ST.MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

TAX ASSESSMENT AND COLLECTION PROBLEMES OF CATEGORY 'C' TAX PAYERS:

A CASE OF ADDIS KETEMA SUB CITY WOREDA 5

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dejene Mamo (Ass.Prof). All sources of materials used for the thesis have been duly acknowledged. I 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.

_____   _____

Name   Signature& Date

ENDORSEMENT

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

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Advisor   Signature& Date

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Acknowledgement

Undoubtedly, writing this thesis has been one of the most challenging and engaging but also considerably exciting experiences of my academic career which I couldn't have done without the help of others. I feel the need to acknowledge the support of these great people.

First and foremost, I exalt and glorify the almighty God.

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List of Acronyms and Abbreviations

ERCA: Ethiopian revenue and customs authority

FDRE: Federal democratic republic of Ethiopia

GDP: Gross Domestic Product

IMF: International Monitory Fund

TIN: Tax Identification Number

VAT: Values Added Tax

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Abstract

The study was conducted to assess the problems of category "C" tax assessment and collection in addiss ketema sub city woreda 5 presumptive tax payers' office. Although, data were collected from various sources, the tax payers' and employee survey were the main sources of data for the study. In this regard, a total of 89 tax payers, and 11 employees of revenue office have participated in the study as a source of information. In addition, interview was used to get key informants from manager and vice manger of revenue office. Exploratory methods such as percentages, frequency, mean, tables, and figure were used to summarize the study findings and present the results. Generally, findings of the study revealed that woreda 5 presumptive tax payers office tax assessment and collection was not effective , most of the taxpayers, (category "C tax payers), have been facing various problems related to the taxation system. Despite the tax payers positive attitude towards the concept of appeal and review system, most of the surveyed tax payers stated that what they are paying is beyond their ability to pay and that they neither have trust in the employees of the authority nor in the overall tax estimation, and assessment procedures. Category "C" assessment rule is ambiguous and not suitable as it provides room for, corruption and tax evasion. In light of these facts, the study concluded that the tax authority of the woreda administration is not being effective or is being reluctant in making the tax in solving the above problems. Thus, it is recommended that the responsible tax authorities should revise the rule to make suitable for effective tax assessment, make suitable condition for category 'C' tax payers to keep book of account, give training for both employees and tax payers.   .

KEY WORDS:

Presumptive tax, Assessment and Collection, Awareness, Fairness, Corruption.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Tax can be defined as an enforced contribution, exacted pursuant to legislative authority in the exercise of the taxing power, and imposed and collected for the purpose of raising revenue to be used for public or governmental purposes (Murphy, 2012). Public expenditure has been increased extremely. The main reason is that the functions of governments have been increased diverse. The governments need income for the performance of their variety of functions and meeting their expenditure. Public revenue is one of the branches of public finance. It deals with the various sources from which the state might derive its income. These sources include incomes from taxes, commercial revenues in the form of prices of goods and services supplied by public enterprises, administrative revenues in the form of fees, fines etc. and gifts and grants. The sources of public revenue can be broadly classified in to two. Tax -source and non-tax source. Taxes are imposed by the government on the people and it is compulsory on the part of the citizens to pay taxes, without expecting a return (Abdul-Kareem, 2011). As stated by Murphy (2012)Taxes are not payments for some special privilege granted or services rendered and are, therefore, distinguishable from various other charges imposed for particular purposes under particular powers or functions of government. In other words, a taxpayer does not receive a definite and direct *quid pro quo* from the government (Bhatia, 1976).

Developing and transitional governments face financial resource constraints to expend on basic socio-economic, development, infrastructures. Because of resource constraints developing countries have not yet delivered basic facilities such as; education, health, potable water, creation job opportunity, housing, sustain law and public order and other essential services for their citizens at desired level. This is because the rapid growing of population needs an equivalent increase of such service in one hand and their financial resource limited in another hand create additional burden to these governments. Therefore to tackle such problems governments seek

financial resources from foreign and domestic sources (Bhatia, 1976). Those Foreign financial sources are not consistent and bind with many obligation governments focus on domestics' source (taxation). Taxation has always been an important instrument to satisfy government expenditure and it is the most important source of government income. In every country; the government collects a huge income through taxation. Because tax is a compulsory levy and those who are taxed have to pay the sums irrespective of any corresponding return of services or goods by government (Bhatia, 1976).

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Kangave, 2005). Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country (World Bank, 1991).

In Ethiopia, tax is administered at federal or central and regional levels. The constitution of Federal Democratic Republic of Ethiopia (FRDE) has separated the tax revenue to be collected by federal government, state or regional government and jointly by the federal and state government (FDRE HPR, 1995). According to Article 96 of the FDRE Constitution the revenues of the Federal Government include customs duties, taxes and other charges levied on the importation and exportation of goods; income tax collected from employees of the Federal Government and international organizations; income, profit, sales and excise taxes collected from Federal Government owned enterprises; taxes collected from national lotteries and other games of chance; taxes collected from income generated through air, rail, and sea transport services; taxes collected from rent of houses and Federal Government owned properties; charges and fees on licenses issued and services rendered by the Federal Government; taxes on monopolies; and Federal stamp duties. In a similar manner, Article 97 enumerates the revenue sources of the regional governments of the country as comprising of income taxes collected from employees of the States and of private enterprises; fees collected from land usufructuary rights; taxes collected from the income of private farmers and farmers incorporated in cooperative associations; profit and sales taxes collected from individual traders operating within state

territories; taxes on income from water transportation within state territories; taxes collected from rent of houses and State Government owned properties; profit, sales, excise and income taxes collected from State owned enterprises; taxes on income, royalties, and land rentals from mining operations; charges and fees on licenses issued and services rendered by the State Governments; and royalties for use of forest resources. Apart from these, there are certain revenue sources which are shared by the Federal and State governments. The joint revenues are listed in Article 98 of the FDRE Constitution as constituting profit, sales, excise and income taxes on enterprises jointly established by the Federal and State governments; profits of companies and dividends of shareholders; and income and royalties derived from large-scale mining operations and all petroleum and gas operations. For those powers of taxation which have not been explicitly stated in the provisions of the FDRE Constitution, such as value added tax, Article 99 clearly stipulates that the exercise of such powers is to be determined by a two-third majority vote in a joint session conducted by the House of Federation and the House of People's Representatives.

In Ethiopia, Ethiopian Revenue and Customs Authority (ERCA) is the authority dealing with taxes at federal level and there are different tax administrators at each sub city, which Addis ketema sub city is the one. Taxes levied by central and regional government consist of direct and indirect taxes. Direct taxes are taxes including employment income taxes, business income tax, and taxes on royalties and chance winnings while indirect taxes are mainly composed of value added tax (VAT), excise taxes, and custom duties. Hence, proper assessment and collection of tax is one of the factors that enable the government to achieve its goals and programs. Besides, it reduces the country's dependability on the foreign loan and donations.

According to income tax proclamation number 286/2002, tax on income are categorized in to four schedules. they are named as schedule "A" tax on income from employment, schedule 'B' tax on income from rental of building ,schedule "C" business income tax and schedule "D" other income. According to income tax regulation number 78/2002, schedule "C", business income taxpayers are categorized in to category "A" "B" and "C". Category "A" taxpayers are corporate enterprises which have annual turnover of birr 500,000.00 or more, category "B" are those which have annual turnover between birr 100,000.00 and 500,000.00, category "C" taxpayers are those which have annual turnover of less than birr100,000.00. Category "A" and"B" tax payers, have

to maintain adequate books of accounts and their income tax liability are determined based on their income statement account produced. Since category "C" taxpayers are not required by law to declare their income or keep books of account, and considered as hard to tax groups and there income tax liability are determined by LUMP SUM method, which is called standard assessment. The standard assessment is presumptive taxation a scheme by which a fixed lump-sum tax is levied on individuals or business on the bases of: The type, size and location of business activity or services and Tax exempted amount depending on the activity (FDRE HPR, 286/2002).

The Profile of Study Area: Addis ketema sub city Revenue Office is located in addis Ababa city, addis ketema sub city. The sub city shares border with different sub cities (like: - lideta, kolfe keranio, gulele, arada sub cities). Addis ketema sub city revenue and custom authority branch is one of the federal revenue and custom authority branch by which it has 10 woreda micro tax payers office that collects tax from category C business income tax payers. Among them woreda 5 revenue office is the one and has around 857 tax payers with annual income of less than100,000 birr.(category C tax payers). In this woreda business income tax was not collected as expected. It is with low compliance with hard task of ensuring efficient and effective tax administration. Besides, there are problems in assessment, and collection of business income tax (like presumptive tax).

1.2 Statement of the Problem

In many under developed countries like Ethiopia, the low revenue yield of taxation can only be attributed to the fact that the tax provision are not properly enforced, either on account of the inability of the administration to cope with them, or on account of straight forward corruption. The government made several times periodic revision of the existing tax rules and regulation. Still Ethiopia's tax revenue against its Gross Domestic product remained lower as empirical evidence shows. Such low level of tax revenue is certainly the outcome of the prevailing poor tax revenue mobilization mechanisms be it in policy or administration (Fantahun, 2005). Similarly Yohannes and Zerihun (2013) stated that many developing countries have weaknesses in their tax administration that make it difficult to levy effective taxes. Especially those in the category "C", have been facing various problems related to the taxation system (tax administration). On their study they have found that most of the surveyed tax payers stated that what they are paying is beyond their ability to pay and that they neither have trust in the employees of the authority nor in the overall tax estimation, assessment and collection procedures. In light of these facts, the study concluded that the tax authority of the city administration is not being effective or is being reluctant in making the tax procedures objective, transparent and understandable to taxpayers

The existing system of presumptive income taxation of Ethiopia had several disadvantages like: - The amount of taxes does not depend on actual outcomes of individual entrepreneurs' performance. As a result, there may be disincentives to earn income in the sense that the presumptive income taxation is an entry barrier. It may deter people from starting a business when they think that the tax is so high that they had little chance to make a profit at all. For the same reason it may have forced people out of business who make too little profit. And the presumption based on the standard assessment method treated equally all individual entrepreneurs within a given category, regardless of their actual income. As a result, it can be regressive by imposing equal tax on individual entrepreneurs in the same category with different income. This leads to violation of the principle of tax equity (Aloysuis.B, 2009). Similarly (Lemessa, 2007) found that Category 'C' is the most problematic category of taxpayers and it is considered as hard to tax group. He stated the reasons for the problem that, category" C" tax payers pay taxes on the income estimated by the income tax authority rather than declaring their

income by themselves. Their daily income is estimated by assessment committee and the taxpayers have little room to address their view so that frequent friction is observed in this area.

 A presumptive taxation scheme also has other problem like increasing the discretionary power of tax officials and in a worst case scenario increase corrupt practices. According to study conducted by Yohannes and Zerihun (2013) Nontransparent, non-participatory of standard assessment, Lack of fairness or equity of taxation among similar businesses of category ''C'' are the reason for tax payers luck of trust in the employees of the authority and in the overall tax estimation, assessment and collection procedures. Presumptive taxation mechanism also gives a chance for tax payers to hide their daily income. According to (World Bank, 2002) Presumptive taxation is not always effective because governments do not have sound tax administration systems in place at the federal, state or local levels to implement schemes as envisioned by policymakers. Countries in early stages of economic development tend to employ crude methods of estimating income because they lack sufficiently qualified resources to analyze the profitability of various economic activities and to define the indexes for effectively calculating presumptive incomes. As a result, small businesses in particular are routinely taxed unfairly and inefficiently. The primary goal of most governments that introduce presumptive taxation schemes is to broaden the country's tax base by preparing citizens and businesses in the informal sector to enter the formal tax net. However, presumptive taxation has proven to undermine this goal as taxpayers remain in presumptive taxation regimes indefinitely or regress from formal taxation programs to presumptive taxation schemes. This phenomenon tends to occur because of sophisticated taxpayers earn above average income and recognize that standard assessments levy a lower tax burden. The result is that they either under report income or simply pretend not to keep accurate records of income in order to remain in the presumptive regime and enjoy its benefits. Because of these problems in recent year Ethiopia has been making considerable effort to restructure its tax system with a view to increase tax revenue. Most of tax laws were amended in 1990 E.C. Federal government of Ethiopia has issued proclamations and enacted various tax regulations, rules and directives to levy and collect taxes for successful revenue generation. These rules and regulations implemented through different responsible authorities from the different level of the government starting from central , regional and to the smallest unit woreda and complied by individual tax payers.

Ethiopian revenue and custom authority Addis ketema sub city woreda 5 micro tax payers' office is an office that assesses and collects business income tax from category "C" tax payers. In order to fulfill its expenditure the woreda has to collect sufficient amount of revenue tax from category "C" business income tax payers. To achieve this purpose, clear rules and regulations are necessary. To implement the tax laws, competent tax officials are must. But as it has been witnessed in table 4.1 bellow when comparing the collected amount of tax revenue from category "C" taxpayers within the last ten consecutive years in relation to the increase in the number of category "C" tax payers due to increased investment opportunities, the amount of tax collected shows a declining trend from year to year. From the year 1998- 2007 E.C tax collection growth rate was -1.04% ,98.2% ,2.1% , 128.7%, -20.1% ,129.7% ,53.6%, 89.1% and -17.5% respectively.This implies the office achivement was very low in 1999, 2001, 2003 and 2007 E.C when compared with other years. Especially in the year 2003 and 2007 tax collected went downward with 20.1% and 17.5% respectively.

The researcher suspects the following problems: - taxpayers may hide their daily sale and as a result of this there might be under estimation of tax by the revenue office, there might be Gap in tax laws like Proclamation number 286/2002 and regulation number 78/2002 gave wider discretion for employees of revenue office as to the estimation of daily income of category 'C' business income tax payers. As a result of this tax assessment committee may over or under estimate tax that is going to be collected, employees who are going to estimate daily income of a given tax payers may take bribery from some tax payers to under estimate their tax burdens ultimately it will affect effective tax assessment and collection, there might be lack of skilled and experienced human power in the revenue office. As a result of this over or under estimation of tax might occur. Therefore, identifying the problems on tax assessment and collection at the tax office and taking corrective measures need attention since they have adverse effects on the overall revenue of the government and tax payers

Table 4.1 Ten years plan, achievement and number of tax payers in woreda 5 micro tax payers' office

Year	Category C			
	Number of tax payers	Planed revenue	Collected revenue	Percentage change
1998 E.C	624	396,000.00	297,821.48	---
1999 E.C	867	402,000.00	294,722.22	-1.04%
2000 E.C	1082	760,000.00	584,065.33	98.2%
2001 E.C	1100	907,000.00	596,046.99	2.1%
2002 E.C	1120	1,792,000.00	1,362,917.73	128.7%
2003 E.C	1184	2,597,000.00	1,089,162.87	-20.1%
2004 E.C	1216	3,408,000.00	2,502,005.50	129.7%
2005 E.C	1312	4,106,110.00	3,841,868.05	53.6%
2006 E.C	1670	4,602,905.00	7,266,529.34	89.1%
2007 E.C	1131	9,598,574.00	5,992,239.07	-17.5%

Source: annual report of addis ketema sub city woreda 5 micro tax payers office, 2016

1.3 Basic Research Questions

In line with the above objectives, the following research question was employed by researcher in conducting the study. Therefore the study tries to answer the following questions:-

1. Dose the revenue office has unambiguous tax rules and regulation to assess and collect presumptive tax?
2. Do presumptive tax assessment and collection procedure affect tax payers compliance?
3. Does the revenue office has competent employees to discharge its responsibility?
4. What were the challenges encountered during the assessment and collection of presumptive tax (category "C")?

1.4. Objective of the Study

1.4.1. General Objective

The general objective of this study is to identify problems on category "C" business income tax assessment and collection in the case of tax payers' in addis ketema sub city woreda 5 micro tax payers' office.

1.4.2 Specific Objectives

1. To identify whether the revenue office has unambiguous tax rules and regulation to assess and collect presumptive tax.
2. To determine whether tax assessment procedure affect tax payers' compliance with tax rules and regulation.
3. To evaluate whether revenue office has competent employees to discharge its responsibility.
4. To identify the major challenges encountered during the assessment, and collection of presumptive tax (category "C") tax.

1.5. Significance of the Study

The findings of this study will contribute in enhancing the tax revenue of the selected woreda and the government at large by uncovering the core problems on the tax assessment and collection activities so as to enabling them to put their effort to triumph over the observed problems. Thus, the government will be able to adopt a comprehensive strategy, and minimize the observed tax administration problems to increase tax revenue. Similar approach can be replicated in identifying the problems in tax assessment and collection procedures of revenue administrations in other woredas. Besides, it may be also used as an input for other interested researchers for conducting further study.

1.6. Scopes of the Study

The study was surrounding to category c" taxpayers in Addis ketema sub city woreda 5 in Addis Ababa city administration. There are eight hundred fifty seven (857) category"C" taxpayers and (11) employees within this woreda revenue office. However to make the study manageable, due to shortage of time and fund, the scope of the study was limited to problems on assessment and collection of income tax on category "C" for only 100 category "C" tax payers and on all employees (11).

1.7. Limitation of the Research

This study focused only in one woreda of addis ketema sub city tax assessment and tax collection of the category "C" taxpayers. It is difficult to generalize about the overall tax assessment and tax collection. Therefore, other researchers can make further research on the category "A" and "B" tax payers as well as category "C" taxpayers at other woredas by considering more representative samples.

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1.8. Organization of the Study

This study is organized in to five chapters. The first chapter presents the introduction. The second chapter shows the literature review while the third chapter contains brief description of the research design. The fourth chapter presents and analyzes the results. Finally chapter five present the summery, conclusions and recommendation of the study.

CHAPTER TWO

RELATED LITERATURE

2.1. Theoretical and Conceptual literature review

2.1.1. Definition of Tax

Taxes are a portion of private wealth, exacted from individuals by the State for the purpose of meeting the expenditure essential to carrying out the functions of government. Taxation in some form is an invariable attribute of an organized political society, and, under whatever name it exists, it becomes sooner or later the principal means of raising revenue for public purposes; it is thus the correlative to the services which government performs for the community (Gebrie, 2008). Also as it is stated by (Abdul Kareem, 2011) Tax has its own characteristics. Some of them are: - Tax is compulsory payments to the government from the citizen. This means each individual irrespective of caste, color or creed, of age or sex has to pay it. The next characteristic of tax is that refusal to pay it or delay in payment brings punishment. Also Tax imposes a personal obligation. It means that it is duty of tax payer to pay it and he/she should in no case think to evade it. The other character of tax is absence of direct benefit or "quid pro quo" between the State and people. In other words the tax payer do get many advantages from the public authorities but no tax payer can claim direct benefit as a matter of right on the ground that he is paying a tax. Tax is also payments for meeting the expenses in the common interest of all citizens. The governments have to provide public utility goods. For this the governments have to incur huge amounts of expenditure. Therefore, taxes are imposed on all citizens so that all may share a common burden. Certain taxes are imposed on specific objectives for example, tax on petrol to reduce consumption and tax on luxuries so as to divert resources for the production of essential commodities.

When we come to the definition of taxation, it is a system of raising revenue by government through tax. It is a method of collection funds by governments from tax sources to finance its

operations, taxation is also a means by which a government, through its law making body, raises internal income through tax for the use and support of the government and to enable it to discharge its appropriate functions. Every central and state government is expected to fulfill an enormous variety of functions to its citizens. The government has to keep the sovereignty and integrity of the country so that defense is one of the topmost functions of the government. The government also has to maintain law and order in the country without which the country may be exposed to conflict between different social groups and other forces. Socio-economic development of the society such as the provision of social amenities in the form of education health of sanitation facilities; the provision of public unities like electricity of water supplies, transpiration of communication facilities; the provision of recreation facilities; infrastructure development like roads, dams; social welfare such as support of the incapable and unemployment insurance, raisin the per capital income stabilization of growth of the country's economy, development of commercial function like undertaking public enterprises, are still the major functions of government, in modern times. All these and other government functions require expenditure so that government support themselves partly by taking a portion of the wealth of their citizens. The chief means by which government do this is through tax (Misrack, 2011).

2.1.2. Principle and Standards for a Good Tax

Adam Smith's canons of taxation describe the principle of good, fair and efficient tax system. Efficient taxes raise revenue without negative distortion such as reducing work incentives for individuals and investment for companies. Indirect taxes can create a dead weight less of economic welfare. A good tax system therefore is one which is designed on the basis of an appropriate set of principle, such as equality and certainty, and an economy could increase its productive capacity, and there by achieve a higher rate of economic growth (Bhatia, 1998,).

Adam Smith (1776) a famous British economist captions the attributes as cannons of taxation and stated four cannons of taxation in his book "The Wealth of Nations". These principles are very significant, and they are as true today as they were in his days. They are: A good tax system is one which is designed on the basis of an appropriate set of principles (rules). The tax system should strike a balance between the interest of the taxpayer and that of tax authorities. These

canons are still regarded as characteristics or features of a good tax system. Thos principles are: -
Equity: These principle aims at providing economic and social justice to the people. According to this principle, every person should pay to the government depending upon his ability to pay. The taxes should be proportional to income, i.e., citizens should pay the taxes in proportion to the revenue which they respectively enjoy under the protection of the state. The second principle is **Certainty:** according to this principle the tax which an individual has to pay should be certain, not arbitrary. The tax payer should know in advance how much tax he has to pay, at what time he has to pay the tax, and in what form the tax is to be paid to the government. At the same time a good tax system also ensures that the government is also certain about the amount that will be collected by way of tax. The next one is **Convenience**: The mode and timing of tax payment should be as far as possible, convenient to the tax payers. Convenient tax system will encourage people to pay tax and will increase tax revenue. The forth one is **Economy:** This principle states that there should be economy in tax administration. The cost of tax collection should be lower than the amount of tax collected. It may not serve any purpose, if the taxes imposed are widespread but are difficult to administer. Therefore, it would make no sense to impose certain taxes, if it is difficult to administer.

Additional Canons of Taxation

Activities and functions of the government have increased significantly since Adam Smith's time. Governments are expected to maintain economic stability, full employment, reduce income inequality and promote growth and development. Tax system should be such that it meets the requirements of growing state activities. Accordingly, modern economists gave the following additional canons of taxation. Those are: **Productivity:** It is also known as the canon of fiscal adequacy. According to this principle, the tax system should be able to yield enough revenue for the treasury and the government should have no need to resort to deficit financing. This is a good principle to follow in a developing economy. The next one is **Elasticity**: According to this canon, every tax imposed by the government should be elastic in nature. In other words, the income from tax should be capable of increasing or decreasing according to the requirement of the country. For example, if the government needs more income at time of crisis, the tax should be capable of yielding more income through increase in its rate. **Flexibility:** is also principle of taxation. This principle states that government should make easily possible to revise the tax

structure both with respect to its coverage and rates, to suit the changing requirements of the economy. **Simplicity:** The tax system should not be complicated. That makes it difficult to understand and administer and results in problems of interpretation and disputes. **Diversity**: This principle states that the government should collect taxes from different sources rather than concentrating on a single source of tax. If the tax revenue comes from diversified source, then any reduction in tax revenue on account of any one cause is bound to be small (Misrak Tesfaye, 2008).

2.2. Empirical literature review

2.2.1. Global and African studies

A number of countries have attempted to broaden their business income tax base and increase revenues by applying various forms of presumptive taxation. Presumptive taxation is designed to capture income that frequently escapes conventional taxation by presuming receipts of certain levels of income. Some presumptive tax systems impose lump sum levies on small-scale businesses and activities, while others assess taxes by applying indicators or proxies to estimate a taxpayers income (estimated assessments) or collect minimum taxes irrespective of a taxpayers actual level of business activity (presumptive minimum taxes). This presumptive taxation has does have a number of shortcomings. Many enterprises in the small but "modern" business sector are unable or unwilling to keep proper accounting records. Unless fixed assessments are used, estimated assessments involve some degree of discretion on the part of tax assessors, who presume incomes and assess tax liabilities. This clearly is an invitation to corruption and favoritism, considering the generally low level of civil service salaries and the fact that tax administrations often lack adequate budgetary support and effective management. Discretion can also lead to inconsistencies, with taxpayers at similar income levels ending up with substantially different tax burdens, or taxpayers at very different income levels having to pay similar tax liabilities. In such cases, rather than enhancing horizontal equity, presumptive assessments may end up worsening it (Tanzi and Jantscher, 1987).

Business income tax payers' tax knowledge empowers to well understanding of the countries tax system. Eriksen and Fallan (1996) stated that, with rational understanding of the tax rules and

regulations, citizens are willing to respect the tax system of the country, accordingly they are more compliant to pay their tax liabilities instead evading their tax share. Besides, individual tax payers" in one country should be educated, which is knowledgeable in the respect and apply of the tax laws, respect of tax declarations, preparations of tax planning and others. Thus leads better individual tax payers' awareness and ethics to decrease their tendencies of tax non-compliance behavior. Also Tax knowledge as one of the factors in compliance is correlated to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Eriksen&Fallan, 1996). Similarly according to study conducted by (Singh, 2003) the general tax knowledge of tax payers has a very close relationship with tax compliance. In line with this, Eriksen and Fallan (1996) appealed that knowledge about tax law is assumed to be of more importance for preferences and attitudes towards taxation. In addition to this, Mohd (2010) presents taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government. More importantly, it is necessary that current and future taxpayers are exposed to the roles that they could play in developing the country. As tax knowledge and tax compliance have positive and strong relationship, Eriksen and Fallan (1996) suggested that a taxpayer should be given better tax knowledge to improve perceptions of fairness, tax ethics and attitudes to others tax evasion and thus suggesting that a successful means of preventing tax evasion is to provide more tax knowledge to larger segment of society in order to improve tax ethics and peoples conception of the fairness of the tax system. It would be a step in the right direction to make teaching in tax law and tax knowledge a compulsory part of social science teaching in the schools. Also on study conducted by Robert et al (1994) they examine how tax payers' compliance behavior affected by tax knowledge and perception. Result has indicated that, principle of attitudes being affected by better tax knowledge and demonstrates that it holds other attitude dimensions as well as the fairness of enlightened tax compliance behavior of tax payers. The study suggested that tax knowledge has a positive correlation with perceptions of fairness, tax ethics and attitudes to others" tax evasion and perception of the fairness of the tax system increases as tax knowledge is enhanced. In contradictory to this report was indicated by Collins, et al (1992) that, study was conducted in the USA from a random mail survey of 700 respondents

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from telephone directories. Out of 220 practical responses, they had found that tax knowledge and the level of education were negatively correlated with compliance behavior. The scholars further suggested that, knowledge about tax law is expected to be of importance for preferences and attitudes towards taxation in USA. In line with the above studies McKerchar (1995) in her article examined small business income taxpayers in Australia. Result indicated that small business taxpayers were not aware of about taxation and this has been lead to unintentional non-compliance behavior in the country. In line with this, study was also supported by Loo et al (2008) that tax knowledge and tax compliance are positively correlated.

Besides tax knowledge tax payers' perception towards service quality, tax penalty, government expenditure priority also affect tax payers compliance. Nurlis (2015) in his article, examines the outcome of taxpayer awareness, knowledge, tax penalties and service tax authorities on tax compliance a survey held on the individual taxpayer at Jabodetabek & Bandung in Indonesia. Study data was collected using the accidental sampling method that is questionnaires were distributed to those who visited tax offices of Jabodetabek & Bandung individual tax payers. Result of the study indicated that, awareness of the taxpayer has a positive and significant effect on individual taxpayer compliance. This indicates that the level of knowledge of good tax really looking for gaps to avoid tax liabilities, tax penalties has a positive and significant relationship to the individual taxpayer compliance which performs at the tax office in the area. Further the study displays that the more effective application of tax penalties, the tax compliance rate will be higher. Service tax authorities have a positive and significant relationship of compliance individual taxpayers that performs at the tax office in the country. Finally the study proposes that the better the service tax authorities, the tax compliance rate will be higher. Similarly Nelson Maseko (2014) found that the perceptions of small and medium entrepreneurs' operators about tax fairness, tax service quality and government expenditure priorities greatly affect their tax compliance decisions in the country, on study of investigated the impact of personal tax knowledge on tax compliance cost on compliance behavior of SMEs in Zimbabwe with qualitative research design. Also (Bauer, 2005) stated that service quality and tax compliance have positive relationship. From the various operating functions of the tax administration, the staff of the tax payer service function has, by far, the most interactions with tax payers and the general public. Their service will shape the tax payers felling towards the tax administration. In

most cases they are initial point of contact with tax payers. As such they are expected to have a good working knowledge of tax law, office procedures, filling requirements and the obligation of the tax payers. It is clear that the people are more likely comply with the tax laws if they perceive the tax collecting agency to be fair and efficient. If they believe that the tax revenue is wasted by corrupt employees may be disinclined to pay taxes. The relationship between tax authorities and tax payers reflects a country's tax culture therefore, how the tax authority treats different segments of the formal and informal economy shapes the tax culture at the same time, the attitudes of tax payers in the different aspects of the government, the extent of corruption, are critical to trust in the government on which economic growth depends. This shows the way on which revenue authorities interact with tax payers have an impact on public perception of the tax system and the degree of voluntary compliance. Also A study conducted in South Africa shows tax payers who believe that tax officials are efficient appear to be more tax compliance than those who do not believe tax officials are efficient (Oberholzer, 2007).With regard to tax penalties (Doran, M, Undated) also stated as to the positive relationship of effective application of tax penalties and tax payers compliance.

For effective tax collection a given tax administration should combat corruption and should not be technically complex. According to Najeeb (2013) on his study of Looking at Pakistani Presumptive Income Tax through principles of a good tax, he analyses that being a turnover based presumptive income tax regime design, Pakistani presumptive income tax regime is technically complex and impose high compliance costs on small business. The assessment of income includes discretion for the tax administration and which may ultimately provide an opportunity to harass taxpayers. The author states that as a result of those problems the country couldn't collect tax effectively. Regarding tax administrative complexity and corruption as a problem of effective tax assessment and collection, Chen Loo & Keng Ho, (2005), stated that an appropriate compliance can only be realized when taxpayer's liability is correctly computed, after taking into account all factors that have a bearing on the tax liability. The taxpayer has to be competent to comprehend the income tax law and the administrative procedures, given the complexities, uncertainties and ambiguities of the tax law, rules and administrative procedures. Therefore, taxpayers who are tax illiterate or inadequately informed may either be under-paying or over-paying taxes. As well, the revenue authority has to provide adequate resources to meet

the needs of enhancing taxpayer functional literacy elements in terms of skills and knowledge required to deal with tax matters. Also Robert (2011), Kangave (2005) and Dekan (2003) found the results that there is a significantly positive correlation between trust in officials ethics, skill and taxpayers confidence. To come up with the problem of corruption in tax assessment and collection, Lopez and Packman (2012) stated that self assessment as a solution. Self-assessment systems generally make it possible to collect taxes earlier and reduce the likelihood of disputes over tax assessments. This also lessen the discretionary powers of tax officials and reduce opportunities for corruption for instance, to be effective, however, self-assessment needs to be properly introduced and implemented, with transparent rules, an automated reporting process, and penalties for noncompliance and risk assessment procedures for audit processes.

Generally there are several problems associated with administration, assessment and collection that affect the rights and obligations of tax payers. Kasimbazi (2004) found the following problems of presumptive taxation:-

- ➢ Assessment Methods: assessment of tax is difficult because tax payers do not keep accounts. That is to means that there are no guidelines to determine one's income. This leads to under or over assessment of taxpayers. In addition, the assessment rules are not observed by the Tax Assessment Committee.
- ➢ Gross Ignorance: there is no adequate tax collection staff and those that are employed lack training and experience or may be biased or succumb to political pressure.
- ➢ Corruption: another problem is corruption and fraud by the tax collectors. The most commonly used method of perpetuating these frauds includes: double numbering of tax tickets and actual embezzlement of the money collected.
- ➢ Tax evasion: there is a widespread evasion of tax. The recent Local Government study has revealed that the problems of tax evasion are more complex.
- ➢ Tax assessment, collection and remittance have a significant relationship with the revenue generated by local government in the state.
- ➢ Most tax payers avoid or evade tax as a result of the corrupt practices of tax officials, which in turn affect the revenue generated by the state; this has been attributed to numerous barriers to efficient tax administration.

2.2.2. Ethiopian cases

According to(Hagos, 2011) a research was conducted on the case of assessment on challenges of business income tax collection process in Aksum shown that the respondents of the category "C" tax payers were more associated with challenges than of the other categories. The respondents answered that lack of experience of paying tax, problems related tax collectors, a lack of awareness of tax payers were associated problems of category "C" tax payers during the tax collection. Awareness creations by the authority on category "C" taxpayers were that below enough and poor and this shows that the awareness creation activities of the tax authority were ineffective and inefficient. Therefore, they established that the awareness creation problem was a series and the root cause of all problems relating to the tax collection and assessment (Hagos, 2011 and lemessa, 2007). With regard to knowledge of tax payers (Fentahun, 2002) also stated that Tax payer's information and knowledge is very essential in promoting compliance. Tax payers must receive clear and concise information or what is taxable, how to calculate their tax liability and the procedures for calculating and paying taxes and where and when they pay taxes. In addition forms and procedures for calculating and paying taxes should be as simple as possible. Moreover, tax offices are expected to develop programs to inform the business community the requirement to make declarations and the penalty provisions for non compliance. According to (Getaneh, 2011) on his study of tax audit practice in Ethiopia, The Case of the Federal government, he recommended that, ERCA may not achieve the expected future voluntary compliance in the absence of awareness creation for taxpayers. Without educating taxpayers and creating tax awareness, making power visible to the community might detect the deliberate evasions and frauds but not be a solution to create a compliant taxpayer those does not comply unknowingly. The survey result showed the tax authority of the city administration is not efficient and effective in various aspects such as improving the tax assessment and collection system, creating awareness, enforcing the tax law, providing services, and information regarding tax. Similarly Wubshet (2011) on his study of Taxpayers' perception towards fairness: personal business profit taxpayers in Addis Ababa, he found that: The absence of adequate training, follow up, education and limited knowledge on their respective business profit tax systems, the absence of clear-cut objectives, programs, procedures, rules and regulations which have direct impact with the taxpayers' knowledge and awareness, the absence of administration consistency

in respect of the provisions of business profit tax system, estimating tax without considering the capacity of individual taxpayers (levy beyond the actual capacity of taxpayers) as a problem of tax compliance. Furthermore the author recommends awareness is a corner stone as far as voluntary compliance is concerned and without improving the above problems government couldn't collect tax effectively. Also (Temtime, 2014) on his study on Business Taxpayers' Satisfaction with the Tax System in Addis Ababa, stated that business taxpayers are not satisfied with the existing tax systems. Because the ways tax authority provides tax information to taxpayers, tax collection and tax refund, administration capability to solving taxpayers' problem and the area of tax audit procedures are found to be the major dissatisfied areas. He also stated that the tax system is so complex and unfair, discretionary treatment by officers and existent of lack of monitoring in the tax authority. He recommend solutions like:- improving tax policy and administration issues; step up their duty of promoting tax awareness, tax officers should be given intensive and repetitive training to improve their attitude and promoting code of conduct with emphasis on ethical values and finally, tax refund procedure would be improved.

When we come to corruption Hagos (2011) analyzed honesty of the tax collectors. On his finding indicated that 77% of the respondents believe that there was high corruption at the time of the registering, assessments and payments of taxes. Similar finding was made by Yohannes and Zerihun (2013) that category "C" tax payers in dire dawa have no trust in the employees of the authority and in the overall tax estimation, assessment and collection procedures. The authors recommend that the need for further action from tax authorities.

2.2.2.1 The Current Federal Income tax assessment and collection laws of Ethiopia:

In modern tax administration system, tax levy, charge and collection by a countries or states government shall be based on the tax laws of the country or state. Like other countries, Ethiopia also has its income tax law at both federal and regional level .Tax collection need authorization by law. Any person who is not authorized to collect tax under the income tax law collects or attempts to collect tax commits an offence and is liable on conviction, to a fine of not less than Birr 50,000 (fifty thousand) and to imprisonment for a term of not less than five (5) years and not more than ten (10) years (MisrakTesfaye, 2011).

Income taxable under the Ethiopian 'Income Tax Proclamation No. 286/2002' shall include, but not be limited to: Income from employment, Income from business activities, Income derived by an entertainer, musician, or sports person from his personal activities, Income from entrepreneurial activities carried out by a non-resident through a permanent establishment in Ethiopia, Income from movable property attributable to a permanent establishment in Ethiopia, Income from immovable property and appurtenances thereto, income from livestock and inventory in agriculture and forestry, and income from usufruct and other rights deriving from immovable property that is situated in Ethiopia, Income from the alienation of property, Dividends distributed by a resident company, Profit shares paid by a resident registered partnership, Interest paid by the national, a regional or local Government or a resident of Ethiopia, or paid by a non-resident through a permanent establishment that he maintains in Ethiopia, License fees including lease payments, and royalties paid by a resident or paid by a non-resident through a permanent establishment that he maintains in Ethiopia. But the current income tax laws of Ethiopia do not specifically define the term business income/profit so that it is considered in its natural and commercial meaning. Business income, also called business profit or schedule "C" income, refers to any income/profit which is derived essentially from a business activity or an activity recognized as trade in commercial code of Ethiopia. It is the income or profit derived by a trader from activities performed to its customers subject to certain deductions of business expenditures. Income or profit derived from the entrepreneurial activity is treated as business income/profit or taxable income (MisrakTesfaye, 2011,).Taxable business income shall be determined as per tax period on the basis of the profit and loss account or income statement which shall be drawn in compliance with the generally accepted accounting standards (Proclamation No, 286/2002,). For category 'A' and category 'B' rental or business income tax payers who are required by the tax law to maintain books of accounts, the assessment of tax is based on their books of accounts and records, as a result, the income tax declaration is prepared based on the books of accounts and records maintained by the taxpayer as per the tax law requirement. However, for category 'C' rental and business income tax payers who are not required by law to maintain books accounts, the assessment of tax is based on the standard assessment (estimation) method (MisrakTesfaye, 2011). As per proclamation 286/2002 Article 68(2),the standard assessment shall be a fixed amount of tax determined in accordance with a council of minister regulations establishing at schedule of standard assessment amounts that

reflect variations in the type of business, business size and business location, The taxpayer shall pay in accordance with council of ministers regulations.

When we come to tax declaration, Category "C" tax payers should declare tax income together with the annual turnover and the amount derived from the source other than the main operation within 30 days from the end of the fiscal period (1st of Hamle to 6th of August every year). Declarations are to be made in prescribed forms provided by the income tax authority accompanied by the required supporting evidences. (Fentahun,et;al, (2005).

With regard to review and appealing members of the review committee shall be appointed by the minster of revenue or the competent authority of regional government, as appropriate upon the recommendation of the head of the tax authority. Powers and duties of review committee are provided under art (105). The review committee shall be accountable to the head of the tax authority and shall have the following duties:- To examine and decide on all applications submitted by tax payers for compromise of penalty, interest and waiver of tax liability, Together any written evidence or information relevant to the matter submitted, To summon any person who directly or indirectly has dealt with the assessment to appear before if for questioning him about the case under its investigation and to review determination made by the tax authority for accuracy, completeness and compliance. Any taxpayer who objects to an assessment may appeal to the tax appeal commission upon the fulfillment of the requirements here under. No appeal shall be accepted by the appeal commission unless a deposit of thirty-five percent (35%) of the disputed amount is made to the tax authority and the appeal is lodged with the appeal commission within thirty (30) days following the day of receipt of the assessment notice or from the data of decision of the review committee (income tax proclamation no 286/2002/).

Proclamation number 286/2002 also state about the code of conduct of employee of the tax authority. Accordingly employees are required to be honest and fair, treating each taxpayer with courtesy and respect, apply the law, regulations and rulings to each case on the basis the objective facts, showing no partiality to members of his family or to friends, and not solicit or accept any bribe or perform any other improper act relating to the duty to determine or collect any tax.

Conclusion and knowledge gap: Generally, one can see that the empirical studies undertaken thus far for developing countries, particularly for Ethiopia, bothered little or no to see the potential challenges faced by taxpayers and the tax authorities like ambiguity of presumptive tax assessment and collection rules and regulations. Therefore, this research will not only identify the problems of the Addis ketema sub city woreda 5 tax administration and tax payers, but also the cause of these problems. Because the researcher believes that identifying the root cause of the problems is the best ground to provide appropriate solutions.

CHAPTER THREE

RESEARCH DESIGN AND METHEDOLOGY

3.1 Research Design

Exploratory method was employed to assess problems on assessment and collection of business income tax of category "C" and to present the currently existing problems. According to Collins Cobuild English Dictionary for Advanced Learners (2001), "Exploratory actions are done in order to discover something or to learn the truth about something." Burns and Grove (1998) define exploratory research as research conducted to gain new insights, discover new ideas and/or increase knowledge of a phenomenon. In this study, the researcher selected the exploratory method to gain new insights, discover new ideas and/or increase knowledge about category "C" tax assessment and collection problems.

3.2 Data Gathering Tool

The data needed for this study was gathered through questionnaires and interview.

Questionnaires:

The questionnaire is divided into five sections. Section one covers the back ground information of the respondents. Section two covers questions related to tax rules and regulation to assess and collect presumptive tax. Section three covers questions related to the effect of presumptive tax assessment and collection procedure up on tax payers' compliance. Section four covers questions related to revenue office employees competence to discharge their responsibility. Section five covers questions related to problems encountered during the assessment and collection of presumptive tax (category "C").

Each questions starting from section two to section five has specific number of items which was presented in a Likert type-scale with a 5- point scale from 1 – "Strongly Disagree" to 5 - "Strongly Agree". Two types of questionnaires were prepared (for taxpayers and the other for office employees). The questionnaires which comprise close ended was prepared in English and

translated in to Amharic so that respondents could easily understand the question and give appropriate answers.

Interview:

An interview question was prepared for the manager and vice manger of the woreda 5 micro tax payers' office.

3.3. Population and Sampling Techniques

In Addis ketema sub city woreda 5 there are around 857 category 'C' tax payers and 11 revenue office employees. Addis ketema sub city woreda 5 Tax payers and revenue office employees were taken as the population of the study. The researcher used census technique for office employees and Probability sampling (simple random sampling) technique to select the sample respondent from tax payers. The total population under taken for this study in addis ketema sub city woreda 5 was 100 tax payers and 11 employees of revenue office.

This study take 95% level of confidence and 5% confidence interval used to select a sample of 857 category C tax payers.

Where

$$n = \frac{z^2 p.q.N}{e^2 (N-1) + z^2 pq} \quad \text{(Kothari, 2004)}.$$

Where N= population

n= sample size

e=sample error

p= the proportion of defective (95%)

z= the <<z>> value at 95 % confidence level= 1.96

$$n = \frac{(1.96)^2 \times 0.95 \times 0.05 \times (857)}{(0.05)^2 (857-1) + (1.96)^2 (0.05 \times 0.95)}$$

n= 67

Even if the 'n' value is 67 the researcher had taken 100 category 'C' tax payers as a sample. It is to make sample size more representative.

3.4 Source of Data

Since the aim of this study is to explore problems on assessment and collection of income tax of category"C", primary sources of data was used.

3.4.1. Primary Data Collection

The primary data collection was made through questionnaires from category "C" taxpayers and employee of the revenue office, and through semi-structured interview from head and vice head of the addis ketema sub city Worede 5 micro tax payers' office**.**

3.5. Method of Data Analysis

The data was analyzed and interpreted quantitatively using table, chart, mean and percentages. Moreover, information obtained through interview was analyzed qualitatively using discourse analytic method.

3.5.1. Validity and Reliability Test

Validity- the truthfulness or correctness of the measurement like the questionnaire was pre-tested by professionals (by the advisor).

When we come to the reliability, it is the consistency of a set of measurements or measuring instruments. There are several different reliability coefficients. One of the most commonly used is called Cronbach's Alpha. Cronbach's Alpha is based on the average correlation of items with in a test if the items are standardized. It has an important use as a measure of the reliability of psychometric instruments. It was first named as alpha by Cronbach (1951), as he had intended to continue with further instruments.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

This chapter deals with an attempt to identify category "C" taxpayer's tax assessment and collection problems and factors that caused the problems. This part has four sections. Section 4.1 presents the result and analysis of data obtained through structured questionnaires and in-depth interview. Whereas section 4.2 present result and analysis of secondary data. The study focus here is Addis ketema sub city woreda 5 Category "C" tax payers residing in the sub city.

4.1. Survey result and analysis

From the questionnaires distributed for 100 category 'C' tax payers, 89 of them returned the Questionnaires where as the remaining did not. From questionnaires distributed for employees of wereda revenue office all (11) were returned.

When we come to gender and age distribution of respondents, of the eighty nine tax payers' respondents, around 75 (67%) of them were men and 24 (22%) were female. It implies that men draw a high level of participation in small businesses than females in the woreda. From the total tax payers respondents, around 58 (65.2%) of them were between the ages of 26-35, 23 (25.8%) were between the ages of 36-42, 4 (4.5%) were between the ages 18-25, 2 (2.2%) were between the ages 43-55 and 2 (2.2%) were above the age of 55. This is an indication that most taxpayers in the sample are at their matured ages and information given to this study is free from emotional (table 4.2 below).

It is believed to be that the ability to read and write influences one's ability to understand and interpret the tax laws. With this regard the survey collected the educational background of the tax payers respondents and the survey result shows that 9(10.1%)respondents had lower level of educational qualification (below grade 12) and 73(82%) were completed grade 12. On the other hand, the numbers of respondents who were diploma and first degree holders were 4(4.5%) and 2(2.2%) respectively. The remainder 1(1.1%) of the respondents was not educated. Cumulatively, all of the respondents except one were in position of at least reading and writing. Therefore, the implication to these findings indicates that the majority of business taxpayers were

well educated to know the need for taxation and they can understand and interpret the tax law as well (table4.2 below)

Regarding employee study participants, from 11 employee study participants, 4(36.4%) were male and 7 (63.6%) were female. This indicates that addis ketema sub city wereda 5 micro tax payers office recruit more female than male. With regard to the age distribution from those 11 employees, 1(9.1%) of the respondent was between 18-25 years old, 5(45.5%) of employees were between 26-35 years old, 4(36.4%) of the employees were between 36-45 years old and 1(9.1%) of employee was between the age of 46-56. When we look at education (profession) qualification of the employee respondents, 6(54.5%) employees were first degree holders, 2(18.2%) of respondents were diploma holders, 1(9.1%) of employees had certificates, 1(9.1%) was grade 12 and 1(9.1%) was grade 9 (Table 4.2 below). This implies majority of employees have a good level of educational qualification that is diploma and BA or BSc degree which enables the respondents to have idea of the tax assessment and collection. But 3(27.3%) of employees were with educational level of under diploma, and those employees participate in tax assessment and collection. So lack of educational qualification on the area of their job will be a problem for effective tax assessment, collection and service delivery. Regarding work experience of employees study participants 4(36.4%) of them had no experience, 5(45.5%) had work experience between 1-4 years and 2(18.2%) had work experience of above 4 years. This implies that some employees in micro tax payers' office had no experience, which might also create problem in tax assessment and collection.

Table 4.2 Profile of tax payers and Revenue Office Employees

Variables	Description	Responses of tax payers	
		Frequency	Percentage
Gender	Male	67	75.3
	Female	22	24.7
	Total	89	100
Age	18-25	4	4.5
	26-35	58	65.2
	36-42	23	25.8
	43-55	2	2.2
	Above 55	2	2.2
	Total	**89**	**100**
Educational background	Not educated	1	1.1
	First cycle	1	1.1
	Second cycle	8	9.0
	Secondary education	73	82.0
	Diploma	4	4.5
	First degree	2	2.2
	Total	**89**	**100**
Variables	**Description**	**Response of employee**	
		Frequency	Percentage
Gender	Male	4	36.4
	Female	7	63.6
	Total	11	100
Age	18-25	1	9.1
	26-35	5	45.5
	36-45	4	36.4
	46-56	1	9.1
	Total	**11**	**100**

Educational background	First degree	6	54.5
	Diploma	2	18.2
	10+1(certificate)	1	9.1
	Grade 12	1	9.1
	Grade 9	1	9.1
	Total	**11**	**100**
Work experience	0 year	4	36.4
	1-4 years	5	45.5
	above4 years	2	18.2
	Total	**11**	**100**

Source: Field Survey by Researcher (2016)

4.1.1 Research results as to income tax rules and regulation

As proclamation No. 286/2002, Art.68(2), the standard assessment shall be a fixed amount of tax determined in accordance with a council of minister regulations in the establishing a schedule of standard assessment amounts that reflect variations establishing a schedule of standard assessment amounts in the types of business, business size and business location.

When we look at the response of employees of revenue office towards tax assessment rule is unambiguous or not. From 11 employees of revenue office study participants 2(18.2%) were strongly disagreed and 5(45.5%) of revenue office employees disagreed as to the existence of unambiguous tax assessment rule in revenue office, 3(27.3%) of them were agreed and 1(9.1%) was strongly agreed about the existence of unambiguous tax assessment rule in the revenue office (table 4.3 below). With mean value of approximately less than 3(2.64), suggesting that employees perception towards the unambiguousness of tax assessment rule is low. Most of employee respondents disagreed that tax assessment rule is unambiguous. Also according to the interview result shows that manager and vice manager of revenue office stated as tax is assessed based on manual and the manual is vague. This ambiguousness of the rule will hinder effective tax assessment and collection in the revenue office. In line with this finding Temtime (2014) stated that complex and unclear tax system is problem for tax assessment and collection. Also According to the study conducted in Malaysian by Chen Loo & Keng Ho, (2005), shows

complexities, uncertainties and ambiguities of the tax law, rules and administrative procedures hinders effective tax assessment and collection by the tax authority.

As we can clearly observe from table 4.3 below, from the total respondents of employees 4(36.4%) strongly disagreed and 3(27.3%) disagreed when they are asked as to the suitability of tax assessment rule, 3(27.3%) of employees agreed that standard assessment rule is suitable to assess tax liability of category "C" tax payers and 1(9.1%) of them was neutral. Here the mean value is of less than 3(2.27), which suggest that employees' perception towards standard assessment rule suitability for tax assessment is low. Also the revenue office manager and vice manager explained that the current tax assessment rule is not suitable for effective tax collection when compared with category 'A' and 'B' tax assessment rules. Because category "C" tax payers are not mandatorily required to keep book of account. As a result of this tax assessment committee may over or under estimate tax. This may be because of gap in tax assessment law. According to Temtime (2014) lack of unambiguous and suitable rule is a problem of tax assessment and collection.

Table 4.3 Responses of Revenue Office Employees Regarding Tax Assessment rule

Item	S/disagree	Disagree	Neutral	Agree	S/agree	Total	Mean
	Frequency	Frequency	Frequency	Frequency	Frequency	Frequency	
Tax assessment Rule is unambiguous (clear).	2 (18.2%)	5 (45.5%)	0 (0%)	3 (27.3%)	1 (9.1%)	11 (100%)	2.64
Standard assessment rule is Suitable.	4 (36.4%)	3 27.3%	1 (9.1%)	3 (27.3%)	0 (0%)	11 (100%)	2.27

Source: Field Survey by Researcher (2016)

According to the fact in (table 4.4) from the total tax payer respondents 44(49.4%) of them strongly disagreed, 25(28.1%) of them disagreed, 10(11.2%) were neutral, 6(6.7%) of them agreed and 4(4.5%) of respondents strongly disagreed about penalty provisions in the rule. The mean value is 1.88, which suggests that tax payers' perception towards penalty provisions is negative. This shows a higher proportion of respondents (77.5%) disagreed on the penalty provision. This is due to the amount of money that is specified in the provision to each penalty. As past research shows tax payers comply within their tax obligation to avoid legal sanctions (i.e. penalties) whenever those sanctions are expected to be more costly than compliance. In this study majority of the total respondents disagreed on the provision. This will have a positive impact on their compliance behavior if the probability of getting and penalizing them is very high (Doran, M, Undated).

As we can clearly observe from Table 4.4 below, 42(47.2%) of respondents strongly disagreed and 28(31.5%) respondents disagreed about fairness of tax assessment, 6(6.7%) and 4(4.5%) of respondents agreed and strongly agreed that tax assessed based on their daily income is faire, 9(10.1%) of respondents have no opinion. The mean value is less than 3(1.89) suggesting that tax payers perception as to fairness of tax assessment low. More than half of tax payer respondents (78.7%) were not agreed on the fairness of tax assessment. This is due to the fact that their tax is levied based on standard assessment. This method is not considered tax payers specific conditions such as loss in a particular year, it does not consider the current activities of the traders. And it may hurt tax payers due to high tax. The dissatisfaction may have a negative impact on the amount of revenue that will be collected from the business traders of the woreda. Also manager of the revenue office stated that as some tax payers bring complain to the office because of over estimation of tax by tax assessment committee. According to research conducted by wubshet (2011) he found that in respect of tax assessment and estimation most of the time experts from the tax authority levy tax burdens at the spot without considering the capacity of individual taxpayers (levy beyond the actual capacity of taxpayers), this contradict the concepts of personal fairness and a problem for effective tax collection. Also according to Bauer, (2005) tax payers are more likely comply with the tax laws if they perceive the tax collecting tax law and agency to be fair and efficient.

In relation to awareness creation 57(64%) and 15(16.9%) of respondents indicated that the woreda revenue office didn't create awareness about tax assessment rules and regulations, 7(7.9%) and 2(2.2%) of respondents agreed about awareness is created by revenue office and 8(9%) of respondents were neutral (table 4.4 below). the mean value is less than 3(1.67) which suggests tax payers perception on awareness creation by the office is low. In other words on average 80.9% of the total respondents have negative response on the awareness creation activities of the authority. This one is the root cause for all other problems for their voluntary compliance because as people have more knowledge about the tax system, they may both understand and appreciate the benefits received from the government and will be motivated to pay tax. With respect the above finding, it is the duty and responsibility of the tax authority to conduct series training and consult to the tax payers, especially on new tax provision. However, the research indicated that majority of the respondents didn't attain the tax training sessions. This may be either as a result of poor control and follow up mechanism of the tax authority or due to lack of awareness of the business tax payers. Therefore, it can be concluded that still many respondents are not attending or participating in the tax training session. According to similar researches conducted by (Hagos, 2011 and lemessa, 2007) lack of Awareness creation by the revenue authority to taxpayers was series and the root cause of all problems relating to the tax assessment and collection.

Table 4.4 Responses of tax payers regarding Tax Assessment rule

Item	S/disagree	Disagree	Neutral	Agree	S/agree	Total	Mean
	Frequency	Frequency	Frequency	Frequency	Frequency	Frequency	
The amount of Administrative penalty for delay of payment is proportional	44 (49.4%)	25 (28.1%)	10 (11.2%)	6 (6.7%)	4 (4.5%)	89 (100%)	1.88
Tax assessed based on your daily income is faire	42 (47.2%)	28 (31.5%)	9 (10.1%)	6 (6.7%)	4 (4.5%)	89 (100%)	1.89
Awareness is created on tax assessment rule	57 (64.0%)	15 (16.9%)	8 (9.0%)	7 (7.9%)	2 (2.2%)	89 (100%)	1.67

Source: Field Survey by Researcher (2016)

4.1.2. Research result and analysis related to presumptive tax assessment procedure up on tax payers' compliance:

As it is provided in table 4.5 below, 3(3.4%) of tax payer respondents strongly disagreed and 10(11.2%) disagreed when they are asked that the current presumptive tax assessment procedure creates gap for bribe, 27(30.3%) respondents had no opinion, 6(6.7%) of them agreed and 43(48.3%) of respondents strongly agreed as the current tax assessment procedure opens a door for bribe. More than half of tax payer study participants agreed as to the existence of gap in tax

assessment procedure for bribe With the mean value of greater than 3(3.85), which suggests that tax payers perception towards the gap of tax assessment procedure for bribe is high. Also the manager and vice manger of revenue office stated that category "C" tax assessment procedure may create gap for bribe. According to Yohannes and Zerihun (2013) research founding shows majority of category 'C' tax payers have no trust on the overall tax estimation, assessment and collection procedures, and the research also found tax payers trust on tax administration procedure have positive relationship with tax payers voluntary compliance.

In table 4.5 below: it is also observed that 13(14.6%) of tax payer respondents strongly disagree and 7(7.9%) of them disagreed when they are asked current tax assessment procedure is simple guess or subjective, 10(11.2%) of them had no opinion, while 14(15.7%) of them agreed and 45(50.6%) tax payer respondents strongly agreed that tax assessment method is simple guess or subjective. Here the mean value is greater than 3(3.79). This implies tax payers have no confidence on tax assessment procedure. According to Bauer, (2005) the staff of the tax payer service function has, by far, the most interactions with tax payers and the general public. Their service will shape the tax payers felling towards the tax administration. In most cases they are initial point of contact with tax payers. As such they are expected to have a good working knowledge of tax law, office procedures, filling requirements and the obligation of the tax payers. The way on which revenue authorities interact with tax payers have an impact on public perception of the tax system and the degree of voluntary compliance.

Table 4.5 Responses of tax payers regarding tax assessment procedure

Item	S/disagree	Disagree	Neutral	Agree	S/agree	Total	Mean
	Frequency	Frequency	Frequency	Frequency	Frequency	Frequency	
Tax assessment Procedure create gap for bribe.	3 (3.4%)	10 (11.2%)	27 (30.3%)	6 (6.7%)	43 (48.3%)	89 (100%)	3.85
Tax is assessed based on simple guess.	13 (14.6%)	7 (7.9%)	10 (11.2%)	14 (15.7%)	45 (50.6%)	89 (100%)	3.79

Source: Field Survey by Researcher (2016)

4.1.3 Research result related to competency of revenue office employees

Human resource plays a great role in every organization without qualified and sufficient competent manpower. Objectivities of the organization cannot be achieved. According to A.Garner(355) black's law dictionary the term "competency" refers to the mental ability to understand problems and make decisions. So the office employee should collectively, possess the knowledge and skills essential to practice the profession within the organization.

As we can clearly see in table 4.6 below with the mean value of less than 3(1.89), 48 (53.9%) tax payer respondents strongly disagreed and 20 (22.5%) disagreed about effective service delivery by employees of revenue office. While 12(13.5%) of them agreed and 3(3.4%) of respondents strongly agreed as to the existence effective service delivery in the revenue office, 6(6.7%) of respondents had no opinion. It indicated that a higher proportion of respondents rated the service delivery of the authority below enough. Normally, the service delivery of the authority is

measured by the number of tax payers assisted, by average delay time in waiting and the response given afterward; by correct answers given to tax payers as a percentage of all answers given to tax payers; by the number of publicized information materials distributed to the public. These may be the factors for their negative response on the service and affecting their tax compliance behavior. Also based on past research conducted by Hagos (2011) and Lemessa (2007) poor and below enough service delivery by tax authority have negative impact on tax payers' compliance. As a result of this, tax will not be collected effectively and according to the plan. Similarly, 41(46.1%) of tax payer strongly disagreed, 12(13.5%) respondents disagreed about employees with respect to their knowledge on tax related issue, 6(6.7%) of them agreed and 3(3.4%) of respondents strongly agreed as to knowledge of employee, 27(30.3%) of tax payer study participants had no opinion (table 4.6, below). With the mean value of less than 3(2.07), more than half of the total respondents (59.6%), rated the knowledge of the employees in relation to tax related issues below enough. According to Oberholzer (2007) A study conducted in South Africa showed that tax payers who believe that the tax officials are knowledgeable are more tax compliant than those who believe that are not knowledgeable. This clearly demonstrates the amount of tax revenue may be affected by the knowledge of tax officials related to tax. In addition, taxation knowledge is necessary to increase public awareness especially in areas concerning tax laws, the role of tax on economic development and to explain how and where the money collected is spent by the government to current and future tax payers. This clearly shows increasing the knowledge of the tax authority employees about tax related issues is vital to increase the compliance behavior of tax payers.

According to table 4.6, with the mean value of 1.76, 51(57.3%) of tax payer respondents strongly disagreed and 19(21.3%) of them disagreed about the impartiality of employees of revenue office in tax assessment and collection process, 10(11.2%) of them had no opinion, 7(7.9%) of them agreed and 2(2.2%) of respondents strongly agreed about the impartiality of revenue office employees in assessment and collection process. In this case majority of study participant perceived as employees of revenue office are not impartial when they assess and collect tax. According to study conducted in USA, Dekan (2003) found the results that regardless of the category of tax payers, there is a significantly positive correlation between trust in officials and taxpayers confidence. So if tax payers perceived as employees of revenue office are not impartial

they will have no confidence on tax administration ultimately tax collection will be affected negatively.

According to table 4.6 below from the total tax payer study participants 44(49.4%) of them strongly disagreed, 17(19.1%) of them disagreed, 21(23.6%) of them had no opinion, 6(6.7%) of them agreed and 1(1.1%) of them strongly agreed about transparency of revenue office employees in assessment and collection of tax with the mean value of 1.91. This implies that tax payers' participation in tax assessment is low. According to study finding by Yohannes and Zerihun (2013) Nontransparent, non-participatory standard assessment by the authority for category "C" tax payers is a problem for voluntary compliance of tax payers and for effective tax assessment and collection.

Table 4.6 Responses of tax payers regarding employees of revenue office

Item	S/disagree	Disagree	Neutral	Agree	S/agree	Total	Mean
	Frequency	Frequency	Frequency	Frequency	Frequency	Frequency	
There is good service delivery in the revenue office	48 (53.9%)	20 (22.5%)	6 (6.7%)	12 (13.5%)	3 (3.4%)	89 (100%)	1.89
Employees of revenue office have sufficient knowledge about tax assessment and collection procedure.	41 (46.1%)	12 (13.5%)	27 (30.3%)	6 (6.7%)	3 (3.4%)	89 (100%)	2.07
Employees of revenue office are impartial.	51 (57.3%)	19 (21.3%)	10 (11.2%)	7 (7.9%)	2 (2.2%)	89 (100%)	1.76
Employees of revenue office are transparent.	44 (49.4%)	17 (19.1%)	21 (23.6%)	6 (6.7%)	1 (1.1%)	89 (100%)	1.91

Source: Field Survey by Researcher (2016)

4.1.4 Research result related to challenges presumptive tax assessment and collection procedure

From the total employee respondents 8(72.7%) of them agreed as tax payers hide their daily income, 3(27.3%) of respondents disagreed when they are asked as tax payers give false information about their daily income. The mean value is greater than 3(3.55), which suggest employees' perception towards tax payers' true information about their daily income is low. This is because category 'C' business income tax payers are not required by the law to keep book of account. This implies employees of revenue office have no trust on tax payers. Also manager and vice manager of the office state that, majority of tax payers give false information on their daily income. Kasimbazi (2004) found tax evasion as problem. Assessment of tax is difficult because tax payers do not keep accounts. As a result of this Most tax payers avoid or evade tax by giving false information about their daily income. This has been attributed to numerous barriers to efficient tax administration (table 4.7 below).

Table 4.7 Responses of employees of revenue office regarding daily income of tax payers

Item	S/disagree	Disagree	Neutral	agree	S/agree	Total	Mean
	Frequency	Frequency	Frequency	Frequency	Frequency	Frequency	
Tax payers give false information about their daily income	1 (9.1%)	2 (18.2%)	0 (0%)	6 (54.6%)	2 (18.2%)	11 (100%)	3.55

Source: Field Survey by Researcher (2016)

In table 4.8 below, 7(7.9%) of tax payer respondents strongly disagreed, 6(6.7%) of them disagreed, 9(10.1%) of them were neutral, 16(18%) of them agreed and 51(57.3%) of respondents strongly agreed as corruption is a problem in tax assessment and collection process. Here the mean value is greater than 3(4.1), suggesting that tax payers perception towards

corruption as a problem of tax assessment and collection is high. Also from the interview with manager and vice manager of the revenue office, they suspect corruption as one of tax assessment and collection challenge in the woreda. According to proclamation Number 286/2002, art 40(1) each employee of the tax authority shall be honest and fair, treating each taxpayer with courtesy and respect, and showing no partiality to members of this family or to friends, and not solicit or accept any bribe or perform any other improper act relating to the duty to determine or collect any tax. Kasimbazi (2004) states Corruption or fraud by the tax collectors is a problem for effective tax collection. Also according to study conducted by Hagos (2011) he found that the existence of high corruption by the employee of revenue office as the problem of effective tax assessment and collection.

With the mean value of 3.28, 18(20.2%) of respondents strongly disagreed and 12(13.5%) of them disagreed about the existence of proper review and appeal procedure in the revenue office, 12(13.5%) of them had no opinion, 21(23.6%) of respondents agreed and 26(29.2%) of strongly agreed as appealing and review procedure is good. More than half of respondents (52.8%) perceived the current review and appealing procedure is good this implies reviewing and appealing procedure is not a challenge in tax collection, and tax payers are aware of their right to appeal (table 4.8 below).

From the fact in table 4.8 below 3(3.4%) of respondents strongly disagreed and 3(3.4%) of them disagreed as to employees abuse their power when they assess and collect tax, 10(11.2%) of respondents had no opinion, 10(11.2%) and 63(70.8%) of respondents agreed and strongly agreed that employee in the revenue office abuse their power when they assess and collect tax. Majority of study participants (82%) agreed as to the existence abuse of power by employees of revenue office with the mean value of 4.4. This implies the law gives wider power for employees of revenue office and they abuse when they assesses tax. A research by (Temtime, 2014) shows discretionary treatment by officers of revenue office and existent of lack of monitoring in the tax authority is a problem for effective tax assessment and collection. Also according to research conducted in Pakistan by Najeeb (2013), the assessment of income that includes discretion for the tax administration is a problem for effective tax collection. Giving wider power for employees is provide an opportunity to harass taxpayers.

Table 4.8 Responses of tax payers regarding problems of Tax Assessment and collection

Item	S/disagree	Disagree	Neutral	Agree	S/agree	Total	Mean
	Frequency	Frequency	Frequency	Frequency	Frequency	Frequency	
Corruption is a problem in tax assessment and collection	7 (7.9%)	6 (6.7%)	9 (10.1%)	16 (18%)	51 (57.3%)	89 (100%)	4.1
There is good review and appealing procedure	18 (20.2%)	12 (13.5%)	12 (13.5%)	21 (23.6%)	26 (29.2%)	89 (100%)	3.28
Employees of revenue office abuse their wider discretionary power	3 (3.4%)	3 (3.4%)	10 (11.2%)	10 (11.2%)	63 (70.8%)	89 (100%)	4.4

Source: Field Survey by Researcher (2016)

4.2. Reliability Analysis

By calculating Cronbach's Alpha coefficient the reliability of the likert scales questions were tested. The reliability analysis shows wither the instrument can be interpreted consistently across different situations (Field, 2009). As it has been witnessed in table 4.9 below the value for Cronbach's Alpha (a) was 0.794 for all questions. According to Cronbach's (1995) this figure is acceptable. Thus, the response generated for all variables used in this research were reliable enough for data analysis.

Table 4.9 Reliability Statistics

Cronbach's Alpha	N of Items
.794	27

CHAPTER FIVE

SUMMARY, CONCLUTION AND RECOMMENDATION

5.1. Summary

The data collected form respondents is analyzed & interpreted using description analysis method through tabulation, mean & percentage method. So from this study we come up with the following main point.

- With mean value of approximately less than 3(2.64), Most of the employee respondents (63.7%) disagreed, that tax assessment rule is unambiguous. Also according to the interview result shows that manager and vice manager of revenue office stated as tax is assessed based on manual and the manual is vague.

- More than half of employee respondents (63.7%) disagreed as to the suitability of the current tax assessment and collection rule. Also the revenue office manager and vice manager explained that the current tax assessment rule is not suitable for effective tax collection when compared with category 'A' and 'B' tax assessment rules. The mean value is 2.27.

- From the total tax payers respondents' higher proportion of respondents (77.5%) disagreed on the penalty provisions in the rule with the mean value of 1.88.

- More than half of tax payer respondents (78.7%) were not agreed on the fairness of tax assessment with the mean value of less than 3(1.89). Also manager of the revenue office stated that as some tax payers bring complain to the office because of over estimation of tax by tax assessment committee.

- 80.9% of the tax payers' respondents have negative response on the awareness creation activities of the authority with the mean value of less than 3(1.67).

- More than half of tax payer study participants (55%) agreed as to the existence of gap in tax assessment procedure for bribe With the mean value of greater than 3(3.85). Also the manager and vice manger of revenue office stated that category C tax assessment procedure may create gap for bribe.

- 66.3% of Tax payer respondents strongly agreed that tax assessment method is simple guess or subjective with the mean value of greater than 3(3.79).

- With the mean value of less than 3(1.89), 76.4% tax payer respondents disagreed about effective service delivery by employees of revenue office.

- With the mean value of less than 3(2.07), more than half of the total respondents (59.6%), rated the knowledge of the employees of revenue office in relation to tax related issues below enough.

- Majority of tax payer study participants (78.6%) perceived as employees of revenue office are not impartial when they assess and collect tax, with the mean value of 1.76.

- 68.5% of tax payer respondents disagreed about transparency of revenue office employees in assessment and collection of tax with the mean value of 1.91.

- From the total employee respondents 72.7% of them agreed as tax payers hide their daily income with the mean value of 3.55.

- 75.3% of tax payer study participants agreed as corruption is a problem in tax assessment and collection process. Here the mean value is greater than 3(4.1). Also from the interview with manager and vice manager of the revenue office, they suspect corruption as one of tax assessment and collection challenge in the woreda.

- With the mean value of 3.28 More than half of respondents (52.8%) perceived the current review and appealing procedure is good this implies reviewing and appealing procedure is not a challenge in tax collection.

- Majority of tax payer study participants (82%) agreed as to the existence abuse of power by employees of revenue office with the mean value of 4.4.

5.2. Conclusion

Based on the analysis and discussion, category C tax assessment rule is ambiguous and not suitable for effective tax collection. When we come to awareness creation for tax payers on tax assessment rule and regulation it is below enough similarly tax assessment rule is not fair.

In relation to tax assessment procedure, Category C tax assessment procedure create gap for bribe, tax payers believe tax assessment committee assesses based on simple guess (tax payers have no trust on employees of revenue office) .

In relation to the knowledge of the employees of tax authority about taxation, almost half tax payers of the total respondents rated below enough. Similarly, majority of them considered employees of revenue office are partial and not transparent when they assess tax.

Regarding challenges of tax assessment and collection of employee of revenue office have no trust on daily income information given by tax payers, tax assessment rule give wider power for employees of revenue office and some employees' abuse their power, corruption is a problem of tax assessment.

According to the finding, review and appealing procedure of the office is perceived by tax payers as it is good.

5.3. Recommendation

Though it is difficult to provide a panacea solution for the problem of assessment and collection of category "C" income tax especially in the pragmatic world; there are different ways that can minimize the evils of tax evasion and wrong assessment procedures of income tax. These methods can better assure the assessment and collection procedures and thereby realize the ultimate goal of voluntary compliance of tax payers which is believed to be less costly procedures administrative wise. However, possible recommendations are forwarded based on the findings of the study. These include:

- Regarding category "C" business income tax assessment rules and regulations the authority should make the tax law and procedures simple, understandable, and transparent. Voluntary compliance is enhanced when vibrant and efficient tax authority exists.

- Aggressive training to both the taxpayers and tax officials is also important to tackle non-compliance. This is important especially for new employees of the tax authorities so that they can be much more familiar in implementing income tax assessment and collection. Still this may be costly at the start but in the long run, it has the potential of assuring and realizes the purpose of paying taxes. The working condition of the employees should be arrayed in a manner that can motivate and encourage the employees to correctly implement the assessment and collection of income taxes.

- The most obvious requirement for maintaining fairness or equity among taxpayers it should treat all taxpayer based on his/her ability to pay and fair way. The authority must also involve the taxpayers or their representatives while estimating the daily sales or revenue of taxpayers to address the question of fairness and equity. Generally, the authority has to try its best in ensuring tax fairness and equity so that voluntary compliance behavior can be developed. To make tax assessment and collection Effective and efficient awareness creation, and providing information for tax payers is necessary, so that it will perceived as strong and powerful by the society especially taxpayers. Hence, to create fair tax system the tax authority needs to strengthen itself by educating and training its employees, by making the tax law and procedures simple, understandable,

and transparent because tax fairness enhanced when vibrant and efficient tax authority exists.

- In addition efficient service delivery to taxpayers is a key factor against which the strength of the authority is judged. Taxpayers tend to evade to the extent they feel that the authority is weak and unable to enforce the law. This directly hampers the compliance behavior of compliers and motivates non compliers to continue evading. Hence, to create an efficient tax administration, the tax authority needs to strengthen itself by educating and training its employees, by computerizing its operations and by devoting additional resources. Training should include customer service training and cross functional training or employees so that they can have an understanding of the entire system of tax administration.

- As the current tax assessment procedure opens door for bribe, also tax payers' lack of trust on assessment procedure and tax payers' perceived corruption as a problem for effective tax assessment and collection. So to come up with the above problems it is better if the tax authority make suitable condition for category "C" tax payers to keep book of account. Also the revenue office should conduct training and development for employees of revenue office on issues of ethical code of conduct.

- For effective tax collection it is better if tax payers are participated when their tax is assessed. So making tax assessment transparent for tax payers is better for tax payers' compliance.

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

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Appendices

SAINT MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS

Questionnaire prepared for Employees of addis ketema sub city Woreda 5 Revenue office

Dear sir /madam,

The objective of this questionnaire is to look in the problem of tax assessment and collection in category "C", in the addis ketema sub city Woreda 5 revenue office. I would like to conduct a study on challenges on assessment and estimation of category "C" business income tax in addis ketema sub city Woreda 5 revenue office for partial fulfillment of the requirement of masters degree program in Saint Mary's University.

I hereby assure you that all information obtained through this questionnaire shall be used for academic purposes only and will be handled and stored with the highest order of confidentiality.

Please do not write your name anywhere on the questionnaire. I thank you in advance for spending your time to complete this questionnaire.

I. Respondent Profile

1. Status (Mark x)

Gender;   Male   ☐   Female   ☐

Age;   18-25 ☐   26-35 ☐   36-45 ☐   46-56 ☐   Above 56 ☐

2. Professional qualification (Education, (Mark x)

First degree ☐   10+1, 10+2, 10+3, ☐   Diploma   ☐

High school complete ☐   Secondary education (9-12)   ☐

3. Work experience in the revenue office (mark x)

Below one year ☐   1-4 year ☐   above 4 years   ☐

II. Questions Related to rules and regulation of revenue office

1. The standard assessment tax rules and regulation are suitable to assess and collect tax from taxpayers.

    1. Strongly disagree

    2. Disagree

    3. Neither disagrees nor agrees

    4. Agree

    5. Strongly agree

2. The standard assessment tax rules and regulations are unambiguous.

    1. Strongly disagree

    2. Disagree

    3. Neither disagrees nor agrees

    4. Agree

    5. Strongly agree

3. There is gap in tax assessment and collection rule and regulation.

    1. Strongly disagree

    2. Disagree

    3. Neither disagrees nor agrees

    4. Agree

    5. Strongly agree

4. The woreda offices collect the income tax according to the plan.

    1. Strongly disagree

    2. Disagree

    3. Neither disagrees nor agrees

    4. Agree

    5. Strongly agree

III. Questions Related to the effect of presumptive tax assessment procedure up on tax payers compliance.

5. Tax payers comply with tax rules and regulation.

      1. Strongly disagree

      2. Disagree

      3. Neither disagrees nor agrees

      4. Agree

      5. Strongly agree

6. Tax payers have trust on tax assessment and collection procedures.

      1. Strongly disagree

      2. Disagree

      3. Neither disagrees nor agrees

      4. Agree

      5. Strongly agree

_____

IV, Questions Related to competency of office personnel

7. There is adequate and qualified manpower in the office for the tax assessment and collection.

      1. Strongly disagree

      2. Disagree

      3. Neither disagrees nor agrees

      4. Agree

      5. Strongly agree

8. Employees of revenue office take relevant training and development programs on tax assessment and collection procedures, rules and regulations.

      1. Strongly disagree

      2. Disagree

      3. Neither disagrees nor agrees

      4. Agree

5. Strongly agree

9. The revenue office is providing awareness to tax payers to be voluntarily paying their tax liabilities.

    1. Strongly disagree

    2. Disagree

    3. Neither disagrees nor agrees

    4. Agree

    5. Strongly agree

V. Questions related to problems encounter during the assessment and collection

10. Tax payers give false information about their daily income.

    1. Strongly disagree

    2. Disagree

    3. Neither disagrees nor agrees

    4. Agree

    5. Strongly agree

11. List your responsibility relating to tax assessment and collection of category "C" business income tax? And haw discharge your responsibility

Thank you for your cooperation!

Taxpayers Profile

Dear sir/madam,

The objective of this questionnaire is to look in to the problem of category "C" tax in the Addis ketema sub city woreda 5 revenue office. I would like to conduct a study on the category "C" tax of business income in Addis ketema sub city woreda 5 revenue office for partial fulfillment of the requirement of masters degree program in Saint Mary's University.

I hereby assure you that all information obtained through this questionnaire shall be used for academic purposes only and will be handled and stored with the highest order of confidentiality.

Please do not write your name anywhere on the questionnaire. I thank you in advance for spending your time to complete this questionnaire.

I. Respondent profile

1. Status (Mark X)

   Gender Male ☐ Female ☐

   Age 18-25 ☐ 26-35 ☐ 36-42 ☐ 43-55 ☐ above 55 ☐

2. Education background (Mark X)

   Not educated ☐ first cycle (1-4) ☐ second cycle (5-8) ☐

   Secondary education (9-12) ☐ Diploma ☐ First degree ☐

II. Questions Related to rules and regulation of revenue office

1. The amount of administrative penalty for delay of payment is proportional

   1. Strongly disagree

   2. Disagree

   3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

2. Tax is assessed based on your daily income is fair.

    1. Strongly disagree

    2. Disagree

    3. Neither disagrees nor agrees

    4. Agree

    5. Strongly agree

3. Awareness is created as to presumptive tax assessment and collection rules and regulation.

    1. Strongly disagree

    2. Disagree

    3. Neither disagrees nor agrees

    4. Agree

    5. Strongly agree

III. Questions Related to the effect of presumptive tax assessment procedure up on tax payers compliance.

    4. Tax assessment procedure create gap for bribe.

    1. Strongly disagree

    2. Disagree

    3. Neither disagrees nor agrees

    4. Agree

    5. Strongly agree

    5. Method of tax assessment is simple guess or subjective.

    1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

IV, Questions Related to competency of office personnel

6. There is good service delivery in the revenue office.

1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

7. Employees of revenue office have sufficient knowledge about tax assessment and collection.

1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

8. Employees of revenue office know presumptive tax assessment and collection rules and regulations.

1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

9. Employees of revenue office are impartial when they assess and collect tax.

1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

10. Employees of revenue office are transparent for tax payers and for managers as to tax assessment and collection.

1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

V. Questions related to problems encounter during the assessment and collection

11. Corruption is one problem in tax assessment and collection.

1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

12. Lack of skilled man power in the revenue office is a problem for tax assessment and estimation.

1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

13. The existing Ambiguous rule and regulation is problem for tax assessment and estimation.

1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

14. There is good appealing system in the revenue office.

1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

15. The law gives wider discretion for revenue office employees and employees abuse their power.

1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

16. Some employees are negligent when they assess your daily income.

1. Strongly disagree

2. Disagree

3. Neither disagrees nor agrees

4. Agree

5. Strongly agree

Thank you for your cooperation!

Interview questions for manager and vice manager of revenue office

I. **Questions Related to rules and regulation of revenue office**

1. Do you think that presumptive tax assessment and collection rules and regulation have gap?

    _____

    _____

2. If your answer for question number one is yes, specify those gaps.

    _____

    _____

    _____

II. **Questions Related to the effect of presumptive tax assessment procedure up on tax payers compliance.**

3. Are tax payers in compliance with tax assessment procedure?

    _____

4. If your answer for question number three is yes, what are reasons for non compliance?

    _____

    _____

    _____

III. **Questions Related to competency of office personnel**

5. Do you think that employees who are participated in tax assessment and collection have the required skill and experience?

_____

_____

_____

6. If your answer for question number five is no, what are reasons for not having skilled and experienced employees?

_____

_____

_____

IV. **Questions related to problems encounter during the assessment and collection**

7. What are major challenges encountered during tax assessment and collection?

_____

_____

_____

_____

_____

_____