



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
MBA PROGRAM**

**TAX ASSESSMENT AND COLLECTION PROBLEMS OF CATEGORY  
“A” TAX PAYERS: -THE CASE OF LIDETA SUB-CITY REVENUES AND  
CUSTOMS AUTHORITY BRANCH OFFICE**

**BY**

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**DECEMBER 2021  
ADDIS ABABA  
ETHIOPIA**

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### **Statement of Declarations**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Abraham Gebregiorgis (Ass. Prof). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

HANA GOSAYE \_\_\_\_\_

\_\_\_\_\_

Name

Signature

**ST. MARY’S University, Addis Ababa**

**DECEMBER, 2021**

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## **Acronyms**

ERCA Ethiopian Revenues and Customs Authority

FDRE Federal Democratic Republic of Ethiopia

IMF International Monetary Fund

MOR Ministry of Revenue

## **ABSTRACT**

*Ethiopia face problems in increasing revenue to the level required for the advancement of economic development. Taxation has increased in importance not only as a tool of rising revenue for the traditional roles but also for fast-tracking the financial progress and safeguarding community fairness. The researches assess the tax assessment and collection problems in lideta branch office.*

*The research used descriptive research design and both qualitative and quantitative research approach were adopted for the study. To bearing the research primary data were gathered from representative taxpayers and tax officers. A total of 100 questioners were distributed for 20 tax employees and 80 sample taxpayers. The research found that tax assessment method and its processes are not clear and assessments of tax are subjective, tax administration system are not effective; complex tax rules and regulations, poor tax procedures, lack of honesty and integrity, corruption and tax evasion. Therefore, the study suggests that the tax authority should spread effective tax assessment and collection process, employed advanced computerized systems, creating continuous awareness and give training both for tax payers and tax office employee, make the tax procedures effective. In general, the tax authority should try to ensure clear, transparent and consistent tax assessment and collection procedures so as to encourage voluntary tax payers.*

**Keywords:** *Tax Assessment, Collection Problems, Tax Payers and the Authorit*

# Chapter One

## 1. Introduction

This study discusses and analyze the tax assessment and collection problems of taxpayer's category "A" in case of Lideta Sub City Revenues and Customs Authority Branch Office.

### 1.1 Background of the Study

Tax is a compulsory contribution payable by economic units to a government without expectation of direct and equivalent return from the government for the contribution made. Taxes have both micro and macroeconomic effects in a modern economy. Taxes have good as well as bad effect in the production, distribution of income and stabilization of the economy (Misrak, 2008).

A tax is a fee charged or levied by a government on a product, income, or activity. The purpose of taxation is to finance government expenditure (Gupta, 2001). One of the most important uses of taxes is to finance public goods and services, public goods like roads, power, municipal services, street cleaning and other public infrastructures. Since public goods and services do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the good or service, and so they need to be provided by the government or a quasi-government agency, which tend to finance themselves largely through taxes. Despite the fact that taxation is not favored by many, it is vital that it is understood because it forms a critical element of how a government affects the lives of its citizens (Oberholzer, 2008).

If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of a good or service, then it is called an indirect tax. A tax payer doesn't expect direct and equivalent return from the government for the compulsory contribution made (Ethiopia Trade and Investment, 2015).

Business income, or business profit, includes any income which is derived essentially from business activity or activity recognized as trade. Business profit tax is the tax imposed on the taxable business income / net profit realized from entrepreneurial activity.

Taxable business income would be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the generally accepted accounting standards. Corporate businesses are required to pay 30% flat rate of business income tax. For unincorporated or individual businesses, the business income tax ranges from 10% - 35% (ECC and EBDSN, 2005).

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).

According to article third of the proclamation No.587/2008, the authority is looked upon as “an autonomous federal agency having its own legal personality”. Authority came into existence on 14 July 2008, by the merger of the ministry of Revenue, Ethiopian Customs Authority and Federal Inland Revenue Authority who formerly were responsible to raise revenue for the federal government to prevent contraband. Reasons for merging are to provide the basis for modern tax and custom administration, to avoid unnecessary and redundant procedures that results delay and are considered cost inefficient, to be much more effective and efficient in keeping and utilizing information, to promote law resource utilization and service delivery and to transform the efficiency of the revenue sector to a high level.

Ethiopian Revenue and Customs Authority (ERCA) is the body responsible with taxes at federal level .In Addis Ababa, there are different tax administrators at each sub city, in which Lideta sub city is one. ERCA focuses on those people and vehicles that may involve in the act of bringing into or taking out of goods, which customs duty and taxes are not paid and whose importation or exportation are prohibited by law. The authority conducts investigation, audit and prosecutes offenders. In the attempt to discharge its responsibility, the authority closely works with the Federal Police, Standardization Authority, Ministry of Health and Immigration Service and with other stakeholders. Category "A", shall include any company incorporated under the laws of Ethiopia or in a foreign country, for example Private Limited Companies Share Companies and any other business having an annual turnover of Birr 1,000,000 or more.

## 1.2. Statement of the Problem

A government finances and its expenditures through the fund acquired from the service given by the government, tax, loan and donation. From all sources of finance, tax is the major source; however, in most developing countries including Ethiopia, it is a common phenomenon to notice serious problems in developing adequate tax systems that permits a government to sufficiently finance its expenditures. (World Bank, 1999).

Along with the growth in the overall Ethiopian economy, it has been observed that there has been an increased government spending and deficit financing. In principle, government could use both domestic and external sources of finance that a country can tap to finance the deficit. The government collected significant amount of revenue including grants, which could not fully finance the total expenditure. Without grants, the deficit could have been also about significant. This makes the borrowing and grant element of government's total expenditure counts too much. Of the external grant that constitute part of government revenue, almost half comes in the form of grants in kind (or earmarked) and the remaining comes in the form of untied cash (IMF, 2006).

Furthermore, due to the great encouragement and conducive environments like investment opportunities created by the Ethiopian government, new firms are emerging surprisingly, however, the amount of tax revenue for the government is not increasing proportionately even every so often a decreasing trend are observed. Accordingly, huge unfavorable variance is observed in the performance report. Consequently, huge amount of money that should have been paid is not really given to the government, which in turn can be used to meet the various objectives of a government.

Moreover, the prevalence such significant deficit demands the government to improve internal revenue generating activities to reduce dependence on foreign funding. In principle, government could use both domestic and external sources of finance that a country can tap to finance the deficit. Perhaps the most commonly used is to take corrective measures on the potential problems of tax administration at each tax office. (World Bank 1999)

According to Tulu (2007), self-assessment tax obedience finds out that, tax justice, institutional strength of the tax office, awareness level of the tax payers, traditional influences, and delivery

of public services by the government as the key element of self-assessment compliance. Tax knowledge and awareness are found to be positively correlated with tax-compliance attitude Merima et al. (2013). In addition to this research conducted by Messay (2019) study on Tax Assessment and Collection Problems, the findings of the study indicated that majority of tax payers' lack of tax knowledge, insufficient manpower and lack of adequate skill.

Even though, there is a study that has been conducted Tax Assessment and Collection Problems, there are problems both from taxpayer and collector's sides. Such as Tax assessment systems are usually not elaborate properly with the society, the tax payers complain that the tax assessment method is based on subjective estimations as a result of which they are frequently subjected to over tax, attitudinal and knowledge gap of tax payers, lack of competent and honest employee, lack of exercising right and obeying obligation, dishonest in providing the relevant and accurate information concerning about tax systems and its procedures, interest of cheating and also tax payers do not comply with the tax rules and regulations.

Lideta sub city revenues and custom authority branch office has mandate to look in to tax collection activities and its problems. Therefore, identifying the tax collection problems in the branch office and this study will be expect to fill this gap and to contribute to a deep understanding of the problems and possible prospects of the current tax administration.

### **1.3 Research Questions**

This study attempts to answer the following research questions

1. What are the tax assessments and collection practices in Lideta sub city branch?
2. What are the challenges of tax assessment in Lideta sub city Revenue and Customs Authority Branch Office?
3. What are the challenges faced in the tax collection process?

### **1.4 Objective of the Study**

#### **1.4.1 General Objective**

The general objective of the study is to assess the tax assessment and collection problems of taxpayer's category "A" in case of Lideta Sub City Revenues and Customs Authority Branch Office.

## **1.4.2 Specific Objectives**

The specific objectives of this research are the following: -

- To assess the tax assessment and collection practice in Lideta Sub City Revenues and Customs Authority Branch Office.
- To assess the challenges of tax collection system.
- To analyze the challenges of tax assessment practice

## **1.5 Significance of the study**

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

## **1.6 Scope of the Study**

The research is restrict to study detail examination or inquiry, especially on tax assessment and collection problem in respect of Category “A” taxpayers found and obligated to pay to Lideta sub-city in order to identify situations posing undesired influence on the tax revenue. The research considers category "A" tax payers who are registered in lideta branch office.

## **1.7 Limitation of the study**

This study has its own limitations which were encountered at various stages. The first limitation of the study was challenges in finding the right person at the right time. Secondly, respondents were not devoted themselves in filling and returning questionnaires on time. Thirdly, due to the time and financial constraints of the study, this thesis was limited to Lideta Sub City category "A" taxpayer's branch office only. Therefore, it is difficult to generalize the results of the findings to overall sub cities in the Addis Ababa City. Some taxpayers were hesitated to disclose their tax evasion problems assuming that it will endanger their possibility to receive service



from the office and being claimed to crime. However, these limitations did not block conducting the intended research and convinced them by using some confidentiality assurance mechanisms such as, not displaying any data by the name of the taxpayer and using indirect questions.

### **1.8 Organizations of the study**

The study will have contains five distinct sections. The first chapter contains background of the study, statement of the problem, research questions, and objectives of the study, significance of the study and scope of the study. Chapter two deals with both basic concept and empirical literatures relevant to Tax Assessment and Collection Problems, Chapter three describes research design and methodology and includes research design, population and sampling techniques, Data type and sources, procedures and method of data collection and methods of data analysis. Chapter four will include data analysis and interpretation. Chapter five will include summary of the findings, conclusions and recommendations. In addition to the above chapters, list of reference materials and annexes will be added at the end of the paper.

## **Chapter Two**

### **2. Review of Related Literature**

This chapter presents and discussion a brief review of existing theoretical and empirical literature of tax administration and the review, this chapter is presented into two sections. The first section deals with theoretical literature review, the second section deals with empirical review.

#### **2.1 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).

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. 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.

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)

### **2.1.1 Category of Taxpayers**

According to the federal income tax proclamation no.979/2016, source of income has classified into five schedules: Schedules A (income from employment), Schedule B (income from rental of buildings), Schedule C (income earned from business) and Schedule D (other income not categorized in any of the three, e.g. Income from royalties). Schedule E (exempt income).Schedule C type of tax system, which is the topic of this study, is further divided into three major categories, namely Category "A", "B", and "C" based on the volume of their sales, form of their business and annual turnover.

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 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 to Revenue Authority at the end of the year.

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.

Category "C" 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.

### **2.2. Tax Administration**

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

As delineated by Sake (1998) the way of tax administration to incorporate the documentation and recording of the traders to whom the tax rule practical; the verification of this trader either through by itself or obligatory assessment; the collecting of tax dues and accounting for them to the state and guiding the state on higher ways that within which a lot of revenues are often composed by commenting areas of grow up the permitted and official plan.

### **2.2.1 Tax system**

The complexity of tax systems, probability of detection and penalties and tax rates affect the effectiveness of a tax system. The more tax laws become complex the lower the compliance levels. Simple, understandable and clear tax rules enhance tax compliance (Chau& Leung, 2009). The complexity of tax laws makes it difficult for ordinary taxpayers to understand. Although taxes are not part of everyday conversations, people will normally try and make sense of the contributions that they make to the government through the payment of taxes. When trying to makes such sense, they will evaluate the fiscal policy, the tax rates, the provision of public goods and services and the interaction between themselves as taxpayers and the tax authorities. At the end of it all, the motivation to comply or not comply develops and this shapes their subsequent tax behavior (Kirchler, 2009).

Complex tax laws are a concern worldwide. Tax laws have become so complex that even experts such as accountants, lawyers and tax officers have difficulty in interpreting many of the legislative provisions. Research conducted on the linguistic analysis of tax laws found that high level abstraction in the written language combined with long and complex sentences resulted in unnecessary complexities, making it difficult for taxpayers to understand the laws. Several countries have attempted to simplify their tax laws but to no avail, for example, New Zealand's tax laws were written in simplified English, but they still faced the same administrative and compliance problems as before the simplification (Kirchler, 2009).

### **2.2.2 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. First 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. Secondary 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. Third 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. Fourth 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. Fifth 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.

### **2.2.3 Tax Implementation and Administration**

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 disobedient taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Murphy, K., 2002).

Since taxes are an involuntary payment for government services (Sjursen, I, 2012), taxpayers have a strong incentive 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.

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 the 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. (Damme, L, T. Misrahi and Orel 2008). In developing countries, tax administration can be organized respecting the functional principles such as collecting, recording, auditing, and enforcement. These are according to the type of taxpayers, the type of taxes; and type of enterprises in economy.

Tax payment needs to be assessed, collected and recorded more efficiently and periodically. The tax administration should provide impartial and professional courteous service and must keep private and confidential information regarding the individual taxpayers. It should also offer clear, understandable and current tax information and will make this information available to tax payer through various media and provide timely, accurate written information that one can rely on to questions and requests for tax information (Asian Development Bank 2001).

Education and information programs on specific tax issues should be arranged with taxpayers to enhance their awareness and taxpayers should be allowed to voluntarily disclose their tax

situation without incurring a penalty or being prosecuted for tax violations under certain conditions.

## **2.2.4 Importance of Tax Administration**

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

Tax on capital income, as adopted in certain Scandinavian countries, can be explained, in large part, by the forces of globalization and developments in financial innovation and the inability of tax administrators to develop technologies to cope with these forces and developments (Asian Development Bank, 2001).

In tax reforms there is a close correlation between successful tax policy and efficient tax administration. In other words, there is no good tax policy without efficient tax administration (Jenkins, 1994). Over the past century, changes in the size of governments themselves, and differences in the relative size of governments around the world, can be explained by changes and differences in the environment, resources and technologies available to the country’s tax administrators (Asian Development Bank, 2001).

Aside from the role of tax compliance and administrative issues on the evolution and general features of the tax system, there is no question that administrative considerations influence, and often impose decisive limits, on particular tax laws. Most obviously, the failure to tax all sources of economic power, such as the imputed rental value of homes or accruing capital gains, are often justified by reference to practical concerns of administer ability. It is futile to design a complex and sophisticated response to a tax policy problem if the rules to implement the regime cannot be administered (Asian Development Bank, 2001).

Ensuring that taxes are collected from those who owed them has always been an elusive challenge for tax departments. It has never been easy to collect taxes from lawyers who take cash for a Saturday office visit; waiters who receive most of their income as tips; landlords who collect rent in cash; small business people who skim part of their profits or hire people off the books; cash-only window cleaners, roofers and painters; or large corporations that contract out to sweatshops. It has been even more difficult to collect taxes from crack cocaine dealers, smugglers, hit men and hit-women, and those who make their living defrauding and extorting their clients. The underground economy has always been diverse and even faster than these examples suggest (Asian Development Bank, 2001).

However, as if these traditional forms of tax evasion were not challenge enough, the combined effects of information technology and globalization is now alleged to allow those who have been able to hide in the shadow economy to evade paying their fair share of tax to disappear altogether. Many individuals are no longer tied to one national jurisdiction; those that are increasingly receive payments from work and investment abroad; anyone can have access to an over sea's bank; anyone with access to a computer can transact business anywhere in the world; property is becoming increasingly intangible and consumption difficult to locate; and, capital is becoming increasingly fungible and can be shifted relatively easily between jurisdictions. These and other developments are said to call into question governments' continued ability to levy taxes in a world in which companies, assets and people are infinitely mobile (Asian Development Bank, 2001).

Tax administrators face a formidable number of challenges in every country. According to Asian Development Bank, (2001), in many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in 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. Moreover, there is the need to establish the legitimacy of tax collection. In all countries tax administrators face the challenge of modernizing the tax administration so that it can operate effectively in an increasingly global economy.

In spite of these challenges, several countries' recent experiences in improving the effectiveness of their tax administration have shown that fundamental reform is possible.



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

As a preliminary step to developing a successful strategy for the reform of a revenue agency, the “Tax Policy and Administration Thematic Group” of the World Bank has developed a useful diagnostic framework for revenue administration. It includes a description of quantitative indicators of effectiveness and efficiency that might be used to get a general idea of the physical dimensions of the revenue administration and how effectively and efficiently it is currently performing its functions and where performance problems might be acute. It also provides a framework and checklist of questions relating to all aspects of revenue departments operations, environment, resources, history, organization and management functions and informal culture that can be used to assess its operations and diagnose its failings (Asian Development Bank, 2001).

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

### **2.2.5 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. This will mean extending the VAT to all but a few goods and services (notably export, which should be zero - rated, and banking and insurance services, where it may be difficult to determine the amount of value added to be taxed) (Hesse, 1993).

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. Tax administration cannot change legislation as a means for improvement of tax structure, but could propose necessary changes in laws that can improve tax structure and / or could aid in application of the law (Mansfield, 1990).

Effective tax administration in a market economy is based on voluntary compliance by a large number of decentralized taxpayers. Most transition economies have only recently started to address compliance issues and build up a modern tax administration with better overall revenue performance. A first step is restructuring how the work is organized. In transitional countries, tax administration can be organized respecting the functional principle (collecting, 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), as in Hungary, rather than according to the type of tax and taxpayers. More generally, tax payment needs to be assessed, collected and recorded more efficiently. Current procedures are rarely up to the job of dealing with a growing number of taxpayers, many of which - particularly private businesses and service enterprises are tricky to tax at best. The government might start by assigning an identification number to all taxpayers, focusing its efforts on large taxpayers who generate the bulk of revenue, and withholding wage tax at the source. This, however, does not mean that results of successful monitoring of large taxpayers can be excused for neglecting medium and small taxpayers. This can lead to the decrease of their compliance, resulting with lower total revenue. Next should be improved auditing and follow-up actions against those who fail to file returns or make payment. Latvia, for example, has issued regulations for an improved taxpayers' register: every taxpayer must register with the State Revenue Service; financial institutions will not be allowed to open accounts for any business or individuals without a taxpayer code (Hesse, 1993).

Most transitional economies are in the midst of a comprehensive reform of their government (that include the tax administration) and tailor them to the changing needs of a market environment. In that task they can use the experiences from West European countries and from countries that have recently realized tax reforms as a stepping stone to further development and/or as a challenge and incentive for reaching a higher level of efficiency and success (Musgrave, 1991). The reform of tax administration in these countries is a part of a complete

transformation of public administration, so there are no reasons to be too optimistic about the speed of change and about expected results (Hesse, 1993).

### **2.2.6 Improving Tax Administration**

In reform of tax administration, the importance of tax structure is clearly reflected, because tax administration and tax structure are interconnected and they have to be improved simultaneously in the tax reforms (The World Bank, 1991).

Reaping revenues from tax rate changes (whether up or down) requires effective tax administration. Raising revenues through base expansion requires even better administration. New taxpayers must be identified and brought into the tax net and new collection techniques developed. Such changes take time to implement.

The best tax policy in the world is worth little if it cannot be implemented effectively. What can be done to a considerable extent inevitably determines what is done. One cannot assume that whatever policy designers can think up can be implemented or that any administrative problems encountered can be easily and quickly remedied. How a tax system is administered affects its yield, its incidence, and its efficiency. Administration that is unfair and capricious may bring the tax system into disrepute and weaken the legitimacy of state actions.

Good tax administration is a difficult task even at the best of times and in the best of places (Auriol and Warlters 2005). Conditions in few developing countries match these specifications. How revenue is raised - the effect of revenue-generation effort on social capital, equity, the political fortunes of the government, and the level of economic welfare - may be more important from many perspectives than how much revenue is raised. The private costs of tax compliance as well as the public costs of tax administration must be taken into account. Assessing the relation between administrative effort and revenue outcome is by no means simple: it is important, for example to distinguish the extent to which revenue is attributable to the active intervention of the administration rather than its relatively passive role as the recipient of revenues generated by other features of the system. Improving administrative efforts and outcomes is not impossible but it is neither easy nor quick.

### **2.2.7 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).

In order to be successful and effective in tax administration, the following factors are considered essential. An explicit and sustained political commitment, relevant training for staff (who engages in assessment and estimation; additional resources to the tax administration, chants in incentives for both tax payers and tax administrators, simplification of the tax procedures, decentralization of tax administration, development of a good accounting system etc.

One of the objectives of taxation is collecting sufficient amount of public revenue to meet public expenditure. In order to attain this objective, a close relationship between tax structure and tax administration and an organized tax collection structure should be maintained (Misrak, 2008).

### **2.2.8 Evasion of tax**

Tax evasion is one's tax obligation by techniques that cut-up tax rules and so it is a crime that if one discovered might result in imposition of illegal measures contrary to the taxpayer. Like other authorities, Ethiopia's tax structure is bothered with tax evasion. One issue that significantly donates to the tax evasion is absence of care full audit and nonexistence of structured audit pre conditions. And lack of automation in tax office inspires tax evasion (ERCA) 2010.

### **2.2.9 Violation of tax laws**

Violation of tax laws is described as taxpayer's no to send a correct tax to tax office, maybe on reason of the non-clarity of tax rules or paradoxes in tax regulation or tax management process (Jackson and Milliron, 1986).

Singh(1999) states Violation of tax laws arises when tax payer is a fail to complete on-time declaring of whole necessary tax returns, if tax payers are not declaring exact tax amount stated by tax law, if there is no on time payment of tax liability, an understatement of taxable revenue, and exaggeration of expenses. Violation of tax laws is look like the tax payer do not declares the exact revenue (Kirchler, 2007).

## **2.3 Tax Collection Processes**

It is estimated that citizen's tax expenses ought to be in line with their revenue and they are expected to pay a tax in percentage to their level of revenue. The other part of the tax collectors, collection of tax must be period and appropriate and the budget of collecting of tax revenues should not be high. Otherwise, this means the ideal tax system in developing nations should raise necessary tax without unnecessary government loan and must do without discouraging economic activity and without delaying so much from tax system in other nations (Tanzi, 2001). The processes undertaken by tax offices to safeguard obedience are listed as follows.

### **1.3.1 Registration of tax payers**

A Tax identity number (TIN) is used to identify taxpayers. Every taxpayer has a unique TIN, which she or he is supposed to apply in all correspondence with the tax authority, and no taxpayer ought to have more than one TIN. (Kangave, 2005).

### **2.3.2 Declaring**

Taxpayers are expected to document incomes inside definite period of the cease in their tax accounting period. The incomes ought to be filed in quadruplicate and have to include all of the facts of the taxpayer. All files regarding taxation need to be offered to the tax authority workplace in which the taxpayer has their record. (Cohen and Sayag, 2010).

### **2.3.3 Tax Returns**

Tax return is a form or forms filed with a tax authority that reports income, expenses, and other pertinent tax information. Tax returns allow taxpayers to calculate their tax liability, schedule tax payments, or request refunds for the overpayment of taxes. In most countries, tax returns must be filed annually for an individual or business with reportable income, including wages, interest, dividends, capital gains, or other profits (Janet.B.Johnson, 2021).

### **2.3.4 Checking accuracy**

On getting a taxpayer's income, the tax office look at the accuracy of the income via determining whether the income is properly completed, whether tax has been properly calculated, and whether or not there are any penalty bills to be made through the taxpayer. The officer then assigns an assessment range to the income and troubles the taxpayer with a bank payment advice shape, declaring the tax payable (Cohen and Sayag, 2010).

### **2.3.5 Payment of Taxes**

Duties are unpaid on the end date of the submission of the self-declaration returns. Taxes should be billed to a certified bank, the Bank Payment Evidence (Baurer, 2005).

### **2.3.6 Tax Audit**

The (American Accounting Association, 1973) has provided a broader definition of Audit which refers to a reasonable procedure of accurately acquiring and comparing proof concerning affirmations about financial activities and events to examine the level of communication among the assertions and installed standards and communicate the outcome to users.

In a narrower sense, an audit is an "attestation communication" because it presents the auditor's opinion or judgment concerning the degree of correspondence between accounting information and established criteria (American Accounting Association, 1973).

The objective of tax inspects is to test the truthfulness of the evidence that taxpayers deliver to tax offices.

Auditing includes from simple area up to full auditing. mentioned some reasons for tax audit which include, among others: to assist the government in collecting appropriate tax revenue necessary for budget, keeping fiscal order and constancy, to decrease the level of tax escaping and tax evasion, to check obedience of tax rules by taxpayers, to increase the level of self-assessment by tax payers and to ensure that the uncollected tax due is calm and sent to central government (Baurer, 2005)

## 2.4 Tax Administration Challenges

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

In many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers. Human resource is essential in tax administration. Trained personnel are what actually most developing countries lack and this forced them, for instance, to organize their activities under the existing tax administration structure.

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

All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap. Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise. This has created pressure to increase tax rates and introduce new, very often *ad hoc* taxes. These diversities, which are called "patches" in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes (Kornai, 1990). This situation would lead to a permanent need for new taxes, changes in the tax system and almost never-ending tax reforms. In transition countries income tax is gaining on importance. Taxpayers are not used to this form of taxation and when they are faced with it for the first time; they will obviously regard it as a burden. As Kornai (1990)

explained the citizens in these countries are not used to paying taxes at all. The tax administration and bodies which produce political decisions have to foresee the attempts to evade taxes and have to design a tax system that will not question the loyalty of its citizens.

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

Heavy tax distortions in transition economies come from various sources. First, base rates are often high. In transition economies with many fledgling small enterprises and weak tax administration, high tax rates are likely to encourage already widespread tax evasion and participation in informal economy. Second, many countries still rely heavily on payroll taxes to finance social expenditures. If payroll taxes are levied mainly on employers (as is the case in the great number of transitional economies) this can discourage entrepreneurial efforts, disincentive formal hiring and push economic activity underground. Third, and as World Bank estimations as the most important, the many exemptions and special tax rates in parts of the economy often coexist with higher tax rates on other activities, undermine revenue performance, complicate tax administration and distort revenue allocation.

## **2.5 Empirical Studies**

According to Bagchi and Stern (1994) argued India is an expert of tax revenue deficits for the reason that of gap in revenue sharing between the poor and rich in centralized system of governance. The rich who made the highest portion of tax income deliberately run-away tax payments. Increasing tax revenue is a difficult because of the inadequacies in tax structure.

(Casanare de Jantscher 1982), and (Tanzi 1988, 1992), argues that wasteful tax government has been known as one of the serious limit to tax revenue mobilization. Tanzi,(1987)notes that ineffective tax management and result from lack of resources, nonexistence of necessary degree of professionals and responsibility and absence of understandable policy for improving competence. And non-understandable tax laws can indicate to unproductive tax management.



This difficulty can also be accountable for under performance of tax revenue assortment from the non-tax bases.

As mentioned by (Musgrave, 1983), Tax assessment and assortment need workforces and equipment. The tax collectors should be supported by equipment initiates to perform their duties efficiently and effectively. Works must to be empowered to correctly assess, collect and send tax revenue to the treasury. Therefore, the amount of tax revenue to be collect will depend on well-organized the tax personnel. This section discusses the empirical studies in Africa linked to tax administration in the continent. (Kangave 2005) debate tax administration in Uganda's perspective and Uganda's tax structure, the difficulties encountered in administering taxes, and it provided possible clarifications to the difficulties.

The investigator, in his study, determine corruption, tax evasion, and inadequate resources for tax administration low quality of reviews and insufficient support to tax management as challenges of tax administration it have negative impact to the capacity to attain required tax revenue goals.

As conducted by (Fjeldstad, 2004), the study on voters' observations on tax at local tax offices of Tanzania, including two hundred ten households in six case councils. The investigator explored a diversified tax associated topics for example tax and tax evasion, compliance motivations, service delivery, tax assortment difficulties and possible solutions to advance tax revenue assortment. The result of the research originates that tax payers would be eager to pay high amount if public services were better. But, tax payer's refusal to pay tax is not perceived to be the key problem in tax revenue assortment. The result of the survey data indicates poor public services to be the greatest significant descriptive factor behind low tax obedience.

Merima et al. (2013) studies the causes that indicate voters' tax-compliance attitude in African countries in Kenya, Tanzania, Uganda and South Africa. Using the 2011/12 Afro barometer survey data, they find that tax-compliance attitude is positively correlated with the provision of public services in the four countries. However, the correlation depends on the specific service in question and differs between countries. Tax knowledge and awareness are found to be positively correlated with tax-compliance attitude.

On the other hand, frequent payment to non-state actors in exchange for security and individual's perception that their own ethnic group is treated unfairly by the government are negatively correlated with tax compliance attitude.

The final section will discuss the researches done in Ethiopia associated with tax administration in Ethiopia. The study by Messay(2019) on Tax Assessment and Collection Problems Addis Ababa sub city, The findings indicated that majority of tax payers lack of tax knowledge of assessment and collection Ways, rules and regulations. There is absence of understandable, clear and updated info and on the job training. Moreover, tax assessment and collection officers are inefficient and insufficient in relation to tax payers' number of in the sub-city, tax officers are non-motivated, lack adequate skills. Due to this and other factors mentioned in the analysis of this study, carelessness, delay in tax payment and evasion are used by tax payers as solution to escape from tax. The researcher did not address all of the problems could also be responsible for low revenue collection and tax assessment problems.

## **2.6. 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 taxpayer 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 taxpayer.

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.

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 tax payers 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 lideta sub city tax administration and tax payers, 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**

### **3. RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Methodology is the process or the technique used to identify, collect, process, and analyze information about the topic. The aim of this paper was to assess the Tax assessment and collection problems of taxpayers that are legally registered and operating in Lideta sub-city based on sample study. Hence, this chapter of the study contains a review of the research method used and explanation about the reason for choosing the methodology applied for this particular study. Specifically, the chapter has discussed the research design, the population of the study from which sample was taken, the sample size, the data type and data source and the data collection and analysis procedure.

#### **3.2. Research Design**

A research design is simply the framework or plan for a study that is used as a guide in collecting and analyzing the data.

This study was adopting descriptive survey research design and tax assessment and collection problem category “A” taxpayers in Addis Ababa, Lideta sub-city. Mixed methods research is an approach to inquiry involving collecting both quantitative and qualitative data, integrating the two forms of data. The core assumption of this form of inquiry is that the combination of qualitative and quantitative approaches provides a more complete understanding of a research problem than either approach alone. Therefore, the researcher should be employ both qualitative and quantitative primary data survey design for the thesis that realize through questionnaires, interviews, and secondary data is also used from published and unpublished documents.

#### **3.3 Research Approach**

Research approaches refers to the techniques researchers use in performing research operations (Kothari, 1990). There are three types of research approaches namely quantitative, qualitative, and mixed approach-a combination of both. Scientific studies can be conducted as either quantitative or qualitative studies. Most people regard the difference between qualitative and quantitative approach as one between numbers and words, with quantitative researchers focusing

on numbers and qualitative researchers on words. This distinction is not accurate, as many qualitative researchers use numbers in their analyses. Rather, the distinction should be made according to when the information is quantified (Mooi&Sarstedt 2011).

Qualitative researchers use words and meanings in smaller samples to build theories (Sobh& Perry 2006). Qualitative studies are seeking descriptive data through a holistic viewpoint and examine several variables, but only in a small population. On the other hand, Quantitative studies deal with amounts of something, the occurrence or frequency and answer what questions. The studies deal with a few variables which are measured by figures or translated into figures and analyzed statistically after the data collection has been made.

The main purpose of the study was to assess tax assessment and collection problem category “A” taxpayers in Addis Ababa, Lideta sub-city. In line with the objective of the study, both qualitative and quantitative research approaches will be applied.

### **3.4. Research Methods**

Descriptive survey method was employed in this study with the assumption that it is appropriate because it helps in obtaining large variety of data related to the problem under the study. The research methods have quantitative and qualitative nature. For the quantitative approach, the study uses self-administered survey. The sampling design for this population is random sampling. The participants are Category “A” tax payers in Lideta sub city. Under this category, there are importers and exporters; wholesalers and retailers; manufacturers; and service providers. For qualitative approach, the researcher uses in-depth interview with executives of Lideta sub city Revenues and Customs Authority Branch Office employees. The nature of this research is exploratory and open-ended. This research uses both primary and secondary data sources. The primary data was collected through interview and self-administered semi structured questionnaires. The questionnaire was distributed to the selected tax payers and tax officers. To get primary data the questionnaire was comprised of both closed and open-ended questions. Most of the closed ended questions were designed as Likert scale (five scales) questionnaire questions. The secondary data was generated from tax related policies and guideline documents, reports of Lideta sub city revenue and custom authority.

### **3.5 Sample Design**

Sample design is a definite plan for obtaining a sample from a given population. In this sub section, the total of population; sample frame; sample unit; sampling technique; and sample size are explained.

#### **3.5.1 Population**

The target population of this study will be all category “A” tax payers that are legally registered and operating in Lideta sub-city Revenue and Customs Authority (ERCA). The total population of category “A” tax payers in Lideta sub-city are around 6,000 taxpayers registered.

#### **3.5.2. Sampling Frame**

It is the boundary confined the sample units in target population. In this study the researcher will select sample tax payers out of all categories “A” tax payers that are legally registered and operating in Lideta sub-city revenue and customs authority.

#### **3.5.4 Sampling Technique**

The ultimate objective of sampling is to select a set of elements from a population. The researcher used availability purposive sampling method is used to provide a diverse range of cases relevant to a particular phenomenon or event. The researcher purposively selected from the populations of the tax payers were taken from the tax office archive taxpayers list. Purposive sampling is commonly used non- probability sample that is selected based on characteristics of a population and the objective of the study

#### **3.5.5 Sample Size**

The number of populations in this study is large thus because of time and financial constraint it is impossible to contact the whole population. Due to their large size, tax payers would be selected randomly 80 tax payers and tax administration office workers also 20 tax offices was select on the basis of availability and purposive sampling techniques.

## **3.6. Sources of Data**

### **3.6.1. Primary Data Sources**

Primary data, is first hand raw data and structures, and have yet to receive any type of meaningful interpretation. In order to answer the research questions, survey design would be used. Hence, the questionnaire was prepared and the data from the questionnaire will be the primary source of information to be statistically analyzed to understand the tax assessment and collection problems in the target area. Primary method of data collection made through structured questionnaires from lideta Revenue and customs authority branch staff employees and tax payers and semi structured interview also collect, from Branch managers, Assistant managers of branches sub city.

### **3.6.2 Secondary Data Sources**

Secondary data are historical data structures of previously collected and assembled for some research problem or opportunity situation other than the current situation. Data from any authorized sources including company annual reports and others related previous knowledge on the issue according to tax assessment and collection problems.

## **3.7. Data Analysis**

The data was collected through questionnaire, semi structured interview and document analysis from the study representative sample and subject to a variety of analysis techniques. Descriptive statistics was employed to analyze using statistical package for social science (SPSS) version 26 software. Summaries would be presented as counts, and percentages in tables. The researcher use both qualitative and quantitative analysis in this study. Besides, the data gathered through interview and document review would analyze in the form of narration.

## **3.8. Data Presentation**

Apart from data analysis technique researcher should also state how the data presented. So, in this study the researcher was present the data through diagram, tables, and figures followed by textual discussion.

## **Chapter Four**

### **4. Data Presentation, Analysis and Interpretations**

#### **4.1 Introduction**

This chapter has two parts: the first part deals with the characteristics of the respondents and the second part presents the analysis and interpretation of the main data. Objective of this study is to assess the Tax Assessment and Collection Problems: case study of lideta Sub-City Revenue and Customs Authority Branch Office. To this end, both quantitative and qualitative data obtained through questionnaire and individual interviews were used to answer the basic research questions. Besides, document analysis also used in order to get insight about the whole picture of the sample Revenue and Customs Authority Branch Office. Due to their large size, tax payers were selected randomly whereas tax office workers and tax office management body's availability sampling techniques were used.

Since the objective of this study was to assess tax assessment and collection problem, the qualitative data analysis strategy employed was thematic analysis which according to Lindlof, T. R. & Taylor, B. C. (2002) 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.

Initially Responses to questionnaire at lideta Sub-City Revenue and customs authority branch office were quantitatively analyzed whereas responses gained through interviews were qualitatively analyzed and the central themes mentioned by the informant's interview in related to the research questions were identified. The collected data was transcribed and verbatim from individual interviews discussions. And then, the identified themes were categorized and thematically analyzed.

#### **4.2 Response Rate**

The study administered a total of 100 (100%) questionnaires were distributed and 91 (91%) questionnaires were filled returned and 88(96%) questionnaires were filled appropriately, and of which three questionnaires were not appropriately filled and nine questionnaires were not returned. So, the analysis was made based on 88 successfully responded questionnaires and done in line with the research questions and objectives.



*Table 4. 1 Response Rate*

Respondents	Items response rate		
	Sample size	Collected	Percent (%)
Tax payers	80	72	90%
Tax Office	20	16	80%
Total	100	88	88%

Source: Research Survey, 2021

### **4.3 Demographic characteristics of Employees**

This research has enclosed the main demographic characteristics of respondents such as gender, age in year, level of education, field of study, years of experience in the tax office and the detailed discussions were presented respectively below in the table 4.2.

*Table 4. 2 Demographic characteristics of tax employees*

No	Items	Variables	Frequency	Percentage
1	Gender	Male	9	56.25
		Female	7	43.75
		<b>Total</b>	<b>16</b>	<b>100%</b>
2	Age	≤30	8	50
		From 31-40	5	32
		From 41-50	3	18
		≥50	0	0
		<b>Total</b>	<b>16</b>	<b>100%</b>
3	Level Education	Diploma	1	6
		Degree	7	48
		Masters and Above	5	33
		Others	2	12
		<b>Total</b>	<b>15</b>	<b>100%</b>

4	Field of study	Accounting	8	50
		Management	5	31.25
		Economics	2	12.5
		Others	1	6.25
		<b>Total</b>	<b>16</b>	<b>100%</b>
5	Work Experience	Below 2	4	25
		2-5	7	43.7
		6-10	4	25
		Above 10	1	6.3
		<b>Total</b>	<b>16</b>	<b>100%</b>

**Source: Researcher survey data, 2021**

According to table 4.2, Out of the total 16 tax employee respondents, 56.25 %t of the respondents had been men and the closing 43.75 percent had been females. This confirmed that the male and the woman numbers participated with inside the questionnaire are almost proportional. About the age of the personnel, 50% of the respondent of tax office employee were below thirty years old, 32 % of the employee were among thirty one up to forty years, 18 percent of the respondents is covered from forty one up to fifty years, and there aren't any respondents of the employee fifty years and above. This indicates that the majority the respondents in the tax office employee are in the productive age group.

Concerning of educational level of the respondents have been hold, 6% of the total respondents were diploma and below, 48 percent of the respondents have Bachelor degree graduates, thirty three percent of the respondents was master degree and the rest 13 % of the total respondents were other level of education. Their study of field was 50% percent are accounting, 31.25 percent are managements, 12.5 percent of the total respondent fields of study were economics and 6.25% the respondents respond others field of the study. The result implies that majority of the respondents almost 95 % were accounting, management and economics graduates. Based on findings as shown in table 4.2 above, regarding work experience there were 25% of the respondents workers who have under two years experiences, 43.7% of them have among between two and five years of experience, 25% of the respondents from six years to ten years work experience and the rest 6.3 percent of them have work experience 10years and above. This

shows that majority of the respondents around 75 % respondents of tax office employees have more than two years work experience.

#### 4.4 Demographic characteristics of Taxpayers

The respondents’ demographic characteristics including their gender, age in year, level of education, responsibility in the organization, years of experience in the business, type of business that the company operating was detailed analyzed

##### 4.4.1 Respondents’ Gender Category

Table 4. 3 Tax payers Gender respondents

Frequency		Percent	Valid Percent	Cumulative Percent
Male	44	61.1	61.1	61.1
Female	28	38.9	38.9	100.0
Total	72	100.0	100.0	

Source- Survey Questionnaire Using SPSS V26, 2021

With regard to the gender category of the respondents, according to table 4.3 above, from the total respondents 44 (61.1%) are male and the rest 28 (38.9%) of them are female. This implies that majority of the sub city tax payers are males; whereas, few of them are females

##### 4.4.2 Age of respondent

Table 4. 4Age of Tax payers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<30	20	27.8	27.8	27.8
	31-40	34	47.2	47.2	75.0
	41-50	14	19.4	19.4	94.4
	>50	4	5.6	5.6	100.0
	Total	72	100.0	100.0	

Source- Survey Questionnaire Using SPSS V26, 2021

A large portion of the respondents are aged between 31-40 which represents 49.3%, of the total respondents, followed by age of less than 30 which represents 27.8% of the respondents, 19.4% of the respondents age between 41 and 50 years. And ages >50 were 5.6% represents the least one. This implies that, working group is taxpayers of the sub city and if the tax office works aggressively on tax assessment and collection system with this working group, it facilitates the effective of tax collection.

### 4.4.3 Respondents Educational Background

Table 4. 5 respondent's educational level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	certificate	24	33.3	33.3	33.3
	diploma	16	22.2	22.2	55.6
	Degree	25	34.7	34.7	90.3
	masters	7	9.7	9.7	100.0
	Total	72	100.0	100.0	

Source- Survey Questionnaire Using SPSS V26, 2021

Table 4.5 indicated that majority of respondents are BA degree holders. As shown in the table above, 34.7% of the respondents have BA degree, 33.3% of them certificate and below, 22.2% have diploma and 9.7% of them have Masters and above. Hence, we can see that most of the respondents are well educated and qualified and easily understand the tax laws, regulations and directives and identifies the duties of the taxpayer.

### 4.4.4 Respondents responsibility in the organization

Table 4. 6 respondent's responsibility in the organization

				Valid	Cumulative

		Frequency	Percent	Percent	Percent
Valid	Owner	50	69.4	69.4	69.4
	Manger & owner	9	12.5	12.5	81.9
	Manager	7	9.7	9.7	91.7
	Employee	6	8.3	8.3	100.0
	Total	72	100.0	100.0	

Source- Survey Questionnaire Using SPSS V26, 2021

The data identifies the respondent's responsibility in the organization are indicated in table 46 above, 69.4% of the respondents are owner in their organization, 12.5% are both manager & owner of the organization, 9.7% of the respondents mangers and 8.3% indicated that they are employee in the organizations. This implies that, most respondents of the sub city were owners of the organization.

#### 4.4.5 How long your organization operating?

Table 4. 7Ages of the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<1	8	11.1	11.1	11.1
	2-5	25	34.7	34.7	45.8
	6-10	25	34.7	34.7	80.6
	>10	14	19.4	19.4	100.0
	Total	72	100.0	100.0	

Source- Survey Questionnaire Using SPSS V26, 2021

In terms of age of organization, 34.7% of survey respondents indicated that they had 2-5 years of experience, 34.7% of the respondents between 6 & 10 years old experience, followed by 19.4% and 11.1 % of respondents had working experience above 10 years and less than 1 year respectively. This indicates majority of the tax payers have long experiences as customers of the tax authority.

#### 4.4.6 Types of business operating

Table 4. 8types of business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Importer	41	56.9	56.9	56.9
	Producer	2	2.8	2.8	59.7
	service provider	17	23.6	23.6	83.3
	Retailer	12	16.7	16.7	100.0
	Total	72	100.0	100.0	

Source- Survey Questionnaire Using SPSS V26, 2021

The above table shows that, majority of the types of business that the company operating 56.9% of the respondent were importer and distributor, 23.6 % of the respondents operated in service delivering, 16.7% of the respondents were retailers and whole sellers and the rest 2.8% of the respondents were operating in manufacturing or production business.

#### 4.5Tax assessment and collection practices

According to Ethiopian Council of Ministers (2002) the tax assessment for those who are obligated to keep financial statements, is done based on the records that tax payers keep; but, if tax payers fail to keep financial records, estimated assessment will be achieved.

Assessment is a tax examination by authorized tax officials of the tax declared by tax payer and information provided and a proofing of the numerical and financial correctness of the declared tax obligation. In assessing the tax revenues and payments, tax management must identify whether the correctness and timeliness of the evidence got from the data processing system are significant. If the evidence that the system produce is not accurate, the reason of these difficulties needs to be resolved. Tax assessor officers have the accountability for making and keeping the assessment roll, the tax roll and collecting the tax charges in line with the quality standards set by tax authority or concerned body.

*Table 4. 9Tax employee responses on tax assessment and collection practice*

<b>Statements</b>	<b>Response</b>	<b>Frequency</b>	<b>Percent (%)</b>
Tax collection process are clear, genuine and properly follow the right tax collection procedure	Strongly disagree	2	12.5
	Disagree	3	18.75
	Neutral	1	6.25
	Agree	6	37.5
	Strongly agree	4	25
	<b>Total</b>	<b>16</b>	<b>100</b>
Tax payers satisfied the methods of tax assessment	Strongly disagree	2	12.5
	Disagree	3	18.75
	Neutral	2	12.5
	Agree	4	25
	Strongly agree	6	37.5
	<b>Total</b>	<b>16</b>	<b>100</b>
The tax declaring documentation process is easy, clear and simple to file.	Strongly disagree	1	6.25
	Disagree	3	18.75
	Neutral		
	Agree	6	37.5
	Strongly agree	6	37.5
	<b>Total</b>	<b>16</b>	<b>100</b>
The tax office appropriately identifies and records all tax payers	Strongly disagree		
	Disagree	1	6.25
	Neutral	2	12.5
	Agree	5	31.25
	Strongly agree	8	50
	<b>Total</b>	<b>16</b>	<b>100</b>
Online tax declaration and payment system are effective	Strongly disagree	2	12.5
	Disagree	4	25
	Neutral	2	12.5

	Agree	6	37.5
	Strongly agree	2	12.5
	<b>Total</b>	<b>16</b>	<b>100</b>

Source- Survey Questionnaire Using SPSS V26, 2021

Accordingly, 62.5% respondents confirmed that tax collection officers are transparent, genuine and properly follow the right tax collection procedure and 31.25% of tax employees responded the tax officers in the branch office are not transparent, genuine and properly follow the right tax collection procedure, Whereas 6.25% respondents response were neutral. From this one can say that more than half of respondent's response tax collection process are transparent, genuine and properly follow the right tax collection procedure.

In above Table 4.9, 31.25% respondents the tax assessment methods are not clearly satisfied the taxpayers, 25% respondents of taxpayers agree and 37.5% strongly agree the tax assessment methods satisfied the tax payers, 12.5% choose neutral which means almost 62.5 % of the respondents the tax payers satisfied with the tax assessment methods. This implies that most taxpayers satisfied the methods of tax assessment procedures.

Accordingly the above table, 37.5% of the tax employees' strongly agree and 37.5% agree the tax employees' respondents stated that the tax declaration process is clear, easy and simple to file whereas 25% of the respondent's disagree to the tax declaration process is clear, easy and simple to file. This means that majority of tax employee's confirmed tax declaration process is clear, easy and simple to file.

According to table 4.9 findings, almost 81.25% of the respondent's confirms the tax office appropriately identifies and records all tax payers and 6.25% of them respondents response disagree to tax office appropriately identifies and records all tax payers and the rest of them are choose neutral.

Concerning to online tax declaration around 37.5% of respondent's confirms online tax declaration and payment system are still poor, 50% response online tax declaration and payment system are effective and the rest 12.5% of the respondents response neutral.

*Table 4. 10 Tax payers' responses on tax assessment and collection practice*

Statements	Response	Frequency	Percent (%)
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Tax payers get a good service delivery at the time of tax declaring and payment	Strongly disagree	18	25.35
	Disagree	1	1.41
	Neutral	2	2.82
	Agree	31	43.66
	Strongly agree	19	26.76
	<b>Total</b>	<b>71</b>	<b>100</b>
Tax collection process are clear, genuine and properly follow the right tax collection procedure	Strongly disagree	25	35.21
	Disagree	9	12.68
	Neutral	1	1.41
	Agree	9	12.68
	Strongly agree	27	26.76
	<b>Total</b>	<b>71</b>	<b>100</b>
Tax payers satisfied the methods of tax assessment	Strongly disagree	32	44.44
	Disagree	26	36.11
	Neutral	4	5.56
	Agree	6	8.33
	Strongly agree	4	5.56
	<b>Total</b>	<b>72</b>	<b>100</b>
Ineffective tax assessment and collection systems	Strongly disagree	6	8.33
	Disagree	8	11.11
	Neutral	10	13.89
	Agree	30	41.67
	Strongly agree	18	25
	<b>Total</b>	<b>72</b>	<b>100</b>
Paying the tax liability is fair and balanced	Strongly disagree	16	22.22
	Disagree	17	23.61
	Neutral	7	9,72
	Agree	17	23.61
	Strongly agree	15	20.83
	<b>Total</b>	<b>72</b>	<b>100</b>

Paying the tax liability on time	Strongly disagree	24	33.33
	Disagree	1	1.39
	Neutral	8	11.11
	Agree	37	51.39
	Strongly agree	2	2.78
	<b>Total</b>	<b>72</b>	<b>100</b>
The tax declaring documentation process is easy, clear and simple to file.	Strongly disagree	1	1.38
	Disagree	6	8.33
	Neutral	2	2.78
	Agree	25	34.73
	Strongly agree	38	52.78
	<b>Total</b>	<b>72</b>	<b>100</b>
Paying tax liability have a benefit	Strongly disagree	23	31.94
	Disagree	16	22.22
	Neutral	7	9.73
	Agree	9	12.5
	Strongly agree	17	9.73
	<b>Total</b>	<b>72</b>	<b>100</b>
The tax office appropriately identifies and records all tax payers	Strongly disagree	8	11.11
	Disagree	24	33.33
	Neutral	23	31.94
	Agree	9	12.5
	Strongly agree	8	11.11
	<b>Total</b>	<b>72</b>	<b>100</b>
Online tax declaration and payment system are effective	Strongly disagree	19	26.38
	Disagree	9	12.5
	Neutral	8	11.11
	Agree	33	45.84
	Strongly agree	3	4.17
	<b>Total</b>	<b>72</b>	<b>100</b>

Source- Survey Questionnaire Using SPSS V26, 2021

In the above Table 4.10, 25.35 % respondents strongly disagree to getting good services from the tax office, 1.41% answered disagrees, 2.82% respondent's response neutral, 43.33% response agree to the service delivery is good, and 26.76% of respondents says strongly agree to the service delivery of the organization is. Based on this result one can possibly concluded that even if around 30% were disagree to the service; majority almost 70% of respondents in the sample sub-city says the service is good during in time of tax declaration and payment.

Accordingly, 48% respondents confirmed that tax collection officers are not transparent, genuine and properly follow the right tax collection procedure. Whereas 1.41% respondents response were neutral and 39% said the opposite. From this one can say that tax collection process are not transparent, genuine and properly follow the right tax collection procedure. In this case taxpayers will lose confidence and reliability of the service delivered by tax office.

In item 3 of Table 4.10, 35.21% respondents the tax assessment methods are not clearly satisfied the taxpayers , 12.68% response disagree in the assessment methods, 1.41% choose neutral and 12.68% and 26.76% response agree and strongly agree which means almost 39 % of the respondents the tax payers satisfied with the tax assessment methods. This implies that most taxpayers dissatisfied the methods of tax assessment procedures.

Around 66.67% of the total respondent's there haven't effective tax assessment and collection systems in the organization whereas; 19.46% of the respondent's they agree effective tax assessment and collection systems in the tax office and 13.89% response neutral. This implies the organizations haven't effective tax assessment and collection systems.

Concerning to present taxpaying of table 4.10, 44.44% of the respondent believe that they are made to pay as balanced as their ability to pay and concluded that the tax payment is made fair to them. However, 55.83% of taxpayers believe the opposite and they believe that they are forced to pay beyond their capacity and unfair tax. The remaining 9.72% assumed that the tax payment 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 implies that the tax liability is not fair and balanced.

In Table 4.10 51.39 % taxpayers respond as they pay tax on time and 33.33% of them pay their tax after the due date. It is necessary to increase the culture of paying tax on time and introduce

attractive approaches to welcome the tax payers that paying tax means developing the entire nation by contributing their side.

Accordingly the above table, 87.51% of the tax employees' respondents stated that the tax declaration process is clear, easy and simple to file whereas 9.71% of the respondent's disagree to the tax declaration process is clear, easy and simple to file and 2.78% answers neutral to this issue.

According to table 4.10 findings, almost 22.23% of the respondent's confirms the paying the tax liability have benefits and 54.16% of them respondents response disagree to paying tax liability have benefit.

Concerning to online tax declaration around 50.01% of respondent's confirms online tax declaration and payment system are effective, 38.88% response online tax declaration and payment system are still poor and the rest 11.11% of the respondents response neutral.

#### 4.6 Challenges of tax assessment

The following discussions were prepared based on the research about the challenges of tax assessments.

*Table 4. 11 Summary of tax employees' response on Challenges of tax assessment*

Statements	Response	Frequency	Percent (%)
The Tax assessment process is not clear and genuine	Strongly disagree	7	43.75
	Disagree	4	25
	Neutral	3	18.75
	Agree	2	12.5
	Strongly agree		
	<b>Total</b>	16	100
Tax assessments are reasonable in the tax office	Strongly disagree	1	6.25
	Disagree	2	12.5
	Neutral	3	18.75
	Agree	9	56.25
	Strongly agree	3	18.75
	<b>Total</b>	16	100
Data is given in proper time and method	Strongly disagree	6	37.5

for tax assessment.	Disagree	3	18.75
	Neutral	2	12.5
	Agree	1	6.25
	Strongly agree	4	25
	<b>Total</b>	16	100
There is no sufficient mechanism methods to minimize outside and inside bribery	Strongly disagree	4	25
	Disagree	6	37.5
	Neutral	1	6.25
	Agree	5	31.25
	Strongly agree		
	<b>Total</b>	16	100

In Table 4.11 of item 1, question 68.75% of respondents were response about the tax assessment process clear and genuine, 18.75% of them were replies neutral and the rest 12.5% of respondents that is the tax assessment process is not clear and genuine. The above data findings shows that even if majority of the taxpayer’s responses that tax assessment process clear and genuine not little tax payers replies the tax assessment process is not clear and genuine, so the tax authority continuously clarify the tax assessment process and procedures.

Accordingly, the above table shows, 18.75%, 12.5% of respondents strongly agree, and agree respectively which means the tax assessment are reasonable, 18.75% of them were tax assessment are not reasonable and 18.75%of respondents replies neutral neither reasonable nor not reasonable. This implies majority of taxpayers’ tax assessment are reasonable to use the tax collection processes.

Concerning bribery, 62.5% of the respondent’s response disagree to there is no sufficient mechanism to minimize the outside and inside bribery,6.25% of them were reply neutral and the rest of the respondents 31.25% respondents there is no sufficient mechanism to minimize inside and outside bribery in the tax authority. This shows the branch should have sufficient controlling mechanism to prevent the inside and outside bribery.

*Table 4. 12 Summary of tax payers' response on Challenges of tax assessment*

<b>Statements</b>	<b>Response</b>	<b>Frequency</b>	<b>Percent (%)</b>
The Tax assessment process is not clear and genuine	<b>Strongly disagree</b>	29	33.33
	<b>Disagree</b>	19	21.84
	<b>Neutral</b>	25	28.74
	<b>Agree</b>	12	13.79
	<b>Strongly agree</b>	2	2.3
	<b>Total</b>	87	100
Tax assessments are reasonable in the tax office	<b>Strongly disagree</b>	1	1.15
	<b>Disagree</b>	12	13.79
	<b>Neutral</b>	39	44.83
	<b>Agree</b>	19	21.84
	<b>Strongly agree</b>	16	18.39
	<b>Total</b>	87	100
Data is given in proper time and method for tax assessment.	<b>Strongly disagree</b>	32	37.65
	<b>Disagree</b>	5	5.88
	<b>Neutral</b>	23	27.06
	<b>Agree</b>	3	3.53
	<b>Strongly agree</b>	22	25.88
	<b>Total</b>	85	100
There is no sufficient mechanism methods to minimize outside and inside bribery	<b>Strongly disagree</b>	20	22.99
	<b>Disagree</b>	34	39.08
	<b>Neutral</b>	6	6.9
	<b>Agree</b>	25	28.74
	<b>Strongly agree</b>	2	2.3
	<b>Total</b>	87	100
Tax officials cooperate with tax payers who intend to evade tax and engage in bribery activity	<b>Strongly disagree</b>	3	3.41
	<b>Disagree</b>	21	23.86
	<b>Neutral</b>	35	39.72

	<b>Agree</b>	13	14.77
	<b>Strongly agree</b>	16	18.88
	<b>Total</b>	87	100

Source- Survey Questionnaire Using SPSS V26, 2021

In Table 4.12 of item 1, question more than half of respondents, around 55.17% of them were response about the tax assessment process clear and genuine, 28.75% of them were replies neutral and the rest 15% of respondents that is the tax assessment process is not clear and genuine. The above data findings shows that even if majority of the taxpayer's responses that tax assessment process clear and genuine not little tax payers replies the tax assessment process is not clear and genuine, so the tax authority continuously clarify the tax assessment process and procedures.

Accordingly, the above table shows, 18.39%, 21.84% of respondents strongly agree, and agree respectively which means the tax assessment are reasonable, 14.94% of them were tax assessment are not reasonable and 44.83% of respondents replies neutral neither reasonable nor not reasonable. This implies majority of taxpayers' tax assessment are reasonable to use the tax collection processes.

Concerning bribery, 62.07% of the respondent's response disagree to there is no sufficient mechanism to minimize the outside and inside bribery, 6.9% of them were reply neutral and the rest of the respondents 31.03% respondents there is no sufficient mechanism to minimize inside and outside bribery in the tax authority. This shows the branch should have sufficient controlling mechanism to prevent the inside and outside bribery.

Regarding to respondents, 32.95% of the respondents were the tax officials cooperate with tax payers who intend to evade tax and engage in bribery activities, whereas 39.72% of respondents' response neutral and 27.27 % of them tax officials not cooperate to taxpayers to evade tax and not engage in bribery. From this we can understand that the Authority usually takes aggressive effort instead of teaching in various ways to implement its sophisticated taxation system.

#### **4.7 Challenges of tax collection process**

The following discussions were prepared based on the research questions challenges of tax collection process

*Table 4. 13 Summery of tax payer's response challenges of tax collection process*

<b>Statements</b>	<b>Response</b>	<b>Frequency</b>	<b>Percent (%)</b>
There is Poor tax procedures	Strongly disagree	8	11.36
	Disagree	16	22.73
	Neutral	2	2.27
	Agree	23	3.82
	Strongly agree	23	3.82
	<b>Total</b>	<b>72</b>	<b>100</b>
Time of payment not convenient	Strongly disagree	11	14.77
	Disagree	20	27.27
	Neutral	27	38.64
	Agree	1	1.14
	Strongly agree	13	18.18
	<b>Total</b>	<b>72</b>	<b>100</b>
The use of Cash Register machine reduces tax evasion and fraud	Strongly disagree	1	1.15
	Disagree	10	11.49
	Neutral	9	10.34
	Agree	20	22.99
	Strongly agree	47	54.02
	<b>Total</b>	<b>87</b>	<b>100</b>
lack of transparency and consistency in imposing penalties	Strongly disagree	8	11.27
	Disagree	23	32.59
	Neutral		
	Agree	8	11.27
	Strongly agree	32	45.02
	<b>Total</b>	<b>71</b>	<b>100</b>
Tax Evasion by most organizations arise from lack of knowledge on tax issues like penalty, tax codes and tax regulation	Strongly disagree	16	22.22
	Disagree	9	12.5
	Neutral	8	11.11
	Agree	23	31.94



	Strongly agree	16	22.22
	<b>Total</b>	<b>72</b>	<b>100</b>
Paying and declaring tax by E-tax is not preferable	Strongly disagree	15	21.43
	Disagree	16	22.86
	Neutral	16	22.86
	Agree	8	11.43
	Strongly agree	15	21.43
	<b>Total</b>	<b>70</b>	<b>100</b>
Tax evasion miss opportunities for tax payers	Strongly disagree	2	2.78
	Disagree	3	4.17
	Neutral	37	51.39
	Agree	12	16.67
	Strongly agree	18	25
	<b>Total</b>	<b>72</b>	<b>100</b>
Ineffective computerized system in tax administration	Strongly disagree	11	14.77
	Disagree	10	13.64
	Neutral	18	27.27
	Agree	8	11.36
	Strongly agree	25	32.95
	<b>Total</b>	<b>72</b>	<b>100</b>
Tax rules, regulation and directives are not easy understandable	Strongly disagree	31	43.18
	Disagree	17	22.73
	Neutral	3	4,55
	Agree	8	11.36
	Strongly agree	13	18,18
	<b>Total</b>	<b>72</b>	<b>100</b>

Source- Survey Questionnaire Using SPSS V26, 2021

As we can see in item 1, table 4.13 above, 3.82 % of respondents strongly agree and 31.82 % of them agree that there are poor tax procedures in the tax authority and high bureaucracy. However 11.36% of respondents disagree, and 22.73% respondents strongly disagree with poor tax

procedures. Only 2.27% of them were neutral. This implies even there is a proportional response of poor procedures and opposite side, the data indicates not little taxpayers response there is poor tax procedure in the tax office.

Table 4.13, item 2 indicates that taxpayers were asked the time of payment is not convenient. 18.18% of them strongly agree and 1.14% agrees on the time of payment is not convenient 14.77% respond strongly disagree and 27.27% of them disagree on the issue. 38.64 % of the tax payers responded the time of payment neither convenient nor inconvenient. Even if around 40% of respondents reply the time of payment is convenient, the branch offices carefully adjusted the convenient time and notify the comfort time of payment to taxpayers.

According to item 3, Most 54.02% respondents strongly agree and 22.99% of them agree the use of cash register machine reduces tax evasion and fraud. Whereas 12.64 % of the respondents response the use of cash machine didn't reduces tax evasion and fraud. This shows that using cash register machine have effectively reduced tax evasions.

Imposing penalties to taxpayers from the total respondents 56.29% of the respondents were confirmed there is lack of transparency and consistency imposing penalties in the authority. Whereas 43.66% of respondents agree that imposing tax penalties are transparent and consistent. These implies the tax penalties imposing by authority didn't clear and transparent.

In item 5 of Table 4.13, 34.72% respondents were disagreed that tax evasion by tax payers arise from lack of knowledge on tax issues like penalty, tax codes and tax regulation. 11.11% of respondents were replay neutral and only 54.16% agree that tax evasion by tax payers arise from lack of knowledge on tax issues like penalty, tax codes and tax regulation. This shows that majority of the respondent's replies most of tax evasion arises from lack of knowledge and the authority strongly work on making awareness and giving training about tax codes, regulations and penalty.

The next data presented by the above table is about paying tax by e-tax is preferable, 44.29% of respondents were confirmed paying by online is preferable and convenient, 32.46% of them says paying of tax by e-tax is not preferable to them and 22.86% respondents replies neutral .it implies that above half of the respondents not replies paying tax by e-tax is preferable so the authority should be revised this systems why they are not paying tax by e-tax is not preferable.

Concerning to tax evasion 41.67% of the respondents agree tax evasion miss opportunities for tax payers, whereas 7.48% of them disagree to this issue and 52.39% of response neither of the two. Which implies tax evasions miss opportunities for tax payers, thus tax payers should not be evade tax.

Regarding to the table 4.13 indicates that taxpayers were asked if there is and ineffective computerized system in tax administration, 32.95% of them strongly agree and 11.36% responses agree on the issue, whereas 14.77% of respondents strongly disagree and 13.64% of them disagree infective computerized systems in branch offices wastes their valuable time and gives them burden

Tax rules, regulation and directives should be easily understandable as far as possible. As it is indicted in the last item of Table 4.13, 65.91% of the participants agreed that rules, regulation and directives about taxation are easily understandable whereas 29.64% of the respondents have perceived that rules, regulation and directives about taxation are too complicated which does not easy to understand it. And 34.55% of them were neutral. This implies that taxpayers have good understanding about tax rules, regulation and directives even if around thirty percent responded haven't easily understood.

#### **4.8 Interpretation of the open-ended Question**

The researcher gives a chance to respondents to explain their additional idea in an open-ended question and prepare questionnaire. There for tax payer provided their short explanations about on the challenges of tax assessment and collection. As stated by respondents of tax payers at their declaring, Payment, and other services, tax payers don't satisfy by the facility delivered.

Tax payers' respondents stated the problems of tax assessment and collection in general that:

- Lack of effective tax assessment and collection process
- lack of competent and honest employee
- Absence of strong follow up and taking measure actions
- Inside and outside bribery and interest of cheating
- lack of advanced tax systems administration
- Clarity of laws and regulation etc.

## **Chapter Five**

### **5. Conclusion and Recommendations**

#### **5.1 Conclusion**

The following conclusions were made based on analyzed data of quantitative and qualitative part of the study. Lideta sub-city revenue customs authority has faced different operational and administrative problems and challenges.

Even if majority of tax payers in the sub city tax authority office confirms that they get good service in the time tax declaring and payment, the tax collection process is not clear and they follows the right tax collection procedure. And the tax assessments and collection process also not effectively understood by the tax payers.

According to the finding of the methods of tax assessment process were not clear and didn't satisfied the tax payers due to the process is combination of opinion and tax rules, the time standard for all activities are set without the consideration of many decision making situation and sometimes fails to operate in reality and nature of procedures the evaluation fail to subjective judgment. This situation creates dissatisfaction and grievanceoftaxpayers.

There exists inadequate and insufficient number of tax assessment and collection officers in the Sub city. Farther more some tax authority's employees lack integrity, honesties, transparency and professional ethics at the time of tax assessment. Besides, there are problems in relation to treating each and every taxpayer equally and fairly and bringing non taxpayers to tax system.

Bribery is the other challenge in tax assessment and collection process and in taking measure action. The tax office did not invest the minimizing ways like create awareness and training tax both employees and tax payers and identifying the gaps in tax rules and regulations and making those gaps full tax rules out of date.

There is poor tax procedure in the sub city tax office which were redundancy of going to one department to others and have high bureaucracy in the tax authority due dishonest and inadequate employees and managements during in the taxation and lack of transparency and consistent measures of penalty also one of the problem occurring in taxation.

According to the study the tax authority employees cooperates with taxpayers which intend to taxpayer evasion tax and engage in bribery activities. This implies the government couldn't collect the appropriate tax and also government loss such source revenue. The use of cash register machine reduces tax evasion and fraud.

One of the main reason taxpayer's tax evasion and fraud arise from lack of knowledge on tax issues like penalty, tax codes and tax regulation, and in the authority lack of transparency and consistency imposing penalty. From the analysis data obtained there ineffective computerized systems in the branch office which implies waste time and give a burden of both taxpayers tax office employee.

Taxpayers continuously displeasures on challenges existing in the tax office, the major causes for the challenges on tax administration are poor taxation procedures, complexity of tax rules and regulations, dissatisfaction tax assessment process by the authority due to lack of sufficient assessors and effective systems, ineffective computerized system in tax administration, fraud of tax and lack adequate information, unfair tax liability.

## **5.2 Recommendations**

Based on the study conducted it would be reasonable to give the following recommendations in order to mitigate the challenges of tax assessment and collection problems of the tax office.

These are

- The tax authority should be aggressively clarify tax assessment and collection process and should be seriously updated to meet various decision-making scenarios.
- Give a continuous training and create awareness to tax officers and tax payers to upgrade attitude and knowledge gapes. Because this gap helps for taxpayers as a means to evade tax and tax officers to be honestly serve and committed.
- The tax authority should concentrate on quick service delivery for customers in tax declaring and payment of tax and should be serious measurement actions to those who are cooperate with taxpayers to intend evade tax and engage in bribery.

- To minimize bribery the tax office should have to work out with transparency in levying the punishments and taking unrepeatable penal measurement action both tax offices employ and taxpayers.
- Tax payers should be properly communicates and discussed the tax issues smoothly of tax assessment process ambiguities issue with the tax experts and managements to save the over taxation, taxpayers should have resolve their difficulties by communicating with tax office other than doing adverse corrective actions such as tax evasion, non-obedience.
- The tax authority should be stated clearly the right tax assessment and collection procedures properly and reduce the redundancy of procedures in the office and remove unnecessary bureaucracy.
- To improve systems the branch office develops a new computerized systems and software to improve the tax administration so as to improve the burden of tax payers and tax officials.
- Generally, in order to meet the objectives, governments must adopt a comprehensive strategy, beginning with the writing of the tax laws in easy and understandable terms to enforce. In the light of changing social and economic conditions, lideta sub city tax office must take a sustainable comprehensive action to their tax administration in order to assess how they can increase compliance and minimize the problems existing in the tax administration.

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Appendex I.

**St. Mary University**

**Department of accounting and finance**

**Questioner for Level “A” Tax payers**

Dear respondent, first of all I would like to say thank you for your willingness to fill this questionnaire.

The questionnaire is prepared by Master of Accounting & Finance graduate student for the purpose of writing thesis on Tax Assessment and Collection Problems of Category “A” Taxpayers. And the Collected data will be applied for the study conducted as a partial fulfillment of MA degree in Accounting & Finance. The Information you provide in this questionnaire will be kept confidential and will be utilized only for the purpose of this study. Your genuine response is highly valuable for the achievement of the objectives of this research. If you have any comments do not hesitate to contact me via my email- [Hanagosaye6@gmail.com](mailto:Hanagosaye6@gmail.com) or +251936233106. Thank you very much for your time and assistance.

Thank you in advance for your timely response and contribution.

## **PART-I**

### **Section A-General information**

1. Gender

A. Male  B. Female

2. Age

A. Below 30  B. 31-40

C. 41-50  D. above 50

3. Education Level

A. Certificate  Diploma

C. 1<sup>st</sup> degree  D. 2<sup>nd</sup> Degree & above

4. Your Responsibility in the organization

A. Owner of the company  B. Manager & Owner

C. Manager  D. Employee

5. Work experience A. below one year  B. 1-5 years

C. 6-10 Years  D. above 10Years

6. Which type of a business you company is operating?

A. Importing & Distribution  C. Service provider

B. Producer  D. Retailing and whole selling

### **PART TWO: - Tax assessment and collection Problems related Questioner**

Please, indicate your opinion by marking the appropriate box on the five point scales. I ask you to tick (✓) the appropriate scale (point) that indicates your opinion in table below.

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

No	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
<b>tax assessments and collection practices</b>						
1	Paying tax is my own responsibility					
2	Tax payers get a good service delivery at the time of tax declaring and payment					
3	Tax collection process are clear, genuine and properly follow the right tax collection procedure					
4	Tax payers satisfied the methods of tax assessment					
5	Ineffective tax assessment and collection systems					
6	Paying the tax liability is fair and balanced					
7	Paying the tax liability on time					
8	The tax declaring documentation process is easy, clear and simple to file.					
9	Paying tax liability have a benefit					
10	The tax office appropriately identifies and records all tax payers					
11	The tax office promotes employees through training and education.					
12	Online tax declaration and payment system are effective					
13	The branch has sufficient workforce to execute tax collection responsibility					
<b>Challenges of tax assessment</b>						
1	The Tax assessment process is not clear and genuine					
2	Tax assessments are reasonable in the tax office					
3	Data is given in proper time and method for tax assessment.					
4	There is no sufficient mechanism methods to minimize outside and inside bribery					

5	Tax officials cooperate with tax payers who intend to evade tax and engage in bribery activity					
<b>Challenges of tax collection process</b>						
1	There is poor tax procedures					
2	Time of payment not convenient					
3	The use of Cash Register machine reduces tax evasion and fraud					
4	lack of transparency and consistency in imposing penalties					
5	Tax Evasion by most organizations arise from lack of knowledge on tax issues like penalty, tax codes and tax regulation					
6	Paying and declaring tax by E-tax is not preferable					
7	Tax evasion miss opportunities for tax payers					
8	Ineffective computerized system in tax administration					
9	Tax rules, regulation and directives are not easy understandable					

If you have any additional suggestion?-----  
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**PART THREE: -Please write short and precise response for the following questions.**

1. What are the tax assessment and collection problems in the tax office?-----  
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2. What strategy should the tax authority undertake to motivate tax payers to pay tax??-----  
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3. List the mechanisms to minimize outside and inside bribery?-----  
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4. How do express the level of tax collection practice in lideta sub city branch office?-----

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*Thank you!*