



The Practice and Challenges of E-Tax Implementation in Ethiopia: The  
Case of Ministry of Revenue (MOR) Large Taxpayers Office

By Anteneh Tamiru



College of Business and Economics

Department of Public Administration and Development Management

The Practice and Challenges of E-Tax Implementation in Ethiopia: The  
Case of Ministry of Revenue (MOR) Large Taxpayers Office

A thesis Submitted to Addis Ababa University, Department of Public  
Administration in Fulfillment of the Requirements for Master of Public  
Administration and Development Management

By Anteneh Tamiru

Advisor: Elias Berhanu (PhD)

August 2021

Addis Ababa, Ethiopia

**Statement of Declaration**

I, the undersigned, affirm that this thesis is my own work, prepared under the supervision of Dr. Elias Berhanu. The researcher furthermore confirms that no part or the entire thesis has been submitted to any other higher learning institution for the purpose of getting a degree.

Anteneh Tamiru

Signature \_\_\_\_\_

Date \_\_\_\_\_

Elias Berhanu (PhD)

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## Statement of Certification

This is to certify that Anteneh Tamiru entitled The Practice and Challenges of E-Tax Implementation in Ethiopia in Case of Ministry of Revenue (MOR) Large Taxpayers Office prepared in partial fulfillment of the requirements for the degree of master in public administration complies with the university's regulations and meets the accepted standards in terms of origin.

Advisor Elias Berhanu(PhD) Signature \_\_\_\_\_ Date \_\_\_\_\_

Internal Examiner \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

External Examiner \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Department \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

## **Acknowledgments**

I would like to express my gratitude to Almighty God for giving me endurance and strength in accomplishing my thesis work. My heartfelt thanks and sincere appreciation goes to my advisor Elias (PhD) for his unreserved support starting from proposal development throughout the thesis work. I would like to forward my honest appreciation to the Addis Ababa university library staffs.

I am grateful to thank LOT tax payer's office who delivers to all necessary documents. Finally, my deepest appreciations also go to my family and all my relatives, friends who contribute your unreserved support for the accomplishment of this paper. I really thank you all

## Table of Contents

|  |      |
|--|------|
| Statement of Declaration.....                    | II   |
| Statement of Certification.....                  | III  |
| Acknowledgments.....                             | IV   |
| List of tables and figures.....                  | VIII |
| Acronyms.....                                    | IX   |
| Abstract.....                                    | X    |
| CHAPTER ONE.....                                 | 1    |
| 1. INTRODUCTION .....                            | 1    |
| 1.1 Background of the Study .....                | 1    |
| 1.2 Background of the Organization.....          | 2    |
| 1.3 Statement of the Problem.....                | 3    |
| 1.4 Research Questions.....                      | 4    |
| 1.5 Objective of the Study .....                 | 4    |
| 1.5.1 General objectives.....                    | 4    |
| 1.5.2 Specific Objectives .....                  | 4    |
| 1.6 Significance of the Study .....              | 5    |
| 1.7. Scope of the Study .....                    | 5    |
| 1.8 Limitation of the Study .....                | 6    |
| 1.9. Organization of the Study .....             | 6    |
| CHAPTER TWO .....                                | 7    |
| 2. REVIEW OF RELATED LITERATURES.....            | 7    |
| 2.1 Concept of Taxation.....                     | 7    |
| 2.1.1 Theory of Taxation .....                   | 7    |
| 2.2 Brief History of Taxation in Ethiopian ..... | 9    |

|  |    |
|--|----|
| 2.2.1The Ethiopian Tax Reform .....                | 11 |
| 2.3Major Types of Taxes in Ethiopia .....          | 12 |
| 2.3.1Value Added Tax (VAT) .....                   | 12 |
| 2.3.2 Excise Tax.....                              | 13 |
| 2.3.3 Turnover Tax .....                           | 13 |
| 2.3.4 Income Tax .....                             | 13 |
| 2.3.5 Business Profit Tax .....                    | 14 |
| 2.4 Electronic Tax Filing systems.....             | 14 |
| 2. 5 Empirical Reviews .....                       | 15 |
| 2.6 Research Gaps.....                             | 20 |
| 2.7 Conceptual framework.....                      | 21 |
| CHAPTER THREE .....                                | 22 |
| 3. RESEARCH METHODOLOGY.....                       | 22 |
| 3.1 Research Design.....                           | 22 |
| 3.2 Research Approach .....                        | 22 |
| 3.3 Population and Sample Size Determination ..... | 23 |
| 3.4 Data Source and Type.....                      | 23 |
| 3.5. Data Collection Instruments .....             | 24 |
| 3.5.1. Questionnaires.....                         | 24 |
| 3.5.2. Interview .....                             | 24 |
| 3.6 Data Analysis Techniques.....                  | 24 |
| 3.8 Reliability and Validity of the Data .....     | 25 |
| 3.9 Ethical Consideration.....                     | 26 |
| CHAPTER FOUR.....                                  | 27 |
| 4. DATA PRESENTATION AND ANALYSIS .....            | 27 |

|  |    |
|--|----|
| 4.1 Introduction.....                                    | 27 |
| 4.2 Demographic Information.....                         | 27 |
| 4.2.1 Sex.....   | 27 |
| 4.2.2 Age Distribution.....                              | 28 |
| 4.2.3 Educational Qualification .....                    | 29 |
| 4.3 Descriptive Analysis .....                           | 29 |
| 4.3.1 The Overall Practice of E-Tax Filling in MOR ..... | 30 |
| 4.3.2 Challenges of e tax filling in MOR.....            | 31 |
| 4.4 E Tax Filling in MOR.....                            | 40 |
| 4.5 Discussions .....                                    | 46 |
| CHAPTER FIVE .....                                       | 49 |
| 5. CONCLUSION AND RECOMMENDATION.....                    | 49 |
| 5.1 Conclusion .....                                     | 49 |
| 5.2. Recommendations.....                                | 50 |
| 5.3. Direction for Further Studies .....                 | 51 |
| Reference .....  | 52 |
| Appendixes .....   | 55 |

## List of tables and figures

|  |    |
|--|----|
| Figure 4.1 Sex of Respondents-----                       | 25 |
| Figure 4.2 Age Distribution-----                         | 26 |
| Figure 4.3 Educational Qualifications-----               | 27 |
| Table 4.1 Over All E .Tax Filing in MOR-----             | 28 |
| Table 4.2 Difficulty of E Tax Filling-----               | 29 |
| Table 4.3 about mental effort -----                      | 30 |
| Figure 4.4 Data Encoding -----                           | 31 |
| Table 4.4Effective Due to Forgetting Password-----       | 32 |
| Figure 4.5 about Errors of Filling -----                 | 33 |
| Table 4.5 Power Interruption -----                       | 33 |
| Figure 4.6 about Internet -----                          | 35 |
| Table 4.6 Internet System -----                          | 35 |
| Figure 4.7 Difficulty of E Tax Operation-----            | 36 |
| Table 4.7 Issues about e tax filling -----               | 37 |
| Table 4.8 Opportunities of e filling -----               | 39 |
| Figure 4.8 Credits and Tax Refund as Opportunities ----- | 41 |
| Table 4.9 about Penalty-----                             | 42 |

## Acronyms

|             |   |
|-------------|---|
| EGDI-----   | e-Government Development Index                        |
| ERCA -----  | Ethiopian Revenue and Customs Authority               |
| ESD-----    | Electronic Service Delivery                           |
| ESRM-----   | Electronic Sales Register Machine                     |
| ICT -----   | Information Communication Technology                  |
| INSA-----   | Information Network Security Agency                   |
| MOR-----    | Ministry of Revenue                                   |
| LTO -----   | Large Taxpayers Office                                |
| E-TAX-----  | Electronic Tax  |
| MIS -----   | Management Information System                         |
| MoCIT-----  | Ministry of Communication and Information Technology  |
| MoFED-----  | Ministry of Finance and Economic Development          |
| NPM -----   | New Public Management                                 |
| NRI-----    | Network Readiness Index                               |
| OECD-----   | Organization for Economic Cooperation and Development |
| OFAG-----   | Office of Federal Auditor General                     |
| SIGTAS----- | Standard Integrated Tax Administration System         |
| TCC-----    | Tax Clearance Certificate                             |
| TIN -----   | Tax Identification Number                             |
| VAT-----    | Value Added Tax                                       |
| WoP-----    | Withholding Tax on Payment                            |

## **Abstract**

*Electronic filing is the process of submitting tax returns via the internet. It allows taxpayers to file taxes from home at their leisure and returns refunds much faster than by filing paper tax forms. The goal of this study was to look into the prospects and challenges of e-filing major tax payers in Ethiopia. To accomplish this goal, descriptive study was conducted using a Likert scale questionnaire and interviews from the Ethiopian Ministry of Revenue Large tax payer's office. A systematic sample technique was employed on 260 tax payers. The data was analyzed and interpreted accordingly. According to the study, some of the practical challenges that taxpayers face when using e-filing include unreliable e-filing service, system inefficiency because it isn't fully operational, and e-filing isn't well supported by an e-payment supplementary system, so taxpayers are still forced to visit the tax office. The findings revealed that electronic tax filing systems improve tax payer satisfaction and save time by avoiding emotional stress caused by long lines, as well as making them more efficient and effective because they can administer their own taxes and create flexibility in recording tax credits and refunding tax at any time. The study advised that the tax authorities improve the quality of the system by offering an electronic registration, clearance, and payment method.*

Keywords: challenge, prospect, electronics tax and LTO

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1 Background of the Study

Governments today are under an increasing pressure to improve the delivery of public services in cost-effective ways. Despite numerous challenges most governments have turned to e-government led solutions like electronic tax filing (Mongwaketse, 2015). According to Alibasha J. et al (2016) explanation the digital revolution is began around 1990, with the advent of the internet and concomitant advances in processing capacity and data storage drastically altering the environment for ICT use across all sectors of society and government.

Electronic taxation (or e-taxation) is the deployment of computer systems and networks in the process of levying and payment of taxes. It involves the application of computer techniques in the process of tax assessment, collection and administration, generally referred to as e-payments and e-filing. Electronic taxation is an extension of the growing concept of e-governance and e-commerce. It involves the exchange of data through information communication technology systems between the taxpayer and the tax authorities. The objective of e-taxation "is to replace cumbersome manual, bureaucratic service systems, with collaborative, efficient, process-driven and secure on line delivery systems (Anna & Yusniza, 2009)

E-taxation was first introduced in the US by the IRS as an electronic filing test program involving five tax preparers. However, electronic taxation was fully entrenched in the US by the introduction of the Internal Revenue Service Restructuring and Reform Act 1998. The IRS adopted measures to ensure that all electronically prepared returns could be filed electronically and, by 2012, it had achieved more than 80% electronic tax filing. From the US, e-taxation has spread to other countries (Chanchal C. et al, 2013).

Government will lag behind in effective service delivery if it is not digitally enabled, just as businesses that fail to grasp the strong 'economic necessity of IT' would fall behind in an increasingly competitive world. Without adequate infrastructure investment and long-term e-

Government planning, Least Developed Countries (LDCs) may miss out on the critical benefits of e-Government in making public administrations more cost-effective, efficient, citizen-centric, and transparent.

In light of this worldwide trend, Ethiopia's National ICT Policy and Strategy aims to push the ICT sector energetically and increase its contribution to political, social, and economic transformation. Introduction and use of an e-Government system is regarded as a vital tool to modernize and streamline public sector management in order to promote efficient and effective delivery of public services as one of the document's strategic objectives (MOR, 2019).

## **1.2 Background of the Organization**

The ministry of Ethiopian Revenues (MOR) is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, the MOR is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border. The MOR traces its origin, 2008 as a result of the merger of the Ministry of Revenues, the Ethiopian Customs Authority and the Federal Inland Revenues into one giant organization.

The main objectives of MOR is to establish modern revenue assessment and collection system; and provide customers with equitable, efficient and quality service, to cause taxpayers voluntarily discharge their tax obligations, to enforce tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion, to collect timely and effectively tax revenues generated by the economy and to provide the necessary support to regions with a view to harmonizing federal and regional tax administration systems.

The organization's vision is to be a leading, fair and modern Tax Administration in Africa that will finance Government expenditure through domestic tax revenue collection.

The organization's mission is to contribute to economic development and social welfare by developing a modern Tax and Customs Administration that employs professional and highly skilled staff who promote voluntary compliance amongst individuals and businesses, and take swift action against those who do not comply.

### **1.3 Statement of the Problem**

According to an African Development Bank report published in 2018, Ethiopia's government is working to improve its domestic resource mobilization capacity by strengthening and fully implementing tax administration information systems and enhancing the Ethiopian Ministry of Revenues' institutional capacity by equipping it with modern technologies.

The government hopes to enhance domestic tax revenue by modernizing and capacitating the authority in order to fund its megaproject and other development priority areas. However, in order to achieve this goal, the government must embrace a variety of tax administration innovations that improve the tax authority's efficiency and effectiveness while also benefiting taxpayers by addressing some of the obstacles they confront with manual tax filing and cash payments (Ruta, Y., 2017).

Taxpayers filing their tax manually faces different challenges that includes time and movement-related costs to physically present tax filing documents and payment to the tax office, emotional stress faced particularly from long queues at the end of the month or end of fiscal year to file taxes, cost related to paperwork and environment-related costs that come along with the production of papers. Further to the above challenges faced by the taxpayers, the manual filing system also increases the cost of tax administration for the government, creates inefficiencies and other malpractices undertaken by the tax officer (Samuel, 2017).

The World Bank Group (2015), in its survey of Ethiopian business tax compliance burden, indicated that in-house tax compliance costs 11 person\days on filing activities during the end of the fiscal year and tax declaration. This, however, compared to other Sub-Saharan Countries, is the highest tax activity spend by businesses on tax filing.

Hence, to overcome some of the above challenges and modernize the tax system, the Ethiopian government has piloted the e-filing system in 2009 for both medium and large taxpayers through support obtained from the Investment Climate Facilitation for Africa (ICF) (Dawit, 2015).

In 2012, e-filing was fully implemented for large taxpayers. However, the uptake of the new model of filing tax online seemed not as expected by the government. MOR in its report of 2017 indicated that out of the total taxpayers, all categories included, only 5.1 % filed their taxes

using the new platform. This, compared to the investment that went to the building of the new platform infrastructure and efforts put into it, is a very small uptake.

Hence, it is necessary to look into this issue in a scientific method using research that addresses the challenges taxpayers place on the e-filing systems in Ethiopia. According to Kimea, Chimilila, and Sichone (2019), the continuous usage of e-filing is highly dependent on the taxpayers' performance expectancy, the risk associated with the technology and social influence from the peer. Furthermore, behavioral aspects such as perceived usefulness, social norms and perceived ease of use play a significant role in enhancing taxpayers' up taking of the new business model (Gupta et al. 2015; Azmi et al. 2012). Hence, the main aim of this research is to investigate the practice and challenges of e-tax implementation in Ethiopia in case of ministry of revenue large taxpayer's office.

## **1.4 Research Questions**

The basic research questions are:

1. What are the existing e-Government services being offered to Large Taxpayers
2. How are the policy frameworks of the country nurtured to develop and to enforce electronic service delivery?
3. What are the major practical challenges to the effective utilization of the e-filing system?
4. What are the major opportunities for LOT to fill their tax e-filing?

## **1.5 Objective of the Study**

### **1.5.1 General objectives**

The main objective of the study is to assess the exciting practical challenges of e-tax implementation in Ethiopia in case of ministry of revenue large taxpayer's office.

### **1.5.2 Specific Objectives**

Specific objectives to be achieved by end of the study include:

1. To identify the challenges of the e-tax filing system in the Ministry of Revenues large taxpayers.
2. To investigate the opportunities of to the effective utilization of E-tax filing in MOR
3. To access the legal conduciveness for e-Government in MOR
4. To assesses the existing e-Government services that offered to Large Taxpayers in MOR

## **1.6 Significance of the Study**

The study has lots of advantages for different bodies. First Apart from its academic value, this research becomes beneficial to the following parties:

For MOR, The study's findings are primarily intended to aid organizations ongoing efforts to improve tax administration reform. The evaluation and recommendations on existing internal work flows and service delivery modalities could also serve as a springboard or complement to MORs citizen-centric endeavor For High-Income Taxpayers: The study is thought to be one form of media via which the organization may express its voice and perspective on the tax administration burden, as well as communicate its degree of satisfaction and recommendations for the future.

## **1.7. Scope of the Study**

The study has the following scopes:

The thesis does not cover the technological aspects of e-Government. This comprises the amount of hardware and software infrastructure that MOR has.E-Government is an all-encompassing ICT solution that includes a variety of modalities. Ethiopia's E-Government policy is intended to target Government to Government (G2G), Government to Business (G2B), Government to Citizen (G2C), and Government to Employee (G2E) programs, according to the country's National ICT Policy and Strategy (2009). The focus of this research is on the Government to Business (G2B) mode of contact between the public and commercial sectors.Because of the significant contribution of Large Taxpayers (those with an annual sales turnover of more than birr 27 million) to the national domestic income, MOR established the Large Taxpayer Office in 2010/2011. This study focused mostly on the e-Government issues that the Large Taxpayers

Office has been dealing with (LTO). MOR serves the business community in the fields of Foreign Trade (import and export and tariffs services) and Domestic Tax Administration. The study focuses on MOR's domestic tax administration front end e-Service.

### **1.8 Limitation of the Study**

Basically this paper has a limitation of openness from the tax payer's side because they were not willing to give detail information about their taxation because they were presuming the student researcher as investigator of some organization. Second the time constraint the covid-19 impact affects the data collection mechanism most data were communicated via phone rather than direct dealing with the concerned body. Lack of skill and time were another constraint in this study.

Moreover, the study faced with a limiting factor from lack of willingness to provide full data (with the 'pretext' confidentiality' requirement) as well as availability of up-to-date and comprehensive primary data on the study variable. Effort was made to fill these gaps by using methodological triangulation from secondary sources, as there was also usually tendency by the interviewees to direct you to such secondary sources for further information or data

### **1.9. Organization of the Study**

The study is divided into five chapters, each of them were addressed in depth. The first chapter introduces the numerous significant components of the study, such as the study's background, problem statement, clarification of the general and specific study objectives, scope of the investigation, importance of the study, and study organization. The second chapter defines the most important terms. By focusing on prior research in this field and presenting the literature relevant to the topic, this chapter provides an insight into e- taxation issues and concepts. The third chapter which focus on methodology of the study and the fourth chapter focus on the data presentation and analysis part. The last chapter focuses on the conclusion and recommendation part,

## CHAPTER TWO

### 2. REVIEW OF RELATED LITERATURES

#### 2.1 Concept of Taxation

According to Tamami Matsuka (2006) Taxation refers to the process by which a government or taxation authority imposes or collects a tax from its citizens and businesses. Taxation is applied at all levels, from income tax to the goods and services tax (GST). In India, the central and state governments play a key role in taxation. The state and federal administrations have implemented significant policy reforms in recent years to streamline the taxes procedure and enhance transparency in the country. The Products and Services Tax (GST) was one such development, as it simplified the tax structure on the sale and delivery of goods and services in the country.

Academics and practitioners have spent a long time researching and experimenting with the phrase e-Government. In this section, an attempt is made to investigate the many features of e-Government in order to establish a theoretical framework that will guide the study. Various papers, books, surveys, models, and other materials were examined as part of this process. The findings of the literature review are presented in a way that demonstrates the concept's and practices historical evolution from traditional public administration to the modern digital era. Finally, conceptual frameworks and assessment/evaluation checklists are created for data gathering and analysis (Waweru F., 2013)

#### 2.1.1 Theory of Taxation

Taxation is an important part of any country's development process. Taxation is a tool for mobilizing, allocating, distributing, and stabilizing resources. Taxation also aids in the accountability of a government to its constituents. Governments are more accountable to make budget decisions that are transparent and accessible when they spend taxpayers' money (Joanna N., 2014).

Adam Smith as cited in Gebre W., (2006) outlined four tax concepts or canons. These principles are still considered to be the starting point of sound public finance. Adam Smith's

celebrated canons of taxation are: Canon of equality or ability, Canon of certainty, Canon of economy and Canon of convenience means that the tax should be levied at the time and the manner which is most convenient for the contributor to pay it.

- **Canon of equality or ability:** Canon of equality or ability is considered to be a very important canon of taxation. By equality we do not mean that people should pay equal amount by way of taxes to the government. By equality is meant equality of sacrifice that is people should pay taxes in proportion to their incomes. This principle points to progressive taxation. It states that the rate or percentage of taxation should increase with the increase in income and decrease with the decrease in income. In the words of Adam Smith: The subject of every state ought to contribute towards the support of the government as early as possible in proportion to their respective abilities that is in proportion to the revenue which they respectively enjoy under the protection of the State".
- **Canon of certainty:** The Canon of certainty implies that there should be certainty with regard to the amount which taxpayer is called upon to pay during the financial year. If the taxpayer is definite and certain about the amount of the tax and its time of payment, he can adjust his income to his expenditure. The state also benefits from this principle, because it will be able to know roughly in advance the total amount which it is going to obtain and the time when it will be at its disposal. If there is an element of arbitrariness in a tax, it will then encourage misuse of power and corruption. Adam Smith in this connection remarks: The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid all ought to be clear and plain to the contributor and to every other person.
- **Canon of convenience:** By this canon, Adam Smith the tax should be levied at the time and the manner which is most convenient for the contributor to pay it. For instance, if the tax on agricultural land is collected in installments after the crop is harvested, it will be very convenient for the agriculturists to pay it. Similarly, property tax, house tax, income tax, etc., should be realized at a time when the taxpayer is expected to receive income. The manner of payment of tax should also be convenient. If the tax is payable by cheques, the contributor will be saved from much inconvenience. In the Words of Adam

Smith: "Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it".

- **Canon of Economy:** The canon of economy implies that the expenses of collection of taxes should not be excessive. They should be kept as little as possible, consistent with administration efficiency. If the government appoints highly salaried staff and absorbs major portion of the yield, the tax will be considered uneconomical. Tax will also be regarded as uneconomical if it checks the growth of capital or causes it to immigrate to other countries, in the words of Adam Smith: "Every tax is to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state".

According to Mwansa, (2013) taxes help in reducing the gap between the rich and the poor (Inequality). Taxes also play a critical role in encouraging economic growth (Economic growth-reducing poverty). Furthermore, (Todaro, 2009) noted that tax revenue is currently the only reliable and sustainable source of government revenue unlike other sources such as debt, aid and remittances, which are not reliable as they are unpredictable and can thus be unsustainable Sources of revenue.

## **2.2 Brief History of Taxation in Ethiopian**

The coercive nature of taxes is a relatively recent phenomenon, according to tax history. The original concept of a tax was that it was a voluntary donation to the government's expenses, as evidenced by the Medieval Latin term *donum* and the English "benevolence." This view of the subject-government relationship evolved over time, with payment becoming more and more required until coercive taxation became the norm. Taxation is now compulsory in all civilized nations; where the rate or imposition is dependent on the taxpayer in any way, the tax takes the form of a fee or payment for contractual services (Gebre, W., 2006).

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

personal or agricultural income was difficult. As a result, indirect taxes (customs, excise, and sales) were used to fund the imperial government. For instance, in the early 1970s taxes on foreign trade accounted for close to two fifths of the tax revenues and about one-third of all government revenues, excluding foreign grants. At the same time, direct taxes accounted for less than one-third of tax revenues (Mesfin, M., 2012).

In 1976, the revolutionary government restructured the tax system, replacing agricultural income and rural land taxes with a rural land-use fee and a new tax on agricultural revenue. The government partially solved the tax collection problem that occurred during the imperial period by transferring the collection of agricultural fees and taxes to peasant associations, who were paid a tiny fraction of the money. Tax collections remained stable at roughly 5% of GDP in 1988/89, despite total revenue increasing dramatically to around 24% of GDP. Total revenue and tax revenue were 3% and 11% of GDP in 1974/75, respectively. Despite the 1976 tax reforms, the government believed that the agricultural income tax was underpaid, owing mostly to under-assessment by peasant groups. Export and import levies were imposed by the government. Addis Ababa imposed a 2% tax on all exports in 1987, as well as an additional export duty and a sur-tax on coffee. Customs tariffs and a 19 percent general import transaction tax were among the import taxes.

The government freed capital products from all import tariffs as part of a policy to encourage new capital investment. Intermediate commodities were taxed on a scale ranging from 0% to 35%, consumer goods on a scale ranging from 0% to 100%, and luxuries at a fixed rate of 200 percent. High taxation on certain consumer goods and luxury products fueled a thriving underground economy, with smuggling of certain imports, particularly booze and technological goods, playing a key role (Misrak T., 2008).

Despite the fact that revenue collecting systems were inadequate, the government kept tight control over current and capital spending. Procurement was overseen by the Ministry of Finance, which also reviewed ministries to ensure that expenditures were in line with budget authorizations. Current spending as a percentage of GDP increased from 13.2 percent in 1997/75 to 26.1 percent in 1998/88. The surge in defense and general service spending following the 1974 revolution was largely responsible for this expansion. Defense used about 60% of the budget during the Ogaden War in 1977-78, for example, when the Somali counteroffensive was

underway. After 1979, this percentage began to fall, albeit it remained greater than it had been prior to the revolution. Between 1974 and 1988, defense and government services accounted for roughly 40 to 50 percent of the budget. Until 1972/73, when an increase in educational outlays brought them to about 40%, economic and social services received less than 30% of government funding. Economic and social expenditures maintained at pre-revolutionary levels under the Dergue regime: agriculture received 2% of total expenditures, while education and health received an average of 4% and 4%, respectively.

### **2.2.1 The Ethiopian Tax Reform**

Ethiopia's government has undergone a substantial economic policy move from central planning to a market-oriented economic structure since 1992/93. A succession of tariff and tax reform initiatives has been implemented in response to this trend. The reasons for this were outdated tariff and tax laws; a lack of customs and tax administration; and the tariff and tax regime's failure to attract investment, facilitate trade, and generate sufficient revenue to cover current and capital expenditures, and thus finance development and poverty-reduction projects. The federal government and national revenue have benefited from a number of tariff and tax reform schemes. According to Ministry of Revenue data, Federal Revenue climbed to Birr 6.7 billion in 2002/03 from Birr 2.54 billion in 1993/94, resulting in an increase in federal revenue as a proportion of GDP from 8.97 percent to 11.87 percent in 2002/03. The slight increase in both direct and indirect taxes, particularly foreign trade taxes, is mostly responsible for the gain in revenue. In addition, from 10.9 percent in 1993/94 to 15.1 percent in 2002/03, national tax income as a percentage of GDP has increased. Despite a succession of reforms and income increases, the overall budget deficit, both with and without grants, has risen. The overall budget deficit without grants as a percentage of GDP, for example, has risen from -5.2 percent in 1996/97 to -14.5 percent in 2002/03. This demonstrates Ethiopia's poor revenue collection performance when compared to the rest of Sub-Saharan Africa, where revenue collection accounts for over 23% of GDP (Yohannes Mesfin & Sisay Bogale, 2013)

As a result of a succession of reductions in import tariffs, excise taxes, and income taxes, as well as a widening of the budgetary deficit, the introduction of a neutral and efficient tax, such as a VAT with a large tax base, was proposed. VAT (Value Added Tax) has become a key tax

mechanism around the world. The global trend of more countries implementing VAT is ongoing. In poorer nations, VAT has also become a necessary component of tax reform. Since January 2003, Ethiopia's tax reform scheme has included VAT. The superiority of the VAT over other common tax instruments such as the turnover tax is also due to its revenue performance, neutrality, and efficiency. The emerging conventional wisdom, which is based largely on experience and numerous country case studies, suggests that a single rate VAT (between 10% and 20%) with few exemptions and thus a broad base is preferable to a VAT with multiple rates and many exemptions, which reduces the base and complicates administration. Ethiopia's regular VAT rate of 15% with 10% equalization for services and 2% for commodities must be examined in the medium term to see if they can extend the tax base and collect substantial revenue (Yohannes&Sisay, 2013).

## **2.3 Major Types of Taxes in Ethiopia**

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

### **2.3.1 Value Added Tax (VAT)**

This is a sales tax based on the increase in value or price of product at each stage in its manufacture and distribution. The cost of the tax is added to the final price and is eventually paid by the consumer. The rate of VAT is 15% of the value for every taxable transaction by a registered person, all imported goods other than an exempt import and an import of services; The export of taxable goods or services to the extent provided in regulations for zero tax rate are: The export of goods or services to the extent provided in the regulation; The rendering of transportation or other services directly connected with international transport of goods or passengers, as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights;

The supply of gold to the National Bank of Ethiopia; and A supply by a registered person to another registered person in a single transaction of substantially all of the assets of a taxable activity or an independent functioning part of a taxable activity as a going concern, provided a

notice in writing, signed by the transferor and transferee, is furnished to the authority within 21 days after the supply takes place and such notice includes the details of the supply.

### **2.3.2 Excise Tax**

This is imposed and payable on selected goods, such as, luxury goods and basic goods which are demand inelastic. In addition, it is believed that imposing the tax on goods that are hazardous to health and which are cause to social problems will reduce the consumption thereof. Excise tax shall be paid on goods mentioned under the schedule of 'Excise Tax Proclamation No. 307/2002'(a) when imported and (b) when produced locally at the rate prescribed in the schedule. Computation of excise tax is applied (a) in the case of goods produced locally, production cost and (b) in the case of imported goods, cost, insurance and freight /C.I.F./. Payment of excise tax for locally produced goods is by the producer and for imported goods by the importer. Time of payment of excise tax for imported goods is at the time of clearing the goods from the customs area, and for locally produced goods it is not later than 30 days from the date of production.

### **2.3.3 Turnover Tax**

This is an equalization tax imposed on persons not registered for value-added tax to fulfill their obligations and also to enhance fairness in commercial relations and to complete the coverage of the tax system. Administrative feasibility considerations limit the registration of persons under the value-added tax to those with annual transactions to the total value exceeding 500,000 Birr. Rate of turnover tax is 2% on goods sold locally and 10% on others; as provided by the 'Excise Tax Proclamation No. 307/2002'

### **2.3.4 Income Tax**

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

- ✓ Income from employment;
- ✓ Income from business activities;
- ✓ Income derived by an entertainer, musician, or sports person from his personal activities;

- ✓ Income from entrepreneurial activities carried out by a non-resident through a permanent establishment in Ethiopia;
- ✓ Income from movable property attributable to a permanent establishment in Ethiopia;
- ✓ Income from immovable property and appurtenances thereto, income from livestock and inventory in agriculture and forestry, and income from usufruct and other rights deriving from immovable property that is situated in Ethiopia;
- ✓ Income from the alienation of property referred to in (e);
- ✓ Dividends distributed by a resident company;
- ✓ Profit shares paid by a resident registered partnership;
- ✓ Interest paid by the national, a regional or local Government or a resident of Ethiopia, or paid by a non-resident through a permanent establishment that he maintains in Ethiopia;
- ✓ License fees including lease payments, and royalties paid by a resident or paid by a non-resident through a permanent establishment that he maintains in Ethiopia.

### **2.3.5 Business Profit Tax**

Taxable business income of bodies is taxable at the rate of 30%. The taxable income of a taxpayer for a tax year is the total business income of the taxpayer for the year reduced by the total deductions allowed to the taxpayer for the year. Taxable Income= Business income - (deductions + exemptions). The taxable income of a taxpayer for a tax year is determined in accordance with the profit and loss, or income statement, of the taxpayer for the year prepared in accordance with the financial reporting standards, subject to any modifications made in the Proclamation, regulations made by the Council of Ministers, and directives issued by the Ministry. Thus the reader should consult these laws to identify the constituents of business income, deductions and exemptions in order to accurately calculate business income tax.

### **2.4 Electronic Tax Filing systems**

E-Filing is one of the E-government services that have been adopted by, many countries today where the public has to discharge their responsibility to the government, via online taxfilling (Alibashs, Kishore, & Naveen, 2016).E-Filing is a system for submitting tax documents to the

income-tax department through the internet or direct connection, usually without the need to submit any paper documents.

Various tax return preparation software with e-filing capability are available as stand-alone programs or through websites or tax professionals or from major software vendors for commercial use. e-File is the term for electronic filing, or sending your income tax return from tax software via the Internet to the tax authority. You no longer have to stand in long queues to file income tax returns (Meenal, Gjimt, & Mohali, 2012).

Jyothi Arora, (2016), E-filing of Income Tax Return in India, he analyzed in this study deals with the benefits, process, trends and highlights (ITRs) of E-filing among the residents of country. In the current world new information technology is being introduced very fast in all fields.

## **2.5 Empirical Reviews**

The benefits of employing e-filing for taxpayers, according to the (ERCA, 2016) LTO E-tax filing experience presentation. The taxpayer's information is secure and secret, so he can check his account balance online. Username and password must be unique. Save Time and money immediate declaration confirmation from the Ministry of Revenues and the taxpayers. More efficiency and effectiveness, increased openness and accountability, increased tax compliance and revenue collection are all advantages of electronic tax filing for the Ministry of Revenues. Improve data quality, eliminate errors, and reduce tax administration costs.

According to Joanna (2014), who conducted research on the implementation of electronic tax filing and payment in Malaysia, the E-tax filing system improves the quality and amount of information available to tax officers, allowing them to execute transactions faster and more accurately. Electronically filed returns have far lower error rates than paper returns, reducing the need for penalties and other punitive measures to encourage compliance. Tax officers can deliver assessments and refunds more rapidly thanks to the more efficient handling provided by electronic returns, and taxpayers can see right away if their returns have been accepted by the tax authorities. E-filing reduces the cost of tax preparation.

OECD (2003) Based on the study conducted that by using electronic filing system governments expect to achieve such gains as online data collection to reduce data entry costs and automate

error checking, reduce the communication costs with citizens, enhanced uniformity in the treatment of the applications, greater re-use of data, reduce government publication and distribution costs through online publication.

According to Gjimt, Meenal, and Mohali (2012) studies, electronic filing has the potential to dramatically improve tax services. Automatic error checking, expert tax guidance, and other services are frequently included in tax software, reducing the possibilities of an audit.

Kumar and Anees (2014) addressed the advantages of electronic tax filing for government officials, policymakers, current and potential taxpayers, e-filing intermediaries, financial software engineers, and academics. The article concentrated on the advantages that e-filing of income tax returns provides to various segments of society.

McCarten (2014) emphasized that for large taxpayers in order to accomplish its intended goal(purpose), countries should work towards, among other strategic interventions, reducing the potential for corruption by automating and restructuring control systems and simplifying and reducing paper handling through the appropriate use of electronic filing.

Ragupathi et al., (2015) studied the overall experience and awareness level of tax payers towards e- filing. Descriptive research method had been used in the present study to analyze the data.

Wang, Yi-Shun (2003). The Adoption of Electronic Tax Filing Systems: An Empirical Study. He explained that the benefits, treads and highlights (ITRs) of E-filing among the residents of the country. E-filing Income tax return using internet is a gift to a tax payers.

A study of Technology Acceptance Model (TAM) presents perceived credibility as a new element that indicates utilization of the E-tax filing system, using the Technology Acceptance Model (TAM) as a theoretical framework. Overall, the effects of e-filing are bigger in nations with higher levels of development, and they are qualitatively similar when we control for indicators of a country's ease of doing business.

According to the World Bank Doing Business, (2014) Sub-Saharan economies face particularly difficult challenges with implementing electronic systems for filing and paying taxes. These economies are also characterized as part of the world where citizens face limited broadband access, power shortages, slow network speeds, and system failures.

Dwilson (2014) on his study on the disadvantages of electronic filing says another challenge with e-tax filing is its inability to provide automated online assistance to a taxpayer with a complex income structure. Therefore for such taxpayers trying to get help on a complicated tax question from a website help-desk may not be nearly as useful as getting help from an inperson tax professional.

Studies by Sweeny, Yilmaz& Coolidge (2014) stated some costs of tax e-filing. For taxpayers, additional capital may be needed to invest for e-filing in order to put the system in place. This may entail purchasing of hardware and connectivity to internet. If the costs are high, it is likely that they affect e-filing adoption in the short-run; in the long run the accumulated benefits outweigh these costs.

Tan & Foo (2012) on their study risk perception could significantly influence the taxpayer's or users' intention to use it. The most widely known risk that everyone refers to is the lack of internet security. Another risk (Tan & Foo,2012) talks about the possibility that confidential personal information could be intercepted and stolen by fraudsters during transmission. Therefore, in this case, taxpayers demanded an assurance for the security of their systems, especially on the internet.

There's resistance to the use of e-filing (Ling, 2008) confirms this by saying that many studies around the world have shown the taxpayer's resistance to the use of the e-filing system, hence it is a big challenge to the authorities.

According to the ERCA, (2016) LTO E-tax Filing experience Presentation e-filing is not error-free and some problems can arise from using this method of filing taxes. Some challenges for using e-filing are identity theft, internet cost, computer, and internet interruption at the time of the due date and filing but not paying.

Tamami (2006) on his thesis done in Washington, D.C. titled An analysis of the effect of electronic filing on individual income tax compliance stated that since there is no perfect system anywhere, there should be a helpline and other forms of real-time support for taxpayers who may encounter problems in using the system. Also, there should be a detailed help manual on how to complete tax forms.

Furthermore, Palmer (2002) electronic tax filing systems can be evaluated in terms of usability, design and performance including download delay, navigability, site content, interactivity, responsiveness, user satisfaction, the likelihood of return to the website and frequency of use. When it comes to the decision whether to use or not to use e-filing, many factors play a role, such as taxpayer knowledge, attitude, experience, environment, etc.

Taxpayers with specific traits are more likely to use e-filing, according to Coolidge and Ylmaz (2014). They argue that large enterprises located in metropolitan areas, operating in capital-intensive industries, and paying numerous taxes [such as income tax, VAT, payroll taxes, and excise taxes] are the most likely to adopt e-filing. As a result, taxpayers in the high income group who have a complicated income structure are likewise more likely to e-file. Taxpayers' filing decisions are influenced by the availability of reliable Internet access and energy, as well as their computer skills, awareness of e-filing, and knowledge of the process.

Mohammad & Mukeesha (2017) on their study reveals that some users are less satisfied with the e-filing facilities but most of the individual taxpayers are not aware of the e-filing and e-payment procedures so sufficient steps are required to create more awareness in the minds of taxpayers regarding e-filing of income tax.

According to Rajeswari & Susai (2014) concluded that the foremost problem faced by many tax Payers is Network problems during peak hours and the second one is Computer illiterate and so to be subject to on others. Other important problems faced by the respondents are Delay in execution, Lack of experience and knowledge to e-file, not trusting e-filing, not having a clear idea of using e-Filing, The last one is difficult to remember the Reg. No/ Password.

De Castro, et al., and (2015) Investigated Perceived benefits on using the Electronic Filing and Payment System (EFPS) and the respondent's intention to use the system are usually affected by their perceived risks and problems. Mamta (2012) explained that the felt it easy to use e-filing system. To investigate whether the tax had encountered any problems/ (or facilities) in using the e-filing system. To analyze the situation, 300 respondents and their result were recorded. It can be concluded that majority of the tax payers have own enough facility to use e-Filing system at home or at the workplace and ease of use is the most important reason to file returns online.

Acceptance of electronic mode of submitting returns by South African tax payers: A study by Jankeepsad and Nienaber (2016). To explore the possible causes of taxpayer acceptance of the e-Filing system, an exploratory study used the deconstructed theory of planned behavior with components altered particularly for South Africa as a developing country. The research was exploratory in nature and was conducted through a questionnaire survey. The most important hurdle to e-Filing usage for taxpayers using the manual way was a lack of facilitating conditions like as access to computers and internet resources, whereas taxpayers using the electronic approach had no such issues reported perceived usefulness as the primary determinant in their decision to use e-Filing.

According to Fortune (2013), ERCA's highly manual tax system has spent a significant amount of its payroll budget on handling paper returns and transcribing data to machinereadableform. Fortune (2015) e-tax filing was introduced, which ERCA has been implementing for both large and medium taxpayers, was installed in 2009 by CRC Sogema, a consulting firm based in Canada, with 90,000 dollars financial support from the Investment Climate Facilitation for Africa (ICF).

E-file is under the e-tax project of Ministry of revenues, which seeks to automate all tax filing in the country by allowing taxpayers to declare their taxes remotely through [www.erca.gov.et](http://www.erca.gov.et). The large taxpayer uses the electronic tax filing system, the tax declarations page to manage all his tax declarations service. A status mechanism allows him to view the progress of his filing. The possible tax types included in the electronic tax filing system service are Schedule C: Normal (Business Income Tax), Schedule D: Gain on Share, Schedule D: Dividends, Value Added Tax (VAT), Withholding Tax on Payment and (WoP) and cost-sharing declaration.

At ERCA LTO, Samuel (2015) conducted research on how successfully e-Government is recognized and implemented as a strategic solution to address such flaws in existing tax administration systems. ERCA has been putting money towards reforming its tax administration. The improvements undertaken, however, are not in line with the national e-Government plan, focused solely on reaching roughly 1,000 significant tax payers (rather than the potential capacity to expand the tax base), not striving for holistic e-Government, and are mostly piecemeal. Large taxpayers' overall satisfaction with ERCA's website as a key source of one-stop purchasing gateway is also found to be only 52 percent. In terms of e-government maturity,

ERCA is in its early stages, with the majority of its e-Services being informational (static) rather than transactional. Benchmarking ERCA's e-Services against those of selected Sub-Saharan African countries revealed that much work remains to be done in order for ERCA's e-Service to progress to the point where all of its services are integrated in a seamless manner, fiscal transparency is improved, knowledge management (for example, to combat tax evasion) is optimized, and e-Payment complements e Filing. To address these findings, the report suggests a more substantial transformational change, rather than simply automating current processes, towards the upper stages of e Government led by a chief executive officer.

Ruta (2017) published a study paper titled "Assessing E-tax Filing System in Selected Ethiopian Revenues and Customs Authority Branch Offices" (ERCA). A review of relevant literature was conducted, and primary data was collected using a Likert scale questionnaire approach. The descriptive analysis was used to analyze the data. The findings highlighted challenges such as the attitude of the taxpayer, the taxpayer's culpability, and governmental issues, as well as benefits such as data processing, correctness, work performance, and tax compliance. Furthermore, the study discovered that electronic tax filing and tax compliance have a positive link. The report advised that the company handle power interruptions.\

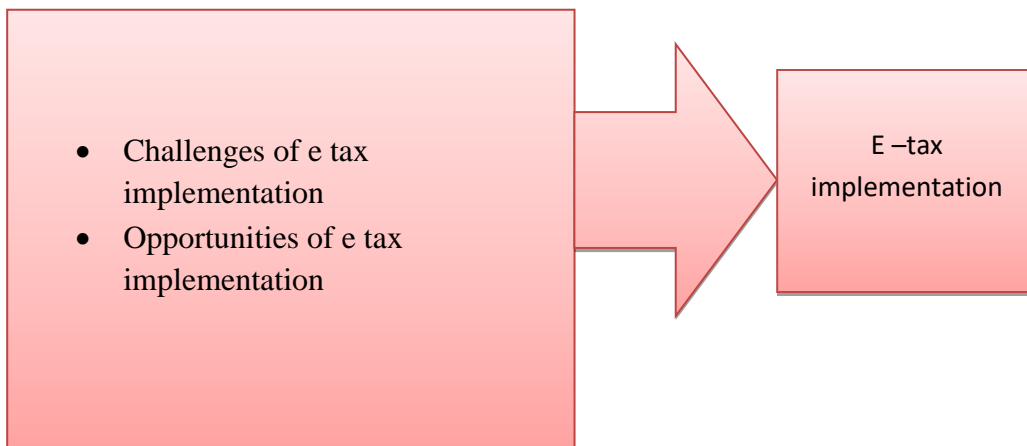
## **2.6 Research Gaps**

Most of the studies discussed above shows that there exist challenges and benefits of electronic tax system. However, most of these studies were conducted outside of Ethiopia. In Kenya, especially in Kenya Revenue Authority, different studies have been done on the subject of technology and tax compliance with specific reference to tax filing. As per knowledge of the researcher, In Ethiopia's context, electronic tax filing system has been addressed by few studies such as Practice, Challenges, and Prospects of e-Government; the case of ERCA (Samuel, 2015), Information technology and fiscal capacity in a developing country: evidence from Ethiopia (Merima et al., 2014) and Factors Influencing taxpayers' compliance with the tax system: An empirical study in Mekelle City, Ethiopia (Tadesse et al., 2014). Most of the studies carried out discussed taxpayer's perception instead of the tax authority. Therefore, this study is motivated because of the absence of studies in the area of benefit and challenges of e-tax filing system in Ethiopian Revenues and Customs Authority (ERCA) and seeks to fill the gap.

## 2.7 Conceptual framework

Based on the above theoretical and empirical review the researcher developed the following conceptual framework. In the conceptual framework the challenges and opportunities of e-tax implementation were deeply explored as the following picture showed that.

Figure 2.1 Conceptual Frameworks



Source: Developed For the Study, 2021

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

In this chapter, all research methodology, procedures are discussed. Such as research design, research approach, study population and samplings. Data type and data sources, data analysis techniques and ethical consideration are discussed.

#### **3.1 Research Design**

This paper applied descriptive research. Descriptive research the aim is to accurately and systematically describe a phenomenon. It can answer the question when, where, what, and how. Descriptive research can use a wide variety of research methods to investigate one or more variables it also don't want the researcher to manipulate any of the variables but only observes and measure them. (Kothari, 2004).

The researcher attempted to investigate the practices and Challenges of E-Tax Implementation in Ethiopia in Case of Ministry of Revenue (MOR) Large Taxpayers Office. The researcher in this study examines the primary obstacles to the E-Tax Implementation as well as the available practices or opportunities in the ministry of revenues.

#### **3.2 Research Approach**

A research strategy is a plan and technique that includes everything from general assumptions to specific data collecting, analysis, and interpretation methods. As a result, it is determined by the nature of the research problem being addressed (Kothari, 2004).

In this study, both approached or qualitative and quantitative approached were employed at the same time. As a result, it's a hybrid method. The researcher employed interviews in the qualitative technique, and questioners in the form of Likert scales in the quantitative approach. The researcher prefers to employ both qualitative and quantitative approaches since one approach leaves a gap that the other fills.

### 3.3 Population and Sample Size Determination

This study investigated the practices and Challenges of E-Tax Implementation in Ethiopia in Case of Ministry of Revenue. According to ministry of revenue report there are 770 total large tax payers in Addis Ababa. The population is homogeneous due to this systematic sampling techniques were applied.

Since the total populations of the study are 770, therefore by using Yamane formula the researcher determines the sample size. As follows

$$n = \frac{N}{1 + N(e^2)} = \frac{770}{1 + 770(0.05)^2} = 263$$

### 3.4 Data Source and Type

In terms of data sources, the researchers' employed both secondary and primary data sources. The major source was large tax payer's revenue offices in ministry of revenue that located in Addis Ababa. In addition to this, Primary data was gathered from informants who are employees of ERCA that are grouped in job categories and include: E-tax and data encoding officers, managerial and administrative and customer service workers. As to the secondary data, ERCA's website, reports and other related documents were consulted in order to seek information about the e-tax filing practice of the branch offices, the experts of Website Developers.

In terms of data types, the researcher used cross-sectional data. It's a form of data that's collected only once from participants using any data gathering instrument. Additionally, the researcher gathered secondary data from a number of businesses. As a result, the study's primary secondary data were reports, journals, and articles related to the research topic.

### **3.5. Data Collection Instruments**

The data collection instruments which used to collect the necessary information regarding the Practice and Challenges of E-Tax Implementation in Ethiopia in Case of Ministry of Revenue (MOR) Large Taxpayers Office are questionnaires and interviews. The primary data of this study were collected using a structured self-administered five point Likert scale questionnaire. The questionnaire had five sections. The first section composed questions which ask about the general information of the respondents. The remaining sections included close-ended questions to determine the level of agreement or disagreement of employees about the different issues related to e-tax filing's benefits, challenges and it's relation with tax compliance. Regarding the secondary data the researcher used reports, journal and of the study area.

#### **3.5.1. Questionnaires**

Questionnaire is a fairly reliable tool for gathering data from large diverse varied and scattered social group. The questionnaire has close that is in the form of Likert scale and open ended parts. After the sample selected the questionnaire were distributed to the selected respondents to gather primary data.

#### **3.5.2. Interview**

An interview with 2 professionals from ministry of revenue was conducted to acquire further information on the subject. All of the interview questions were written in a standardized open-ended manner that allowed the researcher to easily manage them, focus on issues, and limit the interviewee's options for a way out. The questioners are also placed in such a way that the goals are prioritized.

### **3.6 Data Analysis Techniques**

After the data collects, data presentation and analysis is the necessary step. The information which collected from both primary and secondary data sources through review of different documents and interviews, personal observations as well as questionnaire survey were organized and narrated

After the Data collected by questionnaires, then they were summarized, edited, coded, tabulated and analyzed. Editing was done to improve the quality of data for coding.

The data which collected by structured questionnaire were coded and analyzed using Statistical Package for Social Sciences (SPSS) 23 version software. The researcher used descriptive analysis such as frequency, percentage, mean and standard deviation.

### **3.8 Reliability and Validity of the Data**

According to Leedy et al, (2005), validity is the ability of an instrument used to measure what it is designed to measure. They further explained two basic questions: does the study have sufficient control to ensure that the conclusions the researcher draw are truly warranted by the data and can the researcher use what he/she has observed in the research situation to make generalization to the population beyond that specific situation? The answers to these two questions address the issues of the content validity, internal validity and external validity.

The easy way to describe internal validity is the confidence that one can place in the cause and effect relationship in a study to check whether there could be an alternative cause, or causes, that explain the observations and results or not. Though the dependent variables have other wide ranges of factors as independent variables, the researcher maximize the internal validity by focusing on individual's perception which were not examined in the previous studies and set up strong controls to isolate other factors by asking open ended questions to get the major extraneous variables and control their effect on the independent variable.

External validity is the generalizability of the research, that is, ability of its conclusion to be validly extended from the specific environment in which the research study is conducted to similar "realworld" situations. Externally valid research with generalizable conclusions is obviously more valuable than externally invalid research, whose conclusions are restricted to specific research settings in a given study.

Regarding Reliability, Cronbach's alpha measured how well the set of statements measured the constructs. Cronbach's alpha determines reliability. Reliability comes to the forefront when variables developed from summated scales are used as predictor components in objective models. As shown in the table below see (table 3.1), each items (questions) under the study

shows a good and acceptable reliability. Therefore, the result indicated that the questionnaire of the study was internally consistent by 81.1 percent.

Table 3.1 Reliability Test

| Reliability Statistics |            |
|------------------------|------------|
| Cronbach's Alpha       | N of Items |
| .811                   | 26         |

Source: Survey Result, 2021

### 3.9 Ethical Consideration

During data collection, respondents were informed as to why the data collected. They were informed about the objectives of the study and the privacy of respondent kept safe. Moreover, respondents expected to provide their response voluntarily. Finally, any works of scholars were acknowledged at reference part

## CHAPTER FOUR

### 4. DATA PRESENTATION AND ANALYSIS

#### 4.1 Introduction

This chapter explains how to present, analyze, and evaluate data collected from taxpayers. The benefit and user difficulties of the Ethiopian Ministry of Revenues Large taxpayers' e-tax filing system were assessed using data collected and analyzed. In this research, a total of 263 questionnaires were distributed to the responders and only 240 of them were returned back. That indicates the response rate was 91.2 percent, which is considered acceptable for future investigation or analysis. The research was based on primary data and secondary data. This section gives information about the respondent's demographic information regarding their sex, age category and level of education with the e-tax filing. In short in this chapter, demography of respondent, descriptive statistics, data tests and inferential analyses were conducted.

#### 4.2 Demographic Information

The demographic feature which assed in this study are the following. Thus are gender, age, education, their working position and experience. Each characteristic were explained one by one here under

##### 4.2.1 Sex

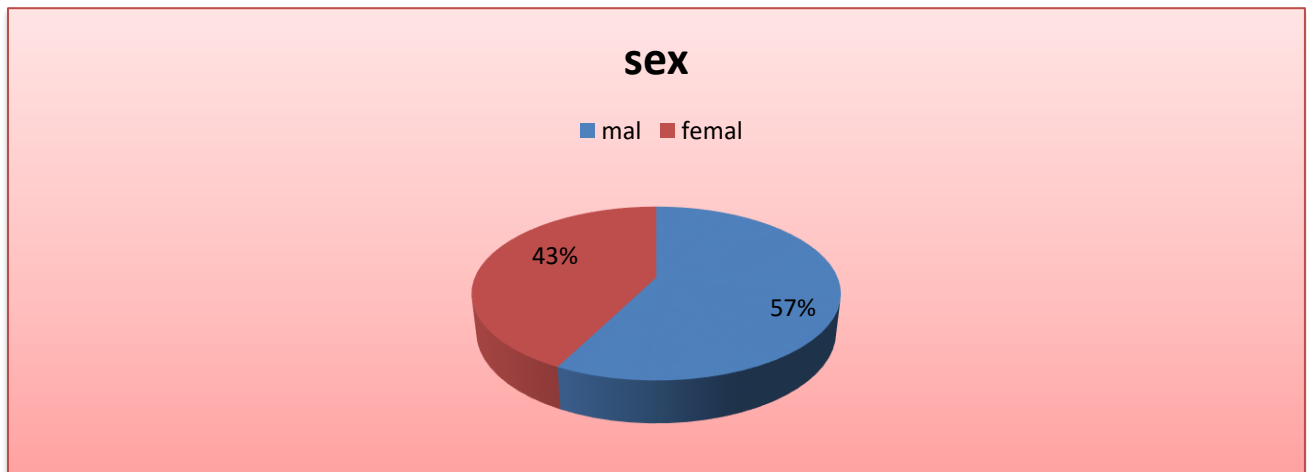
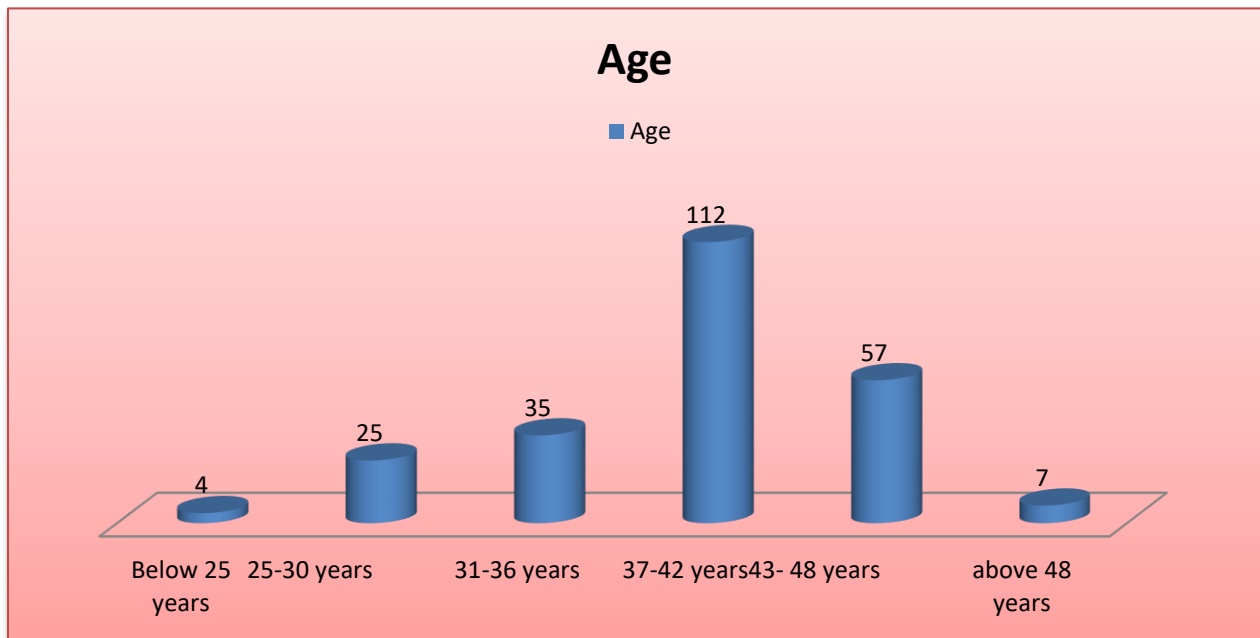


Figure 4.1 Sexes of Respondents

The study involved gender distribution of respondents in order to answer the questionnaires provided as shown on the above figure. The above figure portrays that respondents of male and female answered the questionnaires distributed. Out of 240 respondents 57% were male while 43 % were females. This indicates that majority of the study participants were male in the study period. This implies that the male population of the large tax payers has the chance to be represented in every matter.

### 4.2.2 Age Distribution

Figure 4.2 Age Distribution



Source: Survey Result, 2021

In this study, age of the respondents was considered as demographic factor of the study. The study explains the Practice and Challenges of E-Tax Implementation in Ethiopia in Case of Ministry of Revenue (MOR) Large Taxpayers Office. When we look at the age group of respondents, the numbers of participants below 30 become 29 or 12 percent. From 31 up to 42 become 147 or 61.25 percent; from 43 up to 48 become 64 or 26.6 percent. As the above table indicated that participants were distributed in the whole age group

### 4.2.3 Educational Qualification

Looking at level of education, the following figure depicts the distribution. In the figure 18 percent were certificate level, 47.9 percent were college diploma in various fields, 23 percent were university degree or first degree and the remaining or 27 of the participants were above master and above master. The following figure shows it graphically.

Basically the implication is education is not means to be tax payer but it is sufficient enough to understand the questionnaire and give relevant information for the study.

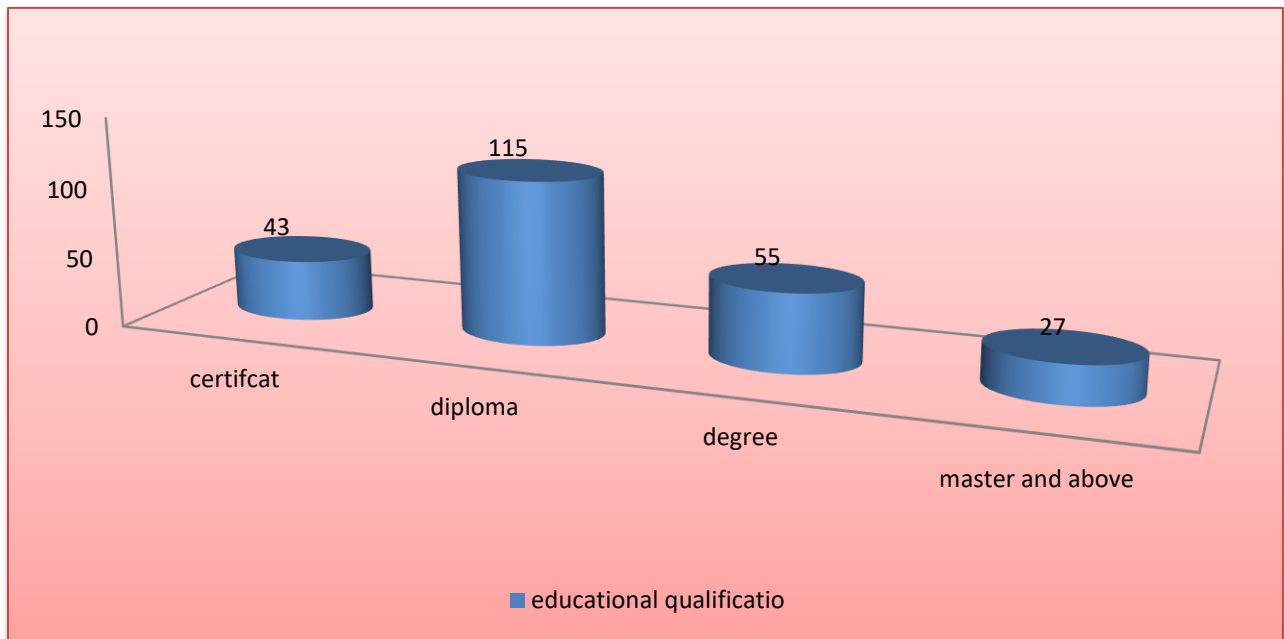


Figure 4.3 Educational Qualification

### 4.3 Descriptive Analysis

Individuals and corporations pay direct and indirect taxes to the government in order for the government to be able to fund social projects. The government's revenue is made up of these two tax collections. There are two sorts of revenue receipts non-tax revenue and tax revenue. The income obtained by the government through taxing is referred to as tax revenue.

Here under is the practice of large tax payers in Addis Ababa via paying their tax electronically and the challenges and prospects were presented here under.

### 4.3.1 The Overall Practice of E-Tax Filing in MOR

Here under is the respondents answer on the issues of convince and pleasantness. The mean score of their answer regarding convince and pleasantness is come 3.5. This high mean indicated that participants were interested in using e filling. The following table showed there average perception about its overall goodness and connivance.

To criteria to interpret the mean the following table is applied

| No | Mean       | Description   |
|----|------------|---------------|
| 1  | 1.00-2.400 | Disagree/poor |
| 2  | 2.500-3.4  | Modest        |
| 3  | 3.400-5.00 | Agreed/ good  |

Table 4.1 Over All E .Tax Filing in MOR

|   | N     |         | Mean   | Std. Deviation |
|---|-------|---------|--------|----------------|
|   | Valid | Missing |        |                |
| Experience of e-tax filing Good and pleasant      | 240   | 0       | 3.5625 | .83105         |
| Experience of e-tax filing Good Convenient        | 240   | 0       | 3.5000 | .87742         |
| Experience of e-tax filing Unpleasant and tedious | 240   | 0       | 2.6458 | 1.36129        |
| grand mean  |       |         | 3.2361 | 1.02326        |

Source: Survey Result, 2021

In the open ended participants point out the only drawback with the online tax filing procedure is collecting the tax payment receipt, which needs physical presence at the tax office but in the interview participant reveled as the Ministry of Revenues has stated that receipt collection will be integrated into the digital system.

In addition to the above the interviewed revealed that

*In September 2020, the Ethiopian Customs Authority launched an online service, removing the requirement for clients to physically visit customs facilities. To that purpose, the Authority has given its entire staff across the country video training. Customers can now upload relevant documents online and acquire the requisite documentation for clearing products, resulting in significant time, cost, and service satisfaction savings for both the Authority and the customers.*

According to a new report from the African Development Bank (ADB), the Ethiopian government's adoption of computerized tax registers has resulted in a large rise in tax revenue. Value added tax (VAT) receipts have climbed by roughly 32% since the minister of revenue began encouraging businesses to adopt new "e-cash" registry machines, according to the bank, with differences by areas of activity, company size, and location. "Tax collection in Ethiopia has improved as a result of recent tax policy measures, particularly the introduction of e-cash registers.

In the open ended participations point out the following issues about e tax filling in Ethiopia?Ethiopia's Ministry of Revenue plans to fully collect revenue from significant tax payers via an electronic payment system as part of its modernization efforts. The e-tax payment system, which has been in pilot mode for nearly a year with 11 enterprises, is set to become live soon. The e-tax payment system was tested on the system of the Commercial Bank of Ethiopia, a state-owned financial institution that controls more than half of Ethiopia's banking market. And all participants were interested to pay their tax via electronically via taking the above companies as role model to the business community.

### **4.3.2 Challenges of e tax filling in MOR**

According to Abera, T.,(2019)Tax policy and administration, as well as taxpayer compliance and government enforcement, all influence the level of tax collections in an economy. In recent decades, advances in information and communication technology (ICT), both for electronic filing and payment of taxes, have presented many opportunities for revenue bodies to increase government revenue, improve efficiency, and improve the quality of services provided to taxpayers, all while lowering taxpayer compliance burdens and government administration costs.

Here under is the challenges of e tax were presented in ministry of revenue large tax payers. The first question was how difficult is to operate the e tax software in Ethiopia.

Table 4.2 Difficulty of E Tax Filling

| <b>E-tax filing is difficult to operate</b> |                |           |         |               |                    |
|---|----------------|-----------|---------|---------------|--------------------|
|   |                | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid                                       | Disagree       | 16        | 6.7     | 6.7           | 6.7                |
|   | Modest         | 84        | 35.0    | 35.0          | 41.7               |
|   | Agree          | 85        | 35.4    | 35.4          | 77.1               |
|   | Strongly Agree | 55        | 22.9    | 22.9          | 100.0              |
|   | Total          | 240       | 100.0   | 100.0         |                    |

Source: Survey Result, 2021

In the above table 41 percent of the respondent states that e tax filling is not difficult but the remaining 58.3 percent of the participants accept that e tax filling is difficult. In order to assess the difficulty the researcher asked whether it needs mental effort or not. The following table showed the need for mental effort in filling e tax system.

Table 4.3 about mental effort

| <b>E-tax filing requires a lot of mental effort.</b> |                   |           |         |         |                    |
|--|-------------------|-----------|---------|---------|--------------------|
|  |                   | Frequency | Percent | Percent | Cumulative Percent |
| Valid  | Strongly disagree | 18        | 7.5     | 7.5     | 7.5                |
|  | disagree          | 51        | 21.3    | 21.3    | 28.8               |
|  | modest            | 90        | 37.5    | 37.5    | 66.3               |
|  | agree             | 39        | 16.3    | 16.3    | 82.5               |
|  | Strongly agree    | 42        | 17.5    | 17.5    | 100.0              |
|  | Total             | 240       | 100.0   | 100.0   |                    |

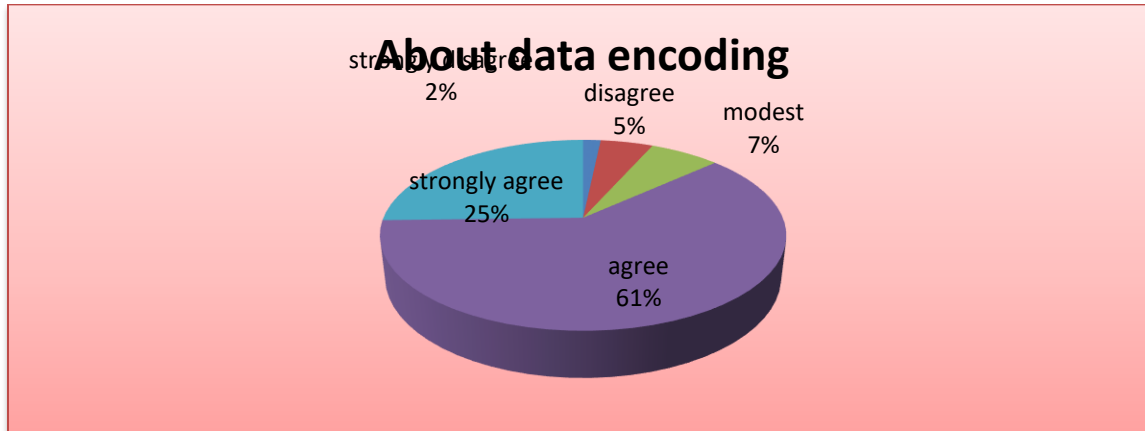
Source: Survey Result, 2021

As the above table showed that the e tax filing system was not demand high mental effort. As we can from the table 66.3 of the participant revealed that the system do not demand any mental effort but the remaining 33.7 percent were suggest as it need some mental effort

In the interview the interviewed revealed that the system needs the skill to fill it and to know the vouchers and recites to be filed in the system.

Regarding the data encoding the following figures showed what existed the MOR large taxpayers.

Figure 4.4 Data Encoding



Source: Survey Result, 2021

Regarding the effectiveness of data encoding and its aggregate result 86 percent of the participants perceived that the mistake in data encoding causes low effectiveness in e tax filling, to crosses check the statement the researcher interviewed the LOT officers and he revealed the situation as follows.

*We as beginner of the system we have a relatively high take-up of electronic services often employ a multi-pronged approach to encourage taxpayers to use the system. We use an Information campaigns by using a range of channels are an important part of a revenue body's strategy. Incentives (such as faster reimbursements of unpaid taxes and longer filing periods) appear to have an important role in encouraging a high rate of participation, particularly in the case of the large tax payers. Furthermore we assigned tax professionals, who helps the tax payers and they widely consulted and regulated by the assigned professional in MOR*

A study done by DagnachewTesfaye (2018) point outs key hurdles in adopting and developing an E-Tax system are a lack of customer knowledge, network infrastructure limitations, and internet-related support services. The study found that adopting and creating an E-Tax system

has operational and service benefits, such as increased productivity, reduced paper work, lower transaction costs, increased reliability, and reduced errors. Among the various motivators for ERCA to implement the E-Tax systems are: a desire to improve client relationships, Desire to improve the organization's reputation, as well as the desire to keep tax payer information secure

The other point which listed out as the issue of the password and the Systems' user friendly nature and the participant depicts their perceptions follows.

Table 4.4 Effective Due to Forgetting Password

|  | N     |         | Mean   | Std. Deviation |
|--|-------|---------|--------|----------------|
|  | Valid | Missing |        |                |
| E-tax filing is less effective because taxpayers forget their password | 240   | 0       | 3.4792 | 1.10134        |
| System not user friendly   | 240   | 0       | 3.5792 | 1.03596        |

Source: Survey Result, 2021

Regarding the issues of password, most or mean of 3.4 participants were revealed as it have a contribution for the less effectiveness of LOT in MOR while in case of its user friendly nature most participants were remark as it is not user friendly to the tax payers.

In the interview the interviewed revealed the issues about password and its user-friendly nature of the system

*Because most taxpayers only access their e-tax filing account once a year, they are likely to forget their password. Accessing one's income tax e-filing account and, as a result, filing one's income tax return will be impossible without this password. The LOT office on the other hand, has provided people with four alternatives for recovering their password. Answering the secret questions entered while creating the password, using one Time Password. OTP, uploading the digital signing certificate, or utilizing Mobile OTP PIN can all be used to recover the password.*

Regarding the errors and power interruption the participant revealed the following fact.

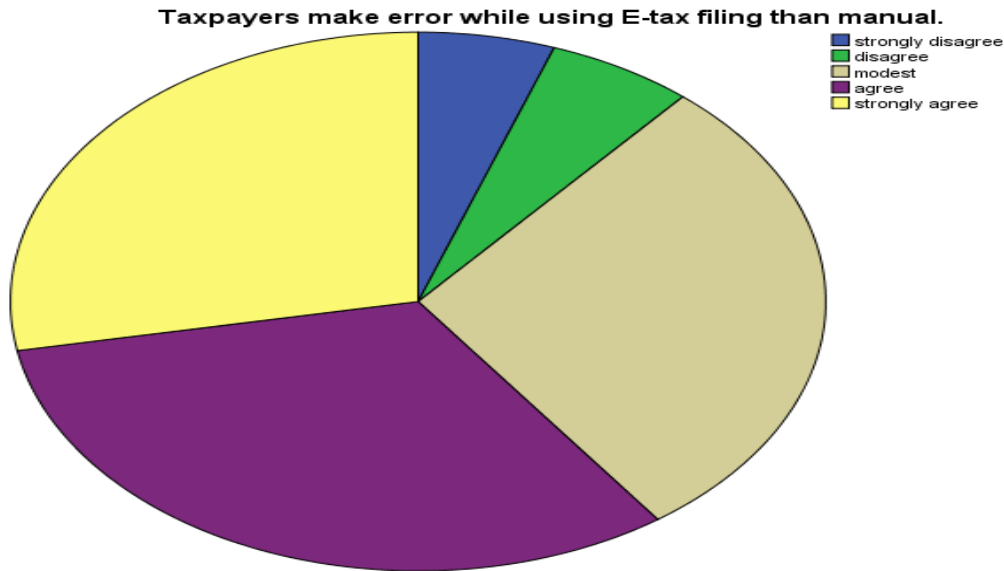


Figure 4.5 about Errors of Filling

In the above figure regarding the frequency and intensity of errors the participants categorized as strongly disagree become 5.4 percent, disagree becomes 5.8 percent, modest becomes 28.8 percent agree becomes 32.1 percent and strongly agree becomes 27.9 percent. In this case most percipients or 88.8 percent of a total were perceived that as it creates a mistake in filling tax.

A study done by Alibasha, J et al., (2016) asserted that Compatibility requirements and technological difficulties may vary per online tax filing application. To submit an electronic return, fillers need a computer or mobile device with Internet connectivity that's compatible with preferred tax filing website, computer software, or mobile app. Electronic tax filing and submission may be more confusing than paper filing for those who are not computer skilled.

In case of power interruption the following table summarized the case as follows.

Table 4.5 Power Interruption

| Power interruption makes E-tax filing less effective. |                   |           |         |               |                    |
|---|-------------------|-----------|---------|---------------|--------------------|
|   |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid   | strongly disagree | 4         | 1.7     | 1.7           | 1.7                |

|                |     |       |       |       |
|----------------|-----|-------|-------|-------|
| disagree       | 44  | 18.3  | 18.3  | 20.0  |
| modest         | 64  | 26.7  | 26.7  | 46.7  |
| agree          | 84  | 35.0  | 35.0  | 81.7  |
| strongly agree | 44  | 18.3  | 18.3  | 100.0 |
| Total          | 240 | 100.0 | 100.0 |       |

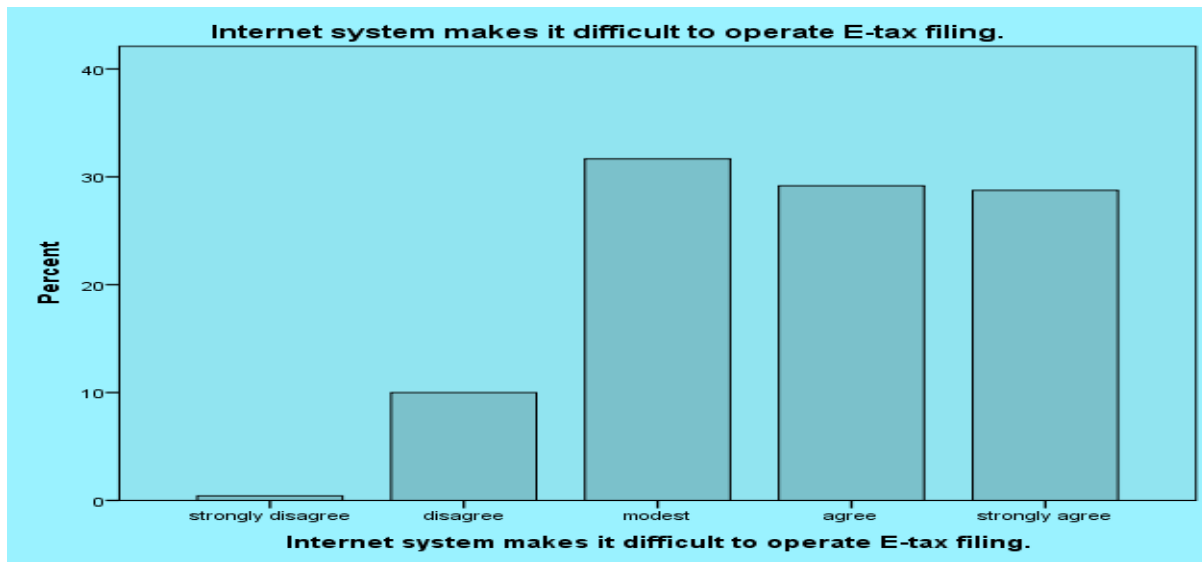
Source: Survey Result, 2021

As the above table showed that 46.7 percent of the participants were become disagree and modest regarding the impact of power interruption but a significant part or 53.3 percent was interrupted by power in filling their tax.

A study done by Anna &Yusniza, (2009) concerned, E-filing requires a tax filer to put their trust in the security of their internet connection, software, and data-storage hard drive, among other things. Despite this, electronic systems are not immune to security flaws. The procedure entails the computerized storing of highly sensitive financial data. A hard disk crash might result in the loss of all data; an unethical hack could result in significant losses, and so on. One of the most serious issues about e-filing is security.

Another challenge which rose by the taxpayers was the connections strength and the internet aspect in general. The following diagram point outs the issue as follows.

Figure 4.6 about Internet



Source: Survey Result, 2021

The frequencies distribution of the above figure is depicted as follows.

Table 4.6 Internet System

| Internet system makes it difficult to operate E-tax filing. |           |         |               |                    |
|---|-----------|---------|---------------|--------------------|
|   | Frequency | Percent | Valid Percent | Cumulative Percent |
| strongly disagree   | 1         | .04     | .04           | .04                |
| disagree  | 24        | 10.0    | 10.0          | 10.4               |
| modest  | 76        | 31.7    | 31.7          | 42.1               |
| agree   | 70        | 29.2    | 29.2          | 71.3               |
| strongly agree  | 69        | 28.8    | 28.8          | 100.0              |
| Total   | 240       | 100.0   | 100.0         |                    |

Source: Survey Result, 2021

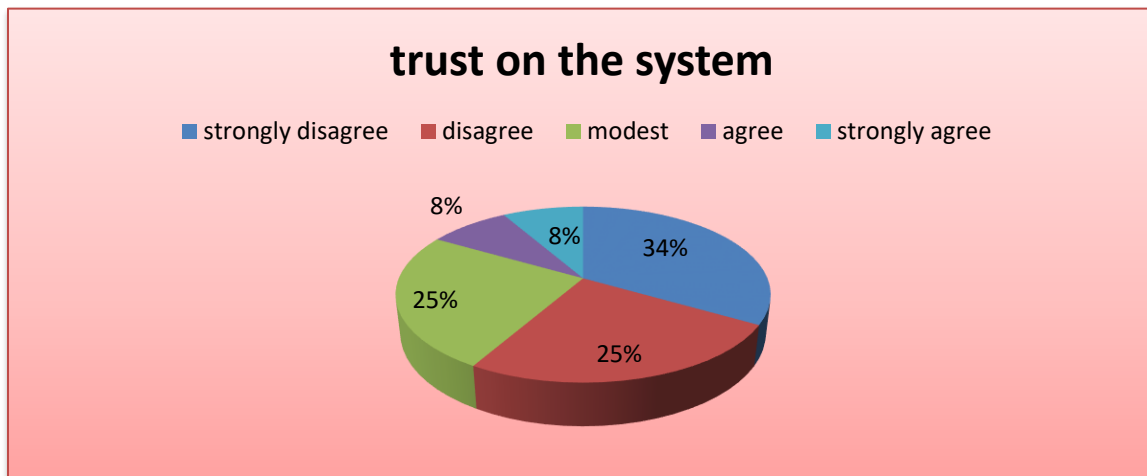
As the table showed that 90 percent of the participants were interrupted by internet connection and prefers manual filling due to internet interruption.

In the open ended participates revealed the practice of after submitting their form, it several times failed and the objection is server is not responding while most receives a message like income tax site is under maintenance. Generally most people are facing a harrowing time but the interviewed revealed

*Useless exercise bpy incompetent people to confuse genuine taxpayers and wasting their time and energy*

Another point which mentioned by the participant was the issue of trust by E-tax payers and most of them were trust the system but the technical capacity on how to operate the challenge were become a difficulty. The following figures reveal the level of trust from tax payers.

Figure 4.7 Difficulty of E Tax Operation



Source: Survey Result, 2021

As the above figure showed that, trust was not a problem to the participants. 59 percent of the percipient were trust the system but 16 percent of the participant was not trust the system, the remaining 25 percent become modest in here filling. They were in different.

A study done byAbdulsalamMasud(2019) remarked that Digitalizing tax collection processes through electronic tax filing (e-filing) has the potential to increase revenue for concerned authorities by preventing leaks that sabotage collecting operations. The Unified Theory of Acceptance and Use of Technology (UTAUT) is extended in his study to explain the structural effects of e-filing software trust on e-filing acceptance intention among micro-entrepreneurs in

the services sector. Both faith in e-filing software and e-filing acceptance intention were found to be highly influenced by performance expectancy, effort expectancy, and social influence. Surprisingly, among the three variables, the results revealed considerable structural mediating effects of trust in e-filing.

Another point which rose in the data collection time was the Use of non-local language (English) content in the e-Filing system, poor possibility of corrections of mistakes and Unreliable e-filing service or the existence of constant breakdown. Lastly the issues of lack of management support while implementing E-tax filing and makes it inefficient and ineffective in most cases as it should be in MOR. The following table summarized these contents in mean and standard deviation.

A study done by Coolidge, J. & Yilmaz, F., (2014) remarked that for trained experts or tax agents, e-filing is a simple procedure. However, because the use of e-filing software is not taught everywhere, it might be difficult to use for tax-paying units who file their own returns without the assistance of a tax agent or a qualified professional. Furthermore, because e-filing is a relatively new practice, awareness about it is limited. Many tax-paying entities are unaware of the ins and outs of the e-filing process.

Table 4.7 Issues about e tax filling

|  | Mean   | Std. Deviation |
|--|--------|----------------|
| Use of non-local language (English) content in the e-Filing system             | 4.0958 | 1.28850        |
| Allows for corrections of mistakes   | 3.7708 | 1.24153        |
| Unreliable e-filing service (constant breakdown)                               | 3.3208 | 1.24136        |
| There is lack of management support while implementing E-tax filing            | 3.8125 | 1.28812        |
| In general, E-tax filing is not efficient and effective as it should be in MOR | 4.2333 | .87965         |

Source: Survey Result, 2021

A study done by D'Arcy B. (2008) remarked one of the most difficult aspects of establishing e-filing and e-payment is the public's willingness to use it. Most citizens could choose whether to file their tax returns manually or electronically when the system was first implemented. The project was not developed with the participation of the commercial sector. Its opinion was later requested.

The above table depicted relatively high mean value which indicated that the language was a problem to fill the tax on the system and lack of access for corrections once you summated the data and constant break down were prominent challenges in minster of revenue large tax payers. In addition to this lack of management support for experts and lack of frequent follow up from MOR was a challenge to large tax payers in Addis Ababa.

In the interview the interviewed revealed

*There could be a variety of causes for this lack of enthusiasm at first. When tax systems evolve, taxpayers and tax authorities must adapt and adopt them, which take time and money but it was not done exhaustively but implemented as a pilot test in commercial bank of Ethiopia and ethio telecom. The low utilization of the electronic system was primarily owing to large governmental taxpayers' early unwillingness to abandon paper-based processes was observed. As a reason they point out uncertainty about the transmission of information's security and privacy were in doubtful to them.*

A study done by David Wasao (2014) asserted that one of the reasons for the low utilization of e-filing is concern about the security and privacy of information submitted online. Users who were unfamiliar with the technology were likewise concerned about the new system. Users could not finish soft copies of their returns offline and upload them to the system; they had to be completed online.

#### **4.4 E Tax Filing in MOR**

When properly developed and widely used, electronic tax filing and payment systems help both tax authorities and taxpayers. The following table is depicted the fruits of e filling in MOR large tax payers.

According to Gebilemat (2012) E-filing is faster and more accurate than paper filing. Physical forms take time to go through the mail system, and the government takes much longer to process them. When you file electronically, you may usually get a refund considerably faster. When filing electronically, you can expect a refund in one to two weeks, whereas filing by mail can take up to three weeks. In most cases, requesting a paper check takes longer than requesting a direct deposit. Electronic filing also tends to improve tax return accuracy because tax software conducts fundamental arithmetic for you, decreasing the chance of human error.

Table 4.8 Opportunities of e filling

|  | N     |         | Mean   | Std. Deviation |
|--|-------|---------|--------|----------------|
|  | Valid | Missing |        |                |
| E-filing able to correctly calculates the tax                                      | 240   | 0       | 3.7458 | .94956         |
| There is reduction in paper work   | 240   | 0       | 3.5125 | 1.20661        |
| E-Filing helps to avoid the emotional stress especially coming from the long queue | 240   | 0       | 4.2250 | .83803         |
| E-Filing saves a lot of time and cost (transportation cost)                        | 240   | 0       | 3.8708 | .95285         |
| E-Filing helps for timely recording of tax liabilities throughout the month        | 240   | 0       | 3.4625 | 1.19213        |

Source: survey result, 2021

The above table depicts the level of agreement of participates. They point out the availability of correctly calculating the tax to be paid and it reduces paper work in the company. Furthermore E-Filing helps to avoid the emotional stress especially coming from the long queue and saves a lot of time and cost which includes transportation cost and other costs. In aggregate, E-Filing helps for timely recording of tax liabilities throughout the month.

A study done by Geetha R., Sekar M. (2012) Point out the following benefits of electronic filing: Convenience is one of them. All, or at least the majority, modern-day systems, including income-tax, provide convenience to their users. Manual filing necessitates a trip to a crowded tax office, making the procedure tedious and time-consuming for the taxpayer. E-filing of returns, on the other hand, relieves stress by allowing taxpayers to file returns from the comfort of their own

homes. He also point outs tracking the status of the project is another crucial opportunities. The ability to track status according to one's wishes is one of the advantages of filing returns online. It allows the user to check whether the Income Tax Department has received a certain return, its current status, or the status of an income tax refund.

In the interview the interviewed point outs the issues of access to documents and refund processing as an opportunities to the large tax payers as well as ministry of revenues. He directly states that

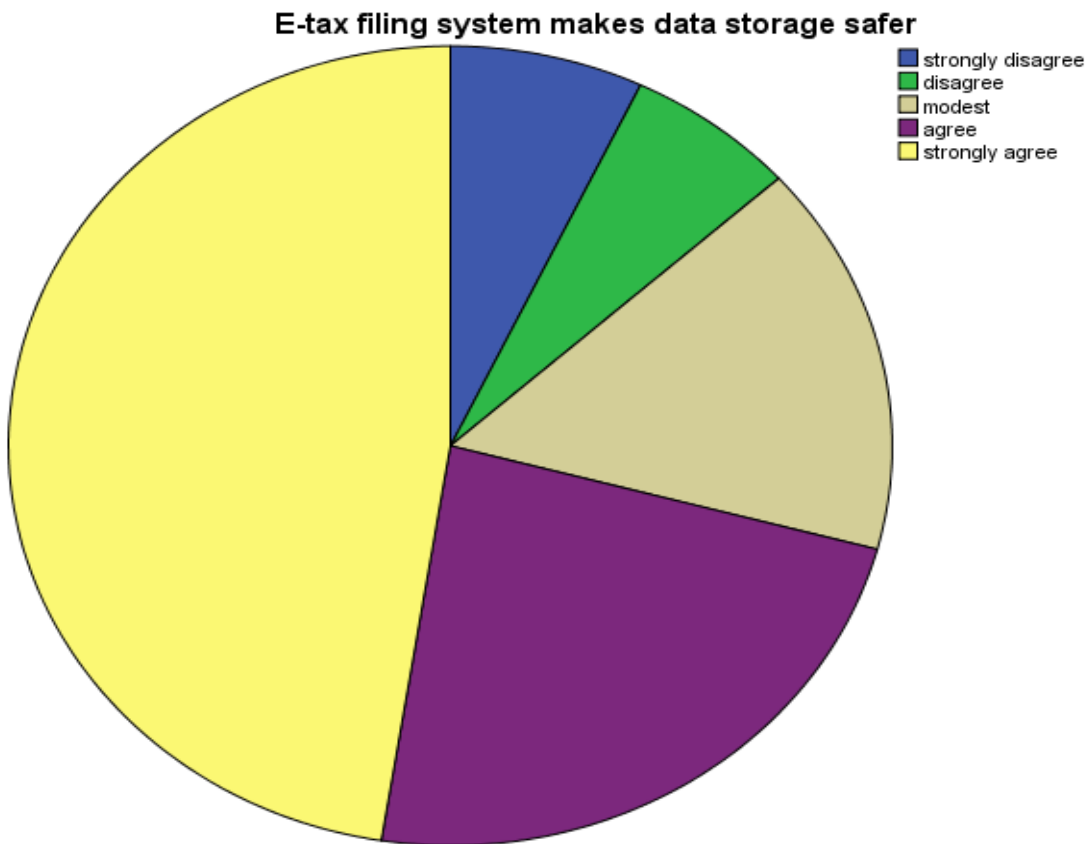
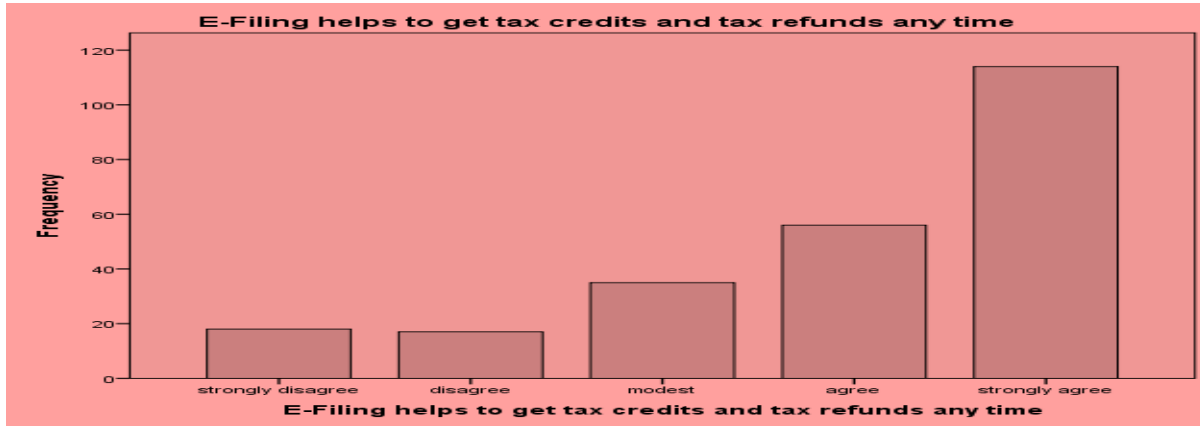
*E-filing of returns prompts the user to upload the necessary documents, thus creating a database which could be accessed whenever the need arises. Manual filing of returns had no such provision. Returns are used by taxpayers to claim their refunds. The digital medium has been introduced to pave way for faster processing over the country's outdated ones, which had previously imposed a significant load on the ordinary man, for whatever service it may have provided. An E-filing income-tax return gives the taxpayer an advantage because he or she is more likely to get monies faster than if they were filed manually.*

A study done by Joanna N (2014) also asserted that many people detest manual filing of taxes since it entails manually filling out papers. Because the data is auto-populated at the initial filing of taxes, e-filing removes these complexity, making it easier for the applicant to file future returns. Humans, in particular when it comes to computations, are prone to making mistakes. Return filing necessitates numerous calculations, and hand filing may result in the provision of incorrect information as a result of faulty calculations. By using its tax calculating process, the e-filing mechanism reduces the deficit.

In addition, according to Mesfin, M. (2012) Filing a tax return electronically is often easier than filing a paper form. You don't have to print paper forms, find envelopes, or buy postage when you file electronically: A computer can perform all of the tasks required to complete a tax return. Electronic tax filing software provides step-by-step instructions that guide you through the process of including all required tax information, perhaps reducing the need for expert tax assistance. E-filers have the option of depositing refunds into up to three different accounts.

In minister of revenue the beginning of e filling brings lots of advantages for tax payers. The following diagram showed the level of agreement of participants regarding E-tax filing system data storage and credits and tax refunds any time.

Figure 4.8 Credits and Tax Refund as Opportunities



Source: Survey Result, 2021

The able diagram showed that most respondents were perceive that e filling system was crucial to refund and credit system in their business while at the same token e filling was crucial for safer data storage.

A study done by Muita, E.W. (2011) also remarked that in the lack of a calculating tool, the taxpayer may be forced to employ a professional to perform the necessary calculations, effectively requiring the taxpayer to pay extra. E-filing is designed to relieve the taxpayer of such financial constraints. Previously, income-tax returns were sent to external auditors, which was in charge of the verification process. The e-verification facility can now be used to verify income tax returns online.

In minster of revenue large tax payer’s office, the issues of after the introduction of E-tax filing penalty has decreased and corruption were decreased. The following table depicts the level of agreement in frequency.

Table 4.9 about Penalty

| <b>After the introduction of E-tax filing penalty has decreased</b>     |                   | <b>Frequency</b> | <b>Percent</b> | <b>Valid Percent</b> | <b>Cumulative Percent</b> |
|---|-------------------|------------------|----------------|----------------------|---------------------------|
| Valid   | strongly disagree | 1                | .4             | .4                   | .4                        |
|   | disagree          | 35               | 14.6           | 14.6                 | 15.0                      |
|   | modest            | 42               | 17.5           | 17.5                 | 32.5                      |
|   | agree             | 49               | 20.4           | 20.4                 | 52.9                      |
|   | strongly agree    | 113              | 47.1           | 47.1                 | 100.0                     |
|   | Total             | 240              | 100.0          | 100.0                |                           |
| <b>After the introduction of E-tax filing corruption has decreased.</b> |                   |                  |                |                      |                           |
|   |                   | <b>Frequency</b> | <b>Percent</b> | <b>Valid Percent</b> | <b>Cumulative Percent</b> |
| Valid   | strongly disagree | 8                | 3.3            | 3.3                  | 3.3                       |
|   | disagree          | 19               | 7.9            | 7.9                  | 11.3                      |
|   | modest            | 49               | 20.4           | 20.4                 | 31.7                      |

|                |     |       |       |       |
|----------------|-----|-------|-------|-------|
| agree          | 93  | 38.8  | 38.8  | 70.4  |
| strongly agree | 71  | 29.6  | 29.6  | 100.0 |
| Total          | 240 | 100.0 | 100.0 |       |

Source: Survey Result, 2021

As the above table showed that 67.5 percent of the respondents were agreed that After the introduction of E-tax filing penalty has decreased and 68.4 of them were revealed as corruption gets decreased due to e- filling.

A study done byMuita, E.W. (2011) asserted that time saving option. He further elaborated that taxpayers are not required to go to a tax inspectorate. A taxpayer office can send any information at practically any time of day. Second, No repetition, Electronic submission of tax returns and accounting paperwork eliminates the need for hard copy duplication. Errors e-filing software minimizes the amount of errors significantly. The program enables for automatic tax and accounting reporting, as well as more accurate data processing and reporting in accordance with industry standards.

In the interview the interviewed revealed that

*E-filing has also improved the process of tax filing's validity and accountability for both the tax office and the taxpayer. Because of the ambiguity surrounding the receipt of tax papers and records, paper filing is slightly more unclear. With e-filing, you'll get notifications throughout the tax filing process, as well as confirmation of receipt or rejections, all within 24 hours, boosting the level of assurance throughout the process. It makes it less confusing than it would be if it were filed on paper.*

A researcher namelyNaibei, K. I. &Siringi, E. M. (2011) explained, if a tax or accounting reporting form is changed, or new reporting forms are introduced, the taxpayer is immediately given the option to update the list of forms before the e-filing deadline. The taxpayer can get publicly available information on changes in tax laws, rules, budgetary accounts, and other topics by e-mail. When filing electronically, the taxpayer is guaranteed to receive delivery confirmation, which is legally binding in the event of a dispute. E-filing software provides the essential level of data protection and is equipped with the most up-to-date encryption

technologies to ensure privacy. Furthermore he concludes, E-filing leaves less room for manipulation of data records.

#### **4.5 Discussions**

The respondents were asked about the Ministry of Revenue's existing e-tax filing system procedures for large taxpayers. According to the study's descriptive statistics, the Ministry of Revenues' major taxpayer believes that e-tax is advantageous. The average mean of items presented under benefit assessing questions demonstrates that e-tax benefits taxpayers in a variety of ways, including avoiding emotional stress, saving money and time, making data storage safer, and assisting in the timely recording of tax credits and tax refunds at any time.

A study done by Tamami Matsuka (2006) Processing in a timely manner is a crucial advantage for e tax filling. More significantly, if there are any refunds, they are processed faster than with paper returns. Improved precision E-filing software that has built-in validations and electronic connectivity is easy to use and reduces errors significantly. Paper filing is prone to mistakes. When a paper-based form is converted to an electronic system, human mistake in data entry is a possibility. There are no time or location constraints when filing returns online. E-filing is available 24 hours a day, 7 days a week, and companies can file whenever and wherever they like

In MOR, large tax payers there are a lot of issues, there are a number of issues that taxpayers confront when it comes to e-tax filing, including blocked passwords, frequent breakdowns, an e-filing system that isn't fully functioning, and an e-filing system that isn't well supported with an e-payment supplementary system. Even if they use e-tax filing, the poll results reveal that people must still visit the tax office.

A study done by Samuel E. (2015) the point outs although the Ministry of Revenues does not provide specialist instructions on e-filing, the government does provide close and prompt technical support to e-filing users, as proven. The basic goal of enabling conditions is to eliminate use barriers. According to the findings of various researchers, there is a clear link between electronic filing usage and facilitating conditions.

According to Mutula, S., (2012) all assesses whose taxable income exceeds the basic exemption limit must file income tax returns. A fundamental exemption limit is a monetary sum set by the government to promote social justice. Individuals whose taxable income is less than the threshold limit are exempt from paying income tax. If an individual's income exceeds the basic exemption limit, the assessee must pay income tax as well as file income tax reports. Both the tax payment and the return filing must be completed on or before the due date. Whether the assessee is a corporation or an individual, the due date differs.

According to Ruta, Y. (2017) It also differs depending on whether or not the assessee is subject to a mandated tax audit. The procedure of filing tax returns used to be manual, which made it not only inconvenient but also prone to errors and clerical mistakes. Currently, the Income Tax Department has implemented an e-filing system in order to create a tax system that makes income-tax assessment simple and convenient. The advantages of e-filing income tax returns are discussed in this article.

In MOR, The e-filing system is also beneficial in encouraging taxpayers to take personal responsibility for their tax affairs. E-filing was the best way to improve the efficiency of the ministry of revenue system, encourage taxpayers to comply, and also to be able to work faster, more effectively, and more efficiently. Performance, as well as access to prior return the study's findings revealed that the Ministry of Revenues' major taxpayers regarded e-tax filing to be very advantageous. According to Davis (1989), a person's or taxpayers' perceived usefulness is the degree to which they believe a system may help them enhance or accelerate their work performance.

If its users see benefits in accomplishing their tasks or jobs in reporting their tax returns, the usability of a system will influence their use of e-filing. The biggest predictor of two of the most commonly studied metrics of information system effectiveness, namely intention and use, is perceived usefulness (Putra, 2017; Saraswati & Sofia, 2016; Tyasmminingsih, 2016). According to Hormati (2012) and Rimawati (2012), perceived usefulness can predict online service retention intentions.

According to further studies by Evans (2012) and Nellen (2012), the most crucial element determining consumers' long-term use is utility. Taxpayers' perceptions of ease of use and utility

provide as the foundation for their attitude toward utilizing a particular system, which in turn defines their desire to use and, finally, their actual usage behavior (Davis, 1989). According to Doyle & Magilke (2013) and Stafford & Turan (2011), the ease of use of e-Tax systems by users or taxpayers has a significant impact on the continuous usage of electronic taxes.

Using the e-filing system, taxpayers will find it easier to fulfill their tax obligations in reporting their tax return. This technology eliminates the need for taxpayers to visit a Tax Service Office, making the system more effective and efficient. According to Najmul, I. (2011), the dominant effect of perceived usefulness on intention provides potential fruitful avenues for e-learning technology designers to influence user's continuance intention to use e-learning technologies. Taxpayers will stop using an e-tax filing technology if it is not useful for their purpose, even if all other conditions are met.

## CHAPTER FIVE

### 5. CONCLUSION AND RECOMMENDATION

#### 5.1 Conclusion

The study focused on the prospects and challenges of e-filing in Ethiopia's Ministry of Revenues' Large Taxpayers. This conclusion is based on the study's objectives, which include identifying the opportunities of an e-tax filing system; investigating Practical Challenges of an e-tax filing system in the Ministry of Revenues Large Taxpayers.

As stated in previous studies, the study also shows e-tax filing system benefits, including making data filing easier, making data storage safer, faster, and more accurate with less error, reducing penalties, reducing workload, making tasks more effective and efficient, giving greater control over tax declaration, positively affecting tax evasion control, improved control over tax revenue, and making taxpayers more accountable were identified as opportunities of e –tax filling in MOR.

Taxpayers should be encouraged to utilize e-tax since it has several advantages (both for the government and for the taxpayers), and it aids the Ministry of Revenue. Large taxpayers benefit from accurate tax calculations to avoid emotional stress during month-end long lines, reduced paperwork to save time and money traveling to the Ministry of Revenues for tax filing, and assistance in timely recording of tax liability throughout the month.

Despite the benefits of e-filing, it is associated with some challenges, according to the respondents. The main challenges identified include e-filing service constant breakdowns, filing system not fully operational, and e-filing system not very well supported with e-payment supplementary system, resulting in e-tax users still visiting tax offices. And the majority of respondents feel that the entire e-file experience might be better.

The survey result also shows an imaginary increase in the usefulness and ease of use and facilitating condition or removing the barrier of use provides possible successful ways to the e-filing system's continued usage intention.

The current e-tax filing practices of the Ministry of Revenue, based on the large tax payer's assessment, are good and convenient. In as much as there are challenges of using e-taxation filing in tax administration, the gains of e-taxation outweigh the perceived and practical challenges seen above.

## **5.2. Recommendations**

Based on the finding of the study, the following recommendations are forwarded. It gives valuable suggestions to increase in order to overcome the challenges, exploit the full success of the E-tax system and to ensure a successful practice of the E-tax filing System of the Ministry of Revenues in Ethiopia.

- Ministry of revenues should increase the quality of the system formulation of informationrelated- laws, enhancement of people's concept regarding information e-government system.
- The Ethiopian Ministry of Revenue should continue educating taxpayers and officers to upgrade their know-how on the use of the system by using TV Programs. For example, video to demonstrate step by step in using the e-Filing can be prepared and easily accessed to enhance user understanding.
- Ethiopian Ministry of Revenues should enhance internet connectivity and power interruption by using other options and facilitate backups that online users won't miss their data while using e-tax. This can be done by enterprise association with Ethio-telecom.
- Results of the study show that provide that facilitating condition and usefulness and ease of use are important issues in the continued use of e-filing systems so the Ethiopian Ministry of Revenue should give make sure for the subject. It is also important to develop an electronic payment system that is boundless development of the system.
- The Ethiopian Ministry of Revenue should support taxpayers by giving specialized instructions and providing close and fast technical support for e-filing effective functioning.
- The researcher's suggestion for the same topic and subject is considering again the method of sample selection used, so the result can be generalized.

### **5.3. Direction for Further Studies**

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

## Reference

- Abera, T.(2019). The influence of electronic tax filing system on tax compliance in the case of large tax payer's branch office [LTO] (Doctoral dissertation, Addis Ababa University)
- Alibasha, J., Kishore, K., &Naveen,K. (2016) Benefits And Challenges Of Efilling And E- Payments. International Journal Of Commerce, Business And Management
- Anna &Yusniza, (2009) Adoption of tax e-tax filing: A conceptual paper, Faculty of Business and Accountancy, University of Malaya, 50603, Kuala Lumpur, Malaysia.
- ChanchalC,Vipin J, and Vinayak G (2013) A study of satisfaction level and awareness of tax payers towards e-filing of income tax return – with reference to Moradabad city
- Chang I, Li Y, Hung W, Hung H (2005). An empirical study on the impact of quality antecedents on taxpayers' acceptance of Internet tax filing systems, Gov. Inf. Q. 22(3): 389-410.
- Chatama, Y. J. (2013). The impact of ICT on Taxation: the case of Large Taxpayer Department of Tanzania Revenue Authority. The Information Society, 18:101–112, 2002
- Cobham, A. (2010) Tax evasion, tax avoidance and development finance. Oxford University
- Coolidge, J. &Yılmaz, F., (2014) Does e-tax filing reduces Tax Compliance Costs, s.l.: World Bank Group.
- D'Arcy B. (2008). The Impact of Electronic Tax Return Filing on Tax Compliance
- David Wasao (2014) The Effect of online tax system on tax compliance among small taxpayers in East of Nairobi tax district
- Emmanuel, N.,& Jaya, S. (2016). Effect of Electronic Tax Management System of Tax Collection in Rwanda: Case Study of Rwanda Revenue Authority (RRA). The International Journal Of Business & Management, 4, 39.
- MOR, (2019) Experience Large tax payers' branch office E-Tax Experience
- Gebileleamat #47 (2012) Ethiopia Revenues and Customs Authority Magazine

- Gayathri P, KavithaJayakumar (2013), A Study on Tax Payer's Perception Towards E-Filing of Income Tax Returns with Reference to Teachers in Bengaluru East, Karnataka
- Gebre,W (2006), Tax Accounting System of Ethiopia, 2nd edition.
- Geetha R., Sekar M. (2012) E-Filing of Income Tax: Awareness and Satisfaction level of individual Tax payers in Coimbatore city, India
- Joanna N (2014), Implementing electronic tax filing and payment in Malaysia
- Lee, Kun Chang, MelihKirlidog, Sangjae Lee, Gyoo Gun Lim (2008). User evaluations of tax filing web sites: A comparative study of South Korea and Turkey
- Lymer, A., and Oats, L. (2009) Taxation: Policy and Practice. 16th ed. Birmin Fiscal Publications
- Mamta B. (2012). Tax Payers' Perception towards E- File Adoption: An Empirical investigation. Journal of management and research, 5, 1-16
- Mazur, M. &Plumley, A. (2007) Understanding the tax gap National Tax Journal 60, 569–576.
- McCarten, W. (2014) Focusing on the Few: The Role of Large Taxpayer Units in the Revenue Strategies of Developing Countries
- Merima A, Odd-Helge F, Ingrid Hoem S (2014) Factors affecting tax compliant attitude in Africa: Evidence from Kenya, Tanzania, Uganda and South Africa
- Mesfin, M. (2012) ERCA to Pick Single Window Technology Provider
- MisrakTesfay (2008): Ethiopian tax accounting: Theory and practice
- Mongwaketse PB (2015). Perceived effects of an electronic filing system on tax compliance in a district municipality, South Africa
- Moyi, E. and Ronge, E. (2006) Taxation and Tax Modernization in Kenya: A Diagnosis of Performance and Options for Further Reform, Institute of Economic Affairs, Kenya

- Muita, E.W. (2011) Factors that Influence Adoption and Use of E-tax filing System of Kenya Revenue Authority among the Large Taxpayers, Unpublished MBA Project submitted to the JKUAT Nairobi Central Business District Campus
- Mutula, S. M. (2012). “E-Government’s Role in Poverty Alleviation: Case Study of South Africa” In R. Lekoko, & L. Semali (Eds.), Cases on Developing Countries and ICT Integration:
- Naibei, K. I. &Siringi, E. M. (2011) “Impact of Electronic Tax Registers on VAT Compliance: A Study of Private Business Firms”
- Ruta, Y. (2017). Assessment of Electronic Tax Filing system in Selected Branch Office of Ethiopian Revenues and Customs Authority (ERCA)
- Samuel E. (2015). The Practice, Challenges, and Prospects of e-Government: The case of Ethiopian Revenue and Customs Authority (ERCA) Large Taxpayers Office (LTO)
- Tamami Matsuka (2006). An Analysis of the Effect of Electronic Filing on Individual Income Tax Compliance, A Thesis submitted to the Graduate School of Arts and Sciences at Georgetown University
- Waweru F. (2013). Automating Public Financial Management in Developing Countries, Faculty Research Working Paper Series, and John F. Kennedy School of Government, Harvard University, and Cambridge, MA

## Appendixes



College of Business and Economics

Department of Public Administration

### **Questionnaire to Be Filled By Large tax payers of Ministry of Revenues**

Dear Participant!

I am Anteneh Tamiru master student in Addis Ababa University and this questionnaire is set up to collect primary data for thesis entitled “The Practice and Challenges of E-Tax Implementation in Ethiopia in Case of Ministry of Revenue (MOR) Large Taxpayers Office. The research is conducted in partial fulfillment of the requirement for MA in Department of Public Administration department.

Your participation in giving reliable information is important for the success of this study and it will be a great contribution if you may complete all the items covered in the questionnaire. I respectfully request your kind cooperation in answering the questions as clearly as possible. I would like to assure you that the information you provide will be used for academic purpose only and all responses will be treated in strict confidentiality. For any further information and problem in filling the questioner you can contact me on the following address.

Anteneh Tamiru

Mobi= +251- 91 2-18 8-196



|    |  |  |  |  |  |
|----|--|--|--|--|--|
| 9  | Taxpayers make error while using E-tax filing than manual.                         |  |  |  |  |
| 10 | Power interruption makes E-tax filing less effective.                              |  |  |  |  |
| 11 | Internet system makes it difficult to operate E-tax filing.                        |  |  |  |  |
| 12 | Taxpayers don't trust E-tax filing system.   |  |  |  |  |
| 13 | Use of non-local language (English) content in the e-Filing system                 |  |  |  |  |
| 14 | Allows for corrections of mistakes   |  |  |  |  |
| 15 | Unreliable e-filing service (constant breakdown)                                   |  |  |  |  |
| 16 | There is lack of good IT staff members who facilitate E-tax filing.                |  |  |  |  |
| 17 | There is lack of management support while implementing E-tax filing                |  |  |  |  |
| 18 | In general, E-tax filing is not efficient and effective as it should be in MOR     |  |  |  |  |
|    | <b>Opportunities</b>   |  |  |  |  |
| 19 | E-filing able to correctly calculates the tax                                      |  |  |  |  |
| 20 | There is reduction in paper work   |  |  |  |  |
| 21 | E-Filing helps to avoid the emotional stress especially coming from the long queue |  |  |  |  |
| 22 | E-Filing saves a lot of time and cost (transportation cost)                        |  |  |  |  |
| 23 | E-Filing helps for timely recording of tax liabilities throughout the month        |  |  |  |  |
| 24 | E-tax filing system makes data storage safer                                       |  |  |  |  |
| 25 | E-Filing helps to get tax credits and tax refunds any time                         |  |  |  |  |
| 26 | After the introduction of E-tax filing penalty has decreased.                      |  |  |  |  |
| 27 | After the introduction of E-tax filing corruption has decreased.                   |  |  |  |  |
| 28 | <b>Over all practice of E-Tax Implementation</b>                                   |  |  |  |  |
| 29 | I have the resources and knowledge necessary to use the e-filing                   |  |  |  |  |

|    |   |  |  |  |  |  |
|----|---|--|--|--|--|--|
| 30 | Ministry of Revenues is providing me close and fast technical support for e- filing effective functioning                             |  |  |  |  |  |
| 31 | Using e-filing makes submission of my tax return easy   |  |  |  |  |  |
| 32 | Since e-filing was introduced Ministry of revenues pays out refunds quicker than before   |  |  |  |  |  |
| 33 | It is easy to find information required for e-filing  |  |  |  |  |  |
| 34 | The introduction of e-filing was the best way to improve efficiency of Ministry of revenues systems and encourage taxpayers to comply |  |  |  |  |  |
| 35 | E-filing system would enhance effectiveness in preparing business income tax filing for me  |  |  |  |  |  |

## **Part Two: Open Ended Questions**

1. what are the main challenges for e filling in MOR

---



---



---



---



---

2. what are the opportunities to implement e filling in MOR

---



---



---



---



---

3. How is the overall attitude, perception of e filling?

---



---



---

## Interview Guide Lines

### Section I: General Information

Place \_\_\_\_\_

Key informant interview Identification number \_\_\_\_\_

The Researcher signature \_\_\_\_\_

Name of supervisor \_\_\_\_\_ sign \_\_\_\_\_

Date of Interview \_\_\_\_\_

Interview started at \_\_\_\_: \_\_\_\_ hrs. Interview finished at \_\_\_\_: \_\_\_\_ hrs (fill at the end)

### Section II: Semi-Structured Interviews

#### Questions

1. Generally, what is your comment on the relevance of integration of ICT with business undertakings for modernizing the tax administration in Ethiopia?
2. How much is existing legislations ready/responsive to cyber based business relationships?
3. Does electronic commerce, as compared to paper based commerce, have nurtured ground in Ethiopia Commercial Code? Why or why not?
4. Are digital exchanges of information/data, electronic form of data, electronic transaction, electronic/digital signature, electronic archiving have legal recognition?
5. What do you think are the gaps in this laws that is not ready or does not have adequate coverage to handle disputes out of e-Service transactions/undertakings?
6. How do you rate the readiness among legal professionals in terms of trainings or other capacity building mechanisms to have enhanced understanding on cyber law?