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**COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT
OF PUBLIC ADMINISTRATION AND DEVELOPMENT
MANAGEMENT**

**Implementation of Value Added Tax and Its Related Problems: The
Case of ERCA Eastern A.A Medium Tax Payer Branch Office**

By: Menbere Mideksa

**October, 2019
Addis Ababa, Ethiopia**

**ADDIS ABABA UNIVERSITY
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ERCA Eastern A.A Medium Tax Payer**

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**A Thesis Submitted to the Department Of Public Administration and
Development Management of Addis Ababa University in Partial
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Management And Policy (MPMP)**

**October, 2019
Addis Ababa, Ethiopia**

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COLLEGE OF BUSINESS AND ECONOMICS
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DEVELOPMENT MANAGEMENT**

This is to certify that the thesis prepared by Menbere Mideksa entitled “Implementation of Value Added Tax and Its Related Problem in the Case of Eastern A.A Medium Tax Payer”, which is submitted in partial fulfillment of the requirements for the Degree of Masters in Public Management and Policy (MPMP), complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Declaration

I, the undersigned, declare that this thesis entitled “Implementation of Value Added Tax and Its Related Problem in the Case of ERCA Eastern A.A Medium Tax Payer”, is my original work and has not been presented for a degree in any other university and that all sources of materials used for the thesis have been duly acknowledged.

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ACRONYMS

A.A	Addis Ababa
AIDS	Acquired immune deficiency Syndromes
ASYCDM	Automated System for Customs Data Management
ENP	Gross National Product
EFIRA	Ethiopian Federal Inland Revenue authority
ERCA	Ethiopian Revenue and Customs Authority
ETR	Electronic Tax Register
FDRE	Federal Democratic Republic of Ethiopia
FIRA	Federal Inland Revenue authority
FR	Federal Revenue
GDP	Gross national product
GST	Goods and services tax
HIV	Human immune deficiency Virus
IMF	International Monetary Fund
TA	Tax Assessment
TA	Tax Administration
TC	Tax Collection
SIGTAS	Standard Integrated Government Tax Administration System
SPSS	Statistical Package for Social Sciences
VAT	Value Added Tax

Abstract

The purpose of this study was to identifying and assessing the problems rose in association with the implementations of VAT & its related problem in Eastern Addis Ababa medium taxpayer's office. To conduct this study, the descriptive survey method was employed.. Specifically, a stratified random sampling technique was employed for tax payers as well as employees treated through questionnaire whereas random sampling technique was applied for managers of Eastern medium taxpayer's office. Frequency count, percentage, mean, standard deviation, t-value and P-value were utilized to analyze quantitative data gained through the questionnaires. The finding shows that taxpayers do believe that, during tax refunding requests, using illegal invoices had lower chance of being detected and taxpayers and employees do also required the tax authority to amend its standard time set for VAT refund and they also strongly agreed that the tax authority provided them continuous tax education and sufficient free call information centers were arranged by the authority. The result of the study indicated that VAT implementation in medium taxpayer office has faced different challenges and apart from the existing challenges, taxpayers were not attempted to avoid VAT, and that they would exert more effort to pay more taxes as public finance property. The main problems that encountered are: misunderstanding of the public in general and business community in particular regarding the VAT laws, Tax administration, filling challenge and VAT refund or issuance of illegal invoices exercised by business enterprises. All these constraints hinder the smooth implementations of VAT and achieve the desired objectives as possible. on the basis of these findings, the study recommends that the authority should train the taxpayers about the rules and regulations of VAT continuously, recruiting new employees give training different way, delegate the tax authority to regional and city administration and it should also increase its follow-up and investigation to control noncompliance enterprises, as well as effectively and efficiently performing the tasks of identification of VAT taxpayers.

Keywords: Value Added Tax, Implementation and Problems

CHAPTER ONE

1.1. Background of the Study

The emergence and rapid spread of value added tax is among the most important tax development of the late 20th century. The concept of value added tax (VAT) was generated in 1954 by a French economist Maurice Laurie who was joint director of the French tax authority. The theory is that the end consumer carries the burden of VAT, not the business, which is merely collecting the VAT on behalf of the tax authority. Different scholars also define VAT as a percentage tax on 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 (Kassu, 2011).

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

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

A revised income tax law has been approved and made operational. This revised law includes enhanced enforcement procedures and an improved penalty regime, with a view to increasing the efficiency of income tax collection, and ensuring the recovery of income tax arrears. Prior to the

introduction of Value Added Tax, the Ethiopian government has initiated a number of processes. These include the design and computerization of the taxpayer registration process; the operational development of taxpayer services activities, return process and debit and audit activities; publicity campaign and taxpayer education. These measures are expected to improve the government's revenue position.

This paper examines Value Added Tax Implementation such as assessment and collection activities with respect to the main constraints taxpayer office eastern A.A medium taxpayers Office in the Value Added Tax administrative activities performance and service delivery of the tax office Authority and voluntary compliance of taxpayers.

So that many potential problem of Value Added Tax implementation of eastern A.A medium taxpayers Office Value Added Tax administration is poor due to many factors, such as: difference in culture Value Added Tax registrant, lack of self-registrant, lack of awareness among the potential tax payers about the importance of Value Added Tax and poor tax collection system still exists.

The general objective of this study is to investigate the challenges of Value Added Tax Administration regarding the Value Added Tax assessment, collection, and implementation to assess the main problems related to the Value Added Tax administration activity performance, service delivery of tax office and voluntary compliance of tax payers in the case of eastern A.A medium taxpayers branch Office.

1.2. Statement of the Problem

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

In Ethiopia, value added tax (VAT) was introduced in the year 2003 as a replacement to sales tax. Since then VAT has become one of the principal source of revenue for the Ethiopian government. For instance, in the 2006/07 fiscal year, federal VAT revenue on domestic

transactions accounted for about 41% of total federal revenues from domestic sources (EFIRA, 2007 cited in Wollela, 2008). Further, since its introduction, VAT has been more revenue productive than sales tax (Teferra, 2004).

However, in Ethiopia, VAT administration is contested by different challenges. Limited infrastructures, technology and educated man power (Alazar, 2009) compounded with Poor awareness of taxpayers, the culture of paying taxes and the poorer capacity of tax administrators (Wollela, 2008) has made the Ethiopian VAT administration challenging. Revenues raised by VAT are usually garnered at the expense of erosion in its salient features. Although the number of VAT registered firms is steadily growing, administration of VAT as a tax system is encountering by the bottlenecks of taxpayers' identification and registration, VAT filing and payment, VAT refunds, VAT audits, penalties and VAT invoicing and other gaps and problems. Paucity of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators remained as major challenges to the VAT system in the country. (Habtamu, K Reddy & Debela, 2015)

Alazar (2009) on other hand stated that decentralization of tax administration has also been a challenge. Alazar noted that the Ethiopian government has assigned VAT revenue to regional government without clearly predicting the distortions which, until recently, have impeded many developed and developing countries from decentralizing the tax. As a result, Alazar, asserted decentralization has created unintended distortions such as revenue loss, regional economic imbalances, increased VAT fraud, and problems of refunding.

According to Gupta (2007), tax revenue is affected by corruption, political and economical stability, and structural factors such as tax system, tax administrative procedures, capacity to collect taxes. It is obvious that the output or findings of such researches may not help much to our country Ethiopia in general and in eastern A.A medium tax payer's office in particular. Because as pre the findings of Gupta (2007), the determinants of tax revenue efforts in one country may not the determinants of tax revenue for the other country in terms of source of the factors and level of effect tax revenue.

Moreover, most research works focused on national level, but factors at lower levels get little attention, i.e. minor attention is given to the cultural background of tax payers, their awareness level, compliance behavior and its determinants when designing a given tax system, etc. Hence,

researches must be done at branch levels to identify and examine the causes for weak tax revenue collection and problems associated with tax administration at the grass root level. Thus, identification of location specific factors and problems is essential to fill the gap in the field and assist the efficient VAT implementation endeavors of medium tax payer's office in particular. Thus, the first motive to undertake this research was to fill the research gap that were not addressed by any one of the earlier studies, specifically problems associated with tax payers and employees in the VAT Implementation practice in ERCA Eastern Addis Ababa Medium Tax payer branch office,

1.3. Objectives of the Study

1.3.1.General Objective

The general objective of this study was to assess Value Added Tax Administration and Its Challenges in ERCA Eastern Addis Ababa Medium Taxpayers Branch office.

1.3.2. Specific Objectives

Besides to the general objective the research was also intended to address the following specific objectives.

- To examine the practice of VAT administration in Eastern Addis Ababa medium taxpayers' office and its compliance to the proclamation & regulations.
- To identify the main problems in Eastern Addis Ababa medium taxpayers' branch office VAT administration.
- To identify the main problems in Eastern Addis Ababa medium taxpayers' branch office law enforcement.
- To identify the main problems in Eastern Addis Ababa medium taxpayers' branch office VAT Collection.

1.4. Research Questions

It is in light of the above scenario that this research aimed to examine the implementation of VAT and identify the major bottleneck in its implementation at Eastern A.A Medium Tax Payers branch office. Thus, the following were the research questions addressed in this study.

1. Is Eastern Addis Ababa medium taxpayer's office implementing the VAT in accordance to the VAT proclamation and regulation?
2. What are the challenges faced by both the business community and the VAT administering entity in terms of VAT Administration?
3. What are the challenges faced by both the business community and the VAT administering entity in terms of Law enforcement?
4. What are the challenges faced by the VAT administering entity in terms of VAT Collection?

1.5. Significance of the Study

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

Hence this research will have a contribution in examining the current VAT administration practice and identify the key challenges and indicate possible solutions for the authorities. Besides, it also serve as an input for further research by both researchers and academicians who want to conduct further investigation on the issues discussed in this research.

1.6. Scope of the Study

This study primarily dealt with the analysis of value added tax system enforcement and associated problems met the Eastern Addis Ababa medium taxpayer's branch office. The main focus of the research was limited to assessing practice of VAT implementation process followed since the start of enforcing the VAT proclamation. The study assessed the progress made towards improving the efficiency and effectiveness of the VAT administration and attempted to identify the major challenges that have been faced.

1.7. Limitation of the Study

This research would be more comprehensive, if it would be able to incorporate all the branches of the authority that implementation of VAT. The research could also be improved if there was access to a larger sample population. Besides to this, all respondents (tax payers) the may not be the actual VAT payers, but employees of the companies, and may not reflect the actual opinion of the real tax payer businesses people. Nevertheless, it was tried to fill all these gaps and obtain the desired information by harmonizing all the data from both questionnaires and interviews through cross checking the evidences.

1.8. Organization of the Study

This research is divided into five chapters. The first chapter presented the background of the study, statement of the problem, Significant of the study, scope and limitation of the study. The second chapter is concerned with the review of related literatures, while the third chapter deals with research design and procedures of the study. The fourth chapter is dedicated to the analysis of the data and discussion of the results. The fifth chapter brings to an end of this research with summary, conclusions and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Theoretical Aspects:

2.1.1. Tax Policy in the World Economy

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

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

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

2.1.2. View of Taxation

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

2.1.3. Definition of Value-Added Tax (VAT)

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

“A sales tax designed like other sales taxes, to tax private consumption by individuals of the goods or services subjected to tax”

From the given definition, one can comprehend that VAT is a Variety of sales tax and the tax is imposed on consumers. But the definition provided above failed to list out other features that distinguishes VAT from other kinds of taxes. Referring to Black’s law dictionary Yohannes & Sisay (2009) stated that VAT is a tax assessed at each step in the production of a commodity

based on a value added at each step by the difference between the commodities production cost and its selling price. Besides to the elements included in the first definition, the second definition included two peculiar features of VAT: tax base and tax imposition at a step the value is added. By combining concepts from the two definitions, one can then define VAT as a sales tax imposed on sales a transaction which is measured as a percentage of the product or the service rendered Yohannes & Sisay (2009).

2.1.3.1. Origin of VAT

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

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

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

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

2.1.3.2. VAT Terminologies

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

- **Output tax:-** is the VAT that a business pays over taxable supplies made and can be recovered only on so far as your business in VAT registered and make taxable output.
- **Input tax:** - the VAT that a business collects over on taxable supplies (VAT paid on sales).
- **VAT payable:** - this is the VAT to be paid to the authority /ERCA/ by the taxable person. It is computed as: $\text{VAT payable} = \text{Output tax} - \text{input tax}$
- **Zero rating:** - the supply is charged with VAT at 0% but credit can be taken for VAT paid on purchase used to make supplies.
- **Positive rate:** - the supply is charged with a rate of 15%.

Exemption: - the supply is exempted from VAT. No VAT is charged on the supply and no credit can be taken on the purchase used to make supply.

2.2. Characteristics of VAT

VAT is a broad-based business tax imposed at each stage of the production and distribution process (Minh, 2007). It is an indirect tax based on the consumption of goods and services in the economy (Bird and Gendron, 2006). Theoretically, VAT is imposed directly with the consumption of goods and services and its burden goes to the final consumer. Several authors (White, 2008; Smith et al., 2011; Dubay, 2010 etc.) named it as consumption-

based taxation. It is not a charge on companies. It is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain (Herouy, 2004).

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

2.3. VAT Rate of Selected Countries

According to International Monetary fund (IMF) report (2004), more than 4billion, 70%, of the world's population now live in countries with VAT and VAT raises about \$18 trillion in tax revenue, roughly one-quarter of all government revenue. Nowadays, among 190 countries of the world, over 136 (72%) of them have made VAT part of their tax system; and from 53 members of countries of Africa Union, 33 (60%) of them have introduced VAT. Those African countries with their rates and year of introduction are presented in table 2.1.& 2.2

Table 2.1: African Countries with VAT Country

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

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

The following table again shows the VAT rates of some European and non-European countries (other than African countries)

Table2.2: World Countries with VAT Country

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

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

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

2.4. Tax Administration in Ethiopia

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

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

In order to be successful and effective in tax administration, the following factors are considered essential:- An explicit and sustained political commitment, Relevant training for staff (who engages in assessment and estimation, Additional resources to the tax administration, incentives for both tax payers and tax administrators, Simplification of the tax procedures, Decentralization of tax administration, Development of a good accounting system: etc

One of the objectives of taxation is collecting sufficient amount of public revenue to meet public expenditure. In order to attain this objective, a close relationship between tax structure and tax administration and an organized tax collection structure should be maintained (Misrak, 2008).

Tax reform has been on progress since 1999 when studies were conducted on aspects of tax administration comprising taxpayer identification number presumptive taxation, assessment and audit, revenue accounting and receivable management, VAT, taxpayer recruitment, investigation and regional co-operation.

2.5. Types of Value Added Tax

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

I. Gross National Product

Gross national product was subject to general sales tax. The tax would be applied to both consumer and capital goods. It would be paid by the seller. When the product was sold to its last purchaser, whether a consumer a firm which adds to its inventory, gross receipts minus the cost of purchasing intermediate goods from prior producers in production line. The tax base at each

stage would thus equal depreciation, wage, interest, profits and rent, it would be the most comprehensive form of value added tax and may be referred to as a value added tax of the GNP type. As noted, it is equivalent to sales tax applicable to both consumer and capital goods with its impact point.

II. Income Type

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

III. Consumption Type

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

2.6. Registration for VAT

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

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

considered, the past 12 calendar month and the second 12 calendar month, on a month-by month basis.

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

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

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

- Full name and other details of the registered person;
- Date of issuance;
- Date from which the registration takes effect;
- The registered person’s TIN. On the other hand, when application is rejected /refused for various grounds the authority has the duty to notify the reasons for such.

2.7. Tax Payable, Tax Credit Taxation, Tax Invoice and VAT Records

The proclamation incorporates rights and duties upon persons registered for VAT. Understanding the following related concepts will facilitate to have proper enforcement of VAT. Tax payable, Tax credits, tax invoice, Reverse taxation and tax records.

One can understand that some of them like tax payment, preparation of tax invoice, tax records and reverse taxation are obligations; they are expected to be discharged on the part of persons

registered for VAT. Whereas tax credit (deductible tax) is an incentive that encourages persons to be participant in VAT enforcement.

2.7.1. Tax Payable and Tax Credits

Obviously, in introducing VAT, the government is aspiring to generate better amount of revenue than what was collected during sales tax system which had served for more than four decades but with insignificant place to become basic means of income from taxation in Ethiopian history. In short, tax payable is the amount that is expected to be collected from person registered for VAT in Ethiopia.

Art 20 in this regard runs the amount of tax payable for any accounting period by a person who is registered or is required to register is the difference between the amount of tax charged on taxable transactions creditable tax stated otherwise, under VAT proclamations, though taxable transactions are subject to VAT. There are also deductible/creditable taxes. In this case, the amount required from the person is the simple arithmetic difference obtained by deducting creditable taxes from all taxable transactions. Instances of creditable/ deductible taxes, indicated under Art 21, includes among others: Imported goods that are entered to customs declaration during the current accounting period; and taxable transactions (supply of goods or rendition of services) that are used or to be used for the purpose of the registered persons taxable transactions with in the time limit indicated under Art 11 of the proclamation.

2.7.2. Tax Invoice

Whenever you supply standard rated goods or services, which are transactions subject to tax, you must give them a document showing certain information about what you have supplied. This document is known as VAT invoice. Tax invoice is imposed on tax payers subject to VAT. But it is also a right conferred upon such personnel, for the fact that a non-registered person cannot issue Tax invoice.

Like other documents, tax invoice for VAT is a document that clearly shows the amount of VAT payable. Issuing this document by the registered person is mandatory imposed so as to have better implementation of VAT. As per Art 22(2), the VAT invoice as a document is required to contain the full name of the registered person and the purchaser and the registered person's trade name if different from the legal name, the respective identification numbers of the registered

person and the purchaser, the number and date of the VAT registration certificate, the name of the goods shipped or service rendered, the amount of transaction, the amount of excise on excisable goods, sum of the VAT due on the given taxable transaction, the issue date in the VAT invoice and serial number of the VAT invoice.

2.7.3. VAT Records

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

2.7.4. Filing of VAT Return and Payment

According to the VAT Proclamation, every registered person is required to file a VAT return with the tax authority for each accounting period, whether or not tax is payable in respect of that period, and to pay the tax for every accounting period by the deadline for filing the VAT return, i.e., no later than the last day of the calendar month following the accounting period. Thus, the VAT Proclamation allows taxpayers a 30-day period within which to file returns and make payments.

Nevertheless, in practice, there are three VAT reporting periods depending on whether a taxpayer is a nil, credit or payment filer. The reporting time from the end of the month is 10 days for nil filers, 20 days for credit filers and 30 days for payment filers. According to tax officials, taxpayers that fail to meet the reduced deadlines would not be fined as long as they report within 30 days from the end of the accounting period. However, such taxpayers would be given verbal warning that if they do not keep the reduced reporting periods, penalty would be applied.

Though the legislation has devised at least three means through which taxpayers may file their monthly return, so far, filing return by appearing in person. However, such method of filing return has its own drawbacks, i.e., since every taxpayer has to discharge its obligation in time, they are forced to go to the authority which has drawbacks in terms of skilled man power and technological facilities. As a result, customers are forced to wait for prolonged time until their turn; which kills the time and resources of both the authority and taxpayers.

2.8. VAT Refund

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

2.9. Powers of Levying and Collection Enforcement for VAT

In federal states like Ethiopia, concurrent powers of taxation are given both to federal (central) governments and regional states. The FDRE constitution divides powers of taxation between and among the federal and regional governments in the following manner. Powers exclusively given to federal government, powers exclusively given to regional governments, and concurrent powers of taxation. With respect to new taxes, that might be introduced in the future in reaction to societal needs and technological advancements the constitution submits the issue to be decided by the joint session of the house of federation and the house of peoples representatives (art.99 of the FDRE constitution.) When VAT is introduced in 2002 power of taxation was resolved by similar procedure and the joint session decided in favor of the federal government. Thus it is only the federal government that has power to levy VAT in Ethiopia.

One open fact here is persons subject to VAT reside both federal and regional states. Since VAT requires cooperation, regions are given delegations to collect returns from VAT. Regarding collection enforcement mechanisms, ERCA is entrusted with the duty of implementations of the VAT proclamation and regulation issue to supplement the proclamation.

Thus, ERCA is authorized to investigate any statements records, books of accounts submitted by any person at any time. The authority can send duly accredited inspectors to check the statements, records and books of accounts or any vouchers stocks or other material items at the person's place of business, requiring the person, or an employee who has access to produce the same. The person is duly bound to answer questions related with the collection of taxes in VAT. For this purpose any municipalities' body, financial institution, department, or agency of federal or regional governments is required to render full information to the authority.

The power is extended even up to seizure of the properties of the person liable to pay tax and failed to comply with his obligation to pay tax .Here before exercising seizure, the authority has to notify in writing to those who has failed to pay the unpaid tax within thirty days. In default of such, the authority can seize the properties and sell them through public option.

2.10. EMPIRICAL LITERATURE

2.10.1 VAT Implementation Problems in Ethiopia

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

intensive education program has been undergoing by the tax administration, the following illegal practices are observed:

- some VAT registered business enterprises have collected the tax with illegal invoice and retain the tax for themselves,
- some eligible business entities have not yet registered for VAT,
- some VAT registered business enterprises offers customers an opinion to pay or not to pay VAT,
- Some did not declare the tax they collected as per the law, and etc.

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

2.10.2. The VAT Policy and Practice in Ethiopian

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

The main legislative document that governs the Value -Added Tax (VAT) is the proclamation& regulation enacted by the house of people representatives to govern Value Added Tax in in Ethiopia. Proclamation No 285/2002 which has rescinded and replaced the sales and excise tax proclamation No. 68/1993 (as amended). Articles 7 (1) of the value added tax proclamation states that every taxable transaction by registered person and every import of goods (other than an exempt import) and an import of services by any value added tax registered customer in Ethiopia or any resident legal persons is liable to a value added tax of 15%. However, the export of goods and services is exempted to the extent provided in the value added regulation the rendering of international transaction of good. Passengers as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights; the supply of gold to national bank of Ethiopia a supply by a registered person to another

registered person in a single transaction of substantially all of the assets of a taxable activity or an independent functioning part of a taxable activity as going concern are zero rated.

The proclamation has clearly stipulated fundamental VAT administration functions such as registration, collection, refund and other important functions associated with VAT and they are discussed as follows.

2.10.3. Tax assessment and Collection Practice In Ethiopia

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

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

2.10.4. Global over view of VAT in Developed and Developing Countries

VAT in both developed and developing countries is regarded as the most effective and important tax system for generating government revenue for the purpose of public use. According to Minh (2007), VAT is the work-horse of the revenue system.

Bird and Gendron (2006) argues that VAT is the best type of general consumption tax available and almost all developing countries are exercising it. In their analysis, Bird and Gendron argued that VAT can be an important source of revenue for economies if administered efficiently and effectively. VAT, though the most effective and important tax system of public revenue, is not without difficulties. According to Bird and Gendron for instance, the capability of VAT in developing countries is questionable as a result of the poor administration and effective utilizing of the taxing system. Lisa (2007) also agreed on the idea that tax policies in developing countries face numerous tax policy challenges when they attempt to establish efficient tax systems. Taking Uganda as an example, the study result of Lisa (2007) demonstrated that, there persist budget deficits in these developing countries and this is because of their inefficient tax policies unlike the developed economies.

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

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

VAT has been more successful in more developed economies in the past years (ITD, 2005), but is more important in developing countries for the purpose of resource mobilization, fair income distribution and economic stabilization in the long run (Bird and Gendron, 2006). It is logical that the problems arising from the complexity of VAT in developing countries in collecting the desired tax may bring instability and high income inequality. Besides, the level of literacy and positive attitude towards the tax may affect the effectiveness of the VAT collection in developing

countries. Study results of Olaoye (2009), adds to the idea that consumers' attitude towards such tax systems possess greater impact in the collection efficiency and other administration issues. According to Olaoye (2009), consumers will definitely have negative attitude towards introducing such taxes as long as they did not have the access to get the right information upon its practices and objectives. These problems are likely to happen in developing countries where the literacy level is relatively low and business people are less informed about the policy issues mainly as a result of low rate of participation in the introduction and implementation of such practices.

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

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

Together with the low infrastructural facilities and less advanced technologies, the attitude of tax payers highly determines the extent of effectiveness of VAT practices in particular and tax in general. So, careful handling of tax payers and proactively improving the collection practices

will be a crucial task in order to have good system of VAT collection practices and collect the desired amount of revenue.

Research results like Hybka (2009), confirm that VAT efficiency in raising tax receipts is higher than sales tax and countries with VAT raise more revenue than those without it. However, it is at the same time mentioned that collection efficiency is always questionable and this problem is evident in developing countries where the system is not well structured and infrastructural facilities are not well developed. According to Hybka (2009), the efficiency of VAT collection is highly influenced by the harmonization process that the concerned institutions follow in their practices. Harmonizing the collection process requires many facilities starting from automating the procedures up to highly skilled and developed human resources. Well trained human resource with good office facilities and technology needed for the activities will have significant positive effect on the efficiency of the collection of the desired VAT amount. However, all these are not fully facilitated in developed countries including Ethiopia, in which they can contribute for the low efficiency and ineffective collection practices of VAT.

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

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

According to Aizenman and Jinjark (2005), the political instability of a nation reduces VAT collection efficiency. Moreover, the modernization of the collection practices and other structural facilities can impede the collection efficiency. Developing countries are relatively

disadvantageous with these factors. The political stability, modernization, and structural facilities are at a lower level in developing countries than in developed ones which implies that the collection efficiency is expected to be low, despite the greater role that VAT plays in these developing countries.

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

Asamnew, in his analysis on the assessment of tax collection problems of east, shows that VAT administration (registration, assessment, and collection) practices in this sub-city of the Ethiopian Revenue and Customs Authority, is inefficient and lacks many things. He stated that, among other things: tax payers do not come to the office with the required documents and tax payers do not have all the required information about the requirements, rules, and regulations on paying their taxes.

Moreover, Asamnew explained that more than half of the tax payers don't use cash register machine and even those who use this machine have no adequate knowledge about how to use it because of lack of proper training. These all results indicate that there is inefficient tax administration in general and collection practices in particular. Conclusions of this study demonstrated that in both sides - tax payers and the revenue authority – there are problems related to the tax administration practices and hence negatively affecting the revenue collection capability of the authority.

Furthermore, there are problems related to power failure and internet interruption, which are external factors outside of the revenue authority. During these failures, cash register machines don't transfer data to the authority, which results in huge revenue loss to the government. However, the worst thing is that, tax payers don't get immediate support from the revenue authority or from the external bodies who are responsible of the power failure and internet interruption.

This demonstrates that, whatsoever the case would be, there are huge leakages and inefficiencies in the collection practices of tax in the authority. s, who are expected to be relatively efficient and better than the other tax payers in terms of document handling, technology, and other relevant procedures. This indicates the degree of the tax administration problems in the revenue authority; because the other tax payer categories are assumed to be with more problems as they are small and relatively less efficient business entities.

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

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

neglected from within the procedure of VAT administration practices. All in all, the results of this study elaborated that VAT administration in general and VAT collection practices in particular, are inefficient in Ethiopia, at the time of study.

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

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

Most of the political debate over a consumption tax has centered on whether the United States should adopt a value-added tax (VAT) similar to the ones that European countries have. While a VAT definitely is a tax on consumption, it is not the kind that most consumption, tax advocate prefer. What’s more, the debate over whether to add a VAT to the U.S. tax code has obscured the more basic issue of whether to tax income or consumption. Every Member State of the European

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

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

Generally, one can see that the empirical studies undertaken thus far for developing countries, particularly for Ethiopia, bothered little or no to see the potential challenges faced by taxpayers and the tax authorities in administering different tax activities such as VAT registration, VAT assessment and VAT collection. The performance of the tax administration will have a bearing on the capacity to raise revenue for a country since it includes primarily the registration, assessment and collection activities. Therefore, this research will identify the VAT administration practice and Challenges in Yeka sub city, Addis Ababa Administration. Because the researcher believes that identifying the root cause of the problems is the best ground to provide appropriate solutions. The VAT is administered by the domestic tax administration in the majority of the surveyed countries (29 out of 36), reflecting the uncontroversial decision of the authorities to administer the VAT in the same domestic tax department as the previous sales or turnover taxes. In these cases, discussions focused on the respective merits of establishing separate

VAT offices or administering the VAT, with the income tax, in function based offices (Ebrill,2001). In the Ethiopian case, based on the Business Process Re-engineering (BPR), offices and tasks are rearranged

RESEARCH GAP

The above studies showed that comparisons of the studies conducted with various researchers on similarly area of studies presented are that the justification part of those studies address that findings are still debatable among different researcher. Hence, we looking at the determinants of VAT behaviors there seem to be a disagreement in the findings. In some variables are Significant in one study also insignificant in another study.

And also from the previous empirical research found that the determinants of VAT implementation have been found to differ between countries. This means there is no universal findings are highlighted by researchers pertaining to genuine tax administration among countries sharing similar tax systems, and cultures. The case of Ethiopia is a good example for this situation.

Therefore, this research is to fill the research gap that were not addressed by any one of the earlier studies, specifically problems associated with tax payers and revenue authority in eastern medium tax payers office and also this study initiation is needed to fill the literature gap regarding the determinants of VAT implementation and contribute to the body of knowledge. d so that they can be process based instead of function based.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Introduction

In this chapter, the method of the research, source of data, sample and sampling techniques, data gathering instruments, data collection procedure and method of data analysis are intensively presented.

3.2. Research Design and Approach

Descriptive survey method was employed in this study with the assumption that it could enable the researcher to reveal the VAT implementation and its related problems in Ethiopian Revenue and Custom Authority, in Addis Ababa medium taxpayer's branch office. This method is chosen with the assumption that it helps to have data as it exists and to gather information related to the problem under study. Moreover, this method is appropriate because it helps in obtaining large variety of data related to the problem under the study. To this end, quantitative and qualitative (mixed method) research approaches was employed. Employing the mixed approach enables the researcher to look from different perspectives and the context based on practice from participants view.

3.2.1. Types of Data

The researcher makes use of primary data from respondents as it relates to implementation of Vat and its problems in eastern A.A medium taxpayers office .The primary data was collected through standard questionnaires & self –structured open ended interviews were distributed to the respondents.

3.2.2. Sample and Sampling Techniques

These branch offices found in Addis Ababa the researcher was selected in Eastern medium taxpayer's office because the researcher has affiliation and working experience in Eastern branch that defiantly help to the required information as needed.

Manageable sample sizes of respondents 200 tax payers and 100 tax office employees were participated in this study by filling and responding to the survey questionnaire. They were

identified with stratified random sampling technique whereas other informants for the interview were selected purposively. As we all noticed that using systematic random sampling technique gives each of the population an equal chance of being included in the study.

Table 3.1 Total Population and Sample Respondents

No	Respondents	Total Population	Sample Respondents	Percentile
1	Tax Payers	6001	200	5% Error
				95% Confidential
				6001 Population
				16% Distribution
2	Tax office Employees	370	100	5% Error
				95% Confidential
				370 Population
				10% Distribution

Source: Raosoftonline³ and Ethiopian Revenue and Custom Authority, Eastern medium taxpayer's office

3.2.3. Data Collection Instrument

Interview and survey questionnaire were employed to collect data from respondents. The data was collected mainly from primary sources through interview and survey questionnaire which enables the researcher to gain genuine information.

3.2.3.1 Questionnaire

The questionnaire was used to collect data from Eastern medium taxpayer's office employees and tax payers. The questionnaire consisted of likert scale questions. Due to this, four pages well-articulated questions prepared and used to collect pertinent information about the VAT implementation and its related problems in Ethiopian Revenue and Custom Authority, in Addis Ababa medium taxpayer's branch office.

3.2.3.2 Interview

Semi structured interview which is the most common type of interview in social research was used to collect data because this process allows the researcher to gain insights into others perspectives about the phenomenon under study and it is particularly useful for ascertaining respondent's thoughts, perceptions, feelings, and retrospectives account of events.

3.2.4. Procedures of Data Collection

In order to gather the necessary data, a group of respondents were actively involved in the study and data collection instruments were developed by the researcher based on the review of related literatures.

3.2.5. Validity

Checking the validity of data collecting instruments before providing to the actual study subject is the core to assure the quality of the data (Yalew, 1998). To ensure validity of instruments, initially the instruments were prepared by the researcher with guidance from the advisor. The questionnaire was pilot tested at one Ethiopian Revenue and Custom Authority, in Addis Ababa medium taxpayer's branch office that was not from the sample tax office.

3.2.6. Method of Data Analysis

The data collected through structured interview was used to supplement the quantitative data obtained from Ethiopian Revenue and Custom Authority, in Addis Ababa medium taxpayer's branch office tax payers and employees. primary sources of data were analyzed using qualitative and quantitative approaches. The statistical package for social sciences (SPSS) version 20 is used for processing and analyzing the data obtained from questionnaires.

Descriptive statistics such as frequency count, percentage, mean, standard deviation, and figures are applied to facilitate meaningful analysis and interpretation of research findings. Besides, the data gathered through interview that is technically named qualitative data was analyzed through descriptive method of analysis.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This part of the thesis deals with the presentation, analysis, interpretation and discussions of the data obtained through questionnaire, regarding implementation of VAT and its related problems in ERCA Addis Ababa medium taxpayer's branch office.

The data mainly collected through survey questionnaire that 200 taxpayers and 100 employees participated by responding to the statements presented to them. The response rate was 100%; which is out of the total of 300 sample size determined in previous chapter. The data was entered and analyzed using SPSS Statistical package Version 20.

Descriptive analysis, mainly frequency distribution, was employed to describe the respondent characteristics. While one-sample t-tests were employed to evaluate respondents agreement level on the statements presented to them. Then, independent sample t-tests were conducted to understand whether taxpayers and employees had significant differences in rating VAT implementation.

The section below presents the data analysis results in tabular format along with the associated meaning and interpretation of the results.

4.2 Respondents' Background

In this research 300 respondents of which 200 were taxpayers and 100 were employees of tax authority were participated by filling survey questionnaire. Their background characteristics were as described in the following table 4.1.

Employees in the age category 18-30 were the majority with 58% of the respondents. Followed by 26% and 13% of employees under the age categories 31-40 and 41-50, respectively. Only 3% of the employee respondents were above 50 years of age. This indicates that majority of the employees are in the younger age groups. In contrary, relatively fewer number of tax payers, i.e 20%, were within the younger's aged 18-30; while 13% of the taxpayers fallen under the elder aged above 50 years old. A considerably majority of taxpayers were belonging to age groups 31-

40 (37%) and 41-50 (30%). The composition of the age categories would enable to consider the opinions and views of various aged respondents with regard to VAT implementation practice.

Table 4.1 Respondents' Background Characteristics

Respondents Background			Respondent Group		Total
			Tax Payers	Employees	
Age group (in year):	18 -30	No.	40	58	98
		%	20.0%	58.0%	32.7%
	31-40	No.	74	26	100
		%	37.0%	26.0%	33.3%
	41-50	No.	60	13	73
		%	30.0%	13.0%	24.3%
	>50	No.	26	3	29
		%	13.0%	3.0%	9.7%
Sex	Male	No.	116	37	153
		%	58.0%	37.0%	51.0%
	Female	No.	84	63	147
		%	42.0%	63.0%	49.0%
Level of education	Certificate	No.	9	0	9
		%	4.5%	0.0%	3.0%
	Diploma	No.	52	4	56
		%	26.0%	4.0%	18.7%
	Bachelor degree	No.	110	90	200
		%	55.0%	90.0%	66.7%
	masters and above	No.	29	6	35
		%	14.5%	6.0%	11.7%
Total		No.	200	100	300
		%	100.0%	100.0%	100.0%

Regarding the gender characteristics of respondents, majority of taxpayers, 116 (58%), were male and the female taxpayers represent the rest 42% of the sample. In contrast, while the majority of employees, were female. They were 63% of the employees sample; while the male employees participated in the study were 37%. Despite the gender proportion disparity between taxpayers and employees, each respondent group had constituted a good number of respondents from either gender category. Hence the composition of the samples would enable the researcher to adequately consider the opinions of both male and female respondents.

As to the level of education of the taxpayer 55% were degree holders. The rest were diploma graduates (26%) and second degree holders (14%). The employees' education level mainly composed of first degree holders; which constitutes 90% of the respondents. There were also 6% of employees with master degree, and 4% with diploma level of education. This tells that the tax

authority mostly employed educated employees to handle VAT related matters. In both taxpayers and employees, the very majority of respondents have good level of education, and their participation and opinions to this research would be very rational and professional.

4.3 Practice of VAT Administration

The Ethiopian Revenue and Customs Authority administer the Value Added Tax nationally as per the joint decision made by the house of representative and council of federation. Although VAT is administered centrally by ERCA, the revenue is shared between central and regional governments based up on the established revenue sharing. ERCA eastern Addis Ababa medium taxpayers' office established a separate VAT department in Addis Ababa, and organized with appropriate material and human resources. The main tasks that must be performed by any department in charge of VAT are: identification and registrations of taxpayers, processing returns, controlling collections, making refunds, auditing taxpayers, investigation for tax frauds and evasion or levying penalties. In order to administer these tasks, the department in charge has to be well organized and conduct publicity taxpayer's education and information during the moment in time.

In order to assess the practice of VAT administration and the proper implementation and enforcement of the tax law, the researcher had asked respondents to rate their agreements to various statements regarding registration procedure, enforcement of the law, tax refund procedure, assessment, collection and payment of VAT. The respondents' opinions in to each statement were analyzed using one-sample t-test, that the test results are presented and discussed in the following topics.

4.3.1 VAT Registration Procedure

The government of Ethiopia has been introduced and effectively implemented the Value Added Tax on January 1, 2003 by replacing the sales tax after the VAT proclamation No. 285/2002 has been ratified by the parliament and the council of ministers has issued VAT registration no. 79/2002 as pursuant to the Value Added Tax proclamation for the implementation. A VAT proclamation declares that a person who runs an enterprise or activity where the value of his taxable transaction Birr 500,000 and above in any period of 12 months immediately preceding his application to the tax authority or his turnover in respect to taxable transactions is expected to exceed the threshold in the following 12 months is liable to register for VAT. A person applying

to register for VAT is required to do so in such a form as is established by the implementation directives issued by the Ethiopian Revenue and Customs Authority; When a person carrying out taxable transactions files an application to be registered for VAT, the authority is required to register the person in the VAT register, and to issue a certificate of registration within 30 days of the registration.

A person registered for VAT is required to use his taxpayer identification number on all VAT invoices, and on all tax returns and official communications with the authority. Having this in mind, the survey was conducted by asking the taxpayers and employees about certain issues related to registration.

The practice of VAT registration was assessed and evaluated using five statements specific to each group of respondents. Table below presented the evaluations made by taxpayers and employees concerning the registration procedure.

Taxpayers considered themselves as willingly registered VAT payers with high level average agreement level of $M=4.14$ that fallen within the 95% CI of 3.97-4.30. They also believed that the registration procedure was conducted in good way; agreed with $M=4.18$ average rating in the 95% CI of 4.03-4.33. However, they experienced that the registration procedure was time consuming. The average rating for reasonable time to accomplish the registration activities was disagreed with average rating of $M=1.99$ in the 95% CI ranged in 1.82-2.15.

Taxpayers responded positively that they had sufficient explanation on Vat laws. They rated this statement with $M=3.82$ average agreement level that fallen in the 95% CI of 3.64-3.99. Moreover, taxpayers were confident that they have the legitimacy to claim tax returns. Their confidence level was $M=4.19$ within the 95% CI in the range of 4.04-4.33.

The overall taxpayers assessment regarding the VAT registration procedure was evaluated with $M=3.66$; which is considerably above the moderate level agreement fallen in the 95% CI of 3.59-3.73. The result implied that taxpayers had positively evaluated the VAT registration procedure despite the process was considered too time consuming.

Table 4.2 VAT registration Procedure

Respondent Group	Statement	One-Sample Statistics			Test Value = 3					
					t-value	df	p-value	Mean Diff.	95% Confidence Interval of the Difference	
		N	Mean	Std. Dev'n					Lower	Upper
Taxpayers	I voluntarily registered as a value added tax payer.	200	4.14	1.15	13.95	199	.000	1.14	0.97	1.30
	The registration is normally conducted in a good way.	200	4.18	1.04	16.04	199	.000	1.18	1.03	1.33
	The registration process of VAT is not time consuming	200	1.99	1.15	-12.49	199	.000	-1.02	-1.18	-0.85
	I had sufficient explanation on VAT laws	200	3.82	1.22	9.42	199	.000	0.82	0.64	0.99
	I am confident that the legitimacy of the claims in tax returns.	200	4.19	1.01	16.63	199	.000	1.19	1.04	1.33
	Registration Procedure	200	3.66	0.48	19.50	199	.000	0.66	0.59	0.73
Employees	There exists experienced employee at VAT registration department.	100	3.51	1.00	5.10	99	.000	.51	.31	.71
	VAT registration Procedure is simple to perform.	100	3.78	1.04	7.50	99	.000	.78	.57	.99
	There is a standard time limit to perform VAT registration.	100	4.10	1.01	10.89	99	.000	1.10	.90	1.30
	The registration process usually performed beyond standard limit.	100	4.03	1.19	8.63	99	.000	1.03	.79	1.27
	The threshold of transaction for VAT is reasonable.	100	3.98	1.01	9.66	99	.000	.98	.78	1.18
	Registration Procedure	100	3.88	0.44	19.78	99	.000	.88	.79	.97

Employees also evaluated the VAT registration procedure with specific statements. Their average rating that there existed experienced employees at VAT registration department was M=3.51, which is above the moderate rating within the interval of 3.31-3.71. However, this rating of employees cannot be considered highly adequate and the authority needs to improve the quality of its personnel.

Respondents also believed that the registration process is simple to perform; with M=3.78 average rating; and the VAT registration was set to be performed within standard time limit was highly agreed with M=4.10 average rating. However, as the tax payers complained, the standard time limit was not adhered properly that registration process could take beyond the standard time limit.

Considering the threshold for VAT registration employees highly agreed (M=3.98) that this threshold is considered reasonable. Overall, the registration procedure was assessed with M=3.88 average rating by employees, which is within the 95% CI range of 3.79-3.97.

Comparing the VAT registration procedure by taxpayers ($m=3.60$) and employees ($M=3.88$), an independent sample t-test result with $t\text{-value} = 3.84$, $df=298$, and $p\text{-value}=0.000 < 0.05$ indicated difference between the two groups of respondents.

4.3.2 Law Enforcement

Regarding enforcement of VAT related laws taxpayers views were assessed using five statements as depicted in the table below. Penalty rates for non-compliance were not affordable to them that they rated the 1st statement with disagreement level of $M=2.48$ with in the 95% CI of 2.28-2.78. This may entail that taxpayers would prefer to comply and avoid penalties; i.e the law is enforceable fearing burden of penalties.

Moreover, taxpayers believed that they would not continue their business if they do not obey tax laws. They had agreed to this statement with $M=3.72$. Hence, they prefer to obey tax laws not to trouble their business operations. Therefore, they are willing to pay an assessed tax liability claimed by ERCA. Their agreement to pay assessed tax willingly was high and above moderate level, $M=4.13$, that falls in the 95% CI of 3.96-4.30.

Table 4.3: Law enforcement

Respondent Group	Statement	One-Sample Statistics			Test Value = 3					
					t-value	df	p-value	Mean Diff.	95% Confidence Interval of the Diff.	
		N	Mean	Std. Dev'n					Lower	Upper
Taxpayers	Penalty rates for my non-complaints are affordable	200	2.48	1.44	-5.12	199	.000	-0.52	-0.72	-0.32
	if I decided that to not obey tax laws I would not able continue my business	200	3.72	1.36	7.43	199	.000	0.72	0.53	0.90
	I am willing to pay an assessed tax liability and to be claimed by ERCA.	200	4.13	1.21	13.22	199	.000	1.13	0.96	1.30
	There is Market demand to the assets which is claimed for tax liability.	200	3.29	1.47	2.80	199	.006	0.29	0.09	0.49
	ERCA is has good relationship with federal government attorney.	200	3.25	1.54	2.26	199	.025	0.25	0.03	0.46
	Law enforcement	200	3.37	0.67	7.84	199	.000	0.37	0.28	0.47
Employees	Taxpayers obey rules and regulations regarding to tax.	100	4.35	0.85	15.97	99	.000	1.35	1.18	1.52
	Employees assess Notice on non-compliance in accordance with rules and regulations.	100	4.33	0.84	15.80	99	.000	1.33	1.16	1.50
	Non complaints are willing to pay penalty & interest that the office asses	100	4.27	0.96	13.20	99	.000	1.27	1.08	1.46
	Tax rules & regulations are easy to understand & implement on non-complaints.	100	4.09	1.03	10.63	99	.000	1.09	.89	1.29
	The office has a relation with federal government attorney to make liable for tax payers that do not obey tax rules & regulations.	100	4.62	0.51	31.88	99	.000	1.62	1.52	1.72
	Law enforcement	100	4.33	0.43	31.02	99	.000	1.33	1.25	1.42

Unless taxpayers properly responded to their tax liabilities, the tax authority may have the right to ask for taxpayers assets in the form of collateral. These assets are marketable and used to pay overdue tax liabilities and penalties. Taxpayers agreed that, M=3.29, the tax authority may have the right to claim their marketable assets unless they comply to the tax laws. Moreover, ERCA’s good relationship with the federal government attorney (agreed with M=3.55 rating) could be triggered to oblige taxpayers.

Overall, taxpayers assessment of tax law enforcement was evaluated with $M=3.37$ average rating, which is beyond the moderate level agreement within the 95% CI range of 3.28-3.47.

Employees' assessment of tax law enforcement was made to five statements presented to them. In the table above, employees highly agreed, $M=4.35$, that taxpayers obeyed the rules and regulations regarding VAT. In case of non-compliant, employees also highly agreed that taxpayers were willing to pay their tax liabilities including penalties and interest. They also highly agreed they assess taxes in accordance with the rules and regulations that are easy to be implemented in cases of non-compliance. Moreover, employees very highly agreed, $M=4.62$, that the tax authority have direct relationship with the federal government attorney to force taxpayers that are reluctant to obey tax rules and regulations.

Overall, employees' assessment of the enforceability of tax laws was highly rated with average aggregate rating of $M=4.33$ within the 95% CI range of 4.25-4.42.

Comparing the law enforcement by taxpayers ($M=3.37$) and by employees ($M=4.33$), an independent sample t-test result with $t\text{-value} = 13.03$, $df = 298$, and $p\text{-value}=0.000<0.05$ indicated significant difference between the two groups of respondents. That, employees believed that VAT related laws are highly enforceable than taxpayers believed.

This result somehow indicated the enforceability of the law to only VAT-registered businesses. However, the law has be enforced for those VAT eligible businesses but not yet registered for VAT. They are business entities in the market whose annual turnover is equal to or more than the threshold of Birr 500,000 but not registered for VAT. The reasons they don't want to register for VAT were:

- Some enterprises fear that registration for VAT may lose their customers due to the price differences of purchasing goods and services from VAT registered and unregistered
- The absence of uniform registration system followed by the authority
- Low level of awareness of the business community and the public as a whole about the rules and benefits of tax
- The existence of some employees who deal for their personal benefits rather than for the responsibilities given by the government (authority) during the collection and investigations as well as auditing the enterprises returns (corruption)

- The absence of sufficient information acquired by the authority about the business entities capacity to decide whether they have to be registered for VAT or not
- The need of the enterprises to dominate the market with least price competitions
- The authority do not identify those genuine enterprises and recognize their activities

In order to reduce the obligatory registrants and promote voluntary tax compliance, the ERCA eastern Addis Ababa medium taxpayers should engage in continuous awareness creating programs to educate the public aiming to awake the business community on various VAT issues. In addition the authority has to improve the quality of services provided to taxpayers, follow uniform VAT registration systems, consistently examine and take actions over those unethical workers, identify and recognize those honest and genuine enterprises as well as their activities, and enforce those business enterprises that their annual turnover is equal to or above the threshold but are not yet registered for VAT to be registered.

The business community should also obey the VAT rules and regulations and so they should register for the VAT according to the registration process of the VAT without any enforcement actions taken over them by the authority as well as the public have to work in harmony with the authority to bring the noncompliance enterprises to the court front.

4.3.3 VAT Assessment, Payment and Collection

The government's main source of revenue is money collected from taxpayers; the system using to collect this money needs to be effective and efficient in assessing and collecting mechanisms. Voluntary compliance needs timely filing and reporting of the required tax information, the current self-assessment of taxes owed, and the timely payment of those taxes without any reminder, notice, or enforcement actions.

Concerning tax assessment and how it was conducted respondents had evaluated the existing practice. The result of the assessment is presented in the following table.

Taxpayers highly agreed that they are responsible to assess their VAT liability; and the assessment of VAT was based on their own declaration. These two statements were rated with M=4.34 and M=4.36 average level of agreement. They also highly rated similar statements that they are responsible to declare VAT with M-4.33; and that they can accurately assess and declare their VAT liability with M-4.36 average level agreement.

The taxpayers rating to the tax assessment statements were all with highly significant agreement level. Their overall aggregate agreement level was M=4.33 within the 95% CI of 4.28-4.37.

Employees also rated the VAT assessment practices by rating to certain statements. Unlike the taxpayers, they had significantly agreed (M=4.41) that VAT assessment was done by employees assigned by the tax authority. Moreover, the tax assessment was done as a team work rather than individual responsibility. And they had agreed with M=4.00 that this assessment was done according to standard time limit. However, they had moderate level agreement to the statement that the VAT assessment procedures are flexible. This statement was rated with M=3.00 average agreement level within the 95% CI of 3.72-3.28. Overall employees had evaluated the VAT assessment practice with M=3.93 agreement level that fallen within the 95% CI in the range of 3.82-4.04.

Both taxpayers and employees had significantly and positively agreed to the VAT assessment practice statements presented to them. However, an independent sample t-test (with t-value=,df=298, p-value=0.000 < 0.05) compared that the two groups ratings are significantly different.

Table 4.4: VAT Assessment

Respondent Group	Statement	One-Sample Statistics			Test Value = 3					
		N	Mean	Std. Dev'n	t-value	df	p-value	Mean Diff.	95% Confidence Interval of the Diff.	
									Lower	Upper
Taxpayers	I am responsible to assess my own VAT liability.	200	4.34	0.84	22.68	199	.000	1.34	1.22	1.46
	Assessment of VAT is based on my own declaration.	200	4.36	0.81	23.79	199	.000	1.36	1.25	1.47
	I am responsible to declare VAT	200	4.33	0.94	19.99	199	.000	1.33	1.20	1.46
	I can accurately determine my VAT liability.	200	4.46	0.76	27.08	199	.000	1.46	1.35	1.57
	The tax Office gives equal consideration to the views of all	200	4.14	1.00	16.08	199	.000	1.14	1.00	1.28
	VAT Assessment	200	4.33	0.33	57.42	199	.000	1.33	1.28	1.37
Employees	VAT assessment is done by responsible employee.	100	4.41	0.78	18.08	99	.000	1.41	1.26	1.56
	VAT assessment is done by standard time limit.	100	4.00	1.15	8.73	99	.000	1.00	.77	1.23
	VAT assessment procedures are flexible.	100	3.00	1.43	0.00	99	1.000	.00	-.28	.28
	VAT assessment is team work rather than individual responsibility.	100	4.31	0.87	15.01	99	.000	1.31	1.14	1.48
	VAT Assessment	100	3.93	0.55	17.03	99	.000	.93	.82	1.04

Except the value of goods and services exempted by the VAT proclamation all imported materials, locally produced items and services rendered are taxed by 15%. Export of goods and services, international transport of goods and passengers, gold supplied to National Bank of Ethiopia, transfer of organization on movement are zero rate taxed goods and services. The purchase of goods and services for economic, social and institution of the country's development are exempted. VAT is considered as a credit invoice method because it is a tax system in which issuance of invoice serves as a cornerstone for the tax collection process. VAT proclamation No. 285/2002 Article 22/1 stipulates that a person registered for VAT is required to issue a VAT invoice for a taxable transactions, but a person who is not registered for a VAT does not have the right to issue a tax invoice. Therefore VAT registered enterprises perform their business transactions using an invoice. Hence the tax administration would not be expected to estimate the total sale or purchase made for levying the tax rather the invoice would depict the taxable sales and the buyer claims on what he has paid on his input. Nevertheless this proclamation has seen violated by some business entities as the information that the researcher obtains from the officials of the authority and tried to be displayed in the table below. This is so because of the fact that several number of VAT registrant do not issue VAT invoices properly during transactions. This means that the tax collected by taxpayers is not paid to the tax authority and the normal tax operation system becomes jeopardized as the buyers could have no evidence for offsetting the tax paid in the course of business activities.

Table 4.5: VAT Collection & Payment

Respondent Group	Statement	One-Sample Statistics			Test Value = 3					
					95% Confidence Interval of the Diff.					
		N	Mean	Std. Dev'n	t-value	df	p-value	Mean Diff.	Lower	Upper
Taxpayers	It is everyone's responsibility to pay the correct amount of vat.	200	4.44	0.58	34.93	199	.000	1.44	1.35	1.52
	The taxpayers do understate sales which collect from customers in order to pay vat.	200	2.67	1.50	-3.12	199	.002	-0.33	-0.54	-0.12
	I have responsibility of paying self – assessed VAT liability.	200	4.40	0.84	23.54	199	.000	1.40	1.28	1.51
	I pay actual VAT assessed.	200	4.63	0.48	47.63	199	.000	1.63	1.56	1.70
	I always pay my VAT in time.	200	3.90	1.34	9.48	199	.000	0.90	0.71	1.08
	Payment	200	4.01	0.42	33.78	199	.000	1.01	0.95	1.06
Employees	I believe that the collection of VAT is done in good manner.	100	3.94	1.00	9.37	99	.000	.94	.74	1.14
	I accurately determine VAT liability.	100	3.89	1.21	7.33	99	.000	.89	.65	1.13
	I have a clear detection mechanism of the collected but not paid VAT.	100	3.76	1.47	5.17	99	.000	.76	.47	1.05
	There is no an intention from taxpayer for tax avoidance.	100	3.05	1.32	0.38	99	.706	.05	-.21	.31
	The offices push taxpayer to declare (file) VAT as soon as they register.	100	4.11	0.97	11.40	99	.000	1.11	.92	1.30
	VAT Collection	100	3.75	0.59	12.72	99	.000	.75	.63	.87

The table above presented vat payment and collection practices as viewed by the taxpayers and employees. Regarding VAT payment, taxpayers believed that they bear responsibility. They had agreed with M=4.44 average level of agreement. They also agreed to the responsibility to pay the actual assessed VAT; and they agreed with M=3.90 that they always pay VAT in time. In their tax assessment, taxpayers disagreed (M=2.67) that they understate sales collected from their customers.

The overall rating by taxpayers was computed M=4.01 that they were significantly and highly agreed to the VAT payment with 95% CI of 3.95-4.06.

On the other hand, employees were asked about the VAT collection practice. Their agreement that the collection of VAT was done in good manner was rated M=3.94 on the average. Besides, they highly agreed with M=3.89 that they accurately determined VAT liabilities; and they also witnessed with M=3.76 average rating that there is a clear detection mechanisms for undeclared VAT. However, employees had only moderate level agreement with M=3.05 that taxpayers may have the intention for tax avoidance. Moreover, employees have high level agreement, with

M=4.11, that the tax authority pushed taxpayers to declare any VAT liability immediately as register.

Overall practice of VAT collection by the tax authority was rated M=3.75 by the employees. This is above moderate level agreement within the 95% CI in the range of 3.63-3.87.

Comparing the rating responses by taxpayers (M=4.01) and employees (M=3.75), an independent sample t-test with t-value=4.31, df=298, p-value=0.000 < 0.05) identified that the two groups ratings are significantly different; though both groups had positively evaluated the practices. In accordance with interviews to understand the general overview of the VAT collection efficiency of the branch, these management staffs were asked as to how they judge the efficiency of their office in terms of revenue collection. In view of that, the Branch Manager and Tax Assessment Coordinator both agreed on the idea that the VAT collection efficiency of the branch is good in terms of the amount of revenue collected comparing to its target. As per the Branch Manager's opinion the branch is performing well in terms of revenue collection except on the administration issues that tax payers are complaining on. Similarly, the Tax Assessment, Collection, and Control Coordinator believe that the VAT collection efficiency of the branch is very good considering the revenue amount collected in the past three years. In her argument, cash register machine is contributing a lot to this good performance in collecting the desired revenue. Self-compliance is also increasing from time to time and most tax payers are coming now voluntarily unlike before.

Since customer service is one of the determinant factors contributing to the efficient collection practices of any organization, it was one of the questions forwarded to the Customer Service Coordinator. A survey has been conducted the customer service quality and the result implied that there are improvements and most customers who were dissatisfied are now almost satisfied. So, it can be considered that there is moderate customer service quality in the branch as per the Customer Service Coordinator and the survey result conducted by the branch level. This may be taken as a good improvement, but is not enough to efficiently collect VAT. Even, there is no sufficient information desk in the office and customers must ask someone else to know where to go. So, it needs effort to maximize the customer satisfaction and increase self-compliance so as to enhance the collection efficiency.

4.3.4 VAT Refund Procedure

For any VAT refund process, if the allowable input tax is greater than the output tax, the amount of the excess is normally repayable to the taxable person by the authority as a tax refund. In relation to this issue, a question was raised to the taxpayer respondents about whether the VAT refunding process being made by ERCA eastern medium tax payer office are maintained on time effectively.

The tax refunding procedures was evaluated by the taxpayers who had agreed with $M=3.57$ average rating that the refunding process was conducted timely. But taxpayers disagreed with $M=2.74$ and believed that the refunding procedure was a long process. Taxpayers moderately believed with moderate level agreement ($M=3.14$) that there exist complex requirements for Vat refund. Moreover, taxpayers do believe that, during tax refunding requests, using illegal invoices had lower chance of being detected. In addition taxpayers do believe that the standard time set by the tax authority for tax refund needs to be reviewed.

Overall, taxpayers observed the VAT refund procedure with low level agreement $M=2.75$ that fallen below the moderate level in the 95% CI range of 2.67-2.84. The respondents who do say the refunding process is not being made on time and effective put their reasons as even if VAT refund time table is clearly stipulated in the VAT proclamation, the tax authority is not being met the time table stated at the proclamation because of:

- weak VAT administration system of the authority ,poor staff capacity, poor internet connection
- unnecessary long procedures
- The complexity of the assignment to decide for the refund
- The refunding period needs an assessment maintained by the authority auditors

In general the refunding process being made by the authority is not as easy and effective. It demands time and efforts from the respective authority and honest business enterprises. Therefore the authority has to look again on the ways that can improve the effectiveness of the refunding procedures at a lower effort, cost and time.

Table 4.6: VAT Refund

Respondent Group	Statement	One-Sample Statistics			Test Value = 3					
									95% Confidence Interval of the Diff.	
		N	Mean	Std. Dev'n	t-value	df	p-value	Mean Diff.	Lower	Upper
Taxpayers	The VAT refunding process being made are on timely	200	3.57	1.35	5.93	199	.000	0.57	0.38	0.75
	If illegal invoice used to claim the tax refund, the probability of being detected is high	200	1.93	0.97	-15.65	199	.000	-1.08	-1.21	-0.94
	Vat refund was not along procedures	200	2.74	1.26	-2.92	199	.004	-0.26	-0.44	-0.08
	There exist complex requirements for Vat refund	200	3.14	1.45	1.37	199	.172	0.14	-0.06	0.34
	The refunding period do not needs an assessment maintained by the authority	200	2.39	1.54	-5.59	199	.000	-0.61	-0.83	-0.39
	Refund Procedure	200	2.75	0.62	-5.64	199	.000	-0.25	-0.33	-0.16
Employees	VAT refund has directive that prepared by the Authority.	100	4.20	0.96	12.45	99	.000	1.20	1.01	1.39
	I have clear understanding about VAT refund.	100	4.58	0.50	31.85	99	.000	1.58	1.48	1.68
	I want a help from coordinator when taxpayers asks VAT refund.	100	3.77	1.41	5.48	99	.000	.77	.49	1.05
	VAT administration systems of the authority are not the cause for Vat refund procedure complexity.	100	3.90	1.18	7.60	99	.000	.90	.66	1.14
	The refunding period do not needs an assessment maintained by the authority	100	1.35	0.48	-34.42	99	.000	-1.65	-1.75	-1.55
	Refund Procedure	100	3.56	0.42	13.37	99	.000	.56	.48	.64

Employees were also responded to statements regarding VAT refunding procedure. They had significantly agreed, with M=4.20, that VAT refund has directive that prepared by the Authority. Moreover employees have high level understanding about VAT refund; which was agreed with M=4.58 average level agreement. They, however, sometimes needs support and requested help from their coordinators regarding VAT return. In addition, they believed that the VAT refund procedure were not as such complex. In contrary to the other statements, employees strongly disagreed, M=1.35, that the time period set by the tax authority was not adequate. That is, similar to the taxpayers, employees do also required the tax authority to amend its standard time set for VAT refund.

The overall refund procedure, as assessed by employees, was given a rating of M=3.56 average level agreement that falls within the 95% CI of 3.48-3.64. Compared to the taxpayer (M=2.75)

disagreement to the refund practice, employees (M=3.56) have significantly highly appreciated the existing practice.

4.4 Challenges of VAT Implementation

4.4.1 Taxpayers Awareness

Certain challenges could have posed unwanted impact to effectively implement and enforce the laws related to VAT. With the intention of identifying any challenges taxpayers and employees were rated the possible challenges they might have faced. This section presented challenges as evaluated by each group of respondents.

Table 4.7: Taxpayers Awareness

Statement	One-Sample Statistics			Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	Df	p-value	Mean Difference	Lower	Upper
There is a continuous tax education program for tax payers	200	4.02	1.25	11.56	199	.000	1.02	0.85	1.19
The authority has sufficient free call information centers	200	4.10	1.01	15.44	199	.000	1.10	0.96	1.24
The government has made sufficient efforts on introduction of VAT	200	2.54	1.40	-4.69	199	.000	-0.47	-0.66	-0.27
I am aware of tax laws	200	3.79	1.19	9.33	199	.000	0.79	0.62	0.95
Awareness	200	3.61	0.59	14.56	199	.000	0.61	0.53	0.69

Rating their awareness of the Vat laws, taxpayers have agreed with M=3.79 average level. They also strongly agreed that the tax authority provided them continuous tax education (M=4.02) and sufficient free call information centers were arranged by the authority (M=4.10). However, they disagreed with M=2.54 that the government has not made sufficient effort on the introduction of VAT.

Overall, the taxpayers' awareness on VAT related issues was rated to M=3.61 average level that fallen within the 95% CI of 3.53-363. According to interviewee respondents perception the problems facing the authority and tax payers in VAT implementation practices. Accordingly, the major problem stated by all respondents was the issue of awareness by both tax payers and VAT implementation employees of the authority. As per their argument, the authority is striving to

give awareness creation programs and have regular discussion with tax payers every 15 days at authority branch.

However, tax payers don't come for this discussion and most often accountants and other representative of these tax payers come instead. This fact was indeed proved in the results of the questionnaires – most of the respondents of tax payers' questionnaire were accountants, which are representatives of the tax payers and not the tax payers themselves. Thus, tax payers are not aware of the rules, regulations, and procedures of the authority and of course they are not near to understand to the purpose of the money they are paying. With this situation, there will not be strong relationship between the authority and tax payers and the negative attitude reflected by tax payers on the authority may not be solved easily. What the managers conveyed was also this condition, and tax payers usually assume that employees of the tax authority are corrupted, without closely understanding the situation. At the same time, there is a problem from the employees' side in assuming all tax payers are abusers - which is wrong. other question the factors determining the VAT implementation efficiency of the branch and if the authority is practicing them. As per the responses of the interviewees, the major issues are: awareness creation, automation and capacity building issues, and strict follow up programs. As to them, Eastern medium taxpayer's office is to some extent practicing these activities but not at sufficient manner. Tax payers who honestly report their revenue and pay their VAT amount regularly should be encouraged, while punishment should be levied to those who fail to do so. This strict follow up and control is not sufficiently experienced by the authority. Automation would decrease the compliance cost and increase revenue. But, the working condition of Eastern medium taxpayer's office is not fully automated as per the views of the management staffs of the authority, which negatively affects its collection efficiency.

Finally, chances have been given to these interviewees to present anything they feel to say out. The dominant subject all these three interviewees raised is the issue of awareness creation to both tax payers and employees about their responsibilities, rights, and the purpose of VAT they are paying. Both employees and tax payers should know all the rules, regulations and procedures of taxpaying. Employees must respect all legalities and serve customers as per their need. Tax payers are also supposed to read and update their selves to the rules, regulations and procedures of the authority through various means, in addition to the awareness creation programs being delivered by the authority. It is also important to create awareness on the end users to have the

basic understanding and responsiveness of asking a receipt of VAT for what they have used or purchased. These awareness creation issues are the responsibilities of both the authority and tax payers.

4.4.2 Availability of Infrastructure

Availability of nearby tax offices could be one challenge to timely payment of Vat collected as well as seeking support from them. In this regard, taxpayers had significantly agreed with M=3.99 that tax offices are physically remote to them. Whereas, they complement this challenge with the transportation access availability in order to declare their taxes; with M=3.70 average level agreement.

Table 4.8: Availability of Infrastructure

Statement	One-Sample Statistics			Test Value = 3					
				t-value	df	p-value	Mean Difference	95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation					Lower	Upper
The tax office located on remote.	200	3.99	1.23	11.29	199	.000	0.99	0.81	1.16
The network is always strong at tax authority.	200	3.11	1.49	1.04	199	.299	0.11	-0.10	0.32
There is no power interruption when I declare tax.	200	3.65	1.31	7.00	199	.000	0.65	0.47	0.83
There is a sufficient access of transportation to declare tax.	200	3.70	1.45	6.81	199	.000	0.70	0.50	0.90
I would agree to increase payable taxes if the government spent the collected tax for fulfillment of infrastructure.	200	4.40	0.78	25.50	199	.000	1.40	1.29	1.51
Infrastructure	200	3.77	0.54	20.33	199	.000	0.77	0.69	0.84

Electric Power interruption were not the challenge (M=3.65) faced by taxpayers while they declare taxes. However, they had moderate level agreement with M=3.11 that network connectivity at tax authority are strong. The improvement of such infrastructure would motivate taxpayers to put more efforts and raise their payable taxes. This was expressed with M=4.40 average rating that they would increase payable taxes if government spent the collected tax for fulfillment of infrastructure.

Overall, infrastructure related facilities were considerable challenge to the taxpayers with aggregate rating of M=3.77 that fallen within the 95% CI in the range 3.69-3.84.

4.4.3 Taxpayers' Attitude

With regard to VAT and the tax authority offices, taxpayers expressed their attitude by rating the statements in the following table. They have agreed with M=4.11 that they had received respectful services from the revenue officers. They have concern of their business as they believed, with M=3.47 agreement level, that businessmen do not registered for VAT had a larger chance of penetrating the market. Moreover, taxpayers concerned about their lower business performance while they issued sales invoices; that they had agreed with M=3.43 average rating. Apart from these challenges, taxpayers were not attempted to avoid VAT (M=3.90), and that they would exert more effort to pay more taxes as public finance property (M=4.14).

The overall taxpayers positive attitude towards VAT was rated with M=3.81 that fallen significantly above the moderate level in the 85% CI 3.74-3.88. Tax payers complain that employees of the authority consider that all tax payers are abusers. According to the interviewees, this attitude is a problem of both sides – tax payers and the authority. Tax payers also consider all staffs of ERCA as corrupters. This is a reflection of awareness creation problem as discussed before and this problem is also from both sides – tax payers don't attend such discussions and awareness creation programs while there are no sufficient and strict follow ups from the authority side. According to the Tax Assessment, Collection, and Control Coordinator, when tax payers know their rights and responsibilities, they start to comply with their responsibilities and become accountable to their activities. Besides, there will be clear relationship between both parties and all tasks will be easy if tax payers are aware of all rules and regulations. They also believe that there is a problem from few staffs' side in assuming that tax payers are trying to abuse when tax payers make some simple mistakes unintentionally. There all are outcomes of the limitations in the awareness creation programs from both the authority and tax payers.

Table 4.9 Taxpayers' Attitude

Statement	One-Sample Statistics			Test Value = 3					
				t-value	Df	p-value	Mean Difference	95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation					Lower	Upper
Revenue officers do give respectful services to clients.	200	4.11	1.11	14.09	199	.000	1.11	0.95	1.26
The business don't registered VAT has a large chance to penetrate the market.	200	3.47	1.56	4.22	199	.000	0.47	0.25	0.68
I never attempted to avoid VAT.	200	3.90	1.11	11.37	199	.000	0.90	0.74	1.05
I am ready to pay more if government utilizes public finance properly.	200	4.14	1.02	15.84	199	.000	1.14	1.00	1.28
My business performance would be low if I issue sales invoice.	200	3.43	1.59	3.82	199	.000	0.43	0.21	0.65
Attitude	200	3.81	0.50	22.78	199	.000	0.81	0.74	0.88

4.4.4 VAT Administration

The contribution of VAT on domestic goods and services as well as foreign trade shows a substantial increase though the domestic source is by far lower than that of foreign trade. This might be associated with administrative difficulty to collect the tax from the domestic economy and the existence of illegal practices on VAT. In principle, VAT is collected from consumption of goods and services. Like it has been observed in many developing countries, VAT implementation in Ethiopia has faced different problems at the initial stage. Problems that are observed during the implementation of VAT related with external and internal factors. With this perspective the survey was conducted by asking the employees of ERCA eastern A.A medium taxpayer's office about the bottlenecks that hinder the smooth implementation of VAT in Ethiopia.

Employees were asked to rate potential challenges in tax administration.. Rating the statement VAT returns having payment, refund & nil has made within time interval for taxpayers to decrease burden of service delivery, employees were agreed with M=3.78, which falls above the moderate level. They, however, had a moderate level rating M=3.20 that There is enough access deliver services when tax payers declare tax return. Employees were disagreed, M=2.30, that various teams working in the tax authority lacked cooperation during pick hours, which is usually the end of each month where large number of taxpayers required services. Considering

the overall service delivery by the tax authority were considered very weak; as the employees disagreed to the positive statement indicated in the table below.

Table 4.10 VAT Administration

Statement	One-Sample Statistics			Test Value = 3					
				t-value	Df	p-value	Mean Difference	95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation					Lower	Upper
VAT returns having payment, refund & nil has made within time interval for taxpayers to decrease burden of service delivery.	100	3.78	1.43	5.47	99	.000	.78	.50	1.06
There is enough access deliver services when tax payers declare tax return.	100	3.20	1.35	1.48	99	.141	.20	-.07	.47
There is cooperation with other team at the end of month when large no of tax payers declare vat return.	100	2.30	1.49	-4.71	99	.000	-.70	-1.00	-.40
Overall service delivery of VAT administration of the authority is not weak .	100	1.90	1.27	-8.68	99	.000	-1.10	-1.35	-.85
VAT Administration	100	2.80	0.72	-2.87	99	.005	-.21	-.35	-.06

Aggregating the positive and negative responses to the statements above, the VAT administration by the tax office and the authority was not appealing to the employees of the organization under study. They tend to disagree, with M=2.80, that the VAT administration was not up to the expectations one of implementers; employees themselves.

4.4.5 Filing Challenges

With related to filing, employee observed that Tax payers did not usually declare VAT returns with in the periods schedule by Authority. The disagreement rating, M=2.69, for the 1st statement in the table below exposed the challenge posed by taxpayers. However, the authority tried to reduce this challenge by publicizing notices for non-filers (M=4.15) and easing differentiates non-filers (M=4.00).

Table 4.11 Filing Challenges

Statement	One-Sample Statistics			Test Value = 3					
				t-value	df	p-value	Mean Diff.	95% Confidence Interval of the Difference	
	N	Mean	Std. Dev.n					Lower	Upper
Tax payers declare VAT return with in the periods schedule by Authority.	100	2.69	1.47	-2.11	99	.037	-.31	-.60	-.02
The Authority easing differentiates non-filers.	100	4.00	1.26	7.97	99	.000	1.00	.75	1.25
Employees prepare notice for non-filers.	100	4.15	0.99	11.63	99	.000	1.15	.95	1.35

4.4.6 VAT Payment Challenges

VAT payment potential challenges were assessed by the employees while the results presented in the table below didn't reveal any significant challenge. Such challenges were minimal as the Taxpayers willingness to pay collected VAT within specified time was agreed significantly above moderate level rating with M=3.83; and that receipts are issued to taxpayers as they paid assessed VAT (M=4.09). Moreover, the tax authority privileged taxpayers to partially settle their tax liability in case they failed to pay the assessed amount fully. During interview the respondents reply that the authority has designed a program as to the payment days of all types of taxes with in a dedicated month. However, all tax payers come within the last date of every month and don't respect the timelines scheduled by the tax authority. The researcher has personally observed this problem while distributing and collecting the questionnaires to tax payers. This problem is contributing to the low customer service delivery and work load to the employees of the authority as per the managers' view. As to the customer service coordinator, there is a day where the authority has received different cases within a day – which is difficult to manage and creating work load to employees and dissatisfaction to tax payers. Besides to this, tax payers don't come with clear documents and bring all issues together that they are expected to filter and bring the relevant files only, as per the interviewees' opinion. The main cause for this problem is the aforementioned behavior of tax payers – hesitating to participate in the awareness creation programs.

Table 4.12 VAT Payment Challenges

Statement	One-Sample Statistics			Test Value = 3					
				t-value	df	p-value	Mean Diff	95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation					Lower	Upper
Taxpayers have willingness to pay collected VAT within specified time.	100	3.83	1.32	6.29	99	.000	.83	.57	1.09
Employees issued receipts to payment when taxpayer paid assessed VAT.	100	4.09	1.15	9.51	99	.000	1.09	.86	1.32
The Authority has down payment rule when taxpayer fails to pay the assessed amount fully.	100	3.92	1.36	6.76	99	.000	.92	.65	1.19

4.5 Employees' Performance

The performance of tax authority employees were assessed in case it had posed challenges in the implementation and administration of VAT. In this regard, officers and team coordinators were found to have the required skills and competency. This were agreed to the level M=4.54 that strongly proved the capacity of the employees. Employees also strongly agreed (M=4.43) and believed that they have all the knowledge and technical skills to perform their job. It was highly agreed (M= 4.30) that Employees have personal incitation to develop their skill & performance. Besides, the tax authority periodically evaluated employee's performance and gave them feedbacks. However, employees may have sometimes exhibited low performance due to certain factors; which was rated moderately with M=3.00 average level agreement.

Overall, the tax authority employees' performance was assessed to the average rating of M=4.13, which is considered high level competency within the 95% CI in the range of 4.05-4.22. According to interviews respondents concerns to the capability and number of employees serving tax payers, all interviewees believe that the staffs are capable of doing all their tasks. What was observed from the questionnaires to employees of ERCA was also the same, and most staffs have first degree in their respective fields. However, there are no sufficient and job related trainings to the staffs. Training programs are performed by the authority level and the branch has no power to deliver such trainings. This situation hinders to effectively train employees of the branch and only few employees get the chance to train within a year. As a result, most of the employees are not trained for their current jobs except the one delivered to them when they join the authority for the first time and on-job trainings they exercised with their colleagues and immediate

supervisors. Furthermore, considering the problem of tax payers – coming within the end of the month and creating work load – the number of staff is not enough for the existing situation. Moreover, the problem of internet connection is creating difficulties to the authority in serving their customers timely, as per the views of the interviewees.

Tax payers raised an issue that they don't have to carry all documents all the time and such e-payment and banking system have to be developed by the authority. This question was forwarded to the interviewees and they agreed on the issue that the authority should facilitate this system. There is a pilot test being undertaken to large tax payers and good achievements have been observed from the pilot test. There is a concern that its management is very complex as the branch tax payers are medium tax payers and is difficult to handle all these issues through bank and e-payment. But, in the future, taking in to account the output of the pilot test on the large tax payers, such activities may be considered – the Tax Assessment, Collection, and Control Coordinator said.

Table 4.13 Employee Performance

Statement	One-Sample Statistics			Test Value = 3					
				t-value	Df	p-value	Mean Difference	95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation					Lower	Upper
Officers & team coordinators are skilled & competent.	100	4.54	0.50	30.74	99	.000	1.54	1.44	1.64
There are factors which may be the cause for low employee performance.	100	3.00	1.34	0.00	99	1.000	.00	-.27	.27
Employees have personal incitation to develop their skill & performance	100	4.30	0.97	13.41	99	.000	1.30	1.11	1.49
The office is periodically evaluate employee's performance & gives a feed back	100	4.40	0.78	17.98	99	.000	1.40	1.25	1.55
I have all the knowledge and technical skills for my current job.	100	4.43	0.54	26.65	99	.000	1.43	1.32	1.54
Employee Performance	100	4.13	0.42	27.20	99	.000	1.13	1.05	1.22

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

The previous chapter presented the data analyses of the study. This chapter comprised of the major findings of the study, the conclusion and the recommendation drawn on the basis of the findings.

5.1. Summary

This study was conducted aiming at the VAT implementation and its related problems in ERCA Addis Ababa medium taxpayer's branch office. More specifically, the study intended to attain the following objectives:

- To examine the practice of VAT administration in Eastern Addis Ababa medium taxpayers' office and its compliance to the proclamation & regulations.
- To identify the main problems in Eastern Addis Ababa medium taxpayers' branch office VAT administration.
- To identify the main problems in Eastern Addis Ababa medium taxpayers' branch office law enforcement.
- To identify the main problems in Eastern Addis Ababa medium taxpayers' branch office VAT Collection.

This study endeavored to explore VAT implementation and related problems in ERCA with the intension to understand the issue from taxpayers of the Authority, employees of ERCA Eastern A.A medium tax payers) and managers of Eastern medium taxpayer's office perspectives. The study employed both qualitative and quantitative research design with the assumption that reality is socially constructed by participants and there are many truths. This research approach was appropriate as the researcher was trying to understand the complexity of the issue under investigation through the lived experience, perceptions and perspectives from a holistic standpoint.

For the purpose of this study, a descriptive survey method was employ to disclose the understanding of respondents on the issue under study. This method was' chosen with the assumption that it helps to conduct data as it exists and to gather several data related to the

problem under study. Both primary and secondary sources of data were used. Data were generated via questionnaire and interview. Accordingly, questionnaires were distributed and filled out by 300 tax payers and employees respectively. The data secured through questionnaire are analyzed quantitatively and data secured through interview was thematically analyzed and organized in to themes to answer the research questions.

5.1.1. Major Findings

In attempt to answer the basic research questions, a descriptive survey was preferred to serve the purpose. Questionnaire was developed and data also gathered based on the review of related literature. Interview was used to gather additional data from managers of Eastern medium taxpayer's office and from other stakeholders. The respondents were provided with questionnaires both close & open ended. Accordingly, 200 (66.66 %) of tax payers properly completed and returned the questionnaire just in time and similarly 100 (33.33%) of the tax office employees were filled and returned back the questionnaire just in time. The collected data were analyzed by descriptive statistics such as frequency count, percentage, mean, standard deviation, t-value and P-value. The response rate was 100 % which clearly shows that the researcher has got adequate and representative responses to the intended research undertakings.

In line with the above statement of the problem, this research paper is expected to address the following basic research questions.

1. Is Eastern Addis Ababa medium taxpayer's office implementing the VAT in accordance to the VAT proclamation and regulation?
2. What are the challenges faced by both the business community and the VAT administering entity in terms of VAT Administration?
3. What are the challenges faced by both the business community and the VAT administering entity in terms of Law enforcement?
4. What are the challenges faced by the VAT administering entity in terms of VAT Collection?

To obtain information about the characteristics of respondents, three basic items in the first set of the questionnaire were provide to the sample respondents.

The finding of the study reveals that majority of the employees are in the younger age groups. In contrary, relatively fewer number of tax payers, i.e. 20%, were aged 18-30. A considerably majority of taxpayers were aged 31-40 (37%) and 41-50 (30%). The above figure shows that significant proportion of the respondents have adequate age to take responsibilities and able to manage their daily duties efficiently.

Besides, the responses of the participants indicates that the gender characteristics of respondents, the majority of taxpayers, 116 (58%), were male and similarly the majority of employees were female i.e. 63%. The above result shows that females, let alone occupy managerial positions, their participation as tax payers and tax office employment were reasonably less to that of male counterpart 84 (42%) of tax payers and 63 (63%) were females. Therefore, an effort has to be exerted to promote and encourage the participation of females as tax payers and even as employees of the tax office and help them to cope with their counterpart.

As clearly indicated from the survey data, the employees' education level mainly composed of first degree a holder; which constitutes 90% of the respondents whereas only 6% of employees with master degree, and some few with diploma level of education. Thus, reasonable proportions of tax payers as well as employees of the tax offices have adequate educational qualification that helps to undertake their duty effectively. Furthermore, having relevant and adequate qualification defiantly attracts and contributes a lot for the delivery of quality service to the end users.

The finding of the study reveals that the average rating for reasonable time to accomplish the registration activities was disagreed with average rating of $M=1.99$ in the 95% CI ranged in 1.82-2.15 and taxpayers responded positively that they had sufficient explanation on Vat laws. Besides, taxpayers had positively evaluated the VAT registration procedure despite the process was considered too time consuming and as the tax payers complained, the standard time limit was not adhered properly that registration process could take beyond the standard time limit.

The finding of the study indicated that, Overall, the registration procedure was assessed with average rating by employees, which is within the 95% CI range of 3.79-3.97 and comparing the VAT registration procedure by taxpayers and employees indicated difference between the two groups of respondents. Furthermore, taxpayers would prefer to comply and avoid penalties; i.e. the law is enforceable fearing burden of penalties and they are willing to pay an assessed tax

liability claimed by ERCA. Their as clearly indicated from the survey data, in case of non-compliant, employees also highly agreed that taxpayers were willing to pay their tax liabilities including penalties and interest. They also highly agreed they assess taxes in accordance with the rules and regulations that are easy to be implemented in cases of non-compliance. Besides, employees believed that VAT related laws are highly enforceable than taxpayers believed and the tax assessment was done as a team work rather than individual responsibility. And employees have high level agreement, with $M=4.11$, that the tax authority pushed taxpayers to declare any VAT liability immediately as register.

As clearly indicated from the survey data, taxpayers do believe that, during tax refunding requests, using illegal invoices had lower chance of being detected. In addition taxpayers do believe that the standard time set by the tax authority for tax refund needs to be reviewed. Similar to the taxpayers and employees do also required the tax authority to amend its standard time set for VAT refund and they also strongly agreed that the tax authority provided them continuous tax education and sufficient free call information centers were arranged by the authority.

The finding of the study indicated that, the improvement of such infrastructure would motivate taxpayers to put more efforts and raise their payable taxes periodically and taxpayers concerned about their lower business performance while they issued sales invoices; that they had agreed. Besides, apart from the existing challenges, taxpayers were not attempted to avoid VAT, and that they would exert more effort to pay more taxes as public finance property. In addition, the authority tried to reduce this challenge by publicizing notices for non-filers and the tax authority privileged taxpayers to partially settle their tax liability in case they failed to pay the assessed amount fully. Finally, as clearly indicated from the survey data the tax authority periodically evaluated employee's performance and gave them feedbacks and officers and team coordinators were found to have the required skills and competency.

5.2. Conclusion

The study explored a wide variety of issues related to understand the implementation of Value Added Tax and try to identify the related problems in the case of ERCA Eastern A.A Medium Tax Payer Branch Office based on the analysis of the data and the findings discussed earlier, the following conclusion have been drawn.

The study found that the study employed both qualitative and quantitative research design and the research approach was appropriate as the researcher was trying to understand the complexity of the issue under investigation through the lived experience, perceptions and perspectives. Besides, a descriptive survey method was employ to disclose the understanding of respondents on the issue under study and both primary and secondary sources of data were used. Furthermore, significant proportion of the respondents have adequate age to take responsibilities and able to manage their daily duties and females participation as tax payers and tax office employee were reasonably less to that of male.

The study indicated that reasonable proportions of tax payers as well as employees of the tax offices have adequate educational qualification that helps to undertake their duty effectively. And, taxpayers had positively evaluated the VAT registration procedure despite the process was considered too time consuming and as the tax payers complained, the standard time limit was not adhered properly that registration process could take beyond the standard time limit. Besides, employees believed that VAT related laws are highly enforceable than taxpayers believed and the tax assessment was done as a team work rather than individual responsibility.

Taxpayers do believe that the standard time set by the tax authority for tax refund needs to be reviewed and the improvement of infrastructure would motivate taxpayers to put more efforts and raise their payable taxes periodically and taxpayers concerned about their lower business performance while they issued sales invoices; that they had agreed. In addition, the tax authority periodically evaluated employee's performance and gave them feedbacks. Besides, officers as well as team coordinators were found to have the required skills and competency that defiantly help them to undertake their activities.

5.3. Recommendations

The findings of this study are believed to have some recommendations for practice. The implication might show areas of intervention to improve the most wanted effective implementation of Value Added Tax and try to minimize the existing related problems. As we think of improving the implementation of Value Added tax ERCA Eastern A.A Medium Tax Payer Branch Office. Accordingly, the following recommendations are made on the basis of the research findings and the conclusion.

- ❖ As identified in the research findings, there is moderate implementation of value added tax service delivery skill and transparency in the ERCA in general and Eastern A.A Medium Tax Payer Branch Office in particular. If this remained unimproved, this will demolish the performance of the tax authority. This is, therefore the tax authority needs to avoid these issues by using intensive trainings training of the authority at all levels.
- ❖ At time when the authority arranged tax awareness program, they should actively attend and get reliable information about the current tax rules, regulations, and procedures in order to improve their tax awareness and this can be carried out by intensively educating the public using mass-medias like television, radio, newspapers, creating accessible websites, distribution of brochures, preparations of different seminars and workshops on a regular basis to increase awareness.
- ❖ The authority should understand that poorly administered VAT raises less revenue that can change the very nature of the tax resulting in unintended economic distortions, the Ethiopian Revenue and Customs Authority (ERCA) has to build its administration capacity on both human and material resources to carry out its duties and responsibilities effectively and efficiently.
- ❖ The current threshold level (500,000 birr) is high and hence allows most business communities whose return is below the threshold but actively participating in the market competition to stay unregistered. Therefore the current threshold level should be adjusted into more rational level by considering the increasing number of entities engaging in different businesses and should be minimized to incorporate at least those business enterprises that are actively participating in the market competition and balance the revenue generated from the tax.

- ❖ Based on the finding of the study, VAT has not been implemented effectively and meets its objectives as desired as possible. This is because of the existence of taxpayers that are not compliance with the current VAT laws and inefficient tax administration to control those noncompliance taxpayers. It should, however, needs to offer continuous trainings programs that curb the existing challenges so as to bring the tax payers to the standard and cope with the proper taxpaying approaches.
- ❖ As to the finding of the study, there are certain challenges observed while implementing the value Added Taxes in the sample office. This is therefore, in order to tackle these constraints and achieve the desired objectives ERCA eastern A.A medium tax payers office should strengthen its tax administration by delegating responsibilities to regional/city administration revenue collection organs to administer taxpayers with their jurisdiction and also the taxpayers should comply with current VAT rules and regulations.
- ❖ The authority should strengthen its follow-up, appraise the performance of existing and recruit qualified employees, strengthen its controlling mechanisms, improve its administrative systems and special focus should be paid in strengthen its audit and enforcement wings.
- ❖ Specific recommendations forwarded to taxpayers are tax payers (business communities) should also obey the current VAT rules and regulations, develop the culture of taxpaying as a sign of modern thinking, pay attentions towards the government's effort to collect and fund the long run projects carrying out all through the country.
- ❖ The last but not the least, the tax payers should understand and the government's main source of income to fund to the social and public affairs is the wealth collected and accumulated from taxes and consider paying tax as a means of directly or indirectly putting one's own contribution on changing the life of each citizen and they perform their activities according to the current VAT laws as well as start to work in cooperation with the authority in fighting against those enterprises that are violating the rules and regulations of VAT

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Appendix A
Addis Ababa University
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF PUBLIC ADMINISTRATION AND
DEVELOPMENT MANAGEMENT
MA IN PUBLIC MANAGEMENT & POLICY

Questionnaires for Taxpayers of the Authority, ERCA Eastern A.A medium tax payer

Dear participants:

Thank you for agreeing to take part in this important survey. You are being asked to participate in a survey that intends to assess the implementation of VAT and its related problems in the case of ERCA Eastern A.A medium tax payers' office. The results of this survey shall be compiled, analyzed and interpreted and will be used to produce a master's thesis paper.

The study will be used to identify the inductive factors and investigate the possible problems for the adoption and implementation of VAT and recommend solutions to help the program implemented successfully. I respectfully request your kind cooperation in answering the questions and your response will be highly confidential.

Section I: Background Information

Answer by putting a thick (√) in one of the blank spaces corresponding to each item.

1. Age group (in year): 18 -30____, 31-40____, 41-50____, 50+_____
2. Sex: Male_____, Female_____
3. Level of education: - below 12 grade _____, certificate_____, diploma_____,
Bachelor degree_____, masters and above_____

Section II

Read the following and indicate your level of agreement or disagreement with the statements by putting (x) under the stated numbers.

Please Note that :-

1= strongly disagree 2 = Disagree 3= undecided 4= Agree 5=Strongly agree

Statements	1	2	3	4	5
Registration Procedures					
I voluntarily registered as a value added tax payer.					
The registration is normally conducted in a good way.					
The registration process of VAT is not time consuming					
I had sufficient explanation on VAT laws					
I am confident that the legitimacy of the claims in tax return.					
Law Enforcement					
Penalty rates for my non-complaints are affordable					
If i decided that to not obey tax laws I would not able continue my business					
I am willing to pay an assessed tax liability and to be claimed by ERCA					
There is Market demand to the assets which is claimed for tax liability.					
ERCA has good relationship with federal government attorney.					
Vat Assessment					
I am responsible to assess my own VAT liability.					
Assessment of VAT is based on my own declaration.					
I am responsible to declare VAT					
I can accurately determine my VAT liability.					
The tax Office gives equal consideration to the views of all Taxpayers					
VAT payment					
It is everyone's responsibility to pay the correct amount of vat.					
The taxpayer should not understate sales which collect from customers in order to pay vat.					
I have responsibility of paying self –assessed VAT liability.					
I pay actual VAT assessed.					
I always pay my VAT in time.					
Refund procedures					
The VAT refunding process being made are on timely					

If illegal invoice used to claim the tax refund, the probability of being detected is high.					
Vat refund has not along procedures					
There exist complex requirements for Vat refund					
The refunding period needs an assessment maintained by the authority					
Challenges					
• Awareness					
There is a continuous tax education program for tax payers					
The authority has sufficient free call information centers					
The government has not made sufficient efforts on introduction of VAT					
I am aware of tax laws					
• Infrastructure					
The tax office located on remote.					
The network is always strong at tax authority.					
There is no power interruption when I declare tax.					
There is a sufficient access of transportation to declare tax.					
I would agree to increase payable taxes if the government spent the collected tax for fulfillment of infrastructure.					
• Attitude					
Revenue officers do not give respectful services to clients.					
The business don't registered VAT has a large chance to penetrate the market.					
I never attempted to avoid VAT.					
I am ready to pay more if government utilizes public finance properly.					
My business performance would be low if I issue sales invoice.					

Thank you very much

APPENDIX B
ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF PUBLIC ADMINISTRATION AND DEVELOPMENT
MANAGEMENT
MA IN PUBLIC MANAGEMENT & POLICY

Questionnaires for Employees of the Authority, Eastern A.A medium tax payer

Dear participants:

Thank you for agreeing to take part in this important survey. You are being asked to participate in a survey that intends to assess the implementation of VAT and its related problems in the case of Eastern A.A medium tax payers' office. The results of this survey shall be compiled, analyzed and interpreted and will be used to produce a master's thesis paper.

The study will be used to identify the inductive factors and investigate the possible problems for the adoption and implementation of VAT and recommend solutions to help the program implemented successfully. I respectfully request your kind cooperation in answering the questions and your response will be highly confidential.

Section I: Background Information

Answer by putting a thick (√) in one of the blank spaces corresponding to each item.

1. Age group (in year): 18 -30____, 31-40____, 41-50____, 50+____
2. Sex: Male____, Female____
3. Level of education: - below 12 grade _____, certificate____, diploma____,
Bachelor degree____, masters and above____

Section II

Read the following and indicate your level of agreement or disagreement with the statements by putting (x) under the stated numbers.

Please Note that :-

1= strongly disagree 2 = Disagree 3= undecided 4= Agree 5= strongly agree

Statements	1	2	3	4	5
Registration Procedures					
There exists experienced employee at VAT registration department.					
VAT registration Procedure is simple to perform.					
There is a standard time limit to perform VAT registration.					
The registration process usually performed beyond standard limit.					
The threshold of transaction for VAT is reasonable.					
Law Enforcement					
Taxpayers obey rules and regulations regarding to tax.					
Employees assess notice on non-compliance in accordance with rules and regulations.					
Non complaints are willing to pay penalty & interest that the office asses					
Tax rules & regulations are easy to understand & implement on non complaints.					
The office has relation with federal government attorney to make liable for tax payers that do not obey tax rules & regulations.					
VAT assessment					
VAT assessment is done by responsible employee.					
VAT assessment is done by standard time limit.					
VAT assessment procedures are flexible.					
VAT assessment is team work rather than individual responsibility.					
VAT Collection					
I believe that the collection of VAT is done in good manner.					
I accurately determine VAT liability.					
I have a clear detection mechanism of the collected but not paid VAT.					
There is no an intention from taxpayer for tax avoidance.					
The offices push taxpayer to declare (file) VAT as soon as they register.					
Refund procedures					
VAT refund has directive that prepared by the Authority.					

I have clear understanding about VAT refund.					
I want a help from coordinator when taxpayers asks VAT refund.					
Weak VAT administration systems of the authority are not the cause for VAT refund procedure complexity.					
The refunding period do not needs an assessment maintained by the authority					
Challenges					
• Vat Administration					
VAT returns having payment, refund & nil has made within time interval for taxpayers to decrease burden of service delivery.					
There is enough access deliver services when tax payers declare tax return.					
There is cooperation with other team at the end of month when large no of tax payers declare vat return.					
Overall service delivery of VAT administration of the authority is not weak.					
• Filing Challenge					
Tax payers declare VAT return within the periods schedule by Authority.					
The Authority easing differentiates non-filers.					
Employees prepare notice for non- filers.					
• Payment					
Taxpayers have willingness to pay collected VAT within specified time.					
Employees issued receipts to payment when taxpayer paid assessed VAT.					
The Authority has down payment rule when taxpayer fails to pay the assessed amount fully.					
Employee performance					
Officers & team coordinators are skilled & competent.					
There are factors which may be the cause for low employee performance.					
Employees have personal incitation to develop their skill & performance					
The office is periodically evaluate employee's performance & gives a feed back					
I have all the knowledge and technical skills for my current job.					

Thank you very much

Appendix C

Interview Question

1. What do you think are the main factors determining the collection efficiency of VAT and do you think that ERCA is fulfilling these? If Yes, How and if No, Why?
2. What do you think are the problems facing tax payers in reporting their VAT records? For instance, problems related to the VAT register machine, tax payers' know how etc.?
3. What do you think are the problems prevailing with the employees of the authority in efficiently collecting VAT? What do you think can be the solution for the problems?
4. How do you generally evaluate the level of VAT Implementation efficiency in Eastern medium taxpayer's office?
5. What do you suggest for effective implemented?