



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

**VALUE ADDED TAX (VAT) ADMINISTRATION AND REVENUE
PERFORMANCE: - CHALLENGES AND OPPORTUNITIES IN THE
CASE OF LARGE TAX PAYER'S BRANCH OFFICE (LTO)**

**BY
GETNET NADEW LEMMA**

**JUNE 2017
ADDIS ABEBA, ETHIOPIA**

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AND REVENUE PERFORMANCE: - CHALLENGES AND
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OFFICE (LTO)**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF
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LETTER OF DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of “assessment of value added tax administration and revenue performance: - challenges and opportunity in the case of large tax payers branch office at ERCA”. All sources of material used for the thesis have been duly acknowledged. Further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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June/2017

ENDORSEMENT

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

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Signature

June, 2017

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LIST OF ACRONYMS

ASYCUDA	Automated System for Customs Data Management
DTE	Developing and Transitional Economies
EPRDF	Ethiopia People’s Revolutionary Democratic Front
ERCA	Ethiopian Revenue and Customs Authority
E-TAX	Electronic Filling TAX
ETB	Ethiopian Birr
ETR	Electronic Tax Register
FIRA	Federal Inland Revenue Authority
GDP	Gross Domestic Product
IMF	International Monetary Fund
LTO	Large Taxpayer’s Office
MDG	Millennium Development Goal
MoFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
OECD	Organization of Economic cooperation and Development
SIGTAS	Standard Integrated Government Tax Administration System
SPSS	Statistical Package for Social Scientists
TIN	Taxpayer’s Identification Number
TOT	Turnover Tax
VAT	Value Added Tax

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ABSTRACT

The objective of the study is to assess VAT administration practice and revenue performance with respect to the challenge and opportunity in the case of larger tax payers' branch office at Ethiopia Revenue and Customs Authority. The paper further assesses to showing the share of VAT income in related to total government revenue. The study used both qualitative and quantitative research methods to collect and analyze both primary and secondary data. The information gathered from LTO taxpayers and employee's attitude towards VAT administration problems, compliance level of the taxpayers to VAT rule and regulation and tax authority potential to administer VAT. Questionnaires were distributed for eighty and fifty VAT registered taxpayers and employees of the branch respectively and to analyze the data, statistical package for social science (SPSS) soft ware version 20 was used. Further, secondary data was collected to measure the VAT revenue performance of the authority. The major challenges of the authority in the collection of VAT revenue were: - consumers are not willing to transact with a proper VAT receipt, tax authority Poor tax enforcement capacity, unfair competition between VAT registered and unregistered tax payers, lack of skill and experience to detect any tax fraud and evasion, tax authority lack of potential to refund excess VAT credit, administration system of penalty is weak and lack consistency. The paper suggests that ERCA should improve the information technology (IT), system to implement like filling ,payment system, recording system ,registration and others related issues in order to overcome the complexity of tax collection and to reduce the administration cost. The tax authority could also upgrade the skill and competency of tax officials in order to handle tax related offences in a better way. Un-registered taxpayers can affect VAT payer's transaction and profitability Therefore, It also suggested that actions should be taken to narrow the gap between them. Finally, the concerned body may take these findings worthwhile for corrective action as the researcher put some helpful recommendations.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The VAT is extending around the world more quickly than any other new tax in modern history. The principal reasons for the rapid of this form of taxation were, first, the early adoption of this form of taxation developing and transition economy (DTE) by the International Monetary Fund (IMF) in particular and by international agencies and advisors in general (Richard, 2006)

Ethiopia introduced value added tax (VAT) in the year 2003 at the rate of 15% (fifteen percent) as a replacement to sales tax. In the Ethiopian context of VAT system, a threshold of 500,000 Birr is a level above which registration for VAT is legally compulsory VAT proclamation 285/2002. Direct taxes contributed 37.5 percent to total tax revenue while that of indirect taxes was 62.5 percent. From the indirect tax portion VAT contributed high percentage around 55% -60% (NBE 2015/16 Annual Report), Further, since its introduction, VAT has been more revenue productive than sales tax (Teferra 2004). To sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generate by this tax is raise as efficiently as possible. However, in Ethiopia revenues raised by VAT are usually acquired at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, i.e., the failure of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design features of VAT and achieving government's policy objectives at large.

Value Added Tax (VAT) raised more government revenue than the replaced Sales Tax. In line with this, the vision of the Ethiopian Government is to bring rapid and sustainable development, which is essential to supporting the second development and transformation goal of reducing poverty by half and achieve middle-income country with good governance and where social justice prevails on 2025 (National Bank annual Report 2016). The achievement of this rapid and sustainable development objective mainly requires domestic revenue mobilization. Otherwise will be a dream to realize the Government's vision depending on external finance sources, which is subject to uncertainty. Indeed, this does not mean external sources are not important; rather it is to stress the fact that domestic resource should take the largest share in financing development endeavors in developing economies.

According to the VAT proclamation 285/2002 cited, supply of goods and rendering of services are subject to standard 15% tax rate except those exempted and zero – rated by the tax law. The standard rate is the same as the repealed sales tax, which applied only to imports and domestically manufactured goods. Unlike the sales tax, the VAT provides further encourage investment by the zero rating of exports and the international transport of goods and passengers. VAT exemption has been extended to the basic necessities such as Education, Medical services, Electricity and Water, Kerosene, Basic foods, Transportation Services, the sales of a used residence or the lease of private house, the supply of goods and rendering services in the form of humanitarian aid, etc.

1.2 Statement of the Problem

Government performs many activities to fulfill social welfare in a given country. Common expenditure programs include health and welfare programs, defense spending, social security, and interest and repayment of principal on government debt (Eric, 2008). The major source of government income is tax in most economies, especially in developing countries like Ethiopia. Tax revenue is the principal domestic revenue for the Ethiopian government. Tax revenue is mainly generated by indirect taxes such as VAT, excise taxes and foreign trade taxes (Yesegat, 2009). To fulfill the public needs, governments in any country plan to collect tax revenues from the taxpaying community.

Value Added Tax (VAT) is the basic source of income. Ebeke and Ehrhart (2011) argued that VAT does indeed have a stabilizing effect on the tax revenue ratio. Countries which have adopted the VAT system enjoy much more stable tax revenue than other countries. VAT is, therefore, less vulnerable to evasion than a retail sales tax, for which collection occurs during the final stage of production. However, Aizenman and Jinjarak (2008) emphasize that VAT collection efficiency remains largely dependent on the quality of enforcement and the efficiency of monitoring, both increasing with political stability and the ease and fluidity of political participation. Moreover, increased expenditure on the administration of VAT and more experience with VAT has been found to be significantly associated with increased compliance (Agha and Haughton, 1996). On the other hand, that VAT has actually reduced efficiency, for it clearly has potential weaknesses. The VAT has also proved vulnerable to high profile criminal attack: ‘carousel fraud,’ for example, which exploits arrangements for the taxation of intra-community trade within the European Union, has amounted to around 1.5 – 2.5 percent of net revenue, or more, in the United Kingdom (Keen and Lockwood, 2007).

As per report issued by national bank of Ethiopia government revenue, including grants reached Birr 243.6 billion in 2015/16 and its GDP ratio remained at 15.1 percent. About 82.3 percent of the total domestic revenue came from tax sources which recorded 14.8 percent annual growth which resulted from improved collection of direct taxes (18.2 percent) and indirect taxes (12.8 percent). Direct taxes contributed 37.5 percent to total tax revenue while that of indirect taxes was 62.5 percent. at the same time, from the indirect tax portion VAT contributed high percentage around 55% -60% (NBE 2015/16 report), for further improvement of tax administration and revenue collection which is explained by increased tax to GDP ratio compared to IMF standard still there are a lot of challenges and opportunities

Some of the challenges identified related to administration and performance especially in developing countries are evasions and fraud (Keen and Lockwood, 2007), poor administration (Aizenman and Jinjarak, 2008), increase in administrative expenditure and compliance costs (Agha and Haughton, 1996; Yesegat, 2009), miss understanding of taxpaying community, poor technology management; especially Electronic Tax Register (ETR) (Taye, 2011). Empirical studies further reveal challenges related to consumers` awareness, taxpayers misunderstanding and evasion act, tax authority commitment and organizational inefficiency, unfair competition due to unregistered but fall in the domain of the criteria (Tareke,S. H and Kassa, 2013) and (Dheressa, K.K Reddy, and Yadeta 2015).

The researcher believes that, as these challenges and related opportunities may affect an administration of VAT and revenue performance of Ethiopian revenue and customs authority large tax payers branch there is considerable need for conducting research on the area which this study purports to do.

1.3 Objectives of the study

The study has both general and specific objectives.

The general objective of the research is to assess VAT administration practice and revenue performance with respect to the challenge and opportunity in the case of lager tax payer's branch office at Ethiopia Revenue and Customs Authority. To be more specific, the study has the following specific objectives.

1. To assess the practice and administration of VAT in the large taxpayer's branch office.
2. To evaluate tax payers compliance level to VAT rules and regulations and tax authority Potential
3. To showing the share of VAT income in related to total government revenue.
4. To assess challenges facing the tax payer as well as tax office in the collection of VAT.
5. To assess the possible opportunity for the government income and tax administration.

1.4 Significance of the Study

This paper help policy makers to understand better the revenue performance of VAT and its administration in Ethiopia. Secondly the study will help the tax authorities to identify their problems and inefficiencies to take corrective action, to improve revenue performance within the authority. In addition, the study was adding something to the existing literature and it was serve as a reference for those who will conduct further study.

1.5 Scope of the Study

The scope of the study has limited to VAT only. It does not consider other types of taxes. In addition, it is going to be conducted in LTO Branch of the Ethiopia Revenue and Customs authority. Hence, the study doesn't include the revenues collected through the custom's part of the authority. The scope of the study is also limited to only five years time; and doesn't investigate the VAT administration since its establishment.

1.6 Limitations of the study

The study is conducted in the LTO branch office and the employees of the branch primary source of data are only from large tax payers. It is difficult to show the whole image of the VAT administration, revenue performance and challenges and opportunity the whole tax payers registered for VAT.

1.7 Organization of the study

The paper was contained five chapters. First chapter comprises General introduction such as background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and scope of the study. The second chapter dweller the relevant literatures in the field are reviewed. Chapter three offered the methodology such as research design, source data, data collection tools /instrument, procedure of data collection, and method of data collection uses is presented. On the Chapter four results and discussion presented. Finally, chapter five goes the conclusions and recommendations of the study.

CHAPTER TWO

REVIEW RELATED LITERATURE

Introduction

Tax is defined as an amount of money levied by a government on its citizens and used to run the financial activities of the government. A tax is an unrequited payment by individuals or businesses to a government without Quid Pro Quo. This means tax is an involuntary payment without any expectation of direct return in benefit. In the private sector you get what you pay for. But in public sector with regard to tax you don't get what you pay for. In short there is no direct relationship between the tax payment and the benefit to be received by the taxpayers.

Government revenues are sourced from various direct and indirect tax receipts from indirect taxes the major one is Value Added Tax (VAT). This tax increasingly being used throughout the world, including many African countries to raise government revenue with less administrative costs than other broadly based taxes. It is believed to be a good means to raise government revenue even when relatively poorly administered. Countries with a VAT raise more revenue, overall, than do those without VAT (Richard, 2005).

2.1 Concepts and Definition

2.1.1 Value added tax (VAT)

VAT is a tax levied on the increase in value of commodity that has been created by the taxpayer's stage of the production or distribution cycle. It is a sales tax based on the increase in value or price of the product at each stage in its manufacture and distribution. The cost of the tax is added to the final price and is eventually paid by the consumer (Harrison and Krelove 2005).

"VAT" - value added tax - has spread throughout the world since its introduction in 1955. France is credited with first implementing VAT. It did so in 1955. The tax spread through Europe, South America and parts of Africa in the 1960s and 1970s before taking a hold in other regions. Today, it is a key source of government revenue in more than 130 countries. About 70 percent of the world's populations now live in countries with a VAT (Keen & Lock Wood, 2007).

Value Added Tax has also become an essential component of tax reform in developing countries. It is the most important tax innovation of the second half of the twentieth century. In line with this perception, an increasing number of developing countries have converted their sales tax to Value Added Tax (VAT). The continuing introduction and evolution of

general sales taxes, especially of the value added tax has been the outstanding feature in development taxation in recent years Keen and Lockwood (2007).

2.1.2 Sales tax

The tax is computed as a Percentage of the total sales price. Sales tax may be imposed on the purchaser or on the seller; in the former case they are charged on each transaction and in the latter they are collected as a percentage of the gross receipts during a given period. A sales tax also can be imposed at more than one but less than all levels of production or distribution. (ERCA, Annual Bulletin 2014)

2.1.3. VAT Rate

In Ethiopia VAT law contains two VAT rates. One is the standard fifteen percent rate and the other is zero rated.

a. Zero rating

The following taxable transactions are charged with tax at a rate of zero percent. The export of goods or services, the rendering of transportation or other services directly connected with international transport of goods or passenger, as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights, The supply of gold to the National Bank of Ethiopia (Yesegat W. (2008).

Zero rating is the mechanism under a VAT system by which the tax can be completely removed from a particular product or service or from a particular transaction. Under a credit-invoice VAT, a seller of a zero-rated item does not charge VAT on the sale. The sale is classified as a taxable sale subject to a zero rate. As such, the seller is entitled to recover as input credit the tax included in the cost of taxable purchases attributable to that sale. Eric (2008). Since zero-rating increases the number of VAT refunds, most developing countries wisely have limited it to exports. Under a sales-subtraction VAT, zero rating is accomplished by excluding the designated sales from gross receipts and allowing the business to deduct taxed purchases attributable to these zero-rated sales (Gills et al, 1990).

b. Exemption of goods and Services

Exemption means that no VAT is charged on the supply and no credit can be taken for VAT paid on purchases used to make the supply. If particular enterprises are exempted, the tax applies to their purchases and they received no credit for or refund of this tax since they are not taxpayers (Bird and Bahl 2008 cited in Edmiston and Bird 2006).

In Ethiopia under the VAT Law, the following types of supplies of goods or rendering of services as well as the following types of imports of goods are also exempt from payment of The sales or transfer of a used dwelling, or the lease of a dwelling, The rendering of financial

services, The supply or import of national or foreign currency, and of securities, The import of good to be transferred to the National Bank of Ethiopia, The rendering by religious organizations of religious or church related services, The import or supply of prescription drugs and the rendering of medical services, the rendering of educational services provided by educational institutions, as well as childcare service for children at pre – school institutions, The supply of goods and rendering of services in the form of humanitarian aid. The supply of electricity, kerosene, and water; Goods imported by the government, organizations, institutions or projects exempts from duties and other taxes to the extent provided by law Supplies by the post office; The provision of transport, Permits and license fees, The import of goods to the extent provided under schedule two of the customs tariffs regulations, The supply of goods or services by a workshop employing disabled individuals if more than 60 percent of the employees are disabled and The import or supply of books and other printed materials (ERCA, Annual Bulletin 2014).

2.2. VAT Practice in Ethiopia

The Value Added Tax (VAT) proclamation No 285/2002 which has replaced the sales tax which have come into force as of January 1st, 2003 is a consumption tax which is levied and paid as value added tax at a rate of 15 percent of the value of every taxable transaction by a registered persons, every import of goods, other than an exempt import and an import service rendered in Ethiopia for a person registered in Ethiopia Teferra (2004)

To sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible. However, in Ethiopia revenues raised by VAT are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, i.e., the incapacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design features of VAT and achieving government's policy objectives at large. Abehodie (2008)

The potential problem of Value Added Tax implementation of ERCA Value Added Tax administration is poor due to many factors, such as: difference in culture Value Added Tax registrant, lack of self-registrant, lack of awareness among the potential tax payers about the importance of Value Added Tax and poor tax collection system still exists. The general objective of this study is to investigate the challenges of Value Added Tax Administration regarding the Value Added Tax assessment, collection and implementation of Value Added Tax and to assess the main problems related to the Value Added Tax administration activities

performance tax office, service delivery of tax office and voluntary compliance of tax payers Ethiopia (Dheressa, K, Yadeta 2015).

VAT administration pertains to how tax authorities discharge the responsibilities entrusted to them. According to Jantscher (1990) these responsibilities include a range of related activities such as taxpayer identification and registration, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties. Perhaps peripherally, VAT administration is also concerned with issues of who should administer the tax, what organizational setup to use and what resources are available. On the VAT administration practices the following compounds were key deterrents;

2.2.1 VAT Registration

In Ethiopia any person who carries on a taxable activity and at the end of any period of 12 calendar months has made, during that period, taxable transactions the total value of which exceeds 500,000 Birr or at the beginning of any period of 12 calendar months there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during the period will exceed 500,000 Birr, has the obligation to register for VAT Yesegat W. (2008).

On the other hand sector specific (selected) registration requirement, to encourage VAT registration, government institutions are obliged to transact with VAT registered businesses for transactions valued ETB 100,000 and above. In general, according to discussion with tax officials, these schemes were designed to help the administration in bringing taxpayers registered for VAT (EFIRA 2008).

After the VAT was operational with such a registration requirement, the authority devised forced-registration schemes. These schemes include selective registration requirements that compel all businesses engaged in a specific sector/form of ownership to register for VAT regardless of the level their annual turnover. Abehodie (2008)

2.2.2 VAT filing and payment

According to Jantscher (1990) noted, in some developing countries taxpayers effect provisional payments monthly and file returns annually; while most developing countries require monthly filing and payment of VAT and do not require taxpayers to furnish a yearly return. In the case of Ethiopia, taxpayers are required to file VAT returns accompanied by the appropriate payments on monthly basis and there is no year-end reconciliation requirement. Further, the VAT legislation allows taxpayers a 30-day period within which to file returns and make payments. In practice, there are three VAT reporting periods depending on whether

a taxpayer is a nil, credit or payment filer. The reporting time from the end of the accounting period is 10 days for nil filers, 20 days for credit filers and 30 days for payment filers but these activities is not supported by any legal ground.

In administering VAT in Ethiopia tax authorities use computer programs, namely Standard Integrated Government Tax Administration System (SIGTAS) and Automated System for Customs Data Management (ASYCUDA). The computer programs are used to maintain taxpayer register and process VAT returns. Detection of non-filers seems to be carried out mainly through system.

In addition, tax authorities Endeavour to follow-up non-filers identified by the computer programs. However, such follow-ups are made usually carried out once in month. The above practices pertaining to controlling VAT filing and payment delay the collection of the tax and jeopardize the government's revenue. Potential impact of non-filers on the revenue performance of the tax, strengthening the administration capacity of the tax authorities, and effectively using the computer programs coupled with timely follow-up of non-filing taxpayers are worthwhile to consider LTO training manual (2015).

2.2.3 VAT invoicing

According to Jantscher (1990) noted that most developing countries require some form of invoicing for all transactions subject to VAT including sales to final consumers. Ethiopia, the VAT to related invoice there are different problems mainly two of them are , These problems include the difficulty of getting invoices on purchases and details of customers for the preparation of sales invoices, the problem of supplying without invoices (by giving the option of buying with or without invoices to customers) and using duplicated invoices. The second problem is that optional issuance of VAT invoices in some sectors reveals that invoices are being used as a negotiation tools between customers and VAT registered businesses. That is, full VAT is chargeable if a customer needs invoices. Such a practice can jeopardize the use of invoices as a revenue safeguarding tool.

According to Abehodie (2008) there are various factors contributing to the invoicing problems mentioned below some of these factors include lack of tax administrators' follow-up and control, lack of awareness among the society and the prevalence of poverty. To mitigate these problems, enhancing tax education and follow-up programs are worthwhile to consider.

2.2.4 Penalties

VAT penalties according to , Jantscher (1990) noted that in most developing countries the stricter penalties in VAT laws are usually not applied, thus penalties have little deterrent effects. According to Abehodie (2008) In Ethiopia, the VAT legislation proclaims that taxpayers that fail to fulfill the requirements of VAT are chargeable with penalties ranging from financial penalties to imprisonment. The tax authority started enforcing the penalty provisions although the legislation in general stipulates a penalty of 5 per cent of the amount of VAT unreported/underpaid, a late filing penalty of ETB 10,000 for each accounting period the tax remained reported is imposed. In addition, there are cases where taxpayers convicted of VAT evasion have been fined Further, the lack of consistency and transparency in administratively imposing the penalty may open a room for corruption.

2.2.5 VAT refund

Grandcolas (2005), Jantscher (1990) and Abehodie (2008) noted that managing VAT refunds is one of the challenges of VAT administrations in developing countries. In managing refunds and combating refund frauds, different countries use schemes including denial of refund claims (except to exporters), carrying forward of refund claims, demanding a third party certification of the claim, demanding guarantee, requiring taxpayers to have separate VAT bank accounts, zero rating of supplies to exporters and remission of input VAT on certain goods (mainly capital goods). Some of these schemes are not only to combat refund frauds, but are also intended to reduce the strain on business cash-flows. Looking closely at the practices concerning VAT refunds in developing countries shows that all developing countries give refunds to exporters and some require other VAT taxpayers to carry forward their excess credits indefinitely (Jantscher 1990).

According to ERCA practical application the VAT legislation allows refunds to be made to mainly for exporters within two months from the time applications are lodged. Non-exporting taxpayers are required to carry forward excess credits to the next five accounting periods; if there are still unused excess credits it is allowed (at least in the legislation) to be refunded within two months from the time of lodging applications.

In Ethiopia, for the purpose of refunds, the VAT legislation categorizes taxpayers into two groups: zero rated businesses (mainly exporters) and other (non-exporting) businesses like construction, manufacturing and others. The tax authority makes refunds mainly to exporters in addition to employing voucher system.

It is therefore important to briefly assess the resources available for the administration of VAT in Ethiopia. In this respect, Yesegat (2008) estimated VAT administrative costs in Ethiopia in the 2005–06 fiscal year to be in the range of 0.66 to 0.8 per cent of VAT revenue. Further, Yesegat (2008) through comparative analysis with similar estimates in other countries suggested that in Ethiopia VAT administrative costs are at a low level.

2.2.6 Non-compliant tax payers

According to Dheressa, K, Yadeta (2015) there is Lack of strong and follow up for non-complaints, lack of human resources specially Value Added Tax auditors, lack of taxpayers awareness, In some lack of fairness, lack of Imposing penalty, lack of education and assistance for taxpayers , lack of qualification of tax office, fair and square appeal system, fair taxation mechanism, and good awareness creation for Value Added Tax collectors and conducted comprehensive trainings on the Value Added Tax law, regulation, directives and administration techniques for tax officers are also poor.

The non-compliance with VAT Proclamation failure to register for VAT as, failure to issue a tax invoice, failure to maintain recorder such as original tax invoices received and a copy of tax invoices issued and failure to file timely return shall be liable to administrative penalties ranging from a fine 100 percent of the amount of tax payable and a fine of up to 50,000 Birr. In addition to administrative penalties tax offenders such as tax evasion, making false or misleading statement and failure to notify are all criminal offences. This penalty ranging from 1000 Birr to 100,000 Birr and an imprisonment ranging from 3 years to five years where the making of false or misleading statement is made knowingly or recklessly such an offence is punishable by a fine of up to 200,000 Birr of an imprisonment of up to 15 years LTO training manual (2015)

2.3. VAT Administration

As Bird (2004) noted that the basic tasks of tax administration consist of three distinct activities, i.e. identification, assessment and collection. Further, Bird and Gendron (2005) noted tax administration consists of several related but separable processes registration, filing, payment, audit, and enforcement. In accordance with Tait (1988) the introduction of VAT is usually the best change in tax system of a country and there is also a possibility to perform tax administration system.

According to Bird and Jantscher (1992), a very important precondition for effective work of tax administration is canceling all additional duties out of the process of taxation. Besides, in some countries in transition, tax administration also performs many analyses and realizations

of forecasting, which are in completely inconsistent with its duties in countries with ground economies.

As Bird (2004 10(3) p.135) noted in a very real sense, “tax administration *is* tax policy”. Maximizing revenue for a given administrative outlay is only one dimension of the task of tax administration. Revenue outcomes may not always be the most appropriate basis for assessing administrative performance. How revenue is raised, i.e. the effect of revenue generation effort on equity, the political fortunes of the government, and the level of economic welfare, may be equally (or more) important as how much revenue is raised.

As Grandcolas (2008) noted VAT performance in Africa may depend on significant variations to the conventional view of VAT practice, and that the main objective of a tax administration should be to improve voluntary compliance. Grandcolas (2008) also suggests that the level of VAT compliance is particularly influenced by the design of the VAT and the quality of the tax administration; and discusses that the lack of skilled tax administrators poses a struggle for developing countries, including those in Africa. Grandcolas (2008) suggests that the overall performance of the VAT systems in Africa depends on three main factors: “The capacity of policy makers to take into consideration the structural weaknesses of the tax administration; commitment to apply the designed penalty system; and development of a client-oriented tax administration and an effective audit Program.

According to Kefela (2009), the real tax system facing people and businesses in most developing countries is not how the tax law is designed but rather the outcome from how that system is actually put into practice and very importantly how the tax administration and its role impacts the tax reform. As Tanzi (1991) cited in Kefela (2009) has pointed out tax administration has a crucial role in determining the real (or effective) tax system, as opposed to the statutory tax system.

During the process of deciding whether to introduce a VAT, the tax administration’s weakness should be a concern, but not an overriding factor. If such weaknesses are a real problem, they will have to be tackled under any scenario. Since preparation for VAT introduction takes approximately two years; this time could and should be used to strengthen tax administration. In fact, some countries have used the VAT introduction to set up a new, more modern tax administration. With the correct perspective and commitment, this process can naturally lead to a strengthening of the tax administration (Santos, 2002).

According to Bird (2003) unfortunately, tax administration is a difficult task even at the best of time and in the best of places, and conditions in few developing countries match these specifications.

Accordingly, The "best" tax administration is not simply that collects the most revenues; tax administration depends on private and public actions (and reactions), various environmental factors, substantive and procedural tax law and the outcome of a given administrative effort. All this makes tax administration a complex matter.

According to Kefela (2009), Maximizing revenue for a given administrative outlay is only one dimension of the task of tax administration. Revenue outcomes may not always be the most appropriate basis for assessing administrative performance. How the revenue is raised - the effect of revenue generation effort on equity, the political fortunes of the government, and the level of economic welfare - may be equally or more important in some contexts. Similarly, private as well as public costs of tax administration must be taken into account and due attention given to the extent to which revenue is attributable to "enforcement" (the active intervention of the administration) rather than "compliance" (the relatively passive role of the administration as the recipient of revenues generated by other features of the system). Assessing the relation between administrative effort and revenue outcome is thus not a simple task (Jantscher 1990 cited in Kefela 2009).

The major activities in VAT administration are identifying taxpayers, processing returns, controlling collections, making refunds, auditing taxpayers and levying penalties (Purhoit, 2000). On the part of administration, preparation of a single master file, based on unique tax identification number (TIN) is crucial and this ensures that each taxpayer's account contains all the relevant tax and payment data for that taxpayer alone. On account of requirements of VAT, the even functioning of VAT would depend upon tax payers keeping careful and complete records (Purhoit, 2000). To minimize the likely amount of high compliance costs, however, sellers are expected to maintain sufficient details to have information on the following aspects. These are particulars of invoices giving details of tax on sales and credit on purchases, detail of accounts giving information of all purchases and sales and interaction between invoices, purchases and sales account with the tax return form (Purhoit, 2000). VAT execution is also part of VAT administration. This includes identifying tax payers and tax evaders as well as the registered and unregistered tax payers among the business community. It follows that the concerned tax authorities would take legal measures against people who do not comply with the VAT law. It is not only the authorities should be responsible in assessment of execution of VAT but the consumers themselves have a key role to play (Purhoit, 2000).

As Tanzi and Pellechio (1995) cited in Ott (1998) noted the main tasks of VAT administration involve: (1) information and instruction to taxpayers, (2) registration,

organizing and processing tax returns (input of data, processing declarations and payments), (3) coercive collection (closely connected with registration, accounting and return processing), (4) control and supervision (discovering lacking and insufficient tax returns and controls of books and papers in tax administration offices or business activities and books of taxpayers, while routine check-ups had already been done in the registration, accounting and return processing department), (5) legal services and complaints (taking cases to court, defending tax administration in court, explaining procedures which are or are not in accordance with the law).

According to Andic (1994) cited in Ott (1998) transition countries most definitely need changes in VAT administration, and its adjustment to modern accounting, control, assessment, collection, coercive collection, compliant procedures and the growing number of individual taxpayers.

VAT is administered and managed by the FIRS, a federal agency responsible for the administration of federal taxes with power to do such things as may be deemed necessary and expedient for the assessment and collection of the tax due. At the planning stage, some reservations were expressed about the competence and desirability of the FIRS to effectively administer VAT. The Federal Government rejected the recommendation that a fully independent and self-sustaining Commission should be established to administer (Sanni, 2012).

The VAT has compliance advantages over a retail sales tax, which is intended to collect all revenue at the point of sale from a business to a household. Since revenue collection for the VAT is spread across stages of production, with producers receiving a credit against taxes paid as an incentive for compliance, the VAT in practice is less likely to be evaded (Gale and Harris, 2011).

The VAT is in theory a tax on consumption, but in practice, calculating the amount of VAT due is as complex as calculating the amount of income tax due, a tax administrator in the UK, notes when describing the administration of the UK's VAT. To see how administrative and compliance costs arise, one needs to understand some of the details regarding the way a VAT is administered (Gale and Harris, 2011).

2.4. VAT Revenue Performance

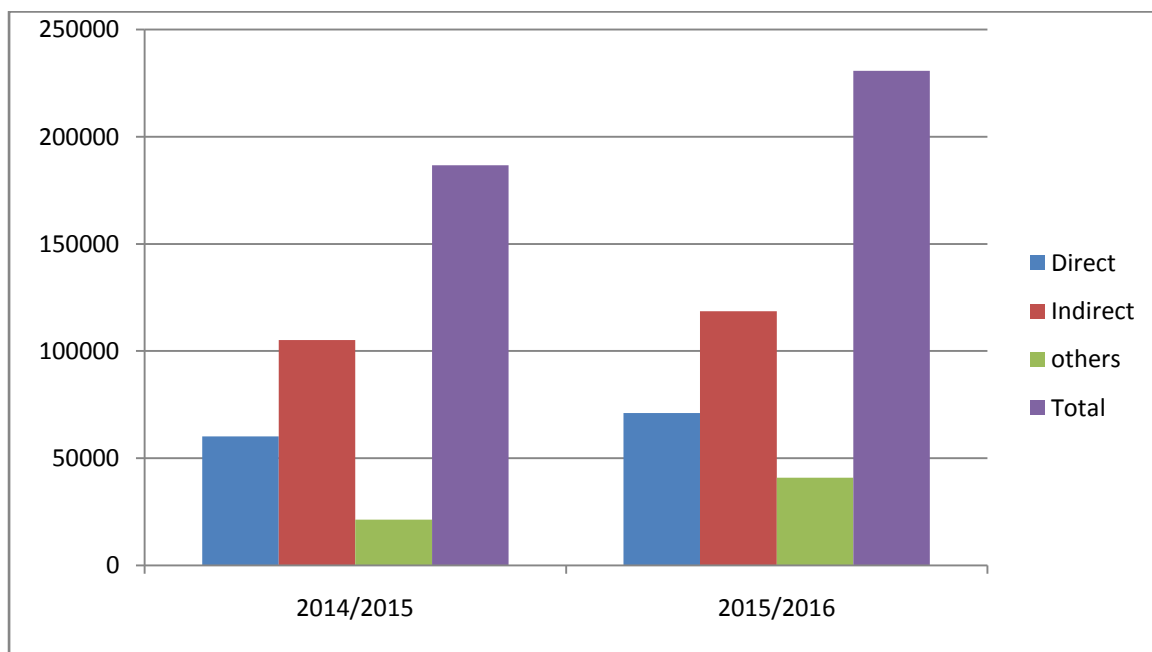
VAT is increasingly being used throughout the world, including many African countries to raise government revenue with less administration and economic costs than other broadly based taxes. It is believed to be a good means to raise government revenue even when

relatively poorly administered. Ebrill and Keen (2001) also strengthen the above idea empirically. They found that in the countries have adopted VAT, revenue from this source accounted on average 27 percent of the total tax revenue or 5% of the GDP. And about 70% of the world's populations now live in countries with a VAT. This implies that it is a key source of government revenue in more than 130 nations.

On the other hand VAT is collected on all sales of commodities at every stage of production and distribution with threshold on the annual turnover. Most taxable transactions will appear on two tax returns (that is the buyer's and the seller's) so that tax authorities will have two opportunities to detect evasion. Further, because sellers provide the tax administration a record of their purchases by claiming input credits, tax administrations are more able to estimate what sales and therefore VAT due should be and thereby can detect evasion more easily in a VAT than in a retail sales tax. Under the VAT the amounts of tax liability at risk in most transactions is only a fraction of the total tax assessed on the sales of the good or service to a consumer. This is because the VAT is collected in smaller pieces at each stage of production, while the entire retail sales tax is collected on a final consumer sale. The lower effective tax rate on each transaction may reduce the intensive to evade the VAT. It is argued that VAT avoids cost-cascading effect. A conventional sales tax leads to compounding of the tax liability, while VAT does not (Bhatia, 2003).

In order to compare VAT revenue with that of sales revenue, the turnover tax should be added on VAT since sales tax was replaced by VAT and turnover tax.

Fig. VI.1 Trend of Government Revenue by Component categories



Source: Ministry of Finance and Economic cooperation

In Ethiopia government revenue, including grants reached Birr 243.6 billion in 2015/16 and its GDP ratio remained at 15.1 percent. About 82.3 percent of the total domestic revenue came from tax sources which recorded 14.8 percent annual growth. Currently direct taxes (18.2 percent) and indirect taxes (12.8 percent) showing improvement. Direct taxes contributed 37.5 percent to total tax revenue while that of indirect taxes was 62.5 percent at the same time, Birr 40.9 billion was collected from non-tax sources which exhibited a 92.2 percent surge largely due to remarkable increase in collection from government investment income and sales of goods and services. Grants at Birr 13 billion remained at the previous year level.

Table 1:- Summary of General Government Revenue by Component (In Millions of Birr)

Particulars	2014/15	2015/16		Percentage Change	Performance rate
	[A]	[B]	[C]		
	Pre. Act	Revised Budget	Pre. Act	[C/A]	[C/B]
Total Revenue and Grants	199,639.10	251,919.80	243,671.60	22.10	96.7
Total Revenue 1/	186,618.7	237,862.10	230,657.30	23.6	97.0
Tax Revenue	165,312.50	186,618.7	189,717.20	14.8	97.3
1. Direct Tax Revenue	60,154.40	78,039.7	71,126.8	18.20	91.10
<i>1.1 Income and Profit Taxes</i>	58,288.1	75,286.50	69,520.20	19.30	92.3
<i>Personal</i>	20,432.8	25,787.00	25,171.20	23.20	97.60
<i>Business</i>	30,444.1	41,366.30	36,445.70	19.70	88.10
<i>Others 2/</i>	7,411.2	8,133.20	7,903.30	6.6	97.20
<i>1.2 Rural Land Use Fee</i>	239.7	377.30	330.00	37.70	87.50
<i>1.3 Urban Land Use Fee</i>	1,626.6	2,375.9	1,276.70	-21.50	53.70
2. Indirect Taxes	105,158.0	116,996.10	118,599.40	12.80	101.40
<i>2.1 Domestic Taxes</i>	52,367.9	57,688.50	55,857.40	6.7	96.80
<i>2.2 Foreign Trade Taxes</i>	52,790.1	59,307.60	62,722.90	18.8	105.80
<i>Import</i>	52,790.1	59,307.60	62,722.90	18.8	105.80
<i>Export</i>					
3. Non-Tax Revenue	21,306.2	42,826.30	40,940.10	92.20	95.60
<i>3.1 Charges and Fees</i>	2,384.2	2,242.20	2,399.80	0.7	107.00
<i>3.2 Govt. Invt. Income 3/</i>	4,997.2	14,834.50	15,431.80	208.80	104.00
<i>3.3 Reimb. And Property Sales</i>	199.9	197.30	117.70	-41.10	59.70
<i>3.4 Sales of Goods & Service</i>	3,017.3	5,194.80	4,097.70	35.80	78.90
<i>3.5 Others 4/</i>	10,707.6	20,357.60	18,893.20	76.40	92.80
4. Grants	13,020.4	14,057.70	13,014.30		92.60

Source: Ministry of Finance and Economic cooperation

1/ It does not include privatization proceeds

2/ Others include rental income tax, withholding income tax on imports, interest income tax, capital gains tax, agricultural income and other income

3/ Government investment income includes: residual surplus, capital charge, interest payments and state dividend.

4/ Other extraordinary, miscellaneous and pension contribution

2.5. Challenges and Opportunities

2.5.1 Challenges on VAT Administration

VAT administration challenges adversely impact on the salient features of the tax and government's policy objectives as a whole. In this regard, Tanzi and Pellechio (1995) (cited in Mikesell, 2007) noted that poor tax administration would change the manner in which taxation affects government's policy objectives, namely economic stabilization, resource allocation and redistribution of income. Challenges rise from the following facts taxpayer identification, invoicing, filing and payment process, control of filing and payments, refunds, audits and penalties are challenges.

In developing countries the poor performance of taxes is likely to be due to weak tax administration (that is, the incapacity of the administration to implement the tax in practice). This is perhaps caused by such factors as resource constraint and designing the tax separately from the administration.

according to Dheressa, K.K Reddy, and Yadeta (2015 Value Added Tax administration there are many challenges have, Such challenges include: Resistance against Value Added Tax registration, Low level of tax awareness, weak audit and enforcement capacity of the tax authority, sell goods and service without tax invoice Value Added Tax collectors, Tax laws enforcement problems, are the challenges which affect the collecting sufficient revenue in terms of Tax collected from Value Added Tax

2.5.2 Opportunities for tax administration and revenue performance

VAT can detect evasion more easily than sales tax. VAT is collected on all sales of commodities at every stage of production and distribution with threshold on the annual turnover. Most taxable transactions will appear on two tax returns (that is the buyer's and the seller's) so that tax authorities will have two opportunities to detect evasion. Further, because sellers provide the tax administration a record of their purchases by claiming input credits, tax administrations are more able to estimate what sales. VAT is collected in smaller pieces at each stage of production, while the entire retail sales tax is collected on a final consumer sale (Bhatia, 2003).

CHAPTER THREE

RESEARCH METHODOLOGY

The purpose of this chapter is to describe the choice of appropriate research method for the study. Research design is specific research methodology philosophies and techniques used to achieve the objective of the study. It include philosophies and techniques used in opting alternative research methodology and technique such as qualitative, quantitative and mixed methodologies, sources of data, sampling plan and method of analysis.

3.1 Research approaches

The study was conducted using mixed research approach. The rationale for combining both quantitative and qualitative data was to better understand a research problem by combining both numeric values from quantitative research and the details of qualitative research in order to neutralize limitations of applying any of a single approach. According to Creswell (2011), the mixed research approach uses separate quantitative and qualitative methods as a mean to offset the weakness inherent within one method with strengths of the o the method.

3.2 Methods Adopted

Though the above research approaches mixed research method was appropriate for this particular study. To get the most advantageous characteristics of conducting mixed methods research that is possibility of triangulation, i.e., the use of several means (methods, data sources and researchers) to examine the same phenomenon. **Triangulation allows one to identify aspects of a phenomenon more accurately by approaching it from different vantage points using different methods and techniques.** Successful triangulation requires careful analysis of the type of information provided by each method, including its strengths and weaknesses.

In survey method research, participants answer questions administered through interviews or questionnaires. After participants answer the questions, researchers describe the responses given. In order for the survey to be both reliable and valid it is important that the questions are constructed properly. Questions should be written so they are clear and easy to comprehend. Jackson, S.L. (2009).

3.3 Target Population:

The target population of this study was the employees who are directly involved in VAT collection and administering departments. This means, process coordinators, team leaders, senior officers, and junior officers are included in the target group.

3.4 Sample Size:

A sample is a subset containing the characteristics of a larger population. Samples are used in statistical testing when population sizes are too large for the test to include all possible members or observations. A sample should represent the whole population and not reflect [bias](#) toward a specific attribute.

Taking into consideration the researcher collected data representative size of sample in the sample frame. These are done using random sampling technique from the purposely selected list of employees. In large tax payers branch office from the tax office department around 306 officers are working in different positions from them 65 employees are working directly to the VAT related concern those employees will be required to fill questionnaires. In addition, discussions will be made with five persons working in the office focusing to the issue at hand. According to Roscoe (1975), the appropriate sample sizes for most research to be greater than 30 and less than 500. Taking into consideration this guideline, the sample size decided 65 employees working directly on VAT which represent around 21 percent of the total employees.

3.5 Sampling Technique:

The researcher selected probability sampling method and used random sampling in which every set of individuals has an equal chance to be in the selected sample. In large tax payers branch office 65 employees working directly on VAT issues researcher select based on the formula below and interviewed five people directly related with the VAT. According to Kothari (2004) the following formula was used to determine:-Estimation of the Sample Size based on proportion

$$n = \frac{Z^2 p q}{d^2}$$

n = the *desired* sample size.

z = the standard normal variable at a required level of confidence (standard normal deviation).

p = the proportion in the target population estimated to have characteristics being measured.

q = 1-p

d = the level of statistical significance set

$$n = \frac{(1.96)^2 (.50)(.50)}{(.05)^2} = 384$$

Based on the above derived formula the sample size correct below

$$f_n = \frac{n}{1 + \frac{n}{N}} = \frac{384}{1 + 384/65} = 55$$

Where,

f_n = The desired sample size *when* the population is less than 10,000
n = The sample size *when* the population is more than 10,000
N = the estimated population size

3.6 Source of data

The researchers obtained data from primary and secondary data sources in order to obtain a reliable data and achieve the stated objectives of this study. In the study, both primary and secondary data sources were used.

3.6.1. Primary Sources of Data

This primary source of data collection was employed through the use of questionnaires. The researcher used both quantitative and qualitative methods of data collection to gather the data. With the help of the tax payers and tax officers of LTO filled questionnaires.

3.6.2. Secondary Sources of Data

Secondary data was obtained from source of literature such as books, journals, newspapers, publication, reports, articles and other research related to this study. These sources were very useful in the literature review about VAT administration and revenue performance, challenges and opportunity.

3.7 Method of data collection

The researchers used one set of questionnaire for the survey which was answered by selected branch officials, process coordinators and team leaders of tax assessment and collection department. Most of the questions was close ended with 3 and 5 point scales, Yes and No questions, and categorical scaled questions. There will be some open ended questions.

3.8 Method of Data Analysis

In the qualitative part of the study, after the data was collected and processes manually, descriptive technique is adopted for analysis of the data. The statistical analysis conducted based on Percentages, Tables and Figures. In case of descriptive statistics, a quantitative method of data analysis is adopted. The data collecting from survey questionnaires are carefully code and checking for consistency and entering into the Statistical Package for Social Scientists(SPSS) statistical package. The analysis is performing with a method of SPSS version 20. The raw data analyzed, presented, and interpreted to give solutions for the research problem.

CHAPTER FOUR

RESULTS AND DISCUSSION

This chapter represents the findings of the study conducted to assess on VAT Administration and Revenue performance: Challenges and Opportunities (in the case of large tax payer's branch office). During survey the tax officers was asked different types of questions. The data collected from questionnaires were carefully coded and checked for consistency and entered into the Statistical Package for Social Scientists (SPSS) spreadsheet. The analysis was performed with SPSS version 20. For 55 LTO employees questionnaires physically distributed to the target population, 50 collected from tax officials. The response success rate of employee's respondents was 91% of them were returned, while the remaining 9% of the questionnaires were not returned. Finally, in this section based on the interview response and other related secondary documents VAT revenue performance of the authority, challenges and opportunity presented at the end of the chapter. The responses were summarized and presented in the following section below.

4.1 Findings of the study

4.1.1 Background of Respondents

The summary results showed of gender from the tax officials and business enterprise those registered for VAT were:-

Table 2: Gender of the Respondents

Variable	Categories	Frequency	Percent
Gender	Male	27	54.00
	Female	23	46.00
	Total	50	100.0

Source: Survey of tax officials

As shown in above table from the total respondents LTO employees 54 % of the respondents were male, but the remaining 46% percent of the respondents were female.

Table 3: Age of Respondents

Variable	Categories	Frequency	Percent
Age group of respondents	20-30	23	46.0
	31-40	17	34.0
	41-50	8	16.0
	50+	2	4.00
	Total	50	100.0

Source: Survey of tax officers

The importance of the age of respondents is to ensure whether the respondents do the required level of maturity to respond properly to the given questionnaires. The above table age of respondents shows that the majority of respondents 46.0% were those whose age are 20 -30, followed by 34.0%, for age group 31-40 next to this 16% of the respondents also 41-50 and the remaining 4% were those respondents, whose age group are more than 50. Therefore, this survey indicates that most of the respondents were young and productive age group.

In this survey tax officials was asked about the level of education hence the responses result were summarized in the form of table below table

Table 4: Respondents' Educational Status

Variable	Categories	Frequency	Percent
	Diploma	8	16
	Bachelor degree	34	68
	Master and above	8	16
	Total	50	100.0

Source: Survey of tax officials

As indicated table 4: the level of education most tax officials belong to Bachelor Degree 68% and a few of them belong to masters or above 16%. The others respondents were 16% diploma holder. This shows that the respondents are qualified enough to easily understand and respond the questionnaire correctly. The tax authority should encourage those employees who want to follow for masters or above in order to increase the number of employees having qualifications of masters or above.

Table 5: Tax Officials Department

Variable	Categories	Frequency	Percent
Department of tax officials	Assessment and Follow-Up	12	24
	Auditing and Investigation	26	52
	Collection and Enforcement	11	22
	Other	1	2
	Total	50	100.0

Source: Survey of tax officials

Table 5: showed 52% of respondents belong to Department of Auditing and investigation. Assessment and follow-up also cover 24%. Further, 22% of the respondents belong to Department of collection and enforcement. In connection with this, about 2% of respondents are belonging to "Others" category like cash register machine controller and Tax Intelligent Department. This implies that the questionnaires is disseminated and fill at the right person and the department that concern issue directly.

Table 6: Tax officials Position and Experience

Variable	Categories	Frequency	Percent
Position in tax office	Auditor/officer	21	42.0
	senior auditor/officer	24	48.0
	Team leader /process coordinator	5	10.0
	Total	50	100.0
Work experience	less than 5 year	13	26.0
	5-10	29	58.0
	10-15	5	10.0
	more than 15	3	6.0
	Total	50	100.0

Source: Survey of tax officials

Table 6: shows both the position and experience of respondents within the tax office. From position point of view, senior auditor/officer accounts the highest percentage of respondents 48% and Auditor/officer 42%. Team leader /process coordinator account only 10% of the respondents. When we see the large tax payers branch office the team leaders and process coordinators are few in number based on the structure of ERCA as compare to other position. Experience of respondents from the above survey 58% of the respondents are less than 10 years experience. Around 26% of the respondents were less than five years and 6% were more than 15years. This indicates the authority lack of experienced manpower to detect any evasion and fraud that happen from tax payers and it questioned the tax office to poor VAT administration capacity because of less experience personnel.

4.1.2 The tax payer's compliance to VAT rule and regulation

Table 7: The VAT Registration, Filling and Payment system

Variable	Categories	Frequency	Percent
Minimum threshold 500,000 is reasonable for VAT registration	Too much	11	22
	Little	23	46
	Reasonable	14	28
	No option	2	4
	Total	50	100.0

Source: Survey of tax officials

From above table the survey about minimum threshold for registration show that 28% of the respondents replied “reasonable” but 46% of the respondents said “no or little”. The remaining 22% of the respondents stated that the threshold amount of 500,000 Birr is “too much” for VAT registration and 4% the respondents said no option. This indicates that the Minimum threshold 500,000 is reasonable for VAT registration. The threshold level of Birr

500,000 annual turnover was set for VAT registration in VAT proclamation 285/2002 before fifteen years. On the interview part respondents response raised about the threshold level should be small because the purchasing power of money is decreasing constantly due to inflation.

Table 8: Proper VAT Receipt, illegal invoice, and recording system

Variable	Categories	Frequency	Percent
Consumers' willingness to transact with a proper VAT receipt	Yes	17	34.0
	No	33	66.0
	Total	50	100.0
A VAT payer using illegal, as well as unregistered VAT machine	Yes	17	34.0
	No	33	66.0
	Total	50	100.0
Some VAT registered business enterprises collect the tax with illegal invoices	Lack of knowledge and awareness	10	20.0
	To hold public money for themselves	14	28.0
	The Competition between VAT registered and other who has not registered	8	16.0
	Customers are interested to buy goods or services from non registered	15	30.0
	not enough manpower of the authority to control such activities	3	6.0
	Total	50	100.0
Tax payers properly maintain Records of their Business Operation	Yes	41	82.0
	No	9	18.0
	Total	50	100.0

Source: Survey of tax officials

The compliance and motivation of the consumers to transact good and services with a proper VAT receipt is the key and crucial factor for successful implementation of VAT in a given countries. From the above table 66% of the respondents responded that consumers are not willing to transact with a proper VAT receipt, while 34% of the respondents said yes, this survey which implies that the consumers prefer to transact without proper VAT receipts. The respondents indicated in their response to the open-ended part of questionnaire that some not all consumer are not transact with the proper VAT receipt due to different factors such as lack of awareness, fraud, level of enforcement from the government ,incremental on the price of goods and services and others reason .

From the table 9: above for the statement taxpayers using illegal or unregistered machine the survey showed that 34% of the respondents confirmed that they have encountered a VAT payer using illegal, as well as unregistered VAT machine, on the other hand, 66% of the majority of the respondents confirmed that they didn't see or encounter a VAT payer using illegal, as well as unregistered VAT machine. The respondent responses on the open ended question this activity happened because of illegal activities might be start from the authority poor VAT administrative capacity.

Based on above table survey the reason why tax payers collect illegal invoice the responses were, 30% customers are interested to buy goods or services from non registered enterprise to get lower price as reasons for illegal invoices practices by VAT registrants. 28% of the respondent stated that to retain government tax for themselves, 16% of tax officials and taxpayers noted that taxpayers are unable to compete with unregistered taxpayers as reasons for illegal invoices practices by VAT registered. Further, 6% of the respondent stated that not enough manpower of the authority to control such activities that is the reason to practices illegal invoice. Finally 20% of the respondent respond that VAT registered business enterprises collect the tax with illegal invoices because of Lack of knowledge and awareness about the rule and regulation.

The table 9: showed above for the statement of maintains Records of their Business Operation survey indicated that, 82% of the respondent LTO enterprises properly maintain records of their business operation. However, 18% of respondent are not maintain proper recorders because of as the respondents suggest on the open ended question is summarized like, Lack of knowledge of the business of owner, Absence of professional and qualified employees, the tax authority doesn't create awareness about books and records maintained for VAT purpose.

Attitude part questions about taxpayers compliance to VAT rule and regulation

Table9: VAT filling, reporting, understanding, VAT rate and taxpayers compliance

Variable	Categories	Frequency	Percent
The reporting period for VAT filling and payment is enough for the LTO tax payers	Strongly Disagree	6	20.0
	Disagree	7	14.0
	Agree	24	48.0
	Strongly Agree	13	26.0
	Total	50	100.0

The VAT rate is high and has made goods and services expensive and results making taxpayers non compliance.	Strongly Disagree	7	14.0
	Disagree	27	54.0
	Agree	6	12.0
	Strongly agree	5	10.0
	Do not know	5	10.0
	Total	50	100.0
The tax payers understanding about VAT proclamation, regulation, directives and others.	Strongly Disagree	4	8.0
	Disagree	7	14.0
	Agree	27	54.0
	Strongly Agree	12	24.0
	Total	50	100.0

Source: Survey of tax officials

As table10: the reporting and filling period the responses showed that 48% and 26% of taxpayers and tax authority official agreed and strongly agreed respectively for the statement the reporting period for VAT filling and payment is enough for large tax payers. However, 20% and 14% of them disagreed and strongly disagreed respectively for the issue the reporting period for VAT filling and payment is not enough. This survey indicates that the VAT filling and payment for the LTO tax payers enough. but some respondent agree on the payment period of VAT is short for LTO tax payers because of their transaction is very high and they have different branch in over all region it take time to collecting and Summarizing the whole transaction within a month .

As the above table VAT rate is high and has made goods and services expensive, the survey indicated that 12% and 10% of tax officials respectively agreed and strongly agreed that the level of VAT rate is high and have made goods and services expensive and resulted in non-compliance of taxpayers which indicates which lead the tax payers to tax evasion and hiding the tax. Moreover, 54% and 14% of the respondent disagreed and strongly disagreed that the level of VAT rate is reasonable and on the price of goods and services were not making material change. The above survey indicated that the vat rate in Ethiopia is reasonable as we compare to other countries those who adopted VAT and resulted were not lead the tax payers to non-compliance.

The table above survey the tax payers understanding about VAT proclamation ,regulation, directives and others related documents were the taxpayers responded that 54% and 24% agree and strongly agree respectively on the statement of tax payers understanding was better about VAT rule and regulation in large tax payers branch office. on the other hand 14% and 8% of the respondents disagree and strongly disagree respectively that tax payers has no

enough understanding about VAT rule and regulation. This survey indicated that the LTO taxpayers have understanding about the VAT rule and regulation because of they were hiring more professional person to administer their finance sector.

4.1.3. The Practice of VAT and Tax Authority Potential to Administer VAT

Table 10: LTO employee's awareness, capacity and competent

Variable	Categories	Frequency	Percent
LTO have capable and required work force to implement the law	Yes	8	16.0
	No	11	22.0
	quite not, but showing progress	31	62.0
	Total	50	100.0
Awareness of the VAT Laws and its amendment	Little	15	30.0
	Indifferent	7	14.0
	Good	27	54.0
	Very much aware	1	2.0
	Total	50	100.0
Institutional Capacity of ERCA in managing and administration of VAT	Poor	17	34.0
	Good	25	50.0
	Very good	8	16.0
	Total	50	100.0

Source: Survey of tax officials

Based on the table 11: survey 16% of respondents replied that LTO has the capable and required work force, whereas 22% of the respondents said that LTO have no capable and required work force to reach all the taxpayers within the branch. The remaining 62% of the respondents stated that “quite not, but showing progress” respondents answer to the open ended opinion poll implies that the majority of both respondents do not agree that LTO has capable and required work force to reach the taxpayers on hand but it shows good progress . Some of the reasons they were mentioned concerning improvement of required work force is; there is a low turnover of employees, better motivation of employees after the increment of salary starting from September 2009 E.C. But the respondents recommend the tax authority should have to give due attention to improve the capacity of its employees both professionally and morally in order to discharge its objectives as set in the proclamation.

The tax official and the tax payers understanding on VAT rules and regulations are essential for the proper administration and to reduce the number of errors and to improves compliance, to promote transparency and cost effective collection.

Respondent's results are shown in table above, 30% of the respondents replied “little”, whereas 54% of the respondents stated “Good”. The other 14% respondent respond “indifferent” the remaining 2% respond "very much aware". This indicated that taxpayers and the some employees are do not know much about the VAT laws.

VAT administrative capacity within tax authority related to the tax payers filling, reporting managing monthly for ERCA is greatly difficult. The above table shows the capacity of LTO to administer the tax laws is considered more or less better. A good VAT administration is critical issue in a given country to achieve the policy objectives of a government. As the respondent response show that, 66% of the respondents indicated that the institutional strength of ERCA is adequate (good and very good), but the remaining 36% of the respondents said poor. this indicate that ERCA had at this time a potential to administer and manage the tax system but there is also un satisfaction in its potential to administer.

Table 11: Attitude part of questions about Practice of VAT and Tax Authority Potential

Variable	Categories	Frequency	Percent
Auditors, inspectors and prosecutors have the required skill and experience to detect and handle tax offences by taxpayers.	Strongly Disagree	5	10.0
	Disagree	25	50.0
	Agree	16	32.0
	Strongly Agree	3	6.0
	Do not know	1	2.0
	Total	50	100.0
ERCA follows in increasing the awareness of tax payers about the VAT registration process and the content of the law and implementation	Strongly Disagree	10	20.0
	Disagree	22	44.0
	Agree	10	20.0
	Strongly Agree	8	16.0
	Total	50	100.0
The tax authority provides appropriate incentives and awards to the best performing tax officials specially those who have done the best in deterring non compliance.	Strongly Disagree	5	10
	Disagree	6	12
	Agree	24	48
	Strongly Agree	15	30
	Total	50	100
The tax authority have continues capacity building program at different level of the authority.	Strongly Disagree	6	12.0
	Disagree	9	18.0
	Agree	18	36.0
	Strongly agree	14	28.0
	Do not know	3	6.0
	Total	50	100.0

Tax officials have potential and confidence in decisions making.	Strongly Disagree	6	12.0
	Disagree	7	14.0
	Agree	17	34.0
	Strongly Agree	19	38.0
	Do not know	1	2.0
	Total	50	100.0

Source: Survey of tax officials

In the above 12: survey responses of tax payers 50% disagreed and 10% strongly disagreed respectively that the existing auditors, inspectors, prosecutors and other staff members lack of the necessary skill and experience to detect and handle tax offences by taxpayers. In addition to this, 32% and 6% of the respondent were agreed and strongly agreed respectively, that the existing auditors, inspectors, prosecutors and other staff members has the necessary skill and experience to detect and handle tax offences by taxpayers. Generally the above table shows that some of the employees of the branch were not capable to detect any tax fraud and evasion due to adequate experience and skill.

As showed in table above the respondents responses 44% and 20% taxpayers and tax official disagreed and strongly disagreed about VAT registration process , the content of the law and implementation the tax office creating taxpayers awareness is not enough satisfactory. But In large tax payers branch office the taxpayer hiring more professionals and skilled manpower's than other related branches it may expected they know everything in detail. In line with this 20% and 16% other respondents respond agree and strongly agree the awareness creation about VAT registration process, content of the law and implementation is better. This survey indicate that ERCA responsibility to making the tax laws understandable and communicating changes very well as a solution to reduce involuntary VAT registration in ERCA.

The tax authority incentives and awards showed, about 48% and 30% of tax officials agreed and strongly agreed respectively that the authority provides appropriate incentives and awards to the best performing tax officials especially those who have done the best in deterring non compliance. However, 12% and 10% of tax officials disagreed and strongly disagreed respectively that the authority provides appropriate incentives and awards to the best performing tax officials especially those who have done the best in deterring non compliance.

On the above table about capacity building the tax official responded that 36.00% and 28% agree and strongly agree respectively that the tax authority implement different capacity building mechanisms or programs to different level of the authority. Whereas 18% and 12%

of the respondents responses disagree and strongly disagree that the tax authority capacity building program at different level of the authority it not continues and enough .The remaining 6% of the respondents were do not know about this issue. The above table indicates that the current capacity building program of the tax authority, were going well and it shows change from time to time.

For the statement of Tax officials have potential and confidence in decisions making survey showed that 34% and 38% of LTO tax officials agreed and strongly agreed respectively for the statement tax officials are not qualified enough, lack confidence and potential to provide adequate information to the taxpayers' request and decision making on issues. However, 14% and 12% of the respondents disagree and strongly disagree respectively for same statement mentioned above. The remaining 2% of the respondent does not have any understanding regarding the above issue. This analysis indicated that Tax officials especially at the top have no potential and confidence in decisions making process. As few respondents suggest that the higher official assigned for the position based on political commitment rather than their qualification.

4.1.4 .VAT Administration System in large Tax Payers Branch Office

Table 12: Problem on Smooth Administration of VAT and practically observe

Variable	Categories	Frequency	Percent
Problems on smooth administration of VAT	Consumers are not willing to buy goods and services with VAT	16	32.0
	VAT tax payers are less competitive in the market than non VAT tax payers	8	16.0
	Poor tax enforcement capacity of the authority	22	44.0
	Use of fraudulent invoices and non issuance of invoices	4	8.0
	Total	50	100.0
personally observe on the practices of VAT in Ethiopia going wrong or inadequate	Yes	38	76.0
	No	12	24.0
	Total	50	100.0

Source: Survey of tax officials and taxpayers

Survey on the table 13: result showed that, 32% are not willing to buy goods and services with VAT. However 44% of taxpayers noted that poor tax enforcement capacity of the authority as problem in VAT administration. On other hand 8 % of tax officials stated that the use of false invoices and 16% VAT tax payers are less competitive in the market than non VAT tax payers. The majority of the respondents agree that Poor tax enforcement capacity of

the authority and Consumers are not willing to buy goods and services with VAT are the major problem for smooth administration of VAT in Ethiopia.

The survey results for the statement of personally observe on the practices of VAT in Ethiopia showed 76% of the respondents observes everywhere that the implementation of VAT in Ethiopia when it is going wrong or inadequate, when they explain the reason the enforcement of ERCA especially at the night very poor, the employees of the authority is not much committed to check and administer the tax laws, deliberately the tax payers evaded the tax and the understanding of the society asking receipt to any transaction is poor. But 24% of the respondents stated that not observed these types of activity.

Table 13: Attitude part of questions about VAT Administration system in LTO

Variable	Categories	Frequency	Percent
Unregistered tax payers is creating unfair competition and making registered taxpayers' loss their market share and profitability.	Disagree	5	10.0
	Agree	11	22.0
	Strongly Agree	34	68.0
	Total	50	100.0
VAT exemption scheme that listed on the proclamation and regulation of VAT is enough.	Strongly Disagree	4	8.0
	Disagree	16	32.0
	Agree	24	48.0
	Strongly Agree	6	12.0
	Total	50	100.0
There is fair and transparency in imposing the VAT penalty on tax payers by the authority	Strongly Disagree	16	32.0
	Disagree	23	46.0
	Agree	6	12.0
	Strongly agree	3	6.0
	Do not know	2	4.0
	Total	50	100.0
The tax authority have potential to refund the excess credit within two months from the time of loading application	Strongly Disagree	10	20.0
	Disagree	25	50.0
	Agree	9	18.0
	Strongly agree	5	10.0
	Do not know	1	2.0
	Total	50	100.0
The existing VAT administration is not sufficient enough, that force the tax payer to hide from view the public money.	Disagree	3	6.0
	Agree	28	56.0
	strongly agree	16	32.0
	do not know	3	6.0
	Total	50	100.0

Source: Survey of tax officials

From the table above respondent responses 22% and 68% of agreed and strongly agreed respectively that the existence of unregistered taxpayers is creating unfair competition and making registered taxpayers lose their market share and profitability. From the total respondent's only 10% responses that unregistered tax payers were not creating unfair competition and registered taxpayers was not loss their market share and profitability. The above analysis indicated that companies or organization those unregistered for VAT can affect registered taxpayers and at the end loss their market share and profitability.

Table above analysis indicate that respondents' response to the fairness of the VAT exemption scheme provision in the VAT proclamation and regulation 48% and 12% of the respondents agree and strongly agree respectively. On the VAT exemption scheme provided in the proclamation and regulation were adequate, whereas 32% and 8% disagree and strongly disagree of the respondent said the exemption is not enough. some respondent were not agree on VAT exemption that exist in ground there is a case to be made other basic necessity to be exempted or making zero VAT rate.

The above table statement showed that the fair and transparency in imposing the VAT penalty indicated that 46% and 32% of the respondents disagreed and strongly disagreed respectively for the statement of fair and transparency in imposing the VAT penalty on tax payers by the authority. However, 12% and 6% of employees of the authority and taxpayers agreed and strongly agreed respectively for the fair and transparency in imposing the VAT penalty on tax payers by the authority. The remaining respondents were no understanding about the imposed penalty fair and transparent. The above survey indicated that the extent of penalties on tax payers are not that much high the major problem were in Ethiopia, administration system of penalty is very weak , lack consistency and lack of transparency. The tax authority impose penalty without better understanding of taxpayers in each level.

The statement above on the table showed that 50% and 20% of the respondent agree and strongly agree that The tax authority have no potential to refund the excess credit within two months from the time of loading application where as 18% and 20% of respondent agree and strongly agree that LTO had potential to refund the excess credit within two months from the time of loading application. The remaining 2% they didn't know. Based on the VAT proclamation Non-exporting taxpayers are required to carry forward excess credits to the next five accounting periods; if there are still unused excess credits it is allowed to be refunded within two months from the time of lodging applications. But the above survey indicated that

the tax authority was not having enough potential to refund excess credit within specified period from the time of loading application.

As table above indicated that, 30% and 30.8% of the respondent strongly agreed and agree respectively for the statement of, the refund, filing and payment system of the tax authority that needs improvement. Only 8% of the respondents do not know about the idea. This survey indicates that the refund, payment and filling system must be need improvement. But in large tax payers branch office the filling system is through e-tax this is better improvement but there is some problem that the tax authority needs to improve. Related to payment and refund system the tax authority had inefficiency to improve for the future.

Table above survey show that respondents 32.00% and 56.00% strongly agree and Agree respectively on the statement on existing VAT administration is not sufficient enough, that force the tax payer to hide from view the public money. Whereas 6% respondents agree that the existing VAT administration is sufficient enough .This survey indicated that there is major problem in VAT administration in Ethiopia, this noted that poor tax enforcement capacity of the authority lack of skilled manpower and other factors.

4.1.5 Challenge and Opportunities, on VAT Administration

Table 14 challenges on VAT administration and sales tax

Variable	Categories	Frequency	Percent
In Ethiopia, enforcement and administration of VAT are weak and lack consistency.	Strongly Disagree	3	6.0
	Disagree	6	12.0
	Agree	25	50.0
	Strongly Agree	16	32.0
	Total	50	100.0
VAT is more advantageous than the replaced sales tax in terms of revenue generation and administration	Disagree	4	8.0
	Agree	19	38.0
	Strongly agree	21	42.0
	do not know	6	12.0
	Total	50	100.0
Many non-VAT payers challenging the VAT Payers performance	Disagree	9	18.0
	Agree	18	36.0
	strongly agree	19	38.0
	do not know	4	8.0
	Total	50	100.0
There is in general shortage of resources and infrastructural facilities to enhance tax law enforcement.	Strongly Disagree	7	14.0
	Disagree	8	16.0
	Agree	17	34.0

	Strongly Agree	14	28.0
	Do not know	4	8.0
	Total	50	100.0

Source: Survey of tax officials

As above table indicated, 50% and 32% of tax officials agreed and strongly agreed respectively that for the statement in Ethiopia, enforcement and administration of VAT are weak and lack consistency. However, 12% and 6% of them disagreed and strongly disagreed respectively for the statement enforcement and administration of VAT are weak and lack consistency. This analysis indicates that the Ethiopian revenue and customers authority on the enforcement and administration of VAT there is challenges on the enforcement and administration system.

The respondents responses showed above 42% and 38% of the respondents agreed and strongly agreed respectively confirmed that VAT is more advantageous than the replaced sales tax; while 8% of the respondents were disagree on the above statement. The remaining 12% of the respondents they don't have the adequate knowhow to differentiate between the two issues. This survey indicated that value added tax better opportunities than sales tax based in terms of revenue performance administration and taxpayers compliance.

Non-VAT payers challenging the VAT Payers performance the tax payers and the tax officials responded that 36% and 38% of the respondents agree and strongly agree respectively replied that VAT performance are challenged by many non-VAT payers. On the other hand 18% of the respondents declared that no impact on the performance of VAT registered tax payers by non-registered traders. The remaining 8% were doing not know about the above concept. The result presented in this case implied that the non-VAT registered traders are influencing the performance of VAT registered taxpayers. In other words, this might create unfair competition between VAT registered and non-registered traders for the same type of goods or services.

Lastly the survey showed that 34% and 28% of tax officials' agreed and strongly agreed that there is a general shortage of resources and infrastructural facilities to enhance tax law enforcements. On the other hand some respondents 16% and 14% they didn't believe on shortage of resources and infrastructural facilities to enhance tax law enforcement. The above survey indicates that to enhance tax law enforcement there is shortage of resource and infrastructure in the large tax payer's branch office.

4.2 VAT Revenue Performances

4.2.1 VAT revenue as a percentage of total tax revenue

VAT collection with its respective total tax revenue collection (2011/12-2015/16) for large tax payers branch were showed below.

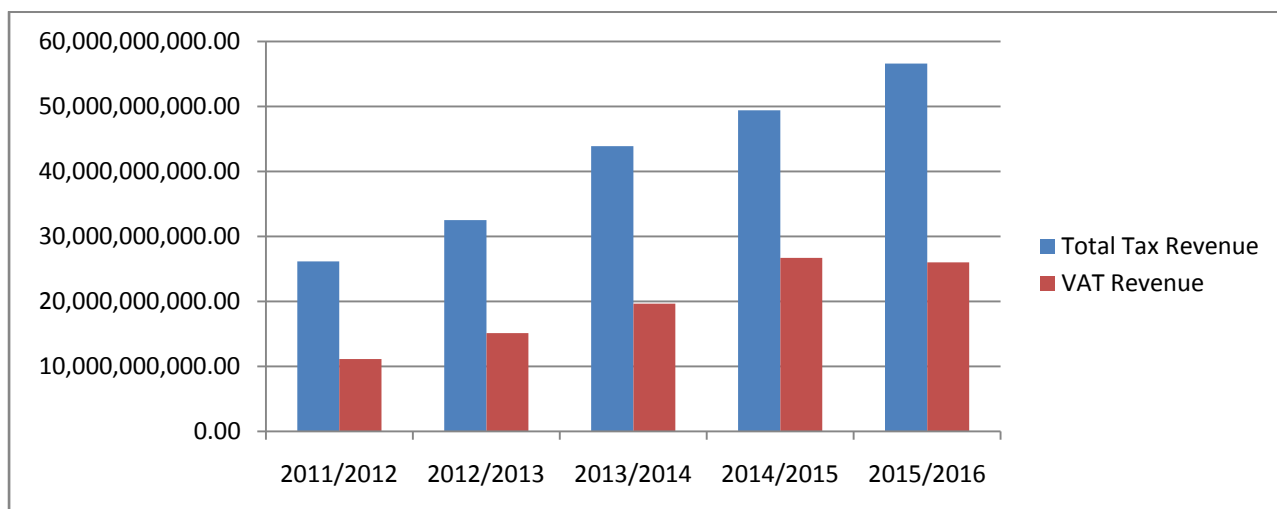
Table 15: VAT revenue to total tax revenue ratio of LTO (2011/12-2015/16)

Years	Total tax collected revenue	VAT revenue e collected	% of VAT revenue to tax revenue
2011/2012	26,134,977,934.77	11,141,544,648.37	42.63
2012/2013	32,520,847,887.60	15,105,878,850.60	46.45
2013/2014	43,916,189,616.79	19,654,222,056.72	44.75
2014/2015	49,411,204,548.42	26,689,251,473.02	54.01
2015/2016	56,590,244,384.04	26,021,249,310.43	45.98
Total	208,573,464,371.62	98,612,146,339.14	233.83
Average			46.77

Source: Large Tax payers Branch Office (LTO) Annual Report

As table above showed that, the share of VAT in total tax revenue ranges from 42.63% in the year 2011/12 and 54.01% in 2015/16. Indeed, the average for the five years was 46.77%. However, from the five years in 2014/2015 counts 54% of VAT to tax revenue was higher than the average value. From the above table the permanence of VAT revenue varies we cannot see the continuity. In the year 2015/2016 the VAT revenue decreases by 2.5%. In short the share of VAT to tax revenue was highest in large tax payer's branch office (LTO). Finally in Ethiopia the VAT revenue cover the highest percentage than other indirect taxes, the government must give great emphasis to collect the potential revenue from the economy.

The total government revenue in relation to VAT revenue



Source LTO annual re

4.3. Discussion

The study discussed the following as the major findings regarding the VAT administration and revenue performance: challenges and opportunities in the case of large tax payer's branch office.

From the analysis of respondent's response the threshold level for the current Ethiopian economy it should be small. From the respondent 46% of the respondents said “no or little. They respond on the issue threshold was set fifteen years before, currently it is not reasonable because the purchasing power of money is decreasing constantly due to inflation and the level of the country development is changed.

The filling and payment system of LTO as the responses implies that the large tax payers branch office tax payers file a timely tax return through Electronic Media (E-TAX) . Only 10% of the respondents were filling the monthly and annual tax through by appear at tax authority in person. Especially as the respondent suggest that the payment system still not changed almost all tax payers paying their tax return by appearing in person.

The examination indicate that the respondents responded that consumers are not willing to transact with a proper VAT receipt, due to lack of awareness, level of enforcement from the government ,incremental on the price of goods and services and others reason .

The survey responses about the capability and required work force was the respondents stated that “quite not, but showing progress” the tax authority due attention on creation of low turnover of employees, better motivation of employees improve the capacity of its employees professionally and constructing good work environment.

On understanding on VAT rules and regulations respondents replied that the taxpayers have no better understanding. The tax official and the tax payers understanding are essential for the proper administration and to reduce the number of errors and to improves compliance, to promote transparency and cost effective collection the authority must give great emphasis on the teaching the VAT rules ,regulations and other supporting seculars.

LTO respondent the taxpayers properly maintain records of their business operation. The reasons for these taxpayers appoint professional and qualified employees. But the tax authority doesn't create awareness about books and records maintained for VAT purpose.

The taxpayers and employees of LTO responses exposed the major reasons for the use of illegal invoice by the tax payers were the Customers are interested to buy goods or services from non registered tax payers and the tax payers to hold public money for them. Other respondents were Lack of knowledge and awareness on the tax payers and tax officials. The taxpayers as the major reasons for the use of illegal invoice was according to Yesegat (2008),

the problems in VAT invoices were difficulty of getting invoices on purchases and details of customers for the preparation of sales invoices, the problem of supplying without invoices the sellers giving the option of buying with or without invoices to customers.

Most of respondents said that LTO a potential to administer and manage the tax system as we compare other branches. The remaining respondent the capacity of ERCA was poor to manage and administer VAT. A good VAT administration is issue in a given country to achieve the policy objectives of a government and to enhance collection of potential revenue.

The reporting periods for VAT filing and payment was most of the respondents agree and strongly agree that the reporting period for VAT filling and payment is enough for the LTO tax payers. In large tax payer's branch office tax payers filling their monthly and annual tax through E-tax; they are coming for payment only. If the tax authority introduces E-bank system that the tax payers pay their liability through bank the reporting and filling period were enough. Unless the transaction is very high and they have different branch in over all regions it takes time to collecting and summarizing the whole transaction within a month.

The survey showed that employees of LTO agreed and strongly agreed that the existing auditors, inspectors, prosecutors and other staff members lack of the necessary skill and experience to detect and handle tax offences by taxpayers. The branch employees lack of skill and experience to detect any tax fraud and evasion.

The awareness creation about VAT registration process, content of the law and implementation in ERCA was poor. Respondent's survey show that tax official agreed and strongly agreed about VAT registration process awareness creation about law and implementation the tax office is not adequate. ERCA responsibility to making the tax laws understandable and communicating changes very well as a solution to reduce involuntary VAT registration.

Form the Examination of employees agreed and strongly agreed that the authority provides appropriate incentives and awards to the best performing employees. For the successful achievement of government objective give apprehension for those employees. The authority initiates and awarded the best performing employees in each year in practical.

The potential and confidence in decisions making of higher officials were agreed and strongly agreed that higher officials are not qualified enough, lack confidence and potential to provide the necessary replay the taxpayers' request and decision making on the big issues.

Problems on smooth administration of VAT, from respondent's responses customers not willing to buy goods and services with VAT and poor tax enforcement capacity of the

authority. On other hand the tax officials stated that the use of false invoices and VAT tax payers are less competitive in the market than non VAT tax payers. The above all problems are hinder the smooth administration of VAT, the majority of the respondents agree that Poor tax enforcement capacity of the authority and Consumers are not willing to buy goods and services with VAT are the major problem for smooth administration of VAT in Ethiopia.

In the survey of responses of employees agreed and strongly agreed that unregistered tax payers is creating unfair competition and making registered taxpayers' loss their market share and profitability. This resulted in make the registered tax payer's non-compliance which indicates administrative weakness of the tax authority. As the same time unregistered taxpayers is creating unfair competition and making registered taxpayers lose their market share and profitability.

On the analysis of respondents most of the responses on VAT exemption scheme stated in the VAT proclamation and regulation is enough. Whereas some of them are disagreeing and strongly disagree respectively exemption system is not sufficient.

The survey on the fair and transparency in imposing the VAT penalty indicated that the respondents disagreed and strongly disagreed on the fair and transparency in imposing the VAT penalty on tax payers by the authority. The extent of penalties on tax payers are not that much high the major problem were in Ethiopia, administration system of penalty is very weak , lack consistency and lack of transparency. The tax authority impose penalty without better understanding of taxpayers in each level.

From the survey analysis the respondents agrees and strongly agree that the tax authority have no potential to refund the excess credit within two months from the time of loading application. Based on the VAT proclamation 285/1994 non-exporting taxpayers are required to carry forward excess credits to the next five accounting periods; if there are still unused excess credits it is allowed to be refunded within two months from the time of lodging applications. But the above survey indicated that the tax authority was not having enough potential to refund excess credit within specified period from the time of loading application and as indicated on the tax laws was not ready to pay interest for its faults.

Most of respondents suggest that VAT administration is not sufficient enough the survey respondents showed that the statement on existing VAT administration is not sufficient enough; there force the tax payer has opportunities to hide from view the public money. From the above issue there is major problem in VAT administration in Ethiopia, this noted that poor tax enforcement capacity of the authority and lack of skilled manpower and other factors.

Related to VAT opportunities respondents' responses showed that all most all of the respondents confirmed that VAT is more advantageous than the replaced sales tax; while value added tax better opportunities than sales tax, in terms of revenue performance, administration and taxpayers compliance. According to (Gale and Harris, 2011).The VAT has compliance advantages over a retail sales tax, which is intended to collect all revenue at the point of sale from a business to a household. The introduction VAT has been more revenue productive than sales tax (Teferra, 2004).

The tax infrastructure facility to moderate enforcements level of tax law the survey showed that the tax officials' agreed and strongly agreed that there is a general shortage of resources and infrastructural facilities to enhance tax law enforcements. The government give due attention to enhance and solve shortage of resource and infrastructure facilities to administer in the large tax payer's branch office

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

On the bases of the major findings indicated above the following conclusions can be drawn:-

5.1. Conclusions

Government revenues are sourced from both direct and indirect source of revenue from indirect taxes the major one is Value Added Tax (VAT). This tax implemented throughout the world, including many African countries to raise their revenue with less administrative costs than others taxes. It is believed to be a good means to raise government revenue even when relatively poorly administered. In Ethiopia VAT also play significant role in the revenue system of government of Ethiopia.

Currently revenue generated by VAT in Ethiopia showing a good progress but the potential to be collected in the economy are high. The government not able to collect potential tax due to different challenges in the tax administration.

This thesis examined VAT revenue performance and administration problems in the case of large tax payer's branch office (LTO). Besides, it tries to identify the taxpayer's compliance to the VAT rule and regulation such as, payment, filling, issuing vat receipt, recording system of the tax authority and also asses the tax officials and tax payers potential to control and administer non-compliant taxpayers. In addition challenges and opportunities were assessed that the tax authority and taxpayers faced. Finally, the thesis identified VAT revenue performance in large tax payer's branch office.

According to survey about taxpayer's compliance level were; the minimum threshold level for VAT registration was little, The payment system of the authority should be changed to electronic media, consumers are not willing to transact with a proper VAT receipt because of lack of awareness and the level of enforcement from the government.

In addition, on the survey respondents indicate that, the tax official and the tax payers understanding level on the tax proclamation, regulation and directive were not advanced; capacity of ERCA was poor to manage and administer VAT, employee's lack of skill and experience to detect any tax fraud and evasion. The awareness tax payers related to registration, payment, filling, issuing vat receipt and recording process were not adequate. The higher officials have no enough potential and confidence in decisions making process.

The survey of analysis stated that the major problems of VAT administration were the tax authority Poor tax enforcement capacity, Consumers are not willing to buy goods and services with VAT, unregistered taxpayers is creating unfair competition and making

registered taxpayers lose their market share and productivity. There was restricted range exemption, administration system of penalty is weak, lack consistency and lack of transparency, the tax authority lack of potential to refund excess credit within specified period from the time of loading application and shortage of resource and infrastructure facilities to administer VAT. Finally value added tax better opportunities than sales tax, in terms of revenue performance, administration and taxpayers compliance.

The findings of the analyses indicates that VAT performance in Ethiopia is low as compared to the others African countries this is because of as result showed that VAT administration of the authority very weak and the employees skilled and experienced inadequate.

Finally, based on the secondary data analysis, the performance VAT revenue and the share VAT to total tax income has improved in large tax payer's branch office, but the progress has been uneven. According to Ethiopian statistics from National Bank of Ethiopia (2014) Current tax-to-GDP ratio is lower than other African countries due to different administration problems and lack of potential of the tax authority to overcome the challenges.

5.2 Recommendations

The following recommendations are suggested as possible solution on the bases of the major findings and conclusions discussed above:-

1. It suggest that ERCA should improve the information technology (IT), system like filling ,payment system, recording system ,registration and others related issues in order to overcome the complexity of tax collection and to reduce the administration cost.
2. It is believed the existing threshold level for VAT registration in Ethiopia small the tax authority better to increase the VAT registration amount.
3. It suggest that currently the international organizations coming to Ethiopia they are more organized and power full the Authority should be given special attention to build the capacity of employees to overcome such problems.
4. Un-registered taxpayers who are transact higher volume can affect the LTO VAT payer's transaction and profitability Therefore, It suggested that actions should be taken to narrow the gap and conducting intensified awareness creations to register those tax payers.
5. It suggest that the branch office has to make alliance with institutions like universities, external auditors ,audit firms, tax agents ,chamber of commerce, investment office, minister of trade international tax advisors and like can conduct

joint programs such as capacity building and researches that enable solve the tax administration problems and others.

6. It should suggest that few VAT registered taxpayers are not raise invoice, Especially at the night they are selling without receipt so it need continuous follow up and make attitudinal changes first and then strengthen the enforcement level of the authority.
7. The tax authority could also upgrade the skill and competency of tax officials in order to handle tax related offences in a better way.

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APPENDIX .1

ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES MBA in Accounting and Finance Program

Questionnaires for the LTO employees

Dear Participant,

This questionnaire is designed to conduct a research on the topic Assessment on the Value Added Tax (VAT) administration and revenue performance:-challenges and opportunity in case of large tax payers branch office

The purpose of the study is for the partial fulfillment of the requirements of MBA Degree in St.Mary's University. For the successful accomplishment of the research, the genuine response of the employees of the large tax payer's branch office will have pivotal role and will be used as a valuable and primary input for the study. So, you are kindly and respectfully requested to take few moments of your busy schedule and genuinely fill this questionnaire.

Thank you in advance for your cooperation and enhancing research and education!

If you have any questions or concerns, please contact me through:

09-20-63-21-30 or getnet.nadew12@gmail.com

Instructions:-

1. Writing your name is not necessary.
2. On the rectangle just put tick mark “√” for each question as required or answer the questions in the space provided.

Part 1:- Background (Personal information)

1. Gender: (a) Male (b) Female
2. Age: (a) 20-30 (b) 30-40 (c) 40-50 (d) 50>
3. Education: (a) Below Diploma (b) Diploma
(c) Bachelor degree (d) Master and Above
4. Name of your department: (a) Assessment and follow-up
(b) Auditing and investigation (c) Collection and enforcement

Other, please specify_____

5. Your status or position in the organization?

- (a) Auditor/officer (b) senior auditor/officer
(c) Team leader /process coordinator (d) Deputy/general manager
Other, specify _____

6. How long have you been working in the organization?

- (a) Less than five years (b) Five to ten years
(c) Ten to fifteen years (d) More than fifteen years

Part II:-The tax payers compliance to VAT rule and regulation (registration, payment, filling, issuing vat receipt, recording)

7. Do you think that as per tax VAT proclamation 285/2002 a Birr 500,000 annual turnover as a minimum threshold is reasonable for VAT registration?

- (a) Too Much (b) Little (C) Reasonable (d) No Option

8. 5. How does your organization file a timely tax return and how does it pay tax?

- (a). through post office
(b).By appear at tax authority in person
(c). electronic media (e-tax)

Others, please specify _____

9. Are consumers are willing and determined to transact with a proper VAT receipt?

- (a) Yes (b) NO

If your answer is “No” what do you think is their reason?

10. Have you encountered a VAT payer using illegal as well as unregistered VAT machine?

- (a) Yes (b) No

If your answer is “yes”, please explain as to how it happened?

11. Do you know that some LTO taxpayers do not maintain the proper recording of their business operations in accordance with business practices and standard of law ?

(a) Yes (b) No

If “yes”, what are the reasons please explain:

PART III:-The tax Authority potential to Administer VAT

12. Do you think that LTO has capable and required work force empowered to implement the law?

(a) Yes (b). NO (c) quite not, but showing progress

If your response is choice B or C, what do you recommend to be done in the future

13. Are you well aware of the VAT proclamation and its amendment including the new tax administration proclamation 983/2008 ?

(a) Little (b) Indifferent
(c) Good (d) Very much aware

14. How do you rate the institutional capacity of ERCA or specifically LTO in managing and administration of VAT application?

(a) Poor (b) Good (c) Very good

If your answer is “Poor” please describe the reasons for being poor.

PART IV:-VAT Administration system in large tax payers branch office

15. What are the problems that hinder smooth administration of VAT?(more than one answer is possible)

- (a) Consumers are not willing to buy goods and services with VAT
- (b) VAT tax payers are less competitive in the market than non VAT tax payers
- (c) Poor tax enforcement capacity of the authority
- (d) Use of fraudulent invoices and non issuance of invoices

Other,pleasespecify_____

16. Is there any challenge that you personally observe on the implementation of VAT in Ethiopia going wrong or inadequate?

(a) Yes (b) No

If your answer is “yes” please state the incidents and explain the situation.

Attitude questions on the tax payers compliance to VAT rule and regulation, the tax authority potential and VAT administration concern

	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
The tax payers compliance to VAT rule and regulation (registration, payment, filling issuing vat receipt, recording)					
17.The reporting period for VAT filling and payment is enough for the LTO tax payers					
18. The VAT rate is high and has made goods and services expensive and results making taxpayers non compliance.					
19. Some VAT registered business enterprise collect tax with illegal invoice.					
The tax authority potential to administer VAT					
20. Auditors, inspectors and prosecutors have the required skill and experience to detect and handle tax offences by taxpayers.					
21. LTO follows in increasing the awareness of tax payers about the VAT registration process and on other related issue.					
22. The tax authority have continues capacity building program at different level of the authority.					
23. The tax authority provides appropriate incentives and awards to the best performing tax officials specially those who have done the best in deterring non compliance.					
<u>VAT Administration system in large tax</u>					

<u>payers branch office</u>					
24. Unregistered tax payers is creating unfair competition and making registered taxpayers' loss their market share and profitability.					
25. VAT exemption scheme that listed on the proclamation and regulation of VAT is enough.					
26. There is fair and transparency in imposing the VAT penalty on tax payers by the authority.(except normal audit)					
27. The tax authority have potential to refund the excess credit within two months from the time of loading application					
28. The issues of VAT invoicing, filing and payment system of the tax authority that needs improvement?					
29. The existing VAT administration is not sufficient enough, that force the tax payer to hide from view the public money.					
30. There is in general shortage of resources and infrastructural facilities to enhance tax law enforcement.					
31. Tax officials lack of potential and confidence in decisions making of any issue related to VAT					
32. VAT is more advantageous than the replaced sales tax in terms of revenue generation and administration?					

33. If you have any other additional issue related to VAT in Ethiopia or specifically in LTO please point out them here below :-

INTERVIEW

1. How does the organization file a timely tax return and payment system?.....
.....
.....

2. The minimum threshold 500,000 birr is reasonable for VAT registration?.....
.....
.....

3. The payment and filling period for Large Tax Payers branch office is enough?.....
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.....

4. The LTO employees and taxpayers have better understanding about the VAT law?.....
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5. The tax officials have potential and confidence in decision making?.....
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