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ADISS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF PUBLIC ADMINISTRATION

**Problems Related to Implementation of Value Added Tax on Revenue
Generation in the Case of Ministry of Revenue Eastern Addis Ababa
Branch office Ethiopia**

**A Thesis Submitted to the School of Graduate Studies of Addis Ababa
University in Partial Fulfillment of the Requirements for the Master of Art in
Public Administration (MPA)**

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July, 2019

Addis Ababa, Ethiopia

Declaration

I, the undersigned, declare that this thesis entitled “Problems Related to Implementation of Value Added Tax on Revenue Generation in the Case of Ministry of Revenue Eastern Addis Ababa Branch office“ is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not been submitted for a degree in anyother universities.

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Statement of Certificate

This is to certify that Wondwosen Kifle has completed her thesis entitled “Problems Related to Implementation of Value Added Tax on Revenue Generation in the Case of Ministry of Revenue Eastern Addis Ababa Branch office Ethiopia” is her original work and is submitted for examination with my approval as a thesis.

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This is to certify that the thesis entitled, “Problems Related to Implementation of Value Added Tax on Revenue Generation (in the Case of Ministry of Revenue Eastern Addis Ababa Branch office Ethiopia)” was carried out by Wondwosen Kifle under the supervision of Yohhanes Workaferahu (Ph.D) submitted in partial fulfillment of the requirements for the Degree of Master of Public Administration complies with the regulations of the University.

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Acronyms

BPR	Business Process Re-engineering
BSC	Balance Score Card
ERCA	Ethiopian Revenue and Customs Authority
FDRE	Federal Democratic Republic of Ethiopian
GAAP	Generally Accepted Accounting Principle
GDP	Growth Domestic Product
MOR	Ministry of Revenues
MOFE	Ministry of Finance and Economy
RST	Replaced Retail Sales Tax
TSRP	Tax System Reform Program
TOT	Turn over tax
ICT	Information Communication Technology
VAT	Value Added Tax

Abstract

The objective of the study is to assess problems related to implementation of VAT practice and revenue generation performance with respect to the challenge and opportunity in the case of Ministry of revenue eastern Addis Ababa branch office. The paper further assesses to showing the share of VAT income in related to total government revenue. The study used both qualitative and quantitative research methods to collect and analyze both primary and secondary data. The information gathered from MOR eastern Addis Ababa branch office taxpayers and employee's attitude towards VAT implementations problems, compliance level of the taxpayers to VAT rule and regulation and tax authority potential to administer VAT. Questionnaires were distributed for 381 and 216 VAT registered taxpayers and employees of the branch respectively and to analyze the data, statistical package for social science (SPSS) software version 20 was used. Further, secondary data was collected to measure the VAT revenue performance of the authority. The major challenges of the authority in the collection of VAT revenue were: - consumers are not willing to transact with a proper VAT receipt, Ministry of revenue Poor tax enforcement capacity, unfair competition between VAT registered and unregistered tax payers, lack of skill and experience to detect any tax fraud and evasion, tax authority lack of potential to refund excess VAT credit, administration system of penalty is weak and lack consistency. The paper suggests that ministry of revenues should improve the information technology (IT), system to implement like filling ,payment system, recording system ,registration and others related issues in order to overcome the complexity of tax collection and to reduce the administration cost. The tax ministry could also upgrade the skill and competency of tax officials in order to handle tax related offences in a better way. Un-registered taxpayers can affect VAT payer's transaction and profitability Therefore, It also suggested that actions should be taken to narrow the gap between them. Finally, ministry of revenue may take these findings worthwhile for corrective action as the researcher put some helpful recommendations.

Key words: *implementation of VAT, revenue generation performance, VAT income in related to total government revenue .*

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Value added tax (VAT) is an indirect consumption tax assessed on the value added to a product at each point in the cycle of production and distribution. It is a consumption tax because it is ultimately borne by the consumer, who pays a fixed percentage of the final sale price of a product. A VAT is levied on the difference between the purchase cost of an asset and the price at which it can be sold (i.e., the amount of value added to it). Producers and distributors typically pass the cost of the VAT on to the final consumer in the form of price increases. Tax is added to a product's price each time it changes hands until delivery to the customer takes place, when the final tax is paid. Value-added tax falls under the general category of a consumption tax, meaning taxes are paid on what people buy rather than on their earnings, savings, or investments. VAT has also been referred to as a sort of national sales tax, though it functions very differently. Sales tax is imposed on the total. (Encyclopedia of Management, 2009)

VAT, levy on business at all levels of the manufacture and production of a good or service and based on the increase in price, or value, provided by each level. Because the consumer ultimately pays a higher price for the taxed commodity, a VAT is essentially a hidden sales tax. VAT was originally introduced in France (1954); it is now a major part of the tax structure of most Western European nations as well as the rest countries of the continents throughout the world. In the early 1990s the U.S. government considered instituting a VAT to fund national health care programs. (Encyclopedia of Management, 2009)

Ethiopia introduced value added tax (VAT) in the year 2003 at the rate of 15% (fifteen percent) as a replacement to sales tax. In the Ethiopian context of VAT system, a threshold of 500,000 Birr is a level above which registration for VAT is legally compulsory VAT proclamation 285/2002. Direct taxes contributed 37.5 percent to total tax revenue while that of indirect taxes was 62.5 percent. From the indirect tax portion VAT contributed high percentage around 55% - 60% (2015/16, NBE Annual Report), Further, since its introduction, VAT has been more

revenue productive than sales tax. To sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible. However, in Ethiopia revenues raised by VAT are usually acquired at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, i.e., the failure of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design features of VAT and achieving government's policy objectives at large. (Teferra, 2004)

Value Added Tax (VAT) raised more government revenue than the replaced Sales Tax. In line with this, the vision of the Ethiopian Government is to bring rapid and sustainable development, which is essential to supporting the second development and transformation goal of reducing poverty by half and achieve middle-income country with good governance and where social justice prevails on 2025. The achievement of this rapid and sustainable development objective mainly requires domestic revenue mobilization. Otherwise it is a dream to realize the Government's vision depending on external finance sources, which is subject to uncertainty. Indeed, this does not mean external sources are not important; rather it is to stress the fact that domestic resource should take the largest share in financing development endeavors in developing economies. (2016, National Bank Annual Report)

According to the VAT proclamation 285/2002 cited, supply of goods and rendering of services are subject to standard 15% tax rate except those exempted and zero – rated by the tax law. The standard rate is the same as the repealed sales tax, which applied only to imports and domestically manufactured goods. Unlike the sales tax, the VAT provides further encouragement investment by the zero rating of exports and the international transport of goods and passengers. VAT exemption has been extended to the basic necessities such as Education, Medical services, Electricity and Water, Kerosene, Basic foods, Transportation Services, the sales of a used residence or the lease of private house, the supply of goods and rendering services in the form of humanitarian aid, etc.

1.2 Statement of the Problem

Government performs many activities to fulfill social welfare in a given country. Common expenditure programs include health and welfare programs, defense spending, social security,

and interest and repayment of principal on government debt (Eric, 2008). The major source of government income is tax in most economies, especially in developing countries like Ethiopia. Tax revenue is the principal domestic revenue for the Ethiopian government. Tax revenue is mainly generated by indirect taxes such as VAT, excise taxes and foreign trade taxes (Yeshegat, 2009). To fulfill the public needs, governments in any country plan to collect tax revenues from the taxpaying community. The under developed countries are highly dependent on tax revenue; but it is not so easy to collect as planned. The Value Added Tax applied on the amount of value added throughout the passage of goods and services from one stage to another, it makes the burden of taxation invisible to the customers. As such, the application of Value Added Tax can minimize the economic cost of tax collections and it facilitates effective administrations of the taxing system that again boosts the national development of the country where it is appropriately executed (Bogetic & Hassan, 1993)

VAT is the principal source of revenue for the Ethiopian government as the same to other VAT implementing countries. As Yeshigat`s (2008) study on administration problem indicate, VAT has a significant role in the revenue system of the Ethiopian government. To sustain VAT`s revenue role in the government`s finance, it is crucial to ensure that the revenue generated by this tax is raised as efficiently as possible (Yeshegat, 2008,).

Currently, the newly reformed Ethiopian government plan to collect large amount of revenue from tax; especially from VAT. Though the government has 100 days and long term plan to collect large amount of VAT from taxpaying community, which may not be easy to collect as budgeted. Some of the challenges identified by different researchers especially in developing countries are evasions and fraud (Keen and Lockwood, 2007), poor administration (Aizenman and Jinjarak, 2008), increase in administrative expenditure and compliance costs (Agha and Haughton, 1996; Yesegat, 2009), miss understanding of taxpaying community, poor technology management; especially Electronic Tax Register (ETR) (Taye, 2011). Empirical studies still reveling challenges related to consumers` awareness, taxpayers misunderstanding and evasion act, tax authority commitment and organizational inefficiency, unfair competition due to unregistered but fall in the domain of the criteria (Simon Tareke, Yibrah Hagos and Abiy Kassa, 2013; Habtamun Dheressa, K.K Reddy, and DebelaYadeta, 2015; Simon Tareke Abay, 2013).Therefore, the researcher believes that, these challenges may affect the implementation

and effectiveness of the collection of VAT on its revenue generation capacity in ministry of revenues eastern Addis Ababa branch office as well.

These problems were needed to be studied and solved to establish effective VAT collection process for the branch. Therefore, this study assessed problems on implementation of VAT collection system on its revenue generation capacity of ministry of revenue eastern Addis Ababa branch office and identify the real causes of the branch on VAT related problems mentioned above, and it recommend some possible solution.

1.3 Research Questions

The main research question was: To what extent has the implementation of Value Added Tax in Ministry of Revenue Eastern Addis Ababa branch office tax effect on revenue generation of the branch? The specific question of this study was:

1. What are the opportunities in the implementation processes of Value Added Tax?
2. What are the challenges to the tax payer as well as tax office in the collection of VAT?
3. What is the share of VAT income in relation to total government revenue?
4. What is the practice and supervision of VAT in Eastern Addis Ababa branch office?

1.4 Objectives of the Study

1.4.1 General Objective

The general objective of this study was to search the opportunities and challenges the implementation process and its effect on revenue generation of Value Added Tax in Ministry of Revenue Eastern Addis Ababa branch office.

1.4.2 Specific Objectives

- Assess the break in the implementation process and challenges facing the tax payer as well as tax office in the collection of VAT
- Assess the share of VAT income in related to total government revenue generation practice and administration of VAT in Eastern Addis Ababa branch office
- To establish the responses of Value Added Tax registered and branch employees to the administration of Value Added Tax in Eastern Addis Ababa branch office

1.5 Scope of the Study

The scope of the study was limited to VAT only. The study was basically deals with the VAT implementation analysis and related problems in Ministry of Revenue Eastern Addis Ababa branch office. The entire analysis and discussion was been confined to the effect of Value Added Tax on revenue generation. The scope of the study was also limit to the last five years (2006-2010 E.C) and doesn't investigate the VAT administration since its establishment.

1.6 Significance of the Study

This paper help policy makers to understand better the revenue performance of VAT and its administration in Ethiopia. Secondly the study will help the Ministry of revenue to identify their problems and inefficiencies to take corrective action, to improve revenue performance within the authority. In addition, the study was adding something to the existing literature and it was serve as a reference for those who will conduct further study.

1.7 Limitations of the study

The study was conducted in the Eastern Addis Ababa branch office and the employees of the branch primary source of data are only from Eastern Addis Ababa branch office payers. However, the unwillingness and carelessness of some respondents while filling the questionnaires during data collection were considered as constraints to the study. It is difficult to show the whole image of the VAT administration, revenue performance and challenges and opportunity the whole tax payers registered for VAT.

1.8 Organization of the study

The paper was contained five chapters. First chapter comprises General introduction such as background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and scope of the study. The second chapter dweller the relevant literatures in the field are reviewed. Chapter three offered the methodology such as research design, source data, data collection tools /instrument, procedure of data collection, and method of data collection uses is presented. On the Chapter four results and discussion presented. Finally, chapter five goes the conclusions and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

Introduction

Tax is defined as an amount of money levied by a government on its citizens and used to run the financial activities of the government. A tax is an unrequited payment by individuals or businesses to a government without Quid Pro Quo. This means tax is an involuntary payment without any expectation of direct return in benefit. In the private sector you get what you pay for. But in public sector with regard to tax you don't get what you pay for. In short there is no direct relationship between the tax payment and the benefit to be received by the taxpayers. (Richard, 2005).

The origin of value added tax can be traced as far back as the writings of F. Von Siemens, who proposed it in 1918. Value Added Tax was first introduced in France in 1954. Initially Value Added Tax was applied only to transactions entered into by manufacturers and wholesalers. Finally, in accordance with the sixth Directive of the European Economic Commission (of May 17, 1977), the French law amended on December 29, 1978 and the scope of the tax was expanded to include services under Value Added Tax. The tax base was broadened to include agriculture in its ambit in 1984. (Emrana & Stiglitzc, 2005).

Development of Value Added Tax in other countries has been gradual. Until the sixties many countries did not adopt it. The subsequent switch over to Value Added Tax by Latin American, Asian and African countries has brought the figure now to more than 150 countries. The Government of India had set up an Indirect Taxes Enquiry Committee way back in 1976, under the Chairman of Shri.L.K.Jha, who strongly recommended the adoption of Value Added Tax in India. This committee recommended adoption of MAN Value Added Tax, a Value Added Tax at the manufacturing level. As a result of the MOD Value Added Tax scheme was introduced with effect from May 1, 1986. In Italy it covered selected items in only 37 Chapters. Textile sector was brought under MOD Value Added Tax in 1996 and the tobacco sector in 2000. MOD Value Added Tax was extended from March 1, 1994. MOD Value Added Tax was renamed as CEN Value Added Tax (Central value Added Tax) with effect from April 1, 2000. All inputs used

directly or indirectly (except HSD, LDO and Petrol) are eligible for CEN Value Added Tax (Emrana & Stiglitzc, 2005).

2.1 Theoretical perspectives

2.1.1 Value added tax (VAT)

VAT is a tax levied on the increase in value of commodity that has been created by the taxpayer's stage of the production or distribution cycle. It is a sales tax based on the increase in value or price of the product at each stage in its manufacture and distribution. The cost of the tax is added to the final price and is eventually paid by the consumer (Harrison and Krelove 2005).

"VAT" - value added tax - has spread throughout the world since its introduction in 1955. France is credited with first implementing VAT. It did so in 1955. The tax spread through Europe, South America and parts of Africa in the 1960s and 1970s before taking a hold in other regions. Today, it is a key source of government revenue in more than 130 countries. About 70 percent of the world's populations now live in countries with a VAT (Keen & Wood, 2007).

2.1.2 Sales tax

The tax is computed as a Percentage of the total sales price. Sales tax may be imposed on the purchaser or on the seller; in the former case they are charged on each transaction and in the latter they are collected as a percentage of the gross receipts during a given period. A sales tax also can be imposed at more than one but less than all levels of production or distribution. (ERCA, Annual Bulletin 2014)

2.1.3. VAT Rate

In Ethiopia VAT law contains two VAT rates. One is the standard fifteen percent rate and the other is zero rated.

A. Zero rating

The following taxable transactions are charged with tax at a rate of zero percent. The export of goods or services, the rendering of transportation or other services directly connected with international transport of goods or passenger, as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights, The supply of gold to the National Bank of Ethiopia (Yesegat,2008).

Zero rating is the mechanism under a VAT system by which the tax can be completely removed from a particular product or service or from a particular transaction. Under a credit-invoice VAT, a seller of a zero-rated item does not charge VAT on the sale. The sale is classified as a taxable sale subject to a zero rate. As such, the seller is entitled to recover as input credit the tax included in the cost of taxable purchases attributable to that sale. Eric (2008). Since zero-rating increases the number of VAT refunds, most developing countries wisely have limited it to exports. Under a sales-subtraction VAT, zero rating is accomplished by excluding the designated sales from gross receipts and allowing the business to deduct taxed purchases attributable to these zero-rated sales (Gills, 1990).

B. Exemption of goods and Services

Exemption means that no VAT is charged on the supply and no credit can be taken for VAT paid on purchases used to make the supply. If particular enterprises are exempted, the tax applies to their purchases and they received no credit for or refund of this tax since they are not taxpayers (Bird and Bahl, 2008).

In Ethiopia under the VAT Law, the following types of supplies of goods or rendering of services as well as the following types of imports of goods are also exempt from payment of The sales or transfer of a used dwelling, or the lease of a dwelling, The rendering of financial services, The supply or import of national or foreign currency, and of securities, The import of good to be transferred to the National Bank of Ethiopia, The rendering by religious organizations of religious or church related services, The import or supply of prescription drugs and the rendering of medical services, the rendering of educational services provided by educational institutions, as well as childcare service for children at pre – school institutions, The supply of goods and rendering of services in the form of humanitarian aid. The supply of electricity, kerosene, and water; Goods imported by the government, organizations, institutions or projects exempts from duties and other taxes to the extent provided by law Supplies by the post office; The provision of transport, Permits and license fees, The import of goods to the extent provided under schedule two of the customs tariffs regulations, The supply of goods or services by a workshop employing disabled individuals if more than 60 percent of the employees are disabled and The import or supply of books and other printed materials (ERCA, Annual Bulletin 2016).

2.2 Merits and Demerits of Value Added Tax

2.2.1 Merits of Value Added Tax

The polarity of Value Added Tax with authority is mainly due to its administrative advantage. It is much easier to assess tax liability of a firm by using credit method. There is greater scope for cross-checking of return submitted by firm. A general Value Added Tax is supposed to be neutral to the resource allocation forms of production and business organization, in contrast, turnover tax encourage vertical integration of production so as to avoid the intermediary sales and taxes to acquire a competitive advantage over other. For example, a bicycle factory which is manufacturing its own steel pipes and rims etc. would pay smaller turnover from another which has to purchase this material from other firm. A Value Added Tax, on the other hand, is neutral between these processes of integration and therefore helps the economy in adopting that form of production which is economically more suitable. (ISSN ,2001)

Value Added Tax is also neutral between factors costs because it taxes all value added. As against this, the existing corporation taxation discourage the use equity capital and punishes profit earning, Value Added Tax does not hinder adoption of technology which may be capital intensive. It is argued that Value Added Tax avoids cost-cascading effect. The conventional sales tax lead to compounding of tax liability, while Value Added Tax does not. An implied advantage of Value Added Tax is its neutrality with regard to resource allocation. A very important advantage quoted in favor of Value Added Tax is that lesser tax evasion. Firstly, this happens because the tax is divided into part and therefore the incentive to evade tax by any one firm is reduced. Secondly, it is in the interest of firm to the account for the tax paid by earlier firms through which is the inputs have come otherwise this firm pays the tax itself. If any firm therefore understands its inputs, it will be caught by the disclosure of firms buying input from it. These types of cross-auditing enable the authority to plug the tax leakages. (ISSN ,2001)

The use of Value Added Tax helps a country in encouraging its exports. In order to get competitive edge over others, a country may refund the taxes paid the on the exportable goods. It is easier to separate the tax from cost of production in case of Value Added Tax, but not so in case of other taxes which get mixed up with the cost of production (since they relived at gross

value in each case). To other advantage is that the General agreement on trade in tariffs also recognized Value Added Tax rebate as legitimate practice of encouraging exports. (ISSN, 2001)

2.2.2 Demerit of Value Added Tax

Value Added Tax, however, is not just a bundle of advantages. Rather it has serious limitations especially for underdeveloped countries because what it has not yet become popular.

Value Added Tax is a complicated system and need and honest and efficient government machinery to do the cross checking and link up various production activities and the resulting tax liability of each firm. It is, therefore, necessary in its financial and economic structure and the firm should be in the habit of keeping proper accounts. This system depends a lot upon cooperative the tax payer. Each firm itself calculate it tax liability to begin with, and also find out the taxes paid by curlier firms. Once, however, the seller realize that the administrative machinery or the government is ill-equipped to do all the necessary cross-checking, they will resort to the creation of false purchase invoices showing taxes paid by others. To the extent this happens becomes a major possibility and a common practice (Hlbhiatia, 1996)

Unless the rates of Value Added Tax are extraordinary high, the state would end up with smaller tax revenue as against the collection from sales tax. Even if the tax payers are fully honest of, the system of taxation forces them to maintain elaborate and costly account. This becomes uneconomical, especially for smaller firms. (Hlbhiatia, 1996)

The difficult of maintaining accounts, cross checking and preventing tax evasion increase if the system contains some exceptions (such as for food item) and differential rate of taxation (luxurious are likely to be taxed at higher rate than necessity). It would be naïve to assume that a modern government would like to have a tax system which is claimed to be neutral in its own allocate and distributive effects. The realities of non-competitive market, income and wealth inequalities, and (in under developed countries) the need for quickening the pace of capital formation cannot be ignored Value Added Tax has to be selective in coverage and with differential rate. And once the authority decides to adopt he selective pattern, vested interest developed and exert pressure for exemption and concession. In such circumstances actual decision may not remain fully objective. Critics of Value Added Tax doubt that it includes efficiency (Hlbhiatia, 1996).

2.3 VAT Practice in Ethiopia

The Value Added Tax (VAT) proclamation No 285/2002 which has replaced the sales tax which have come into force as of January 1st, 2003 is a consumption tax which is levied and paid as value added tax at a rate of 15 percent of the value of every taxable transaction by a registered persons, every import of goods, other than an exempt import and an import service rendered in Ethiopia for a person registered in Ethiopia (Teferra 2004)

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

The potential problem of Value Added Tax implementation of MOR Value Added Tax administration is poor due to many factors, such as: difference in culture Value Added Tax registrant, lack of self-registrant, lack of awareness among the potential tax payers about the importance of Value Added Tax and poor tax collection system still exists. The general objective of this study is to investigate the challenges of Value Added Tax Administration regarding the Value Added Tax assessment, collection and implementation of Value Added Tax and to assess the main problems related to the Value Added Tax administration activities Performance tax office, service delivery of tax office and voluntary compliance of tax payers Ethiopia. (Yadeta 2015).

VAT administration pertains to how tax authorities discharge the responsibilities entrusted to them. These responsibilities include a range of related activities such as taxpayer identification and registration, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties. Perhaps peripherally, VAT administration is also concerned with issues of who should administer the tax, what organizational setup to use and what resources are available On the VAT administration practices the following compounds were key deterrents (Jantscher1990)

2.4 Legal Framework of Value Added Tax in Ethiopia

The Value Added Tax proclamation No 285/2002 which has rescinded and replaced the sales and excise tax proclamation No. 68/1993 (as amended) and which has come into force as of January 1st,2003 is a consumption tax which is levied and paid as value added tax at a rate of 15 percent of the value of every taxable transaction by a registered persons, every import of goods, other than an exempt import and an import service rendered in Ethiopia for a person registered in Ethiopia for Value Added Tax or any resident legal person by a non-resident person who is not registered for Value Added Tax in Ethiopia. (Article 7 (1) (a)-(c) and Article 23 (1) and (2)) A (Yesegat .2008).

Taxable transaction is a supply of goods or a rendition of services in Ethiopia in the course or furtherance of a taxable activity other than an exempt supply. (Article 7(3)) A taxable activity is any activity, which is carried on continuously, or regularly by any person in Ethiopia, or partly in Ethiopia, whether or not for a pecuniary profit that involves, in whole or in part, the supply of goods or services to another person for consideration. (Article 6 (1) and (2)) Supply means the sale of goods or rendition of services or both and rendition of services means anything done, which is not a supply of good or money. (Article 2(17) and Art.4 (1)) For the purpose of the Value Added Tax proclamation the following are considered as taxpayers on whom the Value Added Tax law is applicable.

These are: -

- (a) A person who is registered or is required to register for Value Added Tax;
- (b) A person carrying out a taxable import of goods to Ethiopia;
- (c) A non-resident person who without registration for Value Added Tax renders service in Ethiopia for any person registered in Ethiopia for Value Added Tax or any resident legal. (Yesegat, 2008).

2.4.1 VAT Registration

In Ethiopia any person who carries on a taxable activity and at the end of any period of 12 calendar months has made, during that period, taxable transactions the total value of which exceeds 500,000 Birr or at the beginning of any period of 12 calendar months there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during the period will exceed 500,000 Birr, has the obligation to register for VAT. (Yesegat . 2008).

On the other hand sector specific (selected) registration requirement, to encourage VAT registration, government institutions are obliged to transact with VAT registered businesses for transactions valued ETB 100,000 and above. In general, according to discussion with tax officials, these schemes were designed to help the administration in bringing taxpayers registered for VAT (EFIRA 2008).

After the VAT was operational with such a registration requirement, the authority devised forced-registration schemes. These schemes include selective registration requirements that compel all businesses engaged in a specific sector/form of ownership to register for VAT regardless of the level their annual turnover. (Abehodie, 2008)

2.4.2 VAT filing and payment

In some developing countries taxpayers effect provisional payments monthly and file returns annually; while most developing countries require monthly filing and payment of VAT and do not require taxpayers to furnish a yearly return. In the case of Ethiopia, taxpayers are required to file VAT returns accompanied by the appropriate payments on monthly basis and there is no year-end reconciliation requirement. Further, the VAT legislation allows taxpayers a 30-day period within which to file returns and make payments. In practice, there are three VAT reporting periods depending on whether taxpayer is a nil, credit or payment filer taxpayer is a nil, credit or payment filer. The reporting time from the end of the accounting period is 10 days for nil filers, 20 days for credit filers and 30 days for payment filers but these activities is not supported by any legal ground. (Jantscher1990)

In administering VAT in Ethiopia tax authorities use computer programs, namely Standard Integrated Government Tax Administration System (SIGTAS) and Automated System for Customs Data Management (ASYCUDA). The computer programs are used to maintain taxpayer register and process VAT returns. Detection of non-filers seems to be carried out mainly through system.

In addition, tax authorities Endeavour to follow-up non-filers identified by the computer programs. However, such follow-ups are made usually carried out once in month. The above practices pertaining to controlling VAT filing and payment delay the collection of the tax and jeopardize the government's revenue. Potential impact of non-filers on the revenue performance of the tax, strengthening the administration capacity of the tax authorities, and effectively using the computer programs coupled with timely follow-up of non-filing taxpayers are worthwhile to consider. (ERCA training manual, 2016).

2.4.3 VAT invoicing

Most developing countries require some form of invoicing for all transactions subject to VAT including sales to final consumers. Ethiopia, the VAT to related invoice there are different problems mainly two of them are , These problems include the difficulty of getting invoices on purchases and details of customers for the preparation of sales invoices, the problem of supplying without invoices (by giving the option of buying with or without invoices to customers) and using duplicated invoices. The second problem is that optional issuance of VAT invoices in some sectors reveals that invoices are being used as a negotiation tools between customers and VAT registered businesses. That is, full VAT is chargeable if a customer needs invoices. Such a practice can jeopardize the use of invoices as a revenue safeguarding tool. (Jantscher1990)

There are various factors contributing to the invoicing problems mentioned below some of these factors include lack of tax administrators“ follow-up and control, lack of awareness among the society and the prevalence of poverty. To mitigate these problems, enhancing tax education and follow-up programs are worthwhile to consider. (Abehodie2008)

2.4.4 Penalties

In most developing countries the stricter penalties in VAT laws are usually not applied, thus penalties have little deterrent effects. According to Abehodie (2008) In Ethiopia, the VAT legislation proclaims that taxpayers that fail to fulfill the requirements of VAT are chargeable with penalties ranging from financial penalties to imprisonment. The tax authority started enforcing the penalty provisions although the legislation in general stipulates a penalty of 5 per cent of the amount of VAT unreported/underpaid, a late filing penalty of ETB 10,000 for each accounting period the tax remained reported is imposed. In addition, there are cases where taxpayers convicted of VAT evasion have been fined Further, the lack of consistency and transparency in administratively imposing the penalty may open a room for corruption. (Jantscher1990)

2.4.5 VAT refund

Managing VAT refunds is one of the challenges of VAT administrations in developing countries. In managing refunds and combating refund frauds, different countries use schemes including denial of refund claims (except to exporters), carrying forward of refund claims, demanding a third party certification of the claim, demanding guarantee, requiring taxpayers to have separate VAT bank accounts, zero rating of supplies to exporters and remission of input VAT on certain goods (mainly capital goods). Some of these schemes are not only to combat refund frauds, but are also intended to reduce the strain on business cash-flows. Looking closely at the practices concerning VAT refunds in developing countries shows that all developing countries give refunds to exporters and some require other VAT taxpayers to carry forward their excess credits indefinitely (Jantscher 1990).

According to Ministry of revenue practical application the VAT legislation allows refunds to be made to mainly for exporters within two months from the time applications are lodged. Non-exporting taxpayers are required to carry forward excess credits to the next five accounting periods; if there are still unused excess credits it is allowed (at least in the legislation) to be refunded within two months from the time of lodging applications.(Yesegat2008)

In Ethiopia, for the purpose of refunds, the VAT legislation categorizes taxpayers into two groups: zero rated businesses (mainly exporters) and other (non-exporting) businesses like construction, manufacturing and others. The tax authority makes refunds mainly to exporters in addition to employing voucher system. (Yesegat 2008)

It is therefore important to briefly assess the resources available for the administration of VAT in Ethiopia. In this respect, estimated VAT administrative costs in Ethiopia in the 2005–06 fiscal year to be in the range of 0.66 to 0.8 per cent of VAT revenue. Further, through comparative analysis with similar estimates in other countries suggested that in Ethiopia VAT administrative costs are at a low level. (Yesegat 2008)

2.4.6 Non -compliant tax payers

There is Lack of strong and follow up for non-complaints, lack of human resources specially Value Added Tax auditors, lack of taxpayers awareness, In some lack of fairness, lack of Imposing penalty, lack of education and assistance for taxpayers , lack of qualification of tax office, fair and square appeal system, fair taxation mechanism, and good awareness creation for Value Added Tax collectors and conducted comprehensive trainings on the Value Added Tax law, regulation, directives and administration techniques for tax officers are also poor.(Yesegat 2008)

The non-compliance with VAT Proclamation failure to register for VAT as, failure to issue a tax invoice, failure to maintain recorder such as original tax invoices received and a copy of tax invoices issued and failure to file timely return shall be liable to administrative penalties ranging from a fine 100 percent of the amount of tax payable and a fine of up to 50,000 Birr. In addition to administrative penalties tax offenders such as tax evasion, making false or misleading statement and failure to notify are all criminal offences. This penalty ranging from 1000 Birr to 100,000 Birr and an imprisonment ranging from 3 years to five years where the making of false or misleading statement is made knowingly or recklessly such an offence is punishable by a fine of up to 200,000 Birr of an imprisonment of up to 15 years (ERCA training manual 2016)

2.5 Problems of implementing Value Added Tax in Ethiopia

One of the mechanisms in which countries raise revenue to finance government spending on the goods and services that most of us demand is taxation. As compared to the developing countries, the developed countries have been able to generate substantial revenue through imposing of taxes. One of the reasons for this has been the efficient tax system operating in the developed countries unlike the developing economies which are characterized by weak monetization and the low development of the formal sectors. In other words, these countries have employed a tax system that has one or a combination of the following desirable characteristics as economic efficiency, administrative simplicity, flexibility, political accountability and fairness. The tax system need to be economically efficient meaning the tax system should not have an effect on the allocation of resources. The tax system a country adopts should be easy and inexpensive to administer and that should be able to respond to changing economic circumstances. Taxpayers should also be able to determine what they are actually paying so that the political system can more accurately reflect the preferences of individuals. The tax system should be seen to be fair in its effect on all individuals. It follows that optimality in a tax system requires absence of distortion in any economic activity (Hancock, 1995).

It is expected that people's tax payments is in line with their income and they are required to pay a tax in proportion to their level of income. On the part of the tax collectors, collection of tax should be time conscious and convenient and the cost of collecting the taxes should not be high to discourage business. Alternatively, this means that the ideal tax system in developing countries should raise essential revenue without excessive government borrowing and should do so without discouraging economic activity and without deviating too much from tax system in other countries (Tanzi, 2001)

2.6 The Effect of Value Added Tax in Ethiopia

Ethiopia is one of non-oil owned and highly populous but fastest developing country. According to World Bank (2012), Ethiopia's 2012 estimates of population being around 82.9 million having an average life expectancy of 58 years with a total land area of 1.14 million square kilometers. In the modern days of Ethiopia, many reforms were made that leads to aquatic change in the socio-political and economic structural patterns. Hence, the government needs ample amounts of

revenue to meet the current expenditure that provoked than ever before. This leads to common benefits among federal, state and local governments. According to Musgrave and Musgrave (2004), the most important economic means by which funds can be raised for the public to facilitate its activities are taxation, borrowing from the public and credit creation. As credit creation will lead the country towards inflation and borrowing of money from the bank requires the payments of principal and interest on the sum amount borrowed, they can be detrimental to building wealth over the time Hence, because of drawbacks associated with both credit creations and borrowing from the public, tax is the bona fide instrument for collecting. (Yeshegat, 2009)

Taxes are revenue collected by the government to afford public services for the country and finance its daily activities. The work of Jhingan (2004) shows as the main and most important reasons for taxation are to finance government expenditure and to redistribute wealth for the development of country in general. The tax that is levied directly on personal or corporate income is direct tax and if it is levied on the price of a good or service, then it is an indirect tax. According to Shenk and Oldman (2007), indirect taxes of a tax on consumption have long been the heart of taxation in developing countries and it provide two-thirds or more of tax revenues in many countries. Similarly, the author argued as indirect tax is more important instrument for the poorest countries to boost domestic tax revenues on goods and services. Value added tax is one of indirect tax that applied on consumption of goods and services and it is to be charged on the value of imports and on value added on goods and services supplied by one business to another till it reaches to final consumers (Bird, 2005:1627-1695). According to Shenk and Oldman (2007), France was the first country who implemented Value Added Tax for the first time in the world by 1954. Value Added Tax has been the most important development in taxation and over the last half-century; it becomes a widely accepted indirect tax system across the globe. The study of Charlet and Butdens(2012:175-184) reveals as Value Added Tax was limited to less than ten countries in the late 1960s, and now it has been implemented by more than 150 countries across the world. Ethiopia adopted Value Added Tax by January 1, 2003 through replacing the out dated general sales tax in accordance with proclamation No 285/2002 for the purpose of raising sufficient tax revenues. Hence, Ethiopia entered what is currently a large chorus of nations in the world just as about 50 years after France implemented it as a taxing system by 1954. Among all the African union countries, Ethiopia adopted Value Added Tax after all of them with the exception of Angola who adopted it in 2008 (Abate, 2011).

The study conducted by Bird (2005:), reveals Value Added Tax as the money machine tax which necessarily adopted by both developed and developing countries that allow the government to collect sufficient amount of revenue. Hence, the majority of economists as well as experts of political scientists think that Value Added Tax is the best preferable general consumption tax recently available that enhances economic growth. In the recent decades, it is commonly contended that Value Added Tax increases government revenue, improves economic efficiency, promotes exports, raise revenue rapidly, simplify the tax administration procedures and widen the tax base and fosters growth (Brautigam. 2008). Hence there is a growing recognition among developing countries for the crucial role of Value Added Tax revenue as an instrument of economic growth. According to Adereti, et al., (2011), the main aim of Value Added Tax was to increase the revenue base of government and make funds available for developmental purposes that will accelerate economic growth. The study of Aizenman and Jinjarak (2005) explained Value Added Tax as a tax system applied on the percentages of the price of goods and services throughout the value addition mechanism continuously on all goods and services with some exemption stated under the law. Their conclusion is that Value Added Tax collects sufficient amounts of revenue through lessening cost of their collection and easement of their administration. Furthermore, the consumption type of Value Added Tax revenue is unavoidably collected as far as there were the chain of production and consumptions of goods and services. (Jinjarak2005)

Most of the previous authors investigations were on the contributions of Value Added Tax for economic growth suggests that Value Added Tax has a positive relationship with economic growth and these countries that adopted Value Added Tax has benefited from it. They reasoned that Value Added Tax collects sufficient amount of revenue for the government and it enhances economic growth in general. So this study rests its major interests on evaluating the effect of Value Added Tax on revenue generation both theoretically and empirically as there is no comprehensive work that is conducted under the contributions of Value Added Tax on economic growth in the Ethiopian context since its introduction. (Alemu, 2011)

2.7 The Benefits of Value added tax for Local Government in Ethiopia

Taxation in general is a forced payment made only to government irrespective to the value of goods or services that the state provides for the particular taxpayer. It is a recent phenomenon that consumption (indirect) taxes have continued to form an important source of revenue for an increasing number of public interest. For example, in OECD countries, Value Added Tax and excise taxes account for 30% of all revenue collected by government. (Lymer& Hancock, 2002/3)

The Federal Democratic Republic of Ethiopian constitution article 96 through 100, provide a framework of revenue share between the federal and regional states based on the principle of source. More mobile tax bases that might cross regional jurisdiction boundaries have been assigned to the central while those operating within the region are for exclusively reserved to the states. States are empowered to levy and collect revenues from sales taxes individual traders carrying out businesses within their territory. In the same way, it is only the regional state that collects Value Added Tax revenues collected from individual businesses. Nonetheless, neither the federal state nor the regions have vested the power to levy and collect sales taxes from private limited companies or share companies by the constitution. Though, article 52 (1) provides that all powers not given expressly to either of the states or concurrently to both are reserved to the states, perceiving that it is somewhat new and modern tax, the house of federation decided that Value Added Tax should be administered by the federal state. Consequently, based on article 62 (7) that states the power and function of the house of federation to determine the division of revenues derived from joint sources, the revenue collected by PLC or SC. form of businesses was divided as 30% to 70% per cent between the sources region and the federal government. (FDRE, constitution 1995)

Currently, Value Added Tax revenue is levied and collected from individual businesses by the regional revenues authority as per the delegation for administered and search and persecution power granted from ERCA since, Nehase 5/1996 and Hidar 13/2004 respectively.

2.8 Challenges and Opportunities

2.8.1 Challenges on VAT Administration

VAT administration challenges adversely impact on the salient features of the tax and government's policy objectives as a whole. In this regard, Tanzi and Pellechio (1995) noted that poor tax administration would change the manner in which taxation affects government's policy objectives, namely economic stabilization, resource allocation and redistribution of income. Challenges rise from the following facts taxpayer identification, invoicing, filing and payment process, control of filing and payments, refunds, audits and penalties are challenges. (Mikesell, 2007)

In developing countries the poor performance of taxes is likely is to be due to weak tax administration (that is, the incapacity of the administration to implement the tax in practice). This is perhaps caused by such factors as resource constraint and designing the tax separately from the administration. (Mikesell, 2007)

Value Added Tax administration there are many challenges have, Such challenges include: Resistance against Value Added Tax registration, Low level of tax awareness, weak audit and enforcement capacity of the tax authority, sell goods and service without tax invoice Value Added Tax collectors, Tax laws enforcement problems, are the challenges which affect the collecting sufficient revenue in terms of Tax collected from Value Added Tax. (Yadeta,2015)

2.8.2 VAT Implementation Problems in Ethiopia

After the introduction of VAT, VAT revenue collection has shown growing trends as compared with the replaced sales tax. The impact of VAT on government tax revenue is also shown in the structure of tax. The contribution of VAT on domestic goods and services as well as foreign trade shows a substantial increase though the domestic source is by far lower than that of foreign trade. This might be associated with administrative difficulty to collect the tax from the domestic economy and the existence of illegal practices on VAT. VAT collection from imported goods is easy since it is collected at entry point. (Getachew, 2004)

In principle, VAT is collected from consumption of goods and services. So, the maximum potential that can be collected from consumption expenditure is VAT rate multiplied by consumption expenditure of a particular year. (Getachew, 2004)

Problems that are observed during the implementation of VAT related with external and internal factors.

The external problem associated with the illegal practices of the taxpayers. Even though intensive education program has been undergoing by the tax administration, the following illegal practices are observed:

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

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

2.8.3 Opportunities for tax administration and revenue performance

VAT can detect evasion more easily than sales tax. VAT is collected on all sales of commodities at every stage of production and distribution with threshold on the annual turnover. Most taxable transactions will appear on two tax returns (that is the buyer's and the seller's) so that tax authorities will have two opportunities to detect evasion. Further, because sellers provide the tax administration a record of their purchases by claiming input credits, tax administrations are more able to estimate what sales. VAT is collected in smaller pieces at each stage of production, while the entire retail sales tax is collected on a final consumer sale (Bhatia, 2003).

2.9 Empirical Review

In this section, the empirical studies focus on prior academic researchers concerning the Problems Related to Implementation of Value Added Tax in on revenue generation. Accordingly, the following studied papers were selected from other countries and from Ethiopia to show the findings and the recommendations that are related to this study.

2.9.1 Similar Study in Other Countries

VAT has spread throughout the world since its introduction in 1955. Its format has changed and now incorporates what was once an offshoot, "GST" (goods and services tax). France is credited with first implementing VAT. It did so in 1955. The tax spread through Europe, South America and parts of Africa in the 1960s and 1970s before taking a hold in other regions. For example, the tax spread throughout the South East Asia/Pacific region from 1984 (Indonesia) to 1999 (Australia). Today most countries throughout the world have the tax. All members of the OECD and all leading economies in the world have a VAT (or very broadly comparable tax), apart from the US. For most of the twentieth century, the principal federal tax on individuals in the United States has been on income, whether it is earned from labor (wages and salaries) or capital (interest, dividends, and capital gains). But a growing number of economists and politicians have concluded that the United States should replace the income tax-partially or entirely- with a tax on consumption. Most of the political debate over a consumption tax has centered on whether the United States should adopt a value-added tax (VAT) similar to the ones that European countries have. While a VAT definitely is a tax on consumption, it is not the kind that most consumption, tax advocate prefer. What's more, the debate over whether to add a VAT to the U.S. tax code has obscured the more basic issue of whether to tax income or consumption. (Richard, 2005). The determinants of tax revenue shares and constructed an index of tax effort for the 16 Arab countries. The results submit that the main determinants of the tax share in the GDP for the Arab countries are the per capita income, the share of agriculture in GDP and the share of mining in GDP. These variables are statistically significant and possessed the expected signs. Further variables that are also important determinants are the share of exports and imports and in only the non-oil Arab countries, the outstanding foreign debt was found significant and positively related to the tax share. (Eltony ,2002)

Studies on level and composition of tax revenue in developing countries using the advanced estimation techniques with an unbalanced panel data for 43 developing countries over the period 1973-2002. His results showed that aid had a negative effect, non-tax revenue had also negative effect while agriculture sector share had positive but insignificant coefficient. Trade sector share had a positive effect and economically active female variable had a net adverse but insignificant effect while the old-age portion of population showed negative association for both income and sales tax. Extent of urbanization and literacy rate both showed positive effect. Population density, monetization and inflation rate remained negatively correlated. Inverse of GDP per capita was strongly and negatively correlated with the level of taxation. Net effect of political rights and civil liberties was significant (Mahdavi, 2008).

The title 'Assessment of Value Added Tax and Its Effects on Revenue Generation in Nigeria', the objective of the researchers was to examine the impact of value-added tax on revenue generation in Nigeria. The study covered the frame of 2001 to 2010 accounting years. The study employed inferential statistical analysis which was stepwise regression analysis. Value added tax, petroleum profit tax, company income tax and education tax were the variables selected on the basis of highest partial correlation to meet the entry probability requirement of less or equal to 0.05 (≤ 0.05). The result depicts the relationship between the dependent variable (total federally collected revenue) and each independent variables (value added tax, petroleum profit tax company income tax and education tax) that meet the entry probability requirement of less or equal to 0.05 ($P \leq 0.05$). The result further showed that the four variables, value added tax, petroleum profit tax company income tax and education tax had a strong positive correlation of 0.971 with the dependent variable, total federal collected revenue. (Onaolapo, 2013)

Three distinct models of VAT have developed to dictate why there are different forms of the tax. They are linked to the prevalent economic model at the time the tax was adopted.

1. From 1955 to the early 1970s - when economic theory stated that income tax was no longer superior to VAT - the tax was introduced in France and spread in Europe, South America and Africa. As envisaged by economists, the tax was almost invariably a multi-rate, multi-exemption model ("variation 1").

2. From the mid-1970s to the present day, countries adopting the tax usually opted for a single rate/widespread exemption model ("variation 2"). The change to single rate partially conformed to the new preferred model under economic theory - the single rate/minimal exemption variation. Some countries which had adopted "model one" of the tax during the prior period now upgraded to "model two"; most noticeable here being the EU's ongoing efforts to achieve a single rate for all of its members' VAT regimes.
3. In 1986, New Zealand introduced a single rate/limited exemption model along the lines favored by economists. The main exemptions here being financial services, residential be taxed at 10% and a comparable one at 20% -thereby providing a tax favored market place for the former. Income tax was favored over this discriminatory tax.

In summary three types of VAT regimes now exist throughout the world: these are

- Multiple rates/multiple exemptions
- Single rate/widespread exemptions
- Single rate/limited exemptions.

While economic theory now advocates the last-mentioned model, political and equitable realities usually ensure the adoption of the single rate/widespread exemptions structure. GST or VAT is not a new tax system. Most countries in the world have already adopted this taxing system. However, in implementing GST, the government should take into consideration several problems or factors that might retard the development of the GST system. Problems can occur on both sides of taxpayers and administrators. Therefore, a properly planned GST system should be looked upon before the system is introduced. For example, the public should be properly educated with general knowledge on GST system, since the end consumers will bear the burden of the cost of tax. The business entities should be briefed on the administrative side since remittance of revenues to the government will be done by the supply chain. The business entities should also be encouraged to update their accounting records to facilitate audit and investigation process. On the government side, well trained personnel should be provided in assisting the public. The government should also need to determine the right GST rate so that the welfare of the lower income citizen will not be so much affected. Decisions should also be made on the products which are exempted from tax. (Salmeen, 2005).

The cost of the tax is borne by VAT exempt institutions and unregistered end-consumers. Obviously, the latter consumes more so that VAT primarily taxes the non-business end consumer. In comparison, income tax applies across all spectrums of the community. VAT differs radically in a second respect from income tax. Income tax taxes income (i.e. amounts coming in) while VAT taxes spending (i.e., amounts going out). Economic theory therefore classifies income tax as a "direct tax" and VAT as an "indirect tax" or a "consumption tax". (Bekure 2004)

2.9.2 Studies in Ethiopia

In Ethiopia there are some studies done on Problems Related to Implementation of Value Added Tax in on Revenue Generation. Among these some of them are reviewed as follows:

On the title ‘The Role of Value Added Tax on Economic Growth of Ethiopia’, the objective of the researcher was to analyze the role of VAT on economic growth of Ethiopia using the data from 2003 to 2012 based on theoretical and empirical evidences. To meet his objective, he used time series macro-economic data on GDP using VAT, total tax revenue excluding VAT, non-tax revenue and foreign revenue as independent variables. He employed Descriptive statistics and multiple regressions to analyze the data. The finding of the study reveals that as compared to sales tax, VAT boosts the general economic growth of Ethiopia but the issue of regressively resembling to sales tax still continues. During the periods under review, the growth rate of VAT was 66.27% on average. For the periods of sales tax, the average growth rates of GDP were only 2.53%. However after executions of VAT, such growth rate reached about 21.9% on average. The analysis also showed as the average ratio of VAT to GDP becomes 2.95%. The finding also reveals that, VAT, total tax revenue and non-tax revenue except foreign revenue were significant at 5% level of significance but all of them positively contributed for economic growth during the periods under review. However, to be effective, it requires strong administrations and cooperation of the tax payers with taxing authority and the government in general. (Dasalegn, 2014)

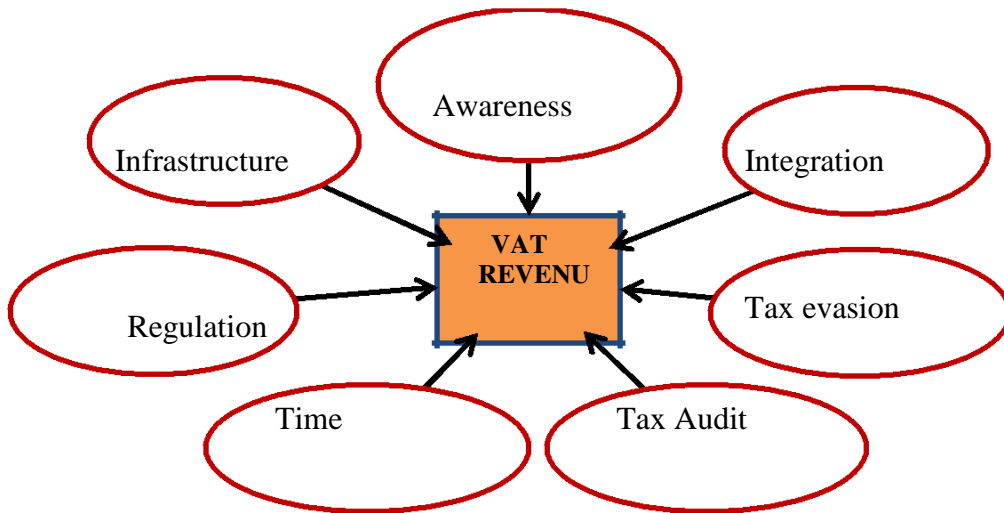
On the title the effect of value added tax on revenue generation in the ministry of revenue eastern Addis Ababa branch office, the objective of the researchers was to analyze effect of value added tax on revenue generation, her results showed that majority of tax payers and employees were

given awareness about the context and importance of Value Added Tax in their town. However, the results indicate that some employees and tax payers / Value Added Tax registered/ did not get the awareness in advance. This shows that there is a high gap in understanding the attitude of the taxpayers between themselves and the tax officers. The main challenge in the Value Added Tax administration process is the attitude of the taxpayers. Both the taxpayers and tax officers reported that there are attitudinal problems and the observation of the researcher also reveals this fact. Hence, giving all the necessary information to the taxpayers using appropriate methods needs due attention. (Taye, 2017)

2.9.3 Conceptual Framework

As a result of the theoretical and empirical reviewed above; the study has developed the following schematic representation of the conceptual framework. This conceptual framework describes the relationship of tax revenue with Infrastructure, Material unavailability, integration of stakeholder, quality and quantity of ministry employee, regulation, and stakeholder involvement.

Chart 1: Conceptual Framework



Source: Adopted from different literatures

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This part aims at elaborating the methodological process that was used; it outlines how the research was conducted based on the objective of the study. It is organized in the manner of limitation, research design, target population, sampling strategy, data collection tools and techniques, and data analysis used in the study.

Research methodology is a way to systematically solve the research problem as well as understood as a science of studying how research is done scientifically (Kotharie, 2004). Research methods may be understood as all those methods/techniques that are used for conducting of research.

3.1 Research Design

The type of research design undertaken in this study was descriptive. The nature of this study leads towards descriptive research, investigating the relationship between problems to implementation of value added tax within revenue generation. The study is also a cross sectional in the sense that relevant data were collected at one point in times which were useful to assess practices, attitudes, knowledge and beliefs of a population in relation to a particular topic.

3.2 Data Types and Sources

The researchers obtained data from primary and secondary data sources in order to obtain a reliable data and achieve the stated objectives of this study. In the study, both primary and secondary data sources were used.

3.2.1 Primary Sources of Data

This primary source of data collection was employed through the use of questionnaires. The researcher used both quantitative and qualitative methods of data collection to gather the data. With the help of the tax payers and tax officers of Eastern Addis Ababa branch office filled questionnaires.

3.2.2 Secondary Sources of Data

Secondary data was obtained from source of literature such as books, journals, newspapers, publication, reports, articles and other research related to this study. These sources were very useful in the literature review about VAT administration and revenue performance, challenges and opportunity.

Those data used to get better insight on the research topic, to establish the worthwhile platform for the theoretical framework constituting the bases of the research, and to design the sample frame for getting the primary data. Another advantage of using secondary data was its comparability character. The researcher used it to validate and compare the data get through questionnaire to existing literature and articles.

3.3 Population and Sampling Design

Total populations of the study were employees who work in ministry of revenue in eastern Addis Ababa branch office in 2018/19 fiscal year at the branch and tax payers in ministry of revenue in eastern Addis Ababa branch office in 2018/19 fiscal year.

The study respondents' were sampled from seventeen sub departments of the branch and all types of tax payer category. Based on Yamane (1967) sample size determination formula, from a total of 468 branch employees the calculated sample size is 216, at 95 % confidence level and 0.05 precision levels. , from a total of 12,674 branch tax payer I select as a population size 7,862 active and proper tax payers the calculated sample size is 381, at 95 % confidence level and 0.05 precision levels.

The formula below is used to determine the sample size:

$$\begin{aligned} no &= \frac{N}{1 + N(e^2)} \\ &= \frac{468}{1+468(0.05^2)} = 216 \text{ employee} \\ &= \frac{7862}{1+7862(0.05^2)} = 381 \text{ tax payer} \end{aligned}$$

Where n is the sample size

N is the population size, and

e is the level of precision or sampling error

The stratified technique was used. The study grouped the population into strata. From each stratum of sub department and tax payer category the respondents selected conveniently.

3.4 Data Collection Method

In this study, a set of questioner has been used to collect data for problems of implementation in value added tax and its effect on revenue generation. In relation to this, Cohen et al. (2008), argue that questionnaires encourage the respondents to be honest since they are answered anonymously. Moreover, it has the ability to solicit information from several respondents within short period of time (Johnson & Christensen, 2008). It has an advantage for respondent the scaled items, according to (McMillan and Schumacher, 2010), allow the respondents to choose using a Liker-type rating scale format.

3.5 Method of Data Analysis and Presentation

The respondent's data was statistically analyzed using Statistical Package for Social Science SPSS Version 20. As stated in the aforementioned section the first hand data entered into Ms. Excel and exported to SPSS package.

Representations like table and charts were used to ensure easy and quick interpretation of data. Descriptive statistics was used to analyze all data gathered in the form of frequencies, percentage, mean, and standard deviations. Finally, the analysis and interpretation of the data have leads to conclusions and recommendations.

3.6 Factor Analysis

Facto analysis was first conducted on a pre-selected set of measures derived. Factor analysis help in revealing underlying factors and assist in identifying what the factors represent conceptually. The analysis was performed using SPSS 20 based on the principal components factoring method with descriptive analysis . The following criteria were used in making decisions about inclusion or exclusion of items in scales and sub scales. Items with loading less than 0.40 were excluded from further analysis as they were considered to be weak.

3.7 Validity and Reliability

Validity and reliability issues are used for checking quality of instrument. These are the criterion for evaluating the research tools.

According to Pasteur (2001: 4), policy statements can offer a valuable source of information, but should not be too heavily depended upon as proof of practice. At the same time however, a lack of documented policy should not automatically be viewed as representing a fissure in policy (Pasteur, 2001: 4). The researcher takes cognizance of the fact that many policy actors may have other political and personal agendas that may influence their responses in interviews (Pasteur, 2001: 8). As a result, careful consideration was taken when including statements from interviews into this study. The information on the Ministry of revenue was obtained from key people who were intimately involved with the VAT collection itself. Documentation on the National Tax Policy and Tax directive was gathered from the Ministry of revenue website, thereby adding to the reliability of the study. Although every effort will be made to ensure comprehensive coverage of the most important issues, a possible obstacle to the reliability and validity of this study could be omissions with regards to literature and statistics.

Validity of the questionnaire was done through consultations with the advisor. This was to establish any built-in errors in the measurement of the questionnaire. The researcher also did an alpha test to check reliability, of the questionnaire.

3.8 Ethical Issues

Ethics are standards of behavior that guide the moral choices about our behavior and our relationship with others. All parties in research should observe ethical behavior. Research ethics was put into consideration when developing and administering data collection tools and techniques, to avoid any form of destruction or violation. This was done through obtaining consent before the research; ensuring confidentiality of data obtained and learning more about the organization's culture before the research and where necessary absolute sensitivity and caution was exercised.

CHAPTER FOUR

FINDINGS, DATA PRESENTATION AND INTERPRETATIONS

4.1. Introduction

The nature of this research is descriptive type that incorporates fact finding inquiries and surveys with regard to the Value Added Tax implementation and its related problems. The main aim (objective) of this research is to assess and analyze the implementation of VAT and its related problems in Ministry of Revenue Eastern Addis Ababa branch office. This may give some possible insights to tax related policy makers to give closer attention towards tackling the problems raised in association with the VAT implementations by providing appropriate suggestions. Quantitative analysis techniques, ranging from creating simple tables or diagrams that showing the frequency of occurrences through establishing statistical relationships between variables to simple statistical modeling, are used to analyze the collected data. Thus the analysis of the data is accessible by means of percentages, tables and figures with simple mathematical calculations.

The study analyzed the data collected through questionnaire from the selected Ministry of Revenue Eastern Addis Ababa branch office VAT registered tax payers as well as the selected Employees of Ministry of Revenue Eastern Addis Ababa branch office. As a result the analysis is concerned on the practical application and the challenges faced on the implementation of VAT and suggesting relevant and more appropriate recommendations considered as unsuitable solutions for the constraints (problems) being raised in relation to the issue.

The survey was conducted by distributing questionnaires to both VAT registered tax payers (Ministry of Revenue Eastern Addis Ababa branch office) and employees of Ministry of Revenue Eastern Addis Ababa branch office. Liker-type rating scale forms at questionnaires were prepared for both respondents on the basis of simplified lists of Strongly Disagree, Disagree, Neutral, Agree and Strongly Agree. The questionnaires distributed to both VAT registered tax payer and Ministry of Revenue Eastern Addis Ababa branch office employee respondents were prepared with English language.

From the total sample of 580 (364 and 216 from VAT registered taxpayers and employees of Ministry of Revenue Eastern Addis Ababa branch office respectively), 571(98%) responses were gathered (i.e.364 (95%) from VAT registered tax payers and 207 (96%) from employees of Ministry of Revenue Eastern Addis Ababa branch office).

4.2 Responses from the Ministry of Revenue Eastern Addis Ababa Branch Employees

4.2.1 Socio-Demographic Characteristics of the Respondents

Here under, the socio-demographic attributes of the respondents are presented which is followed by discussions of items that have relevance to the study.

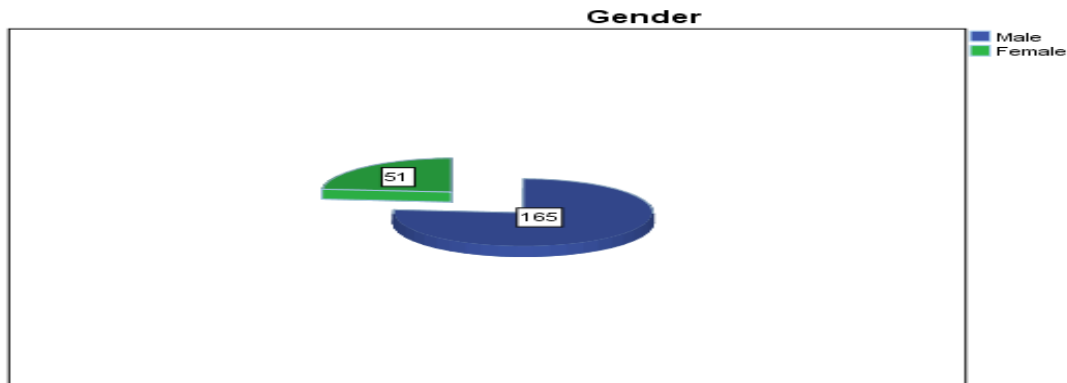
Table 1: The Socio-Demographic age Characteristics of the Respondents

Age	Frequency	Percent
20-30	28	13.0
31-40	136	63.0
41-50	52	24.1
Total	216	100.0

Source: own survey (2019)

The importance of the age of the respondents is to ensure where the respondent do the required level of maturity to respond properly to the given questioner .According to **Table 1** above, the majority of the respondents 63 %(136) are between age of 31-40 and the rest are between 20 to30 are 28 % (13) and 41-50 are 24.1 % (52). This implies that most of the respondents are in productive age category. Therefore, this survey indicated that most of the respondents were young and productive category.

Chart 2: The Socio-Demographic Gender Characteristics of the Respondents



Source: own information 2019

Chart1 also indicates that out of 216 respondents 74.4. % (176) respondents are male and the rest 23.6 % (51) respondents are females. The figure may shows encouraging numbers of females are engaged in the sectors.

Table 2: The Socio-Demographic Educational level Characteristics of the Respondents

Educational level	Frequency	Percent
BA/BSC	181	83.8
MA/MSc	35	16.2
Total	216	100.0

Source: own survey (2019)

As indicated table 2 Moreover, educational level of the respondents was also studied and results show that out of the 216 respondents, 181(83.8%) are BA/BSC, 35(16.2%) MA/MSc. This shows that all the respondents are qualified enough to easily understand and respond the questioners correctly. The ministry should encourage those employees who want to follow for masters or above in order to increase the number of qualified employee.

Table 3: The Socio-Demographic Work experience Characteristics of the Respondents

Work experience	Frequency	Percent
< 2 Years	48	22.2
2-5 years	111	51.4
6-10 years	57	26.4
Total	216	100.0

Source: own survey (2019)

Regarding the respondent's year of experience in the specific field, **Table 3** above shows that out of the 216 respondents 22.2% (48) have <2 year of experience, 51.4%(111) respondents have 2-5 year of experience, 26.4% (57) respondents have 6-10 years of experience. This implies that the majority of the respondents have medium year of experience of work experience in the ministry revenue. it indicate the ministry lack of experienced manpower to detect any evasion fraud that happen from the tax payer and it questioned the tax office poor vat administration capacity

4.2.2 Awareness about VAT Objective and Laws

This section presents data relating to awareness of respondents about Value Added Tax its Objectives and Laws. See Table 4 below.

Table 4: Awareness about VAT Objective

No	Items	Respondents	Frequency	Percentage
1	Familiarity with the Ethiopian VAT Laws and proclamations Ministry of Revenue had made sufficient clarifications to the public about the concept of VAT VAT implementation is more advantageous than the other tax for the government and tax payer	Neutral	19	8.8
		Agree	148	68.5
		Strongly Agree	49	22.7
		Total	216	100.0
2	Familiarity with the Ethiopian VAT Laws and proclamations Ministry of Revenue had made sufficient clarifications to the public about the concept of VAT VAT implementation is more advantageous than the other tax for the government and tax payer	Neutral	84	38.9
		Agree	124	57.4
		Strongly Agree	8	3.7
		Total	216	100.0
3	Familiarity with the Ethiopian VAT Laws and proclamations Ministry of Revenue had made sufficient clarifications to the public about the concept of VAT VAT implementation is more advantageous than the other tax for the government and tax payer	Neutral	45	20.8
		Agree	149	69.0
		Strongly Agree	22	10.2
		Total	216	100.0
4	Familiarity with the Ethiopian VAT Laws and proclamations	Strongly Disagree	8	3.7
		Disagree	13	6.0
		Neutral	174	80.6
		Agree	21	9.7
		Total	216	100.0

Source: own survey (2019)

As it is indicated in the **Table 4** above, the majority of the respondents Agree 68.5 % (148) were familiar with the Ethiopian VAT Laws and proclamations while the remaining 22.7 % (49) strongly agree and 8.8(19) respondent where neutral about VAT Laws and proclamations. It is possible to infer from this fact that though most of the employees might have strong knowledge

about vat current and updated laws and regulation it may help the ministry to control evasion fraud that happen from the tax payer

Besides, **Table 4** also presents that from among the respondents who stated that Ministry of revenue made sufficient clarifications to the public about the concept of VAT, majority of the respondents 57.4% (124) got agree about revenue made sufficient clarifications. In this regarding significant number of respondents stated strongly agree with the concept of Ministry of revenue made sufficient clarifications 3.7% (8) and the other 38.9(84) select neutral about revenue office had made sufficient clarifications to the public about the concept of VAT. From the facts presented above it ministry may made more clarification to the public to increase the acceptance of VAT by the public.

In addition, **Table4** shows that 69 %(149) respondents are agreed with the concept of VAT implementation are more advantageous than the other tax for the government and tax payer, 20 %(45) of the mare neutral and 10 %(22) respondents are strongly agree with the concept of VAT implementation are more advantageous than the other tax for the government and tax. This implies that majority of the respondents are accept with the concept of VAT implementation are more advantageous than the other tax for the government and tax payer.

Moreover, in addressing the question raised to identify the momentums that have led to the implementation of VAT is successful and achieve its objectives, majority of the respondents 80.6% (174) stated neutral,3.7% (8) Strongly Disagree,6% (13) Disagree and 9.7%(21).From the facts presented above implementation of VAT is not that much successful and achieve its objectives.

Finally I get some of the reasons for the low awareness as explained by the higher officials and officers on the interview section are given below. The taxpayers do not appear to the training sessions arranged by the office. Taxes payers are not ready to read and the update themselves about new rules, regulations and proclamations about Value Added Tax and other forms of tax. Tax payers have low educational level and cannot cope up with the situations.

4.2.3 About Value Added Tax Registration

This section presents the process of Value Added Tax registration in MOR Eastern Addis Ababa branch office.

Table 5: The process of taxpayers VAT registration is easy for taxpayers

	Frequency	Percent
Strongly Disagree	8	3.7
Disagree	28	13.0
Neutral	160	74.1
Agree	20	9.3
Total	216	100.0

Source: own survey (2019)

As it is indicated in the **Table 5** above, the majority of the respondents answer neutral 74.1 %(160), 13 %(28) disagree, 9.3 %(20) agree the rest insignificant amount 3.7 %(8) strongly disagree about the smoothness of VAT registration process. It is imply that there is the problems in registration process and the ministry must focus on its Value Added Tax registration process to have more number of tax payers and get grater amount of revenues.

Table 6: Tax payer voluntary registered for VAT

	Frequency	Percent
Strongly Disagree	16	7.4
Disagree	56	25.9
Neutral	129	59.7
Agree	15	6.9
Total	216	100.0

Source: own survey (2019)

According to **Table 6** above, the majority of the respondents 60% (129) neutral, 26% (56) disagree, 6.9 % (15) agree and the rest amount 7.4 % (16) strongly disagree about the voluntary registered for VAT. This implies that most of the respondents are not registered voluntarily. Therefore, they must affect increasing the amount of Value Added Tax payers and also the amount of revenue collected from the registered tax payers.

Table 7: Tax administrations are strong enough to control illegal activities of VAT payers

	Frequency	Percent
Strongly Disagree	8	3.7
Neutral	82	38.0
Agree	119	55.1
Strongly Agree	7	3.2
Total	216	100.0

Source: own survey (2019)

According to **Table 7** above, the majority of the respondents 55 % (119) agree, 38% (82) Neutral, 3.7 % (8) strongly disagree and the rest amount 3.2 % (7) strongly agree about the strange of controlling mechanism of illegal and non vat registered taxes payer practices. This implies that the revenue office must increase the controlling mechanisms by having experienced manpower to detect any evasion fraud that happen from the tax payer and also use modern controlling mechanisms.

Table 8: VAT registered business companies that have collected the tax with illegal invoices

	Frequency	Percent
Strongly Disagree	8	3.7
Disagree	24	11.1
Neutral	105	48.6
Agree	79	36.6
Total	216	100.0

Source: own survey (2019)

As it is indicated in the **Table 8** above, most of the respondents neutral 48.6 % (105) and Agree 36.6% (79) employee of tax office believe VAT registered business companies that have collected the tax with illegal invoices. Rest insignificant amount 3.7 % (8) strongly disagree and rest insignificant amount 11.1 % (24) disagree the sales with illegal vat invoice. It impales that there is some tax payers how engaged in the illegal process there for the ministry may have use strong controlling mechanisms by using continues survey on the tax payers and also using modern controlling mechanisms supported by ICT.

Table 9: There are some eligible business enterprises in the market that haven't yet registered for VAT

	Frequency	Percent
Neutral	67	31.0
Agree	141	65.3
Strongly Agree	8	3.7
Total	216	100.0

Source: own survey (2019)

Moreover, about the eligible business enterprises in the market that haven't yet registered for VAT respondents stated that Agree 65.3 % (141) and neutral 31% (67) are believe not registered for VAT and the rest insignificant amount 3.7 % (8) strongly agree about the non-registration. It impales that there is many eligible enterprises in the market that haven't yet registered for VAT and the ministry may strongly work on registration process.

Table 10: The number of non-VAT registered taxpayer exceeds the number of VAT registered taxpayers in the country

	Frequency	Percent
Disagree	7	3.2
Neutral	121	56.0
Agree	79	36.6
Strongly Agree	9	4.2
Total	216	100.0

Source: own survey (2019)

As it is indicated in the **Table 10** above the respondent believe that neutral 56 % (121) on the proportion of registered and non-registered one for VAT. And neutral 36% (79) is believe non registered tax payers exceed from the registered one and rest insignificant amount 3.2 % (7) disagreed and 4.2 % (9) strongly agree about the proportion. From the questioner and discussions with higher officers respond , It impales that there more business enterprises who are not yet register for VAT therefore there is the gap o the ministry of revenue to register and to make proper trade computation on the market.

Table 11: VAT registered has benefitted from the market competition than non-registered?

	Frequency	Percent
Disagree	3	1.4
Neutral	52	24.1
Agree	138	63.9
Strongly Agree	23	10.6
Total	216	100.0

Source: own survey (2019)

Moreover it indicated in the Table 11 above the respondent believe that Agree 64 % (138) on the market competition VAT registered has benefitted from the market than non-registered one and neutral 24% (52) in market competition and rest insignificant amount 10.6 % (23) Strongly Agree and 1.4 % (3) Disagree about the market competition VAT registered has benefitted from the market than non-registered one. It impales vat is advantages for the legal business enterprises who are registering for VAT

4.2.4 The strength of the revenue office

This section presents data relating to the strength of revenue office with respect to the following parameter. See Table 12 below.

Table 12: The strength of the revenue office

No	Items	Respondents	Frequency	Percentage
1	The Ministry has Good Office facility to taxes payers	Neutral	162	75.0
		Agree	54	25.0
		Total	216	100.0
2	The Ministry has Simple filing and payment procedure and using advanced technology	Neutral	82	38.0
		Agree	134	62.0
		Total	216	100.0
3	The Ministry has Qualified human resource	Neutral	13	6.0
		Agree	203	94.0
		Total	216	100.0
4	The Ministry has Education and awareness program for taxpayers	Disagree	8	3.7
		Neutral	149	69.0
		Agree	58	26.9
		Strongly Agree	1	0.5
		Total	216	100.0

Source: own survey (2019)

Furthermore **Table12** indicates that majority of respondent 75 %(162) said that the infrastructures ministries of revenue have for VAT collection processes not that mach proper and 25 % (54) respondent said ministries of revenue have good infrastructures for VAT collection processes there for there is a gap on the ministry office infrastructure.

Table 12 again shows that 62% (134) respondent said that most filing and payment are not that mach simple and the other 38 % (82) respondent said that the filing and payment procedure and using advanced technology well. This implies that the payment and declaration process is good but its need improvement and technological advancement.

It is also indicated on **Table 12** that majority of the respondent 94%(203)reply that the ministry has adequate number of skilled manpower, 6% (13) respondent said that the ministry have not that much qualified mane power for the overall tax operations. It impales that there is adequate number of skilled manpower on the branch.

Moreover, on **Table12** about education, awareness and assistance program for taxpayers by the ministry respondents stated that neutral 69. %(149) and Agree 26.9% (58) believe ministry gives education, awareness and assistance program for taxpayers 3.7 % (8) disagree and 0.5 % (1) strongly agreed. It impales that there not that much education, awareness and assistance program for taxpayers on the branch.

4.2.5 Revenue generation

This section presents data relating to the revenue generation

Table 13 The current VAT contribution to the government’s revenue is sufficient

	Frequency	Percent
Disagree	126	58.3
Neutral	90	41.7
Total	216	100.0

Source: own survey (2019)

As it can be seen in **Table 13** above the respondents were asked to express their level of agreement to the question that asked about VAT contribution to the government’s revenue is sufficient 58%(126) of the respondents disagree and 41.7%(90) of them neutral to the statement. From the questioner and discussions with higher officers respond we can understand that the employee agreed the contribution of VAT to the revenue not that much sufficient.

Table 14: Weak Ministry controlling mechanism makes VAT generated Revenue insufficient

	Frequency	Percent
Disagree	14	6.5
Neutral	181	83.8
Agree	13	6.0
Strongly Agree	8	3.7
Total	216	100.0

Source: - Own information 2019

It is also indicated on **Table 14** the respondents were asked to express their level of agreement to the revenue generated from VAT is insufficient because of weak Ministry controlling mechanism that majority of the respondent 84%(181) reply agree with weak controlling mechanism and rest insignificant amount 3.72 % (8) strongly agree, 6% (13) agree and 6.5% (14) are disagreed with the statement. It impales the controlling mechanism of the ministry is not that much sufficient.

Table 15: Ministry makes intelligence audit on tax payer to increase its revenue

	Frequency	Percent
Disagree	34	15.7
Neutral	110	50.9
Agree	72	33.3
Total	216	100.0

Source: - Own information 2019

As it can be seen in **Table 15** above the respondents were asked to express their level of agreement to the question that asked about proper tax and intelligence audit on tax payer to increase its revenue 51% (110) of the respondents neutral and 15.7%(34) of them disagree and 33.3% (72) agreed to the statement. From this data we can understand that the employee more off agreed bout making the tax and intelligence audit on tax payer to increase its revenue.

Table 16: The ministry of revenue provides awards to the best and faithful tax payer

	Frequency	Percent
Strongly Disagree	8	3.7
Disagree	132	61.1
Neutral	64	29.6
Agree	12	5.6
Total	216	100.0

Source: - Own information 2019

It is also indicated on **Table 16** the respondents were asked to express their level of agreement about ministry of revenue provides awards to the best and faithful tax payer that majority of the

respondent 61%(132) reply disagree with awards given to the best and faithful tax payer and 29.6%(64) reply natural and rest insignificant amount 3.7 % (8) strongly disagree, 5.6% (12) agree with the statement. It impales they didn't give any kinds of rewards and recognitions to the tax payers

Table 17: The ministry of revenue have continues capacity building program l improvement

	Frequency	Percent
Disagree	20	9.3
Neutral	143	66.2
Agree	53	24.5
Total	216	100.0

Source: - Own information 2019

It is also indicated on **Table 17** that majority of the respondent 66.2 %(143) reply natural and 24.5 % (53) reply agree with the statement of ministry of revenue has continues capacity building program and technological improvement and the rest insignificant amount 9.3 %(20) disagree. It impales that there is capacity building and technological improvement programs but is not sufficient.

Table 18: The ministry of revenue provides appropriate rewards to the best performing tax officials specially those who have done the best in deterring noncompliance

	Frequency	Percent
Strongly Disagree	21	9.7
Disagree	168	77.8
Neutral	27	12.5
Total	216	100.0

Source: - Own information 2019

Besides, **Table18** the respondents were asked to express their level of agreement about incentives and awards to the best performing tax officials specially those who have done the best in deterring noncompliance that majority of the respondent 77.8%(168) reply disagree with awards and incentives given to the best performing tax officials and12.5%(27) reply natural and

rest insignificant amount 9.7 % (21) strongly disagree with the statement. It implies three is no incentive and award giving to the tax official where or not they working properly to the tax payers.

4.3 Responses from the Ministry of Revenue Eastern Addis Ababa Branch VAT registered Tax payers

4.3.1 Socio-Demographic Characteristics of the Respondents

Here under, the socio-demographic attributes of the respondents are presented items that have relevance to the study.

Table 19: The Socio-Demographic Characteristics of the Respondents

No	Item	Respondent Category	Frequency	Percentage
1	Age	20-30	21	5.8
		31-40	269	73.9
		41-50	68	18.7
		> 50	6	1.6
		Total	364	100.0
2	Sex	Male	285	78.3
		Female	79	21.7
		Total	364	100.0
3	How long you have been registered for VAT	< 1 year	17	4.7
		2-5 years	183	50.3
		3-10 years	111	30.5
		> 10 years	53	14.6
		Total	364	100.0
4	Educational status	Diploma	29	8.0
		BA/BSC	248	68.1
		MA/MSC	87	23.9
		Total	364	100.0
6	Relationship of the respondent with organization	Owner	34	9.3
		Manger	196	53.8
		Employee/Agent	134	36.8
		Total	364	100.0

According to **Table 19** above, the majority of the respondents 73.9%(269) are between age of 31-40 and the rest are between 20-30 are 5.8%(21) ,41-50 are 18.7%(67) and above 50 are 1.6%(6). This implies that most of the respondents are in productive age category. Therefore, they contribute more increasing the amount of Value Added Tax than the rest of age category.

As indicated in item 2 of **Table 19** of which 78.3% (285) were male while 21.7% (79%) were female. These shows while more number of male taxpayers in contrary more in number with regard to females.

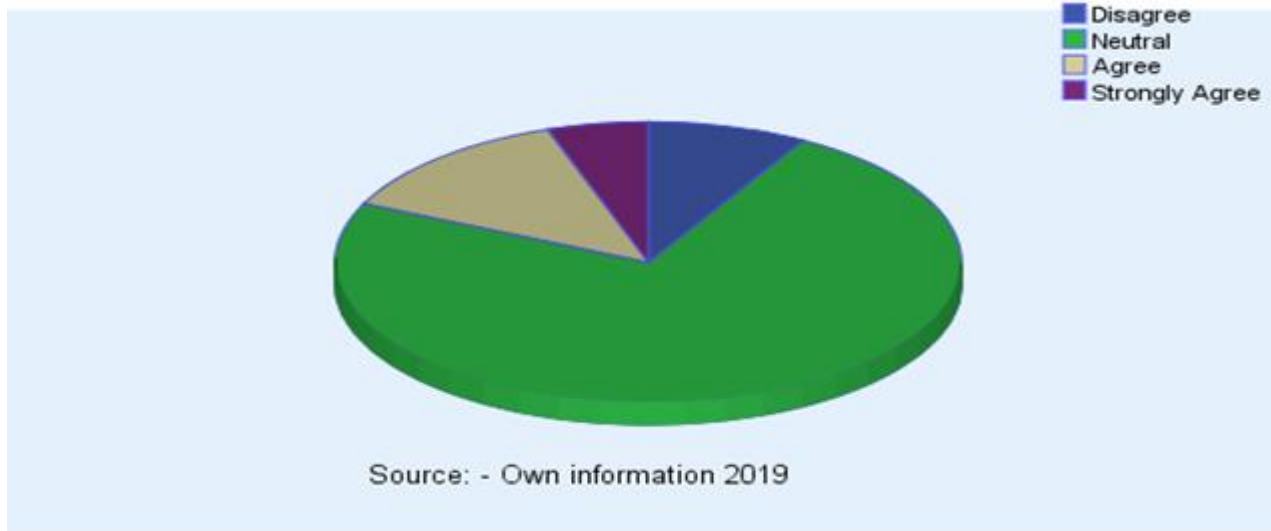
As indicated in item 3 of **Table 19** shows that 183(50.3%)of tax payers respondents had 2-5 years' experience in the business sector while 111(30.5%) had 5-4 years' experience, 53 (14.6%) had above 10 years' experience and 17 (4.7%) had below 1 years' experience, This figures shows that majority of the respondents had medium work experience which can have a significant effect on the effective delivery of the service they provide to customers.

As indicated in item 4 of **Table 19** shows that, in terms of level of education, results out of the 364 respondents, 284 (68.1%) are BA/BSC, 87(23.9%) MA/MSc and 29 (8%) were Diploma. This shows 68% (248) of the respondent don't have first degree and it can be articulated that it has its own impact on tax and the business activity itself because education help to maximize the awareness of business person on tax and facilitating the business activity, ethics and codes.

Finally, **Table 19** shows that majority of the respondents 53.8% (196) are Manger, 36.8 % (134) Employee of the organization and, rest are 9.3 % (34) owner. This implies that the information gathered is from concerned body and reliable because the managers and employees directly related with tax office and laws.

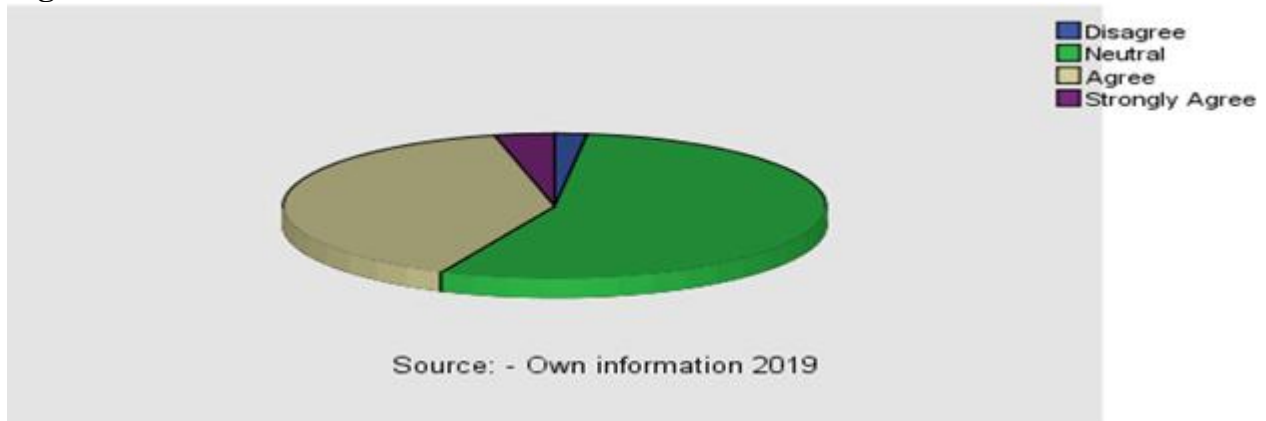
4.4 VAT Objective and Laws

Chart 3 VAT in Ethiopia is necessary for fair trade competition



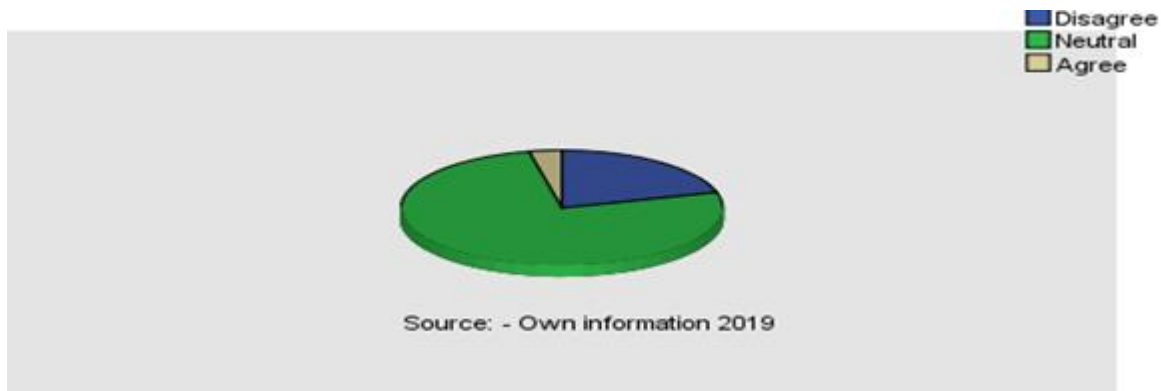
Out of the 364 tax payer respondents, 268 (73.6%) replied that VAT necessary for fair trade competition neutral, 47 (12.9%) respondents agree with that VAT necessary for fair trade competition, 30 (8.2%) respondents replied disagree and 19 (5.2%) strongly agree with necessary for fair trade competition. As can be observed from the above figure most of tax payers didn't accept or reject vat concept on the fire trade competition it is singe to the tax office to work on VAT acceptance on the tax payers. Tax office is still expected to convince the tax payer's that has a doubt about the objectives of VAT rules and regulations with regard to faire trade competition

Chart 4 You/your organization are familiar with VAT proclamations and regulations



In addition, the above chart shows that 54.9% (200) respondents are respond neutral about familiar with proclamation and regulation of VAT , 39.6%(144)of them are agreed with familiarity of proclamation and regulation ,3.6%(113) respondents strongly familiar and 1.9%(7) respondents are not familiar with the proclamation of Value Added Tax. This implies that most of tax payers are familiar with the proclamation and regulation VAT which means majority of the respondent’s didn’t get enough information or orientation on VAT and related issues.

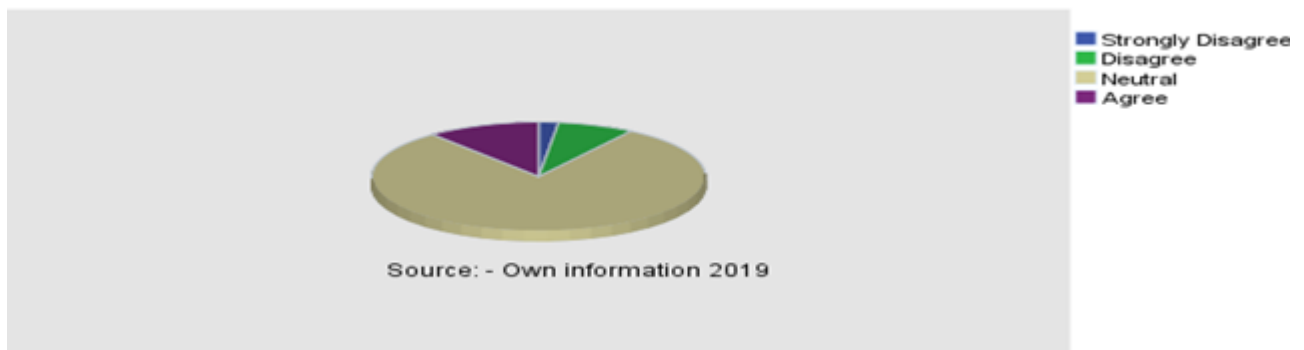
Chart 5 VAT implementation in Ethiopia Encouraging investment and export



As indicated in the figure survey was conducted on VAT registered enterprises to know the reviews about the importance of VAT for the growth of investment and export. Out of the 364 taxpayer respondents, 277(76%) replied neutral about VAT is important for the growth of

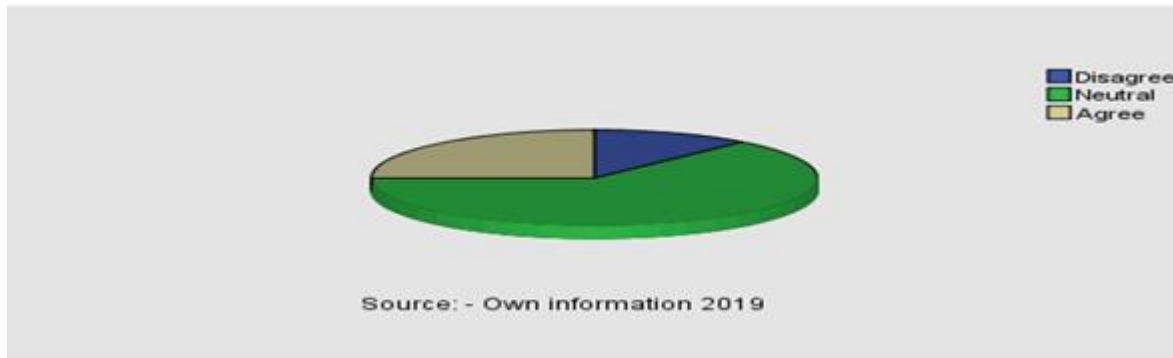
investment and exports,75(20.6%) respondents respond that disagree about VAT encourages investment and the rest 12(3.3%) respondents replied that they have agreed with the idea on the change of investment and exports. From this finding we can say that majority of the tax payers haven't better understanding about the importance of VAT in relation to investment and exports. There for the ministry is still expected to convince the tax payers that has a doubt about the objectives of VAT rules and regulations with regard to the encouragement of investment and exports.

Chart 6 The Ministry of Revenues taken measures to alleviate the problems associated with the implementation and collection of VAT



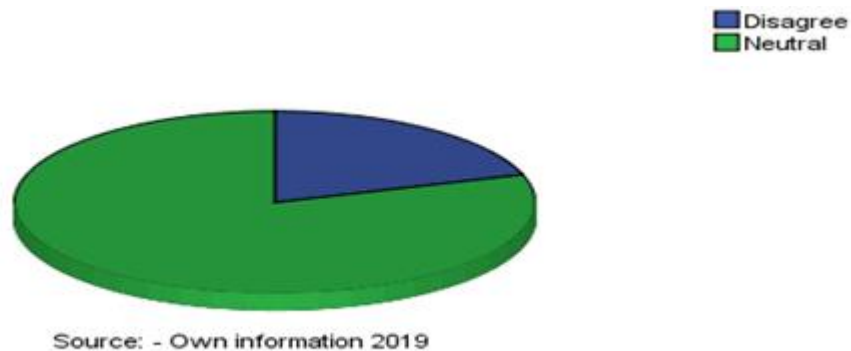
The above figure shows that the majority of the respondents 80 % (290) neutral, 11% (40) agreed, 7.4 % (27) disagree strongly and the rest amount 1.9 % (7) strongly disagree about measures taken by ministry of revenue to alleviate problems associated VAT administration. This implies that the revenue office must increase the controlling, training, education, awareness about the tax specially VAT lows to the public and specially to vat registered tax payers. And also made quick corrective mechanism which arising in the process of vat administration mechanisms

Chart 7 VAT is more advantageous in comparison with the other tax



The above figure shows among the 364 VAT registered taxpayers, 231 (65.5%) respondents replied neutral that VAT is more advantageous than the other tax (Tot, sales tax), 91 (25%) respondents said that VAT is agreed with the advantageous and 42 (11.5%) of the respondents replied as they know nothing about both taxes (VAT and other tax). So the ministry should give the respective tax payers intensive awareness creating trainings so as to make the clear about the merits of VAT.

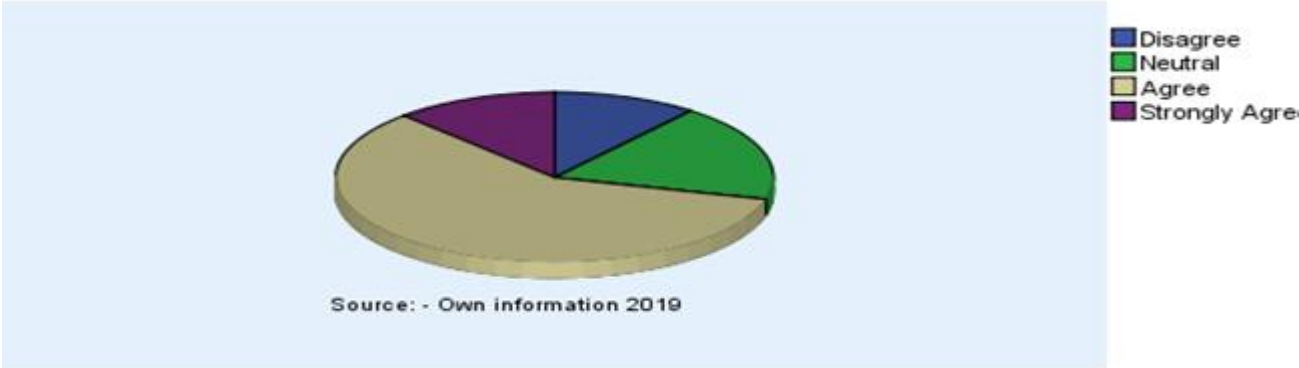
Chart 8 as a tax payer do you believe that Ministry of revenue had made sufficient explanation, trainings to the public regarding VAT



Furthermore, The above figure indicates that majority of respondent 80 % (291) said that the process of Value Added Tax registration is not that much too smooth and easy for tax payers but 20% (73) respondent said that Value Added Tax registration process is not smooth and

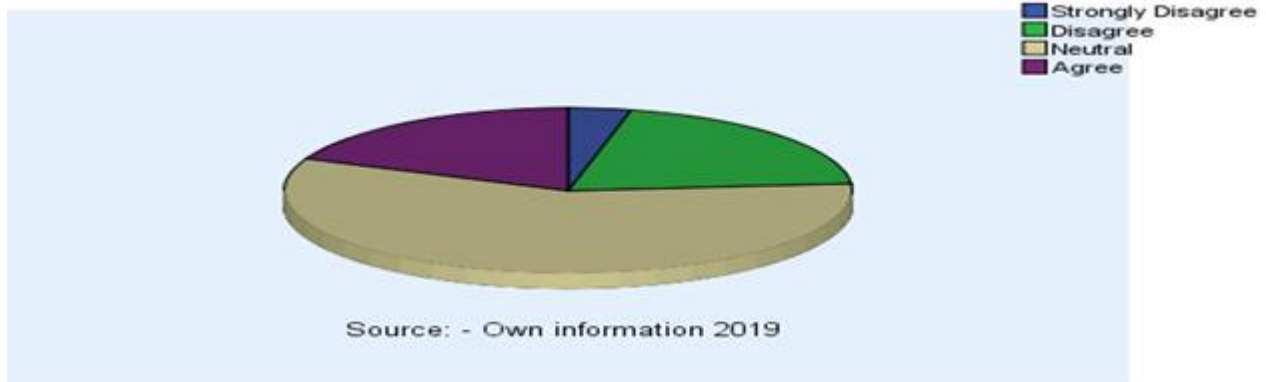
easy for tax payers. This implies that there is problem in the process of Value Added Tax registration.

Chart 9 Did you update yourself with newly implemented rules and regulations



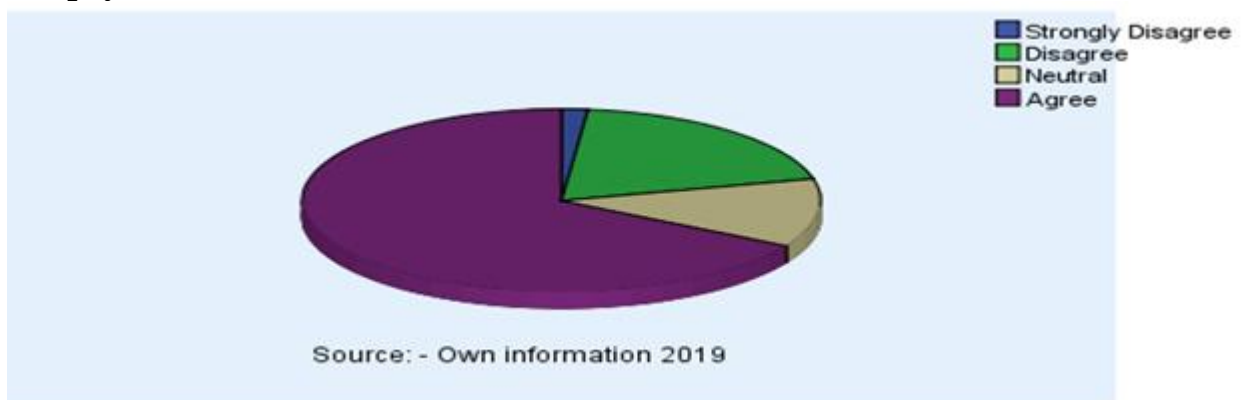
The above figure indicates Among the 364 respondents, 58.8% (214) replied as they agree with the idea that the number of non-VAT registered exceeds the registered ones and the rest 18.4 % (64) replied neutral and the rest 10.7 % (39) do not agree and 12 % (44) strongly agree that the number of non-VAT registered is more than the VAT registered business entities. From the figure above, we can understand that there are many business entities in the market that are not registered for VAT but have to be registered. Therefore, the ministry has to devote its time in convincing the non-VAT registered enterprises to bring them in registration and strongly expand its enforcement campaigns over the non-registrant enterprises as well as ware the public to experience the culture of taxpaying using different Medias.

Chart 10 as a taxpayer do you agree with the idea that most of the VAT payers are registered obligatorily



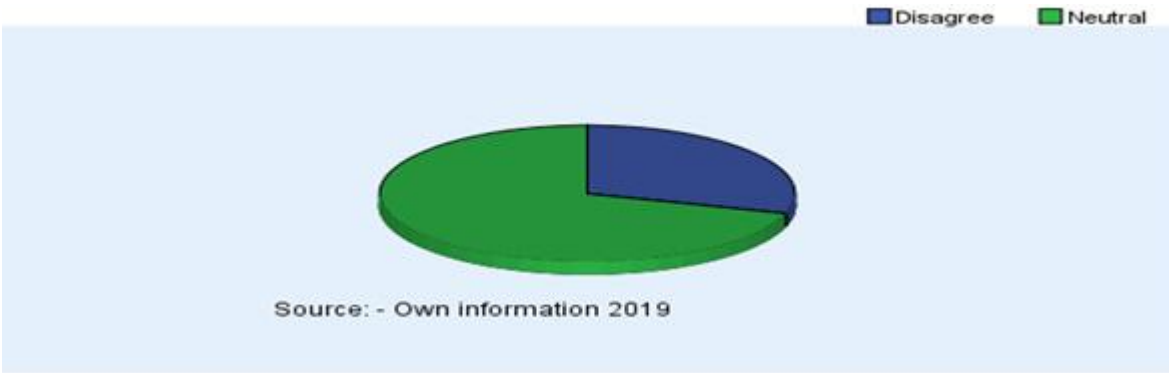
As we can observed from the figure above, Among the 364 respondents, 58 %.(210 replied as they neutral with the idea obligatory registration for VAT and the rest 18.7 % (67) replied agree, and 20.1%(73) replied disagree and 3.6 %(13) strongly disagree with the idea of obligatory registration for VAT. From the above figure we can understand that there are lack of knowledge (awareness) of the business community about the time, ways and reasons of registering for VAT, the exaggerated VAT rules imposed on the taxpayers, the inconsistent VAT registration system followed by the ministry. Therefore, the ministry has to devote its time in convincing on the voluntary registration as well as aware the public to experience the registration culture of taxpaying and its advantages for them and the country using different Medias.

Chart 11 Ministry of revenue are strong enough to control illegal activities of VAT payers



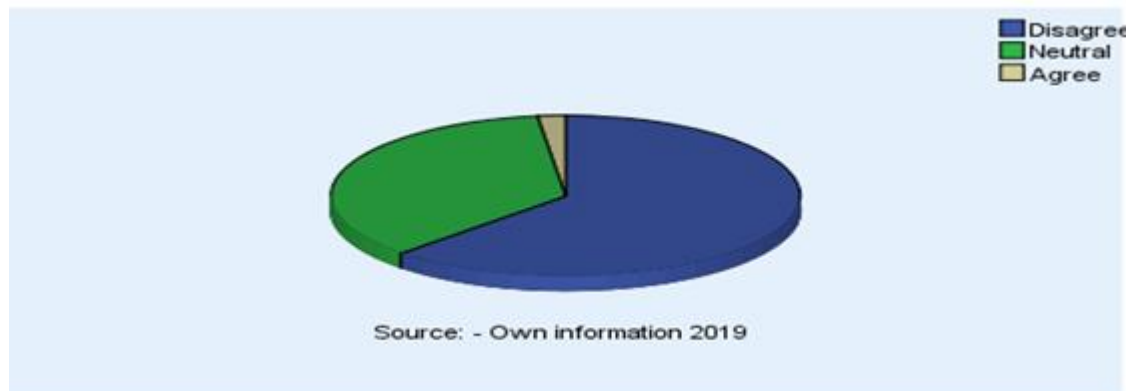
According to figure in the above, the majority of the respondents 68.8% (243) neutral, and 19.5% (71) Disagree, 12.1 % (44) agree and the rest amount 1.6 % (6) strongly disagree about the strange of controlling mechanism of illegal and non vat registered taxes payer practices. This implies that the revenue office must increase the controlling mechanisms and use technological and modern controlling, reporting and administrative way to all illegal active and give awareness creation training and educate lows of tax and aware about the advantages of revenue for the country.

Chart 12 The ministries of revenue have infrastructures for VAT collection processes



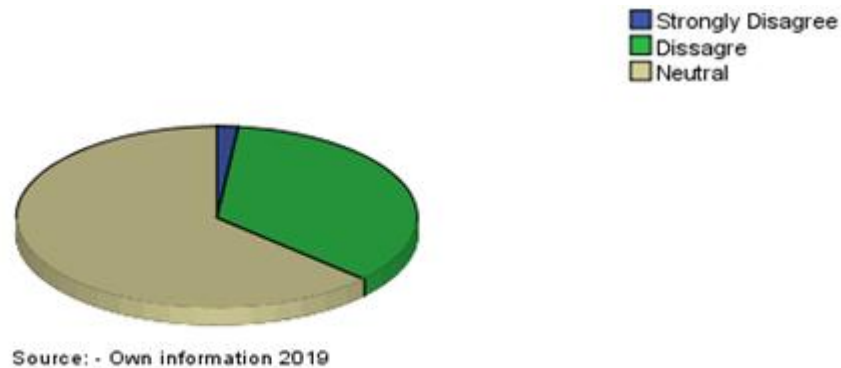
The above figure indicates Among the 364 respondents about ministry branch office infrastructures for collection and overall administration process show that, 70.3%(256) of the respondents indicate neutral the remaining 29.7% (108) of the respondents said that there is poor infrastructures facility of the branch. This indicate that the tax payers did get a conveyances and proper tax payment environment by the ministry of revenue therefore make a corrective masers on the infrastructure

Chart 13 The Ministry has Simple filing and payment procedure VAT collection processes



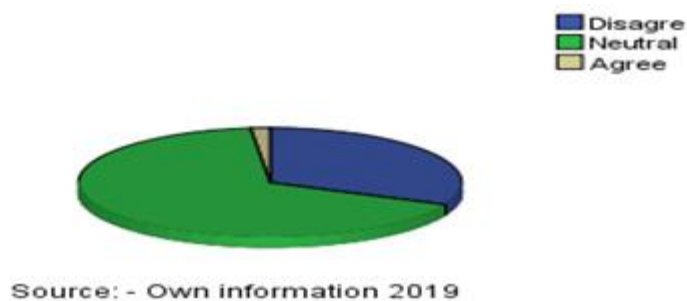
In modern tax administration, computerizing the tax collection procedure satisfies both the tax payers and the ministry requirements in best possible manners. Changing the administration in the computerized way satisfies two possible requirements. On one hand, it makes the work effective and efficient while on the other hand, it rehabilitates the management of the ministry to the tax payer requirements for fairness and justice. Concerning the declaration process a question was raised to the tax payer respondents whether they believe that the declaration process for VAT is easy and effective or not. Out of the 364 respondents, 227 (62.4%) replied that the declaration process is not easy and effective, and 130 (35.7%) neutral and 7 (1.9%) replied that the VAT declaration process is easy and effective. As can be observed from these responses the declaration process is not as easy as possible. Thus, the ministry has to think the ways to solve problems raised around these are as by giving continuous trainings to the employees and the business community and improving its infrastructures, controlling and administration systems as well as strengthening its follow-ups.

Chart 14 The Ministry has Qualified human resource



The survey was also conducted by asking the tax payer respondent's whether they believe that the ministry has adequate number of and skilled man power or not. Out of the 364 respondents, 221(60.7%) respondents neutral that the existing number and skills of employees of the ministry and 123(33.8%) respondents disagree, and 20 (5.4%) respondents strongly disagree with the skills of employees and its number of the employees of the ministry. Based on the ministry is expected to increase its manpower by recruiting literate and qualified manpower as well as appraise the performance and skills of the existing employees through trainings and preparing awareness creation programs as well as workshops so as to match its performing capacity with the increasing number and consciousness of the society.

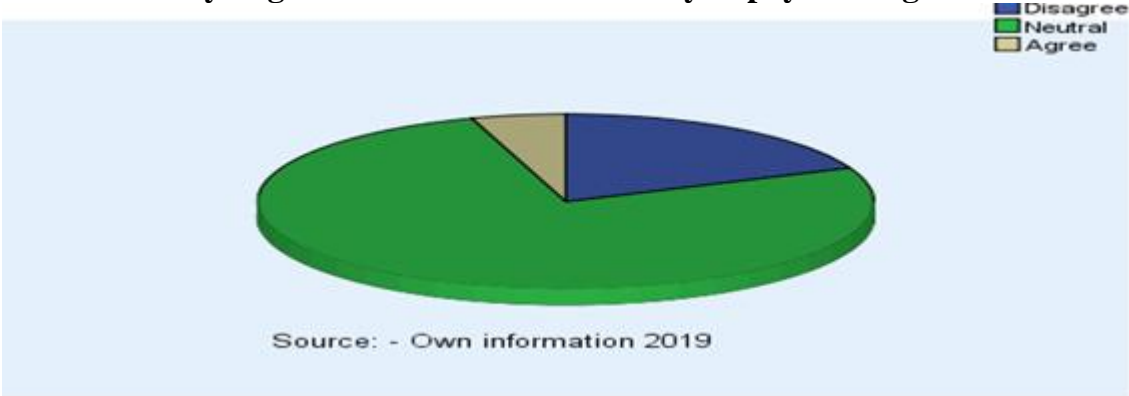
Chart 14 The Ministry of Revenue has given education and awareness program for taxpayers



On the above figure the responded figure about ministry of revenue gives to the tax payer's sufficient education, awareness and assistance respond that 66.8% (243) neutral and 31.6% (115) disagree with the statement of giving sufficient education, awareness and assistance by

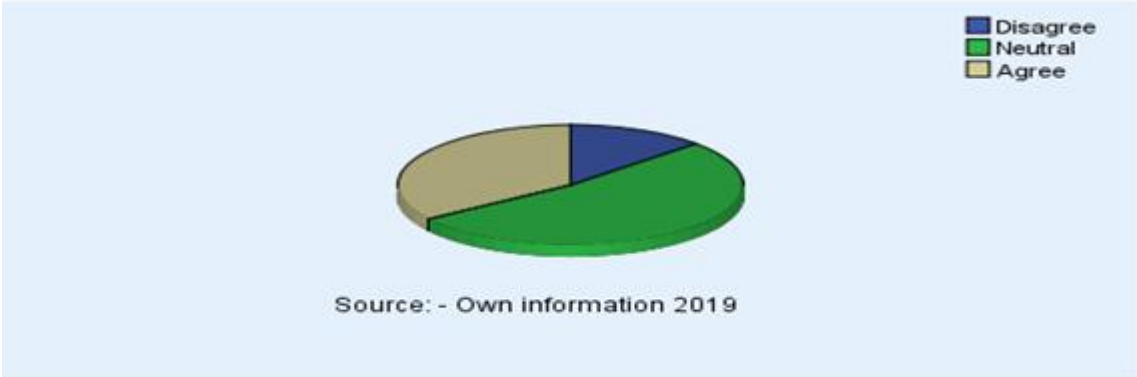
ministry of revenue. Whereas 1.6% (6) agreed with the statement. The above figure indicates that the ministry of revenue didn't give or make education, awareness and assistance to the tax payers. Thus, the ministry has to think the ways giving continuous trainings to the business community o improving sufficient education, awareness and assistance to tax payers

Chart 15 Did you get benefited from the VAT you pay to the government



Moreover it indicated in the figure above the respondent believe that 76.4 % (278) neutral on the benefit they get from the government they pay on tax and 18.7% (68) of tax payer agreed that they didn't get benefit from the tax they pay and rest insignificant amount 4.9 % (18) Agree with the benefit they get from the government. It impales business enterprises didn't understand about tax payments which is revenue for the government, therefore government may aware ,show and participate the tax payers on revenue allocation and usage works in the country in general also in the branch, and also aware the people, tax payer using different medias .

Chart 16 Are there customers who are not willing to purchase goods and services with VAT



More again figure describe that 52.5% (191) respondents said that neutral about customers who were not purchase goods and services with Value Added Tax,12.9%(47)respondent said that there were no customers who were not purchase goods and services with Value Added Tax and3 4.6% (123) respondents responded that there is customers who purchase goods and services with Value Added Tax invoice or didn't ask VAT invoice. So the majority of the respondents indicated that there were many customers who were willing to purchase goods and services with Value Added Tax. This implies that there is lack of awareness about Value Added Tax on the side of customers also. Customer's belief that as if it is unnecessary cost added to the value of goods or services and they don't consider as a part of revenue.

Chart 17 ministry of revenue have strong controlling mechanism on VAT

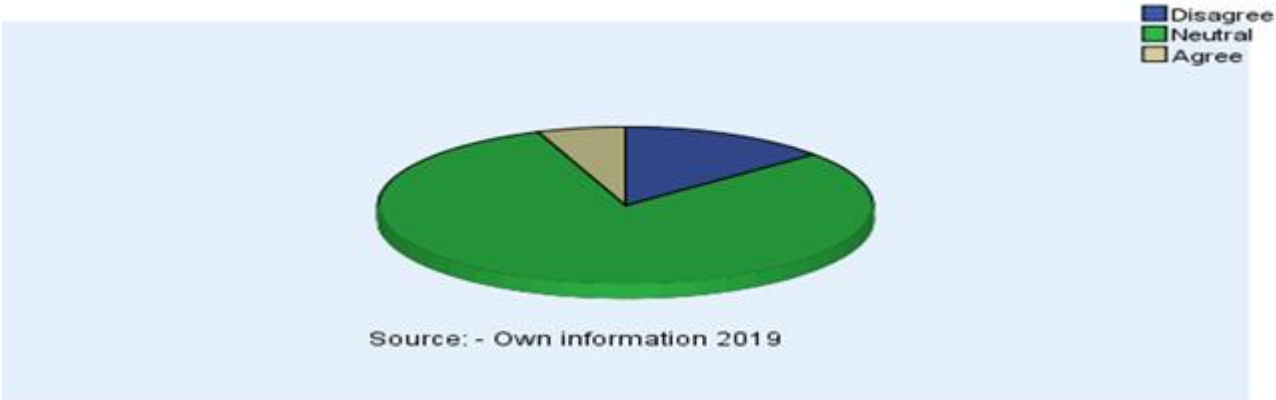
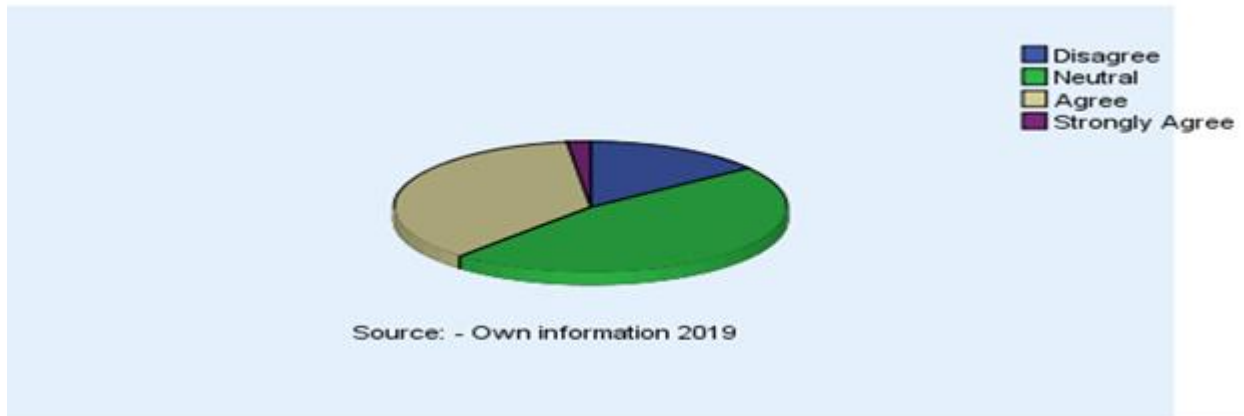


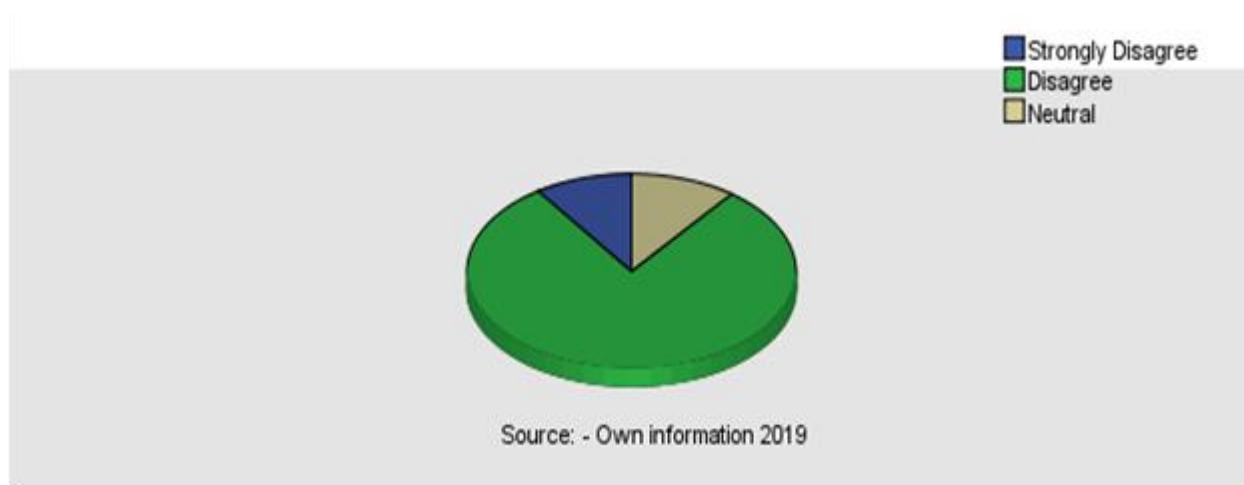
Figure above survey show that respondents'80.5% (293) neutral and5.8% (21)Agree respectively on the statement on existing VAT administration is have strong enough controlling mechanism that forces the taxpayer to hide from view the publicmoney. Whereas13.7% (50) respondents disagree that the existing VAT administrations have strong controlling mechanism. This survey indicated that here is major problem in VAT administration in branch and also in the country; this noted that poor tax enforcement capacity, poor controlling mechanism and of the authority lack of skilled man power and other factors.

Chart 18 Non-VAT registered taxpayers are more benefited than those of VAT registered company's from the competition in the market



Moreover it indicated in the above figure the respondent believe that neutral 46.7 % (170) on the market competition on-vat registered has benefitted from the market than registered one and agreed 36.5% (133) in market competition and rest insignificant amount 14.8 % (54) disagree and 1.9 % (7) strongly agree about the market competition on-vat registered has benefitted from the market than registered one. It impales business enterprises and the peoples in general have an awareness problem about vat and its effect on revenues of the country. Therefore the ministry of revenue may word on awareness creation, education and make violently and forced registration on the business enterprise which is mandatory to register for VAT the market by the low.

Chart 19 Did you any recognition or reward from ministry



It is also indicated on the above figure the respondents were asked to express their level of agreement about ministry of revenue provides awards to the best and faithful tax payer that majority of the respondent 80 % (291) reply disagree with awards given to the best and faithful tax payer and 10.4% (38) reply natural and rest insignificant amount 9.6 % (35) strongly disagree with the statement. It impales they didn't give any kinds of rewards and recognitions to the tax payers. In every sector, recognition rewards may encourage the peoples work hard and better from the current one therefore as revenue collector ministry it is advisable to have motivation issues.

Secondary Sources Value Added Tax and Revenue Generation in Ministry of Revenue Eastern Addis Ababa Branch office

4.5 VAT revenue as percentage of total tax revenue

VAT collection with its respective total tax revenue collection (2006-2010 E.C) for Eastern Addis Ababa Branch was showed below.

Table 20: VAT revenue to total tax revenue ratio of MOR Eastern Addis Ababa (2006-2010 E.C)

Years	Total tax collected revenue	VAT revenue collected	%of VAT revenue to tax revenue
2006 E.C	18,033,134,774.99	7,970,645,570.55	44.2
2007 E.C	22,439,385,042.44	10,344,556,504.57	46.1
2008 E.C	30,302,170,835.59	13,817,789,901.03	44.6
2009 E.C	34,093,731,138.41	15,989,959,903.91	46.9
2010 E.C	39,047,268,624.99	16,946,514,583.24	43.4
Total	143,915,690,416.42	65,069,466,463.30	

Source: MOR Eastern Addis Ababa Branch Office Annual Report

As table above showed that, the share of VAT in total tax revenue ranges from 44.2 % in the year 2006 and 46.1 % in 2007. In deed, the average for the five years was 45.24 %. However, from the five years in 2009 counts 46.9 % and 2007 counts 46.1 of VAT to tax revenue was higher than the average value. From the above table the permanence of VAT revenue varies

I cannot see the continuity. In short the share of VAT to tax revenue was more of the highest in year 2009 in Eastern Addis Ababa branch office. Finally in Ethiopia the VAT revenue covers the highest percentage than other indirect taxes; the government must give great emphasis to collect the potential revenue from the economy.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusions

The study focused on the Problems related to implementation of Value Added Tax on Revenue Generation. To this effect both primary and secondary data sources were accessed and relevant facts were gathered. The collected facts were presented, analyzed and discussed under different headings. The analysis and discussion results from the relevant data presented and interpreted can be concluded in the section to follow. In addition, based on the conclusions drawn, a researcher has made some recommendations for both the branch office and the future researchers.

A good tax system should have one or a combination of desirable characteristics as economic efficiency, administrative simplicity, flexibility, political accountability and fairness for the purpose of good tax system. This is so because, when the implementation and administration of tax system is effective, the government's revenue that helps to fulfill the socio economic needs of the society will be amplified. It is possible to say that the major function of taxation is to marshal the necessary funds to finance the increasingly expanding level of public expenditures.

VAT is a broad tax and this nature of the tax enables to raise more government revenue. The rate of VAT is uniform and the scope of exemption under this tax is limited and it is applied at each stage of production and distribution i.e. whenever additional value is added the tax is applied. After the implementation of VAT in Ethiopia VAT collection has shown an increasing trend in the government revenue as compared to the replaced other tax. This is because of the fact that VAT has the advantage of reducing the cost of production of industries through its inherent refund system and the fact that it does not burden exports; and it offers total transparency of the incidence of tax as VAT is multistage sales tax levied as proportion of the value added. A very important thing that quotes in need of VAT is less tax evasion. VAT in Ethiopia could be helpful in simplifying and modernizing the tax administration with its invoice based characteristics and its requirements for the registrants to hold a systematic book of accounting. Economically, VAT does encourage investment by providing a refund for a tax paid on inputs and encourage export by zero rating items exported. With the very concept of VAT,

output tax is charged at each stage of production and distribution to ensure that only final consumptions exposed to be taxed.

Accordingly a survey was conducted to identify asses and analyze the VAT by distributing questionnaires for information's gathered from VAT registered taxpayers and employees of MOR Eastern Addis Ababa Branch office and also interview and discussions made with higher official on the branch office. Based on the results of the findings, VAT implementation has faced different problems when it comes to the ground.

The major once are: administration inefficiency to control noncompliance tax payers, lack of cognizant tax payers, existence of reluctant enterprises to register for VAT, existence of registered enterprises issuing illegal VAT invoices, existence of unwilling customers to buy goods and services priced with VAT, the ministry weak follow-ups and controlling mechanisms against those taxpayers registered but doesn't use proper VAT invoices and those nonregistered enterprises but have a transaction of more than or equal to the threshold level, in ability of the ministry to render quality services and weak audit technique, failing of some tax payers to notify the collection of VAT to the tax offices, and existence of many important sectors ,most notably services and the whole sale and retail sectors, that have left out of the VAT net, the existence of tax payers that refuse to honor their debt obligations to the VAT service while others submit their VAT returns without payments, the deliberate submission of nil returns and non-issuance of VAT invoices by the business enterprises. As the result of these constraints on the implementation of VAT on revenue generation in branch could not meet its objectives as effectively as it was desired.

Identifying tax payers, assessment on VAT execution (includes identifying tax payers and tax evades as well as the registered and unregistered taxpayers among the business communities), processing returns, controlling collections, auditing taxpayers, and levying penalties are the major activities in VAT administration. However, Due to the absence of sufficient man power the authority couldn't perform its activity properly, so some tax payers couldn't obey the existing VAT rules and regulations. As per the results of the survey the ministry has taken legal measures against people who do violate the VAT laws. Some of the measures that ministry of revenue has to take to solve the problems stated above were: conducting intensive tax payers education programs, conducting implementation seminars,

rendering tax payers advisory services (tax audit), release information through Medias, conducting forced registration campaigns, trying to strengthen the tax administration systems, and increasing the investigation operations over illegal movements of taxable goods as well as upgrading the performing capacity of employees and improving the technological.

To tackle the obstacles for the implementations of VAT on revenue generation in cases of eastern Addis Ababa branch office, the public at large and the government have to reach an agreement to work together to increase the tax paying habits of the society. Since the ultimate goal of tax specifically VAT is to collect sufficient amounts of money that significantly is able to help the government to finance social and economic development and reduce poverty by introducing a new tax culture which actually demands an alliance with all tax payers and organizational strength and efficiency from the side of the tax administrations. Ministry of revenue has also take actions to manage the adverse situations, such as education campaign, strengthen tax administration functions, forced registration for enterprises that its annual business transaction is over or equal to the threshold level, and increases the controlling system for those tax payers who are strongly violate VAT laws and regulations as well as string the nits follow-up sand upgrading the performance of its employees.

5.2 Recommendations

Based on the findings given above, the following recommendations are made.

1. The study shows that Value Added Tax implementation in MOR eastern Addis Ababa branch office has been facing different problems. Since a poorly administered Value Added Tax raises less revenue that can change the very nature of the tax resulting in unintended economic distortions, the MOR eastern Addis Ababa branch office has to build its administration capacity on both human and material resources to carry out its duties and responsibilities effectively and efficiently. This can be maintained through hiring of more qualified employees, provision of consistent training and development for staffs who will join and who have joined and using advanced information and communications technology so as to improve its administration capacity and control those noncompliance Value Added Taxpayers.
2. Based on the summarized finding, the awareness of the business community and taxpayers is to enhance the effectiveness of the implementation of Value Added Tax. There is a need for more creation of awareness on Value Added Tax payers as to the fact that Value Added Tax is important source of revenue of the government and yet the ultimate beneficiary is the society. Thus, it is evident from this responses that there is a need for campaigns by government authorities in reshaping this perception of few Value Added Tax payer sections of the businesses that believe that government is the only beneficiary of the Value Added Tax revenue. This is also an indication that there is a need to exert more effort into increasing the willingness of Value Added Tax payers to get registered based on their goodwill and positive ion. Therefore, MOR eastern Addis Ababa branch office to enhance the awareness of the tax payers and other members of the community.
3. More of the tax payers and the tax officers have reported that the branch office has so many problems that demand change and improvement. At the same time, it is clear that the branch office and the country in general have already introduced the reforms tool. It is the belief of the researcher that if the recommendations included in the designing stage of the reforms are properly implemented, radical changes would be observed. Therefore, the branch office has

to study and assess possible reasons that hinder the full implementation of the reforms and then take appropriate measures.

4. There is a strong believe that well-informed tax payer society can be considered as an important asset for the tax office .Therefore, the ministry should conduct a consistent awareness creation programs to update the business community and the society at large about the concepts, rules and regulations, advantages and uses of the Value Added Tax. This can be carried out by intensively educating the public using mass-medias like television, radio, newspapers, creating accessible websites, distribution of brochures, preparations of different seminars and workshops on a regular basis to increase awareness.
5. Rewarding and recognizing performances motivate employees to work more and more. And also rewarding and giving recognition to the honest and legal tax payers However, this study shows that there is no culture of rewarding and celebrating good performances in organizations. Therefore, to motivate poorly performing employees and departments, the good performing employees and proper and legal tax payers should be rewarded and appreciated.
6. The recommendations forwarded towards the tax payers and the public are: In addition to the tasks performed by the tax office ,the business communities should also obey the current VAT rules and regulations, develop the culture of tax paying assign of modern thinking, pay attentions towards the government's effort to collect and fund the long run projects carrying out all through the country, take in to accounts the government's main source of income to fund to the social and public affairs is the wealth collected and accumulated from taxes, consider paying tax as a means of directly or indirectly putting one's own contribution on changing the life of each citizen and they perform their activities according to the current VAT laws as well as start to work in cooperation with the ministry in fighting against those enterprises that are violating the rules and regulations of VAT.
7. Finally, as a matter of fact, every research is the beginning moving from the known to the unknown. Hence, future researchers are recommended to investigate other aspects of the effect of Value Added Tax on revenue generation.

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Appendix.1
Addis Ababa University
College of Business and Economics
Department of Public Administration and Development Management
Master's Program in Public Policy Making and Developmental Management

Questionnaire to be filled by Ministry of Revenue Eastern Addis Ababa Branch Employees

Dear respondents,

This questionnaire is designed to get the relevant information for the current study. The objective of the study is to assess Problems Related to Implementation of Value Added Tax in on Revenue Generation the Case of Ministry of Revenue Eastern Addis Ababa Branch office Ethiopia. This study is only for academic purpose. Hence, your responses will be kept confidential. The soundness and the validity of the findings highly depend on your genuine responses. Therefore, I kindly request you to fill the questionnaire carefully and back to me.

Instructions:-

The researcher uses this questionnaire for the genuine information is highly decisive to the success of this study. Therefore,

- ✓ Not need of writing your name.
- ✓ Put the (✓) mark in the box for your answer.
- ✓ With great excuse, possibly return back to timely.

For any problem and suggestion contact the researcher through the following addresses: Email: wondwosen0912@yahoo.com

Thank you in advance for your cooperation!! Wondwosen kifle

I. Demographic Data

1. Gender 1. Male 2. Female
2. Age 1. 20-30 2. 31-40 3. 41-50 4. Above 50
3. Educational level
1. Diploma 2. BSC 3. MA/MSc 4. PhD
4. How long you have worked in the MOR Eastern Addis Ababa branch?
1. Less than 2 years 2. 2-5 years 3. 6-10 years 4. Above 10 years

II. Survey Questions

Select an appropriate answer from the given alternatives, ranging from strongly disagree to strongly agree? And put “√” mark for each rating. 1: *Strongly Disagree*, 2: *Disagree*, 3: *Neutral*, 4: *Agree* and 5: *Strongly Agree*

No	Item	1	2	3	4	5
	VAT Objective and Laws	.....	.....	.....	.....	.....
1	Familiarity with the Ethiopian VAT Laws and proclamations					
2	Ministry of Revenue had made sufficient clarifications to the public about the concept of VAT					
3	VAT implementation is more advantageous than the other tax for the government and tax payer					
4	The implementation of VAT is achieves its objectives					
	The strength of Tax office with respect to the following parameters	.....	.....	.....	.....	.....
1	The Ministry has Good Office facility to taxes payers					
2	The Ministry has Simple filing and payment procedure and using advanced technology					
3	The Ministry has Qualified human resource					
4	The Ministry has Education and awareness program for taxpayers					
	VAT registration	.....	.....	.....	.....	.....
1	The process of taxpayers VAT registration is easy for taxpayers					
2	Tax payer voluntary registered for VAT					
3	Tax administrations are strong enough to control illegal activities of VAT payers					
4	VAT registered business companies that have collected the tax with illegal invoices					
5	There are some eligible business enterprises in the market that haven't yet registered for VAT					
6	The number of non-VAT registered taxpayer exceeds the number of VAT registered taxpayers in the country					
7	Do you think that VAT registered has benefitted from the market competition than non-registered					
	Revenue generation	.....	.....	.....	.....	.....
1	The current VAT contribution to the government's revenue is sufficient					
2	Weak Ministry controlling mechanism makes VAT generated Revenue insufficient					
3	Ministry makes intelligence audit on tax payer to increase its revenue					
4	The ministry of revenue provides awards to the best and faithful tax payer					
5	The ministry of revenue have continues capacity building program l improvement					
6	The ministry of revenue provides appropriate rewards to the best performing tax officials specially those who have done the best in deterring noncompliance?					

If you have any other additional issue related to vat please point out them here below

Addis Ababa University
College of Business and Economics
Department of Public Administration and Development Management
Master's Program in Public Policy Making and Developmental Management
Questionnaire filled by VAT registered taxpayers

Dear respondents,

This questionnaire is designed to get the relevant information for the current study. The objective of the study is to assess Problems Related to Implementation of Value Added Tax in on Revenue Generation the Case of Ministry of Revenue Eastern Addis Ababa Branch office Ethiopia. This study is only for academic purpose. Hence, your responses will be kept confidential. The soundness and the validity of the findings highly depend on your genuine responses. Therefore, I kindly request you to fill the questionnaire carefully and back to me.

Instructions:-

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- ✓ Not need of writing your name.
- ✓ Put the (✓) mark in the box for your answer.
- ✓ With great excuse, possibly return back to timely.

For any problem and suggestion contact the researcher through the following addresses: Email: wondwosen0912@yahoo.com

Thank you in advance for your cooperation!! Wondwosen kifle

I. Demographic Data

1. Gender 1.Male 2. Female
2. Age 1.20-30 2. 31-40 3. 41-50 4.Above 50
3. Educational level
1. Diploma 2.BA/BSC 3. MA/MSc 4. PhD
4. How long you have done registration for VAT?
1. Less than 1 years 2. 2-5 years 3. 6-10 years 4. Above 10 years
5. Your status/position in the business 1.Owner 2 .Employee/Agent 3.other

II. Survey Questions

Select an appropriate answer from the given alternatives, ranging from strongly disagree to strongly agree? And put “√” mark for each rating. 1: *Strongly Disagree*, 2: *Disagree*, 3: *Neutral*, 4: *Agree* and 5: *Strongly Agree*

No	Item	1	2	3	4	5
	VAT Objective	...	...	.....	...	.....
1	VAT in Ethiopia is necessary for fair trade competition					
2	You/your organization are familiar with VAT proclamations and regulations					
3	VAT implementation in Ethiopia Encouraging investment and export					
4	The Ministry of Revenues taken measures to alleviate the problems associated with the implementation and collection of VAT					
5	VAT is more advantageous in comparison with the other tax					
6	Ministry of revenue had made sufficient explanation, trainings to the public regarding VAT					
7	Did you update yourself with newly implemented rules and regulations					
	VAT registration	...	...	.....	...
1	The process of VAT registration is smooth and easy					
2	Most of the VAT payers are registered obligatorily					
3	Non-VAT registered taxpayer exceeds the number of VAT registered taxpayers in the country					
4	Ministry of revenue are strong enough to control illegal activities of VAT payers					
	Revenue Strength	...	...	.....	...	.....
1	The ministries of revenue have infrastructures for VAT collection processes					
2	The Ministry has Simple filing and payment procedure VAT collection processes					
3	The Ministry has Qualified human resource					
4	the Ministry of Revenue has given education and awareness program for taxpayers					
	Revenue generation					
1	Did you get benefited from the VAT you pay to the government					
2	Are there customers who are not willing to purchase goods and services with VAT					
3	Ministry of revenue have strong controlling mechanism on VAT					
4	Non-VAT registered taxpayers are more benefited than those of VAT registered company's from the competition in the market					
5	Did you any recognition or reward from ministry					

If you have any other additional issue related to vat please point out them here below _____

Addis Ababa University
College of Business and Economics
Department of Public Administration and Development Management
Master's Program in Public Policy Making and Developmental Management
Interview with Ministry Branch Employees teams leaders

1. Age group (in year): 20-30 30-40 40-50 50+
2. Sex: Male Female
3. Educational level 1. Diploma 2. BA/BSC 3. MA/MSC PhD
4. Work Experience _____
5. Position held _____

Section II: General Information relating to VAT

1. What do you consider that the implementation of VAT is successful and achieve its objectives?
2. What do you evaluate that tax administrations are strong enough to control illegal activities of VAT payers?
3. What are the challenges of VAT during implementation?
4. What are the contributions of current Ethiopian tax reform on VAT collection
5. How can VAT contribute on revenue enhance more others major types of tax in the Branch
6. Do you think Ethiopian tax laws to encourage VAT collection properly?
7. Do you think that VAT effect economic growth? How?
8. If you have any information relating to the VAT and its effect on the revenue generation, please give detail