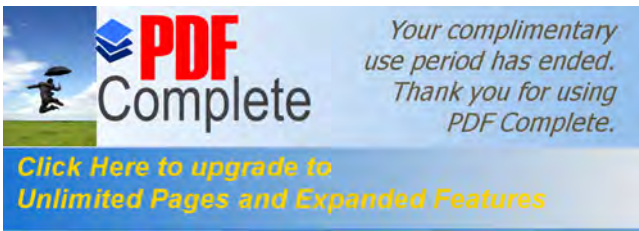


ADDIS ABABA UNIVERSITY, SCHOOL OF GRADUATE STUDIES

**CHALLENGES OF TAX ADMINISTRATION IN ARADA
SUB-CITY OF ADDIS ABABA CITY ADMINISTRATION**

By: Teklu Kassu

**June, 2011
ADDIS ABABA**



Challenges of Tax Administration in Arada Sub-City of Addis Ababa City Administration

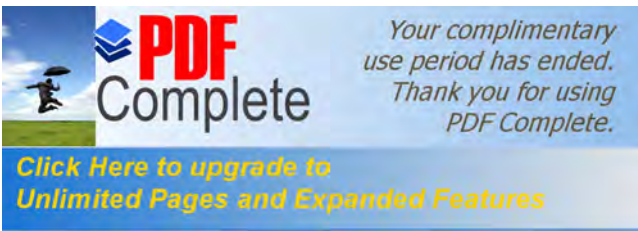
(A Thesis submitted to the School of Graduate studies in partial fulfillment of the requirements for the Degree of Master of art in Public Administration)

By: Teklu Kassu

Advisor Mihret Ayenew (PhD)

Addis Ababa University, Faculty of Business and Economics Department of Public Administration and Development Management

**June, 2011
Addis Ababa**



ADDIS ABABA UNIVERSITY, SCHOOL OF GRADUATE STUDIES

**CHALLENGES OF TAX ADMINISTRATION IN ARADA
SUB-CITY OF ADDIS ABABA CITY ADMINISTRATION**

By: Teklu Kassu

Approved by board of examiners:

Meheret Ayenew (PhD)	_____	_____
Advisor:	Signature	Date
_____	_____	_____
Examiner:	Signature	Date



Your complimentary
use period has ended.
Thank you for using
PDF Complete.

[Click Here to upgrade to
Unlimited Pages and Expanded Features](#)

ACKNOWLEDGEMENTS


This thesis could not have been done without the help and support of many people. First and foremost, I would like to extend a special word of thanks to my advisor, Dr, Meheret Ayenew, for this tireless and diligent monitoring and advice. I am grateful for this intellectual guidance and supervision which has been a source of inspiration to me throughout the whole thesis work.

Thirdly, I would like to thank all respondents and informants for providing me the required information in the process of data collection.

Finally I never forget all those who were sharing their brotherly advice and materials at critical time.

TABLE OF CONTENTS

Title	page
Acknowledgment	iv
Table of contents	v
List of Acronyms/Abbreviation	viii
List of tables	x
List of figures	xi
Abstract	xii
CHAPTER ONE	1
INTRODUCTION.....	1
1.1. Background of the Study	1
1.2. Problem Statement.....	2
1.3. Objectives of the study	3
1.3.1. General Objective	3
1.3.2. Specific Objectives	3
1.4. Research Questions.....	4
1.5. Significance of the study.....	4
1.6. Scope of the study.....	5
1.7. Description of the study area.....	5
1.8. Limitations of the study	6
1.9. Research Methodology	7
1.9.1. Research Design	7
1.9.2. Sampling Frame.....	7
1.9.3. Sample design and Technique.....	7
1.9.4. Sample Size	8
1.9.5. Data Sources.....	8
1.9.6. Data Analysis and interpretation	9
1.9.7. Data Presentation.....	9
1.10. Definition of terms.....	9



Your complimentary use period has ended. Thank you for using PDF Complete.

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

.....	10
.....	11
LITERATURE REVIEW ON VALUE ADDED TAX ADMINISTRATION	11
2.0. Introduction	11
2.1. Conceptual Framework.....	11
2.1.1. General overview on Tax.....	11
2.1.2 Ethiopian Values Added Tax Administration	12
2.1.3 VAT Assessment	21
2.1.4 VAT Investigation	21
2.1.5 VAT Appeal Administration.....	22
2.1.6 VAT Administrative Penalties	22
2.1.7 VAT Criminal Offences.....	24
2.1.8 Consequences of De-registration.....	28
2.2. Empirical literature on Ethiopia	28
DATA PRESENTATION, ANALYSIS AND DISCUSSION.....	30
3.1 Introduction.....	30
3.2 Response Rate Analysis	30
3.3 Demographic Data.....	31
3.3.1 Characteristics of VAT Registrant Taxpayers	31
3.3.2 Characteristics of Tax Officials.....	33
3.2.3 Human Resource Management	35
3.4 Findings of the Study.....	36
3.4.1 The Existing VAT Collection Performance.....	36
3.4.2 The Existing VAT Administration and its Main Constraints in Arada Sub-City	37
3.4.3 Impacts of the constraints	44
3.5 Interpretation and Discussion.....	46
3.5.1. Background of VAT administration in Arada Sub City	46
3.5.2. VAT Administrative activities in Arada Sub City	46
3.5.3 VAT Refund.....	49
3.5.4. Voluntary compliance of taxpayers in Arada Sub City	51

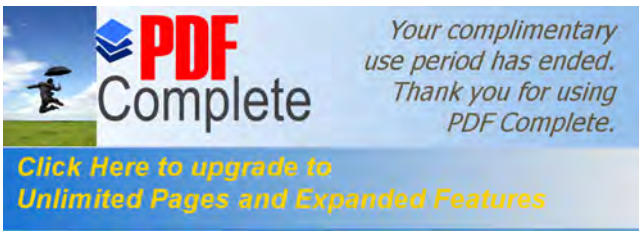


PDF Complete

Your complimentary use period has ended. Thank you for using PDF Complete.


[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

..... a Sub City revenue office	51
..... the constraints.....	51
CHAPTER FOUR.....	53
CONCLUSION AND RECOMMENDATIONS.....	53
4.1. Introduction.....	53
4.2. Conclusion.....	53
4.3. Recommendations	54
4.3.1. Improve taxpayer identification and registration	54
4.3.2. Improve VAT collection	55
4.3.3. Develop planned auditing	55
4.3.4. Establish effective enforcement mechanisms	55
4.3.5. Improving voluntary compliance and service delivery.....	56
References -----	51
Appendices	54



ACRONYMS AND ABBREVIATIONS

AACA	-	Addis Ababa City Administration
AACRA	-	Addis Ababa City Revenue Authority
ASCFEDO	-	Arada Sub City Finance and Economic Development Office
ASCRO	-	Arada Sub City Revenue Authority
ASCSTB	-	Arada Sub City Small Taxpayers Branch
BoFED	-	Bureau of Finance and Economic Development
CSA	-	Central Statistical Authority
ERCA	-	Ethiopian Revenue and Customs Authority
FDRE	-	Federal Democratic Republic Of Ethiopia
FIRA	-	Federal Inland Revenue Authority
IMF	-	International Monetary Fund
VAT	-	Value Added Tax
MoR	-	Ministry of Revenue
SIGTAS	-	Standard Integrated Government Tax Administration System
SIRM	-	System Integrated Revenue Management
TIN	-	Taxpayer Identification Number



PDF Complete

Your complimentary use period has ended. Thank you for using PDF Complete.


[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

LISTS OF TABLES

Table	page
Table: 3.1 Summary of response rate by categories.....	30
Table: 3.2: Genders of VAT registrant taxpayer respondents	31
Table: 3.3 Business types of VAT registrant taxpayer respondents	32
Table: 3.4. Genders of tax official respondents	33
Table: 3.5 Human Resource.....	36
Table: 3.6. VAT filing report (July to September 2010) of Arada Sub-City.....	40

LISTS OF FIGURES

Figure	page
Figure 3.1: Level of education of VAT registrant taxpayer respondents	31
Figure: 3.2. Experience distribution of VAT registrant taxpayer respondents	33
Figure: 3.3. Experience distribution of tax official respondents.....	34
Figure 3.4: VAT to Total Tax Revenue.....	36
Figure 3.5: Percentage of VAT to Total Tax	37
Figure 3.6: Evaluation of tax officials in taxpayer identification and registration	38
Figure: 3.7. Systems to register unregistered taxpayers for VAT.....	40
Figure: 3.8. VAT auditing and enforcement effectiveness.....	41
Figure 3.14: Taxpayers opinion on VAT refund.....	50
Figure: 3.11. Honesty and loyalty of VAT registrants	44
Figure: 3.10. Taxpayers not willing to be register for VAT.....	43
Figure: 3.12. Respondents' opinion towards the threshold 500,000 ETB.....	45
Figure: 3.13. Impacts of the huge numbers of nil filers	45
Figure 3.8: Respondents' confidence on VAT assessment and auditing practices.....	42



PDF Complete

*Your complimentary use period has ended.
Thank you for using PDF Complete.*

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

LIST OF APPENDICES

Appendix	Page
Appendix 1: Questionnaires for VAT registrant taxpayers-----	54
Appendix 2: Questionnaires for tax officials-----	58
Appendix 3: Interview Guide -----	62

Abstract

Tax administration is a component of public administration designed to control the processes and operations of public revenues in accordance with new public management approaches which focuses on efficiency, performance measurement and requirements of good governance. Governments require tax administration and compliance to produce revenue from private entities to provide public goods and services. Ethiopia needs to use domestic based resources mainly obtained from tax like Value Added Tax. The study has focused on addressing issues relating VAT administration factors affecting VAT revenue performance. In order to generate appropriate VAT, its administration should be efficient. Therefore, the study has been conducted on analysis of VAT administration effectiveness in Arada sub city of Addis Ababa city administration. The study raised major research questions related to VAT registration, assessment, collection, investigation, refund and Tax payers Service Delivery. In order to achieve the purpose of the study. In order to address the questions, descriptive research method and purposive and stratified simple random sampling techniques were employed to gather data. Respondents who have been participated in the study were officers from Arada sub-city small and micro tax payer's office and tax payer in Arada.

According to the response of the respondents, certain factors were found to be the main constraints at Arada Sub City VAT administration. These were:- lack of well trained and credible tax officials mainly in taxpayers identification and registration process; lack of well trained officials to use SIGTAS (Standard Integrated Government Tax Administration System) so not possible to know the exact number of active VAT registrants, to identify and control non filers or stop filers using the computer system. In addition; the office facilities and procedures are not supportive to comply for taxpayer and tax officer, no audit plan based on risk assessment, weak enforcement, absence of well organized taxpayers' education and assistance program about VAT, poor refund management and low voluntary compliance of taxpayers in the Sub City are the main constraints. Finally based on the findings, possible solutions were given. These include; improve taxpayer identification and registration, improve VAT collection, develop planned auditing, establish effective enforcement mechanisms, and improve service delivery, voluntary compliance of taxpayers and refund management.

According to Rosen (1988), Value Added Tax (VAT) is a percentage tax on a value added applied at each stage of production. It is a type of indirect tax, nowadays found in more than 130 countries and has become the principal source of revenue for many countries (Keen and Lockwood, 2007). In Ethiopia, according to IMF (2003), one of the focuses of the tax policy reforms is reforming indirect taxation. The main reform to indirect taxation was the introduction of VAT in January 2003. However, weak tax administration, particularly in developing and transitional economies is the principal impediment to the successful implementation of VAT. The same is true in Ethiopia as well in Addis Ababa (Yesigat, 2008). In Addis Ababa, according to BoFED (2009), lack of capital expenditure for public investment has hindered sustained economic development. Therefore improving tax administration, particularly VAT administration helps the Addis Ababa city to improve its revenue through voluntary compliance.

This study assessed VAT administrative activities in the former Arada Sub City Revenue Office, Addis Ababa, now called Ethiopian Revenue and Customs Authority Arada Sub City Small Taxpayers Branch Office. A key question is whether the Arada Sub City collects the potential tax through voluntary compliance or not? So that it has examined the constraints using both primary and secondary data in a view to improve the sub city VAT administration, so as to collect the potential tax from individual taxpayers in the sub city and can yield adequate revenue for the Addis Ababa City Treasury.

Therefore, the study is composed of five chapters. The first chapter is about the introduction of the study, the second concerned with review of literatures, the third deals with methodology of the study, the fourth and the fifth presented discussion of results and conclusion and recommendations respectively.

1.1. Background of the Study

Almost unknown in 1960, VAT is now found in more than 130 countries, raises around 20% of the world's tax revenue (Keen and Lockwood, 2007). According to Ulbrich (2003) it was a surprisingly popular revenue tool in South America, Asia and Africa with



PDF Complete
Your complimentary use period has ended.
Thank you for using PDF Complete.

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

World Bank. In Ethiopia, one of the focuses of the tax reform was indirect taxation. The main reform to indirect taxation was the introduction of a VAT in January, 2003 as a replacement to Sales Tax. Compared with the replaced sales tax, the new VAT have the advantages, (1) taxes services in addition to production, (2) grants zero rating to exports and (3) gives exemptions to fewer basic products.

In order to make up sufficient revenue from VAT it needs efficient and effective tax administration. However, developing countries like Ethiopia, where there is a large number of informal sector, low tax moral, rampant evasion, and total distrust between tax administration and taxpayers may not make the tax successful. One of the reasons is lack of simplified procedures. In VAT administration, there should be a concern for small businesses because as compared to the burden of VAT administration on large businesses, the cost of administering VAT is proportionally high for small businesses.

To that effect, many countries adopt simplified procedures for small and medium businesses like, allowing accounting for VAT on a cash basis rather than accrual basis and filling within reasonable accounting period, however this is not the case in Ethiopia. According to Yesegat (2008) the VAT administration is poor due to many factors, particularly incapacity of tax authorities to implement the attributes of the tax to practice. The same is true for Arada Sub City, Addis Ababa, where reports indicate that most of the VAT registrants are nil and credits filers (ASCRO, 2010).

1.2. Problem Statement

The Addis Ababa City collects taxes from individual taxpayers and property in its territory. However, the Proclamation No 285/2002 authorized the Federal Inland Revenue Authority (FIRA) to administer the VAT. For the sack of simplicity, FIRA delegated regions and city administrations to collect the tax from their own taxpayers started from September 2004 (FIRA, 2004). In Addis Ababa due to VAT administration problems, the City Revenue Authority cannot collect the potential tax which the city can generate. For instance, among the ten sub cities in the city, according to the Arada Sub City Revenue Office quarterly Report (July -September 2010), among 2,292 VAT registrants those filled returns, on average, one-third were nil fillers. In addition to this, if we compare the



PDF Complete
Your complimentary use period has ended.
Thank you for using PDF Complete.

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

collected and refund claimed in the same period, on
taxpayers paid Birr 15,030,878.00 whereas 820 registrants
claimed refund of Birr 50,688,484.00. Starting from January 2011, based on the
agreement concluded between the Addis Ababa City Administration (AACA) and the
Ethiopian Revenue and Customs Authority (ERCA), the ERCA started to administer all
taxes in Addis Ababa (ERCA, 2011).

The huge refund claim and the huge number of nil filler are some of the signs for low
voluntary compliance of the VAT registrants and weak audit and enforcement
performance of the tax office. This shows that the Arada Sub City Revenue Office, now
called Arada Sub City Small Taxpayers Branch is not effective in VAT administration so
that it is unable to collect the potential tax from VAT registered individual taxpayers as
well as unregistered potential taxpayers in the sub city. This is the problem that needed to
be studied. Therefore, on the basis of theoretical and empirical framework the research
assessed the effectiveness of the Arada Sub City Revenue Office in administering VAT to
yield adequate revenue for the city treasury and to foster voluntary tax compliance.
Unfortunately, there is no recorded study that has been conducted in the sub city to
explore reasons behind under potential revenue collection and low voluntary compliance
of VAT registrants. This study is therefore conducted to provide that knowledge.

1.3. Objectives of the study

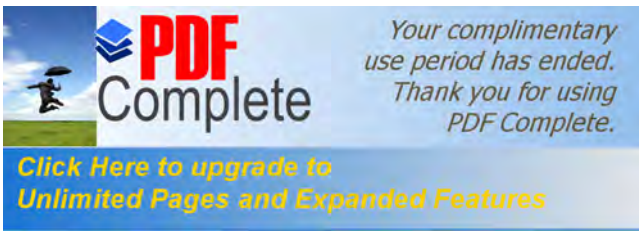
The general purpose of the study is to identify the major constraints against the successful
administration of VAT in Arada Sub City Revenue Office, and thereby it provides the
basis for effective VAT administration. In doing so, the office can yield adequate revenue
for the city treasury and enable to increase the number of voluntary taxpayers.

1.3.1. General Objective

The general objective of this study is to assess the effectiveness of the VAT
administration at Arada Sub City Revenue Office with a view to improve revenue
collection through voluntary compliance by taxpayers.

1.3.2. Specific Objectives

The following specific objectives are pursued.



administrative activities of Arada Sub City Revenue

2. To examine the main constraints at Arada Sub City Revenue Office in the VAT administration in terms of:-
 - a) VAT administrative activities performance of the tax office,
 - b) voluntary compliance of taxpayers, and
 - c) service delivery of the tax office
3. To analyze the impacts of constraints on revenue collection, taxpayers compliance attitude and service delivery of the tax office.

1.4. Research Questions

The study attempted to answer the following research questions.

1. What are the trends of Arada Sub City Revenue Office in administering VAT in the last five years?
2. How Arada Sub City Revenue Office had been strongly monitoring and auditing VAT registrants?
3. What are the major factors which hinder Arada Sub City Revenue Office to monitor and audit VAT registrants, and to improve voluntary compliance and service delivery?
4. How is the refunding procedure implemented by the office in line with the system set?

1.5. Significance of the study

The study helps in identifying the existing challenges posed on the successful VAT administration of the Addis Ababa Revenue Authority in general and the Arada Sub City Revenue Office, now called Arada Sub City Small Taxpayers Branch in particular. By identifying the major constraints, the main findings of the study are expected to indicate the strategic intervention areas that might improve the administration of VAT by the Sub City.

Thus; policy makers to amend the law so as to make it simple and easy mainly for small and medium taxpayers, the Sub City as well as the ERCA officials in order to collect the potential tax and to increase voluntary taxpayers, the researcher in fulfilling his masters

skill, taxpayers in broadening their knowledge in the benefit from this study. The study also serves as springboard to investigate uncovered areas and to use it as a secondary data in due course of further research.

1.6. Scope of the study

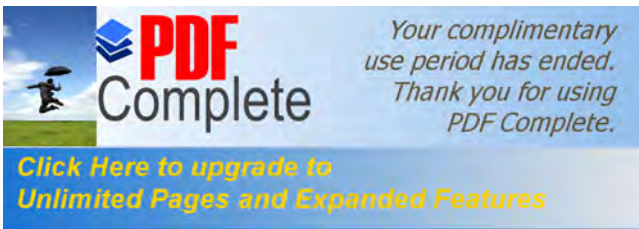
The study focused particularly on the VAT Administration in former Arada Sub City Revenue Office of Addis Ababa City Administration due shortage of time and finance to address the entire tax issues in all Sub-Cities of Addis Ababa. Besides, this study addresses the constraints of VAT administration affecting the revenue mobilization in Arada Sub-City.

In examining the constraints in terms of administrative activities, the study only assessed the effectiveness of the sub city in administering the VAT. The rationale for selecting this study area is that it is the center of the city that hosts large number of VAT payers and the VAT is relatively the potential source of revenue to the government so its good administration has high positive impact on both the potential revenue collection and improving the taxpayers compliance.

1.7. Description of the study area

Addis Ababa as the capital of Ethiopia was established in 1986. Now, according to UN Habitat (2008) a quarter of urban population Ethiopia lives in Addis Ababa, which is eight times larger than the second largest city of Dire Dawa. Addis Ababa has 10 sub cities and each sub city is divided into *Woredas* which are the smallest administrative units of the city. Arada Sub City, which is one of the sub cities found in the Central part of Addis Ababa, divided to 10 *Woredas* (New charter of Addis Ababa City Administration).

Until December 2010, Arada Sub City Revenue Office was one of the offices in the Arada Sub City Administration. According to ERCA (2011), due to the agreement concluded between the Addis Ababa City Administration and ERCA, after December 2010 the Addis Ababa Revenue Authority and ERCA have merged and the following new organizational structures formed in Addis Ababa:



This include taxpayers whose annual turnover is not

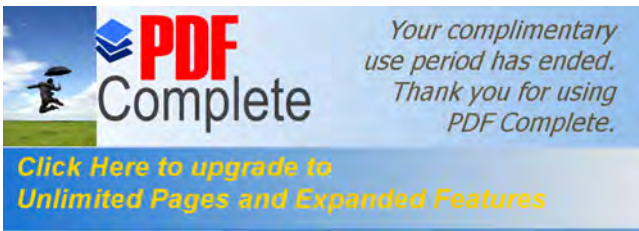
2. Small Taxpayersø Branch: - This include taxpayers whose annual turnover is greater than 100,000 birr and not more than one million birr.
3. Medium Taxpayersø Branch: - This include taxpayers whose annual turnover is greater than one million birr but not more than 15 million birr. And,
4. Large Taxpayersø Branch:- This include taxpayers whose annual turnover greater than 15 million birr.

Therefore, Arada Sub City Revenue Office now called Arada Sub City Small Taxpayersø Branch under ERCA only in terms of administration and transfer the tax collected to the Addis Ababa City treasury. However, until now (May, 2011) there is no any shift of medium and large taxpayers from the sub city.

1.8. Limitations of the study

Associated with restructuring of the Arada Sub City in December 2010, there was re shifting and training of tax officials. This created work overload on the remained tax officials and poor service delivery to taxpayers so that there was unwillingness from some respondents. To overcome the problem data collectors had to wait for convenient time, however, 29 VAT registrant taxpayers did not respond to the questionnaires. .

Besides, lack of sufficient fund and time constraint were intended, however to overcome the problem of time two data collectors were employed and the researcher has exerted his at most effort to go according to the time table. So that the researcher managed the money he has got from the university appropriately and has take using structured questionnaires distributed to 168 respondents however only 139 responded and interviews were conducted with the former process owner, the former sub process owner as well as the new head of the office. Finally, though there are some limitations, the study will help the Sub City and ERCA, by indicating the strategic intervention areas that might improve the Arada Sub City VAT administration.



details of the research design, the sampling method as well as the source and manner in which the data were collected and analyzed for this study.

1.9.1. Research Design

A research design is a conceptual structure that shows how all the major parts of the research project come together. According to Kothari (1985) it constitutes the blueprint for the collection, measurement and analysis of data. In this study, the type of research was descriptive. The rationale for selecting this type of research is that the study has no control on the variables, rather it described the characteristic of the Arada Sub City VAT administrative activities and to answer the question what is the best way to administer the VAT in order to collect the potential revenue from the sub city.

1.9.2. Sampling Frame

The sampling frame for VAT registrant taxpayers was the registration list of tax payers in Arada Sub-City that consists of 2292 VAT payers at time of field survey. Whereas for the tax officials, employee registration list of the sub city is the sampling frame.

1.9.3. Sample design and Technique

In this research probability and non probability sampling techniques were used. From probability sampling technique, stratified sampling was employed to stratify the population into three strata such as nil filers (842), credit filers (858), and payment filers (592) in order to give chance according to their numbers which give proportions of 0.37, 0.37, and 0.26 respectively. **Then, simple random sampling technique was used to select the representative sample from each stratum.** Whereas, the sample for the tax officials was determined using purposive sampling technique of non-probability sampling method. This is because there is need to address experts in the area who are familiar with the work.

In this regard, interviews with the former process owner of Arada Sub City Revenue Office, the former tax assessment and audit sub process coordinator of Arada Sub City Revenue Office and the new manager of Arada Sub City Small Taxpayers Branch Office

...were in the position for the past 5 years and the later is organizing, leading and controlling the overall work of

the Office..

1.9.4. Sample Size

Using the formula $n = z^2 \cdot p \cdot q \div d^2$, the sample size for VAT registrants is;
 $(1.96)^2 \cdot (0.74) \cdot (0.26) \div (0.05)^2 = 150$ where; p=sample proportion.

Where, nil filers proportion =0.37 is equal with the proportion of credit filers, which is 0.37, have the same characteristic, therefore p=0.74

q=1-p, which is 0.26

z=1.96, it is the value of standard variant at 95% confidence level.

d= 0.05 (since the estimate should be within 5% of true value).

Therefore the sample size=150 VAT registrants.

The sample size from 60 tax officials in the Sub City is= **18** using rule of thumb, that is, 60 x 30%=18, and was selected purposively based on their knowledge and position related with VAT registrants. Totally, there were **171** respondents including the interviewers. Table 1.1 Shows the sample frame and sample size of the study area.

Table: 1.1. Stratifying sampling for VAT registrants

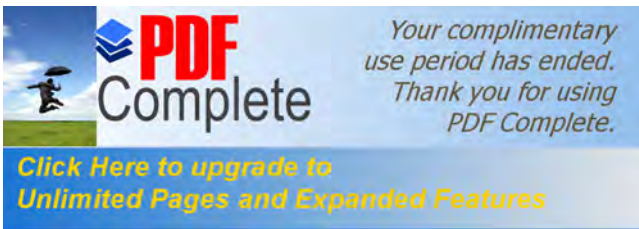
S.N	Type of VAT registrants according to their filing returns	Number of VAT registrants	Sample size Ni=n(Ni/N)
1	Nil filers	842	55
2	Credit filers	858	56
3	Payment filers	592	39
Total		2292	150

Source: Survey 2011.

1.9.5. Data Sources

1.9.5.1. Primary Data sources

The primary data sources were the VAT registrant taxpayers, the tax officials, and managers in Arada Sub City Revenue Office. Therefore, open and closed ended questionnaires and interview guideline were prepared for the three target groups, the Sub



by tax officials, and managers in English and latter to simplify communication.

1.9.5.2. Secondary Data sources

Among the secondary data, to analyze the VAT collection trends, four years revenue reports, from 2005/06 to 2009/10 and other relevant documents like the new employee registry and the new organizational structure were collected from the Sub City Revenue Office. Four years revenue reports (2005/6 to 2009/10) were collected from Federal Revenue and Customs Authority. Socio economic data about the Arada Sub City were also collected from Central Statistical Authority and the Arada Sub City administration Finance and Economic Development Office. ..

1.9.6. Data Analysis and interpretation

Data processing and analysis procedures were undertaken by computer using Microsoft excel program. It used to minimize errors that will occur during data processing and analysis by manual computations. In data processing categorizing variables was done manually. Describing data was processed and analyzed through listing the answers for a particular question.

1.9.7. Data Presentation

The results of this survey were presented in descriptive way using numbers, percentiles and ratios, in addition with the help of graphs, tables and charts.

1.10. Definition of terms

Exemption; simply means no tax on output, (i.e., no possibility to reclaim tax on input).

Refund; reclaiming the difference tax paid more on inputs than is due on the output (Tait, 1988).

Self assessment; refers to system where taxpayers comply with their basic tax obligations without intervention of a tax official.

Threshold; refers to the minimum annual turnover above which registration for the VAT is compulsory (Ebril, et. al. 2001).



PDF Complete

*Your complimentary use period has ended.
Thank you for using PDF Complete.*

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

n which the rate of the tax applied to sales is zero, inputs.

1.11. Structure of the thesis

The thesis consists of four chapters. Chapter one provides important introductory issues which include background of the study, statement of the problem basic research questions, objectives of the study, significance of the study, scope of the study, limitations of the study, methodology of the study. The chapter also provides definitions for basic terminologies and ends by indicating the overall structure of the thesis.

Chapter two deals with literature review on the areas of VAT administration and then followed by chapter three which is focus on data presentation, analysis, and discussion based on information obtained by secondary data, questionnaire and interview.

The thesis is then concluded by chapter four, which summarizes the main findings, draws conclusions, and suggests recommendations regarding shortcomings and other issues that need remedies.

2.0. Introduction

This chapter explores the theoretical discourses as well as the empirical facts about VAT administration conducted by different scholars, and in different countries. Therefore, it is structured as follows; conceptual framework, empirical framework which includes empirical literature on the VAT administrative activities and the main determinants of VAT administration, empirical evidences of effects of weak VAT administration, and empirical literature on Ethiopia.

2.1. Conceptual Framework

This framework is a theoretical base which identifies knowledge frontiers on the subject under study.

2.1.1. General overview on Tax

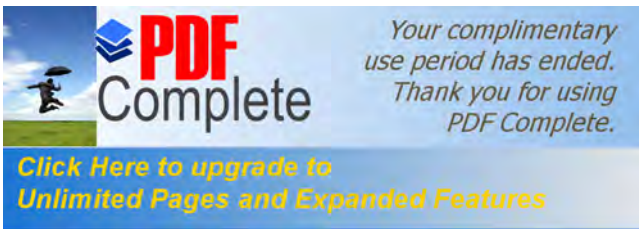
Taxes are divided in to two main categories, direct and indirect. Direct taxes are taxes, which suffered by tax payer, where as indirect taxes are paid to tax collector by some others (Lymer, Andy and Hancock, Dora, 2003).

I). Direct Taxes

Direct taxes are taxes imposed on direct income of any individuals or company, (Federal Democratic Republic of Ethiopia Indirect Tax (FDRE IT), Proclamation No. 286/2002). These taxes majority have progressive rates; however, other has fixed (flat) rate that generate tax income progressively and proportionally related to taxable persons income respectively. These are: Employment Tax, Building Rent Tax, Business Profit Tax, Other Income Taxes (Tax on interest Income on Deposits, Dividend Income Tax, Royalties Tax on Income, Games of Chance Tax on Income, Gains of Transfer of Certain Investment Property Tax on income, Rental of Property Tax on Income, and Rendering of Technical Services outside Ethiopia Tax on income) (Misrak Tesfaye, Msc, 2008).

I I). Indirect Taxes

Indirect taxes are imposed by government and collected by taxpayers assigned by law from consumers for the transaction service they get goods or service from market. These



Excise, Customs duty, and Stamp Duty. (FDRE IT

2.1.2 Ethiopian Values Added Tax Administration

Here, the researcher will try to identify the administration of VAT and the legal reaction against the braking entities.

2.1.2.1. What is Value Added Tax?

As the student researcher tried to mention earlier that VAT replaces the sales tax on manufactured and imported goods and services in Ethiopia January 2003 (FDRE VAT Proclamation No. 285/2002). According to this proclamation, VAT in Ethiopia is payable if they are: supplies make in Ethiopia, made by a taxable person, made in the course of furtherance of a business, are not specifically exempted or zero rated. Supplies, which are made in Ethiopian, not exempt known as taxable supplies.

As it was also tried to mention earlier that, VAT is an indirect tax type, which is imposed on consumption or spending. VAT is collected from sales of the value added of goods and services, starting form importers and producers ending with consumers through the conditions of whole selling and retailing.

VAT applied on the value added meaning a producer for example provides final product to sell, performs different activities like spending direct and indirect costs and administrative cost except VAT and prepaid income tax. Doing that, value is created. This value is liable to tax, (FDRE VAT Proclamation No. 285/2002).

VAT is imposed only on the value created up on production and distribution but not on the cumulative return. Therefore, it avoids tax cascading burden using this method. This tax follows the procedures of refunding or credit input tax that is paid on purchasing inputs for production of goods or provision of services. Again, it is paid for the sales of output. It is based on invoice in order that it reconciles the input tax against output tax. Thus, record processing is mandatory to balance them. Therefore, modern accounting method of business system is being practical as the result of VAT introduction, (Misrak Tesfaye, Msc, 2008).



PDF Complete
Your complimentary use period has ended.
Thank you for using PDF Complete.

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

credit for VAT charged on business purchases and not only the VAT on the purchases of raw materials or on goods purchased for resale, but also the VAT on things like, office equipment of the business, commercial vehicles used in the business for the carriage of goods, the telephone bill for the business, and payments for services in connection with the business, Accountants, Lawyers fees. It does not include VAT paid on goods or services for someone else's business or VAT on private purchases, such as furnishings for the home of the proprietor. VAT charged in these circumstances is not considered as input tax, (FDRE VAT Proclamation No. 285/2002).

Input tax are credited, however there are cases of purchasing which cannot be allowed as credit passenger automobiles, the repair and maintenance of passenger automobiles unless the business is dealing in or hiring such automobiles entertainment. Credit for input tax needs supporting documents original copy of a tax invoice, or certified customs import declaration-warehousing entry to substantiate a claim for input tax credit. (FDRE VAT Proclamation No. 285/2002)

Output Tax: The VAT charged on customers. It is only the taxable person who charges VAT in the course of effecting supplies. It is applied on taxable supplies. The rate, which is used for calculating for VAT on output, is standard rate. In Ethiopian case, standard rate is 15%, as the proclamation stated, (FDRE VAT Proclamation No. 285/2002).

Taxable supplies: According to VAT proclamation, VAT is chargeable on all taxable supplies. The sales of goods or service in the businesses for which are tax paid on them are taxable supplies. It is possible to supply goods and service in the reference of VAT, if supplier has right to make such activities.

Rate of VAT: There are two rates of VAT, which are standard rate and zero rates 15% and 0% respectively. Tax rates are applied to tax base to determine a taxpayer's liability, (Willis, Eugene et.al, 2007).

Gifts: The proclamation also stated that VAT is accounted on any gift of goods or services from the business based on the fair market value of the goods or services at the time the supply is made.

based tax on the consumption of goods and services. It production and distribution process beginning with the importers and products of raw materials and ending with the retailers. Cascading of the tax, tax on tax, is avoided by providing credit the tax paid at the preceding level. Unlike the current sales tax system, where by relief is granted only to raw materials used directly in the production of goods, under a VAT, relief is granted for tax paid on capital goods, distribution and administration inputs. Sales of exported are not subjected to the VAT, (FDRE VAT Proclamation No. 285/2002).

Benefit: VAT removing the tax content, on input, from exported goods makes the goods more competitive in international markets, domestically produced will be more competitive with imported goods. In addition, relief from tax on capital goods will encourage investment; potential investors consider VAT legislation as one of the factors in making favorable investment decisions. VAT is less easily evaded, and the minimizing of tax avoidance supports the maintenance of equality and fairness in the application of tax legislation, (Misrak Tesfaye, Msc, 2008).

VAT reduces unfair burden, has not been placed on the lower burden like the sale and transfer or lease or immovable property the rendering of medical services, the rendering of educational services, the supply of electricity and water and post office operations and the provision of public transport permits and license fees. VAT includes concessions to small-scale business to lessen the administrative burden, such as relief from the requirement to register, to collect VAT, (FDRE VAT Proclamation No. 285/2002).

2.1.2.2. Registration for VAT

Registration for VAT is categorized in to three. These are obligatory, voluntary and special business categories. The first category obligatory registration is made for any person conducting a commercial enterprise or intending to conduct a commercial enterprise may apply to be registered for VAT. However if the taxable turnover of the enterprise, that is gross income for 12 calendar months exceeds or is likely to exceed birr 500,000 in Ethiopia, the person conducting the enterprise must register for VAT, (proclamation No 285/2002 Article 8).

registrant sole proprietor, company, partnership, trust, or other legal body, club or association. Authority determine whether a person obligatory registrant if it makes (Ethiopia VAT proclamation No.285/2005 Art. 16) birr 500,000 taxable turn over within 12 months of a year. If one reasonably expects that during 12 months the total value of taxable supplies excluding tax is likely to exceed birr 500,000, in Ethiopia, then the person needs to be registered for VAT.

A registrant, the turnover on an ongoing basis, makes calculation of VAT. Two periods need to be considered the past 12 calendar months and the next 12 calendar months on a month-by-month basis. There is the need to estimate at the end of each trading calendar month the total value of taxable goods and services supplied by all the business for the past 12 months. Where the total exceeds Birr 500,000, in Ethiopia, then there is the requirement to register for VAT.

The second category of registration is voluntary registration the total of twelve months business transaction turnover may not necessarily be birr 500,000 in Ethiopia case, however, if customers of a registrant are at least 75 % for supplies provided, a person is allowed to be registered voluntarily. Things to be recognized in voluntary registration are:

- ❖ Those who are involved in export advised to be registered voluntarily in order to get refund. This is practical through zero rated purchases that enable the person to ask credit on input tax.
- ❖ Otherwise, the person voluntarily registered, there may be the loss of customers who are VAT registrants that need invoice from their provider in order to claim input tax credit. Therefore, voluntary registration here is compulsorily required.
- ❖ Revenue Authority needs prerequisites like: Permanent residential; proper accounting records; Bank account and; the one who obeys tax law and that must have capacity to do what the Authority requires.

The third category of registration, special business categories that also have the following features: Those who are involved in export are advised to be registered voluntarily in order to get refund. This is practical through zero rate purchases that enable the person to ask credit on input tax.

ed registrants regardless of the threshold. This is done competition between the special business categories. If registration by special business categories not implemented, market competition difference would be seen among registrants and non-registrants within them. Such forced special business category registrants are: Gold, Electronics, Importers, Shoe factories, Level ten and above constructors, Computers and their accessories, Leather and leather products, Plastic and plastic products. (Proclamation No. 285/2002).

2.1.2.3. Importance of VAT Administration

VAT is important tax imposed on all transactions that show additional value on each stage of either production or distribution of goods or services. The tax is collected on the value, which is added during each stage of transaction. Thus it has broad revenue bases as the result of this its revenue generating capacity is high. This tax system encourages self-assessment that helps taxpayers to assess VAT themselves. It promotes the trend of using accounting records principle. Because of this, it reduces administrative cost of tax collection as well as evasion. Since the tax bases the records and collected on transaction, it gets the administration is achieving the main objective that is voluntary compliance. VAT refunds for taxes paid on charges of production, distribution and administrative activities. It encourages investment and saving by crediting capital input tax. Stimulates foreign trades because it is applied zero rate on export productions and services in order to get them efficient competent in the world market. It attracts foreign investments, as it is accepted modern tax type by many countries in the world, (Misrak Tesfaye, Msc, 2008).

2.1.2.4 Supplies and Rates for VAT Computation

For VAT administration purposes in Ethiopia, the rates are computing in the following ways:

a). Taxable Supplies

VAT is collected from taxable supplies, which are imported or sold domestically. Transactions on which the tax is paid up on are where supplies: Made in the territory and produced or provided by VAT registrants that are not exempted or zero-rated. Aid or exchanging similar supplies from the business are liable to VAT. These values of

market price. In case the value increases, tax should be in the form of aid or exchanging, (Abebe Worku, 2008),

b) VAT on Import

According to VAT proclamation of Ethiopia, all goods imported in to country are liable to VAT, except zero-rated goods and exempt goods. The imported goods regardless of the goods are private or for business purposes, and whether or not the importer is registered for VAT. The VAT for importation is paid at the point of clearing the goods in the customs division of ERCA of Ethiopian case.

VAT is paid that is due. However, VAT and TIN number should be provided on customs import entry and declared if the goods imported are for the given business. If they are imported for taxable business purpose, credit is claimed for the tax paid on the VAT tax return. The value on which the VAT will have to be paid at importation is in accordance with the VAT law as the CIF (cost, Insurance and Freight) duty plus the customs duty plus the cost of any service supplied incidental to the delivery of the goods. The customs division will give the basis of value for VAT purposes, as proclamation stated.

Import credits are claimed for the VAT paid on imports are applicable if, client is VAT registrant, the import must be for the business and not for private use, the copy of the customs bill must of entry certified by customs as to the amount VAT paid. This amount must entered in appropriate box on the VAT return and claim it as a credit. A copy of customs bill of entry must be retained.

Service business conduct to give service in the country and registered for VAT then pays VAT. If the service supplied by foreign who is not registered for VAT in Ethiopia, then Ethiopia registrant must be accounted for VAT of service received from abroad. (Misrak Tesfaye, Msc, 2008).

c). Zero rated Supplies

Supplies of zero-rate goods or services are business transaction, which VAT is chargeable as 0% (Zero rate). Supplies are taxable although no VAT is charged and the value of these supplies forms part of the taxable turnover for registration purpose. Input tax could be claimed in full, tax paid on purchases, credit related to zero rated supplies. If zero

It should be able to be claimed refund from Authority, (Proclamation No. 285/2002, Art. 8).

The supplies of export of goods or services treated by zero-rate. Goods are treated as exported from Ethiopia if the goods are delivered to or made available at all address outside Ethiopia as evidenced by documentary proof from customs acceptable by the concerned official of ERCA. Services are treated as exported of the services are supplies for use or consumption outside Ethiopia as evidenced by documentary proof from customs by concerned official of ERCA.

The rendering or supply of transaction or other services directly connected with international transport of goods or passengers, as well as the supply of lubricants and other consumable technical supplies taken on aboard for consumption during international flights. International transport of goods or passengers occur where the goods or passengers are transported by road, rail, water, transportation from a place outside Ethiopia or another place outside Ethiopia where the transport or port of the transport is across the territory of Ethiopia, or outside to a place of Ethiopia, the Ethiopia to outside. In addition, supply of gold to the National Bank of Ethiopia from abroad. (Misrak Tesfaye, Msc, 2008).

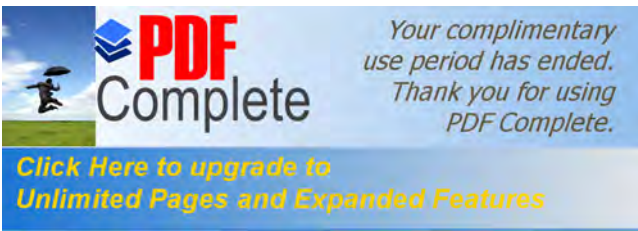
d). VAT on Exports

Exports are subjected to VAT at zero rates. VAT has no to be charged for the goods and service would be exported, however, credit or input tax is claimed upon those supplies purchased to produce the exports.

The one who is making taxable supplies even if it a nil rate and law requires that it will be registered if the turnover exceeds the registration limits. Secondly if will be entitled to refund of VAT from the authority if it exports, goods or services, and it will therefore be its interest to register regardless of the level of turnover, to be able to claim VAT refunds, (Proclamation No. 285/2002).

e). Exempt Supplies

Supplies of exempt goods and services are business transactions on which VAT is not chargeable at either the standard or zero-rate. Exempt supplies are not taxable supplies



turnover for VAT registration purposes. Making only
not is registered for VAT payer. Credit claim for input
tax is impossible if the supplies are, VAT exempted, (Proclamation No. 285/2002).

Powers and Duties of VAT Administration


The implementation and enforcement of VAT collection powers and duties has been given to Authority by Proclamation. Notwithstanding anything to the contrary in any other law, the Authority is empowered to investigate any statements, records and books of account submitted by any person at any time by:

- (a) Sending duly accredited inspectors to check the statements, records and books of account, or any vouchers, stocks or other material items at the person's place of business or practice;
- (b) Requiring the person or any employee who has access to or custody of any information, records or books of account to produce the same and to attend during normal office hours at any reasonable convenient tax office and answer any questions relating thereto;
- (c) Requiring any person including a municipality, body, financial institution, department or agency of federal or regional government to disclose particulars of any information or transactions, (FDRE vat proclamation no.285/2002, art. 30).

2.1.2.5 Seizure of Property to Collect VAT

A person who has liability to pay VAT imposed by the law has to pay properly. However, this may not be implemented as per expected. During this Authority is lawful to collect the tax by seizing property equivalent to tax and administrative cost of managing seizure of property, as per the proclamation.

Seizure extends only to property possessed and an obligation existing at the time the seizure is made. Whenever the seizure properties are sold, the procedure to be followed is with public auction or any other approved method by Authority after ten days of the seizure. However, for perishable goods the authority decides appropriate time to sell.



PDF Complete
Your complimentary use period has ended.
Thank you for using PDF Complete.

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

cover tax liability, the Authority may proceed to seize the person against whom the claim exists until amount due from such person together with the expenses, is fully paid.

The person, whose property to the seized should be notified before 30 days of seizure. However, if the Authority makes a finding that the collection of the tax is in jeopardy, it does not necessarily to keep 30 days period.

2.1.2.6 Filing of Tax Return and payment of VAT

Every registered person is required to file a VAT return with the Authority for each accounting period, whether or not tax is payable in respect of that period; and to pay the tax for every accounting period by the deadline for filing the VAT return.

The VAT return for every accounting period is filed no later than the last day of the calendar month following the accounting period. VAT on taxable imports is collected by the ERCA accordance with VAT as per the customs legislation of Ethiopia under the procedure contemplated for customs duty, (FDRE VAT Proclamation No.285/2002, Art. 26).

2.1.2 VAT Refund

As of the official proclamation, VAT refund is practical if at least 25 percent of the value of a registered person's taxable transactions for the accounting period is taxed at a zero rate. The Authority refunds the amount of VAT applied as a credit in excess of the amount of VAT charged for the accounting period within a period of two months after the registered person files an application for refund, accompanied by documentary proof of payment of the excess amounts.

In the case of other registered persons. The amount of VAT applied as a credit in excess of the amount of VAT charged for the accounting period is to be carried forward to the next five accounting periods. And credited against payments for these periods, and any unused excess remaining after the end of this five-month period is refunded by the Authority within a period of two months after the registered person files an application for refund, accompanied by documentary proof of payment of the excess amounts.

a refund is not paid by the Authority that is satisfied applicable, the Authority pays the person entitled to the refund, interest set at 25% over and above the highest commercial lending interest rate that prevailed during the preceding quarter, (proclamation No.285/2002, Art. 27).

2.1.3 VAT Assessment

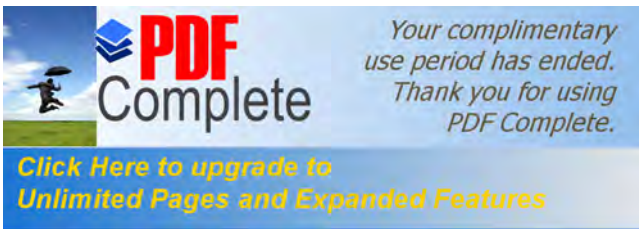
After review by the Authority, it appears that a person has understood his tax obligation. The Authority issues an additional assessment within 5 years after the end of the accounting period concerned; and in the case of fraud or willful negligence, notwithstanding any limitation in any other law, assessment make at any time. If the Authority makes an additional assessment within 30 days of the notice and demand, the person assessed does not pay the additional assessment or appeal the assessment as provided in VAT proclamation, the person is in default, (Proclamation No.285/2002, Art. 29).

2.1.4 VAT Investigation

Authority gets to mitigate VAT evasion through investigation activities. This is done through qualified professionals in different disciplines. These help to investigate various tax offences easily because most activities are identified through diverse expertise capacity. Tax evasions mainly made by high taxpayers who are involved with VAT, such activities are due to deep understanding of corruption seeking and supported by well-experienced and skilled workers capable to fraud the system.

VAT evasion offence can be treated with criminal penalty. The ordinal court treats the offence made by taxpayers through the prosecuting. Such activities are processing with layers of the Authority. Offenders of tax evasion penalized in money as well by imprisonment as per the criminal law states. Their names with offence they commit also publicized through mass media. Exposing such offenders pertains to aware others keep the tax law as stated to be implemented.

Therefore, the Authority focuses investigations of VAT evasions in order to reduce corruption in this sector. Ethiopia is treating such problem with VAT proclamation.



tion and directives have been designed and issued by

2.1.5 VAT Appeal Administration

This procedure enables taxpayers to reveal their grievances. They are allowing providing what they are not satisfied in receiving VAT administration service. Here, the power and duties of Authority with individual professionals stated explicitly. On the other side, customers right to forward their complaints in order to get satisfaction. In relation to appeal procedure activities like reviewing, waive ring, appealing and burden of proof are being practiced.

Member of the review committee are appointed by Authority at each level of administration up on the recommendation of the head of the authority. The Review Committee waives administrative penalties as per the law. Any person who objects to an additional assessment made by the Authority has the right to appeal within 30 days from the receipt of that assessment notification or from the date of decisions of the Review Committee to the Tax Appeal commission by depositing in cash with the Authority an amount equal to 50% of the additional tax assessed. If a person appeals in accordance with mentioned above and the Tax Appeal Commission determines that the person is liable for the additional assessment, the person be in default unless he pays within thirty 30 days of the decision of the Commission. Otherwise, no appeal is made within the period prescribed, the Additional assessment of the tax made by the Authority is deemed correct, final, and immediately payable. The burden of proving that an assessment is excessive or that the decision of the Authority is wrong is on the person objecting to the assessment or decision, (Proclamation No.285/2002, Art. 42- 44).

2.1.6 VAT Administrative Penalties

A person who should be involved in Value added Tax has to respect the law states otherwise, the person is penalized with such illegal action of: registration, invoice receiving or issuing, using accounting records, and filing the period turnover.

Penalties

The following penalties are imposed for violations of Value Added Tax, where:

able transactions without VAT registration;
and 100% of the amount of tax payable for the entire period of operation without VAT registration;

- ❖ Any person issued incorrect tax invoice resulting in a decrease in the amount of tax or increase in accredit or in the event of the failure to issue a tax invoice, 100% of the amount of tax for the invoice or on the transaction;
- ❖ A person who is not registered for VAT issues a tax invoice, a penalty of 100% of the tax which is indicated in the tax invoice and is due for transfer to the budget but has not been transferred; and
- ❖ A person fails to maintain records penalized 2,000 Birr for each month or portion thereof that the failure continues (proclamation No.285/2002, Art. 45).

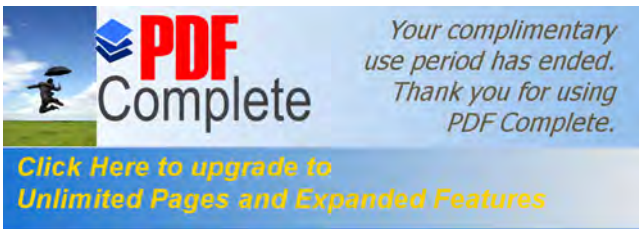
Penalties for Late Filing

A person who fails to file a timely return is liable for a penalty equal to 5 percent of the amount of tax under payment for each month or portion thereof during which the failure continues, up to 25 percent of such amount. The penalty mentioned for the first month or portion thereof should not be greater than 50,000 Birr in which no return is filed. In any event, the penalty should not be less than the smaller of the two amounts: 10,000 Birr or 100 percent of the amount of tax required to be shown on the return. Under payment of tax is the difference between the tax required to be shown on the return and the amount of tax paid by the due date (proclamation No.285/2002, Art.46).

Late Payment Interest

Interest is paid for late payment as penalty. This is based on the tax amount that has been made late. Here under the manners of interest punishments are explained.

- 1) If any amount of tax is not paid by the due date, a person liable thereof is obliged to pay interest on such amount for the period from the due date to the date the tax is paid.
- 2) The interest rate under number (1) is set at 25% (twenty five percent) over and above the highest commercial lending interest rate that prevailed during the preceding quarter, (proclamation No.285/2002, Art.47).



This part of Value Added Tax criminal offence is penalized and processed in ordinary court in addition to administrative punishment which is undertaken not by court but through executive. A tax offence is violation of the criminal law of Ethiopian and is charged, prosecuted, and appealed in accordance with Ethiopian criminal procedure law (proclamation No.285/2002, Art.48).

Tax Evasion

A person who evades the declaration or payment of tax, or a person who, with the intention to defraud the government; applies for a refund that is not entitled to commit an offence. So, if a person does this may be prosecuted and on conviction be subject to a term of imprisonment of not less than five years, (proclamation No.285/2002, Art.49).

Making False or Misleading Statements

During VAT activities, a person makes or misleads statements by making a statement to a tax officer of the Authority. Where the statement or omission is made without reasonable excuse, and if the inaccuracy of the statement were undetected may result in under payment of tax by an amount not exceeding 1,000 birr, to a fine of not less than 10,000 Birr and not more than 20,000 Birr. In addition, imprisonment for a term is not less than one year and not more than three years. If the under payment of tax is in an amount exceeding 1,000 Birr, to a fine of not less than 20,000 Birr and not more than 100,000 Birr and imprisonment for a term of not less than three years and not more than five years. Where the statement or omission is made knowingly or recklessly:

(a) if the inaccuracy of the statement were undetected may result in an underpayment of tax by an amount not exceeding 1.000 Birr, to a fine of not less than 50,000 Birr and not more than 100,000 birr. On the other hand, imprisonment for a term of not less than five years and not more than ten years.

(b) if the underpayment of tax is in an amount exceeding 1,000 Birr, to a fine of not less than 75,000 Birr and not more than 200,000 Birr, or imprisonment for a term of not less than ten years and not more than fifteen years, (proclamation No.285/2002, Art.50).

Obstruction of Administration

instruct an officer of the Authority in the performance of

duties under this Proclamation, or

- ❖ otherwise impedes or attempts to impede the administration, of the Proclamation, commits an offence and is liable on conviction to a fine of not less than 1,000 Birr and not more than 100,000 Birr, and imprisonment for a term of two years;

2. For purposes of number (1), the following and similar other actions are considered to constitute obstruction:

- ❖ refusal to satisfy a request of the Authority for inspection of documents/ reports, or other information related to a taxpayer's income producing activities;
- ❖ noncompliance with an Authority request to report for an interview;
- ❖ Interference with a taxation officer's right to enter the taxpayer's business premises, (proclamation No.285/2002, Art.51).

Failure to Notify

A person who fails to notify the Authority of a change considered commits an offence and is liable on conviction:

- ❖ Where the failure was made knowingly or recklessly, to a fine of not less than 10,000 Birr and to imprisonment for one year; or
- ❖ In any other case, to a fine of not less than 5,000 Birr and to imprisonment for six months, (proclamation No.285/2002, Art.52).

Offenses by Tax Officer

1. Any tax officer or former taxation officer employed in carrying out the provisions of VAT Proclamation who,

(a) Directly or indirectly asks for, or receives in connection with any of the taxation officer's duties, a payment or reward, whether pecuniary or otherwise, or promise or security for that payment or reward, not being a payment or reward which the officer is lawfully entitled to receive, or

(b) Enters into or acquiesces in an agreement to do or to abstain from doing, permit, conceal, or connive at any act or thing whereby the tax revenue is or may be defrauded or which is contrary to the provisions of this Proclamation or to the proper execution of the

offence and is liable on conviction to a fine not less than ten thousand Birr and to imprisonment for a term of not less than ten years and not more

than twenty years.

2. A tax officer or former tax officer employed in carrying out the provisions of this Proclamation, except such information is required by the Commercial Code of Ethiopia to be published in the Trade Gazette, who,

(a) Discloses to any person or that person's representative, any matter in respect of another person, that may, in the exercise of the taxation officer's powers or the performance of the taxation officer's duties under the said provisions, come to the taxation officer's knowledge; or

(b) Permits any other person to have access to records in the possession or custody of the Authority, except in the exercise of the taxation officer's powers or the performance of the officer's duties under this Proclamation or by order of a court; commits an offence and is liable on conviction to a fine of not less than 10,000 Birr and to imprisonment for a term of not less than two years and not more than five years.

3. Nothing in VAT proclamation prevents a taxation officer from disclosing

(a) Any document or information to:

(i) Any person where the disclosure is necessary for the purposes of this Proclamation or any other fiscal law;

(ii) The Auditor-General where the disclosure is necessary for the performance of duties entrusted to it by law.

(iii) The competent authority of the government of another country with which Ethiopia has entered into an agreement for the avoidance of double taxation or for the exchange of information, to the extent permitted under the agreement;

(b) The Ethics and Anti-Corruption Commission where the disclosure is necessary for the performance of duties entrusted to it by law.

(c) Law enforcement agency not described above where the Minister of Revenue issues written authorization to make disclosures necessary for the enforcement of the laws under the agency's authority; or Information, which does not identify a specific person to any person in the service of the State in revenue, or statistical department where such

performance of the person's official duties, (proclamation

Unauthorized VAT Collection

Any person not authorized to collect tax under VAT Proclamation who collects or attempts to collect tax (or an amount the person describes as tax) commits an offence and, is liable on conviction to a fine of not less than 50,000 Birr and to imprisonment for a term of not less than five years and not more than ten years, (proclamation No.285/2002, Art.54).

Aiding or Abetting

A person, who aids, abets, incites, or conspires with another person to commit a violation of this Proclamation, also commits a violation of this proclamation. That person may be subject to prosecution and, on conviction, to a fine and imprisonment, not in excess of the amount of fine or period of imprisonment provided for the offence aided or abetted, (proclamation No.285/2002, Art. 55).

Offences by Entities

1) Where an entity commits an offence, every person who is a manager of that entity at that time is treated as having committed the offence and is liable to a penalty.

2) where an entity commits an offence by failing to pay an amount of tax, including an amount treated by VAT Proclamation as though it were tax, every person who was manager of that entity at that time or was a manager within six months prior to the date of commission is jointly and severally liable with that entity and that other person to the Authority for the amount.

3. Number (1) and (2) do not apply where,

(a) The offence is committed without that person's knowledge or consent; and

(b) That person has exercised the degree of care, diligence and skill that a reasonably prudent person would have exercised in comparable circumstances to prevent the commission of the offence, (proclamation No.285/2002, Art.56).

Improper Tax Debit and Tax Credit Notes

A registered person, who fails to provide a tax credit note or tax debit note as required by VAT Proclamation commits an offence and is liable on conviction, to a fine of 10,000 Birr and to imprisonment for one year. A person who provides a tax credit note or tax

ed for in this Proclamation commits an offence and is

- (a) Where the failure was made knowingly or recklessly, to a fine of 20,000 Birr to imprisonment for three years; or
- (b) In any other case, to a fine of 10,000 Birr and to imprisonment for one year, (proclamation No.285/2002, Art.58).

Publication of Names

The Authority publishes by notice in the Gazette a list of persons who have been convicted of criminal offences. Every list published in terms of convicting of criminal offences specifies:

- (a) The name, address, and principal enterprise of the person;
- (b) Such particulars of the offence as the Authority may think fit;
- (c) The tax period or tax periods in which the offence occurred;
- (d) The amount or estimated amount of the tax evaded; and
- (e) The amount, if any, of the additional tax imposed, (Proclamation No. 285/2002, Art.59).

2.1.8 Consequences of De-registration

The following are the legal consequences of the cancellation of VAT registration:

- ❖ From the date the registered is cancelled, the person (supplier) cannot charge (collect) VAT and cannot issue tax invoices for any supplies made. In other words, the person cannot make taxable transactions.
- ❖ After the VAT registration is cancelled, the person cannot claim a refund of VAT paid on any goods or services purchased.

2.2. Empirical literature on Ethiopia

In Ethiopia, VAT was introduced in January 2003. The VAT Proclamation No.285/2002 states that VAT is collected from those VAT registered taxpayers whose annual turnover is above the threshold of Birr 500,000. It is applied at a uniform rate of 15% on all goods and services, with zero rates for exports. It provides tax exemption for services like transportation, education, finance and others, also for goods such as kerosene.

ue (2004), in 2003-2004, VAT revenue collection has ed to the replaced sales tax. However, the efficiency ratio (the ratio of VAT revenue to GDP divided to standard VAT rate) was about 14 % for the year 2003-2004, which was lower than the average efficiency ratio of Sub Saharan African countries (27%).

Regarding revenue raised by VAT, in Yesegat (2008),¹ the Federal Inland Revenue Authority (2007) indicated that VAT is the principal source of revenue for the country. For instance, at the Federal level, from 2007/8-2009/10, on average in each year, the share of the VAT to total tax revenue is about 38.55% (FRCA, 2010). In Addis Ababa, in the same year, it amounts to 21.43% (AACRA, 2010).

In terms of the VAT administration problem, Yesegat (2008:145) stated öin Ethiopia revenues raised by VAT are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, that is, the incapacity of tax authorities to implement the attributes of the tax in practice.ö To show some indicators of VAT administration problems, for instance, in Arada Sub City Revenue Office, as the first quarter report of 2010/2011 indicates, among the 2,292 VAT registrants, on average, in each month, 842 are nil filers. In addition to this, if we compare the gap between the amount of VAT collected and refund claimed, on average in each month, 592 registrants paid Birr 15,030,878. 00. Whereas 858 registrants claimed refund of Birr 50,686,464.00.

Therefore, in Ethiopia the revenue collecting from VAT is better than the replaced sales tax. However as reports indicates, like in Arada Sub City, there is low voluntary compliance which is the sign of weak VAT administrative activities and in effect poor VAT administration.

¹ <http://www.unsw.edd.au/ejtr/contents/issues/previous/paper4-v6n2.pdf>

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND DISCUSSION

3.1 Introduction

This study was designed to assess problems related to VAT administration in Addis Ababa with emphasis on Arada sub-City Revenue Office. The research studied VAT administration problems regarding Registration, Assessment, Collection, Investigation, Refund and Taxpayers Service Delivery practices

The results obtained based on the data collected from respondents are presented and discussed in this chapter. It shows general characteristic of the respondents, the response rate and findings of the study about the effectiveness of the Arada Sub-City Revenue Office and the determinant factor that affected sound administration of VAT on the basis of the objectives of the study.

3.2 Response Rate Analysis

The field survey result indicates that from 150 questionnaires distributed to VAT registrant taxpayers in Arada Sub City, 121 were returned representing 80.6 percent, and from 18 questionnaires distributed to tax officials in the sub city, all were returned representing 100 percent. In addition, interviews were held with three managers of the sub city.

Table: 3.1 Summary of response rate by categories.

No.	Categories	Number of questionnaires distributed	Response rate in number	Response rate in percent
	VAT registrant taxpayers			
1	1.1 Nil filers	55	45	82
	1.2 credit filers	56	42	75
	1.3 payment filers	39	34	87
2	Tax officials	18	18	100
	Total	168	139	82.7

Source: Field Survey Result 2011

ent, were found to be usable. The highest response who accounted for 100 percent.

3.3 Demographic Data

3.3.1 Characteristics of VAT Registrant Taxpayers

VAT registrant taxpayers are the main witnesses to explain the VAT administrative activities of the tax office. The survey result in this section reveals the gender, level of education, type of business and their experience as VAT registrant.

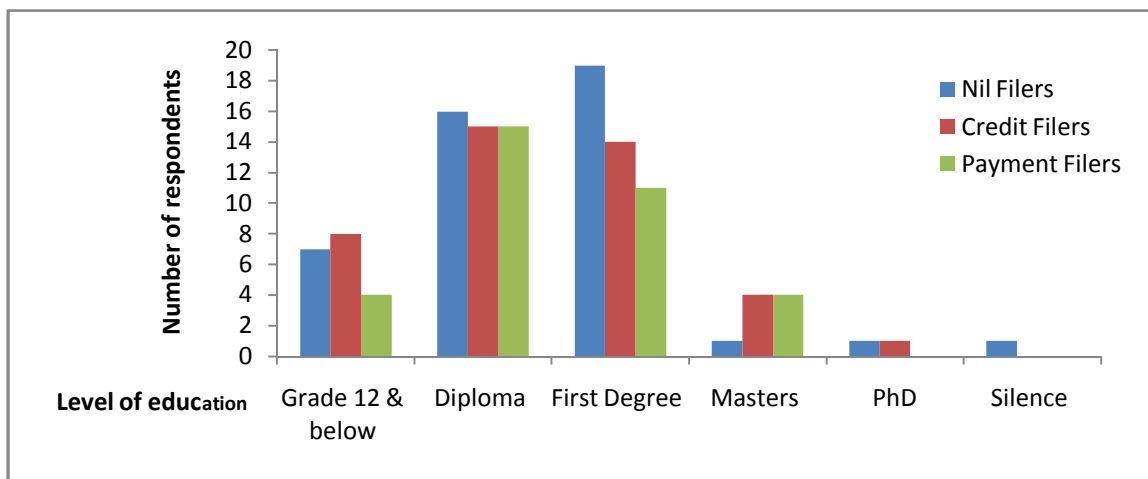
Table: 3.2: Genders of VAT registrant taxpayer respondents

Gender	Nil filers	Credit filers	Payment filers	Total
	In percent	In percent	In percent	In percent
Male	76	76.2	71	74.4
Female	24	23.8	29	25.6

Source: Field Survey Result 2011

As indicated above in the table, 74.4 percent of VAT registrant taxpayer respondents were male and 25.6 percent were female. There is no significant difference of male to female share in percent among the categories of nil, credit and payment filers.

Figure 3.1: Level of education of VAT registrant taxpayer respondents



Source: Field Survey Result 2011

respondents of VAT registrant taxpayers, 19 were grade credit filers; 46 have a Diploma of which 16 were nil filers; 44 have First Degree of which 19 were nil filers, 9 were Master of which 4 were payment filers, and 4 were credit filers. A nil filer and a credit filer have PhD.

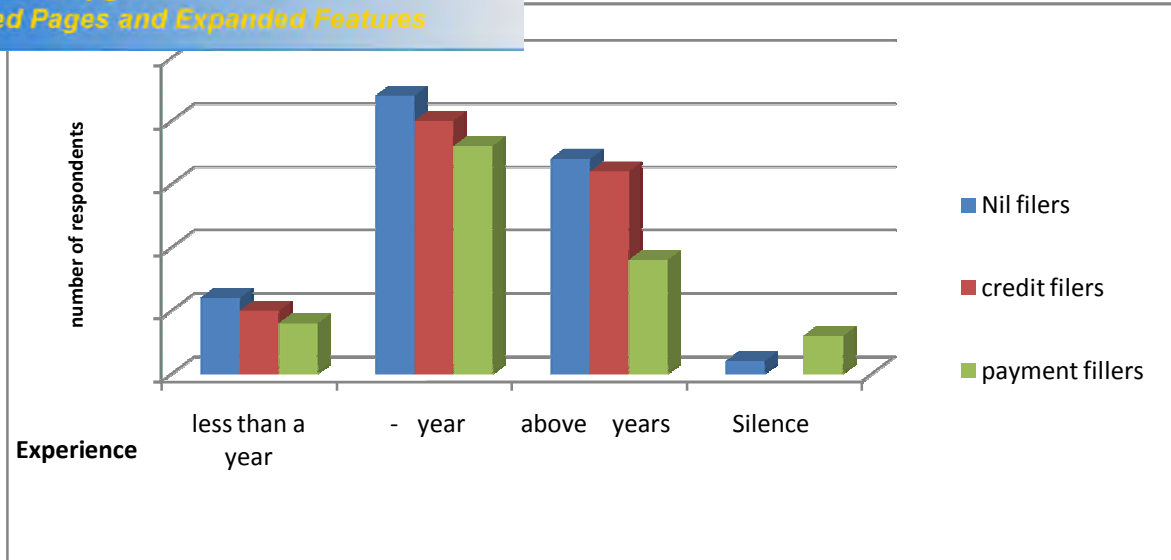
Table: 3.3 Business types of VAT registrant taxpayer respondents

S.N	Types of Business	Number of VAT registrants			
		Nil filers	Credit filers	Payment filers	Total
1	Construction	12	11	9	32
2	Import-export	13	11	6	30
3	Hotel/restaurant/café	1	3	5	9
4	House rental	-	1	3	4
5	Construction machinery rental	4	2	3	9
6	Tour service	2	-	-	2
7	Advertising service	2	-	-	2
8	Trade agent/transistor	-	3	-	3
9	Retail	3	2	-	5
10	Consultancy/accountant	3	5	2	10
11	Others	5	4	6	15
	Grand Total	45	42	34	121

Source: Field Survey Result 2011

As the table shows more of the respondents were from construction and import - export businesses.

on of VAT registrant taxpayer respondents



Source: Field Survey Result 2011

As indicated in the figure, most of the respondents registered for VAT in the last three years.

3.3.2 Characteristics of Tax Officials

The response of tax officials of the sub city was also very important to evaluate the effectiveness of their office in VAT administration and also to understand the thought of taxpayers towards VAT. They were composed of auditors 28%, lawyers 5%, tax intelligence 5%, team leaders 11%, tax assessment and collection officers 17% and others 17%. Three of them which accounted for 17% didn't respond their position. The remaining part of this section reveals the gender, level of education and their experience.

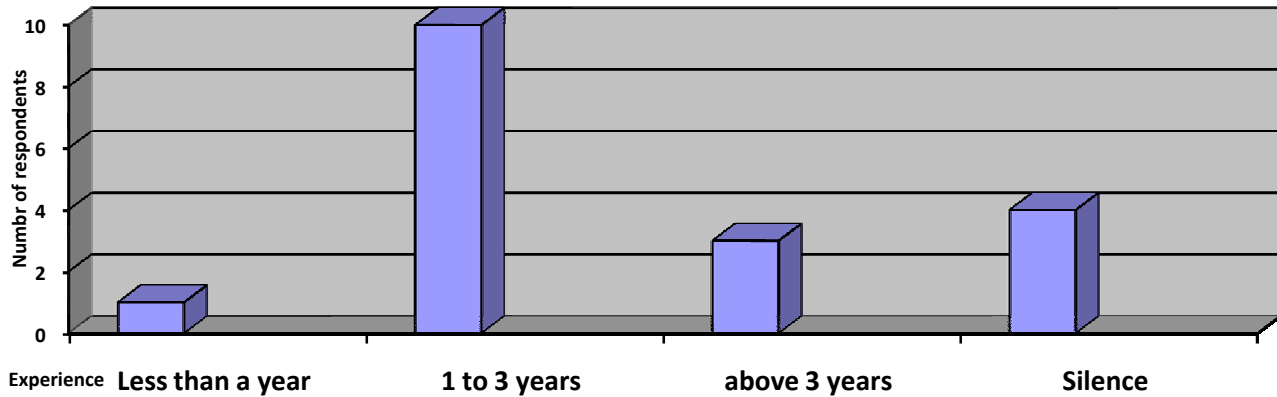
Table: 3.4. Genders of tax official respondents

Gender	Count	In percent
Male	11	61
Female	7	39

Source: Field Survey Result 2011

number of male respondents was higher than female education of tax official respondents, all have first degree.

Figure: 3.3. Experience distribution of tax official respondents



Source: Field Survey Result 2011

As indicated in the figure more of the respondents, which accounted for 61%, were in their position not more than three years.

ASCRO Organization Structure

Organizational structure is the formal system of task and reporting relationships that controls, coordinates, and motivates employees so that they cooperate to achieve an organization's goals. An organizational structure is a mainly hierarchical concept of subordination of entities that collaborate and contribute to serve one common aim. Organizations are a variant of clustered entities. An organization can be structured in many different ways and styles depending on their objectives. The structure of an organization will determine the modes in which it operates and performs. Organizational structure allows the expressed allocation of responsibilities for different functions and processes to different entities such as the branch, department, workgroup and individual. An effective organizational structure shall facilitate working relationships between various entities in the organization and may improve the working efficiency within the

norms dictate to organize tax administrations on
ance. In Arada tax administration organizations is

clearly articulated in line with international standard. It is organized based on tax administration function to be carried out for all types of tax payers such as tax assessment and collection, audit and investigation, customer service rather than based on type of tax. This situation helps g integration of operations, better management of staff and improved compliance and enforcement.

3.2.3 Human Resource Management

The human resources are the most valuable asset of any organization as they contribute to the realization of its organizational objectives. Human resource management is the strategic and coherent approach to the management of an organization's most valued assets i.e. the people working there who individually and collectively contribute to the achievement of the objectives of the organization. The goal of human resource management is to help an organization to meet strategic goals by attracting, and maintaining employees and also to manage them effectively. An organization's human resource function may possess recruitment and selection policies, disciplinary procedures, reward/recognition policies, human resource plan, or learning and development policies; however all of these functional areas of human resource management need to be aligned and correlated, in order to correspond with the overall business strategy. Activities also include managing employee benefits and compensation, employee records and personnel policies. ASCRO has a manpower administrative unit in the approved organizational structure of current tax administration which is directly responsible to the general manager of the office. It has the responsibility of organizing the data of employee, training, controlling and other related activities. As shown in the table 4.2 below, there is a big gap between required and available man power. To fill the gap, currently the office has focused on the employment of new university and college graduates in order to improve customer service and assistance.

Best international practices dictate that 70% of employees in the tax administration need to have university of or college degrees. In the case of Arada from the total of 61 employees 32 which are nearly 50 percent have first degrees. The other are diploma and

necessity of undertaking massive human resource recruitment in the revenue sector.

Table 3.5 Human Resource

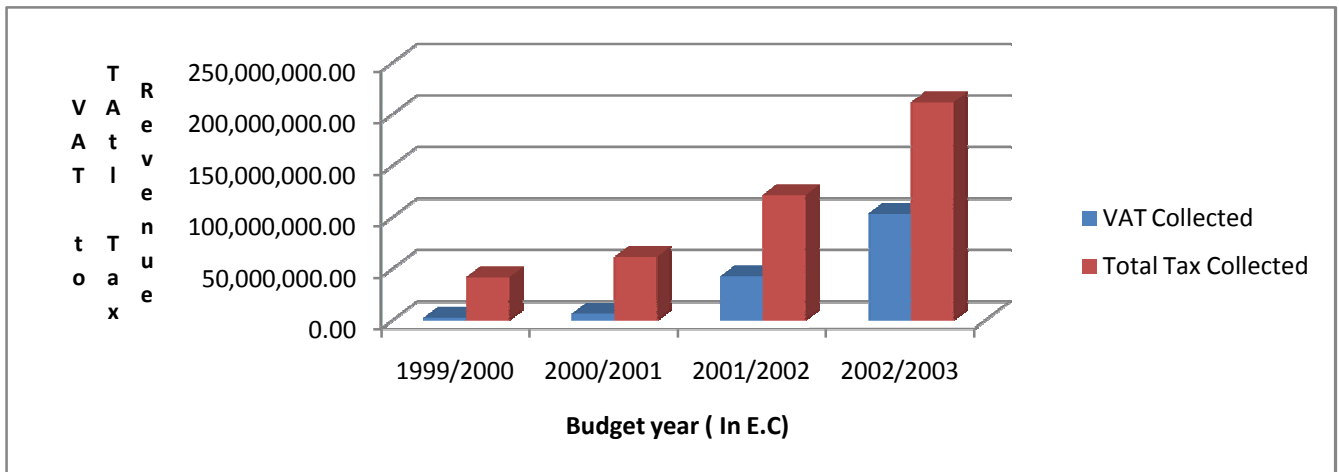
No	Units	Required	Available
1	Tax assessment and collection	27	15
2	Audit	24	8
3	Customer service	19	6
4	Enforcement	91	15
5	Asset Management	34	9
6	General manager	18	8

3.4 Findings of the Study

3.4.1 The Existing VAT Collection Performance

The Ethiopian Revenue and Customs Authority Arada Sub-City Small and micro tax payers branch (the former Arada Sub-City Revenue Office) VAT collection during 2006/07 to 2009/10 were as follows .However the Sub-City collects tax and non tax revenues, the study dealt with only tax revenue collection performance of the Arada Sub-City Revenue Office.

Figure 3.4: VAT to Total Tax Revenue

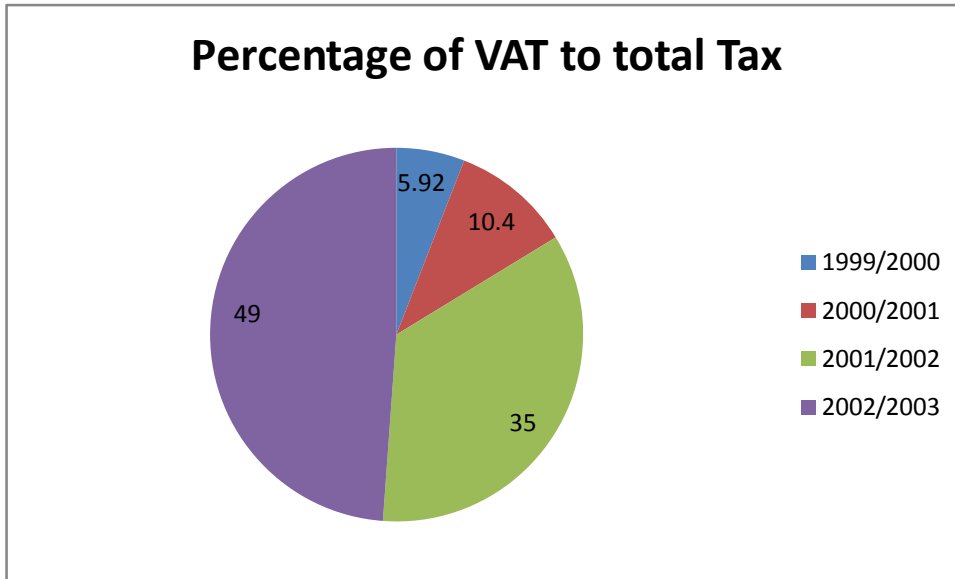


Source: Field Survey Result 2011

...e, there was a significant growth in VAT revenue. As ... less than 2.5 million in 2006/7 and grown to over 103

million in 2002.

Figure 3.5: Percentage of VAT to Total Tax



Source: Field Survey Result 2011

b), The Arada Sub-City tax collection performance trends

Figure 4.4 shows that the VAT collection has dramatically increased from 1999/2000 of 2, 2478334.40 Birr to 103388133.11 Birr in 2002/2003. Its share to total VAT revenue in Arada has grown from the level of about 6 percent in 2006/7 to level of 49 percent in 2010 This is because of the sources of VAT expansion made by the government of Ethiopia.

3.4.2 The Existing VAT Administration and its Main Constraints in Arada Sub-City

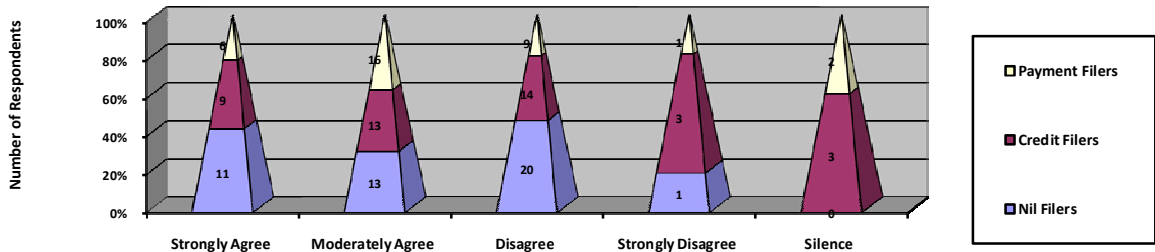
The following section presents the findings of the study on the existing VAT administrative practices and the main constraints at Arada Sub-City in VAT administration. Particularly, the practices and constraints in taxpayer identification and registration, VAT collection, VAT auditing and enforcement activities as well as voluntary compliance practices of taxpayers in the Sub City.

and registration practices and its constraints

A survey in Ethiopia revealed that businesses undertaking taxable activities in Ethiopia with an annual turnover of ETB 500,000 and more required filing an application for VAT registration. In addition to this, according to the discussion with the managers, to bring those required to register but did not do so into the VAT net, the authority devised two types of forced registration schemes. First, compelling all businesses in a specific sector regardless of the level of their annual turnover based on some criteria. For instance, importers, gold smiths, shoe factories, contractors above grade 10 are some of them. The second scheme was by estimating the daily income (sales) of taxpayers to calculate their annual turnover in door to door inspection by tax officials.

However, survey of responses revealed several problems in taxpayer identification and registration process for VAT. For instance, 56.2 percent of VAT registrant taxpayer respondents agreed that tax officials are not skilled enough to identify and register taxpayers for VAT particularly in forced registration by estimation.

Figure 3.6: Evaluation of tax officials in taxpayer identification and registration



Source: Field Survey Result 2011

According to the outcomes of interviews with managers, in forced registration which are based on estimation of daily income of taxpayers, some tax officials may create problems intentionally or negligently. In examination of the survey responses of VAT registrant taxpayers, 44.4 percent of the respondents agreed that some tax officials intentionally leave potential taxpayers required being register for VAT.

As indicated, one of the problem in taxpayer identification is lack of uniformity. Due to many reasons like indicated above, still there are many potential taxpayers did not registered for VAT. According to the outcomes of interviews with managers, this is true so that the Authority recently issued a directive to encourage those required to register but did not do so. This is proved by survey responses of VAT registrant taxpayers as indicated below.

Table: 3.8. Potential taxpayers who should to register for VAT

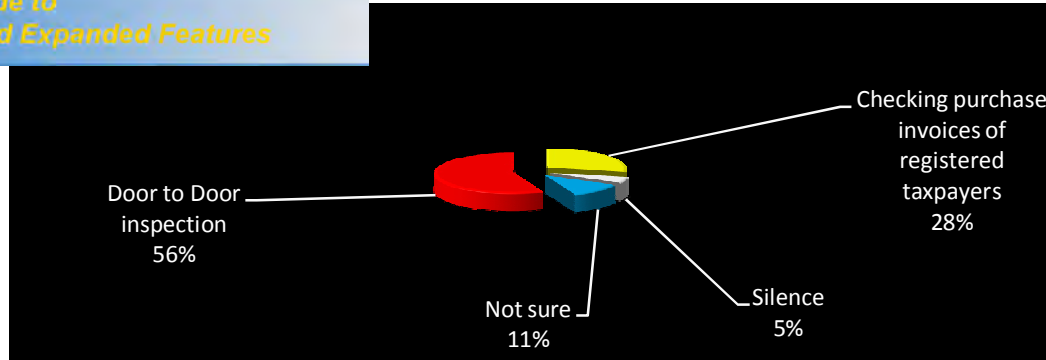
Variable	Response	Response frequency of VAT registrant taxpayer respondents		
		Nil filers	Credit filers	Payment filers
Many potential registrants for VAT In Arada Sub City not register still?	Strongly agree	22	21	17
	Moderately agree	16	12	11
	Disagree	6	8	-
	Strongly disagree	-	-	3
	Silence	1	1	3
	Total	45	42	34

Source: Field Survey Result 2011

As indicated in the figure above, 99 respondents which accounted for 82 percent of the total respondents agreed still there are many potential taxpayers required to register for VAT but are not.

According to the outcomes of interviews with managers, the other problem in registration is lack of reliable registration list in the office. Interviewed managers revealed there are two type of computer programs SIGTAS (System Integrated Government Tax Administration System) which is used to maintain Taxpayer Identification Number (TIN) and to register and process VAT collection and assessment and SIRM (System Integrated Revenue Management) which is used for other types of taxes. However, due to lack of training about the systems particularly SIGTAS, it is not possible to know the exact number of VAT registrants and to differentiate stop filers (non filers) and deregisters using the SIGTAS. In registering unregistered taxpayers for VAT, examination of survey responses of tax officials revealed the following.

Register unregistered taxpayers for VAT



Source: Field Survey Result 2011

As indicated in the figure above, the office mostly uses door-to-door inspection to register unregistered taxpayers for VAT.

b), Collection practices and its main constraints

Collection; in terms of taxpayers is the activity of filing returns whereas in terms of tax collectors it is checking the returns, collect the money and/or paying the refund. In Arada Sub-City, according to the outcomes of interviews with managers, to collect VAT they use a computer program called SIGTAS. However, to detect taxpayers who stop filing returns they identify manually. In the Sub-City as shown below the 3 month (July to Sep. 2010) report indicated the number of payment filers is lower than nil and credit filers and no report available about stop filers.

Table: 3.6. VAT filing report (July to September 2010) of Arada Sub-City

S.N	Types of VAT registrants according to their filing returns	VAT registrants filed returns in each month (on average) during the report period	
		In number	In percent
1	Nil filers	842	36.7
2	Credit filers	858	37.5
3	Payment filers	592	25.8
	Total	2292	100

Source: Arada Sub-City Revenue Office and own computation 2011

Examination of survey responses of the tax officials revealed that 56% and 39% of the respondents strongly and moderately agreed respectively that one of the reasons for

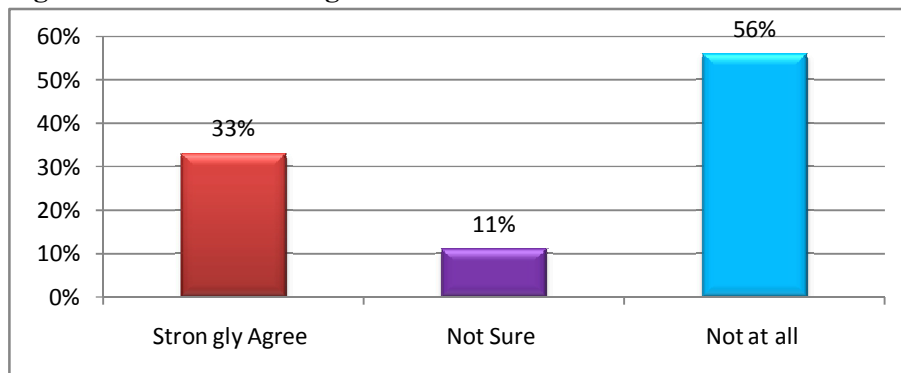
in the Sub-City is lack of effective control. To understand collection practices the Sub-City:- 23% of the total respondents revealed that monthly returns for small firms is costly, of those 40.8% were nil filers; 15.9% of the total respondents revealed there are many requirements in VAT collection, of those 49% were nil filers; 18.5% of the total respondents revealed that monthly cross checking takes long time, of those 43.8% were nil filers; 12.7% of the total respondents revealed tax collectors are not skilled enough, of those 43.6% were nil filers; and 23% of the total respondents revealed that laws and procedures are not clear and simple, of those still 43.6% of the respondents were nil filers. The remaining 5.5 and 1.3% raised different problems and not respond at all respectively. Of the raised different problems in VAT collection of the Sub-City, the delaines and repeatedly cut-off the computer system is one of the major constraints.

c), VAT auditing and refund practices and its main constraints

In respect of VAT audit in Arada Sub City, the interviews with managers showed there was no appropriate audit program based on risk management. It was rather planned to give better service for the customers. The audit task was also only desk auditing. No door to door inspection to check inventories and other things which need to be checked. As they revealed, this is mainly due to shortage of manpower.

In terms of refund, as the outcomes of interviews showed, all refund claims should be audited and may take long time. In addition to this, survey responses of tax officials' opinion about the effectiveness of their office in respect to VAT auditing and enforcement presented here under figure 4.6

Figure: 3.8. VAT auditing and enforcement effectiveness



Source: Field Survey Result 2011

VAT registrant taxpayers they were asked whether they have confidence on the Arada Sub-City Revenue Office VAT assessment and auditing practices. The respondents' position was as followed:

Figure 3:8: Respondents' confidence on VAT assessment and auditing practices



Source: Field Survey Result 2011

As indicated in the above figure, of the total respondents 61.1 percent not have confidence on the Arada Sub-City Revenue Office VAT assessment and auditing practice.

d), Enforcement practices of the office

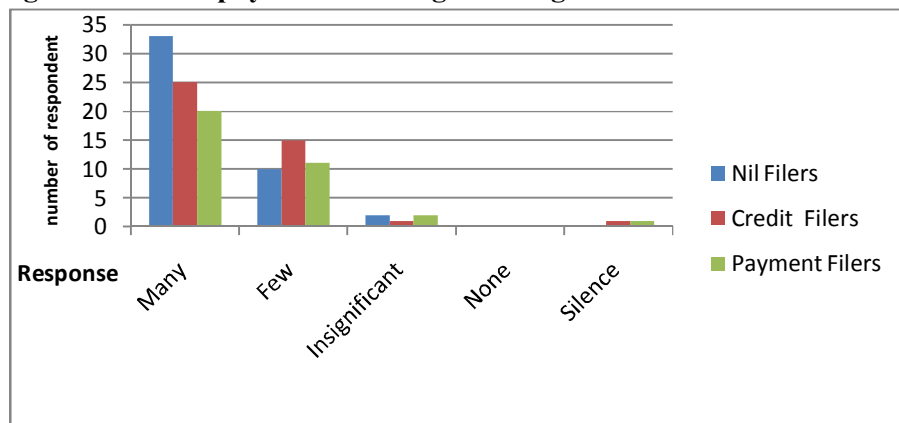
In terms of enforcement, according to Section 8 of the VAT Proclamation Number 285/2002; the main collection enforcement tool is seize of property to collect tax. This means if any person is liable to pay any tax imposed by the VAT law is in default in accordance with the provisions of the law, it shall be lawful for the Authority to collect such tax by seizing any property belonging to such person and sell the seized goods at public auction or in any other manner approved by the Authority. According to the outcomes of interviews with managers, in order to apply the law a directive issued by the Addis Ababa City Finance and Economic Development Bureau recently however not yet started to seize and sell still. Regarding penalties, tax officials were asked whether the penalties are appropriate, and 61.11 percent of the respondents revealed it are good and the rest 16.62 percent and 22.22 percent said fair and poor respectively. To know the presence of fair and efficient appeals system they were asked and the respondents equally distributed in to three. 33.3% said it is good, 33.3% fair and 33.3% judge it is poor.

taxpayers and service delivery practice of the office

of interviews with managers, voluntarily compliance of the taxpayers in the sub-city is not good due to three reasons. First, taxpayers thought towards VAT is one of the reasons. That means, there are taxpayers who think VAT increases the price of goods and services they sell so that they lose their customers. Others think if they sale goods and services with VAT invoices at the end of the year the tax office know their annual turnover and forced to pay more amount of income tax than what they have paid before. However, there are taxpayers who do not voluntary comply due to lack of awareness. Second, lack of uniform registration of similar businesses within the same area and equal businesses activities. Third, lack of effective control and enforcement were the main reasons.

According to the survey responses of VAT registrant taxpayers, if there is no penalty 43.8 percent of the respondents revealed they may not be register for VAT, while 52 percent may registers and 4.1 percent were not respond. They were also asked to guess the amount of taxpayers who are not willing to be register for VAT. Their response was as follows:

Figure: 3.10. Taxpayers not willing to be register for VAT.

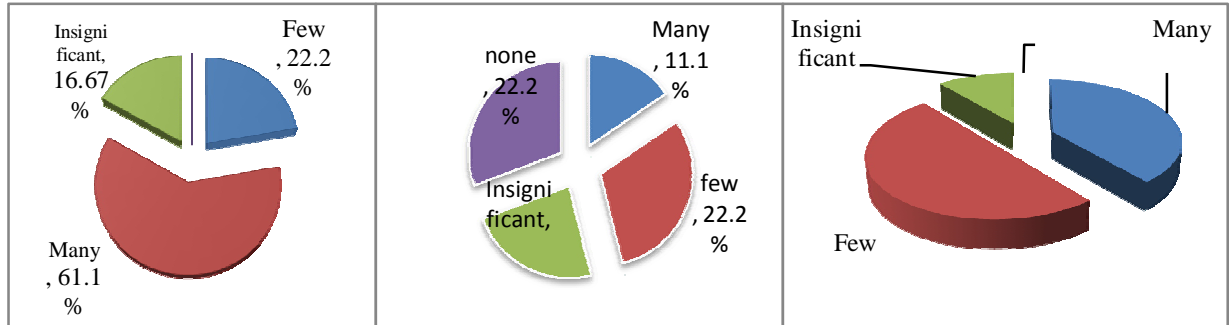


Source: Field Survey Result 2011

VAT registrant taxpayers respondents reasons behind unwillingness to be register for VAT are poor and irritating VAT administrative system, fear of competition from unregistered similar businesses, problems from their suppliers. In terms of honesty and loyalty of VAT registrants, 62% of the total respondents revealed many VAT

services without tax invoices. In addition to this, 36.4 of the taxpayers manipulate cash register machines and many VAT registrants provide fake invoices to secure more input tax. The same question was provided for tax officials of the office and the respondents response showed the following.

Figure: 3.11. Honesty and loyalty of VAT registrants



VAT registrants sell goods and services without tax invoices

VAT registrants manipulate cash register machine

VAT registrants provide fake invoices to secure more input tax.

Source: Field Survey Result 2011

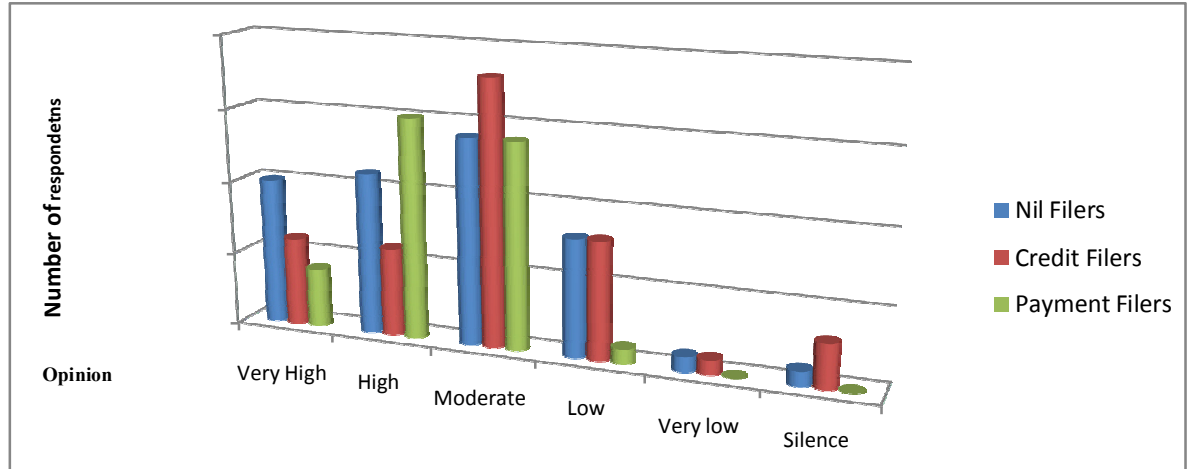
In terms of service delivery practice of the office surveyed tax officials, 5.55, 61.11, 22.22 and 9.53 percent of the respondents revealed it is excellent, good, faire and poor respectively. They were also asked whether there is simple filing and payment procedures and 22.22, 50.01 and 27.77 percent of the respondents said it is good, faire and poor respectively. Even though most of the respondent tax officials concluded it is good, according to 60.3% of VAT registered taxpayer respondents the office facility is poor. In addition, the summary response of open-ended questions given to VAT registrant taxpayers showed that the computer system which repeatedly cut-off and delay is one of the problem in the Office.

3.2.3 Impacts of the constraints

The presence of unregistered businesses according to 59.5 percent of the total respondents of VAT registrant taxpayers, have negative impact on their fulfillment behavior. According to the survey respondents, fear of uneven market competition is one of the reasons for unwillingness of taxpayers to be register for VAT. Therefore, as

VAT registrant taxpayers respondents need to be decreased on threshold, 500,000 ETB annual turnovers.

Figure: 3.12. Respondents’ opinion towards the threshold 500,000 ETB

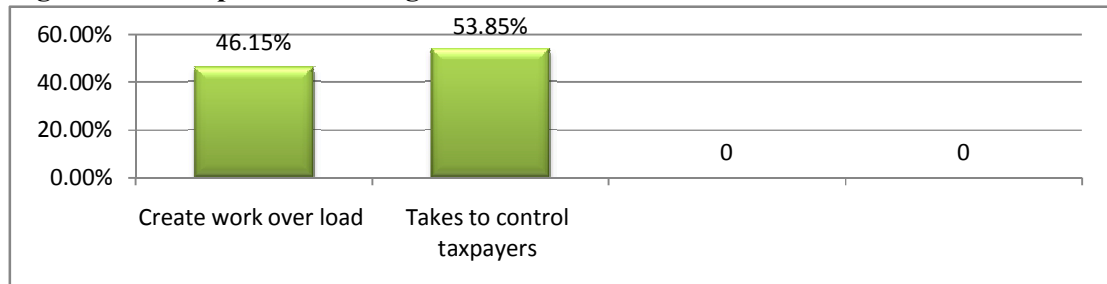


Source: Field Survey, Result 2011

The same question was provided to the tax officials. However, the response of the respondent tax officials was different from that of VAT registrant taxpayer respondents. In that, 28 percent of the respondents’ opinion was the threshold is high and 72 percent revealed it is moderate.

As shown in the figure below, the huge numbers of nil filers create negative impact on the service delivery and effective control of potential taxpayers.

Figure: 3.13. Impacts of the huge numbers of nil filers



Source: Field Survey Result 2011

3.5.1. Background of VAT administration in Arada Sub City

For the sake of simplicity, FIRA delegated regions and city administrations to collect VAT from their own taxpayers starting from September 2004 (FIRA, 2004). Even though Arada Sub City has more than six years experience in VAT administration, survey responses revealed most of VAT registrants were registered for VAT in the last three years. In terms of type of business, most of the registrants were from construction and import-export sectors. These are specific sector with forced registrants regardless of the level of their annual turnover. This shows that the sub city has strengthened its enforcement in registration of unregistered taxpayers for VAT during the last three years. However, it needs to look for potential taxpayers who are not registered still other than specific sector forced registrants like construction and import-export sectors.

According to Cnossen in Shirazi and Shah (1991), VAT requires literate taxpayers to maintain basic accounts. In this regard among 121 VAT registrant taxpayer respondents, only 19 were grade 12 and below and all tax official respondents were first Degree holders. This shows there is a good ground to improve the VAT administration in Arada Sub City. On the other hand, 61% of tax official respondents were in their position for not more than three years which shows lack of experience. In terms of collection performance, in the last four years (2006/7 to 2009/10) Arada Sub City has performed more than 100% of its plan. But this does not mean it is effective because, as it is discussed here under, many potential taxpayers are not registered for VAT rather the sub City was planning under its potential.

3.5.2. VAT Administrative activities in Arada Sub City

In terms of taxpayer identification and registration for VAT, the field survey result indicates tax officials are not skilled enough to identify and register taxpayers for VAT particularly in forced registration of door to door estimation of the daily income of taxpayers. The survey result also showed there is problem of corruption by some tax officials so that they intentionally leave to register for VAT some potential in door to door inspection. According to Tompson and Green (1988), one of the shortfalls in VAT administration is lack of registering those who should be registered. This is true in Arada Sub City where the survey result indicated there is lack of registering those


this is one of the shortfalls in VAT administration of the potential taxpayers unregistered for VAT; according to 59.5% of VAT registrant taxpayer respondents have a negative impact on their fulfillment behavior. In addition, this shows the office cannot collect the potential tax from the sub city and created problem of uniformity which lead to distrust between the office and the taxpayers.

Moreover, even though literature indicate that an information system should be reliable, comprehensive, and must be up to date (Tait, 1988) and (World Bank, 2005), the field survey result indicated in Arada Sub City due to lack of well trained man power no reliable list of VAT registrants exists and unable to control stop-filers or non-filers using the system called SIGTAS. Therefore, registering those should be register for VAT and controlling the VAT registered taxpayers is shall a problem. These remains the office cannot collect the potential tax from the sub city.

In terms of collection, according to Silvani in Bird and Jantscher (1991) the difference between registered taxpayers and those who fill returns is one of the shortfalls of a tax administration. In Arada Sub City there is no reliable evidence about the total number of active VAT registrants. It is also impossible to know the number of stop filers using the computer system. Therefore it is not possible to know the degree of difference between registered taxpayers and those who fill returns. As the survey results indicate, of the total number of VAT registrants who fill returns from July to September 2010 number of payment fillers was only 25.8%. The rest are nil and credit filers.

The huge number of credit fillers will be a danger because it can cause for accumulated refund arrears (World Bank, 2005). Therefore, in Arada Sub City where there is lack of effective control and well skilled man power, if not possible to protect corruption the huge number of credit fillers is a danger.

As the survey result indicates in Arada Sub City few taxpayers manipulate cash register machines. This is obvious because according to Gillis et al (1990) in family operated enterprises cash register machines do not provide a reliable check of gross sales. So it needs effective control. In Arada Sub City the tax office requires VAT registrant taxpayers to have a cash register machine which is a good alternative solution for tax collection. However, survey results indicated lack of effective control which resulted in manipulation of the cash register machines by some taxpayers.




PDF Complete
Your complimentary use period has ended.
Thank you for using PDF Complete.

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

of nil filers, 46.15% of respondent tax officials revealed and 53.85% revealed giving service for these huge number of nil fillers monthly takes their time to control other potential evaders. According to the VAT Proclamation Number 285/2002 all VAT registrants; whether nil fillers or small taxpayers or others, required filling returns monthly. The same is true in Arada Sub City. Therefore, receiving monthly more than 800 nil return forms in person, registering in the computer, batching, attaching in the files and so on is costly in terms of time, man power, material of the office. This is also costly for the taxpayers in terms of time, transport and related costs like allowance fee for employees or other delegates for this purpose. However, as literature recommends (for instance, Gillis et al 1990), less sophisticated taxpayers should be allowed to pay the tax bimonthly or quarterly.

In terms of auditing, literature suggests a good audit plan with special programs to prevent non compliance (for instance; Hillman, 2003 and Bird and Jantscher, 1991). In Arada Sub City survey results indicates there is no audit program based on risk management. Interviewed managers revealed that due to lack of man power the audit was planned to give better service for taxpayers and as much as possible priority given to big transactions in order to secure more tax. This shows the audit was not focused on targeted area in order to detect non compliance. In this regard, 56% of respondent tax officials believe their office is not effective in auditing and enforcement. In addition, 61.1% of VAT registrant taxpayer the respondents not have confidence on auditing practices of the Sub City due to incompetency of auditors, corruption and other different reasons. All these show the audit practice of the Sub City is not effective which enable to collect the potential tax and detect non compliance.

According to the computer registry, as of December 2/ 2010, there are 7323 taxpayers in Arada Sub City including those 2292 VAT registrants (ASCRO, 2010). On the other hand according to employee registry of the Sub City as of December 2010, there were only 12 auditors out of 60 employees (ASCRO, 2010). This shows unbalanced proportion of taxpayers to auditors in order to cover all taxpayers in auditing to detect non compliance. So that as interviewed managers revealed no door to door inspection to check inventories and other things which need to be checked in auditing. In the new organizational structure, the number of auditors is 52 (that includes 32 auditors, 16 junior auditors and 4 coordinators) out of 280 employees. However as of March 2011 no significant change in the number actually. Therefore, the number of auditors is under



PDF Complete
Your complimentary use period has ended.
Thank you for using PDF Complete.

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

For instance Silvani noted it is 40% of the total employee of a country where there is low level of evasion (Bird and Jantscher 1991).

In terms of enforcement, even though the VAT proclamation give power to the Sub City to seize and sell the property of taxpayers liable and not willing to pay the tax, the Sub City not yet start to seize and sell. As interviewed managers revealed, only start to serve notices of security to registering authorities in order to secure registered properties like house, vehicles, and machineries of defaulters just like mortgage. This gap make tax evaders to think the Sub City is weak so that no fear to continue in evasion and increase potential evaders.

Regarding penalties, as survey results indicated taxpayers think that penalties are irritating. According to the VAT Proclamation No 285/2002 administrative penalties extend and sometimes more than 100% of the amount of tax payable and criminal penalties extends to 15 years imprisonment with 200, 000 birr fines. These show penalties are stiff which is in line with the Country's economic development even though taxpayers think that it is irritating because, according to Hillman (2003) increasing penalty is less costly than increasing the probability of detection. Therefore, for country like Ethiopia stiff penalties are advisable.

3.5.3 VAT Refund

The refund is any credit made in excess of payment in the transaction of taxable supplies. In Ethiopian context, incase input tax is greater than output tax, credit or refund may be claimed on a supply with zero rate or standard rate in the tax period.

In order to prove whether the refunding procedure is being implemented by ASCARO in line with the system set or not, the study has designed the requirement as stated. Thus, the majority of the respondents, 62%, have forwarded their opinions of disagreement with office's practice of refund treatment to customers as per the set standard. Therefore, refund treatment practice was found below the average as compared to the existing law. In addition, data gathered from taxpayers, experts and compiled from open ended questions found that the experts traditionally understood that not to refund meant to be returned to customers.

With regard to VAT Refund, the established statement in states that the Zero rated supplies to exports are refunded to the beneficiaries, and supportive documentary proofs accepted by office are efficiently practiced as per the law. Accordingly, the majority of

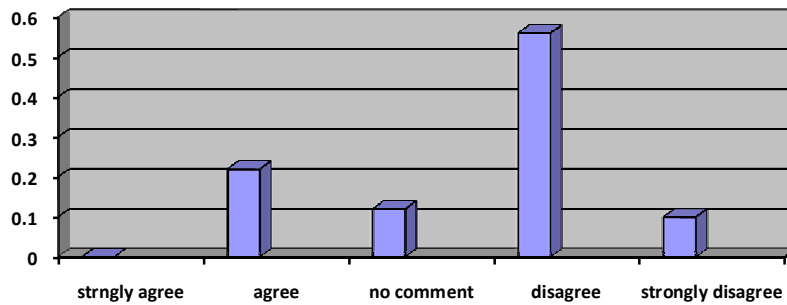
l that the office acted or practiced differently to the age as compared to the set standard.

Interest payment is part of refund. This is practical incase authority delayed the refund to provide on time to the claiming person. Regarding the practice of Arada sub-city, the overwhelming majority of respondents (54%) disagreed with the office's performance in paying interest to customers incase refund has been delayed; the finding declared refunding practice of the office was inefficient.

The payment of refund in Ethiopian VAT proclamation is stated that if the refund demand is from the zero rated taxable transaction and total thereof exceeds 25%, it is given within two months period. Otherwise, if the credit transaction is other than zero-rate or export, it is forwarded for five VAT accounting period by crediting the payment. Nevertheless, it does not go further the five VAT accounting period. Therefore, the experience of the office 52% of the respondents strongly disagree that the office refund carried forward to the next five year accounting periods to the customer as compared to the requirement are. The result therefore is interpreted as below average.

The response of the respondents regarding the issue of ASCRO VAT Refunding Practice is in line with the system will analyzed here under;

Figure 3.14: Taxpayers opinion on VAT refund



Source: Field Survey, Result 2011

The overall practice of refunding procedure implemented by the office whether the practice is in line with system or not was proved by respondents as no respondent strongly agreed; 22% agreed; 12% neutral; 56% disagreed; and 10% strongly disagreed with the requirement. In summary, the cumulative result of VAT refund procedure of the office, therefore, was found under average.

of taxpayers in Arada Sub City


ance of VAT registrant taxpayers in Arada Sub City, the survey results show that it is poor. 64.5% of VAT registered taxpayer respondents revealed that many tax payers are not willing to be register for VAT due to many reasons they raised. Even 43.8% of the respondents expressed that if there was no penalty they would not be have registered for VAT. In addition as the surveyed taxpayers revealed many VAT registrants sell goods and services without tax invoices and few registrants manipulate cash register machines. Surveyed tax officials also revealed the same truth. In this regard in Bird and Jantscher (1991) Silvani noted that the effectiveness of the tax administration is the key factor to determine the level of voluntary compliance. In other words one of the signs of effective VAT administration is voluntary compliance. Therefore as the survey result showed the VAT administration in Arada Sub City is not effective.

3.5.5. Service delivery in Arada Sub City revenue office

In this regard 9.33% of the surveyed tax official respondents revealed that the service delivery in their office is poor, and 27.77% concluded there is no simple filing and payment procedure. Even though this is not the opinion of most of the respondents it needs to be considered for improvement. One of the components of good service delivery is the presence of good office facilities (including effective computer system), which it is poor according to 60.3% of VAT registrant taxpayer respondents. According to Hogye (2000) the complexity and difficulty of tax administration causes taxpayers to incur costs that lead them to tax evasion and avoidance. Therefore, striving for improving the service delivery including office facilities enable to decrease tax evasion and avoidance.

3.5.6. Some major Impacts of the constraints

In Arada Sub City, lack of skilled and honest man power in taxpayer identification and registration for VAT is one of the reasons for problem of uniformity. So that many potential that required being register for VAT not did so. As well as due to fear of computation from those unregistered businesses and lack of confidence on the Sub City, others tried as much as possible to escape from the VAT net. In addition, lack of training to use the computer program called SIGTAS to identify non fillers, enable some registrants to run their business at least for a year as long as their license require



PDF Complete

Your complimentary use period has ended. Thank you for using PDF Complete.

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

ness. Therefore the office cannot collect the potential tax

The huge number of nil filers which required filling returns monthly in person has a negative impact on service delivery of the office as well as increases administrative and compliance costs. In terms of audit, absence of audit program which based on risk management enables potential evaders to escape. This means, as the office delay to audit such businesses they get time to shift their property to other places and escape. Lack of effective control and enforcement is also one of the reasons for low level of voluntary compliance. Therefore some VAT registrants sale goods and services without tax invoices, manipulate cash register machine and so on. As a result the office not able to collect the potential tax which the sub city can generate and improve voluntary compliance.

CHAPTER FOUR SION AND RECOMMENDATIONS


4.1. Introduction

This chapter makes conclusions that are drawn from the findings of the study, which were presented, discussed and interpreted in chapter four. In addition, the chapter includes the recommendations that are forwarded for the identified VAT administration constraints and their impacts which influenced Arada Sub City to collect the potential tax from the Sub City and to improve voluntary compliance of taxpayers.

4.2. Conclusion

Arada Sub City VAT collection performance in the last four years (2006/7 to 2009/10) has been more than 100% of the plans. However, this does not mean that it has been planning based on the actual economic activity of the Sub City. This is proved by this study; many potential taxpayers who are required to be registered for VAT are not. Therefore, the plans were under estimating the potential.

Taxpayer identification and registration for VAT particularly, in forced registration by estimation of the daily income of taxpayers not processed by well trained and credible tax officials. This is one of the reasons for non registration of many potential taxpayers for VAT in the Sub City. The other reason for non registration of many potential taxpayers for VAT is unwillingness and lack of awareness of taxpayers to be register for VAT due to many reasons. In addition, even after registration, it is not possible to identify and control non filers or stop filers using the computer system called SIGTAS due to absence of well trained man power in the Sub City. In VAT collection, the office facilities and procedures are not simple, so that taxpayers choose to escape from the VAT rather. In terms of audit, there is no audit program based on risk assessment, so that groups or sectors that could be potential risks for the tax administration could not be given priority in auditing and reduce evasion. Enforcement is also weak mainly due to shortage of man power to inspect door to door and to deliver tax notices to taxpayers on time. Moreover, delays of the tax office to seize and sell the property of taxpayers not willing to pay the tax according to the law make the law remain on paper. Due to this weak enforcement and absence of well organized education and assistance program of taxpayers about VAT, voluntary compliance of taxpayers in the Sub City is low. In effect, most VAT registrant taxpayers in the Sub City fill nil and credit returns monthly and those not registered for VAT try to escape from the VAT net. The study



PDF Complete
Your complimentary use period has ended.
Thank you for using PDF Complete.

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

city refund implementation was below average. The limitations were that, customers having VAT refund eligibility were dissatisfied because of the traditional trend of the office of exercising the refund not to be applied rather they keep it crediting the payment regardless of keeping refund period to pay. For instance even if an export is liable and understood for being refunded, the amount was not returned to beneficiaries because of traditional view of the office not to refund. Interest payment for the office default was not paid to customers. Timing for refund was not practical as per the proclamation. Therefore, this study recommends the following solutions

4.3. Recommendations

The following recommendations are suggested to improve the VAT administration of Arada Sub City.

4.3.1. Improve taxpayer identification and registration

In identifying those qualified the registration threshold, rather than using tax officials, it is better to require selected sectors to use cash register machines in order to know their annual turnover. Of course, in family operated enterprises its information may not be reliable. So it requires effective door- to- door inspection. In other sectors where it requires tax officials to estimate the daily income of enterprises it is important to use appropriate time and honest and qualified human resource. For instance, visiting night clubs during working hours is not recommend. And, the third alternative is to go through registered taxpayers in order to get their suppliers and customers who are not registered.

In terms of register, it must be reliable and up to date. This enables to select non filers or stop filers automatically and used to tackle fraud. Regarding the existing registration threshold, even though literatures advise high threshold to limit the number of registrants according to the capacity of the tax administration, most of surveyed respondents need to be lower. This is due to fear of computation from unregistered similar businesses. Therefore, if the Sub City able to register those qualified the existing threshold fully, and due to the tax administration's existing capacity administer, no need to lower the existing threshold recently.

on no returns, it is important to train tax officials to use the SIGTAS properly. Then; update the register, select and give priority for taxpayers whose sales volume is high. In detecting taxpayers filing nil and credit, select those reported nil and credit repeatedly and then door-to- door inspection and go through their suppliers using the receipts they brought is important. Regarding reporting period, even though it is issue of the Federal Government to amend the proclamation, it is better to suggest the concerned body to use at least two-month reporting period for nil filers in order to decrease the administrative and compliance costs because, as survey results showed now a days the Sub City receiving monthly more than 800 nil return forms in person, encoding in the computer, batching, filling and so on. This is costly in terms of time, man power, material of the office and also for taxpayers. Finally, simplifying the collection system, for instance allowing cash accounting for small taxpayers like in Arada Sub City, justifying filing requirements and cross checking of returns at collection time is important.


4.3.3. Develop planned auditing

In Arada Sub City the audit practice not focused on targeted area in order to detect non compliance. However, a good audit plan requires special programs to prevent non-compliance. So, the Sub City:-

- 1) Should have adequate man power in auditing which requires hiring or allocating well qualified and honest additional auditors because, in the new structure the number of auditors should be 52, however as of March 2011 the number of auditors actually not more than 15. This shows still auditing is done even with less than one-third of the intended number of auditors. This result to accumulate a number of cases not audited from time to time.
- 2) Should have audit plan based on risk assessment. This enables the Sub City to focus on targeted areas in order to detect non compliance.
- 3) In the future, when auditors well qualified, in order to cover all VAT registrants avoid massive cross checking of audit and checking a few selected items.

4.3.4. Establish effective enforcement mechanisms

As the survey result indicated, the Sub City is not effective in enforcement too. However eight years lapse after the VAT law is effective, the Sub City had not been



PDF Complete
Your complimentary use period has ended.
Thank you for using PDF Complete.

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)


of defaulters even though it shall be lawful to do. No given by the law so that the Sub City should establish a system in order to seize and sell property of defaulters before such properties escape or lose. To do so, it needs for the Sub City to have safe and secured warehouses, refrigerators to store perishable goods, trucks to transport the seized goods and other logistics and a number of security guards. This may be difficult for a sub city so that the Sub City should coordinate with other sub cities, and organizations like police.

The other problem is the way to deliver tax notices to taxpayers. Here, the main problem is shortage of man power. This is critical issue so that should be given attention. And alternatively, it is better to out sours this part to post offices, particularly small amount notices. In terms of penalty, first is better to work in improving social norms and then, applying the law correctly is important for evasion with fraud. Finally, to enforce the law it is important to stimulate consumers particularly to improve the use of invoices. In this regard, use invoices as tickets for lotteries are used in many countries, but it is difficult at a sub city level. Therefore, alternatively, it is possible to pay or give prize for consumers on the basis of the volume of purchases the consumers can document with invoices received from businesses in the Sub City.

4.3.5. Improving voluntary compliance and service delivery

To improve voluntary compliance; first it is important to deal with effective and clear audit and enforcement plan to tackle the problem. Second, it is important to educate taxpayers. For this purpose the Sub City can use civic and community associations like women association, youth association, and so on, by selecting and training some of their member about VAT so that it is possible to educate the society door to door. Also it is possible to identify, train and support volunteers to educate and support taxpayers in complying with tax obligations. Here, the ground is good in Arada Sub City where most of the taxpayers are literate. In improving service delivery, the role of information and communications technology is very critical.

Therefore, the Sub City should improve the program and train the man power and stop the dishonest practices of some tax officials is very important. The conclusion for refund practice, as the findings indicated that the refunding procedure was being implemented by the office was not in line with the system. This was because the office has not followed the proclamation. The refund problem has affected the collection to be

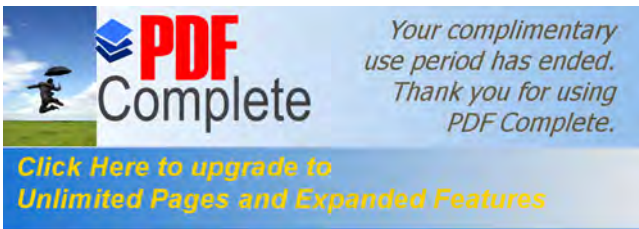


PDF Complete

*Your complimentary use period has ended.
Thank you for using PDF Complete.*

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

to be genuine, and taxpayers to be dissatisfied. Therefore, the office has strictly to apply VAT refund as per the law to mitigate the mentioned related problems for the benefit of taxpayers as well as the public. In addition, it has to implement transparent procedure that is cleared from traditional trend.



Performance Report during 2007-2010 (Unpublished Document): Addis Ababa.

Bird R., M., and Gendron P.P., (2005) *VAT Revisited, New Look of the VAT In Developing and Transitional Countries*. Accessed 3 Nov. 2010, << <http://www.fiscalreform.net/index2.php?option=com-content&do-pdf-1&id=23>>>

Bird R., M., and Gendron P.P., (2006) *Is VAT the Best Way to Improve A General Consumption Tax In Developing Countries?* Accessed 27 Oct. 2010, <<http://www.rotman.utoronto.ca/iib/ITP0602.prf>>

Bird R., M., and Jantscher M., C., (Eds) (1991) *Improving Tax Administration In Developing Countries*, IMF.

BoFED (2009) *Addis Ababa City Administration Medium Term Expenditure Framework from 2009/10 to 2012/13*, Unpublished Document: Addis Ababa.

ASCRO (2010) *Arada Sub City Revenue Office Performance Report* from July to September 2010, Unpublished Document: Addis Ababa.

ASCRO (2011) *Arada Sub City Revenue Office Performance Report* from 2006/7 to 2009/10, Unpublished Document: Addis Ababa.

CSA (2008) *Population and Housing Census*, Unpublished Document: Addis Ababa.

Earnest and Young (1995) *VAT and Sales Taxes World Wide: A Guide to Practice and Procedures in 61 Countries*. John Will and Sons, England

Ebrill L., Keen M., Bodin J., and Summers V., (2001) *The Modern VAT*, IMF, Washington

ERCA (2010) *Revenue Performance reports* during 2007-2010 (Unpublished Document), Addis Ababa

ERCA (2011) *Memorandum of Understanding* between Addis Ababa City Administration and the ERCA to merge the City Revenue Authority and the ERCA, Unpublished Document: Addis Ababa.

Gillis M., Shoup C., S., and Sicat G., P.,(1990) *Value Added Taxation In Developing Countries*, Washington.

Grandcolas C., (2005) *The Occasional Failure In VAT Implementation: Lessons for the Pacific*. Accessed 27 Oct. 2010, <<http://www.adb.org/Documents/Events/2004/FourthTaxConference/text-grandcolas.pdf>>

Herouy B., (2004) *The VAT Regime Under Ethiopian Law With Special Emphasis On Tax Exemption: The Ethiopian and International Experience* (Unpublished Document).

Hogye M., (2000) *Local and Regional Tax Administration in Transitional Countries*, Hungary

HOPR (2002) The Federal Democratic Republic Of Ethiopia House Of Peoples Representatives, *Value Added Tax Proclamation* No 285/2002, Birhanina Selam Printing Press, Addis Ababa.

Hyman D., N., (1983) *Public Finance: A Contemporary Application of Theory to Practice*. Haricot College Publishers, USA

Hyman. D. ,N. (2002) *Public Finance: A Contemporary Application of Theory to Practice*, 7thed, Haricot College Publishers, USA

IMF (2002) *Finance and Development*, A Quarterly Magazine, Vol. 39 No. 2, Washington.

IMF (2003) *Social Impacts of a Tax Reform: The Case of Ethiopia*, Working Paper, And WP/03/232: Washington.

International Tax Dialogue (2005) Conference on the VAT: *The Value Added Tax Experiences and Issues*. Accessed Dec.10, 2010,
<<http://www.itdweb.org/VATconference/pages/newupdates.aspx>>

Kothari. C., R., (1985) *Research Methodology Methods and Techniques*, Wishwa Pakashan CA Davision of Wiley Easter Ltd: New Delhi.

Krever R., (2008) *VAT in Africa: International VAT monitor*, Pretoria University Press: South Africa.

McGee. R., W., (2004) *The Philosophy of Taxation and Public Finance*, Kluwer Academic Publishers: USA.

MoR (2004) Ministry of Revenue Working Paper. *Implementation of VAT in Ethiopia*, Addis Ababaø


Nightingale K., (2002) *Taxation: Theory and Practice*, 4th ed, Printince Hall.

Rosen H., S., (1988) *Public Finance*, Richard D. Irwin FNC, 2nd Ed.

Russell B.,(2010) *Revenue Administration: Developing A Taxpayer Compliance Program*, IMF: New York.

Shirazi.,K., J., and Shab., A.,(1991) *The Value Added Tax: Its Causes and Consequences*, IMF

Tait A., A., (1988) *Value Added Tax International Practice and Problems*, IMF



PDF Complete

Your complimentary use period has ended.
Thank you for using PDF Complete.

[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

...s and Prospects of Implementing VAT in Ethiopia, A
International Conference on the Ethiopian Economy,
European Economic Association: Addis Ababa.

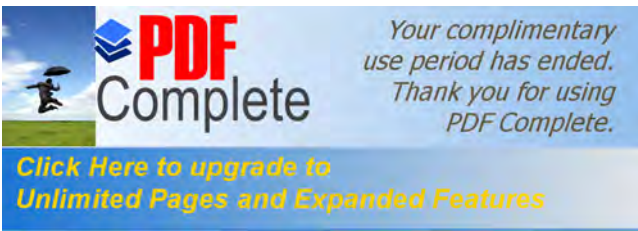
The Common Wealth Association of Tax Administrations (2006) *Tax Evasion and Avoidance*, Hampshire

Thompson F., and Green M., T., (1988) *Hand Book of Public Finance*, Marcel Decker Inc.

Transparency International (2010) U4 Expert Answers for Albanian Tax Administration: *Corruption in The Tax Administration*, www.u4.no.

Yesegat W., A., (2008) *Value Added Tax Administration In Ethiopia. A Reflection of Problems*, Accessed 20 Oct. 2010

<<http://www.unsw.edd.au/ejtr/content/issues/previous/paper4-v6n2.pdf>



Questionnaire for VAT registrant taxpayers in Arada Sub City on the title:- Value Added Tax administration in Arada Sub City: An Assessment of Its Effectiveness.

Dear respondents

This study is conducted in partial fulfillment of the requirements for the MPA Degree. I am carrying out a study on the Value Added Tax administration in Arada Sub City. The purpose of this questionnaire is to obtain your perceptions and views regarding the existing Value Added Tax administrative activities of the Sub City and its main constraints against effective tax administration. This study will help the Sub City to identify its problems and improve its VAT administration.

The information you will give will enable me to critically analyze the subject matter. Therefore, please answer all questions.

Confidentiality

I hereby assure you that all information obtained through this questionnaire shall be used for academic purposes only and will be handled and stored with the highest order of confidentiality. Please do not write your name anywhere on the questionnaire.

I thank you very much in advance for your cooperation.

Data collector's name-----

Researcher's name óTeklu Kassu.

...ns of VAT collection in Arada Sub City? (Tick all that

- a), Monthly returns for small firms is costly
- b), There are many filing requirements
- c), Laws and procedures not clear and simple
- d), Monthly massive cross checking takes long time
- e), tax collectors are not skilled enough

If you have any, mention it here _____

9), How do you evaluate the strength of Arada Sub City Revenue Office with respect to the following parameters?

List of parameters	Excellent	Good	Fair	Poor
Education and assistance program for taxpayers				
Qualified human resource				
Honest human resource				
Office facility				

10), Do you have confidence in the Arada Sub City Revenue Office VAT assessment and auditing?

- a), Yes
- b), No

11), For question number 10 , if your answer is "No" tick the reason(s) of your choice

- a), Incompetency of auditors
- b), Corruption
- c), Hard to secure refund

If you have any, mention it here _____.

ed to taxpayers

here a possibility that you may not be register for VAT,

- a) Yes b), No

13), How do you express the amount of taxpayers who are not willing to be register for VAT?

- a), Many b), Insignificant c), Few d), Non

14), For question number 13 if your answer is "a" or "c" why they are not willing? (Tick all that apply)

- a), Poor VAT administrative system
 b), Due to problems from their suppliers
 c), Due to fear of competition from unregistered similar businesses

15), Does the non registration of other taxpayers for VAT have a negative impact on your fulfillment behavior?

- a), Yes b), No


16), In terms of honesty and loyalty of VAT registrants, how do you express the following? (Tick all that apply)

	Many	Insignificant	Few	Non
VAT registrants sell goods and services without tax invoice				
VAT registrants manipulate Cash Register Machine				
VAT registrants provide fake invoices to secure more input tax				

If you have any mention it here _____

17), Give your general comment on the overall VAT administration of the Arada Sub City

Thank you again



PDF Complete
Your complimentary use period has ended.
Thank you for using PDF Complete.
[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

Questionnaire for the Officials in Arada Sub City on the title:-Value Added Tax administration in Arada Sub City: An Assessment of Its Effectiveness.

Dear respondents

This study is conducted in partial fulfillment of the requirements for the BA Degree. I am carrying out a study on the Value Added Tax administration in Arada Sub City. The purpose of this questionnaire is to obtain your perceptions and views regarding the existing Value Added Tax administrative activities of the Sub City and its main constraints against effective tax administration. This study will help the Sub City to identify its problems and improve its VAT administration.

The information you will give will enable me to critically analyze the subject matter. Therefore, please answer all questions.


Confidentiality

I hereby assure you that all information obtained through this questionnaire shall be used for academic purposes only and will be handled and stored with the highest order of confidentiality. Please do not write your name anywhere on the questionnaire.

I thank you very much in advance for your cooperation.

Data collector's name-----

Researcher's name óTeklu Kassu.



PDF Complete
 Your complimentary use period has ended.
 Thank you for using PDF Complete.
[Click Here to upgrade to Unlimited Pages and Expanded Features](#)

choice and write in the blank space where it provided)

1), Gender Male Female

2), Level of education
 Grade 12 and below Diploma First Degree Masters PhD

3), your position _____

4), For how many years you are in this position? _____

Section B Questions related to the tax office

5), In registering un registered taxpayers for VAT, what system do you follow? (tick all that apply)

- a), door to door inspection
- b), checking purchase invoices of registered taxpayers

If any other, mention it here _____

6), What is your opinion about the threshold, 500,000 Birr?

- a), very high
- b), high
- c), moderate
- d), low
- e), very low

7, Reports indicate huge number of nil filler in your Sub City. Some say it is due to lack of effective control.

- a), strongly agree
- b), moderately agree
- c), disagree
- d), strongly disagree

If any other, mention it here _____

8), What is the impact of huge nil fillers on your service delivery? (tick all that apply)

- a), create work overload
- b), takes time so that unable to control the potential taxpayers

What type of accounting system do you require for VAT registrants?

Type of accounting	For all VAT registrants	For small firms
Cash accounting		
Accrual accounting		

If any other system _____

10), How do you evaluate the strength of your office with respect to the following parameters?

	Excellent	Good	Faire	Poor
a), simple and stable tax laws	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b), good service to taxpayers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c), simple filing and payment procedure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d), appropriate penalties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e), faire and efficient appeals system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11), Do you agree your office is effective in auditing and enforcement of VAT?

- a), very strongly b), strongly c), not sure d), not at all

d to taxpayers

12), How do you express the number of voluntary VAT payers in your Sub City?

- a), very high b), high c), moderate d), low e), very low

13), What do you think about taxpayers thought towards VAT?

- a), excellent b), good c), faire d),poor

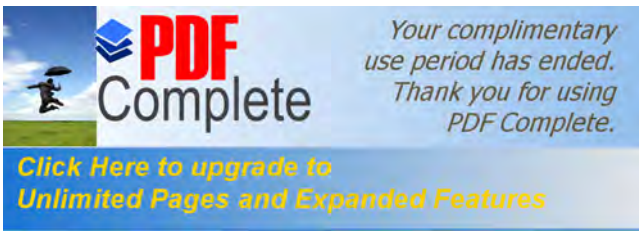
14), In terms of honesty and loyalty of VAT registrants, how do you guess the following? (Tick all that apply)

	Many	Insignificant	Few	Non
VAT registrants sell goods and services without tax invoice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT registrants manipulate Cash Register Machine	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT registrants provide fake invoices to secure more input tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you have any mention it here _____

15), Give your general comment on the overall VAT administration of the Arada Sub City _____

Thank you again



Interview Guide

(Queries on general issues to be answered by the heads of Arada Sub City Revenue Office and Arada Sub City Small Taxpayers' Branch of ERCA)

- 1), How do you evaluate the trends of Arada Sub City Revenue Office in administering VAT in the last five years?
- 2), What are the main constraints in administering VAT in your sub city in terms of; registration, collection, auditing, refund and enforcement activities?
- 3),How do you express the voluntary compliance of taxpayers in your sub city and if any effort or plan to improve it?
- 4), Do you have simplified laws and procedures particularly for small businesses?
- 5), What about your service delivery in terms of; office facilities, qualified and honest human resource, sufficient man power and so on?
- 6), Finally, please, generalize the degree of effectiveness of the Sub City in VAT administration.

Thank you very much



DECLARATION

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

Declared by:

Name: Teklu Kassu

Date: 30 June 2011

Signature: _____

Confirmed by Advisor:

Name: Meheret Ayenew (PhD)

Date: 30 June 2011

Signature: _____

Place of date of submission: Addis Ababa University, FBE, 29 June 2011