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Addis Ababa University



ADDIS ABABA UNIVERSITY
Business and Economics
Department of Accounting and Finance

**Perceptions and Challenges in the Application of Presumptive Tax in
Addis Ababa: in case Arada Sub city**

By: Teshome Sahlu

ID: GSE/7835/09

**A thesis submitted to School of Graduate studies of Addis Ababa University in
partial fulfillment of the requirement for Master of art in Accounting and
Auditing**

Advisor: Dr. Sewale Abate

Nov, 2019
Addis Ababa

Statement of Declaration

I, the undersigned, declare that, this research paper is my original work, has never been presented in this or any other university, and that all resources and materials used herein have been duly acknowledged.

Name: Teshome Sahlu

Signature: _____

Place: College of Business & Economics, Addis Ababa University, Ethiopia

Date of submission 27 November, 2019

ADDIS ABABA UNIVERSITY
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GRADUATE STUDIES

Statement of confirmation

This is to certify that Ato Teshome Sahlu has carried out his post-graduate thesis work on the topic entitled “**Perceptions and Challenges in the Application of Presumptive Tax in Addis Ababa: in case of Arada Subcity.**”

The work is original in nature and suitable for submission for the award of Master of Degree in Accounting & Auditing (MA)

Confirmed by Advisor:

Name: Dr. Sewale Abate

Signature: _____

Date: _____

November, 2019

Addis Ababa, Ethiopia

ADDIS ABABA UNIVERSITY

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Approved by Board of Examiners:

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Internal Examiner	Signature	Date
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External Examiner	Signature	Date

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Addis Ababa, Ethiopia

Abstract

Ethiopia collects small amount of tax (13.4% tax to GDP) from its tax payers compared to other sub Saharan African countries that collect average of 18% of tax to GDP. The share of revenue from the presumptive tax is also tiny compared to the total tax revenue and its potential which is below 1%. In spite of this small revenue, perception of the Addis Ababa tax payers towards the performance of tax authority and the amount of tax imposed is negative. The study conducted in the Arada sub city shows that the presumptive tax payers do not believe that the tax system is not simple to understand. These type of tax payers also feel that they are paying too much and the administrative capacity of the tax collecting authority is neither good nor bad. On the other hand, the assessors who took part in the study stressed that the amount of tax being collected is small compared to the potential as well as to the civil servants who are earning less but paying more. The study concludes that the tax payers' negative perception has to be addressed whether the concern is not for legitimate reason since it possess challenges in the tax collection process as well as in increasing tax revenue.

Keywords: Presumptive tax, Arada Sub city, Simplicity, Administrative capacity and fairness.

Acronyms

AICPA	American Institute of Certified Public Accountants
ETB	Ethiopian Birr
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
TOT	Turn Over Tax
UNDP	United Nations Development Program
ZIMRA	Zimbabwean Revenue Authority

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1. Introduction

1.1. Background of the Study

The capacity of any government to mobilize domestic resources is a crucial factor in the process of poverty reduction and its overall economic development. This domestic resource mainly includes tax collection, non- tax revenues, domestic borrowing, and from other domestic income sources. For developing countries, domestic resource mobilization is the only dependable and long term source of development financing in terms of sustainability and reliability. It is also widely accepted that international sources like remittances, exports and other inflows are not reliable and insufficient to finance development plans and stimulate development in developing countries (UNDP, 2016). As a result there is a growing emphasis on domestic resource mobilization in developing countries to finance their development agendas. Even if mobilization of domestic resource is crucial for developing countries, the countries have had difficulties in mobilizing them and the revenue generated from tax is small which makes increasing domestic resource mobilization a policy priority for many countries.

In the past decade Ethiopia has made encouraging progress in mobilizing more revenues from domestic sources, particularly in tax revenue. Tax collection increased from Birr12.4 billion in 2005 to Birr 165.3 billion in 2015 indicating over thirteen fold increase in the decade. Similarly the share of domestic revenue in the total public revenue increased from 77 percent to 94 percent in the same period, and the share of tax revenue stands at 83 percent in 2015. However, there is a challenge increasing the tax

revenue proportionate GDP; the tax to GDP ratio remained low at 13.4percent in 2015 which is way below the Sub Saharan Average of about 18percent, over 20percent for emerging economies and above 30percent for developed economies (Geda, 2014).

As a way of compensating for the revenue shortfalls, small business tax regimes are now a common feature of many tax systems in developing countries including Ethiopia. Such taxes are usually targeted at the self-employed and small to medium-sized businesses in the informal or unregistered sector, and commonly take the form of presumptive taxes (Wallace, 2002; Benjamin & Mbaye, 2012; Joshi, Prichard, & Heady, 2014). These types of taxes are generally favored for their administrative simplicity and economic efficiency. They are simpler to administer than direct taxes on income as informal sector operators are not required to keep the detailed records necessary under the standard tax regime, and the authorities can avoid the costs associated with the conventional verification and assessment procedures (Terkper, 2003; Loeprick, 2009). On the part of these tax payers in Ethiopia, there were some objections and open protest which is exhibited in Addis Ababa during 2017. Considering the importance given to this type of tax revenue, it might worth investigating the challenges it is facing.

1.2. Presumptive Tax in Ethiopia

The developing countries economy is cash based and is dominated by a significantly large number of micro and small businesses. Hence, taxing this sector assists the growth of the economy by raising government revenue and increasing the number of taxpaying firms. It is for this reason that the simplified tax system of presumptive taxation is designed as a transition for micro businesses to introduce them to the standard tax regime in many growing economies. (Benjamin and Mbaye 2012)

The introduction of presumptive tax in Ethiopia had two goals. First, to raise revenue and second, to raise the tax base of the country's tax system (Income Tax No. 286/2002, Article 68 – FDRE 2002). Presumptive tax is employed in two ways according to the proclamation 979/2016 (House of Peoples Representatives 2016) and regulation 410/2017, Article 60 (FDRE 2017). These are the turnover-based presumptive system and a system based on indicators.

Daily sales are normally estimated by a committee of tax officials by asking the concerned taxpayer questions and also observing the business location and the nature of the business. In practice, the tax is calculated using the annual turnover estimated based on the daily sales estimate and profit margin specified in the regulation (as amended).

Based on the 2016 revised proclamation, the Ethiopian Income Tax Regulation 410/2017 (FDRE 2017) lists 99 business activities with 19 turnover bands. This leads to settling and adjusting 1,881 different taxes percentages, which is complicated given the tax administration capacity at the lower levels of the tax administrations that are responsible for the implementation of presumptive taxes, the woredas.

1.3. Statement of the Problem

Following the revised daily sales estimation for the purpose of presumptive tax in Ethiopia, there was resistance and dissatisfaction on the part of the tax payers which forced the government to look into large number of appeals especially in Addis Ababa. On the one hand, government insists that it was not collecting sufficient revenue considering the potential in this type of tax regime. On the other hand, many tax payers' view or perception of presumptive tax seems negative. It might be important to examine if the perceptions of the tax payers towards the tax system has any effect on the failure of the government to generate revenue.

Many studies on the field of taxation support that perception of tax payers has either positive or negative effect on the amount of tax collected. These studies (models) have emphasized the importance of attitudes and perceptions on various aspects of a tax system especially simplicity, administrative capacity and fairness (Cullis and Lewis 1997; McKerchar 2002; Alm et al. 1999). This study is an attempt to find out the tax payers perceptions towards simplicity, administrative capacity and fairness which are the pillars of presumptive tax. It also examines if the challenges of generating tax revenue is associated with the tax payers perception of the tax systems.

1.4. Research Questions

The research paper attempt to answer the following questions in in the study:

1. Are aspects of the tax system simple to understand for presumptive tax payers?
2. Is the tax administration good enough on the eyes of the presumptive tax payers?
3. Do the presumptive tax payers perceive the tax as fair?
4. What are the challenges in securing tax revenue from the presumptive tax?

1.5. Objective of the study

The main motivation of this paper is to explore the perception of presumptive tax payers towards the presumptive tax and the challenges that this type of tax has faced in generating the required revenue in Arada sub city. It will also have the following specific objectives:

1. To find out if the tax payers find the presumptive tax regime simple
2. To find out if the tax payers find the tax administration efficient and if it handles the job properly
3. To find out if there is fairness in the presumptive tax regime
4. To find out challenges associated with the perception and if this has any effect on the tax revenue generation

1.6. Significance of the Study

The study is believed to shed more lights on the practical application of presumptive tax in Addis Ababa particularly Arada Sub city. It helps stakeholders to know the perception of the tax payers towards the presumptive tax regime so that they can capitalize on the positive and work on the weaknesses. It also helps the stake holders to know the expectation of the tax payers and the gaps which they need to fill. Besides, the study could encourage other researchers to conduct similar studies in other parts of the country and other sub cities.

1.7. Scope and Delimitations

The study mainly focuses on the perceptions of the presumptive tax payers in Arada Sub city and the challenges the sub city faces in the tax collection. However, similar tax payers in other sub cities are not covered in this study. The survey was conducted in the month of October 2019 for three weeks and the survey was filled most tax payers who showed up for payment, appeal or others business in the compound of tax payers during this period. Some surveys were filled on the site of the business persons. Among the survey respond. Four tax officials working in the sub city and who were willing also reacted to the survey result and also gave their views on tax challenges they faced on tax collection.

1.8. Organization of the study

The paper has been organized in the following steps:

Chapter one: Introduction- included background of the study, statement of the problem, general and specific objectives, significance of the study, delimitation.

Chapter two: Review of literature comprises Presumptive taxation: theory and empirical studies on presumptive taxation

Chapter three: Research methodology -consists of research design, sources of data collection, sample size and sampling procedures, method of data collection and data analysis

Chapter four: findings from the survey result are discussed.

Chapter five: in this chapter general conclusions are drawn, possible recommendations to the problems are suggested. In addition major limitation of the study and indication of further studies in the area are drawn.

Chapter Two

2.1. Review of Related Literature

2.2. Theoretical Framework of Presumptive Tax

2.2.1. Presumptive Tax Defined

The term "presumptive" is used to indicate that there is a legal presumption that the taxpayer's income is no less than the amount resulting from application of the indirect method. This type of tax is simplified tax levied on presumed rather than actual income, and can be based on turnover (where enterprise owners are expected to keep basic records of sales), indicators of income capacity (such as the number of tables in a restaurant) or they can be standard lump-sum assessments paid by all those in a particular activity or occupation (Bird & Wallace, 2003; Loepnick, 2009).

2.2.2. Reasons for Employing Presumptive Tax

The presumptive approach is selected for the following reasons (Thuronyi, 1996): One is simplification, particularly in relation to the compliance burden on taxpayers with very low turnover (and the corresponding administrative burden of auditing such taxpayers). A second is to combat tax avoidance or evasion (which works only if the indicators on which the presumption is based are more difficult to hide than those forming the basis for accounting records). Third, by providing objective indicators for tax assessment, presumptive methods may lead to a more equitable distribution of the tax burden, when normal accounts-based methods are unreliable because of problems of taxpayer compliance or administrative corruption. Fourth, rebuttable presumptions can encourage taxpayers to keep proper accounts, because they subject taxpayers to

a possibly higher tax burden in the absence of such accounts. Fifth, presumptions of the exclusive type can be considered desirable because of their incentive effects a taxpayer who earns more income will not have to pay more tax. Finally, presumptions that serve as minimum taxes may be justified by a combination of reasons (revenue need, fairness concerns, and political or technical difficulty in addressing certain problems directly as opposed to doing so through a minimum tax).

2.2.3. Reconstruction of Income for Presumptive tax purpose

If the taxpayer has failed to file a return or has substantially understated his or her income, and the transactions giving rise to income cannot be traced, the tax authorities are usually authorized to assess income on their best judgment. This could involve use of a method such as net worth, or bank deposits, or some other approach that has a factual basis for the particular case.

As long as the assessment is based on reasonable facts, it will be upheld, subject to the taxpayer's right to come forward with proper evidence of income. Here are below some methods on how income is reconstructed for presumptive tax.

A) Net worth Method

In the absence of substantial information about the taxpayer's actual income, a commonly employed method is to estimate income by determining the change in the taxpayer's net worth over the year and adding to this amount the estimated personal consumption expenses, determined by examining the taxpayer's lifestyle. In principle, any use of funds other than those that would be reflected in increased net worth should be included as personal consumption expenses for this purpose (e.g., gifts made to others) Victor Thuronyi, (1990). The difficulty is typically the lack of evidence and the consequent need to make rather imprecise estimates. The net worth method is labor intensive, requires sophisticated auditors, and is therefore not suited for mass application.

B) Bank Deposit Method

Another method auditors use to determine income in the absence of an adequate declaration is to secure records of deposits into the taxpayer's bank accounts and to presume, unless the taxpayer can show the contrary, that the deposits constitute income. Depending on the taxpayer's financial and business practices, this can, of course, lead to either a grossly exaggerated or a grossly understated estimate of net income. The effectiveness of this method obviously depends on the state of development of a country's financial institutions. In countries where most amounts are transferred in cash, it is not likely to be very helpful.

C) Expenditures Method

When evidence of the taxpayer's net worth is not available, income can be presumed on the basis of total cash expenditures. In countries where methods of indirect proof of income are not codified, this can be one possible approach under the authority to make best judgment assessments. It may be impossible to use the net worth method because evidence of net worth is unavailable. In some countries, taxation on the basis of personal expenditures has been codified, in which case a difference in result can occur from the best judgment assessment in the sense that personal expenditures, instead of being an indirect method of proving taxable income, become a tax base in their own right in situations contemplated by the statute. Previously in France, individuals could be taxed on the basis of their "open and notorious" personal expenditures, but this method has now been repealed. A similar rule has also been repealed in Germany.

D) Percentage of Gross Receipts

The legislation of some countries provides a minimum-tax type of presumption, whereby the taxable income of a business can be no less than a specified percentage of the gross receipts of the

business. For businesses paying tax on this basis, the tax has the same economic effects as a turnover tax, rather than an income tax, although the situation is more complicated when a company alternates between paying tax on gross receipts and paying tax on income. It is difficult to see the attractiveness of this type of tax beyond the facts that it is relatively easy to administer and raises revenue. These characteristics are shared by sales taxes. If a sales tax is desired, it should be adopted explicitly, rather than in the guise of a minimum income tax. As a sales tax, the gross receipts tax is defective, because it involves substantial cascading.

2.2.4. Type or Category of Presumptive tax

Presumptive tax systems generally can be categorized into four groups, namely: system based on turnover or gross income, system based on indicators, simple lump sum patents, and system based on agreement between the taxpayer and the tax administration (Engelschalk, 2007).

2.2.4.1. System based on turnover or gross income

Turnover or gross income-based schemes are the most popular kind of presumptive taxes (Mutsotso, 2010). This system can be implemented in different ways, namely: uniform turnover-based presumptive taxation, progressive turnover-based presumptive taxation, or application of different tax rates on a standardized tax base.

a) In uniform turnover-based presumptive taxation

In this form of tax, businesses are charged a similar tax rate regardless of their income, their profit margins or the business activities they are engaged in. Under this system, all micro businesses under the presumptive system are taxed uniformly. Such a system may under-tax those businesses that have higher annual income under the system and over-tax those that earn less. (Engelschalk, 2007).

b) Progressive turnover-based presumptive taxation

This type of tax taxes micro businesses with different rates based on their income. However, different business activities are treated uniformly as long as they are in the same band of turnover. This form of taxation reduces the tax burden between the upper band of the presumptive system and the lower band of the standard system, smoothing the transition to the standard regime. Though there is a compliance cost in joining the standard regime, unlike the presumptive regime, the standard regime offers incentives for businesses to grow (Engelschalk, 2007).

c) Application of different tax rates on a standardized tax base

It is a system that treats micro businesses in a non-uniform way regardless of either their business activity or their profit margin. The tax liability of micro businesses differs not only depending on their income difference but also on the business activity they are engaged in. The different tax rates, however, should be kept at a minimum for simplicity and to avoid dispute between taxpayers and the tax administration. Unlike the uniform and progressive turnover-based systems, this system is difficult to administer. However, it has a tendency of increasing fairness among micro businesses.

2.2.4.2. System based on indicators

This system is based on certain indicators that can be used as a proxy of the income of the taxpayer. Good indicators have to be easy to verify and record, have low risk of falsification, and must have a sufficient correlation with the income of the taxpayer. Some of the indicators used are the number of employees the business has, machine capacity, floor space, value of inventory and years of business operation. In some cases, third party information, such as electricity and water bills, is used as a good indicator. In cases where the risk that micro businesses can get their

supplies from unrecorded sources is low, few countries collect data from wholesale suppliers. Though this approach is the main alternative to the turnover-based presumptive system, it can have an adverse effect on employment generation and efficient use of capital usage as firms limit their use to reduce their tax liabilities (Engelschalk, 2007).

There are cases where both the turnover-based system and the indicator-based approaches are used in combination to tax micro businesses. In cases where there is understatement of gross income, indicator elements are used in the turnover-based system as the indicators provide clear counter evasion elements from the tax collectors' point of view. This is what is known as the combination of the turnover-based approach and the indicator-based system (Mutsotso, 2010).

2.2.4.3. Simple lump sum patents

Patent systems are often implemented to tax the 'hard-to-tax' groups of micro businesses. The main objective of this system is to familiarize small businesses to encourage them to join the tax net instead of generating tax revenue. This system has a long-term objective of improving the tax culture instead of the short-term objective of generating revenue. This is justified because in many cases the number of patents collected hardly surpasses the cost of collection (Mutsotso, 2010). This is a system that applies a uniform tax rate to a given business division irrespective of the size or turnover of a business in the division. This is the least sophisticated form of presumptive tax system.

2.2.4.4. System based on agreement between the taxpayer and the administration

The prominent form of this system is the 'forfeit' system of France which has now been repealed and replaced by the turnover-based system. In this form of taxation, the tax administration conducts broad-based research on businesses and determines the profit above which tax has to be

paid. Agreement will then be reached on the amount of profit on which the taxpayer pays taxes. In most cases the profit initially estimated by the tax administration is higher than the agreed system. This system is what is known as the rebuttable form of presumptive regime. This practice, however, is not often used in many countries (Thuronyi, 1996).

2.2.5. Perceptions on the basic tax Principles

Studies, including Sapiei et al. (2014) and Hanlon et al. (2005), examine perceptions and attitudes, and their impact on taxpayers' compliance. They show the importance of building positive perceptions and attitudes towards the various aspects of taxes. These basic principles or aspects of taxes are fairness, simplicity, administrative capacity and so on. Some discussions on fairness, simplicity and administrative capacity are presented in the subsequent paragraphs.

2.2.5.1. Simplicity

Simplicity refers to the simplification of the tax structure with regards to administrative and compliance costs. Tax simplification is achieved through the simplification of (a) the tax system, (b) the tax legislation, and (c) the application of the tax rules (Glenn and Edwin, 1993).

2.2.5.2. Administrative capacity

Administrative capacity refers to various issues that can be divided along the lines of a functional classification – registration, payment, information access, assessment, audit, litigation and the appeal system, sanctions and penalties. In this study perceptions of administrative capacity are focused on these areas.

2.2.5.3. Fairness

Fairness should be viewed in the general tax system and not just from the presumptive tax point of view as it can be offset by social security and other form of taxes. As one of the major objectives of this study is to assess the perception of fairness, it is worth discussing the different dimensions of fairness in this section.

According to the American Institute of Certified Public Accountants, there are seven dimensions of tax fairness (AICPA, 2007).

A) Exchange fairness

Taxes are prices paid for the crucial goods and services provided by governments. Exchange fairness means that, over the long run, governmental organizations provide adequate public goods and services to meet the needs of taxpayers. Exchange equity does not mean that, during a specific period, the amount of taxes paid by an individual taxpayer will precisely match with the value of the tax benefits directly or indirectly received. In order to avoid evasion and improve compliance, taxpayers must have a positive perception of exchange fairness. Taxpayers must feel that, in the long run, they are getting public services worth the tax they pay. Taxpayers' insufficient perceptions of exchange fairness and a lack of representation in tax decisions discourage voluntary compliance and, in most cases, lead to revolutions (Moser, Evans and Kim, 1995).

B) Procedural fairness

There are three key aspects to procedural fairness. First, political processes give taxpayers an opportunity to influence how and to what extent they are taxed. Second, tax systems include safeguards that permit taxpayers to challenge the taxes assessed. Third, tax administrators are expected to treat taxpayers with respect. In the interest of both exchange and process equity,

taxpayers should have a direct or indirect voice in how tax revenues are spent. If taxpayers have perceptions that they are not well represented, they are likely to be involved in protests against the tax laws and legislation.

C) Horizontal fairness

Horizontal fairness is the most often cited aspect of tax equity. Horizontal fairness means that taxpayers with equal amounts of income should pay the same amount of tax. Horizontal fairness also suggests that similarly situated taxpayers (e.g. those with a similar family size, or business location, access to markets, expenses etc.) should be taxed similarly. Two households may earn exactly the same income, but may not be 'similarly situated', and may therefore have differing abilities to pay taxes. A certain amount of each family's income is needed to provide for basic human needs. This amount should not be subject to tax. The amount of income that should not be taxed depends on several factors, including the cost of living, the size and structure of the family, the age of family members, and extenuating circumstances such as disabilities or illness.

D) Vertical fairness

Vertical fairness means that the tax burden should be based on the taxpayer's ability to pay. Clearly individuals with subsistence levels of income should not be subject to all types of taxes because they need all their resources to provide for themselves and their families. Beyond this subsistence or poverty level of income, however, exchange equity suggests that all citizens should pay some taxes, even a relatively small amount. In general, vertical fairness is the justification for progressive tax.

E) Time-related fairness

Time-related fairness means that the total tax liable is suitable over the long term and not overly distorted by fluctuations in income or wealth. Two factors contribute to potential time related inequities. First, tax liabilities are based on short-term or single point-in-time measures. Second, changes in the general price level affect the value of the monetary unit, as well as the relative value of various tax provisions.

F) Inter-group fairness

Inter-group fairness implies that no group is favored at the cost of another without good cause. While some shifting of tax burdens based on the ability to pay may be appropriate, tax burden and benefit inequities should be minimized.

G) Compliance fairness

Compliance equity and fairness means that all taxpayers pay what they owe on a timely basis. Significant non-compliance depresses perceptions of equity, increases tax administration costs, and shifts tax burdens and expands the tax gap. A large current tax gap makes it necessary for legislative bodies to raise future tax rates borrow additional funds or reduce costs or benefits. Changes in tax law or tax administration that make it easier for taxpayers to comply (or more difficult to not comply) result in fairer tax systems.

2.3. Empirical Studies

2.3.1. Experience from selected African countries

Here is below presented several studies conducted on presumptive taxes in selected African countries:

- Empirical studies such as Utaumire, Mashiri and Mazhindu (2013) evaluate the effectiveness of the presumptive tax system. Utaumire et al. present a case study of Zimbabwean Revenue Authority (ZIMRA) Region One, in Zimbabwe called Zimra. Based on a survey of 100 staff members, 180 informal traders and 20 local authority staff members, the main findings of the study were that many players in the informal sector are unaware of the existence and objective of the presumptive tax head (a tax that is the same for everyone and is not based on income). On the other hand, the absence of involvement of stakeholders concerned in determining tax rates has resulted in forceful resistance. ZIMRA has its own shortcomings, which include lack of follow ups and inadequate awareness campaigns. The study revealed that effective implementation and administration of the tax head has the potential to increase the revenue base. This means there is room for improvement on the implementation and administering of the presumptive tax.
- Murray and Zeitlin (2017) examined the impact of the 2012 reform of micro and small enterprise tax law in Rwanda, which created a presumptive ‘flat fee’ regime in both personal and corporate income tax. In this regime, taxpayers whose turnover falls within a given band pay a fixed liability, with a zero marginal tax rate. In the years following, the number of registered taxpayers and the total taxes collected under corporate and personal income tax have increased, but these increases are not necessarily attributable to the 2012 reform. The findings also identified four channels which may have affected tax revenues, two intensive and two extensive. Intensive ones affect the revenues derived from existing taxpayers while extensive ones operate through the entry and exit of firms to and from the tax net. Impacts on intensive margins are negative, and can be estimated directly from taxpayer behavior. Impacts on extensive margins are positive, but cannot be point identified without strong assumptions.

Taking these findings together, there is a reasonable policy case to reform rather than repeal the flat fee regime.

- Presumptive tax was introduced in Kenya in the form of withholding tax for farming activities. Due to small holding farmers often lacking proper records, the government levied 2 per cent of their total output. The Finance Act of 2001 (Kenya Revenue Authority 2001) repealed this presumptive system, embracing the self-assessment method. However, the self-assessment method was not successful, and that led to the Finance Act of 2006, that introduced a turnover tax (TOT) on micro and small businesses earning less than US\$ 50,000. Under this system 3 per cent of the total turnover is taxed every three months. For rental activities, however, the Finance Act of 2015 presume 40 per cent of the gross income as expenditure, to match revenue from the sector and growing construction.

2.3.2. Studies on Ethiopia

There are some empirical studies conducted on the performance of tax revenue mobilization in Ethiopia. Most of the studies focused on analyzing the impact of the tax reforms undertaken in several periods

- Belew (2001) studied tax reforms in Ethiopia and argued that the low tax to GDP in Ethiopia shows existence of modest tax burden and room for raising more revenue. This may suggest that

There is opportunity to increase revenue without affecting savings, investment and productive incentives to the private sector. The tax policy may focus on taxation of the growing sector, income, profits and consumption of goods with high elasticity of demand. In summary, the literature suggests the existence of untaxed income due to reasons related to the structure of the economy and administrative inefficiencies. This indicates there is a

room to increase tax revenue by improving the tax administrations and enhancing the structural transformation towards industry sector.

- Abdella and Clifford (2010) in their study on the impact of tax reform on the private sector performance in Ethiopia reviewed tax reforms which have been made to the tax system of Ethiopia. The study found that there are, significant discrepancies between the laws and directives and several ambiguities in the proclamations, regulations and directives. Moreover, there is often a considerable time lag between the issuance of tax proclamations and regulations, and the associated implementation directives, which increases risk and uncertainty for businesses.
- Asaminew (2010) estimated the size of the informal or underground economy in Ethiopia and its implication on the size of tax evasion. He used a monetary approach to estimate the size of the underground economy. The study suggests that there is a significant amount of economic activity (>36percent of the recorded economy) that is not reported and captured by the official statistics. The amount of tax evasion was estimated to be 10 percent of the economy in 2010. This is an important finding with implications on tax policy. He particularly pointed out the implication of the finding on the incentive structure towards the small and medium scale enterprises.
- Geda and Shimelis (2005) reviewed tax reforms in Ethiopia and explored the contribution of the tax reforms (structural and institutional) to understand its role of increasing revenue in using incidence analysis. They found that most commodities that are subject to some kind of tax whether excise, import duty or sales tax, turned out to be progressive while commodities such as salt, sugar and kerosene tend to be regressive. In addition the distributional impact of the benefits of freely provided services such as education is examined.

- Meshesha (2015) evaluates the application and efficiency of Ethiopian tax assessment against the tax liability of category 'C' taxpayers, referring to the practice in the Eastern Zone Administration of Tigray National Regional State. In the country's context, category 'C' taxpayers were also known as micro taxpayers with annual turnover of less than ETB 100,000. It is found that there is a contradiction between the rules of standard tax assessment and their practical application, since the actual tax liability of the large section of the category 'C' taxpayers is being assessed according to estimated taxation and this practice is incurring higher administration costs. The study argues that the practical assessment of tax liability of category 'C' taxpayers is not ensuring efficiency and the practice has to conform to the rules of standard tax assessment to ensure efficiency; yet the criteria for categorization of taxpayers as category 'C' taxpayers must be revised to fit the actual incomes of taxpayers to ensure equity and equality. However, in 2016 the new income tax regulation revised the categorization of taxpayers, and category 'C' taxpayers were recategorised as those whose annual turnover is less than ETB 500,000.
- On the issue of perceptions, Yesegat and Fjeldstad (2016) studied the causes affecting the attitudes of the business community towards paying taxes in Ethiopia. Using an ordered probit model to examine the association between tax compliance attitude and perceptions, the study finds a statistically significant relation between tax compliance attitudes and factors such as the perception of probability of audit, corruption, satisfaction with the tax administration, peer influence, gender and education. The study recommends the need for better understanding of why taxpayers are dissatisfied with the tax administration, including perceptions of corrupt practices.

Chapter Three

3.1 Research Approach, Methodology and Design

This chapter presents the process followed to conduct this research so as to achieve the objectives outlined. It discusses the research methodology, approach, methods, and design and data collection techniques. The statistical method used to analyze the data is also presented in this section.

3.2 Research Approach

There are three approaches that commonly used for research. They are quantitative, qualitative and mixed methods (Creswell, 2003). Quantitative research approach is based on measurement of quantity or amount in order to increase the ability to draw conclusions. On the other hand, qualitative approach is concerned with subjective assessment of attitudes, opinions and behavior (Kothari, 2004). Mixed approach uses the combination of both approaches. This study predominantly uses quantitative approach supplemented by key informant interview.

3.3 Research Methodology

The paper deploys both descriptive and empirical analysis. It also uses secondary sources to supplement the study. Mainly a survey is made and interview is conducted in order to understand both the perception of the tax payers in the key aspects of presumptive tax (simplicity, administrative capacity and fairness) and the challenges associated with presumptive tax.

Survey having 21 questions was formulated and responses were collected and analyzed using descriptive statistics. Respondents were also requested to identify three points that they prioritize or

concern them most from the survey questions. Secondary source data were also be presented and analyzed as well in triangulation with the survey and the interview.

3.4 Research Design

The study is designed to find out the perceptions of tax payers and the challenges in collecting taxes. To achieve this, the study mainly used descriptive approach. There was also description of the respondents, and frequency analysis of the data collected.

3.5 Data source and instruments of data collection

Both qualitative (key informant interview) and quantitative (taxpayers survey questionnaires) were used. Both are supplemented by secondary source data.

3.5.1 Primary Data Collection

a) Questionnaires Survey

The survey has questions related to demographic details, and tax payers' perception. On perception part, the respondents were asked to express their reactions to the statements on the survey by choosing Likert scale numbers, Strongly agree (5), agree (4), neutral (3), disagree (2), strongly disagree (1). At the end of the survey, respondents are asked to rate their most important statements from the survey that can shape their general perception of presumptive tax principles based on their experience in Arada Sub city. Their response on aspects of the aspects of presumptive tax was described using degree of approval rating, which was adopted from the research of Jain (2010) and the works of Magatef (2015) as shown below:

From 1.00 - less than 1.80 Very low

From 1.80 - less than 2.60 Low

From 2.60 - less than 3.40 Medium

Form 3.40 - less than 4.20 High

From 4.20 – 5.00 Very high

Note: The length of class was calculated by dividing the greatest value minus the smallest value on the number of the Classes' equal $5 - 1$ on $5 = 0.80$.

b) **Key Informant interview**

Interview was conducted to get information from selected samples tax officials. This key informant interview had contributed greatly by providing additional insight and explanation to some of the quantitative findings.

3.5.2 Secondary data

In order to supplement the findings from primary data, other books and journals written on the subject are used in the review as well the discussion part.

3.6 Sampling Technique

The size of the population was large and they were not equally accessible. Therefore, a probability sampling procedure was not a choice. Instead, a purposive sampling method was employed targeting respondents that met the following inclusion criteria:

- (1) Presumptive tax payers available during the stated period
- (2) Presumptive tax payers who were willing to take part in the survey

The sample size to this study, which has large yet finite population, was determined by using the formula developed by Cochran (1963). Sample size from the tax payers is calculated

$$N = \frac{Z^2 pq}{e^2}$$

Where: N = the sample size

Z^2 = the abscissa of the normal curve that cuts off an area α at the tails

(1 - α equals the desired confidence level, i.e. 95%)

e = the desired level of precision

p = the estimated proportion (standard deviation) of an attribute that is present in the population,
and q is 1-p.

The value for Z is found in statistical tables which contain the area under the normal curve.

$$N = \frac{(1.96)^2 (0.5) (0.5)}{(0.05)^2} = 385.$$

3.7. Methods of data Analysis

The results of analysis were interpreted and discussed using descriptive statistics (percentage, frequency and mean).

Chapter Four

4. Data Presentation and Analysis

4. 1. Analysis of the survey

This chapter presents analysis of the sample survey, the discussion with key informants and analysis of quantitative data from the secondary source. Descriptive analysis using frequency is made on the survey results. Discussion with key informants was summarized and presented.

The Survey has 21 questions covering demographic information and statement which are about perception of the tax payers and are rated by the respondents using Likert scale.

4.1.1. Demographic Analysis

Demographic Data

According to table 4.1., slightly more male presumptive tax payers were surveyed than female tax payers. The number of male respondents is 205 which is 53.25 % of the total respondents.

Gender of Tax payers	No. of Respondents
Male	205
Female	180
Total	385

Table 4.1. Gender of the respondents

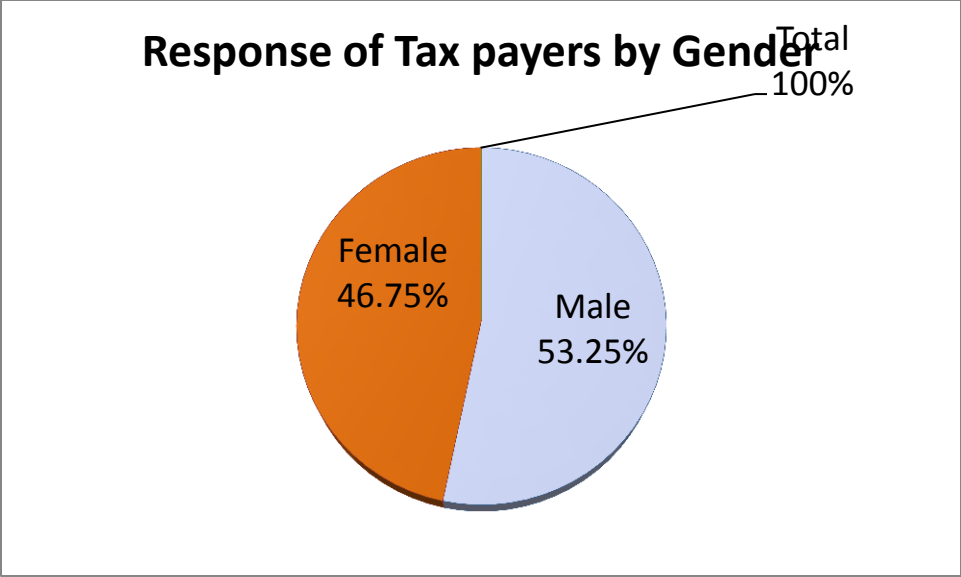


Chart 4.1. Tax payers by Gender

When it comes to the age of the sampled presumptive tax payers, 62.34% are under the age of 46 as presented on chart 4.2. From the total sampled respondents, 33.71 are between the age of 18 and 35 which shows that the youth covers significant percent of the presumptive tax payers. The senior citizens who are 56 years old or above are the smallest percentage of presumptive tax payers.

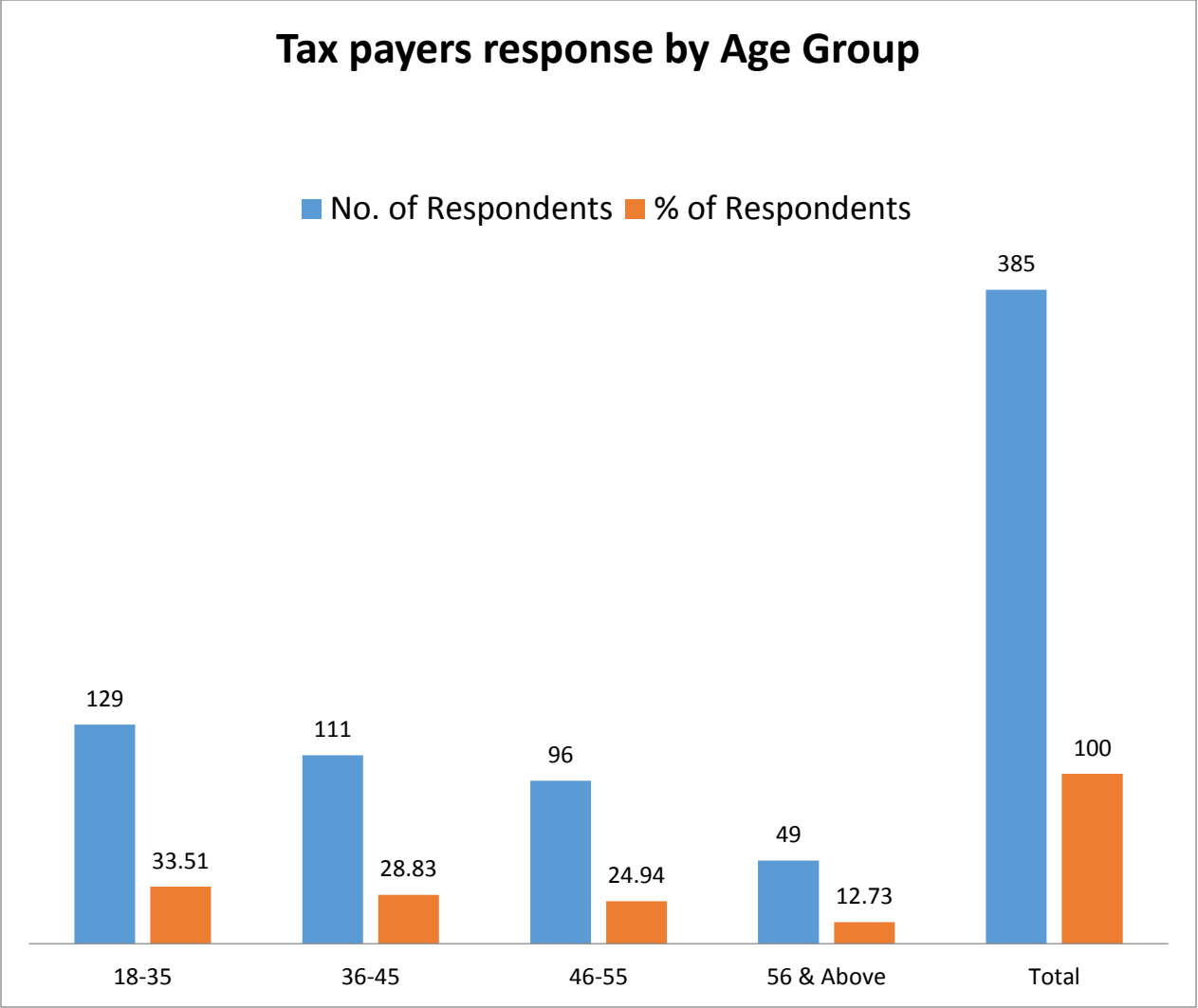


Chart 4.2. Age Group

According to Chart 4.3., significant number of the presumptive tax payers sampled, which is 53.77, have education of grade 9 or above. This might offer opportunity to educate and create awareness on presumptive tax. While the illiterate or less educated might pose challenge during tax assessment and it might require additional effort and different techniques to rationalize the importance of paying tax and the amount they required to pay.

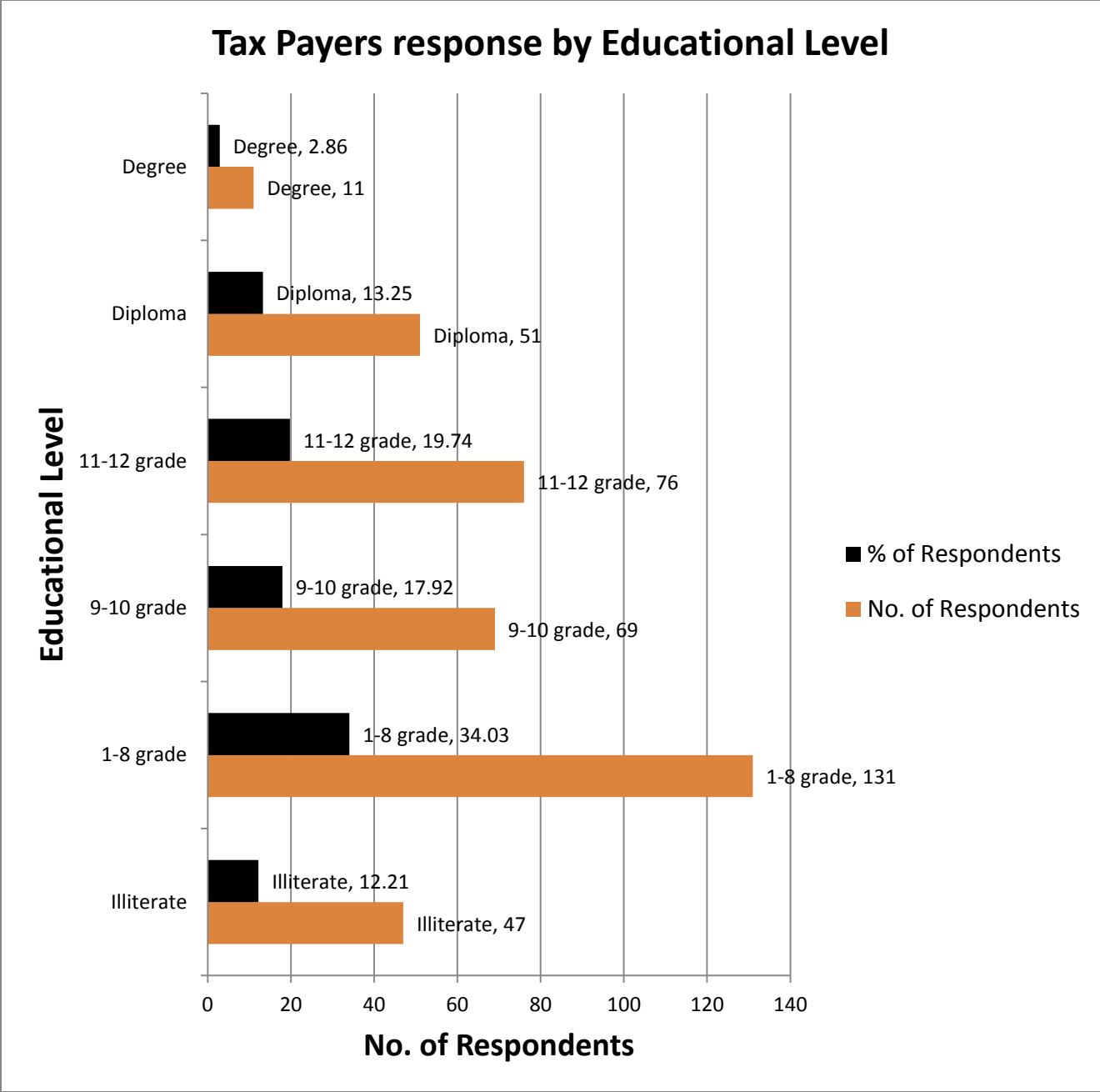


Chart 4.3. Educational level

Survey Results

The survey is distributed to presumptive tax payers in Arada sub city. The results of this survey are presented below in four sections. The first part assesses the perception of presumptive tax payers towards the simplicity of this type of tax when it is applied. The Second part tries to find out the respondents perception on the administrative capacity of the tax collecting body. The third part attempts to capture the tax payers' perception of fairness in taxation. The final part discusses selected aspects of the tax, which are presented in the form of statement and rated as important by the tax payers. Here, the three most important statements, which are rated more frequently, are presented and discussed. These statements are discussed based on the respondents' gender and age group in order to find out if gender or age group has any effect on their choice or selection of most important statements for them.

Simplicity

According to table 4.2., 75.84 % of the surveyed respondents do not understand how presumptive tax works. This is a significant number which needs attention from the concerned authorities. The respondents also believe that the laws and regulations concerning presumptive tax are neither clear nor difficult. Respondents also reacted in the same manner when they rated the clarity of sanctions/penalties applied for late payment as well as the size of the paper work during assessment and payment. With the exception of how the presumptive tax works, the respondents seem to take the middle ground by neither agreeing nor disagreeing with the statements concerning simplicity which is one aspect of presumptive tax.

No	Simplicity	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		No	%	No	%	No	%	No	%	No	%
1	Easy to understand how the presumptive tax works	210	54.55	82	21.30	53	13.77	24	6.23	16	4.16
	Cumulative Percent	54.55		75.84		89.61		95.84		100.00	
2	The laws and regulations that administers the presumptive tax is clear	64	16.62	46	11.95	245	63.64	25	6.49	5	1.30
	Cumulative Percent	16.62		28.57		92.21		98.70		100.00	
3	The paper work is small and clear and obvious	87	22.60	57	14.81	123	31.95	65	16.88	53	13.77
	Cumulative Percent	22.60		37.40		69.35		86.23		100.00	
4	The sanctions and penalties are clearly stated	59	15.32	69	17.92	142	36.88	69	17.92	46	11.95
	Cumulative Percent	15.32		33.25		70.13		88.05		100.00	

Table 4.2. Simplicity

Table 4.3. also shows that the mean for simplicity category is found to be 2.56, which is low according to model adopted from the research of Jain (2010) and the works of Magatef (2015). However, the approval rating for the three statement which are about laws/regulations, sanctions/penalties and the paper work is medium. According to the surveyed respondents, it is difficult for them to understand how presumptive tax works and their unfavorable view on this statement is reflected on the overall rating which is low.

No	Simplicity	Mean
1	Easy to understand how the presumptive tax works	1.84
2	The laws and regulations that administers the presumptive tax is clear	2.64
3	The paper work is small and clear and obvious	2.84
4	The sanctions and penalties are clearly stated	2.93
	Overall Average	2.56

Table 4.3 Mean for Simplicity

Administrative capacity

According to table 4.4.,the survey respondents’ general perception of administrative capacity of the tax collecting organ is either disagree or neutral. Among the surveyed respondent 28.31 % of them do not see the tax authorities as professionals while 34.03 % of the respondents also believe that the appeal process is not transparent. The above survey result is concerning which should be looked at by the tax authorities. The respondents’ perception of the remaining two statements concerning administrative capacity is similar.

No	Administrative Capacity	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		No	%	No	%	No	%	No	%	No	%
1	The tax authorities are professionals	66	17.14	43	11.17	132	34.29	85	22.08	59	15.32
	Cumulative Percent	17.14		28.31		62.60		84.68		100.00	
2	The appeal process is transparent	74	19.22	57	14.81	95	24.68	73	18.96	86	22.34
	Cumulative Percent	19.22		34.03		58.70		77.66		100.00	
3	Tax payment can be made easily and in time	24	6.23	63	16.36	49	12.73	106	27.53	143	37.14
	Cumulative Percent	6.23		22.60		35.32		62.86		100.00	
4	Tax officials give consistent and timely information	82	21.30	114	29.61	88	22.86	77	20.00	24	6.23
	Cumulative Percent	21.30		50.91		73.77		93.77		100.00	

Table 4.4. Administrative capacity

As stated on table 4.5. , the perception of presumptive tax payers on the overall administrative capacity is 3.13 which is in the category of medium as per the model adopted from the research of Jain (2010) and the works of Magatef (2015). The respondents have positive view of the time taken to make payment which is rated as high. The lowest rated statement in the category of administrative capacity is the consistent and timely information which should be given by tax

officials. Transparency in appeal process and the professionalism of the tax authorities rated as medium.

No	Administrative Capacity	Mean
1	The tax authorities are professionals	3.07
2	The appeal process is transparent	3.10
3	Tax payment can be made easily and in time	3.73
4	Tax officials give consistent and timely information	2.60
	Overall Average	3.13

Table 4.5. Mean for Administrative Capacity

Fairness

To assess the perception of presumptive tax payers on the subject of fairness, the tax payers were requested to rate their view on nine statements or points which are believed to have connection to fairness. Based on the survey finding, with the exception of two statements concerning how government spends the tax money and the corruption level, all the other statements are rated low. This indicates that the tax payers do not believe that there is fairness in the presumptive tax assessment and payment. 70.65 % of the respondents believe that they have no influence on the government as tax payers. 65.19 % of the surveyed respondents do not believe that what they are paying as tax is based on their ability to pay. 63.64% of the respondents said that government does not control businesses which do not pay tax at all. 62.08% of the surveyed respondents do not believe that the same amount of tax is imposed for the same amount of income. 60% of the respondents stated that they do not receive proportional public goods for the tax they pay. 57.66 % of the respondents believe that what they are paying is not reasonable compared to other

group of tax payers.56.88 % of the surveyed respondents feel that the tax they are paying does not consider the business fluctuations they face during the year.

No	Fairness	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		No.	%	No	%	No	%	No	%	No	%
1	I receive proportional public goods for the tax I pay	149	38.70	82	21.30	44	11.43	57	14.81	53	13.77
	Cumulative Percent	38.70		60.00		71.43		86.23		100.00	
2	Through political participation I have influence on the government on the tax I am paying	161	41.82	111	28.83	38	9.87	30	7.79	45	11.69
	Cumulative Percent	41.82		70.65		80.52		88.31		100.00	
3	I believe that the same amount of tax is imposed for the same amount of income	172	44.68	67	17.40	51	13.25	54	14.03	41	10.65
	Cumulative Percent	44.68		62.08		75.32		89.35		100.00	
4	The tax I am paying is based on my ability to pay	163	42.34	88	22.86	53	13.77	39	10.13	42	10.91
	Cumulative Percent	42.34		65.19		78.96		89.09		100.00	
5	Eventhough my income fluctuates during a year, what I am paying is reasonable	155	40.26	64	16.62	29	7.53	67	17.40	70	18.18
	Cumulative Percent	40.26		56.88		64.42		81.82		100.00	
6	Compared to other tax groups, what the presumptive tax payers pay is reasonable	133	34.55	89	23.12	55	14.29	41	10.65	67	17.40
	Cumulative Percent	34.55		57.66		71.95		82.60		100.00	
7	Government spends the tax income properly	57	14.81	49	12.73	47	12.21	84	21.82	148	38.44
	Cumulative Percent	14.81		27.53		39.74		61.56		100.00	
8	Government controls businesses that fail to comply tax	146	37.92	99	25.71	43	11.17	59	15.32	38	9.87
	Cumulative Percent	37.92		63.64		74.81		90.13		100.00	
9	There is no corruption in tax assessment and payment	78	20.26	76	19.74	115	29.87	72	18.70	44	11.43
	Cumulative Percent	20.26		40.00		69.87		88.57		100.00	

Table 4.6. Fairness

Table 4.7. shows the overall mean for fairness is 2.55, which is low as per the model adopted from the research of Jain (2010) and the works of Magatef (2015). The only statement which is rated high in the category of fairness is about proper use of tax money by the government. And the respondents also rated the existence of corruption in tax collection as medium with mean of 2.81.

Most of the survey respondents do not believe that there exist fairness on the remaining statements that represents different dimensions of fairness as it was indicated on the survey results. Accordingly, there is no exchange fairness as respondents believe that they do not receive proportional public goods for the tax they pay. There is no procedural fairness as tax payers do not have any political influence on the government which decides the tax rate. There is no horizontal fairness as tax payers believe that the same type of tax is not imposed for the same amount of income. There is no vertical fairness as the tax payers believe that they are not paying tax based on their ability to pay. There is no time related fairness as respondents feel that the tax imposed on them do not consider the income fluctuations that occur repeatedly for many different reasons. There is also no inter-group fairness as many tax payers believe that what they are paying is not reasonable compared to other group of tax payers which are paying less.

No	Fairness	Mean
1	I receive proportional public goods for the tax I pay	2.44
2	Through political participation I have influence on the government on the tax I am paying	2.19
3	I believe that the same amount of tax is imposed for the same amount of income	2.29
4	The tax I am paying is based on my ability to pay	2.24
5	Even though my income fluctuates during a year, what I am paying is reasonable	2.57
6	Compared to other tax groups, what the presumptive tax payers pay is reasonable	2.53
7	Government spends the tax income properly	3.56
8	Government controls businesses that fail to comply tax	2.34
9	There is no corruption in tax assessment and payment	2.81
	Overall Rating	2.55

Table 4.7. Fairness

The surveyed respondents requested to select only 3 statements which are important and influence their overall perception.

According to table 4.8. , fairness seems the concern of all age groups. In the category of 18-35, two statements that deals with fairness are selected as important for these category of tax payers. These group of respondents also care about the administrative capacity of the tax officials in giving consistent and timely information. For age group of 36-45, all the statements selected as important are about fairness. Two of these statements are about same tax for the same income and businesses that do not pay tax. The above concern is also shared by the age group which is in the category of 18-35. All tax payers whose age is above 36 are concerned the tax amount

imposed and their ability to pay it. Tax payers who are also above 46 seems concerned about the complexity of the tax system and they believe that it is not easy to understand how the presumptive tax works. These tax payers rated this point as important in their overall perception.

Statements that are rated as the most important by respondents whose age is between 18-35					
No .	Survey Statements	Category	No .	%	Cumulative Percent
1	Tax officials give consistent and timely information	AdministrativeCapacity	19	14.73	14.73
2	I believe that the same amount of tax is imposed for the same amount of income	Fairness	24	18.60	33.33
3	Government fails to control businesses that fail to comply tax	Fairness	23	17.83	51.16
Statements that are rated as the most important by respondents whose age is between 36-45					
No .	Survey Statements	Category	No .	%	Cumulative Percent
1	I believe that the same amount of tax is imposed for the same amount of income	Fairness	20	18.0	18.02
2	The tax I am paying is based on my ability to pay	Fairness	14	12.6	30.63
3	Government fails to control businesses that fail to comply tax	Fairness	9	8.1	38.74
Statements that are rated as the most important by respondents whose age is between 46-55					
No .	Survey Statements	Category	No .	%	Cumulative Percent
1	Easy to understand how the presumptive tax works	Simplicity	11	11.46	11.46
2	The tax I am paying is based on my ability to pay	Fairness	16	16.67	28.13
3	Government fails to control businesses that fail to comply tax	Fairness	13	13.54	41.67
Statements that are rated as the most important by respondents whose age is between 56 & Above					
No .	Survey Statements	Category	No .	%	Cumulative Percent
1	Easy to understand how the presumptive tax works	Simplicity	7	14.29	14.29
2	The tax I am paying is based on my ability to pay	Fairness	5	10.20	24.49
3	Government spends the tax income properly	Fairness	6	12.24	36.73

Table 4.8.Selected statements by Age

When it comes to gender, both gender groups selected fairness as important element in their overall perception. According to table 4.9., both genders selected the government’s ability to control businesses that fail to comply tax as important element in their overall perception. The male respondents’ also selected same tax for the same income as important while the female respondents’ value understanding how the tax works as more important.

Statements that are rated as the most important by Male respondents					
No.	Survey Statement	category	No.	%	Cumulative Percent
1	Tax officials give consistent and timely information	Administrative Capacity	25	12.20	12.20
2	I believe that the same amount of tax is imposed for the same amount of income	Fairness	32	15.61	27.80
3	Government fails to control businesses that fail to comply tax	Fairness	31	15.12	42.93
Statements that are rated as the most important by Female respondents					
No.	Survey Statement	category	No.	%	Cumulative Percent
1	Easy to understand how the presumptive tax works	Simplicity	19	10.56	10.56
2	The tax I am paying is based on my ability to pay	Fairness	22	12.22	22.78
3	Government fails to control businesses that fail to comply tax	Fairness	26	14.44	37.22

Table 4.9. Selected statements by Gender

Interview Findings

Four Key informants were selected from the tax assessors and were requested to respond to the survey results. They were also asked to identify the challenges associated with the application of presumptive tax in their sub city i.e. Arada. One tax assessor share the concern of the tax payers on the amount of tax imposed on presumptive tax payers. He agrees with the tax payers claim that the tax imposed is too much. According to this tax assessor, there is pressure from authorities to collect more money and meet the revenue budget which he believes is not a good approach. On the other hand, three assessors (two men and one woman) believe that the tax imposed is either fair or

little. They believe that the tax payers complain is unfair. According to them, many businesses are paying less compared to the civil servants, who are paying more relative to their salaries. These assessors believe that the money collected from presumptive tax is still small compared to the general tax collected and its potential. They also admitted that the tax revision has to be done every year as per the regulation while the last revision was done after six years in 2017/2018. Instead of doing a single but huge increase after six years probably it would have been better if it was done twice with each time half of the amount in order to avoid the grievance according to the informants.

Whether it is for the right reason or not, all assessor accept the fact the finding of the survey reflect the perception of the tax payers. However, they argue that perception is not reality even though the perception is important and affects the entire presumptive tax assessment and collection. These assessors with the exception of one did not suggest tax reduction. They rather propose that a lot of awareness campaign should be done to convince tax payers that they are paying little and there is benefit in paying tax.

During the discussion, the assessors have raised the problems they also encounter in their job.

Some of them are listed below:

- a) Almost all tax payers educated or illiterate do not keep accurate sales figure. There is also a tendency to hide documents or sales figures by tax payers. whenever the document exist, owners of the business will not be available during the assessment. The person who is usually delegated has little knowledge on the required information. Some businesses also close their businesses and disappear during assessment.

b) Some remove items from the shop and report small daily sales in the hope of getting low tax amount.

c) Significant numbers of tax payers view tax as penalty and they are confrontational during assessment

Secondary Data Analysis

The data obtained from the Arada sub city are presented below on table 4.10 and 4.11. Table 4.10 shows the yearly growth of presumptive tax collected and its contribution in percent to the total tax revenue collected on the revenue while table 4.11 shows the comparison between the budgeted revenue against the actual revenue collected.

Year	Total tax revenue	presumptive tax revenue for Arada Sub1city	Yearly presumptive tax revenue growth in percentage	Contribution of presumptive tax to tax revenue in %
2013/2014	1,850,813,685.88	24,253,600.62		1.31%
2014/2015	4,124,343,482.98	28,442,271.85	17%	0.69%
2015/2016	4639,925,662.59	30,979,914.78	8%	0.67%
2016/2017	5,056,750,136.25	35,055,258.00	13%	0.69%
2017/2018	5,244,030,098.42	50,370,460.27	44%	0.96%
Total	20,915,863,066.12	169,101,505.52		0.81%

Table 4.10, Yearly Tax Growth and Contribution

Table 4.10 shows that there is continuous growth in the presumptive tax revenue over the years and the growth in the year 2017/18 being the highest registering the 44% yearly growth. On the other hand, the contribution of presumptive tax to the overall tax revenue in Arada sub city is insignificant. The largest contribution registered in 2013/2014 and it is only 1.31 %.

Years	Budgeted presumptive revenue	Actual presumptive revenue	Variance	%
2013/2014	44,861,800.00	24,253,600.62	-20,608,199.38	-46%
2014/2015	33,151,673.25	28,442,271.85	-4,709,401.40	-14%
2015/2016	33,795,002.00	30,979,914.78	-2,815,087.22	-8%
2016/2017	37,909,528.00	35,055,258.00	-2,854,270.00	-8%
2017/2018	32,386,644.22	50,370,460.27	17,983,816.05	56%
Total	182,104,647.47	169,101,505.52	-13,003,141.95	-7%

Table 4.11. Table Revenue Actual and Budget

Table 4.11 shows that with the exception of the year 2017/18, the presumptive tax collected is less than the budget. The difference is so huge in the year 2013/14 which is 46% less than the budget for the Arada sub city. On the other hand, the sub city managed to collect 56% more than the budgeted in the year 2017/18. This big increase in the revenue coincides with the year that open protest from the tax payers was exhibited. It is also the year that the tax amount was revised/increased which might have caused dissatisfaction on the part of the presumptive tax payers.

Chapter Five

5. Conclusion and Recommendation

5.1. Summary Conclusion

Overall, the study found out the presumptive tax payers perception of the simplicity and fairness of the presumptive tax is low while the administrative capacity of the Arada sub city is rated as medium. Whichever age group or gender the respondents are found, all tax payers seems more concerned with the fairness of the presumptive tax imposed.

The findings from the secondary source, the review of literature and the informant interview shows that the presumptive tax collected is still low despite the resistance on the part of the tax payers. This might probably indicate that the tax payers are paying less than what they are supposed to pay yet they believe that they are paying more than what they could or more than what the other tax payers pay.

Whether the tax is fair or not, the perception still matters as it affects the amount of tax collected and the process negatively as studies cited in the literature review indicate. The perception towards the simplicity of the tax system seems to matter more to the older age groups even the average being low. This is equally important and must be looked. The perception towards the administrative capacity is not something to celebrate. The administration has to make effort to score high on the all aspects of presumptive tax namely simplicity, administrative capacity and fairness. Wherever there is legitimate concern problems have to be solved. The administration should also work hard in changing negative perception which is created on the wrong information and unawareness on the part of the tax payers.

5.2. Recommendation

In order to increase the tax revenue collected from the tax revenue, perception of the tax payers is important and a lot has to be done to earn the trust and positive attitude of the tax payers. The following might help a great deal in improving the negative perception.

- Tax payers must be educated through media about the importance of paying tax and its benefit.
- The public works done with the tax payers money must be communicated effectively
- There must be awareness campaign on how the tax system works and the approach should be different for each age group in order to be effective in messaging
- The sub city should look at its administrative capacity and improve it in order to give better service.
- The honest tax payers must get recognition which might encourage others to be honest as well
- Tax payers who keep records should be given discount in order to incentivize keeping records
- Tax payers must be taught that tax is a cost for doing business, not a money taken from part of their profit.

Generally, the study might reflect the findings from the Arada sub city. The problem with other sub cities may not be exactly identical. However, there is still a possibility that all sub cities could share some concerns and the above suggestions might help beyond the Arada sub city.

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Appendixes

Addis Ababa University College of Business & Economics Accounting

Department of Accounting & Finance

This Research is a study on “Perceptions and Challenges in the Application of Presumptive Tax in Addis Ababa: the Case of Arada Sub City” in partial fulfillment of Master of Arts Degree in Accounting & Auditing in Addis Ababa University. It would be appreciated if you spend some minutes of your time in filling the provided questionnaire.

This questionnaire is intended to gather information about presumptive tax in the Sub city you are paying tax. Any information that you provide in this questionnaire will be kept confidential. Your genuine response is highly important for the outcome of the research.

Thank you in advance for your cooperation in filling the questionnaire.

Part One

➤ **Please circle the appropriate answer**

1. Gender

a) Male b) Female

2. Age

a) 18-35 b) 36-45 c) 46-55 d) 56 & above

3. Educational Level

a) Illiterate b) 1-8 grade c) 9-10grade d) 11-12 grade e) Diploma f) Bachelor & above

Part Two

➤ Put (X) mark for your choice in the space provided

No	Statements	Highly Disagree	Disagree	Neutral	Agree	Highly Agree
i.	Simplicity					
1	Easy to understand how the presumptive tax works					
2	The laws and regulations that administers the presumptive tax is clear					
3	The paper work is small and clear and obvious					
4	The sanctions and penalties are clearly stated					
ii.	Administrative Capacity					
5	The tax authorities are professionals					
6	The appeal process is transparent					
7	Tax payment can be made easily and in time					
8	Tax officials give consistent and timely information					
iii.	Fairness					
9	I receive proportional public goods for the tax I pay					
10	Through political participation I have influence on the government on the tax I am paying					
11	I believe that the same amount of tax is imposed for the same amount of income					
12	The tax I am paying is based on my ability to pay					
13	Even if my income fluctuates during a year, what I am paying is reasonable					
14	Compared to other tax groups, what the presumptive tax payers pay is reasonable					
15	Government spends the tax income properly					
16	Government fails to control businesses that fail to comply tax					
17	There is corruption in tax audit and payment					

18. From the above listed statements, please select only three which affects your perception most.

በአዲስ አበባ ዩኒቨርሲቲ ቢዝነስ እና ኢኮኖሚክስ የአካውንቲንግና ፋይናንስ

ትምህርት ክፍል

ይህ መጠይቅ በንግድ ድርጅትዎ በቀን ገቢ ግምት ግብር ላይ ያለውን ሂደት ለማጥናት እና በጥናቱ ግኝት መሰረት የመፍትሄ አቅጣጫ ለመስጠት የተዘጋጀ ስለሆነ በቅድሚያ ለሚሰጡት መልስ በማመስገን አጠቃላይ ለሚሰጡት መልስ እና አስተያየት ሚስጥራዊነቱ የተጠበቀ ነው።

ከዚህ በታች ለተዘረዘሩት ጥናታዊ መጠይቆች ከተሰጡት አማራጮች ውስጥ በንግድ ድርጅትዎ የቀን ገቢ ግምት ግብር እንቅስቃሴን በሚመለከት ገላጭ ነው ብለው የሚያስቡትን መልስ አንዱን መርጠው በማክበብ እንዲሁም በባዶ ቦታዎቹ ላይ ይህንን ምልክት (X) በማድረግ እንዲተባበሩን በአክብሮት እጠይቃለሁ። እንዲሁም ለመጨረሻው ጥያቄ በአብዛኛው ይመ ከተኛል የሚሏቸውን ሶስት ጥያቄዎች እንዲመርጡ በአክብሮት እጠይቃለሁ።

ክፍል አንድ

1. ያታ

ሀ) ወንድ

ለ) ሴት

2. እድሜ

ሀ) 18-35

ለ) 36-45

ሐ) 46-55

መ) ከ 56 ዓመት በላይ

3. የትምህርት ደረጃ

ሀ) ማንበብና መጻፍ አልችልም ለ) 1-8 ክፍል ሐ) 9-10 ክፍል መ) 11-12 ክፍል

ሰ) ዲፕሎማ ረ) ዲግሪና በላይ

ክፍል ሁለት

ተራ. ቁ	አስተያየቶች	በጣም አልስማማም	አልስማማም	ገለልተኛ ነኝ	እስማማለሁ	በጣም እስማማለሁ
i.	ግልጽነት					
1	የቀን ገቢ ግምት ግብር እንዴት እንደሚሰራ አውቃለሁ።					
2	የቀን ገቢ ግምት ግብርን የተመለከቱ ህጎችና ደንቦች ግልጽ ናቸው።					
3	የሚሞሉ ወረቀቶች ትንሽና ግልጽ ናቸው።					
4	የቀን ገቢ ግምት ግብር ቅጣቶች በግልጽ ሰፍረዋል።					
ii.	የመስተዳደሩ ብቃት					
5	የቀን ገቢ ግምት ግብር ሰራተኞች ስራቸውን በአግባቡ የሚተገብሩ (ፕሮፌሽናል) ናቸው።					

6	የቀን ገቢ ግምት ግብር የይግባኝ ሂደቱ ተዳማኒ (እምነት የሚጣልበት) ነው።					
7	የቀን ገቢ ግምት ግብር ክፍያ በቀላሉና በጊዜው መክፈል ይቻላል።					
8	የቀን ገቢ ግምት ግብር ስራተኞች የሚሰጡት መረጃ ተመሳሳይና ወቅታዊ ነው።					
iii.	ፍታዊነት					
9	ለምክፈለው ግብር ተገቢውን አገልግሎት ከመንግስት አገኛለሁ።					
10	በፖለቲካ እንቅስቃሴ መንግስት ላይ ግብርን በተመለከተ ተጽዕኖ መፍጠር እችላለሁ።					
11	ለተመሳሳይ ገቢ ተመሳሳይ ግብር እንደሚጠየቅ አምናለሁ።					
12	የምክፍለው ግብር መክፈል በምችለው ልክ ነው።					
13	ገብዬ እንደየጊዜው ቢለያይም የምክፍለው ግብር መጠን ፍታዊ ነው።					
14	ከሌላ አይነት ግብር ከፋዮች ጋር ሲነጻጸር ለቀን ገቢ ግምት ግብር የሚከፈለው ፍታዊ ነው።					
15	ከግብር የተሰበሰበውን ገንዘብ መንግስት በአግባቡ ስራ ላይ ያውላል።					
16	ግብር በማይከፍሉ ነጋዴዎች (ሰዎች) ላይ መንግስት ቁጥጥር ያደርጋል።					
17	የቀን ገቢ ግምት ግብር ሲከፈልም ሆነ ሲጣል ጉቦ የለም።					

18. ከላይ ከተጠቀሱት 17 አስተያየቶች ውስጥ ለምልክታው ዋጋ የምትሰጣቸውን (የምትሰጫቸውን) ሶስቱን ምረጥና (ምረጫና) ተራ ቁጥራቸውን ጻፍ(ፊ)።