of their operations to achieve best practice, public image by tax payers through their organization of work processes, This enable revenue authorities laid dawn to ensure tax payer compliance with tax laws and increase tax return and these is effective dependent on a revenue authorities a clear focus on what their goals are and continually review their operating approaches and procedures to ensure they are making the most effective and efficient use taxing principle or canons that provide a framework within which various tax system proposals may be considered and can also be used to set a basis for assessment(Tadesse,2014).As stated by Alley and others effective the tax system can be designed to achieve broad social objectives. A tax can achieve a form of redistribution of income from the wealthy to the poor and helps to achieve social policy where individuals never fall below a level of income that would deprive them of access to basic food, clothing, housing and education (Alleyet.al, 2005).

According to (Adam Smith, 1776) assessing effective tax`s systems, a tax system need to show some desirable properties. These recommendations have near to universal support and the most famous of the four canons of taxation are (i) the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities...(ii) The tax which the individual is bound to pay ought to be certain and not arbitrary. (iii) Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. (iv) Every tax ought to be so contrived as to take out of the pockets as little as possible, over and above that which it brings into the public treasury of the state.

According to Tadesse the objectives of a tax system is to exhibits a given distributional outcome, that is :The negative effects of the tax system on welfare and economic efficiency—they should be minimized; Administration and compliance costs—all things equal, a system that costs less to

operate is preferable; Fairness other than in the distributional sense—for example, fairness of procedure, avoidance of discrimination, and fairness with respect to legitimate expectations; transparency a tax system that people can understand is preferable to one that taxes stealth (Tadesse 2014).

According to Richard simple, neutral and stable tax systems are more likely to achieve effective outcomes than complex, non-neutral, and frequently changing systems (Richard, 1992). Principle of Simplicity, neutrality, and stability are desirable tax principles because they promote an effective tax system to the states. A good tax system will not just limit negative effects on efficiency. It will also promote economic welfare by dealing with externalities which arise when one person or organization does not take account of the effects of their actions on others (Curtis and David, 2016). Taxes can affect this behavior by altering the incentives for certain sorts of behavior, most notably when polluting activity is taxed to reduce the total amount of pollution.

2.3.1. Canon of Equality

The tax system should be fair in its treatment of different individuals. The fairness of a tax system is in many cases seen as a simple phenomenon that can be achieved by a tax structure that differentiates tax burden according to chosen criteria in an economy (Kayuza, 2006). Tax fairness is the idea most people gravitate towards when thinking about good tax principles, but the emphasis placed on this issue is often so great it appears fairness is the only tax concept that matters. Fairness is the most challenging to put in place since it means different meanings to different people. A fair tax is one that has approximately the same relative impact on all taxpayers. One facet of a fair tax is that it has horizontal equity, which simply means that taxpayers in similar situations pay the same amount of tax (DeBoer, 1997). Given the diverse ways of arriving at this is tougher to achieve than it seems; consequently, a large part of any tax code is devoted to getting to that bottom line. A second facet of a fair tax is vertical equity, which means being mindful that taxpayers of lesser means will be harder hit by a given tax percentage than will taxpayers of greater means (Kenneth, 2005).

There can be varying perceptions about what constitutes a fair tax system and the two fundamental principles governing equity and fairness are, the benefits principle, and second,

the ability-to-pay principle. When the benefits principle is applied, citizens pay taxes according to identifiable benefits each receives from government services. This can work for a small set of specific services, such as transportation. The benefit principle states that taxes should be based on the benefits received, that is, those who receive the greatest benefits should pay the most taxes. On the surface, this principle is quite logical and easily justified. The people who benefit from public goods are logically the ones who should pay for their provision. Drivers should pay for highways, library patrons should pay for libraries, students should pay tuition, camping enthusiasts should pay for national parks, and the list goes on. The benefits principle cannot be implemented where individual benefits are hard to identify, such as in the cases of criminal courts and prisons (Tentim, 2014).

When the ability-to-pay principle is applied, citizens who have equal abilities are taxed equally, that is like rate payers are taxed alike. Horizontal equity means that like ratepayers are taxed alike (DeBoer, 1997) Achieving horizontal equity involves a complicated question of defining the meaning of two individuals being identical in all relevant aspects and what equal treatment means. It may be very difficult to identify two individuals identical in all respects so as to achieve horizontal equity but when we see or examines the tax burden of two individuals considered as treated equally, one may find that the tax burden is not the same (Joseph, 2015). For instance where two people earn the same amount but they share different burdens say from relatives, charging the same amount of tax may not produce fair results. In these circumstances, the principle of horizontal equity becomes too difficult to apply practically and citizens with higher abilities are taxed relatively heavily vertical equity this is a phenomenon of progressive taxation. Accordingly, individuals with a higher level of economic wellbeing should pay higher taxes than others should do (DeBoer, 1997). A problem that emerges from this proposition is determining who actually should pay tax at a higher rate and how much more should the rich pay than others. The widely used yardstick for determining who should pay at the higher rate is the level of income of each rate payer (Kayuza, 2006).

The level of income-yardstick requires that higher income an individual earns is translated as a greater ability to pay and therefore justifying higher taxes. The secondary question that arises is how much more should those individuals with higher incomes pay. A widely accepted view is

for the rich to pay a higher fraction of their incomes in taxes, leading to a progressive tax system (Joseph, 2014).

In general according to Adam Smith, it refers to the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state (Adam Smith, 1776). In easier words it refers to the fact that all people should be evenly keen to pay their taxes in quantity of their income. This principle also points out that people should pay taxes based on their ability to pay. As a result, people with lower income pay less and people with higher earnings pay more taxes to the government. It also beholds that, the rate or proportion of taxation should increase or decrease, with the increase or decrease of one's income.

2.3.2. Cannon of Certainty

Certainty is identified as a norm very early in the history of the literature on tax policy. Adam Smith made it one of the four “maxims” of taxation, “equality,” convenience and “economy” completing his quartet of principles. Indeed, Adam Smith considered “certainty” to be his most important principle of taxation. He was so emphatic about the principle of “certainty” that he wrote he would rather live with inequality than uncertainty (Adam Smith, 1776): Some contemporary writers on taxation have also taken “certainty” to be an important tax norm. John Tiley thought that the uncertainty of a tax has some insidious consequences upon the tax system. He wrote that uncertainty could undermine the principle of equity and increases the cost of taxation and leads to a decline in taxpayer morality and unpredictability of the tax system as a whole and discourages foreign direct investment. In general when it summarizes the view of the writer almost all other aspects of taxation can go wrong if the tax system lacks certainty (John Tiley, 2005). In the modern debate about the principles of taxation, “certainty” has been eclipsed by other principles of taxation. Certainty is less frequently used in the literature as a criterion for evaluating taxation in large part because of the increasing prominence of “simplicity” as a norm. According to Samia the principle of certainty expects that the tax system which every individual is bound to pay, ought to be certain and not arbitrary (Samia, 2014).

As per Bakibinga certainty is in tax a foundation and require the following features must be clear and plain to the contributor and there should be an assurance, about the tax-amount to any other person particularly the collector one is supposed to pay or collect in a particular fiscal year (Bakibinga, 2003).According to Lena Hiort paper on Tax policy, economic efficiency and the principle of neutrality from a legal and economic perspective, she emphasizes that, certainty on tax system need to be clear on the time of payment, that is, whether the tax is payable yearly, monthly , quarterly or yearly and if possible the deadline of payment of such a tax need to be declared to the taxpayer (Lena Hiort,2015).

In addition Research made on Kampala that is the capital city of Uganda, emphasizing on the title the property of property rate tax in Kampala capital city, the writer tried to clarify certainty principle in the following manner: first, the rate payer and collector should be certain of the time when each tax is due. Second, both the contributor and collector should know the manner of payment, that is, whether it shall be by receiving cash or by cheque or some other form of credit, or whether individually by each rate payer deducted by his employer or, whether it must be paid in installment or lump sum or whether the rate payer can pay for the whole year instead of every month (Joseph, 2014). The rational of this practice off course aids in the benefit of both the taxpayer and the collector as both the parties beforehand, how much shall be one's tax expenses and the latter's tax-revenue.

2.3.3. Cannon of Convenience

Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it (Bakibinga, 2003). Interestingly, as the original principle of convenience sets forth the comfort of tax-paying time in a taxpayer's life, other studies also noted this fact. Lymer and Oats claim that tax payment moment, should be set at the most anticipated time, that the payer is supposed to receive one's relevant income and further beholds that and the payment mode also must be as convenient as possible, it could be through cheque, cash or online-transfer(Lymer and Oats, 2008). Under optimal tax system of Almon 1996 there was discussion on reminiscent of tax efficiency, equity and simplicity that triggered righteous

nature of tax-fairness and convenience and on the paper the writer claim that tax fairness and tax convenience were thought to be a simultaneous discourse to be learned on the society from an early-on period (Alm, 1996). The Government should ensure that the tax payer at a given time is in position to pay the assessed tax. For instance, tax on income earned in employment is usually deducted at source as the employee is being paid. It should be stressed that if the time or manner of payments is not convenient for the tax payer, it is the government that loses or suffers the consequences in tracing the rate payers to pay taxes.

According to Joseph paper on property tax he said that tax to be collected from property rates need to be convenient, they should be payable at the same time when rents are paid and the system of payment of two installments for property rates appears to be convenient to the rate payers because they are able to pay in any period of the year. Property rates tax system can also be convenient where the rates are payable from the bank thereby saving the rate payers from the burden of lining up at the local government office to make payments (Joseph, 2014).

2.3.4. Canon of Neutrality

The literature on principles of taxation attests that public as well as academic sentiments about various principles of taxation shifted at different times in history. This is particularly true of the principle of neutrality. This principle of taxation gained prominence in the tax policies of countries during the 1980s and 1990s, when the impact of taxation on economic growth became a matter of particular concern (John, 2005). A neutral tax will contribute to efficiency by ensuring that optimal allocation of the means of production (Musonda, 2015).

As per Tadesse tax rules may interfere with the way taxpayers do their business or go about their affairs, and the goal of taxation should be to minimize the level of interference in taxpayers' decision-making (Tadesse, 2005). Under Joseph paper on the principle of tax he claimed that, state and local governments should not use tax policy to create winners and losers by promoting one sector of the economy ahead of another or by favoring one type of income over another. These in general mean that a neutral tax system neither encourages nor discourages taxpayers from engaging in certain activities (Joseph, 2014). Mirrelees elaborate on the idea of Joseph, that The system should be neutral when determining how to measure income, the appropriate tax rate

and taxpayers ability to pay that means, a tax system need to treats similar economic activities in similar ways for tax purposes and tend to be simpler, avoid unjustifiable discrimination between people and economic activities, and help to minimize economic distortions (Mirrlees et al., 2011) and a tax system should be neutral to avoid distortions in the market. The problem is that no tax except perhaps the lump-sum tax is in reality neutral, as any tax inevitably discourages the type of activity that is taxed (Tadesse, 2014). According to U.S. Treasury, the best the tax system would interfere with decision-making as little as possible. (U.S. Treasury Report, 1984) and a neutral tax would not

1. Unnecessarily distorts choices about how income is earned and how it is spent
2. Unduly favor leisure over work or consumption over saving and investment
3. Needlessly cause business firms to modify their production techniques or their decisions on how to finance their activities
4. Induce business acquisitions merely for tax considerations and
5. Discourage competition among businesses by granting special preferences only to one industry or one type of financing institution.

Joseph explain that , individuals or businesses make their investment or spending decisions based on the tax code rather than basing them on what makes economic sense on its own, (Joseph, 2014) that's a violation of the neutrality principle. According to the paper on Tax Policy and the Principles Underlying a "Good Tax" of Kenneth it is Occasionally some specific on-neutrality is important and justified and not aligns with the non-neutralities the tax system this means that it is necessary to discriminate between different activities for tax purposes like taxes on alcohol and tobacco and activities that damage the environment (Kenneth, 2005). In such cases, there is a compelling case that people left to their own devices will behave in ways that harm themselves and others and which can be influenced by tax policy. Similar exceptions like pension, saving and research & development (R&D), where society wishes to encourage beneficial activities like to provide incentives for certain activities, for instance investment promotion.

According to John over the years, some taxes have been excoriating for deviating from the ideal of tax neutrality and influence on decision making of tax payer. One form of tax that has particularly come in for criticism in this regard is the corporate income tax. The corporate

income tax is often panned for its violation of the norm. The corporate income tax is often panned for its violation of the norm of neutrality because the separate taxation of corporations encourages taxpayers to opt for other forms of businesses, such as partnerships in order to avoid the corporate income tax (John, 2005). The same fashion due to tax burden on corporate company may one form of finance over another. According to the statement issued by ACCA, on tax neutrality, there were criticisms on global financial crisis is worsen by policies in many tax regimes allow companies to deduct interest payments against tax but not returns on equity. As a result both leveraged buy-outs by private equity organizations and the holding of debt rather than equity by institutions has increased and fuelled the credit boom which preceded the economic downturn (ACCA, 2011).Moreover international monetary fund/IMF declare its fear on corporate level tax biases favoring debt finance including in the financial sector are pervasive, often large and hard to justify given the potential impact on financial stability (IMF, 2009)

2.3.5. Canon of simplicity

The tax rules should be clear and simple to understand so that taxpayers can anticipate the tax consequences in advance of a transaction, including knowing when, where and how the tax is to be accounted. Certainty and simplicity are two of the most flavored, yet most elusive, qualities of any tax system (Alley, 2005). The European Union /EU Communication stated that there should be certainty about the rules and compliance should be made as simple as possible to avoid unnecessary burdens on business. Some countries are modernizing their revenue administration systems to make it simple for taxpayers to pay taxes. In Zambia, the Zambia Revenue Agency (ZRA) recently (2014) introduced the tax online system. The tax online system allows taxpayers to declare and pay taxes online. To sum it up a tax system can be simple there are effective revenue administration reforms (Musonda, 2015).

Simpler taxes are typically easier to administer than are complicated taxes. Simplicity tax code should be easy for the average citizen to understand, and it should minimize the cost of complying with the tax laws (Kenneth, 2005).Tax complexity adds cost to the taxpayer, but does not increase public revenue. For governments, the tax system should be easy to administer, and should help promote efficient, low-cost administration.

According to Mohamed and Ahmad tax system should be as simple as possible for the reason that taxpayers come from various background, with different level of education, income level, different culture and different tax knowledge. In helping taxpayers to complete the tax returns accurately, the tax authority should have come up with a simple, but sufficient, tax return. The information required in the return must be at minimum level and be readily available from taxpayers' business and personal records (Mohd. and Ahmad, 2011). Research paper prepared on tax compliance determinant on Jimma and Amin Abdella on the impact of tax reform both paper emphasizes that the loss of simplicity is shown by the addition of layers of complexity in the tax system, which apart from being a cause for a huge cost of tax administration and compliance, inflicts psychological pain upon taxpayers, causing further strain upon the relationship between taxpayers and tax authorities (Amina Ahmed and Saniya Kedir, 2015 Amin Abdella and John Clifford, 2010)

It is importance to have a simple tax return and system. Although the word 'simple' carries multiple interpretations, at least the majority of taxpayers require that the tax return should be as simple as possible. The tax authority may assume its tax return is simple and easy to complete but it may not be from the taxpayers' point of view. Therefore, it is good practice, before the final version is delivered to taxpayers, to ensure that 'pilot' tests have taken place first so that the tax return is really as simple and easy as it can be. (Silvani and Baer, 1997). On the other hand, it could be argued that some complexity is good for the economy. Taxpayers often expect the system to be fair and a more complex system allows better design/targeting of provisions and reliefs. Business incentives/support can be given on a targeted basis. More subtly, complexity can help governments raise more money without people realizing fully what is happening. But simplicity and fairness pull against each other.

Simplicity is not reflected in a tax system that requires extensive recordkeeping by ordinary citizens. A simpler tax system would require fewer taxpayers to collect and retain receipts or cancelled checks in order to calculate and document tax deductions, adjustments, and credits. Simplicity is not wondering which receipts and checks to save because the tax law is too complex and is constantly changing. Simplicity is not computing dozens of deductions and

credits, and wondering all the while whether other means of saving tax might have been missed through ignorance of the laws. Nor is simplicity being forced to wade through long and complicated instruction booklets or resort to professional assistance, in order to meet the civic responsibility to pay taxes. Under a simple tax system, most responsible taxpayers would be more certain of their tax.

2.4. Empirical literature review

Although not specifically related to Ethiopia, Empirical researches done by different authors on a relationship between simplicity and tax compliance find a positive relationship between the mentioned principle and tax collection. Reza, who analyzed the essential things affecting governments' ability in tax collection, is the existence of proper tax laws and its services. Having tax laws which are consistent and stable in enactment and performance will make the tax system to be less complex and can encourage tax return (Reza et .al, 2011). According to Richardson simplicity is the most important determinant of tax compliance in his study (Richardson, 2006). Consistently supporting the idea of Richardson, Joseph added that when a tax system is simplified, it reduces the number of errors, improves compliance and increases respect for the system. The less complex a system is, the more transparent it becomes, and the better taxpayers are able to anticipate the tax consequences of their economic choices (Joseph, 2014).

According to Fjeldstad conducted the survey on citizens' views on taxation in local authorities of Tanzania, covering 210 households in 6 case councils. The researcher explored a variety of tax related issues such as service delivery and administrative issues and compliance motivations, service delivery, tax collection problems as well as possible solutions to improve revenue collection (Fjeldstad , 2004) .The result of the survey found that taxpayers would be willing to pay more taxes if public services were improved and simple to tax payers. According to Serra (2000) in survey of measuring the performance of Chile's tax administration to develop an effectiveness indicator found that the high responsiveness of tax compliance to Procedures of tax have been simplified and the average time per procedure was 27.8 minutes, the number of

frivolous penalty assessments by tax auditors has also been cut back. The study also shows that taxpayers completed their procedure in a single visit tax administration (Serra, 2000).

According survey result made on Nepal on simplifying and improving and delivering quality services and administrative issues focusing to tax procedures and administrative mechanisms, the survey found that taxpayer were reasonably satisfied except with tax refunds. As indicated in the survey result, the most important source of information on tax issues is newspapers. The survey also focuses on the availability of information and it found that majority of tax payer were taken as comfortable. With reference to the contents and coverage of the documents, over 83 percent were satisfied.

The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person". This tax-foundation requires that, there should be an assurance, about the tax-amount, one is supposed to pay in a particular fiscal year. There should also be certainty about when, where and how the tax amount needs to be paid. Consequently, this practice aids in the benefit of both the tax-payer and the state, as both the parties beforehand, how much shall be one's tax expenses and the latter's tax-revenue.

Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it". Interestingly, as the original principle of convenience sets forth the comfort of tax-paying time in a taxpayer's life, earlier studies also noted this fact. Lymer and Oats in Chittenden payment moment, should be set at the most anticipated time, that the payer is supposed to receive one's relevant income and further beholds that, one's payment mode must be as convenient as possible, that is through cheque, cash or online-transfer. Additionally, a study on 'What is "Optimal" Tax System?' by Alm in 1996, there was a preliminary discussion about few basic thoughts, reminiscent of tax efficiency, equity and simplicity that triggered righteous nature of tax-fairness.

Chapter Three

Research Design and Methods

This section of the study explains details of the research design, the sampling method as well as the manner in which the data is collected and to be study.

3.1 Research Design

The research design used may vary from research to research, every research requires a research design that is carefully tailored to the exact needs of the problem under investigation (Creswell, 2009) and to address the research questions and understand and evaluate taxing system of ERCA, the study uses mixed approach that is quantitative and qualitative approach, the qualitative help to gather varieties of data regarding the taxing principle and quantitative design used to measure the frequency of the views of respondent that help to measure and achieve the result.

The study used interviews to get appropriate multifaceted or sensitive information, as well as understanding concepts that require detail elaboration and supports things not on found on the questioner. Accordingly Semi-structured interview was applied to this study on three chosen branches based on their proportion. The interview not had done the same order expecting that this approach would provide researcher a data that enhance the findings for study. The interview questions were developed based on the results of the questionnaire.

3.2 Population of the Study

A population is a large pool of cases of elements from which the researcher draws a sample and results generalized from the drawn sample. The target populations identified for this research are all tax payer of ERCA on federal branches located in Addis Ababa which are paying tax return on east, west and large tax payer (LTO) branch offices and companies which are under the category of large taxpayer category need to sales greater than 27 million annually.

Table 3.1 List and number of Population

Branch offices	Number of Populations (N)
Large Tax payer branch	1455
East and west branch office	35062
TOTAL	36517

Source: Internal data base of ERCA

3.3 Sampling Method

Since the populations under study practically difficult to have at a time, the writer used accidental sampling so as to gather data from tax payers of selected branches and the author expect homogeneity in their character of the respondents. The population of the study is federal tax payers registered on large tax payer, western and eastern branch of the country. The sample of respondent of the questioner was selected randomly.

3.4 Sample size Determination

Sample size is the number of sample which is to be included in the study. There are several approaches to determining the sample size and in this study; a simplified Taro Yamane's Formula issued (Yamane, 1967) provides a simplified formula to calculate sample sizes.

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size, N is the population size, and e is the level of precision. Using this formula appropriate sample size has been determined.

Table 3.2: Identified Sample Size

Branch offices	Number of Populations (N)	Sample
Large Tax payer branch	1455	16
East and west branch office	35062	380
TOTAL	36517	396

Source: Computation using Taro Yamane`s formula

The total population of the research 36,517 which was found from ERCA data base; and the total sample size tried to identify in support of using Taro Yamane's Formula (Yamane`s, 1967)with 95% confidence level and 5% error. Hence, the sample size will be 16 for LTO, 380 for east and west branch office and in total the sample will be 396.

For these eligible samples identified from the total populations, questionnaires were distributed randomly to get an appropriate response. The respondents are believed to be appropriate ones and the study used accidental sampling technique with the notion of giving each and every respondent in the target population an equal chance of inclusion in the sample.

3.5Data Collection tools

The data that is used in this study consist of both primary and secondary data. The primary data were collected through questionnaire and interview. Under questionnaire the demographics of the respondents were first established in the questionnaire. The questionnaire comprises closed type since, closed ended questions are quicker and easier both for respondents and researcher; so that the variables ranked on the degree of their strength or the agreement or the disagreement of the respondents with the variables is elicited.

The structured questions were dependent on the notion of cannon of simplistic, cannon of certainty, cannon of neutrality and cannon of convenience. The responses were collected using the five point Likert scale ranging from “1 = Strongly Disagree” to “5 = Strongly Agree”. Secondary data were also collected from the federal tax authority published sources and data base. This data includes amount of revenue collected from each Federal revenue authority

branches and the number of tax payer were collected from annual report and that enable to quantify and determine the number of sample to be taken from the population.

3.6 Validity and reliability of the instruments

In order to ensure validity and reliability, the questionnaire were carefully constructed avoiding ambiguity. The questionnaires designed for the study were reviewed by my thesis advisor .To evaluate the consistency of the Questionnaires, the reliability analysis was done using Cronbachs Alpha (α), the most common measure of scale reliability test. The value for Cronbachs Alpha (α) has been greater than 0.8for all principles and the variable which exceed 0.70 the accepted value for Cronbachs Alpha (Field, 2009; Cohen and Sayag, 2010). In short, the responses generated for all of the variables used in this research was reliable enough for data analysis. A pilot test was conducted using some sort of the questionnaires during the development stage to ensure the internal consistency of the instrument.

Ethics are norms or standards of behavior guiding moral choices about our behavior and relationships with others, therefore in research; ethical considerations aim to ensure that no individual suffers adverse consequences or harmed (Leedy & Ormrod, 2013). The basic ethical principles of autonomy, beneficence and justice (Marshall & Ross man, 2011) were incorporated in this study by means of maintaining confidentiality of information and of respondents. The collected questionnaires will never been shared to other party.

3.7 Data Analysis Method

The questionnaires used in the survey were closed ended questions; this means the respondents were to choose between given alternatives for their answers instead of constructing their own responses. This was mainly done to simplify the analysis process. Before the statistical analysis, data collected from the primary survey was compiled, edited, and coded. Then, data was analyzed using a computerized data analysis package known as SPSS version20.

The author employ descriptive statistic from gathered data through the survey from interview and questioner , frequency distribution and table and percentage were used to analyze the data that were align with the response of the respondents to describe the characteristics of variables under investigation. The questioners were prepared to distribute to tax payers of three branches that is large tax payers, west and east Addis Ababa branch region. Tables were used in analyzing the descriptive findings on the study variables.

Chapter Four

Research Result and Discussions

4.1. Results of the study

The purpose of the study is to evaluate the Ethiopian tax revenue authority tax administration as per selected good tax principle and to conduct the research both primary and secondary data were used. 396 Questioners were distributed and 382 were returned on the purposefully selected federal branches and thus, the following discussion presents the results of the survey

4.1.1. Survey results from questionnaire

The purpose of this section is to show the survey results. Accordingly, it covers the respondents' profiles in section, 4.1.1.1 Investigate the taxpayers' perception with the selected principle aspects.

4.1.1.1. Respondents profile

The section presents information about the demographic characteristics of the respondents in line to their gender, age, formal education, respondents working experience, business type, size of business, business length of operation. The descriptive statistics are also illustrated in the section. As it is mentioned, the population of the research are 36,517.00 and using Taro Yamane's formula the sample sizes were determined to be 396 and the questioner were distributed randomly to three branch office of east ,west and large tax payer branch office and a total of 382 usable questionnaires were responded representing 94 % response rate. This shows that the response rate considered as very good for the study.(Figure 4.1).

Table 4.1 .Sample size and response rate proportionate share

Branch offices	Sample	Number of response	Percent
Large tax payer	16	14	87.5
east and west offices	380	368	96.8
Total	396	382	94

Source: Response of respondent and own computation, 2008 EC

In general, the demographic characteristics of respondents showed that about 74.8% of the respondents were male leaving 24.3% as female and the remaining proportion did not mention their gender and under the age category majority of the respondents fall between 31 and 40 years (44.%) and also respondents had good education background. The majority of respondents were also had an experience of doing tax issue more than six year. In case of business activity majority of them engaged in service provider followed by general trade business and majority of them were owned by private limited company. In addition, majority of the business had been in operation for more than 6 years. Moreover, the composition of the respondents fairly reflected the characteristic of business population distribution of Addis Ababa. This is also an indication that the information provided in this study was given by experienced businesses and informants as well. Each of the demographic background and its implication discussed below. Personal information with regard to their gender, age, educational qualifications and working experience, are separately described below.

The survey respondents comprised 286 (74.8%) males, 93 (24.3%) females while 3 respondents did not mention their gender. It could be concluded that men draw a high level of participation in large and east and west than females.

The age distribution of the respondents who participated in the study is provided table 4.2 below. The sample age categories were divided with a range of 10 years except age category above 50. Accordingly, the results showed that majority of respondents in the large and east and west (168 or 44 %) were aged between 31 and 40 years old and (68 or 18 %) were between 41 and 50 years of age. Respondents in the group of above 50 years old were the lowest number with 41 responses which represent 11% of the total respondents, while 9 (2%) respondents did not mention their age. This is an indication that most taxpayers in the sample are at their matured ages (Table 4.2)

Table 4.2.Respondent by age category

Category	Frequency	Percent	Cumulative
No response	9	2	2
20-30	96	25	27
31-40	168	44	71
41-50	68	18	89
above 50	41	11	100
Total	382	100	

Source: survey on canon and own computation, 2008 EC

Education is vital understanding and analyzing the situation of the organization under study having said so the ability to read and write influences one's ability to understand and interpret the tax issues and communicate problem related to tax with various officials . With this ground data collected from educational background of the respondents indicate that 13respondents had lower level of educational qualification (below grade 12) and 37were completed grade 12 ; each of them account to 3.4 % and 9.6 % of the total respondents respectively. On the other hand, the numbers of respondents who were diploma and first degree holders were 123 and 207 and representing 32% and 54 % of the total respondents respectively, the remainder 2 or 1 % of the respondents had masters and above qualifications. Cumulatively, the implication to these findings indicates that the majority of taxpayers were well educated to know the need for taxation and understand and interpret the tax law a policy and procedure of the entity under study. (Table4.3)

Table 4.3. Respondent by Educational Qualification

Category	Frequency	Percent	Cumulative
Below 12 grade	13	3.4	3.4
Grade 12 completed	37	9.6	13
Diploma	123	32	45
First degree	207	54	99
Master and above	2	1	100
Total	382	100	

Source: from survey and own computation, 2008 EC

Taking the position of the respondent in the business, the largest proportion of respondents was employee of the business as compared to others category and it was represented by 55% and next higher was manager of the business and accounted to 31%. From the data collected from survey Owner and owner manager accounts 35 and 19 respectively. In general the finding can tell us most of the tax issues are handled by recruited employee of the company (Table 4.4)

Table 4.4 Respondents` position

Category	Frequency	Percent	Cumulative
Owner	35	9	9
Manager	117	31	40
Employee	211	55	95
Owner and Manager	19	5	100
Total	382	100	

Source: From survey and own computation, 2008EC

It is known that Experience is the best teacher and the number of years in business influence on understanding the ERCA policy, procedure, tax official character, any reform and general organizational administrative issues. Accordingly, the respondents were asked to indicate their

experience in the tax related issue and the findings of the survey shows that more than half of the respondents (55%) indicated that they had 6 to 10 years of experiences in business, 25 % of the survey respondents indicated that they had 1 to 5 years of work experience, while 14 % had greater than 10 years of experience, the rest had less than 1 year of experience in the business. Therefore, it can be said that the business taxpayers had relatively average experience on tax related issue which indicates that almost half of them are well experienced which can able them measure tax related issues. In other words, it can be conclude that the information provided in this study was given by experienced respondent and informants (Table 4.5)

Table 4.5 Respondents` experience

Category	Frequency	Percent	Cumulative
Less than 1	23	6	6
1-5 years	96	25	31
6- 10 years	211	55	86
Greater Than 10 Years	52	14	100
Total	382	100	

Source: From survey data and own computation, 2008 EC

The closer to a thing the more you have a chance to understand a problem and will have a better knowledge about the organizational administration and service Excellency under a given organization setup. Based on this respondents were also asked to indicate the frequency of time that they visit ERCA. From the responses it become evident that majority of the respondents (70%) indicated that they visit ERCA monthly, 23 % of the respondents were visit tax office on average 6 time per year, the rest responded that they would visit the tax office (ERCA) on average three times per year. Similarly the respondents were also requested to indicate the last time that they were visiting ERCA this is the intention of to find out whether they now the current scenario of the tax office. Regarding this question, it was interesting to note that just more than 76% of respondents visit the tax office before or less than one month ago for the last

time, some of respondents (16 %) were visit tax office three month ago, the remaining 8 % of the respondents were visit the tax office six months ago. This indicates that the majority of them know the current tax authority's services and other tax issue.

Table 4.6 Respondents` frequency of visit

Category	Frequency	Percent	Cumulative
On average 3 visits a year	26	7	7
On average 6 visits a year	86	23	30
Monthly	270	70	100
Total	382	100	

Source: From survey data and own computation, 2008 EC

Table 4.7 Respondents` last time visit ERCA

Category	Frequency	Percent	Cumulative
Less than 1 month ago	289	76	76
3 months ago	61	16	92
6 months ago	32	8	100
Total	382	100	

Source: From survey data and own computation, 2008 EC

4.1.1.2. Company's Background

Categorization the federal business taxpayers in four business sectors, as general trade, services, manufacturing and others, the researcher tried to investigate the nature of business in the sample size. Accordingly, as expected from the sample size, about 37 % of the respondents were general trader which includes wholesale and retail business, 44% were service provider business, 19 %

of respondents were engaged in manufacturing business sector and this implies that service provider firms constitute a sizeable number of on the selected branches (figure 4.8)

Table 4.8 Representation of Respondents` business activity

Category	Frequency	Percent	Cumulative
Manufacturing	73	19	19
General Trade (wholesale and or retail)	142	37	56
Services	167	44	100
Total	382	100	

Source: From survey data and own computation 2008EC

As to forms of business ownership, all the sampled respondents are classified in to three legal form of business such as; proprietorship, private limited company and share company. Of the total sampled business units, the largest number are private limited company (81 %) followed by sole proprietorships (15 %), Share company (4 %). This is an indication that the all the registered business taxpayers in the selected federal branches were well represented looking at their proportionate numbers. The distribution of the sampled business units are shown below (Table 4.9

Table 4.9Form of the business

Category	Frequency	Percent	Cumulative
Sole proprietorship	59	15	15
private limited comp	308	81	96
Share company	15	4	100
Total	382	100	

Source: From survey data and own computation2008 EC

4.1.1.3. Perception to tax principles

Under this section, the respondents were asked various question under each category of tax principles that is neutrality, convince certainty and simplicity. The respondents were asked to indicate their extent of agreement or disagreement with statements relating to each of principle. The instrument was prepared based on a likert scale, where strongly Disagree to 1; Disagree to2; Uncertain to 3; Agree to 4, and Strongly Agree to 5. The effort was also made to calculate the mean result as well. The mean in between 1 to 2, it is consider as dissatisfaction; from 4 to 5, is taken as satisfaction; 3 is indifference of dissatisfaction and satisfaction, and the results are summarized here below in the table as follows.

4.1.1.3.1. Discussion on Canon of certainty

Under certainty category the respondents were asked to indicate their view whether the amount of tax return in general are known and certain at any given time. The result shows that, cumulatively over 63.3 % of the respondents reported that they are certain on the amount of tax return and known at any given time and 58.8 % of the respondents were agree on the statements and 4.5 of the respondents strongly agree. Regarding certainty on the time tax is due respondents were asked to indicate there view and the majority of the respondents (70.5%) strongly agree and they agree on the statement that they clearly know when tax is due ; only 16.7 % and 2.9 % of the respondents disagree and strongly disagree respectively .The Respondents were also asked the tax return allotted days are appropriateness and adequacy accordingly; 52.9% respondents were agreed on the statement that the government fairly allotted the number of days for tax return; while 22% disagreed on the statement. Concerning certainty on the manner of payment that is, whether it shall be by receiving cash or by cheque or some other form of credit about57.3 % of the respondents know certainly how the payment is conducted only14.7% and 7.3% of the respondents disagree and strongly disagree respectively on the statement. With regard to certainty on deadline of payment of tax return, the respondents were asked to indicate their

perception. Then, the survey data shows that, cumulatively over 78.4 % of the respondent felt that the deadline for tax is going to be paid is certain and known and 14.7% and 5.9% of respondent disagree and strongly disagree respectively. Likewise, under the statement on certainty on the Length of time taken to complete given tax matter 45.5% of The respondents note that is hardly know clearly the duration to complete the task and 16.1% and 7.6% of respondents respectively indicate that agree and strongly agree on the time spent for the tax activity .

Table 4.10 Perception of respondents on canon of certainty

NO	Principles		SD	D	N	A	SA	Total
	Principles Certainty		1	2	3	4	5	
1	The amount of tax return in general are known and certain at any given time	F	23	67	52	223	17	382
		P	5.9	17.6	13.2	58.8	4.5	
2	I am certain on the time when each tax is due	F	11	64	29	269	9	382
		P	2.9	16.7	7.3	70.5	2.6	
3	Tax payment days are appropriate and adequate	F	28	84	62	202	6	382
		P	7.3	22	16.1	52.9	1.7	
4	The manner of payment is certain that is, whether it shall be by receiving cash or by cheque or some other form of credit.	F	28	56	62	219	17	382
		P	7.3	14.7	16.1	57.3	4.6	
5	The deadline of payment of tax is certain and known	F	23	56	4	230	69	382
		P	5.9	14.7	1	60.2	18.2	
6	Length of time taken to complete your task/tax matter is certain	F	34	174	84	62	28	382
		P	8.8	45.5	22	16.1	7.6	

Source: From survey data and own computation 2008 EC

4.1.1.3.2. Discussion on Canon of Convenience

The respondents were asked to indicate their view whether Location of Tax offices are accessible. The result shows that, cumulatively over 27 % of the respondents reported location of tax offices are accessible, only 52.9 % of the respondents were disagree on the statements and 20.5% and 6.1% of the respondents agree and strongly agree respectively . Respondent were asked to indicate regarding ease of availability of tax information and more than half of the

respondents (54.4%) disagree on the statement that information is not easily available ; only 23.5 % and 1.5 % of the respondents agree and strongly agree respectively that the government information is easily available. In case the payment time conveniences and appropriateness that is about 42.6 % of the respondents reflected that the time of tax return is comfortable and only 32.3% and 7.3% of the respondents agree and strongly agree respectively on the statement. The Respondents were also asked on the manner in which tax required to pay is suitable accordingly; 23.5% respondents were disagreed on the statement that the manner of payment is not convenient while 32.3% agreed on the statement. Concerning on the Number of days required for to pay for tax return is enough 38.2 % of the respondents reported that number of days allotted to pay tax is enough , 30.8% of the respondents reflect that they disagree on the statement the remaining 17.6 % of the respondents were neutral on the premise. On the statement of appropriateness of the month chosen to annual tax return is, 63.2 respondents agree on the day annual tax return and 14.7% and 8.8 % of respondents disagree and strongly disagree on the issue respectively.

Table 4.11 Perception of respondents on canon of Convenience

NO	Principles Convenience		SD	D	N	A	SA	Total
			1	2	4	4	5	
1	Location of Tax offices are accessible	F	28	203	50	78	23	382
		P	7.3	52.9	13.2	20.5	6.1	
2	Tax information easily available and convenient	F	23	208	56	90	5	382
		P	5.9	54.4	14.7	23.5	1.5	
3	The payment time convenient and appropriate	F	28	123	56	163	12	382
		P	7.3	32.3	14.7	42.6	3.1	
4	The manner in which tax required to pay is suitable	F	34	90	123	123	12	382
		P	8.9	23.5	32.3	32.3	3	
5	Number of days required for tax return is enough	F	23	118	67	146	28	382
		P	5.8	30.8	17.6	38.2	7.6	
6	The months chosen for annual tax return is appropriate	F	34	56	22	241	29	382
		P	8.8	14.7	5.8	63.2	7.5	

Source: From survey data and own computation 2008EC

4.1.1.3.3. Discussion on Canon of Neutrality

The principle of neutrality tells us a tax system should stay out of the way of economic decisions. If individuals or businesses make their investment or spending decisions based on the tax code rather than basing them on what makes economic sense on its own, that's a violation of the neutrality principle. Taking this into account the respondents were asked to indicate that tax influence the date of purchasing good and service. The result shows that, cumulatively over 57.42 % of the respondents reported that they are influenced by tax for the purchase of goods and services, and only 19.11% of the respondents were disagree on the statements and 7.3% of the respondents strongly disagree on the premise. Regarding variation on the amount tax return with officer 29.4% disagree on the idea and 26.4% and 4.6 agree and strongly agree respectively that the tax return amount vary with the officer. In case tax code interference with the way taxpayers do business 38.2% of the respondent agree with the statement about 14.8% of the respondents says strongly believe that tax code has influence on doing business only 19.1 % and 8.8 % of the respondents disagree and strongly disagree respectively on the statement. Under the statement of promoting one sector of the economy /business over the other, the respondents accordingly indicated that tax promote one sector over the other by 33.8% agreement while 22% disagree on the statement. With regard treating similar economic activities in similar ways, the respondents were asked to indicate their perception and Then, the survey data shows that, 32.3 % of the respondent felt that the tax administration treat within the same economic category similar way and 25% and 8.8 % disagree and strongly disagree with the statement . On the issue of tax system neither encourages nor discourages taxpayers from engaging in certain business activity 26.4%therespondentagree on the statement and 23.5%disagree on the statement and6.1 % strongly agree with the issue. Statement of tax system on favor leisure over work 27.8 % respondent disagree on the issue that it does not have any influence over leisure over work and25 % and 4.7 % agree and strongly agree respectively on the statement . Likewise, under the statement of tax system discouragement on competition among businesses 28% of respondent agree on the issue that the existing tax system discourage competition between businesses and 26% and 10% disagree and strongly disagree respectively. Finally tax system influence on

consumption and saving , more than 41% of the respondents tax system of does not influence consumption over saving and investment is19.1% the respondents agree that tax system has influence on the choice of consumption over saving nearly 6.2% strongly agree on the statement.

Table 4.12 Perception of respondents on canon of Neutrality

NO	Principles Neutrality		SD	D	N	A	SA	Total
			1	2	3	4	5	
1	Tax influence the date of purchasing good and service	F	28	73	62	201	18	382
		P	7.3	19.11	16.17	52.9	4.52	
2	The amount of tax return vary in accordance with officer	F	34	112	118	101	17	382
		P	8.8	29.4	30.8	26.4	4.6	
3	Tax code interfere with the way taxpayers do their business	F	34	73	73	146	56	382
		P	8.8	19.1	19.1	38.2	14.8	
4	Taxing system of ERCA promote one sector of the economy /business ahead of another.	F	29	84	101	129	39	382
		P	7.3	22	26.4	33.8	10.5	
5	Tax system of ERCA treats similar economic activities in similar ways.	F	34	96	118	123	11	382
		P	8.8	25	30.8	32.3	3.1	
6	Tax system of ERCA neither encourage nor discourages taxpayers from engaging in certain activities	F	28	90	140	101	23	382
		P	7.3	23.5	36.7	26.4	6.1	
7	Tax system Excessively favor leisure over work	F	45	106	118	96	17	382
		P	11.7	27.8	30.8	25	4.7	
8	Tax system discourage competition among business	F	38	99	107	107	31	382
		P	10	26	28	28	8	
9	Tax system of ERCA influence consumption over saving and investment	F	28	157	101	73	23	382
		P	7.3	41	26.4	19.1	6.2	

Source: From survey data and own computation 2008EC

4.1.1.3.4. Discussion on Canon of Simplicity

Simplicity principle is an important tax policy goal. Complicated tax rules make the tax system difficult for tax payer to understand. Complexity also makes it harder for governments to monitor and enforce tax collections. Having said so to evaluate tax administration of ERCA exhibiting with simplicity principle the author used questionnaire and interview and from the questionnaire having defined tax code is the first question and 30.2% of respondent agree that ERCA has clearly defined tax policies/code and 20.5% indifferent on the statement and 43.2% and 4.4% disagree and strongly disagree respectively, ERCA has no clearly defined policy to run its administration and likewise under the statement of simplicity on tax code of the respondent understand 48.5 % indicate that the tax code is difficult and disagree on the statement, 24.9 % agreed and the tax code is simple and 3.2 % strongly agree on the premise. Under issue of Procedures simplicity in complying tax returns most of the respondents disagree on the statement and 25% and 3.1% respectively agree and strongly agree that Procedures enable to file and comply their obligation.

Under the statement of Simplicity of the content tax form to filling most of the respondent agrees that it is so simple to them to file and 25% indicate that they encountered that the form is difficult and disagree on the premises. Information first thing to any business and also to comply tax return. Based on minimum information for tax return and readily availability from taxpayers perspective 38.2% respondent disagree on the statement and 32.3 % and 4.6 % agree and strongly agree on the premise respectively. Information technology facilitates, speeded up and shortens the time to complete on complying tax obligation. Up on this the writer tried to know whether information technology support complying tax return simple and 33.8% the respondent disagree on the statement and 27.9 and 6.1 Agree and strongly agree respectively that IT enable tax payer to be comfortable to pay their obligation .

The Respondents were also asked ERCA official are simple to communicate and Friendly in behavior accordingly; 41.1% of the respondents were disagreed on the statement that the officials are not simple to communicate to taxpayer while 32.3 agreed on the statement. In case of whether Simple in locating and contacting appropriate person/ officer in the tax office about 39.7 % respondent disagree that on the premises on locating and contacting appropriate person/ officer only 30.8% and 6% of the respondents agree and strongly agree respectively on the statement.

Any change on rule, procedures and directive should be aware to tax payer to make tax payer complying their tax obligation simple and reduce tax evasion as well. On this context the respondents were asked to reflect their opinion regarding to awareness creation to tax reform and 39.7% respondents claim that tax official do not train or tell to tax payer before any adoption tax reform and 23.5% client of ERCA agree that they are informed about any change of reform 5.95% of respondents strongly agree on premise.

Table 4.13 Perception of respondents on canon of Simplicity

N O	Principles Simplicity		S	D	N	A	SA	Total
			1	2	4	4	5	
1	The government has clearly defined tax policies/code.	F	17	165	78	115	7	382
		P	4.4	43.2	20.5	30.2	1.7	
2	The tax code is clear and simple to understand.	F	28	185	62	95	12	382
		P	7.3	48.5	16.1	24.9	3.2	
3	Procedures are simple in submitting tax returns	F	28	196	50	96	12	382
		P	7.3	51.4	13.2	25	3.1	
4	Content of Tax forms are Easy in filling up	F	22	96	22	224	18	382
		P	5.8	25	5.8	58.8	4.6	
5	Information required for tax return is minimum and be readily available from taxpayers' business and personal records	F	28	146	67	123	18	382
		P	7.3	38.2	17.6	32.3	4.6	
6	Network of ERCA makes tax return easy	F	78	129	45	107	23	382
		P	20.5	33.8	11.7	27.9	6.1	
7	ERCA are official are simple to communicate and Friendly in behavior	F	34	157	56	123	12	382
		P	8.8	41.1	14.7	32.3	3.1	
8	Simple in locating and contacting appropriate person/ officer in the tax office	F	34	152	56	118	22	382
		P	8.8	39.7	14.7	30.8	6	
9	Officials aware the client before adoption of any recent reform	F	34	152	84	90	22	382
		P	8.8	39.7	22.05	23.5	5.95	

Source: From survey data and own computation 2008 EC

4.2. Data Analysis

The purpose of this section is to address each research questions in achieving the overall objective of the study using data presented in the preceding section. Hence, the results obtained under different methods are jointly analyzed to address each research question and interview.

4.3.1 Analysis on selected canons

The survey from the instrument was used to address this research question and achieving the research objective. According to Silvani the goal of any tax administration is to foster voluntary tax compliance and hence reduce tax gap and compliance gap (Silvani, 1992). This can be done through recurrent assessment of the existing tax administration in accordance with tax principles and help improving service delivery to tax payers. The primary goal of a revenue authority is to collect taxes in accordance with the law in such a manner that will build confidence in the tax system and its administration (Vadde& Gundarapu, 2012). To achieve this, tax authority should in place strategies to in place tax principle which ensure that non-compliance with tax law is kept to a minimum. As there are many attempts have made to look the tax system, and yet, very few attempts have been made to examine service and administration issue based on good tax system principle. Understanding the federal business taxpayers' attitude based on this selected principle helpful on observing the gap and initiates any reform if needed and supports to deliver solution and boast tax payer compliance concurrently increase the revenue of a government.

The paper, therefore, was trying to understand the views of federal business tax payers as per selected principle on looking that whether Ethiopian tax system abides the canon through raising survey questionnaire. In-depth interview was used to support what had been stated in the survey result.

4.3.1.1. Analysis on Principle of Certainty

Certainty says that tax rules should specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined. A person's tax liability should be certain rather than ambiguous. A tax system's rules must enable taxpayers to determine what is subject to tax and at what tax rate. Taxpayers should be able to determine their tax liabilities with reasonable certainty based on the nature of their transactions. If the transactions subject to tax are easy to identify and value, the principle of certainty is more likely to be attained.

In order to analyze and evaluate ERCA as per canon of certainty the author uses two instrument to verify that is questioner and interview and from the instrument it was found that majority of business tax payer certainly knows the amount of tax return which is the derivative knowing their tax bases and also away from subjectivity and not vary tax officer, In addition, tax payer were acquainted with how the taxes are paid and when the taxes are due and the deadline for payment for each of the tax type . But on the contrary under the statement of length of time to complete tax matter most of respondent did not clearly know the duration to complete their activity and this indicate that service delivery varies with time and create customer dissatisfaction and generate difficulty on planning for allocation of their time and some tax payer take unnecessary choice to get job is done.

In general certainty is arise from clear statutes as well as timely and understandable administrative guidance and vital principle in tax system and helps to improve compliance with the rules and to increase respect for the system. Therefore we can say that certainty principle is somewhat available in Ethiopian revenue tax administration but there is a need to take attention on improving on certainty of cycle time on completing each activity.

4.3.1.2. Analysis on Principle of convenience

A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer. A tax should be payable when it is most likely to be convenient for the taxpayer. For example, a

tax upon the purchase of goods should be assessed at the time of purchase when the person still has the choice as to whether or not to buy the goods and pay the tax. Convenience of payment is important in helping to ensure compliance with the tax system. The more difficult a tax is to pay the more likely that it will not be paid. The appropriate payment mechanism should depend on the amount of the liability and ease of collection. Based on this the author uses questionnaire and interview to evaluate tax administration of ERCA whether it abides convenience principle.

Under this section the writer analyze each statement individually first convenience of location , location convenience pave for ease of getting tax service and respondent says that location of the tax office in general overall tax authority is major issues to be addressed as part of the taxpayers' service. According to Aslund to comply tax return the tax office should be easily accessible either by telephone and internet or being in a convenient location and the physical appearance of equipment, facilities and layout should facilitate taxpayers' services (Aslund, 2002). In contrary the interview result from tax payer reveled that it is quite difficult in locating and contacting appropriate officer in the tax office. Further, the number and location of tax administration offices are not balance with taxpayers and tax officers are too busy and inconveniently located in the office. This indicate that, although ERCA has a separate division or department of the tax office that is responsible for each major business process or activity performed by the tax authority such as large taxpayers office and branches office at federal level but it couldn't bring balance with number of taxpayers and majority of the respondents were not satisfied with the location and accessibility in the tax office. Hence, to improve service delivery the key message from this finding is to increase the number of tax office.

Second availability of tax information, as per Mohammed and Ahmed paper the information required in the tax return must be at minimum level and be readily available from taxpayers' business and personal records (Mohammed and Ahmad, 2011). For any tax administration to meet the canons convenience the tax system need to availed quality information that is necessary to support taxpayer service. From the questionnaire most of the respondent claim that ERCA administration lack convenience on ease availability tax information to the client the ease availability of tax information enable taxpayers fulfill their tax obligations and also give the taxpayer a fair guideline of what consequences taxpayers' activities will have in terms of taxes.

The service should not only address needs of the taxpayer, it should also include assistance in areas in which the taxpayer might not even have realized that compliance could be facilitated through taxpayer service and information (Grampert, 2001). The rationale for providing quality taxpayer services is to raise tax awareness and enhance the level of voluntary tax compliance.

Adam Smith wrote that the tax should be levied at the time and the manner which is most convenient for the contributor to pay it. For instance, if the tax on agricultural land is collected in installments after the crop is harvested, it will be very convenient for the agriculturists to pay it. Similarly, property tax, house tax, income tax, etc., etc., should be realized at a time when the taxpayer is expected to receive income. The manner of payment of tax should also be convenient. Based on this data from questioner and interview indicate that the payment time, days allotted to tax obligation and the manner in which tax required to pay is agreed suitable to the respondent but some says the payment system better if it is modernize and ease to comply tax obligation. In the case of annual tax return the allotted time, information gathered from interview and questionnaire indicate that it is enough and convenient to most of tax payer to comply their obligation and this is good thing to ERCA administration. In general, from the above findings it can be noted business taxpayers had a generally negative perception towards most of the statement and we can say that as per principle of convenience principle even if some elements of premises are in their administration there are much remain to be done to exhibit canon of convinces.

4.3.1.3. Analysis on Principle of neutrality

The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum. The effect of the tax law on business and personal decisions should be kept to a minimum. That is, taxpayers should not be unduly encouraged or discouraged from engaging in certain activities or taking certain courses of action primarily due to the effect of the tax law on the activity or action. The primary purpose of a tax is to raise revenue for governmental activities, rather than to influence business and personal decisions.

Under this section respondent asked and interviewed about preference of purchase of goods and services and the majority of them said they prefer to buy at the month end, if they do have VAT payable under their account Léger so as to minimize VAT amount that is going to be paid tax return this indicate how the neutrality is violated. The author has tried to get the respondent filling regarding promoting one sector over the other to support of the questionnaire interviewer was made and the interviewer also agree with the respondents says that even government has been promoting and creating policy to encourage some sector with tax relief and also heavy taxes has been putted on some products business sector to discourage the use of products such as alcohol and tobacco , this indicate that neutrality principle has been violated

Data obtained from questionnaire and interview indicate that majority participant agree that the tax administration of the entity governing rule , policy and procedure treats similar economic activities in similar ways and also neither encourages nor discourages taxpayers from engaging in certain activities this shows some character of neutrality principle are respected. Moreover survey result revealed that the tax system of the country treat business participant to compete among each other and this indicate that tax has no involvement with tax payer on doing their business and shows some neutrality character.

4.3.1.4. Analysis on Principle of simplification

Simplicity is another important indicator when assessing the tax systems. The more complex a tax system, there are greater opportunities for tax avoidance, evasion and other forms of abuse and also greater chance for exclusion some tax payer who are unable to understand the system. In general the Canon simplicity says that tax system should be fairly simple, plain and intelligible to the tax payer. In addition, simplicity criterion means that tax rules should be understandable, accessible, and uncomplicated (Association of Chartered Certified Accountants, 2008). Therefore, The simplicity of a tax system can be measured, from taxpayers expectancy on tax policies are clearly defined, the tax procedures are clear and simple and taxpayer also expect to contribute If it is complicated and difficult to understand, then it will lead to oppression and corruption. Based on this concept survey question raised about how the government clearly defines the tax policy, simplicity of the tax procedure, tax code, and simplicity of tax documents,

information simplicity on availability, tax official supportive to ease tax obligation and IT support on simplifying on tax comply tax obligation tax simplicity. All these are addressed as follows.

The goal of tax policy is to design a tax system that produces the desired amount of revenue and balances the minimization of these costs with other objectives, such as equity, transparency (Arthur *et al.*; 2011). This objective can be achieved only when the policy is properly administered. Based on this thought ERCA administration tried to simplify the tax system but from questionnaire result revealed that majority of taxpayers filed that the tax policy is not clearly defined, imposing tax is unfair and the tax procedures are not simple and clear. Therefore, researcher initiated to conduct interview to support the result. Accordingly, interview results revealed that the rules and regulations pertaining in Ethiopian tax policies was unfair and complex or difficult to understand that every business taxpayer could understand without requesting support from other individuals, and publicizing timely regulatory guidance, The principal contributing factors to this complexity were the volume of rule and regulation, lack of monitoring and supervision, unexpected change to the tax rule and sometimes lack of clear communication between offices ; Examining the interview result with respect to tax law also revealed that the legislative field of taxes is so disorganized that it is difficult for an average taxpayer to have a clear idea of their obligation in support of this there are many pieces of legislation and amendments. New amendments and changes to the tax rule are made every time and the tax administration has so far made no attempt to organize these systematically and logically in order to make them accessible and intelligible to taxpayers. This indicated that one of the consequences of complexity is that it makes difficult for honest taxpayers to fulfill their obligations. Moreover, the general observation of the researcher from this finding was that most owners of the business have little or no knowledge of the laws or regulation that govern their operations and they are still struggle to look at simple tax system.

ERCA claim that reforming and simplifying the tax system to improving the quality of taxpayer services, the outcome of the survey indicate that the taxpayers are still complain about the behavior of the ERCAs' staff when handling taxpayer queries and complaints on tax matters. This indicates that one problem for tax authority is that different activities in the field of

taxpayer's services are not fully co-ordinate, especially, in the area of how the tax office consults and make it easier for tax payers to meet their obligations.

ERCA created to support service through automated system and improve quality of services to raise the performance revenue collections, according questioner results, the system does not work as effectively and smoothly as it was intended to therefore the entity is expected to work on the area and simplify tax return .In general, from the above findings it can be noted business taxpayers had a generally negative perception towards ERCA and we can conclude that as per principle of simplicity principle a lot remain to be done on simplification to ensure the continued viability of good tax system in Ethiopia.

To summarize the principle of simplicity on evaluating ERCA administration, even though tax reforms have been undertaken, the procedures and rules of the tax authority has not taken firmly particularly in the area of simplicity. This shows that there is scope for the government to further simplify the tax policies and procedures. Second, tax authority has difficulty in providing accurate assistance to taxpayers, and spreading timely regulatory guidance. This indicates that taxpayers still complain regularly about high compliance a lack of clarity over tax regulations, seemingly arbitrary behavior by tax officials and a lack of transparency. This combined with lack of access to information about rules and regulations; unfair tax procedure makes taxpayers unaware of their rights and exposes them to discretionary. Therefore, a key message for government arising out of this study is the need to organize tax systematically and logically and reduce the volume of directives and regulations and thereby moderate complexity

Chapter Five

Summary, conclusion and recommendation

5.1. Summary of findings

Taxes are important source of government revenue in both developing and developed countries. But the amount of revenue to be generated by a government from taxes for its expenditure program depends, among other things, on the willingness of the taxpayers to comply with tax laws of a country. As the author mentioned earlier Ethiopian government has undertaking substantial measures in reforming and modernizing the revenue administration expecting its customer satisfaction. However, this reform has not yet brings the required result on revenue performance. The paper focuses on evaluation taxing system using selected principle and the principles support to examine service quality and administrative issues of ERCA.

Based on this the author believe that the following canons can support to evaluate the variable cited that is certainty, convenience, neutrality and simplicity vis-à-vis with service and customer satisfaction tax system. To achieve this objective, the study adopted explanatory mixed method research approach. The results of survey from the questionnaire and interviews of taxpayers of three branches were jointly used in analyzing on evaluation of tax administration of ERCA.

From the evaluation of ERCA as per certainty principle the author uses two instrument that is questioner and interview and from the instrument it was found that majority of business tax payer certainly knows the amount of tax return which is the derivative knowing their tax bases and believe that it is away from subjectivity and not vary in accordance with tax officer, In addition, tax payer were acquainted with how the taxes are paid and when the taxes are due and the deadline for payment for each of the tax type . But on the contrary lengths of time to complete tax matter most of respondent do not know surely create customer dissatisfaction. Therefore we can say conclude that certainty principle is somewhat good on implementation of Ethiopian revenue tax administration.

Convenience principle requires a tax should be due at a time or in a manner convenient for the taxpayer and important in helping to ensure compliance with the tax system. The more difficult a tax is to pay the more likely that it will not be paid. The study found that business taxpayers were not satisfied with the location and accessibility of the tax office and it is imbalance with number of taxpayer result in convinces and inefficient on providing clear, precise and timely tax information to the tax payers. On the other hand the study found that payment time, number of days allotted to tax obligation and the manner in which tax required to pay is comfortable to tax payer. But some says the payment system better if it is modernize and ease to tax obligation. In general concerning on the principle the author arrive that, taxpayers has moderate perception towards the statement and we can say that as per principle of convenience there is a lot of work to do on improving location accessibility to tax payer and ease of information availability.

The effect of the tax law on a taxpayer's decisions as to how to carry out a certain transaction should be kept to a minimum. Based on this, the study found the tax system influence on the decision of taxpayer especially on allocating resources and purchase of goods. Moreover the tax system ERCA promote one area business type over the other this actually established policy to encourage some business sector through tax relief and also heavy taxes has been putted on some products business to discourage the use of products such as alcohol and tobacco. Therefore generally the tax system of Ethiopia it is far from respecting neutrality principle.

Simplicity is the most important factor of tax compliance. Tax system should be as simple as possible for the reason that taxpayers come from various background. In helping taxpayers to complete the tax returns accurately. Even though tax reforms have been undertaken, tax payers still complain on transparency and clarity of the procedures, rules and regulation and others issues. In general, from the findings it can be noted that business taxpayers had a generally negative perception towards ERCA and Therefore ERCA is expected to work firmly on simplicity principles thereby reduce complexity and increase tax payer satisfaction.

5.2. Conclusions

The purpose of any tax policy is to raise the revenue needed to pay for government spending both in developing and developed countries. But the amount of revenue to be generated by a government from taxes for its expenditure program depends among other things, on the willingness of the taxpayers to comply with tax laws of a country. In most developing countries, like Ethiopia, the revenue generated by the government is quite less than the expenditures spent. This low revenue yield of taxation can only be attributed to the fact that tax provisions and principles are not properly enforced. Canons provide a framework within which various tax system proposals may be considered and can also be used to set a basis of evaluating of the prevailing taxing system. Indeed, it is hard to design a tax system that incorporates all these principles, but there should always be endeavors to ensure that the majority are met. The paper evaluates tax administration of Ethiopian based on selected good tax principle that is certainty, convenience, neutrality and simplistic. The study used explanatory mixed method research approach. The target populations are 36517 in number, identified for this research and are all tax payer of ERCA on federal branches located in Addis Ababa which are paying tax return on east, west and large tax payer (LTO) branch offices and 396 sample were taken and 382 were turned out . Sample size from the total tax payers is determined by Taro Yamane`s formula and data were collected randomly from tax payers of three selected branches through questionnaire and interview. The collected data from the survey was analyzed using descriptive data analysis. The findings of this evaluation revealed that certainty principle is well implemented by the administrator on the contrary a lot remain to be done the rest of three canons. Finally, the author suggests recommendation that could be used by the government in general and tax authorities in particular in the preparation future tax reform and issuance of any directive, rule and procedure which is going to implemented need to encapsulate these principle as guiding route to improve service delivery and alleviating problem emanated from short coming from administration .

5.3. Recommendations

Objectives of tax policy can be achieved only when it is governing principle of good taxing principle is properly used as guiding route on any reform especially on the tax proposal. Ignoring the principle lead to failure on administration of tax and dwindle the quality of tax service to the client and result in corruption tax evasion and dissatisfactions of tax payer and finally the objective of performance of tax return is going to show poor result. The primary responsibility of tax authority is to ensure compliance with tax system. Therefore, tax administration with good tax principle could serve as road map to the entity under study.

The paper objective is evaluating Ethiopian tax system as per selected good tax principle that is certainty, convenience, neutrality and simplistic.

Commencing from implementation certainty principle the comment of the author is Thus certainty principle has been somewhat applied by the tax authority but the length of time which need to complete any given task hardly known by taxpayer and create dissatisfaction to the client thus the recommendation of the author is to frame tasks with time so that it will boast customer satisfaction and increase customers time management as well reduce tax evasion and increase performance of the entity.

Convinces principle require tax to be due at a time or in a manner that is most likely to be convenient for the taxpayer. A tax should be payable when it is most likely to be convenient to their client. Study found that Location convenience is a serious problem in the tax authority and major issues to be addressed as part of pave for ease of getting tax service.

- Tax payer to comply their taxes the office should be easily accessible either by telephone internet any means of communication.
- Location and the physical appearance of equipment, facilities and layout should be improved. Because it will facilitate taxpayers' services and makes easy in locating and contacting appropriate officer in the tax office.
- Increasing the number and location of tax administration offices so as to make balance with taxpayers, in addition tasks need to be revised and require to place standard work expected from each officer accordingly add new tax officers accordingly if needed.

- Evaluating tax authority as per Convenience principle the entity need to increase the number of tax office branches and their accessibility as well to improve service delivery to tax payer.
- The authority need to work more as a strategy to enable the tax payer in delivering accurate, useful and timely tax information so that it will increase client satisfaction and boost the performance of the authority.

Recurrent customer surveys should be introduced to find out the view of taxpayers and obtain regular feedbacks on tax affairs. This would help in identifying areas of weaknesses so as to devise means for improvement.

In general the Canon simplicity says that tax system should be fairly simple, plain and intelligible to the tax payer to understand and accesses, Therefore, the author recommend to the authority to establish some dedicated office to work on;

- To make Tax policies, procedure, rule to be clearly defined clear and simple easily to be understood by taxpayer this possible through obtain regular feedbacks on tax affairs. This would help in identifying areas of weaknesses so as to devise means for improvement and preparing training program and awareness creation. The awareness could be new amendment of rule, new directive anything that makes taxing system simple.
- Alleviating co-ordination problem especially, in the area of how the tax office to consults and handling taxpayer queries and complaints on tax matters make it easier for tax payers to meet their obligations.
- ERCA created to support service through automated system and improve quality of services to raise the performance revenue collections but study found that the system does not work properly therefore the dedicated office can put the effort to make the system work as effectively and smoothly as it was intended to .
- Ensuring courtesy and considerate treatment is extended unconditionally to all taxpayers, responding expeditiously to every taxpayer's enquiry, compliant or request, explaining the grounds for derivation of every tax assessment.

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Appendix

Survey questionnaire

The paper is titled as evaluation of Ethiopian tax administration as per canon of principle, taking the case of east, west and large tax payer branch office. The paper is done by Ermias G/Michael for partial fulfillment of MBA (in Accounting and Finance) student of St. Mary's university. The aim of the paper is to assess the tax administration of the country based on selected canon of principle that is certainty, convince, simplistic and neutrality in order to see how the quality tax administration is look like. To perform the research the investigator has been gathering relevant information using primary and secondary data and part of this the author prepare self-administered questioner using structured questionnaire for sample of respondent of 396 east, west and large taxpayers. Participation in this project is completely voluntary; the questionnaire results will be used for academic purpose and kept strictly confidential. For further information please contact by the following address.

Tel: - 0910-29-01-89

Email: - gebremichaelermias@yahoo.com.com

Section I A: Respondent's Background

For each of the following questions/items, please indicate your choice from the list, and show your choice by putting \surd in the box along the selected item.

1. Please indicate your age.

20 - 30 years	1
31- 40 years	2
41-50 years	3

Above 50 years	4
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2. Please indicate your gender.

Male	1
Female	2

1. Please indicate your educational qualification.

Below 12 grade	1
Grade 12 completed	2
Diploma	3
First degree	4
Master's degree and above	5

Others Pleases specify _____

4. Please indicate how long you have been in business and tax related issue.

Less than 1 year	1
1-5 years	2
6-10 years	3
More than 10 years	4

5. Please indicate your position in the business.

Owner	1
Manager	2
Employee	3
Owner/manager	4

Other Please specify

.....

6. Please indicate the frequency of your visit to ERCA.

On average 2 visits a year	1
On average 3 visits a year	2

On average 6 visits a year	3
Monthly	4
Not applicable	5

7. When was the last time you visited the Tax Office?

Less than 1 month ago	1
3 months ago	2
6 months ago	3
1 years ago	4
Never before	5

B. Company's Background

For each of the following questions/items, please indicate your choice from the list, and show your choice by putting \surd in the number along the selected item.

8. What is your company's main Business activity?

Manufacturing	1
General Trade (wholesale and or retail)	2
Services	3

Others, Please specify _____

9. Please indicate the legal form of your business

Sole proprietorship	1
Partnership	2
Privet limited company	3
Share company	4

Others, Pleasespecify _____

11. Please indicate ERCA office that you pay your tax liability/obligations.

Eastern Addis Ababa branch	1
Western Addis Ababa branch	2
Large taxpayers office (LTO)	3

Section II. The Questionnaires items (questions)

Please indicate your degree of agreement or disagreement with the following statements putting circle on the appropriate number

1 strongly Disagree; 2 Disagree; 3 Neutral; 4 Agree; 5 strongly Agree

Key: SD= Strongly Disagree; D=Disagree; N= Neutral; A= Agree; SA= Strongly Agree

NO	Principles	SD	D	N	A	SA
Canon of Certainty						
1	The amount of tax return are known and certain at any given time					
2	I am certain on the time when each tax is due					
3	Tax payment days are appropriate and adequate					
4	The manner of payment is certain that is, whether it shall be by receiving cash or by cheque or some other form of credit.					
5	The deadline of payment of tax is certain and known					
6	Length of time taken to complete your task/tax matter is certain					
Canon of convenience						
1	Location of Tax offices are accessible					
2	Availability of tax information are easy					
3	The payment time convenience and appropriate					
4	The manner of payment is certain					
5	Number of days required for tax return is enough					
6	The months chosen for annual tax return is appropriate					
Canon of neutrality						
1	Tax influence the date of purchasing good and service					
2	The amount of tax return vary in accordance with officer					
3	Tax code interfere with the way taxpayers do their business					
4	Taxing system of ERCA promote one sector of the economy /business ahead of another.					
5	Tax system of ERCA treats similar economic activities in similar ways.					
6	Tax system of ERCA neither encourage nor discourages taxpayers from engaging in certain activities					
7	Tax system Excessively favor leisure over work					

8	Tax system discourage competition among businesses					
9	Tax system of ERCA influence consumption over saving and investment					
Canon of Simplicity						
1	The government has clearly defined tax policies/code.					
2	The tax code is clear and simple to understand.					
3	Procedures are simple in submitting tax returns					
4	The content of Tax forms are Easy in filling up					
5	Information required for tax return is minimum and be readily available from taxpayers' business and personal records					
6	Network of ERCA makes tax return easy					
7	ERCA are official are simple to communicate and Friendly in behavior					
8	Simple in locating and contacting appropriate person/ officer in the tax office					
9	Officials aware the client before adoption of any recent reform					

Thank you for your cooperation

