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**St. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF TAX ADMINISTRATION  
PROBLEMS: THE CASE OF MINISTRY OF  
REVENUE LARGE TAXPAYERS BRANCH OFFICE**

**BY: NETSANET TADESSE**

**ID No. MBAAF/0089/2010B**

**ADVISER: DEJENE MAMO (Assistant Professor)**

**JANUARY, 2020  
ADDIS ABABA, ETHIOPIA**

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OF MINISTRY OF REVENUE LARGE TAXPAYERS BRANCH  
OFFICE (LTO)**

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**ADVISOR: DEJENE MAMO**

**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY SCHOOL OF  
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**ADDIS ABABA ETHIOPIA**

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**APPROVED BY BOARD OF EXAMINERS**

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Dean, Graduate Studies      Signature

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\_\_\_\_\_

Advisor

\_\_\_\_\_

Signature

\_\_\_\_\_

External Examiner

\_\_\_\_\_

Signature

\_\_\_\_\_

Internal Examiner

\_\_\_\_\_

Signature

## DECLARATION OF PLAGIARISM

I, Netsanet Tadesse, Registration Number /I.D. Number SGS/0089/2010B, do hereby declare that this thesis is my original work and that it has never been submitted partially; or in full, by any other person for an award of any degree in any other university/institution.

Name of Participant: Netsanet Tadesse;                      Signature \_\_\_\_\_

Date \_\_\_\_\_

This Thesis is submitted for examination with my approval as University supervisor.

Name of Advisor: Dejene Mamo (Ass professor);                      Signature \_\_\_\_\_

Date \_\_\_\_\_

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## **Lists of Acronyms**

BSC	Bachelor of Science
CIT	Corporate Income Tax
CRS	Common Reporting Standard
DV	Daily Value
ERCA	Ethiopian Revenue and Customs Authority
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
IMF	International Monetary Fund
IT	Information Technology
LTO	Large Tax Office
PIT	Personal Income Tax
SD	Standard Deviation
SIGTAS	Standard Integrated Government Tax Administration System
SPSS	Statistical Package for Social Science
SRM	Sales Register Machine
USVAEPA	United States Environmental Protection Agency
VAT	Value Added Tax

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## **ABSTRACT**

*The study employed descriptive research methodology and both qualitative and quantitative research approach were adopted for the study. To conduct the study both primary and secondary data were gathered from taxpayers and tax officers. The sampling technique employed both probability and non-probability and questionnaires were distributed to 46 tax officer and 266 representative taxpayers. The study identified problems like the application of SIGTAS software not fully utilized; there is a complexity of tax laws, low level of tax education and awareness; there is no fast and quality service delivery; absence of strong coordination and cooperation between the branch and other stakeholder; there is hundreds of millions of tax arrears/delinquent taxes; there was a continuous growth in the actual revenue collected throughout the period under study but its collection was below as compared to the revenue collection. Thus depending on the identified problems the study recommended the following: there should be full utilization and implementation of automation through which the adequate information can be available; conducting extensive awareness creation program; There should be strong coordination and cooperation within the branch office and along other institutions and organizations including taxpayers; the branch should focus on the administration of illegal, nil filers, non- filers and delinquent tax payers, and uses effective appeal procedure to collect delinquent tax revenue are among others.*

**Keywords:** *Tax assessment, Taxation, Administration, Revenue and Tax laws*

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

A tax (from the Latin taxare: to estimate, which in turn is from Tangere: to touch) is defined as a "a compulsory contribution payable by an economic unit to a government without expectation of direct and equivalent return from the government for the contribution made" (Bhatia, 2003).

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Kangave,2005).

Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country (World Bank, 1991).

In most developing countries, like Ethiopia, the revenue generated by the government is fairly less than the expenditures used up. This low revenue surrender of taxation can only be credited to the fact that tax necessities are not properly enforced either on account of the helplessness of administration or on account of straight forward knowledge between the tax administration and taxpayers.

In Ethiopia, tax is administered at federal or central and regional levels. The constitution of Federal Democratic Republic of Ethiopia (FDRE) has separated the tax revenue to be collected by federal government, state or regional government and jointly by the federal and state government. The regional governments of Ethiopia collect taxes and revenue by bureaus of Regional Inland Revenue Authorities from privately own enterprises and organs of regional governments, Whereas, the central government revenue collection

organs are responsible to collect revenues of federal and joint revenues owned by both the central government and regional governments from different organizations including those owned by federal government. The sharing of revenue between the federal government and regional governments take considerations like; ownership of source of revenue, the regional character of the sources of the revenue, contiguity of levy and collection of the tax or duty, population, distribution wealth, standard of development of each region; and other factors that are basis for incorporated and balanced economy.

The tax assessment for those, who are required to maintain financial records, is done based on the records that taxpayers maintain; however, if they fail to maintain financial records, estimated assessment will be done. For the rest of taxpayers, who are not required to maintain financial records, it is based on the standard assessment method (council of Ministers, 2002).

As stated by Singh (1999), in the poverty reduction endeavor of the nation, investing on the existing infrastructure in wide range of improvement so as to scale up to living conditions of the citizens is imperative. This and other responsibilities are put on the shoulder of the government. To fulfill this responsibilities, the main source of resources for expenditure, is the tax revenue that is collected from society (Bird, 1992). For this reason, the government of Ethiopia has given more attention to the tax and custom sectors and implemented a number of reform measures to rationalize the tax and custom policy. The objectives of the tax reforms in Ethiopia were overhaul the legislation, improve the administration, encourage trade and investment, strengthen the enforcement capacity of tax and customs administrations, broaden the tax base, simplifying of procedures and reducing compliance costs of tax payers (ERCA, 2010).

However, the aim of tax administration is not merely tax revenue collection to the maximum amount. The best tax administration is not simply the one which collects maximum revenue to the government rather it is equally important that how it is collected and the effect of revenue generation effort on equity and the level of economic welfare. Therefore, tax administration is needed primarily to ensure both efficient and effective tax administration and to ensure voluntary compliance (Bird, 1992).

The revenue of the Ethiopian government comes from different sources such as tax,

public borrowing, sales of public assets, and transfer payments. The main purpose of generating revenue from these various sources is to finance government expenditure. These public expenditures are intended for public goods and services that are very necessary for the development and happiness of the society.

Taxes levied by central and regional government consist of direct and indirect taxes. Direct taxes are taxes including employment income taxes, business income tax, and taxes on royalties and chance winnings while indirect taxes are mainly composed of value added tax (VAT), excise taxes, and custom duties. Hence, proper assessment and collection of tax is one of the factors that enable the government to accomplish its goals and programs. Besides, it reduces the country's dependability on the foreign loan and donations.

On the basis of the above background, this study is initiated to examine the challenges in tax administration on taxes collected from taxpayers found in Ministry of revenue large tax payers' branch office.

## **1.2 Statement of the Problem**

The Ethiopian Government has been undertaking substantial reforms in reforming and modernizing the revenue administration to provide equitable, efficient and effective service to taxpayers. On the contrary, some researchers emerged to argue that tax administration in general and the service delivery in particular of the revenue sector is poorly performed. Despite the efforts taken by the government, there has been poor service delivery and the taxpayers continued to complain about the quality of the service, behavior of the tax office staff, Poor handling taxpayer queries and complaints on tax matters, lengthy bureaucratic tax administrative procedures coupled with the nature of physical facilities in keeping and processing accurate and up to date taxpayer information. (ERCA, 2012). From the researcher point of view, a lot of work has been done studying the customer's satisfaction with service provision by the private sector, especially in developed countries. But there is lack of sufficient study related to assessment of large tax payers' satisfaction with satisfaction determinant factors in

service delivery of revenue bodies in Ethiopia. Very few studies such as a study by Temitm (2014) indicated that Business taxpayers in Addis Ababa- Ethiopia are not satisfied with the existing tax system. Yesegat and Fjeldstad (2013), a study on Taxpayers' views of business taxation in Ethiopia, found that the limited capacity of tax administration service delivery resulted on taxpayers' dissatisfaction which, in turn, result on low compliance level, and poor revenue performance in Ethiopia. In addition, Yesegat and Fjeldstad (2016) conducted a study on Business people views of paying tax in Ethiopia; found that, taxpayers' satisfaction and service delivery have a statistically significant correlation. Moreover, LTO Customer Service Business process tried to gather feedback through brochures and evaluate monthly on taxpayer perception toward the service. However, this is not on research basis.

Therefore, the lack of researches on assessment of large taxpayers' satisfaction with tax service delivery in Ministry of Revenue large tax payer's branch office motivated the researcher to conduct this study. To slim down the gap the researcher assessed the satisfaction level of large tax payers with tax service delivery mainly with service quality dimensions (tangibility, reliability, responsiveness, assurance and empathy), Service delivery dimensions (equity, timely, ample, continuous, and progressive) and Complaints handling mechanism (access, efficiency and integration) provided by Large Taxpayers' office. So, this present research would add to that body of knowledge.

### **1.3 Research questions**

- ✓ Do Tax payers have enough knowledge and awareness about taxation?
- ✓ How effective and efficient is tax assessment and collection procedure for Ministry of Revenue tax payer's branch office?
- ✓ What challenges are there which impede tax assessment and collection procedure at Ministry of Revenue tax payers branch office(LTO)



## **1.4 The objective of this study**

### **1.4.1 General objective**

The general objective of the study is to assessment of tax administration systems in the case of Ministry of Revenues Large Taxpayers Branch Office (LTO).

### **1.4.2 Specific objectives**

The Specific objectives of this study are:

- ✓ To understand the status of tax payer's knowledge and awareness about taxation.
- ✓ To assess the efficiency of tax assessment and collection procedure of Ministry of Revenue Large Taxpayers Branch Office (LTO).
- ✓ To identify challenges that the authority faces with its customers with regard to collection of tax.

## **1.5 Significance of the study**

The primary use of this research is the Ministry of Revenue in large tax payer's branch office. The office might able to see its level and performance of tax collection and learn some lesson and build up some corrective measures for the weakness based on recommendation. Further, the study has paramount use for different stake holders who are interested for such as government agencies and business association. Finally, the study might have invaluable importance for future research that needs to be conducting a study in this and related fields.

## **1.6 Scope and limitation of the study**

The study is delimited to consider only the problems of tax assessment problem in Ministry of Revenue large tax payer's branch office. The study does not include all taxpayers of the branch rather it considers only taxpayers who registered for value added

tax in branch office. **Moreover**, the researcher presumed that taxpayers who registered for value added tax have a practical know how about the problems of tax assessment Problem.

## **1.7 Organization of the paper**

This study presented in five chapters. The first chapter deal with introduction including background of the study, statement of the problem, and objective of the study, research question, and methods adopted significance of the study and scope and limitation of the study. The related literature review presented in the second chapter. In the third chapter, the research design and the methodology adopted and techniques used in data collection and analysis. Subsequently, the fourth chapter discusses the results and analysis of the findings of the study. Finally, the fifth chapter presented summary, conclusion and recommendations on the bases of the findings.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2. Introduction**

This section presents a brief review of existing theoretical and empirical literature of tax administration. At the end of the review, an attempt is made to summarize the major drawbacks of the existing empirical studies and to identify the knowledge gap to be filled in by further investigation.

#### **2.1 Theoretical Literature**

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Kangave,2005).

The low revenue yield of taxation can only be attributed to the fact that tax requirements are not properly enforced either on account of the inability of administration to cope with them or on account of straight forward complicity between the tax administration and taxpayers.

Since taxes are an involuntary payment for government services, taxpayers have a strong incentive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal). Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. A government can keep taxpayers from doing these activities, and thus successfully avoid tax evasion depends on the nature of economy's actual tax base. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country (World Bank, 1999).

### **2.1.1 Concepts of Taxation**

Every government has two main avenues through which it generates revenue: external borrowing and internally generated revenue through taxes & levies. The former comes with an albatross of debt payment that for long hangs around the neck of the state to settle. The latter option comes with facing the displeasure of citizens and residents who pay taxes and levies with a lot of resentment (Obawana, 1996).

The raising of tax revenues is the most central activity of every state. Most importantly revenue from taxation is what literally sustains the existence of the state providing the funding for everything from social programmers to infrastructure investment. As the people become more sophisticated, so do their demand on their government to provide their needs, in which case the government must of necessity increase its revenue mobilization to meet such demands.

It is for this reason that taxation as a source of government revenue has become so important and there is no state or government that does not apply taxation in one form or the other. It becomes imperative for those involved in the collection of taxes to be highly skilled and motivated and all impediments removed to ensure effective and efficient tax collection for the state. There are various tax options available to governments to raise revenue that have been applied since time memorial (Abdallah, 2006).

Taxes consist of direct tax and indirect tax, and may be paid in money or as its labor equivalent (often but not always unpaid labor). A tax may be defined as a “pecuniary burden laid upon individuals or property owners to support the government, a payment exacted by legislative authority”. This should be distinguished from a voluntary payment or donation but any contribution imposed by government, whether under the name of toll, impost, duty, custom, excise, or other name, (Black H, 1990).

Economists, however, do not consider all revenue accruing to government as taxes. For example, transfers to the public sector such as tuition at public universities and fees for utilities provided by the local governments. Governments also obtain resources by creating money (e.g., printing bills and minting coins), through voluntary gifts (e.g.,

contributions to public universities and museums), by imposing penalties (e.g., traffic fines) by borrowing and by confiscating wealth.

### **2.1.2 Importance of tax administration**

According to Asian Development Bank, 2001, tax administration dictates tax policy. Indeed, tax administration and compliance issues determine the broad evolution of tax systems. The shift in industrialized countries over a century ago from reliance on excise, customs and property taxes to corporate income and progressive income taxes can be explained, in large part, by the relative decline in the rural sector, the concentration of employment in large corporations and the growing literacy of the population. In recent years, the shift away from these taxes - corporate income and progressive individual income tax - and toward tax systems that rely more on broad-based consumption taxes such as the value-added tax, flatter rate structures, and the adoption of “dual income taxes,” in which a progressive tax on labor income is accompanied with a low flat-rate tax on capital income, as adopted in certain Scandinavian countries, can be explained, in large part, by the forces of globalization and developments in financial innovation and the inability of tax administrators to develop technologies to cope with these forces and developments (Asian Development Bank,2001).

In tax reforms there is a close correlation between successful tax policy and efficient tax administration. In other words, there is no good tax policy without efficient tax administration (Jenkins, 1994).

Tax administrators face a formidable number of challenges in every country. According to Asian Development Bank, (2001), in many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in evolution there is a need to establish a tax administration that can respond to the demands of a increasing market economy and the resulting increase in the number of taxpayers. Moreover, there is the need to establish the legitimacy of tax collection. In all countries tax administrators face the challenge of modernizing the tax administration

so that it can operate effectively in an increasingly global economy.

In spite of these challenges, several countries' recent experiences in improving the effectiveness of their tax administration have shown that fundamental reform is possible. In recent years, there has been a considerable amount of study on the steps that should be taken to improve tax administration and reform. Of fundamental importance to all reform efforts, to improve the effectiveness of tax administration significantly, the government must be politically committed to reform, the major obstacles to an effective tax administration have to be identified, and there has to be well-designed strategies for addressing them (Asian Development Bank, 2001).

A reform strategy to increase compliance requires a concerted, long-term, coordinated and comprehensive plan. It is vital that tax administrators ensure that every compliance policy instrument at their disposal is being used as effectively as possible. The uses of these instruments complement one another.

### **2.1.3 Tax administration challenges**

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. 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.

During the past decade, diverse developing countries have introduced radical reforms in their collection of taxes. In more than 15 countries, traditional tax departments have been granted the status of semiautonomous revenue authorities, which are designed with a number of autonomy-enhancing features, including self-financing mechanisms, boards of directors with high-ranking public and private sector representatives, and generic personnel systems (Robert, 2003).

All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap. Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise. This has created pressure to increase tax rates and introduce new, very often ad hoc taxes. These diversities, which are called "patches" in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes (Kornai, 1990).

This situation would lead to a permanent need for new taxes, changes in the tax system and almost never-ending tax reforms. In transition countries income tax is gaining on importance. Taxpayers are not used to this form of taxation and when they are faced with it for the first time; they will obviously regard it as a burden. As Kornai (1990) explained the citizens in these countries are not used to paying taxes at all. The tax administration and bodies which produce political decisions have to foresee the attempts to evade taxes and have to design a tax system that will not question the loyalty of its citizens.

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).

Heavy tax distortions in transition economies come from various sources. First, base rates are often high. In transition economies with many fledgling small enterprises and weak tax administration, high tax rates are likely to encourage already widespread tax evasion and participation in informal economy. Second, many countries still rely heavily on payroll taxes to finance social expenditures. If payroll taxes are levied mainly on employers (as is the case in the great number of transitional economies) this can discourage entrepreneurial efforts, disincentive formal hiring and push economic activity underground. Third, and as World Bank estimations as the most important, the many exemptions and special tax rates in parts of the economy often coexist with higher tax rates on other activities, undermine revenue performance, complicate tax administration and distort revenue allocation. The key precondition for efficient tax administration is tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of economy. This will mean extending the VAT to all but a few goods and services (notably export, which should be zero - rated, and banking and insurance services, where it may be difficult to determine the amount of value added to be taxed).

## **2.2 Empirical literature review**

Kangave (2005) discussed tax administration in Uganda's context. It then discussed Uganda's tax structure, the problems faced in administering taxes, and it gave possible solutions to the problems the author identified in his research. The author, in his research, identified corruption, tax evasion, and inadequate resources for tax administration poor quality of audits and inadequate support for tax administration as problems or challenges of tax administration that have weakened the ability to achieve desired revenue targets. The author did not purport to address all of the problems. Neither does it set out to



address in detail the causes of these problems. Instead, it points out the problems.

Besides, the author's recommendations for solving the tax administration problems were adopted from the Canadian tax administration system. The researcher does not believe that the Canadian tax administration system should not be taken as standard for measuring the performance of tax administration system. In addition to this, the author used interview with the tax officials and relied on secondary sources. However, author could have also gathered responses from the target taxpayers to get additional information for his research.

James (1999) examined issues affecting the formulation of tax policy through the development of actual proposals by tax policy-makers. This was done taking account of the possibility that too narrow an approach to this process can produce misleading conclusions and that proposals for tax reform may be inappropriate when the wider context of the tax system as a whole and the environment in which it has to operate are considered. Two issues were used to illustrate the situation – tax compliance and tax simplification. The paper concluded that in developing tax policy it is important to ensure that the wider context is taken into account and it also outlines a practical approach to achieve this aim.

Jenkins (1991) emphasized that the tax system can never work better than its tax administration, but even the best tax administration would certainly fail to turn a bad tax system into a well-operating one. The researcher also warned that many ambitious tax reforms failed because of the inefficient tax administration. Without the permanent reorganization of the tax administration and almost daily improvements in methods of its management, it is impossible to expect that tax reforms could be realized successfully.

The removal of exemptions, loopholes, and concessions can simplify administration and reduce evasion. Taking a systematic view of the tax system, rationalization, simplification, and the removal of anomalies should have the effect of reducing the administrative costs of identification, assessment, auditing and enforcement. The administrative simplicity of "tax handles", however, while influencing tax policy, should

not be allowed to dictate it. Concentrating on just a few handles can lead to highly distortion structures (Burgess and Stern, 1993).

Kussi (1994) tried to show the effect of tax reforms of 1983 on the revenue productivity of the tax system in Ghana. To this end, two separate regressions for the pre-reform period (1970-82) and the reform period (1983-1993) were fitted for some major tax types. It was found out that there was a progress of both buoyancy and elasticity for personal income tax, company income tax, sales tax and import tax. The study attributed the improvements to growth in GDP and general improvement of the tax administration. This study on the other hand showed that there was a fall in buoyancy and elasticity for excise duty whose cause was stated to be abolition of all excise duties on products other than beverages and tobacco in 1987 and the successive reduction in the duty rates of the affected goods.

The following part will be discussing the empirical review specific to Ethiopia related to tax administration in the country.

There were studies on tax components and tax systems for different periods in different regimes in Ethiopia. Wogene (1983) tried to examine the contribution of taxation. He argued that taxation and tax system was used as a tool for establishing the material basis of socialism. He estimated the buoyancy and built-in elasticity of the total tax revenue and examined the difference between the two measures to reflect the impact of the tax reforms on tax revenue for the period 1975-1981. He used the constant rate structure method to separate the revenue impact of discretionary tax measure. His result indicated that the tax reforms have significantly contributed to increasing tax revenue in the country.

A study by Teshome (1979) also tried to see tax elasticity in Ethiopia. The author used built-in elasticity method to examine the revenue effectiveness of the Ethiopia's coffee export taxes. His empirical finding shows that revenue elasticity with respect to change in volume and value of exports is unity i.e. the revenue was price inelastic. He thus concluded that the present coffee tax formula requires constant revisions of tax laws

whenever significant changes in the price and /or volume of coffee exports occur.

Generally, one can see that the empirical studies undertaken thus far for developing countries, particularly for Ethiopia, bothered little or no to see the potential challenges faced by taxpayers and the tax authorities in administering different tax activities such as tax assessment and collection. The performance of the tax administration will have a bearing on the capacity to raise revenue for a country since it includes primarily the assessment and collection activities. Therefore, this research will not only identify the problems of the Ministry of Revenues Large Taxpayers Branch Office (LTO) tax administration and tax payers, but also the cause of these problems. Because the researcher believes that identifying the root cause of the problems is the best ground to provide appropriate solutions.

## **CHAPTER THREE**

### **RESEARCH MEHODOLOGY**

#### **3. Introduction**

The previous chapter presented the existing evidences on tax administration. It also identified the knowledge gap that previous writers bothered little or no to see the potential challenges faced by taxpayers and the tax authorities in carrying out different tax activities such as tax assessment administration. Due to this, the researcher conducted this study on the area of the assessment of Tax administration problem in the case of Ministry of Revenue Large Taxpayers Br. Office (LTO).

The research Methodology shows in this chapter. Accordingly, section shows the research Design, which is followed by the discussion of the Research Approach adopted in this study. And finally concluding remarks are presented in section.

#### **3.1 Research Design**

Designing a study has help the researcher to plan and implement the study in a way that help the researcher to obtain the intended results, thus increasing the chances of obtaining information that could be associated with the real situation (Burns & Grove, 2001). The researcher had applied descriptive analysis using the fact that a descriptive research design used to describe the data and characteristic about what had been studied. Descriptive survey also enables to obtain the current information Paul et al (2009). It was also use in fact finding studies and helps to formulate certain principles and give solutions to the problems concerning local or national issues. In addition to this survey design is a research method that provides a quantitative or numeric description of trends, altitudes, or opinions of participants with the intent of generalizing from a sample to a population (Creswell, 2009).

## **3.2 Research Approach**

Research Methodology is one of the fundamental means to deal with the research problems properly and a way to systematic solution to the research problem. In addition to this documentary analysis was made basing annual reports of Ministry of revenue large tax payer's branch office from 2016-2019, tax collection policies and other documents that were relevant for the conduct of the study.

According to Kothari (2004), a research approach brings to light the fact that there are two basic approaches to research. These are quantitative and qualitative research. A quantitative approach helps the researcher to generate data in quantitative analysis in a formal rigid fashion. On the other hand, a qualitative approach helps the researcher for subjective assessments of attitudes, opinion and behavior research. Secondary data where policy documents and annual reports which helped to get relevant data for the study, the second method was questionnaire which contains both closed and open ended questions. And the third one was the interview conducted with the selected officials. Thus, the researcher used the mixed approach as both qualitative and quantitative methods are necessary for the success of the study.

## **3.3. Target Population and Sampling Method**

### **3.3.1 Target Population**

First, probability sampling of simple random sampling technique was used for select taxpayers' sample. This random sampling technique gives equal chance for each respondent. The total possible populations of the taxpayers were taking from the branch archive taxpayers list. Then the TIN of each possible sample collected on a slip of paper and these slips mixed thoroughly in a container. And then drew by a lottery method rotating a container till the samples was selected (Kothari, 2004).

On the other hand, non-probability sampling was used for select the tax authority employees. From non-probability sampling the researcher was used judgment (purposive) sampling to select the employees. Here the tax officer was selected from the department

the researcher intends to get relevant and accurate information. It was believed that relevant and reliable information was obtained from the sample select from both taxpayers and tax officer. And this research paper focuses on Ministry of Revenue Large Taxpayers Branch Office (LTO) whose number was as per the gathered information from the authority on July 2019 was 841. Thus the populations of the study are 795 taxpayers and 46 tax office.

### **3.3.2 Sample size**

Alreck& Settle (2005) noted that the choice of sample size is made after considering statistical precision, practical issues and availability of resources. There is no a single and precise way to determine size of sample; hence there are a number of inadequacy for deciding on sample size.

However, to determine the sample size, the study has used Yamane's (1967) formula that provides a simplified method to calculate the sample size. This formula is based on a 95% desired confidence level and 5% desired level of precision.

$$n = \frac{N}{1 + N(e)^2}$$

Where: -

n = Sample size

N = population size

e = level of precision

Based on computation by using this formula, the sample size was determined to 312 respondents. Then the number of respondents in each category is computed proportionally. As a result, 266 respondents would be from tax payers and 46 respondents would be from tax officer. The study was being conducted based on stratified and random sampling methods.

### **3.4 Sources of Data**

To conduct this study, both primary and secondary data tools were used to gather the

required data. Primary data was collected through questionnaire which was distributed to the taxpayers and tax administration officials because questionnaire has the benefit to quote a large area simply and in a fast way and interview from the tax officials. The above data collection methods were used because the large amount of data was being gathering and respondents have enough time to think over the questions. The interview and questionnaire comprised both closed and open-ended questions.

**Questionnaires:** open and closed ended questionnaires were prepared and translated in to Amharic language. It was distributed to the respondents who can read and write.

**Interviews:** Structured and unstructured interviews were made through leading questions to get useful information by asking tax officials of Authority.

As far as secondary data source was concerned, government publications, earlier researches, report, and working documents or reports from the concerning offices in LTO was the major sources of data gathered and processed so as to achieve the research objectives.

### **3.5 Method of Data Collection**

The questionnaires were prepared using close-ended method questions; multiple choices and 5 Point Likert-Scale approaches (i.e., from “Strongly Disagree to Strongly Agree”). For the 5-point likert scale the respondents were asked to indicate their level of agreement with the ratings of Strongly Disagree (1), Disagree (2), neutral (3), Agree (4) and Strongly Agree (5). The questionnaires were designed in English. The questionnaire is organized in two sections. The first part, deals about respondent general information which are related with the participant’s background. The second part holds Likert scale questions those were targeted to analyze research in manageable, uniform and objective way.

### **3.6 Method of Data Analysis and Presentation**

The quantitative data was analyzing and presented by using tables, figures, chart, and percentage whereas the qualitative aspect are analyzing by using qualitative expression.

Descriptive data was providing through editing; ordering by use of questionnaire and interview. To analyze the collected data, Microsoft EXCEL and statistical package for social sciences (SPSS) was use as a major instrument of data analysis.

After the collection of the data, presentation and analysis was carefully made depending on the types of basic questions and nature of the data. The data obtained through primary and secondary data sources was descriptively analyzing and presenting using graphs, charts, tables and figures

### **3.7 Validity**

The validity of the study was ensured using data collecting tools that are based on sound theoretical foundations. Therefore; the study has ensured the instruments or procedures used in the research measured what they were supposed to measure. The study has reviewed of tax administration problem. Further, the study has reviewed theoretical and empirical literatures how to measure the study objective. The scales items on the questionnaire were adopted from a standardized questionnaire from Allingham and Sandmo, (1972), Kirchler, (2007), Fjeldstad and Ranker (2003) and Borondolo, (2009

### **3.8 Conclusions**

This study was undertaken using descriptive research design, simple random sampling and purposive non-random sampling technique.

Both primary and secondary data sources were used. From primary data collecting tools questionnaire, observation and interview was employee and as secondary data tax books, empirical findings, websites', office reports and tax rules and regulations was used. The data was present and interpret using analytical tools like: SPSS and EXCEL of graphs, charts, tables and figures. In addition to this, data was tabulate in percentages, and frequency tables.



## **CHAPTER FOUR**

### **DATA ANALYSIS AND FINDINGS**

#### **4. Introduction**

Generally, tax authorities have the responsibility for tax administration of the tax laws as mandated by their respective government because the performance and efficiency of tax authorities have a direct and immediate impact on the government's ability to achieve their developmental goals. The same is true for Ministry of Revenue Large Taxpayers Branch Office (LTO) that it is expected to perform and succeed in collecting tax revenue so that the country relieve from the pressure of declining foreign assistance and increasing expectation of meeting its funds from the domestic revenue.

Ministry of Revenue: Large Taxpayers Branch Office (LTO) which is responsible to administration and collect taxes and tax laws. It faces different problems in the assessment of TAX administration processes. The LTO administer different types of taxpayers in their legal entity such as private limited companies, share companies, cooperative society, partnership and government enterprises which engaged in again different sectors like service sector, manufacturing and merchandise having different problems in administration. This study discusses and assesses the assessment of Tax administration problems in different tax administration aspects like assessment of Tax Administration problem in Ministry of Revenue Large Taxpayers Branch Office (LTO).

#### **4.1 Response Rate**

As seen from the table No. 4.1 below, the response rate of the respondents shows that 100% of the questionnaire from tax officials and 74% of questionnaire from the taxpayers are collected. The primary data was collected from taxpayers and tax officials through questionnaire and interview and similarly secondary data was collected from Ministry of Revenue Large Taxpayers Branch Office (LTO) reports, published and unpublished LTO, SIGTAS database, LTO tax rules and regulation.

Table 4.1 Response rate of respondents

<b>Types of respondents</b>	<b>Total No. of questionnaires distributed</b>	<b>Total No. of questionnaires collected</b>	<b>Response rate</b>
Tax Officer	46	46	100%
Taxpayers	266	196	74%
Total	317	242	

Source: research field survey, 2019

Therefore, the collected data was adequate and capable of addressing the objective of the research. It is collected from the concerned representing party and reliable party and as a result it was possible to proceed to data analysis and interpretation.

## **4.2 Demographic profiles and its interpretation**

Questionnaires were distributed to 46 tax officials and 196 taxpayers to respond. Moreover, some tax officials purposively selected by the researcher and got interviewed. The following table discusses on demographic profiles of the survey respondents (sex, age, academic quality, field of study, work experience).

**Table 4.2 Demographic data Ministry of Revenue Large Taxpayers Branch Office (LTO) tax official's respondents**

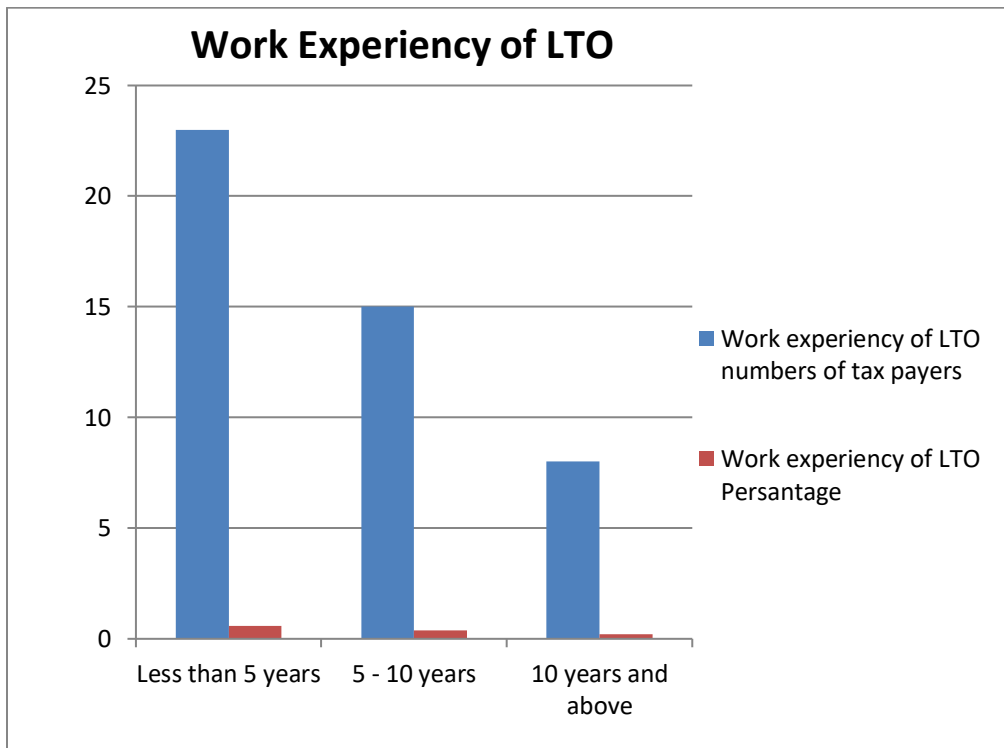
<b>Variables</b>		<b>Frequency (f)</b>	<b>Percentage (%)</b>
<b>Sex</b>	<b>Male</b>	<b>18</b>	<b>39.1</b>
	<b>Female</b>	<b>28</b>	<b>60.9</b>
<b>Age</b>	<b>30 and below</b>	<b>6</b>	<b>13.1</b>
	<b>31-40</b>	<b>23</b>	<b>50.0</b>
	<b>41-50</b>	<b>15</b>	<b>32.6</b>
	<b>50 and above</b>	<b>2</b>	<b>4.3</b>
<b>Academic qualification</b>	<b>Diploma and below</b>	<b>7</b>	<b>15.2</b>
	<b>BA degree</b>	<b>34</b>	<b>73.9</b>
	<b>Masters and above</b>	<b>5</b>	<b>10.9</b>
<b>Field of study</b>	<b>Management</b>	<b>10</b>	<b>21.7</b>
	<b>Economics</b>	<b>5</b>	<b>10.9</b>
	<b>Accounting</b>	<b>29</b>	<b>63.0</b>
	<b>Others</b>	<b>2</b>	<b>4.4</b>

Source: research field survey, 2019

As shown from the above table 4.2, Out of the total 46 respondents, 18 (39.1%) of the respondents were males and the remaining 28 (60.9%) were females. This showed that the male and the female numbers participated in the questionnaire are almost proportional. Regarding the age of the employees, 6 (13.1%) of the employees are under 30 years of age, 23(50%) are between 31 and 40 years and 15 (32.6%) is between 41 and 50 years, only 2 (4.3%) respondents are 50 years old and above. This shows that almost all the employees are in productivity age group.

Regarding to educational level of the respondents have been hold, 7 (15.2%) is diploma and below holder, 34 (73.9%) are BA degree holders and 5 (10.9%) is masters and their field of the study was 10 (21.7%) are management, 5 (10.9%) are economics, 29 (63%) are accounting and the remained only 2 (4.4%) are other fields. The study findings indicated that more than 90% of the respondents were accounting and management graduates.

**Figure 4.1 work experience of Ministry of Revenue large tax payer’s branch office tax officer**



Source: research field survey, 2019

Finally concerning work experience, as figure 4.1 above, 23 (53.49%) of the employees have below five years’ experience, 15 (32.6%) of them have between five and ten years of experience, and the rest 8(17.39%) of them have work experience ten years and above. The data findings reveal that the respondents constitute more BA degree holders than

others, more accounting professionals than other disciplines, more employed belongs in the age group between 28 and 35 and more employees have the work experience in between Five and ten years. From the above demographic information, the researcher inferred while observing the age and work experience that workers are predominantly young and majority (75%) have a work experience of 5-10 years which is not adequate to master all laws and procedures. Mostly, the younger the workers the lower the experience will be and the lower the experience, the lower performance level will be. Qualification of the majority of the employees is BA degree which shows that the branch has fertile employees with professional background who can fit and execute the desired work accordingly. The presence of multiple disciplines in the branch can be asset for the branch which favors it in its performance. This indicates that the respondents give adequate answer (input) for the questions of the study.

**Table No table of figures entries found.4.3 Demographic and legal status**

<b>Variable</b>		<b>Frequency</b>	<b>Percentage</b>
<b>Sex</b>	<b>Male</b>	<b>124</b>	<b>63.3</b>
	<b>Female</b>	<b>72</b>	<b>36.7</b>
	<b>Total</b>	<b>196</b>	<b>100</b>
<b>Age</b>	<b>30 and below</b>	<b>61</b>	<b>31.1</b>
	<b>31-40</b>	<b>72</b>	<b>36.7</b>
	<b>41-50</b>	<b>52</b>	<b>26.6</b>
	<b>50 and above</b>	<b>11</b>	<b>5.6</b>
	<b>Total</b>	<b>196</b>	<b>100</b>
	<b>Share company</b>	<b>41</b>	<b>20.9</b>

<b>Legal status</b>	<b>Private limited company</b>	<b>104</b>	<b>53.1</b>
	<b>Cooperative/ Partnership</b>	<b>30</b>	<b>15.3</b>
	<b>Government enterprise</b>	<b>21</b>	<b>10.7</b>
	<b>Others</b>	<b>0</b>	<b>0</b>
	<b>Total</b>	<b>196</b>	<b>100</b>

Source: research field survey, 2019

Based on this survey, the taxpayer's respondent profile in the above table shows that 41(20.9%) of the respondents are Share Company, 104(53.1%) are private limited company, 30(15.3%) are cooperative and 21(10.7%) are government enterprises. This indicates that the blend of business type will enable the study to get the relevant information from different angles.

As can be seen from the table 4.3 most of the taxpayers are private limited company in their legal status and the government enterprises are fewer in number followed by the cooperative society in legal status. The higher the number of government owned enterprise, the lower the tax evasion and fraud will be and vice versa. As a result, since the number of government owned enterprises are few in number in the branch, it can be said that the probability of tax evasion and fraud to occur is high in Ministry of Revenue large tax payer's branch office.

#### **4.4 Challenge of Collection problem and Role of tax Audit**

According to Council of Ministers (2002) the tax assessment for those who are required to maintain financial records, is done based on the records that taxpayers maintain; however, if they fail to maintain financial records, estimated assessment will be done. Assessment is a tax review by a tax official of the tax declared and information provided

by business income tax payers and a verification of the arithmetical and financial accuracy of the declared tax liability. In assessing the tax returns and payments, tax administration should determine whether the accuracy and timeliness of the information obtained from the data processing system are appropriate. If the information that the system produce is not timely or accurate, the cause of these problems needs to be determined. Tax assessor officers have the responsibility for preparing and maintaining the assessment roll, the tax roll and collecting the tax levies in accordance with the quality standards set by tax authority or concerned body.

All registered taxpayers and all tax liabilities are controlled on a regular basis. The reliance is on the known universe of taxpayers who are subjected to frequent and intrusive tax inspections regardless of their past compliance history or loss of revenue risk they may pose. In the branch revenue office, there is lack of attention that is paid to identifying non-filers and bringing them on to the tax rolls due to not fully implemented of SIGTAS. This is especially true with taxpayers operating in the illegal, as opposed to the formal sector. Most tax controls or administration do not represent thorough or professional financial audits practiced by modern tax administrations and do not meet international standards (Mesiku, 2011).The study examined the challenge the LTO branch faces. The following discussion illustrates them.

According to ERCA's (2010), tax assessment and audit is defined as an activity or a set of activities performed by tax officers to determine at taxpayer's correct tax liabilities for a particular accounting or tax period, by examining the taxpayer's organizational procedures and financial records in order to assess compliance with tax laws and verifying the true, fair, reliability, and accuracy of tax returns, and financial statement.

Table 4. 4 Responses on their altitude and awareness towards taxation and Tax assessment administration and collection Audit

Concluded statement	Measureme nt	SD	D	N.C	A	SA	Total	Mean	SD
The amount of tax assessed was fair & it would have been the amount I pay without any problem	Frequency	56	97	0	15	28	196	2.3	8.1
	Percentage	28.6	49.5		7.7	14.2	100		
The tax assessment and audit sub process contribute to the revenue collection	Frequency	-	-	-	46	-	46	4.0	6.4
	Percentage	-	-	-	100	-	100		
The tax agency give to you tax have a required level of awareness and knowledge for taxation?	Frequency	29	119	0	29	19	196	2.4	8.9
	Percentage	14.8	60.7		14.8	9.7	100		
You have participated in any forms of awareness creation program?	Frequency	42	101	0	31	22	196	2.4	8.0
	Percentage	21.4	51.5		15.8	11.2	100		

Source: research field survey, 2019(SD= Strongly Disagree D=Disagree N.C = No comment A=Agree SA=strongly agree)

From the above table 4.4, it can be seen that 56 (28.6%) and 97(49.5%) of tax payers respondents strongly disagreed and disagreed respectively that the amount of tax assessed was fair & it would have been the amount they pay without any enforcement while 15(7.7%) and 28(14.2%) agreed and strongly agreed respectively that the amount of tax assessed was fair & it would have been the amount I pay without any enforcement. This



shows that there is no payment of correct/genuine tax amount without penalty and legal enforcement. That is voluntary compliance of tax payers is not at its desirable/expected level which indicates that tax administration should have strong enforcement. From this data result, the researcher inferred that most tax payers require legal enforcement and adequate follow up to pay tax according to the law. Previously it was revealed that the enforcement activity of the branch is not adequate and therefore, tax collection performance is negatively affected by inadequate enforcement.

#### **4.5 Tax payer's altitude and awareness towards taxation**

The problem of tax non-compliance due to tax payer's altitude and awareness towards taxation is as old as taxes themselves. Characterizing and explaining the observed patterns of tax non-compliance, and ultimately finding ways to reduce it, are of obvious importance to nations around the world (Andreoni, 1998).

Tax non-compliance is of two types: intentional and unintentional. Intentional non-compliance is an offense against government in which the taxpayer understates the tax liability and subject to punishment. It could be emanated from seeking benefit from avoidance, taxpayers' personal altitude towards compliance, situational factors, complexity of tax structure, lack of tax education, dissatisfaction on government service, lack competent personnel and other. Tax evasion is one form of non-compliance; which Social scientists generally have considered it a typical "white-collar crime." (Chan et,A.2000).

According to Eriksen and Fallan (1996), many tax agencies have used various techniques to measure the extent of non-compliance, but there will always be some compliance dependent on the social altitudes and behavioral aspects of taxpayers. Moreover, the extent of non-compliance among individual taxpayers not only depends on individual factors, but on a complex combination of circumstances. Non-compliance represents the most inclusive conceptualization with respect to the failure to meet tax obligations whether intentional or unintentional. Tax evasion however, involves some elements of

fraudulent conduct accompanied by a real intention on the part of the taxpayer to willfully or deliberately mislead, deceive or conceal to pay less tax than actually owed.

The study examined the altitude and awareness level of taxpayer and other related problems in the branch revenue office. The result is as follow.

#### **4.5.1 Tax awareness program for taxpayers**

Taxpayers are entitled to at least the rights to know the amount of tax to be paid, adoption of laws in case of change of tax laws, filling forms, obtaining TIN, tax information for tax purpose, filling tax returns and appeal to oppose assessment etc to encourage self-assessment altitude for taxpayers.

The respondents of taxpayers asked whether they had participated in any of the taxpayer' awareness programs (e.g. training, education, interaction, awareness development) conducted by tax laws, policies, forms and procedures. And respond as follow.

Concerning the tax assessment and audit, as shown from the above table 4.4, 46(100 %) of respondents stated that tax assessment and audit has a role in enhancing revenue collection. And 148 (76%) of taxpayers' respondents did not have required awareness and knowledge about taxation while 48(24%) have participated in different forms of awareness creation programs. This shows that the tax awareness level is low in the branch and taxpayers do not have access to the necessary awareness programs that can encourage voluntary compliance. Regarding the question related with the participation in awareness creation program, 143(73%) most respondents of the taxpayer did not have participate in any forms of awareness creation program while 53(27%) respondents have participated in different forms of awareness creation programs. This also indicates that the tax awareness level is low in the branch office.

Most taxpayer obtains the required tax information from informal channels such as their friends, family and relatives while the formal channels are not widely established. This may result in the creation of in favorable information and undesirable altitude towards taxation when taxpayers depend on unprofessional to acquire tax information which

finally can result in reduction of voluntary compliance and that tax administration office of the branch is collecting less than planned revenue.

**Table 4. 5** Number of taxpayers participated in tax education program

<b>Year</b>	<b>Total Number of taxpayers</b>	<b>Number of taxpayers participated in education program</b>	<b>Total taxpayers participated in education in percentage</b>	<b>Mean</b>	<b>SD</b>
<b>2008</b>	1145	900	<b>78.6</b>	<b>2.3</b>	<b>28.8</b>
<b>2009</b>	1145	1000	<b>87.3</b>	<b>2.3</b>	
<b>2010</b>	1145	700	<b>61.1</b>	<b>2.3</b>	
<b>2011</b>	795	623	<b>78.4</b>	<b>2.3</b>	
<b>Total</b>	<b>4,230</b>	<b>3,223</b>	<b>76.2</b>		

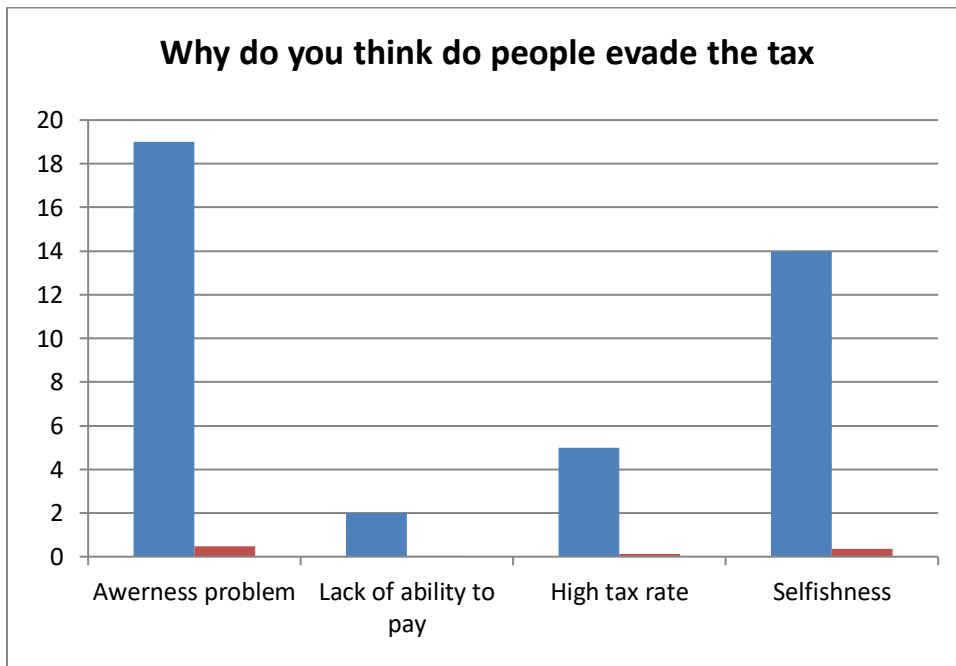
Source: research annual report, 2019

Additionally as we can see from the above table 4.5 secondary data source for awareness creating and education of Ministry of Revenue large tax payers branch office from the year 2008-2011EC. In the year 2008E.C among 1145 taxpayer’s 900 taxpayers was participated in education program and in the year 2009 E.C among 1145 taxpayer’s 1000 taxpayers was participated in education program. Generally from the year 2008-2011 among 4,230 total taxpayers 3,223 tax payers was participated in education program which is 76.2 % and each year’s gives one times per years. This indicates that the taxpayers’ education program provided by Ministry of Revenue Large Taxpayers Branch Office (LTO) was poor and not effectively delivered to all taxpayers in way that it can address the skill gap.

## 4.5.2 Tax evasion and fraud

Tax evasion refers to one's tax liability by methods that violate the provisions of tax codes and it's therefore an offence that if one discovered could lead to imposition of criminal proceedings against the tax payer. The proclamation No 286/02 of Income tax allows tax administration to take measure against Tax evasion and fraud extending from financial penalties to the imprisonment. Almost all respondents suggested that the branch should be strong in administration on those who fails to declare genuinely and who delay to pay in order to collect adequate tax revenue

**Fig 4.2 Tax employees' responses Showing Why people evade tax.**



Source: research field survey, 2019

The above data result in the figure 4.2 shows that 5(12.5%) tax payers are evading tax

due to tax rate is high, 14(35%) said due to tax payers are selfish, 19(47.5%) believe that it is due to awareness problem and the rest 2(5%) said that it is due to lack of ability to pay. This indicates that the taxpayers education program provided by the Ministry of Revenue Large Taxpayers Branch Office(LTO) was not well organized and consistently delivered in way that it can address the skill gap and the query of the taxpayers and the quality of education program and its consistency was not well designed and planned.

Additionally the result shows that even if there are taxpayers who are not willing to pay right amount of tax by themselves due to selfishness/ altitude problem, the predominant cause of tax evasion is lack of awareness followed by altitude problems. This again shows that awareness is the root cause for many problems in tax administration.

**Table 4. 6 Responses on type of businesses involved more in tax evasion and fraud**

Which type of business do you think more involved in tax evasion and fraud: tax employees		Frequency	Percentage
1	Construction and consultancy	25	54.3
2	Manufacturing and production	7	15.2
3	Distribution and service delivery	12	26.1
4	Government enterprise	2	4.4
	Mean	1.8	
	SD	3.9	

Source: research field survey, 2019

The table 4.6 above shows that 25(54.3%) of tax employees respondents believe that construction and consultation service are more complex business sectors and more involved in tax evasion , 7(15.2%) are said manufacturing sector, 12(26.1%) are said distribution and service delivery and 2(4.4%) are said government enterprises are more complex business sectors and more involved in tax evasion.

The result shows that service sectors especially a construction and consultant sectors a

complex business because of this taxpayer can evade tax easily.

### 4.5.3 Corruption

Corruption is a multi-dimensional problem. General factors leading to corruption within a country have to be differentiated from specific factors that affect corruption within the revenue administration in particular. Factors affecting the overall corruption range from the size of the government in the economy; to government officials having high discretionary power; to inadequate control systems with limited accountability to cultural norms.

Table 4.7 Responses of tax employees on the branch how to minimize corruption

Concluded statement	Measurement	SD	D	N.C	A	SA	Total	Mean	SD
The tax agent made use of every mechanism to minimize corruption: tax employees	Frequency	9	27	0	7	3	46	2.3	3.9
	Percentage	19.6	58.7		15.2	6.5	100		

Source: research field survey, 2019(SD= Strongly Disagree D=Disagree A=Agree SA=strongly agree)

From the above table 4.7, shown that 9(19.6%) and 27(58.7%) of tax employees respondents strongly disagreed and disagreed respectively that there is Adequate control to prevent corruption both form internal and externally while only 7(15.2%) and 3(6.5%) are agreed and strong agree respectively that the branch has Adequate control system to prevent corruption both from internally and externally and that the branch made use of every mechanism to minimize corruption.

The open ended questions responded that there is no adequate effort to correct the leakage of rules and regulation which creates loopholes for corruption to happen . It is the gap on the rules, laws and procedures which triggers people to engage corrupt activities and the Administration have not had efficient and adequate effort to close such gaps and loopholes. Some are also stated that the tax administration focused on measures after corruption is occurred, for example firing workers, imprisonment of workers and/or taxpayers but it did not focused on the mechanisms to prevent corruption from happening for example, Awareness creation through educating employees and tax payers, assessing the gaps and loopholes of the tax law and extra.

#### 4.5.4 Personnel Management

Human resource is a vital aspect of management in any organization which should be updated and upgraded by training and education to equip them to implement their work and discharge their responsibility .Tax administration with a skilled and responsible staff is the most important precondition for realization of "tax potential" of the state (Kaldor, 1980).

A Revenue Authority needs the right number of employees who are qualified and properly trained to perform their duties effectively and efficiently, since the tax net is broad. Competent and well-trained staffs are needed to ensure the effectiveness of tax collection.

Table 4. 8 Responses of tax employees on human resource

Concluded statement	Measure ment	SD	D	N.C	A	SA	Total	Mean	SD
The tax agent has adequate human resources to	Frequency	11	22	3	7	3	46	2.3	3.3
	Percentage	23.9	47.8	6.5	15.3	6.5	100		

discharge collection responsibility: tax employees									
The tax agent upgrades employees through training and education.	Frequency	12	29	0	4	1	46	1.98	4.3
	Percentage	26.1	63.0		8.7	2.2	100		

Source: research field survey, 2019(SD= Strongly Disagree D=Disagree A=Agree SA=strongly agree)

The above table No 4.8 show that 11(23.9%) , 19(47.5%) and 3(6.5%) of tax employees respondents are strongly disagreed, disagreed and no comment respectively and 7(17.5%) and 3(7.5%) of tax employees respondents are agree and strong agree respectively that there is adequate resource for the tax collection and administration responsibility.

Regarding human resource, 12(26.1%) and 29(63.0%) of tax employees respondents strongly disagreed and disagreed respectively that the branch upgrades employees through training and education while 4(8.7%) and only 1(2.2%) of tax employees respondents agreed and strongly agree respectively that the branch upgrades employees through training and education. Almost All respondents stated that there is no proper and adequate training for employee. The interview with respondent stated that training was being given and it was not of course enough to undertake the responsibility of tax employees efficiently and adequately .The respondent reasoned it with lack of sufficient budget for the desirable training level.

#### 4.5.5 Automation



Automating tax administration is aimed at properly and efficiently managing tax collection and improving servicing and auditing of the taxpayers. The use of automation system has been helped to properly and efficiently manages tax collection, improve servicing of the taxpayers and audit work, improve support to the basic business processes of tax administration, increase transparency in assessment, collection, and related processes (Republic of Serbia Standard Summary Project, 2011). It brings efficiency and effectiveness in tax administration which results in increments of revenue collection, timely monitoring of taxpayers and imposing penalty and interest. And also enhancement of data security (confidentiality, integrity and availability), time saving during processing of returns, data harmonization and equity in tax administration due to enhanced data transparency and processes. It can also create impediment to tax avoidance, evasion and proper management of tax refunds (Salum, 2011).

In terms of information technology, the interview Respondents stated that assessment and collection activities are supported with information technology even if there is still some gap in the IT support for the tax assessment and collection activities. These respondents stated that management activities are not supported and under taken by the IT support and the information link with the variety of stakeholder. For example, SIGTAS is limited to registration, issuing registration ,Assessment and audit ,refund , cashing, and reporting. But data collection/Intelligence/ is not supported by interlinking different interrelated institutes and organization like banks and the likes.

**Table 4.9 Evaluation of tax administration by tax payers**

		Excellent		Good		Fair		Poor		Mean	SD
		Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage		
1	Tax collection efficiency	36	16.7	48	18.7	92	43.8	20	20.8	2.5	7.7
2	administration	9	4.6	27	13.8	64	32.6	96	49.0	3.3	8.1

	on non-compliance										
3	Awareness creation	28	14.3	27	13.8	52	26.5	89	45.4	3.0	7.5

Source: research field survey, 2019

It is described in the above table 4.9, with regard to the collection efficiency, 36(16.7%) rated excellent, 48(18.7%) Said good, 92(43.8%) said fair and 20(20.8%) said poor. Similarly, in terms of administration activity, 9(4.6%) rated Excellent, 27(13.8%) rated good, 64(32.6 %) rated fair and 96(49%) are rated poor. Regarding the awareness creation, the 28(14.3%) said excellent, 27(13.8%) said good, 52(26.5%) said fair and 89(45.4%) stated that it is poor. As shown in the data analysis, most respondents rated fair for tax administration per formation which show the branch is averagely providing service for tax payers. Regarding tax administration and tax awareness, respondents rated poor 49 and 45.4% respectively and these are the main/root causes for many tax administration problem which negatively affect revenue collection.

#### **4.6 Tax delinquency control and compliance level of taxpayers**

This issue is much attached with evaluating how the taxpayers comply with their tax duty and of the revenue administrators manage a delinquent tax according to the tax laws; because, the altitude of the taxpayers towards tax plays a critical role for their tax compliance behavior. The taxpayer's compliance is indicated by the timely declaration, payment, self- assessment and voluntary payment of tax liability.

Having voluntary compliance from taxpayers reduces tax revenue corruptions, administration costs, delinquents and it brings easy revenue mobilization (Demirew, G. 2004).

Table 4. 10 Response of Tax employees' related to tax officers' intelligence activity and coordination

Concluded statement	Measurement	SD	D	N.C	A	SA	Total	Mean	SD
Tax audit/assessment is supported by intelligence department	Frequency	0	17	6	17	6	46	3.3	2.99
	Percentage	0	37.0	13.0	37.0	13.0	100		
There is full integration and exchange of information within the sector and across the sectors	Frequency	2	27	6	11	0	46	2.6	3.9
	Percentage	4.3	58.7	13.0	23.9	0	100		

Source: research field survey, 2019(SD= Strongly Disagree D=Disagree A=Agree SA= strongly agree)

As shown in the above table above of 4.10 shows that 17(37%) of the respondents disagreed that intelligence team information has significant support for assessment and audit department while 17(37%) and 6(13%) of the respondents agreed and no comment respectively then remaining 6(13%) of the respondents strongly agree that intelligence team information has significant support for assessment and audit department. As of the tax employees respondents stated that intelligence team information has no significant support for assessment and audit department. The interview with department head of audit also stated that there is no strong support from intelligence product. He also stated some reasons why intelligence unable to do so. Because intelligence officer have no depth of knowledge about tax assessment and audit process, the information they bring sometimes not significantly relevant for assessment except to show risk taxpayers. The other is intelligence department doesn't

have all resource required to acquire the demanded information at expected time and standard. Moreover, intelligences are not interlinked with the intelligences of other sectors and other country. This can cause increase in tax evasion and found which finally result in reduction of the tax collection.

Again the table 4.10 that 2(4.3%) , 27 (58.7%) and 6(13%) of tax employees respondents strong disagree , disagreed and no comment respectively that the branch has a full integration within and across the sectors while 11(23.9%) of the respondents agreed that the branch has a full integration within and across the sectors. Some respondent stated in the open ended questions that domestic taxation and customs Administration were merged by the proclamation but there is still a gap of coordination in issuing rules and regulation and also in Administrative coordination between them. Besides the computer software that administer domestic tax and customs are different and there is no interlink between interfaces for the exchange of information. There is also a knowledge gap and altitude problems between the worker of each for the other in one organization .

The Researcher inferred from the above data analysis that it can result in a problem especially during audit and assessment that the branch can suffer to get sufficient and reliable information from the right sources. Moreover, unless the authority work hand in hand with stakeholders like banks, road and transport authority and investment Bureau, it is difficult to get reliable and efficient information during seizure of tax payers property in the failure to pay tax due. The absence of good coordination and cooperation of these stake holders can highly impact the tax assessment and collection negatively.

The above data result indicates that the intelligence information support as input for assessment and audit is not developed to the expected level. If the tax assessment and audit is not adequately supported by intelligence information, it is not possible to discover all unreported income and finally it can result in decline in tax collection.

#### **4.6.1 Enforced collection**

This process deals the actions the tax administration takes when the taxpayer fails to pay a tax liability based on either a self-assessed tax return or an assessment resulting from audit activities. Contacting taxpayers and requesting payment of all delinquent and current taxes that are due. Interviewing taxpayers and third parties to secure information regarding sources of income and assets and taking enforced collection actions when taxpayer refuses to pay voluntarily (Lewis, 2005)

Table 4.11 Responses of employees for questions relating with tax collection administration

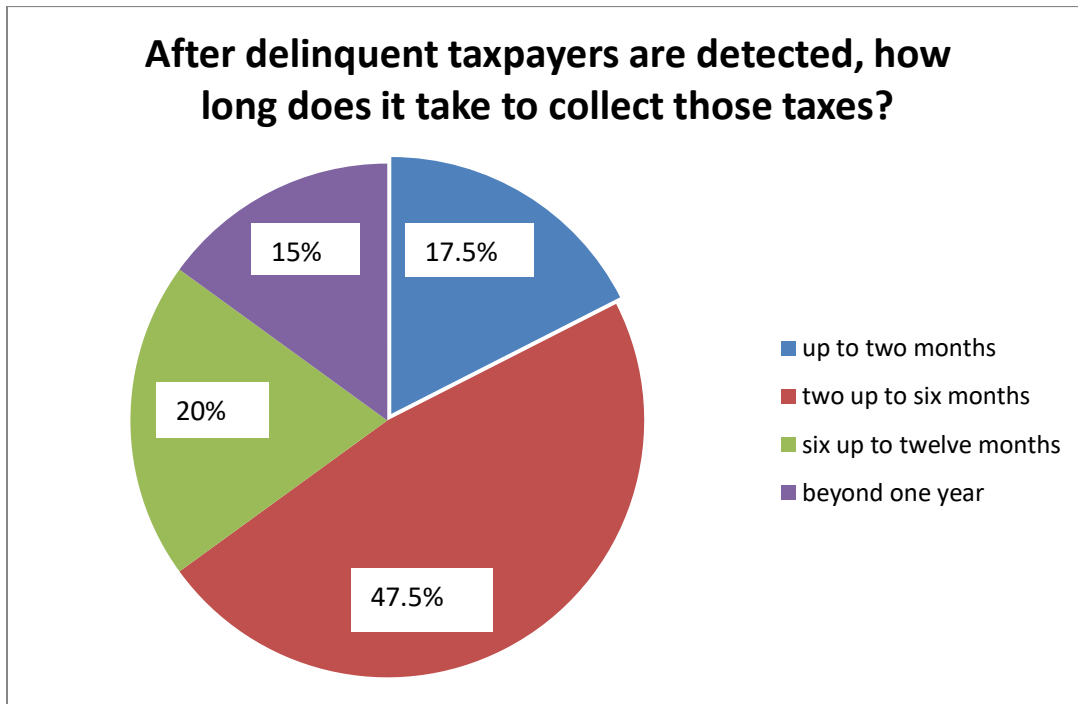
Concluded statement	Measurement	SD	D	N.C	A	SA	Total	Mean	SD
Administration on delinquent taxpayers is properly implemented	Frequency	9	26	2	7	2	46	2.3	3.7
	Percentage	19.6	56.5	4.3	15.3	4.3	100		
Administration and collection on delinquent taxes is not aggressively implemented and neither taking action on seizure	Frequency	8	29	1	5	3	46	2.3	4.1
	Percentage	17.4	63.0	2.2	10.9	6.5	100		
Tax administration is weak	Frequency	10	21	0	9	6	46	2.6	3.2
	Percentage	21.7	45.7		19.6	13.0	100		

Source: research field survey, 2019(SD= Strongly Disagree D=Disagree A=Agree SA= strongly agree)

The above table 4.11 revealed that the 9(19.6%) , 26(56.5%) and 2(4.3) of the respondents strongly disagreed, disagreed and no comment respectively on the administration of collection on delinquent taxes are properly implemented while 7(15.3%) and 2(4.3%) agreed and strongly agreed respectively that administration of collection on delinquent taxes are properly implemented. Again table 4.19 shows that 8(17.4%) , 29(63%), 1(2.2%), 5(10.9%) and 3(6.5%) of the respondents strongly disagreed, disagreed, no comment, agree and strong agree respectively Tax administration also didn't aggressively enforced delinquent tax and proceed significantly in seizing and selling of delinquent tax payers property and collected a delinquent taxes.

During the interview response with tax assessment, collection and follow up core process head, stated behind delinquent taxes are most governmental organization are not pay tax timely and the tax liability of this organization is very huge. Since, these governmental organizations are large manufacturing factories, employed large number of employee and their contribution for the country economy is high, it is difficult to follow collection procedure like clothing the organization and size the property. Therefore tax administrations tolerate them until they have a matching liquidity. The interviewer added that even if it is legal to seize these organization as per income tax proclamation No 216/02, it is very difficult to apply practically. The researcher inferred from the above data analysis that the failure to enforce collection by any legal means can result in undesirable problem of revenue collection in the branch office.

Fig. 4.3 Time taken to collect delinquent taxes



Source: research field survey, 2019

It can be seen from the above figure that 7(17.5%) of tax employees respondents said that once delinquent tax payers are detected, to collect undue tax, it takes duration up to 2 months, 19(47.5%) said 2 months to 6 months, 8(20%) said it takes 6 months to 1 year and the rest 6(15%) said it takes beyond one year.

The researcher observed that there was an installment procedure prepared for the payment of undue tax. This procedure allows taxpayers until two years end. Unless the taxpayer completes within the installment schedule, the tax administration can take the measure seizing of the property. This indicates absence of strong enforcement collection procedure can result in big amount problem of revenue collection in the branch office.

#### 4.6.2 The Tax Refund Verification

Having paid tax liability, tax payers can claim for refund if there was any amount paid in excess of tax liability. Collection action for any penalties and interests due will be

suspended until the refund request is resolved. Tax refund has the potential to relieve taxpayers from cash flow financial problems. But some tax administrations routinely delay the payments of refunds without proper cause and without subsequent payment of interest

**Table 4.12 Responses to refund procedure**

<b>Concluded statement</b>	<b>Measurement</b>	<b>SD</b>	<b>D</b>	<b>N.C</b>	<b>A</b>	<b>SA</b>	<b>Total</b>	<b>Mean</b>	<b>SD</b>
Tax refund process is fast, transparent, and according to the law: taxpayers	Frequency	70	108	0	18	0	196	1.8	9.1
	Percentage	35.7	55.1		9.2	0	100		
Tax refund process is fast, transparent, and according to the law: tax employees	Frequency	0	28		18	0	46	2.8	4.4
	Percentage	0	60.9		39.1	0	100		

Source: research field survey, 2019(SD= Strongly Disagree D=Disagree A=Agree SA= strongly agree)

It can be seen from the above table 4.12 that 70(35.7%) and 108(55.1%) of the respondents are strongly disagreed and disagreed respectively that the refund claim process is fast and on time while only 18(9.2%) of the respondents agreed that the refund claim process is fast and on time. Similarly, majority 28(60.9%) and 18(39.1%) of respondents are Disagree and agree respectively of the tax employees also respondents said that the taxpayers do not get their refund claim on a specified time .

The interview result with tax assessment, collection and follow up core processes also showed that some of tax payers are not getting their refund claim on time



prescribed due to the available employees are not enough to perform the verification of the refund. Moreover, sometimes the necessary information for verification is not available or accessible on time. The researcher asked the process owner whether they had paid interest in any case for delayed payment for tax payers as per pro.286 /02,Art 76, that if refund delayed more than 90 days ,it should be paid with interest as prescribed. But as interviewee replied that they never paid interest in any case. when the Administration fails to operate on rules and laws, it can cause dissatisfaction of customers and diminish the confidence on law and rule and then reduce voluntary complain and finally impact revenue collection negatively.

#### **4.7 Tax Revenue Collection performance and related problems**

The actual tax revenue collection performance of Ministry of Revenue Large Taxpayers Branch Office (LTO) has shown an increasing trend for the consecutive four years as compared to the previous year in the secondary data obtained from the office revenue collection from 2008 to 2011E.C

Such an increasing revenue collection is attributed to:

- Increasing and decreasing number of tax payers
- Increasing number and intensity of investment
- Inflationary effect
- Increasing tax awareness

**Table 4. 13 Tax Revenue Collection performances/in billion**

Years in E.C	Planned tax revenue	Actually collected tax	Difference
2008	59.74	60.56	0.82
2009	78.64	68.21	-10.43
2010	96.63	74.2	-22.43
2011	98.9	85.96	-12.94
Mean		2.6	

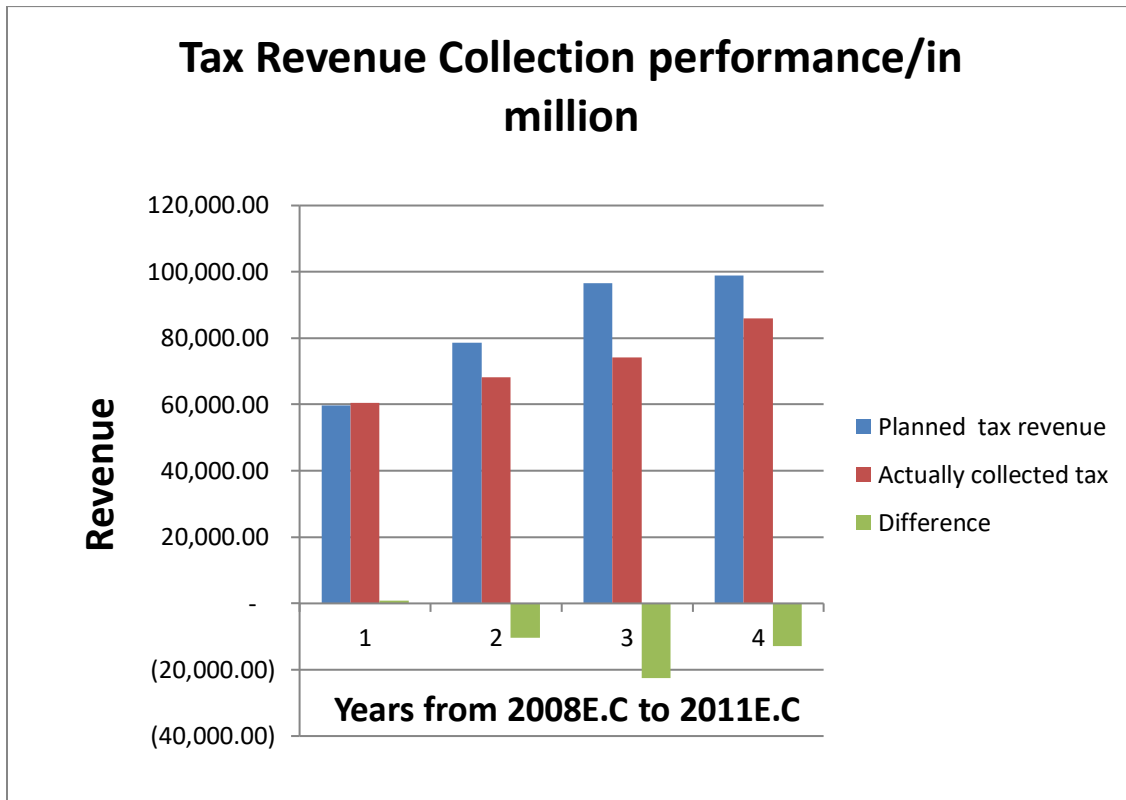
SD	8.3	
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Source: ERCA-HB annual reports

As can be seen from the above table 4.13, the revenue collection showed an increasing trend from year to the next year. It was 60.56 billion in 2008E.C, 68.21 billion in 2009 E.C, 74.2 billion in 2010E.C, 85.96 billion in 2011 E.C. But when compared to the revenue plan, the actual revenue collected is lower than the planned revenue in each year except 2008E.C .That is in 2008 E.C the revenue collection was in overage 0.82billion and shortage of 10.43billion in 2009, 22.43billion in 2010 E.C and 12.94 in 2011E.C.

Data from the secondary source show that revenue collection is always below from what is planned for the respective years. The interview respondents answered that the revenue plan was based on the potential tax that could have been collected but the actual tax was below the planned tax because a variety of hindering factors that can reduce potential tax collection. The hindering factors that reduced potential tax from collection were delay of collectable assessed and audited tax in appeal process, low administration through seizure, lack of sufficient information, lack of motivation of workers, tax evasion and corruption.

Fig. 4.4 Tax Revenue Collection performance



This shows that the performance of the revenue collection in the branch is weak in the consecutive years. The actual tax revenue collected is below than revenue planned. Moreover, the shortage of actual revenue collection against the planned revenue was shown difference. This situation further aggravated by the inadequate enforcement of tax arrears and delinquent tax.

Table 4. 14 Response of tax employees on collection performance

Concluded statement	Measurement	SD	D	N.C	A	SA	Total	Mean	SD
The LTO performed collection perfectly to the planned revenue	Frequency	8	29	0	6	3	46	2.3	4.1
	Percentage	17.4	63.0		13.1	6.5	100		

Source: research field survey, 2019(SD= Strongly Disagree D=Disagree A=Agree SA=strongly

agree)

As can be seen from the above table 4.15 8(17.4%) and 29(63%) of the tax employees` respondents are strongly disagreed and disagreed respectively that branch collected the planned revenue while 6(13.1%) and 3(6.5%) of the tax employees` respondents are agreed and strongly agreed respectively that branch collected the planned revenue. The main reasons respondents gave were lack of sufficient training, low remuneration ,lack of awareness from taxpayers, low sense of belongingness from employees and low level of enforcement by the Administration. Tax employees respondents stated that to enhance revenue collection capacity of the branch , it is important first to improve and develop audit, assessment and tax collection.

The above data analysis show that taxpayers awareness, assessment and audit, customer service and tax collection are the main way to improve tax revenue collection and service delivery in the branch.

## **4.8 Conceptual analysis of the open ended Questions**

The respondents were given chance to state and suggest their idea in the open ended question as part of questionnaire. As a result, they gave comments and suggestion especially on the problem of tax assessment problem and on those measures that to be taken to overcome the problems.

### **4.8.1 General problems mentioned by the respondents**

Tax payer respondents stated that their filling, payment, assessment and other service are not up to their expectation. It is not fast and standardized. Moreover, tax forms are not clear and short. Whenever there is an amendments/improvements or any change in tax laws, directives and/or procedures there is no on time announcement and awareness creation to tax payers and as result, tax payers are exposed to undue penalty. On the other hand, tax employees respond that:

- ✓ Lack of close follow up and adequate administration

- ✓ Lack of confidence from tax employees in decision making which deteriorate the quality service provided
- ✓ Some processes and services are not fully supported by automated system and this creates problem when the officers tries to match manual system with automated system;
- ✓ Lack of transparency and lack of coordination and cooperation with stakeholders
- ✓ Lack of motivation schemes for workers
- ✓ Lack of adequate awareness for taxpayers and adequate tax knowledge by employees and the gap in IT usage
- ✓ Lack of immediate response for appeal

#### **4.8.2 Measures to be taken to overcome problem**

In order to tackle the problems and enhance revenue collection and improve service delivery, tax payers recommended the following:

- ❖ Transparent, and accountable work environment should be created in office
- ❖ Close relation of tax payers and the Administration to avoid confusion and illegality there by curbing tax evasion and corruption.
- ❖ Creating rewarding schemes for both better performing tax payers and tax employees.
- ❖ Education and respect to taxpayers prioritizing prevention of tax evasion and corruption rather than penalizing after it occurred.
- ❖ Strong administration for illegal traders and non/nil filers
- ❖ Tax officials should have better knowledge than tax payers through training and like.

Moreover, tax employees on their part forwarded the following recommendations:

- ✚ Develop good governance for employees within the administration and rotation of worker in their responsibility to minimize corruption
- ✚ Develop good communication channel within and out of the organization

- ✚ Improve tax audit assessment an intelligence coverage
- ✚ Upgrade skills and knowledge of employees through training, experience sharing, benchmarking and motivation employees through different motivational menses.

## **CHAPTER FIVE**

### **SUMMERY, CONCLUSION AND RECOMMENDATION**

#### **5. Introduction**

In this chapter, the researcher summarized all the main ideas of the findings of the study and concluded the problems in assessment of tax administration problem of taxes of Ministry of Revenue Large Taxpayers Branch Office (LTO). And finally, the researcher tried to forward recommendations that are believed to be capable of minimizing the problems of tax administration problem and thereby enhancing revenue boost.

#### **5.1 Summery of the study**

Generally, tax administration in any state involves the activities like identifying and registering tax payers, educating them, receiving and processing tax returns, tax assessment and audit, documentation of tax payers' records including their tax liability, inspection and supervision, appeal and court litigation, seizure and the like. Given the above responsibilities, it has become difficult for tax administration to collect potential tax revenue from the economy efficiently. Ministry of Revenue Large Taxpayers Branch Office (LTO) is the tax collecting authority in Ethiopia that structurally divided into many branches and among LTO is the one.

In Ministry of Revenue Large Taxpayers Branch Office (LTO), the tax administration activity is grouped into two processes.

I.Tax administration and collection activity

II.Customer service activity

The overall objective of this study was to assess and identify the problems of tax administration activities and related issues that affect the revenue collection in Ministry of Revenue Large Taxpayers Branch Office (LTO). Based on the major findings of the study, the researcher summarized these problems which affect the tax administration and collection as follows:

### **5.1.1 Challenges in assessment of tax administration and collection**

- There is no fast and quality service delivery in the filing and payment processing in the branch office.

### **5.1.2 Altitude towards tax laws and tax administration and their related problems**

- ❖ The awareness of taxpayers about the tax laws and the tax administration procedures is low which affects the altitude towards taxation and compliance to the tax laws because it is difficult to comply with the laws and procedures that are not clearly understood.
- ❖ Corruption is one of the bottlenecks in the process of tax assessment and collection problem but the priority and effort the branch made to overcome it is minimal. Especially the branch didn't make an adequate effort in the preventive mechanisms by education and closing the loopholes and gaps of the tax laws and procedures that motivate corruption.
- ❖ Human resource is a vital aspect of management in any organization which should be updated and upgraded by training and education to equip them to implement their work and discharge their responsibility. The tax knowledge of tax payers is not at its desirable / expected level and similarly, the tax knowledge of workers is also not at the expected level due to high employee turnover as experienced workers are always resigning or being fired. There is no motivation scheme for best performing employees and there is also no penalty for poor performance. This condition does not create a good working condition and does not motivate workers for better achievement. Moreover, there is no adequate resource available to undertake tax administration activity.
- ❖ Automating tax administration functions and procedures have advantages for taxpayers by facilitating the tax administration processes, service delivery, reducing compliance costs, increase transparency and accuracy in tax administration functions and procedures. The branch has some problems related to application of automated system. Such problems include slow network system, inability to give fast response to problems like



SRM problem, knowledge gap in taxpayers and tax officials and not modifying and correcting wrongly entered data during the encoding or declaration time, inadequate and sluggish network system, insufficient support from IT support team.

### **5.1.3 Challenges related with Tax delinquency control and tax arrears**

- Even if there are tax payers who voluntarily comply to tax laws and procedures, it needs strong follow up and problem from tax administration
  
- There is no strong coordination and cooperation between the branch and other stakeholder institutions and organizations like banks, investment bureau, road and transport ministry and the like which lags the information acquiring ability of the branch. Similarly, the intelligence team of the branch has no broader information channel that avail adequate and timely information at need because their coordination and cooperation with other organization or teams to widen their information net is weak.
  
- Even if there is tax intelligence department in the branch, the information support of the intelligence team to tax assessment and audit is not significant to the expected level and the intelligence officers have low level of tax knowledge and as a result the information they bring found to be less relevant to tax assessment and audit.
  
- There is hundreds of millions of tax arrears/delinquent uncollected tax as shown in the tax liability record/ account of the data base. The branch also performed lower tax revenue collection than the plan for the given period. This is due to the problems like branch did not have adequate collection problem through different mechanisms like seizure and most of the delinquent tax payers are government owned enterprises and manufacturing factories which are difficult to seize. The significant number of assessed and audited tax payers go for appeal and as the appeal process takes longer time or sometimes extends to the court litigation, the outstanding tax due left uncollected in mean time. Moreover, tax evasion, corruption, low level of tax employees' motivation, low level of taxpayers' awareness and the like.

## **5.2 Conclusions**

The Purpose of this study was assessing large taxpayers' satisfaction with special emphasis on service quality dimensions, service delivery dimensions and complaints handling mechanism in large taxpayers' branch office. To achieve the objectives of the study, the researcher used mixed research approach. Moreover, the results of the survey were coupled with the data obtained from the in-depth interview used to analyze the large taxpayers' satisfaction e dimensions, service delivery dimensions and complaints handling mechanism of the Large Taxpayers' Branch Office. There is a significant difference in the mean ranks of Large Taxpayers' satisfaction with Service quality dimensions, service delivery dimensions and complaints handling mechanisms.

## **5.3 Recommendation**

In light of the drown conclusion, the researcher tried to make the following recommendation to overcome the problems of Tax administration and problem in Ministry of Revenue Large Taxpayers Branch Office (LTO) as follows:

### **5.3.1 Improving the procedure of Tax Administration problem**

- ✓ The branch should focus on service delivery for customers/taxpayers in return filing and payment by making tax return forms easy, providing fast service, provide tax awareness for tax payers and tax employees.
- ✓ There should be proper exit conference on the basis of findings and results of tax assessment and audit. Otherwise majority of assessed and audited taxpayers are going for appeal and the appeal is not a fast mechanism as it extends to the court litigation process and in mean time the outstanding tax remain uncollected for long time.

### **5.3.2 Improving taxpayers Altitude towards tax and other related problems**

- ✓ Tax payers' education a core for all solutions of non-compliance due to ignorance and lack of knowledge. Tax payers have no adequate knowledge and awareness of tax laws and procedures. Therefore, the researcher recommended that tax education should get more focuses on education and training programs that accommodate different transmission media in order to widely cover as many taxpayers as possible in planned ways. There should be also awareness and notice before harsh measure for taxpayers.
- ✓ To minimize corruption and retain and attract well-trained personnel required to ensure effective tax collection; taxpayers' registration; and administration of tax laws, the authority should implement good working condition to the tax officials. Officials should have relatively little direct contact with taxpayers and even less discretion in deciding how to treat them. How they behave in such contacts must be monitored in some way. Additionally to reduce corruption the revenue office should exercise consistency and transparency in administratively imposing the penalty. It should also advisable for authority to implement what is legislated in the law regarding penalties on the financial penalty aspect.
- ✓ The most vital resource in any organization is the human resource. Unless human resource is given dele attention in the organization, no organization can be successful in the long run. No modern technology and/or any system can replace the role of human resource in an organization. Therefore, the LTO should develop the sense of belongingness of the workers by setting so many packages of favorable conditions for workers. The LTO has no systems that reward the genuine and hardworking employees than others and therefore the branch should develop a motivation schemes like reward for best performers. There is need to motivate the tax collectors since this is a tempting job. In order to enjoy the good fruit from the collected taxes, good work

incentives and welfare should be developed in order to retain/ sustain valuable experienced workers in the tax administration.

- ✓ There should be full utilization and implementation of automation through which the adequate information can be available. There should be integration of tax administering software and other supportive software and creating interface between different related functions to get timely and adequate information. For example, the integration of inland revenue system with customs and with other stakeholder institutions like banks system can enable to get important information for tax assessment, audit and refund verification.

### **5.3.3 Improving Challenges which related with Tax delinquency control and tax arrears**

- ✓ There should be strong coordination and cooperation within the branch office and other institutions and organizations including taxpayers. Because it improves the efficiency and effectiveness of tax administration. Working in group will increase the channels and scope of the information net of tax administration which will enable the tax administration to have adequate and enough information about tax assessment and audit, tax inspection and enforcement. For example, illegal traders, unregistered traders, nil filers, non-filers, contrabandists, smugglers, corrupters and the like are living within these all parts of society, transacting with registered tax payers, getting services from other stake holder institutions and organizations. When the tax office work with these all society sections, the probability of getting adequate and timely information about such organizations and peoples will increase.
- ✓ There should be a good communication channels and spirit within the branch and with outside customers and stakeholders. The tax payers and tax authority should not be seen as one is successful in expense of the other. Unless there is a good communication, it is difficult for tax administration to have adequate information about illegal traders and non-compliant. Lack of adequate communication also paves a way to corruption

- ✓ There is a huge amount of delinquent tax uncollectable from the government owned enterprise and manufacturing factories as they have a low liquidity rate. Because, these businesses have employed many citizens and support country's economy, seizure of these businesses will collapse these all advantage and as a result the tax administration didn't collect delinquent tax from such businesses. Therefore, the researcher recommended that the branch should set a condition that such organizations can access a bank loan and use this loan to pay a delinquent tax and later the organization should pay the bank periodically rather than paying periodically to tax administration. That is the organization should pay some amount of money to bank periodically that they were paying to tax administration as paying a delinquent tax after paying the tax administration once from loan.
- ✓ The LTO doesn't have the priority setting to which it can collect in volume, with a minimum cost, collectivity rate and the like. Therefore, the branch should plan in collecting the delinquent tax by giving priority to higher size/ volume of money, easily collectable, having minimum cost to collect given the available resource to do with it
- ✓ Since the engine for the tax administration, the branch should focus on the enforcement of illegal, nil filers, non- filers and delinquent tax payers on the planned and specified time because the failure to enforce tax laws on non-voluntary tax payers motivates voluntary taxpayers to be non-compliant and thereby increase administrative cost and finally reduce tax revenue collection.

**Recommendation for tax payers:**

- ✓ Tax payers should solve their problems by discussing with tax authority rather than taking undesirable measures like tax evasion, non-compliance and illegal ways.
- ✓ Taxpayers believe that illegal traders, unregistered traders, and corrupters can affect their businesses and its wellbeing. Therefore, taxpayers should provide genuine and unbiased information on illegal, unregistered, and corrupt peoples and organizations. This brings the cooperation and collaboration between taxpayers and tax authority which results in efficient and effective tax administration.
- ✓ Tax payers should give a greater concern for tax education and awareness programs that are being undertaken by the tax administration. Because many taxpayers give low

attention to the knowledge of the tax laws and procedures and they simply run this trend leads them to delve themselves into an undue worry.

#### **5.4 Suggestion for this Research**

The objective of this study was to assess the problems of tax assessment problem in Ministry of Revenue Large Taxpayers Branch Office (LTO) and the study concluded with the problems and challenges identified and finally recommendations are given. The researcher believes that if the recommended solutions and the following suggestions are put in practice, the branch can generate high level of tax revenue.

- The system of SIGTAS must be consistent and available all the time in the branch office
- Policy makers must work to make a sound policy in relation to providing tax education as a means of reducing tax payers' noncompliance altitude: If tax noncompliance altitude is improved because of the provision of tax education, the ministry of education has to think this relationship and try to include the public finance and taxation course in the curriculum of all departments. This is because; tax is one of the major sources of revenue for a government which is used in general to finance public expenditures and if tax education influences tax compliance altitude of tax payers, the tax course (similar to civics and ethics) must be provided as a common course to schools.
- Man power of tax officials working on assessment problem must be adequate and well trained to combat any challenge regarding Tax collection.
- Ministry of Revenue Large Taxpayers Branch Office (LTO) workers are required to be free from any bias, nepotism and discrimination in order to provide fair treatment and timely service to its customers.
- BSC must be implemented to bring efficiency and effectiveness in revenue sector by eliminating bureaucracy, promoting workers according to work done and accomplishing works according to given standard.

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## **ANNEX NO. 1**

### **QUESTIONNAIRE TO BE ANSWERED BY TAX OFFICIALS OF MINISTRY OF REVENUE LARGE TAX PAYERS BRANCH OFFICE (LTO)**

Dear Respondents!

The questionnaire is designed by a post graduate student from the ST-MARY'S University to conduct a research in partial fulfillment of a Master Degree in Tax Administration. The main objective of the study is to assess the problems of tax administration problem in Ministry of Revenue Large Taxpayers Branch Office (LTO).

The research is going to be carried out on your responses and other relevant data that could support it. The purpose of this questionnaire is to obtain your perceptions and views regarding various aspects of taxation. It forms a major part of the research and the information you will give enable me to analyze the main problems facing tax administration and its impact on revenue collection. Your cooperation to respond is very important to this study because it represents others who are not included in the sample.

Please answer every question. The questionnaire seeks basic factual information and you can tick the option that you choose or write your answer on the blank space provided. Space is provided at the end of some questions for you to add further comments or explanations.

I promise that all information you provide would be strictly confidential. I thank you very much in advance for your cooperation.

Researcher's Name: Netsanet Tadesse

Position: MA student at ST. Mary's University

Department: Accounting and Finance

Contact address: telephone number = 091 131 61 74

Email address: nattads2010@gmail.com

- Please, do not write your name,

➤ For questions that demand your opinion, please try to honestly describe.

**Section I: Demographic Information of Tax officer. Tick your response in the appropriate box that you perceive is right.**

1. Your Sex:    a. Male        b. Female   

2. Your age in years

a. 30 and below        c. Between 41 and 50   

b. Between 31 and 40        d. 516 and above   

3. Your academic qualification

a. Certificate and below        c. Bachelor Degree   

b. Diploma        d. Master's Degree or above   

Which category best describes your field of study?

a. Management        c. Accounting   

b. Economics        d. Others, please specify \_\_\_\_\_

Total years of work experience (including those you had in other organizations)

a. Less than 5 year's   

b. From 5-10 years   

c. 10years and above

**Section II. General questions related to tax officers knowledge of tax administrations. Multiple choices, please Circle the letter that you perceive best among the alternatives**

1. How much do you know the rules and regulations related to tax?
  - a. Almost all
  - b. Partially
  - c. I don't know
  
2. What are the types of assessment practiced in your branch?
  - a. Authority assessment
  - b. Self-assessment
  - c. both
  
3. Why do you think do people evade tax?
  - a. Awareness problem
  - b. Lack of ability to pay
  - c. High tax rate
  - d. Selfishness

Which type of business activity do you think is more involved in tax evasion and fraud?

- a. Construction and consultancy
  - b. Distribution and service delivery
  - c. Manufacturing and production
  - d. Government enterprise
  
5. After delinquent taxpayers are detected, how long does it take to collect those taxes?
  - a. Up to two months
  - b. Six up to twelve months
  - c. Two up to six months
  - d. Beyond one year

**Section III.** Please Write (x) on number (1) for Strongly Disagree (2) Disagree (3) Not Certain (4) Agree and (5) Strongly Agree

<b>Ser. No</b>	<b>Concluding statements</b>	<b>Strongly disagree (1)</b>	<b>Disagree (2)</b>	<b>No comment (3)</b>	<b>Agree (4)</b>	<b>Strongly Agree (5)</b>
1.	The current tax collection performance regarding total revenue collection is achieving its planned revenue perfectly					
2.	Taxpayers get proper service delivery during tax filling returns and payment					
3.	The tax administration and collection core process has adequate resources					
4.	There is full integration and exchange of information within the tax office and with other branches of the Authority.					
5.	Tax audit/assessment is supported by intelligence input information in appropriate time and manner.					
6.	Tax administration action to those delinquent tax payers is properly enforced to collect tax.					
7.	There are inadequate controls to prevent external or internal corruption					
8.	Enforced collection of delinquent taxes is not aggressively pursued and the tax administration also is hampered in taking seizure and sale actions.					

9.	The branch upgrades employees through training and education.					
10.	Tax enforcement is very weak					
11.	The existing motivation scheme is at the desired level and staff motivation is high.					
12	In your branch the tax administration and collection activities are performed based on their work manual?					
13	Do you agree that the tax assessment sub process contributes to the revenue collection?					
14	Do you agree that the tax arrears accumulated because your branch lacks mechanism of enforced collection measures?					
15	Do you believe a tax payer who requests refunds gets their refund /clam on a specified time					
16	Proper training gives to tax officers?					
17	Your branch tax assessment and collection process fully supported by 'IT' or 'SIGTAS'?					

Any comment and suggestions

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## **ANNEX No. 2**

### **QUESTIONNAIRE TO BE ANSWERED BY TAXPAYERS OF MINISTRY OF REVENUE LARGE TAX PAYERS BRANCH OFFICE (LTO)**

Dear Respondents

This questionnaire is designed by a post graduate student from the ST. MARY'S University to conduct a research in partial fulfillment of a Master Degree in Tax Administration. The main objective of the study is to assessment of tax administration problems in MINISTRY OF REVENUE LARGE TAX PAYERS BRANCH OFFICE (LTO).

The research is going to be carried out on your responses and other relevant data that could support it. The purpose of this questionnaire is to obtain your ideas and views regarding different aspects of taxation. It constitutes a major part of the research and the information you will give enable me to analyze the main problems facing tax administration and its impact on revenue collection. Your cooperation to respond is very important to this study because it represents others who are not included in the sample. Please answer every question. The questionnaire seeks basic factual information and you can tick the option that you choose or write your answer on the blank space provided. Space is provided at the end of some questions for you to add further comments or explanations.

I promise that all information you provide would be strictly confidential. I thank you very much in advance for your cooperation.

Researcher's Name: Netsanet Tadesse

Position: MA student at ST. Mary's University

Department: Accounting and Finance

Contact address: telephone number = 091 131 61 74

Email address: nattads2010@gmail.com

- Please, do not write your name,
- For questions that demand your opinion, please try to honestly describe.



**Section I: Personal Information; Circle you're appropriate answer.**

1. Your Sex:      a. Male                      b. Female
2. Your age in the years
- a. 30 and below                      c. Between 31 and 40
- b. Between 41 and 50                      d. 50 and above
3. Your business type:
- a. Share company                      b. cooperative / Partnership
- c. Government enterprise                      d. Private Limited Co. (PLC)
- e. others

**Section II. Questions related to taxpayers' general knowledge about taxation.  
Please tick your preference from the alternatives presented.**

1. Which of the following is the most serious crime in the tax collection practice?
- a.      TIN violation Nil/credit/non filer        b. Under statement of income
- c. Tax fraud/evasion    . Tax corruption
2. What is/are the major problem(s) facing you to pay your tax regularly and influence your business activities?
- 
- 
3. Which of the following obstacles hinder you to pay tax properly and declare tax return?
- a.      Complexity of the tax laws
- b.      Lack of fairness of application of the penalty system
- c.      Lack of tax education program
- d.      Low level of integrity and professionalism of tax office employees
- e.      All
4. Which problems do affect your business more?

- a. There are many traders who are not registered
- b. There are dishonest tax collectors
- c. Several tax types are levied at the same time
- d. Taxpayers are not willing to pay taxes
- e. All

**Section III. Question related to Evaluation of Tax Authority performance. Put your (x) response at the appropriate place that you perceive right.**

How do you evaluate the strength of the tax authority with respect to the following parameters?

	Excellent	well	fair	poor
Service delivery				
Tax collection efficiency				
Enforcement of illegal taxpayers				
Awareness creation				

**Section VI. Taxpayers general perception of Tax administration process. Put your**

**(√) Response at the Appropriate Place That You Perceive is Right.**

Ser. No.	Statement	Occurrence of response				
		Strongly disagree	Disagree	Not certain	Agree	Strongly Agree
1.	The tax proclamation, regulation, directives and procedures are clear for taxpayer					
2.	The tax refund processing is fast and on time					
3.	The tax return is easy, understandable and simple to complete					
4.	Tax you are paying is fair and it would be the					

	amount you pay without assessment					
5	There is desired level of transparency of administration.					
6	The branch properly identifies, registers, updates and upgrades all taxpayers					
7	The branch facilitates conditions and discussions to get together with taxpayers on the tax issues					
8	The branch clearly notifies and respects the rights of taxpayers.					
9	Do you agree for feeling of accountable if you are evading tax, provided tax, provided that you remain unnoticed					
10	The tax assessment and audit are fair?					
11	The illegal traders and non –registered taxpayers have a negative impact on your tax filling and payment behavior?					
12	Do you agree LTO branch announce obligatory or purposive information concerning tax law through different ways?					
13	It satisfied in the tax authorities service delivery during return filling and payment					
14	Most tax payers have positive altitude towards tax and tax authority?					
15	You have a required level of awareness and knowledge for taxation?					
16	You participated in any forms of awareness creation program?					

If you have any idea recommended?

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### **ANNEX NO. 3**

#### **Tax officials in-depth interview instrument**

##### **Interview Questions**

- 1) What do you think the reasons for low performance of revenue collection against tax revenue plan?
- 2) How do you evaluate the awareness level of taxpayers and the knowledge of tax employees?
- 3) How do you evaluate the motivation schemes for tax employees in the branch?
- 4) How do you evaluate the effort the tax administration made to curb corruption?
- 5) What are the problems related which t he collection administration of arrears/delinquent tax?
- 6) What are the problems related with refund activities and is there any interest paid to taxpayers when their payment is delayed as per the law?
- 7) What do you recommend as a solution for the problems of tax administration and collection in Ministry of Revenue Large Taxpayers Branch Office (LTO)?