# The Attitude of Large Tax Payers and their Compliance on VAT System in Ethiopia Revenue and Customs Authority

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**Addis Ababa, Ethiopia**

## Addis Ababa University

## College of Business and Economics Department of Public Administration and Development Management

This is to certify that the thesis entitled, "*The Attitude of Large Tax Payers and their Compliance on VAT System in Ethiopia Revenue and Customs Authority*" was carried out by Assefa Wakjira under the supervision of AbebeYitayew (Ph.D.) submitted in partial fulfilment of the requirements for the degree of of Master in Public Management and Policy, complies with the rules and regulations of the University and meets the accepted standards with respect to originality.

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## Statement of Certificate

This is to certify that Assefa Wakjirahas completed his thesis entitled "*The Attitude of Large Tax Payers and their Compliance on VAT System in Ethiopia Revenue and Customs Authority*",is his original work and is submitted for examination with my approval as a thesis.

AbebeY. (Ph.D ____________________ ________________

Advisor Signature Date

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## Acronyms and Abbreviations

| | |
|---|---|
| ASYCDM | Automated System for Customs Data Management |
| ERCA | Ethiopian Revenue and Customs Authority |
| FDRE | Federal Democratic republic of Ethiopia |
| GST | Goods and Services Tax |
| IMF | International Money Fund |
| SIGT | ASStandand Integrated Government Tax Administration System |
| SPSS | Statistical Package for Social Sciences |
| TIN | Tax Identification Number |
| VAT | Value Added Tax |

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## Abstract

*The purpose of this study was to assess the attitude of large tax payers and their compliance on VAT System in ERCA Ethiopia. To conduct this study, descriptive survey method was employed. A total of 238 sample respondents were involved, of which 170 large tax payers and 68 ERCA employees were selected and involved in the study. Both purposive and systematic random samplings were employed. Specifically, a random sampling technique was employed for large tax payers as well as employees who were treated through questionnaire whereas purposive sampling technique was applied for the management of ERCA.  Frequency count, percentage, mean and standard deviation were utilized to analyze quantitative data gained through the questionnaires. The finding of the study indicated that large tax taxpayers report lower business performance while they issued sales invoices to respective clients, there was moderate tax education program for tax payers and the authority has moderate free call information centers as well. Besides, VAT implementation in large tax payer's office (ERCA) has faced different challenges and apart from the existing challenges, failure to provide tax payers information, failed to provide receipts for the service that you are selling as well as awareness related issues usually the authority practicing. The study recommends that the authority together with stakeholder of the tax system should introduce a research budget line in the branch offices and at Federal level so that possible problems can be identified just the time set.*



***Keywords:*** *Value Added Tax, Attitude, Large Tax Payers and Compla*

# CHAPTER ONE

# INTRODUCTION

## 1.1. Background of the Study

A tax is a compulsory levy and those who are taxed have to pay the sums irrespective of any direct corresponding return of services or goods by the government. Taxes are important sources of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income into government hands. Such public goods like roads, power, municipal services, and other public infrastructures have favorable results on many families, business enterprises, industries, and the general public. Public goods are normally supplied by public agencies due to their natures of non-rivalry and non-excludability. The nature of the consumption of public goods is such that consumption by one does not reduce consumption for others.

In Ethiopia the authorized body to collect tax (ERCA) has three taxpayers' categories). They are a category of taxpayer A, B, and C. Category A large taxpayers whose annual turnover > 500,000 and category B taxpayers whose annual turnover in between 100,000 – 500,000 have the mandate to prepare financial statements. Whereas, category C taxpayers may not have. But revenue comes from those taxpayers who are not sufficient to finance government expenditures because the tax revenue performance is low in developing countries due to various problems. Therefore, developing countries receive a very low amount of revenue from taxation because these countries face several problems in the process of revenue generation.

The emergence and rapid spread of value-added tax are among the most important tax development of the late 20th century. The concept of value-added tax (VAT) was generated in 1954 by a French economist Maurice Laurie who was the joint director of the French tax authority. The theory is that the end consumer carries the burden of VAT, not the business, which is merely collecting the VAT on behalf of the tax authority. Different scholars also define VAT as a percentage tax on value-added applied at each stage of production. It is a type of indirect tax, nowadays found in more than 130 countries and has become the principal source of revenue for many countries (Kassu, 2011).

According to IMF in the year 2004, about 136 countries have made VAT part of their tax system, and 53 members of countries of African Union 33 of them introduced VAT in their tax system. In Ethiopia, according to IMF (2003), one of the focuses of the tax policy reforms is reforming indirect taxation. The main reform to indirect taxation was the introduction of VAT in January 2003. However, weak tax administration, particularly in developing and transitional economies is the principal impediment to the successful implementation of VAT. This is the principal source of revenue for the Ethiopian government. For instance, in the 2006–07 fiscal years, VAT Revenue (on domestic transactions) accounted for about 41 percent of the total federal revenues from domestic sources (Worku, 2008).

To sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax system is raised as efficiently as possible. However, researches reveal that in Ethiopia revenues raised by VAT are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration and poor culture of paying tax of the taxpayers i.e., the incapacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in achieving the government's policy objectives at large and fully implementing the design features of VAT (Yesegat, 2008).

Perhaps, understanding the taxpayers' behavior and perception in terms of their attitude towards the tax system and how it influences the tax compliance behavior will be a solution to this gap. There is also considerable evidence on the subject of taxation and behavior' of taxpayers. For example, Congdon et al. (2011), Alazar Emiru (2009). and Research is being undertaken by many researchers in tax administration levels to improve taxpayers' attitude towards taxation.

However, while these studies are based on evidence from developed countries, studies in developing countries are limited. Besides, very limited work has been done to assess the large tax taxpayer's attitude even in developed countries. More specifically, in the case of Ethiopia, to the knowledge of the researcher, there are few studies on large tax payer's attitudes towards the VAT system in particular and in the country tax system at large. Even the related study conducted in the country by Curtis S. Dubay (2010)does not try to see the attitude of taxpayers towards their satisfaction. In this context, the broad purpose of this study will be to assess the Attitude of Large Tax Payers (A taxpayers whose annual turnover > 500,000) towards the VAT system and their Compliance on VAT system in Ethiopia Revenue and Custom Authority

## 1.2. Statement of the Problem

Many countries in the world generate a substantial amount of their income from taxes. A well-designed and administered tax system play a pivotal role in generating revenue as well as increasing the tax base to the government of any country. As Bird (2008) cited by Misganaw (2016) noted, alike other tax systems, it is unquestionable to ensure that the revenue collected from VAT should be raised efficiently and effectively. Because, a good tax administration, VAT administration, in this case, is important to achieve the policy objectives of the government.

In Ethiopia, the value-added tax (VAT) was introduced in the year 2003 as a replacement to sales tax. Since then VAT has become one of the principal sources of revenue for the Ethiopian government. For instance, in the 2006/07 fiscal year, federal VAT revenue on domestic transactions accounted for about 41% of total federal revenues from domestic sources (EFIRA, 2007 cited in Wollela, 2008). Further, since its introduction, VAT has been more revenue productive than sales tax (Teferra, 2004).

However, in Ethiopia, VAT administration is contested by multifarious challenges. Limited infrastructures, technology, and educated manpower (Alazar, 2009) compounded with Poor awareness of taxpayers, the culture of paying taxes, and the poorer capacity of tax administrators (Wollela, 2008) has made the Ethiopian VAT administration challenging.

Revenues raised by VAT are usually garnered at the expense of erosion in its salient features. Although the number of VAT-registered firms is steadily growing, administration of VAT as a tax system is encountering by the bottlenecks of taxpayers' identification and registration, VAT filing, and payment, VAT refunds, VAT audits, penalties and VAT invoicing and other gaps and problems. The paucity of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators remained as major challenges to the VAT system in the country. (Habtamu, K Reddy &Debela, 2015).

The problems discussed above call for extensive research which examines VAT revenue and its administration, and to identify problems associated with VAT. Thus, this study will assess the attitude of large taxpayers and their compliance in Ethiopia Revenue and Custom Authority

## 1.3. Research Questions

This research will examine the attitude of large taxpayers towards the implementation of VAT and identify their compliance with the VAT system in Ethiopia Revenue and Customs Authority. Thus, the following research questions will be addressed in this study.

1. Do large taxpayers understand the VAT system?
2. Do large taxpayers have a positive attitude over the implementation of VAT in Ethiopian Revenue and Custom Authority?
3. Do large taxpayers comply with to tax authority's rule?
4. What are the challenges faced by large taxpayers in complying with VAT administration?
5. What are the major solutions to alleviate VAT administration Problems?

## 1.4. Objectives of the Study

### 1.4.1. General Objective

The general objective of this study is to assess the attitude of large tax payers and their compliance on vat system in Ethiopia Revenue and Custom Authority.

### 1.4.2. Specific Objectives

Besides to the general objective the research will address the following specific objectives.

- Assess the extent of large tax payers' attitude with VAT tax system implementation Ethiopia Revenue and Custom Authority
- Examine the level of large tax payer's compliance on VAT administration in Ethiopia Revenue and Custom Authority.
- Assess large taxpayers' attitude with current tax reform such as with cash register machine and VAT withholding.
- Identify the main problems encountered by large tax payers in Ethiopia Revenue and Custom Authority.
- To Provide recommendation to stakeholders on how VAT administration can be improved.

To forward possible recommendations to strengthen the tax system implementation practices in Ethiopia Revenue and Custom Authority

## 1.5. Significance of the study

An economic development of a country is directly linked to an effective and efficient administration of various tax systems. The introduction of VAT as a tax system is a recent phenomenon to Ethiopia. It was introduced in January 2003 as part of the tax sector reform. Since then, the system has gone through various reforms. However, it has experienced different difficulties that hampered it from generating the amount of revenue which should have been collected. Since the sector is new, little researches have been done to outline the main problems associated to the VAT administration and subsequent measures to alleviate them.

Hence this research will have a contribution in examining the attitude of large tax payers and their compliance observing in VAT administration practice and identify the key challenges and indicate possible solutions for the concerned Authorities. Furthermore, the study will also serve as an input for further research by researchers and academicians who want to conduct further investigation on the issues discussed in this research.

## 1.6. Limitation of the Study

Corona Virus have been challenging that I faced during data collection because there was a lockdown. More specifically, questionnaire was distributed based on the time table set but ample of the sample respondents were resisting to filling out the questionnaire due to the fear of Covid-19 and interviewees were somehow resisting to sit for an interview.

## 1.7. Scope of the study

This study would primarily deal with the analysis of value added tax system, large tax payer's attitude together with certain compliances that may observe and associated problems in Ethiopian Revenues and Customs Authority large tax payer's offices. The main focus of the research would limited to assessing the attitude of large tax payers towards the VAT system and investigate their compliances since the start of enforcing the VAT proclamation

## 1.8. Organization of the Study

This research were have five chapters. The first chapter were present the background of the study, statement of the problem, Significant of the study, scope of the study. The second chapter was devoted to the review of related literatures, while the third chapter was deal with research design and methodology. The fourth chapter was dedicated to the analysis of the data and discussion of the results. The fifth chapter was come up with summary, conclusions and recommendations.

# CHAPTER TWO

# 2. REVIEWOF RELATED LITRATURE

## 2.1. Tax Policy and the World Economy

Tax policy becomes even more complicated when one recognizes that the geographic borders do not define the limits within which tax policy decisions focused on the welfare of citizens take place. Countries no longer have the luxury of designing and implementing their tax systems in isolation. The interdependence of national economies has always been a factor in shaping and implementing social, industrial, economic, and tax policy. In part for this reason, the traditional tax policy paradigm discussed in Section has always been far from comprehensive and may no longer work very well even as an indicative tool. (Richard, M.Bird&j.Scott, 2012).

According to (Richard, M.Bird&j.Scott) 2012 limits of tax and economic activity have been understood and defined largely by reference to the physical connections of those activities with observable trade flows of various kinds. In this world, the communities in which production occurred and was consumed were readily evident, and suitable adjustments via various forms of trade and tax regulation could be made to establish or protect the fairness of the implicit international bargain. When, however, what a country produces – and hence supports and finances through its tax system and broader economic, social and political infrastructure – flows through (the virtual economy) it may all too easily and invisibly be appropriated by others beyond the country's limits.

In recent decades, the increased mobility of business inputs, primarily capital, across national borders as well as changes in consumption and production patterns have reduced the significance of national borders. Taxes have become a more important factor in location decisions. There is increased tax competition for direct investment, portfolio investment, qualified labor, financial services, markets, and business headquarters. A country whose tax system differs substantially from other countries with which it has important economic connections, may suffer (benefit) as a result. All countries have to some extent lost some tax sovereignty and the adequacy of some traditional tax policy imperatives and design. (Richard, M.Bird&j.Scott ,2012)

### 2.1.1. The Essence of Taxation

Taxation is a system of raising revenue by a government through tax. It is a method of collecting funds by a government from tax sources to finance its operation. Taxes are in general the backbone of any politico-economic regime. Constraints on its power to take are constraints on its Power to act. The levying and collecting of taxes are therefore the central function of governments in all countries. The levying and collecting system and methods obviously, vary widely according to the political, economic and social characteristics of individual countries (income tax proclamation, 78/2002). The objective of taxation can therefore to raise revenue to finance government expenditure, redistribution of wealth and income to promote the welfare and equality of the citizens, regulation of the economy thereby creating enabling environment for business to increase (Nightingale, 2002; and Lyme and Dates, 2010).

### 2.1.2. Tax Administration in Ethiopia

Tax administration refers to the systematic organization and arrangement of elements for tax collection and other similar tasks or activities by the tax authority of the federal government and state governments. A good and efficient tax administration has:

- Management system through which it carries out its activities
- Tax lows or codes that guide that tax management system and knowledgeable administration.

In order to be successful and effective in tax administration, the following factors are considered essential: - An explicit and sustained political commitment, Relevant training for staff (who engages in assessment and estimation, Additional resources to the tax administration, incentives for both tax payers and tax administrators, Simplification of the tax procedures, Decentralization of tax administration, Development of a good accounting system: etc. One of the objectives of taxation is collecting sufficient amount of public revenue to meet public expenditure. In order to attain this objective, a close relationship between tax structure and tax administration and an organized tax collection structure should be maintained (Misrak, 2008).Tax reform has been on progress since 1999 when studies were conducted on aspects of tax administration comprising taxpayer identification number presumptive taxation, assessment and audit, revenue accounting and receivable management, VAT, taxpayer recruitment, investigation and regional co-operation.

### 2.1.3. Tax Compliance

Many of the functions of tax administration depend to at leastsome degree on the voluntary compliance of taxpayers. Inaddition, large elements of the tax system in Ireland are basedon self-assessment. In this context, there is clearly potential toinfluence behavior to improve compliance Richard Bird (2003).

Tax compliance means obeying tax laws. Richard Bird (2003) stated that compliance with reporting requirementsmeans the taxpayer files all required tax returns at the propertime and that the returns accurately report tax liability inaccordance with the Internal Revenue Code, regulations, andcourt decisions applicable at the time the return filed.According Richard Bird (2003) tax compliance expressed in terms of the degree that taxpayers‟ comply with tax law and the degree of non-compliance measured in terms of the tax gap. Tax compliance is a behavior of tax function as constellation of cognitive, effective and co-native component interacting in understanding, feeling and behaves towards the meaning and the function of tax.

### 2.1.4. Tax Compliance Theories

There are many predictors for tax compliance from theeconomic to the non-economic factors. The economic factorsare detection and punishment, harsh enforcement, burden oftaxation whereas the non-economic factors as mentioned byAlm Schisler, Ana D (2003) are behavioral in nature.Fiscal psychological factor is an important element in taxcompliance research and numerous tax compliance researcheson tax fairness showed significant results. Generally, thedecision to comply or not is an individual’s rational profitseeking attitude Allingham M, Sandmo A. (2007). A majordifficulty in analyzing noncompliance is in its methods ofmeasurement. Naturally, individuals have incentives to concealtheir cheating. Based on the above expressions the definitionof tax compliance can be shortly refined as the desire orwillingness of the taxpayers to act in accordance with the taxlaw and the voluntary effort they exercise to pay their taxliability on timely basis.

#### 2.1.4.1.Deterrence Theory

The taxonomy of tax compliance studied under theoreticalperspectives of deterrence theory and fiscal psychology.Deterrence theory relates to sanctions, threats (fines andpenalty structure). It has association with criminal justice. Taxnoncompliance is a soft type of “illegal” act of not complyingwith the tax laws. In fact, evasion of tax which illegal act ofevading tax and avoidance of tax refers to a legal concept oftax evasion and activities related to avoidance are tax planningand tax investment. What made the deterrence theory thatcrucial? They needed to deter the noncompliance activities oftaxpayer who default to pay the government its rightful sourceof revenue. However, many tax researchers have questionedthe appropriateness of the deterrence theory framework(model) that used to explain compliance behavior becausedeterrence can also be counterproductive and found a negativecorrelation using sanctions. Despite this relationship betweenfear of sanction and crime rate it can lead to a passive behaviorby individual as reported by Cuccia D Andrew (1994), studied on the detection probabilityand the intentions to evade taxes and his findings wereconsistent with the deterrence theory.

#### 2.1.4.2. Fiscal Psychology

Since long time attitude become a prevalent concept with thenumerous studies that covers the field of economics,accounting, criminal justice (decision sciences), law,psychology, sociology, ethics and taxation. This has providedplenty of issues and questions to understand attitude oftaxpayers. Models using the attitudes tradition are morecomplex than deterrence theory models besides being uniquebecause it looks at compliance intentions of the taxpayer.However, according to Cuccia D Andrew (1994), fiscal psychologysuffers from a methodological shortcoming because it failed toidentify the mechanisms through which the link exists and thateconomic based compliance research will be better atunderstanding taxpayer reporting.

Factors under fiscal psychology which are behavioral in nature are demographic,(e.g. age, gender), perceptions of the moral of evasion,perceptions of peer compliance and fairness of the laws. Thetaxpayer may not reveal the truth in the survey due to biasbecause one person may perceive that underreporting is notwrong as compared to another Alm Schisler, Ana D (2003) statedthat equity models in understanding perceived fairness. Themost common point of difference in different theories on taxcompliance studies used the concept of exchange equity,vertical equity, and horizontal equity Alm Schisler, Ana D (2003). When public goods and services increase at a certain levelof tax payment it boasts the taxpayer's perception of exchangeequity and therefore the chances of tax evasion would be less.

However, as more theories stated that when public goodsincrease, tax evasion reduces leading to better compliance,there was still doubt whether the interdependence of taxpayerand government in providing public goods is due to the equityeffect or economic effect or both are responsible. They pointout a significant support for the relations between perceptionsof fairness and compliance, exchange equity and compliance,and compliance and commitment when tested for taxnoncompliance using concepts such as tax underreporting anddishonesty.

## 2.2. Factors Affecting Attitudes of Tax Payers

Some factors specially up on filling tax returns and payments of taxes are convenience, certainty, fast refund, notice from tax administration, andaccessibility. The need for tax revenue is increasing day after day; state needsto raise its service quality in order not to lose the tax payers,but to gain them. Especially the tax officers and their chiefswho are in direct relationship with the tax payer should havegood relations with all taxpayers, empathize with the taxpayer,treat equally to each taxpayer and motivate the taxpayersregarding conformity with the taxes.

The need to strengthen the delivery of public goods andservices for citizens has, in recent decades, assumedsignificance both in developed and developing countriesKeith Walsh (2012). This development has been linkedwith the shift in publicadministration whereby the emphasis has now moved beyondthe pure New Public Management (NPM) criteria of efficiency,value for money, managing for results, procedurals to the'public value model' which elevates the NPM notion ofcitizens as consumers to citizenswith broad social concernsNilgün Betül S, Dilek (2014).

A better reputation of the public administration is critical in order to encourage more taxpayers to comply with tax laws.This would lead to more tax generated income for the public sector and it would provide additional budgetary room in the long run. However, better reputation can only be achieved if citizens feel significant improvements in the service delivery.Apart from that, the tax administration needs to establish an effective system of penalization for citizens who fail to fulfill their tax duty Nightingale K., (2002).

## 2.3. Factors Determining Tax Compliance Behavior

Fischer *et al*. (1992) stated there are four basic factors thatdetermine tax compliance behavior in his expanded model(Fischer Model):

1.Demographic (e.g. - age, gender and education)

2.Noncompliance opportunity (e.g. income level, income source and occupation),

3.Attitudes and perceptions (e.g. fairness of the tax system and peer influence) and

4.Tax System/structure (e.g. complexity of the tax system,probability of detection and penalties and tax rates).

Thus, from the Factors, that affecting compliance behavior thespecific factors that is fairness issue and the fairness affectingfactors of the Ethiopian income tax system remain as questionsto be addressed.

### 2.3.1. Tax Compliance Costs

Tax compliance costs were defined as all those costs incurredin the course of ensuring proper compliance with relevant taxregulations. These costs include the following:

- The costs incurred in the course of record-keeping – this included all the costs associated with the compiling and organization of receipts and records.
- The costs incurred in the preparation and submission of all relevant tax returns.
- The value of the time utilized by the small business staff in ensuring proper compliance, including visits to tax offices.

- ❖ The costs incurred for the services of tax practitioners, accountants, and other consultants that may have been required to either ensure compliance and/or address disputes with SARS.
- ❖ All other costs incurred in the course of ensuring compliance, including incidental and travel costs (Citiz, 2010).

## 2.4. Definition of Value-Added Tax (VAT)

In its simplistic form, VAT is a form of indirect tax collected at various stages of production-distribution chains (Minh Le, 2003). It is a general tax that applies, in principle to all commercial activities involving the production and distribution of goods and the provision of services Yohannes&Sisay (2009) also discussed that the value added is imposed on the value that the business entity adds to the goods and services that it buys from suppliers or other firms. This value is added partly owing to the fact that processing or handling purchased materials /items requires additional labor or capital that shall be calculated out from the final product/service and partly because buildings, machinery, etc. are devoted to preserve the good or provide the service to its destination. Costs of production and preservation shall be borne /deducted from the proceeds of the sale of the good /service (value added) which is serving as tax bases for VAT. According to Encyclopedia Britannica VAT is:

> *"A VATIS designed like other sales taxes, to tax private consumption by individuals of the goods or services subjected to tax"*
>
> *SOURCE* (Minh Le, 2003).

From the given definition, one can comprehend that VAT is a Variety of sales tax and the tax is imposed on consumers. But the definition provided above failed to list out other features that distinguishes VAT from other kinds of taxes. Referring to Black"s law dictionary Yohannes&Sisay (2009) stated that VAT is a tax assessed at each step in the production of a commodity based on a value added at each step by the difference between the commodities production cost and its selling price. Besides to the elements included in the first definition, the second definition included two peculiar features of VAT: tax base and tax imposition at a step the value is added. By combining concepts from the two definitions, one can then define VAT as a sales tax imposed on sales a transaction which is measured as a percentage of the product or the service rendered Yohannes&Sisay (2009).

### 2.4.1. Origin of Value added Tax

Value-added tax (VAT) is still a relatively new tax system. Its origins have never been decisively settled. Attribution is variously accredited to one of two sources: the German businessman Wilhelm Von Siemens in 1918, or the American economist Thomas S. Adams in his writing between 1910 and 1911 (James, 2011; Minh Le, 2003; Williams, 1996).

Von Siemens's VAT concept was seen as a technical innovation that brought a key improvement to the turnover tax. VAT allowed for the recovery of taxes paid on business inputs and therefore avoided the cascading problems that arise with a turnover tax. While the innovation was clearly important, it hardly meant the revolutionary overthrow of the fiscal order. Adams saw the VAT as an alternative to the business income tax. He was focused on federal tax policy, and since there was no national sales tax his concern was not with technical modification to an extant regime but with a major alteration of the existing federal income tax system (James, 2011; Herouy, 2004).

VAT has spread throughout the world since its introduction in 1954 at a national level in France. Its original coverage was limited, and France did not move to a full VAT that reached the broader retail sector until 1968. The first full VAT in Europe was enacted in Denmark in 1967, although the country did not join the European Economic Community until 1973 (James, 2011). He also further noted that VAT adoption progressed in two major phases. The first occurred mostly in Western Europe and Latin America during the 1960s and 1970s. The second phase of VAT adoption occurred from the late 1980s with the introduction of VAT in some high-profile industrialized countries outside the EU, such as Australia, Canada, Japan, and Switzerland. This phase also witnessed the massive expansion of VAT in transitional and developing economies, most notably in Africa and Asia.

Its format has changed and now incorporates what was once an offshoot - "GST" (goods and services tax). Today, over 128 countries have the tax. All members of the OECD and all leading economies in the world have a VAT (or very broadly comparable tax), apart from the US (Herouy, 2004). This difference between the U.S. and Western Europe is largely a reflection of the different motives of the tax's innovators. Germany, along with much of Western Europe, came to embrace the VAT as a superior technical modification to sales taxes already in place, and as an adjunct to the income tax. By contrast, U.S. policymakers' ambitious and intermittent pursuit of the VAT — often as a proposed substitute for the federal income tax — has remained fruitless (James, 2011).

### 2.4.2. VAT Terminologies

According to Misrak (2008), Ethiopian Tax Accounting Theory and Practice some of the terms in the VAT literature are:

- Output tax: - is the VAT that a business pays over taxable supplies made and can be recovered only on so far as your business in VAT registered and make taxable output.
- Input tax: - the VAT that a business collects over on taxable supplies (VAT paid on sales).
- VAT payable: - this is the VAT to be paid to the authority /ERCA/ by the taxable person. It is computed as: VAT payable = Output tax – input tax
- Zero rating: - the supply is charged with VAT at 0% but credit can be taken for VAT paid on purchase used to make supplies.
- Positive rate: - the supply is charged with a rate of 15%.
- Exemption: - the supply is exempted from VAT. No VAT is charged on the supply and no credit can be taken on the purchase used to make supply.

## 2.5. Value Added Tax both in Developed and Developing Countries

VAT in both developed and developing countries is regarded as the most effective and important tax system for generating government revenue for the purpose of public use. According to Minh (2007), VAT is the work-horse of the revenue system. Bird and Gendron (2006) argues that VAT is the best type of general consumption tax available and almost all developing countries are exercising it. In their analysis, Bird and Gendron argued that VAT can be an important source of revenue for economies if administered efficiently and effectively. VAT, though the most effective and important tax system of public revenue, is not without difficulties.

According to Bird and Gendron for instance, the capability of VAT in developing countries is questionable as a result of the poor administration and effective utilizing of the taxing system. Lisa (2007) also agreed on the idea that tax policies in developing countries face numerous tax policy challenges when they attempt to establish efficient tax systems. Taking Uganda as an example, the study results of Lisa (2007) demonstrated that, there persist budget deficits in these developing countries and this is because of their inefficient tax policies unlike the developed economies.

The inefficient tax systems of less developed countries, particularly Sub-Saharan Africa, is also the results of the unstable political situations existing in these countries, the persistent poverty, and lower educational attainment of their people, which have negative contributions to the effective and efficient tax system and collection practices. Moreover, Lisa (2007) explained that the prevailing domestic social phenomena like HIV/AIDSepidemic, the expanding informal sector, and other problems are additional barriers to effective tax administration in these Sub-Saharan Africa Countries.

The benefits of VAT depend highly on the circumstance of individual countries and their economic structure they practice. However, empirical literatures proved that VAT, though complex and difficult to administer, is the most convenient tool of collecting revenue in developing economies (ITD, 2005). Moreover, experiences show that VAT tends to stabilize the economy and effectively helps to mobilize resources towards the public use and this is more visible in developing countries.

VAT has been more successful in more developed economies in the past years (ITD, 2005), but is more important in developing countries for the purpose of resource mobilization, fair income distribution and economic stabilization in the long run (Bird and Gendron, 2006). It is logical that the problems arising from the complexity of VAT in developing countries in collecting the desired tax may bring instability and high-income inequality. Besides, the level of literacy and positive attitude towards the tax may affect the effectiveness of the VAT collection in developing countries. Study results of Olaoye (2009), adds to the idea that consumers' attitude towards such tax systems possess greater impact in the collection efficiency and other administration issues. According to Olaoye (2009), consumers will definitely have negative attitude towards introducing such taxes as long as they did not have the access to get the right information upon its practices and objectives. These problems are likely to happen in developing countries where the literacy level is relatively low and business people are less informed about the policy issues mainly as a result of low rate of participation in the introduction and implementation of such practices.

Since VAT is consumption-based tax, it has the potential of increasing the saving rate and decreasing the consumption rate of countries. In addition, vendors (tax payers) tend to claim less for VAT than other types of taxes because people by their nature are less reluctant to pay for consuming. Moreover, since it is charged on a wide range of transactions (ITD, 2005), it is easy for the tax payer and at the same time brings more money piece by piece throughout the number of transactions along the market activities. Nevertheless, its burden levied on the final consumer is not overlooked and that it has the potential of causing high inflation if not managed appropriately. This is especially in developing economies where the necessary infrastructural facilities are not strong and where the market is not well-structured. While the actual burden of VAT is imposed on the final consumer, businesses, wrongly thinking that they are going to pay the amount, tend to charge higher prices for those goods and services which are eligible for VAT.

VAT collection practices in developing countries have got various limitations to the extent that these countries own poor infrastructural facilities, scarce skilled human resource and lack of awareness of tax payers. The introduction of VAT in these countries is also a recent phenomenon and is not strong enough to be effective. In Ethiopia, for instance, VAT has less than a two-decade old experience and tax payers are not fully aware of its importance in particular and tax purpose in general. Till recent years, business people in Ethiopia were not fully aware of the importance of tax and did not consider paying tax as their responsibility.

Together with the low infrastructural facilities and less advanced technologies, the attitude of tax payers highly determines the extent of effectiveness of VAT practices in particular and tax in general. So, careful handling of tax payers and proactively improving the collection practices will be a crucial task in order to have good system of VAT collection practices and collect the desired amount of revenue. Research results like Hybka (2009), confirm that VAT efficiency in raising tax receipts is higher than sales tax and countries with VAT raise more revenue than those without it. However, it is at the same time mentioned that collection efficiency is always questionable and this problem is evident in developing countries where the system is not well structured and infrastructural facilities are not well developed.

According to Hybka (2009), the efficiency of VAT collection is highly influenced by the harmonization process that the concerned institutions follow in their practices. Harmonizing the collection process requires many facilities starting from automating the procedures up to highly skilled and developed human resources. Well trained human resource with good office facilities and technology needed for the activities will have significant positive effect on the efficiency of the collection of the desired VAT amount. However, all these are not fully facilitated in developed countries including Ethiopia, in which they can contribute for the low efficiency and ineffective collection practices of VAT.

An effective, motivated, and skilled human resource is with no doubt a key for the efficiency of VAT collection practices in every circumstance. This can be seen from different angles. One is that, it is these employees that have much contact with customers and can highly contribute for customer satisfaction. Satisfied customers can be cooperative in their responsibilities and collection practices can be easy. The other is the case that collection practices can be effective in a sense that employees who are well skilled will use the most efficient ways and there will not be wastage of resources.

Since VAT collection efficiency is measured in terms of all the factors including resource utilization, the above determinant factors with respect to the human resource element are all crucial, and can contribute either positively or negatively depending on how strong the human element of the tax authorities is. Other authors like Aizenman and Jinjarak (2005) also argue that the political economy of the country under consideration such as the stability of the nation affects the collection efficiency of VAT in particular and tax in general.

According to Aizenman and Jinjarak (2005), the political instability of a nation reduces VAT collection efficiency. Moreover, the modernization of the collection practices and other structural facilities can impede the collection efficiency. Developing countries are relatively disadvantageous with these factors. The political stability, modernization, and structural facilities are at a lower level in developing countries than in developed ones which implies that the collection efficiency is expected to be low, despite the greater role that VAT plays in these developing countries.

Michael Keen (2009), who reviewed the works of Bird and Gendron of VAT in developing and transitional countries, stressed that VAT experiences and advice for developing economies is limited and that it is not getting as much emphasis compared to its importance. In his argument, VAT governments and policy makers are not giving much emphasis for VAT as it should be. As mentioned repeatedly, VAT is the most important source of government revenue for both developed and developing countries and is more appropriate in its importance to developing countries because of its simplicity in administration as well as its contribution to their developmental activity expenditures. Similarly, Cnossen (2008) recommended that, VAT has to be simple and flexible in developing countries to be effective. This is by considering the fact that the incapability of developing economies to handle the complex issues associated with tax issues; including the low technological advancements utilized and less skilled human resources available in these developing nations; would negatively affect the collection efficiency of VAT.

## 2.6. Value Added Taxand Related Problems in Ethiopia

After the introduction of VAT, VAT revenue collection has shown growing trends as compared with the replaced sales tax. The impact of VAT on government tax revenue is also shown in the structure of tax. The contribution of VAT on domestic goods and services as well as foreign trade shows a substantial increase though the domestic source is by far lower than that of foreign trade. This might be associated with administrative difficulty to collect the tax from the domestic economy and the existence of illegal practices on VAT. VAT collection from imported goods is easy since it is collected at entry point. In principle, VAT is collected from consumption of goods and services. So, the maximum potential that can be collected from consumption expenditure is VAT rate multiplied by consumption expenditure of a particular year. Problems that are observed during the implementation of VAT related with external and internal factors. The external problem associated with the illegal practices of the taxpayers. Even though intensive education program has been undergoing by the tax administration, the following illegal practices are observed:

I. Some VAT registered business enterprises have collected the tax with illegal invoice and retain the tax for themselves,

II. Some eligible business entities have not yet registered for VAT,

III. Some VAT registered business enterprises offer customers an opinion to pay or not to pay VAT,

IV. Some did not declare the tax they collected as per the law, and etc.

The weakness of tax administration highly attributed to the above illegal practices. The tax administration is weak in the area of auditing, follow-up and enforcement though the VAT department of ERCA has computerized its tax system. (DemirewGetachew, 2004).

## 2.7. Characteristics of Value Added Tax

VAT is a broad-based business tax imposed at each stage of the production and distribution process (Minh, 2007). It is an indirect tax based on the consumption of goods and services in the economy (Bird and Gendron, 2006). Theoretically, VAT is imposed directly with the consumption of goods and services and its burden goes to the final consumer. Several authors (White, 2008; Smith et al., 2011; Dubay, 2010 etc.) named it as consumption-based taxation. It is not a charge on companies. It is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain (Herouy, 2004).

Value added is the difference between sales proceeds and purchases of intermediate goods and services over a certain period. For example, the value added for a supermarket is the difference between the total sales receipts that month and the total invoice for goods and services from its supplier. Ultimately, consumers carry the burden of the tax because everyone else in the process deducts the VAT paid on inputs from the VAT collected on their outputs (Alemayehu, 2010). In recent years, developing countries searching for additional revenue have introduced VAT. It is assumed that VAT is the modern type of sales tax.

### 2.7.1. Types of Value Added Tax

Though there is legal and administrative frame work, the administration on VAT refund is still a persistent problem. The problems are attributed in one way or another to the existence of widespread of tax abuse and reluctance on the part of tax officials. But, one feature in VAT, as we discussed earlier, is the prevalence of refund to business entities of the tax they paid in their business against their taxable sales. The treatment for crediting or rebating varies. According toHailemariam (2011), there are three types of VAT: Gross product type, Income type and Consumption type

### I. Gross National Product

Gross national product was subject to general sales tax. The tax would be applied to both consumer and capital goods. It would be paid by the seller. When the product was sold to its last purchaser, whether a consumer a firm which adds to its inventory, gross receipts minus the cost of purchasing intermediate goods from prior producers in production line. The tax base at each stage would thus equal depreciation, wage, interest, profits and rent, it would be the most comprehensive form of value added tax and may be referred to as a value added tax of the GNP type.As noted, it is equivalent to sales tax applicable to both consumer and capital goods with its impact point.

### II. Income Type

This value-added approach as previous noted, may also be used to implement a sales tax on net product, suppose that the intent is to tax net national product equal to GNP, minus capital consumption allowances or depreciation such a tax may be imposed in multiple-stage form by taxing the net value added by each firm, with net value added defined as gross receipts minus purchases of intermediate goods and depreciation. The same result may also be accomplished by general income tax, since the bases of a new product and an income tax are impact the same. The value added tax of the income type those differs from that of the consumption type in that the former permit the firm to deduct depreciation.

### III. Consumption Type

The last method is referred to as the consumption type of value added tax. The base of the value added tax is now defined as the firm's gross receipts minus the value of all its purchase of intermediate product (material and goods on process) as well as its capital expenditure. We are left with value of consumer goods output only. Such a tax is therefore equivalent to a general retail sales tax on consumer goods the two differing in administrating procedure only (Musgary, 1989).

## 2.8. Value Added Tax Policy and Practice in Ethiopian

Since 1993, the Ethiopian government has made major economic shift from central planning to market oriented economic system. In line with this, changing the then mode of collection of revenue in the form of taxation and introduction of VAT was a landmark in the tax policy of the country. In Ethiopia, VAT was introduced since 2003 and designed to replace the out dated sales tax, which has served for more than four decades, which was collected at manufacturing level. VAT was taken as dispensable component of tax reforms by considering it a miracle tax to replace direct and indirect taxes entirely (Yohannes and Sisay, 2009).

The main legislative document that governs the Value -Added Tax (VAT) is the proclamation& regulation enacted by the house of people representatives to govern Value Added Tax in in Ethiopia. Proclamation No 285/2002 which has rescinded and replaced the sales and excise tax proclamation No. 68/1993 (as amended). Articles 7 (1) of the value added tax proclamation states that every taxable transaction by registered person and every import of goods (other than an exempt import) and an import of services by any value added tax registered customer in Ethiopia or any resident legal persons is liable to a value added tax of 15%.

However, the export of goods and services is exempted to the extent provided in the value added regulation the rendering of international transaction of good. Passengers as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights; the supply of gold to national bank of Ethiopia a supply by a registered person to another registered person in a single transaction of substantially all of the assets of a taxable activity or an independent functioning part of a taxable activity as going concern are zero rated. The proclamation has clearly stipulated fundamental VAT administration functions such as registration, collection, refund and other important functions associated with VAT and they are discussed as follows.

### 2.8.1. Registration for Value Added Tax

Registration for VAT under Ethiopian tax laws is of two kinds: obligatory registration and voluntary registration.

**A. Obligatory Registration:** A person carrying commercial activity may apply to be registered for VAT. Pursuant to Art 16(1) of the proclamation, if the total taxable turnover (transaction) over a period of 12 months exceeds 500,000 Ethiopian birr; the person shall be registered for VAT. This requires estimation at the end of each month, the total value of taxable goods and services supplies by a person /business entity/ for the past 12 months. Thus, two periods are to be considered, the past 12 calendar month and the second 12 calendar month, on a month-by month basis.

Where using such method of calculation the total value exceeds 500,000 birr, registration is compulsory. Even at the beginning when there exists reasonable ground to expect that total value of taxable transactions during 12 months period will exceed 500,000 registration is mandatory (Art 16(2).

**B. Voluntary Registrations:** Anybody interested may apply for voluntary registration. But Art 17 provided a condition that shall be satisfied. The applicant person /business entity shall supply goods or render services at least 75% of his /its goods and services to a person /business registered for VAT. Of course, as said earlier, VAT has a lot to do with increment of governmental revenue and hence, voluntary registration shall be fostered forward. A voluntary registered person is entitled to recover (claim credit or refund) in output VAT among other certain zero-rated supplies.

**C. Application for Registration:** Persons whose total taxable transaction exceeds the minimum threshold and not registered are required to file application for VAT registration by themselves. The application is made on the form called "Application for VAT registration" The authority will issue a VAT registration certificate containing;

I. Full name and other details of the registered person;
II. Date of issuance;
III. Date from which the registration takes effect;

IV. The registered person's TIN. On the other hand, when application is rejected /refused for various grounds the authority has the duty to notify the reasons for such.

## 2.9. Tax Assessment and Collection Practice in Ethiopia

As Fjeldstad, (2004) suggested and YalemtesfaTaye, (2011) retrieved the question involves asking; why should people pay taxes? For taxpayers, paying taxes to the state is a quid pro quo that is they expect public services to be provided, which is basically 'tax for service' people are more likely to pay taxes if they felt that the government was providing services equitably, collecting revenue fairly and using the revenue to provide service. They also stated as there is a tendency for the revenue and expenditure sides of the public finance equation to be treated as separate silos.

Refers to the initial review by the tax authority of the tax declaration and attached supplementary documents submitted by a taxpayer and verification of the arithmetical and technical accuracy of the declared tax liability and tax payable shortly after the submission of the declaration .once an income declaration is checked and verified by the concerned tax authority through a process called income tax assessment, hence, tax assessment is the end result of the process of ascertaining a tax payer's taxable income and the tax payable on that income. (Income tax proclamation 78/2002). According to Gebeyehu (2008) findings the main challenges of effective tax administration are, (i) Lack of a taxpaying culture, (ii) Weak accountability, (iii) Lack of transparency, (iv) unstable tax amendments, (v) employee turnover, (vi) luck of awareness on tax rules and regulation, (vii) poor tax administration, (viii) lack of Knowledge about tax rules andRegulations, (ix) corruptions in both sides, tax officials and taxpayers.

### 2.9.1. Tax Payable, Tax Credit Taxation, Tax Invoice and VAT Records

The proclamation incorporates rights and duties upon persons registered for VAT. Understanding the following related concepts will facilitate to have proper enforcement of VAT. Tax payable, Tax credits, tax invoice, Reverse taxation and tax records.One can understand that some of them like tax payment, preparation of tax invoice, tax records and reverse taxation are obligations; they are expected to be discharged on the part of persons registered for VAT. Whereas tax credit (deductible tax) is an incentive that encourages persons to be participant in VAT enforcement.

### 2.9.2. Tax Payable and Tax Credits

Obviously, in introducing VAT, the government is aspiring to generate better amount of revenue than what was collected during sales tax system which had served for more than four decades but with insignificant place to become basic means of income from taxation in Ethiopian history. In short, tax payable is the amount that is expected to be collected from person registered for VAT in Ethiopia.Art 20 in this regard runs the amount of tax payable for any accounting period by a person who is registered or is required to register is the difference between the amount of tax charged on taxable transactions creditable tax stated otherwise, under VAT proclamations, though taxable transactions are subject to VAT.

There are also deductible/creditable taxes. In this case, the amount required from the person is the simple arithmetic difference obtained by deducting creditable taxes from all taxabletransactions. Instances of creditable/ deductible taxes, indicated under Art 21, includes among others: Imported goods that are entered to customs declaration during the current accounting period; and taxable transactions (supply of goods or rendition of services) that are used or to be used for the purpose of the registered persons taxable transactions with in the time limit indicated under Art 11 of the proclamation.

### 2.9.3. Tax Invoice

Whenever you supply standard rated goods or services, which are transactions subject to tax, you must give them a document showing certain information about what you have supplied. This document is known as VAT invoice. Tax invoice is imposed on tax payers subject to VAT. But it is also a right conferred upon such personnel, for the fact that a non-registered person cannot issue Tax invoice.Like other documents, tax invoice for VAT is a document that clearly shows the amount of VAT payable. Issuing this document by the registered person is mandatory imposed so as to have better implementation of VAT.

As per Art 22(2), the VAT invoice as a document is required to contain the full name of the registered person and the purchaser and the registered person’s trade name if different from the legal name, the respective identification numbers of the registered person and the purchaser, the number and date of the VAT registration certificate, the name of the goods shipped or service rendered, the amount of transaction, the amount of excise on excisable goods, sum of the VAT due on the given taxable transaction, the issue date in the VAT invoice and serial number of the VAT invoice.

### 2.9.4. VAT Records

Proclamation no. 285/2002 enacted for the administration of VAT also mandates individuals and persons to keep VAT records. Pursuant to Art 37, a registered person/firm for VAT or any other person liable to pay tax is under obligation to maintain records for 10 years in Ethiopia. Documents meant to be kept includes original tax invoice received by the person, a copy of all tax invoices issued by the person, customs documentation relating to imports and exports by the person, accounting records and any other records as may be prescribed by the ministry of revenue by directive. The above-mentioned taxpayers are generally duty bound to have purchase book and sales book and maintain them properly. Besides, VAT collection receipt, list of items sold, credit of sales invoices, and receipt for sale of zero-rated supplies and receipt for sale of exempt supplies are required to be filed appropriately.

### 2.9.5. Filling of VAT Return and Payment

According to the VAT Proclamation, every registered person is required to file a VAT return with the tax authority for each accounting period, whether or not tax is payable in respect of that period, and to pay the tax for every accounting period by the deadline for filing the VAT return, i.e., no later than the last day of the calendar month following the accounting period. Thus, the VAT Proclamation allows taxpayers a 30-day period within which to file returns and make payments.Nevertheless, in practice, there are three VAT reporting periods depending on whether a taxpayer is a nil, credit or payment filer. The reporting time from the end of the month is 10 days for nil filers, 20 days for credit filers and 30 days for payment filers.

According to tax officials, taxpayers that fail to meet the reduced deadlines would not be fined as long as they report within 30 days from the end of the accounting period. However, such taxpayers would be given verbal warning that if they do not keep the reduced reporting periods, penalty would be applied. Though the legislation has devised at least three means through which taxpayers may file their monthly return, so far, filing return by appearing in person. However, such method of filing return has its own drawbacks, i.e., since every taxpayer has to discharge its obligation in time, they are forced to go to the authority which has drawbacks in terms of skilled man power and technological facilities. As a result, customers are forced to wait for prolonged time until their turn; which kills the time and resources of both the authority and taxpayers.

### 2.9.6. VAT Refund

For any VAT refund period (month) if the allowable input tax is greater than the output tax the amount of the excess is normally repayable to the taxable person by the authority as a tax refund. If at least 25% of the value a registered person's taxable transactions for a month are taxed at a zero rate, the authority will refund the excess amount of VAT within a period of two months after the registered person files on application for refund. In the case of other registered persons, the excess amount of VAT is to be carried forward to the next five months and credited against payments for these months, and any unused excess remaining after the end of this five month period will be refunded by the authority within a period of two months after the registered person filed an application for refund. If the authority does not pay the refund by the specified date, the authority will pay interest at 25% over and above the highest commercial lending interest rate prevailed during the preceding quarter.

## 2.10. Powers of Levying and Collection Enforcement for VAT

In federal states like Ethiopia, concurrent powers of taxation are given both to federal (central) governments and regional states. The FDRE constitution divides powers of taxation between and among the federal and regional governments in the following manner. Powers exclusively given to federal government, powers exclusively given to regional governments, and concurrent powers of taxation. With respect to new taxes, that might be introduced in the future in reaction to societal needs and technological advancements the constitution submits the issue to be decided by the joint session of the house of federation and the house of people's representatives (art.99 of the FDRE constitution)

When VAT is introduced in 2002 power of taxation was resolved by similar procedure and the joint session decided in favor of the federal government. Thus, it is only the federal government that has power to levy VAT in Ethiopia.One open fact here is persons subject to VAT reside both federal and regional states. Since VAT requires cooperation, regions are given delegations to collect returns from VAT. Regarding collection enforcement mechanisms, ERCA is entrusted ways the duty of implementations of the VAT proclamation and regulation issue to supplement the proclamation.

Thus, ERCA is authorized to investigate any statements records, books of accounts submitted by any person at any time. The authority can send duly accredited inspectors to check the statements, records and books of accounts or any vouchers stocks or other material items at the person's place of business, requiring the person, or an employee who has access to produce the same. The person is duly bound to answer questions related with the collection of taxes in VAT. For this purpose, any municipalities' body, financial institution, department, or agency of federal or regional governments is required to render full information to the authority.The power is extended even up to seizure of the properties of the person liable to pay tax and failed to comply with his obligation to pay tax. Here before exercising seizure, the authority has to notify in writing to those who has failed to pay the unpaid tax within thirty days. In default of such, the authority can seize the properties and sell them through public option.

## 2.11. Countries Experience in Value Added Tax Implementation

According to International Monetary fund (IMF) report (2004), more than 4billion, 70%, of the world's population now live in countries with VAT and VAT raises about $18 trillion in tax revenue, roughly one-quarter of all government revenue. Nowadays, among 190 countries of the world, over 136 (72%) of them have made VAT part of their tax system; and from 53 members of countries of Africa Union, 33 (60%) of them have introduced VAT.

**Table 2.1: VAT Implementation Practices in Africa**

| Countries | Date Introduced | Standard Rate (%) | Country | Date Introduced | Standard Rate (%) |
|---|---|---|---|---|---|
| Algeria | 1992 | 21 | Mauritania | 1995 | 14 |
| Botswana | 2002 | 15 | Mauritius | 1998 | 10 |
| Burkina Faso | 1963 | 18 | Morocco | 1986 | 20 |
| Benin | 1991 | 18 | Mozambique | 1999 | 17 |
| Cameroon | 1999 | 18 | Namibia | 2000 | 15 |
| Chad | 2000 | 18 | Niger | 1986 | 17 |
| Congo Republic | 1997 | 18 | Nigeria | 1994 | 5 |
| Cote-Devoire | 1960 | 20 | Senegal | 1980 | 20 |
| Ethiopia | 2003 | 15 | Rwanda | 2001 | 15 |
| Egypt | 1991 | 10 | South Africa | 1991 | 14 |
| Gabon | 1995 | 18 | Sudan | 2002 | 10 |
| Ghana | 1998 | 10 | Tanzania | 1998 | 20 |
| Guinea | 1996 | 18 | Togo | 1996 | 18 |
| Kenya | 1990 | 16 | Tunisia | 1998 | 18 |
| Madagascar | 1994 | 20 | Uganda | 1996 | 17 |
| Malawi | 1989 | 20 | Zambia | 1995 | 17.5 |
| Mali | 1991 | 15 | | | |

**Source:**MisrakTesfaye, (2008), Ethiopian Tax Accounting Theory and Practice (pp.310-311)

**Table2.2: VAT Implementation Practices in Other Countries**

| | Standard Rate (%) | Country | Standard Rate (%) | Country | Standard Rate (%) |
|---|---|---|---|---|---|
| Australia | 20 | Romania | 19 | Lebanon | 10 |
| Belgium | 21 | Slovakia | 19 | Moldova | 20 |
| Bulgaria | 20 | Slovenia | 20 | Macedonia | 18 |
| Cyprus | 15 | Spain | 16 | Malaysia | 5 |
| Czech Republic | 19 | Sweden | 25 | Mexico | 15 |
| Denmark | 25 | United Kingdom | 17.5 | New Zealand | 12.5 |
| Estonia | 18 | Argentina | 21 | Norway | 25 |
| Finland | 22 | Australia | 10 | Paraguay | 10 |
| France | 19.6 | Bosnia & H | 17 | Peru | 19 |
| Germany | 19 | Canada | 6 | Philippines | 12 |
| Greece | 19 | Chile | 19 | Russia | 18 |
| Hungary | 20 | China | 17 | Serbia | 18 |
| Ireland | 21 | Croatia | 22 | Singapore | 5 |
| Italy | 20 | Ecuador | 12 | South Korea | 10 |
| Latvia | 18 | El Salvador | 13 | Sri Lanka | 15 |
| Lithuania | 18 | Guyana | 16 | Switzerland | 7.6 |
| Luxembourg | 15 | Iceland | 24.5 | Thailand | 7 |
| Malta | 18 | India | 12.5 | Turkey | 18 |
| Poland | 22 | Japan | 5 | Venezuela | 8 |

**Source:** MisrakTesfaye (2008), Ethiopian Tax Accounting Theory and Practice, 2008 (pp.311-312).

The standard rate for all goods and services will be fixed by law. It will be applied as a percentage of the selling prices or import value of the item. VAT in Ethiopia has a fixed rate of 15%. For every taxable transaction by a registered person, every import good other than an exempt import, and an import of services, 15% of the value shall be applied as value added Tax. However, zero-rate is normally applied to all goods sold outside the country. No rate is applied to goods which are exempted.

## 2.12. Empirical Literature

Asamnew (2009), in his analysis on the assessment of tax collection problems of east, shows that VAT administration (registration, assessment, and collection) practices in this sub-city of the Ethiopian Revenue and Customs Authority, is inefficient and lacks many things. He stated that, among other things: tax payers do not come to the office with the required documents and tax payers do not have all the required information about the requirements, rules, and regulations on paying their taxes. Moreover, Asamnew explained that more than half of the tax payers don't use cash register machine and even those who use this machine have no adequate knowledge about how to use it because of lack of proper training. These all results indicate that there is inefficient tax administration in general and collection practices in particular. Conclusions of this study demonstrated that in both sides - tax payers and the revenue authority – there are problems related to the tax administration practices and hence negatively affecting the revenue collection capability of the authority.

Furthermore, there are problems related to power failure and internet interruption, which are external factors outside of the revenue authority. During these failures, cash register machines don't transfer data to the authority, which results in huge revenue loss to the government. However, the worst thing is that, tax payers don't get immediate support from the revenue authority or from the external bodies who are responsible of the power failure and internet interruption. This demonstrates that, whatsoever the case would be, there are huge leakages and inefficiencies in the collection practices of tax in the authority. s, who are expected to be relatively efficient and better than the other tax payers in terms of document handling, technology, and other relevant procedures. This indicates the degree of the tax administration problems in the revenue authority; because the other tax payer categories are assumed to be with more problems as they are small and relatively less efficient business entities.

Asamnew further elaborated that, VAT payers don't properly use the legal invoices for their customers and there is no regular assessment of VAT by the revenue authority. Besides to this, there is a huge gap in the revenue authority with regard to the human resource capacity. He stated that, employees are not well equipped with all techniques of VAT administration and have no adequate knowledge and skills of assessing all the administrations required within the VAT collection processes. Definitely, these all together accounts for less efficient collection practices by the authority; which are losses to the government revenue.

By analyzing his study results about the link between tax administration and VAT compliance in Ethiopia, Bisrat (2010) reach in to conclusion that the VAT collection efficiency of the revenue authority is low. He explained this by the fact that, filling and payment control of the revenue authority are manual, even though the so called Standard Integrated Government Tax Administration System (SIGTAS) and Automated System for Customs Data Management (ASYCDM) computer programs are installed. More specifically, Bisrat (2010) argued that VAT refund is the most inefficient and problematic part of VAT collection practices of the revenue authority in Ethiopia. His arguments for the inefficient VAT administration practices in Ethiopia are supported by the fact that there are insufficient resources of the authority including the manpower. Furthermore, Bisrat explained that the administrative costs of VAT collection in Ethiopia are low comparing to other countries – implying that, important functions might be neglected from within the procedure of VAT administration practices. All in all, the results of this study elaborated that VAT administration in general and VAT collection practices in particular, are inefficient in Ethiopia, at the time of study.

Hailemariam, 2011). According to his analysis, this implies a lot to the revenue assurance of the authority. Because of the fact that, businesses are not paying the revenue amount they collected from their customers; the revenue authority is not only losing what it would earn, but tax payers who pay their VAT properly may also become discouraged and join these illegal practices. Together, these all activities will have a negative impact on the collection practices of the revenue authority and may compromise the advantages of VAT. Moreover, the major reasons for these malpractices are the weak administration of the revenue authority like: no strong follow-up, existence of a lot of non-registered businesses, absence of strong enforcement and control mechanisms, the existence of employees who deal for their personal benefits rather than complying with the rules and regulations, etc.

According to BekureHerouy, on his study of “The VAT Regime under Ethiopian Law”, (2004) distinct Value Added Tax (VAT) as is a general consumption tax assessed on the value added to goods and services. It is a *general tax* that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is not a charge on companies. It is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is collected fractionally, via a system of deductions whereby taxable persons (i.e., VAT registered businesses) can deduct from their VAT liability the amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions is involved.

According to BekureHerouy, (2004) VAT has spread throughout the world since its introduction in 1955. Its format has changed and now incorporates what was once an offshoot, "GST" (goods and services tax). France is credited with first implementing VAT. It did so in 1955. The tax spread through Europe, South America and parts of Africa in the 1960s and 1970s before taking a hold in other regions. For example, the tax spread throughout the South East Asia/Pacific region from 1984 (Indonesia) to 1999 (Australia).Most of the political debate over a consumption tax has centered on whether the United States should adopt a value-added tax (VAT) similar to the ones that European countries have. While a VAT definitely is a tax on consumption, it is not the kind that most consumption, tax advocate prefer. What’s more, the debate over whether to add a VAT to the U.S. tax code has obscured the more basic issue of whether to tax income or consumption.

Every Member State of the European Union has a Value Added Tax (VAT). The First VAT Directive of April 11, 1967 (as amended) required that Member States replace their general indirect taxes by a common system of value added tax. In fact, the assessment base for the Member States' VAT constitutes one of the critical components of "own resources", the EU's budgetary revenue. Yet the laws establishing the VAT are national laws, each framed within certain parameters specified by the EU in the Sixth Council Directive 77/388/EEC (as amended) on the common system of VAT and the uniform basis for its assessment. This Sixth VAT Directive aims to ensure that each Member State has a broadly identical "VAT base", VAT levied on the same transactions. Its subsequent amendments have attempted to remove anomalies.

Wollela (2009), Despite the concentration of most of the prior tax compliance literature on direct taxes (mainly income tax) neglecting indirect taxes, it was noted that VAT noncompliance appeared to be prevalent, especially in developing countries. VAT noncompliance could take various forms including not registering for VAT, registering but not levying VAT (partially or wholly) on sales, levying VAT on sales but not reporting (partially or wholly), claiming credit on purchases more than the input tax paid, not claiming input VAT credits and not maintaining proper books and supporting documents. The prevalence of these forms of VAT noncompliance could be because of any of the determinants of tax noncompliance; and the level of VAT compliance costs was shown to be one of the factors potentially affecting VAT compliance decision of taxpayers.

Regarding revenue raised by VAT, in Wollela (2008), the Federal Inland Revenue Authority (2007) indicated that VAT is the principal source of revenue for the country. For instance, at the Federal level, from 2007/8-2009/10, on average in each year, the share of the VAT to total tax revenue is about 38.55% (FRCA, 2010). In Addis Ababa, in the same year, it amounts to 21.43% (AACRA, 2010). In terms of the VAT administration problem, Wollela (2008) stated “in Ethiopia revenues raised by VAT are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, that is, the incapacity of tax authorities to implement the attributes of the VAT in practice.

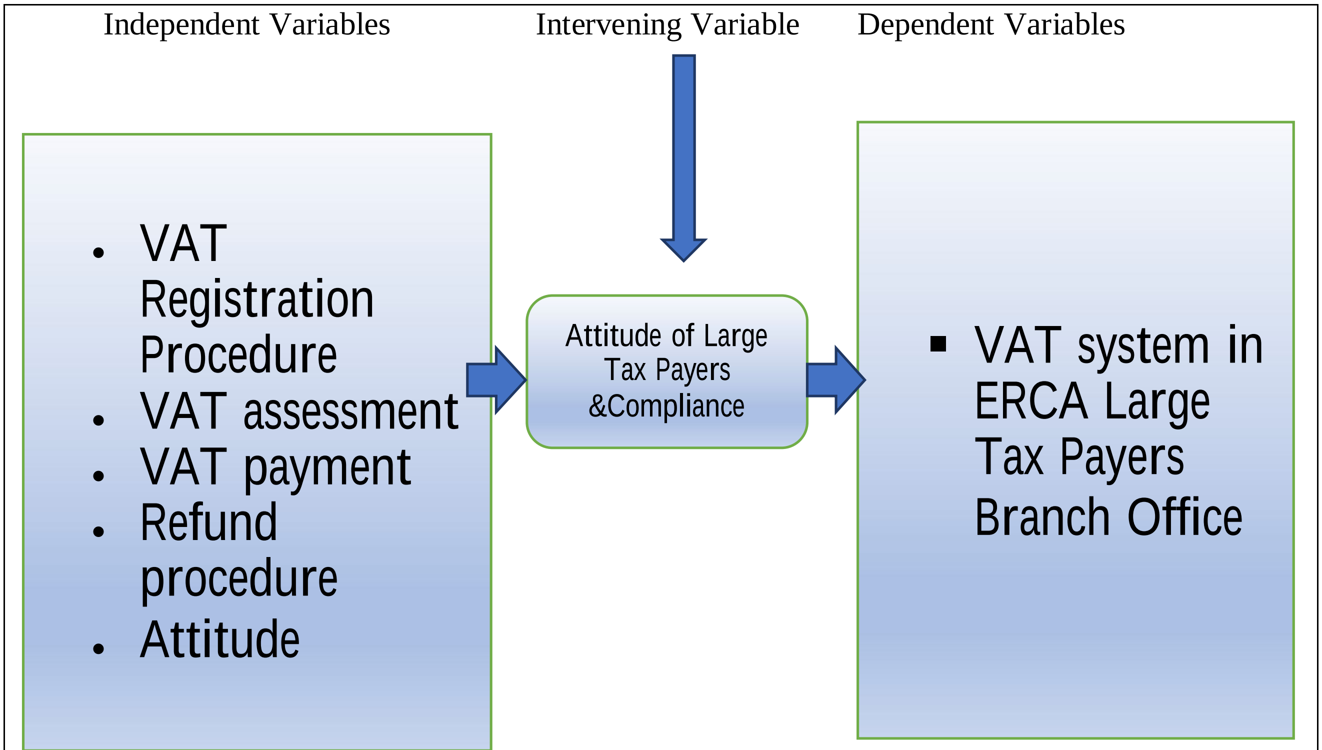
Wollela (2012) examines the decentralization of VAT revenue and its administration in Ethiopia is likely to impact on the proper functioning of the VAT system, and achieve the government's policy objectives at large. So, considering the practical difficulties of administering VAT at regional governments' level and the distortions of VAT revenue decentralization (revenue import among different regional governments), it is worthwhile for the government to reassess the assignment of VAT revenue and the decentralization of its administration.

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 VAT registration, VAT assessment and VAT 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 registration, assessment and collection activities. Therefore, this research will identify the VAT administration practice and Challenges because the researcher believes that identifying the root cause of the problems is the best ground to provide appropriate solutions. The VAT is administered by the domestic tax administration in the majority of the surveyed countries (29 out of 36), reflecting the uncontroversial decision of the authorities to administer the VAT in the same domestic tax department as the previous sales or turnover taxes. In these cases, discussions focused on the respective merits of establishing separate VAT offices or administering the VAT, with the income tax, in function-based offices (Ebrill,2001). In the Ethiopian case, based on the Business Process Re-engineering (BPR), offices and tasks are rearranged so that they can be process based instead of function based.
Several issues like VAT registered firms is steadily growing, administration of VAT as a tax system is encountering by the bottlenecks of taxpayers' identification and registration, VAT filing and payment, VAT refunds, VAT audits, penalties and VAT invoicing and other gaps and problems have been explored by different authors but large taxpayers' attitude and their compliance were slightly conducted by other researchers. Thus, this research will fill the knowledge gap specifically to large tax payers'ttitude and their compliance on VAT System in Ethiopia Revenue and Customs Authority.

## 2.13. Conceptual Framework

This study conceptualizes that the VAT system in ERCA large tax payers could be affected by VAT registration procedure VAT assessment, VAT payment, Refund procedureand

Attitude The purpose of this study is therefore to test the nature and the strength of these relationships. This study tests the conceptual framework presented in the following Figure.




**Source: The researcher**

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3. Research Design and Methodology

### 3.1. Introduction

According to Creswell, J. W., & Plano Clark, V. L. (2011) a research methodology refers to a science of how research is to be carried out and a systematic way to solve a problem. It is also concerned with the procedures by which researchers go about their work of describing, explaining and predicating phenomenon. Hence, this chapter presents the research design and methodology. It was coverd the research method, the sources of data, the study population, the sample size and sampling technique, the instruments and procedures of data collection, the methods of data analysis, and ethical considerations.

### 3.2. Research Method

Research design is a master plan that specifies the methods and procedures for collecting and analyzing needed information. It is essentially a statement of the object of the inquiry and the strategies for collecting the evidences, analyzing the evidences and reporting the findings. The intention of the research design that can be formulated was based on the objectives of the research and research problem questions. (Zikmund et al, 2009). The descriptive survey research design was employed because the major goal of this study is to assess the attitude of large taxpayers towards the VAT, as it exists at present; it was also relevant to gather detailed information concerning the potential compliances against the VAT administration. The approach allowed ascertaining of widespread opinions under natural conditions Creswell, J. (2003).

### 3.3. Sources of Data

Both primary and secondary sources of data were used. Based on the above assumptions, selected large taxpayers and employees of the tax offices were considered as major sources of the primary data. Whereas secondary sources such as information from various published and unpublished materials, books, working papers, articles, journals, reports, and statistical documents were used and consulted.

## 3.4. Data Gathering Instruments

In this study the following data gathering tools were employed:

### 3.4.1. Questionnaire

For this study a quantitative methodology involving a structured questionnaire was used as the measuring instrument. Questionnaires can be administered to groups of people simultaneously since they are less costly and less time consuming than other measuring instruments. The questionnaire had both open and close-ended questions to enable and guide the respondent through filling the questionnaire as probe them for more information Creswell, J. W., & Plano Clark, V. L. (2011).

### 3.4.2. Interview

To enrich the data gathering method, interview was as an indispensable instrument. It has been combined with other research techniques to confirm or explain the research results Creswell, J. W., & Plano Clark, V. L. (2011). The study will procure data from an individual in-depth interview questions with the management and employees of large

## 3.5. Sampling Technique of the study

### 3.5.1. Sample and Sampling Techniques

The sample size represents the actual magnitude of the targeted data sources which are deemed to represent the entire population in a reasonable manner. Similarly, determining sampling technique and the sample size was ultimately rely on the size of the target population in view of enhancing result accuracy and appropriateness. This study included large taxpayers, employees of the tax offices, and the management bodies.

The respondents are two categories of ERCA Large Tax payers Office and Large Tax Payers for representativeness the population is stratified into the two groups from which the sample is selected. Simplified formula to calculate sample sizes (Wooldridge, 2012 ).

The sample is selected using formula of $n = \frac{N}{1} + N(e)^2$

Where n = the sample size, N= the population size, and e is the margin of error.

N = Population of 810

e = Margin of error of 5%

$$n = \frac{810}{1} + 810 = \frac{810}{1 + 810(0.05)2}$$

n =268

After stratifying the population using the above-mentioned categories the study selected a total sample of organizations from the above two sectors using random sampling techniques.

Sample proportion (%) = 268/810=33%

| Description | Number of them | Sampling Fraction | No of sample |
|---|---|---|---|
| Large Tax Payers | 560 | 33% | 185 |
| ERCA Large Tax payers Office Employees | 250 | 33% | 83 |
| Total | 810 | | 268 |

## 3.6. Method of Data Analysis

The analysis was a research technique that allows making replicable and valid references from data to their context. The Statistical Package for Social Sciences (SPSS) version 21 will be used to analyze the data collected. Tables were created from the data gathered. Representations using tables were used to ensure easy and quick interpretation of data. In order to examine respondents' opinion descriptive statistics such as percentages, mean, standard deviation, and were employed.

## 3.7. Reliability and Validity

Checking the validity and reliability of data collecting instruments before providing the actual study subject was the core to assure the quality of the data Creswell, J. (2003). To ensure the validity of instruments, initially, the instrument was prepared by the researcher with guidance from the advisor. The questionnaires were subjected to a pilot test in one government organization which was not being included in the study.

## 3.8. Ethical Considerations

The researcher was addressed ethical considerations of confidentiality and privacy. The researcher has used a rigorous and conscious effort at all times to sustain this promise. A guarantee. The researcher was addressed ethical considerations of confidentiality and privacy. The researcher was used a rigorous and conscious effort at all times to sustain this promise. was given to the respondents that their names should not be revealed in the research report. Moreover, participants have received a verbal and written description of the study, and informed consent was not obtained before the survey. Participation in the study was voluntary, and all participant responses were confidential and can quiet to respond to the question anytime the like. Finally, a copy of the final report will be available to the schools if necessary.

# CHAPTER FOUR

# DATA PRESENTATION, ANALYSIS AND INTERPRETATION

## 4.1. Introduction

This chapter intends to reveal the findings and statistical analysis used to evaluate the research question and hypothesis that have been established in earlier chapters. After the data screening process, this chapter reports the results of the screening for errors in the sample and the procedural check on the instruments utilized. With the help of the preliminary and analysis of the results, try to assess the attitude of large tax payers and their compliance on VAT System in Ethiopia Revenue and Custom Authority.

Therefore, this chapter has two parts: the first part deals with the characteristics of the respondents and the second part presents the analysis and interpretation of the main data. Objective of this study is to assess the attitude of large tax payers and their compliance on VAT System in Ethiopia Revenue and Custom Authority. To this end, both quantitative and qualitative data obtained through questionnaire and individual interviews were used to answer the basic research questions.

Due to their large size, large tax payers and employees were selected randomly and included in the sample while the management purposive sampling techniques were used. Accordingly, 170 of large tax payers and 68 of employees were participated in the study. The number of participants involved in the study and sampling proportion was statistically representative and adequate to the analysis as well as to make the inference. The respondents were provided with 268 questionnaires (both close & open ended), 185 for large tax payers and 83 for employees. Accordingly, 170 (91.89%) of large tax payers respondents properly completed and returned the questionnaire just in time and 68 (81.92 %) of the employees properly completed and returned the questionnaire just in time while the remaining 30 (11.19%) of them did not returned for various reasons and mainly due to the lockdown to prevent Corona virus.

The quantitative part of the analysis was treated based on the data obtained from large tax payers and employees of the authority. The closed ended questions of the questionnaire were analyzed using statistical tools such as frequency count, percentage, mean value and standard deviation. Whereas, the second section that is the qualitative part of the study was treated based on the data from interviews and open-ended questions of the questionnaires and integrated systematically. Since the objective of this study was to understand the attitude of large tax payers and their compliance on VAT System in Ethiopia Revenue and Custom Authority, the qualitative data analysis strategy employed was thematic analysis which according to Madill (Crusswel, J. 2003) focuses on the coding of qualitative data, producing clusters of texts with similar meanings, often searching for the central themes capturing the essences of the phenomenon under investigation.

Initially the responses to questionnaire with the sample respondents were quantitatively analyzed whereas responses gained through interviews were qualitatively analyzed and the central themes mentioned by the informant's interview in concerning the research questions were identified. The collected data was transcribed and verbatim from individual interviews. And then, the identified themes were categorized and thematically analyzed.

### 1.1 BIODATA of Respondents

**Figure 1**: Characteristics of Respondents

| No | Items | Variables | Type of respondents | | | |
|---|---|---|---|---|---|---|
| | | | Large Tax Payers (N=85) | | Employees (N=34) | |
| | | | N | % | N | % |
| 1 | Sex | Male | 76 | 89.41 | 26 | 76.47 |
| | | Female | 9 | 10.58 | 8 | 23.52 |
| 2 | Age | Below 20 | - | - | - | - |
| | | 21-30 | 7 | 8.23 | 11 | 32.35 |
| | | 31-40 | 41 | 48.23 | 14 | 41.17 |
| | | 41-50 | 32 | 37.64 | 8 | 23.52 |
| | | 51 & above | 5 | 5.88 | 1 | 2.94 |

Item one of figure 1 shows that of the respondents, 152 (89.41%) of large tax payer were males and 18 (10.58%) were females. Whereas 52 (76.47%) of employees school were males and 16 (23.52%)) of them were females. The above data indicates that females, let alone occupy managerial positions, their participation at business as well as employees were reasonably significant comparing to the previous trend. But, the proportion of female large tax payers and employees in Ethiopia Revenue and Custom were significantly less to that of male counterparts. This could be an indicator of less participation rate of female large tax payer as well as employees at Ethiopia Revenue and Custom Authority. Gender inequality is also observed in the sample institution and attention must be given to females in all aspects of the business activities as long as the role of women's are concerned and their contribution to the overall activities of business sector.

As can be observed from the above table of item two, only 10 (5.58%) of large tax payer and one (2.94) employees were above the age of 51 years while 64 (37.64%) of large tax payer and 16 (23.52 %) of employees were in the age of 41-50 years. Besides, the majority 82 (48.23%) of large tax payer and 28 (41.47%) of employees were in the age of 31-40 years. The above figure clearly shows that most of the employees and large tax payer were in the age of 31-40 years. Moreover majority of employees and large tax payer were relatively energetic, matured and fit to take responsibilities and run the intended business. Having reasonably matured age significantly impacts on the overall prosperity of the business sector and tax administration activities because these people are ready and fit to take responsibilities as per needed.

**Figure** 2 Characteristic of the Respondents (Continued)

| No | Items | Variables | Type of respondents | | | |
|---|---|---|---|---|---|---|
| | | | **Large Tax Payers (N=85)** | | **Employees (N=34)** | |
| | | | **N** | **%** | **N** | **%** |
| 3 | Experience on current position. | Below 10 years | 32 | 37.64 | 5 | 14.70 |
| | | 10-20 years | 39 | 45.88 | 15 | 44.11 |
| | | Above 20 years | 11 | 12.94 | 14 | 41.17 |
| 4 | Qualification | Certificate & below | 11 | 12.94 | - | - |
| | | Diploma | 45 | 52.94 | - | - |
| | | B.A/BSC | 29 | 34.11 | 27 | 79.41 |
| | | M.A & Above | - | - | 7 | 20.58 |

**Source:** Survey Data

Regarding item 3, as shown in the table above, 78 (45.88%) of large tax payer and 30 (44.11%) of employees were fall between 10-20 years of service and 22 (12.94%) of large tax payer and 28 (41.17%) of employees were above the age of 20 years of service. Contrariwise, 64 (37.64%) of large tax payer and 10 (14.70%) of employees were found below 10 years of service. In general, the data illustrates that most of the large tax payer and employees have reasonably adequate experiences to carry out responsibility and to provide sufficient information about what is going on in their perspective institution.

As to item 4 of the same figure, Only 14 (20.58%) of employees have a second degree whereas, 58 (34.11%) of the large taxpayer and 54 (79.41%) of employees have a first degree. From this result, one can realize that a significant number of the large taxpayer has fulfilled the minimum requirement of qualification that is needed to undertake a given business and the same is true for employees to undertake their duties. The low level of large taxpayers and employees in academic qualification yields poor outcomes

## 4.2. Issues of Registration Procedure, Law Enforcement and VAT Assessment

Table 3: Responses Registration Procedure, Law Enforcement and VAT Assessment

| No | Items/Issues | Respondents | | | | | | | | | | | | SD | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Large Tax Payers (N=170) | | | | | X | Employees (N=68) | | | | | X | LTP | E |
| 1 | I voluntarily registered as a value added tax payer. | 46 | 70 | 34 | 20 | - | 3.84 | 20 | 28 | 8 | 4 | 8 | 3.74 | 0.92 | 1.27 |
| 2 | The registration is normally conducted in a good way. | 50 | 66 | 22 | 32 | - | 3.74 | 28 | 24 | 12 | 4 | - | 3.59 | 1.18 | 1.12 |
| 3 | The registration process of VAT is not time consuming. | 40 | 50 | 44 | 30 | 6 | 3.59 | 36 | 24 | 8 | - | - | 3.83 | 1.12 | 0.71 |
| 4 | I had sufficient explanation on VAT laws. | 46 | 40 | 30 | 36 | 18 | 3.28 | 36 | 16 | 10 | - | 6 | 3.66 | 1.35 | 1.02 |

**Source:** Survey Data

As shown in item 1 of Table 3, respondents were asked to rate their agreement on the level registration procedure, law enforcement, and VAT Assessment. Accordingly, large taxpayer with the (X=3.84, SD=0.92) were positive about the issue and employees with the (X=3.74, SD=1.27) LTP (X=3.74, SD=1.27) , E (X=3.59, SD=1.27) and LTP (X=3.59, SD=1.12) and E (X=3.83, SD=0.71) respectively. The sample respondents were agreed that the VAT registration procedure was found above average and one can conclude that respondents moderately practices and a reasonable proportion of the sample respondents believed that the registration process is simple to undertake activities.

Besides, perform; with M=3.78 average rating; and the VAT registration was normally conducted voluntarily and in a good way and all the stakeholders moderately have sufficient explanation on VAT laws. To sum up the whole result, the registration procedure was assessed with above average rating by both types of respondents. There is no significant difference as well as great variation among the opinions of the two groups of respondents responses on the issue discussed above. To support the above result the interview data underlined that taxpayers register as a consolidated entity, provide continuous tax incentives to encourage taxpayers and the department is fully committed to the implementation of the tax above and does not appear to have been the only reason for developing the concept.

Table 4 Responses on the Law Enforcement

| N/o | Items/Issues | **Respondents** | | | | | | | | | | | | **SD** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Large Tax Payers (N=170)** | | | | | **X** | **Employees (N=68)** | | | | | **X** | **LTP** | **E** |
| 5 | I am confident that the legitimacy of the claims in tax returns. | 32 | 44 | 36 | 38 | 20 | 3.19 | 20 | 32 | 12 | 4 | - | 3.55 | 1.29 | 0.92 |
| 6 | Penalty rates for my non-complaints are affordable. | 20 | 48 | 40 | 36 | 26 | 3.02 | 24 | 28 | 12 | 4 | - | 4.00 | 1.25 | 0.84 |
| 7 | If I decided that to not obey tax laws I would not able continue my assessment. | 88 | 48 | 10 | 24 | - | 4.19 | 32 | 24 | 12 | - | - | 4.33 | 1.05 | 0.76 |
| 8 | I am willing to pay an assessed tax liability and to be claimed by ERCA. | 28 | 64 | 36 | 28 | 14 | 3.58 | 26 | 22 | 4 | 8 | 8 | 3.66 | 1.12 | 1.32 |
| 9 | There is market demand to the assets which is claimed for tax liability. | 34 | 20 | 32 | 40 | 44 | 2.73 | 20 | 16 | 8 | 16 | 4 | 3.22 | 1.39 | 1.30 |
| 10 | ERCA has good relationship with federal government attorney. | 16 | 48 | 40 | 40 | 26 | 3.00 | 28 | 24 | 8 | 8 | - | 3.97 | 1.24 | 0.83 |

**Source:** Survey Data

Regarding the necessity of the law enforcement, on table 4 item 1, large taxpayer teachers and employees with the (X=3.19, SD=1.29) and (X=3.55, SD=0.92), (X=3.02, SD=1.25), (X=4.00, SD=0.84), (X=4.19, SD=1.05) and (X=4.33, SD=0.76) respectively confirmed that enforcement such as penalty rates for non-compliance was moderately acceptable and a reasonable proportion of large tax taxpayers would prefer to comply and avoid penalties and this by implication mean that the existing tax enforcement mechanisms created enforceable fearing burden of penalties.

Besides, large taxpayers agreed that they strongly underlined that they are willing to pay an assessed tax liability claimed by ERCA. Their agreement to pay assessed tax willingly was above the moderate and a significant number of large taxpayers moderately pay to their tax liabilities. In addition, large taxpayers agreed that they have the right to claim their marketable assets unless they comply with the tax laws.  On the other hand employees, responses on tax law enforcement confirmed that a reasonable proportion of large taxpayers tried to obey the rules and regulations regarding VAT.  In the case of non-compliant, employees also highly agreed that taxpayers were moderately willing to pay their tax liabilities including penalties, and employees’ assessment of the enforceability of tax laws was moderately rated. From this result, one can possibly conclude that the law has been enforced for those VAT eligible businesses but not yet registered for VAT and there is no significant difference as well as great variation among the opinions of the two groups of respondents response on the issue discussed above.

## 4.3. Issues on VAT Assessment

Table 5: Views of Respondents VAT Assessment

| | | **Respondents** | | | | | | | | | | | | **SD** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **N/0** | **Items/Issues** | **Large Tax Payers (N=170)** | | | | | **X** | **Employees (N=68)** | | | | | **X** | **LTP** | **E** |
| 11 | I am responsible to assess my own VAT liability. | 16 | 20 | 34 | 50 | 50 | 2.42 | 8 | 16 | 40 | 24 | 24 | 2.72 | 1.27 | 1.31 |
| 12 | Assessment of VAT is based on my own declaration. | 32 | 60 | 36 | 28 | 14 | 3.58 | 20 | 28 | 4 | 8 | 8 | 3.66 | 1.12 | 1.32 |
| 13 | I am responsible to declare VAT | 46 | 40 | 30 | 36 | 18 | 3.28 | 36 | 16 | 8 | - | 8 | 3.66 | 1.35 | 1.02 |
| 14 | I can accurately determine my VAT liability. | 48 | 56 | 20 | 28 | 16 | 3.56 | 24 | 32 | 8 | - | 4 | 4.05 | 1.30 | 0.99 |
| 15 | The tax office gives equal consideration to the views of all Taxpayers | 28 | 66 | 36 | 28 | 12 | 3.58 | 20 | 28 | 4 | 4 | 12 | 3.66 | 1.12 | 1.32 |

**Source:** Survey Data

As Table 4 item 1 indicates, respondents were asked to rate their agreement levels on the application of VAT Assessment. Consequently, large taxpayers and employees with the (X=2.42, SD=1.27) and (X=2.72, SD=1.31), (X=3.58, SD=1.12) and (X=3.66, SD=1.32), (X=3.28, SD=1.35) and (X=3.66, SD=1.02), (X=3.56, SD=1.30) and (X=4.05, SD=0.99), (X=3.58, SD=1.12) and (X=3.66, SD=1.32) respectively confirmed that ERCA would exert moderately accepted by the taxpayers and they are fear and averagely as expected to estimate the total sale or purchase made for levying the tax rather the invoice would depict the taxable sales.

The buyer claims on what they paid on the items and there are certain facts that indicate the significant number of large taxpayers and business entities VAT registrant moderately issue VAT invoices during transactions and this by implication mean that the amount of tax collected by large tax taxpayers was moderately paid to the ERCA and not as expected from those taxpayers. Besides, there is no significant difference as well as great variation among the opinions of the two groups of respondents ‘responses on the issue discussed above.

Interview data was also suggested that most tax filings are not usually accepted by the authority, secondly, as a result, large taxpayers are more likely to disassociate themselves from the distribution agency and lastly, although some merchants do not enter a moderate register that they are also known as tax-exempted taxpayers. Besides, the effectiveness of the implementation of the taxonomy, although, it may not be the best, the office is still more to so.

## 4.4. Issues on VAT Payment, Refund Procedures and the Attitude

Table 6: Views of Respondents on VAT Payment

| N/0 | Items/Issues | Respondents | | | | | | | | | | | | SD | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Large Tax Payers (N=170) | | | | | X | Employees (N=68) | | | | | X | LTP | E |
| 1 | It is everyone's responsibility to pay the correct amount of vat. | 22 | 38 | 38 | 44 | 28 | 2.91 | 24 | 20 | 4 | 16 | 4 | 3.61 | 1.28 | 1.33 |
| 2 | The taxpayer should not understate sales which collect from customers in order to pay vat. | 34 | 32 | 36 | 36 | 32 | 3.35 | 40 | 40 | 20 | 8 | - | 3.94 | 1.28 | 0.93 |
| 3 | I have responsibility of paying self – assessed VAT liability. | 24 | 30 | 32 | 44 | 44 | 2.73 | 12 | 24 | 8 | 16 | 8 | 3.22 | 1.39 | 1.30 |
| 4 | I pay actual VAT assessed and always pay my VAT in time. | 18 | 58 | 36 | 38 | 20 | 3.19 | 28 | 24 | 12 | 4 | - | 3.55 | 1.29 | 0.92 |

**Source:** Survey Data

As it can be observed from the above table for item 1, large taxpayers and employees were asked to put their level of agreement about VAT payment related issues. Accordingly, with (X=2.91, SD=1.28) and (X=3.61, SD=1.33), (X=3.35, SD=1.28) and (X=3.94, SD=0.93), (X=2.73, SD=1.39) and (X=3.22, SD=1.30), (X=3.19, SD=1.29) and (X=3.55, SD=0.92) respectively. This is, therefore, based on the above figure one can be said that a significant proportion of the sample respondents agreed that vat payment by large tax taxpayers considered moderately responsibly and the responsibility to pay the actual assessed VAT timely and the practice of tax assessment were found moderate.

On the other hand, employees were asked about the VAT collection practice and the underlined that VAT was collect in a good manner and the practice of VAT collection by the tax authority was rated moderate rated M=3.75 by the employees. This is above moderate level agreement within the 95% CI in the range of 3.63-3.87. Besides, there is a slight difference as well as great variation among the opinions of the two groups of respondents ‘responses on the issue discussed above.

## 4.5. Issues on Refund Procedures

Table 7: Views of Respondents on Refund Procedures

| N/0 | Items/Issues | Respondents | | | | | | | | | | | | SD | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Large Tax Payers (N=170) | | | | | X | Employees (N=68) | | | | | X | LTP | E |
| 1 | If illegal invoice used to claim the tax refund, the probability of being detected is high. | 40 | 56 | 22 | 37 | 14 | 3.67 | 20 | 36 | 4 | - | 8 | 3.88 | 1.11 | 1.18 |
| 2 | The VAT refunding process being made are on timely and Vat refund has not along procedures | 36 | 42 | 38 | 32 | 22 | 3.24 | 49 | 20 | 4 | - | 4 | 3.52 | 1.32 | 1.00 |
| 3 | There exist complex requirements for Vat refund and the refunding period needs an assessment maintained by the authority. | 28 | 58 | 42 | 34 | 8 | 3.63 | 12 | 48 | - | 8 | - | 4.05 | 1.05 | 0.99 |

**Source:** Survey Data

As indicated in table 6, item 1, the further question also raised for respondents to rate their level of agreement about refund procedures. Accordingly, both large taxpayers and employees with (X=3.67, SD=1.11) and (X=3.88, SD=1.18), (X=3.24, SD=1.32) and (X=3.52, SD=1.00), (X=3.63, SD=1.05) and (X=4.05, SD=0.99) respectively indicated that VAT refunding have certain rules and directives which is already prepared ERCA and VAT refund was rated moderate.

Besides, VAT refund procedures were easily undertaken by the stakeholders. Conversely, a reasonable proportion of the sample respondents opposes that the time period set by the tax ERCA found to be unfair. In sum, the practices of refund procedure, as assessed by the sample respondents were moderately agreed and acceptable. Besides, there is a slight difference as well as great variation among the opinions of the two groups of respondents responses on the issue discussed above.

## 4.6. Issues on Attitudetowards VAT

Table 8: Views of Respondents on Attitude towards VAT

| N/0 | Items/Issues | Respondents | | | | | | | | | | | | SD | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Large Tax Payers (N=170) | | | | | X | Employees (N=68) | | | | | X | LTP | E |
| 1 | Revenue officers do not give respectful services to clients. | 50 | 46 | 24 | 34 | 16 | 3.59 | 30 | 34 | - | 4 | - | 3.88 | 1.29 | 0.83 |
| 2 | The business don't registered VAT has a large chance to penetrate the market. | 14 | 48 | 40 | 42 | 26 | 2.40 | 22 | 24 | 10 | 12 | - | 2.50 | 1.30 | 1.46 |
| 3 | I never attempted to avoid VAT. | 20 | 24 | 38 | 50 | 38 | 2.42 | 4 | 28 | 20 | 12 | 4 | 2.38 | 1.32 | 1.14 |
| 4 | I am ready to pay more if government utilizes public finance properly. | 24 | 34 | 32 | 46 | 34 | 2.49 | 16 | 32 | - | 20 | - | 3.11 | 1.41 | 1.45 |

**Source:** Survey Data

Based on the large taxpayers and employees responses depicted in Table 8 of item 1, Accordingly, both large taxpayers and employees with (X=3.59, SD=1.29) and (X=3.88, SD=0.83), (X=2.40, SD=1.30) and (X=2.50, SD=1.46), (X=2.42, SD=1.32) and (X=2.38, SD=1.14),(X=2.49, SD=1.41) and( X=3.11, SD=1.45) respectively confirmed that both large tax taxpayers and employees explained that the revenue officers moderately gives respectful services to clients, the existing business averagely registered VAT to a large chance to penetrate the market, they moderately attempted to avoid VAT and ready to pay more if government utilizes public finance properly. Besides, large tax taxpayers report their lower business performance while they issued sales invoices to their respective clients. Besides, there is a slight difference as well as great variation among the opinions of the two groups of respondents 'responses on the issue discussed above.

## 4.7. Issues of Attitude towards VAT Continued…

Table 9: Views 0f Respondents on towards VAT

| N/0 | Items/Issues | Respondents | | | | | | | | | | | | SD | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Large Tax Payers (N=170) | | | | | X | Employees (N=68) | | | | | X | LTP | E |
| 5 | My business performance would be low if I issue sales invoice. | 24 | 40 | 28 | 50 | 28 | 2.43 | 16 | 14 | 22 | 16 | - | 2.33 | 1.40 | 1.64 |
| 6 | There is a continuous tax education program for tax payers | 22 | 32 | 40 | 36 | 40 | 3.51 | 22 | 24 | 10 | 8 | 4 | 3.55 | 1.10 | 1.09 |
| 7 | The authority has sufficient free call information centers | 26 | 36 | 32 | 48 | 28 | 3.52 | 26 | 18 | 12 | 12 | - | 3.66 | 1.44 | 1.08 |
| 8 | There is no power interruption when I declare tax. | 42 | 50 | 34 | 26 | 18 | 3.64 | 20 | 28 | 8 | 12 | - | 3.88 | 1.21 | 1.02 |
| 9 | There is a sufficient access of transportation to declare tax. | 16 | 42 | 38 | 50 | 24 | 2.45 | 18 | 20 | 14 | 16 | - | 2.94 | 1.23 | 1.30 |

**Source:** Survey Data

As indicated in table 9, item 1, further questions also raised for respondents to rate their level of agreement about their attitude. Accordingly, both large taxpayers and employees with (X=2.43, SD=1.40) and (X=2.33, SD=1.64), (X=3.51, SD=1.10) and (X=3.55, SD=1096), (X=3.52, SD=1.44) and (X=3.66, SD=1.08),(X=3.64, SD=1.21) and( X=3.88, SD=1.02, ), (X=2.45, SD=1.23) and( X=2.94, SD=1.30 ) respectively confirmed that large taxpayers business performance was found below average, if taxpayers issue sales invoice, There was also a moderate tax education program for taxpayers and the authority has moderate free call information centers. In addition, there was also average power interruption when taxpayers declare tax and less sufficient access to transportation to declare tax. From the above result, one can realize that the Value Added Tax is collected from the consumption of goods and services.

Like has been observed in many developing countries, VAT implementation in Ethiopia has faced different problems at the initial stage. Problems that are observed during the implementation of VAT related to external and internal factors. Respondents were asked to put their agreement with this perspective the survey was conducted by asking the employees of ERCA large taxpayer’s office about the bottlenecks that hinder the smooth implementation of VAT in Ethiopia. Besides, there is a slight difference as well as great variation among the opinions of the two groups of respondents responses on the issue discussed above.

## 4.8. Challenges Observed

Table 9: Views of Respondents on Challenges

| **N/0** | **Items/Issues** | **Respondents** | | | | | | | | | | | | **SD** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Large Tax Payers (N=170)** | | | | | **X** | **Employees (N=68)** | | | | | **X** | **LTP** | **E** |
| 1 | VAT returns having payment, refund & nil has made within time interval for taxpayers to decrease burden of service delivery. | 42 | 52 | 38 | 28 | 10 | 3.83 | 16 | 42 | 4 | 6 | - | 4.22 | 1.03 | 0.54 |
| 2 | There are enough access deliver services when tax payers declare tax return. | 50 | 46 | 24 | 28 | 22 | 3.51 | 20 | 28 | 8 | 8 | 4 | 4.00 | 1.43 | 0.97 |
| 3 | There is cooperation with other team at the end of month when large no of tax payers declare vat return. | 62 | 54 | 26 | 16 | 12 | 3.97 | 16 | 20 | 24 | - | 8 | 4.44 | 1.19 | 1.09 |
| 4 | Overall service delivery of VAT administration of the authority is not weak. | 58 | 62 | 28 | 14 | 8 | 3.79 | 12 | 36 | 4 | 12 | 4 | 3.55 | 1.20 | 1.19 |
| 5 | Tax payers declare VAT return within the periods schedule by Authority. | 72 | 54 | 16 | 20 | 8 | 3.87 | 48 | 8 | 8 | 4 | - | 3.61 | 1.10 | 1.14 |

As it can be observed from the above table for item 1-5, respondents were asked to put their level of agreement whether the following challenges observed or not. Accordingly, sample respondents with (X=3.83, SD=1.03) and (X=4.22, SD=0.54), (X=3.51, SD=1.43) and (X=4.00, SD=0.97), (X=3.97, SD=1.19) and (X=4.44, SD=1.09), (X=3.79, SD=1.20) and (X=3.55, SD=1.19) (X=3.87, SD=1.10) and (X=3.61, SD=1.14), (X=3.87, SD=1.10) and

(X=3.61, SD=1.14) respectively indicated that the following challenges were moderately affecting the entire tax system in general and Vat in particular.

Challenges like VAT returns having payment, refund & nil has made within the time interval for taxpayers to decrease the burden of service delivery, there is enough access deliver services when taxpayers declare tax return, There is cooperation with another team at the end of the month when large no of taxpayers declare vat return, Overall service delivery of VAT administration of the authority is not weak and Taxpayers declare VAT return within the period's schedule by Authority were seen on average level. Furthermore, the data obtained from the interview indicated that failure to provide taxpayers information failed to provide receipts for the service that you are selling as well as awareness related issues usually the authority is facing. Besides, there is a slight difference as well as great variation among the opinions of the two groups of respondents responses on the issue discussed above.

## 4.9. Challenges Observed Continued…

Table 10: Views of Respondents on Challenges

| N/0 | Items/Issues | Respondents | | | | | | | | | | | | SD | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Large Tax Payers (N=170) | | | | | X | Employees (N=68) | | | | | X | LTP | E |
| 6 | The Authority easing differentiates non-filers. | 52 | 60 | 26 | 22 | 10 | 3.75 | 16 | 24 | 12 | 8 | 8 | 3.55 | 1.18 | 1.33 |
| 7 | Employees prepare notice for non- filers. | 56 | 64 | 32 | 12 | 6 | 3.62 | 12 | 20 | 8 | 16 | 12 | 3.27 | 1.29 | 1.31 |
| 8 | Taxpayers have willingness to pay collected VAT within specified time. | 56 | 72 | 20 | 16 | 6 | 3.91 | 20 | 36 | 12 | - | - | 4.11 | 1.05 | 0.67 |
| 9 | Employees issued receipts to payment when taxpayer paid assessed VAT. | 56 | 86 | 16 | 6 | 6 | 4.05 | 24 | 28 | 16 | - | - | 4.11 | 0.93 | 0.75 |
| 10 | The Authority has down payment rule when taxpayer fails to pay the assessed amount fully. | 54 | 62 | 28 | 22 | 4 | 3.85 | 28 | 20 | 16 | 4 | - | 4.11 | 1.09 | 0.83 |
| 11 | Officers & team coordinators are skilled & competent. | 74 | 52 | 24 | 12 | 8 | 4.03 | 16 | 20 | 16 | 16 | - | 3.55 | 1.13 | 1.09 |

As it is observed in the above table items 6-11, respondents were asked to put their agreement level whether the following challenges already affecting the stakeholders or not. Accordingly, with (X=3.75, SD=1.18) and (X=3.55, SD=1.33), (X=3.62, SD=1.29) and (X=3.27, SD=1.31) (X= 3.91, SD=1.05 and X=4.11, SD= 0.67), (X= 4.05, SD=0.93 and X=4.11, SD= 0.75), (X= 3, 85, SD=1.09 and X=4.11, SD= 0.83), (X= 4, 03, SD=1.13 and X=3.55, SD= 1.09) respectively showed that the challenges discussed above have been affecting the tax system in general and the VAT related issues as main subject of the study and rated above average. Besides, there is a great difference as well as great variation among the opinions of the two groups of respondents 'responses on the issue discussed above.

## 4.10. Challenges Observed Continued…

Table 11: Views of Respondents on Challenges

| **N/0** | **Items/Issues** | **Respondents** | | | | | | | | | | | | **SD** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Large Tax Payers (N=170)** | | | | | **X** | **Employees (N=68)** | | | | | **X** | **LTP** | **E** |
| 12 | There are factors which may be the cause for low employee performance. | 60 | 56 | 20 | 24 | 10 | 2.37 | 10 | 14 | 8 | 20 | 16 | 2.11 | 1.50 | 1.45 |
| 13 | Employees have personal incitation to develop their skill & performance | 46 | 40 | 42 | 36 | 6 | 3.59 | 24 | 28 | 12 | 4 | - | 3.55 | 1.12 | 0.92 |
| 14 | The office is periodically evaluating employee's performance & gives a feed back | 42 | 22 | 34 | 40 | 32 | 2.91 | 32 | 24 | 8 | - | 4 | 4.05 | 1.28 | 0.99 |
| 15 | Weak VAT administration systems of the authority are not the cause for VAT refund procedure complexity. | 32 | 54 | 42 | 34 | 8 | 3.63 | 36 | 20 | 8 | - | 4 | 3.52 | 1.05 | 1.00 |
| 16 | The refunding period do not need an assessment maintained by the authority | 30 | 22 | 42 | 40 | 36 | 3.51 | 26 | 22 | 4 | 12 | 4 | 2.94 | 1.10 | 1.47 |

As can be observed from the above table for items 12-16, respondents were asked to rate their level of agreement on the issue listed out in the above table. Accordingly, with (X= 2, 37, SD=1.50), and (X=2.11, SD= 1.45), (X= 3, 59, SD=1.12) and (X=3.55, SD= 0.92), (X= 2, 91, SD=1.28 and X=4.05, SD= 0.99), (X= 3, 63, SD=1.05) and (X=3.52, SD= 1.00), (X= 3, 651, SD=1.10 and X=2.94, SD= 1.47) respectively indicated that as we all noticed there are factors which may be the cause for low employee performance, employees have also personal incitation to develop their skill & performance, the office is periodically evaluate employee's performance & gives feedback, Weak VAT administration systems of the authority are not the cause for VAT refund procedure complexity and the refunding period do not need an assessment maintained by the authority have seen and moderately affecting the taxing system in general. Besides, there is a slight difference as well as great variation among the opinions of the two groups of respondents responses on the issue discussed above. Finally, interviewees were asked to forward some of the suggestions for the effective implementation of VAT. Accordingly, the following account has been given: Just developing a recurring awareness platform for VAT taxpayers, there must be an activity to collect and recollect the public, as well as other services and it, has to be repeatedly urged that large taxpayers need to show interest and responsibility for the hassle of not being punished.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter deals with the summary of major findings of the study, the conclusion drown based up on the major findings and recommendation that forwarded based on the conclusions arrived at.

## 5.1. Summary

This study was conducted aiming at assessing the attitude of large taxpayers and their compliance on the VAT System in Ethiopia Revenue and Customs Authority. More specifically, the study intended to attain the following objectives:

1. To assess the extent of large taxpayers' attitude with VAT tax system implementation
2. Ethiopia Revenue and Custom Authority
3. To examine the level of large tax payer's compliance on VAT administration in Ethiopia Revenue and Customs Authority.
4. To assess large taxpayers' attitudes with current tax reform such as with cash register machine and VAT withholding.
5. To identify the main problems encountered by large taxpayers in Ethiopia Revenue and Customs Authority.
6. To forward possible recommendations to strengthen the tax system implementation practices in Ethiopia Revenue and Customs Authority.

This study endeavored to explore the attitude of large taxpayers and understand their compliance with the VAT System. Issues were analyzed with h the intension to understand the ground facts from the large taxpayer, employees, and management perspectives. The study employed both qualitative and quantitative research design with the assumption that reality is socially constructed by participants and there are many truths. This research approach was appropriate as the researcher was trying to understand the complexity of the issue under investigation through the lived experience, perceptions, and perspectives from a holistic standpoint.

For this study, a descriptive survey method was employed to disclose the understanding of respondents on the issue under study. This method was' chosen with the assumption that it helps to conduct data as it exists and to gather several data related to the problem under study. Both primary and secondary sources of data were used. Data were generated via Questionnaire and Interview. The respondents were provided with 268 questionnaires (both close & open-ended), 185 for large taxpayers, and 83 for employees. Accordingly, 170 (91.89%) of large taxpayers respondents properly completed and returned the questionnaire just in time and 68 (81.92 %) of the employees properly completed and returned the questionnaire just in time while the remaining 30 (11.19%) of them did not return for various reasons and mainly due to the lockdown to prevent Coronavirus.

The data secured through questionnaires were analyzed quantitatively and data secured through interviews are thematically analyzed and organized into three themes to answer the research questions. To this effect, the study attempts to answer the following basic questions:

1. Do large tax payers understand the VAT system?
2. Do large tax payers have healthy attitude over the implementation of VAT in Ethiopia Revenue and Custom Authority?
3. Do large tax payers comply to tax authority's rule?
4. What are the challenges faced by large tax payer's in complying to VAT administration?
5. What are the possible recommendations by large tax payers in to alleviate the VAT administration problem?

In an attempt to answer the above basic research questions, a descriptive survey was preferred to serve the purpose. The study was conducted on Ethiopia Revenue and Customs Authority large taxpayers and their compliance with the VAT System. The questionnaire was developed and data also gathered based on the review of related literature. To substantiate the study interviews were prepared and used for the study. Document analysis was also used to gather additional data. The collected data were analyzed by descriptive statistics such as frequency count, percentage, mean and standard deviation. Data were analyzed using the "Statistical Package for the Social Sciences" (SPSS) version 21 software.

### 5.1.1. Major Findings

Most of the data reported are based on the findings of the research. Accordingly, the sample respondents were forwarded to their opinions and the data was analyzed accordingly. As to the major findings of the study, as many issues raised during the discussion as well as responses from the data collection instruments the sample respondents were forwarded to the following views.

As findings of the study confirm, sample respondents were agreed that VAT registration procedure was found above average and one can possibly conclude that respondents moderately practices and a reasonable proportion of the sample respondents believed that the registration process is simple to undertake activities and the registration procedure was assessed with above average rating by both types of respondents. Sample respondents confirmed that enforcement such as penalty rates for non-compliance was moderately acceptable and a reasonable proportion of large tax taxpayers would prefer to comply and avoid penalties and this by implication mean that the existing tax enforcement mechanisms created enforceable fearing burden of penalties.

Large taxpayers agreed that they strongly underlined that they are willing to pay an assessed tax liability claimed by ERCA. Their agreement to pay assessed tax willingly was above the moderate and a significant number of large taxpayers moderately pay to their tax liabilities. In addition, large taxpayers agreed that they have the right to claim their marketable assets unless they comply with the tax laws. Besides, ERCA moderately accepted by the taxpayers and they are fear and averagely as expected to estimate the total sale or purchase made for levying the tax rather the invoice would depict the taxable sales.

Based on the findings, a significant proportion of the sample respondents agreed that vat payment by large tax taxpayers considered moderately responsibly and the responsibility to pay the actual assessed VAT timely, and the practice of tax assessment was found moderate. Besides, VAT refunding has certain rules and directives which are already prepared ERCA, and VAT refund was rated moderate. Conversely, a reasonable proportion of the sample respondents opposes that the time period set by the tax ERCA found to be unfair. The revenue officers moderately give respectful services to clients, the existing business averagely registered VAT to a large chance to penetrate the market, they moderately attempted to avoid VAT and ready to pay more if the government utilizes public finance properly. Besides, large tax taxpayers report their lower business performance while they issued sales invoices to their respective clients.

As per the findings of the study, a significant proportion of the study participants underlined that there was a moderate tax education program for taxpayers and the authority has moderate free call information centers. In addition, there was also average power interruption when taxpayers declare tax and less sufficient access to transportation to declare tax. In addition, the service delivery of VAT administration of the authority is not weak and taxpayers declare VAT return within the period's schedule by Authority was seen on average level. And challenges discussed in chapter four have been affecting the tax system in general and the VAT related issues as the main subject of the study and rated above average. And also, weak VAT administration systems of the authority are not the cause for VAT refund procedure complexity and the refunding period do not need an assessment maintained by the authority have seen and moderately affecting the taxing system in general

## 5.2. Conclusion

The following conclusions were made based on the findings of the study and the evidence allows us to conclude that, the attitude of large taxpayers and their compliance on VAT System in Ethiopia Revenue and Customs Authority were analyzed and concluded as follows. Accordingly, less participation rate of the female large taxpayer as well as employees at Ethiopia Revenue and Customs Authority have observed and gender inequality is also observed in the sample institution and attention must be given to females in all aspects of the business activities as long as the role of women's are concerned and their contribution to the overall activities of the business sector.

The research findings figure out the majority of employees and large taxpayers were relatively energetic, matured, and fit to take responsibilities and run the intended business. Besides, most of the large taxpayers and employees have reasonably adequate experiences to carry out responsibility and to provide sufficient information about what is going on in their perspective institution. Furthermore, the low level of large taxpayer and employees in academic qualification yields poor outcomes, and sample respondents moderately practices, and a reasonable proportion of the sample respondents believed that the registration process is simple to undertake activities.

The registration procedure was assessed with above average rating by both types of respondents and the existing tax enforcement mechanisms created enforceable fearing burden of penalties. Besides, the law has been enforced for those VAT eligible businesses but not yet registered for VAT and they are fear and averagely as expected to estimate the total sale or purchase made for levying the tax rather the invoice would depict the taxable sales. And, vat payment by large tax taxpayers considered moderately responsibly and the responsibility to pay the actual assessed VAT timely and the practice of tax assessment were found moderate.

VAT refunding has certain rules and directives which is already prepared ERCA and VAT refund was rated moderate. Besides, the practices of refund procedure, as assessed by the sample respondents were moderately agreed and acceptable, and large tax taxpayers report their lower business performance while they issued sales invoices to their respective clients. Furthermore, there was also average power interruption when taxpayers declare tax and less sufficient access to transportation to declare tax. And also survey was conducted by asking the employees of ERCA large taxpayer's office about the bottlenecks that hinder the smooth implementation of VAT in Ethiopia.

As to the findings of the study the following challenges like employees have also personal incitation to develop their skill & performance, the office is periodically evaluating employee's performance & gives a feedback, Weak VAT administration systems of the authority are not the cause for VAT refund procedure complexity and the refunding period do not need an assessment maintained by the authority have seen and moderately affecting the taxing system tax system in general and value-added tax in particular.

## 5.3. Recommendations

The findings of this study are believed to have some recommendations for practice. The implication might show areas of intervention to improve the most wanted effective implementation of Value Added Tax and try to minimize the existing related problems. As we think of improving the implementation of Value Added tax and reducing large tax payer's compliance in ERCA. Accordingly, the following recommendations are made on the basis of the research findings and the conclusion.

- ERCA together with the government has to introduce a research budget line in the branch offices and at Federal level so that possible problems can be identified on time and then solved timely and branch office has to make collaborations with the nearby institutions like higher education institutions so that they can conduct joint programs such as capacity building and researches that enable and solve the problems of large taxpayers in particular and society in general.
- The authority should arrange tax awareness program and actively attend and get reliable information about the current tax rules, regulations, and procedures in order to improve their tax awareness and this can be carried out by intensively educating the public using mass-medias like television, radio, newspapers, creating accessible websites, distribution of broachers, preparations of different seminars and workshops on a regular basis to increase awareness.
- ERCA must understand that, it is necessary to document and share the best practices that the country gained within the last few years so that we can capitalize on our strong points and then correct the weaknesses that we may have. Hence, it is important to organize experience sharing sessions for such a purpose.
- The authority should identify that, there are always certain business people and companies who are registered for VAT but not declaring with payments at the given time. This needs continuous follow-up and actions have to be taken to such individuals. But, continuous efforts have to be exerted to make attitudinal changes periodically.

The authority should facilitate periodic capacity building programs for itsemployees and there is always a need for changing the attitude towards customer handling and other service giving methodologies andERCA large tax payer's office should strengthen its tax administration by delegating responsibilities to regional/city administration revenue collection organs to administer taxpayers with their jurisdiction and also the taxpayers should comply with current VAT rules and regulations. Last but not least, ERCA together with the concerned stakeholder should introduce a research budget line in the branch offices and at the Federal level so that possible problems can be identified on time and then solved timely.

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# Appendixces

## Addis Ababa University
## College of Business and Economics
## Department of Public Administration and Policy

Questionnaires to be filled by Large Tax Taxpayers for the research entitled "The Attitude of Large Tax Payers and their Compliance on VAT System in Ethiopia Revenue and Customs Authority".

**Dear Participants**

I would like to express my heartfelt appreciation, in advance, for taking time to fill out the questionnaire. The questionnaire is designed to undertake of a research for the fulfillment of M.A degree in Public Management and Policy. The purpose of this questionnaire is just to get information regarding tax payers' attitude on their Compliance to the VAT System of Ethiopia Revenue and Custom Authority". Be confident that the information you provide will be kept confidential and will be used only for academic research purpose. So, you are kindly requested to give your genuine answer.

| No | Questions<br>Section -1 Personal Information | Response |
|---|---|---|
| 1. | Date | ____________________________________ |
| 2. | Field of Specialization | ________________________________________ |
| 3. | Gender | 1-Male<br>2-Female |
| 4. | Age | 1. Below 20 years<br>2. 21-30 years<br>3. 31-40 years<br>4. 41-50 years<br>5. 51 and above |
| 5 | Experience on current position | 1- Below 10 years<br>2- 10-20 years<br>3- Above 20 years |
| 6. | Academic Qualification | 1. Certificate & below<br>2. Diploma<br>3. First Degree<br>4. MA/MSC and above |

**Section II.Issues of Registration Procedure, Law Enforcement and VAT Assessment**

**Direction 1**: Please rate the following questions on this questionnaire by putting the" √" mark in the space provided. Accordingly rate as follow

1. If you Strongly agree.
2. If you agree

3. If Undecided

4. If you Dis Agree

5. If you strongly dis agree

| **No** | **Items** | **Rating Scales** | | | | |
|---|---|---|---|---|---|---|
| | | **1** | **2** | **3** | **4** | **5** |
| | **Registration Procedure** | | | | | |
| **7** | I voluntarily registered as a value added tax payer. | | | | | |
| **8.** | The registration is normally conducted in a good way. | | | | | |
| **9.** | The registration process of VAT is not time consuming. | | | | | |
| **10.** | I had sufficient explanation on VAT laws. | | | | | |
| | **Law Enforcement** | | | | | |
| **11** | I am confident that the legitimacy of the claims in tax returns. | | | | | |
| **12** | Penalty rates for my non-complaints are affordable. | | | | | |
| **13** | If I decided that to not obey tax laws I would not able continue my assessment. | | | | | |
| **14.** | I am willing to pay an assessed tax liability and to be claimed by ERCA. | | | | | |
| **15.** | There is market demand to the assets which is claimed for tax liability. | | | | | |
| **16** | ERCA has good relationship with federal government attorney. | | | | | |
| | **VAT Assessment** | | | | | |
| **17** | I am responsible to assess my own VAT liability. | | | | | |
| **18** | Assessment of VAT is based on my own declaration. | | | | | |
| **19** | I am responsible to declare VAT | | | | | |
| **20** | I can accurately determine my VAT liability. | | | | | |
| **21** | The tax office gives equal consideration to the views of all Taxpayers | | | | | |

**Section III.Issues of VAT Payment, Refund Procedures and the Attitude**

**Direction 2**: Please rate the following questions on this questionnaire by putting the" √" mark in the space provided. Accordingly rate as follow

3. If you Strongly agree. 3. If Undecided
4. If you agree 4. If you Dis Agree
5. If you strongly dis agree

| No | Items | Rating Scales | | | | |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| | **VAT Payment** | | | | | |
| **22** | It is everyone's responsibility to pay the correct amount of vat. | | | | | |
| **23** | The taxpayer should not understate sales which collect from customers in order to pay vat. | | | | | |
| **24** | I have responsibility of paying self –assessed VAT liability. | | | | | |
| **25** | I pay actual VAT assessed. | | | | | |
| **26** | I always pay my VAT in time. | | | | | |
| | **Refund Procedures** | | | | | |
| **27** | The VAT refunding process being made are on timely | | | | | |
| **28** | If illegal invoice used to claim the tax refund, the probability of being detected is high. | | | | | |
| **29** | Vat refund has not along procedures | | | | | |
| **30** | There exist complex requirements for Vat refund | | | | | |
| **31** | The refunding period needs an assessment maintained by the authority | | | | | |
| | **Attitude** | | | | | |
| **32** | Revenue officers do not give respectful services to clients. | | | | | |
| **33** | The business doesn't registered VAT has a large chance to penetrate the market. | | | | | |
| **34** | I never attempted to avoid VAT. | | | | | |
| **35** | I am ready to pay more if government utilizes public finance properly. | | | | | |
| **36** | My business performance would be low if I issue sales invoice. | | | | | |
| **37** | There is a continuous tax education program for tax payers | | | | | |
| **38** | The authority has sufficient free call information centers | | | | | |
| **39** | There is no power interruption when I declare tax. | | | | | |
| **40** | There is a sufficient access of transportation to declare tax. | | | | | |

**Thank You for Your Time!**

# Addis Ababa University

# College of Business and Economics

# Department of Public Administration and Policy

Questionnaires to be filled by employees of Ethiopia Revenue and Custom Authority

**Dear Participants**

I would like to express my heartfelt appreciation, in advance, for taking time to fill out the questionnaire. The questionnaire is designed to undertake of a research for the fulfillment of M.A degree in Public Management and Policy. The purpose of this questionnaire is just to get information regarding tax payers' attitude on their Compliance to the VAT System of Ethiopia Revenue and Custom Authority". Be confident that the information you provide will be kept confidential and will be used only for academic research purpose. So, you are kindly requested to give your genuine answer.

| No | Questions<br>Section -1 Personal Information | Response |
|---|---|---|
| 1 | Date | ________________________ |
| 2 | Field of Specialization | __________________________ |
| 3 | Gender | 1-Male<br>2-Female |
| 4 | Age | 1. Below 20 years<br>2. 21-30 years<br>3. 31-40 years<br>4. 41-50 years<br>5. 51 and above |
| 5 | Experience on current position | 1. Below 10 years<br>2. 10-20 years<br>3. Above 20 years |
| 6. | Academic Qualification | 1. Certificate & below<br>2. Diploma<br>3. First Degree<br>4. MA/MSC and above |

**Section II.Issues of Registration Procedures, Law Enforcement, VAT Assessment& Collection**

**Direction 1**: Please rate the following questions on this questionnaire by putting the" √" mark in the space provided. Accordingly rate as follow

5. If you Strongly agree. 3. If Undecided
6. If you agree 4. If you Dis Agree
5. If you strongly dis agree

| No | Items | Rating Scales | | | | |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| | **Registration Procedures** | | | | | |
| 7 | There exists experienced employee at VAT registration department. | | | | | |
| 8 | VAT registration Procedure is simple to perform. | | | | | |
| 9 | There is a standard time limit to perform VAT registration. | | | | | |
| 10 | The registration process usually performed beyond standard limit. | | | | | |
| | **Law Enforcement** | | | | | |
| 11 | The threshold of transaction for VAT is reasonable. | | | | | |
| 12 | Taxpayers obey rules and regulations regarding to tax. | | | | | |
| 13 | Employees assess notice on non-compliance in accordance with rules and regulations. | | | | | |
| 14 | Tax rules & regulations are easy to understand & implement on non-complaints. | | | | | |
| 15 | The office has relation with federal government attorney to make liable for tax payers that do not obey tax rules & regulations. | | | | | |
| | **VAT Assessment and Collection** | | | | | |
| 16. | VAT assessment is done by responsible employee. | | | | | |
| 17 | VAT assessment is done by standard time limit. | | | | | |
| 18 | VAT assessment procedures are flexible. | | | | | |
| 19 | VAT assessment is team work rather than individual responsibility. | | | | | |
| 20 | Non-complaints are willing to pay penalty & interest that the office asses | | | | | |
| 21 | I believe that the collection of VAT is done in good manner. | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **22** | I accurately determine VAT liability. | | | | | |
| **23** | I have a clear detection mechanism of the collected but not paid VAT. | | | | | |
| **24** | There is no an intention from taxpayer for tax avoidance. | | | | | |
| **25** | The offices push taxpayer to declare (file) VAT as soon as they register. | | | | | |

**Section III.Challenges Observed**

**Direction 2**: Please rate the following questions on this questionnaire by putting the" √" mark in the space provided. Accordingly rate as follow

7. If you Strongly agree. 3. If Undecided
8. If you agree 4. If you Dis Agree

5. If you strongly dis agree

| No | Items | Rating Scales | | | | |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| **26** | VAT returns having payment, refund & nil has made within time interval for taxpayers to decrease burden of service delivery. | | | | | |
| **27** | There is enough access deliver services when tax payers declare tax return. | | | | | |
| **28** | There is cooperation with other team at the end of month when large number of tax payers declare vat return. | | | | | |
| **29** | Overall service delivery of VAT administration of the authority is not weak. | | | | | |
| **30** | Tax payers declare VAT return within the periods schedule by Authority. | | | | | |
| **31** | The Authority easing differentiates non-filers. | | | | | |
| **32** | Employees prepare notice for non- filers. | | | | | |
| **33** | Taxpayers have willingness to pay collected VAT within specified time. | | | | | |
| **34** | Employees issued receipts to payment when taxpayer paid assessed VAT. | | | | | |
| **35** | The Authority has down payment rule when taxpayer fails to pay the assessed amount fully. | | | | | |
| **36** | Officers & team coordinators are skilled & competent. | | | | | |
| **37** | There are factors which may be the cause for low employee performance. | | | | | |
| **38** | Employees have personal incitation to develop their skill & performance | | | | | |
| **39** | The office is periodically evaluating employee's performance & gives a feed back | | | | | |
| **40** | Weak VAT administration systems of the authority are not the cause for VAT refund procedure complexity. | | | | | |
| **41** | The refunding period do not need an assessment maintained by the authority | | | | | |

# Addis Ababa University

## College of Business and Economics

## Department of Public Administration and Policy

Interview guides for the management bodies the research entitled "The Attitude of Large Tax Payers and their Compliance on VAT System in Ethiopia Revenue and Customs Authority".

1. What do you think are the main factors determining the collection efficiency of VAT for large tax payers and do you think that ERCA is fulfilling these? If Yes, How and if No, Why?

2. What do you think are the problems facing large tax payers in reporting their VAT records? For instance, problems related to the VAT register machine, tax payers know how etc.?

3. What do you think are the problems prevailing with the employees of the authority in efficiently collecting VAT? What do you think can be the solution for the problems?

4. How do you generally evaluate the level of VAT Implementation efficiency in large taxpayer's office?

5. What do you suggest for effective implementation of VAT?

# Declaration

I, the undersigned, declare that this thesis entitled *"The Attitude of Large Tax Payers and their Compliance on VAT System in Ethiopia Revenue and Customs Authority"*, is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not been submitted for a degree in any other universities.

Assefa Wakjira________________ ______________

Name of Author Signature Date