ST MARY'S UNIVERSITY
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CHALLENGES OF TAX ADMINISTRATION IN ARADA SUB CITY

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Challenges of Tax Administration in Arada sub city

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DECLARATION

I declare that this thesis is my original work and that all sources of materials used for this thesis have been fully acknowledged. This thesis has been submitted in partial fulfillment of the requirement for the Degree of Master of Accounting and Finance.

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Challenges of Tax Administration in Arada sub city and submitted in partial

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ABSTRACT

Introducing internal revenue generating projects particularly tax administration is very important to reduce dependence on foreign aid and borrowing in developing countries. The study was conducted on analysis of tax administration effectiveness regarding Education & knowledge, Government policy, Authority capacity,& Tax fairness of Arada sub city. the study raised major research questions related to tax assessment, collection, government policy, tax fairness, education and knowledge of both tax payers and employees, and authority capacity. To achieve this objective the researcher used in depth interview with selected tax authority in Arada sub city. the researcher also distributed self-administered semi structured questionnaires to category "A" tax payers found in Arada sub city.. In order to address the questions, descriptive research method and convenience and purposive sampling were employed to gather data. And to achieve the objectives 50 samples were taken. The information gathered witnessed that certain factors were found to be the main constraints or challenges faced in respect of tax administration in Arada dub city among this: there exist inefficiency and insufficient number of tax assessment and collection in the Arada sub city, the sub city doesn't have sufficient and modern facilities, employees doesn't provide the exact service promised, employees of the sub city are not business oriented, employees are not fair and accountable for the decisions they make in their areas of responsibilities, and the tax payers doesn't get adequate training on how to use sales register machine. Moreover, most taxpayers lack sufficient knowledge of tax assessment and collection procedures. Thus, most of taxpayers do not know why they are paying taxes; what types of taxes are expected from them; and the applicable rules and regulations. Due to this, negligence, delay in tax payment is taken by taxpayers as solution to escape from payment of taxes.

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LIST OF ABBREVATION

ERCA: Ethiopian Revenues and Customs Authority

TIN: Tax Identification Number

VAT: Value Added Tax

GDP: Gross domestic product

CHAPTER ONE

INTRODUCITON

This chapter deals with the introductory part of the study. It includes: background study, statement of the problem, research objectives, research methodology, significance, scope, and organization of the study.

1.1   BACKGROUND OF THE STUDY

"I like to pay taxes. With them, I buy civilization."(Oliver Wendell Holmes Jr.) What we can understand from this quote is for one county's progress taxation plays a major role. As many of us would agree taxes are important sources of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income into government hands. One mechanism by which countries raise revenue to finance government spending on the goods and services that most of us demand is taxation. This being said, as compared to developing countries, developed countries have been able to generate substantial revenue through imposing taxes. Otta Nathan (1944)

There are many reasons that can be mentioned for this difference in generating revenue through taxes. One of the reasons for this has been the efficient tax system operating in the developed countries unlike the developing economies which are characterized by weak monetization and the low development of the formal sectors. Talking the other way, developed countries have employed a tax system that have one or a combination of the following desirable characteristics as economic, efficiency, administrative simplicity, flexibility, political accountability and fairness. (Otta Nathan, 1944)

As we can understand from the above statements, proper tax collection requires an efficient tax system. This being said, even if the tax collecting system of our country has been showing progress through out some past few years, Let alone with developed countries, the tax collection in our country is not efficient even compared with developing countries. Janet and Asegedech (1997).The FDRE government has over the years been carrying out several tax reforms in order to avoid the above mentioned inefficiencies. Among the measures the government took to reform

the tax system included making qualified human power sufficiently available, implementing information communication technology in tax offices, and raising the awareness of taxpayers through different communication means. Because of these reform introductions, progress is believed to be achieved according to stakeholders' view. To sum up the research tried to assess the challenges of tax administration of category "A" tax payers in the Arada sub city. Based on **Federal Negarit Gazette of the FDRE proclamation no 979/2016** there exists three categories of tax payers in Ethiopia, which are

a)   Category "A" taxpayer being
-a body; or
-any other person having annual gross income of birr 1,000,000 or more,

b) Category "B" tax payer being a person, other than a body, having an annual gross income of birr 500,000 or more but less than 1,000,000

c) Category "C" tax payer being a person other than a body, having an annual gross income of less than birr 500,000

The study focus is on category "A" taxpayers that are found in Arada sub city. This category is required to maintain proper books of account and other necessary documents for tax purpose. (**Federal Negarit Gazette of the FDRE proclamation no 979/2016 Art. 81).** So the researcher assesses the Challenges of Tax Administration in Arada sub city category "A" tax payers.

1.2   STATEMENT OF THE PROBLEM

Even if there are improving situations in the assessment and collection of tax in our country, there is a high level of deficiency with this regard. As it is agreed by many stakeholders in the tax field, one country's budget has to gather at least 34.5 % of its share from tax (http:www.oecd.org/ctp/tax-policy/revenues-statistics-ratio-change-latest-yers.htm).Let   alone with the standard, while compared with sub Saharan African countries, our country's progress in this regard is minimal. The average Tax revenue in percent of GDP from the year 1990-1995 is 10.36. And it was 11.6 in 2015. We can understand from this that the percentage is not adequate, meaning it was even decreasing. From the things that are mentioned as obstacles for not achieving the standard described earlier, poor tax assessment and collection is notable. There

were many researches on this topic area but none of it could assess the Challenges of Tax Administration.

So this is why this research emanated as the researcher believed it is worth clarifying what challenges are there in tax assessment and collection in Arada sub city of Addis Ababa city. In order to make the research bearable it is limited to a specific part of our city – Arada sub city. Since the indication is believed to be almost similar with the other sub cities, inferring the result to other sub cities would be an easy matter. In trying to have an answer for the above mentioned issue, the researcher tries to identify the challenges of tax administration regarding Education & knowledge, Government policy, Authority capacity,& Tax fairness) that hinder and help tax assessment and collection. The other thing the researcher tries to have an answer for is the solutions that are in place to solve the challenges of tax assessment and collection. Ultimately, the researcher tries to know the measures that should be taken to solve the problem of tax collection and assessment.

1.3. RESEARCH QUESTIONS

The research questions that the researcher tries to get answer for are:

1. How is the level of Authority capacity of Arada Sub city?
2. How is the Educational level of Arada Sub city?
3. How is the Government policy of Arada Sub city implemented?
4. How is the tax fairness of Arada Sub city

1.4 OBJECTIVE OF THE STUDY

1.4.1 MAIN OBJECTIVE

The overall purpose of this research is to assess the challenges of tax administration in Arada sub city.

1.4.2 SPECIFIC OBJECTIVE

1. To assess the level of Authority capacity of Arada Sub city
2. To assess Educational level of Arada Sub city
3. To assess the Government policy of Arada Sub city
4. To assess the tax fairness of Arada Sub city

1.5. SCOPE (DELIMITATION) OF THE STUDY

The research encompassed carrying out a detailed examination or inquiry; especially on tax assessment and collection process regarding value added tax and income tax in respect of category "A" tax payers found and obligated to pay to Arada sub city in order to assess situations posing undesired influence on the tax revenue. Category "A" tax payers are chosen because to assess the challenges of tax administration of Arada sub city, more time and extreme openness from the respondents are required. However, most tax payers lack openness to some questions forwarded to them. In addition, due to lack of sufficient knowledge, extracting necessary data from the computer system that the tax office is using was difficult. So the study is delimited to category "A" tax payers.

1.6. SIGNIFICANCE OF THE STUDY

The findings of this study will contribute in enhancing the tax revenue of the selected sub city and the government at large by accessing the core problems and the challenges that affect both the tax assessment and collection. This means the research will enable the government to put its effort to triumph over the observed problem. Thus, the government will be able to adopt a comprehensive strategy in minimizing observed tax administration problems so as increase tax revenue. Moreover, it may be used as an input for other interested researchers for conducting further study.

1.7. LIMITATION OF THE STUDY

ERCA Arada sub city is the area of the study whereby the concentration is on the challenges of tax administration. While doing the field of research, the following constraints in one way or another affect the quality of this study.

First it is difficult to assess all of the potential challenges that are affecting tax assessment and collection, in order to cope up this problem the researcher highly depends on a limited number of challenges such as effect of authority capacity, effect of educational level & knowledge, effect of government policy and effect of tax fairness. The problem of getting most appropriate bodies to fill out the questionnaire was the other limitation faced by the researcher; but the researcher tries to get the questionnaire filled by the concerned body by informing the business owners the confidentiality of their answer and their answer will be used only for academic purpose. Therefore, such limitations were on the way while conducting the research paper.

1.8 ORGANIZATION OF THE PAPER

The research paper is organized in five chapters. The first part is chapter one which describes the introduction. The second chapter deals with the review of related literature. Chapter three talks about the research methodology and chapter four is a description of the analysis and presentation of the collected data. The last chapter brings the study to an end with conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

The subsequent section of this chapter present the review of both theoretical and empirical studies related to tax collection and assessment.

2.1 Theoretical Review of tax, tax collection and assessment

Public finance

Public finance is one of those subjects, which lies on the border line between economics and politics. It is concerned with the income and expenditure of public authorities and with the adjustment of one to the other (Dalton ,1922).

Dawit as cited in Musgrave (1959) come up with three major fiscal or budgetary functions of the government. Allocation functions, Distribution functions and Stabilization functions

2.1.1 Taxation Related Concepts

A **tax** is defined as a monetary charge imposed by the government on persons, entities, transactions or property to yield public revenue. Where payment is not monetary, a more wide embracing definition has been adapted as:

Taxes are the enforced proportional contributions from persons and property levied by the state by virtue of its sovereignty for the support of government and for all public needs (Thomas. M Cooley: The Law of Taxation).

One of the main characteristics of tax is that the payer does not demand something equivalent in return from the government for the payment. It is expected that when taxes are collected, they are used by government for public good and not just for those who make the payment.

Tax is more than just a source of revenue and growth. It also plays a key role in building up institutions, markets and democracy through making the state accountable to its taxpayers.(*Clean tax and transparency OECD, June 2009)*

Taxation

Taxation refers to the act of a taxing authority – actually levying tax. Taxation as a term applies to all types of taxes, from income to gift and estate taxes. Taxation is one of the primary powers of government over the people.(http://www.investopedia.com/terms/t/taxation.asp)

Governments use taxation to encourage or discourage certain economic decisions.

Taxation is a compulsory collection of money by government;

▸   It is a payment extracted by the government from people and organizations to fund public expenditures

▸   Transfers resources from private to public consumption.
▸   taxes are involuntary levies without a quid pro quo;

Throughout history, people have debated the amount and kinds of taxes that a government should impose, as well as how it should distribute the burden of those taxes across society. Unpopular taxes have caused public protests, riots, and even revolutions. In political campaigns, candidates' views on taxation may partly determine their popularity with voters. Countries differ considerably in the amount of taxes they collect; however, the most important source of revenue for modern government is tax.

Governments compel the payment of taxes: to fund services which are mainly public and which cannot be provided through the market system; people otherwise would not be willing to pay for these services; and to accomplish some redistribution role;

Today, tax has become a part and parcel of all economic activities of human beings. Every man, willingly or unwillingly, pays an amount of money in the form of tax on the products he uses basically. Besides, he pays tax on his income, wealth, etc.

Taxation is defined as a system of collecting money – tax revenue – to finance government operations. All governments require money to undertake different functions. The required money– taxes – is collected from the citizens. Without taxes to fund its activities, government could not exist. Initially, the government imposed taxes for three basic purposes: to cover the cost of administration, maintaining law and order in the country and for defense.

Taxation is the most important system of collecting public revenue (tax revenue) in modern economic system. It is the powerful instrument in the hands of the government for transferring purchasing power from individuals to government. Governments may raise or lower taxes to achieve social and economic objectives, or to achieve political popularity with certain groups. It is interrelated with public Finance due to these factors.

Characteristics of taxes

▶ Compulsion… no refusal to pay

▶ Direct benefit is not the main condition (levies without quid pro quo)… collective use

▶ Impose obligations – tax cannot be escaped…subject to criminal offense

▶ Common interest… payers as well as non-payers will benefit(Not always)

▶ Regular and periodic payment… known due dates

▶ Harmony with national objectives… based on national objectives

Tax revenue is generated by mainly indirect taxes. For example in the fiscal year 2003/04 indirect taxes raised about 70 per cent of total tax revenues leaving the rest to direct taxes (Yesegat 2008). Turnover Tax, Excise Tax, Value added Tax, Customs Duty Stamp Duty.

Some purposes of taxation

Money provided by taxation has been used by states and their functional equivalents throughout history to carry out many functions. Some of these include expenditures on war, the enforcement of law and public order, protection of property, economic infrastructure (roads, legal tender, enforcement of contracts, etc.), public works, social engineering, subsidies, and the operation of government itself. Governments also use taxes to fund welfare and public services. A portion of

taxes also goes to pay off the state's debt and the interest this debt accumulates. Modern social security systems which are intended to support the poor, the disabled, or the retired are fulfilled by taxing those who are still working. In addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy, to modify patterns of consumption or employment within an economy by making some classes of transaction more or less attractive. (http://en.wikipedia.org/wiki/Tax#Purposes_and_effects).

2.1.2 Legal Structure for Effective Tax Administration

The legal rules required for effective tax administration might be categorized under four broad headings:

• Rules for the establishment of an individual's tax liability;

• Rules establishing a system of appeals from the initial assessment of tax;

• Rules for the collection of taxes that have been established to be owing; and

 • Rules relating to tax offences and their punishment.

The importance of a sound legal structure for effective tax administration and the importance of incorporating principles that will further tax compliance in the design of that legal structure. Since each stage of the administrative process is dependent upon the other, to achieve a significant improvement in the overall effectiveness of the tax administration each element of the legal structure needs to be designed for maximum effectiveness (Asian Development Bank, 2001).

In addition to the legal structure for tax administration, obviously, the organizational structure of the tax administration is also of crucial importance. According to the Asian Development Bank, 2001, the range of issues that must be resolved, in this regard, include: Agreement of autonomy from the executive branch, Accountability to legislative assembly, Relationship to the Ministry responsible for the tax legislation, Type of organization structure in relation to taxes administered, Decentralization, Personnel policy, Policies for internal audits mission statement and strategic plan

Income Tax

An **income tax** is a government levy imposed on individuals or entities (taxpayers) that varies with the income or profits (taxable income) of the taxpayer. Details vary widely by jurisdiction. Both a country and subdivisions may impose tax. Income tax generally is computed as the product of a tax rate times taxable income. Tax rates may vary by type or characteristics of the taxpayer. Taxable income of taxpayers in jurisdiction is generally total income less income producing expenses and other deductions. (http://en.wikipedia.org/wiki/Income_tax)

Value Added Tax (VAT)

A value added tax is a form of consumption tax. From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the value added to a product, material, or service. The purpose of VAT is to generate tax revenues to the government. The value added to a product by or with a business is the sale price charged to its customer minus the cost of materials and other taxable inputs.

A value added tax is like a sales tax in that ultimately only the end consumer is taxed.(http://en.wikipedia.org/wiki/Value_added_tax). The very nature of the VAT is it is the most important tax in most developing countries.(Richard and Eric, 2008 citing, Pinhanez 2007)

2.1.3 The Ethiopian Tax System

Public finance- revenue and spending activities;

The transitional Government of Ethiopia issued proclamation no 7/1992, providing for the establishment of regional governments

Powers and duties of federal and regional governments:

Federal government: article 51(10)- it shall levy taxes and collect duties on revenues sources reserved to the federal government; it shall draw up, approve and administer the federal government's budget;

Regional states: article 52(2(e) to levy and collect taxes and duties on revenue sources reserved to the states and to draw up and administer the state budget.

Central list

- Duties, tax and other charges levied on the importation and exportation of goods.
- Personal income tax collected from the employees of the central government and the international org.
- Federal registered business taxes: VAT, profit tax, personal income tax etc.
- Tax collected from national lotteries and other chance winning prize.
- Taxes collected on income from air, train and marine
- Taxes collected from rent of houses and properties owned by CG
- Charges and fees on licenses and services issued or rented by CG

REGIONAL LIST

- Personal income tax collected from the employees of the regional GOV
- Rural land use fee
- Agricultural income tax expect incorporated farmers
- Profit and sales tax collected individual traders
- Tax on income from inland water transportation
- Profit, personal income tax and sales tax from regional business
- With prejudice to joint revenue sources, income tax, royalty and rent of land collected from mining activities
- Charge and fees on license and services issued or rented by RG

JOINT

- Profit tax, personal income tax and sales tax collected from enterprises jointly owned by CG AND RG

- Profit tax, dividend tax and sales tax collected from org.

- Forest royalty

- Profit tax, royalty and rent of land collected from larger scale mining, any petroleum and gas operations.

Both regional and federal governments have the right to levy taxes and spend it in financing their own activities. Regional governments are given tax and expenditure assignments. Public finance activities of the Ethiopian government both the federal and the regional government are responsible in raising revenue and spending. The transitional government of Ethiopia issued proclamation No 33/1992 that defined the sharing of revenue between the central and regional governments.

Table 1Ethiopian Tax Types

Types of taxes in Ethiopia			
No	**Direct taxes**	Indirect Taxes	
1	Tax on income from employment/personal income tax	Turnover Tax	
2	Business profit tax	Excise Tax	
3	Tax on income from rental of buildings	Value Added Tax	
4	Tax on interest income on deposits	Customs Duty	
5	Dividend income tax	Stamp Duty	
6	Tax on income from royalties		
7	Tax on income from games of chance		
8	Tax on gain of transfer of certain investment property		
9	Tax on income from rental property		
10	Rendering of technical service outside Ethiopia		
11	Agricultural income tax		
12	Land use tax		

1 Direct tax: is a tax that is paid directly by an individual or organization to the imposing entity. Direct taxes are different from indirect taxes, where the tax is levied on one entity, such as a seller and paid by another, such a sales tax paid by the buyer in a retail setting.

2   Indirect Tax: is a tax that increases the price of a good so that consumers are actually paying the tax by paying more for the product. An indirect tax is most often thought of as a tax that is most often thought of as a tax that is shifted from one tax payer to another, by way of an increase in the price of the good.

2.1.4 Technology and Tax Administration (Technology for Taxation) In Developing Countries

As Asamnew Gebreselassie cited in Kangave (2005) stated it, tax administration refers to the identification of tax liability based on the existing tax law. It also includes 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 and returns processing, collection, and audits.(Asamnew, 2013). Since it plays a vital role in one country's development, tax administration of every country should be supported with every possible advancement. From the vital advancements that should be introduced to the tax administration, the use of technological advancements is the most important. Of course, this conclusion is based on my limited knowledge and experience.

Certainly, in every bit of the human life, we can observe that technology has influenced the way we work, play and interact with others. Related to this fact; it will not be surprising that technology has also affected how tax systems are designed and administered in developing countries. This is well even if it cannot be concluded that the technology has been only for better. Adopting new technologies have permitted major changes in tax administration structure and operation in developing countries.(Richard and Eric, 2008)

In the work of (Richard and Eric, 2008) it was mentioned that technology can have the following benefits to tax and taxation.

ξ   Technology may improve the quantity and quality of information available to taxing authorities and their ability to use that information effectively.

ξ   Technology may make tax administrations more effective by improving information flow, facilitating coordination, and improving the allocation of resources.

ξ   Technological changes may reduce taxpayer compliance costs by improving information and services to taxpayers (for example, software for maintaining books and records, and for calculating tax liabilities, or electronic or return–free filing alternatives).

ξ   Technology may reduce opportunities for corruption by reducing the face–to–face interaction between taxpayers and taxing authorities.

ξ   Technological improvements reduce compliance costs and delays associated with paying taxes (for example clearing goods at customs or standing in line to pay taxes) and such costs are generally higher in developing countries.

ξ   Technology makes it possible to perform administrative functions both differently and better than without technology.

ξ   Technology will provide additional tools to tax administrators to observe and monitor individuals and transactions (Richard and Eric, 2008).

In trying to get the above mentioned and other many benefits, numerous developing countries adopt quite a lot of technological advancements. To the taxing system, as it is important to adopt technological advancements, making sure if adopted technologies for tax administration have also improved the way tax is administered and designed is necessary. Well technology alone cannot do the job of good tax administration and good tax administration can be carried out without technology. (Richard and Eric, 2008).

This was why Richard and Eric (2008) in their work(Technology and Taxation in Developing Countries: From Hand to Mouse1 December 2008), asked the question "Does the use of technology in the tax systems of developing countries mark a similar opportunity for developing countries to improve tax administration and design?" In the same way in answering their raised question they mentioned "ideally to answer this question one needs to consider the <u>costs</u> and <u>benefits</u> of different types of technological changes for administrators, taxpayers and third parties involved in the taxing process."

Over the last 40 (well now 45) years reform efforts in tax administration in developing countries have generally centered in information technology. (Richard M. Bird and Eric M. Zolt, 2008)

2.1.5 Tax Assessment and Collection

Tax assessment

A tax assessor is responsible for preparing and maintaining the assessment roll, the tax roll and collecting the tax levies in accordance with the quality standards. The core service responsibilities include:

- Preparing annual market value assessments for all properties
- Preparing the business assessment valuations for all businesses premises
- Maintaining accurate property information and ownership on all realty accounts
- Maintaining accurate property information and ownership on all business accounts
- Defending assessments before municipal and provincial assessment tribunals
- Responding to inquiries and requests for information related to assessment and taxation
- Producing and mailing annual assessment and tax notices to tax payers
- Reporting assessment rolls and meeting annual audits.

Assessment occurs when an asset's value must be determined for the purpose of taxation. Assessments are made annually on certain types of property such as homes and cars; other assessments may be made only once. For example, homes are often valued every three or four years according to their physical condition and comparable values of surrounding residences.(www.investopedia.com/terms/a/assessmesnt.asp)

Tax collection or tax revenue

Is the income that is gained by governments through taxation. Just as there are different types of tax, the form in which tax revenues is collected also differs; furthermore, the agency that collects the tax may not be part of central government, but may be a third party licensed to collect tax which they themselves will use.

Tax revenue on purchases come in two forms "tax" itself is a percentage of the price adds to the purchase (such as sales tax in U.S. states, or VAT in the UK). While "duties" are a fixed amount

added to the purchase price (e.g. For cigarettes).In order to calculate the total tax raised from these sales, we must work out the effective tax rate multiplied by the quantity.

Major factors affecting taxation revenue

The amount of taxation revenue collected in a particular year can be affected by a number of factors including:

- A change in the rate of a tax or levy;
- The introduction or abolition of a tax or levy;
- One-off special payments;
- Additional or fewer collection periods during the financial year;'
- Changes to payment arrangements; and
- Other factors such a economic conditions, population growth, etc.

(http://en.wikipedia.orgh/wiki/tax.assessment)

Procedures for tax collection

It is expected that people'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. On the other part of the tax collectors, collection of tax should be time conscious and convenient and the cost of collecting the tax should not be high to discourage business. Alternatively, this means that the ideal tax system in developing countries should raise essential revenue without excessive government borrowing and should do so without discouraging economic activity and without deviating too much from tax system in other countries. (AsamnewGebresilassie cited in Tanzi, 2001).

2.1.5 a)Identification and registration of taxpayers Tax identification Number (TIN) is used to identify tax payers. Every taxpayer has a unique TIN, which he or she is supposed to use in all his or her correspondence with the tax authority, and no taxpayer completing a TIN application form. (Asamnew cited in Kangave, 2005)

2.1.5 b) 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.

2.1.5 c) Returns processing 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. The officer then allocated an assessment number to the return and issues the taxpayer with a Bank Payment Advice Form, stating the tax payable.

2.1.5 d)Payment of taxes are due on the due date of the submission of the self-assessment returns. Tax should be paid to an authorized bank, using the Bank Payment Advice Form.

2.1.5 e) 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.

2.1.5 f) Collection and enforcement 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 commissioner may bring a suit against the tax payer 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.

2.2 Empirical Literature Review

2.2.1 International studies

There are many researches that are done in different areas in connection with challenges that have weakened the ability to achieve desired government revenue targets. For example, Kangave (2005) discussed Uganda's tax structure, the problems faced in administering taxes, and then he gave possible solutions to the problems the author identified in his research. The author, in his research identified corruption, tax evasion, inadequate resources for tax administration, poor quality of audits and inadequate support for tax administration as the problems or challenges of tax administration. However, the author neither purports to address all of the problems nor set out to address in detail the causes of these problems. Instead, he pointed out some problems. Besides, the author's recommendations for solving the tax administration problems were made to be relied on not on detailed data. Ultimately, the solutions mentioned by Kangave were made basing Canadian tax administration system which would be unreasonable to judge Ugandan scenario with Canadian standard.

In the research of Kangave the researcher couldn't give detail causes for the problems identified. In addition to this, he didn't address all problems. Ultimately, the recommendations made by him were not on a detailed data and the solutions mentioned by him were not tuned with internal country's scenario. i.e. Canadian solutions for Ugandan problem.

Ndaba (1987) on the study on factors facing revenue collection in Local Government revealed that, financing Local Government in Tanzania faces a number of problems. He explained that, Revenue Collection is hindered by; the loss in experienced staff and the temporary discontinuity of the local rates collection on individual and their property.

In order to improve revenue collection, Ndaba recommended several means; these are, to improve revenue collection mechanism; to have close supervision; to improve the recording of the business license owners and provision of reliable transport to inspectors/collectors.

Semboja and Therklden (1992) in their study in Tanzania revealed that, local authorities were not able to collect enough revenue to finance the operations and maintenance of the basic service in their localities..

In their study, they pointed out four major cases of poor revenue collection in Tanzania Local Government Authorities. These comprises of the following:

(i) The main basic sources of revenue are based on fixed rate per unit and therefore likely to be inelastic.

(ii) The administration of revenue collection has generally been poor.

(iii) Certain potential new sources have not yet been exploited.

(iv)There has not been sufficient political and administrative support from Central Government, to tax a population accustomed to free public service since 1967.

The other research done in relation with the collection of tax was by, Pramodk.Rai (2004) which discussed the need of tax collection in Indian context. In his research, he first discussed all countries' need to collect taxes for several reasons, the reasons mentioned were, financing developmental activities, meeting day-to-day expenses related to maintenance of a free and fair society, controlling the economy through fiscal measures, and to a certain extent, changing the economic behavior of people. The researcher pointed out that, the authority of national governments to collect monies from taxpayers must recognize a balance between the nations' authority to tax and taxpayers' rights. As he stated, the real challenge for nations is to ensure that taxpayers are treated with fairness, justice, and equity, while national governments assert their jurisdiction as taxing authorities.

The research continued its discussion by expressing that tax administrators of developing countries face many challenges in the massive task of tax collection. From the challenges, the prominent mentioned was Tax Evasion. Nevertheless, it was mentioned that the problem of tax evasion bothers tax administrators of developing countries and developed countries alike. He mentioned, in the real world, those who wish to reduce their tax liability have more choices than just tax evasion. Smarter and more sophisticated taxpayers, who find the cost/risk of evasion greater than the benefit, practice risk-free legal ways of non-payment of taxes rather than blatant

tax evasion, which is popularly known as tax avoidance. It discussed in many countries, there are perfectly legal tax avoidance strategies for minimizing tax liabilities. For the government, the results of tax evasion and tax avoidance are the same; for the taxpayer, however, tax avoidance is preferable because there are less or no chances of getting caught and prosecuted. It is also believed that relatively less wealthy and consequently less well-advised people engage in tax evasion whereas relatively wealthier and better-advised people practice tax avoidance. Therefore, the loss to government revenue on account of tax avoidance is much greater compared to tax evasion. He mentioned, for effective revenue collection, governments need to curb not only the tax evasion but also the tax avoidance. The tax collection system should be designed in such a way that not only the tax evasion but also the tax avoidance becomes difficult for the taxpayer.

When we come to the work of Pramodk (1991), the researcher highly focused on tax evasion and avoidance. As he mentioned tax avoidance is also a problem as tax evasion is. In expressing why wealthier tax payers prefer tax avoidance compared with tax evasion, he expressed cost/benefit. i.e. tax avoidance is preferable way of hiding tax without risking too much and without breaching the law. No matter the way both tax evasion and tax avoidance hinder the tax that the government should collect. Relating to this the researcher needs to use this indicator to see if the main cause of tax collection and assessment is whether tax avoidance or tax evasion. The researcher needs to ask this question since the taxpayers she needs to assess are thought to be wealthier. in saying this the researcher will try to see if there are collection systems that are in such a way that can help to curb tax avoidance. The other main point Pramodk mentioned was balance between the nations' authority to tax and taxpayers' rights. These levels will be from the main themes that this researcher will ask.

Pramodk, tried to see many aspects on the government side and how the government should collect tax to generate high level of revenue. However, the researcher didn't try to see the tax collection aspect from tax payer's side. He didn't make it clear why tax avoidance and evasion is happening and affecting the tax collection in the developing countries. He should have also made it clear the level of knowledge of the tax payers on the importance of paying tax for the country. Hence, this researcher will try to see this.

In another research James (1999) examined issues affecting the formulation of tax policy through the development of actual proposals by tax policy-makers. This was done taking in to account

the possibility that too narrow an approach to this process can produce misleading conclusions and that proposals for tax reform may be inappropriate when the wider context of the tax system as a whole and the environment in which it has to operate are considered. Two issues were used to illustrate the situation – tax compliance and tax simplification. The paper concluded that in developing tax policy it is important to ensure that the wider context is taken into account and it also outlines a practical approach to achieve this aim.

In the work of James (1999) it was mentioned tax policy is what matters for the proper collection and assessment of tax. The two things he mentioned as the main bodies of the tax policy. These things were tax compliance and tax simplification. The researcher of this work will also try to see those issues.

Maiga(2015) discussed about the impact of tax collection in achieving revenues targets: the directorate general of taxes the Mali case, the author examined the relationship between the collection of taxes and revenues targets generated by each of the financial services at the directorate general taxes of the Republic of Mali. In the year 2012 the revenue generated by the directorate general of taxes contributed a big amount of funds to the Malian treasury, which is 40%.

Maiga, (2015) has expressed in his research as to the experience of Mali, the percentage of tax to our total GDP is very little. It is well known that the tax collecting system in the country has been showing progress from time to time. Evidence indicates that in the previous regimes tax collecting system was very backward. But still many citizens were suffering from improper infrastructure in the country as the tax collection was not   adequate to cover these infrastructure needs of the country. So the researcher will examine the hindering factors that are affecting tax collection and assessment of each tax payers in the specified sub city and why we are still back warded from other countries in Africa.

The other work was by Janet and Asegedech (1997) in their work tax effort in sub Saharan Africa it was mentioned that sub Saharan African countries face difficulty in raising tax revenue for public purpose. According to Janet and Asegedech (1997) the tax revenue in percent of GDP was declared from the year 1990-1995 as shown below.

Table 2 Tax revenue in percent of GDP

Sub-Saharan African Countries: Tax Revenue
(In percent of GDP)

	1990	1991	1992	1993	1994	1995	Average 1990-95
Angola	22.4	14.82	25.3	36.98	39.16	28.01	27.78
Benin	7.89	8.82	10.03	10.94	10.74	11.88	10.05
Botswana	39.84	36.93	36.98	33.08	28.97	27	33.8
Burkina Faso	10.15	10.13	8.69	9.28	10.1	10.95	9.88
Burundi	13.1	14.87	14.49	14.86	15.85	17.81	15.16
Cameroon	9.6	10.16	9.55	7.76	9.86	10.62	9.59
Cape Verde	10.99	13.63	15.58	17.92	19.65	19.89	16.28
Central African Republic	10.63	8.61	8.52	7.43	6.46	8.65	8.38
Chad	7.89	5.94	6.28	6.42	5.62	7.44	6.6
Comoros	12.05	10.94	12.9	12.64	12.64	12.26	12.24
Congo	16.92	16.3	14.27	11.13	8.09	12.95	13.28
Cote d'ivoire	17.56	16.89	16.93	14.77	16.41	17.83	16.73
Djibouti	25.42	24.19	25.38	26.82	28.09	26.76	26.11
Equatorial Guinea	14.31	13.49	14.12	13.92	10.88	9.27	12.67
Eritrea	_	_	12.4	16.65	14.92	15.29	14.81
Ethiopia	10.36	7.97	8.21	10.72	12.51	12.37	10.36
Gabon	12.88	16.63	16.21	15.59	15.55	20.75	16.27
Gambia	19.83	20.44	21.82	20.02	17.45	_	19.91
Ghana	10.81	12.41	10.03	12.89	16.99	15.03	13.03
Guinea	14.57	13.8	12.49	10.79	9.62	10.33	11.93
Guinea-Bissau	7.99	6.48	3.91	4.97	6.83	6.91	6.18
Kenya	20.1	19.82	20	24.46	25.02	25.97	22.56
Lesotho	34.04	37.15	40.24	43	41.66	39.06	39.19
Madagascar	9.43	6.85	8.66	8.16	7.69	8.13	8.15
Malawi	16.66	16.34	15.53	14.79	14.5	15.29	15.52
Mali	9.79	12.08	10.35	11.08	10.04	10.68	10.67
Mauritania	18.34	16.55	16.46	19.05	17.91	17.01	17.55
Mauritius	21.65	19.96	19.31	19.19	16.91	15.96	18.83
Mozambique	19.87	18.48	18.36	18.21	16.15	16.69	17.96
Namibia	27.44	32.19	30.74	31.33	29.57	30.8	30.34
Niger	7.92	7.02	6.83	6.58	5.43	6.62	6.73
Nigeria	10.35	8.35	8.21	7.28	5.7	7	7.82
Rwanda	9.86	10.95	8.88	8.41	3.51	6.63	8.04
Sao tome and	9.36	10.23	13.36	13.04	9.99	9.79	10.96

Principe							
Senegal	15.56	16.7	15.32	13.88	12.43	13.59	14.58
Seychelles	38.26	34.29	34.53	36.57	34.07	28.93	34.44
Sierra Leone	9.56	11.65	13.29	13.59	10.13	9.17	11.23
South Africa	24.84	23.8	23.16	23.86	24.74	24.86	24.21
Sudan	5	5.56	6.85	6.34	6.96	6.87	6.26
Swaziland	30.08	30.02	27.99	28.02	29.15	32.76	29.67
Tanzania	13.97	14.84	11.42	13.47	12.25	12.8	13.13
Togo	18.65	15.23	12.64	9	11.76	13.76	13.51
Uganda	7.32	6.29	6.69	7.76	9.22	9.69	7.83
Zaire	9.29	4.39	2.73	3.41	2.93	4.06	4.47
Zambia	19.92	18.3	17.53	13.85	16.85	15.5	16.99
Zimbabwe	30.48	33.26	27.63	26.72	24.98	24.3	27.89

Source: Janet and Asegedech (1997)

We can see that the average percentage of Ethiopia from the other countries in the researchers works.

When we see the work of Janet and Asegedech (1997) the tax revenue in percent of GDP from 1990-1995 was mentioned, and accordingly the tax revenue in percent of GDP of the sub Saharan countries for the year of 2015 was as follows:

Table 3 Tax to GDP ratio

Sub-Saharan African Countries: Tax Revenue
(In percent of GDP)

	Average 1990-95	2015
Angola	27.78	5.7
Benin	10.05	15.4
Botswana	33.8	35.2
Brukinafaso	9.88	11.5
Burundi	15.16	17.4
Cameroon	9.59	18.2
Cape verde	16.28	23
Central Afican Republic	8.38	_
Chad	6.6	4.2
Comoros	12.24	12

Congo	13.28	5.9
Cote d'ivoire	16.73	15.3
Djibouti	26.11	20
Equatorial Guinea	12.67	1.7
Eritrea	14.81	_
Ethiopia	10.36	11.6
Gabon	16.27	10.3
Gambia	19.91	18.9
Ghana	13.03	20.8
Guinea	11.93	8.2
Guinea-bissau	6.18	11.5
Kenya	22.56	18.4
Lesoto	39.19	42.9
Madagascar	8.15	10.7
Malawi	15.52	20.7
Mali	10.67	15.3
Mauritania	17.55	15.4
Mauritius	18.83	19
Mozambique	17.96	13.4
Namibia	30.34	28.8
Niger	6.73	11
Nigeria	7.82	6.1
Rwanda	8.04	14.1
Sao tome and principe	10.96	17.4
Senegal	14.58	19.2
Seychelles	34.44	32
Sierra Leone	11.23	10.5
South Africa	24.21	26.9
Sudan	6.26	6.3
Swaziland	29.67	39.8
Tanizania	13.13	12
Togo	13.51	15.5
Uganda	7.83	12.6
Zaire	4.47	_
Zambia	16.99	16.1
Zimbabwe	27.89	27.2

As we can see from the above table our countries percentage show a little progress from the average of 1990-1995 to 2015 but it is not adequate or near to being adequate. So the researcher will assess the reasons behind this.

2.2.2 Local Studies

Assmamaw (2013) in His Work discussed about his research objective as to investigate tax assessment and collection problems in respect of category "A" taxpayers found in Yeka sub city. He tried to see factors affecting assessment and collection faced by both taxpayers and the authority.

Specifically the researcher tried to explain the main problems in tax assessment and their causes relating to category "A" tax payers faced by different parties involved. He also tried to identify the challenges faced in the tax collection system. However, in his work, he didn't mention what solutions are in place to correct the hindering factors in tax assessment and collection. He also didn't mention what needed to be done to improve the tax assessment and collection challenges. In addition to these, he couldn't explain why taxpayers are avoiding or evading tax.

Wakuma (2006) E.C in his work Tax Collection- Progresses Made, Existing Challenges explained the importance of tax to one countries' development and how the tax collection system in the country is showing progress. In relation to this he also tried to explain how tax revenue plays a great role in determining the successful accomplishment of projects that are meant to benefit the society. Citing concerned officials who gave an interview to Ethiopian herald newspaper, Wakuma mentioned some members of the business community who are unethical and unfaithful are seen trying to evade tax. Some of the ways in which tax payers use to evade tax include: unable to buy the necessary machines like cash register, refusing to use cash register machines, undertaking transactions without issuing their customers a legal receipt and the like. The concerned body mentioned the authority is working to solve these problems in several ways. But still now the problem is not solved till now so the researcher will try to see these problems and also assess the hindering factors in the tax collection and assessment of the Arada Sub city.

Abebu, Zufan and Eden (2003) E.C in their work explained the goal of the research as to study tax assessment and collection problems of category "A" medium tax payers found in Addis Ababa medium taxpayers no 2 branch office. The researchers explained tax assessment and collection problems are happening due to employees' inefficiency and ineffectiveness. As a solution they mentioned tax office should offer continuous training for their employees by allocating enough money for training center. They mentioned tax office should employ or recruit

sufficient number of employees to avoid work influences by one employee. But this factor is just one thing that is influencing the tax collection of the country. So the researcher will try to see many other factors that are influencing the tax collection and assessment of the specified sub city.

Negusse (2014) the research objective is to evaluate the consequence of tax assessment of tax collection of category "c" tax payers in Mekelle city. It was mentioned in the study that a logical regression model was applied to determine the relationship between the tax assessment and tax collection of category "c" taxpayers. And it was mentioned that the research objective was to evaluate the consequence on tax assessment on tax collection of category "c" tax payers. In this research only primary data was employed. Hence, only primary data is not adequate to get the relevant data on the subject matter. The other point is that the study was on category "c" tax payers which meant the study was concerned on bodies other than bodies having an annual gross income of less that birr 500,000.

Yohannes (2013) in his work sales register machine and its impact in improving tax assessment and collection mentioned that his research objective is to observe and describe what the impacts of sales register machine are in improving tax assessment and collection. For the realization of his study he used both primary and secondary data types. He mentioned in his study that there exist different benefits in using sales register machine like that sales register machines would protect taxes from being evaded. As Yohannes citing a newspaper mentioned in his work, In 2009 the Ethiopian government knew using technology for collection of tax can enhance the government's revenue position as well as reducing the degree of tax evasion. The other benefit Yohannes mentioned was the part what taxpayers mentioned as, "You pay for what you get". "Most people are against the whole idea of using a cash register until they see the benefit of using it. In is work the researcher concluded that most business organizations do became the users of the sales register machine by their willingness and the majority of respondents do believe they have gained benefits due to using the sales register machine. He then added a good number of the respondents do believe that they have benefited from the sales register machine in many ways. Moreover, in relation to this, sales register machine was mentioned as it brought benefits towards increasing tax payer's revenue.

The researches that are mentioned above are labeled by the researcher as to be good as they tried to address several issues with the topic that the researcher has identified as problem for this research. This being said the researcher believe the researches weren't to the fullest in answering the researcher's problem. The reasons why the researcher believed these researches were not to the fullest are mentioned below.

In trying to see the local studies, what the researcher believed had not been answered are questions like what solutions are in place to avoid the hindering factors in collecting and assessing tax. The other things that need to be seen are if the ways mentioned that are used to evade tax are in place and what needs to be done to curb them. In one research it was mentioned as inefficiency and ineffectiveness in tax authority are from the factors that are hindering the collection and assessment of tax. Hence detailed analysis on these inefficiencies and ineffective nesses is believed by the researcher to be needed.

Finally, in his work Yohannes (2013) mentioned that taxpayers believed they are being benefited from using sales register machine. Sales register machine is believed by most stakeholders in the tax field to play an important role in the collection and assessment of tax. After this work was published, there was an assessment that was done by a local news paper which reported almost 85% of assessed tax payers were not using sales register machine.

This researcher needs to see if Yohannes's research addressed the fact on the ground and why his research findings were contrary to the newspaper's finding.

The researcher takes government policy, authority capacity, educational level & knowledge and tax fairness as the factors affecting tax collection and assessment. The reason behind this is that according to Frank (2002) government establishes many rules and regulations that guide businesses. Businesses will normally change the way they operate when government changes these rules and regulations. Government economic policy and market regulations have an influence on the competiveness and profitability of businesses. Business owners must comply with regulations established by federal, state and local governments. Governments get money to spend from taxation. Increased spending requires increases in taxes or borrowing. Any tax increase will discourage investment, especially among entrepreneurs, who take the risk of starting and managing businesses.

According to Adam smith in Zain (2003:25), the most important principle in the context of the successful tax collection is the fairness in taxation, which is expressed by a statement that every citizen should participate in the financing of the government as far as possible in proportion to their respective abilities, that is by comparing the earned income with the protection they get from the state.

There are other factors that influence the development of taxation climate which motivate tax compliance, which is beyond the reach of the taxation administration, also called the factor "state of mind" that influence taxpayer willingness to meet the tax requirements (Zain, 2003:32). One of the important factors that could influence the development of "state of mind" is true faith of the taxpayer that the government has been fair and reasonable in the case of imposition of each taxpayer or in other words the taxpayer convinced that the tax they deposit to the State has been effectively addressed, so that the taxpayer can perceive taxation system is fair. Improving the principles of fairness and equity in the new tax system compared to the previous one is expected to improve and restore the taxpayers trust about the fairness of the tax system due to improvements. Without being able to convince the taxpayers about the fairness of the tax system, the tax administrator cannot do much to reduce smuggling or tax evasion.

The next factor is educational level and knowledge, Tax knowledge is any information related to taxation that is used for act, making conclusion, and to develop certain strategies which leads to fulfill taxpayers' rights and obligations (Carolina and Simanjuntak, 2011).

The good tax climate is characterized by the things below:

1. Taxpayers understand or try to understand the provisions of the tax legislation.

2. Fill out the appropriate tax forms.

 3. Calculating the correct amount of tax.

4. Paying taxes on time.

The four points above would not be complete without an adequate knowledge of taxation. This suggests that having a good tax knowledge, taxpayers are able to do bookkeeping properly especially at the time of reconciliation to produce financial statements as the basis of making the

tax return. It is clear that developing tax knowledge in taxpayers is an important element in operating a successful tax system. Achieving an appropriate voluntary compliance level could be achieved if taxpayers can complete the tax returns correctly and pay the right amount of taxes. Thus to realize the objectives of voluntary compliance, taxpayers need to be informed, well educated (particularly in tax matters), and their tax literacy level needs to be enhanced on a regular basis to keep their knowledge up to date and relevant (Berhane, 2011). One of research result stated that knowledge on taxation also has significant influence on the decision whether to comply with the specified time required by the tax law (Sakarnor et.al, 2010). The results show that knowledgeable taxpayers normally submit their tax return within the required time, compared to less knowledgeable taxpayers.

CHAPTER THREE

RESEARCH METHODOLOGY

The previous chapter deals with the theoretical and empirical review of literature. On the empirical review the researcher tries to see work of different writers and researchers, Based on this the researcher identified the knowledge gap between previous writers and/or researchers on the same or related research topic. Based on this the researcher identified some concepts that the previous writers and/or researchers didn't bothered to see or see it from different perspective about the challenges of tax administration in the specified sub city.

Based on this, the first part which is 3.1 deals with the research design, followed by the research approach which is 3.2, 3.3 presents the sample frame and sampling technique and 3.4 is sources of data, 3.5 is data collection mechanism and 3.6 is methods of data analysis, preceding to 3.7 which is study of the population, 3.8 is validity and reliability of the study and finally 3.9 presents the ethical consideration.

3.1 Research Design

Research design is the conceptual structure that shows how all the major parts of the research project come together. According to Kothari (1985) it constitutes the blueprint for the collection, measurement and analysis of data. In order to achieve the stated research objective considering to assess the challenges of tax administration in Arada sub city, a descriptive type of research design was used for the study, the reason behind using descriptive study design is because the researcher is interested in describing/assessing the challenges of tax administration in Arada sub city.

3.2 Research Approach

There are three major research approaches in any academic research. The approaches are qualitative research approach, quantitative research approach and mixed approach.

Quantitative approach

A quantitative approach is one in which the investigatory primarily use positive claims for developing knowledge (i.e. cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, & the test of theories), employs strategies of inquiry such as experiments that yield statistics data.

In this regard, surveys include cross-sectional & longitudinal studies using self administered questionnaires for data collection, with the intent of generalizing from a sample to a population (Babbie, 1990)

Qualitative approach

Alternatively, a qualitative approach is one in which the inquirer often makes knowledge claims based primarily on constructivist perspectives (i.e., the multiple meanings of individual experiences meanings socially and historically constructed, with an intent of developing a theory or pattern) or advocacy/participatory perspectives (i.e., political, issue-oriented, collaborative, or change oriented) or both. It also sues strategies of inquiry such as narratives, phenomenology, ethnographies, grounded theory studies, or case studies. The researcher collects open-ended, emerging data with the primary intent of developing themes from the data. Qualitative researchers tend to use open-ended questions so that participants can express their views. Thus, qualitative researchers seek to understand the context or setting of the participants through visiting this context and gathering information personally. Individuals are interviewed at some length to determine how they have personally experienced oppression.

Mixed methods approach

Finally, a mixed methods approach is one in which the researcher tends to base knowledge claims on pragmatic grounds (e.g., consequence-oriented, problem-centered, and pluralistic). It employs strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problem. The data collection also involves gathering both numeric information (e.g., on instruments) as well as text information (e.g., on interviews) so that the final database represents both quantitative and qualitative information.

The study has both qualitative and quantitative nature. From the quantitative method, the researcher used survey, whereas, from the qualitative approach, in-depth interview is selected. The study begins with a broad survey in order to generalize results to a population and then focuses, in a second phase, on detailed qualitative, open-ended interviews to collect detailed views from concerned body. A mixed methods design is useful to capture the best of both quantitative and qualitative approaches. In these situations the advantages of collecting both closed-ended quantitative data and open-ended qualitative data prove advantageous to best understand a research problem. The target category "A" tax payers includes Pharmacy and drug stores, Spare parts, Cafés, restaurants, Building materials and electric shops, Super markets and Internet cafés, mobile sales and accessories, computer maintenance and sales.

3.3   Study of population, Sample Size & Sampling Technique

The study uses population of category "A" tax payers in Arada sub city. A population is the total collection of all objects to be studied. The population may be either finite or infinite, while a sample is a selection of just some items from the population. A population is finite if it contains a fixed number of elements. In general, either all of the observations for the entire population will not be available, or they may be so many in number that it is infeasible to work with them, in which case a sample of data is taken for analysis. (Chris, 2014).

The sampling frame for VAT and income tax registrant tax payers was the registration list of tax payers in Arada sub city that consists of VAT and income tax payers. whereas for the tax authority, employees registration list of the sub city is the sampling frame.

In this research probability and non-probability sampling techniques were used. From the probability study stratified sampling technique was used and from the non probability sampling method convenience sampling and purposive sampling were used. The researcher first divide the population in to six strata and the convenience sampling was used to chose from the strata. convenience Sampling method is the sampling method which is taken by researcher based on its ease in choosing the samples from the population elements, in which the data can easily be obtained therefore the researcher is possible to choose the samples quickly (Indriantoro and Supomo: 2004, Rajif, 2011).

Whereas, the sample for the tax official was determined using purposive sampling technique of non-probability sampling method. This is because there is need to address expert in the area that are familiar with the work.

This study used 50 samples of category "A" tax payers from the total population in Arada sub city and tax authority of the sub city. As mentioned the researcher divides the population in to six (i.e. pharmacy and drug stores, spare parts, café and restaurants, building materials and electric shops, super markets and internet café, mobile sales & accessories, computer maintenance and sales, so in the sub city their exists 314 tax payers. For the realization of the study the researcher took 16 percent from the total population because of the population is homogenous. This is chosen because according to Andal (2015) a sample size should be 10% of the total population.

3.4 Sources of Data

The data source for the study is from the Arada sub city concerned body and from the tax payers of the specified sub city, the researcher used interview to the selected executive of the tax authority to get primary data, the executives are chosen because they are the one to give the data to the researcher. Interview was used because the researcher believes it is appropriate to know the sub cities' tax collection procedure and how an individuals or a business's tax is assessed and also how the rules and regulations of the sub city is implemented.

3.5 Data Collection Mechanism

In this study both primary and secondary data is used. Primary data was collected from respondents using self-administered questionnaire and interview from the concerned body in Arada sub city.

A questionnaire was distributed to 50 tax payers in Arada sub city and interview was prepared for the concerned body in Arada sub city.

The respondents were asked to answer questions regarding tax administration. As mentioned above in order to achieve the stated research objective which is to assess the challenges of tax administration descriptive design was used for the study, the reason behind using descriptive study design is because the researcher is interested in describing/assessing the challenges of tax administration.

This study also uses secondary data, which was collected through the review of Arada sub city annual plan, and reports. From annual reports, published literature, journal, website and internet libraries. This sources are used for literature and also to identify the sub cities total number of tax payers and how the overall structure of the sub city is.

3.5.1 Questionnaires

Sanga (1991) defined questionnaire as a self-administered schedule of questions and statements. It is a special interview schedule, which is completed by respondent himself instead of the interview. It consist of a number of questions printed or typed in a defined form or set of the forms. This instrument was employed as the main tool of collecting data.

Questionnaires were distributed to 50 tax payers in Arada sub city and interview to concerned body in the tax office. The researcher used self-administer semi structured questionnaire to the tax payers. The questions have four parts; the first part of the question is personal information and the second part is about Ethiopian revenue authority, part three is educational level & knowledge and the forth part is government policy and the last one is about tax fairness. The source for the questionnaire is Anitha M.J.MTASIWA (2013) . This source is used because structured questionnaires are simple to administer and relatively inexpensive to analyze over other instruments. And Likert rating scale which asks respondents how they strongly agree (5) or

strongly disagree (1) was used Anitha Cited in Kelvin (1999). The designed questionnaire was administered for the tax payers (Appendix 1) to assess the challenges of tax administration.

3.5.2 Interviews

In the qualitative strategy, semi-structured interview was employed with 1 authority of the Arada sub city to get relevant information regarding the research problem. The major purpose of this interview was to corroborate certain facts that the investigator already thinks have been established. (Yin,1989). Therefore, the semi-structured interviews have conducted to enhance and supplement the results of questionnaires by assessing the tax fairness and government policy implemented on the specified sub city.

3.5.3Documentary Review

The researcher read various documents for the purpose of collecting secondary data. Secondary data are those data which have already been collected by someone else and passed through the statistical process (Kothari, 1999). To achieve the specified objective the study utilized available sources of secondary data like: ERCA publications, articles, newsletters and internet. ERCA records and statistics, historical documents and other sources of published and unpublished information were also examined. As mentioned above this sources are used for literature and also to identify the sub cities total number of tax payers and to get data on how the rules are implemented and how the overall structure of the sub city is.

3.6   Methods of data analysis

In order to achieve the stated research objective considering to identify the challenges of tax administration in Arada sub city, a descriptive method of design is used for the study, the reason behind using descriptive study is because the researcher is interested in describing/assessing the challenges of tax administration in Arada sub city.

Having collected both qualitative and quantitative data the researcher undertake editing coding, tabulation, mean and standard deviation or otherwise recombining of evidences in order to align same with invite proportions of the study.

According to Best (1977), the score from 1-1.80 is lowest, from 1.81-2.61 is lower, from 2.62-3.41 is average/moderate, from 3.42-4.21 is good/high, and 4.22-5 is considered very good. And a standard deviation of more than 1 , shows high dispersion but, less than 1 shows the responses are clustered around the mean. So the data in the study is analyzed in that order. To analyze the descriptive part of the research the researcher will apply different statistical tools such as tabulation, percentage, and mean and standard deviation.

3.6.1 Data presentation

The collected data was presented using(editing, coding, tabulation and mean and standard deviation) for the realization of the study. This method is thought to be suitable for this research because the researcher believes that this method will not be sophisticated and time consuming

Editing: is a process by which raw data are checked to verify that the data have been correctly entered from the data collection form to the device of analysis.

Coding: is assigning numerals or other symbols to answers so as to enable the responses to be grouped in to a limited number of classes or categories.

Tabulation: is the process of summarizing raw data and displaying it in compact form for further analysis.

Mean: is the average of the numbers collected from the questionnaire. According to Best, (1977), the score from 1-1.80 is lowest, from 1.81-2.61 is lower, from 2.62-3.41 is average/moderate, from 3.42-4.21 is good/high, and 4.22-5 is considered very good.

Standard deviation: a standard deviation of more than 1 , shows high dispersion but, less than 1 shows the responses are clustered around the mean

3.6.2 Instruments of collecting data

This study used self administered questionnaires and interview to the concerned body in Arada sub city. The questionnaires were prepared in English language. The instruments was given to 50 tax payers who participate in giving relevant information of the questions using a 5 point liker scale of strongly agree to strongly disagree for the questionnaire. And interview to the concerned tax authority in Arada sub city.

3.8 Validity and Reliability of the Study

Validity: a conclusion of any study can be affected by either a researcher's bias or subjective judgment in the data collection process (Yin, 1994). Accordingly, the researcher must provide supporting evidence that a measuring instrument does in fact measure what it appears to measure. Preparing both questionnaires and interview to tax payers and tax authority respectively will be a way of maintaining validity.

Reliability: on the other hand, is the central concern to social scientists because the measuring instruments they employ are rarely completely valid. Reliability is the extent to which a measuring instrument contains variable errors, that is, errors that appear inconsistently from observation during any one measurement attempt or that vary each time a given unit is measured by the same instrument. Reliability of the data will be checked by triangulation of the collected data and information (Kothari, 2009)

3.9 Ethical consideration

The respondents are given privilege of not writing name and other identities to hide them from un wanted approaches to be maintained by any other groups, no respondent was forced to fill the questionnaires unwillingly and/ or without his/her consent.

3.10 Conclusion

Generally, the study used in-depth interviews and self-administered semi structured questionnaires to get primary data from the tax officer and category "A" taxpayers in Arada sub city respectively. In addition to primary data, the study used secondary data to support it. The following is the links that exist between the survey instrument, semi-structured questionnaire, and the specific objectives of the study.

Table 3.10: Link of specific objectives with questions in the questionnaire

Specific objectives	Question numbers used to address from the questionnaire
To assess the effect of Authority capacity on tax collection and assessment.	Part 2 question n° 1-22
To assess the effect of Educational level and knowledge on tax collection and assessment.	Part 3 question n° 23-32
To assess the effect of Government policy on tax collection and assessment.	Part 4 question n° 33-38
To assess the effect of tax fairness on tax collection and assessment.	Part 5 question n° 39-44

CHAPTER FOUR

ANALYSIS, PRESENTATION AND INTERPRETATION OF DATA

This chapter presents and discusses the results of the study. It deals with the challenges of tax administration in respect of category "A" tax payers in Arada sub city.

This part has two sections. Section 4.1 presents the data obtained through self-administered semi structured questionnaires and in-depth interview. And section 4.2 presents the analysis of the data presented in section 4.1.

4.1 Survey result

The objective of this study is to identify the challenges of tax administration in respect of category "A" taxpayers residing in Arada sub city. In order to achieve this objective, 50 self-administered semi structured questionnaires were distributed to the selected taxpayers.

Table 4.1: Response rate

Particulars	Frequency	Percentage
Responded	41	82
Non responded	9	18
Total	50	100

Source: Taxpayers survey

From the semi structured questionnaires distributed, 82% of them returned the questionnaires, whereas the remaining 18% did not (Table 4.1). This implies most of the respondents' returned the questionnaires to the researcher.

4.1.1 Quantitative Data Analysis

A)   Demographic factor

Table 4.1.1Age of respondents

	Age	Frequency	Percentage
Age	Below 25	7	17.07%
	Between 26 & 35	17	41.46%
	Between 36 & 45	10	24.4%
	Above 45	7	17.07%
Gender	Female	**17**	**42%**
	Male	**24**	**58%**

Source: **Taxpayers survey**

From the table 4.1.1 out of forty-one respondents, around 17.07% were below 25 years of old, 41.46% were between 26 & 35, 24.4% of them were between 36 & 45and 17.07% were above 45 years of old. This indicates that most of the respondents were youngsters, And from Gender point of view 58% of the respondents were Male and the rest were females.

Chart 4.1: Level of education
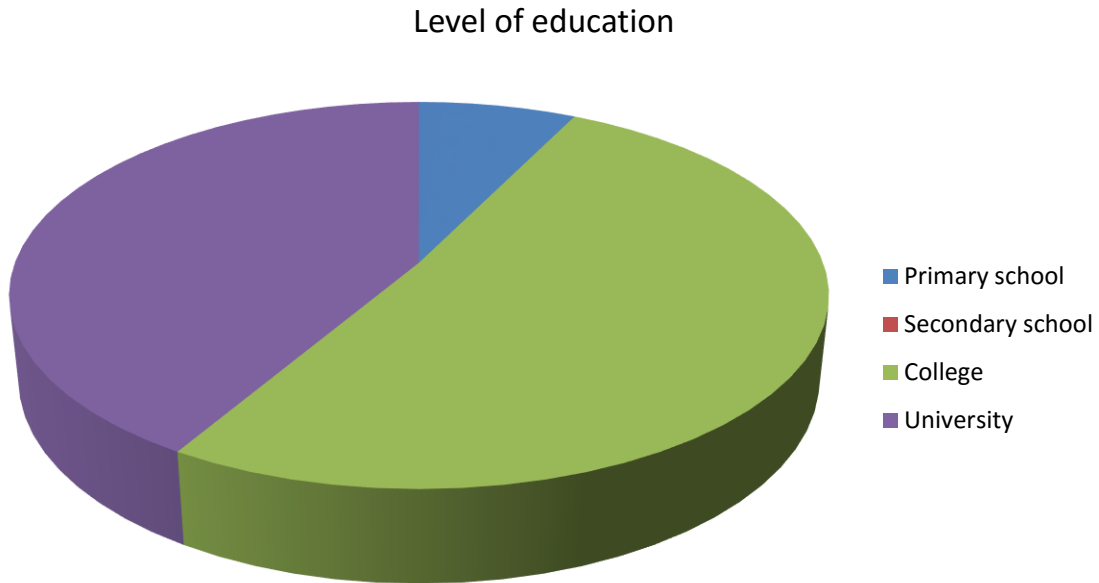
Level of education

From the **chart 4.1**, level of education most of the respondents are college degree and university degree holders. This shows that the effectiveness of tax system depends substantially on the quality, training and experience of both the tax payer and experienced staff too. The tax payers should be suitably qualified and be provided with the necessary training and continuing professional education for the purpose of enhancing or enriching their tax system and relevant technical skills. As we can see from the above pie chart most of the tax payers are college graduates, this implies most of the respondents have good level of knowledge and understanding level.

B)   Ethiopian revenue authority Arada sub city capacity (staffing & technology)

	Strongly disagree	Disagree	Unsure	Agree	Strongly Agree	**Mean**	**S.D**
ERCA Arada sub city has sufficient number of staff	0(0)	7(17.07)	7(17.07)	17(41.46)	10(24.4)	3.73	1.19
The Employees are always obedient to tax payers	7(17.07)	14(34.15)	6(14.64)	7(17.07)	7(17.07)	2.83	1.03
ERCA Arada sub city has modern & sufficient facilities	7(17.07)	14(34.15)	0(0)	10(24.4)	10(24.4)	2.66	0.91
The authority utilizing modern technology to easy tax matters	7(17.07)	3(7.32)	7(17.07)	21(51.22)	3(7.32)	3.07	0.98
ERCA Arada sub city tax provisions are mostly understood to tax payers	7(17.07)	0(0)	14(34.15)	17(41.46)	3(7.32)	3.05	1.12
Employees of the Ethiopian revenues & customs authority(ERCA Arada sub city) provide the exact services promise	7(17.07)	7(17.07)	14(34.15)	10(24.39)	3(7.32)	2.71	1.23

Table 4.1.2:

Source: **Taxpayers survey**

Besides, the decision rules used in the analysis was average mean less than 3 was considered as low, average mean equal to 3 was considered as medium and average mean greater than 3 was considered as high throughout the study (Best and khan 1995). So throughout this study average mean less than 3 is considered as strongly disagree, average mean equal to 3 is considered as unsure or neutral and average mean greater than 3 is considered strongly agree.

To start with, the objective of the research was to identify the challenges of tax collection and assessment in Arada sub city. It was mentioned in chapter one that the possible challenges are Authority capacity, Educational level and knowledge, Government policy, tax fairness of both the tax authority and the tax payers.

From the above **Table 4.1.2** the tax payers were asked if ERCA had sufficient number of staffs, 17.07% disagree, 17.07% were unsure, 24.4% strongly agreed and 41.46% agreed and on average approximately agree and common understanding about the sufficient number of staffs in Arada sub city administration (Mean = 3.73, S.D = 1.19). The mean is the average of the numbers collected from the questionnaire, and the standard deviation that is close to 0 indicted that the data points tend to be very close to the set, while high standard deviation indicates that the data points are spread out over a wider range of values. In other words a small standard deviation means that the values in a statistical data set are close to the mean of the data set, on average, and a large standard deviation means that the values in the data set are farther away from the mean, on average and average mean 3.73 indicate that on average the tax payers agreed ERCA Arada sub city has sufficient number of staff . according to Best, (1977) a standard deviation of more than 1 , shows high dispersion but, less than 1 shows the responses are clustered around the mean. So, S.D 1.19 shows there is high dispersion.

Giving adequate service to a customer is very important thing that any organization should do to be competent and profitable. The tax payers were asked if the employees of ERCA are obedient to them when paying tax. 17.07% strongly disagree, 34.15% disagree, 17.07 % of them agreed that the employees are obedient to tax payers and 17.07% again strongly agree. on average 2.83 have homogenous idea about Arada sub city ERCA competent and profitable (Mean = 2.83, S.D = 1.03). this shows the on average the employees of ERCA are not obedient when the tax payers pay tax. SD 1.03 shows there is high dispersion.

When we come to ERCA Arada sub city had modern & sufficient facilities, the tax payers responded 17.07% strongly disagree, 34.15% disagree, 24.4% of them agreed and 24.4% strongly agree. (Mean = 2.66, S.D = 0.91). This implies ERCA Arada sub city doesn't have modern and sufficient facilities. SD 0.91 implies that the responses are clustered around the mean.

When the customers were asked if the authority utilizing modern technology to easy tax matters, around 51.22% of them agreed that the authority is utilizing modern technology to easy tax matters (Mean 3.07. S.D 0.98) on average all tax payers agreed that the authority utilize modern technology to easy tax matters and S.D implies that the responses are clustered around the mean

The next question was if ERCA Arada sub city tax provisions are mostly understood to tax payers, and on average 41.46 agreed (Mean 3.05, S.D 1.12). This also implies that the tax payers agreed that ERCA Arada sub city tax provisions are understood to tax payers.

Finally, as mentioned above giving appropriate service to a customer is a very important thing that one service giving firm should do when the customers were asked if Employees of the Ethiopian revenues & customs authority(ERCA Arada sub city) provide the exact services promise 17.07% strongly disagree, 17.07% disagree, 34.15% are unsure, 24.39% agree and 7.32% strongly agree, on average the tax payers disagreed and are unsure if ERCAS' tax provisions are mostly understood by them. (Mean 2.71, SD 1.23). The mean implies that on average the tax payers replied that ERCA employees doesn't give the exact service promised.

Table 4.1.3 Arada sub city capacity (staffing & technology)

	Strongly disagree	Disagree	Unsure	Agree	Strongly Agree	**Mean**	**S.D**
When customers have problems employees show sincere interest in helping to solve the problems	3(7.32)	7(17.07)	0(0)	31(75.61)	0(0)	3.36	1.32
Tax payers get proper tax advices/statements of their accounts on time apart from public notice	4(9.75)	10(24.4)	3(7.32)	17(41.46)	17(41.46)	3.22	1.11
ERCA Arada sub city operating hours is convenient and flexible to all tax payers	3(7.32)	0(0)	7(17.07)	27(65.85)	3(7.32)	3.51	0.97
Employees are business oriented and professional in work approaches	18(43.9)	10(24.39)	0(0)	10(24.39)	3(7.32)	1.83	1.23
Employees are fair and accountable for the decisions they make in their areas of responsibilities	7(17.07)	7(17.07)	14(34.14)	10(24.39)	3(7.32)	2.71	0.82
ERCA Arada sub city employees are committed and motivated to the achievement of ERCA goals and objectives.	10(24.4)	3(7.32)	10(24.4)	14(34.14)	3(7.32)	2.61	1.11

Source: **Taxpayers survey**

Out of the forty one respondents 7.32% strongly disagree that employees show sincere interest in helping the tax payers when they have problems, 17.07% disagree, most of them 31(75.61) agree but on average had neutral and common understanding about When customers had problems employees show sincere interest in helping to solve the problems (Mean = 3.36, S.D = 1.32). This implies most tax payers agreed that employees show sincere interest in helping the tax payers when they have problems.

From the point of view about Tax payers get proper tax advices/statements of their accounts on time apart from public notice 9.75% strongly disagree, 24.4% disagree, 7.32% are unsure, 41.46% agree and 41.46% again strongly disagree and on average neutral and uniform idea (Mean = 3.22, S.D = 1.11). Here also the tax payers agreed that they get proper tax advices/statements of their accounts on time apart from public notice.

From the above table Arada sub city capacity (staffing & technology) about the idea ERCA Arada sub city operating hours is convenient and flexible to all tax payers most of the tax payers responded agree and also on average agree and approximately constant understanding (Mean = 3.51, S.D = 9.7). This means the customers are ok with the operating hours of the sub city.

When the tax payers were asked if employees are business oriented and professional in work approaches around 43.9 strongly disagree that the employees are business oriented and professional in work approaches, 24.39% disagree, and 24.39% agree and 7.32% strongly agree. (Mean 1.83, SD 1.23). this implies according to the tax payers response the employees are not professional and business oriented in their work approaches. This will lead the tax payers to be bored with the taxpaying system and this will have an effect on the tax collection. Mean of 1.83 shows that the tax payers strongly disagree that the employees are business oriented and professional in work approaches. S.D of 1.23 implies there is high dispersion.

The tax payers are unsure about Employees fairness and being accountable for the decisions they make in their areas of responsibilities. About 34.14 (Mean 2.71, SD 0.82) are unsure this shows the employees of the sub city are not sure if the employees are fair to them and if they are accountable for the decisions they make in their areas of responsibilities. We can see from the mean that which is 2.71 that on average most of the tax payers strongly disagree that the

employees are fair and accountable for the decisions they make in their areas of responsibilities. S.D 0.82 implies the tax payers responses are clustered around the mean.

As employees of the sub city should be committed and motivated to achieve ERCA goals and objectives. According to the research findings 24.4% strongly agreed that the employees of the sub city are committed and motivated to achieve ERCA goals and objective, 7.32% disagree, 24.4% of them are unsure, on average around 34.14% agreed that the employees of the sub city are committed and motivated to achieve the goals and objective of the sub city.(Mean 2.61, SD 1.11). This implies that according to the mean most of the employees are not motivated to achieve ERCA goals and objectives.

C)   **Educational level and knowledge**

Table 4.1.4 Knowledge of tax payers

	Strongly disagree	Disagree	Unsure	Agree	Strongly Agree	**Mean**	**S.D**
You are advantageous for paying tax	3(7.32)	0(0)	3(7.32)	21(51.22)	14(34.14)	3.98	0.99
You get adequate training on how to use sales register machine	18(43.9)	3(7.32)	7(17.07)	10(24.39)	3(7.32)	2.00	1.28
You have adequate knowledge on the type of tax your are paying	7(17.07)	0(0)	10(24.4)	7(17.07)	17(41.46)	3.49	0.76
Employees are able to tell their tax payers about products/services offered by the authority	3(7.32)	0(0)	21(51.21)	10(24.4)	7(17.07)	3.36	1.22

Employees of the ERCA Arada sub city have knowledge to respond to tax payers' questions & queries	7(17.07)	0(0)	10(24.4)	21(51.21)	3(7.32)	3.15	1.98
Employees show great credibility in educating customers on taxes provided by ERCA Arada sub city.	10(24.4)	14(34.14)	0(0)	10(24.4)	7(17.07)	2.51	0.99

Source: **Taxpayers survey**

The next part was about the Educational level and knowledge of the tax payers. And respondents were asked if they are advantageous for paying tax, 7.32% strongly disagree, 7.32% are unsure, 51.22% of the tax payers agree and 34.14 % strongly agree, on average the respondents agree they are advantageous for paying tax (Mean = 3.98, S.D = 0.99). we can see from the standard deviation on average the respondents have uniform idea if they are advantageous for paying tax.

Of the forty-one respondents 43.9% strongly disagree that they get adequate training on how to use sales register machine, 7.32% disagree and 24.39% agree but on average disagree and uniform thoughtful about tax payers get adequate training on how to use sales register machine (Mean = 2.00, S.D = 1.28). This shows according to the survey result most of the tax payers didn't get adequate training on how to use the machine and there is high dispersion.

From the point of view about tax payers had adequate knowledge on the type of tax they pay more than 61% they know and on average also agree and uniform idea about the type of tax they paid (Mean = 3.49, S.D = 0.76). This shows most tax payers strongly agrees that they have adequate knowledge on the type of tax they are paying and tax payers responses are clustered around the mean.

Of the forty-one respondents 51.21 % are unsure if Employees are able to tell their tax payers about products/services offered by the authority, 24.4% agree and 17.07% strongly agree. (Mean 3.36, SD 1.22)

When asked if employees of the ERCA Arada sub city have knowledge to respond to tax payers' questions & queries on average 51.21 % agreed . (Mean 3.15, SD 1.98)

The last question on this part was if employees show great credibility in educating customers on taxes provided by ERCA Arada sub city, 24.4% strongly disagree, 34.14% disagree, 24.4% agree and 17.07% strongly agree. On average the employees of the sub city doesn't show credibility in educating customers on taxes provided by ERCA. (Mean 2.51, S.D 0.99)

D) Government policy

	Strongly disagree	Disagree	Unsure	Agree	Strongly Agree	Mean	S.D
The rules are implemented correctly	10(24.39)	14(34.15)	10(24.39)	7(17.07)	7(17.07)	2.95	1.21
The authority has made payment preferences convenient for the customers	3(7.32)	14(34.15)	10(24.39)	7(17.07)	7(17.07)	2.95	0.68
There are loopholes on the rules and regulations on the overall tax system	3(7.32)	4(9.76)	7(17.07)	10(24.39)	17(41.46)	3.77	0.91
The government introduce new technology to the tax system as a whole	3(7.32)	10(24.39)	7(17.07)	17(41.46)	4(9.76)	3.15	1.34
The technologies are advantageous for the customers	7(17.07)	0(0)	10(24.39)	14(34.15)	10(24.39)	3.32	1.67

The government has the same scheme to all tax payers on how to penalize tax payers who do not follow tax rules & regulations	3(7.32)	7(17.07)	21(51.22)	7(17.07)	3(7.32)	2.93	1.89

Table 4.1.5 Government policy

Source: **Taxpayers survey**

The next is Government policy and under this the tax payers were asked different questions. First they were asked if the rule of the country is implemented correctly. Of the forty-one respondents around 24.39% strongly disagree, 34.15% disagree, 24.39% are unsure, 17.07% agree and 17.07 strongly agree but on average the tax payers strongly disagree that the rules are implemented correctly (Mean = 2.95, S.D = 1.21).

From the point of view about ERCA Arada sub city had made payment preferences convenient for the customers 7.32% strongly disagree, 34.15% responds disagree, 24.39 unsure, 17.07% agree and 17.07 again strongly agree but on average ERCA Arada sub city doesn't made payment preferences convenient for the customers. (Mean 2.95 S.D 0.68)

Out of 41 respondent 24.39% agree and 41.46% strongly disagree and on average also disagree and common knowledge about there were loopholes on the rules and regulations on the overall tax system of ERCA Arada sub city (Mean = 3.77, S.D = 0.91). Meaning on average the tax payers agree that there are loopholes on the rules and regulations on the overall tax system of ERCA Arada sub city and the S.D implies the responses are clustered around the mean.

Of the total of the forty one respondents 41.46 % agreed that the government introduce new technology to the tax system as a whole and 9.76 % strongly agreed meaning on average the tax payers believe the government introduce new technology to the tax system as a whole. (Mean 3.15, SD 1.34)

The government should be fair to all tax payers regarding when penalizing the tax payers who do not follow tax rules & regulations. According to the survey result 51.22 % are unsure if the government has the same scheme to all tax payers on how to penalize tax payers who do not

follow tax rules & regulations; this means according to the survey result the tax payers strongly disagree that the government has the same scheme to all tax payers on how to penalize tax payers who do not follow tax rules & regulations . (Mean 2.93, SD, 1.89)

E)   Tax fairness

Table 4.1.6 Tax fairness

	Strongly disagree	**Disagree**	**Unsure**	**Agree**	**Strongly Agree**	**Mean**	**S.D**
Tax authority collect income tax fairly	10(24.39)	3(7.32)	10(24.39)	14(34.15)	3(7.32)	2.61	0.82
Compared to other tax payers, I don't pay less than my fair share of income tax	10(24.39)	1(2.44)	10(24.39)	10(24.39)	10(24.39)	2.98	0.97
Penalties are the most appropriate tool for improving tax fairness	10(24.39)	0(0)	14(34.15)	10(24.39)	7(17.07)	2.85	1.19
It is fair that high income earners pay proportionally more tax than low income earners	3(7.32)	7(17.07)	10(24.39)	14(34.15)	7(17.07)	2.85	0.85
The authority gives the same answer to all tax payers	10(24.39)	7(17.07)	14(34.15)	3(7.32)	7(17.07)	2.51	0.97

The tax you are paying is fair	7(17.07)	7(17.07)	7(17.07)	17(41.46)	3(7.32)	2.88	0.73

Source: **Taxpayers survey**

From the above table which is tax fairness tax payers were asked about Tax authority collects income tax fairly and 24.39% strongly disagree, 7.32% disagree, 24.39% are unsure, 34.15% agree and 7.32% strongly disagree, according to the survey on average the tax authority didn't collect income tax fairly and the responses are clustered around the mean. (Mean = 2.61, S.D = 0.82).

From out of 41 respondents of tax payers approximately on average neutral idea and common understanding knowledge Compared to other tax payers, they didn't pay less than own fair share of income tax (Mean = 2.98, S.D = 0.97).

From the other side of understanding about Penalties was the most appropriate tool for improving tax fairness in ERCA Arada 24.39% strongly disagree, 34.15% are unsure, 24.39% agree and 17.07% strongly agree. on average the tax payers think penalties are most appropriate tool for improving tax fairness(Mean = 2.85, S.D = 1.19).

Of the forty one respondents 34.15 % agreed that it is fair that high income earners pay proportionally more tax than low income earners, meaning they agreed that high income generators should pay more tax than low income earners. (Mean 2.85 S.D 0.85)

When employees were asked if the authority gives the same answer to all tax payers 24.39 % strongly disagree, 17.07 % disagree and 34.15 % are unsure meaning on average the authority didn't give the same answer to all tax payers. (Mean 2.51, SD 0.97).

When the tax payers were asked if the tax they are paying is fair 17.07% strongly disagree, 17.07% again disagree, 17.07 % are unsure, 41.46% agree and 7.32% strongly agree. This implies on average most tax payers think the tax they are paying is fair to them.

4.2 Discussion

Total of 50 questionnaires were distributed to the tax payers of Arada sub city, 41 useable questionnaires. In addition, the researcher conducted an interview with the manager of the sub city.

The objective of the study was to identify the challenges of tax administration regarding staff capacity, educational level & knowledge, government policy and tax fairness that affect tax collection and assessment. Accordingly, the questionnaire was prepared in that order. First in the demographic factor most of the respondents are male. And also most of the respondents are college graduated, which means they have good educational background but not adequate.

When we come to the second part which is capacity (staffing and technology), the ERCA has sufficient number of staffs, but according to the survey result the employees are not obedient to the tax payers. The overall environment of the tax office should be comfortable to the tax payers to feel good for the tax payers. But according to the survey result the authorities are not obedient to the tax payers.

In the work of Richard M. Bird and Eric M. Zolt, (2008) it was mentioned that technology can have the following benefits to tax and taxation.

ξ   Technology may improve the quantity and quality of information available to taxing authorities and their ability to use that information effectively.

ξ   Technology may make tax administrations more effective by improving information flow, facilitating coordination, and improving the allocation of resources.

ξ   Technological changes may reduce taxpayer compliance costs by improving information and services to taxpayers (for example, software for maintaining books and records, and for calculating tax liabilities, or electronic or return–free filing alternatives).

ξ   Technology may reduce opportunities for corruption by reducing the face–to–face interaction between taxpayers and taxing authorities.

ξ   Technological improvements reduce compliance costs and delays associated with paying taxes (for example clearing goods at customs or standing in line to pay taxes) and such costs are generally higher in developing countries.

ξ   Technology makes it possible to perform administrative functions both differently and better than without technology.

ξ   Technology will provide additional tools to tax administrators to observe and monitor individuals and transactions(Richard M. Bird and Eric M. Zolt, 2008).

But according to the survey result ERCA Arada sub city does not have modern and sufficient facilities to process the taxpaying.

Most of the respondents are agreed that the employees of the sub city doesn't provide the exact services promise to the tax payers.

According to ERCA the use of sales register machine began in Addis Ababa, Ethiopia in February2008 and its use has expanded significantly during the past 3 and ½ years. The use of the machines at a regional level go underway in 2010/2011 and already traders in Tigray and Amhara have begun to use them. Traders in other regions are also expected to use these this machines soon. It is good to introduce sales machine to the country but when the tax payers were asked if they get adequate training on how to use sales register machine they strongly agree that they didn't get training on how to use the machine, but besides introducing the machine it is good to give training on how to use the machine consistently.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

The main objectives of this project have been to identify the challenges of tax administration in respect of category "A" taxpayers found in Arada sub city. Both survey and in-depth interview techniques were employed to investigate the existing factors in tax collection and assessment of the selected sub city. Based on the presentation and analysis of the data obtained, the main conclusions and recommendations are summarized in this chapter.

5.1 Conclusions

The results of the in-depth interview carried out showed that the employees of the sub city are employed by experience and educational background. It was mentioned that the employees' performance is developed from time to time but it is not adequate. As it was mentioned in the first chapter the one challenge that could affect the tax collection and assessment is authority capacity which is staffing and technology, having a well-trained employee is very important thing. The other one was educational level & knowledge of the employees of the sub city, it was mentioned that most of the employees have good knowledge & educational background but it is not adequate, so having good background is very important thing to improve the tax collection and assessment. The sub city (tax office) has also faced different financial, operational and administrative problems and challenges to handle the taxpayers. It may be considered as the implemented tax collection and assessment system is not successful. That is, there exists inefficient and insufficient number of tax assessment and collection officers in the Arada sub city. Training is considered an overhead activity, which does not justify much attention or resources. There are few or no training professionals on staff. The emphasis of staff training is on teaching the contents of tax laws as opposed to applying the laws. Little or no attention is paid to skills, techniques, procedures, customer relations, or managerial training.

While there are different alternatives to pay their debts easily tax collection system have faced by many challenges. The tax office does not offer sustainable training to create tax awareness by taxpayers Furthermore; the office does not produce report for separate annual plan of collection in each category of taxpayers.

Based on the survey results, the study found that there exit lack of tax knowledge by tax payers. Most of them do not know the rules and regulations of different types of taxes they pay. Due to this, negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes.

Generally, while assessing the challenges that were mentioned earlier the challenges have an impact on tax collection and assessment. Accordingly the following section presents different recommendations as to which these challenges could be solved.

5.2 Recommendations

This section presents the appropriate suggestions that can be utilized to assess the possible challenges regarding Authority capacity, Educational level and knowledge, Government policy, tax fairness that affect tax collection and assessment. Among the possible recommendations the following are described here under:

- An efficient and proper tax administration is required by setting clear and transparent rule and regulation. Beside all these, tax offices should be equipped with new technology and adequate skilled human resources.

- The tax authority must maintain adequate management information system. So that, taxpayers must receive clear, concise and up-to-date information on describing what is to taxable, how to calculate their tax liabilities and procedures for calculating paying taxes, where and when they pay taxes. The tax office should offer sustainable training and prepare discussion or forum for collaborators such as legal bodies, city administrators, and security bodies as they have direct or indirect contributions for the implementation of the tax.

- The core process should establish appropriate procedure and system of tax collection and assessment procedure and assigning relatively best and capable professionals. The management of the Revenue Authority should work towards bringing the team spirit by solving internal problem. The core process must also give high attention on employee training and personal development, to cop up the new science and technology.

- Giving adequate training on how to use the sales register machine to each individual consistently.

Generally, the Arada sub city should work hard to solve the specified challenges of tax administration that could possibly affect tax collection and assessment.

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APPENDIX

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St Mary's university

School of graduate studies

Faculty of business and economics

MBA in Accounting & Finance

Questionnaire to the Respondents (Customers or Taxpayers)

Dear respondent, I am a student of Accounting and Finance at St Mary's university. School of graduate studies faculty of business and economics. I am currently conducting a research entitled" challenges of tax administration in Arada sub city". This research is conducted in partial fulfillment of MA degree in Accounting and Finance.

I do firmly believe your participation will be very helpful to reach at a genuine research finding. Any information you provide will not be used for any purpose other than the research. Thank you very much in advance for taking your time to fill the questionnaire.

Please put a tick/circle for your choices or write on provided blank spaces.

PART 1: PERSONAL INFORMATION (DEMOGRAPHIC FACTOR)

Please tick the correct answer

1. Age (in years)

A: Below 25   [……]

B: Between 26 and 35   [……]

C: Between 36 and 45   [……]

D: Above 45   [……]

2. Sex

A: Male   [……]

B: Female   [……]

3. Level of Education   [……]

A: Primary School   [……]

B: Secondary School   [……]

C: College   [……]

D: University   [……]

Score   Strongly Disagree   Disagree   Unsure   Agree   Strongly Agree

1   2   3   4   5

PART 2: ETHIOPIAN REVENUE AUTHORITY ARADA SUB CITY CAPACITY					
1. Ethiopian revenues & customs authority (ERCA Arada sub city) has sufficient number of staff	1	2	3	4	5
2. ERCA(Arada sub city) has sufficient knowledge and skills	1	2	3	4	5
3. The employees are always obedient to taxpayers	1	2	3	4	5
4. ERCA (Arada sub city) has modern and sufficient facilities	1	2	3	4	5
5. The Authority utilizing modern technology to easy tax matters	1	2	3	4	5
6.ERCA (Arada sub city) tax provisions are mostly understood to taxpayers	1	2	3	4	5
7. Employees of the Ethiopian revenues & customs authority(ERCA Arada sub city) provide the exact services promise	1	2	3	4	5
8. When customers have problems employees show sincere interest in helping to solve the problems	1	2	3	4	5
9. ERCA (Arada sub city) provides right services at the right time when the taxpayers need them	1	2	3	4	5
10. Taxpayers get proper tax advices/statements of their accounts on time apart from public notice	1	2	3	4	5
11. Employees who deal with tax issues can tell exactly when the statements will be available	1	2	3	4	5
12. Employees of ERCA (Arada sub city) are courteous and respectful to taxpayers	1	2	3	4	5
13. Employees of the ERCA (Arada sub city) are always quick to respond to the taxpayers complains and queries	1	2	3	4	5
14. Employees of the ERCA (Arada sub city)are never too busy to help taxpayers	1	2	3	4	5
15. Taxpayers' feel proper and safe when paying their taxes	1	2	3	4	5
16. ERCA (Arada sub city) operating hours is convenient and flexible to all taxpayers	1	2	3	4	5
17. Employees are business oriented and	1	2	3	4	5

professional in work approaches					
18. Employees are fair and accountable for the decisions they make in their areas of responsibilities	1	2	3	4	5
19. Employees are prompt in the delivery of services and are accessible	1	2	3	4	5
20. Employees treat all taxpayers, colleagues and stakeholders with dignity and all tax stakeholders with dignity and respect	1	2	3	4	5
21.ERCA (Arada sub city) employees are honest and have integrity in their dealings	1	2	3	4	5
22. ERCA (Arada sub city)employees are committed and motivated to the achievement of ERCA goals and objectives	1	2	3	4	5
PART 3: EDUCATIONAL LEVEL AND KNOWLEDGE					
23. You are advantageous for paying tax	1	2	3	4	5
24. Do you use sales register machine	Yes		No		
25 You get adequate training on how to use sales register machine	1	2	3	4	5
26. The sales register machine have a lot of problems	1	2	3	4	5
27. You get fast response from the tax authority when you have a problem regarding the sales register machine	1	2	3	4	5
28. You have adequate knowledge on the type of tax you are paying	1	2	3	4	5
29. Employees are able to tell their taxpayers about products/services offered by the Authority	1	2	3	4	5
30. Employees have great ability and confidence with the services they provide to taxpayers	1	2	3	4	5
31. Employees of the ERCA(Arada sub city) have the knowledge to respond to taxpayers' questions and queries	1	2	3	4	5
32. Employees show great creditability in educating customers on taxes provided by ERCA (Arada sub city)	1	2	3	4	5
PART 4: GOVERNMENT POLICY					
33. The rules are implemented correctly	1	2	3	4	5
34. The authority has made payment preferences convenient for the customers	1	2	3	4	5
35. There are loopholes on the rules and regulations on the overall tax system	1	2	3	4	5
36. The government introduces new technology to the tax system as a whole					
37. The technologies are advantageous for the customers	1	2	3	4	5

38. The government has the same scheme to all tax payers on how to penalize tax payers who do not follow tax regulations.	1	2	3	4	5
PART 5: TAX FAIRNESS					
39. Tax authority collect income tax fairly	1	2	3	4	5
40. Compared to other taxpayers, I don't pay less than my fair share of income tax	1	2	3	4	5
41. Penalties are the most appropriate tool for improving tax fairness	1	2	3	4	5
42. High income earners should pay proportionally more tax than low income earners	1	2	3	4	5
43. Tax authority gives the same answer to all tax payers.	1	2	3	4	5
44. The tax you are paying is fair	1	2	3	4	5

45. Dear taxpayer give your opinions on ERCA (Arada sub city) services and performances in general

_____
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