ST.MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF VALUE ADDED TAX ADMINISTRATION - THE CASE OF ADDIS ABABA No.1 MEDIUM TAXPAYERS BRANCH OFFICE

BY

SAMRAWIT SHUME

MAY, 2018

ADDIS ABABA, ETHIPIA

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LETTER OF DECLARATION

I, the under signed, declare that this thesis entitled "Assessment of VAT Administration in ERCA: The case of Addis Ababa No.1 Medium Taxpayers Branch office" is my original work and has not been presented for a degree in any other University, and that all the sources of material used for the thesis have been duly acknowledged.

Samrawit Shume: Signature _____ Date _____

Confirmed by:

Asmamaw Getie: (PhD)_____ Date _____

Advisor Signature Date

ACKNOWLEDGEMENTS

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ACRONYMS

A.A.No.1   Addis Ababa Number one

AACA   Addis Ababa City Administration

AACRA   Addis Ababa City Revenue Authority

MOFEC   Ministry of Finance and Economic

ERCA   Ethiopian Revenue and Customs Authority

FDRE   Federal Democratic Republic Of Ethiopia

FIRA   Federal Inland Revenue Authority

IMF   International Monetary Fund

VAT   Value Added Tax

MoR   Ministry of Revenue

SIGTAS   Standard Integrated Government Tax Administration System

SIRM   System Integrated Revenue Management

TIN   Taxpayer Identification Number

ETRs   Electronic Tax Register

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Abstract

The general objective of this research was to assess the current VAT Administration activities of the Addis Ababa No. 1 Medium Taxpayers Branch office. To achieve this objective, the researcher used both qualitative and quantitative descriptive research designs and a sample of employees and tax officials of the authority were selected using simple random sampling method were used to select appropriate and representative sample size from the branch employees and tax officials as result ,from 340 employees 60 samples were selected whose activity is directly related to the Value Added Tax assessment ,VAT collection, audit ,refund and enforcement.

The researcher used questionnaires, Interviews and relevant documents to collect primary and secondary data from the branch by reviewing documents from annual reports. Graphs, table, Percentages were used in analyzing the collected data (findings). Secondary data were obtained from the; audit, enforcement and refund performance reports of the branch. Tables, percentages and graphs were used for data analysis. The Statistical Package for Social Sciences (SPSS) version 23 was the tools used for quantitative data analysis.

From the outcome of the study the major obstacles that hinder VAT Administration are low rate of voluntary compliance, lack of taxpayer's awareness, shortage of audit and refund process, and affect the follow-up and controlling activities, relatively low rate of audit and enforcement, and late payment system. The business communities they should perform their activities according to the current VAT laws as well as start to work in cooperation with the authority in fighting against those tax payers that are violating the rules and regulations of VAT. The paper suggests that in the branch, attempting to implement what is legislated in the main areas deserves the Government's due attention. The study also emphasizes the need to strengthen the administration capacity in general and the VAT administration system in particular as efficiently as possible. The empirical analysis disclosed that VAT contributes significantly to the increase of the total government revenue and the economic growth of Addis Ababa City at large. Therefore, the following points are recommended. Develop taxpayer's awareness to increase voluntary compliance, refund process and strengthen audit and enforcement capacity of the branch office.

Key Words: - VAT, VAT administration, refund, compliance, enforcement.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

The emergence and rapid spread of value added tax is among the most important tax development of the late 20th century. It is a type of indirect tax, nowadays found in more than 130 countries and has become the principal source of revenue for many countries (Keen and Lockwood, 2007). In Ethiopia, according to IMF (2003), one of the focuses of the tax policy reforms is reforming indirect taxation. The main reform to indirect taxation was the introduction of Value Added Tax in January 2003.VAT is an indirect consumption tax assessed on the value added to a product at each point in the cycle of production and distribution. It is a consumption tax because it is ultimately borne by the consumer, who pays a fixed percentage of the final sale price of a product. A VAT is levied on the difference between the purchase cost of an asset and the price at which it can be sold (i.e., the amount of value added to it). Producers and distributors typically pass the cost of the VAT on to the final consumer in the form of price increases. Tax is added to a product's price each time it changes hands until delivery to the customer takes place, when the final tax is paid(Encyclopedia of Management, 2009).

Value Added Tax (VAT) is an indirect tax because it is collected from someone other than the person who actually bears the cost of the tax directly, as it is a tax on the supply of goods and services that is ultimately borne by the final consumer, but collected at each stage of production and distribution chain, it is a tax on what people buy rather than their savings or earnings or investments (Olatunji, 2009). It was first introduced in France in 1954 with the replacement of turnover tax with the intention to satisfy high demand of revenue on the part of the government in order to rebuild France from the civil of WWII Bogale et al. (2009). Cote d'Ivore was the first African country to implement VAT in 1960 (Jaleta, 2014). Ethiopia adopted New Zealand's model of VAT which is a standard rate of 15 % broad based and minimum exemption on January 1st, 2003 by replacing the outdated sales tax. Bogale et al. (2009) stated the major reasons behind introducing VAT in Ethiopia was because it is more advantageous than sales tax in that:- it allows collection on the added value created wherever sales transaction is conducted, it also permits refund on tax that businesses paid for inputs (raw materials) which decreases evasion that is not true in sales tax as it is collected only at one stage, it increases saving and investment

by changing the extravagant way of life imposed form custom on the part of final consumers and the incapability of sales tax in generating adequate revenue.

Since, taxes are important sources of public revenue, the government of Ethiopia recognized the need to overhaul the tax legislation and to strengthen the administration capacities of the Federal Inland Revenue Authority (FIRA) and the Regional Tax Administrations. Consequently, the government devised the tax reform program as one of the key initiatives under its national capacity building program. The tax reform measures are designed to encourage local and direct foreign investment and to increase tax revenues through the establishment of a broader tax system and ensuring equity, fairness, consistency and honesty in the administration of the tax laws in the country.

Although, the Revenue Sector Reform was thought to be commenced in May 1999, the government acknowledged that it had been burdened with delays during the first two years. During the restructuring of the Ethiopian government in 2001/2002, one of the changes included the upgrading of the Revenue Board to a Ministry of Revenue (MoR), which become responsible for directing, supervising, controlling, evaluating and coordinating the three revenue institutions: the Federal Inland Revenue Authority (FIRA), the Ethiopian Customs Authority (ECUA) and the National Lottery Administration (ERCA, 2011 Statistical Annual Bulletin).

According to Yesegat (2008), VAT is a percentage tax on a value added applied at each stage of production. In VAT administration, there should be a concern for small businesses because as compared to the burden of Value Added Tax administration on large businesses, the cost of administering VAT is proportionally high for small businesses. To that effect, many countries adopt simplified procedures for small and medium businesses like, allowing accounting for VAT on a cash basis rather than accrual basis and filling within reasonable accounting period, however this is not the case in Ethiopia.

A good tax administration is essential in fully administering the design features of VAT and achieving government's policy objectives at large. Therefore improving tax administration, particularly VAT administration activities helps the Branch to improve its revenue through voluntary compliance. This study assess VAT administrative activities in Ethiopian Revenue and Customs Authority, Addis Ababa No.1 Medium Taxpayers' Branch Office

1.2. Statement of the Problem

VAT is an important source of public revenue and is being widely applied by more than 130 countries and areas, with coverage from the under-development area in Africa and Asia to the well-developed Western Europe and North America. It is declaimed as the most important of the latter twentieth century and certainly the most breaking and with its significant influence on the domestic economy and the government policies (Ping, Z. 2006). The introduction of VAT facilitates substantial improvement in overall tax administration, and indeed adoption of the VAT is often seen as an opportunity for overall tax administration and modernization.

Most Developing Countries are currently dependent on external financial resources to fund their development activities. As a result, their budgetary problems become more aggravated. To change this situation, these nations should exploit and strengthen their domestic financial resource base in order to bring about sustainable development. Otherwise, it is difficult to achieve profound growth with dependence on external sources. External sources are instable and outside investment cannot be a reliable major source of income to support the nation.

More broadly, a good tax administration, VAT administration in this case, is important to achieve the policy objective of the government. Although, the number of VAT registered of business firms is increasing from time to time, administration of VAT as a tax system is facing many bottlenecks both from the side of Branch office and business community.

Previous studies discuss the issue of VAT administration in different perspectives and organizational setting .The study of Markos (2010), discusses VAT administration and revenue performance in the case of Mekelle city. It seems that there are gaps in understanding the efforts exerted in awareness creation in the taxpayers. In general, one can clearly observe that attitudinal problem on the side of the taxpayers and low awareness creation on the side of the branch office is the main constraints and challenges for the smooth administration of VAT. The study of Henok (2014), also stands the issue of assessment on VAT administration impact on revenue performance. Recently Kassu (2015), discus on Assessment and evaluation of VAT administration; the case of Merkato No 1 medium tax payers branch office, most of the tax payers are unregistered for Value Added Tax. Therefore previous studies adequately discuss issues related to VAT administration that are not declaring with payment, nil filers ;especially the study of Markos (2010), examined the problems in VAT administration and revenue performance; challenges and opportunities of the city. The above studies result reveals that there

are people and companies who are VAT registered but are not declaring with payments and not issue invoice properly. This number is increasing from time to time. This needs serious attention by the administering body. In general, one can clearly observe that attitudinal problem on the side of the taxpayers and the poor administration on the side of the branch office is the main constraints and challenges for the smooth administration of VAT Kassu,(2015 & Henok, (2014).

Specifically, the above studies has not examined the issues such as the administration activities and controlling system of the branch on the noncompliance and delinquent tax payer, VAT audit, refund practice, enforcement and use of indirect methods to verify non-filers and continuously declared credit forward of taxpayers. Unfortunately, there is no recorded study that has been conducted in the branch to explore reasons behind under potential VAT administration activities; and low voluntary compliance of VAT registrants. It is in light of this scenario that this case study was assesses the administration of VAT and identifies the major problems and prospects in its administration in Addis Ababa No.1.Medium Taxpayers' Branch Office. Hence, in the branch office, there are so many things that would be address mainly in terms of VAT administration .In addition; the study was also trying to answer the following research questions:

1.2.1. Research Question

➢ What problems did the Branch office encountered in administering the Value Added Tax (VAT)?

➢ How Branch office does monitor and auditing Value Added Tax (VAT) registrants?

➢ Is the Branch Office collect tax as of its potential?

➢ Is the administration capacity of the Branch strong enough to control those noncompliance and delinquent taxpayers?

➢ What are the problems with refund practice?

➢ What other constraints are within branch and VAT payers that hinder the smooth administration of VAT

1.3. Objectives of the study

1.3.1 General Objective

The general objective of this study is to assess VAT administration activities and its challenges in Ethiopian Revenues and Customs Authority at Addis AbebaNo.1 Medium taxpayers' Branch Office.

1.3.2. Specific Objectives

Specifically, this research paper tries to address the following issues:

❖ To examine the Problems of VAT administration at Addis AbebaNo.1 Medium taxpayers' Branch Office.

❖ To assess whether the taxpayers do their business with the compliance of the VAT rules and regulations currently in use

❖ To assess the strength and weakness of the Branch office on VAT administration activities; taxpayers identification and registration, collection, refund, audit and enforcement.

❖ To suggest the possible remedial measures for the identified problems and discuss the opportunities for the administration of VAT.

1.4. Significance of the study

The study may give a clear picture how to identify the key problems that hinder the smooth administration of VAT in the branch office and then recommend mechanisms for improvement. In addition, it also has an aim of recommending mechanisms for enhancing the performance in the revenue generation process. Hence, the study will play key role in the development process of the nation by recommending mechanisms of enhancing the capacity of the branch office. Lessons can also be draw to other similar branch offices.

1.5. Scope of the study

This study is limited to assess the Value Added Tax Administration activities of the Addis Ababa No.1 Medium Taxpayers Branch Office particularly collection, refund audit, and enforcement activities of the budget year of 20016/2017 (which is Sene 30, 2009 E.C). The scope is limited to VAT only; It was not consider other types of tax in medium taxpayers because as its name indicates the Branch Office was opened to collect various types of direct and indirect taxes like income tax, pension contribution fund, income from rental of a building, excise tax, value added taxes and others only from those who are categorized as medium taxpayers (those whose annual turnover is greater than or equal to 1 million) because other taxpayers are served by small or large taxpayers branch offices of ERCA

1.6. Structure of the Study

This research paper is organized into five chapters. The first chapter is the introduction which indicates the background of the study, statement of the problem, basic research questions,

objective of the study, significance of the study, scope of the study, limitation of the study and ends by indicating the overall structure of the paper. The second chapter is a review of related literature obtained from different sources written on tax especially VAT. The third chapter includes methods of the study. The fourth chapter describes the results and discussion data analysis and interpretation using descriptive way. The final chapter deals about summary of findings, conclusions and recommendations given by the researcher.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Review

By any standards, the rise of the VAT has been the most significant development in tax policy and administration of recent decades. In terms of meaning and essence, Value Added Tax (VAT) is general consumption tax assessed on the value added to goods and services. It is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is collected fractionally, via a system of deductions whereby taxable persons (i.e., VAT-registered businesses) can deduct from their VAT liability the amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions are involved. Value Added Tax has also become an indispensable component of tax reform in developing countries .It is the most important tax innovation of the second half of the twentieth century. In line with this perception, an increasing number of developing countries have converted their sales tax to Value Added Tax (VAT). The continuing introduction and evolution of general sales taxes, especially of the value added tax has been the outstanding feature in development taxation in recent years (Yesegat, W. 2008).

2.1.1 Concepts and Definition

Familiarizing readers with basic terms related to taxation will have a paramount importance in understanding the subsequent literature review of VAT administration.

2.1.2 TAX

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

2.1.3 Sales Tax

Taxation imposed on the sale of goods or services. The tax is computed as a Percentage of the total sales price. Sales tax may be imposed on the purchaser or on the seller; in the former case they are charged on each transaction and in the latter they are collected as a percentage of the gross receipts during a given period (ERCA, Annual Bulletin 2014)

2.1.4 Turnover Tax (TOT)

Turnover tax derives its name from the fact that the tax applies to the sales of a good every time turnover from one firm to another (Auld and Miller, 1984). It is an equalization tax imposed on persons not registered for value added tax to fulfill their obligations and also to enhance fairness in commercial relations and to complete the coverage of the tax system.

2.1.5 Value Added Tax (VAT)

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

2.1.6 Exemption

As the name indicates exemption means that no VAT is charged on the supply and no credit can be taken for VAT paid on purchases used to make the supply. An exempt transaction is a transaction not subject to VAT. Thus the transaction is not considered a taxable transaction for social, economic or development reasons (Herouy, 2004).

As per (VAT proclamation No.285/2002 & Ministry of Finance and Economic Development Circular) the following are some of the cases where VAT exemption is allowed:- Financial services, imported raw materials used for production of exportable products, raw materials and packaging materials purchased domestically and used for exportable products, supply of goods or services by a workshop employing disabled (individuals of more than 60% of staff are disabled), medical services, books, electricity, kerosene, water, educational services including child care, milk, bread, transport service, postal services, license and certification fees, the sale of a dwelling used for a minimum of two years, fertilizer, pesticides and improved seeds and if particular enterprises are exempted, the tax applies to their purchases and they received no credit for or refund of this tax since they are not taxpayers.

2.1.7 Zero-Rating

Zero rating means the supply is charged with a VAT at zero percent but credit can be taken for VAT paid on purchases used to make the supply. Zero rating may be applied to classes of sales such as exports or sales to government agencies, correspondingly reducing the tax payable by the seller or, where his sales are predominantly zero rated, entitling him to a credit or refund the aim of zero rating on the other hand is to lift the entire VAT, including that already collected at earlier stages from a particular goods or services (Gebrie, 2008). Zero-Rated transactions are taxable transactions that are subject to VAT, but taxed at zero-rating of tax. In other words, the transaction by itself is taxable and subject to VAT in the sense included VAT proclamation No.285/2002 under Art 7(3) "taxable transaction" But, the Law has given blessing so that the transaction (supply of goods or rendition of services) is completely free from tax (Bogale et al. 2009).

2.1.8 Objective of Value Added Tax (VAT)

Value Added Tax (VAT) is introduced in Ethiopia by proclamation No 285/2002, replacing sales tax by the newly implemented VAT law, supply of goods and rendition of services in Ethiopia are subjected to VAT at standard rate of 15% except those exempted and zero-rated supplies determined by the VAT law. Unlike the sales tax, VAT provides advantages in all inputs (taxable supply) including capital goods, operating and administrative expenditures. The relief of the tax and zero-rating also encourages investment and exports. The VAT system that Ethiopia has implemented also gives exemption to basics and necessities such as education, medical service, electricity, water, kerosene, basic foods, transportation service, fertilizer, books and printed materials, the supply of goods and services in the form of humanitarian aid (Misrak,2008).

2.1.9 Value Added Tax importance and relative contribution to a country's total revenue

The main intention of each country to introduce VAT is that it is easier to enforce, difficult to evade and it creates a simple administrative structure than other taxes such as turnover and retail sales tax. By the same chain, VAT collects large amounts of tax revenue for the government for fulfillment of the expenditure gaps Jaleta (2014). The law requires using VAT invoice approved by the tax authority when every time a transaction is made moreover each registered person is obliged to maintain an appropriate purchase and sales records this makes evasion difficult. VAT is a self-assessment tax that is paid when return being rendered in-built in the new tax in the refund or credit mechanism, which eliminates the cascading effect that is a feature of the retail

sales tax Olatunji (2009). VAT works on the principle that when raw material passes through various manufacturing stages and manufactured product passes through various distribution stages, tax should be levied on the incremental value at each stage and not on the gross sales price. This ensures that same commodity does not get taxed again and again and, thus, there is no cascading effect.

There is strong support, although not necessarily a consensus, for levying VAT on a destination basis, meaning it would be payable in the jurisdiction where consumption rather than production occurs. This has the intended effect of making exports exempt or zero rated for VAT purposes James (2011). This feature of destination principle encourages export and used to avoid double taxation.

Tax legislation is one of the factors which are considered by potential investors in making investment decision, therefore exemption of capital goods from VAT encourages investment. Moreover, as VAT is a consumption tax that is paid on expenditure a person has the option to save so as not to be taxed so VAT promotes capital investment and saving (Bogale et al., 2009).

Many scholars and experts of taxations stated that, countries that do impose VAT tend to be larger, wealthier, and more industrialized than those that do not (Emrana & Stiglitzc, 2005). The presence of VAT has been associated with a higher ratio of general government revenue compared with alternatives in indirect taxation; the VAT has more revenue potential: it is generally more broad-based and entails a trail of invoices that helps improve tax compliance and enforcement (Le. 2003).

The overall objective of VAT is to maximize revenue by maximizing the levels of voluntary compliance and deterring evasion. It has now been implemented by more than 130 countries and it raises approximately 20 percent of the world's tax revenue. Over the last twenty-five years, the share of VAT as a percentage of total taxation has almost doubled passing from 11.2% on average in 1985 to 19.2% in 2009, this share remaining stable since 2000. These taxes are globally the third important source of revenue for governments, behind social security contributions 27% and personal income taxes 25% ("spread of VAT", 2012).

According to (IMF, 2004), more than 4 billion, 70%, of the world's population now live in countries with VAT and VAT raises about $18 trillion in tax revenue, roughly one-quarter of all government revenue. For example the (Organization For Economic-Cooperation And Development /OECD/, 2014) revenue statistics shows that, the share of GST/VAT in New

Zealand and United Kingdom was 30% and 20.8% of total tax revenue respectively in 2012. Moreover, in Nigeria during 1994 the first year of implementation, Value Added Taxes amounts to be 45.98% of internal revenue, in 1995 it goes to 57.98% and 2006 its contribution to internal revenue rose to 88.2% (Oluchukwu& Vincent, 2013).

When we come to Ethiopian case Jaleta (2014), in his study found out that how much the country's economy is changed because of implementing value added tax i.e. after the VAT Administration adoptions of VAT the GDP growth rate alarmingly increased and reached about 21.9% on average and the average ratio of VAT revenue to that of GDP was 2.95%, while the growth rates of VAT itself was 66.27% on average. Therefore this shows that VAT revenue plays an energetic role for the national development of Ethiopia and it enables to succeed the current growth and transformation plan (GTP) of the country.

As per (MOFEC, 2013) annual report the share of tax revenue in total government revenue was 65.4% in 2009/10. This increased to 68.9% in 2010/11 and 74.1% in 2011/12. Likewise the share of tax revenue in total domestic revenue increased from 80.4% in 2009/10 to 85.3% in 2010/11 and to 83.4% in 2011/12. Similarly revenue collected from VAT is continuously increasing. In 2011/12, revenue collected from VAT (domestic VAT plus import VAT) was 28.3 billion Birr. The collection has increased by 46.65% over the previous budget year performance of 19.3 billion. These indicate that the government is increasingly relying on the more reliable tax revenue as a source of its income (MOFEC, March 2013).

In 1993, S Mulr's study of the experience of New Zealand's GST underlines that it is a method of forcing as people who are at present able to escape without paying their fair share of income tax will then come back within the tax net automatically when they spend money. Which indicates, since VAT is a consumption tax and imposed on buyers at each stage of value adding chains, no one can reject to pay it unless otherwise refuses to purchase the goods and services as a result, from the previous tax system, it is relatively easy to administer and difficult to evade. Therefore because of its feature, if greater emphasis is given for VAT administration it would be possible to collect sufficient amount of revenue that is required for government's activities which boosts a country's economy.

2.1.10 Value Added Tax Administration

In the study by Yesegat (2008) VAT administration pertains to how tax authorities discharge the responsibilities entrusted to them with respect to taxpayers identification and registration, VAT

filing and payment, control of VAT filing and payment, VAT invoicing, VAT auditing, penalties and VAT refund. In Nwanyanwu (2015) on his behalf stated that, Value Added Tax (VAT) Administration refers to the process adopted in registering, assessing, collecting and accounting for VAT revenue. It encompasses penalties and cases of appeal associated with the making of returns arising from failure to register in line with the VAT Act. Therefore a good VAT administration means fully implementing the design attribute of tax and reducing gap between effective taxation and what it is implied to be in legislation (Abay, 2013).

2.1.11 VAT Administration Activities

Regarding the main issues of VAT administration, the Common Wealth Association of Tax Administration (2006) listed, "identifying taxpayers, processing returns, controlling collections, making refunds, auditing taxpayers, and leaving penalties are the main tasks that must be performed by the organization in charge of the VAT." According to Grand colas (2005) and Grand colas (2005) cited in Wollela (2008), the key VAT administrative activities are; registration, collection, audit and enforcement.VAT administration is concerned not only with administrative activities but also about administrative organs (who should administer the tax) and their mode of organization. According to Wollela (2008) the actual expenditures incurred in respect of VAT administration in Ethiopia are identified (provided the required information is available).

2.1.12 Registration for Values Added Tax (VAT)

Registration for VAT is categorized in to three, (Taxation in Ethiopia, 2005).These are obligatory, voluntary and special business categories. The first category obligatory registration is made for any person conducting a commercial enterprise or intending to conduct a commercial enterprise may apply to be registered for VAT. However if the taxable turnover of the enterprise, that is gross income for 12 calendar months exceeds or is likely to exceed birr 500,000 in Ethiopia, the person conducting the enterprise must register for VAT, (proclamation No 285/2002 Article 8). A person refers for Values Added Tax registrant sole proprietor, company, partnership, trust, incorporate persons, unincorporated body, club or association. Authority determine whether a person obligatory registrant if it makes (Ethiopia Values Added Tax (VAT) proclamation No.285/2005 Art.16) birr 500,000 taxable turn over within 12 months of a year. If one reasonably expects that during 12 months the total value of taxable supplies excluding tax is likely to exceed birr 500,000, in Ethiopia, then the person needs to be registered for VAT.A

registrant, the turnover on an ongoing basis, makes calculation of VAT. Two periods need to be considered the past 12 calendar months and the next 12 calendar months on a month-by-month basis. There is the need to estimate at the end of each trading calendar month the total value of taxable goods and services supplied by all the business for the past 12 months. Where the total exceeds Birr 500,000, in Ethiopia, then there is the requirement to register for VAT (Gebrie, 2008).

According to (Article 16(1)(a) and (b)) According to Article 17,the second category of registration is voluntary registration the total of twelve months business transaction turnover may not necessarily be birr 500,000 in Ethiopia case, however, if customers of a registrant are at least 75 % for supplies provided, a person is allowed to be registered voluntarily. Things to be recognized in voluntary registration are: Those who are involved in export advised to be registered voluntarily in order to get refund. This is practical through zero rated purchases that enable the person to ask credit on input tax. Otherwise, the person voluntarily registered, there may be the loss of customers who are VAT registrants that nee invoice from their provider in order to claim input tax credit. Therefore, voluntary registration here is compulsorily required. Revenue Authority needs prerequisites like: Permanent residential; proper accounting records; Bank account and; the one who obeys tax law and that must have capacity to do what the Authority requires (Gebrie, 2008).

The third category of registration, special business categories that also have the following features: Those who are involved in export are advised to be registered voluntarily in order to get refund. This is practical through zero rate purchases that enable the person to ask credit on input tax. These categories are defined as forced registrants regardless of the threshold. This is done in order to get fair market competition between the special business categories. If registration by special business categories not implemented, market competition difference would be seen among registrants and non-registrants within them. Such forced special business category registrants are: Gold, Electronics, Importers, Shoe factories, Level ten and above constructors, Computers and their accessories, Leather and leather products, Plastic and plastic products (Proclamation No. 285/2002).

2.1.13 Voluntary compliance

Voluntary compliance is considered to be the primary objective of revenue authorities. Like any other revenue authorities, ERCA has several tax laws and regulations upon which it operates

with a spectrum of needed compliance instruments. The instruments that are in place to leverage compliance range from education to sanction. Sensitization and awareness creation on tax obligations is pursued as a primary avenue to bring about the desired compliance behavior following which penalties are to be considered. Severe penalties may even be exercised awhile depending on the nature and magnitude of the violations.

The preferred option of ERCA though, is one of adopting an administrative approach that encourages voluntary compliance with in a co-operative and participative regulatory environment. Thus, voluntary compliance by tax payers is the basic approach of the authority also with regard to VAT administration. Although this approach can be viewed as the strength of the VAT administration, the practical observation is far apart from this wish.

Voluntary compliance can be better achieved through intensive tax payer education and delivery of quality service and information. Tax payers should need to know their rights and obligations to comply with .Delivery of quality service and information is also equally important to attract them to do so. However, due to the low coverage and poor performance of these matters and some other cultural and administrative problems, voluntary compliance is not attained objective in Ethiopia.

2.1.14 VAT Audit

Tax audit is one of the most important tools of treating compliance risk by tax administrators. However, it is also considered to be one of the capacity challenges to many administrations. For example, as the Indian Government Revenue Department study indicates, "it has generally been observed that audit is most often the weakest component of VAT administration, early in the implementation phase. This is because a completely new law is introduced, and both the department's staff and the dealers are in- experienced with it" (Indian government department of revenue 2006, pp 61).

The current audit status in Ethiopia shows this reality. As the study by HMRC of UK indicated, EARCA'S current capacity through its large tax payer's office for e.g., is limited to "only 20 audits per month, each one requiring between 10 and 20 staff days to complete. At least 5000 (all category A) tax payers are expected to be subject to this audit and therefore it may take nearly 21 years to visit all the large taxpayer population to ERCA and they would not be selected at all if they continue to make payment declarations" (HMRC mission summary report 2009 pp 54). It worth, more attention would have been given to the VAT audit, the fact that the overall value of

VAT share is considerably significant of all revenue income (about 85%)as the same study indicated.

For audit to be efficient and effective, it should be supplemented by sound risk management /selectivity practices. The lack of sound risk management practice is one of the most contributing factors for the insignificant impact of audit on VAT compliance efforts.

2.1.15 VAT Refund

VAT refund is the net VAT that a registered person expects from the tax authority when input VAT exceeds output VAT. At the end of a VAT accounting period, if output VAT exceeds input VAT, the difference is the amount of VAT payable to the tax Authority. On the other hand, if input tax exceeds output tax, the supplier may be allowed to carry the credit forward and a refund is made after five months if input VAT still exceeds output tax. VAT refunds in Ethiopia are financed out of consolidated VAT collections and there is no specific expenditure appropriation for VAT refunds in the annual budget. This is one of the reasons to delay in VAT refunds when cash shortage occurs.

As Indian government department of revenue indicated "experience with VAT implementation in many countries shows that refund of credits has been the 'Achilles heel' of the VAT. It has been a source of tension between tax authorities and the business sector and in some countries has led to complex administrative measures that have significantly undermined the functioning of the VAT system as further indicated the prevalence of fraudulent claims is often cited by tax officials as a major reason for delaying payment of refunds. Often less advanced tax administrations pursue time consuming and labor intensive processes to verify claims before approving refunds, resulting in backlogs of refund requests and considerable disquiet among business tax payers who have been deprived of their working capital.

In contrast, the most effective and efficient tax administrations tackle refund related fraud as part of a broader VAT compliance strategy based on risk management principles and generally limit pre-refund verification checks to perceived high risk claims " (Indian Government, Department of Revenue 2006). The view holds true in our context in which risk based compliance management practice is not matured and refund requests are subject to pre-refund verifications in most cases. The refund period is also relatively longer than those of advanced economies with a period of one month. By the side of the taxpayers, VAT refund is one of the areas with significant risk under Branch current list of risk records.

2.1.16 Penalties or Enforcement

In this regard, the legislative base is not the source of problem. It sets out the rights and obligations of the tax officers as well as the tax payers. There are clearly stated provisions about the powers and penalties available to the tax authorities including the administrative settlement of tax offences and other related issues. However, this strong side is dominated by the low enforcement capacity of the authority and the law is not serving up to the expectation.

In fact, within the sphere of the limited capacity, enforcement actions to leverage compliance range from education to appropriate sanctions. Thus the current trend differentiate between violations leading to customer education or warning and deliberate non- compliance leading to penalties i.e. those who are willing to be compliant but don't understand (making mistakes) are tackled through simplification of procedures, guidance and taxpayer education.

And those who deliberately violate are treated through ranges of appropriate enforcement actions and penalties. Similarly, the current system somehow recognizes for good compliance in which such firms are subject to lower intervention and provided with increased self assessment. Given its low capacity to enforce the rules, these approaches can be considered as the strength of the current VAT system. As in the case of all other issues, the low level of risk management practice and the low coverage and quality of audit are some of the factors that contribute to the low achievement of the law enforcement efforts.

2.2 Empirical Review

A study on Challenges of Value Added Tax Administration: The Case of East Wollega Zone by Dheressa, Reddy, and Yadeta (2015) investigated the challenges of VAT administration in relation with assessment, collection and implementation and they also evaluate the main problems related to VAT administration activities performance and service delivery of tax office and voluntary compliance of taxpayers in the case of Eastern Wollega Zone specifically Nekemte town. Their samples were composed of VAT registrants, Auditors, Tax Collectors, Audit and Assessment and Process Owners/ Team leaders they used stratified and judgmental sampling methods to select the samples. Descriptive statistics method and charts, figures, percentages and statistical package for social science (SPSS) were used for data analysis. Based on the results of their findings, the researchers noted that the authority is facing the following

problems that have an effect on collecting sufficient amount of revenue:- Resistance against Value Added Tax registration, low level of tax awareness, weak audit and enforcement capacity of the tax authority, selling goods and service without using value added tax invoices by registrants, weak culture of taxpayers, lack of fairness, lack of experience of Value Added Tax registrants, weak follow-ups and controlling mechanisms against those unregistered and registered Value Added Taxpayers generally majority of the respondents stated that there is poor Value Added Tax Administration in the East Wollega Zone.

In 2008, Yesegat's study about Value Added Tax Administration in Ethiopia: A reflection of problems **-** had the objective of how VAT administrators in Ethiopia perform their duties and how the effective taxation requirements differ from the legislation (focusing on the key administration tasks) and also identify key problem areas that deserve the government's due attention. The study was conducted by using interviews with tax officials and distributing semi-structured questionnaires to taxpayers and tax practitioners (mainly accountants in private practice). The researcher raised the following issues that are related to VAT administration practices help to achieve the research objective **-** Taxpayer identification and registration, VAT filing and payment, Control of filing and payment, VAT Invoicing, VAT Audit, Penalties and VAT Refund. Generally, the outcomes of the survey shows lack of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. The gaps and problems identified in the study were partly because of under staffing of the tax authority which confirms the existence of limited tax administration resources. The researcher therefore suggested that enhancing tax education and follow–up programs are valuable and designing a strategy that can encourage consumers to ask for VAT invoices could be helpful although this is likely to increase the administrative costs of the tax. It is also advisable for the authority to consider the possibility of recruiting and retaining sufficient number of qualified VAT administrators, auditors in particular.

A research about The Administration and Problems of Value Added Tax in Nigeria by Aruwa (2008), mainly examines the relevance and problems hindering efficiency of VAT. In order to get the necessary and adequate information the researcher collected various data from VAT able Nigerian organizations, FIRS staff and the public. He also used descriptive statistics such as percentages, mean and combined mean for data analysis. The survey result generally shows that

majority of the FIRS staff perceive that they are not adequately equipped technically and administratively to handle VAT operations. VAT able organizations have inappropriate knowledge of VAT operations because as per the in-depth interviews with a few of the VAT able organizations indicate that input VAT is wrongly treated as production costs. The responding organizations do claim that input VAT actually caused their working capital requirements to increase. Therefore, the argument that the system is not properly understood by the VAT organizations remains. Even if the governments have raised substantial revenue from VAT it is presently perceived as been underutilized due to high rate of tax evasion, lack of record keeping by business enterprises. This needs ERCA to provide continuous training.

2.3. Summery and Gap

In summarizing, VAT is increasingly being used throughout the world, including many African countries to raise government revenue with less administration and economic costs than other broadly based taxes. It is believed to be a good means to raise government revenue even when relatively poorly administered. So, review of the related literature mention about the introduction of VAT, concept and definition of VAT and also some terminologies like tax, sales tax, tot, vat, exemption, Zero rate, objectives of VAT and VAT administration activities such as VAT collection, voluntary compliance, audit, refund and enforcement.

Since the introduction of VAT to the Ethiopian tax system, there were many problems seen in the ground. A few years ago, consumers simply used to purchase and consumer goods and services without asking for VAT receipt. Nowadays, things are changing and the attitude of people towards VAT is becoming somewhat encouraging. Business people are now more or less aware of the issues related to VAT: what it is, who is paying the amount, and its benefits to the government expenditure etc. At the same time, consumers are practicing their market activities according to the laws of VAT through asking for VAT receipts and checking the things not that much enough.

In the case for most developing countries, the administration efficiency of VAT in Ethiopia is not at its optimal. In addition to this, the revenue share of tax from the total government expenditure is very low comparing to other countries (African Economic Outlook, 2004).

Tax authorities face many difficulties related to tax in general and VAT in particular, and need time to learn how to solve these complex issues including the effort to persuade tax payers to pay their taxes regularly and honestly. It is after they build such systems that the administration and

practices become easy and convenient to implement. But, Ethiopia, like most developing countries has introduced VAT very recently and is still facing problems in its VAT administration.

The objectives of the study would assess the VAT administration activities of Addis Abeba No. 1. Medium tax payers branch to identify the basic constraints and challenges that hinder the smooth administration of VAT at the Branch office and suggest possible remedial measures for the identified problems. In addition, it also has an objective of identifying the mechanisms that enable or enhance revenue generation of VAT.

CHAPTER THREE

3. RESEARCH METHODOLOGY

Chapter two has presented the review of the existing literature on the nature, practices and challenges of VAT administration in the Branch. This chapter presents the methodology or approaches used such as quantitative, qualitative admixed approaches in relation to this research paper. In this part, research types and approach , population and sample size, sample frame, data type and data sources, method of data analysis and reliability and validity instruments are presented.

3.1 Research Design and Approaches

The research design section gives an overall view of the method chosen and the reason for that choice, (Lewis, Saunders & Thornhill, 2009).

According to Lewis et al. (2009) the objective of descriptive research is 'to show an accurate profile of person, events or situations. As can be seen from the research problem it is more of descriptive type and tries to assess and justify current practice and specific factors that affecting its intended administration. The study is a descriptive type of research whereby both primary and secondary data would be used. The reason for choosing such type is due to simplicity and the nature of the topic selected.

Thus, as the purpose of this research was to explain the current state of the Addis Ababa No. 1 Medium Taxpayers Branch Office's Value Added Tax Administrative activities, it is a descriptive type of research. Both qualitative and quantitative data analysis techniques (mixed methods approach) were also used. Mixed methods research is a methodology for conducting research that involves collecting, analyzing, and integrating (or mixing) quantitative and qualitative research in a single study or a longitudinal program of inquiry which provides a better understanding of a research problem or issue than either research approach alone (Creswell, 2009). Since both quantitative and qualitative approaches have their own strengths and weakness, the usage of mixed methods approach in this study helps to utilize the strength and offset with weaknesses of one approach to the other which gave a better understanding of the research questions.

The rationale behind for selecting this case study area was its newly established projects from five sub cities which is annual turnover was >1,000,000 birr and also, in the center of the city

that hosts large number of tax payers, employees and more of relatively the potential source of revenue to the City. However, it is not capable to address issues which cannot be quantified. So that, qualitative approach to research is concern with subjective assessment of attitudes, opinions, and behavior and attempts to get an in-depth opinion from participants. Apart from this, it facilitates responses, and provides data in-depth with leading respondents. In this case study, in order to achieve the research questions stated both qualitative and quantitative approaches were use through questionnaire and interview.

3.2. Population size

According to Diamantopoulos (2004), a population is a group of items that a sample would be drawn from. The target population defined as suitable for this study is employees of ERCA A.A.No.1.Medium Tax payers Branch office and VAT register taxpayers to collect different information and data on the nature, practice and challenges in relation to VAT administration. These were: The 4,020ERCA A.A.No.1.Medium Tax payers Branch office registrant taxpayers (Branch tax payer's service database, 2009 E.C) and 340 Employees of the branch (Branch human resource, 2009 E.C).

3.3. Sample Size

According to Kothari (2004), in sampling analysis if the sample size ("n") is too small, it may not serve to achieve the objectives and if it is too large, we may incur huge cost and waste resources. As a general rule, one can say that the sample must be of an optimum size i.e., it should neither be excessively large nor too small. There are two alternative approaches for determining the size of the sample. The first approach is "to specify the precision of estimation desired and then to determine the sample size necessary to insure it" and the second approach "uses Bayesian statistics to weigh the cost of additional information against the expected value of the additional information."The first approach is capable of giving a mathematical solution, and as such is a frequently used technique of determining "n". The limitation of this technique is that it does not analyze the cost of gathering information vis-a-vis the expected value of information. The second approach is theoretically optimal, but it is seldom used because of the difficulty involved in measuring the value of information. To conduct the study will on personal judgment of the researcher being at 95% confidence level and a sampling error of 5%. According to Kothari (2004), the formula for finite population is as Shown below.

$$n=\frac{Z^2 pqN}{e^2(N-1)+Z^2 pq}$$

Where N = Population =340

n= Sample size

e =Sample error at (5%)

z= the „z‟ value at confidence level of 95%=1.96

P= the proportion of Defective 0.05 and

q= 1-P= 0.95

$$n=\frac{(1.96^2)\ (0.05)\ (0.95)\ (340)}{(0.05^2)\ (340-1)+(1.96^2)(0.05)\ (0.95)}$$

n=60

The total sample size of the Employees is 60.

3.4. Source of Data and Data Type

The data used in this study consists of both primary and secondary data.

3.5. Primary Data Source

The primary data were collected through questionnaire and interview. The questionnaire comprised closed questions. Closed ended questions are quicker and easier for respondents and researcher and to get more relevant information. Most of the closed ended questions are designed on an ordinal level of measurement basis, and others are designed as multiple choice, some of the closed ended questions were a five scored scales Kothari (2004), to provide respondents a wider range of alternatives with end points where „5"with the statement strongly agree, and ‟1‟ indicates with the statement refer to strongly disagree. The interview would also conduct from Branch Manager, Coordinator, Team Leader, Experts and tax payers so as to fill the gap of the questionnaires. Questionnaire: were developed for the Employees /officials in a way that can achieve the objective of the study. The questionnaires were design in structure close ended manner. Interview: The interview questions were prepared to collect data on the overall VAT administration activities. The interview questions were semi-structured that enable to extract the knowledge of the employees and officials about the issue.

3.6. Secondary data Source

The secondary sources of data were collected from various annual performance reports and manuals of the branch office, websites of Ethiopian Revenues and Customs Authority is made and different published reports.

3.7. Data Collection Procedures

The primary data have been collected by using a questionnaire and interview from Addis Ababa No.1 Medium Tax Payer Branch Office VAT registrants and tax officials who are working in the investigation audit, assessment and collection departments of the Branch Office. Moreover, in order to collect the secondary data various annual performance reports and manuals of the branch office, websites of Ethiopian Revenues and Customs Authority, MOFEC, published and unpublished written materials and other related documents from different sources were also used.

3.8. Data Analysis and Presentation

To analyze and interpret the results of the primary data that has been obtained from the respondent's experiences and observations, which are used to evaluate the VAT administration of the Branch Office, descriptive statistics, percentages, graphs and tables were used. In case of descriptive statistics, a quantitative method of data analysis is adopted. The data collect from the questionnaires were carefully coded and checked for consistency and entered into the computer applications of Statistical package for social science (SPSS) version 23 software package in combination with excel spreadsheets would use as a tools for the analysis purpose ;they were analyze and describing through listing the answers for a particular question.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter represents the findings of the study conducted to assess on the VAT administration in ERCA (in the case of Addis Ababa No.1 medium tax payers branch office). The survey respondents were asked questions about a number of different aspects of the VAT tax administration and its activities, audit process, refund process of the VAT system and enforcement and compliance. The full questionnaire is attached as Appendix A and B. The data collected from questionnaires were carefully coded and checked for consistency and entered into the Statistical Package for Social Scientists (SPSS). The analysis was performed with SPSS version 23. Descriptive statistics was employed to analyze data. The questionnaire was distributed to employees, who have comprehensive experience in VAT practices selected randomly from all.

4.1 Reliability and Validity test

As stated by "Hair et al., (2007) reliability indicates the extents to which some variables or set of variables is consistent in what it is intended to measure" (Cited by Siddiqi; 2011:20). Reliability analysis used to measure the consistency of a questionnaire. There are different methods of reliability test, for this study Cronbach's alpha is considered to be suitable. Cronbach's alpha is the most common measure of reliability. For this study the Alpha coefficients for the assessment of VAT administration and the overall scale calculated as a reliability indicator was presented in the following table. As described by Andy (2006) the values of Cronbach's alpha more than 0.7 is good. The alpha values in this study were greater than 0.7 and had very good reliability for the questioners.

Table 4.1. Result of reliability analysis for the questionnaire

Dimensions	Number of attribute	Cronbach's alpha
Administration activities	8	0.731
Tax payers run and regulation	5	0.722
Strength and weakness	9	0.728
Audit process	5	0.766

Refund and enforcement process	5	0.739
Honesty and loyalty	4	0.243
Overall	36	0.758

Source: Survey 2018

4.2 Response rate

Table 4.2   Response Rate

Position	Number of questionnaire	Number of returned questionnaire	Percentage of returned questionnaire
Employees	60	55	91.67%
Total	60	55	91.67%

Source: Survey, 2018

According to Sekaran (2001), a response rate of thirty percent is acceptable for most studies however in this study out of the 60 questionnaires distributed to 55 were collected. The response rate of the questionnaire was 91.67% which is sufficient enough.

Descriptive Analysis

Background Information of Respondents

❖ **Sex of respondents**

Table 4.3 Sex Respondents

Variable	Categories	Frequency	Percent
Sex	Male	26	47.3
	Female	29	52.7
	Total	55	100

Source: Survey 2018

From gender side the majority of the respondents 29(52.7%) were females and 26(47.3%) of the respondents were male.

❖ **Age respondents**

Table 4.4Age of respondents

Variable	Categories	Frequency	Percent
Age of Respondents	21-25	25	45.5
	26-30	24	43.6
	31-38	6	10.9
	Total	55	100

Source: Survey 2018

The relevance of the age of respondents is to check whether the respondents do they have the required level of maturity to respond correctly to the given questionnaires. The statistical result of the age of respondents shows that the majority of participants from the 55 respondents 25(45.5%) of the respondents were age group between 21 to 25, 24(43.6%) of the respondents their age group in between 26 to 30 and only six percent of the respondent were their age group 31 to 38 and more years of age.

❖ **Marital Status of respondents**

Table 4.5. Marital Status of respondents

Variable	Categories	Frequency	Percent
Marital Status of Respondents	Single	35	63.6
	Married	20	36.4
	Total	55	100

Source: Survey 2018

About current marital status of the respondents 35(63.6%) respondents were single, 20(36.4%) respondents were married.

❖ **Table 4.6Educational Status of respondents**

Variable	Categories	Frequency	Percent
Educational Status of respondents	Diploma	1	1.8
	Degree	51	92.7
	Masters	3	5.5
	Total	55	100

Source: Survey 2018

Bachelor degree (BA) holders constitute 51(92.7%) of the respondents and they are followed by respondents with Master's Degree represent 3(5.5.0%), while the remaining 1(1.8%) of the respondents a diploma level education (see table above for details). This shows that the respondents are qualified enough to easily understand and respond the questionnaire correctly.

❖ **Work Experience of respondents**

Graph 4.1 Work Experience
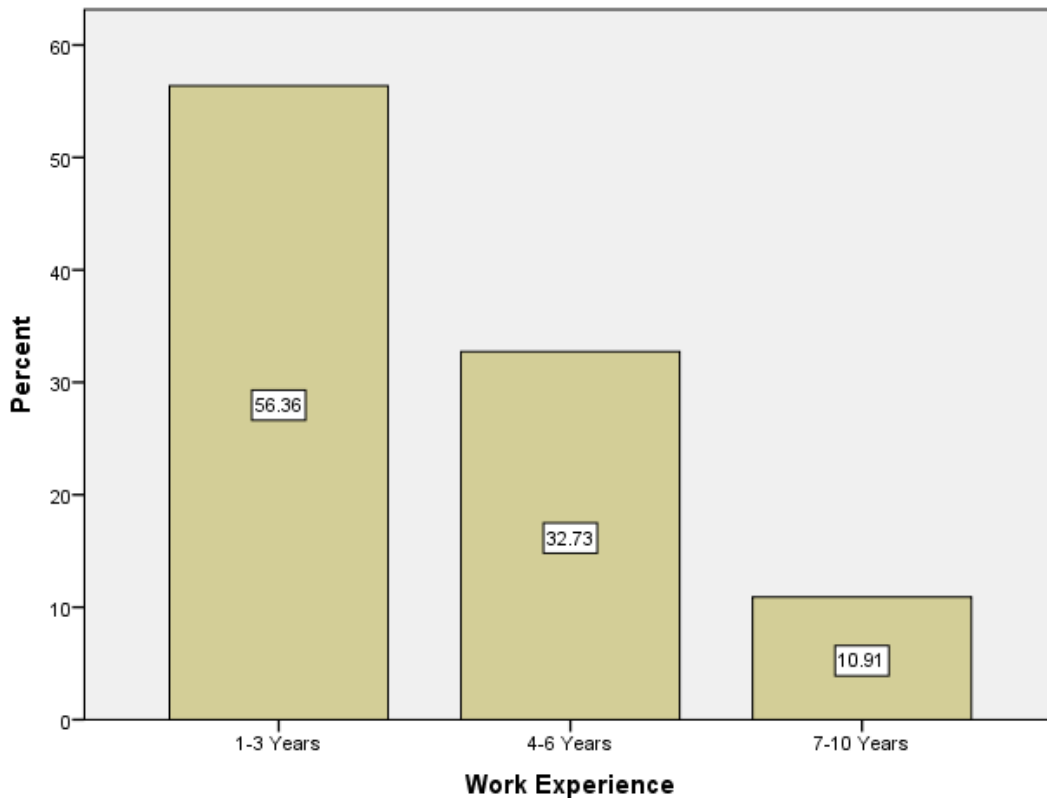
Source: Survey 2018

From the graph 4.1 shows 56.36 percent of the respondents their work experience were 1 to 3 years,32.73 percentages of the respondents were their work experience in between 4 to 6years, and 10.91 percentages of the respondents their work experience were 7 to 10 years. This shows that most of the respondents were not much experienced.

❖ **Field of study of respondents**

Table 4.7 Field of study of respondents

Variable	Categories	Frequency	Percent
Field of study of	Business Area	53	96.4

respondents	Non-Business Area	2	3.6
	Total	55	100

Source: Survey 2018

Among the respondents 53(96.4%) of their field of study were business area and 2(3.6%) were non business area. This shows most of the respondents have an awareness about the business environment.

❖ **Position of respondents**

Table 4.8Position of respondents

Variable	Categories	Frequency	Percent
Position of respondents	Officer	35	63.6
	Senior Officer	19	34.5
	Team Leader	1	1.8
	Total	55	100

Source: Survey 2018

In the above table helps the research to see the nature of the employee's position information to analyze how close to the business area. From 55 respondents 35(63.6%) of respondents were officer, 19(34.5%) of respondents were senior officer and only one person were a team leader. This shows most of the respondents was working in the operation that leads clearly know what they're doing.

4.3. Analysis the data based on assessment of VAT administration in Addis Ababa No.1 medium tax payers branch office.

In this section, frequency distribution and the percentage of assess VAT administration in Addis Ababa No. medium Tax Payers Branch office. Those Tax administrations assessment activities were VAT rules and regulations, assessing the strength and weakness of the VAT administration activities: taxpayer's identification, registration and collection, audit process of the branch, refund and enforcement process, and honesty and loyalty of VAT registrations.

Mean range

In order to make the interpretation of the data easy the five scales was interpreted and calculated using the following formula (Jeff, 2011).

$$interval = \frac{highest score - lowest score}{no of interval}$$

$$interval = \frac{5-1}{5} = 0.8$$

Table 4.9: mean range

Range	Interpritation-1	Interpritation-2
1.00-1.8	Very low	Very poor
1.81-2.60	Low	Poor
2.61-3.40	Average	Fair
3.41-4.20	High	Good
4.21-5	Very High	Very good

Source: Jeff, 2011

4.3.1. Problem that is hindering administration activities

In this sub section will discussed about Problem that is hindering administration activities. The following table 4.3. Summarized about Problem that is hindering administration activities.

Table 4.10 Problem that is hindering administration activities

	SD	D	N	A	SA	Mean
The birr 500,000 annual turnover as a minimum threshold is reasonable for VAT registration	2(3.6)	9(16.4)	7(12.7)	20(36.4)	17(30.9)	3.75
The business community paying their VAT regularly and declare their income on time	4(7.3)	10(18.2)	10(18.2)	25(45.5)	6(10.9)	3.35
Our taxpayers thought towards VAT is good	0(0.0)	23(41.8)	16(29.1)	15(27.3)	1(1.8)	2.89

The consumers are willing to transact with a proper vat receipt	2(3.6)	26(47.3)	20(36.4)	6(10.9)	1(1.8)	2.60
The awareness of the taxpayers towards tax is the main challenge of administration of VAT	0(0.0)	6(10.9)	9(16.4)	25(45.5)	15(27.3)	3.89
The branch office in awareness creation and media dissemination is very good	6(10.9)	22(40.0)	14(25.5)	11(20.0)	2(3.6)	3.05
The VAT payers timely report while the VAT machine interrupts its services due to various reasons	0(0.0)	10(18.2)	11(20.0)	31(56.4)	3(5.5)	3.49
Some of VAT registered traders manipulated the machine to general false report	0(0.0)	13(23.6)	22(40.0)	18(32.7)	2(3.6)	3.16

Source: Survey 2018

From Table 4.10 Most of the respondents 20(36.4%) agree and on average also agree about the birr 500,000 annual turnover as a minimum threshold is reasonable for VAT registration (Mean = 3.75). In general, as a result of this threshold level the VAT registration threshold is reasonable traders in the market competition.

Of the respondent were agree 25(45.5%) but on average neutral about the business community paying their VAT regularly and declare their income on time (Mean = 3.35). Besides to this, 23(41.8%) of the respondents were disagree but on average neutral about our taxpayers thought towards VAT is good (Mean = 2.89). Among the respondents were 26(47.3%) disagree about the consumer are not willing to transact with vat receipt but it score low (Mean=2.6).

In terms of the awareness of the taxpayers towards tax is the main challenge of administration of VAT most of the respondents were agree 25(45.5) scored average with a (Mean= 2.89). Of 22(40.0) respondents were disagree on the branch office awareness creation and media dissemination is and also score average (Mean =3.05). As can be learnt from the respondents of branch employees for this particular issue, 22(40%) of the respondents said that the VAT registered traders said neutral to manipulate the machine to generate false report, while only

18(32.7%) of the respondents stated that they manipulate the machine to generate false report with the average mean (Mean=3.16).

The awareness creation and media dissemination for VAT payers are playing a vital role for successful administrating of the VAT law. The summarized survey data showed 22(40%) of the respondents were confirmed that the awareness creation and media dissemination to VAT payers; on the other hand, the remaining 25(45.5%) of the respondents said that the awareness of the taxpayers towards tax is the main challenge of administration of VAT.

The willingness and determination of the consumers to transact with a proper VAT receipt is the key and decisive factor for successful administration of VAT. The purpose of awareness creation to the general public is to have such consumers, who play an important role in the administration of the VAT. 6(10.9%) of the respondents confirmed that consumers are willing and determined to transact with a proper VAT receipt, while 26(47.3%) of the respondents were disagree and the other 20(36.4) were neutral, which implies that the consumers prefer to transact without proper VAT receipts (see table 11 for details). Not all consumers but some consumers are not willing to transact with a proper VAT receipt because they need to conceal the tax. Most of the time consumers prefer to transact without receipts as to get cheaper price at least reduced by VAT amount.

4.3.2. The tax payers run their business in accordance with currently VAT rules and regulations

In this sub section will discussed about Problem that is the tax payers run their business in accordance with currently VAT rules and regulations. The following table 4.4. Summarized about the tax payers run their business in accordance with currently VAT rules and regulations

Table 4.11 The tax payers run their business in accordance with currently VAT rules and regulations

	SD	D	N	A	SA	Mean
Most of your customer are voluntary VAT payers in the branch	2(3.6)	12(21.8)	16(29.1)	24(43.6)	1(1.8)	3.18
The branch is communicated to various governmental administration units and stakeholders	0(0.0)	13(23.6)	6(10.9)	32(58.2)	4(7.3)	3.49

Some traders do not maintain the proper recording of their business operations	0(0.0)	5(9.1)	17(30.9)	27(49.1)	6(10.9)	3.62
The business communities well aware of the VAT proclamation and its rationale	2(3.6)	18(32.7)	14(25.5)	20(36.4)	1(1.8)	3.00
Many of VAT registrants are non-filers	2(3.6)	20(36.4)	25(45.5)	7(12.7)	1(1.8)	2.73

Source: Survey 2018

From table4.11 24(43.6%) of the respondents were agree but on average neutral idea about Most of your customer are voluntary VAT payers in the branch (Mean = 3.18). Most of the respondent were agree 32(58.2%) and on average also agree about the branch is communicated to various governmental administration units and stakeholders. The participation and contribution of various governmental administration units are very vital in the process and enforcement of the VAT law. The responses from majority of the respondents attested that agree various governmental administration units in the process and in enforcement of the VAT law. Whereas, the remaining 13(23.6%) of respondents confirmed that the participation in the process, as well as in the enforcement of the VAT law is disagree but in general with a high mean (Mean = 3.49).Furthermore, 27(49.1%) of the respondents were agree and on average agree about Some traders do not maintain the proper recording of their business operations in accordance with business practices and reputation scored with a high mean (Mean =3.62). The business traders have the responsibility to maintain proper recording system, so that they can have the required information as needed. Otherwise, it is very difficult to properly manage the operations of the business, i.e. their incomes and expenses of the business. However, 5(9.1%) of respondents from the employee revealed that some traders do not maintain proper record keeping of their business operations due to many reasons.

20(36.4) were agree of the respondents about the business communities well aware of the VAT proclamation and its rationale and scored average with the (Mean =3.00). On the other factor most of the respondents were agree 25(45.5)Many of VAT registrants are non-filers scored low with a Mean of 2.73

4.3.3. In terms of assessing the strength and weakness of the VAT administration activities: taxpayer identification, registration and collection

In this sub section will discussed about Problem that is in terms of assessing the strength and weakness of the VAT administration activities: taxpayer identification, registration and collection.

The following table 4.12 Summarized about in terms of assessing the strength and weakness of the VAT administration activities: taxpayer identification, registration and collection.

Table 4.12 In terms of assessing the strength and weakness of the VAT administration activities:

	SD	D	N	A	SA	Mean
The process of VAT registration is smooth and easy for tax payers	1(1.8)	14(25.5)	5(9.1)	27(49.1)	8(14.5)	3.49
Do you think that tax administrations are strong enough to control non registered and illegal activities of VAT payers	7(12.7)	27(49.1)	9(16.4)	9(16.4)	3(5.5)	2.53
Do you agree that the number of non-VAT registered taxpayer exceeds the number of VAT registered taxpayers in the branch	10(18.2)	19(34.5)	9(16.4)	12(21.8)	5(9.1)	2.69
The VAT assessment and collection mechanism is effective and efficient	6(10.9)	20(36.4)	10(18.2)	17(30.9)	2(3.6)	2.80
In registration process followed for unregistered taxpayers for VAT use door to door inspection	2(3.6)	16(29.1)	14(25.5)	22(40.0)	1(1.8)	3.07

In registration process followed for unregistered taxpayers for VAT use checking purchase invoice of registered tax payers	2(3.6)	8(14.5)	21(38.2)	21(38.2)	3(5.5)	3.27
The tax payers come with all relevant documents when they come to pay their VAT	2(3.6)	15(27.3)	7(12.7)	19(34.5)	12(21.8)	3.44
The branch VAT tax amount collected from taxpayers is as of its potential	6(10.9)	22(40.0)	5(9.1)	18(32.7)	4(7.3)	2.85
There are some eligible business enterprises in the market that haven't yet registered for VAT	0(0.0)	7(12.7)	14(25.5)	23(41.8)	11(20.0)	3.69

Source: Survey 2018

From table 4.12.The process of VAT registration is smooth and easy for tax payers 27(49.1%) of the respondents were agree and on average also agree and scored high with mean of (Mean = 3.49). Most of the respondent were disagree 27(49.1%) and on average also disagree about the tax administrations are strong enough to control non-registered and illegal activities of VAT payers scored low (Mean = 2.53). Moreover, 19(34.5%) of the respondents were agree but on average neutral idea about do you agree that the number of non-VAT registered taxpayer exceeds the number of VAT registered taxpayers in the branch with scored high mean (Mean=3.44). of 20(36.4) of respondents were disagree in the VAT assessment and collection mechanism is effective and efficient is scored poor with the mean of 2.8. Most of the respondents were agree 22(40.0) and 21(38.2) on a very low in the registration process followed for unregistered taxpayers for VAT use door to door inspection and in registration process followed for unregistered taxpayers for VAT use door to door inspection with a mean of 0.96 & 0.91 respectively. Furthermore,19 (34.5) of the respondents were disagree on the tax payers come with all relevant documents when they come to pay their VAT scored very low with a mean of (Mean=1.21). On the other point the branch VAT tax amount collected from taxpayers is as of its potential, 22(40.0) most respondents were disagree with a very low mean that is 2.85. Most of

the respondents were agreeing 23(41.8), there are some eligible business enterprises in the market that haven't yet registered for VAT.

4.3.4. Audit process of the branch

In this sub section will discussed about Audit process of the branch and also, Table 4.13. Summarized about Audit process of the branch.

Table 4.13 Audit process of the branch

	SD	D	N	A	SA	Mean
The audit process of the branch is in accordance with the VAT law	0(0.0)	3(5.5)	3(5.5)	33(60.0)	16(29.1)	4.13
The VAT audit process in your office is suitable environment for the tax payers	2(3.6)	7(12.7)	7(12.7)	34(61.8)	5(9.1)	3.60
Do you agree your office is effective in VAT auditing	0(0.0)	9(16.4)	15(27.3)	25(45.5)	6(10.9)	3.51
The Branch have a standard audit manual and checklist	0(0.0)	4(7.3)	6(10.9)	33(60.0)	12(21.8)	3.96
The Audit process and selection criteria is done according to the Audit Manual	0(0.0)	8(14.5)	5(9.1)	34(61.8)	8(14.5)	3.76

Source: Survey 2018

From table 4.13 Most of the respondents 33 (60.0%) were agree about the audit process of the branch is in accordance with the VAT law and scored high mean (Mean = 4.13). Most of the respondent were agree 34(61.8%) and is good about the VAT audit process in your office is suitable environment for the tax payers scored high mean (Mean = 3.60). In addition to this, 25(45.5%) of the respondents were agree and on average agree about do you agree your office is effective in VAT auditing. Moreover, 33(60.0) of respondents were agree about The Branch have a standard audit manual and checklist with a high mean (Mean=3.96). 34(61.8) of respondents were agree the Audit process and selection criteria is done according to the Audit Manual and with a good mean value (Mean=3.76)

Table 4.14 Annual audit performance report of 2016/17 full year

	Planned	Actual	%
Audited document	852	752	88.26
Additional Amount Collected	650,000,000.00	522,673490.41	80.41

Source: - Annual Audit performance report of the A.A No.1. M.T.P.B.O

From the above table the number of documents audited and also the additional amount was collected is good. Most of the respondents the audit in terms of the audit process of the branch is in accordance with the VAT law, the VAT audit process in the office is suitable environment for the tax payers, in relation to effectiveness in VAT auditing, is there a standard audit manual and checklist and the audit process and selection criteria is done according to the audit manual were agree (32(58.2), which indicates the audit process as a whole is good with a mean of 3.8.

As it is stated in the ERCA's 2014 audit manual, the overall objective of a tax audit is to improve the compliance of taxpayers, whether they declare the correct amount of tax and paid at the right time.

The results of the questionnaire and interview from the tax officials about the audit activity of the branch office shows that the selection of taxpayers for audit is based on risk measures, they identified some of the lists of various criteria used for selection of an audit like the frequent loss report by the taxpayer, sales volume, post attitude of taxpayer, business type, when a customer wants to close or stop his business and before attaining 5 years. Furthermore, there is a manual which shows various lists of types of risk measures together with their level that helps the auditors to be uniform in selecting a taxpayer for an audit. Moreover, according to the tax officials even if there is a shortage of auditors in the branch office in addition to a desk audit a field audit is conducted whenever necessary.

4.3.5. The refund and enforcement process

In this sub section will discussed about the refund and enforcement process. the following table 4.15Summarized about in terms of the refund and enforcement process.

Table 4.15The refund and enforcement process

	SD	D	N	A	SA	Mean
The refund process of the branch is in accordance with the VAT law	3(5.5)	7(12.7)	5(9.1)	27(49.1)	13(23.6)	3.73
The refund process in your office is smooth for the tax payers	1(1.8)	12(21.8)	17(30.9)	13(23.6)	12(21.8)	3.42
The branch pays the refund on time to taxpayers	1(1.8)	27(49.1)	8(14.5)	16(29.1)	3(5.5)	2.87
Fair and efficient penalties and appeal system	0(0.0)	8(14.5)	10(18.2)	29(52.7)	8(14.5)	3.67
Enforcement of non-compliance of VAT according to the proclamation	0(0.0)	10(18.2)	12(21.8)	27(49.1)	6(10.9)	3.53

Source: Survey 2018

According to table 4.15about refund and enforcement process, 27(49.1%) of the respondent were agree and on average also agree about the refund process of the branch is in accordance with the VAT law(Mean = 3.73). Most of the respondent were neutral 17(30.9%) and on high also neutral about the refund process in your office is smooth for the tax payers (Mean = 3.42). Moreover, 27(49.1%) of the respondents were disagree but on average neutral idea about the branch pays the refund on time to taxpayers (Mean = 2.87). Of the 29(52.7) respondents were agree with the fair and efficient penalties and appeal system (Mean=3.67). And also 27(49.1), of respondents were agree on the Enforcement of non-compliance of VAT according to the proclamation scored high mean of 3.53.

As can be learnt from respondents Non-compliance with VAT proclamation, such as failure to register for VAT as per the requirement, failure to issue a tax invoice and others are source of administrative penalties. The authority should have to take some time to assess and see the effects before to seize and take measures, since the action might not be deliberate some times.

Table 4.16 Refund performance report for the year 2016/17

Budget year	Application presented for refund	Application responded	Amount Refunded	Transferred to the next fiscal period	Performance in %
2016/17	121	82	103,939,315.10	39	67.8

Source: - Annual refund performance report of the A.A No.1. M.T.P.B.O

As the 12 months refund performance report shows the status of the branch is somehow in good condition because as from table 4.15 27(49.1) respondents were disagree about the branch pay the refund on time with average mean of 2.87.And also data the branch responded to the customer only 82 out of 121 the application presented. In that case, it would be difficult to respond as the law requires and which holds their working capital for a longer period. Gela et al. (2014) in their study demonstrated about refund claimed by traders, it could take more than 6 months to settle the case. This will take the working capital of the trader.

4.3.6. In terms of honesty and loyalty of VAT registrants, how do you guess the following?

The following table 4.19. Summarized about in terms of honesty and loyalty of VAT registrants, how do you guess the following?

Table 4.17 In terms of honesty and loyalty of VAT registrants, how do you guess the following?

	SD	D	N	A	SA	Mean
VAT registrants sell goods and services without tax invoice	1(1.8)	8(14.5)	9(16.4)	29(52.7)	8(14.5)	3.64
VAT registrants manipulate Cash Register Machine properly	2(3.6)	18(32.7)	15(27.3)	17(30.9)	3(5.5)	3.02
VAT registrants provide fake invoices to secure more input tax	4(7.3)	5(9.1)	12(21.8)	24(43.6)	10(18.2)	3.56
Most of tax payers are Late declaration of VAT payment	0(0.0)	14(25.5)	11(20.0)	24(43.6)	6(10.9)	3.40

Source: Survey 2018

From table 4.19 Most of the respondents 29(52.7%) were agree butat high about VAT registrants sell goods and services without tax invoice (Mean = 3.67). 18(32.7%) were disagree but on

average neutral about VAT registrants manipulate Cash Register Machine properly (Mean = 3.02). More of the respondents 24(43.6)&24(43.6) were agree on high scored mean about VAT registrants provide fake invoices to secure more input tax and most of tax payers are Late declaration of VAT payment (Mean=3.56).

Even though their occurrence differs transacting without VAT invoice, late payment submission of the VAT, late payment of VAT, non-filing, manipulation of cash register machines, late payment and providing fake of forged invoices are among the types of non-compliances that the tax administrators of the branch office faced during their activity that hinders the Value Added Tax administration. As per the responses of tax officials 29(52.7%) are those who put the occurrence of the late payment existed every times, however 6(10.9%) of them said that it is the strongly agree. In general with a high mean of 3.67 VAT registrants sale their goods and services without invoices. In relation to manipulation of electronics tax register 18(32.7%)were disagree, 17(30.9%)were agree on average with the mean of 3.02. In connection with the provision of forged invoices as mentioned by the respondents, 24(43.6%)were agree most of VAT registrants fake invoice to secure more input tax with a high mean of 3.56. With regard to late declaration of vat payment 24(43.6%) respondents are agree with mean of 3.40.

From these types of non-compliances as the results of the respondent's shows, relatively speaking late submissions of VAT return, making transactions without VAT invoice and providing fake or forged invoices are the most frequent non-compliances. This is also another sign of understatement of the amount of tax that could be collected.

And also 27(49.1), of respondents were agree on the Enforcement of non-compliance of VAT according to the proclamation scored high mean of 3.53.

For example, as interview with some of the tax officials indicated that currently there are many ongoing construction activities in the Addis Ababa city because of this a lot of businesses are changing their original places. In this case as per the requirements in VAT proclamation 285/2002 (38), if the VAT registrants themselves do not notify the branch office, it is difficult to know whether the company stops or continues its business. If it continues its activities getting the exact address of the business would be hard this situation crates a hole to some traders' to make fraud without notifying about the change of address and to hide and transact without issuing an invoice or if a company discontinues its function but an invoice issued in the name of the closed company and transact with others who do not know the cause.

4.4. In-depth Interview Results

An intensive interview with three managers of the branch was made to comprehensively understand the VAT administration activities of the authority as well as to fill the gaps of information observed from the questionnaires. This interview was made after fully completing the analysis from the questionnaires of employees, and the interview questions were redesigned accordingly in order to support and confirm the information acquired from these two questionnaire survey results. For this, three employees who are in the management position related to the survey analysis were selected and interviewed individually. These were (1) Branch Manager of the Branch (2) Tax Assessment, Collection, and Control Coordinator (3) Customer Service Coordinator. Nevertheless, the researcher would like to appreciate their honest and complete information they gave decently and their cooperation was more than expected. And, the researcher is convinced of the interview responses and believes that they are good input for the survey.

Regarding taxpayer's awareness creation, tax officials suggested that „improvement of the overall tax administration and audit quality. Strength service delivery to create strong enforcement, make clear and accountable work environment must be created, create and TV on local areas language, magazines, workshops, brushers, newspapers , house to house impressively and openly discusses with tax payers to restrain tax evaders and fraud, recognize model tax payers as well as tax officials, adjusting rules and regulation based on tax payers feedback, monitor and evaluate the tax employees, creating tax day celebration, strengthen strong political commitment, penalty does not teach tax payers instead education, respect every taxpayers as customer, make a notice before any harsh measurement.

Regarding rule and regulation know how of taxpayers' rights and obligations in-depth interview with tax officials showed that taxpayers have the right to know what they need to do to comply with the tax law, the right to raise objections and provide additional documentation in response to formal proposed actions, the right to expect the tax system to consider facts and circumstances, the right to receive prompt, considerate, and professional assistance, the right to pay only the amount of VAT legally due, including interest and penalties, and apply all tax payments properly.

Finally, chances have been given to these interviewees to present anything they feel to say out the degree of effectiveness VAT administration. The most of interviewees raised is the issue of

awareness creation to both tax payers and employees about their responsibilities, rights, and the purpose of VAT they are paying. Tax payers should know all the rules, regulations and procedures of taxpaying. Employees must respect all legalities and serve customers as per their need. Tax payers are also supposed to read and update their selves to the rules, regulations and procedures of the authority through various means, in addition to the awareness creation programs being delivered by the authority. It is also important to create awareness on the end users to have the basic understanding and responsiveness of asking a receipt of VAT for what they have used or purchased. These awareness creation issues are the responsibilities of both the authority and tax payers' awareness give weekly/monthly meeting with VAT payers, given information through Radio.

<div align="center">

CHAPTER FIVE

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5. SUMMERY OF FINDINGS, CONCLUSIONS ANDRECOMMENDATIONS

5.1. Summary of Findings

This chapter deals with the summary of findings, conclusions and recommendations based on the findings of the study:-

- ➢ The awareness creation by providing substantive Information to the taxpayers through publications and making ready and updating websites timely need to be further complicated as it is not sufficient from the responses of employees. 40 % of employees responded that the branch lacks the institutional mechanism to reach the general public in creating awareness.

- ➢ According to the refund performance report in 2016/17 the performance is 67.8%. It indicates that the service delivery to be difficult to respond as the law requires and which holds their working capital for a longer period for the customers. However, VAT refunds are mostly carried over from one tax year to the other. This practice is unlawful and should cease immediately.

- ➢ On the other hand even if, the audit report shows that the branch performs 80.41% of its plan and enable to collect extra amount of Birr 522.7 million from audit within the budget year of 2016/2017 and in terms of file or documents which is performs 752 (88.26%),conversely when it is compared to the large number of VAT registrants still there is a huge gap between the audited documents which needs to add additional staff and strengthen the audit activity in order that the possibility of collecting extra amount is clear. Therefore all of the above audit and enforcement performance reports are indicators of weak tax administration which needs the branch to build an effective audit and enforcement capacity as it is one way to increase tax compliance.

- ➢ The consumers are willing to transact with a proper VAT receipt 26(47.3%) of them responded that it's not effective and the branch hasn't been strong in controlling and also of traders do not maintain the proper recording of their business operations about 27(49.1) of respondents this is not good for the administration.

➢ Due to lack of knowledge, poor tax administration and fear of unnecessary competition from similar registered business voluntary compliance in the branch office is low from the results of the findings selling without invoice, providing forged invoices, manipulation of cash register, not maintaining proper books of returns, non-filing and late submission of the VAT return are among non-compliances which frequently occurred. They may be either voluntarily or deliberately. This needs the development of strong and modern audit and enforcement program. But penalty cannot be the only way to increase compliance; especially for those taxpayers who do not know tax laws and procedures. Therefore, to reduce the gap help taxpayers to understand their rights and obligations and make them aware of any revised rules and regulations.

➢ Tax officials' attitude towards traders in that lack of trust and considering all traders as if they are tax evaders is another problematic area that most of taxpayers complained. All the above factors have negative effect on the service delivery of branch office and needs the branch's attention to modernize and enhance the system

5.2. Conclusion

VAT revenue plays a significant role in a country's economy; it becomes the more reliable tax revenue as a source of income in which government can rely on. On the contrary, still there are many factors which affect the revenue generated from VAT. Therefore, to benefit from this tax and to get maximum revenue as much as possible, it needs to discover and solve those obstacles To increase voluntary compliance and decrease the frequency of non-compliances taxpayer education is vital which helps them to better understand the rules and regulations and to discharge their obligation easily.

➢ The findings of the analyses suggested that, the main areas where there are gaps and problems include registration, record keeping, VAT invoicing, issuing VAT receipts, the and penalties. In addition, the outcomes of the research showed lack of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. The gaps and problems identified in the study were partly because of under staffing like communication of the tax authority, limited automation and inadequate public relation work.

➤ To minimize problem exist during administration activities of VAT, and not paid on time with proper figure a branch should control a bill or invoice they use, ordered them use a cash registered machine, follow- up, support in preparation of VAT return, initiate potential unregistered business for VAT registered so as to avoid unfair competition.

➤ In relation to audit and enforcement, having a detailed audit selection criteria manual is useful to make the base of selection uniform among auditors and avoid biasness which is the strongest part of the branch office however, based on the findings from the audit report the branch performs 80.41% of its plan within the budget year of 2016/2017 regardless of the number of auditors it is good, conversely when it is compared to the large number of taxpayers still there is a huge gap between the audited documents. Moreover, from the results of the findings it is understood that selling without invoice, providing forged invoices, manipulation of cash register, not maintaining proper books of returns, non-filing and late submission of the VAT return are among non-compliances which frequently occurred from this it is clear that there is a possibility of collecting extra amount if further auditing is performed therefore, the branch's performance is ineffective.

➤ Audit and enforcements are issues among the core tax administration functions. Therefore, all of the above audit and enforcement performance reports are indicators of weak tax administration. In addition the development of strong Value Added Tax administration is required by taking the existed branches experiences, otherwise it would be very difficult to control and reduce the number of non-compliances which directly affect the tax revenue collection significantly and greater effort is required to increase voluntary compliances and build taxpayers' confidence and achieve the objective of the branch.

5.3 Recommendations

The following recommendations are made based on the conclusion and findings of the study:

➤ Awareness creation should by no means be neglected and due emphasis should be given to this program. There are actually such programs designed by the branch both to tax payers and employees, but are not sufficiently implemented. There is carelessness behavior from tax payers' side that they don't come for such sessions but the authority should exert maximum effort to go effectively through it. Most importantly, tax payers

should acquire the know-how as to where the money they are paying is going on and what it is used for. This can help to increase self-compliance. The management body of the office should work on awareness creation to the general public on the importance of VAT payment for the economic development of their area. This can be done by distributing informative broachers and posters in relation to the issue.

➢ The attitude of both tax payers and employees should be improved. The tax payers should also know that there are noble employees who really work to help them. For this, a clear discussion with all employees and tax payers is crucial.

➢ Tax laws alone are not enough to have an effective tax administration, unless there are well-aware tax officials. Things are changing from time to time being lack of training creates a gap between employees' knowledge and what would be expected from them. Therefore, providing adequate training programs in every aspect related to their activity (in usage of a computer program, auditing, documentation and customer handling) helps employees to cope with the latest rules and regulations, technological advancements, to build confidence and manage their activity without difficulty.

➢ The branch must strengthen the systems of audit, refund and enforcement process.

➢ In this branch, it is not easy to get the exact number of total VAT registrants and to identify their real status, that is, whether they are reporting their VAT return as required by law. When the registrants cancel their registration license according to the law their status must be changed immediately, otherwise to follow and enforce them to file their VAT return is impossible without knowing their actual status, which makes the auditing activity more complex. For that reason, providing a special training session or preparing on-the-job training to all the concerned tax administrators about how the computer software (SIGTAS) works helps them develop their knowledge and to be more effective. Since all the necessary information about the taxpayers is obtained from the computer system, updating the status of VAT registrants every time by using this computer system is required, which facilitates knowing their actual status easily and to produce an accurate and immediate report. On the other hand, VAT registrants present application for cancellation of registration for the branch office, nevertheless they may not stop doing business or transacting in this case, the branch office can communicate "Werdas" in which the registrants' business situated to know whether their business is active or not.

➢ Business organizations such as Chambers of Commerce and Sectarian Associations should help the businesses sector to build their capacities to keep adequate records, not just for tax purposes but to help them run their businesses better.

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Appendix "A"

St. Marry University

School of Graduate Studies

Questionnaire for the Branch Employees

Researcher: Samrawit Shume

Research Topic: Assessment of VAT Administration in Addis Abeba No.1 Medium Tax Payers

Branch office

Dear Participants

I would like to express my sincere appreciation and deepest thanks in advance for your generous time and prompt responses. The Purpose of the study is to conduct research for the requirement of MA in Accounting and Finance. I respectfully request your kind cooperation in answering the questions that follow a clearly and frankly as possible and your response will be highly confidential. If you have any questions or concerns, please contact me through: **+251 912 17 82 82**

 General Instructions for Respondents

- ✓ There is no need of writing your name
- ✓ In all cases where answer options available place tick(√) in the appropriate box
- ✓ Please try to honestly describe as per the questions on the space provided
- ✓ The questionnaire Should have to be filled only for those who have greater than 1 year experiences in a give organization

Part I: General Information about respondents/Demography/

No	Personal details	response	No	Personal details	response
1.	**Sex**		**5.**	**Work Experiences in Year**	
	Male			1-3	
	Female			4-6	
2.	**Age**			7-10	
	21-25 years			Above 10	
	26-30 years		**6.**	**Field of Study**	
	31-38 years			Business Area	
	39-45 years			Non-Business Area	
	>45 years				
3.	**Marital status**		**7.**	**Position**	
	Single			Officer	
	Married			Senior Office	
4	Educational Status			Team Leader	

Diploma				
Degree				
Masters				
PhD. Above				

Part II: Close ended questions related to my research topic for Staffs
Scale: Strongly Agree (5), Agree (4), Neutral (3), Disagree (2), Strongly Disagree (1)

I. **Problem that is hindering administration activities**

N<u>o</u>	Items of Assessment	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The birr 500,000 annual turnover as a minimum threshold is reasonable for VAT registration					
2	The business community paying their VAT regularly and declare their income on time					
3	Our taxpayers thought towards VAT is good					
4	The consumers are willing to transact with a proper vat receipt					
5	The awareness of the taxpayers towards tax is the main challenge of administration of VAT					
6	The branch office in awareness creation and media dissemination is very good					
7	The VAT payers timely report while the VAT machine interrupts its services dueto various reasons					
8	Some of VAT registered traders manipulated the machine to general false report					

II. **The tax payers run their business in accordance with currently VAT rules and regulations**

N<u>o</u>	Items of Assessment	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Most of your customer are voluntary VAT payers in the branch					
2	The branch is communicate to various governmental administration units and stakeholders up to wereda level participate in enforcing the VAT law and participate in the process of VAT administration activities					

3	Some traders do not maintain the proper recording of their business operations in accordance with business practices and reputation					
4	The business communities well aware of the VAT proclamation and its rationale					
5	Many of VAT registrants are non-filers					

III. In terms of assessing the strength and weakness of the VAT administration activities: taxpayer identification, registration and collection

No	Items of Assessment	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The process of VAT registration is smooth and easy for tax payers					
2	Do you think that tax administrations are strong enough to control non registered and illegal activities of VAT payers?					
3	Do you agree that the number of non-VAT registered taxpayer exceeds the number of VAT registered taxpayers in the branch					
4	The VAT assessment and collection mechanism is effective and efficient					
5	In registration process followed for unregistered taxpayers for VAT use door to door inspection					
6	In registration process followed for unregistered taxpayers for VAT use checking purchase invoice of registered tax payers					
7	The tax payers come with all relevant documents when they come to pay their VAT					
8	The branch VAT tax amount collected from taxpayers is as of its potential					
9	There are some eligible business enterprises in the market that haven't yet registered for VAT					

IV. Audit process of the branch

No	Items of Assessment	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The audit process of the branch is in accordance with the VAT law					

2	The VAT audit process in your office is suitable environment for the tax payers					
3	Do you agree your office is effective in VAT auditing					
4	The Branch have a standard audit manual and checklist					
5	The Audit process and selection criteria is done according to the Audit Manual					

V.   The refund and enforcement process

No	Items of Assessment	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The refund process of the branch is in accordance with the VAT law					
2	The refund process in your office is smooth for the tax payers					
3	The branch pay the refund on time to taxpayers					
4	Fair and efficient penalties and appeal system					
5	Enforcement of non compliance of VAT according to the proclamation					

VI.   In terms of honesty and loyalty of VAT registrants, how do you guess the following?

No	Items of Assessment	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	VAT registrants sell goods and services without tax invoice					
2	VAT registrants manipulate Cash Register Machine properly					
3	VAT registrants provide fake invoices to secure more input tax					
4	Most of tax payers are Late declaration of VAT payment					

VII.   .**Give your general comment on the overall VAT administration activities of the Branch**---.

➕ Thanks for taking your precious time and served me.

Appendix "B"

St. Marry University

School of Graduate Studies

 Researcher: Samrawit Shume

 Research Topic: Assessment of VAT Administration in Addis Ababa No.1 Medium Tax Payers Branch office

 Part III: Interview for the Branch Officials

 A. For Branch Managers,Coordinator,Team Leader

1) After Addis Ababa No.1 branch established what are the challenges you faced in general?

2) What do you think to overcome these challenges?

3) What are the main constraints in administering VAT in your branch in terms of; registration, auditing, refund and enforcement activities?

4) How do you express the voluntary compliance of taxpayers in your branch and if any effort or plan to improve it?

5) Do think the VAT audit and refund process of the branch is on time?

6) What about your service delivery in terms of; office facilities, qualified and honest human resource, sufficient man power and so on?

7) Finally; please, generalize the degree of effectiveness of the branch in VAT administration.

 I thank you for your time and contribution in conducting this research work and sharing Your honest feedbacks.