



**Challenges of Excise Tax  
and  
Its Contribution to Government Revenue  
(In the case of Large Taxpayers Branch Office)**

**A Thesis Submitted to the college of Business & Economics of  
Accounting & Finance in the partial fulfillment of the  
requirements on the degree of Masters of Science.**

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## DECLARATION

I hereby declare that the following project report entitled “Challenges of Excise tax and its contribution to government revenue: In the case of MOR/Large Taxpayers Branch Office submitted in partial fulfillment of the requirements for the award of degree of Masters in Accounting and Finance in AAU, is my original work and not submitted for the award of any other degree or any other similar qualifications by any till date.

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## **ABSTRACT**

The objective of the paper focus on challenges of excise tax and its contribution to government revenue. Excise tax is one of the sources of revenues for government in any country. Excise taxes have social and environmental functions, since changes in the rates and structure of excise taxes influence consumer behavior in certain areas. The research approach adopt in this thesis includes mixed research approach using primary and secondary series data of challenges of excise tax and its contribution to government revenue on each excisable locally produced/manufactured goods. The primary data is collected through questionnaires and interview. Descriptive statistics tool are employed to analyze and presented using tables, graphs and frequency of obtained data. The main areas where lack of clear defined base of excise tax, lack of having clear and justifiable excise tax computation procedure manuals and guideline, insufficient access in getting adequate training and education on excise tax laws, no integrated system of excise tax refund, and corruption problems. Therefore these all are manifested as: no attempts could be seen from the MOR to update the laws to go with changes in the business environment. The percentage performance of excise taxation in relation with national income and total government revenue, the excise tax comprises 17.59% of total tax revenue in fiscal year of 1999/00 and decreasing to 7.75 % of total revenues in 2017/18. And also, the excise tax per GDP growth has been decreasing from 1.12% in 1999/00 to 0.79 % in 2017/18. This implies that the government should formulate a policy to enhance excise tax revenues.

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## **ACRONYMS/ABBREVIATIONS**

**ET:** Excise Tax

**ETR:** Electronic Tax Register

**FASB:** Financial Accounting Standards Board

**FPE:** Federal Public Enterprises

**GAAP:** Generally Accepted Accounting Principle

**GDP:** Gross Domestic Product

**IFRS:** International Financial Reporting Standards

**IMF:** International Monetary Fund

**LIC:** Low Income Countries

**LTO:** Large Taxpayer's Branch Office

**MOF:** Ministry of Finance

**MOR:** Ministry of Revenues

**NBE:** National Bank of Ethiopia

**OECD:** Organization for Economic Co-operation and Development

**PLC:** Private Limited Company

**S.C:** Share Company

**SO:** State Owned Enterprises

**SSA:** Sub Sahara Africa

**VAT:** Value Added Tax

**WB:** World Bank

**WCJ:** World Custom Journal

## DEFINITION OF TERMINOLOGY

**Large Taxpayers:**-are tax payers that have annual turnover of 50 million birr and above. The number of taxpayers is limited to 600-800 in Ethiopia context.

**Medium taxpayers:** - are any for –project making entity trust that exceeds a given assenter turnover threshold. Medium taxpayers are those who have annual turnover of 1 million birr and less than 50 million birr tax revenue potential. The number is limited to 4,000-6000 in Ethiopia context.

**Small Taxpayers:**-are taxpayers that have annual turnover of less than 1 million birr and their number is limited to 7,000-8,000 in Ethiopia context.

**Tax avoidance:** - Is a method of saving tax liability by taking advantage of loopholes in the tax laws.

**Tax gap:** - is the difference between the actual tax collected and tax that should have been collected.

**Voluntary compliance:** - is referred to taxpayer's Voluntary response to tax obligation.

**Non- compliance:** - is referred to a taxpayer's failure to meet any of tax obligations.

**Excise tax** in Ethiopia is imposed and payable on selected goods, such as, luxury goods and basic goods which are demand inelastic. Moreover, it is believed that imposing the tax on goods that are hazardous to health and which are cause to social problem, will reduce the consumption of such goods.

**The cost of production:**-includes direct material cost used in the production process, direct labor cost incurred in the production process, and manufacturing overhead costs other than depreciation cost of manufacturing machineries.

**Excise Tax Base:**-is a base to arrive on tax base amount through different components of different items in Ethiopian context tax base of computation is cost of production.

**Excise Tax:**-refers to an indirect tax type of taxation imposed on the manufacture, sale or use of certain types of goods and products or services.

# CHAPTER ONE: INTRODUCTION

## 1.1 Introduction

Excise tax rates and bases still vary widely from one OECD country to another, something that can affect cross-border shopping and have a significant impact on certain business located in border areas. Excise tax is one of the most well-known forms of tax in Ethiopia. It is a tax levied on selected goods such as luxury goods and basic goods which are demand inelastic. Thus, this tax as such will not create burden on the majority of the population. Moreover, excise tax is also applied to goods which are considered hazardous to health and that may cause social problems. To arrive excise tax base has an impact on the performance of the firms. When we see excise tax according to Ethiopian tax law, it is based on locally produced products .So it focuses on manufacturing sectors that is why the researcher selected this topic. The new strategic vision of the government of Ethiopia is to bring rapid and sustainable development which is essential to support the second five years growth and transformation plan (2008-2012 E.C.). One of the resources to achieve the goal is to maintain sustainable and dependable domestic revenues to cover the cost of expenditures during transformation period. Excise tax levied on locally produced or manufactured goods. It is used for sources of the revenues for government, in another way the government give incentive to encourage the investors to invest on manufacturing .One of the incentive are tax holding and duty free but it is not used for that purpose.

The section discusses the necessary portions that are background of the study, statement of the problem, objective of the study, and significance of the study.

### 1.1.1 Background of the study

Taxation is imposition of compulsory levies on individuals or entities by governments. Taxes are levied in almost every country of the world, primarily to raise revenue for government expenditures, although they serve other purposes as well. This study is concerned with taxation in general, its principles, its objectives, and its effects; specifically, the study discusses the nature and purposes of taxation, whether taxes should be classified as direct or indirect, the history of taxation, canons and criteria of taxation, and economic effects of taxation, including shifting and incidence (identifying who bears the ultimate burden of taxes when that burden is passed from the person or entity deemed legally responsible for it to another) (Maria, et al.,2019).

In modern economies, taxes are the most important source of governmental revenue. They differ from other sources of revenue in that they are compulsory levies and are unrequited

i.e., they are generally not paid in exchange for some specific things, such as particular public service, the sale of public property, or the issuance of public debt. While taxes are presumably collected for the welfare of taxpayers as a whole. The individual taxpayer's liability is independent of any specific benefit received. There are, however, important exceptions: payroll taxes, for example, are commonly levied on labor income in order to finance retirement benefits, medical payments, and other social security programs—all of which are likely to benefit the taxpayers. Because of the likely link between taxes paid and benefits received, payroll taxes are sometimes called “contributions” (as in the United States). Nevertheless, the payments are commonly compulsory, and the link to benefits is sometimes quite weak. Another example of a tax that is linked to benefits received, if only loosely, is the use of taxes on motor fuels to finance the construction and maintenance of roads and highways, whose services can be enjoyed only by consuming taxed motor fuels . (Charles, et al ., 2019).

**Definition and Concept of Taxation**—It is a mode by which governments make exactions for revenue in order to support their existence and carry out for their legitimate objectives. - it is indispensable and inevitable price for civilized society ;without which the government would be paralyzed Jackie (2017).

**Basis of Taxation:** First, Necessity—Governments cannot exist and function unless it has the means to pay its Expenditures. Second, Reciprocal Duties—protection and support between the state and its inhabitants Jackie ( 2017).

**Nature of taxation (two fold):** First Inherent —co-existing with the state. No legislation is needed to exercise the power of Taxation, Second, legislative - only the legislature can make tax law. Subject to constitutional limitation. The legislative taxing power includes the authority (a) to determine the nature, object, extent, coverage and situs of tax imposition (b) to grant tax exemptions or condonations (c) to specify to provide for the administrative, as well as the judicial, remedies that either the government or the taxpayer may avail themselves of in the proper implementation of the tax measure Jackie (2017).

Taxation has many limitations: First, Taxation is for public purpose- the proceeds of the tax must be used for the support of the state or for some recognized objects of government or to directly promote the welfare of the community. Second, Taxation is inherently legislative-inherent power of sovereignty .Third, Taxation is territorial- that is it is exercised only within territorial jurisdiction of the taxing Authority. A. Tax Situs Criteria a. poll taxes-residence of taxpayer b. property tax- where the property is situated. excise tax—where the privilege is

exercised, taxpayer is a national of, and his residence .Fourth, Subject to international comity-State must recognize he generally accepted tenets of international law among which are the principles of sovereign equality among states and their freedom from suit without their consent Jackie (2017).

An excise or excise tax is any duty on manufactured goods which is levied at the moment of manufacture, rather than at sale. Excises are often associated with customs duties (which are levied on pre-existing goods when they cross a designated border in a specific direction); customs are levied on goods which come into existence – as taxable items – at the border, while excise is levied on goods which came into existence inland Jackie (2017).

Although sometimes referred to as a tax, excise is specifically a duty; tax is technically a levy on an individual (or more accurately, the assessment of what that amount might be), while duty is a levy on particular goods. An excise is considered an indirect tax, meaning that the producer or seller who pays the levy to the government is expected to try to recover their loss by raising the price paid by the eventual buyer of the goods. Excises are typically imposed in addition to an indirect tax such as a sales tax or value-added tax (VAT). Typically, an excise is distinguished from a sales tax or VAT in three ways: First an excise is typically a per unit tax, costing a specific amount for a volume or unit of the item purchased, whereas a sales tax or value-added tax is an ad valorem tax and proportional to the price of the goods, second ,an excise typically applies to a narrow range of products, and third an excise is typically heavier, accounting for a higher fraction of the retail price of the targeted products.

Typical examples of excise duties are taxes on gasoline and other fuels, and taxes on tobacco and alcohol (sometimes referred to as sin tax) Jackie (2017).

Excise tax is a hateful tax levied upon commodities, and adjudged not by the common judges of property, but wretches hired by those to whom excise is paid. As a deterrent, excise is typically directed at three broad categories of harm: health risks from abusing toxic substances (thus making it a kind of sumptuary tax); typically this includes tobacco and alcohol. Environmental damage (thus acting as a green tax); this usually includes fossil fuels (such as petrol). Socially damaging / morally objectionable activity (thus making it a type of vice tax or sin tax); usually this includes gambling, and can include prostitution (including solicitation and pimping) in places where it is legal Jackie (2017).

Monies raised through excise may be earmarked to redress specific social costs commonly associated with the product or service on which it is levied. Tobacco tax revenues, for

example, might be spent on government anti-smoking campaigns, or healthcare for cancer, heart disease, vascular disease, lung disease, and so on.

In some countries, excise is also levied on some goods for purely punitive reasons. Many US states impose excise on illegal substances. These states do not consider it to as a revenue source, but instead regard it as a means of imposing a greater level of punishment, by opening up convicted criminals to the charge of tax evasion Jackie (2017).

Proclamations 307/2002, 570/2008 and 610/2008 provide the legal basis for the imposition of excise taxes in Ethiopia. According to the legislations, excise taxes are levied on locally produced goods. So the excise tax and firm performance on excisable goods of manufactured items has impact on it. Excise tax systems contain discriminatory taxes imposed on selected goods.

The findings of the study have revealed that excise taxation system tax base on computation and refund were challenged.

## **1.2 Statement of the problem**

The excise tax system in Ethiopia has a number of areas that need to be reviewed in light of changes in the socio economic environment in the country and internationally. One of the areas, to this end, is the determination of tax base for excises on locally produced goods. As noted earlier, cost of production is used as the tax base for locally manufactured excisable goods. However, in practice, there is a different argument on the treatment of excise tax between taxpayers and tax officials and also among tax officials in the treatment of certain costs and determination of costs of production in general. The differences arise in connection with the extent such costs as packaging costs (tobacco companies argue that some of the packaging costs are promotional selling costs), labeling costs (in relation to water bottling companies), cost of idle labor (salaries of factory employees when there is no production) and Sur Tax are treated as part of production costs. For example, in the case of cost of idle labor there are some professionals who think that such costs should be excluded from production cost while others think to the contrary (Ethiopia-Review of Excises Taxation, 2017)

In addition, using cost of production as measure of excise tax base has caused difficulty in verifying excise tax refund claims by taxpayers for there appears to be no easily accessible evidences showing the payment of excises on inputs.

Even if it is difficult to indentify cost of production for excise tax base and refund, different literature proposes different methods of computation scheme, and other countries have their

own different experience Thus, these study addressed problems that exist in administrating excise tax base and refund, as there is a lack of awareness, clarity of tax proclamations, regulations directives and circulars, and skilled man power (MOF, 2017).Even though excise tax is a contribution as a tax revenue, there is a gap of study of examining excise tax and firms performance in the use of manufacturing sectors in Ethiopia specifically on LTO. To the knowledge the researcher, there is no study undertaken related to excise tax and firms performance.

### **Why study on Excise Tax?**

What is the specific burden of excise tax on selling price?

Taxpayers' interviewees believe Excise tax can be considered as an unintended burden like many other cost items. What makes excise tax unique is the fact that it is incurred while availing no value to both the manufacturer and the consumer. Tax is levied even under the circumstances where consumption is not guaranteed. Due to the tax being paid just as items is produced and stored, way before a sale transaction is carried out. Only having in mind a few facts that are stated, one can say with an absolute certainty, excise tax drives the price upwards.

What is the impact of Excise tax on companies' profitability?

Taxpayers' interviewees believe Profitability in the manufacturing industry is directly related to: - Volume and Productivity .Any manufacture who understands the name of the game would exert all the necessary effort to increase the volume of its production. Despite manufacturers intent, intent is only what it is, it is simply intent. For it to translate into production, the demand has to be in place.

What could serve more as a barrier than an escalated cost?

Taxpayers' interviewees have believed a habit of taking about productivity in the absence of production while clearly knowing in the absence of production there could not be productivity. Every single industry competes not only with the local competitors but with the regional as well as global. Hence, knowing that the rest of the world uses much less resources to produce the same item that they do, we can't talk about "the-luxury-items-to-Manufactures-in-Ethiopia" such as productivity, profitability, sustainability.

## Effects of Excise tax on profitability's' of excisable manufacturing firms

Year	Total Asset	Total Capital	Net Income	Return on Asset	Return on Equity	Excise tax paid(billion)
2009/2010	6,950.98	12,830.44	1,415.45	20.36	11.03	0.99
2010/2011	12,454.75	17,407.91	2,022.64	16.24	11.61	1.39
2011/2012	18,583.92	13,670.85	2,260.29	12.16	16.53	1.89
2012/2013	26,525.24	3,991.99	2,133.38	8.04	53.44	2.03
2013/2014	40,086.89	5,314.14	2,082.52	5.20	39.18	2.62
2014/2015	85,793.09	2,009.03	-750.03	-1.44	-4.00	3.31
2015/2016	45,344.76	14,548.48	2,552.28	5.63	17.54	3.55
2016/2017	50,230.59	17,592.23	2,926.84	5.83	16.63	4.69
2017/2018	50,647.56	19,832.01	4,597.02	9.08	23.17	4.69

Source LTO and own computation

From the above graph the return on asset (ROA) and Return on Equity (ROE) time to time show as ups and downs.

### 1.3 Research Questions

Taking the above and other similar facts into consideration, this research attempted the following research questions,

What are the peculiar challenges for administration of proper system for excise tax base computation?

What are the effects of excise tax and firm financial performance in manufacturing sectors?

What looks like the current administration and computation of excise tax refund?

What is the revenue contribution of excise tax in relation with total government tax revenue and national income?

### 1.4 Objectives of the study

**1.4.1 General Objective:-**The objective of this study was to assess the problems encountered in excise tax and its contribution to government revenue.

**1.4.2 Specific objective:-**

The specific objectives were to,

Examine the peculiar challenges for administration of proper system for excise tax base computation.

Examine the effects of excise tax and firm financial performance in manufacturing sectors

Assess the administration and computation of excise tax refund.

Assess the revenue contribution of excise tax in relation with total government tax revenue and national income

## **1.5 Significant of the study**

In Ethiopia context excise tax is based on locally manufactured and goods imported from abroad. Thus, the study is expected to contribute both to taxpayers as well as tax office to have good understanding and knowledge about excise tax administration and in particular method of determining the excise tax base and refund related issue.

It also provides guidelines for both tax office and taxpayers alternatives methods of handling excise tax issue. Starting from 2003 Ethiopian government conducted tax reform in order to modernize the tax system and to minimize tax gap. Thus excise tax is one type of indirect tax which the government is trying to increase the share of government revenue. So, the study of this topic has its own advantage. To provide the taxpayers community and tax office with some inputs in excise tax issues. This project believed to be significant in improving excise tax and firm performance on manufacturing sectors, the operation of the tax office and consequently to give some insights into how the tax office operational performance could be improved.

MOR/Large taxpayers branch office is selected from four branches established in Addis Ababa for the following reasons:

- a) It has 74 % of the tax revenue collected in MOR(MOR 2017/2018 annual reports)
- b) Company forms of business organization found in the area of Addis Ababa contains different business types
- c) The researcher familiar with the area and due to my work am in this area. This proximity helped me to select the areas based on the criteria of proximity which made the researcher cost effective in terms of financial and logistics.
- d) The researcher found that the branch have large number of transaction in excise tax and firm performance area than other branches and pioneer to implement the research
- e) Devoted collaboration of tax offices and staffs was also attracted and encouraged me to carry out my study.

- f) **The Nature of the Population:** In terms of the variables to be studied, is the population homogenous or heterogeneous? In the case of a homogenous population, even a simple random sampling will give a representative sample. In cases the nature of excise tax and firm performance issue is similar among branches.

## **1.6 Scope of the study**

The study focused only on the problems of excise tax and firm performance in one of Ministry of Revenues (MOR)/Large Taxpayers Branch Office located in Addis Ababa city. The study focused on identifying the problems of excise tax and firm performance in manufacturing sectors to suggest remedial solutions to the problem.

## **1.7 Limitations of the study**

The issue of excise is the tax base to arrive at taxable amount, which is the cost components included in tax computation based on tax proclamation and has impact on firms performance. Second limitation is lack research document in this area. Finally time constraint on the part of this researcher, was another problem. As a result, the scope of the study was limited only Ministry of Revenues (MOR)/Large Taxpayers Branch Office at Addis Ababa. The total taxpayers in this branch are seven hundred seventy which may not represent the whole excise taxpayers in the country.

There are external (uncontrollable) variables that confronted the study and conclusion although the researcher tried to design his research as properly as possible. Lack of up-to date literatures in the areas, negligence of some respondents to respond to the questionnaire openly and timely, lack of sufficient time and finance to conduct the study were among the various problems encountered by the researcher during his study.

## **1.8 Organization of the paper**

The study paper comprises five (5) separate and main chapters. The first chapter contains background of the study, statement of the problem, objective of the study, significance of the study, scope and limitation of the study. The second chapter presents the review of the literature relates to taxation, previous empirical studies, evaluation of excise tax experience of other country related to excise tax, and related theoretical concepts. The third chapter discusses on research design and methodology and the fourth chapter focuses on the data presentation and discussion which deals with the actual excise tax base computation and refund are discussed and the primary data collected from the taxpayers, tax office staff and information collected through interview are presented, analyzed and interpreted. The fifth and final chapter of the study summarizes the major findings, conclusions and then based on this,

appropriate recommendations are forwarded. Besides, other formal write-ups such as acknowledgements, abbreviations, contents list and bibliography are also included in the manuscript.

## **CHAPTER TWO**

### **LITERATURE AND RESEARCH REVIEW**

#### **Introduction**

Academic research conducted on any subjects becomes valid when supported by the discussions the literature by scholars of the subjects. Thus this section deals with review of related literature on the challenges of excise tax and its contribution to government revenue to have an experience of other countries in related fields of study.

#### **2.1 Definition of 'excise' taxation**

Excise tax is an indirect tax that imposed tax on locally produced goods. But taxpayers have questions on the components of cost of production i.e. tax base.

For the purposes of this paper, the term 'excise' relates to a form of taxation which is applied to a narrow base of goods (and services) which primarily are seen to have a level of harm associated with their consumption, typically tobacco, alcohol, fuel, motor vehicles, and gambling Rob (2019).

Excise taxes are classified by the Organization for Economic Co-operation and Development (OECD) as being those taxes which are:

Levied on particular products, or on a limited range of products ... imposed at any stage of production or distribution and are usually assessed by reference to the weight or strength or quantity of the product, but sometimes by reference to the value. Excise is not a VAT or sales tax, which the OECD differentiates by reference to the application of such taxes (and tax credits for business inputs) at each stage or tier within the supply chain, as well as a generally broader tax base. Excise is not usually levied instead of such taxes but rather, levied in addition to such taxes Rob (2019)

This paper recognizes that in many countries the term 'excise' is not used but we see similar commodity and service-based taxes which meet this OECD classification for excise being known by their local titles, for example 'Consumption Tax', or 'Special Consumption Tax'. In some cases, these taxes may have a very limited base or be specific to a single type of commodity such as a 'Fuel Tax' or a 'Tobacco Tax'. As such, the term 'excise' as used in this paper should be seen as including each of the countries' taxes that are classified as an 'excise' by the OECD.

Excise can also be levied on imported goods, in which case they are often referred to as 'like goods' or goods which are like those domestically manufactured goods subject to excise.

Excise duties in this context are generally collected by the local customs agency at the time the goods are declared at importation, along with any customs duties and VAT. Under the OECD classification of taxes, where an excise duty is to be collected from imported goods, it is not considered to be a 'customs' duty but is considered to be an excise tax.

Traditionally, excise has been used to raise revenue with the tax levied on high volume, relatively price inelastic goods for which there are few substitutes. Today, excise policy is largely driven by the correction of negative externalities and as such, the most common forms of goods subject to excise are tobacco, alcohol, motor vehicles, and fuels, where excise tax is used to capture those negative externalities in the price paid by the consumer. Excise taxes are now moving away from ad valorem or value-based taxes that have been designed to solely raise revenue, and towards specific-rate taxes with the tax base relating directly to the cause of harm, such as the alcohol content, weight of tobacco, quantity of fuel or level of CO2 emissions from a vehicle, such as a liter of alcohol, kilogram of tobacco, stick of cigarette or per ton of CO2 Rob (2019).

Excise taxes are most often levied upon cigarettes, alcohol, and gasoline and gambling. These are often considered superfluous or unnecessary goods and services. To raise taxes on them is to raise their price and to reduce the amount they are used. In this context, excise taxes are sometimes known as "sin taxes." Excises are also levied on goods or services that are considered harmful or undesirable, in an Attempt to discourage consumption. Taxes based on this rationale are labeled sumptuary excises. ... This presents an added benefit, however, for the government in that it provides a relatively stable source of tax revenue.

Accountants define cost as a resource scarified or forgone to achieve a specific objective. A cost (such as direct material or advertising) is usually measured as the monetary amount that must be paid to acquire goods or services. An actual cost is the cost incurred (a historical or past cost), as distinguished from a budgeted cost, which is a predicted or forecasted cost (a future cost) Rob (2019).

The proclamation number 307/2002 it is stated that "Base of computation excise tax in respect of goods produced locally, the cost of production. It further defines "Cost of Production" as "direct and raw material cost incurred in the production process, cost of indirect inputs and overhead costs, but does not include depreciation cost of machineries

The explanatory letter no. 700/Λ.Φ/3/4 dated 12/2//2002 that was sent to the Ministry of Revenues from the Ministry of Finance is the main argument on that is the fact that cost of

packaging should be included in the cost of production since cost of packaging is indirect production cost.

## **2.2 Theoretical Review**

### **2.2.1 Objectives of Taxes**

The primary purpose of taxation is to raise revenue to meet huge public expenditure. Most governmental activities must be financed by taxation. But it is not the only goal. In other words, taxation policy has some non-revenue objectives.

Truly speaking, in the modern world, taxation is used as an instrument of economic policy. It affects the total volume of production, consumption, investment, choice of industrial location and techniques, balance of payments, distribution of income, etc.

Objective # 1. Economic Development:

One of the important objectives of taxation is economic development. Economic development of any country is largely conditioned by the growth of capital formation. It is said that capital formation is the kingpin of economic development. But LDCs usually suffer from the shortage of capital.

To overcome the scarcity of capital, governments of these countries mobilize resources so that a rapid capital accumulation takes place. To step up both public and private investment, government taps tax revenues. Through proper tax planning, the ratio of savings to national income can be raised.

By raising the existing rate of taxes or by imposing new taxes, the process of capital formation can be made smooth. One of the important elements of economic development is the raising of savings- income ratio which can be effectively raised through taxation policy.

However, proper care has to be taken, regarding investment. If financial resources or investments are channelized in the unproductive sectors of the economy the economic development may be jeopardized, even if savings and investment rates are increased. Thus, the tax policy has to be employed in such a way that investment occurs in the productive sectors of the economy, including the infrastructural sectors.

Objective # 2. Full Employment:

Second objective is the full employment. Since the level of employment depends on effective demand, a country desirous of achieving the goal of full employment must cut down the rate

of taxes. Consequently, disposable income will rise and, hence, demand for goods and services will rise. Increased demand will stimulate investment leading to a rise in income and employment through the multiplier mechanism.

Objective # 3. Price Stability:

Thirdly, taxation can be used to ensure price stability—a short run objective of taxation. Taxes are regarded as an effective means of controlling inflation. By raising the rate of direct taxes, private spending can be controlled. Naturally, the pressure on the commodity market is reduced.

But indirect taxes imposed on commodities fuel inflationary tendencies. High commodity prices, on the one hand, discourage consumption and, on the other hand, encourage saving. Opposite effect will occur when taxes are lowered down during deflation.

Objective # 4. Control of Cyclical Fluctuations:

Fourthly, control of cyclical fluctuations—periods of boom and depression—is considered to be another objective of taxation. During depression, taxes are lowered down while during boom taxes are increased so that cyclical fluctuations are tamed.

Objective # 5. Reduction of BOP Difficulties:

Fifthly, taxes like custom duties are also used to control imports of certain goods with the objective of reducing the intensity of balance of payments difficulties and encouraging domestic production of import substitutes.

Objective # 6. Non-Revenue Objective:

Finally, another extra-revenue or non-revenue objective of taxation is the reduction of inequalities in income and wealth. This can be done by taxing the rich at higher rate than the poor or by introducing a system of progressive taxation (Ritika, 2019).

### **2.2.2 Canon Principles of Taxation**

Adam Smith has formulated four important principles of taxation. A few more have been suggested by various other economists. These principles which a good tax system should follow are called canons of taxation. A good tax system should adhere to certain principles which become its characteristics. A good tax system is therefore based on some principles.

Canon of Equality-This states that persons should be taxed according to their ability to pay taxes. That is why this principle is also known as the canon of ability. Equality does not mean

equal amount of tax, but equality in tax burden. Canon of equality implies a progressive tax system.

Canon of Certainty-According to this canon, the tax which each individual is required to pay should be certain and not arbitrary. The time of payment, the manner of payment and the amount to be paid should be clear to every tax payer. The application of this principle is beneficial both to the government as well as to the tax payer.

Canon of Convenience- According to this canon, the mode and timings of tax payment should be convenient to the tax payer. It means that the taxes should be imposed in such a manner and at the time which is most convenient for the tax payer. For example, payroll taxes are collected at the time when they receive their salaries. So this principle is also known as 'the pay as you earn method' (PAY).

Canon of Economy-Every tax has a cost of collection. The canon of economy implies that the cost of tax collection should be minimum Ritika (2019).

### **2.2.3 Classification of taxes**

On the basis of the party who bears the tax burden, taxes can be classified into: Direct taxes and indirect taxes.

There are two types of taxes: direct and indirect. The terms 'direct taxation' and 'indirect taxation' are not used consistently by commentators. There is, however, a broad consensus that 'direct taxes' are those, such as income tax or corporation tax that are levied directly on the taxpayer by means of some process of assessment. By contrast, 'indirect taxes', such as value added tax (VAT), are those that the taxpayer pays to the government indirectly; i.e., the person who bears the tax (the customer) pays it to the retailer, who in turn passes it on to the government.

Direct taxation refers to taxes that are levied on income, wealth and capital, whether personal or corporate. Indirect taxation comprises taxes that are not levied on income or property. It includes VAT, excise duties, import levies and energy and other environmental taxes. The fundamental principle in international taxation is that indirect taxes on consumption are charged in the country in which the goods and services are consumed. The consumers bear the burden of these taxes, in principle, as part of the market price of the goods or services purchased.

According to how the tax payment changes with the taxable income, taxes can be classified into: Progressive, proportional and regressive taxes.

Regressive tax: A tax whose burden, expressed as a percentage of income, falls as income increases. Example: A retail sales tax. Progressive tax: A tax whose burdens, expressed as a percentage of income, increases as income increases. Example: Individual income tax. Proportional tax: A tax whose burden is the same proportion of income for all households. Example: A flat tax. Direct costs: "Those costs that are traced to a specific cost objective like product/service." Indirect costs: "Those costs that Cannot be directly traceable to a particular cost objective and incurred for multiple cost objective"

As can be seen in the definition the main difference between the two is their traceability i.e direct cost can be traced to a specific product whereas indirect cost cannot be directly traced to a specific product hence must be allocated (Charles, et al, 2019).

A consumption tax is a broad category of tax that is levied on the consumption value of goods and services. Examples of consumption taxes include retail sales taxes, excise taxes, value added taxes, use taxes, taxes on gross business receipts (also known as business transfer taxes), and import duties. Consumption taxes are paid for by consumers rather than businesses, even though they may originally be paid by a business that passes the tax along to the consumer in the selling price. Consumption taxes are generally not collected by the government directly from consumers. Rather, they are collected by vendors at the retail level, who then pay the national or state taxing authority.

While the United States has no national consumption tax, many nations of the world have some form of national consumption tax. Value-added taxes (VATs) are a common form of national consumption tax in effect in most European countries, Canada, and elsewhere in the world. A VAT is one that is levied on the "value added" to goods or services produced by businesses. Such a tax is collected in stages from each business that contributes to the final market value of goods and services. While the VAT is collected by the state from businesses, the actual tax burden is passed along to consumers as part of the final selling price. Thus, the VAT is considered a consumption tax even though it is initially paid by businesses. A consumption tax is a tax levied on consumption spending on goods and services. The tax base of such a tax is the money spent on consumption. Consumption taxes are usually indirect, such as a sales tax or a value-added tax. However, a consumption tax can also be structured as a form of direct, personal taxation, such as the Hall–Rabushka flat tax Julia (2019).

An excise tax is a sales tax that applies to a specific class of goods, typically alcohol, tobacco, gasoline (petrol), or tourism. The tax rate varies according to the type of good and quantity purchased and is typically unaffected by the person who purchases it.

Sin taxes are a type of excise tax imposed on items which are considered harmful to society, in an effort to decrease their consumption by increasing their prices

The taxation of excise tax varies substantially from one country to other country. Excise taxes usually fall into one of two categories: ad valorem and specific. Ad valorem excise taxes are fixed percentage rates assessed on particular goods or services or Ad Valorem; meaning that a fixed percentage is charged on a particular good or product. This administration of the tax is less common. Ad valorem is a Latin phrase that literally means "according to value." This means the tax varies based on the value of the product or service being taxed. For example, the IRS levies a 10 percent excise tax on indoor tanning services. This means that if a tanning salon charges \$100 for a tanning session, it must pay the IRS \$10 in excise tax. Similarly, if the company charges \$200 for tanning, it must pay a \$20 excise tax.

Specific taxes are fixed dollar amounts applied to certain purchases or Specific; meaning that a fixed currency amount may be imposed depending on the quantity of the goods or products that are purchased. Specific excise taxes are a set tax or fee added to a certain product. For example, states and many local governments add specific excise taxes to cigarettes. To illustrate, since 2014, New York State adds a \$4.35 tax to each pack of cigarettes, regardless of the base price of the pack. In New York City, the city adds another specific excise tax of \$1.50, driving the total tax up to \$5.85 for every pack of cigarettes. This means if one pack of cigarettes costs \$2 and another pack costs \$4, the first pack costs \$7.85, while the second pack costs \$9.85. The price with the excise tax included is the advertised price. It is not added on at the cash register as sales taxes are. Specific is the most common type. In some countries Ad Valorem or specific.

In some cases, governments levy excise taxes on goods that have a high social cost, such as cigarettes and alcohol, and for this reason, these taxes are sometimes called sin taxes. An excise tax also refers to penalty taxation for ineligible transactions in retirement accounts.

Excise taxes definition for IRS is taxes paid when purchases are made on a specific good, such as gasoline. Excise taxes are often included in the price of the product. There are also excise taxes on activities, such as on wagering or on highway usage by trucks. One of the major components of the excise program is motor fuel Julia ( 2019).

#### **2.2.4 When excise taxation best utilized?**

A key principle in tax policy is that the objective of an indirect tax should be neutrality, or the principle that the tax rate, tax base and tax structure should not impact markedly on investment, production or consumption. Tax policy can however, in certain limited circumstances, include the need to levy 'special' taxes or discriminatory taxes such as an excise tax, in response to the externalities (or harm) associated with the consumption of certain goods and services. These products, as mentioned above, are usually alcohol, tobacco, fuels, motor vehicles, and gambling Cnossen (2005). Therefore, a key question that often arises in the literature reviewed is 'do we need to have a discriminatory tax on non-alcoholic beverages?' Or, what are the externalities behind the consumption of such beverages which need addressing through a discriminatory tax such as a non-alcohol beverage excise.

If the policy intent is not in response to identified externalities but is simply to raise revenue, then we need to return to our first key principle of neutrality in tax policy, where taxes such as VAT are likely to conform. This paper looks further at the effectiveness of excise as a revenue raising tool in the context of an overall tax system and tax policy, where that effectiveness is actually questionable. However, if raising revenue is not the prime objective of the tax, then we need to assess those externalities and consumption issues. The effectiveness of an excise on non-alcohol beverages in addressing their perceived harm is also reviewed and again, the effectiveness of such a levy is questionable.

#### **2.2.5 Background of Ethiopian Economy**

Taxes are important sources of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income into government hands. Such public goods like roads, power, municipal services, and other public infrastructures have favorable results on many families, business enterprises, industries and the general public. Public goods are normally supplied by public agencies due to their natures of non-rivalry and non-excludability.

The nature of consumption of public goods is such that consumption by one does not reduce consumption for others. Besides, consumption of public goods by an agent does not exclude others from doing the same. Such nature of public goods therefore makes them impossible for private suppliers to avail them at market prices like other commodities.

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 (Yohannes, et al, 2013).)

In Ethiopian context taxation was started during the reign of Emperor Zereya Yakob in the 15<sup>th</sup> century. It is believed that the introduction of taxation in Ethiopia is associated with government formulation.

Despite the fact that people need to pay taxes based on rationales of vertical and horizontal equities. It is not always the case that tax systems are comprehensible and transparent for tax payers especially for less literate business operators. Tax systems are usually not elaborated after proper consultation with the business community.

The business owners complain that the tax assessment method is based on subjective estimation and so they are frequently subjected to over-taxation. Since the business owners do not have simplified access to and clarification on information of the tax laws, they lack awareness on tax rules and regulations and this has an impact on the implementation of the regulations. It is not clear definition of cost production for computation of excise tax base in the tax law (Yohannes, et al, 2013).

In Ethiopia, taxation remains the single largest source of government budgetary resources. For the last five years from 2006 E.C- 2010 E.C, the contribution of tax to total government recurrent revenue (excluding grants and non-tax revenues) was 63.75-73.49% coverage on average. In order to improve domestic tax collection, the Federal Democratic Republic of Ethiopia/Ministry of Finance (MOF) prepared a five year Growth and Transformation Plan II (2015/16-2019/20). As per the plan tax revenue as percentage of GDP will increase from 13.40% in 2015/16 to 17.2 % at the end of the growth and transformation period in 2019/20 fiscal year.

The ratio of tax revenue to GDP gradually decreased from 11.70 % in 20015/2016 to 10.70 % in 2017/2018. This current tax revenue to GDP ratio 10.70 % is relatively low compared to most of the other sub Saharan African countries in the region. For the past five years sub-Sahara African countries achieved average tax revenue to GDP ratio of 11.7%.When we compare Ethiopia with other countries that have similar levels of economic development as well as similar taxation systems, but we see that they exhibit vastly different levels of tax revenue performance and tax compliance scheme (Ethiopia-Growth and Transformation Plan II 2015/16-2019/20 and MOF Annual reports)

From the total tax revenue, 56.85% is collected from domestic taxes, and the remaining is from customs taxes. In the near future domestic tax is expected to take large portion of overall tax revenues. Because when Ethiopia becomes a full member of world trade organization, customs duty and tax will decrease. In the 2017/18 tax year, the highest tax contribution came from Income tax and VAT. Excise tax is one type of indirect tax. Thus, conducting research on this tax has its contribution for tax administration.

As in all other countries, taxation in Ethiopia is imperative to raise as much revenue as possible to meet the objectives of the government and to finance the ever –expanding level of government expenditures, taxes are the main sources of revenue. For this purpose, the Ministry of Revenues became responsible for directing supervising and coordinating government revenue generated from taxes and customs duty.

According to tax law, taxpayers are liable to pay 10% to 100% on the cost of production produced locally.

### **2.3 Determinants of firm performance**

It is to be noted that the identified determinants for firm performance are profitability performance, growth performance and market value performance (Murugesan, et al, 2016)

Profitability performance is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates, after it pays all expenses, directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities. The objective of the firm is to maximize wealth of the existing shareholders. Superior financial performance is a way to satisfy investors (Chakravarthy, 1986) and it can be represented by profitability, growth and market value (Cho and Pucik, 2005 and Venkatraman, N., &Ramanujam, V., 1986). These three aspects like profitability, growth and market value, complement to each other. The profitability measures a firm's past ability to generate returns (Glick, W. H., et al., 2005).

Market value performance refers to the price in the market. The financial asset, like the share of a company, should fetch value in the marketplace. Market value is also commonly used to refer to the market capitalization of a publicly-traded company and it is obtained by multiplying the number of its outstanding shares by the current share price. Market Value is considered as a possible variable and it represents the external assessment and expectation of future performance of firms. It should have a correlation with historical profitability and growth levels of firms but also incorporate future expectations of market changes and competitive moves. The diversification strategy provides effective risk minimization and

return maximization (Lingaraja, K., et al., 2015). The market value of a firm is thus a key concern and it is the ability to predict stock trends, based on publicly disclosed information. Information relevant to stock returns is important for both general investors and stakeholders of publicly listed corporations. Market anomalies help the investors to gain from market movements. Maximization of stakeholder and investors value via the better performance of business operation is revealed on the stock market by the indices of financial report and other required information on the stock market (Tsung-UuanTsay and Yeong-Jia Goo, 2006). The studies on weak form efficiency and semi-strong form efficiency reveal the share price performance.

Growth performance of the firm refers to a positive change in size, and/or maturation, often over a period of time. Growth normally occurs as a stage of maturation or a process toward fullness or fulfillment. The growth demonstrates a firm's past ability to increase its size (Whetten, 1987). The growth in the size, even at the same profitability level, will increase its absolute amount of profit and cash generation. Larger size of firms also may bring economies of scale and market power, leading to enhanced future profitability of firms. Rajesh Ramkumar et al., (2015) pointed out that the development of financial markets has significant impact on economic growth. The stock indices, apart from being an indicator of the market movements, serve as a benchmark for measuring the performance of stocks under that index (Selvam et al., 2012).

The type of the industry-From the studies, Akah and Chee (2007) has concluded that the type of the industry and the company internal factors like management abilities and human resources influence the company profitability, however, the internal factors have more influences. Irexen and Nidson (2003) have studied the data of small, medium and big (categorization based on the number of the employees) Danish companies from 1994 to 1998. The results indicated that the influence of company resources is much more than the influence of the industry type; it has no effects on profitability. Calughirou et al. (2004), have studied small, medium and big (categorization based on the number of the employees) Greek companies for 3 financial periods during 1994-1996. The result of their research indicated that both industry type and the company's internal resources influence the profitability. However, the influence of the company's resources is greater. Furthermore, the influence of the industry type for small and medium companies has been less than the influence on the big ones Beigi (2013).

The size of the company (Kinka et al., (2005) indicated that there is a positive significant relation between the size of the European companies and profitability ratios. (Larnis et

al.,2006) believe that the size of the Australian companies and the index of the general level of the prices affect the profitability of the companies. (Bokhari et al., 2005) have pointed out in the research that, in the UK, the big companies are much stable in profitability comparing to smaller companies, while the profitability of the smaller companies are subject to circumstances and the market fluctuations Beigi (2013)

Debt ratio to asset-Because of financing through the debt, managers of the companies would like to fulfill the financial needs of the company in this way. However, financing through the debt would result in benefit cost which causes the companies spend a part of their revenues for financing costs in the future years. Therefore, their future profitability will be declined (Seyednezhad and Aghaei, 2002).

Advertising costs-The purpose of advertising is to introduce the products to the customers and through the advertisements they will be informed of the quality, price and the services of the companies. It will help the customers to choose a product based on the information they have received. Thus, advertising has a direct influence on sale and accordingly increase in sales influences result in the company benefit Robinson (1996).

Capital ratio to assets-VeeFiew et al. (2000) elicit that using capital in financial structure of the company, reduces risk of bankruptcy considerably. Declining the risk of bankruptcy is advantageous for the companies in different aspects. Customers, raw material suppliers, credit providers and the shareholders pay special attention to the risk of bankruptcy. VeeFiew et al. (2000) studied the relation between the capital, debt and profitability of small and big Thai companies. The results were similar for both small and big companies, although the relation between capital and profitability in big companies were more than smaller ones. Moreover, by comparing the capital structure of the companies, it was determined that large companies have lower capital ratio rather than small companies and debt ratio of the large companies are more than smaller companies.

The results of the other researches, also, show a positive relation between profitability and the capital. (Growsky et al., 1997), studied the growth ratio of the companies for the current period, considering long term profitability. The result of their study indicated that there is a positive relation between capital growth and profitability.

Tax-The companies' experience on an efficient taxation system have indicated that high tax resources ratio to non-tax resources significantly prevents some undesirable economic influences. In another word, an efficient tax system insures the economic system against the risks. Furthermore, taxation is the most important means of the state's financial policy of

which accelerate the process of economic growth. Likewise, it is one of the most stable and general resources of revenue in a government. The government revenue includes tax revenues, revenues gained from selling the oil, gas and other revenues. For many years, after oil revenues, taxes are considered as the main resource of revenues can be used as a part of the financial return for applying macroeconomic investment (Baghaei et al., 2003).

Stability and continuity in tax collection would cause the stability in government planning.

The change in the government economics – and consequently, the change in the method of the production and distribution of the revenue and the wealth – requires reviewing and revising types of the taxes and the collection methods. Today, almost 90 to 95 percent of the general government costs are covered through taxation, in developed countries

Ahmadi (2006). On the other hand, considering the studies over Iran's potential tax capabilities, it has been determined that there is a considerable gap between potential tax capabilities and actual tax collections. Therefore, considering the said importance, the budget should be more dependent upon tax returns in order to have a safe economy. Apart from the main role of taxes; supplying financial resources, taxes are an effective tool for increasing the government investment. Taxes are caused different revenues which are dependent upon the tax base (source). Considering that the tax changes the production incentives, savings and consumption, according to an economic basis, the people adjust their behavior, consequently. Hence, the tax-based economic is not impartial and it influences the private economic decisions. The economic basis for the use of resources would be impartial, since one can replace other activities for the taxable activities Poormoghim ( 2006). So, in order to adjust the tax rate in every unit, the government has to carefully take actions to motivate the production units to produce. Assuming any goal, making the change in revenues and costs related to tax systems, the government has practiced a financial policy. The financial policy has been applied through tax system means, followed by revenues and stability effects at the macroeconomic level. Also, in micro level, it influences on the matter of resource allocation and product (revenue) distribution.

Any type of tax policy be chosen by the government, would have various economic consequences. Theoretically, because the output of an economic system derives from thousands of decisions have been made by the people and the government for different cases. The overall outcome of these decisions indicate dynamicity and performance of an economic system; the government decisions over financial and monetary policies, construction costs, current costs as well as households' decisions for consumption basket, the labor's decision to

work or rest, investing decision to choose the investment projects depend on the tax rate in every unit. Consequently, noticing this variable and by encouraging the investors to the matter of production, the government can provide a background for increasing the companies' profitability.

Considering that the rate of the tax return can influence on the economic and financial indices of the companies, eventually added value rate of the company, and ultimately, profitability indices. Here, the Laufer's theory, which discusses about the relation between tax percentage and economic growth index (in both macro and micro level of the firm), is studied.

Riaz (2010) concluded that Inflation rate has significant positive relationship with debt used in textile sector of Pakistan. According to Loto (2012) the inflation and lending rate are positively insignificant with performance of manufacturing performance.

The economic conditions of a country most likely affects firms, and therefore performance will probably change depending on the country's condition, as well. One indicator for economic conditions is the inflation of a country. Mirza and Javed (2013) found that a higher inflation rate has a negative effect on firm performance. This is in congruence with findings of Forbes (2002), who measured how firm performance is affected by large depreciations. Since the inflation rate of Indonesia and the Netherlands differs greatly and it is much higher in Indonesia ("Inflation, GDP deflator (annual %) | Data | Table," n.d.) it can be hypothesized that the direction of the relationship, positive or negative will differ in both countries. The effect of this determinant in Indonesia will be negative. At the same time the inflation rate for the Netherlands is much more moderate and rather low. Previous literature found that a high rate has a negative impact on performance. As a consequence it will be assumed that the Dutch rates will lead to a positive relationship. H 3: Inflation has a negative relationship with firm performance in Indonesia and a positive one in the Netherlands.

The capital structure decision of a firm has been a topic of multiple theories and many articles. Leverage plays an important role in these discussions. The existing literature on the effect of leverage on a firm's financial performance has come to mixed results and conclusions. In a study about the relationship between capital, structure, equity ownership and firm performance, Margaritis and Psillaki (2010) find that leverage is positively related to firm performance. Vithessonthi's and Tongurai's (2015) recent research leads to the conclusion that leverage has a negative relationship with firm performance, but they also found moderating effects on their result. However most of these studies only took a single country into account, which could be one of the reasons, why the results are not consistent.

Another potential reason for the misalignment of results is the aspect that different performance measures were used Weill (2008) across the range of articles that address this topic. On a similar basis the non-existent congruence of the effect of leverage on performance and the fact that many papers concentrate on one country, Weill (2008) conducted a research analyzing the effect of the institutional environment of a country on the relationship between leverage and firm performance. He discovered that the efficiency of the country's legal system affects this relationship. Consequently his conclusion is that in countries with an efficient legal system, the negative effect of leverage on performance is lessened. The high level of corruption in Indonesia ("Transparency International -Country Profiles," n.d.) leads to the assumption that the legal system has a low efficiency. Corruption might lead to officials who are more willing to take bribes and thus treat some parties preferential to others. In the Netherlands however, there are little problems with corruption and the overall efficiency of the legal system is high ("Transparency International -Country Profiles," n.d.). Measuring firm performance with Tobin's Q leads to a negative relationship with leverage in a study concerning Kenya's listed firms Mule & Mukras (2015). Tobin's Q will also be used as a performance measure in this paper. And as already mentioned since Weill (2008) suggested that different results could arise because of different measurements, the relationship is assumed to be negative. This is in alignment with the results of Mule and Mukras (2015). Based on this, a hypothesis about the relationship between leverage and performance in Indonesia and the Netherlands can be developed: H1: The negative effect of leverage on performance is higher in Indonesia than in the Netherland.

## **2.4 Empirical Review**

Amanuel (2016) was founded, Clarity of the Excise Tax proclamation, regulation and directives. If the Tax Authority accepts that the books and records maintained by the producer are properly kept and that the monthly declaration submitted by him, is correct the tax paid in accordance with the monthly declaration shall be considered accurate. If, after review by the Tax Authority, it appears that a person has understated his tax obligation, the Authority shall issue an additional assessment. The assessment made shall be prepared in an assessment notification and be delivered to the taxpayer. Delivery of the assessment notification shall be made in accordance with the provisions of Income Tax Proclamation.

In calculating the Excise Tax payable on textile and textile products locally produced in a factory and vehicles assembled locally, the tax paid on import of inputs that are used to produce such goods shall be deducted.

Caroline (2015) was found a significant negative relationship between Turn over Tax and financial performance of SMEs in Nairobi CBD. These findings are in support of previous studies by Rohaya, Nor.Azam and NurSyazwani (2010) who revealed an association between income tax and profitability of corporate institutions. The study related the impact of corporate income tax liabilities on different variables of a firm as gross profit, cost of sales and expenses. The conclusion was there is a negative association between corporate income tax and financial performance of firms. As businesses pay more tax their earning level decreases. This means that whenever tax burden on a firm increases it reduces the level of financial performance of the business. From this backdrop it is recommended that businesses should employ the services of tax experts to aid them in tax planning in order to reduce the net tax payment so as to increase their financial performance. Again they should increase their asset size and ensure efficient use of those assets to reflect in the turnover of the businesses.

On the other hand from the findings, the study concludes there is a significant positive relationship between Size, Age, Liquidity and Growth of the business with financial performance. The findings are also consistent with the study by Kadapakkam (1998) on the extent to which liquidity and firm size influence firm performance. The study findings showed that firm size and liquidity have positive effects and highly sensitive relation to financial performance. Increase in asset size leads to an increment in profit simply because an addition of an efficient asset has the possible effect of increasing the volume of sales hence increases the turnover of the business which will finally reflect in the earnings after Turn over Tax. As the businesses grow they turn to implement strategies which lead to an increment in the market share meaning they sell to a wider spectrum. If this is the case then their financial performance would have to increase in the same proportion as their size. For the Age of the firm as the business ages, the rule of the thumb is that it becomes more acquainted to the regulations of the industry as well as the competition therefore develops strategic plans to halt the negative effect of those factors hence the results reflects positively in their financial performance. Therefore it is expected that, the age of businesses could have a positive impact on their financial performance. The findings are consistent with prior research by John, Samuel and Holy (2013), which showed that Age and Growth of the firm show a significant positive relationship with financial performance.

Birhanu (2018), Excise taxes are selective taxes on the sale or use of specific goods and services, such as alcohol and gasoline. Excise taxes have existed for centuries and are widely used by governments today. The twentieth century spread of income taxation and value-

added taxation reduced the significance of excise taxation as a source of government revenue, but most governments still collect sizable taxes on petroleum products, tobacco products, and alcohol. In addition to generating needed revenue, excise taxes can be designed to control externalities and to impose tax burdens on those who benefit from government spending. Excise taxes also can be used to discourage consumption of potentially harmful substances (such as tobacco and alcohol) that individuals might over consume in the absence of taxation. (James R. Hines Jr., 2007)

The United States relies on excise taxes of the 30 wealthy nations that are members of the Organization for Economic Cooperation and Development (OECD), whose excise tax collections in 2000 averaged 12 percent of total government revenues Hines (2007).

Where an excise tax is levied on a particular industry there is a clear economic impact and in the context of seeking tax revenues, the literature suggests that the effect of excise taxation on these industries is to drive down revenue receipts from VAT and sales taxes, as well as reduce the taxes which apply to profitability, such as income taxes or company taxes from taxpayers in these industries. In terms of excise-type taxes being levied on non-alcoholic beverages, an excise tax is still in place in several countries, primarily in developing countries within Africa, the Middle East and Asia. In those countries such products are included in a range of goods seen as 'luxury goods' and the same excise systems extend into other commodities such as perfumes, jewelers, carpets, crystal glassware, etc., with the aim of establishing a progressive tax on the spending of the wealthy (Baghaei et al., 2003).

Mumford (2014) research done on an empirical analysis of impact of state excise taxes on craft breweries builds upon previous research in two primary ways. First, it considers the craft brewery market alone. To date, there is little existing research on this segment of the market because notable growth in the craft brewery segment did not begin until the mid-1980s and historically, information relating to this segment was combined with the rest of the market. Second, this thesis extends the existing focus on the effects of excise taxes on consumption to the supply side of the beer market (entry and production).

Emanuel (2018) research done on the effect of excise taxes on the profitability of alcohol and cigarette manufactures to evaluate and establish the connection between excise taxation on sin products and the financial performance of the listed sin products manufacturers in terms of profitability indices with a view to contributing to the available scientific research on excise taxes and the Kenyan sin industry Michira (2015). The existing research gap relates to the extent that excise tax policies affect sin products manufacturers because while intended to

raise cigarette prices and hence lower consumption with the result that cigarette makers experience lowered profits and profitability that will discourage further investment in production, and subsequently reduce overall cigarette consumption in the economy.

In sum, a review of the financial performance of the main sin products makers in Kenya shows that as excise taxes are implemented or increased for the products (alcohol and cigarettes), their incomes (profit) experience mixed results but keep rising in the longer term. This research therefore seeks to evaluate and establish the connection between excise taxation on sin products and the financial performance of the manufacturers as measured through profitability with a view to contributing to the available scientific research on excise taxes and the Kenyan cigarette industry. This information will help policy makers develop better strategies at reducing the consumption of sin products for social and health benefits; by understanding how excise taxes affect the profitability of the sin products manufacturers.

The study gathered excise tax information of some countries and the tax features are summarized as follow:

- A. Excise tax structures in most countries are generally different from any of the conceptually ideal taxes postulated in the literature, in part for reasons often rooted in national social and political factors. One result is that cross-country harmonization is difficult, though perhaps also less necessary, as discussed further below. Another result is that although excise tax rates often change, usually for revenue reasons, there is little evidence of convergence across countries or over time with respect to either an 'optimal' structure or a common structure. Tax rates differ widely from country to country, and indeed over time within any one country, and in general bear little relation to even the simple goal of revenue maximization let alone to any reasonable estimate of either the social costs or the externalities associated with the consumption of alcohol and tobacco. As a rule, how much and how these products are taxed is better explained by history, revenue needs, and the need to satisfy political constituencies than by the answers suggested by economic analysis or the importance attached to objectives such as improving public health or maximizing social welfare.
- B. Excise tax and firm performance have different impact
- C. Some countries don't collect tax on some goods produced locally;
- D. Some of the countries they don't have a separate tax regulation for excise tax; The tax rule of computation for excise tax is different.
- E. Some countries have refund scheme
- F. Different countries have different tax rate

- G. All excise systems across the world are slightly different in terms of commodities and services taxed the manner of taxation, the rates of excise and the taxing point. However, the basic objectives of an excise system are universal in that all excise duties due and payable should be properly brought to account and paid by the due date.
- H. Excise taxation is common throughout most countries, being an important component of their overall tax systems.
- I. Different countries have different awareness about their countries tax.
- J. Different countries have different clarity of tax proclamations, regulations directives and circulars, and
- K. Different countries have different skilled man power in the tax office
- L. To conclude the topics covered under literature review contains relevant tax rules & regulation of excise tax, different methods of calculation scheme. Excise tax has different computations for different countries.

## **2.5 Consumption tax in Ethiopia with special emphasis on excise tax**

### **2.5.1 Tax structure and the role of taxation in Ethiopia**

This section provides the key features of the Ethiopian tax system, the significance of tax revenue to total government revenue and the possible impact of direct tax on total tax revenue. Ethiopia adopted the Semi-Autonomous Ministry of Revenues with decentralized tax administrator model based on the constitution starting from 1992. The federal government is accountable to collect tax from incorporated firms & public enterprise owned by federal government, and regional government administers all tax from individuals and incorporated public enterprise owned by regional governments. The regional government as well as federal state tax office use harmonized tax system and monitored by the Ministry of finance.

Ministry of Revenues is headed by a Minister, who reports to the prime Minister. Three Deputies/states Ministers who report to the Minister are responsible for providing various sector including Institutional Capacity and support sector, Tax Law Compliance Sector, and Tax Operation sector. There are also Directors and branch managers in charge of Ministry of revenues branches offices.

#### **Mission**

Ministry of Revenues shall promote the voluntary compliance of taxpayers, ensure integrity and develop the skill of the employees, support the modernization and harmonization of the

taxes and customs administration system, contribute the economic development and social welfare through effective revenue collection.

### **Objective**

To establish modern revenue assessment and collection system and provide customers equitable, efficient and quality service,

To cause taxpayers voluntarily discharge their tax obligation,

To enforce tax and custom laws by preventing and controlling contraband as well as tax fraud and evasion,

To collect timely and effectively tax revenue generated by the economy: and

To provide the necessary support regions with a view to harmonize federal and regional tax administration systems.

### **Goals:**

Create developmental workforces that realize the development and implementation of a developmental tax administration system with right attitude, competence and commitment.

Generate and utilize an accessible, complete, current and accurate data through the deployment of a modern tax and customs data system which supports development.

Improve tax compliance and create developmental taxpaying force through strengthening customers' education and communication system.

Improve customer satisfaction through establishing a system that enables the provision of tax payers' and custom support service.

Minimize contraband, commercial fraud and evasion through establishing a system that enables increased performance in law enforcement.

Collect government revenues generated by the economy timely and adequately through establishing the revenue collection system.

**The taxpayer segment:** A more recent development in Ministry of Revenues has been to organize service and enforcement functions principally around segments of taxpayers (large businesses, medium businesses, and small). The rationale for organizing these functions around taxpayer segments is that each group of taxpayers has different characteristics and tax compliance behaviors and, as a result, presents different risks to the revenue.

In order to manage these risks effectively, the revenue body needs to develop and implement strategies (simplify procedures, taxpayer education, improved service, more targeted audits) that are appropriate to the unique characteristics and compliance issues presented by each group of taxpayers.

Revenue bodies also need a structured approach to researching and understanding what these compliance issues. Proponents of the taxpayer segment type of structure contend that grouping key functional activities within a unified and dedicated management structure increases the prospects of improving overall compliance levels.

Based on segmentation model mentioned above, Ministry of Revenues has 11 branch offices and 2 tax centers all over the country. The total number of incorporated (Private limited company, Share company, corporation, Public enterprise, foreign companies, Joint ventures...) taxpayers registered in Ministry of Revenues were 66,432 as of January 31, 2019 out of which 48,915 (73.63%), were registered in Addis Ababa. In Addis Ababa there are four branch offices and one of them Large Taxpayers' Branch office has 770 (1.16%) of total taxpayers,(1.57%) from Addis Ababa taxpayers whereas in terms of revenues contribution 43% of MOR ,72% of domestic tax .Thus, the researcher selects this branch for research since it representative of others in terms of revenue contribution for country MOR (2019).

### **2.5.2 Definition of Excise Tax in Ethiopia**

Excise tax in Ethiopia is imposed and payable on selected goods, such as, luxury goods and basic goods which are demand inelastic. Moreover, it is believed that imposing the tax on goods that are hazardous to health and which are cause to social problem, will reduce the consumption of such goods.

Proclamations 307/2002, 570/2008, 610/2008 and 767/2012 provide the legal basis for the imposition of excise taxes in Ethiopia. According to the legislation, excise taxes are levied on selected locally produced and imported goods. These excisable goods include tobacco and tobacco products, drinks (alcoholic and non-alcoholic drinks), fuel, Salt, sugar ,textile and textile products, perfume and toilet waters, personal adornment made of gold silver and other materials, dish washing machine (domestic use), video decks, television and video cameras, television broadcast receivers whether or not combined with gramophone, radio, or sound

receivers and reproducers, motor passenger cars, station wagons, utility cars, and land rovers, Jeeps pickups, similar vehicles (including motorized caravans), carpets, asbestos and asbestos products, clocks and watches, dolls and toys, and chat .

Ethiopia uses ad valorem excise rates for all excisable goods except chat. According to Proclamations 307/2002, (as amended), the ad valorem excise range from 10 percent (applicable to textile and textile products and television broadcast receivers whether or not combined with gramophone, radio, or sound receivers and reproducers) to 100 percent (applicable to perfume and toilet waters, automobiles above 1800 c.c. and alcoholic beverages except beer and stout, all types of wine and whisky)). Excise tax base is cost of production for goods produced locally and sum of cost, insurance, freight and custom duties for imported goods. In calculating excise tax payable on textile and textile products locally produced in a factory and vehicles assembled locally, the excise paid on import of inputs that are used to produce these goods is allowed to be deducted.

### **2.5.3 Rate of Excise Tax**

The excise tax shall be paid on goods mentioned under the schedule of the proclamation:

1. When imported
2. When produced locally at the rate prescribed in the schedule.

### **2.5.4 Base of computation of excise Tax**

In our land, excise tax is payable to the government by local producers on production of goods listed in the excise tax schedule attached to the proclamation and by importers on the importation of the same goods from foreign countries. Hence, producers and importers, who are called taxpayers for excise tax purposes, are liable to pay excise tax at specific rates in accordance with the following bases:-

1. In respect of goods, produced locally, the cost of production; local production of goods for sale specifically listed in the excise tax schedule accompanying the proclamation is liable to charge of excise tax. The excise tax on such locally produced goods is determined based on their 'costs of production'. In this case, the cost of production includes direct material cost used in the production process, direct labor cost incurred in the production process, and manufacturing overhead costs other than depreciation cost of manufacturing machineries. The cost of production of goods is determined in accordance with the proper accounting principles acceptable to the tax office.

2. In respect of goods imported, cost, insurance and freight (CIF value) : to compute the excise tax payable to the tax authority by a local producer/manufacturer subject to excise tax, the cost production is multiplied by the related excise tax rate prescribed in the Excise Tax Schedule attached to Excise tax proclamation no.307/2002.

### **2.5.5 Payment of Excise Tax**

The excise tax shall be paid within the time prescribed according proc.307/2002 Sub-Article/2/

1. In respect of goods produced locally, by the producer;
2. In respect of goods imported, by the importer

### **2.5.6 Time of Payment**

According to the excise tax proclamation, excise tax on goods shall be paid under the schedule

1. When imported at the time of clearing the goods from customs area;
2. When produce locally, not later than 30 days from the date of production.

The amendment includes some replacements of words and phrases and new added sub-article (4) under Article 27 of the Proclamation.

## **2.6 Research Gap**

Different scholars done on assessment of excise tax based on books, contribution and challenges of indirect taxes focused on excise tax clarity of the laws, challenges during application and taxpayers perception on issues related to indirect tax which is a new contribution existing knowledge related. There were not undertaken researches on excise tax and its contribution to government revenue.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY AND DESIGN**

#### **Introduction**

This chapter describes an appropriate research method for the study. The chapter discusses about the research methodology, research design, and method of data analysis and interpretation. In a brief, this section presents and gives insight on how and from where the data are collected

#### **3.1 Research Methodology**

The study was conducted using task about the method systematic and simple random sampling methods, to get a good research result about Challenges of Excise tax and its contribution to government revenue in MOR. The data includes quantitative and qualitative data, which have to be simple for analyzing and interpretation. The researcher used mixed methods research methodology.

##### **3.1.1. Mixed Research Methodology**

The researcher used a method that includes both qualitative and quantitative data collection and analysis in parallel form (concurrent mixed method design in which two types of data are collected and analyzed the challenges and contributions of excise tax by using a mixed data (numerical and text). Therefore, the researcher used this type of research in which the qualitative research paradigm for one phase of a study and a quantitative research paradigm for another phase of the study.

##### **3.1.2 Quantitative Research Approach**

The researcher used Descriptive research of quantitative research approach involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection According to Cohen (1980), quantitative research is defined as social research that employs empirical methods and empirical statements. He states that an empirical statement is defined as a descriptive statement about what “is” the case in the “real world” rather than what “ought” to be the case.

### **3.1.3 Qualitative Research Approach**

The investigator used unstructured interviews and open ended questionnaires developed based on the literature search which is one of the qualitative methods of collecting data and fill the gap of the quantitative approach in interviewing key excise tax registered persons, senior staffs and experts of excise tax administration selecting purposively. Interviews are particularly useful for getting the story behind a participant's experiences. The interviewer can pursue in-depth information by using semi-structured methods such as in-depth interviews, around the topic. Interviews may be useful as follow-up to certain respondents to questionnaires, e.g., to further investigate their responses Mcamara (1999).

The purpose of this study is to assess the challenges and contribution of excise tax to tax revenue and national economy which has been untraceable so far. As can be seen from the research problem it is more of descriptive type and tries to assess and justify current practice and dominant factors that affecting its intended implementation. The study is a descriptive and inferential type of research whereby both primary and secondary data were used. The reason for using such type is due to simplicity and the nature of the topic selected.

The researcher used Descriptive research that can be either quantitative or qualitative. Involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection.

### **3.2 Research Design**

A research design is the specification of procedures for collecting and analyzing the data necessary to help identify or react to a problem or opportunity. Every research problem is unique. Since almost every research problem is unique in some way or another, and care must be taken to select the most appropriate set of approaches for the unique problem at hand. This section of the study details of the research design, the sampling methods as well as the means in which the data collected and analyzed.

The research focuses on the Challenges of Excise tax and its contribution to government revenue in manufacturing sectors in MOR. To evaluate the Challenges of Excise tax and its contribution to government revenue in manufacturing in one of the branch MOR/ Large Taxpayers Branch office and it requires collecting secondary data. Such data can be found from planning Directorate which has the responsibility of planning annual activities of all branches and summarizing the actual performance for all department and branches under MOR.

Thus, the study under consideration attempts to apply the research design and data collection methods which are suitable for the successful accomplishment of the research. All the data has been analyzed using descriptive methods of data analysis and it was presented with tables, graph and percentages.

All research approaches can be classified into one of the two general categories of research.

### **(a) Descriptive Research**

It is a research conducted to describe and identifying the various characteristics of a population or phenomena. Descriptive research is designed to give answers to questions; who, what, how, when and where aspect of the subject matter. Descriptive research aims at a classification of the range of elements comprising the subject matter of study. It contributes to the development of a young science and useful in verifying focal concepts through empirical observation. It can highlight important methodological aspects of data collection and interpretation.

## **3.3 Types of Data Sources**

The primary type of research is collection of relevant data and the analysis of data for finding answers to the research questions. The proper performance of this task depends upon the identification of exact data and information required for the study. The clear and accurate statement of the problem, the development of the conceptual model, the definition of the objective of the study, the setting of investigation questions the necessary relevant data needed is collected from primary and secondary data, such as interviews, questionnaires, reports and excise tax declaration information

The method of collecting data for descriptive research can be employed singly or in various combinations, depending on the research questions at hand. Among the common data collection methods applied to questions within the relation of descriptive research;

While deciding about the method of data collection to be used for this study, the researcher should keep in mind two types of data primary and secondary. The research was conducted by using data from both primary and secondary sources.

Collecting primary data during the course of doing experiments in an experimental research but in case we do research of the descriptive type and perform surveys, and then we can obtain primary data either through observation or through direct communication with respondents in one form or another. Primary data is collected through questionnaires to taxpayers and tax officers, and interviews are conducted to tax assessors, investigation

auditors, transfer pricing /International taxation unit auditors and tax auditor from MOR/Large taxpayers' branch office.

The researcher prefers questionnaires as major source of primary data and it facilitates in collecting data from different taxpayers engaged in different business sectors and experiences. It used gathering objective, qualitative and quantitative data the respondents can complete. The questionnaires comprises of both closed and open ended questions are quicker and easier both for respondents and researcher. Most of the closed questions are design on an ordinal level of measurement basis, and choosing the give alternative values so that the variables can be rank to measure the degree of their strength or the agreement or the disagreement of the respondents with variables will elicit.

Quite often questionnaire is considered as the heart of a survey operation. Hence it should be very carefully constructed. This fact requires us to study the main aspects of a questionnaire vise, the general form, question sequence and question formulation and wording. Researcher should note the following with regard to three main aspects of a questionnaire:

General form: Furthermore, open ended questions allow respondents to offer an answer that the researcher doesn't include in the questions. The researcher used structured questionnaires.

The researcher used mode of sending questionnaires to respondents by personal delivery and through taxpayer's service department of MOR/Large taxpayers' branch office.

The researcher prefers to collect data from different business sectors and for tax office staff different level of experience in relation with subject under study. And also, the secondary data sources include different annual performance report of MOR, report of government departments, books, handouts, other counties publications, and other publications related to research topic. It is ready made and readily available and it is used for benchmark, to verify the findings based on primary data.

### **3.4 Sampling of the study**

The selection of a sample in quantitative and qualitative research is guided by two opposing philosophies. In quantitative research you attempt to select a sample in such a way that it is unbiased and represents the population from where it is selected. In qualitative research, number considerations.

## Sampling techniques

There are basically two types of sampling procedure: Probability sampling and Non-probability sampling. Probability sampling techniques give the most reliable representation of the whole population, while non-probability techniques, relying on the judgments of the researcher or on accident, cannot generally be used to make generalizations about the whole population.

From the above taxpayers sample data collected from taxpayers questionnaires were distributed MOR/Large taxpayers Branch office taxpayers.

The population of the study is all taxpayers with legal status incorporated enterprise registered in MOR. Representative branch tax office of MOR and Systematic sampling method is used.

From branch under study 6 taxpayers and 6 employees were selected based on experience and having appropriate experts to gather relevant and admissible primary information.

The sampling technique might have its drawback while inferring the findings based on the sample size was considered and greater effort and caution was undertaken to make the sample as representative as possible.

## Sample size determination for proportion

The sample n that is required to obtain an Absolute precision e in simple random sampling is given by:

$$n = \frac{Z^2 \alpha / 2 \delta^2}{e^2 + \frac{Z^2 \alpha / 2 \delta^2}{N}}$$

### Where:-

N: - is the population size

$Z^2 \alpha / 2$ :- critical values from the normal distribution

$\delta^2$ :- is the population variance and

e: - is the margin of error (usually 0.03 to 0.05)

Table 3.1 sample size for  $\pm 5\%$  precision Levels where confidence level is 95% and P=0.4

stratums	Size of population(N)	Proportion of total (P)	Sample size (n)
Excise tax payers	30	0.5	23
employees	79	0.5	57
Total	109		80

$$\text{Employees (n)} = \frac{(1.96)^2 (0.4) (1-0.4)}{(0.05)^2 + \frac{(1.96)^2 0.4 (0.6)}{79}} = \underline{57}$$

$$\text{Taxpayers (n)} = \frac{(1.96)^2 (0.4) (0.6)}{(0.05)^2 + \frac{(1.96)^2 0.4 (0.6)}{30}} = \underline{23}$$

### 3.5 Data Collection Method

For the purpose of this study, both primary and secondary data are used. The primary data is collected through standard questionnaire and interview. The demographics of the respondents are firstly established in the questionnaire. The questionnaire comprised of both closed and open ended questions. Closed ended questions are quicker and easier both for respondents and researcher. Most of the closed ended questions are designed on an ordinal level of measurement basis. So that the variables can be ranked to measure the degree of their strength or the agreement or the disagreement of the respondents with the variables can be elicited. Adding open ended questions allows respondent to offer an answer that the researcher didn't include in the questions. The replies of open – ended questions were analyzed by content under different categories. Individuals who have familiarly with the tax administration and who may also familiar with the taxpayers were selected for this job. Interview is undertaken by the researcher himself in order to effectively gather pertinent information to the study. Secondary data are also collected from the federal tax authority data base or unpublished sources and MOF. While collecting and using these data for the study, more considerations were given to their time period, reliability, and relevance to the purpose of the study. The survey period was February 15, 2019-March, 15-2019.

### 3.6 Method of Data Analysis

The responses' of respondent which were collected using the above design and techniques were organized, analyzed and interpreted in a meaningful manner. Therefore, the statically analysis could be conducted based on percentages, table, figures and percentages to summarize the result. In case of descriptive statics, a quantitative method of data analysis was adopted. The data were collected from survey questionnaires were carefully coded and checked for consistency and entered into the statistical package for scientists (SPSS) statistical package. The analysis was performed with a method of SPSS version 20. and also the study was employed a tabulation with relevant and admissible data covering a period of 1999/00-2017/18 to analyze the contribution of excise tax with total tax revenue and gross domestic product secondary data were obtained from ministry of revenues and ministry of finance and economic development statistical bulletin, report ministry of finance. In general

terms, describe the strategy you intend to use for data analysis. Specify whether the data will be analyzed manually or by computer. For computer analysis, identify the program and where appropriate the statistical procedures you plan to perform on the data. For quantitative studies also identify the main variables for cross-tabulation.

For qualitative studies, describe how you plan to analyze your interviews or observation notes to draw meanings from what your respondents have said about issues discussed or observation notes made. One of the common techniques is to identify main themes, through analyzing the contents of the information gathered by you in the field. You first need to decide whether you want to analyze this information manually or use a computer program for the purpose.

The process of data analysis begins with the categorization and organization of data in search of patterns, critical themes and meanings that emerge from the data. A process sometimes referred to as “open coding” (Strauss and Corbin, 1990) is commonly employed whereby the researcher identifies and tentatively names the conceptual categories into which the phenomena observed would be grouped. The goal is to create descriptive, multi-dimensional categories that provide a preliminary framework for analysis.

The researcher used tabulation, ratios and comparison method to analyze the data. The researcher edit s the collected data, it is the first step in analysis and tries to detect errors and omissions, and to correct if possible. Tabulation is a process of summarizing raw data displaying them on compact statistical tables for further analysis. The responses of the respondents collected using questionnaires methods organized, analyzed, and interpreted in a meaningful way.

### **3.7 Measurements of Validity and Reliability**

The association of quantitative paradigm with qualitative research through validity and reliability has changed our understanding of the traditional meaning of reliability and validity from the qualitative researcher’s perspectives. Reliability and validity are conceptualized as trustworthiness, rigor and quality in qualitative paradigm. It is also through this association that the way to achieve validity and reliability of a research get affected from the qualitative researches perspectives which are to eliminate bias and increase the researcher’s truthfulness of a proposition about some social phenomenon using triangulation Golasfshani(2003). Then triangulation is defined to be "a validity procedure where researcher search for convergence among multiple and different sources of information to form themes or categories in a study " Creswell & miller (2000, p.126).

Therefore, reliability, validity and triangulation, if they are to be relevant research concepts, particularly from qualitative point of view, have to be redefined as we have seen in order to reflect the multiple ways of establishing truth. And also most ethical issues in research fall into one of the four categories: protection from harm, informal consent, right to privacy and honesty with professional colleagues Leedy and Ormrod (2005).

### **3.7.1 Validity**

The quality of research design can be defined in terms of validity of measurement instrument used in the research. The major types of validity, external validity, construct validity, statistical conclusion validity are internal validity, external validity; construct validity, statistical conclusion validity Maxwell, 1992.

#### **Validity of the test**

Validity refers to the degree to which evidence and theory support the interpretation of the test scores entailed by proposed uses of test. That is, validity has to do with both the attributes of the test and the uses to which it is put. When tests are used for more than one purpose, these needs to be evidence of validity for each of this uses.

The test, as a data collection tool, must produce information that is not only relevant but free from systematic errors that is, it must produce valid information. In general, a test is valid if it measures what it claims to measure. A test, however, does not possess universal and eternal validity. It may be valid for use in one situation but invalid if used in another

#### **3.7.1.1 Content validity**

Content description validation procedures involve the systematic examination of the test content to determine whether it covers a representative sample of the behavior domain to be measured (Anastasi&Urbina, 1997, pp.114-115). Obviously, this kind of validity has to be built into the test at the time that subtests are conceptualized and items constructed. Those who build tests usually deal with content validity by showing that the abilities chosen to be measured are consistent with the current knowledge about a particular area and by showing that the items hold up statistically.

Content validity is the extent to which the measurement method covers the entire range of relevant behaviors, thought, and feelings that define the construct being measured. The instrument was tested through different stages. In the first stage, the questionnaire was distributed to selected staffs who work in VAT administration and other related department. It is reviewed and some basic modifications were conducted to avoid ambiguity and maintain the precision to be clear for the participants to answer correctly. Content validity is the

estimate of how much a measure represents every single elements of a construct winter (2000).

### **3.7.1.2 External validity**

The main criteria of external validity is the process of generalization and whether the result obtained from small group can be extended to make prediction about the entire population winter(2000).

Therefore the researcher used representative sample from federal excise tax registered entities and respective tax authority employees whose contribution of excise tax revenue collection is 74 % of the country MOR Annual report (2014).

### **3.7.2 Reliability**

Reliability is one of the most important elements of test quality. It has to do with the consistency, or reproducibility, of an examinees performance on the test. For example, if you were to administer a test with high reliability to an examinee on two occasions, you would be very likely to reach the same conclusion about the examinees performance both times. A test with poor reliability, on the other hand, might result in very different scores for the examinee across the two test administrations. If a test yields inconsistent scores, it may be unethical to take any substantive action on the basis of the test. There are several methods for computing test reliability including test –retest reliability, parallel forms reliability, decision consistency, internal consistency is often an appropriate choice Golfshani (2003).

Therefore to ensure the reliability of measurement instrument the researcher performed first standardize the instrument, like questioners, interview which is modified to our context, beside, the researcher also believes that this study is reliable since the respondents were selected based on their past experience. Knowledge and their answers were expected to be credible. The creditability of selected respondents, the same answers would probably be given to another independent researcher. Furthermore, ambiguous terms were not used in interviews to avoid confusion. And also to ascertain the reliability, the secondary data were collected from relevant government organization.

#### **Reliability of the test**

Standardized tests are always reliable. No doubts in the results of the test itself. A data collection test must be reliable, that is it must have the ability to consistently yield the same results when repeated measurements are taken of the same individuals under the same conditions.

Reliability refers to the consistency of measurement, the extent to which the results are similar over different forms of the same instrument or occasions of data collecting.

### **3.7.3 Ethical considerations**

Clough and Nut brown (2002:84) comment as follows with regard to ethics in research:

“.....in order to understand, researchers must be more than technically competent. They must enter into chattered intimacies; open themselves to their subjects” feeling worlds, whether these worlds are congenial to them or repulsive. They must confront the duality of represented and experienced selves simultaneously, both conflicted, both real.....”

In concert with the rules and regulations of the university with regard to conducting research using human subjects, the following ethical considerations were taken into account during the course of the research.

## **CHAPTER FOUR**

### **DISCUSSION AND PERSENTATION OF RESULTS**

#### **Introduction**

This chapter deals with the contents of data organization and analysis of the results based on data collected on the challenges of excise tax and its contribution to government revenue. It includes the characteristics of respondents, the backgrounds of business organization for tax payers, objective and the excise tax and firms' performance, and awareness of tax laws on excise tax.

#### **4.1 Characteristics of Respondents and Response Rate**

The information of the study was obtained from the employees of the tax office staffs and the excise taxpayers. Therefore, Out of 80 (23 for Excise tax registered entity and 57 for large tax payer branch office employees) questionnaires physically distributed to the target population, 72 responses were collected (54 collected from employees and 18 from large tax payer branch office Excise tax registered business entity. The response rate of large tax payers' employees' respondents is 94.7% of them were returned, while the remaining 5.3% of the questionnaires were not returned. On the other hand, the response success rate of excise tax registered respondents is 78.3% of them were returned, while the remaining 22.7% of the questionnaires were not returned at all because of the reluctance of respondents to complete and give back the questionnaires. The response rate was acceptable according to Kothari (2014) which states that a response rate of above 50% was good and concurred with Mugenda (2003) that response rate of above 60% percent as very adequate for analysis and presentations of the findings. The responses of the respondents are summarized and presented in the following section. And finally this chapter analyzes and interprets secondary data collected from MOR and MOF between 2009/2010-2017/2018 intended to assess the contribution of Excise Tax in relation with total tax revenues.

#### **4.2 Descriptive Analysis**

##### **4.2.1 Background Information of the Respondents**

###### **Educational level of the respondents**

The respondents with regard to taxpayers Educational Status Bachelor degree (BA) holders constitutes 13(72%) of the respondents and they are followed by respondents with Master's

Degree represent 5(28%), while the none of the respondents a diploma and certificate holders level of education. with regard to employees educational Status Bachelor degree (BA) holders constitutes 40(74%) of the respondents and they are followed by respondents with Master’s Degree represent 14(26%), while the none of the respondents a diploma and certificate holders level of education..This shows that the respondents are qualified enough to easily understand and respond the questionnaire correctly (For detail see table below).

Category of the Respondents		Frequency	Percent	
<b>Education Back Ground of the Respondents</b>	Taxpayers	Below Diploma	-	-
		Diploma	-	-
		Degree	13	72
		Masters and above	5	28
		<b>Total</b>	<b>18</b>	<b>100</b>
	Employees	Below Diploma	-	-
		Diploma	-	-
		Degree	40	74
		Masters and above	14	26
		<b>Total</b>	<b>54</b>	<b>100</b>

### Work Experience in the organization

Out of 18 Excise tax registered target respondent less than 5 years’ experience around 5(28%) and above 5 years’ experience is around 92% were engaged and responding the questionnaire whereas, Out of 54 LTO Employees target respondent less than 5 years’ experience around 18(33%) and above 5 years’ experiences are (67% ).(see table below for details).

<b>Work Experience in the Organization</b>				
Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Less than five years	5	28
		Five to ten years	5	28
		Ten to fifteen years	4	22
		More than fifteen years	4	22
		<b>Total</b>	<b>18</b>	<b>100</b>
Employees	Valid	Less than five years	18	33
		Five to ten years	36	67
		Ten to fifteen years	-	-
		More than fifteen years	-	-
		<b>Total</b>	<b>54</b>	<b>100</b>

Source: Survey data.

### Activity in which the companies engaged

Out of 23 Excise tax registered around 4(22%) were engaged on mineral water, while 7(39%), 2(11%), 1(6%), 3(16%), and 1 (6%) engaged on beer, soft drinks, tobacco and tobacco products, alcohol and alcoholic products and textile and textile products manufacturing respectively (see table below for details).

<b>Types of Business Activity</b>				
<b>Category of the Respondents</b>			<b>Frequency</b>	<b>Percent</b>
Taxpayers	Valid	Mineral Water	4	22
		Beer	7	39
		Soft Drinks	2	11
		Tobacco & Tobacco Products	1	6
		Alcohol and Alcoholic Products	3	16
		Textile & textile products	1	6
		<b>Total</b>	<b>18</b>	<b>100</b>

Source: Survey data.

### 4.2.2 Effect of Excise Tax on Manufacturers'

#### Excise tax has discouraging performance of manufacturing sectors

One of the strategic goals of ERCA is to enhance Excise tax revenue performance so to assess that weather this tax is discouraging the performance of manufacturing sectors, hence for the level of agreement among the respondent of 18 excise tax registered those who disagree and strongly disagree on the question accounts 2(12%), while 16(88%) of the respondents were strongly agree and agree whereas, the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 28(54%), while 25(46%) of the respondents were strongly agree and agree (See table below for details)

Excise tax has discouraging performance of manufacturing sectors.

<b>Category of the Respondents</b>			<b>Frequency</b>	<b>Percent</b>
Taxpayers	Valid	Strongly Disagree	1	6
		Disagree	1	6
		Agree	4	22
		Strongly Agree	12	66
		Do not know	-	-
		<b>Total</b>	<b>18</b>	<b>100</b>

Employees	Valid	Strongly Disagree	1	2
		Disagree	27	50
		Agree	24	44
		Strongly Agree	1	2
		Do not know	1	2
		Total	<b>54</b>	<b>100</b>

Source: Survey data.

**Adding excise tax on goods exported will affect competitive advantage in global markets by boosting their sells price.**

Therefore according to survey data responses of the taxpayers 13(72%) were agree and strongly agree, whereas, 5(28%) of the respondents of taxpayers level of agreement were strongly disagree and disagree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 15(28%), while 39(72%) of the respondents were strongly agree and agree. (See table below for details).

Adding excise tax on goods exported will affect competitive advantage in global markets by boosting their sells price

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	3	17
		Disagree	2	11
		Agree	2	11
		Strongly Agree	11	61
		Do not know	-	-
		Total	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	1	2
		Disagree	14	26
		Agree	25	46
		Strongly Agree	14	26
		Do not know	-	-
		Total	<b>54</b>	<b>100</b>

Source: Survey data.

**Applying excise tax on raw materials during import at customs and also applying it locally during production which creates duplication and affects manufacturing companies.**

Therefore according to survey data responses 13(72) % of the taxpayers respondents were agree and strongly agree, whereas, 5(28% of the respondents level of agreement were strongly disagree and disagree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 28(52%), while 26(48%) of the respondents were strongly agree and agree. (See table below for details).

Applying excise tax on raw materials during import at customs and also applying it locally during production which creates duplication and affects manufacturing companies.

Category of the Respondents			Frequency	Percent
Taxpayers	Valid	Strongly Disagree	3	17
		Disagree	2	11
		Agree	1	6
		Strongly Agree	12	66
		Do not know	-	-
		Total	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	7	13
		Disagree	21	39
		Agree	23	42
		Strongly Agree	3	6
		Do not know	-	-
		Total	<b>54</b>	<b>100</b>

Source: survey data.

#### **The excise tax administration of tax office enhances business competitiveness.**

Simple tax administration and procedure make it easier and less expensive for taxpayers to comply with their obligations and access their entitlements (taxpayers may not voluntarily comply if the tax system itself makes it too difficult or too expensive for them to meet their obligations). For example, most of the interviewees asserted that no attempt to update the laws to go with changes in the business environment rather than making complex the law by ratifying a countless number of directive and circular, therefore as per the assessment of the study responses 4(22%) of the taxpayers respondents were agree and strongly agree, whereas, 14(78%) of the respondents level of agreement were strongly disagree and disagree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 28(52%), while 22(41%) of the respondents were strongly agree and agree See table below for details.

The excise tax administration in the tax office enhances business competitiveness

Category of the Respondents			Frequency	Percent
Taxpayers	Valid	Strongly Disagree	7	39
		Disagree	7	39
		Agree	4	22
		Strongly Agree	-	-
		Do not know	-	-
		Total	<b>18</b>	<b>100</b>

Employees	Valid	Strongly Disagree	7	13
		Disagree	21	39
		Agree	21	39
		Strongly Agree	1	2
		Do not know	4	7
		Total	<b>54</b>	<b>100</b>

Source: survey data.

**Excise tax is a tax system encourages to business participant in their investment sectors.**

But many interviewees cited, excise tax implementation has imposed a large compliance burden on taxpayers, who must file regular self-assessment forms and keep accurate records of the tax paid on cost of production and purchase on inputs. This burden is especially onerous given the low administrative capacity of many businesses in Ethiopia, Therefore as per the assessment of the study responses 7(39%) of the taxpayers respondents were agree and strongly agree, whereas, 11(61%) of the respondents level of agreement were strongly disagree and disagree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 22(40%), while 29(51%) of the respondents were strongly agree and agree See table below for details.

Excise tax, is a tax system encourages to participant their investment in different sector.

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	5	28
		Disagree	6	33
		Agree	4	22
		Strongly Agree	3	17
		Do not know	-	-
		Total	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	4	7
		Disagree	18	33
		Agree	20	37
		Strongly Agree	9	14
		Do not know	5	9
		Total	<b>54</b>	<b>100</b>

Source: survey data.

**You have any information about current tax proclamations, regulations, directives & circulars which imposes excise tax.**

Therefore according to survey data responses those have information and awareness about current excise tax proclamations ,regulations, directives and circulars are out of 18 respondents of taxpayers 3(17%) were disagree and strongly disagree, whereas, 15(83%) of the respondents level of agreement were strongly agree and agree. And also the level of

agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 46(85%), while 8(15%) of the respondents were strongly agree and agree (See table below for details).

You have any information about current tax proclamations, regulations, directives & circulars which imposes excise tax.

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	1	6
		Disagree	2	11
		Agree	5	28
		Strongly Agree	9	50
		Do not know	1	6
		Total	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	1	2
		Disagree	7	13
		Agree	36	67
		Strongly Agree	10	18
		Do not know	-	-
		Total	<b>54</b>	<b>100</b>

Source: survey data.

**The base for payment of excise tax computation for locally produced goods is clear.**

According to survey data responses on the base for payment of excise tax computation for locally produced goods is clear is out of 18 respondents excise taxpayers' 14(77%) were disagree and strongly disagree, whereas, 4(23%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 28(51%), while 26(49%) of the respondents were strongly agree and agree (See table below for details).

The base for payment of excise tax computation for locally produced goods is clear.

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	8	44
		Disagree	6	33
		Agree	3	17
		Strongly Agree	1	6
		Do not know	-	-
		Total	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	6	11
		Disagree	20	38
		Agree	24	44
		Strongly Agree	4	7
		Do not know	-	-
		Total	<b>54</b>	<b>100</b>

**The tax system facilitates taxpayers to know their tax obligation before they own manufacturing business.**

Taxpayers may not voluntarily comply if the tax system itself makes it too difficult or too expensive for them to meet their obligations. For example, most of the interviewees asserted that no attempt to know the regular update of the laws to go with changes in the business environment. Therefore, as per the assessment of the study out of 18 of the excise taxpayers respondents 17(94%) were disagree and strongly disagree on the statement deals with the tax system facilitates tax payers to know their tax obligation before they own manufacturing business while 1(6%) respondents were agree and strongly agree with it (see table below for details).

The tax system facilitates tax payers to know their tax obligation before they own manufacturing business.

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	5	28
		Disagree	12	66
		Agree	1	6
		Strongly Agree	-	-
		Do not know	-	-
		<b>Total</b>	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	9	17
		Disagree	23	43
		Agree	15	27
		Strongly Agree	5	9
		Do not know	2	4
		<b>Total</b>	<b>54</b>	<b>100</b>

As most of excise taxpayers’ opinion every tax law should be simple so that the taxpayer can understand its implications without inviting the costly help of tax experts. If the tax is complex and complicated, taxpayers will have to seek the costly assistance of tax experts in order to understand its implications. Besides, a complicated tax also increases the chance of corruption in the country. For instance, according to the responses from some of tax officials the scope of application of excise tax and types of costs to be included in cost of production in the specified sectors of taxable activities of manufacturing has not been identified yet. Therefore, the term is extremely crucial because the excise tax that must be collected by any given country is determined by the definition of the country has given to the term the base of tax such as “cost of production or sales and the scope taxes inflicted” in its legal framework.

**The MOR employees have enough knowledge about the computation of excise tax.**

The essential enhancements of the capacity of the employees are building with the knowledge of taxation. The law is complex due to high level of abstraction and technical terms as well as frequent amendment of directives as well as circular. Therefore to comprehend the excise tax laws it required fast and hard excise tax education and training were required. therefore as per the assessment of the study out of 18 of the excise taxpayers respondents 14(78%) were disagree and strongly disagree on the statement deals with the employees have enough knowledge about the computation of excise tax while 4(22%) respondents were agree and strongly agree with it. Whereas, out of 54 of the employees respondents 27(50%) were disagree and strongly disagree on the statement while 23(43%) respondents were agree and strongly agree with it. (See table below for details).

MOR employees have enough knowledge about the computation of excise tax.

Category of the Respondents		Frequency	Percent	
Tax Payer	Valid	Strongly Disagree	9	50
		Disagree	5	28
		Agree	4	22
		Strongly Agree	-	-
		Do not know	-	-
		Total	<b>18</b>	<b>100</b>
Employee	Valid	Strongly Disagree	8	14
		Disagree	19	36
		Agree	17	32
		Strongly Agree	6	11
		Do not know	4	7
		Total	<b>54</b>	<b>100</b>

Source: survey data.

According to most of the interviewees the tax administration lacks transparency; i.e. some directives and procedures are not known to taxpayers and advisors. And also may not be known even to officers at operational level.

**Tax regulation gives loopholes that lead taxpayers to unethical issues such as tax avoidance, tax evasion and corruption.**

Excise tax has no computation guideline, this can lead to attempts by businesses to avoid or evade tax, because they see it as a threat to their continued existence and the risk of detection is perceived as worth taking. In other words, perceived inequality and unfairness can drive otherwise law abiding business people into breaking the tax laws. The well trained tax consultant, accountants and lawyers, coupled with poor understanding amongst businesses, has created problems by using the loopholes of excise tax regulation such as lack of

directives with computation guideline, and on the definition of the tax base of excise tax and its scope applications.

Therefore as per the assessment of the study out of 18 of the excise taxpayers respondents 5(28%) were disagree and strongly disagree on the statement while 13(72%) respondents were agree and strongly agree with it. Whereas, out of 54 of the employees respondents 14(26%) were disagree and strongly disagree on the statement while 39(72%) respondents were agree and strongly agree with it. (See table below for details).

And also, Interviewees conducted on selected officials reveals that the main drivers of tax corruption are low pay, lack of professional ethics, legal loopholes, conflicts of interest, get-rich quick ambitions, and bureaucratic red tape. The less satisfied tax officers are with their pay scales or with the fairness of career development and financial incentive schemes, the more inclined they are to engage in corrupt behavior. If their wages are comparable to the wages for a similar job in the private sector, they may not take the risk of engaging in corruption.

Tax regulation gives loophole that lead taxpayers to unethical issues such as tax avoidance, tax evasion and corruption.

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	1	6
		Disagree	4	22
		Agree	8	44
		Strongly Agree	4	22
		Do not know	1	6
		Total	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	1	2
		Disagree	13	24
		Agree	29	54
		Strongly Agree	10	18
		Do not know	1	2
		Total	<b>54</b>	<b>100</b>

Source: survey data.

### **The cause of failure to declare the actual computation of excise tax is lack of narrow definition of the base of excise tax.**

One of the causes of failure to declare the actual computation of excise tax is lack of narrow definition of the base of excise tax, hence for, the level of agreement on the statement deals with the cause of failure to declare the actual computation of excise tax is lack of narrow definition of the base of excise tax among the 18 of the excise taxpayers respondents 6(28%) were disagree and strongly disagree while 12(72%) respondents were agree and strongly agree with it. Whereas, out of 54 of the employees respondents 22(33%) were disagree and strongly disagree on the statement while 25(49%) respondents were agree and strongly agree with it. (See table below for details).

The cause of failure to declare the actual computation of excise tax of excise tax is lack of narrow definition of the base of excise tax.

Category of the Respondents			Frequency	Percent
Taxpayers	Valid	Strongly Disagree	1	7
		Disagree	5	21
		Agree	5	36
		Strongly Agree	2	14
		Do not know	3	21
		<b>Total</b>	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	4	5
		Disagree	18	28
		Agree	20	36
		Strongly Agree	5	13
		Do not know	7	18
		<b>Total</b>	<b>54</b>	<b>100</b>

Source: survey data.

#### **Excise tax laws are easy to understand and implement.**

If the tax system itself makes it too difficult or too expensive for them to meet their obligations). For example, most of the interviewees asserted that no attempt to update the laws by government. Therefore, as per the assessment of the study out of 18 of the respondents of taxpayers 12(66%) were disagree and strongly disagree on the statement deals with the excise tax laws contain clearly justified tax laws easily understandable while 6(34%) respondents were agree and strongly agree with the simplicity of excise tax laws (see table below for details).

Excise tax laws are easy to understand and implement

Category of the Respondents			Frequency	Percent
Taxpayers	Valid	Strongly Disagree	4	22
		Disagree	8	44
		Agree	3	17
		Strongly Agree	3	17
		Do not know	-	-
		<b>Total</b>	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	7	13
		Disagree	22	40
		Agree	20	31
		Strongly Agree	3	6
		Do not know	2	4
		<b>Total</b>	<b>54</b>	<b>100</b>

**The rate for payment of excise tax is fair when goods are imported and locally produced.**

In Ethiopia imposition of Excise Tax shall be levied and paid at the differential rates. The power to decide the rate of Excise tax is given to the House of People Representative. As survey conducted on the target sample of 18 respondents of taxpayers 12(60%) respondents were agree and strongly agree on the current Ethiopian excise tax rate fairness for collection of adequate excise tax revenue. While 6(40%) respondents level of agreement were disagree and strongly disagree while the rest of the respondents' undecided on the issue. (For detail see table below).

The rate for payment of excise tax is fair when goods are imported and locally produced

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	4	22
		Disagree	8	44
		Agree	3	17
		Strongly Agree	3	17
		Do not know	-	-
		<b>Total</b>	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	3	6
		Disagree	27	51
		Agree	16	30
		Strongly Agree	2	2
		Do not know	6	11
		<b>Total</b>	<b>54</b>	<b>100</b>

Source: survey data.

Excise tax is, a tax imposed on selected goods such as luxuries, demand inelastic and hazardous which ultimately enhancing revenue of the country. But up to now there is no provision that define which good is whether demand inelastic, luxuries and hazardous goods. Therefore most of the interviewees believe that the excise tax rate is better to decrease the rate to help the economy of the people, because it will give us more competitive advantage against similar imported products, which have much less tax rate at their respective countries it is a high rate Affect significantly cash flow and profitability of the company. And also from social perspective for instance People have right to get pure water .There is lack of access water and sanitation in Ethiopia Charging bottled water increase the problem .It will make unaffordable to use bottled water for that matter water is not luxury and elastic. On the other hand high rate of excise tax on cost of production increases the cost and minimize profit margin of the company. And also if the rate of tax is high it will increase the cost of production, so the price of product will increase accordingly, there is a down the demand of

the product and affect competitive advantage. Again it depends whether we are looking at consumers' goods and goods that are deemed harmful to the society. It increases the costs of our products due to a high excise tax rate for instance excise tax rate imposed on cost of production end up on paying substantial amount every month, hence making financial constraint on our business. It creates liquidity and profitability problem since the payment is high It takes the working capital sometimes. Since excise tax is indirect tax and the payment is made up of production, there is a cash flow issue until it gets back from customer up on sale. Generally it highly influences the performance of our business, since it affects the liquidity of the company, so it affects the company not to operate in its full capacity.

### **Information about excise tax is readily available**

Therefore according to survey data responses on the level of agreement those have information about excise tax whether it is readily available of current excise tax proclamation ,regulation, directive and circular out of 18 respondents of tax payers 10(55%) were disagree and strongly disagree, whereas, 8(45%) of the respondents level of agreement were strongly agree and agree. (See table below for details).

Information about excise tax in readily available.

<b>Category of the Respondents</b>		<b>Frequency</b>	<b>Percent</b>	
Taxpayers	Valid	Strongly Disagree	6	33
		Disagree	4	22
		Agree	1	6
		Strongly Agree	7	39
		Do not know	-	-
		<b>Total</b>	<b>18</b>	<b>100</b>

Source: survey data.

Based on response of interviewees of taxpayers the other reason that makes complex the excise tax regimes lack of consolidation of tax laws including excise tax laws into codes. For instance, directive like exempting excise tax for 3 years those produced textile domestically, refund excise tax for those goods exported by means of export trade duty incentive schemes. Therefore, there are ample of exemption and crediting entitlement directives which are not known by the taxpayers and tax experts because of lack of consolidation excise tax directive, and circular in to a single code. Therefore, directives that grant exemptions, crediting and refund schemes are virtually unknown among the wider population of taxpayers, presumably

because their effect is to relieve some taxpayers from payment of taxes. They may have an impact upon the overall equitability of the tax system.

### **As a business entity, you are aware of your tax obligation**

Based on response survey data responses on the level of agreement. As a business entity, the awareness business community on their tax obligation is out of 18 respondents of tax payers 6(34%) were disagree and strongly disagree, whereas, 12(66%) of the respondents level of agreement were strongly agree and agree. (See table below for details).

As a business entity, you are aware of your tax obligation

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	3	17
		Disagree	3	17
		Agree	7	39
		Strongly Agree	5	27
		Do not know	-	-
		<b>Total</b>	<b>18</b>	<b>100</b>

Source: survey data.

### **4.2.3 Excise Tax Base Computation**

#### **Computing cost of production creates difficulty and additional administrative problems for the payment of excise tax on taxpayers**

Based on response survey data responses on the level of agreement in computing cost of production creates difficulty and additional administrative problems for the payment of excise tax on taxpayers is out of 18 respondents of taxpayers 3(17%) were disagree and strongly disagree, whereas, 15(83%) of the respondents level of agreement were strongly agree and agree. (See table below for details). And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 15(28%), while 39(72%) of the respondents were strongly agree and agree (See table below for details).

Computing cost of production creates difficulty and additional administrative problems for the payment of excise tax on taxpayers.

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	1	6
		Disagree	2	11
		Agree	7	39
		Strongly Agree	8	44
		Do not know	-	-
		<b>Total</b>	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	2	4
		Disagree	13	24
		Agree	34	63
		Strongly Agree	5	9
		Do not know		
		<b>Total</b>	<b>54</b>	<b>100</b>

Source: survey data.

Most of the taxpayer’s interviewees believe that Excise tax base for locally produced goods (cost of production) is too high and it is discouraging for companies that are engaged in consumable product which are considered necessity. Since it is narrowly defined it exposed to lack of clarity that leads to be used among tax officers subjectively. But some others interviewees suggest that the excise tax base, which is the cost of production, is clearly stated under the proclamation as labor cost, material consumption and overhead costs except machinery depreciation. This content of cost is based on accounting principles so it can easily traceable or calculated for locally produced goods. The excise tax is based on cost of production while the cost of production is well defined. But the tax base is by subjective and comprises unnecessary costs that should not be accounted as cost of production. Therefore, since there are multiple arguments on the definition of cost of production this creates difficulties in tax administration.

And employees’ interviewees believe that Excise tax base for locally produced goods (cost of production) are direct labor and raw materials, cost of indirect inputs and overhead cost except the depreciation cost of machineries. But depreciation cost of machineries includes or not the production building /plants/ not clear for most companies and excise tax paid for imported raw material also include the part of locally produced goods except some products is not acceptable related to double taxation concept. Cost of production is not show the materials that is produced locally, so it is depend on the company accounting system. Overhead cost is not justified clearly for all sectors in detail for beverage, textile... and the proclamation discussed only the producer not the tax concept. There are some gaps between

taxpayer method of evaluation and the Ministry of revenues officers. Therefore there is no common understanding on the excise bases between the taxpayer and the tax office. The base is always the center of debate among the third party of the aim of tax audit. Generally the issue requires detail explanation (direction) which shows which one cost should be include and not included for the base and its related.

**If the base of excise tax applies on volume, kilogram, meter will solve the problem of computation.**

The survey data responses whether the base of excise tax applies on volume, kilogram, meter will solve the problem of computation for payment of excise tax computation for locally produced goods is clear is out of 18 respondents excise taxpayers’ 6(34%) were disagree and strongly disagree, whereas, 12(66%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 28(52%), while 26(49%) of the respondents were strongly agree and agree (See table below for details).

If the base of excise tax applies on volume, kilogram, meter, will solve the problem of computation

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	5	28
		Disagree	1	6
		Agree	6	33
		Strongly Agree	6	33
		Do not know	-	-
		<b>Total</b>	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	15	28
		Disagree	13	24
		Agree	21	39
		Strongly Agree	3	5
		Do not know	2	4
		<b>Total</b>	<b>54</b>	<b>100</b>

**Applying excise tax on packaging materials is fair.**

Therefore according to survey data responses whether applying excise tax on packing materials is fair is out of 18 respondents excise taxpayers’ 11(61%) were disagree and strongly disagree, whereas, 7(39%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 28(51%), while 26(44%) of the respondents were strongly agree and agree (See table below for details).

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	7	39
		Disagree	4	22
		Agree	2	11
		Strongly Agree	5	28
		Do not know	-	-
		Total	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	3	6
		Disagree	14	29
		Agree	29	49
		Strongly Agree	5	10
		Do not know	3	6
		Total	<b>54</b>	<b>100</b>

Source: survey data.

### **Imposing excise tax on manufacturing sites like building cost and delivery materials is fair.**

Therefore according to survey data responses on the statement whether imposing excise tax on manufacturing sites like building cost is fair, out of 18 respondents excise taxpayers 10(56%) were disagree and strongly disagree, whereas, 8(44%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 22(41%), while 29(64%) of the respondents were strongly agree and agree (See table below for details).

Applying excise tax on manufacturing sites, building and delivery materials, is fair.

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	10	56
		Disagree	6	33
		Agree	2	11
		Strongly Agree		
		Do not know		
		Total	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	2	4
		Disagree	20	37
		Agree	20	48
		Strongly Agree	9	16
		Do not know	3	5
		Total	<b>54</b>	<b>100</b>

Source: survey data.

**The gap between the tax law related with excise tax and actual practice on computation is whether it is wide.**

According to survey data responses on the gap between the tax law related with excise tax and actual practice on computation is whether it is wide out of 18 respondents excise taxpayers 8(40%) were disagree and strongly disagree, whereas, 10(60%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 16(29%), while 37(68%) of the respondents were strongly agree and agree (See table below for details).

The gap between the tax law related with excise tax and actual practice on computation is wide.

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	3	20
		Disagree	3	20
		Agree	5	30
		Strongly Agree	5	30
		Do not know	-	-
		<b>Total</b>	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	4	7
		Disagree	12	22
		Agree	32	59
		Strongly Agree	5	9
		Do not know	1	2
		<b>Total</b>	<b>54</b>	<b>100</b>

Source: survey data.

As most of excise taxpayers opinion the method of excise tax computing is stated in general word. (Is not detail) there is no sector specific method at calculating excise tax. (Example, for soft drink, textile...). Some time it is pretty much difficult to identify whether the product would be included in cost of production or not if it depend the nature of product. MOR should state the tax base of excise tax in clearly in which various cost should be included or not. Therefore, those from factory of water bottlers claim as computing system of excise tax is not fair and clear or transparent especially for water bottle manufacturers. And also, there is an argument that the cost of bottle is excisable for water but not for beer (glass vs. plastic bottle).

And also the excise tax is base is not clear on the proclamation and as a result the computation method is not easy and straight forward. And also the basis of computation of

excise tax varies from goods produced locally and goods imported in respect of goods produced locally.

Finally, they conclude as the provisions have many rooms for manipulation for many non law-abiding companies that gives rooms for interpretation.

Whereas most of the senior tax experts and official interviewees suggest that the computing methods of excise tax based on the goods produced locally is cost of production & the goods of imported cost, insurance, freight and custom duty are common as other countries. Therefore the computing of the tax for local produced it is not clear the law must be defining clearly the cost of production. In case of imported goods computing excise tax is based on CIF and custom value which is clear and precise. And also they are mention the vague situation to compute excise tax specifically depreciation of plant and machineries, building, and laboratory assets. And it lacks detail clarity in the application of excise tax on textile, TV manufacturer and domestic car assemble factory in regard to excise tax crediting system.

#### 4.2.4 Excise Tax Contribution

##### **Current excise tax rate and excisable items are enough to generate large amount of tax revenue for the government**

The survey data responses on the Current excise tax rate and excisable items are enough to generate large amount of tax revenue for the government out of 18 respondents excise tax payers 5(35%) were disagree and strongly disagree, whereas, 13(65%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employee those who disagree and strongly disagree on the question accounts 22(45%), while 28(47%) of the respondents were strongly agree and agree (See table below for details).

Current excise tax rate and excisable items are enough to generate large amount of tax revenue for the government

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	2	14
		Disagree	3	21
		Agree	3	21
		Strongly Agree	10	44
		Do not know	-	-
		Total	<b>18</b>	<b>100</b>

Employees	Valid	Strongly Disagree	2	4
		Disagree	20	41
		Agree	28	47
		Strongly Agree	-	-
		Do not know	4	8
		Total	<b>54</b>	<b>100</b>

Source: survey data.

### **Reducing the tax rate on excise tax will enhance your compliance level.**

Therefore according to survey data responses whether reducing tax rate on excise tax will enhance your compliance level is out of 18 respondents excise taxpayers' 4(28%) were disagree, whereas, 14(72%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 25(46%), while 27(50%) of the respondents were strongly agree and agree (See table below for details).

Reducing the tax rate on excise tax will enhance your compliance level

Category of the Respondents		Frequency	Percent
Taxpayers	Valid	Strongly Disagree	-
		Disagree	4
		Agree	6
		Strongly Agree	8
		Do not know	-
		Total	<b>18</b>
Employees	Valid	Strongly Disagree	5
		Disagree	20
		Agree	20
		Strongly Agree	7
		Do not know	2
		Total	<b>54</b>

Source: survey data.

### **4.2.5 Effect of Excise Tax on Financial Performance of the firms.**

#### **Equality of tax administration services providing the largest marginal revenues in reducing tax gaps in tax enforcement measures.**

According to survey data responses whether equality of tax administration service providing the largest marginal revenues in reducing tax gaps in tax enforcement measures is out of 18 respondents excise taxpayers' 4(36%) were disagree, whereas, 14(64%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question

accounts 3(6%), while 49(90%) of the respondents were strongly agree and agree (See table below for details).

Equality of tax administration services providing the largest marginal revenues in reducing tax gaps in tax enforcement measures

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	-	-
		Disagree	4	36
		Agree	12	46
		Strongly Agree	2	18
		Do not know	-	-
		Total	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	1	2
		Disagree	2	4
		Agree	43	79
		Strongly Agree	6	11
		Do not know	2	4
		Total	<b>54</b>	<b>100</b>

Source: survey data.

### **Tax office provides greater assistance to taxpayers creating favorable conditions for tax compliance**

The survey data responses on the Tax office provides greater assistance to taxpayers creating favorable conditions for tax compliance out of 18 respondents excise taxpayers' 13(72%) were disagree and strongly disagree, whereas, 5(28%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 17(32%), while 36(66%) of the respondents were strongly agree and agree (See table below for details).

Tax office provides greater assistance to taxpayers creating favorable conditions for tax compliance

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	2	11
		Disagree	11	61
		Agree	5	28
		Strongly Agree	-	-
		Do not know	-	-
		Total	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	1	2
		Disagree	16	30
		Agree	26	48
		Strongly Agree	10	18
		Do not know	1	2
		Total	<b>54</b>	<b>100</b>

Source: survey data.

Taxpayer’s interviewees believe that the tax office employees’ knowledge of tax practice, skills and decision making ability is poor to assist them i.e. they don’t understand even tax laws and accounting principles. Lack of uniform and complete curriculum in academician has created knowledge gap in experts involved in tax management and they don’t have proper knowledge on the specific area and they are not willing to hear taxpayers. Tax office couldn’t give relevant training to the officers and also employees must refer international practice. Most tax auditors are still not capable to review account document for accuracy and compliance with laws and regulations. Some others taxpayers also believe that some tax office employees are good in explaining what customers need and they have fine knowledge even though still need more training.

Tax officers employee opinion in this regards are some of employees’ have ample knowledge of tax practice, skill and decision making ability. But the main challenges in practice particularly classifying the accounts properly either production cost or other costs and expenses. The tax office understanding level is differing from officer to officer because their working experience is determining their level of understanding of tax laws.

**Tax administration has been changed from an enforcement paradigm to service paradigm**

As per establishment proclamation no 587/2008 MOR established investigation intelligence and prosecutors department in order to execute fair and justifiable law enforcement procedure to protect the interest of the government and compliant taxpayers. Therefore as it can be seen on the table out of 18 respondents excise taxpayers’ 14(78%) were disagree and strongly disagree, whereas, 4(22%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 21(39%), while 32(59%) of the respondents were strongly agree and agree (See table below for details).

Tax administration has been changed from an enforcement paradigm to a service paradigm

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	8	44
		Disagree	6	34
		Agree	4	22
		Strongly Agree	-	-
		Do not know	-	-
		Total	<b>18</b>	100

Employees	Valid	Strongly Disagree	7	13
		Disagree	14	26
		Agree	26	48
		Strongly Agree	6	11
		Do not know	1	2
		Total	<b>54</b>	100

Source: survey data.

According to the interview from tax officials, tax intelligence, tax criminal investigation and tax prosecutions are controlled under the tax enforcement body. The main duty of tax intelligence is collecting, analyzing information and tax records of business entity based on their risk level. These are proactive activities which enable to protect and save the tax office from the occurrence of tax fraud. And also the main duty of criminal tax investigation impartially investigating tax criminal cases which are referring to them from various departments mainly from the intelligence, some of these offences are: eligible entity having not registered, refund fraud, evasion and so on. But in other legal procedures (criminal procedural laws) and establishment proclamation of MOR justice delivering must be based on fact finding that protecting the interest of government without negating the interest of taxpayers in the scope of due process of laws other than winning and losing cases. Therefore till now it seems no paradigm shift.

**The excise tax administration creates a problem on financial performance of the firm.**

The survey data responses whether the excise tax administration creates a problem on financial performance of firm is out of 18 respondents excise taxpayers' 3(17%) were disagree and whereas, 15(83%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 11(21%), while 45(74%) of the respondents were strongly agree and agree (See table below for details).

The excise tax administration creates a problem on financial performance of the firm.

Category of the Respondents		Frequency	Percent
Taxpayers	Valid	Strongly Disagree	-
		Disagree	3
		Agree	6
		Strongly Agree	9
		Do not know	-
		Total	<b>18</b>

Employees	Valid	Strongly Disagree	1	2
		Disagree	10	19
		Agree	35	65
		Strongly Agree	5	9
		Do not know	3	5
		<b>Total</b>	<b>54</b>	<b>100</b>

Source: survey data

According to taxpayers interviewee's main problems in excise tax and firms performance in manufacturing sectors lack of their product more expensive and transparency and high rate, lack of computation clarity on excisable products, lack careful computation, difficulties of their working capital, misunderstanding in the concept of depreciation calculation, excise tax receivable concepts for textile and car assembly manufacturing company, Classification of account to decide whether the part of production cost or administration cost, skill gap related with excise tax on taxpayers and tax office, absence at excise tax audit and compliance check procedure manuals, and lack at clarity on component at cost of production...etc. and also the base for excise tax was not clearly stated on proclamation no.307/2002 till proclamation 570/2008, For example, packaging cost is treating as distribution cost rather than production by taxpayers but not by tax office. This and others related inconsistency created huge noncompliance cost.

Senior officials and tax expertise of MOR suggests their opinion as for local producers what is cost of production which items and costs are included on the production cost. It creates more administrative costs separating record keeping and the bases are sometimes are not consistent with the tax officer computation. The excise tax system by itself is the main problem it is not updated for a long period of time and not going with the current business demand of international practice. The main problems in excise tax and firm performance in manufacturing sectors are the classification of accounts is not clearly describe includes cost of production or other costs and expense. And also the cost like normal and abnormal ideal labor, idle time, idle capacity & wastage are not defined and related costs are not properly classified either production cost or expenses. The other main problem excise tax for the firm performance in manufacturing sectors if the firms produced taxable goods even not sold the products they have obligation to pay excise tax related the level of production and also lack of clarity on the list of production cost for excise tax computation in each schedule and lack of awareness in both side of taxpayers and tax office.

## 4.2.6 Excise Tax Refund Administration

### Excise tax refund is working properly.

Therefore according to survey data responses on excise tax refund is working properly. The statement whether excise tax directive are clear and work is out of 18 respondents excise taxpayers' 14(78%) were disagree and strongly disagree, whereas, 2(11%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 21(38%), while 24(45%) of the respondents were strongly agree and agree (See table below for details).

Excise tax refund is working properly

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	3	17
		Disagree	11	61
		Agree	2	11
		Strongly Agree	-	-
		Do not know	2	11
		<b>Total</b>	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	4	7
		Disagree	17	31
		Agree	22	41
		Strongly Agree	2	4
		Do not know	9	17
		<b>Total</b>	<b>54</b>	<b>100</b>

Source: survey data

Taxpayers' interviewee opinion on excise tax refund was time taken to process and there is lack of awareness creation activities from the tax offices. And the tax laws doesn't updated it should reflect the current condition. The treatment of wastage, damage and spoilage in production process is subject to individual view, skill gap on taxpayers and tax staff and there is no standard on input and output relation. Therefore, there is problem in refund process when the excise tax base changed.

From employees perspective the peculiar challenges for administration of proper system for excise tax base and refund is few tax auditors raise questions about excise tax payment during the goods imported not includes the cost of products related Vehicle and textile producers.

And also, the problems arise from lack of clear computation base of this tax and lack of receipts which shows the excise tax for local purchases.

**Excise tax directives are clear to work**

Therefore according to survey data responses on the statement whether excise tax directive are clear and work is out of 18 respondents excise tax payers 17(94%) were disagree and strongly disagree, whereas, 1(6%) of the respondents level of agreement were strongly agree. And also the level of agreement among the respondent of 54 employee those who disagree and strongly disagree on the question accounts 33(61%), while 20(37%) of the respondents were strongly agree and agree (See table below for details).

Excise tax directives are clear to work

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	5	27
		Disagree	12	67
		Agree		
		Strongly Agree	1	6
		Do not know		
		Total	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	11	20
		Disagree	22	41
		Agree	19	35
		Strongly Agree	1	2
		Do not know	1	2
		Total	<b>54</b>	<b>100</b>

Source: survey data

Most of tax payer’s interviewees’ suggestion on the clarity of Excise tax proclamations and directives as its general and not detail and so far not clear provision in general that leads to personal judgment. And also there is a category of tax payers interpret in different ways, for instance article of deprecation of machinery some taxpayers are arguing building depreciation should be considered as machinery.

And also most of the interviewees of senior expert officers suggest that the proclamation is not tracing all things that important for the computations. And also Excise tax is the least defined tax type company to other typically taxes there is no regulation directive or circular which clarify the spirit of the excise proclamation.

**Excise taxes paid on custom for textile and car assemble are deductible for the excise taxes are fair when comparing to others excisable products or raw materials import from abroad**

According to survey data responses on the statement whether excise tax paid on customs for textiles and car assemblies are deductible for the excise tax are fair when compare to others excisable products or raw material from abroad is out of 18 respondents excise taxpayers' 3(17%) were disagree and strongly disagree, whereas, 12(67%) of the respondents level of agreement were strongly agree and agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 21(40%), while 29(53%) of the respondents were strongly agree and agree (See table below for details).

Excise tax paid on custom for textile and car assemble are deductible for the excise tax are fair when compare to others excisable products or raw materials import from abroad

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	2	11
		Disagree	1	6
		Agree	12	67
		Strongly Agree	-	-
		Do not know	3	16
		<b>Total</b>	<b>18</b>	<b>100</b>
Employees	Valid	Strongly Disagree	3	6
		Disagree	18	34
		Agree	25	46
		Strongly Agree	4	7
		Do not know	4	7
		<b>Total</b>	<b>54</b>	<b>100</b>

Source: survey data

#### **Excise tax refund for direct exporter and indirect exporter are clear.**

Therefore based on this assessment of excise tax refund for direct exporter and indirect exporter are clear is out of 18 respondents excise taxpayers' 11(61%) were disagree and strongly disagree, whereas, 4(22%) of the respondents level of agreement were agree. And also the level of agreement among the respondent of 54 employees those who disagree and strongly disagree on the question accounts 27(50%), while 20(37%) of the respondents were strongly agree and agree (See table below for details).

Excise tax refund for direct exporter and indirect exporter are clear

Category of the Respondents		Frequency	Percent	
Taxpayers	Valid	Strongly Disagree	5	28
		Disagree	6	33
		Agree	4	22
		Strongly Agree	-	-
		Do not know	3	17
		Total	<b>18</b>	100
Employees	Valid	Strongly Disagree	5	9
		Disagree	22	41
		Agree	18	33
		Strongly Agree	2	4
		Do not know	7	13
		Total	<b>54</b>	100

Source: survey data

**The rate for payment of excise tax is fair when goods are imported and locally produced.**

In Ethiopia imposition of Excise Tax shall be levied and paid at the differential rates. The power to decide the rate of Excise tax is given to the House of People Representative. As survey conducted on the target sample of 104 respondents 51(49.1%) respondents were agree and strongly agree on the current Ethiopian excise tax rate fairness for collection of adequate excise tax revenue. While 43(41.4%) respondents level of agreement were disagree and strongly disagree while the rest of the respondents' undecided on the issue. (For detail see table below).

The rate for payment of excise tax is fair when goods are imported and locally produced

Category of the Respondents		Frequency	Percent	
Tax Payer	Valid	Strongly Disagree	5	33
		Disagree	6	40
		Agree	4	27
		Strongly Agree	3	0
		Do not know	-	-
		Total	18	100
Employee	Valid	Strongly Disagree	3	6
		Disagree	27	51
		Agree	16	30
		Strongly Agree	2	2
		Do not know	6	11
		Total	54	100

Source: survey data.

### 4.3 Performance of excise tax revenues in Ethiopia

The excise tax regime in Ethiopia has a number of areas that need to be reviewed in light of changes in the socio economic environment in the country and internationally. One of the areas, to this end, is the determination of tax base for excises on locally produced goods. As noted earlier, cost of production is used as the tax base for locally manufactured excisable goods. However, in practice there are differences of opinion not only between taxpayers and tax officials but also among tax officials in the treatment of certain costs and determination of costs of production in general. The difference arise in connection with the extent such costs as packaging costs (tobacco companies argue that some of the packing costs are promotional/selling costs), labeling costs (in relation to water bottling companies), cost of idle labor (salaries of factory employees when there is no production) and Sur tax are treated as part of production costs. For example in the case of cost of idle labor there are some officials who think that such costs should be excluded from production costs while others think to the contrary.

In addition, using cost of production as a measure of excise tax base has caused the difficulty of verifying excise tax refund claims by taxpayers for there appears to be no easily accessible evidence showing the payment of excises on inputs.

Trends of excise tax and other indirect taxes in LTO

Year	Excise Tax Revenue	VAT Revenue	Total Revenue	Contribution of Excise Tax from Total Revenue	contribution of VAT from Total Revenue
2009/2010	989.05	4,130.02	11,689.57	8.460961	35.33081
2010/2011	1,390.65	7,263.43	19,662.69	7.072532	36.94016
2011/2012	1,893.55	11,140.85	26,134.97	7.245273	42.62813
2012/2013	2,026.04	15,105.88	32,520.04	6.230128	46.45099
2013/2014	2,623.12	19,654.12	43,916.19	5.973014	44.7537
2014/2015	3,311.37	26,689.08	53,043.68	6.242723	50.31529
2015/2016	3,552.05	26,021.25	60,567.55	5.864609	42.96236
2016/2017	4,689.18	28,589.13	68,210.03	6.874619	41.91338
2017/2018	4,688.64	28,975.94	74,193.17	6.319504	39.05473

Source: LTO annual reports and own computation.

From the above table the revenues performance of excise tax are increases from 2008/2009 to 2017/2018 and the total revenues performance /for the contributes are decrease. VAT performances are increase but the contributions for revenues are varies, sometimes increase or decrease.

Trends of excise taxes contributions per revenue code

<b>Year</b>	<b>Soft Drinks</b>	<b>Alcohol and Alcoholic Products</b>	<b>Beer</b>	<b>tobacco &amp; Tobacco Products</b>	<b>Others</b>
2009/2010	217.82	51.1	338.35	146.61	235.18
2010/2011	401.62	13.31	662.23	40.99	272.5
2011/2012	451.23	138.72	744.08	441.6	117.92
2012/2013	499.5	143.29	834.65	458.89	89.71
2013/2014	729.95	157.69	1073.18	511.74	150.56
2014/2015	899.03	260.24	1346.5	520.99	284.61
2015/2016	910.43	247.88	1576.82	479.18	337.74
2016/2017	1148.19	317.79	2339.46	621.05	262.69
2017/2018	1208.87	380.06	2180	642.81	276.91

Source: from LTO annual reports Owen computation

From the above graph from excise tax revenues, beer have the highest contribution, soft drinks have the second and third contribute on is excise tax from tobacco.

## Analysis and discussion of Performance of Excise tax in Ethiopia (In Millions of Birr)

Years	GDP	Actual Excise tax collected	Total tax revenue	Ratio of Excise tax revenue to tax revenue	Ratio of Excise tax revenue to GDP
1999/00	59,575.00	666.72	3791.32	17.59 %	1.12%
2000/01	64,343.10	595.89	3971.81	15.00 %	0.93%
2001/02	64,990.70	654.13	4543.46	14.40 %	1.01%
2002/03	66,586.00	689.14	4622.54	14.91 %	1.03%
2003/04	74,397.00	968.26	5757.92	16.82 %	1.30%
2004/05	83,804.00	1218.8	9,735.29	12.52 %	1.45%
2005/06	93,474.00	1227.11	11,261.32	10.90 %	1.31%
2006/07	104,499.00	1461.35	14,177.6	10.31 %	1.40%
2007/08	346,400.00	1860.55	19,280.27	9.65 %	0.54%
2008/09	380,500.00	2471.23	23,583.26	10.48 %	0.65%
2009/10	419,800.00	3,341.264	35,252.89	9.48 %	0.80%
2010/11	475,600.00	4,754.574	50,800.00	9.36 %	1.00%
2011/12	517,000.00	6,263.976	70,700.00	8.86 %	1.21%
2012/13	568,000.00	6,975.533	84,400.00	8.26 %	1.23%
2013/14	627,000.00	8,255.895	106,700.00	7.74 %	1.32%
2014/15	692,000.00	10,003.42	128,300.00	7.80%	1.45%
2015/16	1,449,400.00	11,669.65	144,331.00	8.09 %	0.81%
2016/17	1,596,500.00	13,414.92	160,179.62	8.37 %	0.84%
2017/18	1,719,500.00	13,645.22	176,103.00	7.75 %	0.79%

Source: From NBE, and MOR data, own computation

The graph depicts that the excise tax comprises 17.59% % of total tax revenue in fiscal year of 1999/00 and decreasing to 7.75 % of total revenues in 2017/18. And also, the excise tax per GDP growth has been decreasing from 1.12% in 1999/00 to 0.79 % in 2017/18.

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

The main aim of this research is to assess excise tax and firm performance on the case study Large Taxpayers Branch Office. While undertaking the study, the researcher used both qualitative and quantitative data to clearly observe the excise tax administrative challenges with respect to the branch office and the business community/Excise taxpayers/ in particular, and its performance in the national Economy in general. Therefore it would be necessary to draw the following conclusion and recommendation from the result obtained.

#### 5.1 Conclusion

The findings of the analyses suggested that there are dominant challenges of excise tax practice and to assess excise tax and firm performance level.

The main areas where lack of clear defined base of excise tax, lack of having clear and justifiable excise tax computation procedure manuals and guideline, insufficient access in getting adequate training and education on excise tax laws, no integrated system of excise tax refund, and corruption problems. Therefore these all are manifested as: no attempts could be seen from the MOR to update the laws to go with changes in the business environment. The law is complex due to high level of abstraction and technical terms as well as frequent amendment of directives and circulars. Therefore to comprehend the excise tax laws it required fast and hard excise tax education and training, but not as it would like.

The cause of failure to declare the actual computation of excise tax is lack of narrow definition of the base of excise tax. Therefore Cost of production giving sufficient attention to the term is extremely crucial because the excise tax that must be collected by any given country is determined by the definition the country has given to the term “cost of production and the scope taxes inflicted” in its legal framework.

Adding excise tax on goods exported affects competitive advantage in global markets by boosting their sells price and also applying excise tax on raw materials during import at customs and also applying it locally during production which creates duplication and affects manufacturing companies. And also excise tax is it is a tax imposed on selected goods such as luxuries, demand inelastic and hazardous which ultimately enhancing revenue of the country. But up to now there is no provision that define which good is whether demand inelastic, luxuries and hazardous goods. Therefore most of the interviewees believe that the excise tax rate should be clearly defined its scope and is better to decrease the rate to help the economy of the people, because it will give us more competitive advantage against similar imported

products, which have much less tax rate at their respective countries it is a high rate affect significantly cash flow and profitability of the company.

Whether the tax administration has been changed from an enforcement paradigm to a service paradigm: the main duty of criminal tax investigation impartially investigating tax criminal cases which are referring to them from various departments mainly from the intelligence, some of these offences are: eligible entity having not registered, refund fraud, evasion and so on. But in other legal procedures (criminal procedural laws) and establishment proclamation of MOR justice delivering must be based on fact finding that protecting the interest of government without negating the interest of taxpayers in the scope of due process of laws other than winning and losing cases. Therefore till now it seems no paradigm shift.

The percentage performance of excise taxation in relation with national income and total government revenue, the excise tax comprises 17.59 % of total tax revenue in fiscal year of 1999/00 and decreasing to 7.75 % of total revenues in 2017/18. And also, the excise tax per GDP growth has been decreasing from 1.2% in 1999/00 to 0.79 % in 2017/18.

## **5.2 Recommendations**

Based on the survey response, secondary data analysis and information obtained by interview the researcher recommends the governments /MOF and MOR the following points.

Complex laws and procedure make it difficult and expensive for taxpayers to comply with their obligations and access their entitlements. Indeed narrow definition of the base of excise tax, a countless number of directives and circulars make the situation intense; therefore, to overcome this situation the government should update the laws with changes in the business environment and consolidating the excise tax laws in a single code. Whilst due to high level of abstraction and technical terms as well as frequent amendment of directives as well as circulars the MOR and MOF should give multi-faceted training to their employees and excise tax registered taxpayers in the area of excise tax base of computation, excise tax creditability and refund scheme, assessment technique, enforcement. And also to solve the problem related computation of excise tax is the tax legal framework it will be properly describe related packing materials, labels, idle labor, idle time, idle capacity & wastage whether they are a part of cost of production or expense.

Adding excise tax on goods exported affects competitive advantage in global markets by boosting their sells price and also applying excise tax on raw materials during import at customs and also applying it locally during production which creates duplication and affects manufacturing companies. And also excise tax is it is a tax imposed on selected goods such as luxuries, demand inelastic and hazardous which ultimately enhancing revenue of the

country. But up to now there is no provision that define which good is whether demand inelastic, luxuries and hazardous goods. Therefore the government should clearly define the scope of application of excise tax.

The percentage performance of excise taxation in relation with national income and total government revenue, the excise tax comprises 17.59% of total tax revenue in fiscal year of 1999/00 and decreasing to 7.75 % of total revenues in 2017/18. And also, the excise tax per GDP growth has been decreasing from 1.2 % in 1999/00 to 0.79 % in 2017/18. This implies that the government should formulate a policy to enhance excise tax revenues.

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## **Laws**

*Negarette Gazzette*, Ethiopian Excise Tax proclamation No.307/2002, Addis Ababa, BSPP.

*Negarette Gazzette*, Ethiopian excise Tax Proclamation amendment No.570/2008, Addis Ababa, BSPP

*Negarette Gazzette*, Ethiopian Value Added Tax amendment proclamation No.79/2002, Addis Ababa, BSPP.

*Negarette Gazzette*, *Constitution of the Federal Democratic Republic of Ethiopia*, proclamation No. 1/1995 , Addis Ababa, BSPP.

*Negarette Gazzette*, Ethiopian Income Tax proclamation No.286/2002, Addis Ababa, BSPP.

*Negarette Gazzette*, Ethiopian Value Added Tax amendment proclamation No.609/2008, Addis Ababa, BSPP

## APPENDICES

### Table of current Excise Tax Rates in Ethiopia

(Proclamations 307/2002, 570/2008 & 610/2008)

S.N.	Type of Product	Excise Tax Rate (%)
1	Any type of sugar/In solid form excluding Molasses	33
2	Drinks	
2.1	All types of soft drinks/except Fruit/ Juices	30
2.2	Powder soft drinks	30
2.3	Water bottled or canned in a factor	20
2.4	Alcoholic drinks	
2.5	All types of beer & stout	50
2.6	All types of wine	50
2.7	Whisky	50
2.8	Others alcoholic drinks	100
3	All types of pure Alcohol	75
4	Tobacco & Tobacco products	
4.1	Tobacco leaf	20
4.1	Cigarettes, Cigar, Cigarillos, pipe Tobacco snuffs and other tobacco products	75
5	Salt	30
6	Fuel-Super Benzene, Regular Benzene, Petrol, Gas-online and other motor spirits	30
7	Perfumes and toilet waters	100
8	Textile and Textile products	
8.1	Textile fabrics, knitted or woven of natural silk, Rayon, nylon wool or other similar material	10
8.2	Textile of any type partly or wholly made from cotton which is gray, white, dyed or printed, in pieces of any length or width /except mosquito net and "Abudgedid"/ and including blankets, bed sheets, counterpanes, towels, table clothes and similar articles	10

## APPENDIX-1

### Questionnaire Designed for taxpayers

Dear respondents: Currently I am MA student in specialization in Accounting and Finance and I am pursuing a research project in title “Excise tax and firms performance: Evidence from manufacturing sectors”. The objective of the study is to analyze the presumed factors underlying effects of excise tax on firm performance of taxpayers, and to point out possible remedies for the problems. To achieve this objective and to successfully complete this research the information obtained from your responses to the questionnaire are valuable. Thus, this questionnaire prepared to gather information about the excise tax and firm performance and this research will be used only for academic purpose.

Please tick (√) for the appropriate answer. If the questions need explanation, answer on space provided. I a apologize for taking your time and thank you in advance for helping me with the questionnaires

For any kind of question you have or if need clarification please call me, at cell phone Number **+251 911 440440**.

#### I. General Information

1. Gender      a, Female       b, Male
  
2. Age    a, 20-30     b, 31-40     c, 41-50
  
3. Educational Background  
    a, Certificate       b, Diploma   
    c, First Degree       d, Second degree & above
  
4. Would you let me know your responsibility at your good office?  
    \_\_\_\_\_
  
5. Do you have experience in tax related issues? If so, how many years?  
    \_\_\_\_\_

6. Types of manufacturing your organization is engaged is

- a, Beer  c, Mineral water   
b, Soft drinks  d, Alcohol and alcoholic products   
e, Tobacco & tobacco products  f, Textile & clothing   
g, other type's \_\_\_\_\_ please mention your Business type.

7. Year of establishment of your business entity

- a, less than 2 years   
b, from 2-5 years   
c, from 6-10 years   
d, above 10 years

8. Excise tax is taxed at 10-100%. Do you think it is high tax rate

- a, Yes  b, No

9. If your answer for question no. 8 is “yes” even if tax rate is a policy issue, which tax rate do you think is fair (perception towards tax rate)

- a. 10% Tax rate   
b. Between 11%-30%   
c. Between 31%-50%   
d. Between 51%-70%   
e. Between 71%-100%

10. Give reasons for your answer in no. 8 is “yes “above.

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11. On average how do you spend monthly to meet your tax obligations?

- a, Below 10m birr   
b, Between 10m and 60m birr   
c, Between 61m and 100m birr   
d, Over 100m birr

12. How does the amount payable in terms of taxes influence the financial performance of your business?

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## II: Attitude questions on the issues related to Excise tax by tax payers

### A. Effect of Excise Tax on manufacturers

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
13. Excise tax has discouraging effects on performance of manufacturing sectors					
14. Adding excise tax on goods exported will affect competitive advantage in global markets by boosting their sells price					
15. Applying excise tax on raw materials during import at customs and also applying it locally during production which creates duplication and affects manufacturing companies					
16. The excise tax administration in our country enhances business competitiveness					
17. Excise tax, tax system will encourages to participant their investment in different sector.					

### B. Knowledge and Awareness

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
18. You have any information/awareness about excise tax.					
19. You have any information about current tax proclamations, regulations, directives & circulars which imposes excise tax.					
20. The base for payment of excise tax computation for locally produced goods is clear.					
21. The excise tax payment period, which is 30 days next to production month, is enough.					
22. The tax system facilitates tax payers to know their tax					

obligation before they own manufacturing business.					
23. MOR employees have enough knowledge about the computation of excise tax					
24. Tax regulation gives loophole that lead tax payers to unethical issues such as tax avoidance, tax evasion and corruption.					
25. The cause of failure to declare the actual computation of excise tax					
26. Excise tax laws are easy to understand implement					
27. The rate for payment of excise tax is fair when goods are imported and locally produced					
28. Information about excise tax in readily available					
29. As a business entity, you are aware of your tax obligation					
30. Lack of tax information affect your excise tax compliance					
31. As a business entity, you are able to correctly calculate the tax amount payable based on available the information					
32. As a business entity, you are aware of the consequences of failing to meet your tax obligations in time					
33. I find tedious in procedural complications and to maintain all my relevant records for the whole year for tax purposes					
34. The Ethiopian excise tax rules are bulky and hard for taxpayers like us to navigate.					

### C. Excise tax base computation

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
35. Computing cost of production creates difficulty and additional administrative problems for the payment of excise tax on taxpayers					
36. If the base of excise tax applies on volume, kilogram, meter, and price of products will solve the problem of computation					

37. Applying excise tax on packaging materials is fair					
38. Applying excise tax on manufacturing sites, building and delivery materials, is fair					
39. The administration of the tax system by taxing Authority is consistence across years and taxpayers.					
40. The gap between the tax law related with excise tax and actual practice on computation is wide					
41. Evaluation method used by tax office is reasonable					

**D. Excise tax Contribution**

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
42. Current excise tax rate and excisable items are enough to generate large amount of tax revenue for the government					
43. Reducing the tax rate on excise tax will enhance your compliance level					
44. I believe all excise tax payers pay their tax liabilities' according tax laws					

**E. Effect of Excise Tax on financial performance of the firms**

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
45. Tax administration is complex in tax reforms					
46. Excise tax enhances Tax reform reduces tax complexity in enforcement					
47. Equality of tax administration services providing the largest marginal revenues in reducing tax gaps in tax enforcement measures					
48. Tax office provides greater assistance to to tax payers creating favorable conditions for tax compliance					
49. Tax administration has been changed from an enforcement paradigm to a service paradigm					
50. The paradigm reduces criminal aspects of tax evasion tax measures					
51. Tax offices focus on helping taxpayer to file taxes by providing information needed					
52. The generalization of tax administration on financial performance is problematic					
53. Improve tax payers convenience in tax assessment					

**F. Excise Tax Refund**

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
54. Excise tax refund is working properly					
55. Excise tax directives are clear to work					
56. Excise tax paid on custom for textile and car assemble are deductible for the excise tax are fair when compare to others excisable products or raw materials import from abroad					
57. Excise tax refund for direct exporter and indirect exporter are clear					

*Thanks for your kind cooperation!*

## Questionnaires for Tax office staffs

The researcher is currently an MA-Accounting and Finance student for second degree and I am pursuing a research project in title “Excise tax and firm performance: Evidence from manufacturing sectors”. The objective of the study is to analyze the presumed factors underlying excise tax on firm performance of taxpayers, and to point out possible remedies for the problems. To achieve this objective and to successfully complete this research the information obtained from your responses to the questionnaire are valuable. Thus, this questionnaire prepared to gather information about the effects excise tax on firm performance in manufacturing sectors and this research will be used only for academic purpose.

Please tick (✓) for the appropriate answer. If the questions need explanation, please give your answer on space provided. I apologize for taking your time and thank you in advance for helping me with the questionnaires.

### I. General information

1. Gender    a, Female        b, Male
2. Age    a, 20-30        b, 31-40        c, 41-50
3. Educational Background  
a, Certificate                       b, Diploma   
c, First Degree                       d, Second degree & above
4. Year of experience in tax office  
a, Less than two years   
b. Between 2-4 years   
c, above 5 years
5. Name of your department:  
a, Tax assessment                       c, Auditing   
b , Tax refund                       d, Tax investigation   
e, Transfer pricing   
f, Other, please specify \_\_\_\_\_

**II:** Attitude questions on the issues related to Excise tax by employees

**G. Effect of Excise Tax on manufacturers**

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
6. Excise tax has discouraging effects on performance of manufacturing sectors					
7. Adding excise tax on goods exported will affect competitive advantage in global markets by boosting their sells price					
8. Applying excise tax on raw materials during import at customs and also applying it locally during production which creates duplication and affects manufacturing companies					
9. The excise tax administration in our country enhances business competitiveness					
10. Excise tax, tax system will encourages to participant their investment in different sector.					

**H. Knowledge and Awareness**

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
11. You have any information/awareness about excise tax.					
12. You have any information about current tax proclamations, regulations, directives & circulars which imposes excise tax.					
13. The base for payment of excise tax computation for locally produced goods is clear.					
14. The excise tax payment period, which is 30 days next to production month, is enough.					
15. The tax system facilitates tax payers to know their tax obligation before they own manufacturing business.					
16. MOR employees have enough knowledge about the computation of excise tax					
17. Tax regulation gives loophole that lead tax payers to unethical issues such as tax avoidance, tax evasion					

and corruption.					
18. The cause of failure to declare the actual computation of excise tax					
19. Excise tax laws are easy to understand implement					
20. I find tedious in procedural complications and to maintain all my relevant records for the whole year for tax purposes					
21. The rate for payment of excise tax is fair when goods are imported and locally produced					
22. Information about excise tax in readily available					
23. As a business entity, you are aware of your tax obligation					
24. Lack of tax information affect your excise tax compliance					
25. As a business entity, you are able to correctly calculate the tax amount payable based on available the information					
26. As a business entity, you are aware of the consequences of failing to meet your tax obligations in time					
27. The Ethiopian excise tax rules are bulky and hard for taxpayers like us to navigate.					

### I. Excise tax base computation

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
28. Computing cost of production creates difficulty and additional administrative problems for the payment of excise tax on tax payers					
29. If the base of excise tax applies on volume, kilogram, meter, and price of products will solve the problem of computation					
30. Applying excise tax on packaging materials is fair					
31. Applying excise tax on manufacturing sites, building and delivery materials, is fair					

32. The gap between the tax law related with excise tax and actual practice on computation is wide					
33. Evaluation method used by tax office is reasonable					
34. The administration of the tax system by taxing Authority is consistence across years and taxpayers.					

### J. Excise tax Contribution

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
35. Current excise tax rate and excisable items are enough to generate large amount of tax revenue for the government					
36. Reducing the tax rate on excise tax will enhance your compliance level					
37. I believe all excise tax payers pay their tax liabilities' according tax laws					

### K. Effect of Excise Tax on financial performance of the firms

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
38. Tax administration is complex in tax reforms					
39. Excise tax enhances Tax reform reduces tax complexity in enforcement					
40. Equality of tax administration services providing the largest marginal revenues in reducing tax gaps in tax enforcement measures					
41. Tax office provides greater assistance to to tax payers creating favorable conditions for tax compliance					
42. Tax administration has been changed from an enforcement paradigm to a service paradigm					
43. The paradigm reduces criminal aspects of tax evasion tax measures					
44. Tax offices focus on helping taxpayer to file taxes by providing information needed					
45. The generalization of tax administration on financial performance is problematic					
46. Improve tax payers convenience in tax assessment					

## L. Excise Tax Refund

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
47. Excise tax refund is working properly					
48. Excise tax directives are clear to work					
49. Excise tax paid on custom for textile and car assemble are deductible for the excise tax are fair when compare to others excisable products or raw materials import from abroad					
50. Excise tax refund for direct exporter and indirect exporter are clear					

*Thanks for your kind cooperation!*

## APPENDIX-2 Interview questions

The research entitled “Excise tax and firms performance: evidence from manufacturing sectors”; effects excise tax on firms’ performance based on the tax law and practice, intends to explore excise tax rules, excise tax base computation and challenges. This interview questionnaire is prepared for tax officials of MOR. I am doing this research for partial fulfillment of MA in Accounting and finance. Thus, I kindly request all the participants of this interview to respond for the questions which are appropriate for their specific situations both willingly and honestly.

1. Is there any governing rule or guideline that shows how a taxpayer is computing his excise tax?

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2. Do your tax obligations affect the financial performance of your business If Yes, in what ways (please explain

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3. How do you evaluate the computing methods of excise tax?

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4. How do you evaluate the clarity of Excise tax proclamations and directives?

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5. How do you evaluate the Excise tax base for locally produced goods (cost of production)?

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6. Based on your experience what are the main problems in excise tax and firm performance in manufacturing sectors

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7. How do you see the tax office employees' knowledge of tax practice, skills and decision making ability?

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8. What do you recommend to solve these problems?

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9. What are the peculiar challenges for administration of proper system for excise tax base and refund?

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10. If you have any comment or suggestion on excise tax and firm performance in manufacturing sectors?

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11. If you have any others relevant comments which are useful for this study, please write on the space provided below.

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