



**ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF PUBLIC ADMINISTRATION AND DEVELOPMENT
MANAGEMENT**

**THE CHALLENGES OF TAX ADMINISTRATION IN BOLE SUB-CITY
SMALL TAX PAYERS**

**A THESIS SUBMITTED TO THE DEPARTMENT OF PUBLIC ADMINISTRATION AND
DEVELOPMENT MANAGEMENT OF ADDISABABA UNIVERSITY COLLEGE OF
BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT FOR THE
REQUIREMENTS OF MASTERS OF SCIENCE DEGREE IN DEVELOPMENT
MANAGEMENT**

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August 2021

Addis Ababa, Ethiopia

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SMALL TAX PAYERS**

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August 2021

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Declaration

I, undersigned, ID NO: GSE\4778\12do hereby declare that this Thesis is my original work and that it has not been submitted partially; or in full, by any other person for an award of a degree in any other university/institution.

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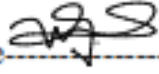
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The undersigned certify that they have read and hereby recommend to Addis Ababa university college of business and economics department of public administration and development management to accept the Thesis submitted by Bhairu Deguand entitled **“THE CHALLENGES OF TAX ADMINISTRATION IN BOLE SUB-CITY SMALL TAX PAYERS”**, in partial fulfillment of the requirements for the award of a Master’s Degree in Development management

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Acronyms

C.I.F- cost insurance and freight

DC- District council

ERCA- Ethiopian Revenue and Customs Authority

FDRE- Federal Democratic Republic of Ethiopia

FGRB- Federal Government Revenue Board

GDP- Gross Domestic Product

LAIFOMS-Local Authority Information Financial and operational

OECD- organization For Economic Co-operation and Development

PSCAP- Public Sector Capacity Building Programme

PEPOA- Research on Poverty Alleviation

VAT- Value Added Tax

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Abstract

A tax is a compulsory financial charge or some other type of levy imposed on a taxpayer (an individual or legal entity) by a governmental organization in order to fund government spending and various public expenditures regional, local, or national. Most of the respondent agreed that, tax payers didn't understand the rule and regulation of tax administration. There is also lack of awareness about the paying systems and pay their tax improperly, they didn't pay their tax on time as per the obligation, According to the opinion of the respondents, customer handling systems of Bole sub city small tax payer's office is poor, objective achievement, most of the respondents replayed as "disagree" and "strongly disagree" and it indicates Bole sub city small tax payers branch have many constraints in achieving their objective, The relationship among the top management and other employees is not good and there is poor communication channel, The implementation system of the Branch does not successfully achieve the objectives of tax administration. Furthermore, tax officers are non-motivated, lack adequate skills, lack of audit flow up and prompt decision. Due to this and other reasons identified in this study, non-compliance, evasions and corruption are increasing in the system.

Keywords: Tax, Tax administration, Tax payer

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

"A required contribution payable by an economic unit to a government without anticipation of a direct and equivalent return from the government for the contribution made," according to the definition (Bhatia, 2003). Taxation, in some form or another, is an invariable feature of an organized political society, and it becomes the primary source of money for public purposes sooner or later, regardless of its name; it is therefore the correlative to the services that government provides to the community (Bogale, 2009).

Taxes are an essential source of government revenue in both developing and developed countries, according to Eshag, 1983. However, the amount of income collected by taxes for a government's expenditure program is dependent, among other things, on the desire of taxpayers to follow the country's tax regulations (Assefa, 2013).

The primary mandate of most tax administrations, according to the Organization for Economic Co-operation and Development (OECD, 2010), is to ensure compliance with tax rules and increase taxpayer satisfaction. Revenue bodies gain from knowledge of taxpayer behavior in order to do so and determine the most effective solution. The existence of common consumption of goods and services entails the government receiving a portion of our earnings. Roads, power, municipal services, and other public infrastructures have a positive impact on a variety of facilities, businesses, industries, and the general population. Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods (Assefa, 2013).

Tax administration, according to the Asian Development Bank in 2001, dictates tax policy. Indeed, the growth of tax systems is largely determined by challenges of administration and compliance. The shift in industrialized countries from excise, customs, and property taxes to corporate income and

progressive income taxes over a century ago can be explained in large part by the relative decline of the rural sector, the concentration of employment in large corporations, and the growing literacy of the population. In recent years, there has been a shift away from certain taxes, such as the corporate income tax and the progressive individual income tax, and toward tax systems that rely more on broad-based consumption taxes, such as the value-added tax, flatter rate structures, and the adoption of “dual income taxes,” in which a progressive tax on labor income is accompanied with a low flat-rate tax on capital income, as adopted in certain Scandinavian countries, can be explained, in large part, by the forces of globalization and developments in financial innovation and the inability of tax administrators to develop technologies to cope with these forces and developments (Assefa, 2013).

The Ethiopian revenue Minister is responsible for collecting revenue for the federal government. The authority is also responsible for facilitating the legal movement of people and products across the border, and there are separate tax administrators in each sub city, with Small Tax Payers being the one in Bole (kassu, 2011).

Every country's tax administration faces a daunting set of challenges. Tax administration improvements are required in many developing nations just to ensure macroeconomic stability. There is a need to build a tax administration in nations in transition that can adapt to the needs of a growing market economy and the resultant growth in the number of tax payers (June 2011, Kassu).

Taxation in developing countries is a difficult problem that has gotten more attention in recent decades. Many issues exist right now, such as bad management, a failure to collect sufficient tax revenues, a lack of government, and economic instability (Vadde&Gundarapu, 2012).

To overcome the weak and inefficient tax collections policy and tax laws the Federal Democratic Government of Ethiopia and the Regional governments have designed a tax reform program which is currently going on in the process of implementation, but in the process of implementation; there are challenges that are affecting the reform program in all levels of government collection capacity.

1.2 Statement of the problem

Taxes are described as duties or levies imposed on persons or property by "the legislative power of a state" in order to "raise money for public purposes." It is a power that is inherent in sovereignty and is necessary for constitutional government to function. It is conferred in the Legislature by the broad grant of legislative power, whether or not it is specifically specified among the functions to be exercised by it in the Constitution.

Coming particularly to the case of Ethiopia, the Constitution of the Federal Democratic Republic of Ethiopia, while enumerating the powers and duties of the Federal Government in Article 51 clearly states that the levying of taxes and the collection of duties on revenue sources is among the duties of the government. In addition to this, Article 52 goes on and enumerates the powers and functions of state governments, amongst which is the levying and collection of taxes and duties on revenue sources reserved to the States. When taxes are levied; the citizen is liable for their payment at the time and in the manner required and provided by the law authorizing their assessment and collection (Bogale, 2009).

According to the United Nations, the main component of government revenue in 2014 is taxation, which will be used to fund all government expenditures to stabilize the economy. The term "expenditure" refers to the usage of government funds for development and operational expenses that result in economic growth. Taxation in developing countries is a difficult subject that has gotten a lot of attention in the previous two decades (Tesfaye, 2015).

Several issues have been identified, including poor administration, a failure to collect enough tax income, tax structures that do not incorporate tax horizontal and vertical equality considerations, and a lack of government and economic stability. It has been noticed that tax administration in many of Africa's least developed countries lacks the capacity to check compliance among taxpayers (Asmare, June 2018).

Taxpayer ignorance of tax, unethical behavior by taxpayers, a large number of nil fillers, a large number of refund claims, a reluctance to register for VAT, weak auditing, and different problems posed by tax payers, as well as adequate resources. This demonstrates that the Bole Sub City Small Taxpayers is ineffective in tax administration, since it is unable to collect potential taxes from both registered and unregistered individual taxpayers in the sub city. There is no record of a study being done in the sub city to investigate the grounds for probable tax evasion. As a result, the purpose of this study is to fill a vacuum in the literature by examining the tax administration difficulty faced by small tax payers in the Bole sub-city.

1.3. Objective of the study

1.3.1. General objective

The general objective of this study is to examine the main challenge of tax administration in Bole sub city small tax payers.

1.3.2. Specific objective

1. To assess the tax payer's awareness about taxation.
2. To identify constraints faced in the tax administration in Bole sub city
3. To identify the compliance level of tax payers

1.4 Research Questions

1. What are the main reasons of lack of awareness of tax payers?
2. What remedies have been taken by bole sub city small tax payer's branch office
3. To identify the compliance level of tax payers

1.5. Significance of the study

This research is significant for different stakeholders. It helps to meet society's socioeconomic needs by showing effective and efficient tax collection mechanism. Tax efficiency can only be achieved if taxpayers are well-versed in the rules and regulations governing the tax system and this paper is expected to be solution provider.

1.6. Definition of terms

- **Tax Awareness;** is the principle of being aware of what tax laws and principles are, or can be applicable to you (Tait, 1988).
- **Zero rating;** refers to a situation, in which the rate of the tax applied to sales is zero, credit is still given for taxes paid on inputs.
- **Refund:** reclaiming the difference tax paid more on inputs than is due on the output (Tait,1988).

- **Tax administration:** is to collect all tax revenues due in a fair and efficient way with limited costs for taxpayers and the tax administration itself (Tait, 1988).

1.7. Scope of the study

The study would be focus particularly on the tax administration in Bole sub city small tax payer of Addis Ababa City Administration due shortage of time and finance to address the entire tax issues in all Sub-Cities in Addis Ababa. Besides, these studies will address the constraints of tax administration affecting the revenue mobilization in Bole Sub-City small tax payer. In examining the constraints in terms of tax administrative activities, the study only assessed the challenge of the tax administration in Bole sub city small tax payer. The rational for selecting this study area is that it is the center of the city that hosts large number of tax payers and the tax is the potential source of revenue to the government so its good administration has high positive impact on both the potential revenue collection and improving the taxpayers' compliance.

1.8 Limitation of the Study

In addition to lack of well-organized research expertise skill, presence of inadequate and unreliable information is a headache to undertake any kind of survey study. Because, unwillingness and carelessness from some tax payers while responds the questionnaire and absence of well documented materials regarding the issue under the study was the shortcomings that were encountered. Moreover, shortage of money and time were another limitation of the study.

1.9. Organization of the study

The study organized in the following manner. Chapter one deals with the issues to be investigated and the driving force behind making a study on the topic concerned. It also presents objectives (general and specific) and significance for conducting the study together with the scope of the study. The second chapter discusses theoretical and empirical literatures. Chapter three is designed to provide some clue about data type and sources and the methodology used in this study. Chapter four presents the results of empirical analysis and interpretation of the findings along with supportive theoretical and empirical findings. Finally, chapter five presents the conclusions and policy recommendations followed by references and annexes at the end of the chapter.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Theoretical literature

2.1.1 Definitions and concepts

Taxes are a mandatory levy imposed by the government on income, spending, or capital assets for which the taxpayer receives no direct or indirect goods or services in return (Hancock, 1995).

Tax is defined by the Organization for Economic Cooperation and Development (OECD) as obligatory unrequited payments to the general government (Messere and Ownens 1985). This term captures the fact that taxes are imposed rather than paid voluntarily. Tax, according to the Tax Justice Network Africa (TJNA), is a fee collected by a government or regional authority on a transaction, product, or activity to fund government expenditure (Africa, 2015).

Taxes, on the other hand, are not the only necessary payments to the government. Tax is defined as a "involuntary contribution to the government that does not entitle the payer to a quid pro quo benefit or an equivalent value of goods and services in exchange" from this standpoint. This concept contrasts taxing from other sources of revenue, such as user fees and administrative fees, which are supplied on par with products and services provided by the government and can be used to exclude individuals who do not pay. Government borrowing or debt committed by the government in connection to budget deficits, as well as money from licenses and government business holdings, are all distinct from taxes. The study of government revenue-raising efforts through taxes is known as taxation (Monkam, 2011).

Tax policy, tax rules, and tax administration are all part of a tax system. Tax policies aid in the consolidation of government finances. They also have a significant impact on the EU economy's growth and job potential, while also fostering social inclusion. Tax legislation determines the volume, character, rates, coverage, and timings of collection, among other factors, according to the European Commission (2012). Tax administration, on the other hand, comprises three interrelated activities: (i) the identification of tax liabilities based on existing tax legislation; (ii) the assessment of taxes to

determine if the taxes actually paid are smaller (or larger) than tax liabilities; and (iii) the collection, prosecution and penalty activities that impose 25 sanctions on tax evaders and ensure that taxes and penalties due from taxpayers are actually collected, (Das-Gupta and Mookherjee 1998).

In Ethiopia, taxation is viewed as a long-term burden imposed by the government. The government of a country levied a tax without informing the society as to why the tax was charged and what would be done once the tax was collected. They also didn't show the activities that resulted from the tax collected. Paying taxes is regarded by society as a debt imposed by the government without interest because of this inherited shortcoming of previous tax policies. However, the agencies are currently awarding the society tax contributions for the country's development (Abera, 2014).

Because taxes are an unavoidable payment for government services, people have a strong incentive to reduce their tax liabilities by legal or unlawful means (illegal). The tax administration must ensure that the laws are followed by using a variety of registration, assessment, and collection techniques. The nature of the economy's actual tax base determines whether a government can successfully prevent taxpayers from engaging in these activities and so avoid tax evasion. As a result, tax administration should strive to improve rules governing registration, assessment, revenue collection, and fully utilizing a country's taxation capacity (Abera A. S., 2014)

2.1. 2. History of taxation in Ethiopia

The coercive nature of taxes is a relatively recent phenomenon, according to tax history. The original concept of a tax was that it was a voluntary gift to government expenses, as evidenced by the Medieval Latin term *donum* and the English word *benevolence*. This view of the subject-government relationship evolved over time, with payment becoming more and more required until coercive taxation became the norm. At the present time payment of taxes is obligatory in the all civilized nations; where the rate or imposition is at all dependent upon the taxpayer, the tax takes the form of a fee or payment for contractual service.

During the imperial and revolutionary periods, resources were distributed differently across the various sectors of the economy. The government spent around 36% of the annual budget on national defense and maintaining domestic order during the emperor's reign. The budgets of the several ministries steadily expanded toward the end of the imperial period, while tax yields remained stable.

With the majority of the people living on a subsistence level, raising taxes on personal or agricultural income was difficult. As a result, indirect taxes (customs, excise, and sales) were used to fund the imperial government. Taxes on international commerce, for example, amounted for over two-fifths of all tax collections and about one-third of all government revenues in the early 1970s, excluding foreign grant. Direct taxes, on the other hand, amounted for less than a third of total tax income.

In 1976, the revolutionary government restructured the tax system, replacing agricultural income and rural land taxes with a rural land-use fee and a new tax on agricultural revenue. The government partially solved the tax collection problem that occurred during the imperial period by transferring the collection of agricultural fees and taxes to peasant associations, which were paid a tiny proportion of revenue. Tax collections remained stable at around 15% of GDP in 1988/89, despite total revenue increasing significantly to almost 24% of GDP. In 1974/75, total revenue and tax revenues had been 13 and 11 percent of GDP respectively. Despite the 1976 changes in the tax structure, the government believed that the agricultural income tax was being underpaid, largely because of under assessments by peasant associations.

Export and import levies were imposed by the government. Addis Ababa imposed a 2% tax on all exports in 1987, as well as an additional export duty and a sur-tax on coffee. Customs tariffs and a 19 percent general import transaction tax were among the import taxes. The government freed capital products from all import tariffs as part of a policy to encourage new capital investment. Intermediate commodities were taxed at a rate ranging from 0% to 35%, consumer goods at a rate ranging from 0% to 100%, and luxuries at a fixed rate of 200 percent. High taxation on certain consumer goods and luxury items fueled a thriving underground economy, with smuggling of certain imports, particularly booze and electronics, playing a key role. Despite the fact that revenue collecting systems were inadequate, the government kept tight control over current and capital spending. Procurement was overseen by the ministry of finance, which also reviewed ministries to ensure that expenditures were in line with budget authorizations.

Current spending as a percentage of GDP increased from 13.2% in 1974-75 to 26.1 percent in 1987-88. The surge in defense and general service spending following the 1974 revolution was largely responsible for this expansion. Defense used about 60% of the budget during the 1977-78 Ogaden war, when the Somali counteroffensive was in full swing. After 1979, the percentage dropped

slightly, although it remained greater than it had been prior to the revolution. Between 1974 and 1988, defense and government services accounted for roughly 40-50 percent of the budget.

Until 1972/73, economic and social services received less than 30% of government funding, when an increase in educational spending boosted them to over 40%. Economic and social service spending remained at pre-revolutionary levels under the dergue government; agriculture received 2% of total expenditures, while education and health received 14 and 4 percent, respectively.

2.1.2.1 The Ethiopian tax reform of 2002

Ethiopia's government has undergone a substantial economic policy move from central planning to a market-oriented economic structure since 1992/93. Successions of tariff and tax reform initiatives have been implemented in response to this trend. The reasons for this were outdated tariff and tax laws; a lack of customs and tax administration; and the tariff and tax regime's failure to attract investment, facilitate trade, and generate sufficient revenue to cover current and capital expenditures, and thus finance development and poverty-reduction projects.

The federal government and national revenue have benefited from a number of tariff and tax reform schemes. According to Ministry of Revenue data, Federal Revenue climbed to Birr 6.7 billion in 2002/03 from Birr 2.54 billion in 1993/94, resulting in an increase in federal revenue as a proportion of GDP from 8.97 percent to 11.87 percent in 2002/03. The slight increase in both direct and indirect taxes, particularly foreign trade taxes, is mostly responsible for the gain in revenue. In addition, from 10.9 percent in 1993/94 to 15.1 percent in 2002/03, national tax income as a percentage of GDP has increased. For example, the overall budget deficit without grants as percent of GDP has increased from -5.2% in 1996/97 to -14.5% in 2002/03. This shows that performance of revenue collection in Ethiopia has been low compared to the rest of Sub-Saharan African countries which is over 23% of the GDP.

As a result of a succession of reductions in import tariffs, excise taxes, and income taxes, as well as a widening of the budgetary deficit, the introduction of a neutral and efficient tax, such as a VAT with a large tax base, was proposed. VAT (Value Added Tax) has become a key tax mechanism around the world. The global trend of more countries implementing VAT is ongoing. In poorer nations, VAT has also become a necessary component of tax reform. Since January 2003, Ethiopia's tax reform scheme has included VAT.

The superiority of the VAT over other common tax instruments such as the turnover tax is also due to its revenue performance, neutrality, and efficiency. The emerging conventional wisdom, which is based largely on practices and numerous country case studies, suggests that a single rate VAT (between 10% and 20%) with few exemptions and thus a broad base is preferable to a VAT with multiple rates and many exemptions, which reduces the base and complicates administration. Ethiopia's standard VAT rate of 15% and 10% equalization for services and 2% for goods have to be studied in the medium term whether or not they could broaden the tax base and register high revenue performance. The three major taxes and their respective Tax Reforms are explained below:

a. Taxes on Income and Profits

Income Tax Proclamation No. 173/1961 used to govern the taxation of employment income. This proclamation was amended in the 1990s with changes to the legislation governing income tax on employment, including rural land and agricultural income tax, rental income tax, taxes on business and other profits, tax on income from mining activities, capital gains tax, and taxes on other sources of income such as chance winnings (which are taxed at 15%), royalties (which are taxed at 5%), and royalties (which are taxed at 5%).

This change resulted in a marginal tax rate schedule, which is now being applied to earnings above Birr 150, the estimated minimum wage rate. In comparison to the military (Dergue) period's marginal tax rate of 89 percent, the current reform, which decreased the maximum marginal tax rate to 35 percent, was rather drastic. In 1995 and 1997, the 1978 income tax for rural land and agricultural activities was also revised. Farmers are now charged Birr 10 for the first hectare and Birr 7.5 for each half hectare after that. Furthermore, annual income beyond Birr 1,200 is taxed at a progressive rate (as outlined in Appendix Table 1). For state farms, the land use fee is Birr 15 per hectare. The fact that an agricultural investor is exempt from income tax for two consecutive five-year periods is a novel component of the most recent tax legislation governing the agricultural sector. In 2002, a progressive marginal tax rate schedule for revenue earned from the rental of dwellings was also implemented (including manufacturing plants).

b. Taxes on Goods and Services

The Excise Tax Proclamation (Nos. 68/193, 77/1997, and 149/1999) is the reform in this area, and the applicable tax rate ranges from 10% on textiles and television sets to 100% on alcohol, perfumes, and vehicles. The second group includes sales taxes on items, which vary from 5% (mostly for

agricultural goods) to 15%. Many fundamental commodities are tax-free. In addition, the reform imposed a 5% tax rate on work contracts and financial services, with a 15% tax rate on the sale of other services. It is not, however, difficult to see that its implementation is a challenge, owing to the predominance of small and informal operators in the country, its history of tax evasion and corruption, lack of standard recordkeeping systems as well as the lack of knowledge about VAT and a tax-base for its computation.

c. Taxes on International Trade

Import taxes (customs duty, import excise tax, import sales tax) and export taxes are part of the international trade tax overhaul. Between 1993 and 2002, customs tariff reform divided imports into 97 categories based on the Harmonized System of Tariffs Classification Code. There was a new ad valorem rate that ranged from 0% to 35%. Import excise and sales taxes were levied at the same rates as those levied on goods and services (see section above). With the exception of coffee, the removal of all export taxes was a significant breakthrough in the export sector. Similarly, plans for duty drawback and duty-free imports were enacted to boost exporters (see Appendix Table 1 for details). Other miscellaneous tax-related reforms have been carried out in the last decade. These include the amendment of stamp duties (Proclamation No. 110/1998); the introduction of a 3 per cent withholding tax (Proclamation No. 227/2001), a 2 per cent withholding tax on income (Proclamation No. 227/2001), as well as a 5 per cent withholding tax on interest income (Proclamation No. 227/2001).

2.1.3 Major Types of Taxes in Ethiopia

Direct and indirect taxes are the most common types of taxes. Taxes that can directly diminish a taxpayer's income and are directly tied to the taxpayer's particular circumstances are referred to as direct taxes. They are largely imposed on individuals and are based on their ability to pay as assessed by their income or wealth. It is based on the pay as you earn (PAYE) principles and is levied directly on the revenue earned or to be received. As a result, direct taxes are money paid directly to the government depending on an individual's earnings. Direct taxes are paid entirely by the person who pays them, and they are not transferable but progressive (Abera A. S., 2014).

Indirect taxes are levied on final purchasers of products and services. The tax burden might be shifted or passed to a third party who receives the products and services or conducts the transaction. They are taxes that are paid by an individual through the purchase of goods and services and are unrelated to

the tax payer's personal circumstances. It includes general and selective taxes on consumable products sales, value added tax (VAT) on items in the manufacturing process, legal transaction taxes, and import and export levies (Abera T. A., 2014).

The major types of taxes that exist in Ethiopia, their meaning, rates and conditions, as provided by the Federal Inland Revenue Authority, are presented as follows:

a. Value Added Tax (VAT)

This is a sales tax based on the increase in value or price of product at each stage in its manufacture and distribution. The cost of the tax is added to the final price and is eventually paid by the consumer.

The rate and impose of VAT:

1. The rate of VAT is 15% of the value for every taxable transaction by a registered person, all imported goods other than an exempt import and an import of services;
2. The export of taxable goods or services to the extent provided in regulations for zero tax rate are:
3. The export of goods or services to the extent provided in the regulation;
 - The rendering of transportation or other services directly connected with international transport of goods or 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 the National Bank of Ethiopia; and
 - 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 a going concern, provided a notice in writing, signed by the transferor and transferee, is furnished to the authority within 21 days after the supply takes place and such notice includes the details of the supply.

b. Excise Tax

This tax is imposed and charged on some commodities with inelastic demand, such as luxury goods and basic goods. Furthermore, it is considered that levying a tax on things that are harmful to one's health and cause societal problems will lower their consumption. Excise duty must be paid on the commodities listed in the 'Excise Tax Proclamation No. 307/2002' schedule. (a) when imported; (b) when generated locally at the rate set forth in the schedule. The cost of production is used to calculate

excise tax in the case of locally produced items, and the cost, insurance, and freight /C.I.F./ is used in the case of imported goods. The producer is responsible for paying excise tax on domestically produced items, while the importer is responsible for paying excise duty on imported goods. Excise tax must be paid when imported items are cleared from customs, and it must be paid no later than 30 days after the date of production for domestically produced commodities.

c. Turnover Tax

This is an equalization tax imposed on persons who are not registered for value-added tax in order to fulfill their duties, as well as to improve economic contacts and expand the tax system's coverage. Registration under the value-added tax is limited to those with annual transactions totaling more than 500,000 Birr due to administrative feasibility concerns. According to the 'Excise Tax Proclamation No. 307/2002,' the rate of turnover tax is 2% on items sold locally and 10% on others.

d. Income Tax

Income taxable under the Ethiopian 'Income Tax Proclamation No. 286/2002' shall include, but not be limited to:

- Income from employment;
- Income from business activities;
- Income derived by an entertainer, musician, or sports person from his personal activities;
- Income from entrepreneurial activities carried out by a non-resident through a permanent establishment in Ethiopia;
- Income from movable property attributable to a permanent establishment in Ethiopia;
- Income from immovable property and appurtenances thereto, income from livestock and inventory in agriculture and forestry, and income from usufruct and other rights deriving from immovable property that is situated in Ethiopia;
- Income from the alienation of property referred to in (e);
- Dividends distributed by a resident company;
- Profit shares paid by a resident registered partnership;
- Interest paid by the national, a regional or local Government or a resident of Ethiopia, or paid by a non-resident through a permanent establishment that he maintains in Ethiopia;

- License fees including lease payments, and royalties paid by a resident or paid by a non-resident through a permanent establishment that he maintains in Ethiopia.

e. Business profit tax

The amount held by a corporation to pay taxes on its profits is known as business income tax. It is thought to be a current liability. The taxable business income will be subject to Business Income Tax. Subject to the terms of this Proclamation and the directions issued by the Tax Authority, taxable business income shall be determined per tax period on the basis of the profit and loss account or income statement, which shall be written in accordance with Generally Accepted Accounting Standards. Corporate enterprises must pay a flat rate of 30 percent in business income tax. The business income tax for unincorporated or individual enterprises ranges from 10% to 35%.

This is a tax on a company's profit for each year of assessment, which includes profit accruing in, derived from, brought into, or received from a trade, business, or investment. Tax policy is commonly used by policymakers to promote economic activity and compete with other states for new capital. Despite the fact that experts have studied the usefulness of state and local tax policies as economic stimulants, there is no consensus on whether and how state corporate income tax laws benefit economies. Cheaper corporate income tax rates, all other things being equal, would be expected to enhance economic activity due to the lower cost of such activity to install firms as well as the ability to attract new activity from out of state corporations. However, the reality is considerably more complicated than just corporate income tax rates. Misrak says a lot about company income tax in his work "Ethiopian Tax Accounting Theory and Practice." Business income tax, or business profit tax, is the tax levied on taxable business or profit obtained from entrepreneurial activity, according to Ethiopian income tax proclamation no 286/2002 article 17. It is based on a percentage of a company's profits. At the end of each tax year or accounting period, business incometaxpayers submit an income tax return (tax declaration form) to the authority which shall contain full and true information about the income (profit) earned by the businesstaxpayers.

f. Computation and Tax Rate of Business Income Tax

A. According to Income Tax Proclamation No. 286/2002, tax is imposed on commercial, professional or vocational activity or any other activity recognized as trade by the commercial code of Ethiopia and carried on by any person for profit.

B. Taxable business income of bodies (e.g., PLC, Share Company) is taxable at the rate 30%;

C. Taxable business income of other taxpayers is taxed in accordance with the following Table;

When you are considering what type of business to select, consider how each business type pays income taxes. Following is an article that compares the types of businesses and explains how each type pays its income taxes.

Taxable Business Income /Net Profit/ /per year/		Tax Rate (in %)	Deduction (in Birr)
0	Over Birr To Birr		
	1800	Exempt threshold	
1801	7800	10	180.00
7801	16800	15	570.00
16801	28200	20	1,410.00
28201	42600	25	2,520.00
42601	60000	30	4,950.00
Over 60,000		35	7,950.00

In the determination of business income subject to tax in Ethiopia, deductions would be allowed for expenses incurred for the purpose of earning, securing, and maintaining that business income to the extent that the expenses can be proven by the taxpayer.

The following categories of income would be exempted from payment of business income tax:

- ✓ Awards for adopted or suggested innovations and cost saving measures
- ✓ Public awards for outstanding performance
- ✓ Income specifically exempted from income tax by the law in force in Ethiopia, by international treaty or by an agreement made.

Deductible Expenses

In the determination, of business income, subject to tax in Ethiopia, deductions shall be allowed for expenses incurred for the purpose of earning, securing, and maintaining that business income to the extent that the expenses can be proven by the taxpayer and subject to the limitations specified by this Proclamation.

Non-Deductible Expenses

- ✓ The following expenses shall not be deductible: the cost of the acquisition, improvement, renewal and reconstruction of business assets that are depreciated pursuant to Article 23 of this Proclamation
- ✓ an increase of the share of capital of a company or the basic capital of a registered partnership;

- ✓ Voluntary pension or provident fund contribution over and above 15% of the monthly salary of the employee.
- ✓ declared dividends and paid-out profit 'shares;
- ✓ interest in excess of the rate used between the National Bank of Ethiopia and the commercial banks increased by two (2) percentage points.
- ✓ damages covered by insurance policy;
- ✓ punitive damages and penalties;
- ✓ the creation or increase of reserves, provisions and other special, purpose funds unless otherwise allowed by this Proclamation;
- ✓ Income Tax paid on Schedule C income and recoverable Value Added Tax;
- ✓ representation expenses over and above 10% of the salary of the employee;
- ✓ personal consumption expenses;
- ✓ expenditures exceeding the limits set forth by this Proclamation or Regulations
- ✓ Issued here under. Entertainment expenses
- ✓ Donation or gift.(Proc, No 286/2002).

2.1.4. Sources of Ethiopian Tax Laws

Legislative, administrative, and judicial sources are all used to create tax legislation. Legislative sources are the primary sources of Ethiopian tax laws. The country's legislature has passed a number of legislation dealing with the many sorts of taxes and their administration. The FDRE Constitution, which contains various sections dealing with tax administration, is the first law that can be used as a reference. Following that, there are a number of tax-related proclamations and laws in the country, the most notable of which is Income Tax Proclamation No. 286/2002 (amended by (Pro.No. 608/2008) and (Pro.No. 693/2010)); Council of Ministers Income Tax Regulation No. 78/2002 (amended by (Reg. No. 164/2008)); Value Added Tax Proclamation No. 285/2002 (amended by (Pro.No. 609/2008)); Council of Ministers Value Added Tax Regulation No. 79/2002; Turnover Tax Proclamation No. 308/2002 (amended by (Pro.No. 611/2008)); and Excise Tax Proclamation No. 307/2002 (amended by (Pro.No. 570/2008) and (Pro.No. 610/2008)).

2.1.5 Purpose of Taxation

During the nineteenth century (C19th), the popular belief was that taxes should be used primarily to fund government spending. Governments have used taxation for more than just budgetary goals since the beginning of time. Looking at taxation from the perspective of American Economic Stability is one good method to look at its goal. The maintenance of high employment and price stability are the stabilization aims that tax policy shares with government expenditure policy (under the banner of fiscal policy) and monetary policy.

The major rationales for imposing taxes in a market economy such as the stems for the Government responsibilities are listed below;

2.1.5.1. Redistribution of income and wealth

The rich are forced to contribute more to the "taxation" fund than the poor as a result of the establishment of a progressive system. The system for distributing wealth through the use of transfer payments and perks is beneficial to people who are employed in society.

2.1.5.2. Promotion of social and economic welfare

The government frequently adopts a paternalistic role by providing 'MERIT' goods, such as health and education. Unlike public products, merit goods and services can be provided privately; yet, if left entirely to market pressures, merit goods and services would be underutilized. Some merit products and services, likewise, should be given only by the government to promote support. These valuable items include health equipment, school supplies, roads, and markets, all of which benefit people and help to create a healthy and educated community. All development projects in a country are funded by taxes.

2.1.5.3. Economic stability

Taxation is a weapon that can be used to regulate inflation or deflation. A spiral inflationary condition can be stifled by increasing taxes rates and reducing the amount of money in circulation. To prevent inflation and maintain economic stability, the government employs taxation as a monetary weapon. When inflation is high, the government raises taxation, and when inflation is low, the government lowers taxation. These steps are being taken as a result of taxation in order to avoid severe inflation and unemployment while maintaining economic stability and growth. Taxation also serves a variety

of functions. Capital accumulation, the establishment of work opportunities, and the improvement of standard of living etc. the Essential Characteristics of Taxation

1. It is an enforced contribution
2. It is generally payable in money
3. It is proportionate in character, usually based on the ability to pay
4. It is levied on persons and property within the jurisdiction of the state
5. It is levied pursuant to legislative authority; the power to tax can only be exercised by the law making body
6. It is levied for public purpose
7. It is commonly required to be paid a regular

2.1.6. Tax administration

The identification of tax liability based on current tax law, the assessment of that liability, and the collection, prosecution, and penalties imposed on recalcitrant taxpayers are all part of tax administration. As a result, tax administration encompasses a broad range of topics, including taxpayer registration, assessments, returns processing, collection, and audits (2019, chaka).

The low tax revenue return can only be attributable to the fact that tax provisions are not adequately enforced, either due to administration's incompetence to deal with them or due to outright collusion between the tax administration and taxpayers (chaka, 2019). Because taxes are an unavoidable payment for government services (Parameswaran, 2005), taxpayers have a strong incentive to reduce their tax payments by avoiding (legal) or evading them (illegal). Tax administration, therefore, has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. Based on the discussions so far, the following sub section present the tax administrative issue in detail (chaka, 2019).

2.1.7 Efficiency of Tax Administration

Tax structure with minimal distortions, rigorous tax exemptions, and elimination of variations in tax treatment of different segments of the economy are essential preconditions for efficient tax administration. A poorly designed or unduly intricate tax structure considerably complicates the tax administration's

working function, whereas a clear and transparent tax system may have the opposite effect. As a result, the tax administration's increased efficiency may be attributed mostly to the tax system's simplification (Mansfield, 1990). Tax administration should develop around activities (such as recording or auditing) rather than according to the type of tax and taxpayers. More generally, tax payment needs to be assessed, collected and recorded more efficiently. (chaka, 2019)

The efficiency of a tax system is defined not only by suitable legal control, but also by the tax administration's efficiency and integrity. Small quantities of collected public money can be explained in many countries, particularly in poor countries, by either the tax administration's inability to carry out its duties or some degree of corruption. Tax laws, no matter how properly crafted, will not be able to eradicate friction between tax administration and taxpayers. The presence of a knowledgeable and accountable tax administration is almost the most crucial requirement for the state's "tax potential" to be realized. It is common knowledge that tax rules and policies are only as good as the tax administration (Kaldor, 1980). Every country's tax administration faces a daunting set of challenges. Tax administration improvements are required in many developing nations just to ensure macroeconomic stability. There is a need to build a tax administration in nations in transition that can adapt to the needs of a growing market economy and the resultant growth in the number of taxpayers. In the field of tax administration, human resources are crucial. Trained personnel are what actually most developing countries lack and this forced them, for instance, to organize their activities under the existing tax administration structure. During the past decade, diverse developing countries have introduced radical reforms in their collection of taxes. In more than 15 countries, traditional tax departments have been granted the status of semiautonomous revenue authorities, which are designed with a number of autonomy-enhancing features, including self-financing mechanisms, boards of directors with high-ranking public and private sector representatives, and generic personnel systems (Robert, 2003). All transition countries had a significant drop in GDP, resulting in an alarming revenue shortfall due to substantial limitations in tax administration. Furthermore, revenues from 20 taxes collected from large, largely state-owned businesses fell in all nations, and were not compensated by increasing taxes collected from private, mostly small-scale businesses. As a result, there has been pressure to raise tax rates and implement new, frequently ad hoc taxes. These differences, referred to as "patches" in the tax system, are mostly the result of the tax administration's inefficiency in collecting current taxes (Kornai, 1990). This condition would necessitate the constant imposition of new taxes, modifications to the tax structure, and seemingly endless tax reforms. Income tax is becoming more important in transition countries. Taxpayers are unaccustomed to this

type of taxation and, when confronted with it for the first time, will undoubtedly perceive it as a burden. According to Kornai (1990), citizens in these countries are not accustomed to paying taxes. The tax administration and authorities that make political decisions must anticipate tax evasion attempts and establish a tax system that does not call into doubt the allegiance of its residents. The majority of developing countries continue to struggle to build adequate and responsive tax systems (Richard, 2008). What a country can do is always bound by what it can accomplish, regardless of what it wants to do with its tax system or what anyone thinks it should do from one standpoint or another (ethical, political, or developmental). The range of tax policy options is limited by the economy's structure, administrative capability, and political institutions (IMF, 2006). The sources of severe tax distortions in transition economies are numerous. First, base rates are often high. In transition economies with many fledgling small enterprises and weak tax administration, high tax rates are likely to encourage already widespread tax evasion and participation in informal economy (chaka, 2019)

2.2 Empirical literature

Ndyamuhaki2013 conducted research at Makerere University in Uganda on "Factors affecting revenue collections in local government, case study: Isingiro district local government." Administrative inefficiencies, a lack of general awareness, political involvement, corruption, tax evasion, and a lack of essential tax information, as well as a lack of auditing of tax revenue returns and drafts, were all recognized as critical problems in this study. She came to the conclusion that the listed elements have an impact on local government income collection. Mercy's (2013) study, "Factors Affecting Revenue Collection in Local Authorities in Kenya," focused on government effects. The study found that revenue collectors recognized the importance of information technology in enabling efficient revenue collection, but that the lack of availability and accessibility hampered LAIFOMS deployment. The report proposed, among other things, that the effectiveness of the local Authority Information Financial and Operations Management Systems (LAIFOMS) be enhanced by expanding computer availability and hiring additional people to assure revenue collection efficiency (chaka, 2019).

Fjeldstad, Katera, Msami, and Ngalewa (2010) looked at the competence of Tanzanian local governments in terms of financial management and revenue augmentation, as well as developments in financial accountability and efficiency from 2000 to 2006/7. Bagamoyo District Council,

Ilala Municipal Council, Iringa DC, Kilosa DC, Moshi DC, and Mwanza City Council were among the six Tanzanian councils studied. Data was gathered through a mix of quantitative and qualitative methodologies, including two rounds of public perception surveys in the case councils in 2003 and 2006. The following topics were discussed: (a) fiscal autonomy; (b) revenue collection methods; (c) financial management, including budgeting, accounting, and auditing; (d) fiscal and financial transparency; and (e) tax compliance and fiscal corruption. The study concluded, based on the evidence gathered, that the process of decentralization through devolution under the Local Government Reform Program had helped to increasing local government financial management capabilities. The reforms, on the other hand, have diminished the fiscal autonomy of local governments. The federal government presently provides the majority of local government revenue in the form of transfers, and this trend is expected to continue.

2.3 Tax administration challenge

The efficiency of a tax system is defined not only by suitable legal control, but also by the tax administration's efficiency and integrity. Small quantities of collected public money can be explained in many countries, particularly in poor countries, by either the tax administration's inability to carry out its duties or some degree of corruption. Regardless of how well-crafted tax rules are, they will not be able to eradicate disputes between tax collectors and Taxpayers (Debele, 2013).

The presence of a knowledgeable and accountable tax administration is almost the most crucial requirement for the state's "tax potential" to be realized. Tax rules and policies are widely acknowledged to be as good as the tax administration. Every country's tax administration faces a unique set of issues. Tax administration improvements are required in many developing nations just to ensure macroeconomic stability. In countries in transition, such as Ethiopia, a tax administration must be established that can respond to the needs of a rising market economy and the resultant growth in the number of taxpaying citizens (Debele, 2013).

All transition countries had a significant drop in GDP, resulting in an alarming revenue shortfall due to substantial limitations in tax administration. Furthermore, income from taxes collected from large, largely state-owned businesses decreased in all countries, and were replaced by rising taxes collected from private, mostly small-scale businesses. As a result, there has been pressure to raise tax rates and implement new, frequently ad hoc taxes. These differences, referred to as "patches" in the tax system,

are mostly the result of the tax administration's inefficiency in collecting current taxes (Debele, 2013).

The majority of developing countries continue to struggle to build adequate and responsive tax systems (Richard, 2008). What a country can do is always bound by what it can accomplish, regardless of what it wants to do with its tax system or what anyone thinks it should do from one standpoint or another (ethical, political, or developmental). The range of tax policy options is limited by the economy's structure, administrative capability, and political institutions (IMF 2006). The sources of severe tax distortions in transition economies are numerous. For starters, base rates are frequently hefty. High tax rates are likely to increase already widespread tax evasion and engagement in the informal economy in transition economies with numerous budding small businesses and inadequate tax administration. Second, many countries continue to rely largely on payroll taxes to fund social programs. When payroll taxes are imposed primarily on employers (as they are in many transitional economies), it might discourage entrepreneurial endeavors, discourage formal hiring, and drive economic activity underground. Third, and perhaps most importantly, many exemptions and special tax rates in various parts of the economy frequently coexist with higher tax rates on other activities, undermining revenue performance, complicating tax administration, and distorting revenue allocation, according to World Bank estimates. Tax structure with minimal distortions, rigorous tax exemptions, and elimination of variations in tax treatment of different segments of the economy are essential preconditions for efficient tax administration. This will imply extending VAT to all goods and services save a few (particularly export, which should be zero-rated, and banking and insurance services, where determining the amount of value added may be problematic).

Some of the major challenges while implementing the VAT system are:

- ✓ Eligible taxpayers are reluctant to be registered in the sense of “wait and see” especially with the fear of losing their customers
- ✓ Non-issuance of invoices by the taxpayers during transactions by providing options to their customers to choose sales with VAT invoices or sales without VAT invoices.
- ✓ Usage of identical invoices
- ✓ Non-willingness of consumers to buy goods and services with VAT in the sense that they are charged more due to awareness limitation
- ✓ Non-strengthened tax administration

2.4 Challenges in Tax Administration in Ethiopia

According to a recent research commissioned by Ethiopia's government, the revenue sector in general, and the tax administration system in particular, face a number of significant issues. (FDRE-MOCS 2015) (FDRE-MOCS 2015) (FDRE-MOCS 2015 The prevalence of complicity among parts of the sector's leadership, many experts, and taxpayers wanting to elicit unlawful benefits, as well as disciplinary concerns emerging from such attitudes and behaviors, is a major difficulty (FDRE-MOCS 2015) Even the private sector has decried the prevalence of tax evasion, corruption, ineffective tax administration, and weaknesses in the structure of the tax system” as well as gaps in “the assessment and enforcement of VAT, profit taxes, presumptive tax and excise duties” and high compliance costs for small businesses as key challenges to tax compliance.

2.4.1 Tax Evasion

The failure of a taxpayer to comply with the provisions of the tax laws is known as tax evasion. It happens when someone knowingly and willfully fails to notify the taxing authorities about taxable assets or income activities. As a result, it's an intentional failure to pay tax that is legally owing, or the use of deception to conceal the existence of taxable income and/or get tax exemptions or refunds. Tax evasion is defined by Kath Nightingale in her book *Theory and Practice of Taxation* as the illegal arranging of taxpayers' affairs in order to minimize tax liability. Tax evasion is defined as the willful disobedience of the law in order to avoid paying taxes. It may be achieved by understating income, overstating expenses, the liability to tax. It may be achieved by understating income, overstating expenses, making false claims for allowances or failing to disclose chargeability to tax.

Possible Factors that bring about tax evasion

- ✓ Tax payers ignorance of the benefit derived from public revenue, deliberate act to cheat
- ✓ Complication in the procedures that a tax payer must follow to pay taxes and Ineffective techniques may happen where tax administrators are burdened with many inadequacies especially with logistics.
- ✓ Non-compliance opportunity: In the Fischer model, noncompliance opportunity can affect taxpayer compliance directly through income level, income source, and occupation. Almost all the theoretical model indicates that as income rises, tax evasions should increase over most ranges (Andreoni et al., 1998).

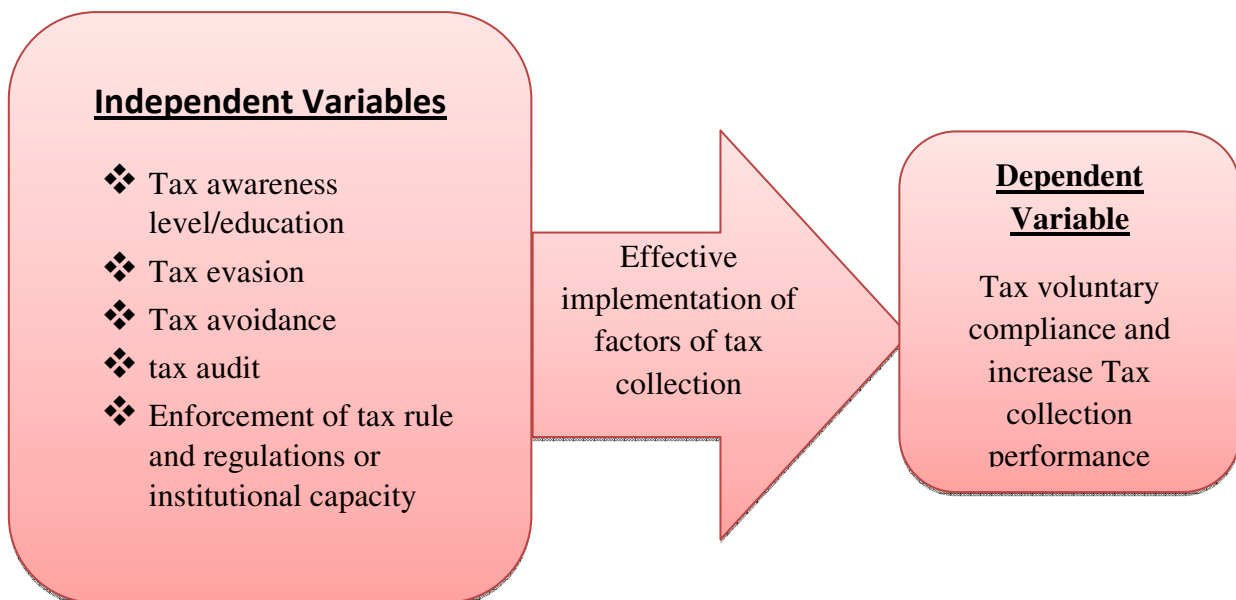
In otherway, the lower income group tends to have a lower proportion of tax compliance by under-reporting income and by over-claiming expenses than their counterparts in the higher income group. Taxpayers vary in terms of the opportunities available to them to overstating expenses and understating incomes. Purposes and absence of any visible benefits to the taxpayers

2.5. Tax Compliance Theory

Tax compliance refers to following the rules set forth by the IRS. Compliance with reporting requirements, according to Andreoni et al. (1998), means that the taxpayer files all required tax returns on time and that the returns accurately report tax liability in accordance with the Internal Revenue Code, regulations, and court decisions in effect at the time the return is filed. According to Singh (2003), tax compliance is defined as a taxpayer's action of filing its Income Tax Form (or usually referred to as Returns), accurately declaring all taxable income, and disbursing the payable tax within the stipulated time without the tax authority reminding or taking action against noncompliance. According to James S. et al. (2003), tax compliance is measured in terms of how well taxpayers follow the law, whereas non-compliance is quantified in terms of the tax gap. Tax avoidance and evasion are both used to close the deficit. Similarly, the compliance gap (FIRA, 2002) is defined as the difference between actual and potential tax revenue, as well as how that gap changes among different segments of the taxpaying population. Noncompliance with the tax laws is referred to as noncompliance. The many sorts of noncompliance; first, there is the case of non-filing; non-filing of returns to the tax authority would result in a tax gap, which is the amount of unpaid taxes due foregone. Second, nonpayment compliance refers to delayed tax payments, or payments that are not made to the tax authority in a timely manner. The tax authority values timely payment of taxes. The money collected today will be used to cover the government's expenses; otherwise, the insufficient funds will have to be borrowed, resulting in further costs. Third, there is the issue of noncompliance and underreporting of taxes. This is considered a criminal offense with severe consequences. The taxpayer avoids reporting by evasion and avoidance; the two are identical except that the latter is lawful while the former is not. This area of noncompliance is a big challenge for tax authorities since these taxpayers avoid paying taxes, and their burden is shifted to other taxpayers who are complying. This is when the fairness and equity of the tax system is called into question.

2.6 Conceptual Framework

Based on the literature review, there are different factors that affecting tax collection process. Such factors are tax education, tax evasion and avoidance, tax audit, tax collection enforcement, tax compliance and tax knowledge. The following conceptual framework was developed to guide this particular paper. Here the researcher in his conceptual frame work wants to show the way in which effective implementing of factors of tax collection can bring tax voluntary compliance and increase tax collection performance. From the following diagram tax collection performance is a dependent variable while as tax education, tax evasion and avoidance, tax audit, and tax collection enforcement, tax compliance and tax knowledge are independent variables.



Source: Developed For the Study 2021

CHAPTER THREE:

3. METHODS OF THE STUDY

3.1 Introduction

Research methodology constitutes the blueprint for the collection, measurement and analysis of data and it facilitates the smooth sailing of the various research operations, thus making conducting research as efficient as possible and yielding maximal information with minimal cost of effort, time and money (Kothari, 2004).

3.2 Research Design

For this study, the researcher was used descriptive type of research method, characteristics of a particular individuals or groups. Since the objectives of this study is to describe assessment of tax collection challenges in study area. The reason for using the descriptive types of research method, it describes the data and characteristic about what is being studied, it enables to obtain the current information, it is also used in fact finding studies and helps to formulate certain principles and it focuses on investigating the current status, practice and challenges related to tax collection in study area

3.3 Research Approach

Kothari (2004), states that a research approach brings to light the fact that there are two basic approaches to research, i.e. quantitative and qualitative research. Therefore, this study is incorporated both quantitative and qualitative research approaches (used mixed method) in order to generate the advantage of both approaches. Quantitative research relates to aspects that can be quantified or can be expressed in terms of quantity, it involves the measurement of quantity or amount. These data were obtained through questionnaire and review of documents whereas, qualitative research is concerned with qualitative phenomenon or e specifically, the aspects relating to or involving quality or kind. The main aim of this type research is discovering the underlying motives and desires of human beings and the data were mainly obtained using in-depth interviews.

3.4 Data source

The researcher collects primary and secondary data for the study. Primary data is gathered by observation, interview, and questionnaire. The self-administered questionnaire includes both open-ended and closed-ended questions. Closed ended questions with a Linkert scale and a check list item type were created. Secondary data is gathered from internal and external case organization publications, reports, periodicals, and other sources. The data's appropriateness, dependability, and adequacy were all examined during the collection procedure.

3.5 Procedures of Data Collection

The following three steps make up the data collection technique. First, consent from the organizations to cooperate in providing the essential information for the study must be obtained. Second, the construct questionnaire must be distributed and administered to the selected sample respondents. The data collection process was completed after the disseminated questionnaire was collected and interviews were conducted.

3.6. Sampling Technique and Sample Size Determination

In addition to the objective of the study and population size, three criteria must normally be given to establish the proper sample size: the level of precision, the level of confidence or risk, and the degree of variability in the variables being examined (Miaoulis and Michener, 1976). The confidence or risk level is based on ideas encompassed under the Central Limit Theorem. The key idea encompassed in the Central Limit Theorem is that when a population is repeatedly sampled, the average value of the attribute obtained by those samples is equal to the true population value. Furthermore, the values obtained by these samples are distributed normally about the true value, with some samples having a higher value and some obtaining a lower score than the true population value.

The third criterion, the *degree of variability* in the attributes being measured refers to the distribution of attributes in the population. The more heterogeneous a population, the larger the sample size required to obtain a given level of precision. The less variable (more homogeneous) a population are, the smaller the sample size have.

Determination of sample size for a study is a crucial element of a study design. The goal is to include sufficient numbers of subjects so that statistically significant results can be detected. The 100

respondents were randomly selected from Bole sub city small tax payer. The total sample drawn from the population (accessible) was based on Slovene's formula because to use solving's formula if you know nothing about your population at all we can use this formula and it used to calculate an appropriate sample size from population. Sample size were determined by the following formula

$$n = \frac{N}{1 + Ne^2}$$

Where;

n= number of sample size

N= total population

e= confidence interval

Given N =30,000 the source is from government office but it's estimated there is no exact data about the population in that area.

e = standard confidence level is 90%-95% the researcher used a confidence of 90% for better accuracy. This will give a margin error of 0.10

$$e=100\%-90\%$$

$$e=10\%$$

Sample size for taxpayer

$$n = \frac{30,000}{1+30,000(0.10)^2}$$

$$n = \frac{30,000}{301} \quad n=99.66 \approx 100$$

Sample size for tax officer

$$n = \frac{N}{1 + Ne^2}$$

e = standard confidence level is 90%-95% the researcher used a confidence of 95%

$$e = 100\%-95\%$$

$$e=5\%$$

$$n = \frac{400}{1+400(0.05)^2}$$

$$n = \frac{30,000}{301} \quad n=99.66 \approx 100$$

3.7. Population and Sampling Technique

The tax payers and tax authorities of Bole sub city small tax payers are the key target areas for gathering primary data. In the Bole sub-city small tax payer, there are approximately 30,000 active taxpayers.

This figure, however, is not static. According to the data provided, the number of taxpayers increases and falls as a result of their active and inactive sales. A total of 100 people were surveyed for the study. A total of 100 taxpayers and 390 staff from the sub-city tax administration were chosen to participate in the survey. In addition to the questionnaire, 2 members of higher officials are identified for further unstructured interview.

3.8. Types and Method of Data Collection

The information was gathered from both primary and secondary sources. The primary data will be acquired utilizing a mixed-type, open-ended and closed-ended questionnaire while collecting these data. In order to acquire enough information from the target groups, unstructured interviews were also used. Furthermore, secondary data is gathered from a variety of sources that the researchers are able to locate, including ERCA magazines and flyers, unpublished materials, proclamations, previous research papers, interviews with officers, discussions with authority employer selected tax payers, and the review of printed documents such as books and the internet.

3.9. Data Analysis Method

This phase of the study focuses on using a descriptive approach of data analysis and attempting to filter, tabulate, analyze, and interpret the data collected. In order to examine the acquired data, the researchers used a variety of tools such as graphs and tables. Conclusions and possible recommendations will be presented after going over the analysis and interpretations.

a. Analysis of findings of the study

In the second part of the questionnaire both from the taxpayers and tax officials the specific questions which are directly linked to the specific objectives of the study primarily set earlier in the first chapter are depicted below.

Specific objectives	Direct and indirect questions used to obtain these objectives		
	Tax payers	Tax officers	
What are the main reasons of lack of awareness of tax payers?	5 8 9 15 17	6	
What remedies have been taken by bole sub city small tax payer's branch office to solve the challenges and problems faced?	11 14 18	15	
What are the main constraints faced in the tax administration in Bole sub city small tax payer to collect proper tax?	6 7 10 12 13 16	8 9 10 11	12 16
What policy interventions are needed to correct these problem		17	

3.10 Validity and Reliability of Data

It deals with the validity and reliability of the research. In this study, including other data collection tools, questionnaires were considered as a major source of collecting necessary data. Additionally, to get adequate and reliable information related to tax collection problems the researcher was used interview with tax revenue head offices and team leaders and secondary data. Therefore, these interviews and secondary data from the branch were helped in fulfilling the gaps what the researcher was not getting from questionnaires.

On the other hand SPSS software has been used to minimize errors. Generally, the researcher used primary data through interviewing the office heads and distributing the questionnaire for tax payers and employees and secondary data from different published and unpublished documents. Therefore, the above mentioned focus has given and the data gathered was triangulated to make the research reliable.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND DISCUSSION OF RESULTS

4.1 Introduction

On this chapter data analysis, discussion and interpretation were covered. The analysis and interpretation of the various data collected through the use of data collection instrument as per objectives of the study. The main emphasis of the research was the challenges of tax administration in bole sub-city small tax payers. Primary data was collected from Bole Sub-City, employees. Primary Data were collected by questionnaire and interview questions by using structured, semi structured and open ended questionnaire and secondary data was collected through reviewing, journals, articles, books and revenues' policy, procedure and annual reports of revenue office.

This chapter contains two parts. These are the demographic part which presented first, the descriptive analysis parts were presented in the second part.

The collected data were described and analyzed using statistical tools. Descriptive statistics such mean, standard deviation, frequency and percentage were conducted with the help of SPSS version 20. Regarding the response rate the following table summarized the result

The study's goal is to look into the challenges of tax administration in a tiny tax payer's branch office in Bole sub-city.

Table 4.1: Response rate

Particulars	Tax payers		Tax office		Total	
	Frequency	Percentage (%)	Frequency	Percentage (%)	Frequency	Percentage (%)
Responded	83	83%	72	94%	155	88%
None responded	17	17%	5	6%	22	12%
Total	100	100%	77	100%	177	100%

Source: Taxpayer and tax officer survey

From the semi structured questionnaires distributed, 88% of them returned the Questionnaires, whereas the remaining did not. This response rate is reliable to continue the analysis

4.2. Demographic profile of respondents

The following table summarizes the demographic profile of respondents by gender, educational level, experience, current job position, types of business, year of tax payer register.

Gender of taxpayer's and tax officer's respondents

Table 4.2: Gender of respondents

Gender	Frequency	percentage
Female	58	37%
Male	97	63%
Total	155	100%

Source: taxpayer and tax officer survey

The study involved gender distribution of respondents in order to answer the questionnaires provided as shown on the following figure. The above table portrays that respondents of male and female answered the questionnaires distributed. Of the one hundred fifty five respondent, around 37 % of them were female 63% were male. All genders were represented in the study

Table 4.3: Respondents' educational level for tax payers

educational level	Frequency	percentage
BA/BSC	35	76
MA/MSc	3	6
other	45	8
	83	100%

Source: taxpayer survey

In addition to gender distribution as well as age distribution the educational qualification of participants was also assessed. The following figures depict the educational distribution of participants. Regarding education, 76% (35) respondents has BA Degree, 6% (3) has MA or second degree and the remaining 8% (4) of them has Diploma and other related educational backgrounds. This indicates that, tax payers of the branch have good educational background

Table 4.4: Respondents' educational level tax officer

Educational level	Frequency	percentage
BA/BSC	68	94%
MA/MSC	4	6%
other	-	-
	72	100%

Source: tax officer survey

Regarding education, 94% (68) respondents has BA Degree,6 % (4) has MA or second degree This indicates that, employees of the branch have good educational background

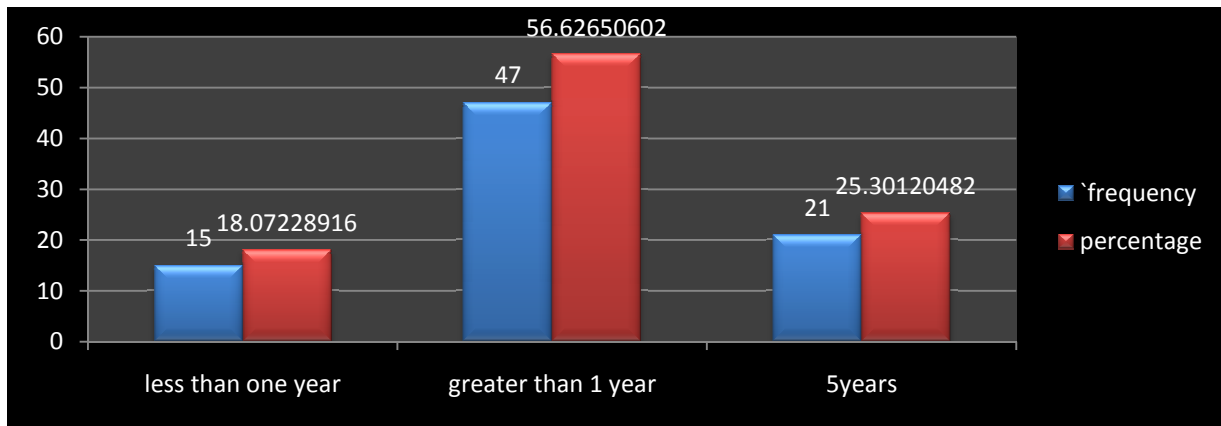
Table 4.5 Business types

S.N	Types of Business	Number of tax payers
1	Construction	13
2	Hotel/restaurant/café	3
3	House rental	7
4	Construction machinery rental	14
5	Advertising service	8
6	Retail	16
7	Import-export	11
8	Consultancy/accountant	9
9	Others	2
	Total	83

Source: Field Survey Result 2013

As the table shows more of the respondents were from Retail and construction machinery rental Businesses. This indicated that these business persons were fail in this area and in this level of taxation

Figure: 4.6. Experience distribution of taxpayer respondents



Source: Field Survey Result 2013

As indicated in the figure, most of the respondents registered as taxpayers more than one year.

Table 4.7 Work Experience

Work Experience	Frequency	percentage
1-5	67	93%
6-10	4	6%
11-20	1	1%
total	72	100%

Source: Field Survey Result 2013

The findings of the analysis of respondents by their work experience are presented in the table above. The majority of the respondents (93 percent) have more than one to five years of experience, while the second best experienced employees (6 percent (4) of the total responds have worked for more than six to ten years, and the next position has a relatively small number of respondents (1 percent (1) who have worked for more than ten years.

4.3 Descriptive Statistics

Descriptive statistics can be used to describe the fundamental characteristics of data. These statistics may assist us organize the data and show it in a summary table by each category of statement with sub-sections in this section, where respondents were given four categories of statements and asked to choose their opinion and agreement on a scale of 1-5 stage of data. This section has tried to assess business performance in Bole Sub-City

4.3.1 The systems of tax return on the administration

In this section of the category, five points under the processes of tax returning systems for the administration were grouped in SPSS and total descriptive statistics was run. The table below shows the overall point of SPSS results to descriptive statistics frequency, percent, mean and mood for Bole sub city small tax payer Branchoffice.

Table 4.8 Tax payers understand the tax rules and regulation.

Scale	Frequency	percentage
Strongly agree	2	3%
Agree	24	33%
Neutral	5	7%
Disagree	36	50%
Strongly disagree	5	7%
Total	72	100%

Source: Field Survey Result 2013

The above table presents the degree to which tax payers understand the rules and regulations. It is shown that for branch a total of 3% (2) respondents respond as “strongly agree” 33% (24) and “agree”, 7%(5) neutral, 50% (36) of respondents respond as “disagree” and the rest 7% (5) Saied “strongly disagree”. From this expression, it can be said that most of the respondent disagree that most of tax payer have knowledge gap in the rules and regulation of the systems.

According to the informal interview, this occurs mostly because of the absence of strong tax enforcement controlling mechanisms and follow-up by the authority, the need of customers to ask legal invoice during purchase was low and lack of awareness of the society about the benefits, uses and rules of the tax. As observed from the data, most of tax payers do not comply with income tax laws and regulations and they committed illegal invoice activities by preparing fake invoices and they remitted the tax income for themselves rather than to pay for the tax authority. In addition to these, the tax authority does not have enough effort to provide intensive education to the society about the benefit, rules and regulations of tax.

Table 4.9: The tax payers understand tax proclamation of the country

Scale	Frequency	percentage
Agree	28	40%
Neutral	6	8%
Disagree	37	51%
Strongly disagree	1	1%
Total	72	100%

Source: Field Survey Result 2013

The above table shows frequency distribution and percentage for item two. The tax payers understand tax proclamation of the country. It is shown that a total of 40% (28) respondents “agree”, 8%(6) neutral, 51% (37) “disagree”, and the 1% (1) replied “strongly agree”. From this, it can be said that most of the respondents disagree that tax payers understands the proclamation of the country

Table 4.10 Customer pays their tax properly and on time.

Scale	Frequency	percentage
Strongly agree	1	1%
Agree	2	3%
Neutral	5	7%
Disagree	55	76%
Strongly disagree	9	13%
Total	72	100%

Source: Field Survey Result 2013

Customers pay their taxes appropriately and on time, according to the frequency distribution and percentage of respondents, 76 percent (55) of respondents “disagree.” “Strongly disagree” (13%) and “strongly disagree” (9%). 7% (5) on the neutral, and a total of 3% (2) “agree” and “strongly agree” the remaining 1% (1), and on this point, the majority of respondents disagree that the organization examines and identifies poor tax payer practices at the branch office.

According to Herouy (2014), business profit tax is a tax is a compulsory financial charge or some other type of levy imposed on a taxpayer (an individual or legal entity) by a governmental organization in order to fund government spending and various public expenditures. The tax officials

were revealed that most tax payers were not report their tax at right time. But they come back to pay after a lots of notice were attached on their business get.

As information obtained from open ended question, the intention of tax payers not to submit the required supporting documents during business transaction to the revenue office was due to lack of enough knowledge about submitting the necessary documents to the tax office and the intention of tax avoidance and tax evasion. Most business persons were perceiving tax as expenditure for their company

Table 4.11 the tax payers use the exact receipt.

Scale	Frequency	percentage
Strongly agree	1	1%
Agree	2	3%
Neutral	10	14%
Disagree	36	50%
Strongly disagree	23	32%
Total	72	100%

Source: Field Survey Result 2013

According to the table above, the usage of accurate receipts in their selling and buying procedures has a frequency distribution and percentage of 32 percent (23) respondents who "strongly disagree." 50% (36) of them "disagree," 3% (2) "agree," and the remaining 14% (10) are "neutral." 1% of people say they "strongly agree." On this point, the majority of respondents disagree that the organization analyzes and identifies knowledge techniques of tax payers on the Branch office through the system. This shows that tax avoidance is being correctly implemented by the payer.

Once the trader is registered tax the trader must supply a legal invoice to other registered traders and also the trader must retain a copy of the tax invoice. But a person who is not registered for tax does not have the right to give the tax invoice to their customers. Tax payer's invoice contains different information some of them are: suppliers name, address and registration number, tax payer identification number, tax point, invoice number, name and address of the customer, description of the goods or services (Proclamation 979/2016). The following figure shows the trends of business tax payer's tax collection with illegal invoice in the city.

As observed from the data, most of tax payers do not comply with income tax laws and regulations and they committed illegal invoice activities by preparing fake invoices and they remitted the tax income for themselves rather than to pay for the tax authority. In addition to these, the tax authority does not have enough effort to provide intensive education to the society about the benefit, rules and regulations of tax.

Table 4.12the process of tax registration is smooth for tax payers.

Scale	Frequency	percentage
Strongly agree	1	1%
Agree	1	1%
Neutral	10	15%
Disagree	42	58%
Strongly disagree	18	25%
Total	72	100%

Source: Field Survey Result 2013

The table above shows how the frequency distribution and percentage on the item make tax registrations go smoothly for taxpayers. A total of 25% (18) of respondents said they "strongly disagree." There are 59 percent (42) of them who "disagree." On this point, the majority of the respondents disagree that the study analyzes and identifies poor methods of tax registration systems on Branch offices, with 15% (10) on the neutral, a total of 1(1) "agree," and the remaining 1% (1) "strongly agree," and on this point, the majority of the respondents disagree that the study analyzes and identifies poor methods of tax registration systems on Branch offices.

According to Adam Smith canon of taxation, "every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it". That is, the tax should be levied and collected in such a way that is convenient to taxpayer. However, 28% of respondents are not satisfied the convenience of the tax office location. Therefore, the revenue office is violating one of the principles of taxation, canons of convenience. These results increase in compliance cost and administrative cost. Additionally, it influences the compliance level of tax payers to pay their tax liability

4.3.2 Questions related with performances of tax administration

On the second category, six points were grouped in SPSS and complete descriptive statistics were run on the performance of the tax administration in the Bole sub city small tax payer branch. For Bole sub city Small tax Payers branch, the table below provides the overall point of SPSS findings to descriptive statistics frequency, percent, and mean.

Table 4.13 Branch Office handling their tax compliances properly

Scale	Frequency	percentage
Strongly agree	1	1%
Agree	4	6%
Neutral	18	25%
Disagree	35	49%
Strongly disagree	14	19%
Total	72	100%

Source: Field Survey Result 2013

The above table shows the frequency distribution and percentage for item that customer handling ways Branch office .the frequency distribution shown on the table the total of 19% (14) respondents are “strongly disagree” 49%(35) of them are “disagree” and 6%(4) “agree” from a total of 25%(18) “neutral” and the rest 1%(1) “strongly agree”. According to respondents, the branch office, customer handling system is poor.

Table 4.14 Tax Administration on Bole sub city small taxpayer branch achieve on their objectives.

Scale	Frequency	percentage
Strongly agree	1	1%
Agree	6	8%
Neutral	9	13%
Disagree	44	61%
Strongly disagree	12	17%
Total	72	100%

Source: Field Survey Result 2013

The frequency distribution and percentages are displayed in the table above. On the branch, a total of 61 percent (44) respondents are “disagree.” From a total of 13 percent (9) "neutral" and the remaining

1 percent (1) "highly agree," 17 percent (12) "strongly disagree" and 8 percent (6) "agree." The tax administration branch, according to respondents, does not meet its objectives.

Tax compliance should be defined as the taxpayers' ability and willingness to comply with tax laws that are determined by ethics, legal environment and other situational factors at a particular time and place. Therefore, respondents were asked to indicate the extent to which the factors that influence their compliance behavior and the results are manifested by the achievement of goals what the above table showed that.

Table 4.15 Good revenue generation is undertaken in your organization according to the annual plan.

Scale	Frequency	percentage
Strongly agree	1	1%
Agree	6	8%
Neutral	7	10%
Disagree	40	56%
Strongly disagree	18	25%
Total	72	100%

Source: Field Survey Result 2013

The above table shows the frequency distribution and percentage for item on the revenue generation according with annual plan. It is shown that on the branch the total of 56% (44) respondents are “disagree” 25%(18) of them are “strongly disagree” and 8%(6) “agree” from a total of 10%(7) “neutral” and the rest .1%(1)“ strongly agree”. According to the respondent, revenues generation related with annual plan under the target.

According to (Eriksen and Fallan, 1996), cited at Mohd, 2010, tax education can constitute any informal or formal program organized by the tax authority or independent agencies by which to facilitate taxpayers in completing tax returns correctly and also to cultivate awareness of their responsibilities in respect of the tax system and effective taxpayers' education is essential to create voluntary tax compliance.

Table 4.16 The tax collecting system increased the actual revenues to the government.

Scale	Frequency	percentage
Strongly agree	13	18%
Agree	18	25%
Neutral	7	10%
Disagree	27	38%
Strongly disagree	8	11%
Total	72	100%

Source: Field Survey Result 2013

The above table shows the frequency distribution and percentage for item. It is shown that on the branch the total of 11% (8) respondents are “strongly disagree” 38 % (27) of them are “disagree” and 25 % (18) “agree”, 10 % (7) “neutral” and the rest 18% (13) “strongly agree”. According to respondents, tax collecting system in branch office couldn’t contribute as much as their effort generate revenue for government

It can be understood that most of respondents agreed that there was no continuous tax education program to create awareness for business profit tax payers according to income tax proclamation laws and regulations by the tax authority. This reveals that the tax office is not effective in giving continuous tax education function for tax payers in accordance to laws and regulations. Information was also gathered from respondents of tax officials on how they evaluate their tax education programs delivered by Bole sub city small tax payers revenue office to tax payers and they said as were limited due to budget constrain for training purpose.

Table 4.17 reforming tax administration increased effectiveness of your organizational Implementation.

Scale	Frequency	percentage
Strongly agree	9	13%
Agree	11	15%
Neutral	5	7%
Disagree	33	46%
Strongly disagree	14	19%
Total	72	100%

Source: Field Survey Result 2013

the above table shows the frequency distribution and percentage for item on the effectiveness of organizational implementation the statistical table shown that on the branch the total of 46% (33) respondents are “disagree” 19%(14) of them are “strongly disagree” and 15%(11) “agree” from a total of 7%(5) “neutral” and the rest 13%(9) “strongly disagree” According respondent, tax reforming didn’t increase the effectiveness on organizational implementation.

In the open ended questions participants revealed the practice of tax evasion has dual disadvantage tow the tax payer as well as the government. For the state it causes loss of revenue, means less money for schools, hospitals, roads, etc. For the taxpayer, unlawful evasion of tax may mean that you are looking over your shoulder for the rest of your life. Most countries have a statute of limitations (period of review) for incidents of suspected tax evasion.

Table 4.18.The relationship among top management and team members are effective in organizational goal.

Scale	Frequency	percentage
Strongly agree	34	47%
Agree	15	21%
Neutral	5	7%
Disagree	10	14%
Strongly disagree	8	11%
Total	72	100%

Source: Field Survey Result 2013

The frequency distribution and percentage for item to the relationship between employees and top management are shown in the table above. It is found that a total of 14% (10) of respondents "disagree." From a total of 7% (5) "neutral" and the remaining 47 percent (34) "Strongly disagree," 11 percent (8) "strongly disagree," and 21 percent (15) "agree."

Questions related with source of major problems of tax return for administration

On these category of the study have five points under on the source of major problems of tax return for administration in Bole sub city small tax payer’s Branch were grouped in SPSS and total descriptive statistics was run. The table below shows the overall point of SPSS results to descriptive statistics frequency and percent.

Table 4.19. The tax reform makes challenges on the tax collecting system.

Scale	Frequency	percentage
Strongly agree	42	57%
Agree	19	26%
Neutral	5	7%
Disagree	4	6%
Strongly disagree	3	4%
Total	72	100%

Source: Field Survey Result 2013

The frequency distribution and percentage item on the behavior of tax reforms. It is shown that on the branch the total of 4% (3) respondents are “strongly disagree” 6%(4) of them are “disagree” and 26%(19) “agree” from a total of 57%(42) “strongly agree” and the rest 7%(5)“ “neutral”. According to respondents, reforming tax collecting makes challenge on payers.

Table 4.20 The role of tax registrations mechanism is a good mechanism for to controls tax evictions.

Scale	Frequency	percentage
Strongly agree	36	50%
Agree	28	39%
Neutral	3	4%
Disagree	2	3%
Strongly disagree	3	4%
Total	72	100%

Source: Field Survey Result 2013

The frequency distribution and percentage item on the role of tax registrations mechanism is a good mechanism for to controls tax evictions. the shown that on the total of 4% (3) respondents are “strongly disagree” 3%(2) of them are “disagree” and 39%(28) “agree” from a total of 50%36) “strongly agree” and the rest 4%(3)“ “neutral”. According to respondent, tax registration mechanism is a good mechanism for controlling tax evasion

Table 4.21The tax audit department has responsible audit team members for conducting the audit cases.

Scale	Frequency	percentage
Strongly agree	11	15%
Agree	22	31%
Neutral	3	4%
Disagree	30	42%
Strongly disagree	6	4%
Total	72	100%

Source: Field Survey Result 2013

The frequency distribution and percentage item on the responsibility audit team members for conducting the audit cases e. It is shown that on the branch the total of 4% (6) respondents are “strongly disagree” 42%(30) of them are “disagree” and 31%(22) “agree” 15%(11) “strongly agree” and the rest 4%(3)“ “neutral”. According to respondents, tax audit team responsible to conduct the audit case proportional respondents on opposite side.

Table 4.22The Branch has well organizational structure, job security and other facilities for tax administration.

Scale	Frequency	percentage
Strongly agree	17	24%
Agree	32	44%
Neutral	3	4%
Disagree	18	25%
Strongly disagree	2	3%
Total	72	100%

Source: Field Survey Result 2013

According to the frequency, distribution and percentages items on the organizational structure, job security and facilities of tax administration. It is shown that on the branch the total of 3% (2) respondents are “strongly disagree” 25%(18) of them are “disagree” and 44%(32) “agree” from a

total of 24%(17) “strongly agree” and the rest 4%(3)“ “neutral”. According to respondents, Organizational structure, job security and other facilities of the Branch office is good.

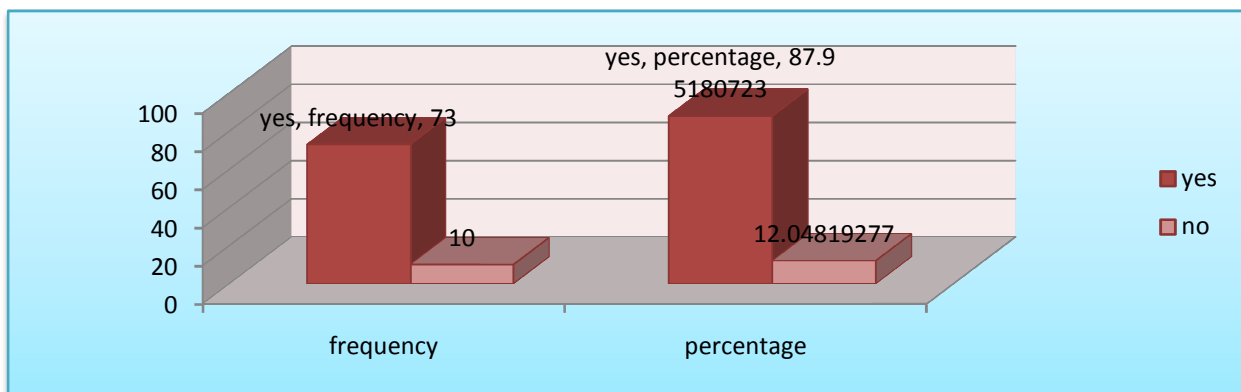
Table 4.23 The tax Administration in your clients the organizational plan has been implemented with problems.

Scale	Frequency	percentage
Strongly agree	21	29%
Agree	25	35%
Neutral	6	8%
Disagree	11	15%
Strongly disagree	9	13%
Total	72	100%

Source: Field Survey Result 2013

The above table presents the frequency distribution and percentage item on the organizational plan relationship with their clients. It is shown that the total of 13% (9) respondents are “strongly disagree”, 15%(11) of them are “disagree” and 35%(25) “agree” 29%(21) “strongly agree” and the rest 8%(6)“ “neutral”. According to respondent, Clients of the tax administration implements organizational plan with problems.

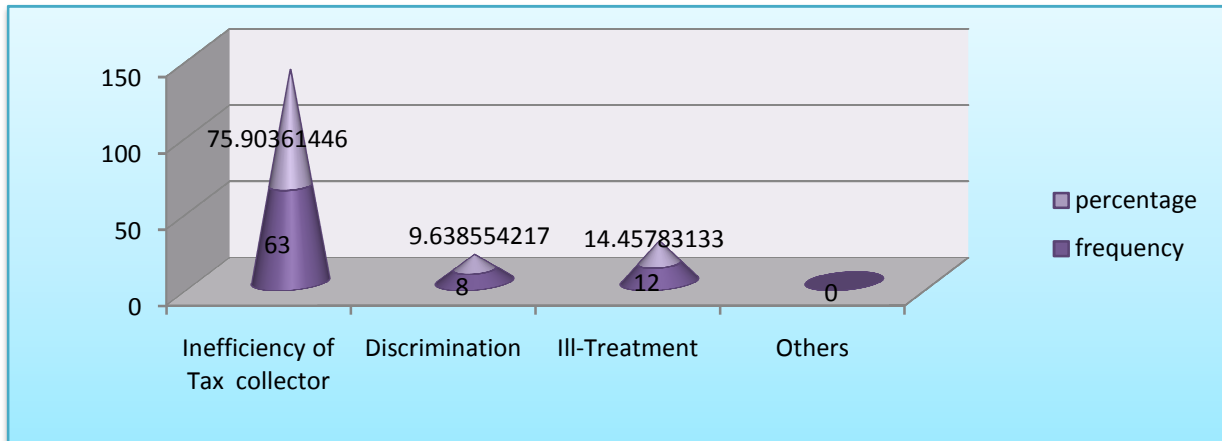
Figure 4.24.problem facing you when you go to pay your tax liability



Source: Field Survey Result 2013

According to the frequency, distribution problem facing you when taxpayer goes to pay their tax liability to tax administration. It is shown that on the branch the total of 73 respondents are “yes” 10 of them are “no” According to respondents, taxpayers faces different problem when they go to pay their liability

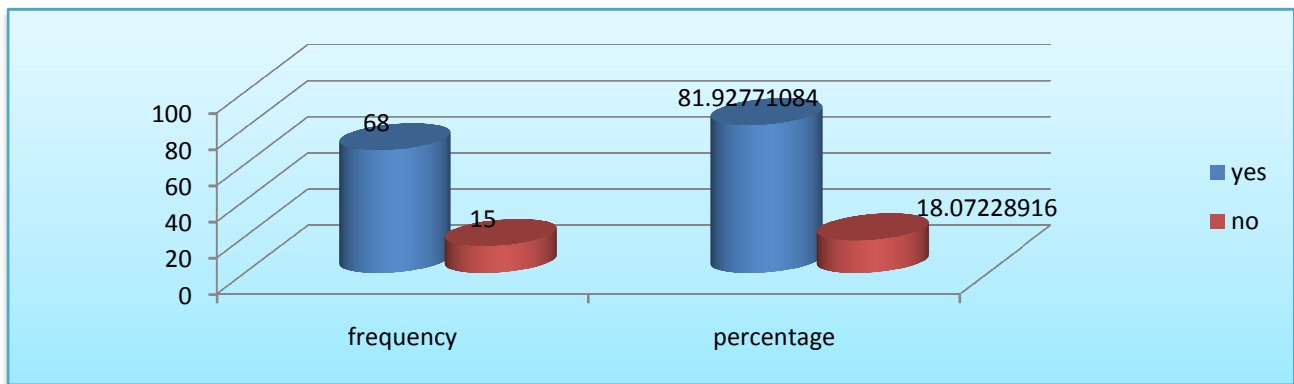
Figure 4.25 Kinds of problem face when taxpayer go to pay there tax liability



Source: Field Survey Result 2013

The above figure presents the frequency distribution item on kinds of problem face when taxpayers go to pay their tax liability. It is shown that the total of 76% (63) respondents are “inefficiency of tax collector” 10% (8) of them are “discrimination” and 14% (12) “ill-treatment”. According to respondent, taxpayer of the tax administration the main problem is inefficiency of tax collector.

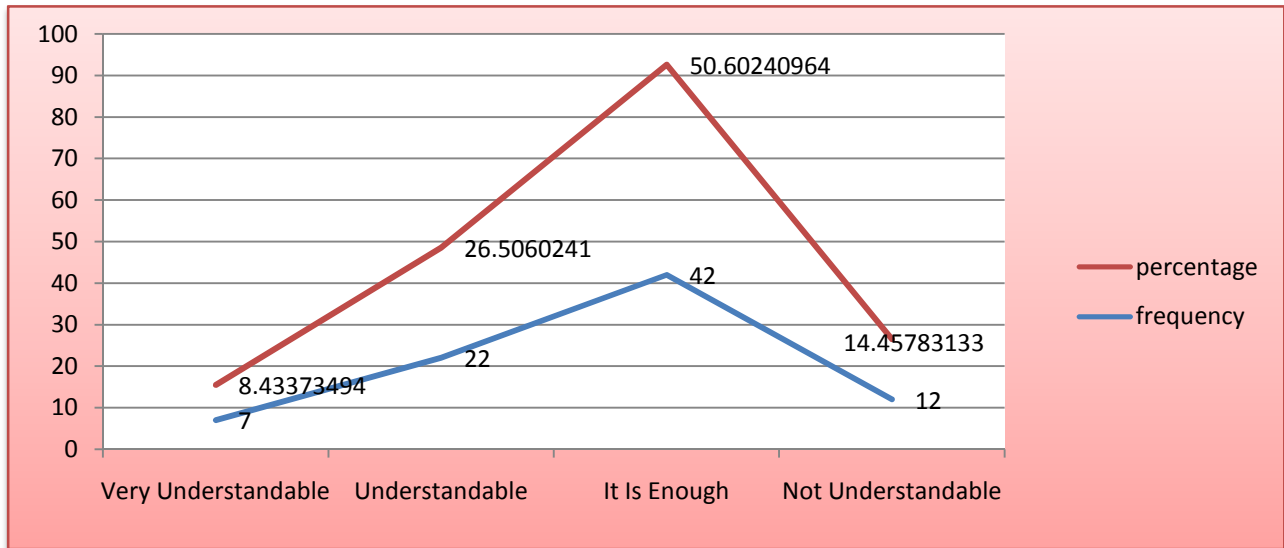
Figure 4.26 Get information about taxation



Source: Field Survey Result 2013

According to the frequency, distribution gets information about taxation. It is shown that the total of 82% (68) respondents are “yes 18 %(15) of them are “No. According to respondent, Clients of the tax administration implements most of them get adequate information about taxation.

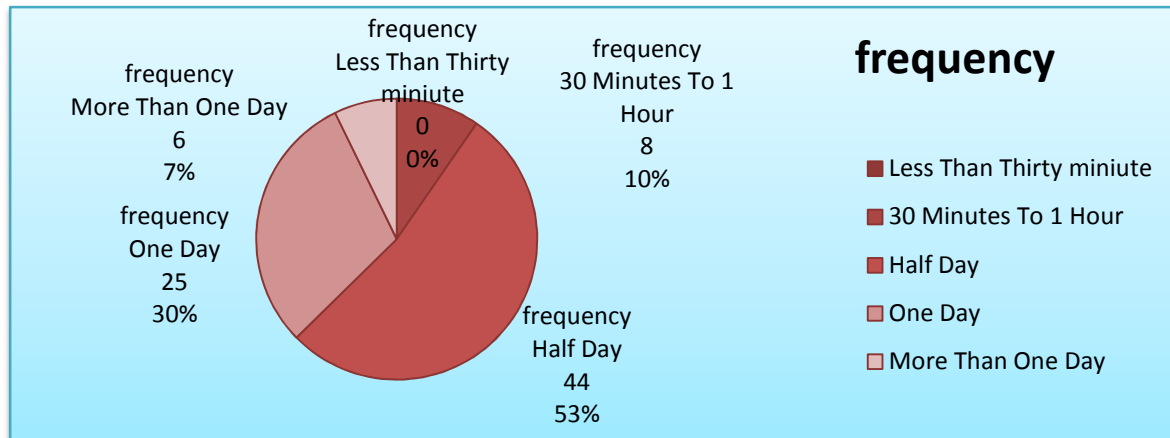
Figure 4.27. Get the information what extent it is clear and understandable



Source: Field Survey Result 2013

The above figure presents the frequency distribution item on get the information what extent it is clear and understandable. It is shown that the total of 8% (7) respondents are “very understandable” 27% (22) of them are “understandable” and 51% (42) “It is enough” and 14 %(12) “Not understandable. According to respondent, taxpayer of the tax administration get information from tax administration is most of they say it’s enough but the administration can do more than these can give information to taxpayer’s.

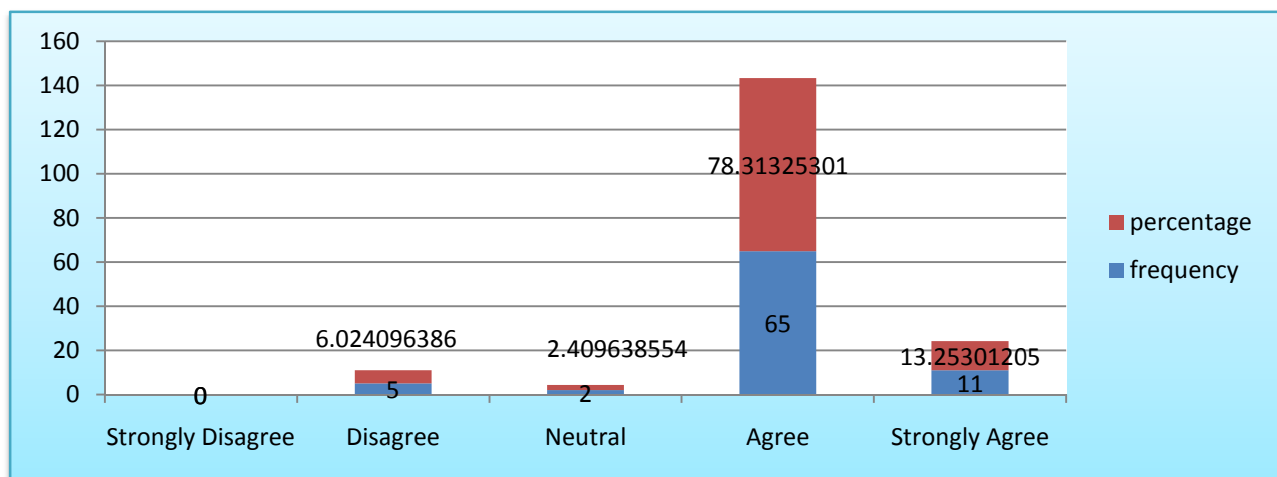
Figure 4.28. Time it takes to pay tax liability



Source: Field Survey Result 2013

According to the frequency, distribution items on the organizational structure, Time it take to pay tax liability. It is shown that on the total of 0% respondents are “Less Than Thirty minute” 10%(8) of them are “30 Minutes To 1 Hour” and 53%(44) “Half Day” from a total of 30%(25) “One Day” and the rest 7%(6) “More Than One Day”. According to respondents, tax payers take time half a day and one day.

Figure 4.29. The criteria for selection of tax payers for auditing lack clarity and transparency

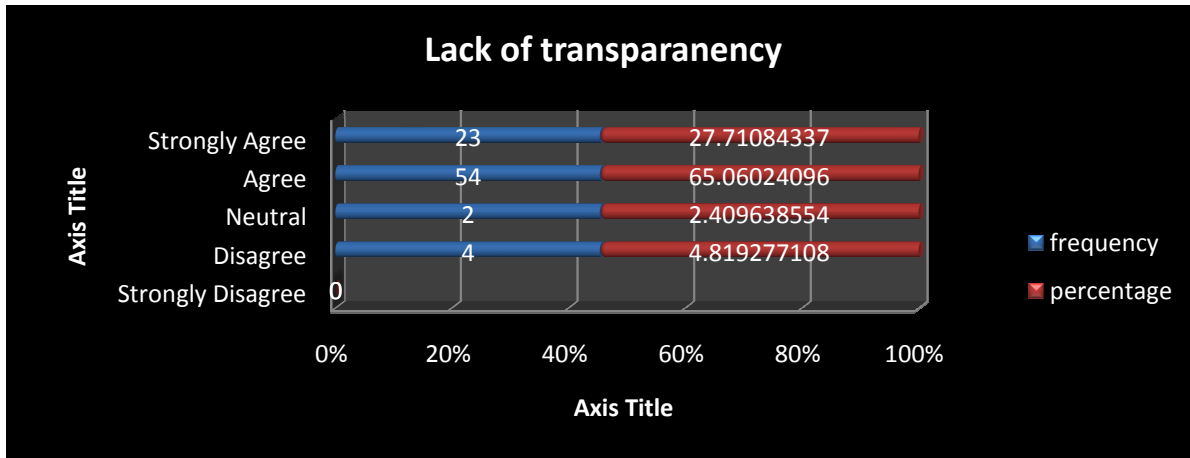


Source: Field Survey Result 2013

The above figure presents the frequency distribution item on the criteria for selection of tax payers for auditing lack clarity and transparency. It is shown that the total of 0% respondents are “strongly disagree”, 6%(5) of them are “disagree” , 78%(65) “agree” 13%(11) “strongly agree” and the rest

2%(2) are Neutral. According to respondent, Clients of the tax administration implements lack of clarity and transparency on Audit.

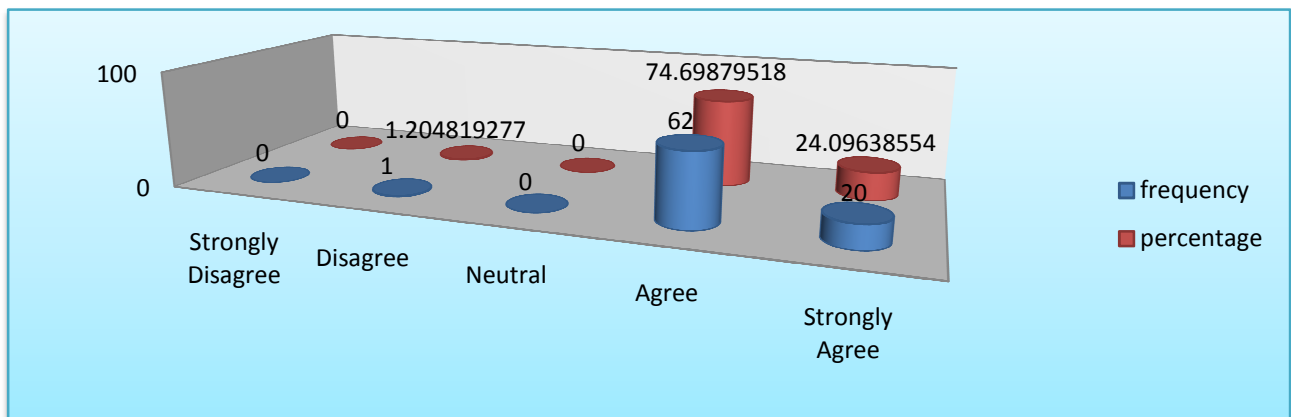
Figure 4.30 Lack of transparency and consistency in imposing penalties



Source: Field Survey Result 2013

According to the frequency distribution item on Lack of transparency and consistency in imposing penalties. It is shown that the total of 0% respondents are “strongly disagree”, 5%(4) of them are “disagree” ,65%(54) “agree” 28%(23) “strongly agree” and the rest 2%(2) are Neutral. According to respondent, most of Clients of the tax administration implements on Lack of transparency and consistency in imposing penalties.

Figure 4.31. The Chance of being detected is relatively low if an official is engage in corrupt activity.

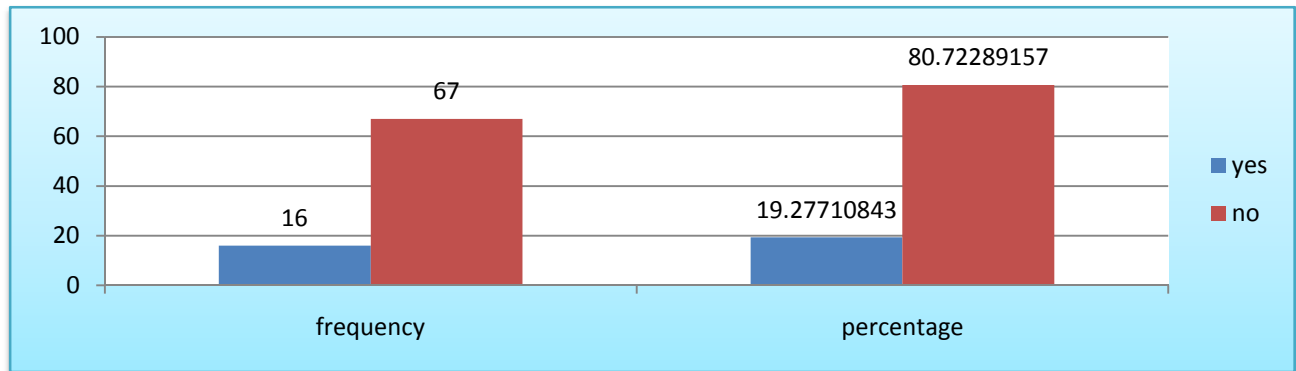


Source: Field Survey Result 2013

The above figure presents the frequency distribution item on the Chance of being detected is relatively low if an official is engage in corrupt activity. It is shown that the total of 0% respondents are “strongly disagree”, 1 %(1) of them are “disagree”,75 %(62) “agree” 24 %(20) “strongly agree”

and the rest 0% are Neutral. According to respondent, taxpayer of the tax administration implements there is corruption.

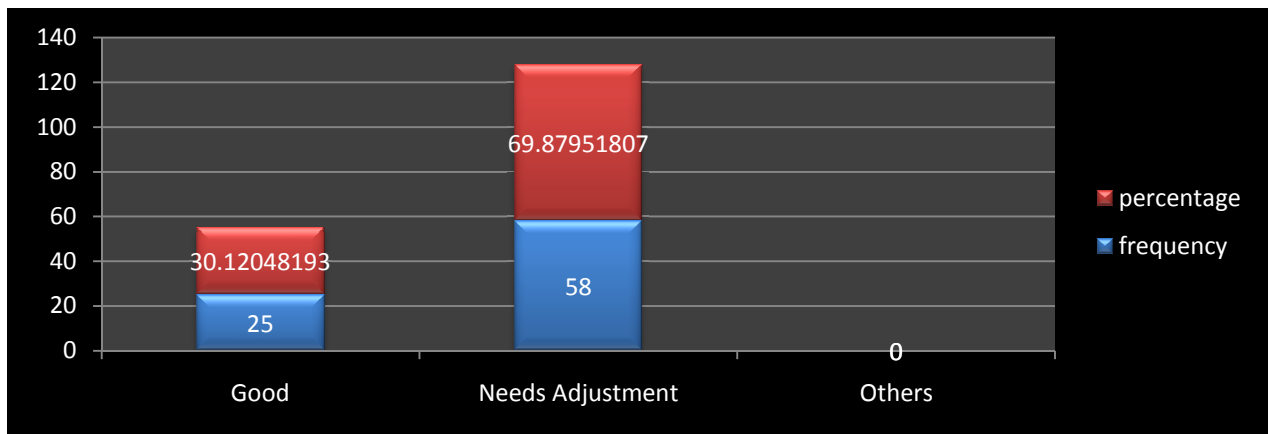
Figure 4.32 Tax rate fair



Source: Field Survey Result 2013

According to the frequency, distribution on Tax rate fair in tax administration. It is shown that on the branch the total of 16 respondents are “yes” 67 of them are “no” According to respondents, taxpayers believes tax rate is not fair.

Figure 4.33. Assess the present taxation System in general



Source: Field Survey Result 2013

According to the frequency, distribution table, it is shown that on the branch the total of 58 respondents are “need adjustments” 25 of them are “Good” According to respondents, taxpayer’s implements the general taxation system is Good but not enough need adjustment to achieve organizational goals.

4.4 Interview analysis

The interview questions was made same employees from of the middle managements in Branch office, in generally the question asses the following points clarity of rules regulations the working directions to the customers or tax payers the middle management reflects these question by the lack of clarity, open for tax evasions“ and fraud for both sides tax payers as well as tax collectors.

The second question was timely tax return and repayments in the organizations according on the tax return they have time tables but tax payers not considers and uses that colanders in additional the tax return system depends on the tax types. on the month the first 10 days declaring period of zero balance,10-15 withholding tax and the remaining day 20-25 VAT withholding period but our customers almost don't uses the time table of the organizations ,this the result of the lack awareness about the tax administration systems most of tax payers has lack of skills to process of tax returning systems in Bole sub city small tax payers branch more over less for solving this problems creates awareness to the tax payers on the different ways example:- booklets news paper as well as mass media website.

The third question relate to the knowledge gap of the employees in organizations most of the employees have degree holder but there was knowledge gap about their duty, have not training on the systems of organizations and the confidences about their duty to solve this problems gets job training for the employees and adapt the skills for the work, creates knowledgeable man power good working environments

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

As we all know taxation is one of the essential functions of government, and a fact of life for taxpayers that require compliance and planning. Domestic resource mobilization refers to generation of revenue from domestic resources and its allocation for the provision of public goods and services. It is critically important as it is potentially the biggest most reliable source of financing, particularly in developing countries like Ethiopia. Tax revenue is the major component of domestic resource mobilizing which in turn depends on the level of income or GDP. One of the most basic advantages of taxes is that it allows the government to spend money for basic operations.

It can be concluded from the results of the study that the challenge of tax administration in Bole sub city small tax payer's branch. Based on the findings of the study the researcher has concluded that the branch has a moderate practice (not bad not good) in tax administration.

From the research, it is understood that the branch customers lacks awareness on the rules and regulations of tax administration. Even if employees of the organization are degree holders, there is skill gap. To solve the skill gap of the employee, it is advised to give them trainings. To increase the performance of the organization in achieving its annual plan, knowledgeable man power must be there in place, there should be good controlling system to decrease tax evasion.

To increase the performance of the branch, challenges of tax administrations should be minimized so as to generate enough revenue and cover government expenditure. Regarding objective achievement, most of the respondents replayed as "disagree" and "strongly disagree" and it indicates Bole sub city small tax payers office have many constraints in achieving their objective. Organizational structure, Job security and other facilities of the Bole sub city Small tax payer's branch is good.

- ✓ It is found that most of tax officials replied that the challenges for low business profit tax collection performance in the tax authority was poor tax collection enforcement capacity of the Authority, low level of taxpayer's voluntary compliance and high tax evasion. Moreover, lack of taxpayers' awareness for business profit tax laws and regulations and poor

performance of penalty for non-compliance taxpayers was found to be other challenges during business profit tax collection. The other challenge was ineffective business profit tax audit practice in the tax authority and poor performance of tax education program in the authority.

- ✓ The data indicate in the analysis part most tax payers are not declare their tax or business transactions and did not pay the collected actual tax according to laws and most of them were not penalized by the tax authority for not issuing of tax invoice to their customers as well as the government authority.
- ✓ It is also found that the tax authority was not applied successes full tax collection enforcement strategy to improve tax compliance and did not give continuous tax education program for business profit tax payers in tax laws and regulations
- ✓ In addition, it is found that the compliance behavior of taxpayers in Bole sub small tax payer's revenue office tax administration has negatively affected by the other taxpayer's noncompliance behavior. The data indicates that in Bole sub city small tax payer's revenue office there are potential taxpayers in the market which is not legally operate in the market as per the tax laws.
- ✓ The data also indicated that, most of tax payers have sales register machine, however, almost half of the tax payer respondents did not use sales register machine properly during the sales made. It is found that there are tax registered taxpayers that have collected the tax with illegal invoice and report personal expense as a business expense for the sake of tax exempt
- ✓ The data indicated that greater number of respondents replied that tax compliance is improves by means of equity and fair tax system, giving reward for compliant taxpayers, effective tax audit system and serious enforcement and penalties for non-compliant taxpayers.
- ✓ The data also indicated that the awareness level of business profit tax payers with relation to tax rules and regulations on procedures of business registration, administrative penalties for non-compliance tax payers, seizure of property to collect tax for non-compliance taxpayers were poor.

5.2. Recommendations

Based on the findings given above, the following recommendations are made

➤ Educating taxpayers is the crucial fact to solve the problems from their root. In order for the tax authority to educate and improve the taxpayer's awareness level, it would be very effective to arrange seminars on tax issues prepare and give adequate and sustainable training sessions concerning their obligation, and awareness creating conferences. The other method of transmitting tax concepts, its related rules and regulations to the society is using the different media as a means to educate taxpayers and change their perceptions about their tax reporting behavior and their overall perceptions of taxation in general

- ✓ To support the taxpayers, the tax authority should make tax laws available in Bole sub city Small tax payer's branch website. However, some tax payer does not know the existence of this website. It is necessary to create awareness for the tax payer to use this website.
- ✓ The tax payer office should make the income tax law and procedures, clear, simple, understandable, transparent and user friendly administrative system. Also explain clearly to their understanding for effective compliance
- ✓ Should have audit plan based on risk assessment. This enables the Bole Sub City Small tax payer branch to focus on targeted areas in order to detect non compliance. Practical support and consultancy about the business and tax related.
- ✓ The tax authority should transparent of is very essential to create fair tax system conception. Moreover the researchers found it very reasonable to recheck the interest policy of the tax authority as it is unquestionably inflated leaving the issue of tax fairness in quotation.
- ✓ The authority would achieve its goal if it arranges seminars and sustainable training sessions. Besides, it would be worth taking if the authority be able to build good customer relation while rendering its service to taxpayers like the manner of how they treat taxpayers, their interest to give support, and how they handle issues of the taxpayers.
- ✓ The other thing is the authority should be curious in finding sustainable solution about the network failure that hinders timely declaration of taxes.

- ✓ Finally, as a matter of fact, every research is the beginning moving from the known to the unknown. Hence, future researchers are recommended to investigate other aspects of the challenge of tax administration on revenue generation.
- ✓ In order to make effective business profit tax planning system, the revenue office should follow participatory planning system with their employees and sub-city team leaders as well as business profit tax payers.
- ✓ It is recommendable that, the revenue office should be maintained effective tax enforcement strategy and business profit tax auditing to control tax payers that are not declare their tax transactions and did not pay tax on time, not issuing of tax invoice to their customers, collected the tax with illegal invoice and report personal expense as a business expense for the sake of tax exempt.
- ✓ The revenue office should take prompt measures for non-compliance tax payers and should increase its follow-up, investigate the compliance and noncompliance taxpayers so that the authority should encourage and reward the honest traders and should take a legal action for non-compliance taxpayers.
- ✓ The revenue office should have consistently enforce those large numbers of potential tax payers in the market that are eligible for tax but not registered and take actions for those dishonest practices of some tax officials. In order to easily report, minimize additional costs and pay their tax liability in each year and the tax office should be convenient. Then, the revenue office should open business profit tax collection center in each sub city revenue office.
- ✓ In order to reduce the tax payer's non-compliance behavior and to increase the branch tax collection performance, the revenue office should provide continuous tax education and assistance program and apply equity and fairness tax system to their taxpayers on tax laws and regulations as well as the revenue office should give additional manual training for tax officials in relation to business profit tax laws and regulation.

5.3 Suggestion for Further Study

There are several limitations of this study which might be the way of future research constructed approach to understanding tax filing system challenges. The study also found that there are challenges in the collection of Tax system. Especially the organization to have many branches the specifics of the challenges experienced by various users of the E-filing system were not identified by this study. Further Similar studies can be done in other branches of the Ministry of Revenue and the results of the findings be compared for more accurate generalization.

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Appendixes

Addis Ababa University College of Business and Economics Department of Public Administration and Development Management Master's Program in Public Policy Making and Developmental Management

QUESTIONNAIRE FILLS BY TAX PAYERS

Dear respondent!!!

I am a graduate student in the department of public administration and development management, Addis Ababa university college of business and economics. Currently, I am undertaking a research entitled '*the challenges of tax administration in bole sub-city small tax payers branch*'. You are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a representative finding on the current status of '*the challenges of tax administration in bole sub-city small tax payers' branch*' in Bole sub cities of Addis Ababa. Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only. Thank you in advance for your kind cooperation and dedicating your time.

Sincerely,
BahiruDegu

Section A: Personal data

1. Gender A. Male B. Female
2. Level of education
 A. Grade 12 and below B. Diploma C. First degree D. Masters E., PhD
3. Type of business _____
4. For how many years you are known as Tax Payer? _____

Section B: Questions related to the tax

5. At this month, you fill;
 A. nil B. Credit C. payment
6. is there any problem facing you when you go to pay your tax liability?
 A. Yes B No
7. What kinds of problem do you face when you go to pay your tax liability?
 A. Inefficiency of Tax B. Collectors C. Discrimination D. Ill-Treatment E. Other
8. Do you get information about taxation?
 A. Yes B. no
9. If you get the information what extent it is clear and understandable?
 A. Very Understandable B. Understandable
 C. It Is Enough D. Not Understandable
10. How long does it take you to pay your tax liability?
 A. Less Than Thirty B. Minutes C.30 Minutes To 1 Hour
 D, Half Day E.One Day F. More Than One Day
- 11.Is Bole sub city small tax payer offered adequate training about VAT/TOT?
 A. Strongly Disagree B. Disagree C. Neutral D. Agree E. Strongly Agree
12. Is the criteria for selection of tax payers for auditing lack clarity and transparency?
 A. Strongly Disagree B. Disagree C. Neutral D. Agree E. Strongly Agree
13. Is there lack of transparency and consistency in imposing penalties?
 A. Strongly Disagree B. Disagree C. Neutral D. Agree E. Strongly Agree

14. Giving education and awareness creation program through media, brochures and others is sufficient to improve tax compliance?

- A. Strongly Disagree B. Disagree C. Neutral D. Agree E. Strongly Agree

14.1 The Chance of being detected is relatively low if an official is engage in corrupt activity.

- A. Strongly Disagree B. Disagree C. Neutral D. Agree E. Strongly Agree

15. Is the Tax rate fair?

- A. Yes B. No C. Some What Fair

16. Is tax payment period enough?

- A. Yes B. no

17. How do you assess the present taxation System in general?

- A. Good B. Needs Adjustment C. Others

18. For the future, in what ways do this information's shall be provided?

- A. On News Paper B. Through Pamphlet C. By Conference
D. Through Mass Media E. Others

19. Give your general comment on the overall Tax administration of the Bole Sub

City _____

_____ -

Appendix.II

Addis Ababa University College of Business and Economics Department of Public Administration and Development Management Master's Program in Public Policy Making and Developmental Management

APPENDIX B: QUESTIONNAIRE TO BE FILLED BY TAX OFFICER

Dear respondent!!!

I am a graduate student in the department of public administration and development management, Addis Ababa university college of business and economics. Currently, I am undertaking a research entitled '*the challenges of tax administration in bole sub-city small tax payers branch*'. You are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a representative finding on the current status of '*the challenges of tax administration in bole sub-city small tax payers' branch*' in Bole sub cities of Addis Ababa.

Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only. Thank you in advance for your kind cooperation and dedicating your time.

Sincerely,

BahiruDegu

City? Some say it is due to lack of effective control.					

7. Do you have any additional ideas about the process of tax administrations?

8. Do you think Tax evasion in tax payers is Significant?

- A. Yes B. No C. I don't know

9. If your response is "Yes" for question no 8 which tax do you believe is evaded more? (Multiple Answers is Possible)

- A. Business Profit Tax B. Payroll tax C. VAT
D. Rental income E. Others specify _____

10. If you're Response for question no 8 is "yes" What do you think is the causes for the problem?

12. What is the impact of huge nil fillers on your service delivery?

- A. create work overload B. Takes time so that unable to control the potential taxpayers

Awareness

9. How do you evaluate tax payers' feeling while they registered for VAT?

- A.VAT is an obligation B.VAT is burden C.VAT is useful D.VAT is bad
E.Other, please specify_____

How do you evaluate the behavior of tax payers concerning tax ethics?

- A. Ethical B.Few are unethical C. Mostly Unethical D.Unethical

15. What kind of support does your office provide for registered tax payers?

16. What is your professional opinion concerning the fairness of the Bole sub city small tax payer's office tax administration?-----

13. How do you evaluate the strength of your office with respect to the following parameters?

	Excellent	Good	Fair	Poor
simple and stable tax laws				
good service to taxpayers				
simple filing and payment procedure				
appropriate penalties				
Fair and efficient appeals system				
Qualified human resource				

15. A questioners related with performances of tax administration

Processes	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
The Branch handling their tax compliances properly.					
Tax Administration on Bole sub city small taxpayer branch achieve on their objectives.					
Good revenue generation is undertaken in your organization according to the annual plan.					
The tax collecting system increased the actual revenues to the government.					
Reforming tax administration increased effectiveness of your organizational Implementation.					
The relationship among top management and team members are effective in organizational goal.					

16. A questioners related with source of major problems of tax return for administration

Processes	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
The tax reform makes challenges on the tax collecting system.					
The role of tax registrations mechanism is a good mechanism for to controls tax evictions.					
The tax audit department has responsible audit team members for conducting the audit cases.					
The Branch has well organizational structure, job security and other facilities for tax administration.					
The tax Administration in your clients the organizational plan has been implemented with problems.					
The tax reform makes challenges on the tax collecting system.					

17. What are the main constraints faced in the tax administration in Bole sub city small tax payer to collect proper tax?

Interview Questions

1. How do you evaluate the clarity of tax proclamations, regulation and directives?

.....

2. How does the organization file a timely tax return and repayment?

.....

3. How do you see the tax office employees’ knowledge of tax practices, skills and decision making ability?

4. Could you please mention some of the challenges related with tax administration?

.....

5. How do you evaluate the trends of Bole sub city small tax payer in administering tax in the last five years?

.....

.....

6. Please write your opinion about office facilities, qualified honest and man power?

.....

.....

7. Finally, please write your opinion about service delivery mechanism of your organization?

.....

.....

Thank you