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St. Mary's University, Ethiopia

ST. MERY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**CHALLENGES OF TAX ADMINISTRATION IN ADDIS ABABA CITY
ADMINISTRATION: THE CASE OF ARADA SUB CITY SMALL TAX
PAYERS BRANCH OFFICE**

**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE
STUDIES IN PARTIAL FULFILLMENT OF THEREQUIREMENTS FOR DEGREE
OF MASTER OF ACCOUNTING AND FINANCE**

By: Hilina Anteneh

ID No. SGS/0254/2010A

Advisor: Simon Tarekegn (Assistant Prof.)

December, 2019
Addis Ababa, Ethiopia

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Administration:**

The case of Arada sub city Small tax payers Branch Office

Prepared by: Hilina Anteneh

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December, 2019
Addis Ababa

Endorsement

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

Advisor

Signature

Date

St. Mary's University College Addis Ababa

December, 2019

DECLARATION

I declare that this thesis study for the M.B.A in Account and Finance at the St. Mary's University, herby submitted by me, is my original work and have not previously been submitted for a degree at this or any other University, and that all references materials contained therein have been duly acknowledged.

Name: Hilina Anteneh

Signature: -----

Date: -----

CERTIFICATION

St. Mary's University
School of Graduate Studies

MBA in Accounting and Finance

This is to certify that the thesis prepared by Hilina Anteneh, entitled 'Assessment of Challenges of Tax Administration: A case of Arada Sub-City Revenue office Branch office and submitted in partial fulfillment of the requirements for the award of the MBA in Accounting and Finance with the regulations of the University and meets the accepted standards with respect to originality and quality.

APPROVED BY THE BOARD OF EXAMINERS:

Dean, Graduate Studies----- Signature ----- Date -----

Adviser: ----- Signature ----- Date -----

Internal Examiner: ----- Signature ----- Date -----

External Examiner: ----- Signature ----- Date -----

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Acronyms

AARA	Addis Ababa Revenue Authority
CIAT	International American Center of Taxation
ERCA	Ethiopian Revenue and Customs Authority
EFITP	Ethiopian Federal Income Tax Proclamation
EFTAP	Ethiopian Federal Tax Administration Proclamation
GDP	Gross Domestic Product
IMF	International Monetary Fund
MOFED	Ministry of Finance and Economic Development
MOFEC	Ministry of Finance and Economic Cooperation
OECD	Organization for Economic and Cooperation Development
UN	United Nation
WB	World Bank

Abstract

The main objective of the study focused on assessment of tax administration challenges in Addis Ababa Revenue Authority: The Case of Arada Small Taxpayers' Branch Office. To achieve the objective, the mixed research approach was employed and sample data was collected from 100 Small taxpayers. A questionnaire and in-depth interview was used to collect the data. Interview guides were designed to collect relevant data from tax officials and experts of the branch office. The study found that taxpayers' were disagreed on the effort of tax office to Promote tax compliance; compliance cost; tax audit risk selection method ; Presence of responsible tax employees; fairness of tax assessments ; tax collection practice; practice of e-filing and e-payment; tax law clarity and simplicity; awareness creation programs, capacity of tax law enforcement; capacity of tax office on penalizing the big tax defaulters; tax office rewarding and motivating system for hard working employees and compliant taxpayers; Tax employees willingness to assist, help and cooperate with taxpayers positively. Moreover, the study also found that, low level of tax compliance of taxpayers; poor tax service delivery; weak tax law enforcement; Incompetency of tax employees; un faire tax assessment and poor tax collection practice; network and power problem, Weak taxpayer education and Staff ethical problem were identified as major Challenges of tax administration in Arada Small Taxpayers Branch Office. Therefore, it was recommended that tax office should enhance taxpayers' compliance, make the tax service deliver modern, fair and fast; strengthen its tax law enforcement capacity; improve competency, skill, knowledge and attitude of tax employees by solving the challenges strategically. Finally, a due attention should be given to the challenges of tax administration in the tax office.

Keywords: *Tax, challenges of tax Administration, Arada Sub-city Revenue Office.*

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Every tax administration throughout the world collects taxes from its taxpayers in order to collect resources for the government's public expenditure. Naturally, this process becomes easier for the tax administration if the taxpayers willingly and voluntarily comply with their obligations under the country's tax code (Rajiva, 2016). The economic development of any country depends on the revenue generated for the availability of infrastructure and alternative social services in their given country. For these services to be adequately provided, governments ought to have enough revenue to finance them. One most significant means governments raise funds to finance its operations is through taxes (Ndekwa, 2014). Taxation is so, a serious commercial enterprise tool in mobilizing income for economical and effective designing and leading investment and for that matter proper running of the economy (Ozen et.al. 2014). But, a core challenge for African countries is finding the optimum balance between a tax regime that is business and investment friendly, and one which may leverage enough revenue for public service delivery to boost the attractiveness of the economy (Vadde and Gundarapu, 2012). To do so, in today's rapidly changing environment revenue bodies are being asked to do more revenue with less administrative cost, to take on new tasks, and at the same time ensure that governments have the revenues they need to finance important program that benefit their citizens (Organization for Economic Co-operation and Development, 2016)

Tax Administration is one of the public sector organizations which touches the lives of a country's citizens and businesses on a daily basis and, has the greatest impact on their livelihood. Tax administration must meet a very high standard quality in: The responsiveness, Integrity, Provide an even playing field for business, embracing all potential taxpayers, Tax base erosion which leads low tax revenue mobilization. All tax administrations are not on equal footing (e.g., in terms of their resources, scope of responsibilities, performance, etc.). A modern tax administration is one that is effective and efficient. Efficiency Help reduce taxpayers' compliance costs and Eliminate duplication and decrease tax administration costs (Bird, 2011).

The general objective of tax administration is similar among different countries, particularly among developing countries. A number of studies show that in developing countries tax systems are used to serve multiple objectives which include mobilization of resources to finance government expenditure; promoting saving and investment; encouraging the use of labor intensive techniques mostly the small and medium scale enterprises, whereby bringing about greater equity in distribution of income. (Islam, 2001). One of the main objectives of the Ethiopian tax administration is to generate adequate tax revenues to finance ever-increasing public expenditure on poverty alleviation and development projects. This would be achieved through streamlining of the tax system to mobilize tax revenues from national economic growth (Ministry of Finance and Economic Cooperation, 2017)

Unlike developed countries, developing and emerging countries are particularly prone to tax evasion and avoidance activities of individual taxpayers and firms. Tax compliance is that the temperament of taxpayers to adjust tax laws so as to get the economy equilibrium of a country (Andreoni, et al 1998 cited in Ahmed and Kedir (2015); Grima, 2012). Many of the tax Administrations are often under-resourced, resources are not effectively targeted at areas of greatest impact and mid-level management is weak. Domestic and customs coordination is weak, which is especially important for VAT. Weak administration, poor governance and corruption tend to be associated with low revenue collections (IMF, 2011).

Therefore, this study assessed challenges of tax administration (tax assessment and collection, service delivery, tax law enforcement, competency of tax employees and tax compliance) in Addis Ababa Revenue Authority

1.2. Statement of the Problem

Every Nations have struggled to collect enough revenue in the form of taxes for the financing of public goods, e.g., Health care, education, and transportation. However, taxpayers perceive taxes as a burden and often hold negative attitudes towards taxpaying. Governments and tax authorities, specifically, need to motivate taxpayers to comply with tax law and pay their fair shares in taxes honestly. They can do so by influencing taxpayers' behavior through wielding power and/or establishing a trust relationship with the taxpayers (Hof Mann et al., 2008).

However, tax administration is a challenging task, due to these developing countries' tax administrations face greater challenges than their counterparts in advanced countries. As a result of these challenges, tax revenue generation in developing countries is unusually low. The tax administrators of developing countries face many challenges in the massive task of tax collection including the problem of tax evasion and tax avoidance which bothers tax administrators of developing countries and developed countries (Henk, 1991).

Developing countries face many kinds of problems and challenges in the massive task of tax collection. First, these countries have difficulties in identifying surpluses in the economy on account of their low GNP, low rate of capital formation, poverty, unemployment, higher population density, etc. Second, their chances of tax collection are further diminished on account of predominantly cash transactions with no trails, a huge black economy, and rampant tax evasion. Third, there is a lack of political will power to collect revenues that results in a narrow tax base on account of a number of politically motivated tax exemptions and deductions (World Bank Group, 2012).

In Ethiopia, the government imposed tax (direct and indirect), among others; as major and vital sources of public revenue for the promotion of its economic process. However, this imposition of tax could not still bring the desired result due to variety of reasons among these one main reason is tax payers do not comply with their tax obligation (Tesfaye, 2015). Among different things, the challenges facing tax collectors are existence of taxpayers 'culture to evade and avoid taxes, social disapproval among taxpayers against tax offences and taxpayers' delay in tax declaration (Mpambara, Byiringiro & Donatille, 2013).

In recent years, the Ethiopian government has been creating substantial efforts in reforming and modernizing the revenue administration with the aim of simplifying the income tax system and increasing government revenue (Temtime, 2014). Despite the efforts taken by government, Ethiopia like several developing countries suffers from government revenue loss due to tax noncompliance (Ahmed and Kedir, 2015). Ministry of Finance and Economic Development of Ethiopia (MOFED) (2010), African Economic Outlook (2012) and International Monetary Fund (2013) as cited in the study of Temtime (2014) revealed that the government revenue as a share of the gross domestic product was achieved 11.6 % that was not up to the ratio of tax to gross domestic product magnitude in

2003/4 (i.e.12.6). It is additionally highlighted within the study of Temtime (2014) that the ratio of tax to gross domestic product targeted by the top of the five-year Growth and Transformation Plan setup in 2015 is 15.3% which is below the Sub-Saharan average (18%) in 2005. Temtime also expressed that as compared to some selected Eastern African countries, the Ethiopian tax performance is extremely low and even under the averages of the these chosen African countries.

The study by Mesele & Tesfahun (2016) in Dessie town depicted that among the main challenges the tax authority faces principally was taxpayers' delay in tax declaration. Reducing noncompliance can be effective if the reason for noncompliance by tax payers is well understood which can be constructive tool to tax authority by providing them information and helping them which strategy is appropriate and effective to increase tax compliance.

A study Getachew (2018), on Micro Business taxation in Ethiopia, the case of “Merkato Kuter Aned” Branch office of the Addis Ababa Revenue Authority found that the taxation challenges including the absence of micro business tax payers representatives in the daily estimation committee, lack of knowledge of tax payers and tax assessment committees, the presence of nepotism, saving problem of tax payers, failure to resolve complaints on time, the presence of high tax rate, the presence of illegal businesses, political influence were noted to be major ones. Moreover the finding revealed that the tax system is so complex, unfair treatment by officers and the presence of different problems in micro business tax administration in the tax authority.

Thus, to the knowledge of the researcher, though there are few studies, challenges of tax administration have not been well studied. Furthermore, these studies couldn't answer the research questions of this study. Therefore, the goal of this study was to fill the gap by assessing the tax administration challenges using variables like tax assessment and collection, service delivery, tax law enforcement, competency of tax employees and tax compliance in Addis Ababa Revenue Authority the case of Arada Sub-city small taxpayers' branch office.

Research Question

RQ1. What are the challenges related to tax compliance and tax service delivery?

RQ2. What is the challenge related to tax assessment and collection practice?

RQ3. How effective is the practice of tax law enforcement to administer the tax laws?

RQ4. How is the competency of tax employees in the revenue office?

1.4 Research Objective

1.4.1 General objective

The general objective of the study is to analyze the challenges of tax administration in the case of Arada sub city Small taxpayers of Addis Ababa City administration.

1.4.2 Specific objective

- ❖ To assess the challenges related to tax compliance and tax service delivery
- ❖ To identify the challenges related to tax assessment and collection practice.
- ❖ To assess challenges related with tax law enforcement practices in the study area.
- ❖ To investigate the competency of tax employees in the study area.

1.5 Significance of the Study

Tax administration is a challenging task. So, a study of this version to investigate and analyze the challenges of tax administration in Addis Ababa City administration in the case of Arada sub city Small taxpayers Branch office is significant for the following major reasons:

Firstly, the findings of the study has used to identify challenges of tax administration and help to improve the tax laws and procedures and practices accordingly. Thus the government will be able to adopt a comprehensive strategy. The Addis Ababa revenue authority can understand different challenges related to practice of tax administration on the observed tax collection challenges faced by the authority and tax payers' complaints to increase tax revenue.

Moreover, it would be also helpful to create awareness of the tax payers by different stake holders. Hence it helps to avoid challenges of tax administration and reduce tax collection cost of the Ethiopian revenue and custom authority & reduce tax payer's compliance about the tax system. In addition, it would be helpful to the researcher as a partial fulfillment of the requirements for the Award of MBA in Accounting and Finance. Lastly, it has extended the tax administration challenges literature and would be crucial to be used as reference for further researchers.

1.6 Scope of the Study

This study dealt with investigating the challenges of tax administration in Ethiopia focusing on the experience in Addis Ababa, Arada sub city. As it is difficult to cover the whole taxpayers in Addis Ababa, tax payers and tax officers found in “Arada sub city” which is center of Addis Ababa was included in the study. Moreover, though there are different challenges in the tax administration that can hinder the efficiency and effectiveness of the tax administration, this study was focused on challenges related to tax administration practices like registration, assessment, collection, and tax enforcement and service delivery in Arada Sub- city branch office.

1.7 Limitation of the Study

The major critical limitations of the study were limited knowledge of the researcher on measurement of challenges of tax administration and the willingness of tax officials to give in-depth interview get reliable data. There was some resistance and reluctance of respondents to fill in and return all questionnaires during data gathering.

1.8 Organization of the paper

The study is organized by five chapters. The first chapter introduces about the background of the study, statement of the problem, objective of the study, research questions, and significance of the study, scope of the study, and limitations of the study. The second chapter presents the literature review part of the study which includes the theoretical review in its first section followed by the previous studies related to the study area as well as conceptual frame work of the study.

The third chapter is outlined the research Methodology used by the researcher to collect the relevant data to achieve the objectives of the study. It describes the research design, research approach, sample design, sources of data, as well as methods of data presentation, analysis and discussion and interpretation. Chapter four was include the presentation, analysis and interpretation and discussion of the findings of the study according to research objectives and the last chapter of the paper depicted the summary, conclusions and recommendations of the paper.

CHAPTER TWO

RELATED LITERATURE REVIEW

2.1 Introduction

This chapter covers theoretical and empirical literature review related to the study. In order to provide suitable theories and empirical evidence on the topic under investigation, the researcher has reviewed a number of existing literatures; these are helps to explain some key terms, which are relevant to the study. And the researcher has also reviewed other researchers discussion related to the study area.

2.2 Theoretical review

2.2.1 Definition of Taxation

Taxation is refers to assessment, collection, administration and management of taxes. It deals with raising public revenue, managing public expenditure and public debt. The general idea behind taxation is the provision of public goods and services. However the benefits received by taxpayers from the government are not related to or proportionate to the tax paid (Odongo, 2011).

Taxation is a financial charge on income levied by the Government on citizen, corporate entities, businesses or possessions that yield revenue. Similarly it is mean by the compulsory proportional donations from individuals and property possession, imposed by the Government by the virtue of its power for the funding of Government administration and general public necessities (FIRS, 2012). Tax is a monetary liability placed upon persons or belongings maintains to support the government, thus, tax is not a deliberate payment or contribution but rather an enforced role, obtained pursuant by legislative authority and in any contribution imposed by government (Pasher, 2005).

Taxation is a payment which cannot be avoided without attracting a punishment and in return of which no gain/quid pro-quo is promised by the government to the taxpayer. The government is responsible for providing to its citizens certain public facilities and services like roads, schools, and market securities. There are two main tax authorities; the local government authority and the central government authority (Odongo, 2011).

2.2.2 Definition of a Tax Administration

By definition, Tax Administrations administer taxes. They implement and enforce tax laws and receive their mandates by law. Tax Administrations, like private companies and other organizations, have a core business. The core business of Tax Administrations is the levying and collection of taxes imposed by law. It is important that Tax Administrations establish a clear definition of their core business from the outset and make it known to their stakeholders (Bird, 2008). Tax administration is a body responsible for implementing and governing the tax laws and other tax related matter. They are held responsible for assessing, collecting and administering tax processes (Zakariya and Dr.Muzainah, 2015)

2.3 Procedures for tax Administration

According to OECD (2010) the major ways and mechanisms in tax administration or the tax system in revenue bodies of the developed and developing countries are major subject areas included 1) revenue collections; 2) refunds of overpaid taxes; 3) selected areas of taxpayer service delivery; 4) verification activities; 5) dispute resolution; and 6) enforced collection of unpaid taxes.

It is expected that people's tax payments should be in line with their income and they are required to pay a tax in proportion to their level of income. On the other part of the tax collectors, collection of tax should be time conscious and convenient and the cost of collecting the taxes should not be high to discourage business. Alternatively, this means that the ideal tax system in developing countries should raise essential revenue without excessive government borrowing and should do so without discouraging economic activity and without deviating too much from tax system in other countries (Tanzi, 2001). The procedures undertaken by tax authority to ensure compliance are discussed as follows.

2.3.1 Identification and registration of taxpayers

Tax Identification Number (TIN) is used to identify taxpayers. Every taxpayer has a unique TIN, which he or she is supposed to use in all his or her correspondence with the tax authority, and no taxpayer should have more than one TIN. In countries like Uganda, they issue TIN free of charge upon the taxpayer completing a TIN application form (Kangave, 2005).

2.3.2 Filing returns

Taxpayers are requiring filing returns within specified months of the end of their tax accounting year. The return should be filed in quadruplicate and should contain all the particulars of the taxpayer. All documents respecting taxation should be presented to the tax authority office where the taxpayer has their file (Kangave, 2005).

2.3.3 Return processing

Upon receiving a taxpayer's return, the tax authority officers examine the accuracy of the return by determining whether the return is properly completed, whether tax has been properly computed, and whether there are any penalty payments to be made by the taxpayer. The officer then allocates an assessment number to the return and issues the taxpayer with a Bank Payment Advice Form, stating the tax payable (Kangave, 2005).

2.3.4 Payment of taxes

Taxes are due on the due date of the submission of the self assessment returns. Tax should be paid to an authorized bank, using the bank payment advice form.

2.3.5 Audit and examination

The role of tax audits and examinations is to check the accuracy of the information that taxpayers provide to tax authorities. The audits range from simple field and desk audits to comprehensive audits (Kangave, 2005).

2.3.6 Collection and enforcement

When the taxpayer has not made payment on the due date, and does not object to the tax assessed, tax authority can enforce payment in a number of ways. The commissioner may bring a suit against the taxpayer or request a person owing or holding money for the taxpayer to pay the money on a specified date or institute distress proceedings against the taxpayer's moveable property. In a wider context, the issue of enforcement includes offences committed by the taxpayer, and the penalties for these offences. (Kangave, 2005).

2.4 Tax Administration Practice in Ethiopia

According to the New Ethiopian Federal Tax Administration Proclamation (FTAP) No. 983/2016 the types of Tax assessment practiced in Ethiopia are Self assessment, Estimated Assessment, Jeopardy Assessment and Amended Assessment.

2.4.1 Filing of Tax Declarations

1/ A taxpayer required to file a tax declaration under a tax law shall file the declaration in the approved form and in the manner provided for in the Regulation.

2/ Subject to sub-article (3) of this Article, the Authority may, by notice in writing, require a taxpayer to file by the due date set out in the notice: a fuller declaration in relation to a tax declaration already filed; or b) such other tax declaration as the Authority specifies in the notice.

2.4.2 Payment of Tax

1/ Tax that is due and payable by a taxpayer under a tax law is a debt owed to the Government and shall be payable to the Authority. 2/ A taxpayer required to pay tax electronically by the Authority under Article 82 (2) of this Proclamation shall do so unless authorized by the Authority, by notice in writing, to use another method of payment. 3/ If a taxpayer fails to pay tax by the due date, the taxpayer shall be liable for any costs incurred by the Authority in taking action to recover the unpaid tax.

2.4.3 Disputes Resolution

When the Authority has refused an application made by a person under a tax law; the notice of refusal shall include a Statement of reasons for the refusal.

2.4.4 Notice of Objection to a Tax Decision

A taxpayer dissatisfied with a **tax decision** may file a notice of objection to the decision, in writing, with the Authority within 21 (Twenty-one) days after service of the notice of the decision (FTAP 983/2016).

2.5. Challenges of Tax Administration

A problem of tax administration as well as collection of Gombe state board of internal revenue is seems to be similar with that of the country. In respect of the issue Hassan (2014) identified the following problems: Poor staffing, system, functional legal framework (obsolete laws) , absence of the necessary infrastructure to enhanced revenue generation by tax collectors as well as administrators often fraught with leakages manual nature of tax collection processes. According to Hassan above, the identified problems are directly responsible for low revenue generation to the state and hence reduce the state government ability to provide

additional infrastructure to the public. Furthermore, if the problem persisted this would lead to a situation where public utilities may be continue affected and hampered which in turn standard of living will deteriorate. In the long run tax evasion will prevail and attitude of non-compliance from the taxpayer would reach to a higher level.

Equally (2000) cited in Abdullahi (2012) suggests that the problems related to tax administration and collection include the following: In sufficient tax personnel or manpower that are capable and competent to fit the collection exercise. Negligence and misconduct of the collected tax Bribery, corruption and fraudulent among the tax collectors; Absence of voluntary compliance behavior from the tax payers; Poor record keeping (books of account); Insufficient training and operational facilities' Frequently, the problems of tax administration and collection as identified by different findings are similar and tend to be unique. This is because the nature of the issue and the consequences are all same. Soyode and Kajola (2006) the problem course low revenues realization and which is negatively impacting on government expenditure. Furthermore, misused of tax collected, bribery and corruption, in competent tax personnel and poor proper accounting record- all these increase noncompliance attitude and facilitate low tax return to the government. The situation led to an act of tax evasion as well as tax avoidance.

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as good is the tax administration (Kaldor, 1980).

Tax administrators face a formidable number of challenges in every country. In many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers (Kaldor, 1980).

Human resource is essential in tax administration. Trained personnel are what actually most developing countries lack and this forced them, for instance, to organize their activities under the existing tax administration structure (Kaldor, 1980).

Most developing countries continue to face serious problems in developing adequate and responsive tax systems (Richard, 2008). No matter what any country may want to do with its tax system, or what anyone might think it should do from one perspective or another (ethical, political, or developmental), what it does do is always constrained by what it can do. Economic structure, administrative capacity and political institutions all limit the range of tax policy options (IMF, 2006).

2.6. How to fix good Tax Administration

Three ingredients are essential to effective tax administration: (1) the political will to administer the tax system effectively, (2) a clear strategy for achieving this goal and (3) adequate resources for the task. It helps, of course, if the tax system is well designed, appropriate for the country in question, and relatively simple, but even the best designed tax system will not be properly implemented unless these three conditions are fulfilled. Most attention is often paid to the resource problem -- the need to have sufficient trained officials, adequate information technology and so on. However, without a sound implementation strategy even adequate resources will not ensure success and without sufficient political support even the best strategy cannot be effectively implemented. If the political will exists, the blueprint for effective tax administration is relatively straightforward. The tax administration should be given an appropriate institutional form, which may (or may not) mean a separate revenue authority: It should be adequately staffed with trained officials. It should be properly organized, which usually means an organizational structure based on function or client groups (e.g. large – and small – taxpayer offices) rather than on a tax-by-tax basis. Computerization and appropriate use of modern information technology are important, but as discussed later technology alone is not sufficient and these improvements must be carefully integrated into the tax administration. Putting all this into place takes time, resources, direction and effort. But it can be done, as countries from Singapore to Chile have shown (Bird, 2007).

The first task of any tax administration is to facilitate compliance: make sure that those who should be in the system are in the system and that they comply with the rules. To do so:

- **Taxpayers must be found.** If they are required to register, the registration process should be as easy as possible. Systems must be in place to identify those who do not register voluntarily. Tax authorities should adopt an appropriate unique taxpayer identification system to facilitate compliance and enforcement.
- **The administration needs a process to determine tax liabilities.** This may be done administratively (as with most property taxes) or by some self-assessment procedure (as with most income taxes and VATs).
- **Taxes must be collected.** In many countries, this is best done through the banking system. It is seldom appropriate for tax administration officials to handle money directly. The authorities should provide adequate taxpayer service in the form of information, pamphlets, forms, advice agencies, payment facilities, and telephone and electronic filing, and so on, to make taxpayer compliance with the system as easy as possible (Bird, 2007).

2.7 The Costs of Taxation

Some seem to think that economists overemphasize the costs of taxation and the importance of efficient resource allocation. But taxes do impose real costs, and developing countries -- where resources are by definition scarce -- should strive to keep such costs as low as possible in order to free resources for socially desired objectives. Of course, taxes are not themselves a cost but rather just a means of transferring resources from private to public use. Economic costs arise only when the resources available for society's use, whether for public or private purposes, are reduced by taxes. There are several ways taxes can reduce the size of the economic pot from which all must draw.

2.7.1 Administration Costs

To begin with, it obviously costs something to collect taxes. Depending on the types of tax, the actual cost of collecting taxes in developed countries is roughly 1 percent of tax revenues. In developing countries, the costs of tax collection may be substantially higher: Gallagher (2004) reports administrative costs ranging from 0.9 to 3.9 percent for six developing countries; Warlters and Auriol (2005) report results for an additional nine countries in the range of 1.1 to 3.6 percent.

2.7.2 Compliance Costs

Less obviously, but more importantly, taxpayers incur “compliance costs” over and above the actual payment of tax. Third parties also incur compliance costs. For example, employers may withhold income taxes from employees, and banks may provide taxing authorities information or may collect and remit taxes to government. Compliance costs include the financial and time costs of complying with the tax law, such as acquiring the knowledge and information needed to do so, setting up required accounting systems, obtaining and transmitting the required data, and payments to professional advisors. Although the measurement of such costs is still in its infancy, studies in developed countries (Evans 2003) suggest that compliance costs are, as a rule, about four to five times larger than the direct administrative costs incurred by governments.

2.8 Improving Tax Administration

Reaping revenues from tax rate changes (in any direction) requires that tax administration is effective to at least some extent. Raising revenues through base expansion requires even better tax administration. New taxpayers must be identified and brought into the tax net and new collection techniques developed. Such changes take time to implement. The best tax policy in the world is worth little if it cannot be implemented effectively. Tax policy design must take into account the administrative dimension of taxation (McLaren 2003).

The importance of good administration has long been as obvious to all concerned with tax policy in developing countries as its absence in practice. One cannot assume that whatever policy designers can think up can be done or that any administrative problems encountered can be easily and quickly remedied. How a tax system is administered affects its yield, its incidence, and its

Efficiency Administration that is unfair and capricious may bring the tax system into disrepute and weaken the legitimacy of state actions. In many transitional countries, for instance, the failure to improve tax administration when introducing new tax structures resulted in very uneven tax imposition, widespread tax evasion, and lower than anticipated revenue. In developing countries, corporate tax liabilities are often negotiated rather than calculated as set out in the law. Bribery is sometimes so common that it is considered a regular part of the compensation of tax officials. Such corruption

undermines confidence in the tax system, affects willingness to pay taxes, and reduces a country's capacity to finance government expenditures (Fjeldstad 2005).

Tax administration is a difficult task even at the best of time and in the best of places, and conditions in few developing countries match these specifications. Revenue outcomes are not always the most appropriate basis for assessing administrative performance. How revenue is raised - the effect of revenue-generation effort on equity, the political fortunes of the government, and the level of economic welfare - may be equally (or more) important as how much revenue is raised. Private as well as public costs of tax administration must be taken into account, and due attention must be paid to the extent to which revenue is attributable to enforcement (the active intervention of the administration) rather than compliance (the relatively passive role of the administration as the recipient of revenues generated by other features of the system). Assessing the relation between administrative effort and revenue outcome is by no means a simple task. Neither is improving administrative efforts and outcomes (Bird, 2007).

2.8.1 Assessing Tax Administration

It is useful to think of the problem of tax administration at three levels – architecture, engineering, and management (Shoup 1991). The first level concerns the design of the general legal framework - not only the substance of the tax laws to be administered but also a wide range of important procedural features. Once the general architectural design has been determined, the engineer takes over and sets up the specific organizational structure and operating rules for the tax administration. Finally, once the critical institutional infrastructure has been erected, the tax managers charged with actually administering the tax system can do their jobs. One cannot assess how well a tax administration is functioning, let alone suggest how to improve it, without taking into account not only the environment in which it has to function but also the laws it is supposed to administer and the institutional infrastructure with which it has been equipped.

To appraise the efficiency or effectiveness of tax administration one thus needs to take into account both the degree of complexity of the tax structure and the extent to which that structure remains stable over time. Complexity and its implications for tax administration has long been a concern even in the most developed countries. Even the most sophisticated tax administration can easily be overloaded with impossible tasks

(Hood 1976). Such concerns are obviously critical in countries in which less well-equipped administrators are asked to tackle inherently complex tasks in a generally hostile and often information-poor environment. The life of the tax administrator is made even more complicated by the propensity of many governments, reflecting in part the unstable political and economic environment, to alter tax legislation annually, or even more frequently. Both the complexity of the tax structure and its stability are thus important factors to be weighed in assessing tax administration.

Disaggregation of the 'black box' of tax administration along such lines is particularly important since the main ways in which to improve administrative outcomes is either to alter the tasks with which the administration is charged or to strengthening the tools with which it is equipped. Simple exhortations to "do better" are of little use to resource-strapped administrators faced with impossible tasks. Nor are the various gimmicks or quick-fixes that seem to come easily to the minds of clever policy designers of much use in resolving tax administration problems (Bird, 2004a)

Experience around the world demonstrates that the single most important ingredient for effective tax administration is clear recognition at high political levels of politics of the importance of the task and willingness to support good administrative practices -- even if political friends are hurt. Few developing countries have been able to leap this initial hurdle. Frequently, urged by international agencies or simply desperate to get more revenues, countries have launched frantic efforts to corral defaulters or to rope in new victims without hurting politically powerful interests and without providing the time, resources and consistent long-term political support needed to do a good job. The widespread reluctance to collect taxes efficiently and effectively without fear or favor may be understandable in countries which are fragile politically, but without such efforts, no viable long-term tax system can possibly be put into place. If the political will is there, the techniques needed for effective tax administration are not a secret (Bergman, 2002)

2.9 Requirements of sound and effective Tax Administration

According to Bird (2008) Tax administrations to be sound and effective and for guaranteeing the integrity and impartiality of the tax administration; continuity of a sound tax administration and taxpayers' trust in the Tax Administration; the following elements or requirements should be fulfilled and exercised.

- ✓ a strict code of behavior promoting ethical and professional standards;
- ✓ incompatibility of staff for carrying out tax advisory activities or running private companies;
- ✓ recruitment, admission and promotion of staff exclusively on professional grounds without political interference;
- ✓ competitive remuneration for staff;
- ✓ autonomy in strategies to control compliance and interpretation of the law;
- ✓ protection of privacy and confidentiality of information provided by taxpayers;
- ✓ promoting voluntary compliance and reducing tax evasion;
- ✓ improving productivity, quality of service and taxpayer satisfaction;
- ✓ reducing compliance costs for taxpayers;
- ✓ availability of adequate human, financial and technological resources;
- ✓ Consultation of the Tax Administration in the design of tax legislation.
- ✓ providing adequate technical training programs to their officials;
- ✓ fair, reliable and transparent application of the tax laws;
- ✓ reliable service provision;
- ✓ efficient processing of taxpayers' returns, requests, appeals and enquiries;
- ✓ professional communication strategies to improve awareness; and
- ✓ Disseminating and respecting the rights of taxpayers.

2.10 Empirical Review

2.10.1 Global

Hassen (2014) studied on the problem of tax administration as well as collection of Gombe state board of internal revenue in Nigeria identified the following problems: Poor staffing, system dysfunctional legal framework (obsolete laws) , absence of the necessary infrastructure to enhanced revenue generation by tax collectors as well as administrators often fraught with leakages manual nature of tax collection processes. According to the searcher, the identified problems are directly responsible for low revenue generation to the state and hence reduce the state government ability to provide additional infrastructure to the public. Furthermore, if the problem persisted this would lead to a situation where public utilities may be continue affected and hampered which in turn standard of living will deteriorate. In the long run tax evasion will prevail and attitude of non-compliance from the taxpayer would reach to a higher level.

Marta (2014) studied on selected Challenges of Tax Administration in the context of Fiscal consolidation in European countries; the results suggest that tax administration caused most problems to firms in Hungary and Romania and least in Estonia and Slovenia. The number of tax inspections is the highest in Romania, together with the Czech Republic. In the case of Slovakia, tax administration problems and tax inspection are below the average of selected European countries. The problems with tax administration are in average less common in non-EU countries rather than selected EU countries, which is a pretty interesting finding, especially when the number of tax inspections are in average higher in non-EU countries. Competition against unregistered or informal firms is the greatest in Bulgaria, Hungary, Czech Republic and Latvia; we can assume that the level of tax evasion should be rather high in these countries. The opposite is true especially for the Estonia and Slovenia, but also Slovakia performs fairly well. The average values referring to the shadow economy and tax evasion are significantly higher for non-EU countries compared to EU. A closer look at the regions of Slovakia revealed that the number of tax inspections is much higher in the Slovensko region, despite the fact that the shadow economy and tax evasion seems to be the biggest problem in Zapadne Slovensko where the number of tax inspections is the lowest. The possible suggestion for the tax authorities in Slovakia arising from these results is to focus greater attention in tax audits on this region despite the higher proportion of rural firms, which can cause some difficulties. The tax administration is the most serious problem also in Zapadne Slovensko. This could be also related to the possible higher tax evasion.

Based on the results of the regressions we can also expect that rural firms are more involved in the shadow economy, because perceptions of competing against informal sector firms is the highest in this case. Despite this fact, the tax inspections seem to be slightly less common in these firms in the EU. Moreover, private limited companies, sole proprietors and firms with limited or no export focus seem to be more likely involved in the shadow economy. Referring to the type of industry, the firms in the transport and construction industries could be the most likely participants in the shadow economy and tax evasion. More attention of tax auditors should be paid especially to these types of firms and these industries. There is already some evidence that tax audits are to some extent targeted at likely tax evaders. However, the focus of

tax audits on industry is not accurately targeted based on our results. Surprisingly perhaps in terms of industry, the non-EU countries seem better targeted.

The time to prepare and pay taxes is very extensive in Romania, Ukraine and Moldova. Slovakia is significantly below the average of selected countries for this indicator. This should be positive for taxpayers but could be partly responsible for the higher costs of tax administration in Slovakia. However, these issues should be further researched by regression analysis to shed more light on this problem. Corruption in tax administration is likely to drop sharply in recent years in all of the selected countries, which is a very positive trend in the fight against tax evasion.

Equally (2000) cited in Abdullahi (2012) suggests that the problems related to tax administration and collection include the following: In sufficient tax personnel or manpower that are capable and competent to fit the collection exercise. Negligence and misconduct of the collected tax Bribery, corruption and fraudulent among the tax collectors Absence of voluntary compliance behavior from the tax payers Poor record keeping (books of account. Insufficient training and operational facilities frequently, the problems of tax administration and collection as identified by different findings are similar and tend to be unique. This is because the nature of the issue and the consequences are all same. Soyode and Kajola (2006) the problem course low revenues realization and which is negatively impacting on government expenditure. Furthermore, misused of tax collected, bribery and corruption, in competent tax personnel and poor proper accounting record- all these increase noncompliance attitude and facilitate low tax return to the government. The situation led to an act of tax evasion as well as tax avoidance.

A study by Asian Development Bank (2016) With regard to Tax offices Staff Turnover and Attrition Rates the study found that A high turnover rate can result from a variety of factors, for example, (i) high levels of staff dissatisfaction; (ii) significant downsizing impacts resulting from cuts in staffing expenditure; and (iii) age demographics (i.e., an aged workforce that sees significant numbers of retirements). The staff attrition rates computed for 2013 generally show relatively low rates of staff movement for most revenue bodies. The sole major exception to this (e.g., the Maldives) experienced a relatively large number of staff recruits as part of a general expansion program and, at the same time, a fair number of staff departures.

Awitta (2010), Conducted a study on effectiveness of revenue collection strategies at Kenya revenue authority in Nairobi, a Master's Thesis submitted to the University of Nairobi .The researcher used descriptive research design and data was collected through questionnaire and face –to face interview from Kenya Revenue Authority employees. The collected data was analyzed with the help of SPSS using descriptive statistics using tables, charts and graphs and inferential statistics such as Pearson correlation to examine the relationship between variables. The study found that, staff training by Kenya Revenue Authority has enhanced their skill, knowledge and professional capacity. In addition the study revealed that taxpayers' education has enhanced taxpayers' level of awareness of different tax regimes. Finally, the study recommended that taxpayers' education should be strengthened since it has significant relationship with taxpayers' satisfaction.

2.10.2 The Ethiopian Case

In Ethiopia there are some researches done on tax issues with different titles; some of these are mentioned below.

Habtamu (2015) studied on challenges of Value Added Tax Administration in East Wollega Zone Nekemt Town Revenue Authority using both primary and secondary data sources. To investigate the primary sources, questionnaires were used as appropriate tools to gather relevant information for the problem under study. On the other hand, in the secondary data was collected from official documents of the organization and records about current Value Added Tax administration system and from Organization Authority Office and different statistical bulletins and websites has referred. Generally, secondary data have the following advantages for the study. The collection of these secondary data saves time and money it contains the most reliable quantitative data. The study found that East Wollega Zone Revenue Authority faced under the following challenges in administration of Value Added Tax. Such challenges include: Resistance against Value Added Tax registration, Low level of tax awareness, weak audit and enforcement capacity of the tax authority, sell goods and service without tax invoice Value Added Tax collectors, Tax laws enforcement problems, are the challenges which affect the collecting sufficient revenue in terms of Tax collected from Value Added Tax. Furthermore, the study found the main problem of Value Added Tax implementation practice in East Wollega Zone are: lack of tax payers awareness, Lack of selling goods and services without tax invoice or lack of

use proper Value Added Tax invoices, weak culture of taxpayers, and lack of fairness, lack of experience of Value Added Tax registrants, weak follow-ups and controlling mechanisms against those unregistered and registered Value Added Tax payers. The study recommended that the major mechanism which the authority office supervising and monitoring is those whether unregistered and registered of Value Added Tax taxpayers was door to door inspection. This Method is one of the most authority office mechanisms of monitoring and supervising locking the Value Added Tax registered and try to search unregistered to registering for Value Added Tax.

Bisrat (2010) on his study An Examination of the Link between Taxes Administration and Value Added Tax Compliance in Ethiopia after considering the Ethiopian VAT administration, he found four important issues were identified to study the link between VAT compliance and tax administration. These were the audit probability, the perceived fairness of VAT, degree of satisfaction with the service of tax authority, and Business people perception about the VAT money. The researcher recommended that in order to enhance taxpayer's compliance the tax authority should endeavor in all the above-mentioned four issues. Moreover, the audit probability and the perceived fairness of VAT are the two most serious issues needs to be considered by the tax authority the moment possible. Owing to its high revenue generating role, the tax authority is expected to give due attention and improve the taxpayers voluntary compliance.

Samson (2012) assessed the efficiency and effectiveness of tax management with special emphasis on VAT-the case of ERCA-Large Tax Payers Branch Office. The research instruments were questionnaires and interview for the tax payers, the communities of Addis Ababa, and the branch authority employees. The total population for tax payers was 1076, for tax collectors were 205 and for consumers is all residents of Addis Ababa. The sample technique used was purposive for tax collectors, convenience sampling for the rest. The researcher found that the causes of efficient and effective VAT management failure are multidimensional. They include both internal and external factors and these are interrelated. Among the causes of failure are: limited office capacity, lack of unfit technologies, lack of sophisticated laws and procedures, lack of public awareness, and negative attitude of tax payers in the study area. He recommended that to enhance the efficiency and effectiveness of VAT management, the authority should established permanent training and advisory

service for tax payers that giving knowledge how to fill the VAT form and how to report the VAT including what the tax payer right and duties. The authority office also shall be given well organized training continuously for the staffs, tax payers as well as the communities in general. It should create and develop positive attitude in all stakeholders mind about the benefit of VAT.

Temtim (2014) examined the views of taxpayers towards the tax administrative mechanism, and tax law enforcement. The study adopted a sequential explanatory mixed method research approach. The data was collected from federal business taxpayers through questionnaire and in-depth interview. The collected data was analyzed using descriptive data analysis. The author found that business taxpayers are not satisfied with the practice of tax administration. The ways tax authority provides tax information to taxpayers, tax collection and tax refund, administration capability to solving taxpayers' problem and the area of tax audit procedures are found to be the major dissatisfied and challenging areas. Moreover the finding revealed that the tax system is so complex and unfair, discretionary treatment by officers and existent of lack of monitoring in the tax authority. Finally, the researcher suggested that the government in general and tax authorities in particular should improving tax policy and administration issues; step up their duty of promoting tax awareness, tax officers should be given intensive and repetitive training to improve their attitude and promoting code of conduct with emphasis on ethical values and finally, tax refund procedure would be improved.

Haftay (2016) on his study entitled "Assessment of Large Taxpayers' Satisfaction with tax service delivery in Ethiopian Revenues and Customs Authority: The Case of Large Taxpayers' Branch Office." To achieve the objective, the mixed research approach was employed and sample data was collected from 298 large taxpayers' by survey method. Questionnaire and in-depth interview were used to collect the data. Quantitative data was analyzed by using descriptive and inferential analysis and thus, non parametric statistical test was used to test the hypothesis. The result of the study revealed staff attitude, skill and knowledge gap, delay of tax employee to give timely decision, Network problem, inconsistent taxpayers' education, staff ethical problem and poor customer handling culture were among the service delivery problems in the branch.

Markos (2010) on his study entitled “VAT administration and revenue performance: Challenges and opportunities in ERCA Mekelle Branch office using a sample size 120 from VAT registered taxpayers and 20 tax employees. The researcher employed primary and secondary data sources and analyzed using descriptive data analysis method. The researcher found that, in the process of VAT administration and revenue generation, the main problems were attitudinal problem of the tax payers and implementation capacity of the government employees. As a result, the data show that there are many business men and.

2.10.3 Summary and Literature gap

The study identified some research gaps from empirical literature including contextual, geographical and methodological gaps. For contextual gap, most studies did on challenges of single tax types like VAT. For example, Habtamu (2015) studied on challenges of Value Added Tax Administration in East Wollega Zone Revenue Authority. The study found that East Wollega Zone Revenue Authority faced under challenges Such as - Resistance against Value Added Tax registration, Low level of tax awareness, weak audit capacity of the tax authority, transaction of goods and service without tax invoice. This old study can't answer the objectives and research questions of the current study. However, the current study focused on challenges of tax administration in general with selected variables like tax assessment and collection, tax service delivery, tax law enforcement, competency of tax employees and tax compliance precisely.

In addition, several studies revealed conceptual gaps since they did not address the objectives of the current study. Bisrat (2010) on his study An Examination of the Link between Taxes Administration and Value Added Tax Compliance in Ethiopia did not answer the objective of the study. The current study addressed this gap by focusing In addition, several studies revealed conceptual gaps since they did not address the objectives of the current study.

Lastly, methodological gap was evident in the literatures. The studies have used census approach whereas the current study will adopt a survey method and some studies Marta (2014) studied on selected Challenges of Tax Administration in the context of European countries; has used only secondary source of data from each

revenue offices while the current study will use primary data from taxpayers and tax employees.

Thus, to the knowledge of the researchers, though there are some studies, challenges of tax administration (tax assessment and collection, service delivery, tax law enforcement, competency of tax employees and tax compliance) have not been well studied. Therefore, the goal of this study is to assess the tax administration challenges in Addis Ababa Revenue Authority the case of Arada Sub-city small taxpayers' branch office.

CHAPTER THREE

Research Design and Methodology

3.1 Description of the Study Area

Addis Ababa, the capital city of Ethiopia, was founded in 1886 by Menelik II. The city is only 122 years old. Addis Ababa is located almost in the centre of Ethiopia and it is in an altitude of about 2,400 metres above sea level. It had a built up area of 290 square km in 2004 and has an estimated population of 4 million. The live expectancy is at 62.8 for males and at 66.5 for females (UN-Habitat, 2007). It is the seat of the United Nations Economic Commission for Africa (UNECA) and the African Union (AU), what makes call Addis Ababa as the capital of Africa for its historical, diplomatic and political significance for the continent. As a chartered city , Addis Ababa has the status of both a city and a state.

Geographically, Addis Ababa lies at an elevation of 2,300 metres (7,500 ft) and is a grassland biome, located at $9^{\circ}1'48''N$ $38^{\circ}44'24''E$.¹⁷ city lies at the foot of Mount Entoto and forms part of the watershed for the Awash. Currently, the city is divided into 10 sub cities 116 wards. The 10 subcities are 1.Gullele 2.Addis ketema 3.Arada 4.Yeka. 5. Kirkos, 6. Lideta 7.kolfe keranyo 8. Bole9. Nefas silk lafto 10.Akaki kality sub city.

Regarding climate , Addis Ababa has a subtropical highland climate (The city has a complex mix of highland climate zones, with temperature differences of up to 10 °C (18 °F.)



District Map of Addis Ababa/
Addis Ababa city government,
2019/

Arada sub city administration, which is located Arat kio, in front of Menilik two preparatory school, has an Area of 9.9 sq km, population of 225,999/male 105,963 and female 120,036/, population density pr sq.m :22,805.1 ,has 10 weredas.

ERCA is the federal government revenue authority Established by Proclamation No.587/2000. Its Head Quarter (HQ) is found in Addis Ababa around Meganegna. It has about 36 branch offices both Customs and Domestic tax branches.

Arada Sub –city, which is the case study of this research, is one of the small taxpayers branch office from the ten sub cities in Addis Ababa city Administration. The branch office established in 2010 during Addis Ababa revenue Agency merged with ERCA in order to provide modern and fast service for the large tax payers of the country to facilitate manufacturing, industry and investment.

The office is located in Arada sub city a place called Enat Building near to Central statistics' Agency. It is about two kilometers far from the Addis Ababa municipality. Currently Arada revenue has about 1500 active Category A and B small taxpayers engaged in different business areas/sectors/ like construction, retailing, service, wholesale, hotel and restaurants, transport, etc. The branch has five departments /business processes/ Customer service, tax assessment, collection and arrears' follow up, tax audit, law enforcement and Resource administrative business processes. Arada Revenue Office Currently contributed about 10 percent of the domestic tax collected in Addis Ababa tax Authority to the City administration total tax revenue. Its revenue collection performance is growing from time to time, but there are a lot of gaps in the efficiency and effectiveness of the tax administration in general and tax assessment/Audit/ , tax collection, tax service delivery , trained manpower and tax law enforcement of tax administration in particular.

3.2 Research Design

The research design describes the plan in which information will select from the research participants. Research design indicates what needs to be done while heading in the specific direction.The study conducted based on descriptive research to assess Challenge of effective and efficient tax administration the case of Arada Small tax payer's branch office.

The researcher has used relevant descriptive research to analyze data as the designed research to assess the quality of service in selected branch by means of close-ended questionnaire. The reason behind using descriptive research design is because the researcher is interested in describing the existing situation under the study by Creswell (1994) stated that the descriptive method of research is a technique of gathering information about the present existing condition. This research design is a fact finding study with adequate and accurate interpretation of findings the descriptive research suggested decision makers of the authority to understand better how to improve the quality of service delivery that can satisfy its customers.

It was based up on the data collected from the organization's archives, official website, literature review, questionnaire distribute to employees of the organization and from personal experience and observation. Preliminary in-depth interviews conducted with the selected employees and customers to gain understanding of their' perception and to assist in the development of questionnaires.

3.3 Research Approach

The researcher used Quantitative and Qualitative approach (a mixed research approach).The quantitative approach with a quantitative research questionnaire, to answer the research questions which are very imperative to meet the main objectives of the study. Furthermore, the qualitative approach was used in the structured interview, observation and document analysis to evaluate the branch office Challenge of tax administration. The reason to use the mixed method is because it is advantageous to triangulate or offset limitations in data collection and analysis stage in each the quantitative and qualitative approaches. In addition, this approach serves for better interpretation of findings as the information missed by one way might be addressed by the other approach. It is also the most valid and reliable way to develop understanding of the much wider and complex social reality. Furthermore, the application of such approach helps to lead respondents' perception to the research problem under discussion.

3.4 Research Methods

Research methods may be understood as all those methods/techniques that are used for conduction of research. Research methods or techniques, thus, refer to the methods the researchers use in performing research operations. In other words, all

those methods which are used by the researcher during the course of studying his research problem are termed as research methods (Kothari, 2004).

So, to address the research problem of the study using a survey method, the researcher used self administered questionnaires with close and open ended type. This is important because due to a large sample used to administer simply and to minimize cost and time. In addition, the researcher has used structured interviews and observation to evaluate the Challenge tax administration in the study area in line with Arada Sub-city small taxpayers.

3.5. Target Population and Sampling

3.5.1. Population

According the taxpayers segmentation, the target population or universe of the study is 1500Active category “A” and B taxpayers of the revenue office as of the data from Arada Small Taxpayers Branch Office Customer service department /Arada, 2019/.

3.5.2 Sampling Technique

In this study, the researcher was apply non- probability sampling techniques. From the Non –probability sampling technique, a Convenience sampling methods hasused for questionnaires and the purposive sampling method for the interview with the selected tax officials and tax officers. This was because, the researcher believed that, the selected ones, they are routinely interacted with customers and has a good understanding and knowledge concerning the Challenge of tax administration in the study area. In all forms of research, it would be ideal to test the entire population, but in most cases, the population is just too large that it is impossible to include every individual. This is the reason why most researchers rely on sampling techniques like convenience sampling, the most common of all sampling techniques. Many researchers prefer this sampling technique because it is fast, inexpensive, easy and the subjects are readily available. Therefore, convenience sampling method has used for this study to the tax payers and Purposive sampling method for interview the tax employees.

3.5.3 Sample Size

In the determination of sample size, the general rule implies that the larger the sample size, the more representative sample it will be, and the more accurate results. In

addition, according to research scholars, neither very large nor very small sample size is not good. Because, the size of the sample should be set in a way that can ensure both minimum cost and minimum of standard error. Based on the nature of the problem, using a formula, a sample of 211, where 113 from the category ‘A’ taxpayers’ and 98 from category ‘B’ taxpayers’ were selected from the total population of 1500 taxpayers (800 A and 700 B) to attain a greater degree of representativeness of the views of the taxpayers’ and to achieve a high degree of reliability and validity. The sample size, as Jaro (1989) was determined by:

$$fn = n/1 + n/N$$

Where,

n = is the size of the sample at 95% level of significance and the proportion in the target population estimated to 0.2 because they have similar characteristics.

N=Target population of the study area

The population size=1500

Standard error=5%

fn= Sample size from target population

Therefore,

$$n = Z^2 pq / d^2$$

Where,

n= the sample size when infinite population

d= degree of freedom

p= probability to selected

q= 1-p

Z= is found in statistical table

$$n = (1.96)^2 * 0.2 * 0.8 / (0.05)^2 = \underline{246}$$

Then substituting n in the first formula will give

$$fn = n/1 + n/N = 246/1 + 246/1500 = \underline{211}$$

Therefore, the sample size (n) =211

Moreover, for the purpose of the interview, out of 136 employees of the revenue office 5 management team, 5 tax team leader and 2 tax officers totally 12 tax officials and tax experts were selected purposively. The reason for determining using purposive sampling technique of sampling is the need to include the experts having a

good knowledge and experience about the issue under study and they are critical to the relevant data collection.

3.6 Source of Data and Type of Data

The researcher gathered data from both primary and secondary sources. Moreover, the data type used to achieve this study was both primary and secondary data.

3.6.1 Primary Data Sources

The primary data was collected using self administered structured questionnaires to collect first hand and primary information from taxpayers and interview from tax officials and officers. The questionnaire consisted both closed and open ended questions. Closed ended Questions are easier to be understood and replied by respondents and also they are easy for the researcher to compile quickly. Most of the close ended questionnaire was designed on the basis of ordinal scales of measurement. Furthermore, observation in revenue office was taken place by the researcher to see the access and facility, taxpayer complains from written documents in the office.

3.6.2. Secondary Data Sources

Among the secondary data, to analyze the challenges of tax administration different journals, articles, books, the web page, governmental and Non-governmental organization documents, reports and other published and unpublished documents used to accomplish the study having relevant data as secondary data sources

3.7 Data Analysis and Interpretation

After collecting the necessary data from different sources, it was coded, and tabulated. The method of data analysis was descriptive analysis. The rationale behind using descriptive study is that the researcher is interested in describing the existing situation under study. The analysis was handled in a way that each issue included in the study is addressed. Both data collected from questionnaires and in-depth interview were analyzed separately using quantitative and qualitative descriptions. Then, the data were analyzed using computerized data analysis package know Statistical Package for Social Science (SPSS version 23).

3.8. Data Presentation

After a careful data analysis has been done, the researcher has presented the data using simple percentage, tables, figures, charts, graphs, and diagrams in clear and understandable manner.

3.9 Ethical Considerations

The researcher has got respondents' willingness in the research process by creating a good rapport through introduction, explaining the purpose of the study and the benefits they get from this study. The researcher used coding method of avoiding all identification numbers, name, address to ensure anonymity and keep them from hesitation and frustration through the provision of full explanation regarding the purpose of not writing their names on the questionnaire. Ethical clearance was obtained from the Saint Mary University. Moreover, Addis Ababa Revenues Authority /AARA/ Arada Small taxpayers Branch Office was communicated for its' permission and support during the data collection. Moreover, all information collected from the respondents has treated with confidentiality without disclosure of the respondents' identity and, no information was modified or changed.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4. INTRODUCTION

This chapter dealt with the detail analysis of the findings based on the data collected both from primary and secondary sources which were analyzed using statistical package for social science (SPSS V23). The filled questionnaires were checked, cleaned and edited to ensure that they are correctly and completely filled. The data was then coded and analyzed using Statistical Packages for Social Sciences. The raw data collected from the study was organized through descriptive statistical methods to analyze and interpret the data obtained. Descriptive statistics such as frequencies and percentages was used.

4.1. Respondents Response Rate

A total of 211 self administered and structured questionnaires were distributed to Arada Sub-City Small taxpayers' branch office taxpayers to gather their opinions on challenges of tax administration practice. Out of the 211 questionnaires 100 were completed and returned As a result the response rate was 47.39 percent. Though the researcher has been exerted much time to increase the response rate, due to the poor response culture in Ethiopia some questionnaire couldn't returned back to the researcher.

4.2. Reliability and Validity Test

4.2.1 Reliability

The researcher used Reliability test analysis for the assessment challenges of tax administration factors using Cronbach's alpha (α). Cronbach's alpha is the most common and widely used measure of internal consistency (reliability) when data have multiple Likert questions in a questionnaire that forms a scale to decide whether the scale is reliable or not (Adam and Mark, 2016).

Cronbach's alpha reliability coefficient normally ranges between 0 and 1. The closer the coefficient is to 1.0, the greater is the internal consistency of the items (variables) in the scale. George and Mallery (2003) , Joseph and Rosemary (2015) provide the following rules of thumb: “ $\alpha > 0.9$ – Excellent, $\alpha > 0.8$ – Good, $\alpha > 0.7$ – Acceptable, $\alpha > 0.6$ – Questionable, $\alpha > 0.5$ – Poor, and $\alpha < 0.5$ – Unacceptable” (p. 231).

Moreover, the widely acceptable cut –off level of Alpha value in most social science research is 0.7 (Hulland, 1999).To this end, the researcher has checked the Reliability of the 25 items in the Likert- type Questionnaires.

Reliability Statistics

Cronbach's Alpha ^a	N of Items
0.90	25

Source: Compiled from survey questionnaires using SPSS V 23, (2019)

The reliability test of the study shown an excellent overall Cronbach Alpha Coefficient 0.90 which is far greater than 0.7, this shows that there is very high internal consistency and reliability in the questionnaire. Therefore, the level of alpha was considered to be reliable enough to proceed with the data analysis.

4.2.2 Validity test

Validity, on the other hand, is a general term denoting “correctness of measure” (Yaremko, 1982). To be valid instrument the survey questions must measure the identified dimension or construct of interest (Zaja and Blair, 2005). Factor analysis is a statistical technique that used to assess the construct validity. Thus, the researcher has checked the validity of the instrument using the KMO and Bartlett’s Test.

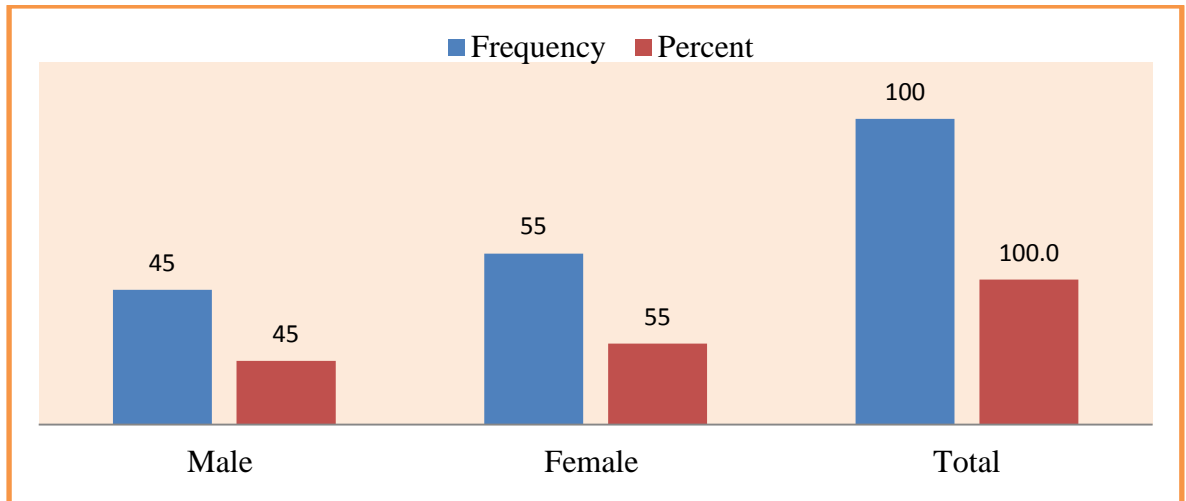
KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.508
Bartlett's Test of Sphericity	Approx. Chi-Square	4061.30
	Df	300
	Sig.	0.000

Source: Compiled from survey questionnaires using SPSS V 23, (2019)

4.3 Demographic Profile

4.3.1 Gender of Respondents

Figure 4.1 Gender of taxpayer Respondents



Source: Compiled from survey questionnaires using SPSS V 23, (2019)

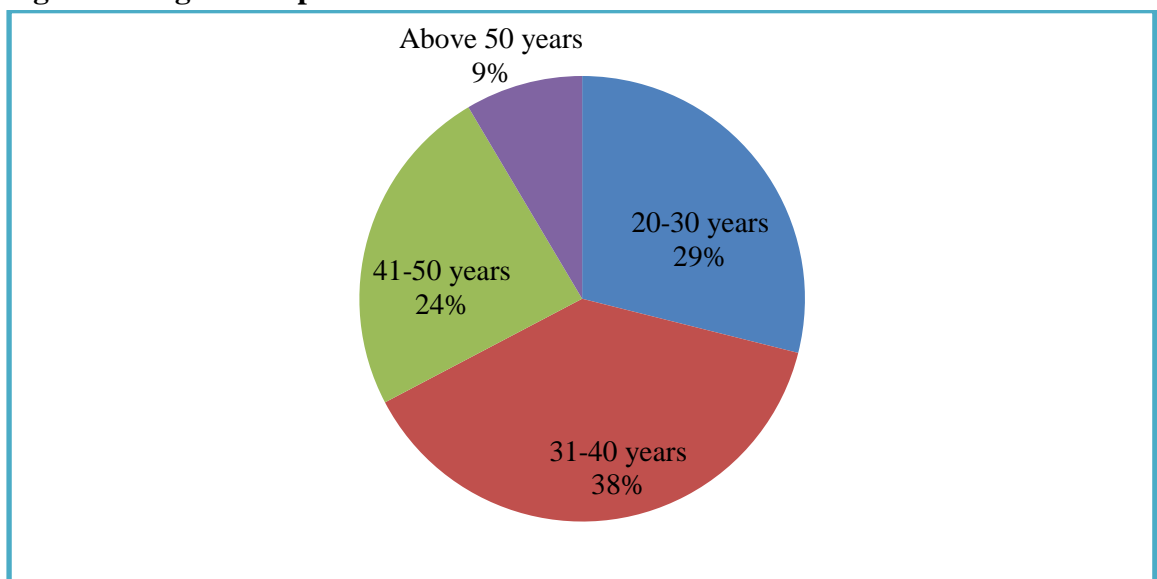
According to the figure 4.1 above, out of the 211 sampled taxpayers, the proportion of female taxpayer respondents were 55 (55%) and the remaining 45 (45%) were male respondents.

Therefore, it can be concluded that female taxpayers were more participated in the study.

4.3.2 Age of Respondents

The Figure below indicates the Age Respondents.

Figure 4.2 Age of Respondents



Source: Compiled from survey questionnaires using SPSS V 23, (2019)

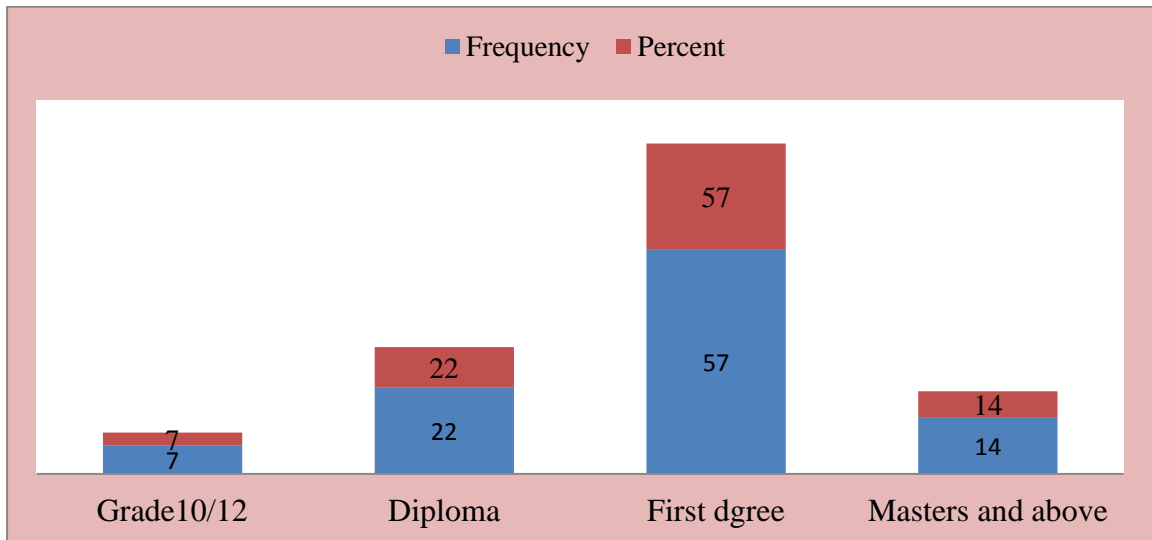
According to the figure 4.2 above, concerning age of taxpayers' respondents the majority (38%) of respondents was 31-40 years, 29% of respondents were 20-30

years, 24 % were 41-50 years and the remaining 9 % of respondents were above 50 years.

4.3.3 Educational Profile

The following figure demonstrates the Educational Level of Respondents

Figure 4.3 Educational Levels of Respondents



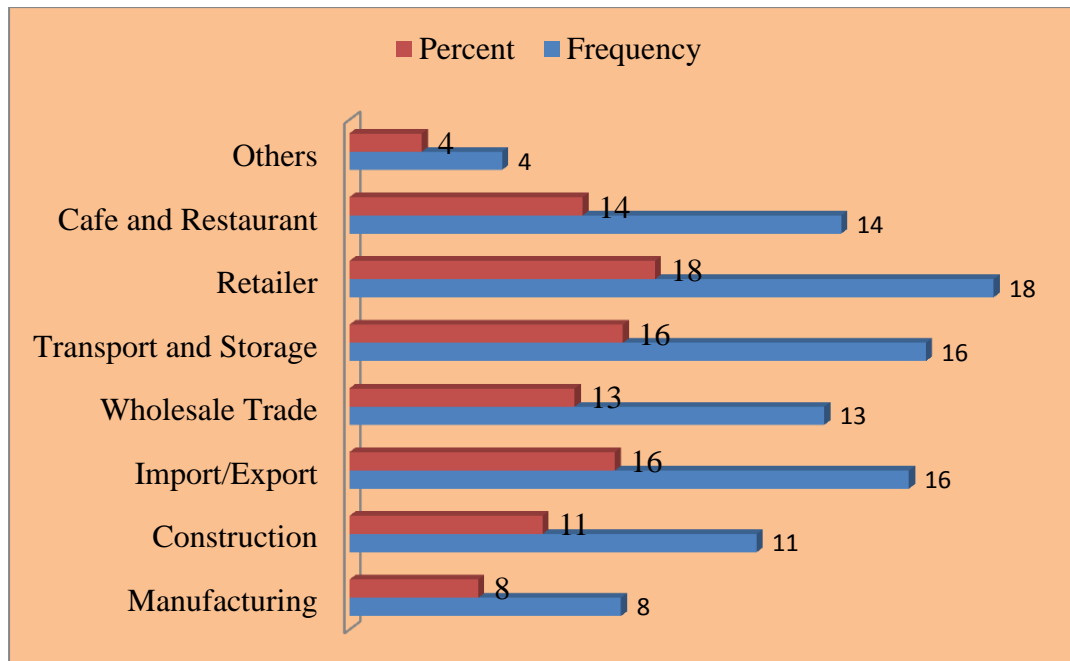
Source: Compiled from survey questionnaires using SPSS V 23, (2019)

As indicated in the above Figure 4.3 customers' respondents' profile by level of education, majority (57%) of the respondents' had bachelor's Degree, 22% of respondents had Diploma, 14% Masters Degree and the remaining 7 % respondents were up to grade10/12.

From this finding the researcher can conclude that, the respondents can understand and answered the questionnaire properly.

4.3.4 Taxpayers' Types of Business

Figure 4.4 taxpayers' types of Business.



Source: Compiled from survey questionnaires using SPSS V 23, (2019)

From figure 4.4 above, we can see that from the total 100 respondents, the respondent's main business activity /sector / consisted of Retailer trade / 18%, Transport 16%, Import & Export trade 16 %, Café ad restaurant13.7%, Whole sale trade 13%, construction 11 %, Manufacturing 8 % and the remaining 4% include others sectors.

Overall, majority of the taxpayers are engaged in sectors like retailers, transport, Import/Export, café and restaurant and wholesale trade

4.3.5 Period the company existed

Table 4.1 Year of establishments of Business of taxpayers

Year of establishments of Business		Frequency	Percent
Valid	< than 5 years	54	26
	5-10 years	60	28
	10-15 years	57	27.0
	Above 15 years	40	19.0
	Total	211	100.0

Source: Compiled from survey questionnaires using SPSS V 23, (2019)

As revealed in table 4.1 above, 28% of the respondents represent companies established from 5-10 years, 27 % established 10-15 years, 26 represent for companies less than 5 years established and the remaining 19 % respondents were for Company's stayed in business Above 15 years.

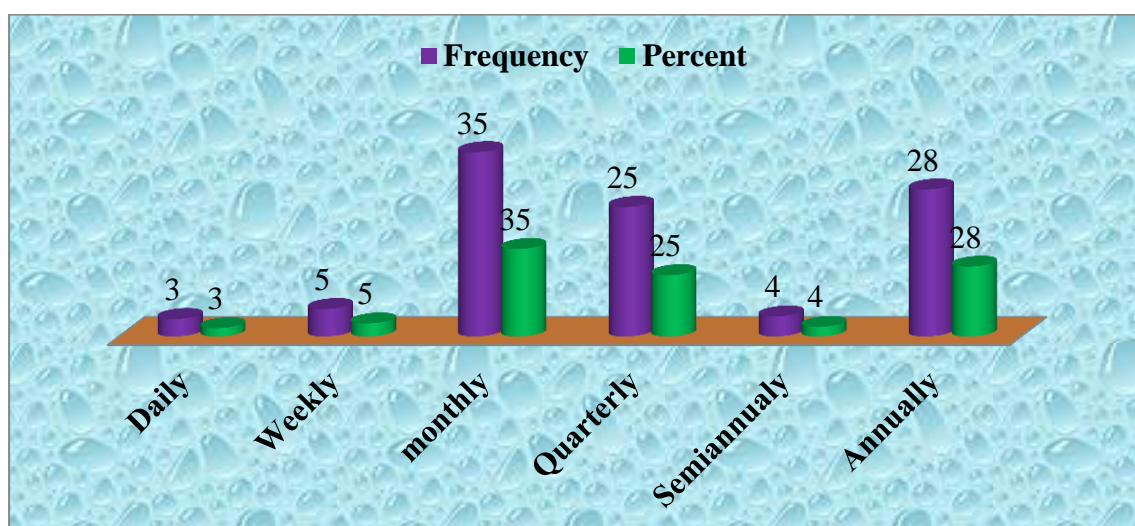
Generally, more than 46 % of the companies were established 10 years and above and can express their views and perceptions on the tax administration challenges of the branch office and their satisfaction with it properly.

4.3.6 Frequency of taxpayers visit to Arada Revenue Branch Office

Figure 4.5 below shows the average contact of taxpayers to Arada Revenue office for tax service. The majority 35 (35%) of taxpayers responded on average visited the revenue office on monthly basis to get any tax issue related services, 28(28%) replied on annually basis and 24(24.6%) answered on quarterly bases. The remaining 5(5%) replied they have contact with the revenue office on weekly, 4(4 %) Semi-annually and 3 (3%) on daily bases respectively.

From the above data presentation, the researcher can conclude that majority of small taxpayers' visit averagely on monthly, quarterly and annually bases to file their annual and indirect taxes and to get different type of services from the revenue office.

Figure 4.5 Frequency of taxpayers visit to Arada Revenue Branch Office



Source: Compiled from survey questionnaires using SPSS V 23, (2019)

4.4. Results and Findings of the study

4.4.1 Tax Compliance

The following table shows the responses of taxpayers on the tax compliance and its challenge on tax administration.

Table 4.2 Taxpayers' response on Tax Compliance in Arada Revenue office

Item	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Tax office is strong on promoting voluntary compliance	32	32	45	45	7	7	13	13	3	3
Tax office is reducing compliance cost for taxpayers	21	21	53	53	6	6	14	14	6	6
Tax administrative penalties are faire to enhance taxpayers' compliance level.	8	8	18	18	15	15	37	37	22	22
Tax office has strong risk based enforcement on fraudulent taxpayers'	28	28	43	43	11	11	15	15	3	3
Taxpaying culture among taxpayers is still low.	8	8	11	11	10	10	46	46	25	25

Source: compiled from survey questionnaires using SPSS V 23, (2019)

The above table 4.2 shows majority 77 (77%) of respondents responded disagree or strongly disagree that tax office promoting tax compliance. However, 16(16%) of the respondents answered agree or strongly agree and the remaining 7(7 %) respondents responded that they were neutral with the item that tax office promoting tax compliance.

Regarding the reducing compliance cost, majority 74 (74%) of the respondents were disagree or strongly disagree, 20 (20 %) were agree or strongly agree and the remaining 6(6%) respondents responded that they were neutral.

With regard to the fairness of tax administrative penalties, majority 59 (59%) of the taxpayers responded agree or strongly agree, 26 (26 %) reported disagree or strongly disagree and the remaining 15(15%) seemed to be neutral.

However, concerning the risk based selection of fraudulent taxpayers, vast majority 71 (771%) of the respondents were replied disagree or strongly disagree, while 18 (18 %) of the respondents were agree or strongly agree and the remaining 11(11 %) were indifferent to give their opinions

In relation to low taxpaying culture of taxpayers, majority 71(71%) of the respondents answered agree or strongly agree while 19(19%) replied disagree or strongly disagree and the remaining 10(10%) were indifferent to give their views.

Generally, from the findings of the study, Most of the taxpayers disagreed with items including promoting tax compliance; tax office has reducing tax compliance and tax office has strong risk selection method on fraudulent taxpayers. However the taxpayers have relatively agreed with the variable include fairness of administrative penalties and low taxpaying culture of taxpayers in the revenue office.

4.4.2 Tax Service Delivery

The table below shows the practice of tax service delivery in the revenue office.

Table 4.3 Showing taxpayers response on Tax Service Delivery

Item	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Tax office adopt a service –oriented attitude toward taxpayers	22	22	45	45	8	8	17	17	8	8
Revenue office provide tax advice and information to taxpayers properly	32	32	27	27	11	11	20	20	10	10
Tax office solve tax complain timely	29	29	49	49	5	5	10	10	7	7
Tax office provides tax services at the promised time	18	18	55	55	4	4	17	17	7	7
Tax office has good customer handling culture	17	17	42	42	10	10	22	22	9	9

Source: Compiled from survey questionnaires using SPSS V 23, (2019)

As it can be seen in table 4.3 above regarding the adoption of service oriented attitude towards taxpayers of the branch office, majority 67 (67 %) of respondents responded disagree or strongly disagree. However, 25(25%) of the respondents answered agree

or strongly agree and the remaining 7(7%) respondents responded that they were neutral with the tax office adoption on service –oriented attitude towards taxpayers.

Regarding the revenue office provision on tax advice and information to taxpayers, majority 58(58%) of the respondents were disagree or strongly disagree, 31 (31%) were agree or strongly agree and the remaining 11(11 %) respondents responded that they were neutral on the provision of tax advice and tax information to taxpayers.

Moreover, with regard to the tax office solve tax complains timely, majority 78(78%) of the taxpayers responded disagree or strongly disagree, 18 (18 %) reported agree or strongly agree and the remaining 4 (4%) seemed to be neutral. Furthermore, regarding to the provision of timely and faire tax service by the tax office, 72 (72%) respondent replied disagree or strongly disagree; 24(24 %) were agree or strongly agree and the remaining 4 (4%) replied neutral

Likewise, concerning the customer handling culture of the revenue office, 59 (59%) of the respondents were replied strongly disagree or disagree, while 31 (31%) of the respondents replied agree or strongly agree and the remaining 10(10%) were indifferent to give their views..

In sum, most of the taxpayers disagreed with all items in the tax service delivery such as tax office adoption of service oriented attitude towards taxpayer, provision on tax advice and information, tax office solve tax complains timely, provision of timely and faire tax service and customer handling culture of the revenue office.

4.4.3 Tax Assessment and Collection Practice

The Table below shows taxpayers responses on tax assessment and collection practice of Arad Sub-city Revenue Branch Office.

Table 4.4 Tax assessment and collection procedures of Arad Sub-city Revenue Office

Item	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Tax office has responsible tax assessors for preparing the assessment notice.	32	32	26	26	11	11	21	21	10	10.0
Tax office provide faire tax assessment to taxpayers	28	28	39	39	11	11	13	13	9	9
Tax office has adequate number of cashiers and verification officers in the front line	7	7	12	12	6	6	58	58	17	17
Tax collection through C.P.O is convenient to taxpayers	25	25	37	37	7	7	21	21	10	10
There is modern practice of e-filing and e-payment in the tax office	34	34	38	38	8	8	14	14	6	6

Source: Compiled from survey questionnaires using SPSS V 23, (2019)

As it can be shown from Table 4.4 above, with regard to the presence of responsible tax officers, majority 58 (58%) of respondents responded disagree or strongly disagree. However, 31(31%) of the respondents answered agree or strongly agree and the remaining 11(11%) respondents responded that they were neutral.

Regarding the fairness of tax assessments, great majority 67 (67%) of the respondents were disagree or strongly disagree, 22 (22%) were agree or strongly agree and the remaining 11(11%) respondents responded that they were neutral on the fairness of tax assessments.

With regard to the adequacy of tax employees, majority 75(75%) of the responded agree or strongly agree, 19 (19%) reported disagree or strongly disagree and the remaining 6(6%) seemed to be neutral.

However, concerning the convenience of tax collection through C.P.O, 62 (62%) of the respondents were replied disagree or strongly disagree, while 31 (31%) of the respondents were agree or strongly agree and the remaining 7 (7 %) were indifferent to give their views.

Regarding the modern practice of e-filing and e-payment, 71 (71%) respondents replied disagree or strongly disagree; 21 (21%) were agree or strongly agree and the remaining 8(8%) replied neutral.

In sum, most of taxpayers were disagreed with the availability of responsible tax employees, fairness of tax assessment, convenience of tax collection through C.P.O and the practice of e-filing and e-payment in the ranch office. However, taxpayers were agreed with the availability of cashiers and verification officers.

4.4.4 Tax law enforcement

The table below shows taxpayers responses on the effectiveness of tax law enforcement in the Revenue office.

Table 4.5 Tax law enforcement effectiveness in Arada Revenue office

Item	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
There is fair, reliable and transparent application of tax	23	23	60	60.0	9	9.0	7	7.0	1	1
Current Tax laws are simple and clear to understand and to implement	18	18	37	37	7	7	22	22	16	16
Tax office provides effective awareness creation programs on tax laws to taxpayers.	27	27.0	38	38.0	7	7.0	21	21	6	6.0
Tax office process taxpayers' returns, requests efficiently.	17	17.0	36	36.0	12	12.0	28	28.0	7	7.0

Source: Compiled from survey questionnaires using SPSS V 23, (2019)

From the above table 4.5 concerning the application of tax laws, great majority 83 (83%) of respondents responded disagree or strongly disagree. However, very few

8(8%) of the respondents answered agree or strongly agree and the remaining 9(9 %) respondents were kept neutral.

Regarding the simplicity of tax laws, majority 55(55%) of the respondents were disagree or strongly disagree, 38(38%) were agree or strongly agree and the remaining 7(7%) respondents responded that they were neutral.

Moreover, with regard to the awareness creation on tax laws by tax office, majority 66(66%) of the responded disagree or strongly disagree, 28(28 %) reported agree or strongly agree and the remaining 6(6%) seemed to be neutral.

Furthermore, concerning the strength of tax office on penalizing big tax defaulters, majority 71(71%) of the respondents were replied disagree or strongly disagree, while 23 (23%) of the respondents were disagree or strongly disagree and the remaining 6(6 %) were indifferent to give their views. Likewise, in relation to the effectiveness of tax returns process, majority 53(53%) of the respondents were replied disagree or strongly disagree, while 35(35%) of the respondents were disagree or strongly disagree and the remaining 12(12 %) were indifferent to give their views

To this end, most of the respondents disagreed with the application of tax laws, simplicity of tax laws, awareness creation on tax laws by tax office and effectiveness of tax returns process in the revenue office.

4.4.5. Competency of tax Employees

The following table demonstrated taxpayers' perception on the competency of tax employees in the revenue office.

Table 4.6 Competency of tax employees

Item	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
The revenue office has competent and skilled staff	11	11.0	56	56	9	9.0	21	21	3	3.0
Tax office has rewarding system for hard working, dedicating and patriotic tax officer/officials.	19	19.0	42	42.0	8	8	25	25.0	6	6
Employees' give timely tax service to taxpayers	12	12.0	6	6.0	4	4.0	53	53.0	25	25.0
Employees are willing to help, assist and co-operate taxpayers.	17	17.0	57	57.0	3	3.0	15	15	8	8
A tax officers who engage in bribery and corruption are executed according to law	24	24.0	21	21	4	4	38	38.0	13	13.0

Source: Compiled from survey questionnaires using SPSS V 23, (2019)

As it can be seen in table 4.6 above, concerning the competency tax employees, majority 67 (67%) of respondents responded disagree or strongly disagree. However, 24(24%) of the respondents answered agree or strongly agree and the remaining 19(9%) respondents responded that they were neutral.

With regard to rewarding system of tax office for hard working employees and compliant taxpayers, majority 62 (62%) of the respondents responded disagree or strongly disagree, 31(31%) reported agree or strongly agree and the remaining 16(8%) seemed to be neutral.

Regarding the provision of timely service by tax employees, majority 78(78%) of the respondents were agree or strongly agree, 18(18%) were disagree or strongly disagree and the remaining 4(4%) respondents were seemed to be indifferent. However,

concerning tax employees' willingness to help and assist taxpayers, majority 74(74%) of the respondents were disagree or strongly disagree, 23(22%) were agree or strongly agree and the remaining 3(3%) respondents were seemed to be indifferent

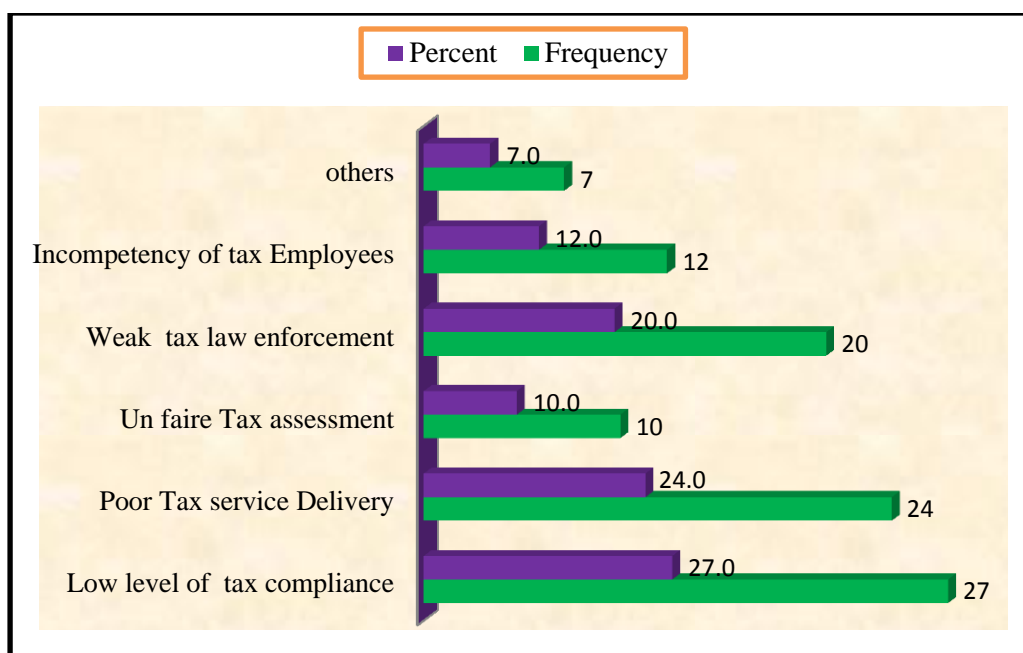
Concerning the execution of corrupted tax employees by the tax office, majority 52(52%) of the respondents were replied agree or strongly agree, while 44(44%) of the respondents were disagree or strongly disagree and the remaining 4 (4 %) were indifferent to give their views.

In sum, the respondents were agreed with provision of timely service by tax employees and execution of corrupted tax employees by the tax office. On the other hand, respondents were disagreed on the competency of tax employees, rewarding system of tax office, and tax employees' willingness to help and assist taxpayers.

4.4.6 Observed Tax Administration Challenges

The Figure4.6 below indicates the major observed challenges in Arada Revenue Branch office that leads taxpayers to be dissatisfied on tax administration

Figure 4.6 Taxpayers' responses on challenges of Tax administration



Source: Compiled from survey questionnaires using SPSS V 23, (2019)

Figure 4.5 above reveals the major challenges of tax administration in Arada Revenue office. From the 211 respondents , majority (27%) replied low level of tax compliance of taxpayers , (24 %) poor tax service delivery, (20%) weak tax law enforcement, (12 %) incompetency of tax employees, (10%) un faire tax assessment

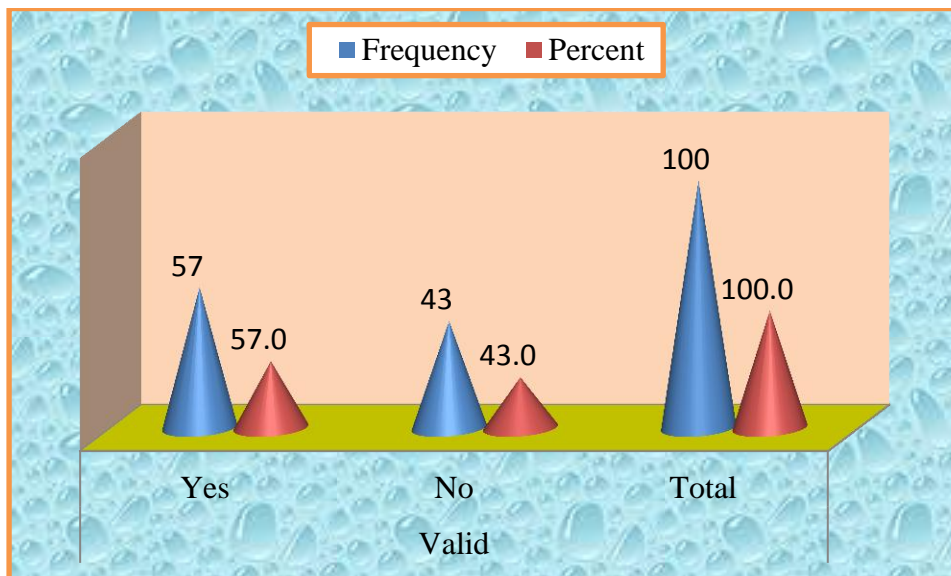
and the remaining (7%) respondents answered “others” are among the main problems of tax administration in the revenue office.

In sum, level of tax compliance of taxpayers, poor tax service delivery, weak tax law enforcement, incompetency of tax employees, unfair tax assessment and weak tax collection were among major challenges of tax administration in Arada small taxpayers’ branch office.

4.4.7 Taxpayers Complaint on tax Administration Challenges

The Figure below shows whether taxpayers ever lodge their complaints/objections with tax administration in the branch office.

Figure 4.7 Taxpayers Responses on complains lodgments



Source: Compiled from survey questionnaires using SPSS V 23, (2019)

Figure 4.7 above shows taxpayers delivered complaints on tax administration practices in Arada revenue office. Majority 57 (57%) of respondents replied ‘Yes’ and 43(43%) of the taxpayer respondents replied ‘No’ on the item ‘have you ever delivered any complaints in Arada Revenue office on any tax administration problems.’

In sum, Majority of taxpayers were lodged their complain on tax administration problems in the branch office.

4.5 Part Two: - Analysis and Discussion of In- Depth Interview From tax Officials and Officers

For convenience the researcher discussed the survey result from questionnaires and data from the in-depth- interviewees separately. The first part of chapter four discussed the data obtained from the survey and in this second part of chapter four data gathered from Arada tax officials and officers through in-depth interview have analyzed and discussed as follows.

4.5.1 Background information of interviews

Table 4.8: Tax Employees interview participants Profiles

Educational Background	Work experience	Current Position Hold
BA Degree	30 years	Deputy Manager (Corporate Affairs)
BA Degree	15	Deputy Manager (Domestic Tax Affairs)
BA Degree	20	Customer Service Business Process coordinator
MA Degree	13	Tax Audit Business Process Co-coordinator
BA Degree	12	Resource Administration Business process coordinator
BA Degree	15	Tax Assessment and collection Business process owner
MA Degree	8	Tax Assessment team leader
MA Degree	9	Tax audit team leader
BA Degree	8	Customer service team leader
BA Degree	9	Tax compliance team leader

Source: Interview result, 2019

The In- depth Interview Questions for Tax Employees and Officials were:-

IQ1. How do you evaluate the effort of the tax office on promoting voluntary compliance?

Summarized response of tax officials and tax officers on the effort of tax office on enhancing taxpayers compliance was “Though the Ethiopian tax policy is based on self-assessment and self- declaration principle to increase taxpayers voluntary compliance level, the revenue office is still weak on creating compliant taxpayers by conducting organized awareness creation programs on tax matters, tax laws, regulations and directives, organized tax education, giving tax information through different channels like TV, radio, printing media and social media. In addition as a country, the taxpaying culture of our taxpayers was low and their perception on filing tax returns timely, paying their tax liabilities at the right time and the right amount is not yet improved. For example, majority of the taxpayers came at end of every 12

months to declare their monthly taxes like Value added tax, turnover tax, employment income tax, excise tax and annual taxes like profit tax, rental income etc.

In sum, the interviewed tax employees concluded that, the low taxpaying culture of taxpayers added to the weak effort of the tax office on promoting tax compliance is a big challenge for the tax administration to collect tax revenue for the city administration based on voluntary compliance level taxpayers.” Therefore, this in-depth interview result of tax employees support the idea of taxpayers responses on questionnaires regarding tax compliance.

IQ2. How do you examine the tax service delivery efficiency of the branch office?

Summarized response of the interviewed tax officials and officers replied that “ the service delivery of the tax office is relatively good. Most of the time tax services like tax registration, tax assessment and collection practice like verification, capturing, assessment, cashing and collection) provided below the stated time standard. This is because if the taxpayers bring with all preconditions and required attached source documents the office provided the assessment notice as per the tax laws regulations and directive like 138/2010 and 152/2010 etc. However, sometimes there challenges to give fast and modern service for taxpayers. For example, due to system and power problem, lack of cleared data on taxpayers information during clearance, lack of skilled man power, lack of co-operation and team spirit within the departments, delay from third party information for tax assessment and collection purpose. Moreover, the interviewed added that tax audit, tax clearance and closing tax assessment takes much more time above the time standard of the tax office. With regard to tax collection since sufficient numbers of cashiers are placed in the front line /office taxpayers got service as per their line or queue. This result agreed with taxpayers’ response on tax office and tax employees give timely service for taxpayers in the revenue office.

IQ3. How do you evaluate the clarity and simplicity of the tax laws?

Summarized response of the interviewed tax officials and officers replied that the tax laws, regulations and directives lack clarity and simplicity. Taxpayers did not make enough participation during its draft and approval. After approval majority of taxpayers could not access the laws, regulations and directives and tax office did not give continuous and effective awareness creation programs on the tax laws.

IQ4. How do you evaluate the filing and payment practices of the revenue office?

Interviewed tax officials replied that ‘when taxpayers came to tax office they got the official tax declaration forms to fill and file their tax liabilities monthly, quarterly and annually. After that When it is verified by the tax verification officers they receive the appropriate document number for the specified tax period and if they have the amount to pay they go to the daily revenue collectors / cashiers/ having C.P.O if it is above 1000 birr /one thousand birr/or by cash if it is less than 1000 birr. However, though the tax office has assigned qualified cashier most of the time great number of taxpayers came to file their taxes on the end days of the months which resulted in a long line /queue / and work load for tax employees and dissatisfaction for taxpayers with the filing and payment procedures. Furthermore, since there is no practice of e-filing and e-payment in the revenue office yet, taxpayers have complain so many times on the C.P.O revenue collection practice of the branch office. There for due to internal and external factors the filing and payment practice was not smooth and free of complains.’”

IQ5. How do you evaluate the tax assessment and collection practice of the branch office?

Summarized response of tax officials and tax officers on the tax assessment and collection practice of the branch office–The tax assessment and collection practice of the revenue office emanates from the tax laws, regulations, directives and manuals implemented in the ground. The tax assessment practice depends on the taxpayers’ category and compliance levels. Tax payers can file their tax liabilities using Financial Statement, by estimation and standard estimation using third party information. Specifically, according to income tax proclamation 979/2016 and federal income tax regulation No.410/2017 article 58 (2) category “B” taxpayers may voluntarily account on accrual basis provided that they comply with requirements set under the financial Reporting Standards. Even though according to tax administration proclamation No.983/2016 article 82 category A and B taxpayers must have books of account. However, According to directive 152/2017 article 8 (3) category B taxpayers shall have simplified books of account. But if the taxpayers did not declare their tax liability as per the tax laws and if their books of account were rejected by the tax office the estimated tax assessment practice is applied by the tax office to collect tax revenues. But since there is understated sales and over stated on expense by taxpayers tax office faced challenges during tax assessment of taxpayers annual and monthly

reports. Moreover, the interview participants added that, after tax assessment has been done the assessed tax revenue should collect within 30 days after assessment. However, the tax authority implementation capacity is poor in addressing tax assessment notice to taxpayers, giving warning letter after 30 days, giving seizure notice to bank, land administration and road transport authorities timely and getting the responses from these stakeholders was challenging.”

IQ6. How do you examine the tax enforcement practice of the revenue office?

Regarding the collection enforcement practice of the revenue office, the summarized responses of the interviewed tax officials and officers were “tax office has not strong tax registration team, intelligence team, clear risk based selection criteria, strong tax audit department and strong tax arrears collection team to enforce the tax laws from registrations collection effectively and efficiently. Moreover, when assessment notice released by tax audit and tax assessment departments the record and file management team distributed these notices to the taxpayers and concerned departments for follow up and control whether tax liabilities were paid within the specified period of time or not. Tax collection and dept follow up team verify the notices to be paid before 30 days and if they were not paid within one month they categorized with arrears and verified to release warning letter to come and pay their debts before their property were seized. If this is the practice and the performance of the branch office was poor because the office is focused on the routine activities and the third party organizations like Banks, Transport offices and Land management couldn’t give verified feedback or information timely on the property of the taxpayers. In addition, the tax office has a problem on having clear data on taxpayers with debt and the amount and type of collectable and uncollectable debts. This was because of inefficiency of the tax office and absence of clear directive and procedures prepared by government.

Therefore the interviewed tax employees concluded that the tax collection enforcement of the branch office was not effective and efficient. This statement agreed with the survey result of the taxpayers that tax office has no clear data on taxpayers with debt, collectable and uncollectable amount of debt in the branch office, there is no prompt and speedy tax collection enforcement and seizure practice of the revenue office was poor.

Q6. How do you evaluate the attitude of tax employees toward corruption and tax office in executing them?

Interviewed tax officials replied that most of the tax employees and officials were perform their rights and responsibilities in a proper way by giving tax services to collect tax revenue for the government based on the values and principles of the organization. However, knowingly or unknowingly the attitude of some employees towards corruption is high. For example there are some employees participated in unnecessary activities like bargaining with taxpayers during auditing, monthly declaration ,clearance, intelligence operations, Cash register control, clearance time and during files selection for audit to let the tax payer free or reduce its tax liabilities to get wealth for themselves in short cut. But, since the organization has its own ethics department it gives awareness creation program on corruption related issues, let tax employees and officials to registered their wealth and property every two years. In addition, if the ethics department got concrete evidence on the tax employees it takes different measures based on the employees' administrative regulation and employees were executed and fired from the organization.

Q7.How do you evaluate the fairness, equity and timeliness of tax review committee decisions?

Summarized response of the interviewed tax officials and officers replied that the even though tax review committee tried to solve the tax related complains of taxpayers, there is still problems of fairness, equity and timeliness of decision making; especially tax complains related to 2016 daily sales Estimation of taxpayers. This problem affects directly the effectiveness and efficiency of tax assessment and revenue collection practice of the branch office.

IQ9. What are the major challenges in tax administration practise in the office?

Summarized of tax officials and officers responses were among others the challenges of the branch office on effective tax assessment and collection practice are divided in to three .First is the internal problem of tax office itself it is weak tax administration-(service delivery problem, quality/ skill gap of tax office employees, weak tax law enforcement, and low audit probability, limited awareness creation programs etc.) Second is the behavior and tax culture of taxpayers in relation to serious invoicing problems, tax evasion and avoidance attitude and practices. The third is the shadow or underground economy – the tax office could not make an equal plain -field for the

legal taxpayers by controlling the informal trade in Addis Ababa especially in MERKATO area. Our taxpayers complain so many times but tax office could not bring radical change on it. So, these are the three broad challenges in administrating tax in general and tax assessment and collection in particular.

Q9. In your opinion, what has to be done to improve the tax administration challenges e in the revenue office?

The interviewed tax officials and tax experts added the following important suggestion for the Government and tax office to strengthen and modernize the tax administration in the revenue office.

- ✓ Government should make tax laws simple and clear for understanding by taxpayers and tax employees
- ✓ Taxpayers should know their rights and duties during tax assessment and collection
- ✓ Tax office should provide consistent and educative awareness creation program to taxpayers
- ✓ Tax office should adopt service oriented attitude towards taxpayers (balance the facilitation and controlling system)
- ✓ Revenue office should train and maintain skilled manpower for effective and efficient tax assessment and collection service by giving off job and on job trainings
- ✓ Tax office should improve its tax advice and information provision system by placing skillful tax experts
- ✓ Tax office should modernize the filing and payment system by introducing e-filing and e-payment system to replace the C.P.O wise revenue collection which is difficult and time consuming for taxpayers and the tax office.
- ✓ Tax office should have clear data on Number of taxpayers by category, tax type, collectable and uncollectable debt, zero filing and non-filing taxpayers by making data cleaning with the help of SIGTAS data warehouse system.
- ✓ Tax office should capture the declaration forms of different tax types timely for effective tax assessment and collection practice in the revenue office
- ✓ Tax office should implement speedy and prompt tax collection enforcement and effective seizure practice according the tax laws by making strong interdepartmental co-operation and external co-operation with concerned bodies like Banks, Land development Management offices ,Transport offices

- ✓ Tax office should solve taxpayers complains on tax issues fairly, equitably, and timely considering vertical and horizontal equity .Especially complains regarding the daily sales estimation have to be revisited by the tax office to bring about faire tax assessment and collection because since most of taxpayers declare their tax by estimation assessment it has its direct impact on the tax assessment and revenue collecting practice of the revenue office.

Generally, the results and finding of the in-depth interview elaborate the challenges of the tax office on tax administration from registration to collection practice. Most of the results support and strengthen the perception and responses of taxpayers found from the survey data. More over the interview result offsets the limitation of the questionnaires in answering the WHY and WHAT questions of the research Questions to give a full picture.

4.6. Discussion of major Results and Findings

This section provides an interpretation and discussion of the major findings set out in the result section according to the order of the research questions of the study. In addition, the results and findings of the study were compared with the findings of prior studies reviewed in the literature, with relevant tax laws (directives and proclamations) prior studies, principles and best practice of tax administration to show how their agreement and or disagree disagreements.

4.6.1 Discussion of Tax Compliance Findings

According to Bird (2007), the first task of any tax administration is to facilitate compliance: Thai is to make sure that those who should be in the tax system are really in the system and that they comply with the tax rules. Moreover, according to Evance (2003), less obviously, but more importantly, taxpayers incur “compliance costs” over and above the actual payment of tax in developing countries.

Regarding to the issue of tax compliance, the results of the study shown that most that tax office effort on promoting tax compliance is low; tax office could not reducing compliance cost of taxpayers effectively; and tax office has not strong risk selection method on fraudulent taxpayers.

Awitta (2010), Conducted a study on effectiveness of revenue collection strategies at Kenya revenue authority in Nairobi. The study found that, taxpayers’ education in effort in Kenya has enhanced taxpayers’ level of awareness of different tax regimes.

Moreover, according to Marta (2014) studied on selected Challenges of tax Administration in the context of Fiscal consolidation in European countries, tax administration is the most serious problem in Slovakia due to low tax compliance and high tax evasion.

More ever, according the study result, Arada revenue office did not performed well in this area. The interview result of the tax officials and experts and respondents' comments and suggestions indicate that the revenue office has limitations on enhancing taxpayers' compliance.

Therefore, the result of this study disagreed with the above study in Kenya regarding the effort of tax office on tax education and taxpayers' compliance and but agreed with findings of Marta and Evance studies on low level of tax compliance and high compliance cost.

4.6.2 Tax Service Delivery

Concerning tax service delivery, the finding of the new study revealed that, tax office did not adopt service oriented attitude towards taxpayer, there is poor provision of tax advice and information, tax office did not solve tax complains timely, tax office is weak on provision of timely and faire tax service and there is poor customer handling culture by tax employees in the revenue office.

Haftay (2016) on his study entitled "Assessment of Large Taxpayers' Satisfaction with tax service delivery in Ethiopian Revenues and Customs Authority: The Case of Large Taxpayers' Branch Office." The result of the study revealed delay of tax employee to give timely decision, Network problem, inconsistent taxpayers' education and poor customer handling culture were among the service delivery problems in the branch. Thus, the finding of the new study agreed with the above study regarding tax service delivery inefficiency in the tax office.

4.6.3 Tax Assessment and Collection

With regard to tax assessment and collection practice another finding of the study shown that, tax office lacks availability of responsible tax employees ,there is problem of fairness on tax assessments, tax collection through C.P.O is not convenient and the practice of e-filing and e-payment in the ranch office is not yet started.

Samson (2012) assessed the efficiency and effectiveness of tax assessment management with special emphasis on VAT-the case of ERCA-Large Tax Payers Branch Office. The researcher found that the causes of VAT assessment management

failure are multidimensional. They include both internal and external factors and these are interrelated. Among the causes of failure are: limited office capacity, lack of unfit technologies, lack of sophisticated laws and procedures, lack of public awareness, and negative attitude of tax payers in the study area.

Therefore, the finding of the new study agreed with previous studies as well as with rules and practice of the revenue office in solving complaints quickly and integration to solve the complaints

4.6.4. Discussion of Tax Law Enforcement Findings

Tax administration is a difficult task even at the best of time and in the best of places, and conditions in few developing countries match these specifications. To this end, a due attention must be paid to the extent to which revenue is attributable to the tax laws enforcement (the active intervention of the administration) rather than compliance (the relatively passive role of the administration as the recipient of revenues generated by other features of the system). Assessing the relation between administrative effort and revenue outcome is by no means a simple task. Neither is improving administrative efforts and outcomes (Bird, 2007).

Temtim (2014) examined the views of taxpayers towards the tax administrative mechanism, and tax law enforcement in Ethiopian large taxpayers and the finding revealed that the tax laws are so complex and unfair; there is discretionary treatment by officers and existent of lack of monitoring in the tax authority.

In connection with tax law enforcement, the findings of the study illustrated that most of the respondents disagreed with the application of tax laws, the simplicity of tax laws, awareness creation on tax laws by tax office, strength of tax office on penalizing big tax defaulters and effectiveness of tax returns process in the revenue office. .

Therefore, the findings of the new study contradicted with finding of the old study. This was due to, first, Temtim study was targeted on large taxpayers in the same county in Ethiopia, but this study is focused on Ethiopian large taxpayers in the capital of the country. Secondly, the study by Bird was conducted on developing countries almost with similar tax administration set up.

4.6.5. Discussion of Employees Competency Findings

Human resource is essential in tax administration. Trained personnel are what actually most developing countries lack and this forced them, for instance, to organize their activities under the existing tax administration structure (Kaldor, 1980).

In relation to competency of tax employees, the finding of the study shown that, there is lack of competency and skill of tax employees, tax office has not clear rewarding system for best performers, and tax employees' willingness to help and assist taxpayers were not enough.

Markos (2010) on his study entitled "VAT administration and revenue performance: Challenges and opportunities in ERCA Mekelle branch found that, in the process of VAT administration and revenue generation, the main problems were attitudinal problem of the tax payers and implementation capacity of the tax employees.

Awitta (2010), Conducted a study on effectiveness of revenue collection strategies at Kenya revenue authority in Nairobi. The study found that, staff training by Kenya Revenue Authority has enhanced their skill, knowledge and professional capacity.

Marta (2014) studied on selected Challenges of Tax Administration in the context of Fiscal consolidation in European countries found that Corruption in tax administration is likely to drop sharply in recent years in all of the selected countries, which is a very positive trend in the fight against tax evasion. To this end, the finding of the new study supported the above previous studies and by Markos, Awitta and Marta.

4.6.6 Discussion of Major Challenges tax Administration Findings

Tax administrators face a formidable number of challenges in every country. In this study regarding the frequent challenges in tax administration of the revenue office, the findings of the study shown that low level of taxpayers compliance, poor tax service delivery, weak tax law enforcement, competency of tax employees in decision making, fairness of tax assessment and collection and other challenges including net work problem, Weak taxpayer education and Staff ethical problem are among the main problems of in the revenue office.

Hassen (2014) studied on the problem of tax administration as well as collection of Gombe state board of internal revenue in Nigeria identified tax administration problems like Poor staffing, system dysfunctional, legal framework (obsolete laws), absence of the necessary infrastructure to enhanced revenue generation by tax

collectors as well as administrators often fraught with leakages manual nature of tax collection processes. In addition, Habtamu (2015), studied on challenges of Tax Administration in East Wollega Zone Nekemt Town Revenue Authority. The study found that lack of tax payers' awareness, selling goods and services without tax invoice or lack of use proper tax invoices, weak culture of taxpayers, and lack of fairness, weak follow-ups and controlling mechanisms against those unregistered and registered tax payers. Therefore, the finding of the new study supported the above previous studies on the issue of challenges of tax administration.

In Sum, According to Bird (2008) a study on tax Challenges facing developing countries, Tax administrations to be sound and effective the elements or requirements to be fulfilled and exercised were (1) promoting voluntary compliance; (2) improving quality of service and taxpayer satisfaction; (3) reducing compliance costs for taxpayers and reducing tax evasion, (4) availability of adequate human, financial and technological resources , (5) fair, reliable and transparent application of the tax laws; (6) reliable tax assessment and collection service provision; (7) efficient processing of taxpayers' returns, requests, appeals and enquiries; (8) introduce competitive remuneration for staff.

To this end the overall finding of the study shown that there is low level of tax compliance of taxpayers; poor tax service delivery; weak tax law enforcement; Incompetency of tax employees; un faire and un reliable tax assessment and poor tax collection practice; network and power problem, Weak taxpayer education and Staff ethical problem were identified as major Challenges of tax administration in Arada Small Taxpayers Branch Office.

Therefore, the findings of the new study contradict with the previous study by Bird. This is because of Arada revenue office did not full fill the basic elements or requirements for sound and effective tax administrations elements or requirements stated above.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

Introduction

The previous chapter presented the results and discussion of the study. This chapter provides the conclusion and recommendations in line with the findings of the study. The chapter is structured in two sections. The first section deals with conclusions whereas the second section presents some recommendations suggested as a solution for the problems that have been identified in the study.

5.1 CONCLUSIONS

Taxation is main source of revenue for the government of Ethiopia in addition to external loan grants and assistances. It is used for fair distribution of economic resources for the people by the government. A well-structured tax administration program is vital to achieve revenue objectives that ensure the fiscal stability of the country and sustain the guaranty of the tax system by providing effective service to taxpayers along with voluntary compliance improvement and additional tax collection.

This study was conducted to assess the challenges of tax administration in Arada Sub-City Small taxpayers' branch office. The study applied mixed research approach (both quantitative and qualitative approaches). Specifically, the techniques used in the study include: Questionnaires to taxpayers, in-depth interviews with tax officials and officers. The findings from the results are briefly concluded in the following paragraphs briefly.

In relation to the level of tax compliance, the results of the study shown that most of the taxpayers disagreed with items including promoting tax compliance; tax office has reducing tax compliance and tax office strong risk selection method on fraudulent taxpayers. However the taxpayers have relatively agreed with the variable include fairness of administrative penalties and low taxpaying culture of taxpayers in the revenue office.

In addition, relating to tax service delivery, another finding of the study revealed that, most of the taxpayers disagreed with all items in the tax service delivery such as tax office adoption of service oriented attitude towards taxpayer, provision on tax advice

and information, tax office solve tax complains timely, provision of timely and faire tax service and customer handling culture of the revenue office.

With regard to tax assessment and collection practice another finding of the study shown that, most of taxpayers were disagreed with the availability of responsible tax employees, fairness of tax assessment, convenience of tax collection through C.P.O and the practice of e-filing and e-payment in the ranch office. However, taxpayers were agreed with the availability of cashiers and verification officers.

In connection with tax law enforcement, the findings of the study illustrated that most of the respondents disagreed with the application of tax laws, the simplicity of tax laws, awareness creation on tax laws by tax office, strength of tax office on penalizing big tax defaulters and effectiveness of tax returns process in the revenue office.

Relating to competency of tax employees, another finding of the study shown that, most the respondents were agreed with provision of timely service by tax employees and execution of corrupted tax employees by the tax office. On the other hand, respondents were disagreed on the competency tax employees rewarding system of tax office, and tax employees' willingness to help and assist taxpayers.

Finally, about the frequent challenges in tax administration of the revenue office, the findings of the study shown that, the most frequent problems encountered taxpayers droning tax administration practices were low level of taxpayers compliance , poor tax service delivery, weak tax law enforcement, competency of tax employees indecision making, fairness of tax assessment and collection and other challenges including net work problem, Weak taxpayer education and Staff ethical problem are among the main problems of in the revenue office.

5.2 Recommendations

The following Recommendations are made based on the conclusion and findings of the study.

- ❖ Taxation has its own principles. Taxpayers should know the amount they pay, where to pay, when to pay and their duties and responsibilities etc. In doing this tax authorities have great role in making taxpayers well aware to increase their compliance level. To this end, the study finding shown that the tax office did not promote tax compliance effectively and didn't reduce compliance cost. Therefore, the researcher suggested that tax office should conduct successive awareness creation programs to taxpayers to promote their compliance level and reduce compliance cost. Furthermore, revenue office should adopt service oriented attitude towards taxpayers rather than controlling attitude on tax administration practices consistently .
- ❖ Revenue office should introduce the e-filing and e-payment system by replacing the old revenue collection through C.P.O to save taxpayers time and cost. Revenue office should have clear data on number of taxpayers by their category and tax type, non filing taxpayers to modernize the tax assessment and collection practice in the tax office. Revenue office should strengthen the revenue collection enforcement practice by creating strong external co-operation and integration with other government organizations and stakeholders such as Addis Ababa Transport offices, Land development Management offices and all commercial Banks to get information for seizure purpose of movable and immovable properties of taxpayers with tax debt. Tax office should provide faire, dependable, affordable and clear Tax assessment to reduce tax complains.
- ❖ In relation to the enforcement, Clarity and simplicity of Tax laws, the finding of the study implied that most of the taxpayers disagreed with tax law and regulation clarity and simplicity. To this end, the researcher would like to suggest that the government should revisit and restructured the tax laws, policies and procedures and make them clear and simple to understand and implement easily by taxpayers and tax employees to modernize the tax administration and in a manner to enhance taxpayers' compliance level. More ever, tax office should establish strong audit selection criteria, tax audit department, intelligence department and debt collection and follow up team to enforce the tax law effectively in the branch office.

- ❖ The study finding in relation to human resource found that, there were problems of employees' competency; skill and they are exposed to corruption to implement the tax assessment and collection practice effectively and efficiently. Therefore, Addis Ababa of Revenue Authority should give unconditional attention to the human resource capacity improvement of tax employees to bring about positive attitude, integrity, motivation, commitments and confidence in their everyday interaction with taxpayers. In addition, the Revenue Office should develop clear applicable rewarding system and motivate those role model tax employees at a level adequate to attract and retain skilled, knowledgeable, experienced and competent individual in the revenue sector to achieve its efficiency and effectiveness in tax administration.
- ❖ As per the study result, the most frequent challenges encountered taxpayers during tax administration practices were practices were low level of taxpayers compliance, poor tax service delivery, weak tax law enforcement, competency of tax employees indecision making, fairness of tax assessment and collection and other challenges including Net work problem, Weak taxpayer education and Staff ethical problem are among the main problems of in the revenue office. Therefore, revenue office should work on these problems to solve the challenges from tax registration up to tax collection process by making fast, modern and equitable to enhance voluntary compliance level and increase the amount of government revenue collection.

5.3 Areas of Future Study

Finally future researchers who have the interest on this area are recommended to investigate the challenge of tax administration variables and their significance level using inferential statistics' data analysis in addition to descriptive analysis.

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Appendix A- Questionnaire
St. Mary's University
School of Graduate Studies
Department of Accounting and Finance
Survey Questionnaire For Arada Revenue office Taxpayers

Dear respondents;

This questionnaire has been prepared by Accounting and Finance student of the St.Mary's University to conduct a study for the partial fulfillment of Masters Degree entitled "*Challenges of tax administration*" *The case of Arada Sub-City Small Taxpayers' Branch Office; Addis Ababa*".

The aim of the study is to *assess the challenges of tax administration practice* in the branch office and to recommend the tax office to bring about solutions for the problems to enhance the revenue collection and compliance level of taxpayers. The researcher wants to underline that the data collected are kept confidential and used only for academic purpose. No respondent will be identified by his/her name or position. Therefore, their timely and genuinely response is appreciated and has significant value for achievement of the study objective.

Your cooperation is greatly appreciated!

For further information, please contact the Researcher on:

Cell phone 0921 33 32 42

Email- hilinaanteneh1986@gmail.com

Part 1. Survey questionnaire for Taxpayers

Section A - General Information

Instruction: For each of the following questions, please give your response by putting a tick mark (√) in the appropriate box or filling the blank space provided.

1. Gender

Male Female

2. Age

20-30 years 31-40 years 41-50years above 50 years

3. Educational level

Grade10/12& below Diploma First degree Masters and above

4. What is your company's main business activity?

Manufacturing Construction Import/Export Wholesale Trade

Transport Retailer Hotel, café and restaurant others

5. How long your business/company has been in business?

Less than 5 years 10-15 years

5-10 years above 15 years

Section B - Questions related to Factors for a successful Tax -assessment and collection Practice

6. On average, how often do you visit Arad Tax office to get tax services?

Daily Weekly Monthly Quarterly Semi-annually Annually

7. Please mark √ in a box that best indicates your response from the following scales for each statement.

Strongly Disagree = 1 Disagree = 2 Neutral = 3 Agree = 4 Strongly Agree = 5

No.	Items	Scale				
		1	2	3	4	5
I	Tax compliance					
7	Tax office is strong on promoting voluntary compliance					
8	Tax office is reducing compliance cost for taxpayers					
9	Tax administrative penalties are faire to enhance taxpayers' compliance level.					
10	Tax office has strong risk based enforcement on fraudulent taxpayers'					
11	Taxpaying culture among taxpayers is still low.					

II	Service Delivery to taxpayers	1	2	3	4	5
12	Tax Office adopt a service –oriented attitude toward taxpayers					
13	Revenue office provide tax advice and information to taxpayers properly					
14	Tax office solve tax complain timely					
15	Tax office provides tax services at the promised time					
16	Tax office has introduced modern filing and payment system.					
III	Tax assessment and collection procedures	1	2	3	4	5
15	Tax office has responsible tax assessors for preparing the assessment roll.					
16	Tax office provide faire tax assessment to taxpayers					
17	Tax office has adequate number of cashiers and verification officers in the front line					
18	Tax collection through C.P.O is convenient to taxpayers					
19	There is modern practice of e-filing and e-payment in the tax office					
IV	Tax law enforcement	1	2	3	4	5
20	There is fair, reliable and transparent application of tax laws.					
21	Current Tax laws are simple and clear to understand and to implement					
22	Tax office provides effective awareness creation programs on tax laws to taxpayers.					
23	Tax office is strong on penalizing any tax defaulter taxpayer according the law					
24	Tax office process taxpayers' returns, requests and appeals efficiently.					
V	Corruption	1	2	3	4	5
25	The revenue office has Ethical and skilled staff					
26	Tax office has rewarding system for hard working, dedicating and patriotic tax officials.					
27	Tax office controls its staff not to give tax advisory activity or running private companies					
28	Tax office has a system to receive information from taxpayers on corrupted tax employees					
29	A tax officers who engage in bribery and corruption are executed according to law					

30. Which problems do you observe in the tax office during tax assessment and collection practices from the list provided below? Multiple ✓ answer is possible/

- | | |
|---|---|
| Low level of tax compliance of taxpayers <input type="checkbox"/> | Poor tax service delivery, <input type="checkbox"/> |
| Unfair tax assessment and the remaining <input type="checkbox"/> | Weak tax law enforcement, <input type="checkbox"/> |
| Incompetency of tax employees <input type="checkbox"/> | Others <input type="checkbox"/> |

31. Have you ever delivered any complained/objection on any tax service issues?

Yes No

If yes, what was the reason for your complain/objection? Please specify-----

32. Please offer any other comments and suggestions for the tax office in order to solve the tax administrative challenges.

Thank you very much for your co-operation!!

Appendix B- Interview
St. Mary's University
School of Graduate Studies
Department of Accounting Finance
Interview Question for Tax officers / officials

Dear respondents;

This Interview question has been prepared by Accounting and Finance graduate student of the St.Mary's University to conduct a study for the partial fulfillment of Masters Degree entitled "Challenges of tax administration: The case of Arada Sub-City Small Taxpayers' Branch Office; Addis Ababa".

The aim of the study is to *assess the challenges of tax administration in the branch office* and recommends enabling the tax office to bring about solutions for the problems to enhance the revenue performance and compliance level of taxpayers. The researcher wants to underline that the data collected are kept confidential and used only for academic purpose. No respondent will be identified by his name or position. Therefore, you're timely and genuinely response is appreciated and has significant value for achievement of the study objective.

Your cooperation is greatly appreciated!.

For further information, please contact the Researcher on:

Cell phone 0921 33 32 42

Email- hilinaanteneh1986@gmail.com

Part I: Background Information of Respondents

Gender	
Age	
Position	
Level of Education	
Work experience	

Part II: Main Interview Questions for Tax Employees and Officials

1. How do you evaluate the effort of the tax office on promoting voluntary compliance?
2. How do you evaluate the tax assessment and collection practice of the branch office?
3. How do you examine the tax service delivery efficiency of the branch office?
4. How do you evaluate the clarity and simplicity of the tax laws?
5. How do you evaluate the tax service delivery of the revenue office?
6. How do you evaluate the filing and payment procedure of the revenue office?
7. How do you examine the collection enforcement practice of the revenue office?
8. How do you evaluate the attitude of tax employees toward corruption?
9. What are the major challenges in tax administration in the office?
10. In your opinion, what has to be done to improve the tax assessment and collection practice in the revenue office?

Thank you very much for your co-operation!!!