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

# TAX ASSESSMENT AND COLLECTION PROBLEMS OF CATEGORY "A" TAXPAYERS:

# IN THE CASE OF MINISTRY OF REVENUE EASTERN ADDIS ABABA TAXPAYERS BRANCH OFFICE

**BY : ABERA GOITOM**

**MBAAF/0074/2010B**

**AUGUST 2020**

**ADDIS ABABA-ETHIOPIA**

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**ADVISOR: ABEBAW KASSIE ( PHD)**

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

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**APPROVED BY BOARD OF EXAMINERS**

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## DECLARATION

I, Abera Goitom, declare that this research entitled "**TAX ASSESSMENT AND COLLECTION PROBLEMS OF CATEGORY "A" TAXPAYERS IN THE CASE OF MINISTRY OF REVENUE EASTERN ADDIS ABABA TAXPAYERS BRANCH OFFICE"** is the outcome of my own effort and study. This study has not been presented for the award of Degree or Diploma Program in this or any other institution. All sources of materials used for the research have been duly acknowledged.

Name: Abera Goitom Signature_____________

St. Mary's University, Addis Ababa August 2020

## ENDORSEMENT

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

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Advisor Signature

St Mary's University,

Addis Ababa August 2020

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# LIST OF ACRONYMS / ABBREVIATIONS

MOR: **Ministry of Revenue**

ECA : **Economic commission for Africa**

VAT: **Value Added Tax**

FDI: **Foreign Direct Investment**

OECD: **Organization for Economic Corporation and Development**

GDP: **Gross domestic Product**

IT: **Information Technology**

IMF**: International Monetary Fund**

ERCA **: Ethiopian Revenue and Customs Authority**

LAIFOMS**: Local Authority Information Financial and Operations Management**

# ABSTRACT

*Taxation is principal method by which a government gains revenue into its budget. That revenue goes into a vast number of items, from paying debt, defending the potential for implementing certain policies to paying for public services and welfare benefits and the military etc. Many developing countries are facing different challenges to introduce modern tax system. This is due to poor tax administration and taxpayers' resentment towards taxes. The goal of this research is to investigate tax assessment and collection problems of category "A" taxpayers in the Ministry of Revenue, Eastern Addis Ababa taxpayers branch office were the target population of the study. The data collected from the taxpayers' and tax officers were the main sources of data for the study. In this regard, a total of 141 taxpayers have participated in the study as a source of information. In addition, the researcher interviewed senior tax officers to support and checkup the reliability of the data collected using survey method. Descriptive statistics such as percentages, frequency, were used to summarize the study findings and present the results. Generally, findings of the study revealed that most of the taxpayers do not have the required knowledge of tax assessment and collection procedures as well as the rules and regulation of the government. Besides, taxpayers do not get updated information and essential training. In addition to this, the number of staffs who are supporting in the tax assessment and collection department are insufficient and inefficient comparing to the number of taxpayers in the branch office. Moreover, skill gap (lack of adequate skill) and low motivated tax assessor and collectors are also mentioned as of the part of the finding. Due to this and other reasons mentioned in the analysis ; negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment. Thus, it is recommended that the branch office (the tax authority) should provide sufficient training for both taxpayers and staffs, promote transparency, introduce modern IT technology and strengthening legal enforcement.*


Key words: Tax assessment, Tax collection, Taxpayers & Authority

# CHAPTER ONE:  INTRODUCTION

## 1.1 Background of the study:

Collection of taxes from taxpayers are important sources of public revenue. Public goods such as roads, power, municipal services, and other public infrastructures are normally supplied by public agencies due to their natures of non-rivalry and non-excludability (Joseph, 2008). Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods (Fjeldstad, 2004).

For developing countries, taxation: "provides governments with the funding required to build the infrastructure on which economic development and growth are based; creates an environment in which business is conducted and wealth is created; shapes the way government activities are undertaken; and, plays a central role in domestic resource mobilization"(Pfister, 2009).

The link between tax administration/tax administration reform and good governance has been established in recent/current academic literature and international good practice (Carey, 2005). Taxation and tax administration are part of the overall policy framework in a country. As such, the interplay between tax administration reform and other areas of reform, including public sector governance, is to be expected (Pfister, 2009). In fact, one of the imperatives for an optimal tax policy is "promoting good governance, under pinned by effective taxation that promotes the accountability of governments to citizens and the investment community" (Pfister, 2009). The experience of countries with resource-based economies is also indicative of the correlation between taxation and good governance.

With the aim of broadening the tax base and facilitating the overall development of the economy, the government of Ethiopia has undertaken a comprehensive tax reform program. The reform measures are intended to encourage trade, investment and development through transparent and stable functioning of the tax system and to increase government revenue to support social and economic development programs and thereby alleviate poverty, strengthen the enforcement capacity of the taxes and custom authorities, and promoting equity in the tax system (Derartu, 2007).

On the other note; there are same weaknesses and problems that exist in reality during tax assessment and collection on imported goods during clearing process problem such as customer remaining reluctant to pay tax and the authority finds it difficult to collect tax on time and problems related to awareness are some of the problem encountered on the tax collection process ((Pfister, 2009).

Based on the theoretical and empirical framework; the researcher initiated to conduct the tax assessment and collection problem of category “A” taxpayer in the case of ministry of Revenue (MoR) eastern Addis Ababa Branch Office.

## 1.2 Statement of the problem:

Taxation in developing countries is a challenging topic and has attracted increasing attention in the last two decades. Many problems observed like poor administration, failing to collect sufficient tax revenues, tax structures where tax horizontal and vertical equity considerations are not integrated, lack of government and economic stability. In many developing countries it is observed that there is low capacity of tax administration to monitor compliance among taxpayers (Tanzi, 2000).

The sub-Saharan African countries have a relatively low tax capacity at 20 percent of GDP, on average, the lowest in the world, and almost 10 percentage points below that of OECD countries. This is due to primarily to the low level of economic development, the large share of agriculture in economic activity, the large size of the shadow or informal economy. Tax revenues in African countries are rising as a proportion of national incomes, according to the inaugural edition of Revenue Statistics in Africa. The report, which contains internationally comparable revenue data for eight African countries, accounting for almost a quarter of Africa’s total GDP, will be discussed on Sunday 3 April in Addis Ababa during the 2016 African Union (AU) – Economic Commission for Africa (ECA) Conference of Ministers ( Zenebe Chake- 2019)

Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experienced a consistent surplus of expenditure over revenue for sufficiently long period of time. To address this problem, the government introduced the imposition of tax (direct and indirect), among others, as major and important sources of public revenue. However, this imposition of tax couldn’t still bring the required result due to a number of reasons such as lack of clear understanding about the tax system by the taxpayers, taxpayers don't comply with their tax obligation, hostility between the taxpayers and tax officials, negative attitude of taxpayer towards the tax system, that is, understating their taxable income by significant amount,... etc. For these reasons, the actual amount of tax could not be collected properly (Tadele, 2010). The Ethiopian government has been undertaking substantial efforts in reforming and modernizing the revenue administration with the aim of simplifying the tax system and increasing government revenue. Despite the efforts taken by government, there has been poor tax revenue collection, tax compliance has still remained a problem and the taxpayers continued to complain about the behavior of the MoR officers (Zenebe Chake-2019)

Moreover, many studies had been done in the area of tax compliance, tax administration, particularly in the developed countries. Regardless of tax collection problems, some researchers were conducted in our country. For Example, Zenebe C. (2018), Teklu K (2011) tried to identify the problems associated with the revenue authority but not explored with the taxpayers side. The mentioned studies are more or less focused on the procedural and technical aspects. The researcher believed that, the taxpayers opinions shall be included as input of study.

Apart from this; As per the researcher's observation being working as a customer with the branch office and during the training session conducted by the tax authority; significant issues had been raised from taxpayers particularly problems associated with the tax assessment, collection and customer handling. Furthermore, to the knowledge of the researcher there is no documented study with the tax assessment and collection problems of Category "A" taxpayers in the Ministry of Revenue Eastern A.A ( MoR) taxpayers branch office. Therefore, this study tries to identify tax assessment and collection problems of category "A" taxpayers under the MoR Eastern A.A Branch Office.

## 1.3 Basic Research Questions

The study is conducted to address the following research questions:

- How effective and efficient is tax assessment and collection procedure for category 'A' taxpayers in Eastern A.A taxpayers branch office?

- What challenges are there which impede tax assessment and collection procedure at the MoR Eastern A.A Branch Office?
- Do taxpayers have enough knowledge and awareness about taxation?
- What are the possible suggestions to improve tax collection in the MoR Eastern Addis Ababa Branch Office?

## 1.4 Objective of the study:

### 1.4.1 General objective

The major objective of the study is to evaluate the tax assessment and collection problems in the case of Ministry of revenue Eastern A.A taxpayers branch office.

### 1.4.2 Specific objectives:

The specific objectives of the study are:

1. To assess the efficiency of tax assessment and collection procedure of Ministry of revenue Eastern A.A taxpayers branch office.
2. To identify challenges that the tax branch office faces with its customers with regard to collection of tax.
3. To understand the status of taxpayer’s knowledge and awareness about taxation.
4. To suggest possible courses of action that can help the policy makers and implementers to improve the tax system.

## 1.5 Significance of the study

The findings of this study are expected to identify the constraints and obstacle and how those problems can be managed by both taxpayers and tax administrators. Thus, all the concerned stakeholders (taxpayers and the tax authority) will be able to strength the tax collection and try to adopt a comprehensive strategy and minimize the observed tax administration problems so as to increase tax revenue. Furthermore, the study can serve as a reference material for anyone who will undertake a further study on the same or related topic.

## 1.6 Scope of Study:

The research is focused on tax assessment and collection problem of taxpayers under the MoR eastern A.A. In order to investigate the issue thoroughly, it is important to limit the scope of study into manageable size. Therefore, this research is confined to MoR Eastern A.A taxpayers for the sake of proper analysis with reliable investigation on tax assessment and collection problems.

## 1.7 Limitation of the study:

Limitations are matters and occurrence that arise in a study which are out of the researcher's control. Every study, no matter how well it is conducted and constructed, has limitation. Therefore, it is impossible and difficult to conduct a research on tax assessment and collection problems in detail within short period of time together with limited financial resource and also reluctance of some officials to provide the required data are some of the limitation of the study.

## 1.8 Organization of the paper:

This research paper is organized into five chapters. The first chapter explains background of the study, statement of the problem, objective of the study, research design & methodology, significance of the study, scope and limitation of the study, and methods of data analysis. The second chapter is review of related literature. The third chapter presents the research design and methodology. Chapter fourth is presentation, analysis, and interpretation of the data. The last chapter consists of summary, conclusion, and recommendations of the study.

# CHAPTER TWO: REVIEW OF RELATED LITERATURE

## 2.1 Introduction

This chapter review literature that have relevance to the study so as to have an insight into the research topic and to briefly expose the readers to some of the major areas of the subject matter under consideration. This chapter covers both theoretical and empirical studies. The theoretical parts cover perspective of tax collection, Problems of tax collection, efficiency of tax Administration, Characteristic of an effective tax system, the base of tax, Impact, Incidence and Shifting of tax, tax Saving, procedure of tax collection, tax collection and enforcement. The Empirical studies both the empirical evidence on tax revenue in the global studies and Empirical evidence on tax revenue in case of Ethiopia.

## 2.2 Theoretical perspective of Tax:

A tax is "a compulsory charge imposed by the Government without any expectation of direct return in benefit". In other words, a tax is a compulsory payment or contribution by the people to the government for which there is no direct return to the taxpayers (Bhatia, 2003). Tax imposes a personal obligation on the people to pay if they are liable to pay it. The general public should be taxed according to their ability to pay, i.e., the people in the same financial position should be taxed in the same way without any discrimination. Thus, tax can be defined as, "an involuntary fee or more precisely, "unrequited payment", paid by individuals or businesses to a government (Richard, 2005).

Taxation is principal method by which a government gains revenue into its budget. That revenue goes into a vast number of items, from paying debt, deafening the potential for implementing certain policies to paying for public services and welfare benefits and the military etc. There are many methods by which tax revenue can be gained, and different definitions and structures to taxation which are outlined below. Also, conflicts in choosing methods and forms of taxation occur, pitting priorities such as reducing iniquity of income against maximizing incentive for economic growth. Taxes can also help to structure all sort of economic transactions, in a way that the state can exert influence in all participants even over the currency used (Wikipedia).

Tax has been defined by various authors and professionals in various ways. Taxes are the major source of the public revenues. Government needs financial resources to act as a government and play a role that is expected from it by the public. So, what the government gives, it must first take away. Conceptually, tax can be defined or seen as a compulsory transfer of resources from the private to the public sector (James, S., and Nobes, C. 2000). According to these authors, tax is a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities. And the other scholars Lymer and Oats (2009) tax is defined as 'a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return'.

Throughout history, people have debated on the amount and kinds of taxes that a government should impose, as well as on how it should distribute the burden of those taxes across society. Unpopular taxes have caused public protests, riots, and even revolutions. For instance, in Ethiopia there was the Gojjam peasant rebellion, in 1968 (Gebru Tareke 1991). The immediate cause of the rebellion was the introduction of a new agricultural income tax, which peasants opposed. In political campaigns candidates' views on taxation may partly determine their popularity with voters. Although countries differ considerably in the amount of taxes they collect, yet the most important source of revenue for modern government remains to be tax. The remainder of government revenue comes from charging fees for services, borrowing and from other related sources. Governments may raise or lower taxes to achieve social and economic objectives, or to achieve political popularity with certain groups. Some economists consider taxation an important tool for maintaining the stability of a country's economy. This is because taxation can redistribute a society wealth by imposing a heavier tax burden on one group in order to fund services for another (Gebrie, 2006).

### 2.2.1 Perspective of tax collection:

According to Adam smith's (1776) identification the following prospects of tax collection considered as; The administration of tax collection will be strengthened to ensure more efficient tax collection through training of staff, awareness campaigns and computerizations. Government should continue to ensure that tariff policy enables our local industries to competitive. Specifically, aggressive action should be taken to block revenue leakage on light duty goods and bulk items.

Government should ensure fair tax administration base on the principle of derivation of tax proceeds; it is recommended that the tax law should be enacted. VAT has become a veritable source of revenue earning for government and therefore needs to be strengthened and expanded to broaden the tax base and to bring the VAT administration closer to the tax-payers, new local VAT offices should be established all over the state.

### 2.2.2 Problems of tax collection:

Lawal (1982), cited in Chinyere (2000), posits that the following are problems of tax collection: In adequate staff or manpower to carry out the assignment efficiently and thus has contributed to the low revenue generated for the state. Mismanagement of tax collected: taxes collected were not been utilized for the purpose for which it was collected thus makes taxpayers not give out their wealth for the state. Bribery and corruption: in this day, tax collector personal interest has overridden their official interest in the performance of their duties consequently affects revenue generation for the state. Lack of voluntary compliance from taxpayers these attitudes of taxpayer causes tax avoidance evasion and delinquency. Poor accounting records must business traders professional do not keep proper records of their income and expenditure. Inadequate facilities: The facilities like motor vehicle, motorcycle to carry out the assignment effectively is inadequate.

### 2.2.3 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 provisions are not properly enforced either on account of the inability of administration to cope with them or on account of straight forward collusion between the tax administration and taxpayers ((World Bank 1999). Since taxes are an involuntary payment for government services (Parameswaran, 2005), taxpayers have a strong inventive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal). Tax administration, therefore, has to secure compliance with the laws by applying an array of registration, assessment, and collection procedures. Based on the discussions so far, the following sub section present the tax administrative issue in detail.

### 2.2.4 Efficiency of Tax Administration

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. Badly conceived or unnecessarily complicated tax structure greatly complicates the operating function of the tax administration, while simple and transparent tax structure could affect it in the opposite way. So, the increase of efficiency of the tax administration could be attributed mainly to the simplification of the tax system (Mansfield, 1990). In developing countries, tax administration can be organized respecting the functional principle (collecting, 19 recording, auditing, and enforcement) according to the type of taxpayers; the type of taxes; and type of enterprises in economy. Tax administration should develop around activities (such as recording or auditing) rather than according to the type of tax and taxpayers. More generally, tax payment needs to be assessed, collected, and recorded more efficiently.

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 taxpayers. 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 20 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.

### 2.2.5 Characteristics of an Effective Tax System

A good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency, and administrative ease. Although opinions about what makes a good tax system will vary; there is general consensus that these five basic conditions should be maximized to the greatest extent possible ((Bhatia, 2003).

I. **Fairness, or Equity-** Means that everybody should pay a fair share of taxes. There are two important concepts of equity: horizontal equity and vertical equity. Horizontal equity means that taxpayers in similar financial condition should pay similar amounts in taxes. Vertical equity means that taxpayers who are better off should pay at least the same proportion of income in taxes as those who are less well off. Vertical equity involves classifying taxes as regressive, proportional, or progressive.

II. **Adequacy:** Means that taxes must provide enough revenue to meet the basic needs of society. A tax system meets the test of adequacy if it provides enough revenue to meet the demand for public services, if revenue growth each year is enough to fund the growth in cost of services, and if there is enough economic activity of the type being taxed so rates can be kept relatively low.

III. **Simplicity:** Means that taxpayers can avoid a maze of taxes, forms and filing requirements. A simpler tax system helps taxpayers better understand the system and reduces the costs of compliance.

IV. **Transparency:** Means that taxpayers and leaders can easily find information about the tax system and how tax money is used. With a transparent tax system, we know who is being taxed, how much they are paying, and what is being done with the money. We also can find out who (in broad terms) pays the tax and who benefits from tax exemptions, deductions, and credits.

V. **Administrative ease:** Means that the tax system is not too complicated or costly for either taxpayers or tax collectors. Rules are well known and fairly simple, forms are not too complicated, it is easy to comply voluntarily, the state can tell if taxes are paid on time and correctly, and the state can conduct audits in a fair and efficient manner. The cost of collecting a tax should be very small in relation to the amount collected.

### 2.2.6 The base of tax:

The base of a tax is the legal description of the object with reference to which the tax is payable. For example, the base of an excise duty is production, packing or processing of a specific good;

the base of an income tax is the income of assesses ; defined and estimated in terms of certain rules laid down for this purpose; a gift may be defined and made a base for levying a gift tax. Note that the base of each tax has to be defined legally and it is to be quantified for the purpose of determining the tax liability of an individual taxpayer. Each taxpayer is considered a legal entity for this purpose. Accordingly, and individual legal entity may be subjected to more than one tax. It should be noted that a tax base may have a time dimension also. For example, income tax is usually on an annual basis and the law has to decide whether income would be taxed on the basis of accrual or receipt. The authorities, while determining a tax base, are expected to give due consideration to various questions like those of cost of collection, administration, and effect of that tax. The exact coverage of a tax base is sought to be determined by an optimum combination of these considerations. With the passage of time, a tax base under consideration may grow or may shrink. For example, as production of excisable goods increases, the base of excise duties also grows. Relevant provisions, definition and rules of a tax may be changed to extend its coverage or base (Bhatia, 2003).

### 2.2.7 Impact, Incidence, and Shifting of Taxes

The burden of a tax does not always lie on the person from whom it is collected by government. When a tax is imposed on a person, it is quite possible that it may be transferred by him to a second person, and this tax may be ultimately borne by this second person or transferred to other by whom it is finally borne. Thus, a person who originally pays the tax may not be actually bearing its money burden as such. Hence, it is necessary to know who bears the immediate burden of tax and who bears the ultimate burden of tax.

**a)** **Impact of tax**: Refers to the immediate/initial burden of a tax on the person who pays it in the first instance. In other words, the person who pays it in the tax to the government in the first instance bears its impact. Hence, impact of the tax is always on the person who is responsible by law to pay the tax amount to the government in the first instance (Fullerton and Rogers, 1993)

b) **Incidence of Tax:** Refers to the final or ultimate resting place of the burden of the tax payment. It is the place where the tax is finally collected. The person who has the legal obligation to make a tax payment may not be the person whose welfare is reduced by the presence of the tax. If a person who pays the burden of the tax to anybody else, then the incidence as well as the impact of the tax is on the same person. However, if the original or the first taxpayer is able to transfer the tax burden (tax paid by him) to a second person who cannot shift the burden of tax to any other person, then the incidence of the tax rests on the second person (Fullerton and Rogers, 1993).

c) **Shifting of tax:** Refers to the process by which the money burden of a tax is transferred from one person to another person. In other words, the person up on whom the tax is imposed not necessarily bears the burden of tax. In this case, the person is given the right to pass on the tax burden to the buyer of goods. Thus, the process of passing on the tax burden to the buyer of goods by the seller of goods is known as shifting of tax (Fullerton and Rogers, 1993).

### 2.2.8 Tax Saving:

A tax is a compulsory contribution without quid pro quo, tax saving is one of the important issues of taxpayers be it an individual or a business, new or old, small, or big, public, or private. Tax saving is a method of minimizing or decreasing taxable income and tax to be paid to the government (tax liability). Some of the methods are legal and some are illegal (Misrak, 2008).

**a) Tax Evasion:**

Tax evasion is a method of saving tax liability by a taxpayer through fraudulent means or by directly violating tax laws. It is illegal and involving the deliberate breaking of the law in order to reduce the amount of taxes due. It usually entails taxpayers deliberately misrepresenting or concealing the true status of their affairs to the tax authorities to reduce their tax liability. The author however stresses that it excludes unintentional non-compliance resulting from calculation errors or inadequate knowledge of tax laws. Tax evasion is illegal, unethical, uneconomical, and highly risky since it may result in penalty, imprisonment and closing up of business. Tax evasion is a world-wide phenomenon that is prevalent in almost all societies and has been in existence for as long as taxes have been implemented. It is also a concept that is difficult to understand or to combat completely and is a huge challenge to tax authorities and a threat to the tax base of a country. Tax evasion is a challenge to tax authorities and a threat to a country's tax base. Since revenue generation is an important income source for any government, reducing tax evasion will improve government's revenue. Reduction of tax evasion is generally done through imposing penalties and subjecting taxpayers to tax audits (Kirchler, 2009).

**b) Tax avoidance:**

Tax avoidance refers to the payment of the least tax possible by taking advantage of the loopholes within the law (Kirchler, 2009). Unlike tax evasion, tax avoidance is the art of escaping from tax burden without breaking tax laws. Tax evasion provides for short term benefits to taxpayer until corrective actions are taken by the government. Even though tax avoidance is travelling within the frame work of law or acting as per the language of the law in form, it is undesirable by government since it result in loss of revenue to the government and increase in the burden of the tax on the other taxpayers who do not resort to such practices (Misrak, 2008). In today's ever-changing business environment, tax authorities cannot cover all the possible scenarios of business structures. Big companies therefore take advantage of loopholes in the law when considering the setup of business structures. As a result, tax authorities will constantly have to close loopholes to avoid the many grey areas in the tax laws. The closing of loopholes is therefore an ongoing process.

### 2.2.9 Procedures of tax collection:

It is expected that taxpayer's tax payments should be in line with their income and they are required to pay a tax in proportion to their level of income (Damme, L, T. Misrahi and Orel 2008). Some of the procedures undertaken by tax authority to ensure compliance such as Filing return, return processing of tax, audit and examination, tax collection and tax enforcement.

i. **Filing returns:** Taxpayers are required to file returns within specified months of the end of their tax accounting year. The return should be filed in quadruplicate and should contain all the particulars of the taxpayer. All documents respecting taxation should be presented to the tax authority office where the taxpayers have their file. Upon receiving a taxpayer's return, the tax authority officers examine the accuracy of the return by determining whether the return is properly completed, whether tax has been properly computed, and whether there are any penalty payments to be made by the taxpayer (James, S. and Nobes, C. 2000).

ii. **Audit and Examination:** The role of tax audits and examinations is to check the accuracy of the information that taxpayers provide to tax authorities. The audits range from simple field and desk audits to comprehensive audits (James, S. and Nobes, C. 2000).

#### 2.2.10 Tax Collection and Enforcement

Tax collection and enforcements another procedure in the tax administration. When the taxpayer has not made payment on the due date, and does not object to the tax assessed, tax authority can enforce payment in a number of ways. The tax administration may bring a suit against the taxpayer or request a person owing or holding money for the taxpayer to pay the money on a specified date or institute distress proceedings against the taxpayer's moveable property. In a wider context, the issue of enforcement includes offences committed by the taxpayer, and the penalties for these offences (James, S. and Nobes, C. 2000).

## 2.3 Empirical Evidence:

### 2.3.1 Empirical evidence on tax revenue in the global studies

The study of Mercy (2013) "Factors Affecting Revenue collection in Local Authorities in Kenya" narrowed on effects of government policies and regulations, local authority information financial and operations management systems, revenue enhancement plans and employee skills on revenue collection. The study concluded that the revenue collectors appreciated the role of information technology in ensuring effective revenue collection however the availability and accessibility was a hindrance to effective LAIFOMS implementation. Among others, the study recommended that the effectiveness of the local Authority Information Financial and Operations Management Systems (LAIFOMS) can be bolstered by increasing tea availability of computers and adding more staff to ensure efficiency in revenue collection. On the other study, Ndyamuhaki2013, carried out the study on "Factors affecting revenue collections in local government, case study: Isingiro district local government" Makerere University, Uganda. This study identified crucial factors that were, administrative inefficiencies, lack of general sensitization, political interference, corruption, tax evasion, and absence of enough relevant information about taxes, lack of auditing of tax revenue returns and drafts and lack of enough tax education. She concluded that the identified factors influence revenue collection in local government.

Fjeldstad, Katera, Msami, and Ngalewa (2010) "Local Government Finances and Financial Management in Tanzania: Empirical evidence of trends 2000-2007". REPOA Special Paper No. 10-2010. Dar es Salaam: Research on Poverty Alleviation (REPOA). This study examined the capacity of local government authorities in Tanzania with respect to financial management and revenue enhancement and analyzed trends in financial accountability and efficiency for the period 2000-2006/7. The study covered six councils in Tanzania: Bagamoyo District Council, Ilala Municipal Council, Iringa DC, Kilosa DC, Moshi DC, and Mwanza City Council. Data were collected using a combination of quantitative and qualitative methods, including two rounds of a survey of citizens" perceptions in the case councils in 2003 and 2006. The following themes were covered: (a) the degree of fiscal autonomy; (b) methods of revenue collection; (c) financial management, including budgeting, accounting and auditing; (d) transparency in fiscal and financial affairs; and (e) tax compliance and fiscal corruption. Based on evidence collected, the study concluded that the process of decentralization by devolution under the Local Government Reform Programmed has contributed to improving local government capacity for financial management. However, the reforms have reduced the fiscal autonomy of local government authorities. The central government currently contributes the bulk of local government revenues through transfers and still largely determines local budget priorities.

### 2.3.2 Empirical evidence on tax revenue in case of Ethiopia:

In Ethiopia there are some research done on tax issues with different titles among them **;** Tilahun A. 2014, on the title Determinants of Tax Compliance Behavior in Ethiopia: The Case of Bahir Dar City Taxpayers with the objective to identify factors that determine tax compliance behavior has been open for empirical investigation. Accordingly, the researcher used one-way ANOVA, two samples and one sample T-test, the data was collected using structured questionnaire. The results revealed that perception on government spending; perception on equity and fairness of the tax system; penalties; personal financial constraint; changes on current government policies; and referral group (friends, relatives etc.) are factors that significantly affect tax compliance behavior. However, gender and probability of being audited have no significant impact on tax compliance behavior. Finally, the researcher concluded that older people would comply less if there is no equity and fairness in the tax system and any changes in government policy on fuel prices, electricity and water rates are not favorable.

Anware M.2014 and Tesfaye A. 2015, on the title Determinants of tax revenue performances in Ethiopia as mini research for Partial Fulfillment of the Requirements for the course Professional Training Program for Economists (a Case Study in Ethiopian Revenues and Customs Authority) the researcher used time series data set that consists of 21 years. For the time period covered 1990/91 to 2010/11 with identifying six variable industry, agriculture, inflation, GDP per capital income, export and import he concluded that structural factors such as exports of goods and services (% of GDP) and import of goods and service (% of GDP) significantly affect tax revenue performance of Ethiopia. Belay Z. (2015) on the research title determinants of tax revenue performance: in case of Ethiopia federal government. This study so investigated the determinants of tax revenue performance in Ethiopia federal government by using time series data from 1992-2013.

Delessa D.2014, on the research title Tax Reforms and Tax Revenues Performance in Ethiopia the purpose of the study was to analyze and compare tax revenues performances of the two governments in power in Ethiopia during the last 39 years. Descriptive analysis is used to compare different categories of tax performance of the Derg and Ethiopian People's Revolutionary Democratic Front (EPRDF) regimes in terms of tax revenues mobilization is tax to GDP ratio. In light of this major tax categories of tax to GDP and total tax revenues ratios over the period of 1974/75 to 1912/13 (39 years) were computed and analyzed. In addition, comparison has been made between pre- and post-tax reforms to compare tax system flexibility in terms of raising tax revenues during the EPRDF regime. The period after 2002/03 was considered as post comprehensive tax reforms years. The researcher concluded the comparison of two governments" different categories of tax ratios shows a slight increment from an average 3.77 percent to 9.95 during EPRDF period. Comparing pre- and post-tax reforms during the period 1991/92 to 2012/13 the ratios of different category tax revenues show insignificant change for post comprehensive tax reform period. Comparing direct versus indirect tax categories, direct tax shows the tendency of declining contrary to the comprehensive tax reform main objective which gave due attention to increase the share of the direct tax to total revenues.

Disabling J. (2014) on the title The Role of Value Added Tax on Economic Growth of Ethiopia objective of the researcher was to analyze the role of VAT on economic growth of Ethiopia from 2003 to 2012 based on theoretical and empirical evidence. To meet his objective, he used time series macro-economic data on GDP, VAT, total tax revenue excluding VAT, non-tax revenue and foreign revenue. He employed Descriptive statistics and multiple regressions to analyze the data. The finding of the study reveals that as compared to sales tax; VAT boosts the general economic growth of Ethiopia but the issue of regressively resembling to sales tax still continues. During the periods under review, the growth rate of VAT was 66.27% on average. For the periods of sales tax, the average growth rates of GDP were only 2.53%. However, after executions of VAT, such growth rate reached about 21.9% on average. The analysis also showed as the average ratio of VAT to GDP becomes 2.95%. The finding also reveals that, VAT, total tax revenue and non-tax revenue except foreign revenue were significant at 5% level of significance but all of them positively contributed for economic growth during the periods under review. However, to be effective, it requires strong administrations and cooperation's of the taxpayers with taxing authority and the government in general. To summarize, internationally most of studies found the determinants of tax revenue for developed and developing countries by using panel data methodology while in Ethiopia there are some researcher regarding the title but not full fledge study it was as mini research inclusions of some variables and not as such deep analyzed. On connection to tax revenue there are a lot research providing the researcher insight view and key findings for the conclusion.

Tesfaye A.2015, on the title Determinants of Tax Revenue in Ethiopia: by using a secondary data and multiple variables regression model. The objective of the study was to identify determinants of tax revenue such sectors of economy like agriculture, industry, and service, FDI, inflation rate, interest rate, per capita income, and trade openness. The research approach adopted in this thesis includes series data set that consists of fifteen years.

### 2.3.3 Tax Administration in Ethiopia:

Addis Ababa is a Federal City Administration. As such, the tax structure and tax administration system in the City is determined under federal tax laws. The substantive income tax law in Ethiopia is the Income Tax Proclamation (as amended by Proclamation No. 608/2008)9. (FDRE 2002) The Council of Ministers has also issued the Income Tax Regulations in accordance with mandates given to it under the Proclamation. (FDRE Council of Ministers 2002) The Income Tax Proclamation is the core legal instrument for the assessment and collection of taxes from various sources of income; one such source is income from business activities falling within „Schedule C"10 of the Proclamation referring to „income from businesses". (FDRE 2002, Art. 6/b and 8/3).

### 2.3.4 Challenges in Tax Administration in Ethiopia:

Tax administration refers to the systematic organization and arrangement of elements for tax collection and other similar tasks or activities by the tax authority of the federal government and state governments. A good and efficient tax administration has Management system through which it carries out its activities, Tax laws or codes that guide tax management system and knowledgeable administration (Misrak, 2008).

A recent study commissioned by the Ethiopian government has found that the revenue sector in general and the tax administration system in particular suffers from a number of key challenges. (FDRE-MOCS 2015) One key challenge is the prevalence of complicity among some of the leadership in the sector, many of the experts and taxpayers seeking to elicit illegal benefits as well as disciplinary issues arising from such attitudes and practices. (FDRE-MOCS 2015) Even the private sector has decried the prevalence of "tax evasion, corruption, ineffective tax administration, [and] weaknesses in the structure of the tax system" as well as gaps in "the assessment and enforcement of VAT … profit taxes, presumptive tax and excise duties" and high compliance costs for small businesses as key challenges to tax compliance. Abdella and Clifford 2010, 1 and 40, this rent-seeking behavior has been exacerbated by inadequate level of 50 accountability within the tax administration. For businesses, the tax administration rather than the tax structure is the most critical source of complaints. Abdella and Clifford 2010, another prevalent problem in the revenue sector arises from failure to assign the leadership and staff of the tax authority based on merit and leadership capability. Coupled with the limited attention given to capacity building program, this has led to gaps in knowledge, skills and attitude among the mid-level management in terms of decision-making, translating the substantive laws into practice and informing their review, and implementing instruments of. (FDRE-MOCS 2015, 84) This has translated into low levels of satisfaction among taxpayers as well as gaps in creating a legitimate and fair tax administration system and low levels of effectiveness in the collection of revenue. Confirming this finding, studies targeting the business community have reported a low assessment of the capacity of the Tax Authority to administer the relevant laws in a fair and neutral manner. Abdella and Clifford 2010, the government report also noted serious gaps in the quality and accessibility of tax education and communication and prevalent attitudes of taxpayers to avoid taxes and secure illicit benefits leading to low levels of self-initiated compliance. FDRE-MOCS 2015, 84, a study covering 700 businesses in Addis Ababa, Adama, Bahir Dar, Dire Dawa, Hawassa and Mekelle, for instance, has found that around 45% of businesses believe that the tax system is "lacking in transparency" owing mostly to unavailability and inaccessibility of implementation directives and gaps in the timely provision of information for taxpayers. Abdella and Clifford 2010, According to this study, the Tax Authority sends information on changes to the tax regime to public enterprises and some major businesses while the remainder of taxpayers constituting the significant majority remains in the dark. The business community has also offered a similarly negative assessment of media programs and other tax awareness and education sessions initiated by the Tax Authority with more than half of respondents finding them lacking in accessibility and substance. Abdella and Clifford 2010, In addition to the adverse impacts on revenue collection, this attitude has led to problems in the relationships between the tax collector and taxpayers as well as challenges in the implementation of the tax system. Tax officials generally attribute the substantial gap between the tax base and actual tax collected to widespread non-compliance by taxpayers, failure to register by potential taxpayers, and an attitude of not declaring full income to the tax authorities. Abdella and Clifford 2010, Problems of the leadership in engaging stakeholders and involving the public have further aggravated the limited implementation capacity in the tax administration system. Studies suggest that the tax reform programs to date have not adequately consulted business community and the Tax Authority seldom engages taxpayers in consultation forum on changes and implementation of the tax system. Abdella and Clifford 2010, overall, these challenges and gaps in tax administration have had adverse impacts on the creation of a fair tax system and the collection of revenue to finance the development plans of the government. FDRE-MOCS 2015, There is a prevailing consensus among the business community that: Abdella and Clifford 2010, Tax administration is inefficient, arbitrary and relies heavily on coercion, penalties and imprisonment; penalties for minor transgressions are disproportionately high; The tax administration is not effective in collection, has not developed a strategy for collecting taxes and has shifted the costs of collection onto the private sector; and Service and support to taxpayers service is grossly inadequate, and public-private dialogue has been insufficient. Moreover, problems of good governance in the revenue sector have dampened efforts to attract investment, including foreign direct investment (FDI), and become obstacles to economic development, healthy and fair market competition and addressing illicit trade. This has opened up opportunities for rent-seeking behavior and works against public trust in the system by widening the gap between the rich and the poor in the country. The above noted challenges and overall lack of good governance in the revenue sector impact upon the political, economic, and social lives of citizens. The implications of this scenario for efforts to eradicate poverty, sustain the fast-economic growth, and bring about economic and social transformation are obviously dangerous.

#### 2.3.5 Profit Tax Administration

If a taxpayer has submitted a declaration of income within the time and manner as prescribed in the proclamation, ERCA has five years to amend the assessment. The five years assessment period runs from the due date of the declaration. In case where the taxpayer has not declared his/her income or has submitted a fraudulent declaration, assessment is made by the tax by the Tax Authority.

Every assessment notification should contain the following elements: gross income and deductions applicable; taxable income; rates applicable or percentage; taxes paid and due; any penalty or interest; taxpayer's name, address, and TIN; and brief explanation of the assessment and a statement of the taxpayer's rights. The category "A" taxpayer shall be liable for a penalty of 20% of the tax assessed if he/she failed to keep proper books of account, records, and other documents regarding a certain tax year. If the Tax Authority finds that a taxpayer has failed for two consecutive years, to keep proper books of account, records, and other documents the licensing authority would suspend the taxpayer's license on notification by the Tax Authority. If the amount of income tax shown on a tax declaration by a Category "A" taxpayer is less than the amount of income tax required genuinely, the understatement of tax results in the following penalties 10% of the understatement if the understated amount of tax is considered not substantial, or 50% of the understatement if the understated amount is considered substantial. However, there is not any stated parameter to say a certain amount is substantial or not. Therefore, it is up to the perceptions of the individuals, which is very subjective and subjected it to undesired bargaining and complaints that in fact made the administration on such regard very difficult and complicated.

### 2.3.6 Category of Taxpayers in Ethiopia:

Taxpayers are grouped into different categories under the law. According to Ethiopian proclamation number 979/2016, Taxpayers are classified into the following three major categories: Category "A" Taxpayers, Category "B" Taxpayers and Category "C" Taxpayers:

I. **Category "A" Taxpayers :** Ethiopian Tax proclamation 979/2016 describes category "A" taxpayers as any company incorporated under the laws of Ethiopia or in a foreign country and any business having an annual turnover of Birr 1,000,000 or more. They are required to submit to balance sheet and profit or loss statements to Revenue Authority at the end of the year. Balance sheet, profit and loss statement incorporate gross profit and the manner in which it is computed, general and administrative expense depreciation expenses and provisions and reserves.

II. **Category "B" Taxpayers:** Category B taxpayers falls under the income range between 500,000 birr and one million. This category of taxpayers should submit to the Revenue Authority profit and loss statement at the end of the year similar to category 'A' taxpayers

III. **Category "C" taxpayers are taxpayers** are taxpayers that are not classified under Categories "A" and "B", and businesses whose annual turnover is estimated up to Birr 500, 000 are classified under this category of taxpayers. A standard assessment method should be used to determine the income tax liability of category "C" taxpayers. The taxpayer should pay the tax determined in accordance with standard assessment.

## 2.4. Research Gap

A study performed by Debere (2014) on Addis Ababa federal business taxpayers' satisfactions with the tax system also show dissatisfaction of the taxpayers'. The findings identified high compliance costs, a lack of clarity and access to information about tax regulations, arbitrary behavior of tax officials and a lack of transparency in the tax authority makes taxpayers unaware of their rights and exposes them to discretionary treatment by corrupt officers. In addition, the study found that taxpayers are encountered a lot of inconveniences, including from misconduct of the tax officers like an impersonal, insensitive, and heartless bureaucracy and imbalance between location and accessibility of the tax office with number of taxpayers. The study performed by Tulu (2007) on Dire Dawa City taxpayers' voluntary tax compliance finds out that, tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government as the main determinant of voluntary compliance in the city.

A study performed by Belay & Viswanadham (Belay&Viswanadham2016) to evaluate the business income taxpayers' level of tax knowledge, perceived complexity of the income tax system and tax compliance issues in Amhara regional state of Ethiopia show taxpayers have inadequate technical knowledge and perceive the income tax system as complex. The result also revealed that tax knowledge and tax complexity as important factors towards noncompliance behavior among business income taxpayers'.

One study was performed on taxpayers' perception towards the fairness of business profit tax system through considering various tax fairness dimensions and other influencing factors in the case of Addis Ababa City Administration Business profit taxpayers' fairness perception (G/Meskel2011).The researcher commented no single study on such issues especially in the case of business profit tax system. The study considered all business category business profit taxpayers and lack presentation of the result per each sub-city and per each taxpayer's category.

Revenue generated from taxation has got the attention of governments as a major source of funds necessary for the countries overall development. According to (Brautigam et al. 2008), taxation is the new frontier for those concerned with state building in developing countries. But revenue come from tax are not sufficient to finance the government expenditures because the tax revenue performance is low in developing countries due to various problems. As per Crandall and Bodin (2005), the developing countries tax revenue is in a weak position because of both a complex tax system and widespread corruption. Complex and fragmented tax administration has its source in part in developing countries.

Generally, one can see that the empirical studies undertaken so far bothered little to see the potential tax assessment and collection problems. 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 MoR eastern A.A branch office, but also clearly understand the nature and the practice of tax assessment and collection related problems in the study area. This is because the researcher believes that identifying existing practices of tax assessment and collection problems in the sample sub-city can be one of the indicators to other researchers to deal with and can give appropriate solutions to all stakeholders as well.

# CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

## 3 Introduction

This chapter describes the research design, research approach, the sources of data, research method the characteristics of the study population, sample and sampling techniques and statistical tools used in the study. It explains the type of data used for the study and the techniques employed in tax assessment and collection problems.

### 3.1 Research Design

According to Adams, Khan, Raeside and White (2007) research design is the blueprint for fulfilling research objectives and answering research questions. In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information.

The researcher adopted a descriptive survey research design with the assumption 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 descriptive research seeks to determine the answers to who, what, when, where, and how questions.

### 3.2. Research Approach/ Method:

To achieve the objective of this study, the researcher is employed both qualitative and quantitative (Mixed) approach. The quantitative research approach uses statistical tools and number, Quantitative research is the systematic and scientific investigation of quantitative properties and phenomena and their relationship (Kothari, 2005). For the quantitative approach, the study uses self-administered survey. For qualitative approach, the researcher uses semi structured interview.

### 3.3 Target population and Sampling Methods

#### 3.3.1 Target population:

According to Dawson (2002) the first step in the process of sampling is specifying the population of the study. Population or universe refers to any collection of specified groups of cases to be studied. The population needs to be properly defined so that there is no ambiguity as to whether a given unit belongs to the population. On the other hand, if a population is not properly defined, a researcher faces a difficulty in knowing what units to consider when selecting the sample. Furthermore, inferences concerning a population cannot be drawn in the absence of clearly defined population.

Therefore, the intended population of this study is Category-A taxpayers in the ministry of Revenue Eastern A.A taxpayer's branch office. According to the records on November, 2019 of the Ethiopian Ministry of Revenue Eastern A.A taxpayers, the total number of active business income taxpayers under Category- A taxpayers was 11,642. Therefore, total number of taxpayers in the branch office are the target population. The number of taxpayers category" A" based with type of business forms are listed in the below table.

**Table 3:1 Number of taxpayers in the branch office**

| S. No- | Business Type | Number of Taxpayers |
|---|---|---|
| 1 | Private Limited Companies | 11,041 |
| 2 | Share Companies | 299 |
| 3 | General Partnership | 113 |
| 4 | Joint Ventures | 4 |
| 5 | Cooperative Unions | 13 |
| 6 | Branch office | 172 |
| | **Total** | **11,642** |

Source: Ministry of revenue Easter. A.A branch office data base

### 3.3.2 Sample size determination

The choice of sample size has a bearing on the reliability of the result of a study. However, this does not mean that large sample size always leads to high level of accuracy rather it is to indicate that sample size is one of the factors that contribute to the credibility of the survey estimate. For the choice of sample size, different researchers have different opinions. For instance, some researchers noted that the choice of sample size is normally made after considering practical issues and available resources (e.g. cost and time). According to Ary et. al. (2002) all things being equal, the larger sample size, the better representative of the population.

On the other hand, the sample to be taken has to be manageable so that the output cannot be distorted. Therefore, an appropriate formula has to be taken to minimize the risk of the above. Accordingly, 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 92% desired confidence level and 8% desired level of precision.

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

n = Sample size

N= Population

e= an error

Then

$$n = \frac{11{,}642}{1 + 11{,}642(.08^2)}$$

$$\mathbf{n = 154}$$

Therefore, the researcher has taken 154 samples from the taxpayers of category "A" taxpayers and in addition to this; ten (10) senior tax officers from the branch office are also participated via interview.

### 3.3.3 Sampling Technique

After the size of the sample is determined through the above formula, the researcher employed simple random sampling which is using random lottery method to select the required samples from the taxpayers and availability sampling techniques also deployed to select samples from the tax officers which is for interview purpose.

### 3.4 Sources of Data :

In order to get relevant information; the study is mainly used primary data through questioners and interview to achieve the required objective. The questionnaire for a quantitative data collection instrument would help to cover larger target groups than the interview, given the quality and chance of no response.

### 3.5 Data Collection Techniques:

To collect the relevant data the researcher used primary data sources. The primary data is collected through interview and self-administered questionnaires. The questionnaire is distributed to the selected taxpayers and comprised of both closed and open-ended questions. This is because the disadvantage of one technique can be compensated by the advantage of the other technique and thus relevant and representative data can be furnished. Most of the closed ended questions are designed as 'yes' or 'no' questions & Multiple choice. The questionnaire is categorized in two sections. The first part deals about respondent general information which are related with the respondents background. The second part holds tax related queries like the close and open ended which can enable the research into manageable manner.

### 3.6 Method of Data Analysis

According to Mosby (2009), data analysis is the process of coding, classifying and tabulating information required to perform quantitative or qualitative analysis according to the research design and appropriate to the data. The researcher carefully examined the collected raw data to detect errors and omissions and to correct these when possible and assigned numerals to answers that enable to put responses into a limited number of categories.

Accordingly, data collected through questionnaire, interview and some document analysis from the study representative sample are processed and subjected to a variety of analysis techniques. Simple arithmetic calculations and descriptive statistics are deployed to analyze and interpret the data. Summaries are presented as counts, and percentages in tables. The researcher used both qualitative and quantitative analysis in this study. Besides, the data gathered through interview and document review are analyzed in the form of narration or telling.

## 3.7 Validity and Reliability

Checking the validity and reliability of data collecting instruments before providing to the actual study subject is the core to assure the quality of the data (Yalew, 1998). To ensure validity of instruments, initially the questionnaires adopted from Master thesis of Desta Kassa (2011) and with self amendments. The questionnaires were subjected to pilot test.

## 3.8 Ethical issues and Consideration

In this study ethical consideration was applied by maintaining confidentiality of information about the organization and respondents. In addition to this, the gathered data were only used for this study, not used for other purpose, or not transferred to other party. Furthermore, the respondents were ordered not to write any information like their name and other personal code while responding to the questionnaire.

# CHAPTER FOUR: DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

## 4.1. Introduction

This chapter presents analysis, findings, and discussions of the study in line with the research objective and the research methodology. The main objective of this study is to evaluate the tax assessment and collection problems of category "A" taxpayers in the case of MoR Eastern A.A taxpayers branch office. The results obtained based on the data collected from respondents are presented and discussed in this chapter.

The quantitative part of the analysis is managed based on the data obtained from respondents on tax assessment and collection problems. The close ended questions of the questionnaires are analyzed using statistical tools such as frequency count, percentage. Whereas, the second section that is the qualitative part of the study is treated based on the data from interviews and open-ended questions of the questionnaires are integrated systematically. Since the objective of this study is to assess tax assessment and collection problem, the qualitative data analysis strategy is employed thematic analysis. According to Lindlof, T. R. & Taylor, B. C. (2002) thematic analysis focuses on the coding of qualitative data, producing clusters of texts with similar meanings, often searching for the central themes capturing the essences of the phenomenon under investigation.

Based from the questionnaire received from the taxpayers of the branch office ( MoR Eastern A.A taxpayers branch ) are quantitatively analyzed whereas responses obtained from the interviews parts is qualitatively analyzed and the central themes mentioned by the informant's interview in related to the research questions were identified. The collected data is transcribed and verbatim from individual interviews discussions. And then, the identified themes are categorized and thematically analyzed.

## 4.2 Questionnaires Distribution and Response Rate:

A total of 154 questionnaire copies were administered, of which 141 were fully completed representing 91.55% response rate. Despite several follow ups 8.45% failed to respond. Response rate refers to the number of subjects sampled in a study who respond to the research instruments.

A response rate of 50% was deemed adequate for analysis and reporting, response rate of 60% was good and a response rate of 70% and over was considered very good (Mugenda & Mugenda, 2003). The study returned a very good response rate at 91.55% and is considered adequate for analysis and reporting.

## 4.3 General information of the respondents

The below table shows the respondent's characteristics, such as their sex, age, and qualification and they are clearly shown in the below:

### 4.3.1 Gender of the respondents:

**Table 4:1** Gender of respondents

| Sex | Frequency | Parentage (%) |
|---|---|---|
| Female | 65 | 46.1 |
| Male | 76 | 53.9 |
| **Total** | **141** | **100** |

Source: Survey data -2020

The above table shows composition of respondents in terms of gender. Accordingly, 76 (53.9%) of the respondents are male whereas 65 (46.1%) of the respondents are women and the composition of respondents seems proportional. From this point of view, we can understand that more male respondents are participated in completing the questionnaire compared to female respondents.

### 4.3.2 Age group of respondents

**Table 4:2** : Age group of respondents:

| Age | Frequency | Percent (%) | Cumulative percent |
|---|---|---|---|
| 21-30 | 37 | 26.20 | 26.20 |
| 31-40 | 53 | 37.60 | 63.8 |
| 41-50 | 30 | 21.30 | 85.1 |
| Above 50 | 21 | 14.9 | 100 |
| Total | 141 | 100 | |

Source: authors field survey,2020

The above table shows age groups of the respondents. Since the study emphasized tax assessment collection problems , a minimum age of 21 years old is considered reasonable. Accordingly, the table revealed that, the majority 53 (37.6 %) of the respondents are categorized between 31-40 years old. Whereas 37 (26.20%) respondents are between 21-30, 30 (21.30%) of them are found between 41-50 years. And the remaining amount of the respondents 21 (14.90%) are above 51 years. The above figure clearly shows that most of the study participants are in the range of age 31-40 years. That means they are relatively matured and fit to take responsibilities.

### 4.3.3 Academic Qualification of Respondents

**Table 4:3** Educational level of the respondents:

| Education Level | Frequency | Percent (%) |
|---|---|---|
| Certificate | 28 | 19.85 |
| Diploma | 65 | 46.00 |
| Degree | 45 | 31.90 |
| Master's degree and above | 3 | 2.15 |
| **Total** | **141** | **100** |

Concerning the educational qualification of the respondents as shown in the above table; 28 (19.85%) respondents have certificate, 65 (46.00 %) of them have diploma, 45 (31.90 %) of the respondents have B.A Degree and the remaining 3 (2.15) have Master's degree. From these numerical figures, we can realize that a significant number of respondents have diploma qualification. This can be an indication that most of the respondents have good capacity to responds the query given to them. To this contrary the respondents with the low academic qualification may provide unsatisfactory response to the query provided.

Most of the business taxpayers are incorporated in the form of private limited companies, share companies, general partnership, joint venture, cooperative unions, and branch offices. Regarding the taxpayers experience in the business, a significant number of the taxpayers has a work experience of more than 8 years in the current business that they are engaged in. This figure clearly indicated that most of the taxpayers have reasonably adequate experience to carry out responsibility and to provide sufficient information about what is going on in their businesses.

## 4.4 Answers to research questions

In this section, the answers to research questions the study planned to answer have been addressed by using the data acquired

### 4.4.1 Efficiency and Effectiveness of tax assessment and collection procedures

**Table 4:4** How effective and efficient are tax assessment and collection procedure?

Below discussions is prepared based on the research questions given to the respondents. Accordingly, the discussion is illustrated and presented below?

| **Question 1** | **Response** | **Frequency** | **Percent (%)** |
|---|---|---|---|
| Would you agree that tax office managers are skilled enough to lead their fellow tax collection officers according to the law and existing procedure? | Yes | 41 | 29.07 |
| | No | 90 | 63.84 |
| | Neutral | 10 | 7.09 |
| | **Total** | **141** | **100.** |

Source: Survey data

From the above table, respondents are asked about to evaluate the capability and skill of the managers in leading their fellow tax collection officers according to MoR procedures and guidelines; Accordingly, 41(29.07%) agreed that the tax office managers in their branch office leading their fellow tax collection officers according to the law and the existing procedure However 90(63.84%) of them disagreed and the remining 10 (7.09%) of them are neutral. This indicates that respondents believed that managers do not have the required skill and capability to lead tax collection officers and activities.

| **Question 2** | **Response** | **Frequency** | **Percent (%)** |
|---|---|---|---|
| Is the Tax rate fair? | Yes | 45 | 31.91 |
| | No | 88 | 62.42 |
| | Neutral | 8 | 5.67 |

| | Total | 141 | 100 |
|---|---|---|---|

Source: Survey data

Queries related to the fairness of current tax rate is shown in the above table ; Accordingly, 45(31.91%) of the respondents believe that the tax rate is reasonable, and they are paying according to their capacity. To this contrary, 88 (62.42%) of taxpayers believe that the current tax rate is not reasonable or affordable and they are paying beyond their capacity.  The remaining 8 (5.67 %) percent assumed that the tax payment is neither more than their capacity nor it is as balanced as the capacity or ability they have. They simply responded as being neutral not to say something about the fairness with regard their ability to pay. This indicates that the tax rate is not reasonable.

| **Question 3** | **Response** | **Frequency** | **Percent (%)** |
|---|---|---|---|
| Would you agree that laws and procedures about taxation are understandable? | Yes | 38 | 26.95 |
| | No | 97 | 68.79 |
| | Neutral | 6 | 4.26 |
| | **Total** | **141** | **100** |

Source: Survey data

From the above table one can understand that; the tax laws and procedures need to be easily understandable as far as possible. Accordingly, 38(26.95%) of the participants agreed that laws and procedures about taxation are understandable. Whereas 97 (68.79%) of the respondents believe that laws and procedures about taxation are too complicated which does not easy to understand  and the remaining 6(4.55%) participants are abstained from commenting on the query. This shows that tax laws are not easy to understand by the majority of the taxpayers. Lack of clarity or understandability issues could be an indication as a constraint for tax assessment and collection which can lead to non-compliance or taxpayers may not file their tax returns on time.

| **Question 4** | **Response** | **Frequency** | **Percent (%)** |
|---|---|---|---|
| Would you agree that tax collection officers are skilled enough to assess and collect taxes? | Yes | 52 | 36.88 |
| | No | 86 | 61.00 |
| | Neutral | 3 | 2.12 |
| | **Total** | **141** | **100** |

Based on the above table, 86(61.00%) respondents are disagreed that tax collection officers are skilled enough to assess and collect taxes. In other word, the tax officers are not well professional to deliver the required service. 3(2.12%) of them are neutral  and 52 (36.88%) of the respondents agreed that tax officers have the required skilled. From this we can understand that; Most of the respondents believe that the officers are not skilled enough to assess and collect taxes. Thus, when the taxpayers have such type of  thoughts regarding the tax officers; then it is likely affect their intention to file pay their tax on time and the issue of honest will be questionable and which can lead them to tax evasion.

| **Question 5** | **Response** | **Frequency** | **Percent (%)** |
|---|---|---|---|
| Would you agree that tax collection officers are transparent, genuine, and properly follow the right tax collection procedure? | Yes | 23 | 16.32 |
| | No | 111 | 78.72 |
| | Neutral | 7 | 4.96 |
| | **Total** | **141** | **100** |

Source: Survey data

In the above table, respondents were asked whether tax collection officers are transparent, genuine, and properly follow the right tax collection procedure or not. Accordingly,111 (78.72%) respondents confirmed that tax collection officers are not transparent, genuine, and properly follow the right tax collection procedure. Whereas 7(4.96%) respondents were neutral and 23(16.32%) said the opposite. From this data, we can understand that tax collection officers are not transparent, genuine, and properly follow the right tax collection procedure. In this case customers will lose confidence and reliability of the service delivered by the tax officers.

| **Question 6** | **Response** | **Frequency** | **Percent (%)** |
|---|---|---|---|
| The Chance of being detected is relatively low if an official is engaged in corrupt activity? | Yes | 103 | 73.05 |
| | No | 35 | 24.82 |
| | Neutral | 3 | 2.13 |
| | **Total** | **141** | **100** |

Source: Survey data

As clearly shown in the above table; 103 (73.05%) respondents agreed that the chance of being detected is relatively low if an officer is engaged in corrupt activity. To this contrary, 35 (24.82%) of the respondents replied no, and the rest 3 (1.95%) are neutral. This indicates that taxpayers do not trust tax officers that they are free of corruption.

| **Question 7** | **Response** | **Frequency** | **Percent (%)** |
|---|---|---|---|
| Would you agree that tax authorities enforcement actions in the branch office are effective? | Yes | 29 | 20.57 |
| | No | 99 | 70.21 |
| | Neutral | 13 | 9.22 |
| | **Total** | **141** | **100** |

Source: Survey data

Regrading with the above question, respondents are asked about the tax authorities' enforcement actions in the branch office, whether it is effective or not. Accordingly, 29(20.57%) respondents confirmed that tax authorities' enforcement actions in the branch office is effective , whereas 99(70.21%) of the respondents, confirmed that tax authorities' enforcement actions in the branch office is not effective and not welcomed by the tax payers. The remining 13(9.22%) study participants stressed that; they are neutral with the current tax authorities' enforcement actions in the branch office. From this we can understand that the Authority usually takes aggressive effort instead of providing the necessary training to implement tax modern taxation.

From the interview forwarded to the respondents the following issues and explained. Taxpayers do not file their tax returns on time. Some of the reasons are economic difficulties, tradition of rush hour payment. Be it for these or other reasons, according to James and Nobes (2000), though a taxpayer might eventually pay his/her full liability, since the payment is late, the taxpayer cannot be considered to have been compliant. Furthermore, rush hour shows up of taxpayers result in work overload of tax office personnel on the top of inadequate manpower.

Overstated tax payment imposed to the taxpayers, however keeping the reasonable tax rate can easily formalize the business and encourage the entrepreneurial sector. This is particularly important for small and medium-size enterprises, which contribute to growth and job creation but in the long run it can add value to the tax revenue at large. Also, it is indicated that taxpayers complain frequently about the way the tax is assessed and collected. Double taxation on imported goods and unreasonable tax rate is also among the major complaints of the taxpayers.

Interviewee also asked whether they receive proper trainings on the tax system or not. The tax officers indicate that they get regular training relevant to their duties and responsibilities. Among the training computer application, data encoding, tax assessment, audit based their respective position. This definitely enables the tax officers to adopt simple and user-friendly tax administrative systems and procedures.

Furthermore, it is clearly known that; many citizens are engaged and running business without trade license and this is an obstacle to those legally registered taxpayers, and this is a manifestation of poor law enforcement.

### 4.4.2 Questions Related to Major causes of tax collection problems:

**Table 4:5:** Below tables are prepared based on the research questions, accordingly, each query forwarded to sample respondents are discussed independently.

| **Question 1** | **Response** | **Frequency** | **Percent (%)** |
|---|---|---|---|
| Absence of willingness and poor understanding about tax proclamations, rules, and regulations by taxpayers. | Strongly agree | 66 | 46.81 |
| | Agree | 47 | 33.33 |
| | Neutral | 6 | 4.26 |
| | Disagree | 12 | 8.51 |
| | Strongly disagree | 10 | 7.09 |
| | **Total** | **141** | **100** |

Based on the above table, one can understand that most of the respondents believed that, there absence of willingness and poor understanding of the tax proclamation and regulations by the taxpayers. Accordingly, 66 (46.81 %) of respondents strongly agreed and 47 (33.33%) of replied agree with the query raised. On the other side, 12 (8.51 %) disagree, and 10 (7.09%) respondents strongly disagree with this assertion, and the rest 6 (4.26%) of them are neutral or abstain from responding the question. This depicts that taxpayers do not have sufficient understanding about the tax rules and regulations and less willingness to know the tax rules as well.

| Question 2 | Response | Frequency | Percent (%) |
|---|---|---|---|
| Inefficiency and ineffective computerized system in tax administration. | Strongly agree | 69 | 48.94 |
| | Agree | 48 | 34.04 |
| | Neutral | 0 | 0 |
| | Disagree | 13 | 9.22 |
| | Strongly disagree | 11 | 7.80 |
| | **Total** | **141** | **100** |

Source: Survey data

As shown in the above table, participants are asked if there is inefficient and ineffective computerized system in the tax administration. Accordingly, 69 (48.94%) of the respondents strongly agree, 48 (34.04%) agree on the issue and 13 (9.22) of the respondents strongly disagree. The remaining 11 (7.80%) of the respondents strongly disagree. This suggests that, using inefficient and ineffective technology (Poor computerized system) could be a burden to the taxpayers when they file or pay their tax returns.

| Question 3 | Response | Frequency | Percent (%) |
|---|---|---|---|
| Do you think there is redundant Electric power interruption? | Yes | 119 | 84.40 |
| | No | 22 | 15.60 |
| | Neutral | 0 | 0 |
| | **Total** | **141** | **100** |

Source: Survey data

As shown in the above table, 119 (84.40%) of respondents agreed that there is electric power failure and the remining 22 (15.60 %) of them disagree with the query raised. This suggests that there is redundant electric power interruption and it leads to work overload during deadline, unnecessary delay and equipment damage and the productivity of the employees will be deteriorated.

| Question 4 | Response | Frequency | Percent (%) |
|---|---|---|---|
| Do you think Tax evasion in category “A” taxpayers is Significant? | Yes | 109 | 77.30 |
| | No | 22 | 15.60 |

| | | | |
|---|---|---|---|
| | Neutral | 10 | 7.10 |
| | **Total** | **141** | **100** |

Source: Survey data

From the above table, 109(77.30%) of the respondents indicated that tax evasion in category "A" taxpayers is significant and 22(15.60%) indicated as not significant whereas 10(7.10%) kept silent. From the respondents point of view, there is significant tax evasion in the branch office. Significant amount of tax evasion diminishes the earnings of the government. Due to this the government could spend less, had to borrow more money, or hire more people to combat the tax evasion.

| **Question 5** | **Response** | **Frequency** | **Percent (%)** |
|---|---|---|---|
| Sometimes tax Officials cooperate with taxpayers who intend to evade tax and engage in bribery activity. | Strongly agree | 67 | 47.52 |
| | Agree | 51 | 36.17 |
| | Neutral | 8 | 5.67 |
| | Disagree | 12 | 8.51 |
| | Strongly disagree | 3 | 2.13 |
| | **Total** | **141** | **100** |

Source: Survey data

As per the above table, more than half of the respondents 118(83.69%) strongly agree and agree that sometimes tax officials cooperate with tax evaders. To this contrary, 12(8.51%) of respondents' disagreed the tax officials' cooperation with tax evaders, 3 (2.13%) strongly disagree and the remining 8(5.67%) are neutral. In general, this depicts that some of the tax officers are actively cooperate with taxpayers in bribery or tax evasion activities which can lead to poor tax assessment and collection.

| **Question 6** | **Response** | **Frequency** | **Percent (%)** |
|---|---|---|---|
| What problem(s) are there during tax collection? | Inefficiency of the tax collectors | 81 | 57.45 |
| | ill-treatment | 39 | 27.65 |
| | Tax underreporting | 15 | 10.64 |
| | There is no problem | 6 | 4.26 |

| | | | |
|---|---|---|---|
| | **Total** | **141** | **100** |

Based on the above table, respondents have challenge during tax collection. Accordingly; 81 (57.45%) respondents are believed that there is inefficiency of the tax collectors while 39(27.65%) of the respondents perceived poor treatment and 15 (10.64) said there is tax underreporting. The remaining 6 (4.26%) of taxpayer respondents replied that; there is no problem during tax collection. This suggest that there are different problems in both sides ( taxpayers and tax officers ) during the tax assessments and collection.

As per the to the interview conducted with the participants and confirmed that, the tax authority provides regular information to category "A" taxpayers to create tax awareness using mass medias such as news outlets, TV programs, brochure etc. Creating awareness helps to inform taxpayers a sense of responsibility towards tax and ultimately promotes a positive view to voluntary compliance. On the other hand, well trained and qualified personnel did not assign by the branch office which can be a constraint to assess and collect the tax in adequate manner. This inevitably affects the operations and effectiveness of the tax office. Among the reasons suggested for not assigning the required staff is frequent employees turnover, political affiliation for given assignments and poor employees procurement procedure. Furthermore, frequent employees turn may lead to poor productivity and it incurred organization resources for requiting and hiring new staffs.

To summarize the major challenge and causes with both taxpayer and tax authority are; lack of proper training on taxation, unreasonable tax rate levied by the tax authority, tendency for tax evasion, poor desire of taxpayers to attend on panel discussion or tax awareness trainings, hiding taxable income by taxpayers, undesired communication of tax officers with taxpayers.

### 4.4.3 Tax Knowledge and Awareness of Taxpayers:

**Questions related to Taxpayers knowledge and awareness about taxation:**

**Table 4:6** Below questions which are illustrated in the below tables are prepared based on the research question, accordingly each query forwarded to respondents are discussed independently.

| Question 1 | Response | Frequency | Percent (%) |
|---|---|---|---|
| What is your perception towards tax Payment? | Development | 105 | 74.46 |
| | As debt | 26 | 18.44 |
| | As Obligation | 10 | 7.10 |
| | Others | 0 | 00 |
| | **Total** | **141** | **100** |

Source: Survey data

Based on the above table, respondents are enquired about taxpayers awareness, the reason why they pay taxes. Accordingly, 105, (74.46%) of the respondents suggested that paying tax to government contributes to national development. 26, (18.44%) of them believed, paying tax as debt and the remaining 10 (7.10%) respondents perceived tax as an obligation. From this point of view, we can conclude that almost all respondents are well informed about the reason they pay or file their tax to the tax office.

| Question 2 | Response | Frequency | Percent (%) |
|---|---|---|---|
| What are the benefits you get by paying your tax liability? | Get bank loan | 53 | 37.59 |
| | Participate in bid | 67 | 47.52 |
| | Guarantor | 11 | 7.80 |
| | Others | 10 | 7.09 |
| | **Total** | **141** | **100** |

Source: Survey data

As clearly shown in the above table, from the sample respondents, 53 (37.59%) respondents perceived that they can get bank loan if they pay tax, 67 (47.52%) can participate in bid, 11 (7.80%) believed that right to be guarantor and 10 (7.09%) can get other benefits. From this point of view, we can figure out that, taxpayers know the advantages of paying taxes.

| Question 3 | Response | Frequency | Percent (%) |
|---|---|---|---|
| When do you pay your tax Liability? | On time | 113 | 80.14 |
| | When time is over | 28 | 19.86 |
| | **Total** | **141** | **100** |

Source: Survey data

As shown in the above table; 113 (80.14%) taxpayers responded that they pay and file their taxes on time and the rest 28 (19.86%) of participants pay their tax after the due date. From this , it can be noted that the culture of paying tax on time or before the deadline protects from paying unnecessary penalty or interest and it benefits the nation at large.

Pertaining to this issue, interview also conducted to sample respondents to have full picture on the qualitative matters. According to the query forwarded to sample respondents, the following points are stated. Some taxpayers do not have adequate tax knowledge particularly on the technical aspects of the income tax and this may lead to noncompliance. Besides, small business taxpayers are not even aware of their tax knowledge shortfall and this may lead to unintentional non-compliance behavior. Regarding the perception on paying or filing their tax returns can be evaluated by two dimensions. The first team believed that paying tax has to be voluntary because there is no development without having proper tax collection procedure and the second perceived that paying tax is an obligatory levied by the tax authority.

## CHAPTER FIVE: SUMMARY, CONCLUSION AND ECOMMENDATIONS

### 5.1 Summary of Research Findings

Generally, the objective of this study was to investigate the tax assessment and collection problem of category “ A” taxpayers in the case of MoR Eastern Addis Ababa taxpayers branch office. Both survey and interview techniques were employed to investigate the tax assessment and collection problems of Category “A” taxpayers in the branch office. Taxpayers and tax officers were participated to collect the necessary data.

The study employed both qualitative and quantitative research design with the assumption that reality is socially constructed by participants. To analyze this study, the researcher used a descriptive survey method with the assumption to collect relevant data to the existing problem under the study. Primary sources of data were gathered via questionnaire and interview. The collected data were analyzed by descriptive statistics such as frequency count and percentage. Data collected through questionnaire are analyzed quantitatively and data collected through interview was thematically analyzed and organized into themes to answer the research questions.

### 5.2 Conclusion

Following are the conclusions which have been drawn from the qualitative and quantitative of the study:

As it has been described by the respondents; the MoR Eastern A.A branch office has challenges of both operational and administrative issue. The existence of inefficient and insufficient number of tax assessment and collection officer which leads to poor service delivery. In addition to this, there exist poor customer handling, unethical behavior of employees ( lack of integrity, transparency) becomes the drawbacks of the tax officers during tax assessment and collection period. Moreover, unfair tax rate, poor understanding of tax regulation ( directives) by the taxpayers, frequent employees turnover, complexity of tax proclamation, lack of well skilled professional tax assessor, and poor IT system also among the major existing challenges of the tax office.

The tax assessors do not have the required skill and capabilities. The tax authority does not provide sustainable training to build the capacity of the tax officers and capacity building is not considered as vital activity. Little or no attention is paid to skills, techniques, procedures, customer relations, or managerial training which are directly or indirectly affected the tax administration.

Inadequate knowledge and skill of taxpayers particularly on the technical aspects of the income tax. On top of that, the taxpayers do not received the required training from the tax authority regarding the country's tax rules and regulation which leads them to negligence, delay in settlement of taxes and evasion as temporary solution to hide from payment of taxes.

## 5.3 Recommendations

This section presents the appropriate suggestions that may help taxpayers, the tax authority and other policy makers to improve the problems associated with assessment and collection of category "A" taxpayers and to MoR Eastern A.A branch office at large.

To summarize; the tax office should establish appropriate procedure and system of tax collection and assessment procedure and assigning relatively best and capable professionals. The management of the tax office should work towards bringing the team spirit by solving internal problem. The core process must also give high attention on employee training and personal development, to cop up the new science and technology. Furthermore, the following actions shall be taken to improve the assessment and collection problems of the branch office.

- The management of the branch office should work towards bringing the team spirit by solving internal problem of their staffs particularly they should give special attention to training and personal development, to cop up the new science and technology and also employees must be aware about the current tax rule, regulation, and procedures in order to serve the taxpayers in a professional manner.
- The tax office should offer sustainable and adequate training and prepare discussion or forum on tax awareness creation. Awareness creation should not only be giving tax education to taxpayers but should also participate influential groups such as elderly, religious leaders, prominent personalities. The role of tax awareness and perception of taxpayers towards the tax system is pivotal for voluntary tax compliance decision. Introducing fair and equitable tax rate encourages taxpayers to comply their taxes so that the level of compliance can be secured. In general, if taxpayers do not understand what their obligations are, any intervention to enforce compliance will be perceived as unfair.

Taxpayers attitude toward taxation is improved through sustainable awareness creation programs.

- The tax office should make the income tax law and procedures, clear, simple, understandable, transparent, and user-friendly administrative system. Also explain clearly to their understanding for effective compliance.
- The tax office must improve the tax collection method by using advanced information technology which can easily assist for filing, payments, record keeping and registration process. The control mechanism to tax evasion is not only use manpower but should also need to control on computerization method on the working environment of taxpayers.
- Tax audit affects revenue collection in that it promotes voluntary compliance of taxpayers which increases revenue. So that Strong audits follow up is very important element. Through tax audit the tax liability can be easily identified, and taxpayers can protect them from paying unnecessary penalty and interest. Tax audit also improve revenue collection and can easily eradicate tax evasions.
- Moreover , the branch office ( MoR Eastern A.A) shall receive continues feedbacks from its customers regarding the service delivery. So that smooth collaboration between taxpayers and tax authority can be maintained.

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# APPENDIX A: QUESTIONNAIRE

## ST. MARY'S UNIVERSITY

## SCHOOL OF GRADUATE STUDIES DEPARTMENT OF ACCOUNTING AND FINANCE

**Dear Respondents:**

This research is entitled "Tax Assessment and collection problems Category A Taxpayers" in the Ministry of Revenue – Eastern Addis Ababa Taxpayers Branch Office and conducted in partial fulfilment of the requirements for MBA degree in Accounting & Finance at St. Mary's University. Its main objective is to evaluate the tax assessment and collection problems in the case of Ministry of revenue Eastern A.A taxpayers branch office. The research is held on be carried out on your responses and other relevant data that could support it.

The concern of this questionnaire is to attain your observations and opinions regarding various aspects of taxation. The answers of the research will be given in to the concerned government bodies so that they can make their own recommendations. Hence, the response you will provide assist me to critically analyze the problem associated with the tax assessment and collection of Category "A" taxpayers.

Your collaboration to reply is so important to this research because it represents a number of others who are not included in the sample. Your response is purely for academic purpose. Needless to say, that your time is invaluable, please take few minutes of your precious time to complete the following questionnaires.

If you have any hesitation or question,

Email : aberagtm@gmail.com or abera.goitom@hst-et.com

Tel: +251 944 070 673/ 0914 034 562

**Thank you very much for your time and kind cooperation!!**

**Abera Goitom**

**April,2020**

**Addis Ababa, Ethiopia**

**General Instructions:**

- ✓ Please provide your responses by marking a tick (√) in the relevant boxes.
- ✓ To the questions with alternatives that do not match to your response, please write your appropriate response on the space provided.
- ✓ Do not write your name on the questionnaire
- ✓ Questionnaire to be filled by Managers or owner of the company

**Section I - Background information of respondents:**

1. Gender:

- ☐ Male
- ☐ Female

2. Age Bracket

- ☐ Below 20 years
- ☐ 21-30 years
- ☐ 31-40 years
- ☐ 41-50 years
- ☐ 51 years & above

3. Academic Qualification :

- ☐ Illiterate
- ☐ General secondary school or les
- ☐ TVET/certificate
- ☐ Diploma
- ☐ First Degree & abov

4. Type of Business Engaged ________________

5. For how many years you are in this business?__________________

**Section II: Questions related to Tax Assessment & Collection Problems**

**Direction:** Please answer the following questions on this questionnaire by putting the" √" mark in the space provided

1**. How effective and efficient are tax assessment and collection procedures?**

| **Questions** | **Response** | **Frequency** | **Percent (%)** |
|---|---|---|---|
| **1)** Would you agree that tax office managers are skilled enough to lead their fellow tax collection officers according to the law and existing procedure? | Yes | | |
| | No | | |
| | Neutral | | |
| | **Total** | | |
| **2)** Is the Tax rate fair? | Yes | | |
| | No | | |
| | Neutral | | |
| | **Total** | | |
| **3)** Would you agree that laws and procedures about taxation are understandable? | Yes | | |
| | No | | |
| | Neutral | | |
| | **Total** | | |
| **4)** Would you agree that tax collection officers are skilled enough to assess and collect taxes? | Yes | | |
| | No | | |
| | Neutral | | |
| | **Total** | | |
| **5**.) Would you agree that tax collection officers are transparent, genuine, and properly follow the right tax collection procedure? | Yes | | |
| | No | | |
| | Neutral | | |
| | **Total** | | |
| | Yes | | |

| | | | |
|---|---|---|---|
| **6.)** The Chance of being detected is relatively low if an official is engaged in corrupt activity? | No | | |
| | Neutral | | |
| | **Total** | | |
| **7.)** Would you agree that tax authorities enforcement actions in the branch office are effective? | Yes | | |
| | No | | |
| | Neutral | | |
| | **Total** | | |

**2. Major causes of tax collection Problems:**

| Question | Response | Frequency | Percent (%) |
|---|---|---|---|
| **1)** Absence of willingness and poor understanding about tax proclamations, rules, and regulations by taxpayers. | Strongly agree | | |
| | Agree | | |
| | Neutral | | |
| | Disagree | | |
| | Strongly disagree | | |
| | **Total** | | |
| **2)** Inefficiency and ineffective computerized system in tax administration. | Strongly agree | | |
| | Agree | | |
| | Neutral | | |
| | Disagree | | |
| | Strongly disagree | | |
| | **Total** | | |
| **3)** Do you think there is redundant Electric power interruption? | Yes | | |
| | No | | |
| | Neutral | | |
| | **Total** | | |
| **4)** Do you think Tax evasion in category "A" taxpayers is Significant? | Yes | | |
| | No | | |
| | Neutral | | |

| | | | |
|---|---|---|---|
| | **Total** | | |
| **5)** Sometimes tax Officials cooperate with taxpayers who intend to evade tax and engage in bribery activity. | Strongly agree | | |
| | Agree | | |
| | Neutral | | |
| | Disagree | | |
| | Strongly disagree | | |
| | **Total** | | |
| 6) What problem(s) are there during tax collection? | Inefficiency of the tax collectors | | |
| | ill-treatment | | |
| | Tax underreporting | | |
| | There is no problem | | |
| | **Total** | | |

3) Awareness/Knowledge about taxation

The following questions are prepared to answer research question number Three.

| Question | Response | Frequency | Percent (%) |
|---|---|---|---|
| **1)**What is your perception towards tax Payment? | Development | | |
| | As debt | | |
| | As Obligation | | |
| | Others | | |
| | **Total** | **141** | **100** |
| **2)** What are the benefits you get by paying your tax liability? | Get bank loan | 53 | 37.59 |
| | Participate in bid | 67 | 47.52 |
| | Guarantor | 11 | 7.80 |
| | Others | 10 | 7.09 |

| | | | |
|---|---|---|---|
| | **Total** | **141** | **100** |
| **3)**When do you pay your tax Liability? | On time | 113 | 80.14 |
| | After the due date | 28 | 19.86 |
| | **Total** | **141** | **100** |

Section III : Please write short and precise response for the following questions

1. Why do you pay taxes?
2. Paying tax is voluntary or obligatory?
3. The amount of tax liability you have paid is overstated or understated?
4. Does the Authority provide regular information to taxpayers to create tax awareness?
5. List the methods.
6. Please try to forward anything missing regarding the overall tax assessment and collection problems in your Sub-city?

**Thank you for your keen cooperation !!!**

## APPENDIX B:

### Interview Questions with Senior tax office officers

☞ **Please write short and precise response for the following questions**

1. What do you think about taxpayers' general knowledge about taxation and public attitude towards taxation?
2. Does the Authority provide regular information to category "A" taxpayers to create tax awareness? List the methods.
3. Are tax laws and procedures respected or violated at your office?
4. . Do category "A" taxpayers pay their tax on time? What would be possible reasons?
5. To what extent do taxpayers complain about the way the tax is assessed and collected?
6. Did you receive any training relevant to your duties and responsibilities?
7. Is the number and qualification of the employees at your office sufficient to assess and collect tax efficiently?
8. Is there very frequent employees turn over in your office?
9. Is there strong enforcement action to control businesses running without legal license and collect tax?
10. What measures should the tax authority undertake to motivate taxpayers to pay tax?
11. Please try to forward anything missing regarding the overall tax assessment and collection problems in your Sub-city?

**Thank you for your keen cooperation !!!**