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**ASSESSMENT OF THE PRACTICES AND CHALLENGES OF BLOCK
MANAGEMENT SYSTEM FOR TAX COMPLIANCE IMPROVEMENT:
THE CASE OF ETHIOPIAN REVENUES AND CUSTOM AUTHORITY.**

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Assessment of the Practices and Challenges of Block Management System for tax compliance improvement: the case of Ethiopian Revenues and Custom Authority. A research project submitted to the Program of Project Management in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Project Management.



**ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE
DEPARTMENT OF PROJECT MANAGEMENT**

This is to certify that the thesis prepared by Yosef Addisu Kiya entitled “assessment of the practices and challenges of block management system for tax compliance improvement: the case of Ethiopian Revenues and Custom Authority” which is submitted in partial fulfillment for the Degree of Master in Project Management complies with the regulation of the University and meets the accepted standard with respect to originality and quality.

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I, hereby, declare that this thesis entitled “assessment of the practices and challenges of block management system for tax compliance improvement: the case of Ethiopian Revenues and Custom Authority” is original work of my own, and has not been presented by anyone for any degree in any other university. And all the sources of materials used for the thesis have been duly acknowledged.

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List of Acronyms and Abbreviations

ATAF	African Tax Administration Forum
BMS	Block Management System
CRM	Cash Register Machine
EFDs	Electronic Fiscal Devices
ERCA	Ethiopian Revenues and Custom Authority
FAD	Fiscal Affairs Department
GDP	Gross Domestic Product
GNP	Gross National Product
GTP	Growth and Transformation Plan
HR	Human Resource
IMF	International Monetary Fund
ICT	Information Communications Technology
LTO	Large Taxpayers Office
MTO	Medium Taxpayers Office
QMS	Queue Management System
SIGTAS	Standard Integrated Government Tax Administration System
SMEs	Small and Micro enterprises
TRA	Tanzania Revenue Authority
URA	Uganda Revenue Authority
USAID	United States Agency for International Development
VAT	Value Added Tax

ABSTRACT

Tax non-compliance is an area of concern for all government and tax authorities, and it will continue to be an important issue that must be addressed. Regardless of time and place, the main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system. The objective of this study thus was, to assess the practices and challenges of block management system project for tax compliance improvement in the case of Ethiopian Revenues and Custom Authority. The study describes the practices and challenges of the BMS in respect to taxpayers' education, service delivery, door to door visit, tax law enforcement measures and audit procedures as the main aspects of tax compliance improvement measures in the BMS. For the achievement of its objective, the study employed descriptive research design and both primary and secondary data were used. Questionnaires, in-depth interview, and document review were therefore, used as data collection tools. Furthermore, it employed purposive and convenience sampling techniques. For data analyses purpose, the research employed tables, figures, frequency and percentage. The results indicated that tax compliance improvement measures undertaken by the block management system project has been challenged in multiple ways and the taxpayers' voluntary compliance remain at its lower level in Merkato. The results of this study can inform policymakers on the extent to which corrective measure should be taken to fully utilize the benefits of block management system in improving taxpayers' voluntary compliance.

Key Words: *Block Management System, Tax Administration, Segmentation, Tax compliance, Tax law enforcement, tax Revenue.*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Studies on tax compliance have been carried out since the 60's. It has been studied thoroughly by academicians, professionals and government agencies especially in the United States and other western countries (Mariam, as cited in Zelalem 2011). Research on tax compliance can be done in various fields such as accountancy, economics, criminal law, psychology, and sociology (Fischer, et al., 1992).

(Alm, as cited in Zelalem, 2011) defined tax compliance as the reporting of all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgments. Another definition of tax compliance is a person's act of filling the Income Tax Form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority. Taxpayers need to prepare all the relevant information in the Income Tax Form within the period given, and the form must report accurate tax liability in accordance with the need of laws, regulations, and court judgments. Those who fail to adhere to taxation laws intentionally or otherwise shall be considered as having committed an offence. (Jackson and Milliron, as cited in Mohd 2010) listed 14 main factors that have influenced tax compliance as discussed by various researchers. These factors are age, gender, education, income, occupation or status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority, income sources, perceived fairness of the tax system, possibility of being audited and tax rate. Various researchers have listed factors that influenced tax compliance such as demographic, income, compliance cost, and tax agents, in addition to moral or ethical factors (Singh; Kasipillai et al., 2003).

Block management system is a tax administration reform instrument designed to enhance taxpayer compliance by simplifying the tax process which minimizes the compliance cost and by following up taxpayers closer and delivering services and support from a nearby location.

ATAF defines the Block Management System as a system designed in order to manage tax affairs of individuals, small and medium enterprises by demarcating the areas in which they conduct business into sizeable and manageable blocks. The purpose of the BMS is to identify and facilitate

easy registration of new taxpayers and facilitate the close monitoring of taxpayers' activities and their movements. The BMS helps to meet taxpayers' requirements promptly and enhances the expansion of the tax base both quantitatively and qualitatively. It facilitates the setting of collection targets, especially with respect to small taxpayers or individual taxpayers in the block. The BMS helps to combat tax evasion emanating from under-declaration of business transactions and provides a feasible way of touching base with the informal sector through simplified field visits. It enhances tax compliance through permanent visits to business premises which also enables dissemination of taxpayer education and prompt delivery of services.

1.2.Statement of the problem

Tax compliance is growing international concerns for tax authorities and public policy makers as tax evasion seriously threatens the capacity of government to raise public revenue. Block management system is one of the tax administration reform tools designed in a manner where each block is mandated to operate all the key tax administration functions of registering, assessing, collecting and accounting for revenue collected (ATAF, 2014).

A study conducted by IMF shows that 75% of taxpayers in Merkato were non-compliant. Numerically 4,390 traders doing business without trade license; 7,084 traders eligible but not registered for VAT; 3,449 traders not properly using the cash register machine are identified (Progress report on Merkato Tax Compliance Improvement Plan, 2011). To tackle this problem, the BMS has been implemented by having prior consultation with Stakeholders and the business community and participants, formed and arrived at consensus with the project idea and promised to support it in every endeavor. After consultations have been conducted with Addis Ababa City Government Trade and Industry Bureau, an agreement is reached to render one stop service to simplify the process by crafting single trade and tax registration form and launching trade registration and inspection and regulation services to be delivered in single window. In addition targeted tax payer education based on sectors and continuous door to door (outreach) visit was one thing planned under the BMS. Enforcement tools like studying and analyzing the trade chain of selected importers and performing an investigation audit and preparation of audit plan based on risk management system has been part of the BMS task.

Even though a lot of tasks have been planned with the implementation of the BMS, the success of the project was questionable. The ERCA itself, regardless of the ineffectiveness in the implementation and the nationwide benefits expected from the implementation of the project, has never undertaken a study on the factors affecting effective implementation of projects.

For this fact, the study will try to assess the practices and challenges of implementation of the projects in ERCA.

1.3. Research Questions

In order to systematically address the problems stated above, the study raises the following general and specific research questions:

1.3.1. The general research question, therefore, is:

- ⇒ What are the practices and challenges of the block management system and how these challenges constrained the successful implementation of the project?

1.3.2. The specific research questions include:

- ⇒ What is the level of customers' perception towards the practice of several aspects of block management system in improving taxpayer compliance?
- ⇒ What are the internal and external challenges of the block management system project implementation in terms of service delivery, law enforcement and revenue collection?

1.4. Objectives of the study

1.4.1 General objective: the general objective of the study is to assess the practices and challenges of Block Management System for enhancement of tax compliance and explain how these challenges constrained the success of the project.

1.4.2. Specific objectives: specific objectives of the study will be:

- ⇒ To investigate the level of customers' perception towards the practice of block management system in terms of improving taxpayer compliance.
- ⇒ To assess both internal and external challenges of the project implementation in terms of service delivery, law enforcement and revenue collection.

1.5. Significance of the study

The Study will have two implications for the future of project implementation in Tax compliance enhancement projects in the revenue sector. Theoretically, the study will be expected to contribute

to the advancement of knowledge about the challenges of block management system. In addition it will be of an invaluable importance and will open doors to realize the factors that affect successful implementation of such projects and to share lessons learned to the other branches of the organization. The study will also have significance in giving new insights for researchers in the area.

1.6. Scope of the Study

The research will focus on assessing the practices and challenges of Block Management System implemented by ERCA as a tax compliance enhancement project since 2011. ERCA has implemented this project in two selected branches named Merkato No.1 and Merkato No.2. Therefore the study is restricted to the practices and challenges of the two tax branches in terms of implementing the block management system aspects such as taxpayer compliance, law enforcement and revenue collection.

1.7. Limitations of the Study

Because of the vast number of taxpayers in the study area and shortage of time, it was difficult to occupy the adequate amount of sample population and the findings of the study will be restricted to a small sample size. Therefore, caution should be taken regarding the direct generalization of the findings to other contexts. The other limitation of the study was shortage of relevant empirical studies in the case, since the idea is new, was among the major challenges.

1.8. Organization of the Paper

The paper is organized in five chapters. Chapter one contain the introduction part, which deals with the back ground of the study, the research problem, research questions, objectives of the study, significance of the study, scope and limitations of the study and organization of the paper. Chapter two presents theoretical and empirical review of the literature related to the concepts of taxpayer segmentation, mainly the block management system in relation to tax compliance enhancement. In chapter three, the research methods, materials and procedures of the study were presented in detail. Chapter four presents data presentation, analysis and discussion; and chapter five gives summary, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1.Theoretical Review

Even though the two things certain in life are death and taxes, most individuals become reluctant when it comes to paying tax in the right amount, time, and, place. Individuals do not like paying taxes and they take a variety of actions to reduce their tax liability (Amina & Saniya 2015). Today the role of the government has increased and government has to collect more tax than ever to finance its operation. But governments are facing difficulty in collecting the tax they need for many reason. One of the main reasons is tax noncompliance. Although the principal source of a government's revenue should be taxation, in many sub-Saharan African nations this is often not the case. These nations with low economic growth, large population below the poverty line, and dependent on tertiary economy, finance most of their expenditure through non tax revenue. Increasing tax revenue in this region is hampered by large informal sector, under reporting of income by businesses, tax noncompliance, weak tax administration, considerable tax evasion and avoidance, corruption, lack of awareness and trust of government. Studies in different countries show that in developed countries, about 90% of governmental expenses is provided with tax income and ratio of tax income to gross national production (GNP) is about 25-30%, while this ratio, in developing and specially undeveloped countries is about 5% (Reza and et al as cited in Amina & Saniya 2015). There are many factors that contribute for the low level of tax income in developing countries but tax noncompliance is one of the main factors in this respect. Ethiopia like many developing countries suffers from tax revenue loss due to tax noncompliance.

2.1.1. Tax Compliance

Tax noncompliance is one of the problem many developing country face when it comes to tax administration. Taxpayers' belief and attitude toward tax compliance has been important issues to researchers and tax authorities almost everywhere and every time these days. Understanding why taxpayers do or don't comply with tax law is very important as; if possible, it will help to increase level of compliance more effectively. Many researches both in developing and developed countries have been done on tax compliance, but it is still difficult to define what exactly tax compliance mean and to clearly differentiate between the words evasion, avoidance, mere error and intention (Long & Swingen, as cited in Amina & Saniya 2015). Beside this it is difficult to estimate the level of uncollected tax, which by its nature is not stated by taxpayers and tax authority. The last three

decades, tax compliance has been given a big emphasis by researchers because of increasing noncompliance especially tax evasion and its consequences on the capacity of government in raising public revenue. But most of these researches are done on developed countries particularly on USA. Tax compliance papers on developing countries are few in number.

Tax compliance is taxpayers' willingness to obey tax laws in order to obtain the economy equilibrium of a country (Andreoni, et al 1998). Compliance with the tax law typically means true reporting of tax bases, correct computation of the tax liability, timely filing of returns and timely payment of the amount due. Tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations. James and Alley (2004) pointed out that tax compliance is the willingness of individual and other taxable entities to act in accordance with tax law and administration without the application of enforcement activity. (Alm, Jackson and Milliron as cited in Amina & Saniya 2015) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003).

Mc Barnett (2003) classifies compliance into three forms; committed compliance, capitulated compliance and creative compliance. Committed compliance is the willingness to discharge tax liability by taxpayer without complaining. While capitulated compliance is the reluctant in discharging of tax obligations by taxpayer and creative compliance refers to engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures within the confine of the law.

Kirchler et.al (2007) argued that compliance might be voluntary or enforced compliance. Voluntary compliance is made possible by the trust and cooperation ensuing between tax authority and taxpayer and it is the willingness of the taxpayer on his own to comply with tax authority's directives and regulations. Compliance is enforced on taxpayers who are unwilling to pay their taxes through the threat and application of audit and fines.

Tax compliance has also been isolate into two perspectives, namely compliance in terms of administration and compliance in terms technique. Administrative compliance is made up of reporting compliance, procedural compliance and regulatory compliance and it is generally concerned with complying with the rule relating to payment of tax, while technical compliance is

concerned with meeting up technical requirement of tax laws in computation of tax liability (Alabede et al, 2011).

According to Kirchler, despite the arrangement put in place through tax system to ensure compliance with tax rules and regulations, human society is still confronting numerous cases of tax noncompliance.

2.1.2. Determinants of Tax Compliance

In the following sections main determinants of tax compliance are listed as discussed in many public finance literatures. (For example; (Fischer et al., 1992), (Kirchler, 2007), (Loo 2006), Allingham and Sandmo (1972) and Jackson and Milliron, 1986).

The determinant of tax compliance has been classified differently by different researchers. But most of these classifications overlap on one another. By considering the most relevant one for this study, it is classified in to four major groups: economic, tax system, demographic and social and individual.

I. Economic

Tax rate

The effect of tax rate on tax compliance is mixed. According to (Witte and Woodbury, 1985) raising marginal tax rates will be likely to encourage taxpayers to evade tax more. Park and Hyun, (2003) in their empirical study find that the increase in tax rate strengthens the incentive to report less income to compensate the reduced income. In other word they find a negative relationship between tax compliance and tax rate. Another study in 1980 by Tanzi used an econometric model to explain the relationship between marginal tax rates and noncompliance. By using aggregate data in the United States, he illustrated that tax rates were negatively correlated with tax compliance according to his data.

Level of income

Regarding the relation between level of income and tax compliance the empirical findings are ambiguous. Even though wealthier citizens are more likely to evade tax, as risk aversion indirectly related with income level, it is not clear if severity of evasion is an increasing or a decreasing function of income (Kirchler et al, 2007). Empirical researches done by different researchers on the relationship between income level and tax compliance found a negative relationship between income level and tax compliance. Some of these researchers include: Slemrod (2001), who analyzed archival data from the United States' Treasury tax file for 1977, and by Ali, Cecil and

Knoblett (2001), who analyzed IRS data for the period between 1980 and 1995. Consistently, Weck-Hannemann and Pommerehne (1989) found lower compliance among high income earners in archival data on Swiss taxpayers. Jackson & Milliron, 1986 find that middle income taxpayers are generally compliant with tax laws, while low income level taxpayers and high income level taxpayers are relatively non-compliant with tax laws. In contrary the study done by (Kirchler et al, 2008) finds out that there is a positive relationship between tax rate and tax compliance.

Tax audit, fines and penalties

Economic model assumes that taxpayers try to increase their benefit of complying by weighting the gain from non-compliance with loses that can come with detection and punishment. According to Allingham and Sandmo (1972) non-compliance will depend on audit probability and fines. Studies have claimed that being audited has a positive impact on tax compliance. (Mohd 2010) and Park and Hyun (2003) conclude that tax compliance is positively influenced by tax audit. Park and Hyun (2003) in their experimental study of the determinants of tax compliance find out that charging taxpayers with penalty by the time they were caught when committing fraud encourages tax payers to report the actual income they earn. This shows that the relationship between tax compliance and penalty is positive.

II. Tax system

Tax simplification

One of the essential things affecting governments' ability in tax collection is the existence of proper tax laws and their correct performance. Having tax laws which are consistent and stable in enactment and performance will make the tax system to be less complex and can encourage tax compliance (Reza and et. al, 2011). According to (Richardson 2008) simplicity is the most important determinant of tax compliance in his study. Tax system should be as simple as possible for the reason that taxpayers come from various background, with different level of education, income level, different culture and different tax knowledge. In helping taxpayers to complete the tax returns accurately, the tax authority should have come up with a simple, but sufficient, tax return. The information required in the return must be at minimum level and be readily available from taxpayers' business and personal records (Mohd, 2011).

It is importance to have a simple tax return and system .Although the word 'simple' carries multiple interpretations, at least the majority of taxpayers require that the tax return should be as

simple as possible. The tax authority may assume its tax return is simple and easy to complete but it may not be from the taxpayers' point of view (Silvani and Baer, 1997).

Probability of detection

According to Allingham & Sandmo, 1972 and Beck & Jung, 1989 taxpayers always work hard to increase their benefit by weighting up the risk of detection and punishment for non-compliance against the evading of tax. Probability of detection refers to the likelihood that the tax authorities will discover an individual's noncompliance and seek to remedy the evasion. Individuals normally would like to evade their tax liabilities entirely and the only reason they might not do so is that there is some non-zero probability of being caught.

The relationship between tax compliance and probability of detection has been the interest of many tax literatures. But researchers have been divided on the effect of probability of detection on compliance. For example in Allingham and Sandmo (1972) pioneer in tax evasion research, the relationship between the two was found to be positive. That is taxpayers will always declare their income correctly if the probability of detection is high. Eisenhauer (2008) also found that a high probability of being audited or detected would encourage taxpayers to be more compliant (positive relationship).

Fairness of tax system

Both tax payers and tax authority believe that fairness of the tax system is one of the major determinants of tax compliance. Fairness can be seen from two angles: equity of trade, which is related with the benefit received from paid tax and the other is equity in relation to burden of tax liability in comparison to other tax payers. Taxpayers can perceive the tax system as unfair if they believe that they are paying more than they receive from government and or in relation to what other taxpayers are paying (Chau and Leung, 2009).

Perceived role of government

Government's legitimacy, the government's efficiency, and the government's credibility influence taxpayers' compliance and thus determine the tax revenue that government can raise. Taxpayers can estimate the "fair" terms of trade between their private consumption and government provision of public goods. Therefore, taxpayers will evade in order reestablishing fairness in their relationship with other agents of the fiscal system if the terms of trade offered by government through the tax system differ from their own "fair" terms of trade (Shih-Ying and Mei-Jane. 2005).

Taxpayers are very sensitive about where their tax may go. If the government is wisely spending the national revenue, for example for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them then taxpayers will feel betrayed and attempt to evade (Mohd, 2011).

III. Demographic

Age

According to (Jackson & Milliron 1986) age of the tax payer is one of important factors affecting tax compliance. A research done by (Dubin & Wilde, 1988), shows that older taxpayers are generally more compliant than younger tax payers. In contrast Warneryd and Walerud (1982) and Wahlund (1992) find a negative association, which is older people are less compliant than their young counterpart. Still there are other researches that have found no association between age and tax compliance. To mention some: Spicer and Lundstedt 1976; Spicer and Becker 1980 and Porcano, 1988 find no relationship between age and tax compliance (Mohd 2010).

Gender

Empirically the relationship between gender and tax compliance is toward the argument that female tax payers are more compliant than male counterpart. For example, the study done by Vogel (1974), Mason and Calvin (1978) and (Jackson and Milliron, 1986) found that female tax payers were more compliant than their male counterpart.

Education

Education attainment is another important determinant of tax compliance. It usually relates to a taxpayer's ability to comprehend and comply or not comply with tax laws. It is argued that education has two elements: the general degree of fiscal knowledge and the specific degree of knowledge regarding tax evasion opportunities. It is claimed that by enhancing the level of general fiscal knowledge, tax compliance can be improved as taxpayers will have more positive perceptions about taxation. Increased knowledge of tax evasion opportunities has a negative influence on tax compliance as it assists non-compliance. However, the vast majority of studies examining the impact of education on tax evasion use a taxpayer's general education level as the approach to measure education (Jackson & Milliron, 1986). General knowledge on taxation has a big impact on complying with the tax laws and procedures. Tax knowledge is positively related to tax compliance. It was found that agreement with governmental activities and fiscal policy was

higher in highly educated groups and knowledge on taxation has significant effect on tax compliance. This shows that knowledgeable taxpayers normally submit their tax return within the required time, compared to less knowledgeable tax payers (Mariziana et.al, 2010). Empirical study by Chan et al, (2000) found that there is a positive relation between educational level and tax compliance. Kirchler et al., (2008) stated that higher knowledge concerning tax leads to higher compliance and poor knowledge concerning tax lead to higher noncompliance. In summary it can be considered that general tax knowledge is very important to understand tax law and regulations and to comply with them.

IV. Social and Individual

Attitude toward tax

Attitudes are the positive and negative evaluation an individual have about objects, concepts or living things. It is assumed that attitudes encourage people to act accordingly. Like their view for other things, taxpayers can have a positive or negative attitude about tax in general and tax compliance in particular. Those taxpayers with positive attitude towards tax noncompliance are expected to be less compliant than taxpayers with a negative attitude about tax noncompliance. According to Kirchler et al., (2008) the association between tax compliance and tax attitude are significant but weak. This finding tells that there is complex relationship between tax compliance and tax attitude. In general it can be said that if tax attitude is negative, tax noncompliance will increase.

Personal, social and natural norm

Norms are important determinants of tax compliance. Behavioral intentions are determined also by subjective norms (Ajzen, 1991). Norms are behavioral standards on three different levels: the individual level, the social level and the national level (Kirchler et al., 2008). On the individual level, norms define internalized standards on how to behave. Individual norms are related to moral reasoning, authoritarianism and Machiavellianism, egoism, norm dependency and values. There is considerable overlap between individual norms, values and tax ethics: the more developed the moral reasoning or tax ethics, the more likely is voluntary compliance (Trivedi et al., 2003). On the social level, norms are usually defined as prevalence or acceptance of tax evasion among a reference group (Wenzel, 2005). Social norms are related to the behavior of reference groups, for example friends, acquaintances or vocational group. If taxpayers believe that non-compliance is widespread and approved behavior in their reference group, they are likely to be noncompliant as

well. The relationship between social norms and tax compliance is complex. Wenzel (2005) argues that social norms should elicit concurring behavior only when taxpayers identify with the group to whom the norms are ascribed. Taxpayers then internalize the social norms and act accordingly. On the level of national norms, norms become cultural standards, often mirrored in the actual law. Several authors suggest that trust in political leadership and administration will lead to voluntary tax compliance when favorable national norms are established. In general, if the norms held by taxpayers favor tax compliance, voluntary tax compliance will result. Thus, norms encompass both power and trust. First, national norms find their expression in tax laws and the role given to tax authorities, having a direct influence on their power. Second, social norms such as the belief that tax evasion is a petty crime and widespread hinder the work of tax authorities, in particular when there is no countervailing norm of community. A norm where all citizens are perceived as contributing their fair share would certainly help to increase trust in the authority's (Kirchler et al., 2008).

2.1.3. Tax Compliance in Ethiopia

There are few researches done on tax compliance in Ethiopia. For instance the research done by Lemessa, 2007 tried to investigate Determinants of Taxpayers' Voluntary Compliance with Taxation: The Case Study of Dire Dawa City, a research using descriptive method of research finds out that tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government are the main determinant of voluntary compliance in the city. Another research done using quantitative and qualitative methods by Bisrat (2010) tries to link tax administration and value added tax compliance in Ethiopia and it conclude that government revenue can possibly be increased as well as the taxpayers noncompliance problem can be reduced with the existence of similarity of tax burden on similar incomes, fairness of the penalties and fines.

2.1.4. Tax Non Compliance

Tax noncompliance is taxpayer's failure to comply with their tax obligation. It can be: not reporting the tax bases, not timely filing and payment, and incorrect calculation of liability. Tax payers are influenced by many factors from complying their tax obligation, including, their distortion toward public institution, perceived fairness of taxes, prevailing social norm and chance of noncompliance being detected and punished.

According to Amina & Saniya tax noncompliance is socially destructive, as it can reduce revenue, distort labor market and weaken state stability by feeding perception of cheating and fraud. Reducing noncompliance can be effective if the reason for noncompliance by tax payers is known. Understanding the motivations underlying taxpayers' attitudes and behaviors toward voluntary compliance is constructive to tax authority by providing them information that can help them which strategy is appropriate and effective to increase compliance.

2.2.Overcoming Challenges in Tax Administration

Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. A government can keep taxpayers from doing these activities, and thus successfully avoid tax evasion depends on the nature of economy's actual tax base. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting full taxation potential of a country.

(IMF 2016) states that the goal of Ethiopia's Growth and Transformation Plan (GTP) II is for the country to reach middle-income status by the year 2025. Mobilization of domestic resources through the tax system is a key part of the strategy. To support the plan, revenue is targeted to grow as a percentage of GDP, from 13.7 percent in 2015/16 to 17.2 percent in 2019/20.

The Ethiopian Revenues and Customs Authority's (ERCA) strategic plan for the GTP II period sets out a reform plan that broadly covers the areas required to achieve the targeted growth in revenue. The plan, though significantly delayed, has six strategic thematic areas: human resource management; modern information systems; customer education and support; law enforcement; and revenue collection.

Growing tax revenue by 3.5 percentage points of Gross Domestic Product (GDP) over the next five years is achievable. Indeed, such a feat has been achieved by a number of countries in the region at various times. International experience shows that many countries have designed and successfully implemented reform programs to improve tax compliance and strengthen effectiveness and efficiency in revenue administration. Key areas of the reforms include: improving organizational structures; strengthening management control and reform governance; strengthening core operational processes; expanding the use of risk- and segment-based approaches; improving use of data and information technology (IT); reforming the human resource (HR) policies and regimes; and engaging internal and external stakeholders widely and effectively.

ERCA has begun to address a number of the challenges that could inhibit the realization of the GTP II targets. Previous Fiscal Affairs Department (FAD) technical assistance missions identified key areas to improve ERCA's performance including strengthening compliance risk management (CRM); finding urgent but long term solutions to core HR and workforce management problems; and addressing deficiencies of the IT system and data integrity. The mission still recognizes the need for ERCA to fully implement previous recommendations and has refined them in some of the areas. Additionally, the need to clean up the taxpayer register and improve the efficiency and effectiveness of compliance enforcement activities is emphasized.

Compliance Management

Compliance management tasks included in ERCA's tax compliance improvement plan includes: Implement performance measures and build a more robust audit plan that considers quality and all inherent risks. Revalidate the roles and mandates of the headquarters functions, including increased use of cross functional committees to ensure decisions and outputs have taken into consideration all required inputs. Assign a centralized function to monitor businesses that are tax exempt. Create and extensively promote a leadership development program and implement an effective delegation policy. Implement a clear policy on monitoring procedures to ensure the taxpayer register is cleansed of real inactive taxpayers and undertake initiatives to recruit new taxpayers. Consolidate the tax crimes investigation functions under one roof. Develop industry specialists and build expertise. Procure and implement an automated software solution for conducting audits and require large businesses to use a standardized financial statement output template.

2.3. Block Management System

To make life easier for small taxpayers, revenue authorities in a number of countries – Mauritius, Rwanda, Tanzania and Zimbabwe – require them to take up electronic billing machines (EBM). The purpose is to encourage them to improve their sales analysis and stock management, especially among those whose compliance is low. Proper implementation of EBMs prevents the under-declaration of sales and profits, the non-issuance of invoices, false refunds and offset claims. It also helps the revenue Authorities track down untraceable taxpayers and reduce the size of the large informal sector (African Tax Outlook 2017).

According to the study by the African tax Outlook, Some revenue authorities have put in place Internet bureaus in their medium and small taxpayer offices designed to help small taxpayers file

their returns electronically at no cost. A measure designed specifically for the small taxpayer, it has helped to bring services closer to the taxpaying community. Zambia, again, is one country that has introduced internet bureaus.

In Addition the taxation of individual tax payers as well as Small, Micro and Medium Enterprises (SMEs) poses a number of challenges to the tax administration, which have to be mitigated in order to ensure that SMEs become tax compliant and contribute effectively to government revenue. These challenges include the following: Lack of appropriate compliance management coupled with individuals' and SMEs' non-compliance tradition that is aggravated by volatility in trading activities and patterns, existence of a large number of non-registered business activities. Difficulty of identification, which is a pre-requisite for reliable and credible taxpayer's registration, disincentives to comply with tax laws, due to the complexity, wide knowledge gap and inadequate assistance of the tax laws, regulations and procedures, Rapid development of the underground economy and innovation in some SMEs which deliberately take the form of tax evasion, Non-existence of records or poor record-keeping. The emphasis of tax administration reforms on assuring appropriate administration and collection of taxes from Large Taxpayers which put little chance in designing and implementing a compliance strategy for SMEs.

Many countries have recorded significant benefits through setting up of specialized units to control the compliance of large taxpayers. It is from the same gains, achieved through segmentation that the Tanzania Revenue Authority (TRA) decided to start paying special attention to the individual and SME sector. The TRA recognized that the methods used in the past had been inadequate to deal with an ever increasing informal sector which had unique characteristics and had potential to contribute to the revenue base of the country. However for this potential to be turned into tangible results, the TRA needed to come up with strategies that recognized the unique characteristics of the SME sector and the environment in which they operate. Against this background, the TRA introduced the Block Management System (BMS) to increase tax compliance within the SMEs with the ultimate aim of enhancing government revenue and deter tax evasion.

According to African Tax Outlook the situation outlined above regarding SMEs poses a severe challenge to the Tanzania tax administration and system. This is with respect to the level of the tax burden, tax administration processes and other factors which are considered as reasons for SMEs' informal operations. The TRA has had to introduce changes and simplification of the tax processes as specific strategies for the taxation of SMEs. After unsuccessfully attempting a number of

methods to manage the compliance of SMEs, the TRA eventually formulated a more viable and sustainable system known as the Block Management System (BMS) in 1995.

The Block Management System was designed in order to manage tax affairs of individuals, small and medium enterprises by demarcating the areas in which they conduct business into sizeable and manageable blocks. The BMS evolved from and replaced a previous strategy known as “physical surveys” (PS) which was a periodical program that proved not to be cost effective. It further lacked effectiveness in terms of enhancing tax compliance. The physical survey was undertaken periodically as and when funds and time allowed. It could sometimes take two or three years before another physical survey was undertaken. This meant starting all over again as data from the previous physical survey would not be current and complete. It therefore lacked consistency and sustainability in enhancing tax compliance. On the other hand, the BMS is a continuous and permanent program.

The African Tax Outlook further states that the design and implementation of the BMS was not viewed as a completely new project, but a transformation of an existing system by building on its weaknesses. Hence, complete project management procedures, with well documented project plans and timelines were not available as would be the case in a completely new project.

The BMS concept was first designed and implemented by the TRA management with its first in the Dare-Salaam tax region and then subsequently to other regions.

The BMS covers taxes falling under the Domestic Revenue Department (DRD), which are: *Corporate Tax, Personal Income Tax, Withholding Taxes, Value Added Taxes, Employment Taxes (PAYE & SDL)*.

2.3.1. Purposes of BMS

African Tax Outlook states the purpose of the BMS to be to identify and facilitate easy registration of new taxpayers and facilitate the close monitoring of taxpayers’ activities and their movements. The BMS helps to meet taxpayers’ requirements promptly and enhances the expansion of the tax base both quantitatively and qualitatively. It facilitates the setting of collection targets, especially with respect to small taxpayers or individual taxpayers in the block.

The BMS helps to combat tax evasion emanating from under-declaration of business transactions and provides a feasible way of touching base with the informal sector through simplified field visits. It enhances tax compliance through permanent visits to business premises which also enables dissemination of taxpayer education and prompt delivery of services. The BMS reaches

out to informal taxpayers by physically identifying and mapping where they live and work. It demarcates such areas, sizing them to manageable blocks. Businesses in the blocks are identified by business type (e.g. transport providers), economic segment (e.g. cross-border traders) and geographical area (e.g. street, district). Revenue authority staff moves from door to door visiting taxpayers, identifying non- and late-filers and explaining and educating accordingly. Kenya, Rwanda, Tanzania and Zambia all introduced and use the BMS lately. Tax administrators and taxpayers communicate openly, while field visits and person-to-person education on an everyday basis incites traders to register. Furthermore, BMS enables taxpayers to pay their taxes without having to go to the tax office, which shortens queues and improves services.

The overall objective of the BMS is to have in place sustainable methods and strategies of monitoring business activities of the individual and SME taxpayers to make them pay taxes in a cost effective manner. The BMS focuses on the physical identification and mapping of areas in which the individual & SME taxpayers are located and operate. These areas are then demarcated and designated as a block or sub-block. Each block is mandated to operate all the key tax administration functions of registering, assessing, collecting and accounting for revenue collected. Staff assigned to specific blocks therefore finds it easier and feasible to permanently touch base with taxpayers operating in these blocks. Similarly, taxpayers find this arrangement more user-friendly and cost effective.

The study by the African Tax Outlook prevails that the implementation of the BMS has overall positive impact on the tax compliance management of the individual SME taxpayers. This is demonstrated by the increase in the revenue yield and increase in the number of registered taxpayers. Revenue Authorities using the BMS have attempted to improve their functions to broaden the tax base, reduce tax gaps, improve fairness in the tax systems and enhance the overall rate of voluntary compliance through various ways (ATAF & GIZ 2014).

2.3.2. Block Management Activities

According to (URA 2013) under the BMS, all compliance and monitoring activities are performed on identified taxpayers located within a specific block. One major compliance activity that officers in the field are required to carry out is to enforce the use of Electronic Fiscal Devices (EFD). EFD is a machine designed for use in business for efficient management controls in areas of sales analysis and stock control system and which conforms to the requirements specified by the laws. This system is for use by taxpayers for the issuance of invoices and receipts. The use of EFDs is

expected to improve taxpayers' business record-keeping and to enhance voluntary tax compliance. It is being implemented in phases. The first phase covers only VAT registered traders, whereas the second one will bring on board non-VAT registered traders. Furthermore the URA classifies the major activities to be undertaken in the BMS as follows:

a) Field visits

In order to ensure optimum utilization of resources, a risk based approach is undertaken through preparation for the field visit. Preparation entails staff establishing the purpose of the visit by gathering information to support the need of the visit from the files as well as the ITAX system (it is an integrated system developed by the TRA to support Domestic Revenue operations). The purpose of the visit can include registration, taxpayer education, audit or enforcement. Once the visit has been established and approved, officers are required to sign out in the Outgoing Register indicating where the visit is to be made and the purpose of the visit.

In the field, the officers then carry out functions that include moving from door to door to check taxpayers' activities including the usage of EFDs. They will identify none and late filers and determine the categorization of taxpayers into large, medium and small based on turnover over a three year period. If necessary, they will make adjustments to reconcile the records. To ensure checks and balances in the conduct of staff, field visits are to be undertaken in pairs. Upon return to the office officers sign in.

b) Compliance management

Within the compliance management activity, the revenue Authority does the following: Identify and register Maintain Block/Sub-block Taxpayer Registers, Follow up non-filers and non-payers, Review Presumptive cases, Examinations of selected returns and follow up recovery of assessed tax, Nurture Small and Medium taxpayers to become Medium and large taxpayers respectively and Implement other initiatives approved in the planning process.

c) Collection enforcement

The collection enforcement activities in the BMS are undertaken to: to collect outstanding and overdue tax liabilities, to remind taxpayers about due dates and any other tax obligations, maintain list of tax arrears and enforcement action such as issuing immediate demand letters, Agency Notice and distress warrants.

2.3.3. Setting up of Blocks

According to the URA study, Block allocation can be applied at both the Regional level and at District level, by creating Blocks or Sub-Blocks. A block or sub-block can be created at regional level or at district level without any necessary coordination between them, provided the BMS policy is adhered to. A block according to the BMS policy shall be a specified manageable area that is mapped by sketches showing distinctive boundaries like street names. The starting point of the BMS is the physical identification and mapping of areas in which the SME taxpayers are located and operate. This is usually done with close collaboration with other stakeholders, like local authorities and business associations. Fig 2.1 shows the map of Merkato No.1 & No.2 BMS in Ethiopia

Fig 2.1. Map of tax blocks/centers at Merkato business area



Source: IMF Progress report on Merkato tax compliance improvement plan

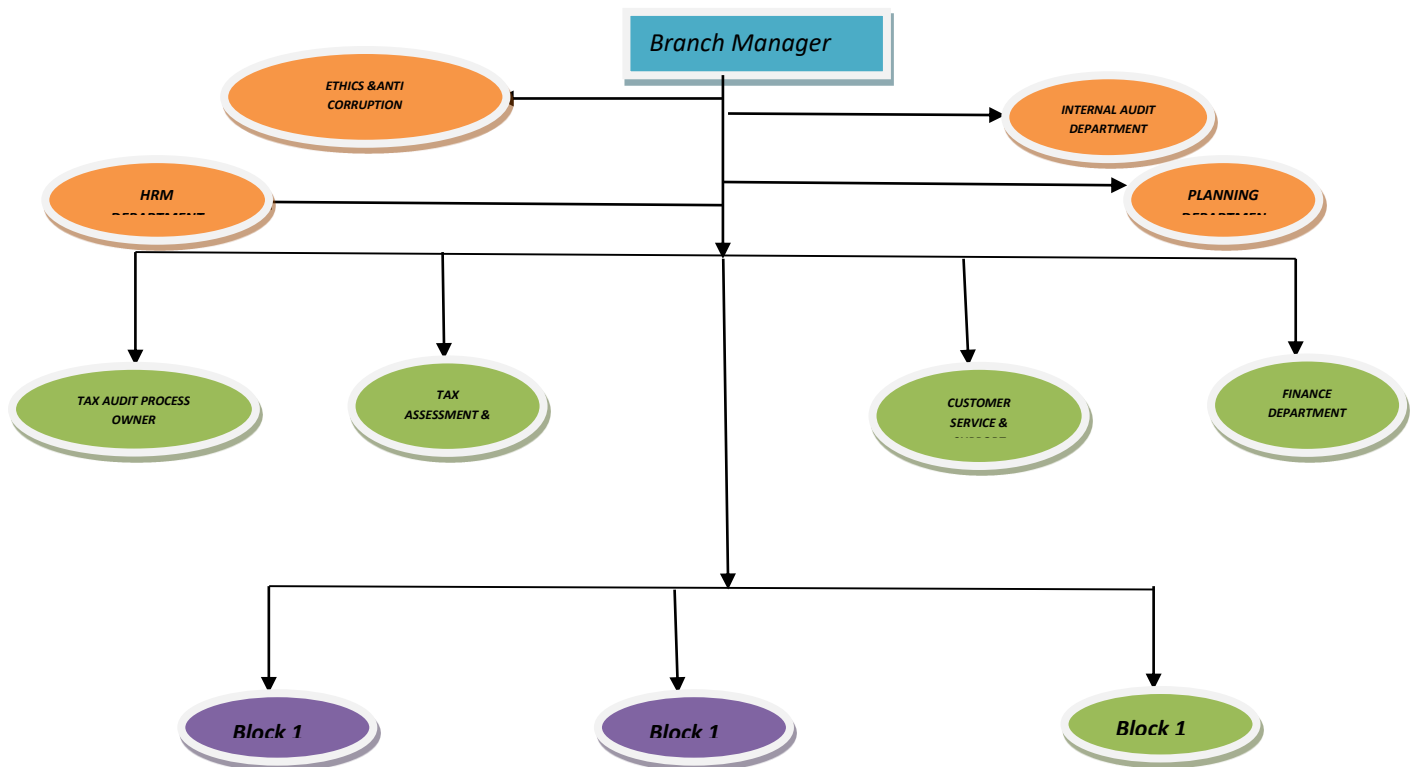
2.3.4. Administration of a block

Each block is mandated to operate all the key tax administration functions of registering, assessing, collecting and accounting for revenue collected. In effect, the block is a permanent set-up which is allocated staff to carry out these functions, subject to rotations after a period of, normally, three years. Support functions like debt management; audit and taxpayer services are usually centralized in a Tax Service Centre.

The Merkato BMS has begun operation with 6 Blocks and two tax centers namely Chilalo, Mirab, Tana, Adarash, Abdo Berenda and Sebategna grouped in to the two tax centers Merkato No.1 & Merkato No. 2 respectively (IMF 2013).The administration of a tax region with regard to block administration will provide centralized support services that include human resource and

administration, finance and ICT. The Branch Manager is also in charge of the centralized support functions, audit and debt management, that are provided by a Tax centers. The functions of audit and debt management are each headed by process owners. Figure 2.2. below shows the organization structure of the two branch offices Merkato No.1 & Merkato No.2.

Fig 2.2. Structure of Merkato BMS



Source: ERCA HR Structure

According to URA (2013) KRA, TRA and RRA have implemented a Block management system (BMS) as way of boosting taxpayer registration function. The Block Management System is where tax jurisdictions are divided into blocks and sub-blocks and tax officers are deployed to manage the tax affairs of taxpayers in each block. The specific objective is to register eligible taxpayers, support taxpayers as they meet their tax obligations. The system has been very effective at TRA where approximately 1.6 million taxpayers have been registered. The major activities pursued under the Block Management System include;

The BMS as implemented in the TRA has overall achieved its intended purpose of having in place a sustainable method and strategies of monitoring the business activities of the SME sector. The journey started in 1995 after previous methods had proved unsustainable. However it was the

lessons learned from the previous methods, especially the “physical survey”, which set the foundation for the BMS.

The BMS may not be applicable ‘wholesale’ in other countries as it has been applied in Tanzania. There would be a need for modification depending on the prevailing local situations and conditions. There is a need to first understand the current systems and strategies applicable to the taxation of SME and then blend in the solutions offered by the BMS.

In general however, the adopted strategies for effectively dealing with the SMEs taxation should endeavor to facilitate tax compliance, to apply the tax laws uniformly, consistently and transparently, and to address the unique problems of each taxpayer segment. This is with respect to registration, returns filing and agreed bases and methods of calculating taxable income.

Information technology and stakeholder cooperation have been shown to play a significant role in building the information pool and data matching capacity of tax administrations as tools of helping SMEs to comply with tax laws as well as to assist SMEs in the informal sector to become formal.

The following are considered as success factors in the implementation process:

- **Setting up of the block** - the process of mapping the area requires that information about taxpayer population, activities and the geographical area be available. It also requires collaboration with other stakeholders like, local councils, wards, business associations, etc.
- **Adequate staff numbers** – the tax administration establishment must be able to respond to the dynamics of the SME population and the environment. Alternatively high levels of automation must be achieved so that an increase in taxpayers does not require a corresponding increase in staff numbers.
- **Automation of the tax system** - the tax system must be as fully automated as possible to ensure timely processing of information gathered from field visits and generally increase the efficiency and effectiveness of operations of a block.
- **Taxpayer education and customer service** - TRA has developed a dedicated taxpayer service division that works in collaboration with the tax officers. TRA has also developed effective call centers to deal with taxpayer queries. When dealing with the SME sector, taxpayer education and customer service are critical in the process of registration

2.4.Improving Tax Compliance

Improving tax compliance requires long-term reform efforts, beginning with strengthening the organization and management of the revenue agency, implementing robust collection systems

(e.g., payment and withholding systems) and building capacity in core tax administration functions (registration, filing and payment enforcement, debt collection, audit, taxpayer services, and processing of appeals). Reform of the legal framework and judiciary is also often required to ensure that the necessary powers, penalty regimes, and dispute resolution processes are in place. Increasingly, information and communications technology is playing a critical role in compliance management (e.g., through automatic gathering of third-party information as a by-product of natural business processes; use of electronic invoices to facilitate real-time transaction monitoring and verification; and analysis of revenue risks).

Reform priorities to improve tax compliance differ across countries and regions, reflecting variations in stages of development, administrative capacity, and scope of tax abuse. One size does not fit all, so reforms need to be tailored to each country's circumstances. The relatively wider tax gaps and lower revenue productivity of developing and emerging economies generally suggest potential for bigger revenue yields from compliance improvement initiatives.

For these countries, getting the fundamentals of revenue administration in place (especially taxpayer service operations and effective audit and enforcement) should be the first step. For more advanced countries, more sophisticated approaches to compliance management can be taken. In this regard, a number of countries are adopting comprehensive tax compliance strategies (often referred to as "compliance programs"), building on the work undertaken by pioneers in this area (Australia, for example, developed its first comprehensive compliance program in the early 1990s).

2.4.1. Taxpayer Compliance Program

A taxpayer compliance program is a high level plan which brings together in a single document a description of the most significant compliance risks identified in the tax system and sets out the broad detail of how the revenue agency intends to respond to those risks. It does not attempt to cover every aspect of a revenue agency's operational activities. Compliance programs are commonly structured around major taxpayer segments (e.g., large businesses, medium-size enterprises, small and micro enterprises, and individuals) and address compliance risks relevant to these segments.

The great majority of revenue agencies have moved away from administrative assessment systems under which all or most tax returns are subjected to examination prior to the issue of assessments to taxpayers, to a system of self-assessment which relies on most taxpayers voluntarily complying with their obligations to register, keep proper records, file correct returns and pay tax on time

without the intervention of a tax official. Successful self-assessment systems are underpinned by an administrative approach which recognizes that voluntary compliance will be optimized through an appropriate balance of taxpayer education and assistance, simple laws and procedures, and risk-based verification programs:

- Taxpayer education and assistance programs—help taxpayers and their advisors understand their obligations and entitlements (taxpayers cannot comply if they do not understand the tax laws and procedures).
- Simple laws and procedures—make it easier and less expensive for taxpayers to comply with their obligations and access their entitlements (taxpayers may not voluntarily comply if the tax system itself makes it too difficult or too expensive for them to meet their obligations).
- Risk-based verification programs—create a downside to poor compliance behavior by detecting and deterring noncompliance through use of risk management approaches (taxpayers are more likely to comply if they perceive a strong chance of detection and see blatant non-compliers being brought with account).

The purpose of a taxpayer compliance program is therefore to identify and respond to the most significant risks in the tax system through a range of measures aimed at the underlying causes of the noncompliant behavior. The objective is to achieve the widest possible impact on voluntary compliance across the taxpayer population.

2.4.2. The effect of taxpayer education on voluntary tax compliance

Taxpayer education refers to programs aimed at teaching taxpayers about their tax rights, responsibilities and legal requirements. It can also be described as a method of educating the people about the whole process of taxation and why they should pay tax (Aksnes, as cited in Gitaru 2017). It assists taxpayers in meeting their tax obligations to the government. This means that the primary existence of taxpayer education is to encourage voluntary compliance amongst taxpayers. According to Misra (2004), the main objective of tax payer education is in three folds: impart knowledge as regards tax laws and compliance; change taxpayer's attitude towards taxation and increase tax collection through voluntary compliance.

Misra further states that taxpayer education is inextricably associated with tax base broadening. Without education it is meaningless to have taxpayers on register who do not understand their tax

obligations. Tax base broadening is multi-faceted in terms of legislation and procedure. The role tax education assumes with regard to this aspect of tax base broadening is to increase the awareness, while providing education to the general public as to the functionality of these new approaches to taxation. Taxpayer education is responsible for education of taxpayers through publications, newsletters, media, seminars, workshops and etc....

Taxpayer Education alone does not generate compliance but fear of non-compliance from enforcement work hand-in-hand to ensure voluntary compliance. Taxpayer Education is the future: it will enlightens and empower taxpayer with the ability to make the correct decisions in life. Taxpayer education is a stepping stone to engendering a tax culture.

According to Oyugi 2008, tax authorities should pay more attention to taxpayer education, compliance and tax audits. With complex tax laws, taxpayers have to bear additional costs in order to interpret the law and process tax returns. This tends to give the taxpayers an incentive to evade tax and therefore, provides a rationale for aggressive taxpayer education. According to (Machogu and Amayi 2013) there is a positive relationship between taxpayer education and voluntary tax compliance. Taxpayer education will provide the necessary tax knowledge to comply with the tax matter and change the perceptions and attitudes towards tax-compliance by creating more positive attitudes. Studies on the relationship of taxpayer education and compliance confirm that there is a significant positive relationship between the level of taxpayer education and the level of the voluntary tax compliance.

A well designed public education program should involve an extended range from traditional types of media such as print, television and radio to modern social media tools such as Facebook and Twitter. It should also organize town hall meetings, seminars, workshops, and monthly mobile business clinics. In addition, specific initiatives targeting school children to raise awareness from an early age should also be used.

2.4.3. Taxpayer service and Tax compliance

Modern tax administrations should adopt a service-oriented attitude toward taxpayers, ensuring that taxpayers have the information and support they need to meet their tax obligations (Okello, 2014). It is therefore important that taxpayers receive clear information describing their obligations, the taxes applicable, and when and where they are payable. To this extent, taxpayers

need to be informed about changes to the laws and they should have easy access to information and tax forms. Tax administrations should also be equipped to provide taxpayers with advice and information through, for example, call centers, web sites and public seminars (Okello, 2014). A review of the literature pertaining to the most common practices by tax administrations globally reveals the following as the most effective in improving tax compliance and revenue collection. Taxpayer segmentation USAID (2013) shows that the international trend is for tax administrations to separate taxpayers into major taxpayer segments (e.g., large businesses, medium-sized enterprises, small and micro enterprises and individuals). This allows the authorities to better understand and develop organizational structures and compliance strategies that best address their particular characteristics (Okello, 2014). The most common segmentation strategy has been to establish a Large Taxpayer Office (LTO) to provide services to the relatively small number of major taxpayers who contribute the bulk of tax revenues. This approach makes sense from an administrative cost-benefit point of view as it allows the tax authority to maximize revenue collection at considerably lower costs World Bank (2007). More recently, some countries have even established Medium Taxpayer Offices (MTOs) to concentrate on the needs of that particular segment. With respect to small taxpayers, the most populated taxpayer segment, developing countries traditionally have not put much emphasis on facilitating tax compliance among this group, but this trend is changing. The common practice now is to introduce presumptive tax measures which allow small taxpayers to opt to pay, for example, a standard assessment based on occupation; an estimated assessment based on income activity; a minimum tax; or simple turnover tax, rather than be subject to more complex income tax requirements (USAID, 2013). According to the World Bank, tax system has been cited among the top five obstacles to doing business. Among the main issues surrounding the tax system are:

- i.* Large number of business taxes to pay;
- ii.* Lengthy and complex administrative procedures;
- iii.* Complex tax legislation; and
- iv.* High tax rates.

An effective way to encourage taxpayers to voluntarily pay their tax obligations is to reduce the cost of compliance by making it as simple and easy as possible to navigate the tax process. This starts with simplifying the tax laws to make them clear and easy to execute. In some countries, the

number of tax rates has been reduced and a flat tax applied across certain hard-to-tax segments. Presumptive tax regimes for small taxpayers would be one such example. Simplification has also been introduced in the filing and payment process. More tax administrations have been moving towards electronic filing and payment systems, often making it mandatory among large taxpayers. Electronic systems can reduce the amount of time it takes for businesses to fill out multiple forms with similar information, as well as cut down on time spent waiting in line to file returns and make payment at the tax office. There has also been a trend towards reducing the number of forms a taxpayer has to submit and consolidating the number of filings per year. In some countries, the registration process itself has been revamped to allow businesses to register with multiple government agencies in one step, what has been commonly called ‘one-stop-shop’ registration. For example, Costa Rica successfully reduced the requirements for starting and operating a small business by introducing a multi-agency network that facilitates one-stop filing of all the necessary documentation for business formalization. Use of a common network also encourages information exchange between the institutions involved World Bank (2007).

2.4.4. Enforcement

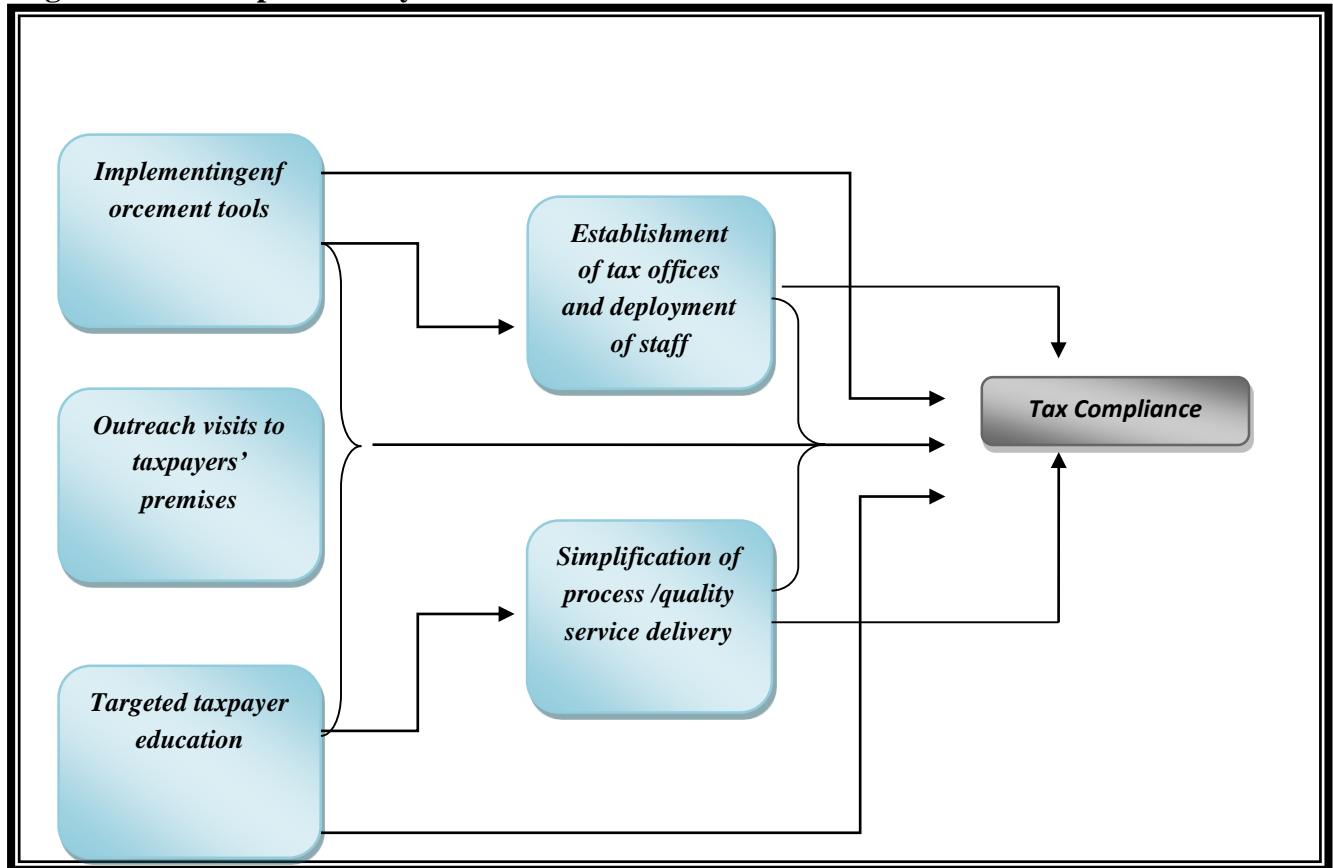
Akhand (2012) and USAID (2013) have shown that strong enforcement mechanisms are an important element in persuading taxpayers to comply. In recent years, there are some strategic changes made to the enforcement mechanisms by emphasizing risk-based management by taxpayer segments and the use of alternate sources of information to make the inspection and audit programs more effective. The use of third party information is one of these alternate sources of information that tax authorities have implemented successfully for tax enforcement and audit programs. This helps tax authorities to identify delinquent companies and/or individuals who are either not paying taxes at all or who are underpaying.

2.5. Conceptual Frame Work of the Study

The conceptual framework to assess the practices and challenges of Block Management System for tax compliance improvement is illustrated in Figure 2.3. The project at the outset of its implementation has identified tasks to be accomplished to improve tax compliance in the study area. These include establishment of tax offices and deployment of staff, simplification of process, targeted taxpayer education, outreach visits to taxpayers’ premises and implementing enforcement

tools (IMF). Putting these in to consideration the researcher has developed the following conceptual framework of the study.

Figure 2.3. Conceptual Study Framework



Source: (own survey, 2018)

As shown in the figure above all the tasks listed above are variables that have contribution to taxpayer compliance in the project area both independently and jointly. Therefore this paper focuses on assessing the practices of tax compliance improvement measures taken by Merkato block management project.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Study Design and approach

For this study, the researcher applied descriptive research design and qualitative research approach, given the fact that a descriptive research design is used to describe the data and characteristic about what is being studied. Descriptive survey also enables to obtain current information. It is also used in fact finding studies and helps to formulate certain principles and give solutions to the problems concerning local or national issues. Descriptive survey method focuses on investigating the current status, practice and problem related to the Block Management Project.

3.2. Study area

The study was done at Merkato No.1 and Merkto No.2. Medium taxpayers branches, because of the following reasons. First, Merkato: the biggest business hub in Ethiopia as well as in Africa and it is located at the center of various trade routes of the country is encountering revenue collection and taxpayer's compliance challenges. Second is the Block Management system project has been implemented in these two tax branches.

3.3. Population, Sampling Techniques and Sample Size

The population of the study is category 'A' tax payers of the two Branches: Merkato No.1 and Merkato No.2, due to the fact that these taxpayers are required by law to declare their income or keep books of account. According to the income tax proclamation No.979/2016, category 'A' taxpayers are those whose annual turnover is above 1000,000 Birr and they are required by law to use sales register machine or manual receipts for their transaction, so that they could declare their income and pay tax using books of account. Then proportional number of sample was allocated from the population by random sampling technique.

3.3.1. Sampling techniques

A combination of convenience sampling and purposive sampling techniques was used to select sample population. This is to ensure that most of the category 'A' taxpayers is adequately represented in the sample. The sampling technique might have its own draw back while inferring the findings based on the sample data to the whole population. To minimize this error appropriate sample size was taken and greater effort and caution was undertaken to make the samples as representative as possible.

Purposive sampling: This method was used to select the targeted respondents because it is a non-random sampling procedure in which personal experience of the respondents was considered to be key, derived from the position one held or the roles he/she played in relation to the implementation of the project. Accordingly, the respondents selected purposively include; branch managers, block management project team members at the head quarter, tax audit department head, tax assessment department head and tax law enforcement department head.

Convenience sampling: This method was used in order to get the category ‘A’ taxpayers’ easily by the time they come to declare their monthly VAT declaration to the two branches: Merkato No. & Merkato No.2.

3.3.2. Sample Size

The population for the study was obtained by combining taxpayers of the two tax branches of Merkato No.1 and Merkato No.2. Accordingly the total number of individual businesses in the six blocks: namely Chilalo, Mirab Hotel, Tana area, Adarash, Yirga Haile, and Abdo berenda is 18,669. Out of this total population, pool of 10,161 VAT registered taxpayers was chosen according to the taxpayers’ category. Then a sample of 99 individual taxpayers was determined to be the sample population using the Slovin formula

$n = \frac{N}{1 + Ne^2}$, at a 90% level of confidence and 10% error margin. Where **n** is the sample population, **N** is the total population from which the sample would be drawn and **e** is error margin (0.1 in this case).

3.4.Sources of Data

The data used in this study consists of both primary and secondary data. The primary data were collected through questionnaire and interview. The questionnaire comprised of both closed and open ended questions. Closed ended questions are quicker and easier both for respondents and the researcher. Most of the closed ended questions are designed on an ordinal level of measurement basis, and others are designed as multiple choice. Some of the closed ended questions were a five scored Likert scales to provide respondents a wider range of alternatives with end points where ‘5’ refers ‘strongly agree’ with the statement and ‘1’ refers ‘strongly disagree’ with the statement. Adding open ended questions allows respondents to offer an answer that the researcher didn’t included in the questions. And also, interviews were made for those tax officials who have expertise knowledge on the issue.

Secondary data were collected from the tax branches annual reports from 2005-2009 E.C to get the data on the number of newly registered tax payers, number of tax payers participated on tax education, number of VAT registered taxpayers, number of taxpayers who bought the sales register machine, number of audited taxpayers, and revenue collected from VAT and other tax revenue sources within the indicated periods. In addition to annual report, manuals and other organizational documents were referred to collect secondary data. While collecting and using these data for the study, more considerations were given to their time period, reliability, and relevance to the purpose of the study. In addition secondary data were also collected from the tax authority data base /SIGTAS/ or unpublished sources. This data includes number of category 'A' taxpayers in each branch.

3.5. Data Collection Instruments

Data collection methods

Primary and secondary data collection methods were used to get information from respondents and other sources.

3.5.1. Primary data collection methods

Primary data collection methods used by the researcher to collect data from the field include; interviews and questionnaires.

a) Interview

The researcher interviewed concerned bodies in the two branches including the branch managers, head of tax audit department and tax law enforcement department head as well as block management project team at the head quarter in order to solicit information regarding the challenges facing the implementation of block management project in Merkato. The advantage of using interviews was demonstrated by the fact that it is a quick method in gathering information and the researcher could know whether the respondents understand the questions or not.

b) Questionnaires

Questionnaires were used to obtain information regarding tax compliance improvement due to the implementation of the block management system in Merkato. The questionnaire consisted of properly constructed open and close ended questions in order to make it easier to obtain precise answers from the respondents. Expert opinion was sought for in order to validate the content and

the structure of the questionnaire during the study. Questionnaires complemented and supplemented information obtained under interview and documentary review. The questionnaire has five parts. In the first part general characteristics of tax payers were asked. In the next section issues related to taxpayers education, awareness creation and consultation sessions were included, the third section contain taxpayer contact to the tax Authority and satisfaction with the overall service provided by tax offices / respective tax centers, the fourth section contain taxpayers' perception about door to door visit and support by tax officers, and the last section asks about taxpayers' perception about the criteria for selection of taxpayers for audit, auditing procedures and tax enforcement measures taken by tax branches. In addition in depth interview questions were used to interview tax Authority higher officials.

3.6.Method of Data Analysis

In this most important component of the study, responses of the respondents collected using the above methods were organized, analyzed, and interpreted in a sensible way. The analysis was based on descriptive data analysis and data were presented in tables, figures, graphs and charts.

3.7.Ethical consideration

The researcher took into account the ethical obligations to the taxpayers in the study area, whose input from the research questionnaire were kept confidential and will only be used for academic purposes. Respondents to the questionnaire had the right not to answer questions that they felt were not appropriate without any intimidation. Respondents were given assurance about anonymity of their responses.

CHAPTER FOUR DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1. Introduction

This chapter presents, analyses the data and discusses the findings. For the purpose of showing the relationship amongst various variables, descriptive statistics such as frequencies and percentages have been used. Whereas the study had targeted a total of 99 respondents, no responses from respondents were considered invalid and inadequate for analysis stage. This represents a response rate of 100%. These responses formed the basis for the analysis presented in this chapter. The chapter is guided by the study objectives. The data has been presented in the form of frequency tables, pie-charts, and graphs where applicable.

4.2. Socio Demographic Characteristics of the Sample

In respect to the study participant profiles, majorities (73%) were male participants and majorities fall in the age groups between 31 – 40 years, which accounts 37 % followed by age group 20 – 30 years, which accounts 36%. Regarding the study participants educational status, majority (52%) of them were 1st degree graduates in different disciplines. The findings further revealed that study participants had been in the business and paying taxes in varying years duration; where majorities (49%) of them had been in business for years between 1 – 5(See the detail in table 4.1. below).

Table 4.1. Socio Demographic Characteristics of respondents

Variable	Category	Number of respondents	% of the total
Gender	Male	72	73%
	Female	27	27%
	N	99	100%
Variable	Category	Number of respondents	% of the total
Age categories	20-30 years	36	36%
	31-40 years	37	37%
	41-50 years	18	18%

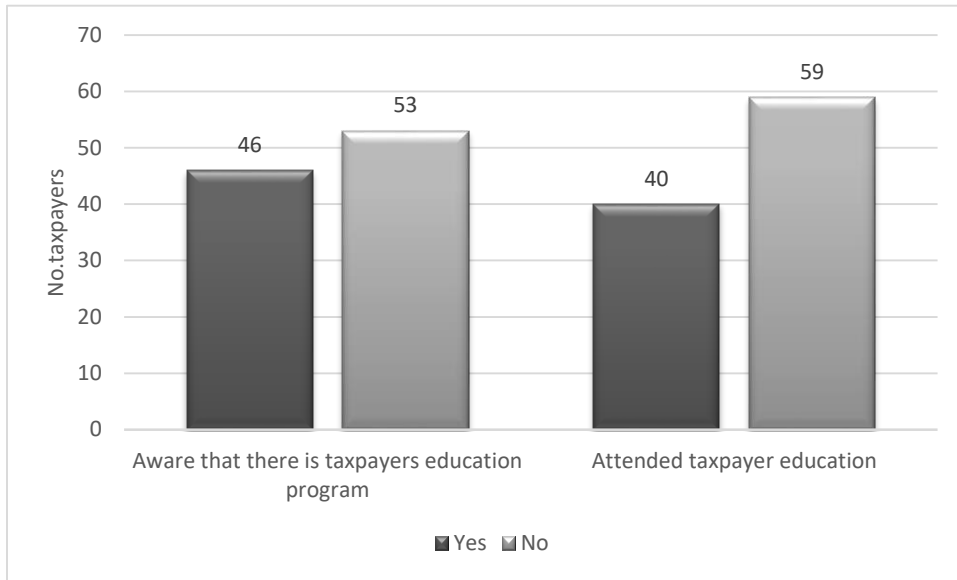
	Above 50 years	8	8%
	N	99	100%
Variable	Category	Number of respondents	% of the total
Level of education	Below 12 grade	19	20%
	12 Complete	12	12%
	Diploma	12	12%
	First Degree	50	52%
	Master's Degree and above	2	2%
	Illiterate	2	2%
	N	99	100%
Variable	Category	Number of respondents	% of the total
Duration in business	Less than 1 year	12	12%
	1-5 years	49	49%
	6-10 years	28	28%
	More than 10 years	10	10%
	N	99	100%

Source: (Own survey, 2018)

4.3.Results related to taxpayers’ education, awareness creation and consultation sessions in the block management system

According to this study, from the total sample, majority (54% & 60%) of respondents reported that they are not aware and have not attended taxpayers’ educations conducted by the two tax branches respectively (see fig 4.1 below). The reason for not attending taxpayers’ education sessions as explained by majority of the respondents was that the contents of the tax educations are not interesting and are similar in type throughout different times.

Fig 4.1. Respondents’ awareness and participation in taxpayers’ education in Merkato No.1 & No.2



Source: (Own survey, 2018)

To understand the perception of respondents about the provision of taxpayers’ education and information, five stage response scale were used (i.e. which ranges from strongly disagree to strongly agree) and to generalize about their perception percentage agreement and percentage disagreement values were considered. Accordingly majority of the respondents (49%) disagreed with the adequacy of tax information desks in the tax offices/ respective tax centers, and 44% of respondents replied that taxpayers’ education has made it easier for taxpayers to understand the available tax documents. 59% and 65% of respondents agree that door to door taxpayers’ education, awareness creation and consultations are highly helpful and taxpayers’ education has enhanced tax compliance in the study area respectively. Majority of the respondents (65%) reported that taxpayers’ education has enhanced the taxpayers’ understanding of various tax issues. However, majority respondents, (46%) are not satisfied with the content and coverage of the taxpayers’ education and the overall awareness creation and consultation sessions organized by Merkato tax branches. (See table 4.2 below).

Table 4.2. Taxpayers’ perception with provision of taxpayer’s education and information from the tax offices

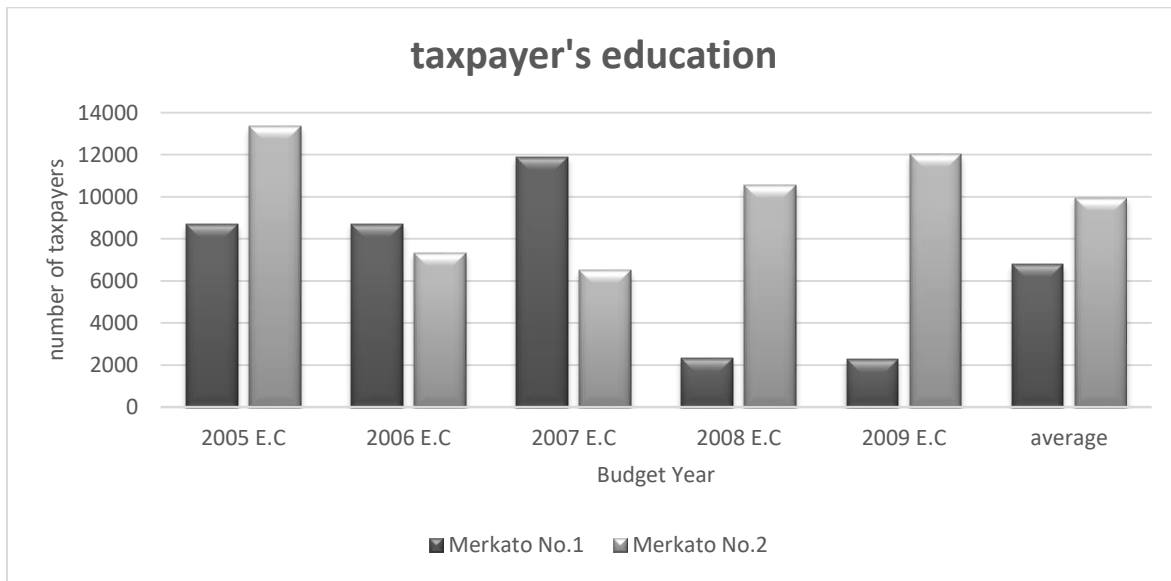
Variables	Total Respondents	Percentage agreement (%)	Percentage Disagreement (%)	Neutral (%)	Total	Std. Deviation
Adequacy of tax information desks in the tax offices/ respective tax centers	99	24%	49%	26%	100%	1.06
Taxpayers’ education has made it easier for taxpayers in understanding the available tax documents	99	44%	32%	23%	100%	1.12
Door to door taxpayers’ education, awareness creation and consultation are highly helpful	99	59%	18%	23%	100%	1.15
Taxpayers’ education has enhanced tax compliance	99	57%	23%	20%	100%	0.98
Taxpayers’ education has enhanced the taxpayers’ understanding of various tax issues	99	65%	17%	18%	100%	1.06
Tax evasion is still rampant event after taxpayers’ education	99	40%	18%	41%	100%	0.96
Content and coverage of the taxpayers’ education, awareness creation and consultation session are satisfactory	99	24%	38%	37%	100%	1.05
Taxpayers are satisfied by the overall taxpayers’ education, awareness creation and consultation sessions organized by Merkato tax branches	99	12%	41%	46%	100%	0.83

Source: (Own Survey, 2018)

Participants of the in depth interview have reported that though the coverage of taxpayer’s education has shown growth year to year starting from the date of project implementation, the effects of taxpayers’ education program on tax compliance have not been measured yet. At the beginning taxpayers are interested to attend taxpayer’s education session, however through time

this trend changed and tax branches started to use mechanisms other than face to face taxpayer’s education session. Secondary data from the two tax branches in Fig 4.2 below show that the taxpayers’ education trend over the five consecutive years between 2005 to 2009 E.C was constant on average.

Fig. 4.2. Taxpayer’s education trend of Merkato no.1 & 2

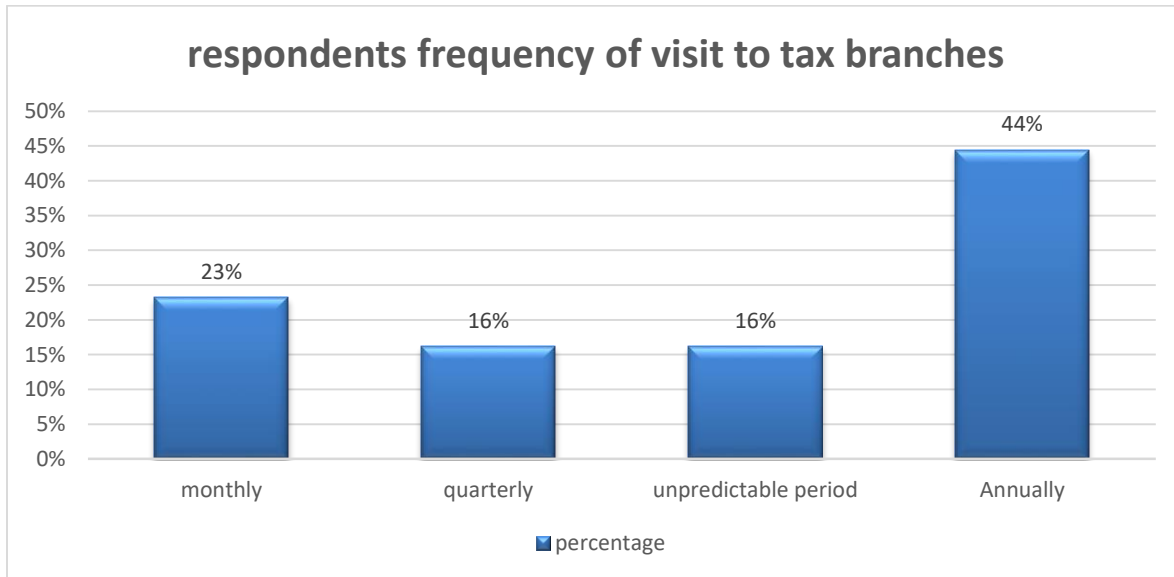


Source: Merkato No. 1 & 2 annual reports from the year 2005 E.C up to 2009 E.C.

4.4.Respondents satisfaction with the overall service provision and their frequency of contact to the tax branches

From the total respondents majority (44%) replied that they visit tax branches once per year (see fig 4.3. below).

Fig 4.3 Respondents frequency of visit to tax branches



Source: (Own survey, 2018)

In addition to this respondents satisfaction with the overall service delivery was also assessed using five stage response scales (i.e. range from strongly disagree to strongly agree) and reported as follows. Accordingly majority of the respondents (52%) agree that the tax offices are easy to locate and accessible for taxpayers /convenient/, but 39 % of respondents are neutral about the idea that offices are conducive for taxpayers to be served in. 42 % of respondents agree that integrated service delivery of Merkato tax branches with Trade and industry used to be helpful for taxpayers to get one stop service, but 47% of respondents are neutral about the adequacy of the number of blocks in the tax branches for service delivery. 40% of respondents reported neutral that staff members are well trained to deliver services and are supervised enough and 56% disagree that the number of staff is adequate to serve the taxpayers in the blocks. 58% of respondents disagree with the statement that says the length of time taken to complete your task/tax matter is reasonable. 58% and 36% of respondents are neutral in their response about the fairness of tax officials in dealing with tax matters/ service requests and their adherence to professional standards of conduct and the overall satisfaction with the service delivery respectively.

Table 4.3. Respondents' perception with service delivery

Source: (Own Survey, 2018)

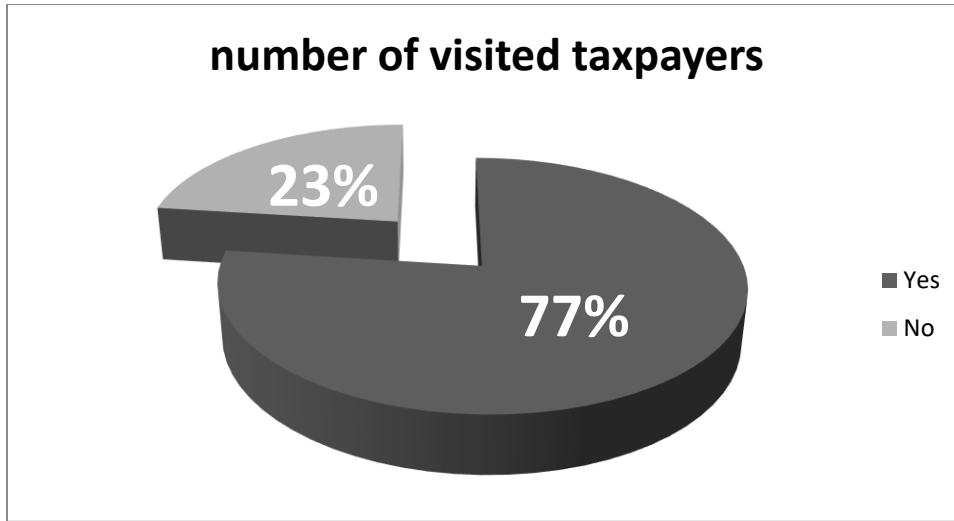
Variables	Total Respondents	Percentage agreement (%)	Percentage Disagreement (%)	Neutral (%)	Total	Std. Deviation
Tax offices are easy to locate and accessible for taxpayers /convenient/	99	52%	18%	30%	100%	1.1
Offices are conducive for taxpayers to be served in	99	37%	23%	39%	100%	1.01
Integrated service delivery of Merkato tax branches and Trade and industry was helpful for taxpayers to get one window service	99	42%	32%	25%	100%	1.03
Number of Blocks are adequate to manage/deliver services to the tax payers	99	28%	24%	47%	100%	0.88
Staff members are well trained to deliver services and are supervised enough	99	28%	40%	31%	100%	1.07
Number of staff is adequate to serve the taxpayers in the blocks	99	16%	56%	28%	100%	0.86
Length of time taken to complete your task/tax matter is reasonable	99	16%	58%	26%	100%	0.98
Tax officials are fair in dealing with tax matters/ service requests and adhere to professional standards of conduct	99	20%	41%	38%	100%	1.12
Overall satisfaction with the service provided by tax officials	99	26%	36%	37%	100%	1.01

4.5.Results related to door to door visit and support by tax offices

Regarding door to door visit and support by tax officers, majorities of respondents (77%) reported that they were visited by tax officers. On average the maximum door to door visit done was

reported to be on quarterly base (29%) and the minimum visit reported was done two times a year. (See table 4.4 below).

Fig 4.4 Number of respondents visited by door to door visitors/ tax officers



Source: (Own Survey, 2018)

Table 4.4. Respondents report on the frequency of door to door visit

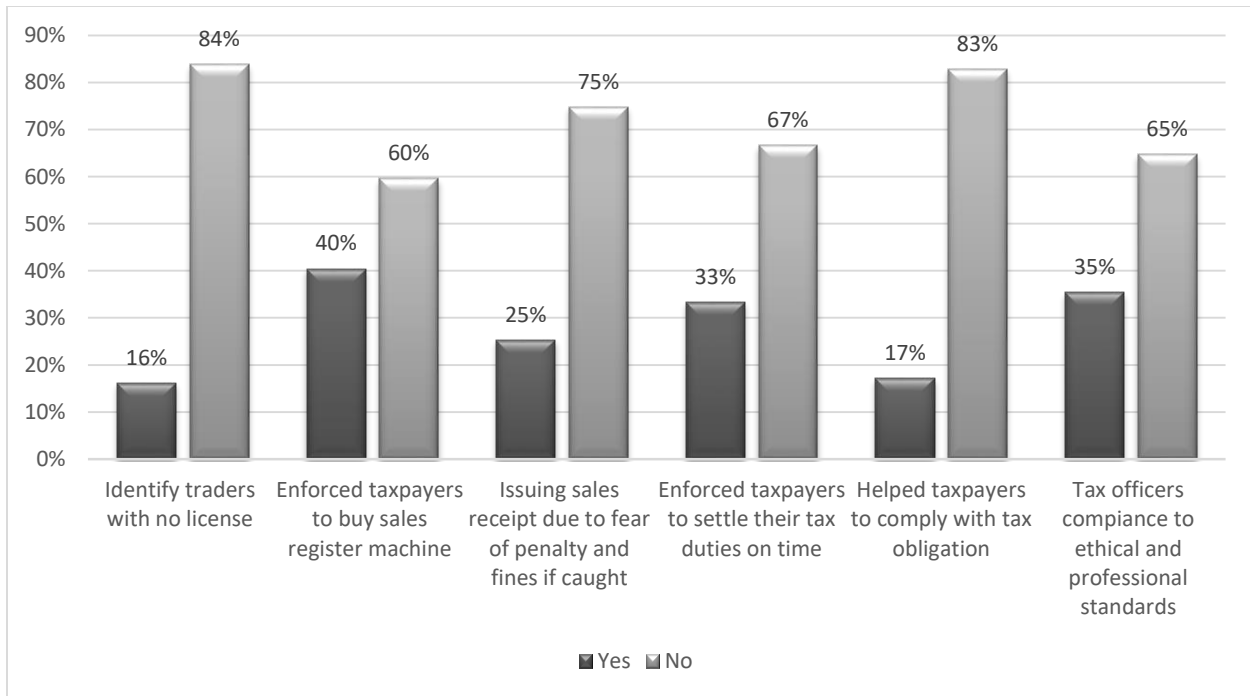
Frequency of visit	Visited taxpayers	Frequency of visits in %
Monthly	24	24%
Quarterly	29	29%
Twice a year	14	14%
Annually	18	18%
Unpredictably/weekly/daily	14	14%
Total	99	100%

Source: (Own Survey, 2018)

This study had also addressed various aspects of taxpayer’s door to door visit and support by tax officers using check point items. Accordingly majority of taxpayers (65%) were not satisfied with the overall aspects/concerns of door to door visit by tax officers. Mainly related to aspects such as

identifying traders with no trade license, helping taxpayers to comply with the tax obligation and enforcing taxpayers to issue receipts during sales with a higher percentage results 84%, 83% and 75% respectively. (See fig 4.5 below).

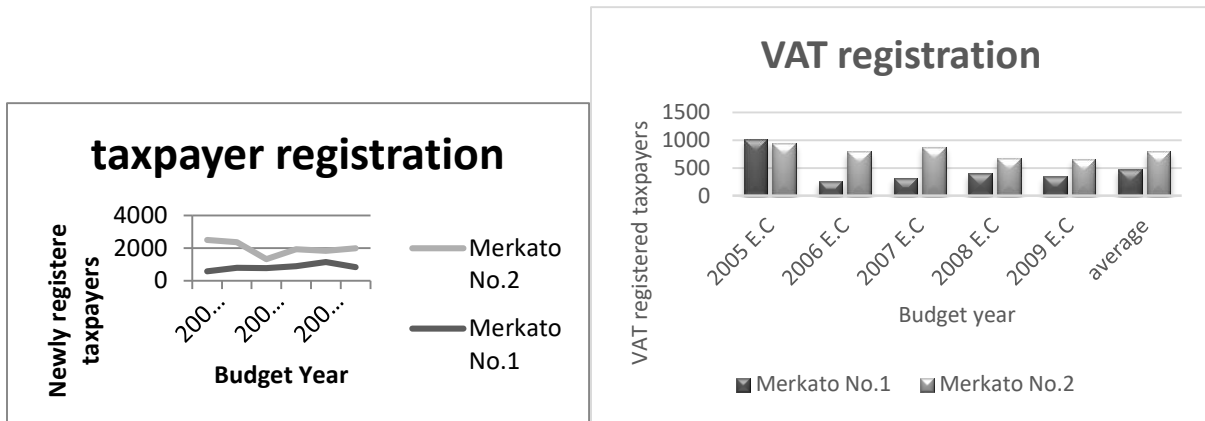
Fig 4.5. Respondent’s satisfaction with door to door visit aspects



Source: (Own Survey, 2018)

Participants of an in-depth interview have reported that in the first two years after project implementation the number of newly registered taxpayers and new VAT registered taxpayers is higher because of the extended door to door visit and taxpayer support. However, according to the participants, even if both the number of newly registered taxpayers and VAT registered tax payers have shown increment then after, it is not because of the door to door visit only, but mainly because taxpayers are transferring their trade license to others/ relatives in order to get a temporary relief from tax burden. Fig 4.6 below summarizes the secondary data from annual reports of the two tax branches regarding taxpayers’ registration and VAT registration.

Fig 4.6. Taxpayer registration and VAT registration in Merkato No.1 & 2



Source: Merkato No. 1 & 2 annual reports from the year 2005 E.C up to 2009 E.C.

Fig 4.6 below show that the number of CRM purchasing taxpayers is higher during the first year of project implementation, which is because of the strong door to door visit done by the tax branches. Secondary data found from the annual reports of the two tax branches matched with the responses of in-depth interview participants in that the coverage and quality of door to door visit and support has diminished through time. (See fig 4.7 below).

Fig 4.7 CRM Purchasing trend in Merkato No.1 & 2



Source: Merkato No. 1 & 2 annual reports from the year 2005 E.C up to 2009 E.C.

4.6. Taxpayers perception and concern about tax audit and tax law enforcement procedures

Out of the total respondents 53% have reported that they have been audited by the tax branches and 48% were penalized for not complying with tax laws by the tax branches (see table 4.5 below).

Table 4.5 taxpayer's response about Audit practice and penalty for not complying

Items	Responses		Total	percentage	
	yes	No		yes	No
Have been audited	52	47	99	53%	47%
Penalized for not complying with tax laws	48	51	99	48%	52%

Source: (Own Survey, 2018)

In addition respondents were asked about their general perception regarding tax audit, selection and tax law enforcement procedures using five stage response scales (i.e. range from strongly disagree to strongly agree) and reported as follows. Accordingly in almost all variables respondents reported neutral. However 45% are not satisfied with the present system of Audit and Investigation and 62% of respondents are not satisfied with the overall criteria of selection of taxpayers for audit, auditing procedures and tax enforcement measures taken by Merkato Tax branches.

Table 4.6. Perception with tax audit, selection and tax law enforcement procedures

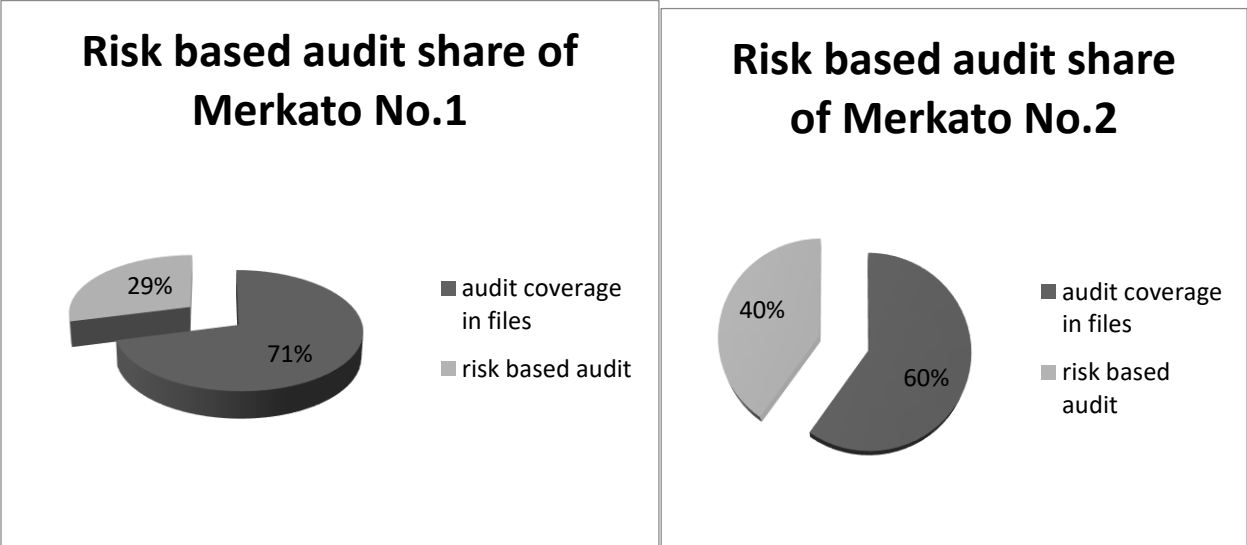
Variables	Total	Percentage agreement (%)	Percentage Disagreement (%)	Neutral (%)	Total	Std. Deviation
Selection for Audit is fair and acceptable	99	20%	23%	57%	100%	0.75
Generally, tax audit outcomes are fair and acceptable	99	20%	35%	44%	100%	0.99

I'm satisfied with the present system of audit and investigation	99	12%	45%	42%	100%	0.92
Tax Audit outcomes help the taxpayers to learn to comply with tax laws	99	36%	30%	33%	100%	1
Tax law enforcement measures focus on those do not comply to tax laws	99	28%	28%	43%	100%	0.83
Due to tax law enforcement measures taxpayers compliance have changed positively	99	18%	35%	46%	100%	0.98
Taxpayers are satisfied by the overall criteria of selection of taxpayers for audit, auditing procedures and tax enforcement measures taken by Merkato Tax branches	99	8%	62%	30%	100%	0.87

Source: (Own Survey, 2018)

Secondary data shows that though number of taxpayers files audited had increased from year to year the share of risk based audit remain lower on average. Responses of participants of an in-depth interview agree with this fact in that majority of the audited files are based on service request, which in turn indicate that tax auditors are wasting time on files that could contribute few to the revenue generation on one hand and tax compliance on the other. (See fig.4.8 below).

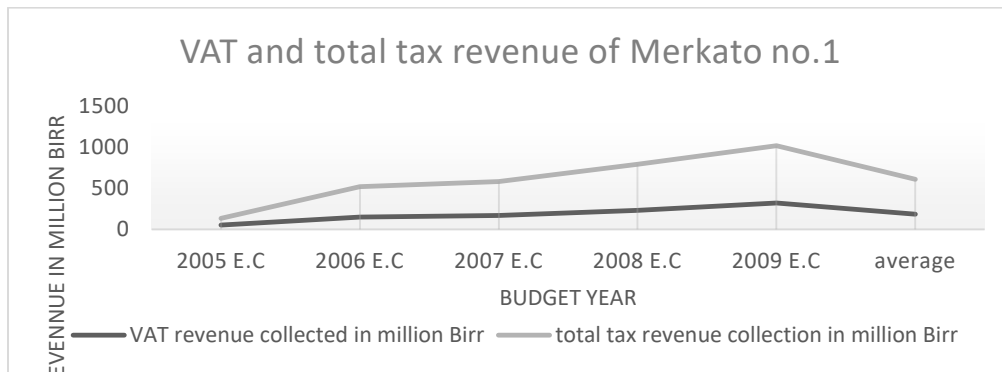
Fig 4.8 Risk based Audit coverage in Merkato No.1 & 2



Source: Merkato No. 1 & 2 annual reports from the year 2005 E.C up to 2009 E.C.

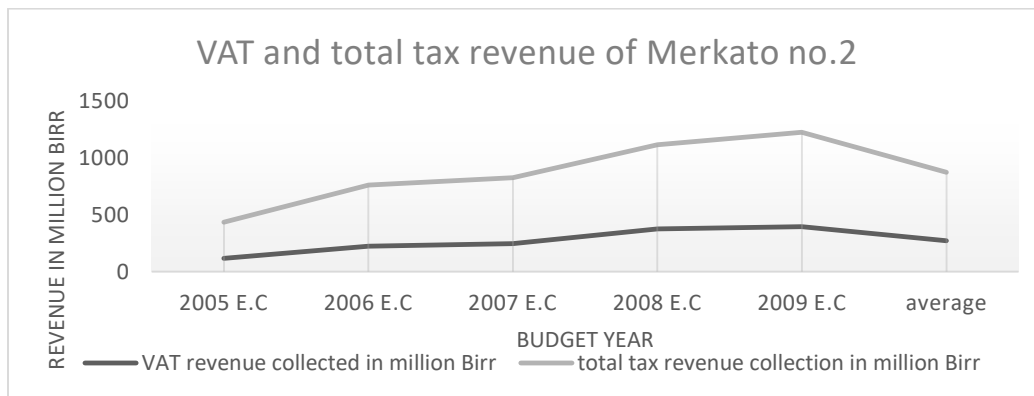
Secondary data review result from both tax offices had shown that from the year 2005 to 2009 E.C. VAT & total tax revenue collection had gradually increased due to the implementation of block management system in the area. But in the recent years i.e. starting from 2007 to 2009 E.C. the revenue collection trend indicates a marginal growth on average; which corresponds with the findings from the interview results, which showed that several aspects of the block management system were being implemented below their full capacity. Participants in the in-depth interview also share this fact that the cumulative effect in failures of taxpayers' education quality, delivery of quality taxpayer services, failure in effective door to door visit and support as well as the low share of risk based tax audit practice and failure in tax law enforcement measures contributed to the marginal growth in both the VAT and total tax revenue collection and ultimately to the lower tax compliance in the study area. See fig.4.9 & 4.10 below).

Fig. 4.9 VAT & Total tax revenue report of Merkato No.1



Source: Merkato No.1 annual report from the year 2005 E.C up to 2009 E.C.

Fig.4.10. VAT & Total tax revenue report of Merkato No.2



Source: Merkato No. 2 annual report from the year 2005 E.C up to 2009 E.C.

4.7. Summary of in-depth interview results

For the purpose of this research, participants from different sections/ departments were interviewed about the block management system project. This includes, branch managers, project owner, participants in project implementation, process owners of Tax Assessment and Collection and Tax Audit processes. The first question is regarding the primary purpose of the Block Management System and its expected outcomes at the outset, with respect to customer service and support, audit practices, tax law enforcement and tax revenue collection. Accordingly participants replied that the reason for the implementation of the block management system in Merkato was the highest taxpayer noncompliance level in the area. Respondents also indicated that Merkato is the biggest open market in Ethiopia as well as in Africa and it is the center for multiple trade routes in the country. However 75% of traders in this area were non-compliant before the implementation of the project. Due to this fact the IMF proposed and financed the project by benchmarking the good practices in this aspect by the revenue Authority of Tanzania, so as to enhance taxpayers' voluntary compliance and thereby improve the low level of Tax to GDP ratio of the country. Merkato was selected to be the project area because, as it is the center for all trade destinations in the country, improving taxpayers' compliance in the area would highly improve the overall taxpayers' compliance of the country. Accordingly, a project team was formed and sent to Tanzania for three weeks of on job training on block management. Then based on the practices shared from Tanzanian Revenue Authority, a detailed study had been undertaken in Merkato trade area before project implementation. Based on this said respondents, the project was inaugurated with the primary objective of the block management project to be enhancing the voluntary compliance of taxpayers in the area through providing successive taxpayer education, implementing a simple and convenient taxpayer registration by integrating trade and industry tasks with the ERCA tasks, providing quality taxpayer services and support by being there on taxpayers' premises and providing door to door visit to identify non declarant and make them to comply to tax laws, assuring that tax assessments and payments are based on adequate facts, and ultimately effectively collecting current and old tax debts and controlling tax evasion and expanding the tax base by having a closer follow up of taxpayers.

The second question was regarding the challenges of the implementation of block management project, where major challenges reported by participants were summarized as follow. Though the ultimate target of the project was to collect the revenue that the economy generates effectively, by

improving the voluntary compliance in Merkato trade area, revenue collection through intensive enforcement action turned to be the immediate target of the project. Therefore the tasks of information gathering about trade license and CRM installation, and taxpayers' education sessions were intensive only in the few months of the year 2004 E.C and in the year 2005 E.C. Immediately after these years, the project offices in the area focused on revenue collection and tax law enforcement activities, missing the objective of the project, which triggered number of taxpayers to either migrate to neighboring business areas or deregistered from being taxpayer. The door to door follow up and support had also missed its target and focused on penalizing taxpayers for not complying with tax law, rather than supporting and educating taxpayers, so that they could develop voluntary compliance. Moreover the functionality of the support and follow up structure was left questionable. Regarding the integration of tasks of the two offices (Trade & Industry bureau and ERCA), currently only few tax centers are functional, in majority of the tax centers, there is no window for Trade and Industry bureau services. In addition service delivery improvement measure such as customer service standard & charter and QMS was tried, but in general the delivery of quality service remained poor. In general, due to the fact that the project missed its target and project offices in the area are performing the regular revenue collection and tax law enforcement tasks as in the case of other sub-city revenue branches, yet there exists higher level of tax noncompliance in Merkato. Though number of taxpayers were registered as taxpayer, registered for respective indirect tax /VAT or TOT/ and bought CRM as well as subjected to penalty for not issuing receipt during sales, the problem remain rampant even after project implementation. Audit coverage in files has shown increase in files but the share of risk based audit remain lower and there existed high audit quality problem, which was exhibited by the increasing number of appeals on audit assessments. Due to all the above factors, even though revenue collection had shown improvement from year to year, because of the low level of voluntary compliance prevailing in the area, the revenue plan left uncollected. Moreover as it was mentioned above, the impact of noncompliance of taxpayers in Merkato on the overall taxpayer noncompliance in the country continued to be the major problem in tax collection.

The third question raised for participants was about the remedial actions to be taken to put the project back on track, so that it could meet its goals. Accordingly participants replied that, to meet the primary objective of enhancing taxpayers' voluntary compliance, intensive taxpayer education program has to be undertaken and the tax law enforcement measures have to be based on risk based

selection criteria, so that measures taken on major tax evasion actions could effectively deter number of tax payers from not complying to tax laws and procedure. Simultaneously with current progresses in tax revenue collection and tax law enforcement measures, much attention has to be given to enhance voluntary compliance in Merkato through delivering quality taxpayer services and education and door to door visit and support so as to maximize future revenue collection in Merkato specifically and Addis Ababa and the country as a whole.

4.8.Discussions

This section highlights the data obtained through the three data collection tools: questionnaires, in-depth interviews and documents reviews. The major perspectives of the block management have been identified and discussed as follows:

Taxpayer Education and Tax compliance: According to Misra (2004), the main objective of tax payer education is in three folds: impart knowledge as regards tax laws and compliance; change taxpayer's attitude towards taxation and increase tax collection through voluntary compliance. According to (Machogu and Amayi 2013) there is a positive relationship between taxpayer education and voluntary tax compliance. This study revealed that due to lower coverage of taxpayers' education and consultation session, the level of voluntary compliance in the study area remain lower even after six years of the block management system implementation in Merkato. This shows that there is a positive relationship between taxpayers' education and tax compliance.

Taxpayer service and Tax compliance: Modern tax administrations should adopt a service-oriented attitude toward taxpayers, ensuring that taxpayers have the information and support they need to meet their tax obligations (Okello, 2014). This study shows that the overall service delivery by the tax branches in the study area is unsatisfactory. Even if there is a high need for tax officers door to door support to enhance taxpayers' compliance, efforts undertaken by the branches in the study area in terms supporting the taxpayer being on the taxpayer's premise has been low and yet contributed to the low tax compliance in the area.

Tax law enforcement measures and Tax compliance: Akhand (2012) and USAID (2013) have shown that strong enforcement mechanisms are an important element in persuading taxpayers to comply. In recent years, there are some strategic changes made to the enforcement mechanisms by

emphasizing risk-based management by taxpayer segments and the use of alternate sources of information to make the inspection and audit programs more effective.

Taxpayer education alone does not generate compliance but fear of non-compliance from enforcement work hand-in-hand to ensure voluntary compliance Misra (2004). In this study however, tax law enforcement measures taken based on surface studies have resulted in migration of tax payers to neighboring tax branches due to fear of unfair penalties and fines by the tax branches. Along with the lower share of risk based audit and enforcement measures, the branches had not either collected the planned tax revenue from the area, or achieved the desired level of tax compliance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The main objectives of this research project have been to assess the practices and challenges of block management system for tax compliance improvement implemented in Ethiopian Revenues and Custom Authority specifically in Merkato trade area. Both survey and in-depth interview techniques were employed to assess the practices and the existing challenges in the implementation of the block management tax administration system. Based on the presentation and analysis of the data obtained, the summary, main conclusions and recommendations are summarized in this chapter.

5.1. Summary

In this research, questionnaire data were analyzed using Microsoft Excel, however in-depth interviews' were analyzed manually without using any of the computer aided qualitative data analysis software. Combining these two data the researcher came up with the following results.

The survey had a response rate of 100 percent. 73 percent of the study respondents were male while the remaining was female. 37 percent of respondents' were in the age between 31 and 40 years. 52 percent of the respondents had first Degree. 49 percent of the respondents have been in business from years 1 to 5. From the total respondents, 54 percent of the respondents were aware that there is taxpayers' education program by Merkato No.1 & Merkato No.2 Tax branches and 60 percent of the respondents have already attended the taxpayers' education session organized by the tax branches.

The Likert scale measure and check point items were used to know the taxpayers perception regarding the provision of taxpayers' education and information, service delivery, door to door visit and tax audit and tax law enforcement procedures. Accordingly regarding the provision of taxpayers' education and information, though majority of respondents agree that the efforts made by the tax branches to enhance compliance of the taxpayers helped taxpayers in understanding various tax issues, respondents are not sure that the content and coverage of taxpayer education are satisfactory and that tax evasion has decreased due to taxpayers' education delivered by the tax branches in Merkato. In general majority of respondents replied neutral with the overall

satisfaction of the taxpayers' education, awareness creation and consultation sessions by the tax branches.

With respect to service delivery, respondents agree that due to the segmentation done by the block management system, tax offices were located nearby and in a convenient locations for the taxpayers. Respondents also agree that the attempt to provide a one stop service in collaboration with Trade and Industry bureau had been helpful. However, majority of respondents disagree with the adequacy of the number of staff and their fairness as well as adherence to professional standards in dealing with tax matters. In general the average responses show that the block management had not been successful in creating satisfaction in service delivery in the tax branches.

Regarding door to door visit aspects majority of respondents replied that door to door visit and support aspects were not successfully implemented by the tax branches. In all of the aspects of door to door visit and support, respondents replied a negative responses; in terms of identification of traders with no license, enforcing taxpayers to issue receipt at point of sales, etc... About tax audit procedures and tax law enforcement measures 53 % and 52% of respondents replied that they have been audited and they were not penalized by the tax branches respectively. Out of this majority of the respondents replied that they disagree with the overall satisfaction of the criteria of selection for tax audits, auditing procedures and tax law enforcement measures taken by the tax branches.

Summary of secondary data from annual reports of the two tax branches between the years 2005 to 2009 E.C also reveals a corresponding fact to the survey results, in that the number participants of taxpayers' education is diminishing between the years 2007 to 2009 E.C, number of VAT registered tax payers had also reduced in the years between 2007 and 2009, though there is an increment in tax audit coverage in files, the share of risk based audit remains almost constant, revenue from both the VAT and total tax has shown a marginal growth within the stated budget years, which all shows that block management system had implemented aggressively only in the first two years of the project implementation (2005 & 2006 E.C).

Responses of the in-depth interview participants also show that intensive work had been done in terms of educating taxpayers, registering new traders, registering for Indirect taxes such as VAT & TOT in the immediate two years of project implementation. Regarding service delivery, and

taxpayer support, all the participants replied the attempts made to collaborate with Trade and Industry bureau to deliver a one stop service had failed immediately. Though there was implemented customer service charter and service standards and QMS to enhance the overall service delivery, the practice remain poor and unsatisfactory in advancing the delivery of quality service.

Regarding tax audit practices and tax law enforcement measures, the share of risk based audit remains lower and participants reported that audit assessments have exhibited major quality problem which was demonstrated by the increasing number of tax appeal on audit findings. Regarding tax law enforcement measures, participants responded that the frequent tax law enforcement measures had become cause for taxpayers' migration and deregistration than enhancing voluntary compliance. Ultimately regarding the revenue collection, changes have been registered in terms of the money collected after the implementation of the project, but the level of taxpayer voluntary compliance is lower and tax branches cannot collect their revenue plan from the trade area. Moreover the prevalence of taxpayers' noncompliance in Merkato has continued to affect the overall tax compliance and revenue collection both in Addis Ababa and country wide.

5.2.Conclusions

Regarding the provision of taxpayers' education and information, intensive work had been done in terms of educating taxpayers, registering new traders, registering for Indirect taxes such as VAT & TOT in the immediate two years of project implementation, but taxpayers are not sure that they are satisfied by of the taxpayers' education, awareness creation and consultation sessions by the tax branches.

The number of staff delivering services for the taxpayers and their fairness as well as adherence to professional standards in dealing with tax matters is unsatisfactory. Attempts to improve service delivery, such as collaboration with Trade and Industry bureau and implementation of the customer service charter and service standards and QMS to enhance the overall service delivery, has registered poor practice in terms advancing the delivery of quality service. In general the block management had not been successful in creating satisfaction in service delivery in the tax branches.

Door to door visit and support in terms of tax information gathering, identification of traders with no license, enforcing taxpayers to issue receipt at point of sales, and in general in enhancing taxpayers compliance was not successful.

Taxpayers are not satisfied with the overall tax audit procedures and tax law enforcement measures. And the share of risk based audit remains lower and tax assessment findings exhibit quality problems, which was demonstrated by the increasing number of tax appeal on audit assessments.

The frequent and unfair tax law enforcement measures had become cause for taxpayers' migration and deregistration than enhancing voluntary compliance.

Though changes have been registered in terms of the money collected after the implementation of the project regarding the revenue collection, the level of taxpayer voluntary compliance is lower and tax branches cannot collect their respective revenue plan.

5.3.Recommendations

This section presents the appropriate suggestions that can be utilized to enhance the block management system implementation in the revenue administration.

Tax knowledge is essential in improving voluntary tax compliance, therefore, the government is advised to impart tax knowledge to individuals not only to the current business community, but also more importantly to the potential business community. It is important to impart tax knowledge at early stages of school or life. Taxation should be taught at all levels of education, starting from primary schools to secondary schools, up to university level, with an emphasis of promoting voluntary tax compliance, in that it helps taxpayer to understand the rights, obligations, and the procedures of paying taxes.

As the number of traders in the project area is larger and compliance improvement in the Merkato could have a very strong impact on the compliance level of the tax system in the country, the number blocks should be expanded specially to provide adequate support and deliver quality services for the tax payers in the area. Furthermore for the large taxpayers', expansion of service opportunities such as e-filing and e-payment systems is important in order to reduce their cost of compliance. In addition the overall service delivery of tax blocks should be improved with the

implementation of service standard and charter along with an in-depth capacity development measures for service delivering officers and follow up of their adherence to professional and ethical standards.

Among aspects of the block management system, to simplify and improve the tax process is, an integration of the Trade and Industry services with ERCA services. Due to the fact that this integration have its own value in terms of minimizing compliance cost of the taxpayer and hence contribute to the enhancement of voluntary compliance, reintegration activities have to be done quickly and in addition to Trade and Industry bureau other stakeholders should also be included in the integration, putting in to consideration the legal aspects and benefit scheme between the integrating offices.

Increase the number of door to door visit and support officers and equip them with knowledge to gather available tax information, educate taxpayers' being on taxpayers' premises, support taxpayers by adhering to professional and ethical standards should be done to be fully benefited from the door to door taxpayers' visit and support aspects.

The share of risk based audit should increase, so that audit findings should be taken as lessons by other taxpayers as well as both revenue and tax compliance goals could easily be achieved. Capacity development measure should also be taken to enhance the capacity of tax auditors in order to minimize audit assessment quality problems.

Enforcement measures should base on detailed study, so that measures taken could have deterrent effect on tax evasion. Besides extensive work must be done by the tax office as it was at the beginning of project implementation, to gather information and register taxpayers who are not registered. Moreover, adequate information regarding taxpayers should be gathered to be used for verification of tax documents submitted, to assure that tax assessments are done on adequate facts, and ultimately to have control over tax evasion.

Implementing the good practices of the block management system to the neighboring tax branches in Addis Ababa as well as country wide level, so that migration should not be taken as escapee from tax compliance measures in Merkato. Specially emerging big market areas in Addis Ababa, such as Saris Gebeya, Shola Gebeya and others should implement the block management system, so as to increase the tax base through intensive tax information gathering activities and registration

of new taxpayers as well as generate more tax income by investigating unexploited potentials out of Merkato.

Even though it is not the major goal of the block management system, revenue collection should also be paid due attention along with the other aspects of block management system. Accordingly emphasis have to be given for cleaning old debts, implementing law enforcement measures that could improve the tradition of issuing receipt during sales, so as to maximize tax revenue collection.

The study had focused on the practices and challenges of block management system implementation. Due to time and financial limitations the researcher focused on the challenges of the project implementation from taxpayers' point of view, specifically the VAT registered taxpayers. Therefore, further research is proposed to determine the effectiveness of the block management system project from various categories of taxpayers' point of views, staff and other stakeholders in addition.

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Appendix: 1 Questionnaire for taxpayers

Dear participant:

The purpose of this study in general and this questionnaire in particular is to assess the practices and challenges of Block Management System for tax compliance improvement: the case of Ethiopian Revenues and Custom Authority as a partial fulfillment of the requirement for the award of Master of Arts Degree in Project Management. The outcomes of this study will help the tax authority to take remedial actions to make successful implementation of Block Management System projects in fostering the level of taxpayer compliance. This research is intended only for academic purpose authorized by the Addis Ababa University. Thus, your ideas and comments are highly honored and kept confidential.

Your frank response and valuable support in responding to the questions raised is of paramount importance to the success of the study. Hence, I request you to fill the questionnaire carefully and at your best knowledge in all regard. You should choose the answer you think is correct according to your understanding.

To create conducive environment for your free and genuine responses, you are not required to write your name.

The questionnaire has five parts: Please read each item carefully and give your honest response to each item.

Thank you in advance for your cooperation and prompt response!

Section I: General Backgrounds of respondent

For each of the following question, please put "✓" mark in the box along the selected item to indicate your choice.

- 1. Your age.
 - 20 - 30 years
 - 31- 40 years
 - 41-50 years
 - Above 50 years

- 2. Your gender.
 - Male Female

- 3. Your educational qualification.
 - Below 12 grade Completed Grade 12 Diploma
 - First degree Master's Degree and above
 - If other please specify _____

- 4. For how long have you been in the business?
 - Less than 1 year 1-5 years 6-10 years
 - More than 10 years

Section II: Taxpayers education, awareness creation and consultation sessions

- 5. Are you aware that Merkato tax offices provide taxpayer education to the tax payer? Yes No

- 6. Have you attended taxpayer education organized by Merkato tax branches? Yes No

- 7. If your answer is 'yes' for question number 6, what had motivated you to attend the taxpayers' education session? _____

8. If your answer is ‘No’ for question number 6, why have you never attended taxpayer education session organized by Merkato tax offices? _____

9. The table below presents various aspects of taxpayers’ education, awareness creation and consultation sessions by Merkato Tax offices. Kindly indicate the extent to which you agree with the statements. (Strongly disagree to strongly agree).

Perception with provision of tax information	Choice				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Tax information desks are adequately available in the tax offices/ respective tax centers					
Taxpayer education has made it easier for taxpayers in understanding the available tax documents					
Door to door taxpayers’ education, awareness creation and consultation are highly helpful					
Taxpayer education has enhanced tax compliance					
Taxpayer education has enhanced the taxpayers’ understanding of various tax issues					
Tax evasion is still rampant event after taxpayer education					

Content and coverage of the taxpayers' education, awareness creation and consultation session are satisfactory					
Taxpayers are satisfied by the overall taxpayers' education, awareness creation and consultation sessions organized by Merkato tax branches					

Section III: Taxpayer contact to the tax Authority and satisfaction with the overall service provided by tax offices / respective tax centers

10. Indicate the frequency of your visit to Merkato No.1/Merkato No.2 tax offices/ respective tax centers per year.

- Monthly Quarterly
 Unpredictable period Annually

11. The table below presents various aspects of taxpayers' services by Merkato Tax offices. Kindly indicate the extent to which you agree with the statements. (Strongly disagree to strongly agree).

Service Provision	Choice				
	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
Tax offices are easy to locate and accessible for taxpayers /convenient/					
Offices are conducive for taxpayers to be served in					
Integrated service delivery of Merkato tax branches and Trade and industry is helpful for taxpayers to get one window service					
Number of Blocks are adequate to manage/deliver services to the tax payers					

Staff members are well trained to deliver services and are supervised enough					
Number of staff is adequate to serve the taxpayers in the blocks					
Length of time taken to complete your task/tax matter is reasonable					
Tax officials are fair in dealing with tax matters/ service requests and adhere to professional standards of conduct					
Overall satisfaction with the service provided by tax officials					

Section IV: Taxpayers’ perception about door to door visit and support by tax officers

12. Have you been visited by tax officers? Yes No

13. How often have you been visited by tax officers?

Monthly Quarterly

Two times a year Annually

Unpredictably/weekly/daily _____

14. The table below presents various aspects of taxpayers’ door to door visit and support by Merkato Tax officers. Kindly indicate your agreement with the following statements by choosing yes or no.

Door to Door Visiting/support aspects	Responses	
	Yes	No
Officers can identify traders with no trade license by door to door visit		
Due to the door to door visit those who should use sales register machine have all bought the machine		
Taxpayers give sales receipt due to fear of penalty and fines if caught by door to door visitors		
Due to the door to door visit taxpayers settled their tax duties on time		

The door to door visit and support by tax officials helped taxpayers to comply with tax obligation		
Tax officers comply to ethical and professional standards during door to door visit and support		
Taxpayers are satisfied with the overall door to door visit and support by tax officers		

Section V: taxpayers’ perception about the criteria for selection of taxpayers for audit, auditing procedures and tax enforcement measurestaken by tax branches

15. Have your business been Audited by the tax office?

Yes No

16. Have you been penalized/targeted of tax law enforcement measures for failing to comply with tax obligations?

Yes No

17. If your answer for question number **17** is ‘**yes**’, what do say about the overall audit procedure and audit findings by the tax offices _____

18. If your answer for question number 18 is ‘**yes**’, what do say about the overall tax law enforcement measures in terms of its value to taxpayers to compliance

19. The table below presents various aspects of the criteria for selection of taxpayers for audit, auditing procedures and tax enforcement measures taken by Merkato Tax branches. Kindly indicate the extent to which you agree with the statements. (Strongly disagree to strongly agree).

Perception with Audit procedure	Choice				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Selection for Audit is fair and acceptable					
Generally, tax audit outcomes are fair and acceptable					
I'm satisfied with the present system of audit and investigation					
Tax Audit outcomes help the taxpayers to learn to comply with tax laws					
Tax law enforcement measures focus on those do not comply to tax laws					
Due to tax law enforcement measures taxpayers compliance have changed positively					
Taxpayers are satisfied by the overall criteria of selection of taxpayers for audit, auditing procedures and tax enforcement measures taken by Merkato Tax branches					

20. Please provide the researcher with any suggestions/ comments you may have with regard to Block management tax system in Merkato tax branches.

Thank you very much for your cooperation!!!!

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Appendix: 2 Tax officials in-depth interview instrument

1. What is the primary purpose of the Block Management System? What was expected to be the outcome of the Block Management System at the outset, with respect to customer service and support, audit practices, tax law enforcement and tax revenue collection?
2. What are the challenges during the implementation of the Block management project in terms of the three aspects mentioned above?
3. What measures should be taken to enhance the implementation of Block Management system in order for the tax authority to be benefited from the system?

Appendix 3: Merkato No.1 & Merkato No.2 tax branches annual reports

tax branch	variables	budget years					
		2005 E.C	2006 E.C	2007 E.C	2008 E.C	2009 E.C	average
Merkato No.1	newly registered tax payers	566	784	771	879	1136	827.2
	number of taxpayers attended taxpayer's education	8704	8700	11889	2336	2273	6780.4
	VAT registered taxpayers	1007	262	324	407	347	469.4
	taxpayers who bought CRM	551	723	886	610	833	720.6
	audit coverage in files	176	1592	418	614	558	671.6
	risk based audit			152	233	438	274.3333
	VAT revenue collected in million Birr	55.08	152.81	169.54	234.57	323.31	187.062
	total tax revenue collection in million Birr	80.7	369.78	415.78	561.02	697.9	425.036

tax branch	variables	budget years					
		2005 E.C	2006 E.C	2007 E.C	2008 E.C	2009 E.C	average
Merkato No.2	newly registered tax payers	1920	1563	550	1053	682	1153.6
	number of taxpayers attended taxpayer's education	13332	7334	6490	10545	12001	9940.4
	VAT registered taxpayers	947	799	880	680	663	793.8
	taxpayers who bought CRM	3695	1645	944	599	682	1513
	audit coverage in files	303	587	597	766	881	626.8
	risk based audit	221	407	421	441	625	423
	VAT revenue collected in million Birr	115	222.79	245.4	376.17	395.77	271.026
	total tax revenue collection in million Birr	320	538.42	580.08	740.84	828.58	601.584