

**TAX ASSESSMENT AND COLLECTION PRACTICES OF
CATEGORY “A” TAXPAYERS IN ARADA SUB CITY**



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List of abbreviations

CCRA: Canada Customs and Revenue Agency

CPF: Counter Part Fund

DBS: Direct Budget Support

ERCA: Ethiopian Revenue and Customs Authority

GDP: Gross Domestic Product

GTP: Growth and Transformation Plan

IMF: International Monetary Fund

MoFED: Ministry Of Finance and Economic Development

MDG: Millennium Development Goals

MBA: Masters of Business Administration

SAS: Self Assessment System

SIGRAS: Standard Integrated Government Tax Administration System

SIRMS: Standard Integrated Revenue Management

TIN: Tax Identification Number

VAT: Value Added Tax

St.Mary's University College

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Tax Assessment and Collection Challenges of Category "A" Taxpayers in Arada Sub City

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Declaration

I declare that this thesis is my original work and has not been presented for degree in any university and all the sources of materials used for the thesis are duly acknowledged.

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This thesis has been submitted with my approval as university college advisor.

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Certification

This is to certify that Ato Getachew Assefa has carried out this research work on the topic entitled “Tax Assessment and Collection Challenges of Category “A” Taxpayers in Arada Sub City” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of MBA.

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Abstract

Governments of developing countries endeavor to create modern tax systems. However most of these developing countries are burdened with weak tax administration and tax payers’ resentment towards taxes. Tax payers’ resentment and hence non compliance may be due to tax payer’s perceptions about the tax administration and other aspects of the tax system. Following Growth and Transformation Plan (GTP) government of Ethiopia has introduced a new era in social and economic areas of the country. It has been observed that, along with this growth there has been an increased government spending and deficit financing. It is believed that modernizing tax system and broadening tax bases promotes economic growth by encouraging saving and investment. The goal of this study is to investigate Tax assessment and collection challenges and causes with regard to category “A” tax payers found in Arada sub-city. The researcher distributed self administered semi structured questionnaires to tax payers and selected tax officers. In addition the researcher used in- depth interview with related tax officers in the ERCA Arada Sub- city Small Tax Payers’ Branch Office. The study was based on descriptive analysis. The findings indicated that there exists inefficient and insufficient number of tax assessment and collection officers in relation to number of tax payers in the sub city. Moreover, most tax payers lack sufficient information of tax

assessment procedure applicable rules and regulations, lack of clear, transparent and up-to-date information and training on new technology. Furthermore, tax officers are non motivated, lacks adequate skills, lack of audit flow up and prompt decision. Due to this and other reasons identified in this study, non compliance, evasions and corruption are increasing in the system.

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Chapter One

1. o. Introduction

1.1. Back ground

Tax is defined as a "a compulsory contribution payable by an economic unit to a government without expectation of direct and equivalent return from the government for the contribution made" (Bhatia, 2003).

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

Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country (World Bank, 1991). Taxes are the primary sources of government Revenues. Whereas taxation polices depend on the socio-economic and political structure of country .In Ethiopia, taxation come in to being with the emergence of state and government but there is no concrete documentary evidence as to when taxation was exactly introduced.

In the 15th century written stories of Atse Zeryacob indicates that taxation was introduced previously in Ethiopia. In those eras tax was paid by different social groups to government, feudal lords and priests. Besides these documents approve that Atse Zerayacob had for the first time enacted regulation for the collection of tax from those persons who bread cattle. This regulation can be taken as evidence for the presence of taxation system on and before the government of Atse Zarayaecob. .(Addis Ababa Chamber of commerce, History of tax in Ethiopia, September 1996, un published Handout.)

For most of the people who lived before Ats Zarayaecob era, agriculture, hunting and handcraft were means of live hood. Hence, people used their cattle and agricultural products to contribute as tax. Farmers were required to pay one-tenth of their products (as called Asrat). In addition to their products, they were forced to give services. The tax revenue was spent for

government works, feudal lords, priests, and military purposes. .(Addis Ababa Chamber of commerce, History of tax in Ethiopia, September 1996, un published Handout.)

In general, a kind of traditional tax system was practiced at that era. This traditional tax system can be explained in two forms: There were payments in kind and unstructured tax systems. As we have seen above, in this traditional tax system burden was laid on farmers. Though such burden was tried to lessen by emperor Tewodros's government, strong change had been taken place by emperor Menelik. .(Addis Ababa Chamber of commerce, History of tax in Ethiopia, September 1996, un published Handout.)

Menelik, in 1904, had put a regulation that requires farmers to pay only one –tenth of their products and service taxation was excluded. Keeping this improvement taken by emperor Menelik, other improvements on tax and tax system were made by emperor Haileselassie. Under the emperor, aimed at achieving the fiscal control of collection of all revenues and financing of every program by central government, a legal and institutional mechanism of taxation was established. There were a number of proclamations and legal notices as statutory bases for income taxes during that regime. Tax on land, employment, and business taxes were also introduced. Personal and business income taxes were levied, charged and collected under four schedules.

- A. Income from employment.
- B. Income from agricultural activities.
- C. Income from rent of land buildings used for other than agricultural purposes.
- D. Income from businesses, professional and vocational occupation, the exploitation of woods & forests for lumbering purposes, and from interest.

Towards the end of the imperial period, with a majority of the population living at subsistence level, there was limited opportunity to increase taxes on personal or agricultural income. Consequently, the imperial government relied on individual taxes (customs, excise and sales) to generate revenue. For instance, in the early 1970s taxes on foreign trade accounted for close to two- fifths of the tax -revenues and about one-third of all government revenue. At the same time, direct taxes accounted for less than one-third of tax revenues. .(Addis Ababa Chamber of commerce, History of tax in Ethiopia, September 1996, un published Handout.) During the " Dergue" regime, the taxes were similar to those imposed during the Haileselassie regime

except that wider tax bases and increased tax rates. The proclamations related to different components of taxes were the amendments of the previous proclamations or regulations or decrees. The Dergue regime partially alleviated the tax assessment & collection problems that existed during the imperial period by delegating the responsibility for collecting the fee and tax on agriculture to peasant association which received a small percentage of revenue as payment. Despite the 1976 changes in the tax structure, the government believed that the agriculture income tax was being under paid, largely because of under assessment by peasant association. .(Addis Ababa Chamber of commerce, History of tax in Ethiopia, September 1996, un published Handout.)

After Dergue regime, in the period of transitional government with the establishment of the regional governments; major changes took place in the taxation policy of the country. Accordingly, regional governments have legislative, executive and judicial powers. They are given tax and expenditure assignment powers in order to accomplish their duties and responsibilities. During this period, tax bases such as tax on mining activities and on capital gains were introduced.

In most developing countries, like Ethiopia, the revenue generated by the government is quite less than the expenditures spent. This 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 or on account of straight forward collusion between the tax administration and taxpayers. .(Addis Ababa Chamber of commerce, History of tax in Ethiopia, September 1996, un published Handout.)

According to the new constitution of Ethiopia, the Federal Democratic Republic of Ethiopia would comprise a federal state and member states, in which both organs shall have their respective legislative, executive and judicial powers. A number of changes have been made in the tax policy of the country pursuant to the structural changes. The new tax reform program and restricting hand two broad categories aimed at over having the tax legislation and improving the tax administration. In line with this, the proclamation and regulation that cover tax payables on business undertaking are the statutory bases for income tax assessment and collection. As compared to the previous ones, the current proclamation reduced tax rates on business income as a measure of the tax reform program in progress. The reduced tax rate is believed to serve as an investment incentive.

The main purpose of generating revenue from various sources is to finance public expenditures. The government generates revenue from tax and other non sustainable sources. Taxes, public borrowing, sale of public assets, income from public undertakings, gifts and donation, fines, fees etc... are the sources of public revenue to finance expenditures of the government. The collection of money by government from the available sources of revenue needs the availability of government, foreign and domestic creditors and donors, efficient tax system and awareness of the society regarding the use of tax payment for government and its contribution for the development of the country's economy.

From sources of revenue explained above, tax is the only sustainable source of the government revenue. Tax can be direct tax on employment income, business income, rent income and other incomes such as royalties and chances etc. However, limiting the collection of tax only from direct incomes narrows the tax revenue of the government. As a result of this, taxes should be collected from indirect sources as well. The collection of indirect taxes such as value added tax, excise tax and customs duties increase the revenue of the government. This enables the government to achieve its objectives and programs and reduces the country's dependability on loans and donations. To avoid the negative attitude of the society on tax payment, a well designed tax system is necessary. In addition, educating the society regarding its obligation and the purpose of tax collection minimizes the wrong attitude of the tax payers. The tax payers do not get information on how the government spends the money collected from tax and the works that are performed by their tax payment. (Addis Ababa Chamber of commerce, History of tax in Ethiopia, September 1996, un published Handout.)

To increase the revenue of the government and to manage appropriately as well as levy fair tax, business income tax payers are classified in the categories of "A", "B" and "C" based on the volume of their annual sales and form of business.(Addis Ababa Chamber of commerce, History of tax in Ethiopia, September 1996, un published Handout.)

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 Arada 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 500,000 (Five hundred thousand Birr) or more.

There are ten sub cities in Addis Ababa that are engaged in administering taxes from Category "A" and Category "B" taxpayers. Besides the different Woredas found in each sub city are also dealing with taxes on Category "C" taxpayers.

The study focus is on category "A" taxpayers that are found in Arada sub city. This category is required to maintain proper books of account and other necessary documents for tax purpose (council of Ministers, 2002). There are about 20,083 taxpayers in Arada sub-city in the year 2004 e.c. of which category A, B and C accounts for 2,054, and 5,420 and 12,609, respectively. On the basis of the above background, this study is initiated to examine the challenges of Category "A" taxpayers found in Arada sub city.

1.2 Statement of the problem.

To finance its expenditures a government may acquire fund from the service given by the government, tax, loan and donation. From all sources of finance, tax is the major source. 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.

Ethiopian government revenue and grant performance during 2010/11 was Birr 85.6 billion. This accounted for over 99% of the annual budget and showed a 29.2% increase from the previous year. Out of the total resources, Birr 69.1 billion was collected from domestic sources (104.5% of the annual budget), while the grant component amounted to Birr 16.5 billion. The grant component was less than the planned amount (82.5%), although there was some improvement from the previous year. During 2010/11, domestic revenue collection and tax revenue increased by 28.3% and 36% respectively compared with the previous year. As a share of GDP, the total domestic revenue collection accounted for 13.5% which was lower than that of 2009/10 (which was 14.1% of GDP).

Table 1.1: Summary of general government revenue by component (In Million Birr)

Sources	2010/11			2009/10	Difference from 2009/10 in %
	Budget	Actual	Actual as % Budget	Actual	
Total revenue and grant	86,165	85,612	99.4	66,240	29.2
Domestic revenue	66,172	69,120	104.5	53,864	28.3
Tax revenue	56,173	58,981	104.9	43,318	26.2
Direct taxes	19,517	19,550	100.2	14,906	31.2
Indirect taxes	36,656	39,431	107.6	28,412	38.8
Domestic indirect taxes	13,225	15,705	118.8	10,727	46.4
Foreign trade taxes	23,431	23,726	101.3	17,685	34.2
Non tax revenue	9,999	10,139	101.4	10,546	-3.9
External grants	19,992	16,491	82.5	12,376	33.3
Grant in kind/earmarked	9,445	6,859	72.6	5,561	23.3
CPF/DBS grant	10,547	9,633	91.3	6,816	41.3

Source:MoFED

However, in most developing countries, it is a common phenomenon to notice serious problems in developing adequate tax systems that permits a government to sufficiently finance its expenditures. Ethiopia has both medium and long term visions. Its medium term vision is to achieve the Millennium Development Goals (MDGs). This should be achieved at the end of the implementation of the five year plan, named as the Growth and Transformation Plan (GTP). The planning period for the GTP spans the period 2010/11-2014/15. Its long term vision, on the other hand, is to build on the achievements of the GTP and become a middle income country in the coming ten years. Following Growth and transformation Plan (GTP) government of Ethiopia introduce a new era in social and economic relations and institutions in the country. Along with this growth, it has been observed that there has been an increased government spending and deficit financing. It is believed that modernizing the tax system and broadening the tax bases promotes economic growth by encouraging saving and investment. Furthermore, due to the great encouragement and conducive environments like investment opportunities created by the Ethiopian government, new firms are emerging surprisingly, As a result of these developments, the existing system of income tax needs to be adjusted to the basic principles of fiscal treatment in a free market economy. However, the amount of tax revenue for the government is not increasing proportionately so often a

decreasing trend was observed. Accordingly, huge unfavorable variance is observed in the performance report. Consequently, huge amount of money that should have been paid is not really collected by the government, which could have been used to meet the various objectives of a government. Moreover, the prevalence of such significant deficit demands the government to improve internal revenue generating activities to reduce dependence on foreign funding. ERCA arada sub city small tax payers branch office is one of the organs of the government which is given the power to decide assess and collect government revenue. Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. Tax administration should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country.

Therefore, identifying the problems on tax assessment and collection at each tax office will help the government to take corrective action when needed so as to boost its income. Accordingly, this study tries to identify the problems on the tax assessment and collection activities of the Arada sub city revenue administration.

To this effect, the research will attempt to answer the following questions.

1.3. Research questions

1. How effective and efficient is tax assessment and collection system for category 'A' tax payers in Arada sub-city?
2. What problem or challenges are there which impede tax assessment and collection at Arada sub city?
3. What policy interventions are needed to rectify these problems?

1.4 Objective of the study

Based on these research questions we have determined the objective of this paper is as follows.

1.4.1. General objective

The general objective (purposes)of this research paper is to investigate the problems facing tax payers and tax collecting party in the tax assessment and collection practices pertaining to category 'A' tax payers in Arada sub city.

1.4.2. Specific Objectives

The problems explained in the statement of the problem leads to describe the following specific objectives.

- To assess tax assessment and collection practices of the sub city.
 - To identify main problems and causes of the problem (if any) on tax assessment and collection in the sub city.
 - To know how effectively problems (if any) are handled by the sub city.
- To assess the tax payer's knowledge and awareness about taxation.

1.5. Significance of the study.

The findings of this study may give clear understanding of what problems are there and how those problems were handled by both tax payers and Administrators. Thus, the government will be able to adopt a comprehensive strategy, and minimize the observed tax administration problems to increase tax revenue. At the end of the study a clear picture will emerge showing the tax assessment and collection is taking place. The revenue bureau may use this finding to revise its strategies concerning tax assessment and collection. Furthermore the results of finding will serve as a reference for other researchers on this area.

1.6. Scope and limitation of study

The study is limited to category "A" tax payers which are found in Arada sub-city and data collection is also addressing only 45 employees of the office and 50 tax payers.

1.7. Organizations of the thesis

This thesis is organized into five chapters. The first chapter presents the introduction. The second chapter shows the literature review while the third chapter contains brief description of the research design and methodology. The fourth chapter presents and analyzes the results. Finally, chapter five presents the conclusions and recommendation of the study.

Chapter Two

2. Literature Review

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

2.1 Theoretical Review of 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).

2.1.1 Legal Structure for Effective Tax Administration

The legal rules required for effective tax administration might be categorized under four broad headings:

- Rules for the establishment of an individual's tax liability;
- Rules establishing a system of appeals from the initial assessment of tax;
- Rules for the collection of taxes that have been established to be owing; and
- Rules relating to tax offences and their punishment

The importance of a sound legal structure for effective tax administration and the importance of incorporating principles that will further tax compliance in the design of that legal structure. Since each stage of the administrative process is dependent upon the other, to achieve a significant improvement in the overall effectiveness of the tax administration each element of the legal structure needs to be designed for maximum effectiveness (Asian Development Bank, 2001).

In addition to the legal structure for tax administration, obviously, the organizational structure of the tax administration is also of crucial importance. According to the Asian Development Bank, 2001, the range of issues that must be resolved, in this regard, include:

- Agreement of autonomy from the executive branch
- Accountability to legislative assembly
- Relationship to the Ministry responsible for the tax legislation
- Type of organization structure in relation to taxes administered
- Decentralization
- Personnel policy
- Policies for internal audits
- Mission statement and strategic plan

2.1.2 Importance of Tax Administration

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

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

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 vaster 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 and 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.

2.1.3 Tax Administration Challenges

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with

some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as good is the tax administration (Kaldor, 1980).

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

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

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

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

This situation would lead to a permanent need for new taxes, changes in the tax system and almost never-ending tax reforms. In transition countries income tax is gaining on importance. Taxpayers are not used to this form of taxation and when they are faced with

it for the first time; they will obviously regard it as a burden. As Kornai (1990) explained the citizens in these countries are not used to paying taxes at all. The tax administration and bodies which produce political decisions have to foresee the attempts to evade taxes and have to design a tax system that will not question the loyalty of its citizens.

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

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

2.1.4. Efficiency of Tax Administration

The key precondition for efficient tax administration is tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of

particular parts of economy. 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).

2.1.5 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.

2.1.6 Service Commitments of Tax Administration

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 (Asian Development Bank, 2001).

2.1.7 Resource Cost (Collection Cost)

In order to evaluate the administrative capabilities of a system, resource cost associated with the operation of any tax are significant aspect. There are two broad types of resource cost associated with the operation of any tax: administrative costs incurred by the tax authorities and compliance costs incurred by the taxpayers. Taken together, they are referred to here as collection costs.

2.1.7.1. Administrative Cost

The most obvious administrative costs are those incurred by the revenue departments in bringing in the tax revenue. It includes salaries and wages of staff at all level, accommodation cost (rent, rates, lighting and cleaning), postage, telephone, printing, stationary, travel, computing and other equipment cost etc. An important problem that arises in studying administrative cost is the limitation on available information. Many countries do not record the detailed component of expenditure or allocate that expenditure to particular tax (IFA 1989

cited in Sanford et. al., 1989:6). To study the administrative cost it is worthwhile to scrutinize its intended purpose or practical tax administration first

2.1.7.2. Compliance Cost

Compliance cost are defined as those costs incurred by tax payers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given tax structure. They include, for individual, the cost of acquiring sufficient knowledge to meet their legal requirements; of compiling the necessary receipts and other data and of completing tax returns; payment for professional advisers for tax advice; and incidental costs of postage, telephone and travel in order to communicate with the advisers or the tax office. For a business, the compliance cost include the costs of collecting, remitting and accounting for tax on the products or profits of the business and on the wages and salaries of its employees together with the cost of acquiring the knowledge to enable this work to be done including knowledge of their legal obligation and penalties. The existence of uncertainty about the meaning of some aspect of the legislation will generate additional compliance costs (Sandford et. al., 1989:12). Psychic (psychological) costs, whilst difficult or impossible to measure satisfactorily are an important component of compliance costs. Many people experience considerable anxiety and frustration in dealing with their tax affairs; some employ professional adviser primarily to reduce this burden of worry. Another source of psychic cost is the anxiety, which may be generated, even for the most honest taxpayers, by a tax investigation. The above explanation of administrative and compliance cost highlight the difference between taxes in terms of administrative and compliance costs. This helps to identify areas of high compliance costs, to indicate policy-makers the importance of administrative and especially compliance costs, and to provide tax policy-makers with guidelines on how the costs of operating the tax system might be minimized.

2.1.8. Tax Evasion, Avoidance and Compliance

2.1.8.1 Tax Evasion and Avoidance

Tax evasion and avoidance are a worldwide phenomenon. The problem is especially acute in transition and developing economies, since they do not have an appropriate infrastructure in place to collect taxes (McGee and Tyler, 2006:1). Tax avoidance is the legal arrangement of the taxpayer's affairs in order to minimize the tax liability, whereas tax evasion is illegal. Sometimes, however, the borderline between avoidance and evasion can become blurred, a fact that is evidenced by the huge body of anti-avoidance legislation and the

development of case law in this area (Nightingale, 2003:44).

2.1.8.2 Tax evasion

Tax evasion involves the intentional disregard of the legislation in order to escape the liability to tax. Tax evasion may be achieved by understating income, overstating expenses, making false claims for allowances or failing to disclose a chargeability tax. Because of its illegal nature, there is little hard evidence as to measure the true extent of tax evasion. Whatever the actual level of evasion, it is likely to be more prevalent when the tax system is perceived to be unfair or levied at confiscatory rates (Nightingale, 2003:44). Tax evasion is illegal and the offender may be liable to prosecution, however, the authorities will usually only resort to criminal prosecution where the case involves substantial amount of lost revenue, many minor cases of tax evasion that are discovered by the revenue are generally steered out of court.

2.1.8.2.1. The Vulnerability of VAT to Evasion and Fraud

Like all taxes, VAT is subject to evasion. For example, traders may fail to register for the tax, they may under-report sales or, where different goods are subject to tax at different rates, they may reduce their tax payments by misclassifying sales into the category subject to a lower rate (or zero rate) of tax. In some respects, the particular structure of VAT may reduce its exposure compared with other systems of sales taxation. In particular, the gradual accumulation of the tax at each stage of the chain of production and distribution may reduce the amount of tax at stake at each stage, and hence the gains to be made from making untaxed sales. This does not make the VAT 'self-enforcing', as sometimes claimed, but it does reduce its exposure to evasion compared with alternative single-stage sales taxes levied at a comparable rate, such as the retail sales taxes. In other respects, however, VAT offers distinctive opportunities for evasion and fraud, especially through abuse of the credit and refund mechanism. Revenue may be lost through exaggerated claims for credit for VAT paid on inputs to production. Moreover, the opportunity exists for outright fraud through the construction of business activities with the sole purpose of defrauding the exchequer, because some categories of business can be entitled to net refunds of VAT from the revenue authorities. These can include firms selling predominantly zero-rated goods while claiming credit for significant amounts of VAT paid on standard-rated production inputs. While zero-rated domestic sales can create opportunities of this sort, the main point of vulnerability in the current system arises because of the VAT zero-rating of exports. (Nightingale, 2003:45)

2.1.8.2.2. Determinants of Tax Evasion

In the standard approach to tax evasion a risk-averse individual chooses either the amount or the share of income to be concealed so as to maximize his or her expected utility of income, considering

- i. The probability of detection,
- ii. The penalty tax rate applied when tax evasion has been detected,
- iii. The marginal tax rate, and
- iv. The level of true income

All theoretical studies conclude that both the probability of detection and the penalty tax rate will negatively affect underreporting of income (Hennemann 1996: 162). That is, if taxpayers believe the probability of detection is low they will tend to underreport. In addition, if the penalty tax rate applied when tax evasion has been detected is low again taxpayers might tend to underreport. When underreporting is measured by the absolute amount of income concealed, a risk-averse individual experiencing an increase in his or her true income will underreport more.

2.1.8.3 Tax Avoidance

A tax such as VAT can be avoided simply by not buying the taxed good or services. The arrangement of an individual's affairs so as to mitigate the liability to tax is tax avoidance, and provided that the taxpayer acts within the framework of the law, tax avoidance is legal. However, where the activity is within the letter of the law but outside the spirit of the law, the distinction between avoidance and evasion may become blurred (Nightingale 2003:46). Many forms of tax avoidance are merely tax planning opportunities that exist in the legislation for reducing the liability to tax, for example, choosing the most tax efficient savings and investments, or making sure that all available relief is used to their full advantage. However, loopholes in the legislation also create opportunities for tax avoidance. However, once loopholes have been exploited, the revenue reacts by introducing legislations to close those particular loopholes. The increasing body of anti-avoidance legislation merely makes the tax system more complicated, detracting from the canon of simplicity even though it has been suggested that 'an economy breaths through its loopholes'. The tax avoidance industry grew to enormous proportions during the 1970s as high rates of tax made the cost elaborate avoidance schemes worthwhile, supporting the view that 'the existence of wide spread avoidance is evidence that the system, not the taxpayer, stand in need of radical reform.

General anti-avoidance rules have been tried in Australia, New Zealand and Canada with little success, which would indicate that targeted legislation may be more desirable. However, the policy makers are faced with the dilemma of how wide or narrow anti-avoidance legislation should be; too narrow and it may fail in its objectives, too wide and it may well be applied to situations for which it was not intended. Whatever steps are taken to counter tax avoidance the principles of certainty of taxation would require a definition of legitimate tax planning which may be difficult to frame as ‘the boundaries move with public sentiment’ with developing financial techniques and with the introduction of new statutory relief. Tax law will always have to address this equation and to determine where the line will be drawn. (ibid: 47)

2.1.8.4 Tax Compliance and Voluntary Compliance

Tax compliance can be defined as the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country. It is widely accepted that the goal of an efficient tax administration is to foster voluntary tax compliance using all possible methods including penalties. Penalizing tax evaders or going after delinquent taxpayers are not in themselves the object of tax administration, although it would serve to encourage voluntary compliance if the taxpayers believe that the tax administration can effectively detect and punish noncompliance. Webley et al (2002:1)

2.1.8.5. VAT Compliance

It is difficult to get an accurate picture, but it is clear that VAT evasion is widespread and involves significant revenue losses, though the extent varies considerably across countries. Webley et al (2002:1) suggests five factors seem likely to be particularly crucial: sanctions and punishments (deterrence), equity, personality, satisfaction with the tax authorities and mental accounting. Each will be considered in turn. To minimize the gap between the tax reported by taxpayers and the statutory tax, an adequate audit plan should be implemented (Tait, 1991:67). Economic models clearly predict that higher penalties and audit probabilities should discourage non-compliance (Webley et al., 2002:2). Even if both have some deterrence effect, higher audit probabilities probably have more impact than higher penalties.

The perceived fairness of a tax system is important both to its acceptability and to smooth functioning. A tax can be seen as unfair in a number of ways: if those of similar incomes are taxed differently, for example or if the government is seen as giving little back in return Cowell (1992 cited in Webley et al. :3). Webley et al, 2002:1 suggest that some individuals may be characterized by egoistic tendencies, whilst others may exhibit a strong identification

with community responsibilities, and thus be less motivated to avoid taxes owed. In other words, the more egoistic an individual, the less likely he, or she will be to comply with rules and laws when compliance conflicts with their interests. Dissatisfaction with the tax authorities in other ways has also been suggested by a number of investigators as motivators to avoid taxation (for example, Elffers, 1991; Wallschutzky, 1984; Wärneryd & Walerud, 1982). What evidence suggests that believing the system to be inefficient correlates positively with a propensity to evade (Vogel, 1974; Wearing & Heady, 1995 cited in Webley, 2002:3). How business people think about the VAT money they collect may also influence their behavior towards it: the notion of mental accounting may be helpful here. What is interesting in the current context is whether businesspersons psychologically separate monies owed to the VAT into a separate mental account from that of business turnover. If they do not, they may be more likely to try to evade VAT as a result of seeing it as 'their' money. (See Shefrin & Thaler, 1988 cited in Webley et al, 2002:3)

2.1.8.6 Improving Voluntary Compliance

The growing concern of tax administrations throughout the world is on how to simplify the tax assessment system to encourage voluntary compliance, and many countries have adopted the self-assessment system as a solution (SAS). Thus, the recent trend in developing countries sees a shift from the official assessment system to a SAS. Thus, setting up of a simple and broad based tax system is crucial to the development of a better tax administration. Studies have identified the main impediments as the lack of tax education among the taxpayers followed by poor public relation activities and inadequate penalty provisions for errant taxpayers. The need to increase training and improve the working environment of tax officials, as well as establish an information management system are also seen as important factors to be met for better tax administration. (Sarker, 2003:2)

2.1.8.6.1. Self-Assessment System (SAS)

In a SAS, a taxpayer is required to assess his tax liability using a tax return form in which he declares his gross income, allowable deductions, etc. This tax return must then be filed with the tax authority together with a payment for the tax liability computed in said return. The basic feature of a SAS is that it is the taxpayer rather than the tax authority that is responsible for the assessment of tax liability. A SAS has distinct merits compared to an official assessment system. The chief merits are:

- i. SAS is more cost effective as it only selects exceptional cases for further scrutiny;

- ii. SAS eliminates the administrative nature of assessment work,
- iii. SAS encourages an early and timely collection of taxes, and,
- iv. SAS reduces corruption by reducing contacts with taxpayer.

For a SAS to effectively implement there are certain critical factors that need to be considered:

a.

he process of deciding which tax returns should be audited is crucial. Taxpayers, who know that they may not be selected for an audit, would be motivated to cheat. A deficient process will also reduce compliance,

b.

nder SAS, non-compliance should be dealt with justly and swiftly to encourage the majority of taxpayers to comply. In order to detect fraud or non-compliance, taxpayer data is important and this requires a certain level of computerization. In its absence, it would be extremely difficult to maintain compliance in a SAS,

c.

he educational level of taxpayers is crucial in determining whether the SAS will work effectively. There must also be an observance of proper accounting standard of business. For small traders, this means that must be a minimum level of record keeping. In the absence of proper accounting standards or record keeping, a taxpayer would not be able to declare his income accurately or enable the tax authority to conduct an accurate audit. (Tanzi, 2001)

2.1.9 Tax Assessment

A tax assessor is responsible for preparing and maintaining the assessment roll, the tax roll and collecting the tax levies in accordance with the quality standards. The core service responsibilities include:

- Preparing annual market value assessments for all properties
- Preparing the business assessment valuations for all business premises
- Maintaining accurate property information and ownership on all realty accounts
 - Maintaining accurate business information and ownership on all business accounts
 - defending assessments before municipal and provincial assessment tribunals
- Responding to inquiries and requests for information related to assessment and taxation

- Producing and mailing annual assessment and tax notices to tax payers reporting assessment rolls and meeting annual audits

2.1.10 Procedures for Tax Collection

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

2.1.10.1 Identification and Registration of Taxpayers

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

2.1.10.2 Filing Returns

Taxpayers are required to file returns within specified months of the end of their tax accounting year. The return should be filed in quadruplicate and should contain all the particulars of the taxpayer. All documents respecting taxation should be presented to the tax authority office where the taxpayer has their file. James (1999)

2.1.10.3 Returns Processing

Upon receiving a taxpayer's return, the tax authority officers examine the accuracy of the return by determining whether the return is properly completed, whether tax has been properly computed, and whether there are any penalty payments to be made by the taxpayer. The

officer then allocates an assessment number to the return and issues the taxpayer with a Bank Payment Advice Form, stating the tax payable. James (1999)

2.1.10.4 Payment of Taxes

Taxes are due on the due date of the submission of the self-assessment returns. Tax should be paid to an authorized bank, using the Bank Payment Advice Form.

2.1.10.5 Audit and Examination

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

The Screening Process: The majority of cases for audit are selected during this process. Here, comparison is made between returns of taxpayers who engage in similar businesses or occupations, and between information contained in returns of current and previous years for a taxpayer. Where inconsistencies are detected, CCRA officials put the returns aside for possible audit and specific returns are selected for audit. The selective and careful scrutiny not only saves resources but also increases the chances of detecting evasion.

Auditing Projects: Under these projects, CCRA tests the compliance of a particular group of taxpayers. If the test results show that the group is non-compliant, the group members may be audited.

Leads: The CCRA at times uses information from investigations or external sources, such as informers, to select cases for audit. Since these audits are not conducted arbitrarily, it is almost always likely that cases of noncompliance will be discovered.

Secondary Files: Here, a file is selected for audit because of its association with another file that has already been chosen for audit. For instance, where taxpayers conduct business in the same area and under the same control, if the CCRA decides to audit one taxpayer, it may decide to audit all the other taxpayers in that place of business.

Random Audits: At times the CCRA randomly picks returns for audit. These returns are then periodically audited to check whether the audits affect compliance in any way. (Gorman, 2001).

2.1.10.6 Collection and enforcement

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

In general, the discussions so far focused on the review of the literature on the theoretical aspect of tax administration. The following section presents the empirical evidence on tax administration and their problems from the perspective of developing countries, Ethiopia in particular.

2.2 Empirical literature review

Kangave (2005) discussed tax administration in Uganda's context. It then discussed Uganda's tax structure, the problems faced in administering taxes, and it gave possible solutions to the problems the author identified in his research. The author, in his research, identified corruption, tax evasion, and inadequate resources for tax administration poor quality of audits and inadequate support for tax administration as problems or challenges of tax administration that have weakened the ability to achieve desired revenue targets. The author did not purport to address all of the problems. Neither does it set out to address in detail the causes of these problems. Instead, it points out the problems. Besides, the author recommendations for solving the tax administration problems were adopted from the Canadian tax administration system. The researcher do not believe that the tax Canadian tax administration system should not be taken as standard for measuring the performance of tax administration system. In addition to this, the author used interview with the tax officials and relied on secondary sources. However, author could have also gathered responses from the target taxpayers to get additional information for

his research.

James (1999) examined issues affecting the formulation of tax policy through the development of actual proposals by tax policy-makers. This was done taking account of the possibility that too narrow an approach to this process can produce misleading conclusions and that proposals for tax reform may be inappropriate when the wider context of the tax system as a whole and the environment in which it has to operate are considered. Two issues were used to illustrate the situation - tax compliance and tax simplification. The paper concluded that in developing tax policy it is important to ensure that the wider context is taken into account and it also outlines a practical approach to achieve this aim. Jenkins (1991) emphasized that the tax system can never work better than its tax administration, but even the best tax administration would certainly fail to turn a bad tax system into a well-operating one. The researcher also warned that many ambitious tax reforms failed because of the inefficient tax administration. Without the permanent reorganization of the tax administration and almost daily improvements in methods of its management, it is impossible to expect that tax reforms could be realized successfully.

The removal of exemptions, loopholes, and concessions can simplify administration and reduce evasion. Taking a systematic view of the tax system, rationalization, simplification, and the removal of anomalies should have the effect of reducing the administrative costs of identification, assessment, auditing and enforcement. The administrative simplicity of "tax handles", however, while influencing tax policy, should not be allowed to dictate it. Concentrating on just a few handles can lead to highly distortion structures (Burgess and Stern, 1993).

Sahota (1961) undertook a study on the tax performance of the tax system of India for the period 1948-1958 using the proportional adjustment method and found that the tax system was inelastic even though the country had a highly progressive income tax at that time. The reason was due to a defective tax structure and rate schedule, wide spread tax evasion and income distribution in favor of the "non-income tax payers group" or in favor of the low-income brackets within the taxpaying group. Sahota (1931), on his part, studied the performance of the Indian tax system for the period 1948-58. This study used the proportional adjustment method to estimate elasticity of the system. Results of the study showed that the Indian tax

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

The following part will be discussing the empirical review specific to Ethiopia related to tax administration in the country Wogene (1983) tried to examine the contribution of taxation. He argued that taxation and tax system was used as a tool for establishing the material basis of socialism. He estimated the buoyancy and built-in elasticity of the total tax revenue and examined the difference between the two measures to reflect the impact of the tax reforms on tax revenue for the period 1975-1981. He used the constant rate structure method to separate the revenue impact of discretionary tax measure. His result indicated that the tax reforms have significantly contributed to increasing tax revenue in the country.

The study by Wogene (1983) showed that for the period 1975-81 tax reforms had enabled an increase in tax collection. This study employed the constant rate of adjustment method to estimate elasticity of the tax system. Likewise, the study by Eshetu compared tax productivity in the pre revolution, post revolution periods of Ethiopia, and found out that there was certain improvement in the tax collection of the government in post revolution Ethiopia.

Zelalem (1999) studied the productivity of the Ethiopian tax system for the period 1961 - 1998. He estimated the buoyancy and elasticity of the overall and major individual tax categories using the method of division index. The results of this study showed that the Ethiopian system was inefficient for most of the coefficients were found to be less than one. The explanation given for the low productivity of the tax system was that the system suffered from the problems of weak administration and extensive tax evasion.

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

Chapter Three

3. Research Design and Methodology.

3.1. Research Design

This research paper was designed in such way that enables the researcher to study problem more easily and clearly using quantitative and qualitative methods. It is structured to provide relevant information, both quantitative and qualitative, to sufficient level that would be essential for further processing. Quantitative data is expected to provide current stands and trends while qualitative one will be useful to understand people's feelings and expectations which have linkage to the research questions raised at the beginning.

3.2. Instruments of Data Collection

As mentioned earlier, the research methods used in doing this study has both qualitative and quantitative nature hence is a mixed approach. From the quantitative method, the researcher used surveying descriptive of data, whereas, on the qualitative approach, in-depth interview is to be applied.

The study begins with a broad survey in order to generalize results to a population and then focuses, in a second phase, on detailed qualitative, open-ended interviews collected from detailed views of participants. A mixed methods design is useful to capture the best of both quantitative and qualitative approaches. In these situations the advantages of collecting both closed-ended quantitative data and open-ended qualitative data prove advantageous to best understand a research problem.

Therefore, a mixed methods design is useful to capture the best of both quantitative and qualitative approaches. This is so because both methods generalize the findings to a population and develop a detailed view of the meaning of a phenomenon or concept for individuals.

Qualitative research is much more subjective than quantitative research and uses very different methods of collecting information, mainly in-depth interviews and focus groups. This study used in-depth interview with the tax officers of Ethiopian Customs and Revenue Authority Arada sub-city branch office employees to secure in-depth and detailed information, which in fact

increases the quality of the information.

The targeted respondents in the arada sub city included three officers from each work process. Each tax officers were interviewed in-depth to get depth and detailed primary data. Participants were asked general questions, and the researcher explored their responses to identify and define tax officers' perceptions, opinions and feelings about the tax assessment and collection and identified the problems and challenges regarding the tax administering process. The interview questions and questioners used are annexed to this paper.

3.3. Population and Sampling Techniques

After simple survey with tax payers and tax administrators' concerned officials, simple random sampling technique were used to select tax payers who were to provide required data. Besides, the researcher used in-depth interviews and self administered semi structured questionnaires to get primary data from tax officers of Arada sub city and category "A" taxpayers. In addition to primary data, the study used secondary data to support it. The following is the links that exist between the survey instrument, semi-structured questionnaire, and the research questions. Currently there are 2,054 Category "A" taxpayers in Arada sub city. The target Category "A" tax payers include; general importers and exporters, travel agencies, hotels and restaurants, construction contractors, consultancy firms, education centers, construction machineries and equipments rent providing firms, book stores, sales agencies, house hold gadgets retailers, photo shops, travel agencies, insurance firm, butchers, decor firms, electric lift repair shop, printing firms, Chat retailers, building rent providers, clinics, transistor, fuel stations, whole sellers, groceries, fruit and vegetable shops, stationeries, dairy product shops, cake and bread bakeries, advertising firms, and boutiques. After clustering by department, Sample of 45 employees of tax authority & 50 tax payers of category 'A' found in Arada sub -city were selected.

3.4. Procedures of Data Collection

While collecting the primary data, semi structured self administered questionnaires were distributed to the fifty Categories "A" taxpayers and forty five officers in the Arada sub city, which have been selected as a sample through stratified sampling and simple random sampling techniques.

For selecting the sample, data sampling requires to first, there was a need to stratify the total population in to two groups as tax payers and tax officers’. Then using simple random sampling selected sample of category “A” taxpayers in the sub city. Tax officers are categorized into FIVE work process as Tax Assessment and Collection Work Process, Tax Assessment and Audit Process, Law Accomplisher and Control Work Process, Taxpayers’ Registration and Information Work Process, Customer services and support work process .From the respective group based on the list of work process Semi structured self administered questionnaires were distributed to nine officers from each work process, which have been selected as a sample through simple random sampling techniques. Furthermore, the questions were written in Amharic language for tax payer, which is believed to be very understandable by them.

3.5. Methods of Data Analysis

Problems of tax assessment and collection on category “A” tax payers and Ethiopian customs and revenue authority’s tax administration was analyzed descriptively by using collected primary and secondary data. Descriptive analysis was also help full to determine the ideas, attitudes, suggestions and comments of tax officials and tax payers in depth.

Table 3.1: Link of research question with questions in the questionnaire

Research Questions	Question numbers used to address from questionnaires	
	Tax payers	Tax officers
How effective & efficient tax assessment and collection in category 'A' tax payers in Arada sub-city is?	3.1,3.2,3.3,3.8,3.9,3.12,3.13,3.14,3.16,3.21,3.22	3.1,3.2,3.4,3.5,3.6,3.7,3.8,3.9,3.10,3.11,3.17,3.18.
What problem or challenges are there which impede tax assessment and collection at Arada sub city?	3.17,3.18,3.19,3.20	2.1,2.2,3.3,3.12,3.13,4.2,4.4
What policy interventions are needed to improve these problems?	3.4,3.5,3.6,3.7,3.10,3.11,3.15,3.23	2.3,3.14,3.15,3.16,4.1,4.3,

Chapter Four

4. Results and discussion

The previous chapter presented detail of the research design adopted in the study. Based upon the methods mentioned in the research design, this section analyses the data obtained from Category “A” taxpayers and the tax officers of the Arada sub city.

This chapter deals with an attempt to identify category “A” taxpayer’s tax assessment and collection problems and factors that caused the problems. This part has three sections. Section 4.1 presents the background information whereas section 4.2 presents the data obtained through self administered semi structured questionnaires and in-depth interview. Finally, section 4.3 presents the analysis of the data presented in section 4.2.

4.1 Background information

Tax administration in Ethiopia is conducted on two levels as federal and regional. At the lowest level there are number of kebeles in different regions. The tasks of Kebeles are assessment and collection of taxes and other liabilities of Category “C”. The others are the different sub cities that are in charge of tax assessment, collection, and control of veracity of the tax bases declared by Category “A” and “B” taxpayers in their jurisdiction. At federal level, ERCA is in charge of collecting revenues, both tax and none tax, from different organizations owned by federal government and from customs duties.

The study focus here is Arada sub city and Category “A” tax payers residing in the sub city. In the sub city, tax assessments and collections are carried out according to income tax regulation No. 78/2002 article 18 and value added tax proclamation No. 285/2002.

Category “A” tax payers are those having separate legal personality, incorporated under the law of Ethiopia or in a foreign country or any registered business having annual turnover of birr 500,000 and over(Income tax regulation no. 78/2002, article 18 A).

TIN system is registering mechanism in which each taxpayer is given a single

identification number to be used in administering the taxes. The TIN system encompasses personal and business profiles of the taxpayers including full name, address, business information and related information of the taxpayer (Income tax proclamation no 286/2002, article 43). The TIN system has the advantages of facilitating proper use of various systems and enhancing the financial recording system of the business communities.

The main expected taxes are business profit tax; value added tax, rental income tax and employment income tax from their employee.

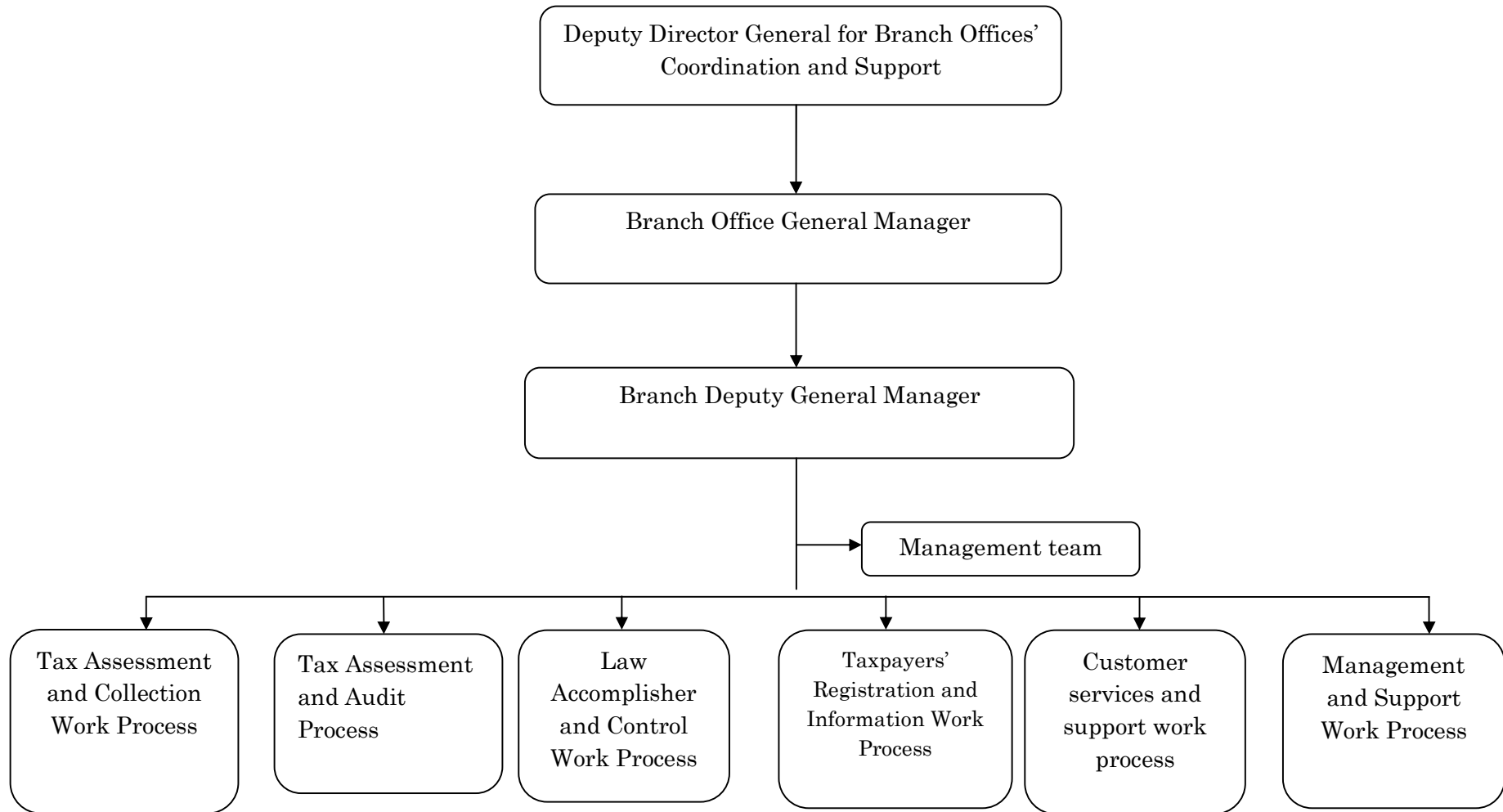
Category “A” taxpayers are required to submit balance sheet profit and loss statement to the tax office within Hamle to Tikemt 30 of Ethiopian calendar. Next the Auditors receive the documents and then it is reassessed based on proclamation No. 286/2002 and 311/2003, during the period of Hamle to Tikemt 30 and then assessment notification will be distributed to tax payers for payment.

4.1.1 ERCA Arada Sub city Small Tax Payers Branch Office

ERCA Arada sub city small tax payers’ branch office is the tax authority, which is delegated to assess and collect both direct and indirect taxes from Category “A” , “B” and “C” taxpayers performing different types of business activities in ten woredas found in arada Sub city. The office is found around piazza Innat building in Addis Ababa. In the statutory authority of the Arada sub-city, the tax assessment, collection and controlling core process office performs assessment of taxes and collection based on income tax proclamation No 286/2002 and Addis Ababa city government charter proclamation No 311/2003, which are delegated powers to sub-city and Woredas for the purpose of efficient provision of various social goods and services. ERCA Arada sub city small tax payers branch office has an objective to establish modern revenue assessment and collection system, and provide equitable, efficient and quality service to tax payers, who are considered customers, and cause taxpayers voluntary discharge their obligation by enforcing the applicable tax laws. SIGTAS (Standard Integrated Government Tax Administration System) and SIRM (Standard Integrated Revenue Management) software are applicable for regular tax assessment and collection. The organizational structure is designed on the basis of different activities to be performed rather than depending on the different tax types. The Addis Ababa city administration has ten sub cities and one hundred sixteen waradas. Of

these, Arada sub city has 293 employees including ten Woredas' office workers.

Chart 4.1: Structure and profile of ERCA Arada sub city small tax payers' branch office



Source: Arada sub city tax assessment, collection and controlling core process office.

According to the business process reengineering, tax assessment and collection officer is accountable and responsible for the data or documents presented by a self-assessed taxpayer and collect the assessed amount properly.

Taxpayer's registration and information officers are responsible for registration of taxpayers based on the regulation of licensing by receiving necessary information, and then passing the documents to documentation section.

Tax assessment auditors receive records of the required books and supporting documents with regard to categories 'A' taxpayers to verify according to business income tax regulation for the purpose of taxation. After statements are verified, a copy will be given to the taxpayer and also send to documentation section, which is based on by the approval of income tax assessment, collection and controlling core process owner.

Income tax inelegancy investigation and income tax law accomplisher and controlling process officers are responsible to check whether taxpayers are performing in compliance with the applicable rules and regulations and to take legal action on the bases of proclamation no 311/2003 on those who receive tax assessment notification and refused to pay their liability.

In general, the newly conducted business process reengineering changed the previous structure by empowering individuals based on their duties and responsibility. So ERCA previously is called Revenue Agency is directly accountable to Addis Ababa city Administration executive body. At present Arada sub-city income tax assessment collection and controlling core process is accountable to ERCA.

The objective of the empirical data is to examine the existing profit tax, rental income tax and value added tax assessment and collection systems followed by Arada sub-city.

4.1.2 Profit tax administration

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

Every assessment notification should contain the following elements: gross income and deductions applicable; taxable income; rates applicable or percentage; taxes paid and due; any penalty or interest; taxpayer's name, address, and TIN; and brief explanation of the assessment and a statement of the taxpayer's rights.

The category "A" taxpayer shall be liable for a penalty of 20% of the tax assessed if he/she failed to keep proper books of account, records, and other documents regarding a certain tax year. If the Tax Authority finds that a taxpayer has failed for two consecutive years, to keep proper books of account, records, and other documents the licensing authority would suspend the taxpayer's license on notification by the Tax Authority.

If the amount of income tax shown on a tax declaration by a Category "A" taxpayer is less than the amount of income tax required genuinely, the understatement of tax results in the following penalties:

- 10% of the understatement if the understated amount of tax is considered not substantial, or
- 50% of the understatement if the understated amount is considered substantial.

However, there is no any stated parameter to say a certain amount is substantial or not. Therefore, it is up to the perceptions of the individuals, which is very subjective and subjected it to undesired bargaining and complaints that in fact made the administration on such regard very difficult and complicated.

4.1.3 Value Added Tax (VAT) Administration

The introduction of VAT was part of the overall tax reform program in Ethiopia.

Establishment of a new Ministry of Revenue was the first step to improve tax collections and to combat fiscal fraud precedes the tax reform program. In October 2001, a draft VAT legislation was submitted to the parliament and this was approved and implemented beginning January 1, 2003.

VAT was introduced in Ethiopia by VAT proclamation no. 285/2002, replacing sales tax. Its objective is to minimize the reduced tax revenue, which is caused by attempt to evade tax, by ascertaining the profit of the taxpayer, and to enhance economic growth in the country. The VAT is applicable to tax payers that met the minimum threshold of Br 500,000 and above annual turnover and selected business activities like supermarkets, construction materials distributors. Voluntarily, it is also applicable on those who perform majority of their transaction with registered taxpayers.

The registration of VAT has started manually and then processed through a locally developed interim VAT computerized system until Standard Integrated Government Tax Administration System (SIGTAS) started operation in February 2004. The interim system has met basic requirements of the tax office, such as registering taxpayers, issuing certificate, processing payments, and declarations, revenue and taxpayers accounting.

According to the Article 22 of the VAT proclamation, all persons registered for VAT are required to issue VAT invoices to the person who receives the goods or services, which those unregistered do not have right to issue.

According to VAT proclamation No 285/2002, Article 26/1, every registered person is required to file VAT return with tax office for each accounting period and to pay the tax for every accounting period by the deadline for filling the VAT return. As to Article 26/2, the VAT return for every accounting period shall be filed not later than the last day of the calendar month following the accounting period.

Consumers need to make sure that businesses that levy the tax are registered as evidenced by a registration certificate which is expected to be posted visibly on the establishment premises, they should receive receipts for the goods and services they purchase and they have to make sure that the receipt clearly indicates the VAT registration number and the taxable items. In this context, the tradition of receiving receipts by customers was not given due attention, which lead the registered businesses to use the money collected in the form of VAT for

their own expansion, however, to some extent a cash register machine distributed to few taxpayers is believed to reduce such problems.

Every registered person is required to file a VAT return with the authority for each accounting period, whether or not tax is payable in respect of that period. The VAT return for every accounting period shall be filed not later than the last day of the calendar month following the accounting period.

4.1.4 Rental income tax administration

Tax on income from rental of buildings is the tax imposed on the income from rental of buildings. If the taxpayer leased furnished quarters, the amounts received attributable to the lease of furniture and equipment would be included in the income and taxed.

The owner of a building who allows a lessee to sub-lease is liable for the payment of the tax for which the sub-lessor is liable, in the event the sub-lessor fails to pay; When the construction of a rental building is completed or when the building is rented, the owner and the builder are required to notify the administration of the Kebele in which the building is situated about such completion and the name, address, and tax identification number of the person or persons subject to tax on income from rental of building; the Kebele administration has the obligation to communicate the information obtained to the appropriate tax authority.

Tax on Income from Rental of Property is tax on income derived from casual rental of property (including any land, building, or moveable asset) not related to a business activity. This type of income is subject to tax at a flat rate of 15% of the annual gross income.

4.2 Survey result

In order to achieve objective of the study, ninety - five self administered semi structured questionnaires were distributed to the selected taxpayers and tax officers.

Table 4.1: Response rate

Particulars	Tax payers		Tax officers		Total	
	Frequency	Percentage (%)	Frequency	Percentage (%)	Frequency	Percentage (%)
Responded	42	84%	40	89%	82	86%
None responded	8	16%	5	11%	13	14%
Total	50	100%	45	100%	95	100%

Source: Taxpayers survey

From the semi structured questionnaires distributed, 86% of them returned the Questionnaires, whereas the remaining did not (Table 4.1).

Table 4.2: Gender of respondents

Gender	Frequency	Percentage
Female	28	34%
Male	54	66%
Total	82	100%

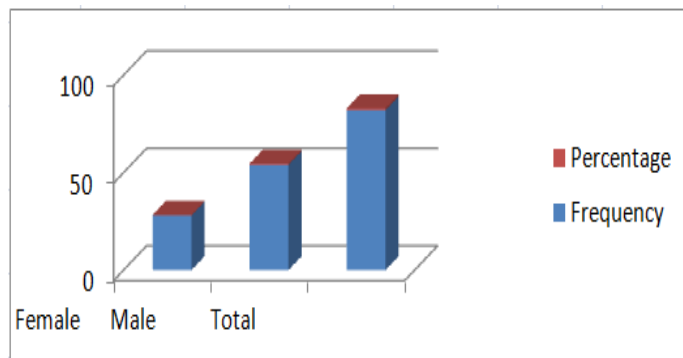


Chart 4.2: Gender of respondents

Source: Taxpayers survey

Of the eighty-two respondents, around 66% of them were male and 34% were female (Table 4.2).

Table 4.3: Respondents' age distribution

Age	Frequency	Percentage
20-30	24	29%
31-40	43	52%
Above 40	15	19%
Total	<u>82</u>	<u>100%</u>

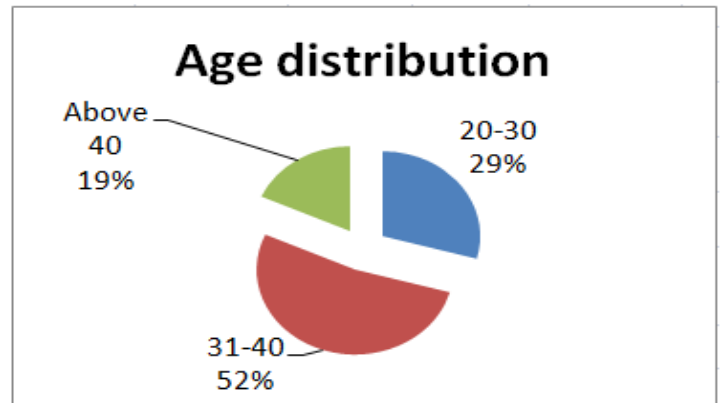


Chart 4.3: Respondents' age distribution

Of the eighty-two respondents, around 29% of them were age between 20 and 30, majority (52%) were ages between 30 and 40 and 19% were above 40 years (Table 4.3).

Table 4.4: Respondents' educational level

Educational level	Frequency	Percentage
Second degree and above	0	0
First degree	22	27
Diploma	46	56
Blow diploma	14	17
Total	82	100%

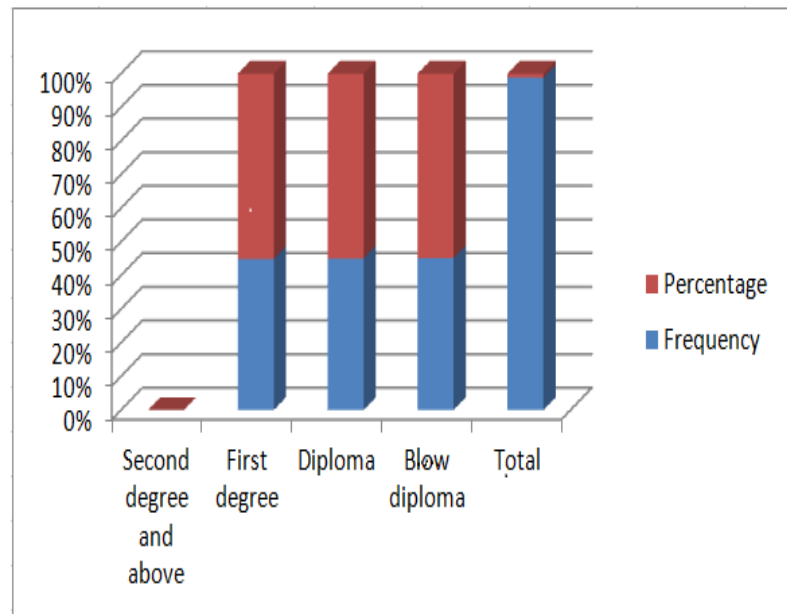


Chart 4.4: Respondents' educational level

Of the eighty-two respondents, around 27% of them were first degree holder, majority (56%) were diploma holder and 17% were below diploma, finally no respondent was available who has Second degree and above (Table 4.4).

Table 4.5: Respondents' work experience

Work Experience	Frequency	Percentage
Above 10 years	16	19%
5-10 years	31	38%
4-5 years	13	16%
0-4 years	22	27%
Total	82	100%

19% of the eighty-two respondents had work experience Above 10 years, majority (38%) had 5-10 years, 16% had 4-5 years and 27% had work experience below 4 years. (Table 4.5)

Table 4.6: Respondents' legal form of their organization

Legal Form	Frequency	Percentage
Sole proprietors ship	22	52%
Share Company	12	30%
Joint Venture	0	0%
Others	<u>8</u>	<u>18%</u>
Total	<u>42</u>	<u>100%</u>

Of the 42 respondents of tax payers, majority (52%) were Sole proprietor ship, 30% were Share companies and 18% were other forms of organization. (Table 4.6)

Table 4.7: Year of organization establishment of the Respondents

Establishment	Frequency	Percentage
Before 5 years	27	64%
4 years ago	8	18%
3 years ago	4	10%
This year	<u>3</u>	<u>8%</u>
Total	<u>42</u>	<u>100%</u>

Of the 42 respondents of tax payers, majority (64%) were established before 5 years, 18% and 10% were established 4 and 3 years ago respectively and 8% were established this year.(Table 4.7)

Table 4.8: Respondents' business sector

Business Sector	Frequency	Percentage
Manufacturer	2	5%
Importers and exporters	7	17%
Wholesalers and retailers	16	44%
Service providers	<u>14</u>	<u>34%</u>
Total	<u>42</u>	<u>100%</u>

The survey was made by grouping the Category "A" taxpayers in four business sectors.

Accordingly, around 5% of the respondents were manufacturer, 17% were importers and exporters, 44% were wholesalers and retailers, and 34% were service giving firms (Table 4.8). As can be observed from table 4.9, 50% of the respondents generate annual revenue ranging from Birr 500,000 to Birr 1,000,000; 24% from companies earning Birr 1,000,000 to Birr 5,000,000; 14% from Birr 5,000,000 to Birr 10,000,000, whereas, 7% is from companies earning Birr 10,000,000 to Birr 50,000,000, and the remaining 5% is from companies earning above Birr 50,000,000.

Table 4.9: Respondents average annual revenue (in Ethiopian Birr)

Average Annual Revenue		
Range (Ethiopian Birr)	Frequency	Percentage
500,000-1,000,000	21	50%
1,000,000-5,000,000	10	24%
5,000,000-10,000,000	6	14%
10,000,000-50,000,000	3	7%
Over 50,000,000	<u>2</u>	<u>5%</u>
Total	<u>42</u>	<u>100%</u>

Source: Taxpayers survey

Table 4.10 Summary of respondents' tax perception

Items	Description	Response	Frequency	Percent
A	How do you feel about paying of tax?	As Debt	0	0
		Development	40	95
		As Obligation	2	5
		Others	0	0
		Total	42	100
B	When do you pay your tax liability?	On Due Time	38	90
		Period is Over	4	10
		Total	42	100
C	What are the benefits you get by paying your tax liability?	Get Bank Loan	15	34
		Participate In Bid	16	36
		Guarantor	8	20
		Others	3	10
		Total	42	100

Source: Taxpayers survey

Out of 42 tax payer respondents majority (N=40-95%) believe that paying tax to government contributes to national development whereas (N=2-5%) believes tax as an obligation.(N=38-90%)of the respondents were paying their tax with in payment period while only (N=4-10%) were paying tax after the payment period is over.34% of the respondents perceived that they can get bank loan if they pay tax ,36% can participate in bid,20% believed that right to be guarantor and 10% can get other benefits. This implies that tax payers know why to pay tax. (Table 4.10)

Majority of tax payer respondents (N=23-54%) did face problem when they pay tax. Out of 54% respondents majority (N=13-56%) were perceived inefficiency of the tax collectors while some of the respondents (N=8-35%) perceived ill-treatment and few (N=2-9%) came across discrimination on service giving. Most tax payers (N=24-57%) get notice from ERCA about taxation but the message communicated by ERCA were perceived by majority of the respondents (N=28-67%) as not understandable. As it can be seen from the above table, majority of the tax payers (N=16-38%) take half day to pay, even tax no one can pay with in thirty minutes.

As we can see the above table the respondents gave their opinion about whether ERCA gave enough training about VAT. Out of 40 respondents 9 or (22%) of them strongly agree, 18 (45%) of them agree that ERCA does gave enough training to VAT registered organizations and to the

people who are consumer of the VAT registered organizations. 75% Respondents also agree that the criteria for selecting tax payers for audit not clear and transparent. Out of 40 respondents 24 or (55%) agree that tax payers do not have good perception on ERCA tax audit flow up system. More ever, Out of 40 respondents majority (N=37-93%) were agree and strongly agree that there is lack of transparency and consistency in imposing penalties. Majority of the respondents (75% agree and 7% strongly agree) that education and awareness creation program given by ERCA through media, brushers and others means is not sufficient to improve tax compliance. Most respondents (strongly agree 25%, agree 67%) on the statement that if an official engaged in corrupted activity, the chance of being detected is relatively low.

Concerning to present tax rate, majority (N=25-60%) replied as not fair and needs adjustment. 76% of the respondents agreed that the tax payment period is enough and 24% needs additional time period to pay their tax. Most respondents (N=34-74%) were not comfortable with present taxation system and suggested adjustment. Almost all respondents recommended that tax related messages shall provide through all means of communications. (Table 10.11, annexed)

Table 4.12 responses related to cash register machine.

Item	Description	Response	Frequency	Percentage
A	When you use cash register machine, did you encountered any problem?	Yes	23	54
		No	19	46
		Total	42	100
B	The use of Cash Register machine reduces tax evasion and fraud.	Strongly Disagree	3	9
		Disagree	5	13
		Neutral	4	11
		Agree	20	47
		Strongly Agree	8	20
		Total	40	100
C	Using cash registers machine facilitates the tax collection process	Strongly Disagree	0	0
		Disagree	6	15
		Neutral	0	0
		Agree	30	75
		Strongly Agree	4	10
		Total	40	100
D	Using cash register machine reduces administration cost.	Strongly Disagree	0	0
		Disagree	3	8
		Neutral	4	10
		Agree	25	62
		Strongly Agree	8	20
		Total	40	100
E	Tax collection increases after introduction of cash register machine.	Strongly Disagree	0	0
		Disagree	6	13
		Neutral	2	4
		Agree	27	60
		Strongly Agree	10	23
		Total	40	100
		Strongly Disagree	11	28
		Disagree	19	47

F	Cash register machine reduces corruption	Neutral	2	5
		Agree	8	20
		Strongly Agree	0	0
		Total	40	100
G	Do you use cash register machine?	Yes	42	100
		No	0	0
		Total	42	100
H	If you use cash register machine, Do you get enough training on usage of cash register machine.	Yes	42	100
		No	0	0
		Total	42	100
I	Adequate Awareness creation training has been given to the VAT registered organization regarding use of cash register machine.	Strongly Disagree	11	27
		Disagree	22	55
		Neutral	0	0
		Agree	7	18
		Strongly Agree	0	0
		Total	40	100

Even though use of cash register machine facilitates cash collection process, majority of the tax payer (N=23-54%) were encountered problem when they use cash register machine. Besides most respondents strongly agree and agree (N=28-67%), on the cash register machine reduces fraud, increases tax collection and evasion. Furthermore, (N=33-82%) respondents strongly agree and agree on cash registration machine reduces administrative cost but did not reduce corruption. All 42 respondents, 100% use cash register machine however the survey discovered whether those taxpayers using the cash register machine got adequate training regarding the use of the machine. The result indicates that Out of 42 of the respondents, who used cash register machine, 70% complained that they did not receive adequate training regarding the use of the cash register machine. They believe that they do not have knowledge of operating the machine. Whereas, the remaining, 30%, are comfortable in using the machine. (Table 10.12)

4.13. Summary of respondents' response on tax evasion

Item	Description	Response	Frequency	Percent
A	The Existing audit selection criteria are not sound enough to identify tax payer that engaged in tax evasion.	Strongly Disagree	1	4
		Disagree	6	15
		Neutral	7	18
		Agree	20	47
		Strongly Agree	6	16
		Total	40	100
B	Sometimes Tax Officials cooperate with tax payers who intend to evade tax and engage in bribery activity.	Strongly Disagree	0	0
		Disagree	1	2
		Neutral	4	10
		Agree	12	30
		Strongly Agree	23	58
		Total	40	100
C	Do you think Tax evasion in category “A” tax payers is Significant?	Yes	14	33
		No	23	55
		I Don’t Know	5	12
		Total	42	100
D	Which tax do you believe is evaded more?	Payroll Tax	0	0
		Business Profit Tax	3	22
		Vat	4	28
		Rental Income	7	50
		Others	0	0
		Total	14	100
E	Tax Evasion by most organizations arises from lack of knowledge on tax issues like penalty, tax codes and tax regulation.	Strongly Disagree	10	25
		Disagree	17	42
		Neutral	0	0
		Agree	9	23
		Strongly Agree	4	10
		Total	40	100

Source: Taxpayers and tax officers’ survey

Most respondents (N=26-63%) agree and strongly agree that the existing tax audit selection criteria is not sound enough to identify tax payer that engaged in tax evasion whereas (N=7-19%)strongly disagree and disagree and (N=7-18%) remain neutral. Furthermore majority of the respondents (88%) strongly agree and agree that sometimes tax officials cooperate with tax evaders. 55% of the respondents indicated that Tax evasion in category “A” tax payers is not Significant and 33% indicated as significant whereas 12% kept silent. Pertaining to category of tax that evade more, 50%, 28% and 22% believed that rental income tax, value added tax and business profit tax respectively. 33% of the respondents strongly agree and agree, 67% of them strongly disagree and disagree that tax evasion by most organizations arises from lack of knowledge on tax issues like penalty, tax codes and tax regulation. (Table 4.12)

Table 4.14. Summary of Respondents response related with penalty

Source: Taxpayers and tax officers’ survey

Items	Description	Response	Frequency	Percent
A	The existing level and extent of penalties for evaders and tax personnel who are working in collusion with tax evaders are sufficient to discourage tax evasion /frauds/.	Strongly Disagree	15	37
		Disagree	13	33
		Neutral	4	10
		Agree	8	20
		Strongly Agree	0	0
		Total	40	100
B	The existing Penalty for corrupt officials is not sufficient to deter corrupt activity.	Strongly Disagree	2	4
		Disagree	9	23
		Neutral	0	0
		Agree	14	35
		Strongly Agree	15	38
		Total	40	100
C	The existing practice of penal actions is too weak to discourage tax payers who evading tax.	Strongly Disagree	7	18
		Disagree	10	25
		Neutral	2	5
		Agree	16	40
		Strongly Agree	5	12
		Total	40	100

Out of 40 respondents 37% strongly disagree, 33%disagree, 10%remain neutral and 20%were agree that existing penalty level and extent is not sufficient and too weak to deter evasion and corrupt

activity.(Table 4.13)

Table 4.15: ERCA Arada sub city employees' statistics

No.	Job Division	1st Degree			Diploma			Below Diploma			Grand Total
		Female	Male	Total	Female	Male	Total	Female	Male	Total	
1	General Manager	2	9	11	0	2	2	0	1	1	14
2	Tax Assessment	25	7	32	8	4	12	1	0	1	45
3	Tax Audit	17	7	24	1	0	1	0	1	1	26
4	Law Enforcement	3	6	9	2	1	3	1	0	1	13
5	Tax Information	3	9	12	23	10	33	1	0	1	46
6	Customers Service	4	4	8	6	3	9	1	3	4	21
7	Resource Managem	4	2	6	8	2	10	7	5	12	28
8	Woreda 1	0	1	1	7	2	9	3	0	3	13
9	Woreda 2	1	1	2	4	1	5	1	0	1	8
10	Woreda 3	0	1	1	4	0	4	1	1	2	7
11	Woreda 4	1	0	1	4	2	6	3	0	3	10
12	Woreda 5	1	1	2	6	1	7	3	0	3	12
13	Woreda 6	1	1	2	5	1	6	2	0	2	10
14	Woreda 7	2	0	2	5	1	6	2	0	2	10
15	Woreda 8	1	0	1	6	1	7	2	0	2	10
16	Woreda 9	2	0	2	5	1	6	1	0	1	9
17	Woreda 10	1	0	1	7	1	8	2	0	2	11
	TOTAL	68	49	117	101	33	134	31	11	42	293

Table 4.16 ERCA Arada Small Tax Payers Branch Office 2004 Annual Employee Turn Over

No.	Educational Status	Female	Male	Total
1	1 st Degree	5	8	13
2	Diploma	5	3	8
3	Below Diploma	3	3	6
	Total	13	14	27

4.3 Data analysis

The previous section presented the background information and the outcome of the survey result. This parts focus on the analysis of the outcome of survey along with outcome of the interview with tax officers and secondary data in the context of the literature review.

4.3.1 Tax assessment and collection challenges

Since there is no specific plan for category “A” taxpayers, the tax officers were faced with problems of identifying problems while budget implementation. The fact sighted by tax officers as being the reason for not having a specific plan for each category of taxpayers is the frequent turnover of staff of the core process .As shown on table 4.2 total employee turnover was 9%. But there is only general annual plan, which includes actual collection and performance percent for all categories, which made variance analysis very difficult for each category. Therefore, the tax office did not perform various variance analyses to come up with a concrete conclusion about where the problem might be so as to take corrective actions. From the interview made with the tax officers, one of the biggest challenges faced by the authority is solving the pervasive problem of corruption. Undesired communication of tax auditors with taxpayers was the major challenge that the tax administration is facing. For one thing, there is constant interaction between taxpayers and tax officials since taxpayers have to file returns physically. This interaction encouraged the two parties to negotiate tax liability. They also are facing problems in identifying corrupted tax officers since corruption networks develop and go undetected. Moreover, the lack of close and unreserved follow up by law accomplisher and controlling process in connection with different tax related activities are the main problems. Besides, some of category “A” taxpayers' financial assessment result done by the auditors ultimately fall to the category “B” or “C”. This indicates failure of the tax authority to make continuous follow-up of the taxpayers’ profile.

Taxpayers do not timely keep adequate record for the purpose of assessment. There is inconsistency in record keeping by category “A” taxpayers. Taxpayers have limited ability regarding tax knowledge and competent accountants to keep accounts. Due to lack of manpower, Arada sub city tax officers are not able to follow up whether all taxpayers declared and paid tax for each tax period since they have registered. In addition, they are not able to make sure that whether all taxpayers that must be registered were really registered. Regarding rental income tax, the taxpayers submitted unreliable signed document to the tax authority. They produce two documents signed by both the lessor and lessee and submit the one with the reduced amount of agreement.

Due to this there exist taxpayers, who collect tax from customers but not identified properly.

When the taxpayer presents income that is understated, the taxpayers will be penalized. However, the tax officers are facing challenges due to the absence of any stated parameter to say a certain understated amount as substantial or not. Therefore, this created a loophole for some undesired bargaining and behavior between taxpayer and tax officer. There were lack of competency, degree of satisfaction of employees and unwillingness to delegate responsibility. The quality of audits made by the officers of the tax office is affected by lack of sufficient comprehensive audits due to shortage of man power. Furthermore, tax audits in most cases have been conducted manually. Manual verification of taxpayer information is not only susceptible to mistakes by revenue officers, but also slows down the auditing process.

Moreover, the tax collectors did not have adequate skills. The prevalence of poorly trained employees accompanied by perceived low remuneration packages and corruption have affected the tax administration.

From the interview made with tax officers, the decision-making process within the core process show that it is not participatory. This may force the subordinates not to take part in the core process activities and lack of willingness to implement decision. It also creates conflict within the core process, which hinders the effectiveness of the core process. The organization also gives less attention on employee training and personal development as it is seen on table 4.1 there are no employees who have qualification above first degree. There exist lack of identification of documents and shortage of strict assessment system. This failure has an impact on collection

The registered taxpayers are required to use cash register machine, which is very expensive and difficult to use. Due to this, they complain about high cost of tax compliance and knowledge of operating the machine.

The training given regarding the use of cash register machine was not adequately sufficient. Due to this, taxpayers are facing big problems in respect of the way how to use the machine. The other problem is when there is electric power failure, they are obligated to inform the tax authority; unfortunately, they usually face problems when calling to the tax authority no reply by tax authority. Due to these, they are saying that they are exposed to a high compliance cost.

Furthermore, if there are technical problems regarding of the cash register machine, they are supposed to get support from the suppliers of the machine, unfortunately, they are not getting quick and adequate support from the sole suppliers and high charge for the service .

Taxpayers continuously complain on the bureaucratic civil service procedures existing in the tax office, when they went there for getting support or complain about different situations at their hand. The major causes for the aforementioned challenges or problems on profit tax administration are:

- Absence of willingness and poor understanding about tax proclamations, rules and regulations by taxpayers and Complexity in understanding tax laws and proclamation.
- Lack of paying attention to follow up the frequent government policies Confusion due to frequent change of policies
- Delayed tax assessment process by the authority due to lack of sufficient assessors.
- Lack of sustainable educative and clear promotion by the government
- Lack of sufficient, incompetent and motivated tax officers and Very frequent employee turnover
- The bureaucracy of offices in giving service to the tax payers.
- Lack of close follow up by law accomplisher and controlling process
- Unwillingness to give clear information by taxpayers
- Lack of willingness to provide information by third party to the office.
- Inefficiency and ineffective organized computerized system in tax administration
- Electric power failure and Inflexibility of the software in use
- Frequent change of taxpayers address without acknowledgement of the office

Chapter Five

5. Conclusions and Recommendations

The main objectives of this project have been to investigate tax assessment and collection challenges in respect of category “A” taxpayers found in Arada sub city. Both survey and in-depth interview techniques were employed to investigate the existing challenges in tax administration of the selected sub city. Based on the presentation and analysis of the data obtained, the main conclusions and recommendations are summarized in this chapter.

5.1 Conclusions

Ethiopia has witnessed significant changes in many aspects of its economy over the last 10 years, but like most developing countries, it has had to contend with the common problems which affect the tax systems of developing countries. Based on the results from data analysis and findings of the research, one can safely conclude that the sub-city tax office has faced different financial, operational and administrative problems and challenges to handle the taxpayers. It may be considered as the implemented tax collection and assessment system is not successful. That is, there exists inefficient and insufficient number of tax assessment and collection officers in the Arada sub city.

Training was not considered as vital activity, which does not justify much attention. There are few or no training professionals on staff. The emphasis of staff training is on teaching the contents of tax laws as opposed to applying the laws. Little or no attention is paid to skills, techniques, procedures, customer relations, or managerial training.

The tax office does not offer sustainable training to create tax awareness by taxpayers. Furthermore; the office does not produce report for separate annual plan of collection in each category of taxpayers. Lack of clarity in tax law left room for interpretation.

Based on the survey results, the study found that there exist lacks of tax knowledge by tax payers. Most of them do not know the rules and regulations of different types of taxes they pay. Due to this, negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes. In addition, the newly implemented system of using cash register machine is causing challenges to the tax payers even though it has a positive impact on tax income of the country. Compliance cost of the taxpayers decreases after they started to collect tax by using a cash register machine. It has also led to improved sales audit for the business, since everything that is captured to record. But it is not friendly usable when the cashier made a mistake while collecting cash, it takes time for a correction of mistakes, the tax laws threatened the business if thee made any mistake unintentionally it might considers as tax evasion. It also reduces the operating cost of the government that was incurred to collect tax and also business income. While increasing the tax income it also reduces the tax evasion loophole. Power failure is the major problem mentioned that caused problem. Furthermore, the prevalence of unfair competition has led to less voluntary compliance.

Generally, taxpayers and tax offices have tax administration problems of different natures. The following section presents different recommendations as to which these observed tax administration problems can be solved.

5.2 Recommendation

This section presents the appropriate suggestions that can be utilized to minimize the tax administration problem in the Arada sub city.

An efficient and proper tax administration is required by setting clear and transparent rule and regulation. Beside all these, tax offices should be equipped with new technology and adequate skilled human resources. The tax authority must maintain adequate management information system. So that, taxpayers must receive clear, concise and up-to-date information on describing what is taxable, how to calculate their tax liabilities and procedures for calculating paying taxes, where and when they pay taxes. The tax office should offer sustainable training and prepare discussion or forum for collaborators such as legal bodies, city administrators, and security bodies as they have direct or indirect contributions for the implementation of the tax. Besides extensive work must be done by the tax office to gather information and register taxpayers, who

have refused to be registered. Accordingly, there should be continuity on the already started activities of giving feedbacks and awareness vastly to the community. Sound use of such information technology approaches as withholding, information reporting, web-based client focused interfaces with the private sector, and value chain analysis and monitoring all activities going on in both private and public sectors can be enormously effective in reducing corruption, curbing evasion and improving revenue yields. The core process should establish appropriate procedure and system of tax collection and assessment procedure and assigning relatively best and capable professionals. The management of the ERCA should work towards bringing the team spirit by solving internal problem. The core process must also give high attention on employee training and personal development, to cope up the new science and technology. ERCA should work with regard to creating enough awareness through different mechanisms since awareness of the people is very important to eliminate the tax evasion and can enhance the efficiency of the authority. This can be achievable if ERCA give training to tax payers as well as tax officers' and ERCA can also create awareness by news papers, pamphlets, with attractive radio and television programs. In addition to that strong audit follow up is very important element to enhance tax income and to reduce tax evasions. So, ERCA needed it audit follow up on tax payers. Furthermore, ERCA is better to designed good and fast systems that can reduce the time of users of cash register machine to make corrections for their errors without wasting time and additional cost.

The tax office must also maximize its capacity so that taxpayers' complaints in respect of cash register machine are solved quickly. Furthermore, rather than delegating the task of providing support for mechanical problems of the machine to the suppliers, the tax office must equip its employees about the technical knowledge so that they do the activities by themselves. Moreover, the tax office should increase taxpayer educational programs to increase tax awareness by tax payers.

Generally, in order to increase tax compliance, 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, Arada sub city tax office must take a sustainable comprehensive look at their tax administration in order to assess how they can increase compliance and minimize the problems existing in the tax

administration. Furthermore, Arada sub city tax administration can achieve its goals if allows taxpayers to give their genuine feedback on the process so that their problems will be taken due attention in order to have voluntary compliance.

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Tax Authorities' employee Questioner

Dear Respondents: -

The Purpose of this questioner is to collect data for the thesis work in requirement for partial fulfillment of MBA Degree in St. Mary's University College. The study aimed at identifying the challenges of tax assessment and collection by giving special emphasis on category "A" tax payers found In Arada Sub-City. I would like to emphasis that your response is extremely valuable for the successful completion of this paper and I would immensely appreciate your response for all questions be responded to genuinely. I can assure you that your identity will be completely anonymous.

I thank you very much in advance for your cooperation and for sacrificing your invaluable time.

Address: Tel. 0911 20 95 97

E-Mail – getachewas99@gmail.com

Tax Authorities Employee

1 Personal Data

1.1. Personal Information

Gender: - Male Female **Age:** 20-30 31-40 41=<

1.2. Educational Level

Diploma First Degree Second Degree Above

Others _____

1.3. Work Experience

0-4 Years 4-5 Years 5-10 Years > 10
Years

2. Tax Related Information

2.1. Do you think Tax evasion in category "A" tax payers is Significant?

Yes No I don't know

2.2. If your response is "Yes" for question no 2.1 which tax do you believe is evaded more? (Multiple Answers is Possible)

Business Profit Tax Payroll tax VAT Rental income

Others specify _____

2.3. If your Response for question no 2.1 is "yes" What do you think is the causes for the problem? _____

3. About VAT, Cash register machine and other tax related issue for the following questions please put tick (✓) mark on the choice of your response which shows the level of your agreement.

Questions/Statements	strongly disagree	Disagree	Neutral	agree	strongly agree
3.1. Ethiopian Revenue Customs Authority (ERCA) offered adequate training about VAT.					
3.2. The use of Cash Register machine reduces tax evasion and fraud.					
3.3 Adequate Awareness creation training has been given to the VAT registered organization regarding use of cash register machine					
3.4.Using cash registers machine facilitates the tax collection process					
3.5.Using cash register machine reduces administration cost					
3.6. Tax collection increases after introduction of cash register machine.					
3.7.Cash register machine reduces corruption					
3.8. The criteria for selection of tax payers for audit and					

auditing lack clarity and transparency.					
3.9.Tax payers do not have good perception of ERCA tax audit follow up system					
3.10. The Existing audit selection criteria are not sound enough to identify tax payer that engaged in tax evasion.					
3.11. Sometimes Tax Officials cooperate with tax payers who intend to evade tax and engage in bribery activity.					
3.12. The Chance of being detected is relatively low if an official is engage in corrupt activity.					
3.13.Tax Evasion by most organizations arise from lack of knowledge on tax issues like penalty, tax codes and tax regulation					
3.14.The existing level and extent of penalties for evaders and tax personnel who are working in collusion with tax					

evaders are sufficient to discourage tax evasion /frauds/					
3.15. The existing Penalty for corrupt officials is not sufficient to deter corrupt activity.					
3.16. The existing practice of penal actions is too weak to discourage tax payers who evading tax					
3.17. There is lack of transparency and consistency in imposing penalties					
3.18. The education and awareness creation program through media, brushers and others means is not sufficient to improve tax compliance					

4. Please write short and precise response for the following questions.

4.1. What suggestions do you give that could mitigate problems related to tax education or public awareness program so that tax evasion is minimized. _____

4.2. Specify the weak links that exist in ERCA that open the door for corruption by tax officers related with tax _____

4.3. If you think existing tax enforcement and penalty are weak, what do you think are the reason (s) _____

4.4. What problems do you think are showing on tax assessment and collection in general? _____



ድህረ ምረቃ ክፍል

የግብር ክፋዮች መጠይቅ: -

የጥናቱ ርዕስ "በአራዳ ክ/ከተማ በደረጃ "ሀ" ግብር ክፋዮች በግብር አገማመት ፣ አወሳሰንና አሰባሰብ ዙሪያ ያሉ ተግዳሮቶች" ጥናቱ የሚሰራው በአቶ ጌታቸው አሰፋ በቅድስተ ማርያም ዩኒቨርሲቲ ኮሌጅ የቢዝነስ አድምኒስትሬሽን ሁለተኛ ዲግሪ ተማሪ ነው ።

ይህ ጥናት በተለይም የዚህ መጠይቅ ዋና ዓላማ "በግብር አገማመት ፣ አወሳሰንና ተግዳሮቶች" በሚል አርዕስት ለሚከናወነው ጥናት ግብአት የሚውል ሲሆን ይህም በቢዝነስ አድምኒስትሬሽን ማስተርስ ዲግሪ ማሟያ ተደርጎ ይወሰዳል ። የዚህ ጥናት ውጤት ለህግ አውጪዎችና ለግብር ሰብሳቢ ባለስልጣን በተለይም ለኢትዮጵያ ገቢዎችና ጉምሩክ ባለስልጣን ግብር ክፋይ ሕብረተሰብ ግብር በአግባቡ ለማስከፈልና ለመክፈል ይጠቅማል ።

በዚህ ጥናት ውስጥ ያለዎት ተሳትፎ ሙሉ በሙሉ በፍቃደኝነት ላይ የተመሠረተ ነው :: የቃለ መጠይቆቹ ውጤቶች ማንነትዎን በማይገልፅ መልኩ ይመዘገባሉ በግልጽ ደረጃ የሰጡት ምላሾች ምስጢርነታቸው የተጠበቀ ነው ::

ለሚያደርጉት ትብብርና ፈጣን ምላሽ በቅድሚያ አመሰግናለሁ!

ለማንኛውም ጥያቄ እባክዎ አቶ ጌታቸው ብለው በሚከተለው አድራሻ ይጠይቁ

ተንቀሳቃሽ ስልክ 0911 – 20 95 97

ኢሜል አድራሻ: - getachewas99@gmail.com

ክፍል አንድ :-

1. የታክስ ከፋዮች የግል ሁኔታ

1.1. ስታ : ወንድ ሴት

1.2. ዕድሜ : 20 – 30 31-40 >41

1.3. አድራሻ

ክፍለ ከተማ _____ ወረዳ _____ የቤት ቁጥር _____

1.4. በድርጅቱ ውስጥ ያሉት ኃላፊነት _____

ክፍል ሁለት :-

2. አጠቃላይ መረጃ

2.1. ድርጅቱ የተሰማራበት የንግድ ዓይነት

አገልግሎት ሰጪ ጅምላ ወይም ችርቻሮ ንግድ አምራች

ሌላ ካለ ይገለፅ _____

2.2. የድርጅቱ ህጋዊ አመሰራረት

የግል ድርጅት የሽርክና ድርጅት የጥምረት ድርጅት ሌላ ካለ ይገለጽ _____

2.3. ድርጅቱ የተቋቋመበት ጊዜ

በዚህ ዓመት ከሦስት ዓመት በፊት ከአራት ዓመት በፊት

ከአምስት ዓመት በፊት ሌላ ካለ ይገለጽ _____

2.4. አመታዊ አማካኝ ገቢዎ ስንት ነው?

ከ 500 ሺህ ብር በታች ከ500 ሺህ እስከ 1 ሚሊዮን ብር ከ1 ሚሊዮን እስከ 5 ሚሊዮን ብር
 ከ 5 ሚሊዮን እስከ 10 ሚሊዮን ብር ከ10 ሚሊዮን እስከ 50 ሚሊዮን ከ 50 ሚሊዮን በላይ

ክፍል ሦስት: -

3. ታክስ ነክ መረጃዎች

3.1. ታክስን እንዴት ትረዳዎለህ/ጂዋለሽ?

እንደጠቃሚ እንደ ዕዳ እንደ ግዴታ ሌላ _____

3.2. የታክስ ክፍያ/ሽን መቼ ትከፍላለህ/ሽ?

በክፍያ ጊዜ ገደብ ከክፍያ ጊዜ ገደብ በኋላ

3.3. በጊዜ ታክስ የማይከፍሉ ከሆነ ምክንያቱ ምንድን ነው?

ከአቅሜ በላይ ስለሆነ በቢሮክራሲው ምክንያት በመርሳት

3.4. የታክስ ምጣኔው ተገቢ ነው ብለህ ታስባለህ/ቢያለሽ?

አዎ አይደለም በመጠኑ _____

3.5. ለጥያቄ 3.4 መልስዎ አይደለም ከሆነ ስንት መሆን አለበት? _____

_____ ::

3.6. የታክስ ክፍያ ጊዜ በቂ ነው ይላሉ?

አዎ አይደለም

3.7. ለጥያቄ ቁጥር 3.6 መልስዎ አይደለም ከሆነ ምን መደረግ አለበት ይላሉ? _____

_____ ::

3.8. ታክስዎን ለመክፈል በሚሄዱበት ጊዜ የገጠመዎት ችግር አለ?

አዎ

የለም

3.9. ለጥያቄ 3.8 መልስዎ አዎ ከሆነ ምን ዓይነት ችግሮች ገጠመዎት? ይግለጹ? _____

አላስፈላጊ መስተንግዶ አድልዎ የታክስ ሰብሳቢ ሰራተኞች ብቃት ማነስ

ሌላ ካለ ይገለጹ _____ ::

3.10. አሁን ያለውን አጠቃላይ የታክስ ስርዓት እንዴት ይመለከታሉ?

ጥሩ ነው ማሻሻል ይስፈልጋል ሌላ ካለ ይገለጹ _____

_____ ::

3.11. መሻሻል ካለባቸው ምን ምን ነጥቦች መካተት አለባቸው? _____

_____ ::

3.12. ታክስ በመክፈልዎ የሚያገኙአቸው ጥቅሞች ምን ምን ናቸው?

የባንክ ብድር ማግኘት በጨረታዎች መካፈል የመለገስ ማብት ሌላ ካለ ይገለጹ _____

_____ ::

3.13. ስለታክስ መረጃ ያገኛሉ?

አዎ አላገኝም ሌላ ካለ ይገለጹ _____

3.14. መረጃ የሚያገኙ ከሆነ መረጃው ምን ያህል ግልፅና አስረጂ ነው?

በጣም አስረጂና ግልፅ ነው አስረጂና ግልፅ ነው በቂ ነው

አስረጂና ግልፅ አይደለም

3.15. ለወደፊት መረጃዎቹ በምን መልኩ መተላለፍ አለባቸው ይላሉ?

በጋዜጣ በፓምፕሌት በመገናኛ ብዙኃን በኮንፍረንስ ሌላ ካለ ይገለጹ _____

_____ ::

3.16. ታክስዎን ለመክፈል ምን ያህል ጊዜ ይፈጅብዎታል?

ከ30 ደቂቃ በታች ከ30 ደቂቃ እስከ 1 ሰዓት ግማሽ ቀን አንድ ቀን

ከአንድ ቀን በላይ

3.17. የክፍያ መመዘኛዎ ማሸን ይጠቀማሉ?

አዎ አልጠቀምም

- 3.18. ለጥያቄ ቁጥር 3.17 መልስዎ አዎ ከሆነ ስለአጠቃቀሙ በቂ ስልጠና ያገኛሉ?
 አዎ አይደለም
- 3.19. ለጥያቄ ቁጥር 3.18 መልስዎ አይደለም ከሆነ ምክንያቱ ምንድን ነው? _____

- 3.20. ለጥያቄ ቁጥር 3.17 መልስዎ አይደለም ከሆነ ምክንያቱ ምንድን ነው? _____

- 3.21. ካሽ መመዘገቢያ ማሸኑን ሲጠቀሙ ችግር አጋጥሞዎት ያውቃል?
 አዎ አይደለም
- 3.22. ለጥያቄ 3.21 መልስዎ አዎ ከሆነ ችግሮቹን ይግለጹ _____

 _____ ::
- 3.23 በአጠቃላይ ለዚህ ደረጃ ታክስ ከፈቶች ለታክስ አሰባሰብ ማሻሻል ይረዳሉ የሚሉአቸውን ነጥቦች ይጻፉ:: _____

 _____ ::

Table 4.11 Summary of respondents’ response on service given by ERCA

Items	Description	Response	Frequency	Percentage
A	Is there any problem facing you when you go to pay your tax liability?	Yes	23	54
		No	19	46
		Total	42	100
B	What kinds of problem do you face when you go to pay your tax liability?	Inefficiency of Tax Collectors	13	56
		Discrimination	2	9
		Ill-Treatment	8	35

		Others	0	0
		Total	23	100
C	Do you get notices about taxation?	Yes	24	57
		No	18	43
		Total	42	100
D	If you get the notices what extent it is clear and understandable?	Very Understandable	1	2
		Understandable	2	5
		It Is Enough	11	26
		Not Understandable	28	67
		Total	42	100
E	How long does it take you to pay your tax liability?	Less Than Thirty Minutes	0	0
		30 Minutes To 1 Hour	8	19
		Half Day	16	38
		One Day	11	26
		More Than One Day	7	17
		Total	42	100
F	Ethiopian Revenue Customs Authority (ERCA) offered adequate training about VAT.	Strongly Disagree	9	22
		Disagree	18	45
		Neutral	2	6
		Agree	10	25
		Strongly Agree	1	2
		Total	40	100
G	The criteria for selection of tax payers for audit and auditing lack clarity and transparency.	Strongly Disagree	1	2
		Disagree	0	0
		Neutral	3	8
		Agree	30	75
		Strongly Agree	6	15
		Total	40	100

H	Tax payers do not have good perception of ERCA tax audit follow up system.	Strongly Disagree	3	9
		Disagree	8	20
		Neutral	2	7
		Agree	24	55
		Strongly Agree	3	9
		Total	40	100
I	There is lack of transparency and consistency in imposing penalties.	Strongly Disagree	0	0
		Disagree	2	5
		Neutral	1	2
		Agree	21	53
		Strongly Agree	16	40
		Total	40	100
J	The education and awareness creation program through media, brochures and others means is not sufficient to improve tax compliance.	Strongly Disagree	0	0
		Disagree	3	8
		Neutral	0	0
		Agree	30	75
		Strongly Agree	7	17
Total	40	100		
K	The Chance of being detected is relatively low if an official is engage in corrupt activity.	Strongly Disagree	0	0
		Disagree	3	8
		Neutral	0	0
		Agree	27	67
		Strongly Agree	10	25
		Total	40	100
L	Is the Tax rate fair?	Yes	9	21
		No	25	60
		Some What Fair	8	19
		Total	42	100
		Yes	32	76
		No	10	24

M	Is tax payment period enough?	Others	0	0
		Total	42	100
N	How do you assess the present taxation System in general?	Good	11	26
		Needs Adjustment	34	74
		Others	0	0
		Total	42	100
O	For the future, in what ways do these notices shall be provided?	On News Paper	28	62
		Through Pamphlet	32	71
		By Conference	42	100
		Through Mass Media	42	100
		Others	16	36
		Total	166	100

