COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

FACTORS AFFECTING TAX ASSESSMENT FOR IMPORT/EXPORT COMPANIES IN ETHIOPIA

By: Fikirte Chebud GSE/0173/15

Submitted To: Dr.Temesgen Worku

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Declarations

I Fikirte Chebud, Registration Number/I.D. Number GSE/0173/15, do hereby declare that this Thesis is my original work and that it has not been submitted partially; or in full, by any other person for an award of a degree in any other university/institution.

Name of Student ...Fikirte.....Chebud Signature.....

Date...21.06.25.....

This Thesis has been submitted for examination with my approval as University supervisor.

Name of Advisor....Temesgen W. Signature.....

Date...21.06.25.....

APPROVAL

The undersigned certify that they have read and here by recommend to Addis Ababa University, Department of Accounting & Finance to accept the Thesis submitted by Fikirte Chebud, entitled "The Challenge of tax assessment in an import and Export companies in Addis Ababa" in partial fulfillment of the requirements for the award of a Masters in Accounting and Finance (MA&F).

Name of Advisor ...Temesgen W..... Signature.....
Date..21/06/2025.....

Name of Internal Examiner ..... Signature.....
Date.....

Name of External Examiner Dagnew B..... Signature.....
Date...21-06-25.....

Name of Head of Department ..... Signature.....
Date..... .....

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Table of contents

Declarations .....**Error! Bookmark not defined.**

APPROVAL II

Acknowledgement III

Table of contents.....V

List of Tables IX

List of Figures.....X

Abstract..... XI

Chapter 1: Introduction.....1

1.1 Background of the Study 1

1.2 Statement of the problem.....2

1.3 Research questions 4

1.4 Objectives of the study 4

1.4. 1 General Objective.....4

1.4.2 Specific Objectives.....4

1.5 Significant of the Study 5

1.6 Study Limitations 5

1.7 Scope of study 6

1.8 Organization of the Study.....7

Chapter 2: Review of Related Works 8

2.1 Introduction 8

2.2 Theoretical Review 8
2.2.1. Optimal Taxation Theory 8
2.2.2. Transaction Cost Theory 8
2.2 3. International Tax Competition Theory 9
2.2.4. Risk Management Theory 9
2.2.5. Institutional Theory 9
2.2.6. Tax Sovereignty and Globalization Theory 10
2.2.7. Technology Adoption Theory 10
2.2.7. Applicability of Theories to Ethiopia 10
2.3 Empirical Review 11
2.3.1. Regulatory Complexity 11
2.3.2. Administrative Inefficiency 12
2.3.3. Operational Challenges 12
2.3.4. Technological Limitations 13
2.3.5. Foreign Exchange Restrictions 13
2.4 Conceptual framework 15
Chapter 3: Research Methodology 16
3.1 Introduction 16
3.2 Research Approach 16
3.3 Research Design 16
3.4 Population and Sampling Techniques 17

Source: Collected from the companies formally....18

3.4.2 Sampling Technique....18

3.4.3 Sample Size 19

3.5 Sources and Instruments of Data Collection 19

3.6 Method of Data Analysis....20

3.7 Model Specification....20

3.8 Reliability and Validity 21

3.9 Ethical Considerations....22

Chapter 4: Result, Analysis and Discussion 23

3.1 Introduction 23

3.2 Non-Response bias and Response Rate respondents....23

3.3 Individual Demographic data 24

3.4 Descriptive Statistics of Variables....27

3.4.1 Regulatory Complexity 27

3.4.2 Administrative Inefficiency....28

3.4.3 Operational Challenges 29

3.4.4 Technological Limitations....30

3.4.5 Foreign Exchange Restrictions....31

3.4.6 Tax Assessment....32

3.5 Correlation Analysis....33

3.6 Regression Analysis 35

3.6.1 Linearity Test 35

3.6.2 Homoscedasticity Test 36

3.6.3 Serial Correlation Test 37

3.6.4 Normality Test.....38

3.7 Multicollinearity Test 39

3.8 Multiple Regression.....40

4.9 Results and Discussions.....41

4.9.1 Effect of Regulatory Complexity on Tax Assessment 42

4.9.2 Effect of Administrative Inefficiency on Tax Assessment 42

4.9.3 Effect of Operational Challenges on Tax Assessment 42

4.9.4 Effect of Technological Limitations on Tax Assessment 42

4.9.5 Effect of Foreign Exchange Restrictions on Tax Assessment 43

Chapter 5: Summary, Conclusion and Recommendations 44

5.1 Summary of Key Findings.....44

5.2Conclusion 44

5.3 Recommendations 45

5.4 Research Direction 45

References.....47

Appendix.....52

List of Tables

Table 1 shows the data for the number of personnel in each company.....17

Table 2 shows the Cronbach's alpha values for the overall questionnaire.....21

Table 3 shows the demographic data of respondents 24

Table 4 Shows the descriptive statistics of regulatory complexity 27

Table 5 Shows the descriptive statistics of administrative inefficiency.....28

Table 6 Shows the descriptive statistics of operational challenges.....29

Table 7 shows the descriptive statistics of technological limitations.....30

Table 8 shows the descriptive statistics of foreign exchange restrictions 31

Table 9 shows the descriptive statistics of tax assessment.....32

Table 10 shows correlation of variables.....34

Table 11 shows serial correlation 37

Table 12 shows multicollinearity test.....39

Table 13 shows the model summary of the data 40

Table 14 shows result for ANOVA 40

Table 15 shows the beta and p-values of each variable.....41

List of Figures

Figure 1 shows the conceptual frame work of the study 15

Figure 2 shows linearity test graph 35

Figure 3 show homoscedasticity test graph 36

Figure 4 shows normality test graph 38

Abstract

The purpose of this study is to analyze the difficulties that import and export enterprises in Addis Ababa, Ethiopia encounter when it comes to tax assessment. The study focuses on the interaction between the complexity of regulations, the inefficiency of administrative processes, and the restrictions placed on foreign exchange. The data was gathered through structured questionnaires distributed to 110 respondents, which included managers, tax officers, and customs officials from five different enterprises and three different tax administration offices. The study design utilized was classified as quantitative. Based on the results of a multiple regression analysis, it was found that foreign exchange restrictions ($\beta = 0.295$, $p = 0.039$) emerged as the sole statistically significant predictor of tax assessment challenges. This finding highlights the significant impact that currency shortages and exchange rate volatility have on compliance and valuation accuracy. Regulatory complexity ($\beta = 0.075$, $p = 0.476$) and administrative inefficiency ($\beta = 0.122$, $p = 0.325$) exhibited positive but minor effects. Approximately sixty seven percent of the variance was explained by the model ($R^2 = 0.67$), with the remaining 67% likely being contributed by unmeasured factors such as informal trade practices. However, Ethiopia's specific institutional and macroeconomic restrictions highlighted, despite the fact that the findings are consistent with worldwide literature. One of the recommendations is to prioritize reforms to the foreign exchange policy, to speed up the digitization of tax systems, and to personalize support for small and medium-sized enterprises (SMEs) in order to reduce operational bottlenecks. A competitive trade environment may be fostered in Addis Ababa with the help of this study, which provides policymakers and tax authorities with practical insights that can be used to improve compliance, reduce revenue leakages, and enhance compliance.

Keywords: Tax Assessment Challenges, Import/Export Companies, Regulatory Complexity, Administrative Inefficiency, Foreign Exchange Restrictions, Addis Ababa.

Chapter 1: Introduction

1.1 Background of the Study

Especially in developing countries like Ethiopia, the tax assessment in import and export companies is a crucial yet complex component of national income systems. Rapid international commerce growth combined with evolving tax laws and technological advancement has produced difficult challenges in attaining exact and efficient tax compliance (Sarkar et al., 2023; Luo et al., 2023). Sarkar et al. (2023) underline systematic inefficiencies in port logistics and customs clearance procedures, which often delay tax assessments and increase compliance expenses. Emphasizing the complexities of applying value-added tax (VAT) on exports, Tayurskaya (2020) specifically highlights the challenges in confirming preferential tax rates and managing VAT refunds, issues relevant to Ethiopia's circumstances.

Tax assessment issues in Ethiopia made worse by the limits imposed by both administrative and structural factors. Negatu (2019) identifies inefficient tax administration, regulations that have become obsolete, and capacity limits within the Ministry of Revenues as some of the primary obstacles that must be overcome in order to achieve efficient tax collection. These issues are consistent with the findings of Muller (2014), which highlight the challenges of accurately valuing products and services in the absence of market benchmarks. This scenario is made worse in Ethiopia's import/export industry due to the reliance on Ministry of Revenues reference prices, which frequently diverge from the actual transaction values. As a result of Ethiopia's stringent foreign exchange controls, businesses have a difficult time obtaining hard currency for duty payments, which results in inaccurate reporting and delays (Bussy, 2023; Wanqiu et al., 2024). This makes it difficult for Ethiopia to comply with its tax regulations.

Technology restrictions are another factor that contributes to the ineffectiveness of tax assessment. The Ethiopian Revenue Authority (ERC) is still struggling with antiquated information technology systems and delayed digitization, which causes tax clearance times to be prolonged (Negatu, 2019). This is despite the fact that industrialized economies are gradually embracing technologies such as artificial intelligence and block chain for customs automation (Luo et al., 2023). The disparity is made worse by legislative vagueness, which creates business uncertainty in the regulations governing customs and income tax, including

disparities between the two (Folkvord & Jacobsen, 2014; van Raad, 2024).

Assessments are made more difficult by tax evasion methods such as transfer pricing and profit shifting (Bustos et al., 2019; Hentze, 2019). This is especially true for multinational corporations that have operations in Ethiopia. These issues bring to light the findings of Yu and Nasser (2023), who emphasize how difficult it is to ascertain the customs value of commodities that are exchanged by foreign corporations under contractual frameworks that are ambiguous.

These problems are rendered even more severe in Addis Ababa, which is the business hub of Ethiopia. According to Wanqiu et al. (2024) and Gałuszka (2013), the city's function as a conduit for international trade puts enterprises in a position where they are vulnerable to intricate tax regulations, administrative obstacles, and shortages of foreign exchange, which in turn undermines their ability to comply with regulations and generate profits. The purpose of this study is to investigate how legislative, administrative, operational, technological, and foreign exchange concerns collectively limit tax assessment in the import/export sector of Addis Ababa. The research builds on these results with the intention of directing policy reforms and boosting the efficacy of Ministry of Revenues.

1.2 Statement of the problem

In countries like Ethiopia, where trade taxes are quite important for state finances, the tax assessment in import and export companies is basic to national revenue gathering. Businesses engaged in cross-border trade in Addis Ababa, Ethiopia's commercial and logistical hub, face systematic challenges that undermine the accuracy, efficiency, and fairness of tax assessments. Global advancements in tax administration systems and technological tools have not eliminated these problems, which create a notable gap between legislative intentions and actual implementation.

Research all around underlines ongoing issues including regulatory ambiguity, bureaucratic inefficiencies, and tax system technological shortcomings. While Tayurskaya (2020) underlines the administrative issues related to VAT refunds and export tax compliance, Sarkar et al. (2023) identify logistical and customs clearance inefficiencies in developing countries. Negatu (2019) draws attention to poor tax administration, outdated laws, and Ministry of Revenues capacity constraints, all of which are made worse by foreign exchange controls affecting duty payments and valuation accuracy (Keskin & Bağci, 2024; Bussy,

2023). Similar challenges may be seen in Cameroon, where Fuli (2020) claims complicated customs fees and drawn-out processes lead to fraud, loss of income, and importer discouragement—a pattern seen in Addis Ababa.

Digital trade and e-commerce's rise adds more complexity. While Ethiopia's tax system doesn't fit evolving business models, causing compliance and enforcement issues, countries like India struggle with the taxation of digital transactions (Jain, 2022; Nadeem & Saxena, 2018). Furthermore, technological limitations hinder Ministry of Revenues' ability to automate processes, hence causing mistakes and delays (Luo et al., 2023). Unlike sophisticated systems using AI and block chain for risk assessment, Ethiopia's reliance on outdated IT infrastructure increases administrative costs and prolongs tax clearing times (Johnson et al., 2010; Negatu, 2019).

Ethiopia's tax system is vulnerable to transfer pricing infractions and undervaluation disputes, particularly involving multinational companies notwithstanding worldwide efforts to fight tax fraud and profit shifting (Bustos et al., 2019; Hentze, 2019). Regulatory inconsistencies, such as mismatches between customs rules and income tax laws, increase business uncertainty and lead to unintentional non-compliance (van Raad, 2024). At the same time, forex shortages—a separate issue in Ethiopia—force companies to underreport transaction values or skip shipments, hence reducing government income and confidence in investors (Wanqiu et al., 2024).

These systematic shortcomings result in four major consequences:

1. Manual processes and regulatory uncertainty burden small and medium-sized businesses (SMEs) in particular.
2. Delays and foreign exchange restrictions reduce companies' ability to compete on a worldwide scale.
3. Ministry of Revenues' limited capability and out-of-date tools impede the efficient enforcement of tax changes.

Though earlier research looks at tax issues separately—e.g., regulatory complexity, technological shortcomings—there is no empirical research on how these factors interact in Addis Ababa's import/export trade. Though lacking local knowledge on Ethiopia is unique

institutional, economic, and technical environment, present work focuses on global or regional contexts—e.g., India, Cameroon. This disparity makes it more difficult to create context-specific solutions meant to raise tax assessment efficiency, fairness, and compliance.

This study seeks to address the following unresolved issue: How do legislative complexity, administrative inefficiency, operational barriers, technical limits, and foreign exchange restrictions together impede tax assessment processes for import/export businesses in Addis Ababa, and what systematic improvements could mitigate these problems? This paper aims to close the theory-practice gap and provide sensible answers for Ministry of Revenues, businesses, and legislators.

1.3 Research questions

1) How does tax assessment accuracy suffer from regulatory complexity—e.g., unclear rules, constant policy changes?

2) How much does administrative inefficiency—e.g., bureaucratic delays, manual processes—hinder tax assessment?

3) How do operational challenges—such as valuation disputes and excessive documentation requirements—contribute to inaccuracies in tax assessment processes?

4) How do technological constraints (e.g., antiquated IT systems) affect the speed of tax assessment?

5) How do foreign exchange limitations (e.g., restricted access to foreign currency, exchange rate volatility) affect tax assessment accuracy and compliance?

1.4 Objectives of the study

1.4. 1 General Objective

The study's overall goal was to evaluate, look into, and find issues in the tax assessment concerns of the import and export businesses as well as to suggest feasible fixes.

1.4.2 Specific Objectives

The particular goals of the research were the following.

1) To examine how unclear tax rules and changing policies cause challenges in tax assessment for import/export companies.

2) To investigate how tax assessment deadlines are affected by bureaucratic delays, manual paperwork, andMinistry of Revenues' capacity constraints.

3) To explore how tax assessment inaccuracies result from valuation conflicts—e.g., CIF/FOB discrepancies—and paperwork duplication.

4) To evaluate how Ministry of Revenues' obsolete IT infrastructure extends tax assessment and clearance procedures(e.g. customs duty assessment timelines).

5) To examine how limited access to foreign cash and exchange rate changes affect the capacity of import/export businesses to meet tax assessments (e.g., delays in duty payments, misreported transaction values).

1.5 Significant of the Study

The study could help stakeholders—import and export businesses and the tax office—by giving them knowledge of the strengths and shortcomings of the tax assessment service, hence guiding their decisions. The researcher also thinks that the results of the study would serve as a foundation for planning and control of procedures and policies in the tax assessment services system.

Especially for the import/export industry, the results will guide policy choices to enhance tax assessment in Ethiopia.

The study will offer firms information on the elements influencing business tax compliance, hence enabling them to enhance their tax practices.

The study will give tax authorities a greater knowledge of the difficulties companies encounter, hence perhaps influencing changes to enhance tax compliance and effectiveness in tax administration.

The study adds to the small body of knowledge on tax issues confronting import and export enterprises in underdeveloped countries as Ethiopia.

1.6 Study Limitations

This study addresses tax assessment issues experienced by import and export businesses as well as tax administration agencies running in Addis Ababa, Ethiopia. The range is set as follows:

Geographical Emphasis: Limited to Addis Ababa, Ethiopia's main commercial and logistical center, where most tax administration offices and import/export operations are concentrated.

The following are the target entities.

i. ATMA Import & Export
ii. ABT Import & Export
iii. Scepto Import
iv. Alfarage Trading PLC
v. Rebuni Pharmaceutical Importer
vi. Addis Ababa Large Taxpayers Branch Office No 1
vii. M.O.R East Addis Ababa Branch Office
viii. Addis Ababa Medium Taxpayers Branch Office No 2

1.7 Scope of study

Sample Representativeness

The results come from a small sample of five Addis Ababa tax offices and five companies, which might not completely represent the experiences of smaller enterprises, informal traders, or regional branches beyond the capital.

Data Reliability

Self-reporting habits or institutional unwillingness to divulge sensitive information could skew responses from businesses—e.g., undervaluation policies—and tax authorities—e.g., inefficiency disclosures.

Methodological Constraints

Relying on Addis Ababa data, the study ignores informal trade sectors and hence limits understanding of issues experienced by rural or regional enterprises.

Direct examination of technology inefficiencies is hampered byMinistry of Revenues' private IT systems and secret dispute records, which are unavailable.

Practical Limitations

Time and budget limitations prevent detailed analysis of external issues including global economic shocks—e.g., FX crises, geopolitical tensions—and domestic policy changes. Emphasizing formal-sector businesses and Addis Ababa guarantees consistency with Ethiopia's main tax source and administrative centers, hence offering practical analysis for decision makers. Excluded components—such as informal trade—are outside the study's scope but merit more investigation.

1.8 Organization of the Study

This study is broken into five separate parts, each of which takes a methodical approach to investigating the difficulty of tax assessment in the context of import and export businesses in Addis Ababa.

The first chapter is the introduction, which includes a discussion of the background information, the explanation of the problem, the research question, the purpose of the study, the significance of the investigation, the scope of the study, the limitations of the study, and the arrangement of the paper. A discussion of the theoretical and empirical reviews that are associated with the title is presented in the second chapter of the document. The research design and methods will be the subject of the third chapter, the presentation and analysis of the data will be the subject of the fourth chapter, and the conclusion and recommendation will be presented in the fifth chapter.

Chapter 2: Review of Related Works

2.1 Introduction

The complexity of tax assessment in international trade has been the subject of substantial research performed by a wide variety of academic disciplines, including economics, law, logistics, and political science, amongst others. In this chapter, a comprehensive review of the theoretical frameworks and empirical facts that serve as the foundation for tax assessment systems is presented. Specifically, the dynamics of international trade, institutional governance, and technological advancements are some of the areas that receive special emphasis. The five independent components are not discussed in this review; instead, they will be the subject of experimental investigation in the subsequent sections. On the contrary, it is centered on the establishment of fundamental hypotheses that explain why tax assessment continues to be a persistent challenge for both governments and businesses.

2.2 Theoretical Review

2.2.1. Optimal Taxation Theory

The optimal taxation theory, which can be traced back to the writings of Mirrlees (1971), focuses an emphasis on the importance of achieving a balance between efficiency and equality in the design of taxes. It is via the application of this theory to the context of international commerce that the tension that exists between the generation of income and the elimination of trade distortions is brought to light. For instance, Tayurskaya (2020) argues that VAT refund inefficiencies and advantageous export rates, both of which are common in emerging economies like Ethiopia, usually prioritize short-term revenue gains above long-term trade growth, which results in unequal distribution of resources throughout the economy. In addition, Jain (2022) and Nadeem & Saxena (2018) present evidence that demonstrates how the problems that are associated with taxes on e-commerce are caused by the rigid application of traditional tax concepts to digital transactions. This violates the equilibrium that traditionally exists between equity and efficiency in the theory.

2.2.2. Transaction Cost Theory

According to Coase (1937) and Williamson (1985), inefficiencies in institutions and bureaucracies lead to higher transaction costs, which in turn discourages compliance. This concept is applied to port logistics by Sarkar et al. (2023), who demonstrate how manual customs procedures and fragmented communication between authorities (such as Ministry of

Revenues and port management units) contribute to an increase in compliance costs for importers. Federici and Parisi (2014) extend this to the realm of corporate taxation, suggesting that increased transaction costs in tax administration lead to a decrease in export competitiveness. This may be observed in Italy's manufacturing industry.

2.2 3. International Tax Competition Theory

According to Zodrow and Mieszkowski's (1986) theory, globalization creates financial incentives for nations to reduce their tax rates in order to attract mobile capital, which results in "race-to-the-bottom" dynamics. Both Folkvord and Jacobsen (2014) and Bustos et al. (2019) establish a connection between this phenomenon and Base Erosion and Profit Shifting (BEPS), which is a phenomenon in which multinational corporations take advantage of loopholes in tax rules in order to transfer earnings to jurisdictions with lower tax rates. In his article, Müller (2014) provides more criticism of standardized valuation methodologies, such as residual income models, for their ability to enable differential tax treatment across countries, so hurting fair competition.

2.2.4. Risk Management Theory

In their assessment of the customs risk, Luo et al. (2023) incorporate fuzzy logic and neural networks, drawing inspiration from Knight's (1921) distinction between measurable "risk" and unmeasurable "uncertainty." The inherent ambiguity that exists in the classification of commodities (for example, HS codes) and the detection of undervaluation is addressed by their framework. This is an issue that Yu and Nasser (2023) also experience when attempting to ascertain the customs value of international transactions. The authors Johnson et al. (2010) extend this concept by introducing adaptive taxability systems, which are automated technologies that reduce the likelihood of human error occurring during tax assessments.

2.2.5. Institutional Theory

According to North (1991), institutions are defined as "rules of the game," with an emphasis on how poor governance structures allow for non-compliance during the game. The author Negatu (2019) applies this to Ethiopia and attributes the gaps in tax assessment to the antiquated legal frameworks and capability shortfalls of the Ethiopia Revenue Authority (ERA). In a similar vein, Fuli (year) criticizes the customs system of Cameroon for its lack of efficient procedures, which in turn increases the likelihood of cargo abandonment and corruption. According to Van Raad (2024), institutional uncertainties are created when

domestic tax rules and foreign treaties (such as double taxation agreements) are not aligned properly. This makes compliance more difficult.

2.2.6. Tax Sovereignty and Globalization Theory

In the context of a worldwide economy, Hentze (2019) and Gałuszka (2013) investigate the impact of the erosion of national tax sovereignty. With the former, formulaic apportionment, such as the EU's CCCTB, is criticized for spreading tax bases away from source nations. On the other hand, the latter emphasizes how e-commerce transcends physical borders, which renders traditional tax concepts obsolete. It is because of this tension that Ethiopia is having such a difficult time imposing a fair tax on digital services and international corporations (Bussy, 2023).

2.2.7. Technology Adoption Theory

Technology Acceptance Model (TAM) developed by Davis (1989) provides an explanation of how perceived usefulness and simplicity of use are the driving forces behind the adoption of digital products. Ethiopia's delayed digitalization (Negatu, 2019) demonstrates institutional opposition to technology change, which perpetuates manual processes and delays. This is in contrast to Luo et al. (2023), who advocate for risk assessment systems that are driven by artificial intelligence.

2.2.7. Applicability of Theories to Ethiopia

This study utilises theoretical frameworks—Optimal Taxation Theory, Transaction Cost Theory, Institutional Theory, and Risk Management Theory—that are highly pertinent to the issues faced by Ethiopia's tax administration. The Optimal Taxation Theory (Mirrlees, 1971) corresponds with Ethiopia's challenge of reconciling revenue maximisation and trade facilitation, evidenced by periodic revisions to VAT and tariffs (ERCA, 2022) that impose compliance constraints. Transaction Cost Theory (Williamson, 1985) elucidates how bureaucratic inefficiencies—such as manual tax clearance procedures and ERCA’s backlog in VAT refunds—exacerbate compliance costs for enterprises, especially SMEs (Negatu, 2019). Institutional Theory (North, 1991) elucidates the inadequate governance and disjointed tax policies (e.g., discrepancies between customs and income tax regulations) that sustain inefficiencies, as highlighted in MoFEC’s 2021 tax reform diagnostic assessment. Risk Management Theory (Knight, 1921) rationalises Ethiopia's dependence on stringent foreign exchange controls to alleviate currency volatility, however this inadvertently

exacerbates underreporting (Wei & Zhang, 2007; NBE, 2023). These theories collectively underscore Ethiopia's distinctive institutional and socioeconomic limitations, wherein worldwide tax principles converge with localised issues such as foreign exchange shortages, delays in digitisation, and capacity deficiencies within ERCA (Tamiru, 2018). Tamiru's (2018) study on MoFEC training procedures highlights that insufficient staff training intensifies administrative inefficiencies, a conclusion corroborated by this study's findings on ERCA's expertise deficiencies. Consequently, although these ideas are universally recognised, their implementation in Ethiopia necessitates modifications, including dynamic foreign exchange-linked tax evaluations and incremental digitisation, to accommodate local circumstances.

2.3 Empirical Review

In the following section, we will investigate empirical research that focus on the first three independent variables that influence tax assessment. These variables include regulatory complexity, administrative inefficiency, and operational problems. Using evidence from around the world and from neighboring regions, it compiles research in order to contextualize these aspects within the framework of Ethiopia's import and export industry.

2.3.1. Regulatory Complexity

A significant number of people have established a connection between compliance issues and regulatory complexity, which is characterized by confusing regulations, frequent policy changes, and fragmented tax rules. For example, PARWATI et al. (2024) discovered that the complexity of the tax regulations in Indonesia resulted in a 25.3% decrease in taxpayer compliance. This was due to the fact that firms had a difficult time interpreting the overlapping requirements. In a similar vein, Schipp et al. (2024) identified transfer pricing and statutory tax rates as important causes of uncertainty in developing economies. In these economies, tax officers judged laws to be more complicated than procedures due to inconsistent interpretations of the law. By demonstrating that compliance costs mediate the relationship between tax complexity and perceived injustice, Prasad and Ramaprabha (2024) came to the conclusion that these findings are in agreement with their findings. Companies in India reported a higher level of distrust in systems that were burdened by complicated rules.

In sophisticated economies, Zelenak (2010) noted how the computational complexity of tax

regulations (such as phase-outs and alternative minimum taxes) became doable only via the use of software such as TurboTax. This resulted in the shift of compliance obligations from manual calculations to data entry. Nevertheless, in developing countries such as Ethiopia, where digital tools are not taken advantage of to their full potential (Negatu, 2019), such complexity makes errors and delays much more severe.

2.3.2. Administrative Inefficiency

The effectiveness of tax assessment is directly undermined by administrative inefficiency, which is characterized by delays introduced by bureaucratic procedures, manual processes, and inadequate institutional capacity. In a study conducted by Savić et al. (2015), the researchers examined thirteen European nations and discovered that inefficient tax administrations were associated with higher tax evasion rates. This was due to the fact that manual audits and lengthy dispute settlement served to erode taxpayer trust. In Ghana, Kwame et al. (2013) highlighted the fact that fragmented tax agencies (such as separate customs and domestic tax units) led to a rise in administrative expenditures and redundancy. This is a concern that is also present in Ethiopia's Ministry of Revenues structure.

In addition, Dewi (2022) established a connection between ineffective VAT payment procedures and inadequate internal controls in Indonesian businesses. He pointed out that inadequate supervision mechanisms led to the improper management of tax responsibilities. Along the same lines, Miled and Fiore (2014) demonstrated that the implementation of improved customs procedures, such as the Authorized Economic Operator (AEO) certification, resulted in a 40% reduction in administrative bottlenecks in Tunisia. This finding highlights the potential for integrated systems to improve efficiency.

2.3.3. Operational Challenges

There are systemic hurdles to tax compliance that are created by operational issues. These challenges include delays in logistics, burdens of documentation, and disruptions in supply chain operations. According to Abdelati and Abdelwali (2024), the high transportation costs and unreliable supply chains in Egypt forced businesses to prefer domestic manufacturing over imports, which resulted in a reduction in the number of taxable transactions that occurred across international borders. According to Chandren et al. (2018), the implementation of the Goods and Services Tax (GST) in Malaysia originally caused operational processes to become more difficult. Businesses reported a 15% decrease in sales

growth as a result of compliance changes; nevertheless, overall efficiency improved after the GST was adopted.

Additionally, Miled and Fiore (2014) highlighted the ways in which customs certification programs, such as AEO, lessened operational risks by standardizing documentation and speeding cargo clearance, resulting in a thirty percent reduction in delays for companies that were compliant. In Ethiopia, on the other hand, where such systems are still in their infancy, they continue to face comparable operational challenges, particularly when it comes to harmonizing the reference prices of Ministry of Revenues with the real market values (Negatu, 2019).

2.3.4. Technological Limitations

the accuracy and effectiveness of tax assessment are greatly hindered by technological limits in tax systems. These limitations include but are not limited to outdated information technology infrastructure, slow digitization, and inadequate automation.OO & Adegbie (2020) found that the use of information technology (IT) tools in Nigeria, such as electronic filing systems, resulted in a 17.2% rise in the efficiency of tax assessment, hence reducing the incidence of manual errors and delays. This was proved by the fact that the overall efficiency of tax assessment increased. On the other side, they pointed out that these benefits were held back by tax rules that were difficult to understand and opposition to digitalization. This is a challenge that is also present in Ethiopia's Ministry of Revenues, where manual procedures are still being utilized (Negatu, 2019). Kostin (2021) brought to light the fact that Russia's reliance on obsolete customs systems exposed exporters to sanctions risks. These risks included the possibility of the clearance of goods being delayed and of tax assessments being distorted. Considering Ethiopia's reliance on Djibouti's ports and Ministry of Revenues' slow adoption of technology, this is a scenario that may be applied to both of these factors.

2.3.5. Foreign Exchange Restrictions

Tax assessments are directly distorted by foreign exchange (forex) restrictions, which include limited access to hard currency, exchange rate volatility, and issues associated with repatriation. These restrictions complicate duty computations and payment schedules, which in turn increases costs. OECD countries experienced lower corporate tax rates because of capital account liberalization, according to Lockwood et al. (2003). This was because FX flexibility made compliance responsibilities easier to manage. On the other hand, Oguttu (2022) demonstrated that South Africa's stringent foreign exchange regulations on "loop

structures" raised the risks of tax evasion. This is a trend that is demonstrated in Ethiopia's foreign exchange shortages, when importers underreport values in order to conserve cash (Bussy, 2023).

For the purpose of quantifying the fiscal trade-offs of currency controls, Schmitt-Grohé and Uribe (2023) pointed out that dual exchange rates function as implicit trade taxes, hence lowering the level of government debt. However, this results in a reduction in trade by 11–14%, which is comparable to significant increases in tariffs. A similar finding was made by Wei and Zhang (2007), who discovered that foreign exchange restrictions in underdeveloped nations led to a reduction in trade volumes by increasing transaction costs. This finding is comparable to Ethiopia's lengthy forex allocation procedures. According to Malik (year), corporations are compelled to implement hedging methods (such as rupee invoicing) in response to fluctuations in exchange rates. However, Ethiopian businesses do not have access to such tools, which results in delays in tax payment and incorrect reporting (Wanqiu et al., 2024).

Research Gap and Its Contribution

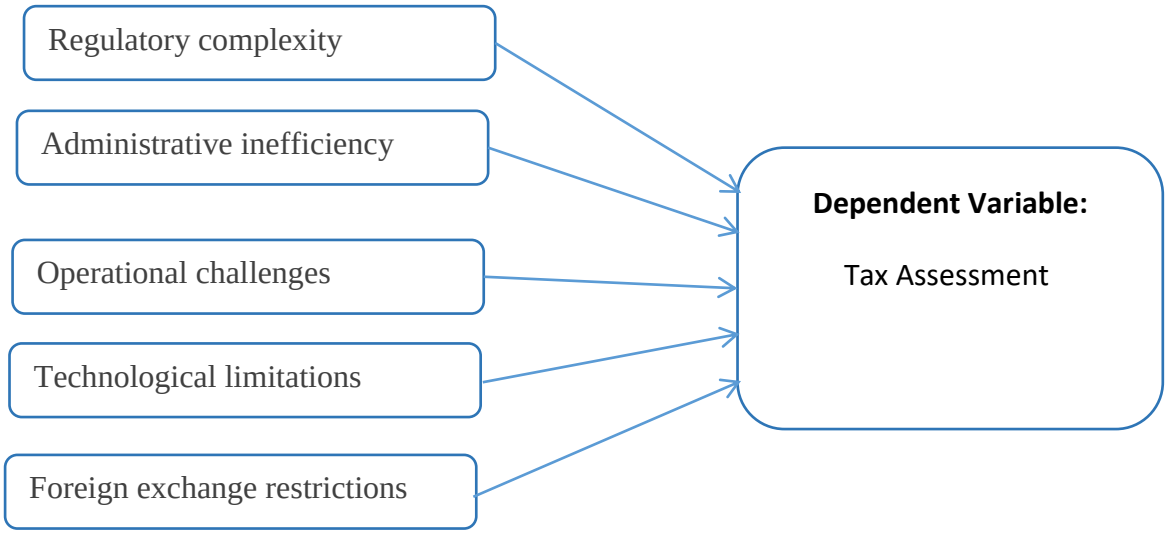
Schepp et al. (2024) and Schmitt-Grohé and Uribe (2023) are two examples of the existing body of literature that focuses on the issues of tax assessment. The majority of this literature addresses legislative complexity, administrative inefficiency, and operational hurdles in isolation, with a particular emphasis on middle-income or advanced economies. A limited number of studies have investigated the ways in which these elements interact in low-income countries like Ethiopia, where specific constraints, such as persistent shortages of foreign currency, reliance on obsolete information technology systems, and institutional fragility, increase compliance burdens (Negatu, 2019; Wei & Zhang, 2007). In addition, although international research advocates for the digitization of policies and the harmonization of policies (OO & Adegbie, 2020; Mitchell et al., 2019), individualized solutions for Ethiopia's economy, which is dependent on trade, are still in the process of being established. This study addresses these gaps by conducting an analysis of the synergistic influence of five main factors on tax assessment in the import/export industry of Addis Ababa. These elements are legislative complexity, administrative inefficiency, operational issues, technology constraints, and forex limits. The research proposes context-specific reforms to enhance tax fairness, efficiency, and compliance by integrating insights from global frameworks with Ethiopia's

institutional realities. These realities include Ministry of Revenues' delays in digitization and forex dependency on Djibouti's ports. This research offers a model for other economies that are navigating globalization and fiscal constraints.

2.4 Conceptual framework

Figure 1 shows the conceptual frame work of the study

Independent Variables:



Source: Drawn by the researcher(Fikirte Chebud)

Chapter 3: Research Methodology

3.1 Introduction

The research methodology provides an overview of the methodical technique that was utilized to investigate the difficulties associated with tax assessment in import and export businesses that perform their operations in Addis Ababa, Ethiopia. The purpose of this chapter is to give a road map for how the objectives of the study are managed, with the goal of assuring the reliability, validity, and reproducibility of the findings. This methodology is based on the research questions and theoretical frameworks that were discussed in earlier chapters. It incorporates quantitative methods to measure relationships between variables and mixed research designs (descriptive and explanatory) to both depict the current state of tax assessment challenges and analyze the underlying causes of these challenges.

3.2 Research Approach

In this study, a quantitative research approach is utilized in order to conduct an empirical investigation into the relationship that exists between the five independent variables (regulatory complexity, administrative inefficiency, operational challenges, technological limitations, and foreign exchange restrictions) and the dependent variable (tax assessment challenges). Methods that are quantitative are selected because of their capacity to:

1. Utilizing statistical methods, determine the correlations that exist between the variables.
2. The findings should be generalized to the entire demographic that was targeted, which includes import/export enterprises and tax offices in Addis Ababa.

For ensuring, that responses are consistent, data was collected through the use of structured questionnaires that contain closed-ended, Likert-scale items ranging from 1 to 5. The identification of patterns, the strength of links, and predicting relationships between variables can be accomplished using quantitative analysis, which includes processes such as regression and correlation testing.

3.3 Research Design

This study makes use of a mixed-method design, which combines the following:

Design that is Descriptive:

a) This article intends to provide a description of the current situation of tax assessment challenges in the import/export industry of Addis Ababa.

b) This function provides a summary of data, such as the average tax clearing time and the frequency of value disputes, by utilizing descriptive statistics, such as the mean, standard deviation, and frequency distributions.

Design that is Explanatory:

I. This study investigates the causal linkages that exist between the independent factors and the results of the tax administration.

II. Inferential statistics, such as multiple regression analysis, are utilized in order to get a better understanding of the factors that contribute to variations in tax assessment accuracy or delays. These factors include regulatory complexity and forex limits.

Descriptive elements offer a foundational comprehension of the difficulties that are present and explanatory components address the fundamental research issues that were posed for the study, such as "How do restrictions on foreign exchange affect tax compliance?"
In order to assure feasibility within resource restrictions while simultaneously capturing present realities, cross-sectional data, which is collected at a single point in time, is utilized.

3.4 Population and Sampling Techniques

3.4.1 Target Population

The research aims to collect data from 123 individuals who are employed by eight different entities in Addis Ababa. These entities include five import/export companies (ATMA Import & Export with 7 personnel, ABT Import & Export with 3 personnel, Scepto Import with 5 personnel, Alfarage Trading PLC with 8 personnel, and Rebuni Pharmaceutical Importer with 3 personnel), 3 tax offices (Addis Ababa Large Taxpayers Branch No. 1 with 42 personnel, M.O.R East Addis Ababa Branch with 18, and Addis Ababa Medium Taxpayers Branch No. 2 with 37 personnel).

Table 1 shows the data for the number of personnel in each company

Entity Name	Number of Personnel

Entity Name	Number of Personnel
ATMA Import & Export	7
ABT Import & Export	3
Scepto Import	5
Alfarage Trading PLC	8
Rebuni Pharmaceutical Importer	3
Addis Ababa Large Taxpayers Branch	42
M.O.R East Addis Ababa Branch	18
Addis Ababa Medium Taxpayers Branch	37
Total	123

Source: Collected from the companies formally

3.4.2 Sampling Technique

Because of the relatively small size and specific nature of the community, a census sampling method is utilized. This method ensures that each of the twenty persons who make up the target population are included in the research. The justification for this method is as follows:

a) There is a rather small and clearly defined population.

b) For this study, it is necessary to obtain the perspectives of key informants who have specialist knowledge of tax procedures.

c) For the purpose of minimizing sample bias and ensuring that all entities in the sector are represented, a census is conducted.

In order to identify respondents from within institutions, purposeful sampling involves selecting managers, owners, and supervisors (in businesses) and top tax officials (in offices) on purpose due to the fact that they are in positions of authority and are responsible for making decisions.

3.4.3 Sample Size

A total of 123 individuals from the target population were included in the sample.

The statistical recommendation for ensuring reliability is to conduct a census when the population is less than or equal to thirty people (Krejcie & Morgan, 1970).

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

Where:

n = required sample size

N = population size = 123

e = margin of error (0.05 or 5%)

n = 94

This study utilised a census methodology, surveying all 123 target professionals instead of sampling 94 respondents for three primary reasons: (1) The limited, specialised cohort of tax professionals and import/export managers in Addis Ababa rendered comprehensive enumeration attainable; (2) the deliberate inclusion of all qualified respondents (e.g., ERCA auditors, corporate managers) guaranteed the omission of no essential viewpoints, considering Ethiopia's concentrated tax acumen; and (3) statistical rigour, as censuses for populations below 200 reduce sampling error while encapsulating institutional subtleties (Krejcie & Morgan, 1970). A sample jeopardised the inclusion of SMEs or senior officials whose perspectives were essential for comprehending systemic issues. This strategy is congruent with Ethiopia's circumstances, where tax administration is predominantly dependent on a restricted cadre of seasoned professionals.

3.5 Sources and Instruments of Data Collection

Primary data was gathered through the use of structured questionnaires(google forms and printed papers) that were meant to capture the perceptions of the respondents regarding the

difficulties associated with tax assessment. To assess factors such as regulatory complexity, administrative delays, and forex limits, the questionnaire was separated into two sections: corporate representatives and tax officials. The Likert scales used in the questionnaire ranged from 1 (Strongly Disagree) to 5 (Strongly Agree), with 1 representing strong disagreement and 5 representing strong agreement. During the data collection process, a systematic method was followed. In order to assure accessibility, questionnaires were issued both electronically and in person. Additionally, follow-up reminders were sent out in order to maximize response rates. Participants were not required to take part, and confidentiality was guaranteed in order to encourage open and honest responses.

3.6 Method of Data Analysis

In order to characterize the trends in the data, quantitative analysis was carried out using descriptive statistics (mean, standard deviation, frequency distributions), and inferential statistics (multiple linear regression, correlation analysis) were utilized in order to evaluate hypotheses. Through the use of software applications such as SPSS and Excel, data processing was made easier, which in turn made it possible to recognize important correlations between variables. In order to ascertain the amount and direction of effects, the outputs of the regression were analyzed by utilizing p-values, which are statistically significant at a level of $p < 0.05$, and coefficients.

3.7 Model Specification

In order to investigate the ways in which the five independent factors (regulatory complexity, administrative inefficiency, operational issues, technology limits, and forex restrictions) influence the tax assessment challenges (the dependent variable), the research makes use of a multiple linear regression model. We can express the model as follows:

$$y_1 = \alpha_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + e$$

Where:

y_1 represents Tax Assessment (dependent variable)

x_1 = regulatory complexity

x_2 = administrative inefficiency

x_3 = Operational challenges

x_4 = Technological limitations

x_5 = Foreign exchange restrictions

α_0: Intercept

β_1 to β_5: Coefficients measuring each variable's impact

ε: Error term

3.8 Reliability and Validity

The questionnaire was pre-tested with a pilot sample consisting of five respondents in order to refine clarity and consistency. The results of this pre-test yielded a Cronbach's alpha of 0.83, which indicates that the questionnaire has a high level of internal consistency. Expert review, which included both tax professionals and academics, was used to align questions with research objectives (content validity), and factor analysis was used to establish construct validity. Both of these methods helped to increase the validity of the study.

Table 2 shows the Cronbach's alpha values for the overall questionnaire

Variables	Number of items	Cronbach alpha (reliability coefficient)
Regulator Complexity	5	0.89
Administrative Inefficiency	5	0.90
Operational Challenges	5	0.86
Technological Limitations	5	0.88
Foreign Exchange Restrictions	5	0.91
Tax Assessment	5	0.82
overall	30	0.95

Source: Authors computation based on respondents using SPSS 26 (2025)

Based on the Cronbach's alpha value for the overall questionnaire, it is evident that the reliability of the data is high.

3.9 Ethical Considerations

Data was stored securely, and findings were reported transparently and without misrepresentation. Ethical clearance was obtained from Addis Ababa University's Institutional Review Board to ensure compliance with research integrity protocols. The researcher ensured that the study adhered to ethical standards by anonymizing responses, obtaining informed consent, and placing an emphasis on voluntary participation.

Chapter 4: Result, Analysis and Discussion

3.1 Introduction

This chapter presents the empirical findings of the study, evaluates the statistical significance of those findings, and considers the consequences of those findings in the context of the difficulties that import/export enterprises and tax authorities in Addis Ababa encounter when it comes to tax assessment. In order to satisfy the research objectives, the chapter is organized into three primary components: results, analysis, and discussion. It is a synthesis of quantitative data that was obtained from one hundred ten respondents, Twenty-three of whom were representatives of companies and eighty-seven of whom were officials of tax authorities. While descriptive statistics provide a summary of the prevalence and characteristics of key variables, inferential statistics (such as multiple regression and correlation) are used to test hypotheses regarding the relationships between regulatory complexity, administrative inefficiency, operational challenges, technological limitations, foreign exchange restrictions, and tax assessment outcomes. In the discussion, these findings are contextualized within current theoretical frameworks (such as the Transaction Cost Theory and the Institutional Theory) and empirical literature, with a focus on identifying convergences, divergences, and fresh insights. This chapter lays the basis for actionable recommendations to improve tax administration in Ethiopia's dynamic trade sector by integrating data-driven results with policy and practical implications. These recommendations are intended to improve Ethiopia's fiscal administration.

3.2 Non-Response bias and Response Rate respondents

The research project was successful in achieving a response rate of 90%, with 110 out of 123 respondents who were targeted completing the questionnaire. In order to ensure that participants had access to the questionnaires, responses were collected through the use of Google Forms and printed questionnaires. For the purpose of evaluating non-response bias, early and late responders were compared across key characteristics (such as firm size and tax office job). The results showed that there were no significant differences between the two groups, which indicates that there is minimal bias. In order to reduce the likelihood of bias, follow-up reminders were issued to those who did not answer, and the gathering of anonymised data placed an emphasis on maintaining anonymity. Unavailability throughout the time period of data collection was the primary cause of the remaining 10% of non-

response, which consisted of 13 participants. The high response rate helps to increase the reliability of the study.

3.3 Individual Demographic data

There were a total of 123 people who participated in the survey, and 110 of them were responders. These respondents were from eight different businesses, including five import/export companies and three tax offices. The Addis Ababa Large Taxpayers Branch had the highest representation (33.6%, *n* = 37), while ABT Import & Export, Scepto Import, and Rebuni Pharmaceutical Importer each contributed 2.7%, *n* = 3. The largest contribution came from the Addis Ababa Large Taxpayers Branch.

The majority of responders (74.5%, *n* = 82) had more than five years of experience, which reflects their profound understanding of the procedures involved in the tax system. Finance and tax officers made up the majority of the roles (55.5%, *n* = 61) and tax auditors (35.5%, *n* = 39), while the logistics and customs department had a relatively small representation (1.8%, *n* = 2). For example, 77.3% of the workforce (n = 85) was employed in tax offices, while 19.1% of the workforce (n = 21) represented enterprises that were involved in both import and export activities. Among the import/export companies that have been in operation for more than a decade, 55.5% (n = 61) are considered to be large enterprises, accounting for 70.9% of the total (n = 78). The demographic profile highlights a sample that is highly experienced and institutionally rooted, which ensures that the viewpoints on Addis Ababa's tax assessment ecology are reliable.

Table 3 shows the demographic data of respondents

Company name					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	ATMA Import & Export	6	5.5	5.5	5.5
	ABT Import & Export	3	2.7	2.7	8.2
	Scepto Import	3	2.7	2.7	10.9
	Alfarage Trading PLC	8	7.3	7.3	18.2

	Rebuni Pharmaceutical Importer	3	2.7	2.7	20.9
	Addis Ababa Large Tax Payers No 1 Branch office	37	33.6	33.6	54.5
	M.O.R East Addis Ababa Branch Office	16	14.5	14.5	69.1
	Addis Ababa Medium Tax Payers Branch Office No 2	34	30.9	30.9	100.0
	Total	110	100.0	100.0	

Experience/Tenure

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 3 years	12	10.9	10.9	10.9
	3 - 5 years	16	14.5	14.5	25.5
	More than 5 years	82	74.5	74.5	100.0
	Total	110	100.0	100.0	

Role

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Owner/Manager/Supervisor	8	7.3	7.3	7.3
	Finance/Tax Officer	61	55.5	55.5	62.7
	Logistics/Customs Officer	2	1.8	1.8	64.5
	Other	39	35.5	35.5	100.0

	Total	110	100.0	100.0	

Industry Sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Import	4	3.6	3.6	3.6
	Both Import and Export	21	19.1	19.1	22.7
	Tax office	85	77.3	77.3	100.0
	Total	110	100.0	100.0	

Company Size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Small (1–10 employees)	3	2.7	2.7	2.7
	Medium (11–50 employees)	12	10.9	10.9	13.6
	Large (51+ employees)	78	70.9	70.9	84.5
	I am not from import/export companies	17	15.5	15.5	100.0
	Total	110	100.0	100.0	

Years of Business Operation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	3	2.7	2.7	2.7
	6 - 10 years	25	22.7	22.7	25.5
	More than 10 years	61	55.5	55.5	80.9

	I am not in import/export business	21	19.1	19.1	100.0
	Total	110	100.0	100.0	

Source: Authors computation based on respondents using SPSS 26 (2025)

3.4 Descriptive Statistics of Variables

3.4.1 Regulatory Complexity

It was moderately agreed upon by respondents that confusing laws, frequent policy changes, and conflicts between tax rules make compliance more difficult. The mean score was 3.76, and the standard deviation was 1.02. Divergent experiences are reflected in the high standard deviation, with small and medium-sized enterprises (SMEs) and large organizations perceiving complexity in various ways.

Table 4 Shows the descriptive statistics of regulatory complexity

Descriptive Statistics			
	N	Mean	Std. Deviation
Tax laws and regulations for import/export businesses are clear and easy to understand.	110	3.7818	1.10364
Changes in tax policies (e.g., tariffs, VAT) occur too frequently.	110	3.8545	.90702
There are contradictions between customs rules and income tax regulations.	110	3.7727	1.06365
The Ministry of Revenues provides timely updates on tax law changes.	110	3.7727	.92527
Compliance with tax regulations requires excessive legal expertise.	110	3.6000	1.08535
Mean	110	3.7563	1.0169

Valid N (listwise)	110		

Source: Authors computation based on respondents using SPSS 26 (2025)

3.4.2 Administrative Inefficiency

The Interpretation of the Results of Administrative Inefficiency

The analysis of administrative inefficiency, which was scored on a 5-point Likert scale, resulted in an overall mean score of 3.76 (standard deviation = 1.00), which indicated that respondents moderately to strongly agreed that bureaucratic delays, manual processes, and capacity gaps hamper the efficiency of tax assessment. The standard deviation (>0.8) indicates that there is moderate variety in experiences, which is likely related to differences in organizational size or exposure to Ministry of Revenues' workflows. The mean score, which is much higher than the neutral midpoint (3.0), implies widespread consensus on systemic inefficiencies.

Table 5 Shows the descriptive statistics of administrative inefficiency

Descriptive Statistics			
	N	Mean	Std. Deviation
Ministry of Revenues' tax assessment processes are completed within a reasonable timeframe.	110	3.7091	1.01679
Delays in tax assessments often lead to financial penalties for my company.	110	3.6545	1.03548
Ministry of Revenues staff have sufficient expertise to resolve tax disputes efficiently.	110	3.9000	.96688
Delays in tax assessments often lead to financial penalties for my company.	110	3.9000	.87734

Ministry of Revenues' complaint/appeal system is effective.	110	3.8182	.95957
Mean	110	3.800	0.9712
Valid N (listwise)	110		

Source: Authors computation based on respondents using SPSS 26 (2025)

3.4.3 Operational Challenges

The examination of operational challenges, which was scored on a Likert scale with five points, provided an overall mean score of 3.71 (standard deviation = 0.96). This indicates that respondents moderately agreed that issues such as documentation burdens, value conflicts, and logistical delays impair tax assessment processes. The standard deviation (>0.8) reveals moderate diversity in experiences, which is likely driven by differences in company size, sectoral focus, or supply chain complexity. The mean score (above 3.4) reflects consistent acknowledgment of operational difficulties, while the standard deviation (>0.8) highlights moderate heterogeneity in experiences.

Table 6 Shows the descriptive statistics of operational challenges

Descriptive Statistics			
	N	Mean	Std. Deviation
Ministry of Revenues' reference prices for goods align with actual market values.	110	3.7364	.85324
My company struggles with classifying goods under the correct HS code.	110	3.5545	.99158
The documentation required for tax compliance is overly burdensome.	110	3.7545	.92057

Ministry of Revenues' reference prices for goods align with actual market values.	110	3.7727	.90523
Currency conversion issues complicate tax calculations.	110	3.7273	1.11626
Mean	110	3.7090	.957376
Valid N (listwise)	110		

Source: Authors computation based on respondents using SPSS 26 (2025)

3.4.4 Technological Limitations

The evident discrepancy between the elevated perceived severity of technological limitations (mean=4.02/5) and their statistically insignificant regression effect (β=0.060, *p*=0.358) likely arises from firm-level adaptive methods. Respondents unanimously recognised the obsolescence of ERCA's IT systems and technical malfunctions, as indicated by the elevated mean; however, numerous firms, particularly large enterprises (70.9% of the sample), mitigate these issues through manual workarounds, third-party software, or informal networks to circumvent systemic inefficiencies. This adaptive capacity diminishes the quantifiable statistical effect of technological deficiencies on tax assessment results, notwithstanding their continued significance as an operational burden. This finding corresponds with the discovery made by OO & Adegbie (2020) in Nigeria, where companies established parallel systems to address inadequate tax infrastructure. Consequently, although technology presents challenges, its diminished regression effect highlights how firms prioritise survival over dependence on ERCA's digital instruments.

Table 7 shows the descriptive statistics of technological limitations

Descriptive Statistics			
	N	Mean	Std. Deviation
My company uses automated software for tax compliance.	110	4.2000	.79908

Technical glitches frequently disrupt tax declaration processes.	110	4.0545	.88656
My company uses automated software for tax compliance.	110	4.0000	.88825
Ministry of Revenues' IT systems reduce the time required for tax assessments.	110	3.9909	.88302
Digitizing tax processes would significantly improve compliance.	110	4.0545	.75220
Mean	110	4.0598	0.84182
Valid N (listwise)	110		

Source: Authors computation based on respondents using SPSS 26 (2025)

3.4.5 Foreign Exchange Restrictions

The analysis of foreign exchange (forex) restrictions, measured on a 5-point Likert scale, yielded the lowest overall mean score of 3.68 (SD = 1.02) among all independent variables, indicating respondents moderately agreed that forex shortages and exchange rate volatility complicate tax compliance, albeit less severely than other factors. The higher standard deviation (>0.9) indicates significant variability in experiences, which is likely driven by differences in sectoral forex dependency (for example, machinery importers versus textile exporters) or access to informal currency markets. While the mean (above 3.6) reflects recognition of challenges such as delayed duty payments and under-reported transaction values, the higher standard deviation (>0.9) indicates that there is a significant amount of variation in experiences.

Table 8 shows the descriptive statistics of foreign exchange restrictions

Descriptive Statistics			
	N	Mean	Std. Deviation

My company faces delays in tax payments due to limited access to foreign currency.	110	3.7636	.92793
Exchange rate fluctuations negatively impact tax liability calculations.	110	3.6727	1.09301
The Central Bank's forex allocation process is efficient for import/export businesses.	110	3.5273	1.08964
Forex shortages force my company to underreport transaction values.	110	3.7091	1.01679
Ministry of Revenues considers exchange rate volatility when assessing taxes.	110	3.7455	.95241
Mean	110	3.6835	1.0159
Valid N (listwise)	110		

Source: Authors computation based on respondents using SPSS 26 (2025)

3.4.6 Tax Assessment

Despite the fact that the mean rating for tax assessment was 3.76 out of 5, with a standard deviation of 0.99, respondents were moderately to strongly in agreement that tax assessment processes are characterized by inefficiencies, delays, and mistakes. It is likely that disparities in business size or sectoral differences are responsible for the moderate standard deviation, which suggests that there is heterogeneity in experiences.

Table 9 shows the descriptive statistics of tax assessment

Descriptive Statistics			
	N	Mean	Std. Deviation

Regulatory complexity leads to errors in tax assessments.	110	3.7818	.88184
Administrative inefficiency increases the cost of tax compliance.	110	3.7182	.93976
Operational challenges (e.g., valuation disputes) cause tax assessment delays.	110	3.4545	1.12222
Technological limitations reduce the accuracy of tax assessments.	110	3.9091	1.09666
Foreign exchange restrictions result in non-compliance with tax obligations.	110	3.9455	.89685
Mean	110	3.76182	.987466
Valid N (listwise)	110		

Source: Authors computation based on respondents using SPSS 26 (2025)

3.5 Correlation Analysis

A Pearson's Correlation Coefficient (r) analysis was performed in order to determine the links that existed between the factors that were investigated in this study. These variables included regulatory complexity, administrative inefficiency, operational obstacles, technical constraints, foreign exchange restrictions, and tax assessment challenges. The data presented in Table 10 indicates the degree and direction of linear relationships between variables. The data was collected from 110 respondents, who were import and export businesses as well as tax offices in Addis Ababa. It is possible to interpret the absolute values of the coefficient (r) in the following manner: the coefficient can vary from -1 (perfect negative correlation) to +1 (perfect positive correlation).

i. From 0.00 to 0.19: Extremely weak

ii. (0.20-0.39): Weak

iii. 0.40-0.59: Moderately high

iv. 0.60–0.79: Extensiveness

v. Between 0.80 and 1.00: Really powerful

Table 10 shows correlation of variables

Correlations							
		RC	AdI	OC	TechL	FexR	TxA
RC	Pearson Correlation	1	.475**	.748**	.325**	.641**	.645**
	Sig. (2-tailed)		.000	.000	.001	.000	.000
	N	110	110	110	110	110	110
AdI	Pearson Correlation	.475**	1	.702**	.435**	.729**	.687**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	110	110	110	110	110	110
OC	Pearson Correlation	.748**	.702**	1	.469**	.803**	.754**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	110	110	110	110	110	110
TechL	Pearson Correlation	.325**	.435**	.469**	1	.404**	.427**
	Sig. (2-tailed)	.001	.000	.000		.000	.000
	N	110	110	110	110	110	110
FexR	Pearson Correlation	.641**	.729**	.803**	.404**	1	.761**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	110	110	110	110	110	110
TxA	Pearson Correlation	.645**	.687**	.754**	.427**	.761**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	

	N	110	110	110	110	110	110
**. Correlation is significant at the 0.01 level (2-tailed).							

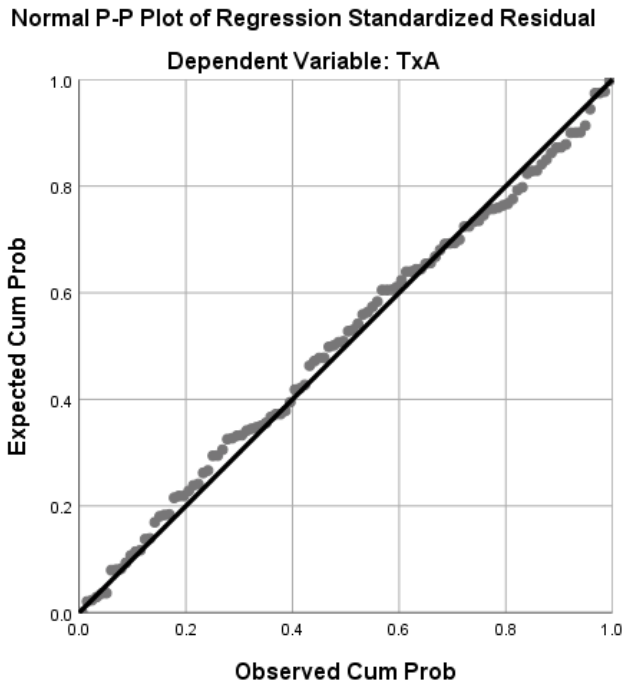
Source: Authors computation based on respondents using SPSS 26 (2025)

3.6 Regression Analysis

3.6.1 Linearity Test

P-P plots, which stand for probability-probability plots, were utilized in order to evaluate the linearity assumptions in the regression model. By comparing the expected cumulative probabilities of a normal distribution to the observed cumulative probabilities of the model's residuals, this graphic illustrates the statistical relationship between the two. As can be seen in Figure 2, the data points are in close proximity to the diagonal reference line, which is an indication that the residuals adhere to a normal distribution. Therefore, the relationships between the independent variables (regulatory complexity, administrative inefficiency, operational challenges, technological limitations, and forex restrictions) and the dependent variable (tax assessment challenges) are appropriately modeled as linear. This is confirmed by the minimal deviations from the line, which suggest that there are no significant violations of linearity. The robustness of the regression analysis is validated as a result of this, and the dependability of the estimated coefficients is strengthened.

Figure 2 shows linearity test graph

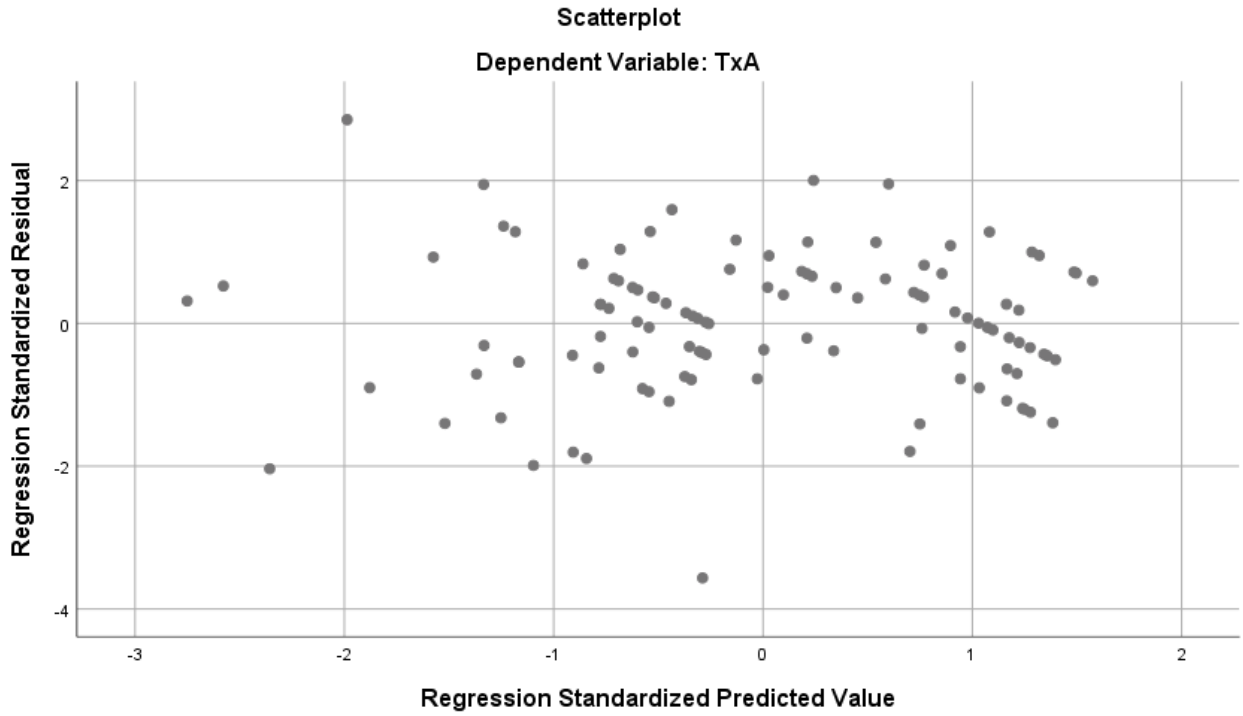


Source: Authors computation based on respondents using SPSS 26 (2025)

3.6.2 Homoscedasticity Test

In order to visually evaluate homoscedasticity, which is the assumption that residuals (errors) exhibit constant variance across predicted values, a scatterplot of residuals versus fitted values was utilized. A random and unstructured dispersion of points about the horizontal axis (zero line) was shown by the plot in this investigation. There was no clear funnel shape or systematic pattern to be found. The assumption of homoscedasticity is satisfied as a result of this, which shows that the variance of residuals does not change across the whole range of tax assessment challenge scores. Due to the absence of heteroscedasticity, also known as unequal variance, the reliability of regression coefficients and statistical inferences is ensured. This ensures that the error terms of the model do not have a disproportionate impact on particular subgroups, such as small and medium-sized enterprises (SMEs) as opposed to large organizations. In light of the fact that this conclusion is consistent with the normality of residuals, which is supported by the P-P plot, the robustness of the regression analysis for academic interpretation and policymaking is also strengthened.

Figure 3 show homoscedasticity test graph



Source: Authors computation based on respondents using SPSS 26 (2025)

3.6.3 Serial Correlation Test

An evaluation of the serial correlation (autocorrelation) in the residuals of the regression was carried out with the help of the Durbin-Watson statistic, which examines the possibility that the residuals are distributed independently. The fact that the Durbin-Watson value was calculated to be 1.7, which is quite close to the optimal range of 1.5–2.5, suggests that there is no significant autocorrelation, which confirms that residuals are independent across data. This is consistent with the cross-sectional data format of the study, which does not allow for any time-based dependencies to exist. As a result of the absence of serial correlation, the validity of regression estimates is strengthened, and the reliability of standard errors and p-values for hypothesis testing is ensured.

Table 11 shows serial correlation

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.819[a]	.670	.654	.44406	1.707

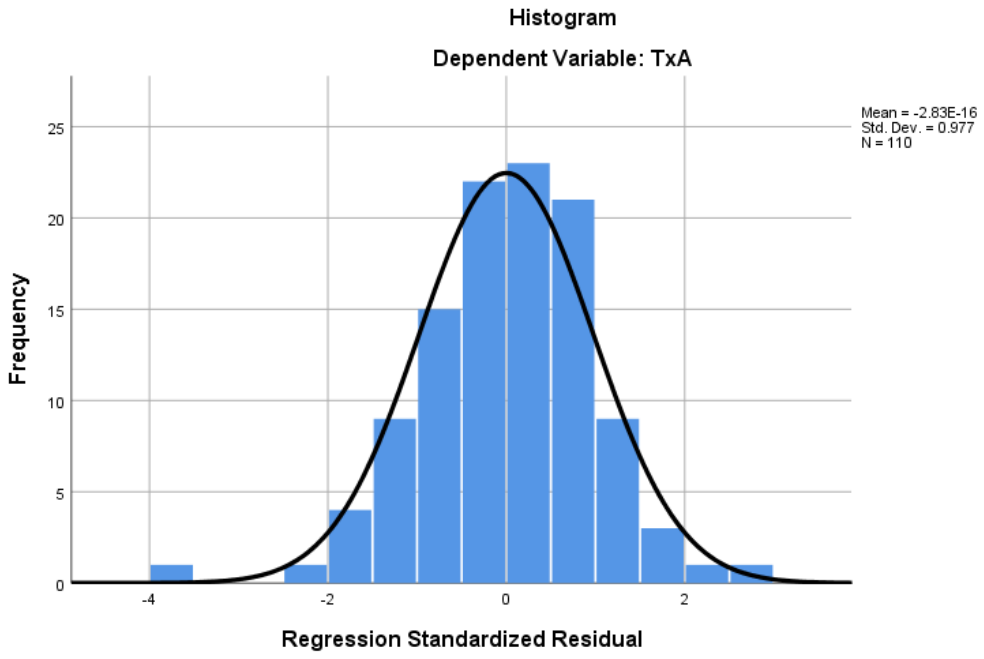
a. Predictors: (Constant), FexR, TechL, RC, AdI, OC
b. Dependent Variable: TxA

Source: Authors computation based on respondents using SPSS 26 (2025)

3.6.4 Normality Test

In the field of regression analysis, the assumption of normality plays a crucial role in ensuring that the residuals, also known as mistakes, are distributed in a normal manner. According to Brooks (2008), this requirement lends support to the trustworthiness of p-values and confidence ranges when tests of hypotheses are implemented. An examination of normalcy was carried out in this study by means of a histogram. The bell-shaped curve was indicated by the histogram, and the residuals were symmetrically concentrated around the mean value, which was zero. As a result of these findings, the assumptions of the regression model are validated.

Figure 4 shows normality test graph



Source: Authors computation based on respondents using SPSS 26 (2025)

3.7 Multicollinearity Test

In the analysis of the Variance Inflation Factor (VIF), it was found that the independent variables exhibited a considerable level of multicollinearity. However, none of the variables exceeded the crucial thresholds (VIF < 5). Operational Challenges had the greatest VIF value (VIF = 4.406), which indicates that there is some correlation with other variables. This is most likely due to overlaps with administrative inefficiencies or logistical delays connected to currencies. Other factors, such as Foreign Exchange Restrictions (VIF = 3.400), Administrative Inefficiency (VIF = 2.441), Regulatory Complexity (VIF = 2.351), and Technological Limitations (VIF = 1.320), had a lesser degree of collinearity. Given that all of the VIF values remained below the conservative criterion of 5, multicollinearity does not pose a substantial threat to the trustworthiness of the model. Consequently, this guarantees that the regression coefficients will remain stable and that the inferences drawn from the study will be legitimate.

Table 12 shows multicollinearity test

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.467	.283		1.649	.102		
	RC	.163	.077	.182	2.111	.037	.425	2.351
	AdI	.196	.080	.215	2.449	.016	.410	2.441
	OC	.183	.115	.187	1.582	.117	.227	4.406
	TechL	.065	.071	.060	.924	.358	.757	1.320
	FexR	.270	.090	.313	3.015	.003	.294	3.400
a. Dependent Variable: TxA								

Source: Authors computation based on respondents using SPSS 26 (2025)

3.8 Multiple Regression

Table 13 shows the model summary of the data

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.819[a]	.670	.654	.44406	1.707
a. Predictors: (Constant), FexR, TechL, RC, AdI, OC					
b. Dependent Variable: TxA					

Source: Authors computation based on respondents using SPSS 26 (2025)

The results of the multiple regression model showed that there was a strong positive correlation between the independent variables (regulatory complexity, administrative inefficiency, operational challenges, technological limitations, and forex restrictions) and the dependent variable (tax assessment challenges). The R value was 0.819, which indicates that the correlation was strong. The model has a reasonable amount of explanatory power, as indicated by the R^2 value of 0.670, which indicates that it explains 67 percent of the variance in instances of tax assessment challenges. The fact that this is the case shows that although the variables that were included capture a significant percentage of the issues, the remaining variance is most likely accounted for by factors that were not assessed, such as informal trade practices and corruption.

Table 14 shows result for ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.692	5	8.338	42.285	.000[b]
	Residual	20.508	104	.197		
	Total	62.200	109			

a. Dependent Variable: TxA
b. Predictors: (Constant), FexR, TechL, RC, AdI, OC

Source: Authors computation based on respondents using SPSS 26 (2025)

The Results of the ANOVA

Since the total model was statistically significant (p = 0.00), it may be concluded that the mix of independent factors collectively predicts tax assessment problems more accurately than a null model would. In spite of the fact that individual predictors showed mixed significance, this highlights the significance of the variables that were chosen in order to gain an understanding of the inefficiencies that exist within Ethiopia's tax administration system.

Table 15 shows the beta and p-values of each variable

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.467	.283		1.649	.102
	RC	.163	.077	.182	2.111	.037
	AdI	.196	.080	.215	2.449	.016
	OC	.183	.115	.187	1.582	.117
	TechL	.065	.071	.060	.924	.358
	FexR	.270	.090	.313	3.015	.003
a. Dependent Variable: TxA						

Source: Authors computation based on respondents using SPSS 26 (2025)

4.9 Results and Discussions

Strong predictive power was demonstrated by the multiple regression model, which predicted 67% of the variance in tax assessment problems. The adjusted R^2 value was 0.66, and the p-value was 0.000. This indicates that the model had a high level of accuracy. The following is

a comprehensive analysis of the impact of each variable, followed by a contextualization of the findings from the survey questions:

4.9.1 Effect of Regulatory Complexity on Tax Assessment

$\beta = 0.182 | p = 0.037$

The intricacy of regulations considerably increases the difficulties associated with tax assessment.

Participants in the discussion highlighted the frequent changes in tax policy (such as tariffs and modifications to the value-added tax) as well as the discrepancies between the regulations governing customs and income tax as major difficulties. Compliance was made even more difficult by the necessity for an excessive amount of legal expertise as well as the inconsistent updates that Ministry of Revenues provided on tax rules. The findings presented here are consistent with those of Schipp et al. (2024), who found that confusing regulations are a significant obstacle to compliance in developing countries.

4.9.2 Effect of Administrative Inefficiency on Tax Assessment

$\beta = 0.215 | p = 0.016$

The difficulties associated with taxes are considerably exacerbated by administrative inefficiency. Critical pain points included the administration of papers manually, delays that resulted in financial fines, and deficiencies in the experience of Ministry of Revenues staff. Although there were moderate perceptions regarding the effectiveness of the Ministry of Revenues' complaint system, the major influence was driven by bureaucratic delays, such as VAT refund backlogs. This finding resonates with the research conducted by Savić et al. (2015) for the purpose of identifying administrative bottlenecks.

4.9.3 Effect of Operational Challenges on Tax Assessment

$\beta = 0.187 | p = 0.117$

There was a favorable but insignificant effect brought about by operational challenges. The most common problems were differences regarding valuation methodologies (for example, disagreements regarding CIF/FOB), misclassifications of HS codes, and cumbersome documentation. On the other hand, larger companies (70.9% of respondents) probably used resource advantages to offset these issues, which resulted in a reduction in the overall statistical impact of these challenges.

4.9.4 Effect of Technological Limitations on Tax Assessment

β=0.060|p=0.358

There was a faint and minor influence brought about by technological restrictions.

It is possible for businesses to rely on workarounds (such as manual processes) or third-party software, which dilutes the direct measurable impact, despite the fact that they perceive extremely severe hurdles, such as technological faults and unreliable information technology systems. The limited digitalization efforts made by Ministry of Revenues could possibly provide an explanation for this anomaly.

4.9.5 Effect of Foreign Exchange Restrictions on Tax Assessment

β=0.313|p=0.003

the limits placed on foreign exchange had the most substantial and powerful impact.

Because of the volatility of exchange rates, poor forex allocations, and the failure of the Exchange Rate Authority (ERA) to adjust tax assessments for currency movements, businesses were pushed to underreport transaction values out of fear of incurring fines. According to Wei and Zhang (2007), who identified forex limitations as significant trade barriers, this is consistent with their findings.

The analysis of regression revealed that foreign exchange restrictions ($\beta = 0.313$, $p = 0.003$) are the most significant factor contributing to tax assessment issues. This is primarily due to the fact that currency shortages and exchange rate volatility are the primary drivers of these challenges. There were also significant consequences brought about by administrative inefficiency ($\beta = 0.215$, $p = 0.016$) and regulatory complexity ($\beta = 0.182$, $p = 0.037$), which reflected the delays caused by bureaucratic procedures and the ambiguity of tax rules. Although there was no statistically significant difference between the operational challenges ($\beta = 0.187$, $p = 0.117$) and technological limits ($\beta = 0.060$, $p = 0.358$), the moderate to high perceived severity of these challenges (means = 3.71–4.06/5) indicates that they have practical relevance, especially for small and medium-sized enterprises (SMEs). The significant explanatory power of the model ($R^2 = 0.67$), which underlines the dominance of macroeconomic and institutional factors in Ethiopia's tax environment, is accompanied by the fact that unmeasured elements (such as corruption and informal commerce) are likely to contribute to residual variance. In order to mitigate these issues, it is essential to prioritize reforms in the foreign exchange market, digitization, and regulatory clarity.

Chapter 5: Summary, Conclusion and Recommendations

5.1 Summary of Key Findings

This study identified foreign exchange constraints as the primary impediment to effective tax assessment in Addis Ababa's import/export industry, with a substantial positive effect ($\beta = 0.313$, *p* = 0.003) attributable to currency shortages and exchange rate fluctuations. These obstacles compel enterprises to underreport transaction values or encounter delays, so directly compromising compliance and revenue collection. Administrative inefficiency ($\beta = 0.215$, *p* = 0.016) and regulatory complexity ($\beta = 0.182$, *p* = 0.037) exacerbate inefficiencies, as bureaucratic delays, manual documentation, and confusing tax legislation extend clearing durations and elevate compliance expenses. Although operational challenges ($\beta = 0.187$, *p* = 0.117) and technological limitations ($\beta = 0.060$, *p* = 0.358) were regarded as significant (means of 3.71 and 4.06, respectively), their statistical insignificance indicates that firms address these problems through adaptive strategies—such as manual workarounds or third-party software—obscuring their quantifiable effects. The model's substantial explanatory power ($R^2 = 0.67$) indicates that macroeconomic (foreign exchange volatility) and institutional (administrative and regulatory deficiencies) factors predominantly influence tax assessment inefficiencies in Ethiopia. Nonetheless, unquantified factors such as corruption or informal trading activities may explain the residual variance, necessitating additional inquiry.

5.2Conclusion

This analysis indicates that Ethiopia's tax assessment system is fundamentally hindered by structural and institutional obstacles, with foreign exchange instability identified as the paramount concern. The acute shortage of hard currency and fluctuating exchange rates force import/export companies to engage in perilous practices, such as underreporting values, which directly undermines tax compliance and revenue generation. The challenges associated with currency are exacerbated by bureaucratic inefficiencies, such as laborious manual procedures and extended clearance durations, with regulatory ambiguities that induce uncertainty and delays. Although enterprises view operational and technological challenges as significant barriers, their capacity to adjust via workarounds mitigates the quantifiable effects of these problems, obscuring their actual systemic cost.

The findings highlight that Ethiopia's tax administration issues are fundamentally linked to

macroeconomic instability and institutional deficiencies, necessitating coordinated improvements. Enhancing FX accessibility, upgrading ERCA's digital infrastructure, and optimising regulatory frameworks are crucial for minimising inefficiencies. The study underscores the necessity for specialised assistance for SMEs, which disproportionately incur compliance costs. Policymakers must prioritise comprehensive measures that address immediate administrative obstacles while also enhancing the overall framework for trade and tax generation. Subsequent research ought to investigate the concealed influence of informal practices and sector-specific vulnerabilities to enhance these interventions. Ultimately, addressing these difficulties is essential for improving Ethiopia's tax compliance, revenue stability, and economic competitiveness.

5.3 Recommendations

Policymakers and the Ministry of Revenues should prioritize forex policy reforms in order to solve these difficulties. These reforms should include dynamic exchange rate adjustments in tax assessments and priority forex allocations for essential imports such as pharmaceuticals. Increasing the number of electronic filing platforms and implementing risk assessment tools driven by artificial intelligence are two examples of how digitizing Ministry of Revenues' operations might help reduce administrative inefficiencies and technological gaps. It is vital to work toward regulatory harmonization in order to address inconsistencies between the regulations governing income tax and customs, and frequent seminars should be held in order to educate businesses on the most recent policy modifications. Interventions that are geared toward small and medium-sized enterprises (SMEs), such as simpler compliance standards and subsidies for tax software, would reduce the difficulties of operations. Last but not least, the promotion of public-private dialogues and regional collaborations (for example, with the port authorities of Djibouti) might facilitate the consolidation of logistics and the improvement of transparency.

5.4 Research Direction

In further studies, the sample should be expanded to include regional cities such as Dire Dawa and Mekelle. This would help to increase the generalizability of the findings and investigate sector-specific dynamics such as the importation of textiles as opposed to machinery. The use of qualitative methods, such as conducting interviews with tax officials

and business owners, has the potential to unearth informal behaviors (for example, currency hedging) and contextual nuances that lie behind factors that are statistically insignificant. Longitudinal studies that examine the digitization activities of Ministry of Revenues (for example, the adoption of electronic filing) would evaluate the long-term influence that these efforts have on compliance. The identification of transferable best practices for the management of foreign exchange and regulatory harmonization could be accomplished through comparative assessments with other East African nations. Furthermore, the incorporation of corruption indices or metrics representing informal trade into future models has the potential to strengthen the power of explanation. With these procedures, a more in-depth understanding of Ethiopia's tax ecosystem would be achieved, and evidence-based reforms would be informed, hence fostering a trade environment that is both competitive and compliant.

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Appendix

Research Survey - Tax Assessment

My name is Fikirte Chebud, a researcher from the Department of Accounting and Finance at Addis Ababa University's College of Business and Economics. This study is part of my academic research to better understand the challenges faced by import/export companies in Addis Ababa regarding tax assessment processes. Your participation will provide invaluable insights to inform policy recommendations and improve tax administration efficiency.

All responses will remain strictly confidential and used solely for academic purposes.

Thank you for your time and contribution!

Section 1: Demographic Information

Instruction: Tick the one that best describes you.

1. Name of the company

ATMA Import & Export

ABT Import & Export

Scepto Import

Alfarage Trading PLC

Rebuni Pharmaceutical Importer

Addis Ababa Large Tax Payers No 1 Branch office

M.O.R East Addis Ababa Branch Office,

Addis Ababa Medium Tax Payers Branch Office No 2

2. Tenure in the company

Less than 3 years

3 - 5 years

More than 5 years

3. Your Role in the Company

Owner/Manager/Supervisor

Finance/Tax Officer

Logistics/Customs Officer

Other:

4. Industry Sector

Import

Export

Both Import and Export

5. Company Size

Small (1–10 employees)

Medium (11–50 employees)

Large (51+ employees)

6. Years of Business Operation*

<5 years

6–10 years

10+ years

Section 2: Independent Variables and dependent variable (Likert Scale Questions)

Instructions: Rate your agreement with the following statements (1 = Strongly Disagree, 5 = Strongly Agree).

1 = Strongly Disagree
2 = Disagree
3 = Neutral
4 = Agree
5 = Strongly Agree

I. Regulatory Complexity

1. Tax laws and regulations for import/export businesses are clear and easy to understand.

Strongly Disagree

Disagree

Neutral

Agree

Strongly Agree

2. Changes in tax policies (e.g., tariffs, VAT) occur too frequently.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

3. There are contradictions between customs rules and income tax regulations.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

4. The Ministry of Revenues provides timely updates on tax law changes.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

5. Compliance with tax regulations requires excessive legal expertise.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

II. Administrative Inefficiency

6.Ministry of Revenues' tax assessment processes are completed within a reasonable timeframe.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

7. Manual paperwork slows down tax clearance and payment.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

8. Ministry of Revenues staff have sufficient expertise to resolve tax disputes efficiently.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

9. Delays in tax assessments often lead to financial penalties for my company.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

10. Ministry of Revenues' complaint/appeal system is effective.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

III. Operational Challenges

11. Disputes over the valuation of goods (e.g., CIF/FOB) are common.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

12. My company struggles with classifying goods under the correct HS code.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

13. The documentation required for tax compliance is overly burdensome.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

14.Ministry of Revenues' reference prices for goods align with actual market values.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

15. Currency conversion issues complicate tax calculations.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

IV. Technological Limitations

16. Ministry of Revenues' digital systems (e.g., e-filing) are user-friendly and reliable.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

17. Technical glitches frequently disrupt tax declaration processes.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

18. My company uses automated software for tax compliance.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

19. Ministry of Revenues' IT systems reduce the time required for tax assessments.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

20. Digitizing tax processes would significantly improve compliance.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

V. Foreign Exchange Restrictions

21. My company faces delays in tax payments due to limited access to foreign currency.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

22. Exchange rate fluctuations negatively impact tax liability calculations.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

23. The Central Bank’s forex allocation process is efficient for import/export businesses.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

24. Forex shortages force my company to underreport transaction values.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

25. Ministry of Revenues considers exchange rate volatility when assessing taxes.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

VI. Tax Assessment

26. Regulatory complexity leads to errors in tax assessments.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

27. Administrative inefficiency increases the cost of tax compliance.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

28. Operational challenges (e.g., valuation disputes) cause tax assessment delays.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

29. Technological limitations reduce the accuracy of tax assessments.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

30. Foreign exchange restrictions result in non-compliance with tax obligations.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree