



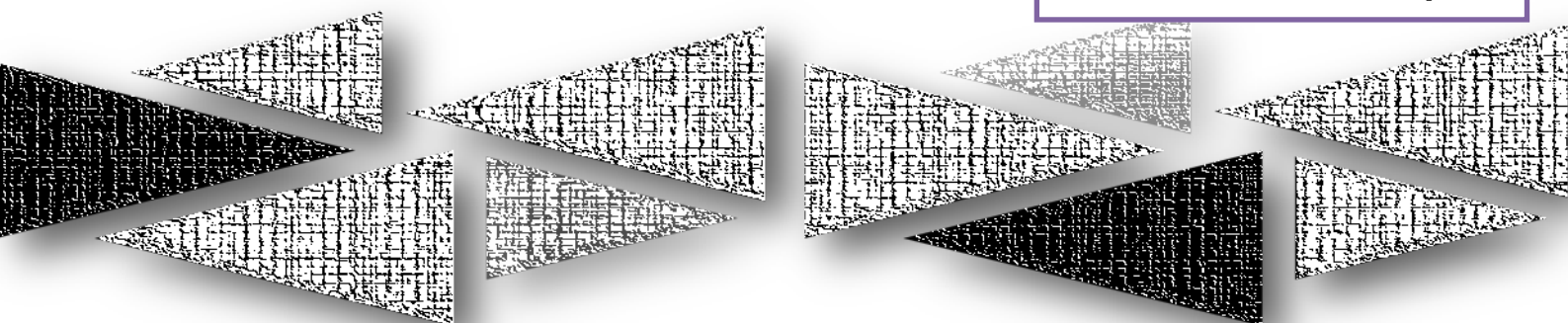
Addis Ababa University College of Business & Economics
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MSc in Accounting and Finance
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Assessment of Factors Affecting the Value-Added Tax
Collection Performance
in the Case of Gullele Sub-city, Addis Ababa, Ethiopia

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Thesis Submitted to as Partial Fulfillments of the
Requirements for the Degree of Master of Science
(MSc) in Accounting and Finance

January /2024
Addis Ababa, Ethiopia



Statement of Declaration

With the assistance of my research advisor, Dr. Alem Hagos, I completed my independent thesis on the topic of " Assessment of Factors Affecting the Value-Added Tax Collection Performance in the Case of Gullele Sub-city, Addis Ababa, Ethiopia" in partial fulfillment of the requirements for the MSc in Accounting and Finance. I, therefore, certify that this dissertation is entirely my original work and that I have not submitted it—nor will I—to any other university in hopes of receiving a degree comparable to this one.

Mekbib Altaye Guchale

January 2024
Addis Ababa, Ethiopia

CERTIFICATION

I am verifying that Mekbib Altaye worked under my supervision on a thesis titled " Assessment of Factors Affecting the Value-Added Tax Collection Performance in the Case of Gullele Sub-city, Addis Ababa, Ethiopia." This work is original, in my opinion, and it would qualify for the MSc in Accounting and Finance to be awarded.

Dr. Alem Hagos

January 2024
Addis Ababa, Ethiopia

A

**Assessment of Factors Affecting the Value-Added Tax Collection
Performance**

In the Case of Gullele Sub-city, Addis Ababa, Ethiopia

By: Mekbib Altaye

Approved by the board examiners.

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Abstract

Recently, Value Added Tax (VAT) has become a major worldwide tax instrument which enhances economic growth, and it has a significant factor in increasing government revenue, which funds expenditures. However, governments have addressed many obstacles to ensure effective tax collection. The study aims to assess the factors affecting the Value-Added Tax (VAT) Collection Performance, in the case of the Gullele sub-city, Addis Ababa Ethiopia. In doing so, the study evaluates the VAT collection performance factor in more detail. Both qualitative and quantitative research methods were used to collect and analyze primary and secondary data for the study. Self-administered questionnaires to the branch office employees were used to collect primary data. The target populations of the study were the staff members of the Gullele sub city small scale taxpayer's branch office. In the branch office there were 32 total workers in the taxation department who were directly involved in VAT collection and administration. The study used purposive and convenient non-probability sampling technique. Accordingly, the total sample size considered by the researcher was 30. Descriptive Survey data analysis method used, and STATA 14 were used for the quantitative analysis. Furthermore, secondary data was gathered to assess the factors that affect the VAT collection performance. The lack of advanced technology, the low number of registered VAT payers and those who announced their VAT return with payment, the inadequate capacity-building and training programs for tax officials and staff, and other tax administrative practices are the main causes of the low performance of VAT collection. The study concluded by recommending the use of cutting-edge technology, ongoing staff capacity building, proper intention for the planning of VAT collection, hiring the necessary workforce, enhancing consumer and VAT payer awareness, and increasing the number of VAT payers to increase the performance of VAT in Ethiopia. It also needs the government's and citizens' due attention, and the concerned body may take the findings worthwhile for corrective action.

Keywords: Value Added Tax, planning, Technology, Awareness, Staff training

Acronyms

ASYCUDA Automated System for Customs Data Management

ERCA Ethiopian Revenue and Customs Authority

EPRDF Ethiopia People's Revolutionary Democratic Front

FIRA Federal Inland Revenue Authority

GST Goods and Service tax

GDP Gross Domestic Product

IMF International Monetary Fund

MoR Ministry of Revenue

OECD Organization for Economic Co-operation and Development

SIGTAS Standard Integrated Government Tax Administration System

VAT Value-Added Tax

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CHAPTER ONE

INTRODUCTION

1.1. Chapter Introduction

The introductory of the research, the problem statement, the objective, the significance, the scope, and the limitations of the study are all included in the introductory section of the paper. The study's background covered the significance of value-added tax (VAT) for national economic development, particularly in developing nations, as well as the background of the Gullele sub city small taxpayer branch office.

1.2. Background of the Study

Taxes are important sources of public revenue. The existence of collective consumption of goods and services necessitate putting some of our income into government hands (Singh, 2019). Such public goods like roads, power, municipal services, and other public infrastructures have favorable results on many families, business enterprises, industries, and the general public (Michael, 2015).

Economic growth has been one of the overriding issues among the macroeconomic objectives of developing countries like Ethiopia. As Assefa (2022) stated, in their attempt to attain continuous and broad-based growth, governments of these countries have been implementing various macroeconomic policies by identifying the potential determinant factors for growth and One of these determinant factors is taxation which helps to enhance sufficient funds and reduce budget deficits. To change this situation, these nations should exploit and strengthen their domestic financial resource base to bring about sustainable development. One of these sources is taxation, which is a system of raising money internally to finance government expenditures.

As S. N. Singh (2019) stated Value Added Tax is one of the most important sources of internal funds for developing countries such as Ethiopia. He also mentioned that VAT is a family of indirect tax paid on the value added to goods and services by enterprises at each stage of the production and distribution process. It arises whenever a taxable person makes a supply of goods or services in the course of

business operations. Thus, in some countries, it is called Goods and Services Tax (GST). Mourice Laure, a French economist, and director of the French tax authority started VAT first in 1954 (Worku, 2017). It was invented because very high sales taxes and tariffs encouraged cheating and smuggling (Singh, 2019).

The introduction of the value-added tax (VAT) represents one of the most significant innovations in tax policy and administration in developing countries, if not the most significant one (Mascagni, et al. 2023). France was the first country to introduce VAT effective from April 10, 1954 and It has spread throughout the world since its introduction in 1955 (Lynch, 2015). Since 1979 VAT has been adopted as the main form of indirect tax by many countries in different parts of the world (Norregaard & Khan, 2007). They also mentioned that VAT can be considered the most important tax innovation of the second half of the twentieth century.

At the beginning of the 1980s, only about 30 countries had adopted the VAT (IMF, 2011). IMF also stated, as of 2020, it has become a huge success in terms of ubiquity of adoption (160 + countries) and revenue raised, with much of its expansion driven by low- and middle-income countries.

Since 1992/93, the Government of Ethiopia has made a major economic policy shift from Central Planning to market-oriented economic system (Daba, & Mishra, 2014). The reasons for these were: outdated tariff and tax laws; weak customs and tax administration; failure of the tariff and tax regime to attract investment, facilitate trade and generate adequate revenue to cover current and capital expenditure, and hence finance development and poverty-reducing projects (Tefferu, 2004).

Assefa (2022), stated that, the Main reasons for introducing VAT were to broaden the tax base, to attain economic neutrality, to promote exports and to attain its administrative advantages. Further, since its introduction, VAT has been more revenue productive than sales tax (Bultum, 2019). And he also mentioned that, to sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised efficiently as possible.

In Ethiopia, as in many developing countries, the most important source of government revenue is a value added tax (Wollela and Richard, 2020). The efficient collection of VAT is increasing the government revenue and bringing sustainable

development in the country. Even though, VAT has a significant role in the revenue system of the Ethiopian government (S. N. Singh, 2019). But VAT revenue performance appears to be declining and is low compared to that in neighboring countries (IMF, 2016). Regarding VAT productivity, Seada (2018) document review result shows, the average C-efficiency in Ethiopia over the period reviewed is lower when compared to Sub Saharan Average and emerging countries economy and compared with others economy. According to Adane (2016) VAT performance in Ethiopia is low as compared to the other African countries. According to Alemu & Assistant (2018) awareness of the society, tax technology, VAT evasion, tax audit and enforcement, VAT administration and politico- legal are the factors of VAT collection performance. Those mentioned study shows, there is a need to farther improve the VAT administration and VAT collection performance is under question in Ethiopia. This may be caused by factors including low rate of VAT collection, weak VAT administration and no/little use of advanced technology which helps to improve the quality of administrative data and the extent to which it can be used for VAT enforcement, as well as the skill of the employee and the awareness of the VAT payer. Therefore, this study was envisioned to assess the factors that affect the VAT collection performance in Gullele sub-city, Addis Ababa, Ethiopia.

1.3. Background of the Organization

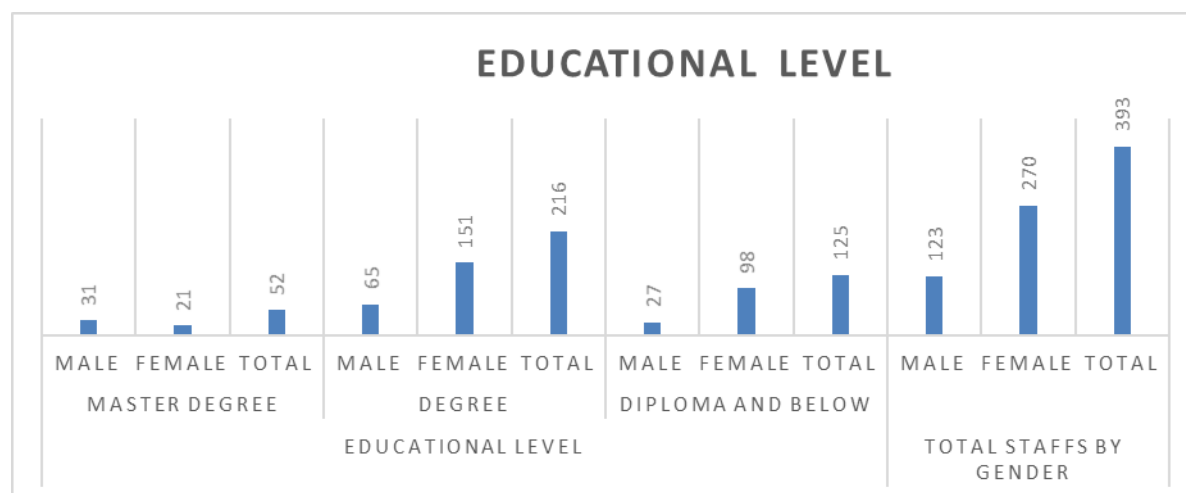
Gullele is a sub-city located in Addis Ababa that participates in the nation's revenue-collection sector. It implements a number of measures to increase the nation's capacity for tax collection. This study evaluates the factors that affects the VAT collection performance at Gullele sub-city small taxpayers branch office.

Gullele Sub-City Small Taxpayers Branch Office is in charge of collecting money from domestic taxes and customs charges. The branch office is responsible for collecting taxes from local residents and individual taxpayers.

The branch office is striving to fulfill its vision of "building a modern and fair tax administration and covering the expenses needed for the prosperity of the city with the collected income in the year 2022." and its mission of "Using an efficient and servile manpower, building a fair and modern tax administration system, providing accessible services, and developing a culture of voluntary tax payment to efficiently collect the revenue needed for the growth and development of the city.

To achieve its mission and to meet the needs of skilled manpower needed by the office, 672 positions permitted for the year 2015 EFY, out of which, 393(58.5 %) positions only employed (123 males and 270 female).

Figure 1. Number of Staffs and their educational level



Source :- 2015 EFY Annual report of the office

1.4. Problem Statement

The study conducted by Bird, R. M. (2005) reveals VAT as the ‘money machine’ tax which is necessarily adopted by both developed and developing countries that allow the government to collect a sufficient amount of revenue. Hence, most economists as well as experts of political scientists think that VAT is the best preferable general consumption tax recently available that enhances economic growth (Belay, A., 2022).

In the year 2013 EFY Ethiopia collected ETB 62.2 billion in tax revenue, which was undermined by ETB 12.3 billion compared to the plan. Total VAT collection was ETB 25.23 billion in the quarter, which shares 40.53% of total tax revenue in the country (Woodwose, 2016).

VAT revenue performance appears to be declining and is low compared to that in neighboring countries (Dessie, 2020). He also mentioned, for instance, VAT and other indirect taxes accounted for about 27 percent of total tax revenue in the year 2013 in Ethiopia, while as IMF (2016) mentioned these taxes contributed about 51 percent in Rwanda and 56 percent in Uganda.

ERCA (2015) Ethiopia is passing through a sensational development process, the development that is going to solve lots of problems for the society like road constructions, water supply, electric power supply, and many other infrastructures, to achieve this socio-economic development. VAT which is collected from society is becoming the ultimate way for the development of the country. The economic development of the country depends on tax which is paid by every citizen in the country. Especially VAT becomes a necessity income for the government because it is taxed 15% at every step from the producers of goods to retailers and consumers, as well as service renders.

The major problems that hinder the smooth implementation of VAT in Ethiopia are the absence of an efficient VAT administration system, existence of eligible business entities that have not yet registered for VAT, the existence of some VAT-registered business enterprises that have collected the tax with illegal invoice and retain the tax for themselves, the presence of taxpayers that did not declare the tax they collected as per the law, low level of tax awareness of the community, the existence of VAT registered business enterprises that offers customers an opinion to pay or not to pay VAT for the purchases they made in the market and provisions of forgery VAT invoices as well as the lower level of the purchasing power of the community which increases the needs of searching goods and services that excludes VAT value from its prices (Dessie, 2020).

The regression findings of Dasalegn (2014) showed that the Ethiopian National development is significantly influenced by the VAT revenue. Wollela (2008) noted that in developing countries the poor performance of taxes is likely to be due to weak tax administration (i.e., the incapacity of the administration to implement the tax in practice).

Seada (2018), study indicated, a well-structured VAT administration program is vital to achieve revenue objectives that ensure the fiscal stability of the country and sustain the guaranty of the tax system by providing effective service to taxpayers along with voluntary compliance improvement and additional tax collection.

A no/little use of technology has a direct impact on reducing the VAT collection efficiency. Oyebola et al., (2023) noted that, as digital technologies continue to gain momentum in lower-income countries, tax authorities are increasingly adopting technology solutions to improve their core functions and to collect revenue more efficiently.

Different research works have been undertaken on the issue of VAT in Ethiopia. Dasalegn M. (2014), in the study, concluded that VAT plays an energetic role in the national development of Ethiopia, and it enables to succeed the current growth and transformations plan (GTP) of the country. The study also noted, a good VAT administration is critical in fully implementing the design attributes of the tax and it is important to achieve the policy objectives of a government. S. N. Singh (2019) also got the same result; the researcher conclude that value added tax contributes much to government revenue. Most of the studies suggest that efficient collection of VAT has a positive relationship with economic growth.

VAT is the principal source of revenue for the Ethiopian government (Wollela A., 2008). For instance, in the 2006–07 fiscal year, federal VAT revenue (on domestic transactions) accounted for about 41 percent of the total federal revenues from domestic sources (EFIRA 2007). Wollela A. (2008) also mentioned, to sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible.

The government has planned to collect VAT from tax-paying community, but it may not be easy to collect as budgeted (Jerene, 2017). Ethiopia Revenue Custom Authority (ERCA) has recorded significant gaps between VAT revenue targets and the actual amount collected (Alemu & Assistant, 2018).

Based on the theoretical and empirical framework, this research assessed the Factors Affecting the VAT Collection Performance in the case of Gullele sub-city, Addis Ababa, Ethiopia. Many studies were conducted on the factors affecting the VAT collection performance by different researchers.

The objective of this study is to Assess the factors affecting the VAT Collection Performance in the sub-city. As per the understanding of the researcher, in many

research papers, the impact of the VAT collection plan in VAT collection performance had not been evaluated and the use of advanced technology impact on the VAT collection performance has not discussed well. To the extent of the researcher's knowledge, there are no comprehensive studies done on the research title on the Gullele sub-city among sub-cities of Addis Ababa. So, the researcher selected Gullele sub-city.

Therefore, this study evaluated how the VAT collection plan, trained and adequate manpower, taxpayer and consumer awareness, Registered VAT payers and use of technology contribute to the VAT collection performance.

Research questions.

1. What are the basic factors that affect the VAT collections' performance?
2. How does the VAT plan affect the VAT performance?
3. How does trained manpower affect the performance of VAT collection?
4. How does the awareness of consumer and taxpayers determine the VAT collection performance?
5. How the registered number of VAT payers determines the VAT performance?
6. What is the contribution of the use of technology to the VAT collection performance?

1.5. Objectives of the Study

The study has both the general and specific objectives that is achieved in this study.

1.5.1. General

The main objective of the research is to assess the factors affecting the VAT collection performance.

1.5.2. Specific

The following is a list of the study's particular goals:

1. To assess the effect of VAT plan on the VAT collection performance
2. To investigate the impact of use of advanced technology on the efficient

collection of VAT.

3. To investigate the significance of trained and skilled workers on VAT Collection.
4. To assess the effect of taxpayer and consumer awareness on the VAT collection performance.
5. To assess the number of registered VAT payers on the VAT collection performance.

1.6. Significance of the study

The study contributes to the existing literature on how efficient VAT collection helps to increase government revenue. The study provides an empirical groundwork on Gullele Sub-city, how the factors (VAT plan, Use of advanced technology, Awareness of taxpayers and consumer, trained staff, and Number of registered VAT payers) affects the VAT collection performance and its purpose (increasing government revenue). The report encourages more tax-related studies as well.

The study brings together comprehensive evidence on the determinants of VAT collection in Gullele sub-city. It provides an informed basis for acting on how the VAT is collected efficiently in Ethiopia and in addition to filling the gap about what is currently known about VAT collection function.

This research is important for the government to know the critical determinants of the VAT collection and helps to achieve the Vision and mission of the government. As this research is targeted to know, for what the VAT is used for and identifying determinants which have significant impact on VAT collection, the findings of this thesis significantly benefit the government of Ethiopia to drive and implement appropriate policies to use VAT for the purpose intended and improve the tax system by using technology and to resolve the poor VAT administration for enhancing VAT collection.

Among other things, this paper has the following significance. It enables the reader to observe how much VAT plan, Use of advanced technology, Awareness of taxpayers and consumer, trained staff, and Number of registered VAT payers contributed for the efficient collection of VAT. And enable to observe the major challenges and the areas of weaknesses and strengths of Value Added Tax collection in the sub-city during implementation.

1.7. Scope of the study

1.7.1. Time

The study consumed 12 months from proposal development to submission of the final research paper, January 2023 - December 2023.

1.7.2. Geographical

The research is conducted in Addis Ababa city, in the sub-city of Gulelle. As it is difficult to cover the whole VAT-registered taxpayers and consumers in the sub-city; emphasis is given to Gullele sub-city small taxpayer branch office employees who has a direct relation with the VAT administration and are staffed under tax determinant and Audit section. The researchers also believe that the selected sub-city sufficiently represents to review of the factors that affect the VAT collection performance.

1.7.3. Conceptual

This research paper deals with assessing the factors affecting the VAT collection performance in the sub city.

1.8. Limitation of the study

There were some limitations to this study. The research population was selected from only one Addis Ababa sub-city, excluding regional offices and other sub-cities. This might result in hasty generalizations about the efficient operation of VAT in Ethiopia, fail to accurately represent the difficulties associated with VAT collection there, and have inherent constraints that prevent it from providing a whole picture of the country's VAT collection performance.

Another significant issue was the failure of individuals to finish the questionnaire, their dearth of interest in providing answers, and their inability to obtain sufficient information from the office. The study covers only the small taxpayer branch office employees of the sub-city. It didn't include the taxpayer and consumers due to time and financial limitations. In addition, an adequate amount of money is very significant for the research paper. It is vital to copy materials, secretaries, transportation, stationaries, and other research costs. As a result of financial problems, I faced difficulties in completing the research with its standard.

1.9. Organization of the study

There are five chapters in this paper. Chapter 1 contains an introduction. The literature review is included in the second chapter. Research design and methods are covered in chapter three. Results and discussion are provided in Chapter 4, and recommendations and conclusions are given in Chapter 5.

CHAPTER TWO

LITERATURE REVIEW

2.1. Chapter Introduction

This chapter examines the theoretical and empirical research on the VAT collection performance and the factors affecting its collection. Ultimately, an attempt is made to enumerate the principal shortcomings of the extant empirical study and to pinpoint the area of interest or the focus of the current study.

2.2. Theoretical literature Review

2.2.1. Concept of VAT

VAT is basically a multiple stage tax. According to which, a person must pay tax at every stage of production and distribution. Hence, tax would be charged at every step of value addition (Zaman, & Iqbal, 2012). VAT is an indirect tax on final consumption, typically levied at a rate between 15 and 20 percent (Ebrill et al., 2001). The cost of the tax is added to the final price and is eventually paid by the consumer (Byrd et al, 1996/97). From a buyer's viewpoint, it is a tax charged on purchase price while from a seller's perspective; it is levied on value addition made to any product and service (Zaman, & Iqbal, 2012). VAT is like sales tax in the manner that it is charged only on end consumer (Egiyi, M. A., 2017). However, it differs in the aspect that sales tax is only collected when the product is purchased by final consumer while in case of VAT; taxes are paid each time a purchase is made in the supply chain. Value added tax is a tax on the value added to the supply by the last seller, (Radhakrishnan, 2008).

VAT is expected to enhance revenue, improve economic efficiency, promote exports, and foster growth (Mamo, H., 2011). So, the proper amount of tax must be collected in a timely manner for successfully improving and maintaining stable economic growth in a nation (Muñoz and Cho, 2003). According to Tesfaye (2008), taxation has become a vital component of the development effort of every country without a tax system that functions well governments cannot provide even the basic infrastructure and social services. Public infrastructures cannot be improved without

an equitable and efficient means of mobilizing revenue.

VAT is a rather sophisticated tax and is complex to administer (Slemrod & Velayudhan, 2020). Some authors suggest that the VAT's complexity may spur innovation and modernization in tax administration more broadly (Ebrill et al., 2001; Keen, 2012). This has, to a certain extent, happened through the introduction of technological innovations like EBMs, among others (Mamo, H., 2011).

2.1.1. VAT collection performance

As per Mathias Mokube and Linus Enobi, (2023), Tax collection in Africa is hindered by a number of factors, including weak tax administration, low levels of tax compliance, and limited access to technology. The lack of advanced technology and automation in tax administration has resulted in manual and paper-based systems that are inefficient, costly, and prone to corruption (Akepe, E., 2023). He also mentioned, this has made tax collection and compliance difficult, and has limited the amount of revenue that governments can generate from taxes.

2.1.2. VAT Administration

Jantscher, (1990) VAT administration pertains to how tax authorities discharge the responsibilities entrusted to them. These responsibilities include a range of related activities such as taxpayer identification and registration, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties (Jantscher,1990). Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, and collection (Yesegat, A., 2008). Weaknesses in VAT administration may adversely impact the VAT collection capacity and the government's policy objectives (Nadew, G., 2017).

In order to collect sufficient revenue from VAT, it needs efficient and effective tax administration. However, in developing countries like Ethiopia, the poor performance of taxes is likely to be due to weak tax administration (i.e., the incapacity of the administration to implement the tax in practice). The VAT administration is poor due to many factors, particularly the incapacity of tax authorities to implement the

attributes of the tax to practice. Bird and Gendron (2005) noted that developing countries, unlike developed countries, appear to have fragmented economies, large informal sectors, low tax morale, rampant evasion, and total distrust between tax administrators and taxpayers. (Asmare, D., & Asaye, W., 2020) stated that, in these countries, thus, simply adopting a successful VAT design attributes of developed countries would not make the tax successful.

Given the importance of tax administration for the efficient VAT collection performance, several research in Ethiopia and other developing nations have been carried out. These studies include Wollela, (2008), Jantscher (1990), S. N. Singh (2019), Heran (2018), Asmare & Asaye (2020), Bird (2005) and etc.

2.1.3. Training of Employees

Employee training is positively associated with organizational performance (Gbolahan, 2012). Training or education is the most complementary part of the value added tax operation (Lalisho, D. L., 2021). Modern nature, short term courses, self-representation and majority of actors in contrast with traditional system make it urgent and necessary (Anjulo, L. & Waje, S., 2018). As Bultum (2019) mentioned, training develops the capacity of employees to contribute the optimal organizational performance. Training of employees has positive impact on performance of organization (Olaniyan and Ojo, 2008). Bultum (2019) also mentioned, improving efficiency and performance to ensure that the organization is capable of responding program but in striving for enhanced efficiency and levels of performance. (Kamil, I., 2015), an organization can increase the likelihood that will keep valued employees if it demonstrates that it is willing to invest in their professional development. By improving their skills and expertise through organizational support for their training on compliance of VAT via the internet (Gatigson & Robertson, 2007).

2.1.4. Awareness of Taxpayers and Consumers

Many taxpayers might be willing to comply tax in full but are unable to do so because they are not aware of, or do not understand, their full obligations (Esmael A. & Mohammmd A., 2023). Even if such taxpayers understand their

obligations, they may not know how to meet them or may be unable to do so for other reasons (James, 2000). Consciousness or awareness is the human element in the understanding of reality and how to react or respond to reality (Bultum, 2019). He also stated tax awareness is often an obstacle or problem to collect the taxes from society. Many people do not know the concrete form of compensation for the tax they have paid (Kamil, 2015).

2.1.5. Registration for VAT

Any person shall be liable to be registered: (a) at the beginning of any period of 12 calendar months, if there are reasonable grounds to believe that the total value of taxable supplies to be made by the person in that period will exceed the registration threshold 2, 000,000; or (b) at the end of any period of 12 calendar months or a lesser period, if, during period, the total value of taxable supplies made by the person exceeds the registration threshold of 2, 000,000 (Two Million) Birr or such other amount as specified in the Directive to be determined by the Ministry (Value Added Tax Proclamation No.[]/2023).

2.1.6. The Role of Technology in VAT Collection

Oyebola et al., (2023) noted that as digital technologies continue to gain momentum in lower-income countries, tax authorities are increasingly adopting technology solutions to improve their core functions and to collect revenue more efficiently. The path to economic growth for low-income countries may begin with investing in the government's capacity to collect tax revenue so as to provide productivity-enhancing public goods (Albers et al., 2020). Several theories argue that technology investments by tax administrations are central to growth in government size as a result of efficiency improvements in the collection process (Fan et al., 2019), and Cowen, 2021).

Kerever (2008), a special characteristic of African VAT is the degree to which implementation of the VAT has exposed the need for broader institutional transformation and modernization of revenue administrations. African countries necessitate having a modern VAT collection and Revenue regulations system via technology.

VAT collection is not functioning properly without effective and efficient tax administration. To that end, a well-designed computer system is an important tool of tax administration. Obviously, computerization is useful to improve efficiency and reduce cost in the current information technology age. Computers and their widespread application allow tax collectors to provide efficient, timely and accurate services. A computer application is equally important to save taxpayers time and promote tax equity (Semegn, 2002).

Ababa, A. (2012) in administering VAT in Ethiopia tax authorities use computer programs, namely: Standard Integrated Government Tax Administration System (SIGTAS) and Automated System for Customs Data Management (ASYCUDA). The computer programs are used to maintain taxpayer registers and process VAT returns. In addition, tax authorities endeavor to follow up with non-filers identified by the computer programs. However, because of a shortage of manpower, such follow-ups are usually carried out once in a 3 to 6-month period. The above practices pertaining to controlling VAT filing and payment delay the collection of the tax and jeopardize the government's revenue. To enrich the potential impact of non-filers on the revenue performance of the tax, strengthening the administrative capacity of the tax authorities, and effectively using the computer programs coupled with timely follow-up of non-filing taxpayers are worthwhile to consider (Wollela, 2008).

Technology can transform three core functions of tax administrations which are identifying the tax base, monitoring compliance and facilitating compliance (Okunogbe, O., & Santoro, F., 2022). They also noted that, as technology develops at a faster and faster pace and its role grows in tax administration, the availability of administrative tax data will only increase.

2.2. Empirical review

Empirical studies have shown the interlinks between the VAT performance of a country and its level of development (Manoli & Zlatina, 2016). The revenue gains from VAT are likely to be higher in an economy with a higher level of per capita income, a lower share of agriculture, and a higher level of literacy (Ebrill et al. 2001). VAT proves to be an efficient tool for revenue collection; its performance, therefore, has a direct impact on fiscal mobilization, macroeconomic stability, and development

(Yesegat, 2008).

According to Yesegat (2008), VAT has a significant role in the revenue system of the Ethiopian government. To sustain VAT's revenue role in the government's finances, it is crucial to ensure that the revenue generated by this tax is raised as efficiently as possible. She examines VAT administration in Ethiopia and identifies key problems including a lack of sufficient number of skilled personnel and gaps in the administration in such areas as refunding, invoicing, and filing requirements. Yesegat, W. (2008), suggests that in Ethiopia attempting to implement what is legislated in the main areas (such as refunds) deserves the government's due attention and it also emphasizes the need to strengthen the administration capacity in general and the tax audit program in particular (Yesegat, 2008).

Aruwa & Suleiman (2008) did a study on the administration and problems of value added tax in Nigeria and this study analyses the relevance and the problems of Value Added Tax (VAT) in the country. He surveyed Nigerian organizations dealing in taxable supplies, revenue staff and the public to gain insight into the administration value added tax, its relevance in the revenue generation and problems hindering the efficient administration of VAT. The findings showed that the Federal Inland Revenue Service (FIRS) staff perceive that they are not adequately armed technically to handle VAT. The study findings concerning organizations revealed that they have inadequate knowledge of the VAT mechanism due to low VAT education.

Value Added Tax Administration and Its Challenges in South Gondar Zone, Ethiopia were researched by (Asmare & Asaye, 2020). In this investigation, primary and secondary data were applied. For this study, primary sources of data were mostly used. A Focus Group Discussion (FGD) and a questionnaire were used in the study to gather all the data needed for additional analysis. In the study, 384 taxpayers who are registered for VAT were interviewed and 102 tax officers were also filled in questionnaires. In the research, they found out that, the main challenges of Value Added Tax administration in South Gondar Zone are lack of taxpayer awareness, selling goods and services without tax invoices or lack of use proper Value Added Tax invoices, the weak culture of taxpayers, and lack of fairness, lack of experience of Value Added Tax registrants, weak follow-ups and controlling mechanisms against those unregistered and registered Value Added tax payers (Asmare & Asaye, 2020).

Bultum (2019) studied on the determinants of Value Added Tax Collection Performance in West Shoa Zone, Oromia Regional State, Ethiopia. The researchers used quantitative and qualitative research approaches and primary and secondary data types to achieve the objective of the study. Survey design was used with questionnaires and semi-structured interviews as tools for data collection. The researchers used purposive and stratified sampling methods to take a sample of Taxpayers, Consumers and Revenues Authority Employees. The study done by Bultum (2019) covered the interaction between Value Added Tax collection performance and exploratory variables of Taxpayers (Tax payer's awareness of VAT, Tax payer's maintenance of account, Tax Evasion, Tax Avoidance, Tax Non-compliance, and VAT Rate) and Institutional variables (VAT assessment, Manpower, VAT audit, competency training, Tax payer's identification, External legal environment and penalization). The result of the study Bultum (2019) showed that Taxpayers' awareness on Value added Tax, Tax payers' maintenance of account and Value added Tax Rate have positively influenced Value added Tax collection performance whereas Tax Evasion, Tax avoidance and Tax non-compliance variables have negatively affected Value added Tax collection performance for tax payers (Bultum, 2019). The study Bultum (2019) results also showed that Value added Tax Assessment, Value added Tax Audit, Competence training, Adequate manpower, Taxpayer's identification and Penalization variables have positively influenced Value added Tax collection performance.

The aim of Negasa (2022) study was to identify factors affecting the value-added tax collection performance in West Shewa Zone. The researcher has used both primary and secondary sources of data. The number of respondents were 166 Taxpayers, 124 Revenues Authority employees, and 105 consumers. Descriptive statistics and econometric models through multiple linear regression models were used by (Negasa, 2022). The Results of the study Negasa (2022) showed that Tax knowledge, Tax registrants and introduction to technology were positively influenced value-added Tax collection performance whereas Tax Evasion and Tax non-compliance variables were negatively affected Value added Tax collection performance for taxpayer and all taxpayers' related variables were statistically significant (Negasa, 2022). Whereas all Revenues Authority employees' variables have a positive relationship with VAT

collection performance except political pressure variables and all are statistically significant in explaining VAT collection performance.

IMF (2018), reforms have focused on strengthening core operational processes, improving organizational structures, better data and information technology, and enhanced human resource management. As per the IMF Staff Report for 2017 Article IV, the authorities are pursuing an ambitious revenue administration reform agenda. The income tax and tax administration laws approved in 2016 aimed at improving tax collection, broadening the tax base, and setting up a more efficient tax system overall. Reforms have strengthened integrity and enforcement, with significant improvements in taxpayer assistance and service. An updated Integrated Tax Administration System software is also needed. Further legal reforms may be required to support revenue mobilization (IMF Policy Paper, 2017). A review of the Ethiopian tax system would also be useful in this regard, mainly as it could shed light on the underlying causes of the recent poor VAT performance.

Charlet & Buydens (2012), and Tamrie & Gebregziabhere (2019) expressed that the majority of countries, which is about 75% of the globe, were currently in the large chorus of implementing the VAT system. IMF (2017), Ethiopia has a low tax ratio compared to other low-income countries. Fentaw (2020) stated that administrative bottlenecks and weak tax compliance have been the main obstacles to revenue administration. As per the IMF (2018) report, given the current low collection rate, achieving the target of 17.2 percent of GDP by 2019/20 will be challenging. IMF (2018) report also mentioned, some countries in the region have successfully implemented reform programs aimed at improving tax compliance and strengthening effectiveness and efficiency in revenue administration (e.g., Mozambique, Congo Republic, Cabo Verde, and Liberia).

2.3. History of VAT

The value-added tax (VAT) is a relatively new tax (IMF, 1996). VAT was a way to resolve the cascading problems that arose in implementing gross turnover taxes and sales taxes (van Brederode, 2009). Germany and France were the first countries to implement VAT, doing so in the form of a general consumption tax during World War I (Helgason, Agnar, 2017). They also mentioned, the modern variation of VAT

was first implemented by France in 1954 in Ivory Coast (Côte d'Ivoire) colony and after recognizing the experiment as successful, the French introduced it in 1958.

Most countries have a VAT, which raises, on average, about 25 percent of their tax revenue (Markos, 2010). Since the introduction of VAT by France, it has been adopted as the main form of indirect taxation by many countries in different parts of the world and at different stages of economic development (Thorony, 1960).

In Ethiopia, VAT replaces the outdated sales tax with the aim of collecting sufficient revenue in 2003 in accordance with proclamation No 285/2002 and still it is the most fashionable tax system (Jalata, 2014).

2.4. Conceptual Framework

In this study, the researcher observed a variety of problems, which were explained by categorizing and considering the factors affecting the VAT collection performance.

CHAPTER THREE

RESEARCH METHODOLOGY AND DESIGN

3.1. Chapter Introduction

This chapter serves as the introduction to the research methodology and design for the study on the factors that affect the VAT collection performance in Ethiopia. It provides the research design, target population, research data collection instruments and procedures, reliability and validity tests and data analysis methods, and ethical considerations. and discusses the significance of the study. Additionally, this chapter presents the scope and limitations of the research. Finally, it provides an overview of the research methodology and design that will be employed to address the research objectives and answer the research questions. Overall, this chapter sets the stage for the subsequent chapters that will delve into the details of the research methodology and design.

3.2. Research Methodology

The study employed a mixed approach to examine the effectiveness of value added tax collection in Ethiopia, primarily using quantitative and qualitative methods. In order to overcome the constraints of using a single technique, the reasoning behind mixing both quantitative and qualitative data was to better grasp a study topic by combining the specifics of qualitative research with the numerical values from quantitative research.

3.3. Research Design

Descriptive surveying was the approach employed in this study to gather data on the factors affecting the VAT collection performance at the Gullele sub-city small taxpayer branch office. It entails either characterizing an observable phenomenon or looking into potential relationships between two or more events. In every case, descriptive research examines a situation as it is. It does not involve changing or modifying the situation under investigation, nor is it intended to determine cause-and-effect relationships.

The primary features of a dataset are summed up and described via descriptive analysis. It supports in recognizing the fundamental properties of the data, including variability, central tendency, distribution of values, and patterns. Before undertaking more complex statistical studies, this kind of study is sometimes employed as a first stage in data analysis to obtain understanding of the nature of the data. It may also be used to communicate the results to other people in an intelligible and easily understood way.

Saunders et al. (2007) explain research design as the general plan of how the research questions would be answered and as a framework or blueprint for conducting the research project. Patrangelo (2010) also mentioned, it details the procedures necessary for obtaining the information needed to structure and/or solve research problems.

3.4. Population and Sampling

The study's participants comprise employees of the sub-city small taxpayers branch office, as well as taxpayers and sub-city consumers. The researcher collected data from representative size of sample in the sample frame. These are done using purposive and convenient non-probability sampling technique from the selected list of employees. The reason for the researcher selected purposive and convenient non-probability sampling method is workers related to VAT collection and administrating department are essential to the research and based on availability of workers during the survey period.

The staff members who have a direct connection to VAT collection and administration provide representative information, which the researcher uses to establish the sample frame.

Currently, the number of staffs that have a direct relation with VAT collection and administration in the branch are 32 who are working in taxation department. They are in the greatest position to supply the necessary data, hence they are directly involved in the administration and collection of VAT.

In the branch office 32 employees are working directly or indirectly on VAT issues. from this total target population, the researcher determines representative sample size based on the formula stated below.

Based on Taro Yamane (1967) the following formula was used to determine the sample size.

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

Where:

n= sample size

N= population

e= level of precision or sampling error (5%)

$$n = 32 / 1 + 32(0.05)^2$$

$$n = 29.63$$

$$n = \underline{\underline{30}}$$

Hence, from the total 32 workers related to VAT collection and administrating department of the branch office, the acceptable sample size according to the above formula is 30. Therefore, the total sample size considered by the researcher is 30.

3.5. Analysis and Evaluation of Data

The data that was gathered was examined by the researcher using descriptive analytic methods. the percentage-based statistical analysis that was carried out. The results are presented using tables. The information gathered via surveys is meticulously entered into STATA, and its accuracy is verified. The STATA 14.2 approach is used to carry out the analysis. The research challenge is solved by analyzing, presenting, and interpreting the results. To assess the qualitative data, document analysis techniques were applied.

3.6. Validity

The accuracy or correctness of the data is what validity is all about. In other words, validity describes how accurate the data is for the intended use. By cross-referencing the questionnaires in this study with one another and with other relevant literature, the validity and veracity of the results are demonstrated. The study questions served as the basis for creating the questionnaire. The questionnaire was intended to be concise, easy to read, and clear by the researcher. Reviewing reports and other theoretical and empirical literature is how secondary data is gathered.

3.7. Reliability

Data consistency, or how similar the data is regardless of where it came from, is a key component of reliability. To get accurate data and fulfill the study's objectives, the researcher gathered information from primary and secondary data sources.

Questionnaires obtained from the employees of the Gullele sub-city small taxpayers branch office served as the main source of data.

Chapter Four

Result and discussion

5.1. Chapter Introduction

This chapter analyzes the VAT collection performance by discussing the findings from primary and secondary data that were gathered using a quantitative and qualitative research tool.

5.2. Background Information

STATA software was used to enter survey data and generate the necessary statistics. The questionnaire's component "I" is displayed in the table below. We spoke about background and demographic characteristics such as gender, age, experience, and educational background. Additionally, the researcher also talked about section "II" of the questionnaire, which is shown in the tables below.

5.3. Result and discussions

Table 1. Gender

Gender	Freq.	Percent	Cum.
Female	16	53.33	53.33
Male	14	46.67	100.00
Total	30	100.00	

Source: Personal Survey, 2023.

According to the above data, 53.33 percent of the 30 respondents are female, and 46.67% are male. The findings indicate that a higher proportion of women than men answered the questionnaire.

Table 2. Age

Age	Freq.	Percent	Cum.
From 20-30	14	46.67	46.67
from 31-40	13	43.33	90.00
From 41-50	3	10.00	100.00
Total	30	100.00	

Source: Personal Survey, 2023.

Based on the data presented in the table, many of the respondents, or 46.67% of the total, are between the ages of 20 and 30, with 43.3% falling between the ages of 31 and 40. The rest of the 10% are in the 41–50 age range. 90 percent of the employees are under 40 years old, according to survey statistics. This implies that most employees are both physically and psychologically capable of performing the duties needed in the workplace. Age is a possible factor that can influence the adoption of new technologies (Choudrie, 2006). As per Li, F. et al. (2022) employee ageing negatively affects working memory capacity and task performance, that means that, older employees have a lower working memory capacity, which lowers their task performance.

Table 3. Education Level

Education	Freq.	Percent	Cum.
Degree	14	46.67	46.67
Masters and above	16	53.33	100.00
Total	30	100.00	

Source: Personal Survey, 2023.

All of the responders have a degree or more. 53.33 percent of the respondents have a master's degree, and 46.67 percent of the respondents have a degree. This demonstrates that the branch office's employees are knowledgeable and competent workers. It suggests that the respondents' educational background assisted them in correctly utilizing the technologies at their disposal and in comprehending and interpreting tax rules and regulations.

Table 4. Working experience in the branch office

working years in the office	Freq.	Percent	Cum.
Less than 5 years	11	36.67	36.67
From 5-10 years	13	43.33	80.00
from 10-15 years	6	20.00	100.00
Total	30	100.00	

Source: Personal Survey, 2023.

Table 4 above shows that 43.33 percent of the participants had held their current post for five to ten years. Twenty percent of the personnel have worked at the branch office for ten to fifteen years, while 36.67% have worked there for less than five years. According to the survey results, 63.33% of the employees have worked for more than five years. It indicates that the participants have enough experience in carrying out the daily tasks necessary for the branch office to accomplish its objectives and improve internal operations.

In terms of position, out of 30 respondents, 7 employees only fill their position. Due to the reason, the researcher can't able to analyze how much of the respondents are from which of the department.

The VAT administration, collection, and technology use in the branch office are covered in Part II of the questionnaire. The necessary statistical data was obtained by entering the questionnaire data into the STATA software. The points that were focused on are detailed below, based on the results of the survey.

Table 5: Do you think VAT is collected as planned?

Do you think VAT is collected as planned?	Freq.	Percent	Cum.
Yes	10	33.33	33.33
No	20	66.67	100.00
Total	30	100.00	

Source: Personal Survey, 2023. (STATA output)

As per Table 5 above, 66.67 % of the respondents indicated that VAT is not collected as planned and 33.33 % said that yes, it is collected as per the plan. Out of 20 respondents who said no, 15 (75 %) responded to the open-ended question which requested the reason for the yes or no response. 80 % of them stated that "low awareness of staff, taxpayers, and consumers" is the basic reason for the inefficient collection of VAT. It is similar with Leta (2019), which stated that taxpayer's awareness on VAT, taxpayers' maintenance of account and VAT rate are influenced VAT collection performance. 27 % of them stated that the low performance of VAT collection is due to receipts. Many taxpayers are not interested in transacting with receipts and consumers have a low trained of asking for receipts during transactions. 13% of them also stated it is because of weak monitoring and laws are not implemented properly towards the collection of VAT.

Table 6: Do you think that the branch office has a capable and required workforce empowered to collect VAT as planned?

Do you think that the Branch Office has a capab	Freq.	Percent	Cum.
Yes	6	20.00	20.00
No	16	53.33	73.33
Quite Not	8	26.67	100.00
Total	30	100.00	

Source: Personal Survey, 2023. (STATA output)

Table 6 above displays the survey results, which indicate that 53.33 percent of respondents said that the staff is not competent enough to collect VAT on time. Additionally, 26.67% of the respondents stated that the workforce has insufficiently skilled to complete the task at hand. Only 20 % respondents said Yes, mean that the office manpower are empowered and capable enough to collect the VAT as per the plan. This shows, 80 % of the respondent confirmed that the staff are not in the position to collect the required or Planned VAT collection.

For the why question that is requested under question 2, 78% of the respondent officers stated that there is a low number of staff that aren't matched with the customer's number and the volume of the work. 28 % of the respondents also stated

that staff are not trained well, the office couldn't give attention to build the capacity of the staff and due to the reason, most of the office work has been done traditionally.

Table 7: Is the business community timely reporting their revenue and paying VAT on a regular basis?

Are the business Community paying VAT regularly and declaring their income ti	Freq.	Percent	Cum.
Yes	9	30.00	30.00
No	21	70.00	100.00
Total	30	100.00	

Source: Personal Survey, 2023. (STATA output)

According to Table 7 above, 70% of the respondents acknowledged that the business community was unable to timely disclose their revenue and pay VAT on a regular basis. The respondents pointed out several reasons, including the lack of uniform laws and regulations for importers, distributors, and buyers and sellers (cited by 83% of the respondents) and the general lack of public awareness (cited by 33% of the respondents). This finding is similar with Dilgasa (2020), he found that most taxpayers are not paid a required amount on time. The timely declaration of VAT has a positive relation with the VAT collection efficiency, if not, it affects the efficiency negatively (Dilgasa, 2020).

Table 8: Do you think that a single rate of 15% VAT is reasonable?

Do you think that a single rate of 15% VAT is reasonable?	Freq.	Percent	Cum.
Yes	20	66.67	66.67
No	10	33.33	100.00
Total	30	100.00	

Source: Personal Survey, 2023. (STATA output)

The single rate of 15%, according to 66.67% of respondents, is appropriate. Furthermore, 33.33 percent of them stated that a 15% VAT rate is not fair. Out of the 33.33 % of the respondents, 50 % of them mentioned that the VAT rate is overstated and needs to be revised to increase the VAT collection performance, 25 % of them mentioned that, it is better to use a different VAT rate according to the business type and the remaining 25 % also stated that the Collected VAT from the government and privet employee should be refunded and it is not fair to collect VAT from employees.

The importance of the VAT rate lies in its impact on government revenue, consumer purchasing power, and overall economic activity. The reasonability of the 15 % VAT rate in Ethiopia lies in the government need to increase the revenue. The Ethiopian government may make substantial earnings from a 15% VAT rate, money that it can then use to pay for social assistance and public services. However, the 33 % respondents should not be ignored, for the reason that, it can also affect consumer spending and business profitability, potentially influencing inflation, economic growth, and income distribution.

Even though the reasonability of the rate depends on the countries context, reduced VAT rates play an important role in supporting consumers and businesses, particularly those on low incomes or small businesses (www.globalvatcompliance.com, 2023). By reducing the tax rate on essential items and services, governments aim to make them more affordable and accessible for everyone, while also providing a boost to the economy (www.globalvatcompliance.com, 2023).

Table 9: Are every one of the eligible business owners registering to pay VAT? Or have the proper VAT taxpayers been properly identified?

Are all eligible business traders get registered as VAT payers?	Freq.	Percent	Cum.
Yes	14	46.67	46.67
No	16	53.33	100.00
Total	30	100.00	

Source: Personal Survey, 2023. (STATA output)

According to Table 9 above, the survey's results indicate that 53.33% of participants said that all qualified business traders are not registered as VAT payers and that suitable VAT taxpayers are not properly recognized.

The consequences might be severe if all qualified business merchants are not registered as VAT payers. Firstly, the government would miss out on a significant amount of potential tax revenue. This could lead to budget deficits and a lack of funding for public services and infrastructure. Secondly, unregistered businesses may have a competitive advantage over registered businesses, as they can potentially offer lower prices by not including VAT in their prices. This could create an unfair playing field and distort competition in the market.

Additionally, unregistered businesses may not be subject to the same level of scrutiny and regulation as registered businesses, leading to potential issues with tax evasion, fraud, and non-compliance with other regulations.

Table 10: Does every employee have the necessary training and knowledge to collect VAT?

Are all the staff get adequate training and knowledge to collect the VAT effi	Freq.	Percent	Cum.
Yes	9	30.00	30.00
No	21	70.00	100.00
Total	30	100.00	

Source: Personal Survey, 2023. (STATA output)

70 % of the respondents confirmed that the staff couldn't get adequate training and knowledge to collect the VAT efficiently. 30 % only said yes. In the open-ended request, the respondents reasoned for the inadequate training of staff that the office doesn't give attention to building the capacity of the employees and due to the fact that work has been performed with the former staff trained and traditionally.

The VAT collection performance can be greatly impacted by inadequate training for staff. Without proper training, staff may not fully understand the complexities of VAT regulations and requirements, leading to errors in the collection and reporting of VAT. This can result in underreporting or over reporting of VAT, which can lead to financial losses for the government and potential legal issues for the business.

Samrawit (2018) concludes that lack of training creates a gap between employees' knowledge and what would be expected from them. She also stated that, providing adequate training programs in every aspect related to their activity (in usage of a computer program, auditing, documentation and customer handling) helps employees to cope with the latest rules and regulations, technological advancements, to build confidence and manage their activity without difficulty.

Furthermore, inadequate training can also lead to inefficiencies in the VAT collection process. Staff may not be aware of the most effective methods for collecting VAT or may not have the necessary skills to accurately track and record VAT transactions. This can result in delays in VAT collection, missed opportunities to collect VAT, and increased administrative costs for the business.

Table 11: How much awareness was created for VAT payers and consumers?

How much awareness was created for VAT payers and consumers?	Freq.	Percent	Cum.
Poor	13	43.33	43.33
Good	17	56.67	100.00
Total	30	100.00	

Source: Personal Survey, 2023. (STATA output)

As per the above table, 56.67 % of the respondents stated that the awareness level that is created for the VAT payers and consumers is good, 43.33 % of the respondents put the awareness level as poor and no respondents rated very good. It shows that the office has been working on the awareness of the taxpayers and consumers in a sufficient manner, but still, there is a need to close this gap and improve the awareness campaign across various media channels, including social media. No responder gave a very excellent rating because of this. According to Lidetu (2018), a

well-informed taxpayer society can be considered as an important asset for the tax authority.

Therefore, in order to collect and return VAT to the government, VAT payers must be informed of their obligations and responsibilities. They need to understand the VAT regulations and requirements, as well as the proper procedures for reporting and remitting VAT.

On the other hand, consumers' awareness is also important as they need to understand how VAT impacts the prices of goods and services they purchase. This awareness may minimize tax avoidance and ensure that customers are prepared to pay the appropriate amount of VAT.

Table 12: Do customers desire and are they got ready to transact using an appropriate VAT receipt?

Are consumers willing and determined to transact with a proper VAT receipt?	Freq.	Percent	Cum.
Yes	8	26.67	26.67
No	22	73.33	100.00
Total	30	100.00	

Source: Personal Survey, 2023. (STATA output)

Based on Table 12, it can be observed that 22 out of 30 respondents, or 73.33%, said that customers are unwilling to transact with a legitimate VAT receipt, while 26.67% said that consumers are willing to transact with the right receipt. Out of the 22 respondents who answered no to the above question, 60% argued that in order to reduce transaction costs, many customers are willing to transact without a VAT receipt, and 53% argued that customers are unaware of the VAT's significance or even the amount they are being charged.

Bultum (2019), survey result shows that the majority of consumers were asked receipt Sometimes and only 10 % of consumers were asked for always during the transaction and the majority of the consumers do not check whether the receipt is legal or not.

The disadvantage of transacting without VAT receipts is that it can lead to tax evasion and loss of revenue for the government. Without proper documentation and receipts, it becomes easier for businesses to underreport their sales and evade paying the correct amount of VAT. This can result in a significant loss of tax revenue for the government, which can ultimately impact public services and infrastructure.

Moreover, transacting without obtaining VAT receipts may result in a lack of transparency, which makes it more challenging for authorities to trace and keep a close watch on economic activity. This can create opportunities for fraudulent activities and unfair competition among businesses.

Furthermore, customers might not be able to get credits or refunds for the VAT they paid on their purchases if they do not have VAT receipts, which would increase their expenses.

Overall, transacting without VAT receipts can have negative consequences for both the government and consumers, and it is important for businesses and consumers to always insist on proper VAT documentation for all transactions.

Table 13: Is there a sound and effectively applied penalty system?

Is there a sound and effectively applied penalty system?	Freq.	Percent	Cum.
Yes	18	60.00	60.00
No	12	40.00	100.00
Total	30	100.00	

Source: Personal Survey, 2023. (STATA output)

60 % of the respondents stated that a sound and effective penalty system has been applied in the branch office and 40 % of them said not applied. Most of the respondents who said no, noted that the penalty low is not consistent and a corresponding penalty has not been imposed.

IMF(1991), strongly recommended that reasonably high fines be imposed for violations that strike at the heart of the VAT, such as failure to register, to issue invoices, to file returns, and to pay the tax. Penalties should be prescribed for failing

to issue an invoice and for issuing an invoice that understates the value of the transaction or the amount of the VAT charged, or is false in any other way (IMF,1991).

A sound and effective penalty system is crucial for VAT collection as it serves as a deterrent for non-compliance and helps to ensure that businesses and individuals comply with their tax obligations. Without a penalty system in place, there may be little incentive for businesses to accurately report and pay the correct amount of VAT.

Penalties can help to enforce compliance with VAT regulations, discourage tax evasion, and promote fairness in the tax system. They also serve as a means of punishment for those who intentionally evade taxes, sending a message that non-compliance will not be tolerated.

Furthermore, a penalty system can help to level the playing field for businesses that do comply with VAT regulations, as it discourages unfair competition from those who engage in tax evasion.

Table 14: Is the office uses adequate technology?

Is office uses adequate technology ?	Freq.	Percent	Cum.
Yes	20	66.67	66.67
No	10	33.33	100.00
Total	30	100.00	

Source: Personal Survey, 2023. (STATA output)

The aforementioned table shows that 66.67% of respondents agreed that the branch office used sufficient technology and a reliable electronic data processing system to efficiently conduct VAT collection. However, 33.33 % of them stated that there is no adequate technology that is in use to collect the VAT in an efficient Manner.

The results of technology adoption in tax collection processes have far-reaching implications for tax policy in African governments. By embracing digital transformation, promoting compliance, investing in infrastructure, ensuring cybersecurity, enhancing institutional capacity, facilitating stakeholder engagement, and learning from international best practices, African governments can optimize tax

policies to harness the potential of technology and improve tax collection efficiency for sustainable economic growth and development (Mathias, et al., 2023)

Table 15: Rate the capacity of the technology.

The capacity of the technology	Freq.	Percent	Cum.
Poor	7	30.43	30.43
Good	15	65.22	95.65
Very Good	1	4.35	100.00
Total	23	100.00	

Source: Personal Survey, 2023. (STATA output)

Out of 30 respondents 23 of them only answered or rated the capacity rate of the technology that has been in use in the branch office. Out of the 23 respondents, 15 (65.22%) of them rated the technology as a good level, 7 (30.43%) of them rated poor and 1(4.35%) of them rated Very good.

Table 16: Have you personally challenged any situations involving the application of VAT?

Are there any challenged in the implementation of VAT?	Freq.	Percent	Cum.
Yes	14	50.00	50.00
No	14	50.00	100.00
Total	28	100.00	

Source: Personal Survey, 2023. (STATA output)

In Table 16 above, out of the total respondents, only 28 answered the question of which 50 % of them mentioned that they faced personal challenges in the implementation of VAT and the rest stated not. Some of the respondents who said yes mentioned that tax evasion is one of the challenges in the collection of VAT and taxpayers are not using receipts and cash register machines during transactions which affects the VAT collection performance.

The researcher included an open-ended question in the last one, asking the respondents for suggestions on how to enhance VAT collection and increase the nation's VAT income.

From the total respondents, 23 (77 %) of them put their recommendation to the efficient collection of VAT, of which 91 % of them recommended that appropriate awareness and training should be provided at all level to increase the VAT collection, 48 % of them recommended that modernize and updated technology and system should be used to enhance the collection of VAT, 43 % of them suggested that Law enforcement and law amendment is mandatory to improve the collection of VAT, 17 % of the respondents suggested proper monitoring of tax payer has to be done and 17 % of the respondents also recommended that recruiting the vacant position and fulfill the manpower as well as building the capacity of the staffs should give priority in order to collect the required VAT.

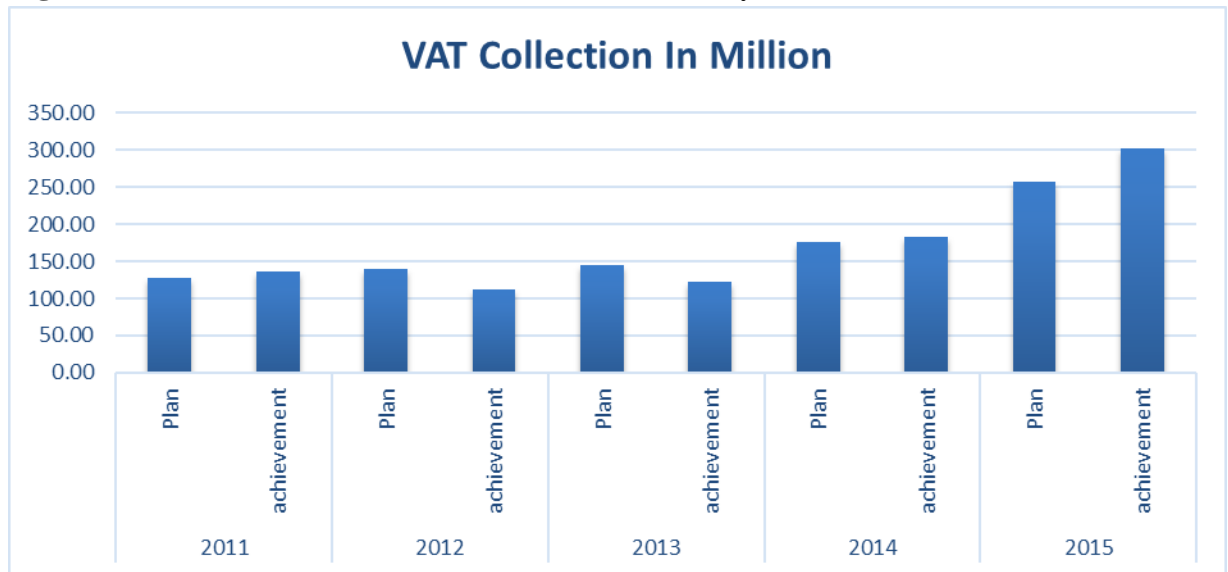
The Gullele sub-city small taxpayer branch office's yearly report provided secondary data that the researcher needed in order to meet the study's goal. The information displayed below was gathered and examined across the branch office's five years of annual reports, from 2011 EFY to 2015 EFY.

Table 17. 5 years VAT collection plan Vs Achievement

Year	Plan Vs Achievement	VAT Collection In Million
2011	Plan	127.67
	Achievement	136.00
	%	106.52
2012	Plan	139.38
	Achievement	111.93
	%	80.30
2013	Plan	145.07
	Achievement	122.50
	%	84.44
2014	Plan	175.47
	Achievement	182.88
	%	104.23
2015	Plan	257.32
	Achievement	302.95
	%	117.74

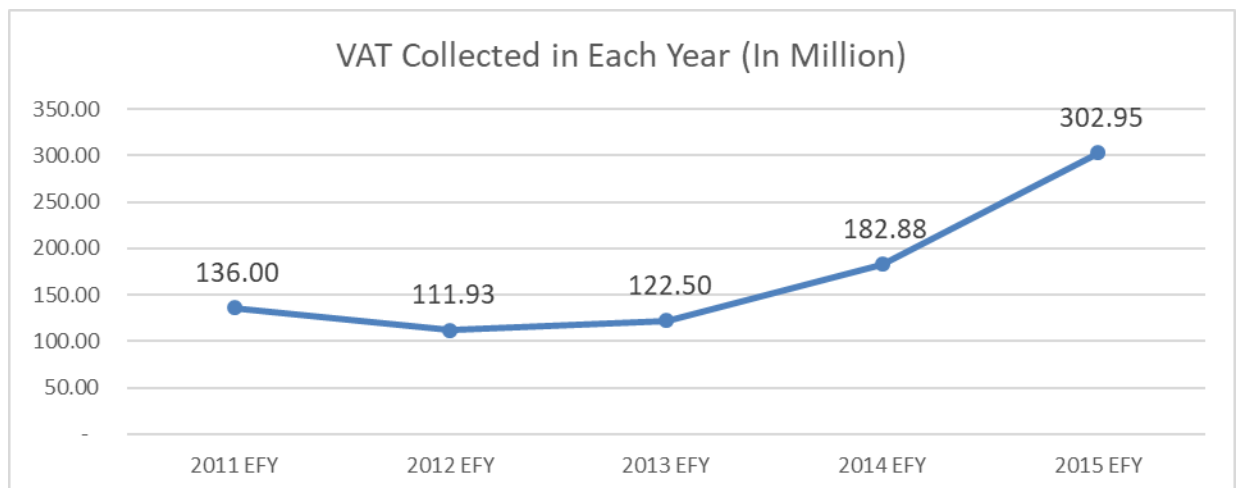
Source: Annual Report from 2011 – 2015 EFY

Figure 2. VAT Collection Plan Vs Achievement in each year



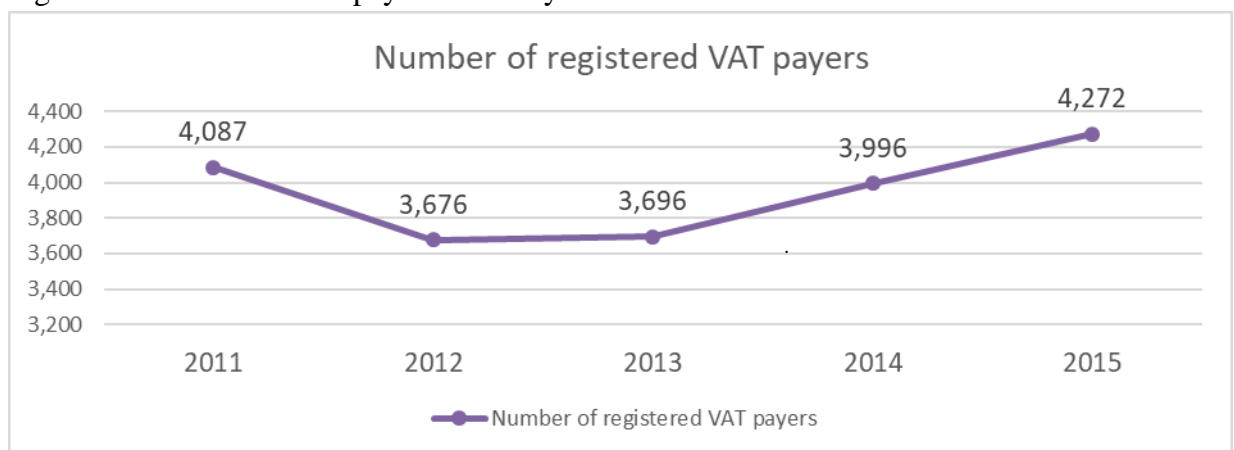
Source; Annual report (2011-2015)

Figure 3. VAT Collected in Each Year



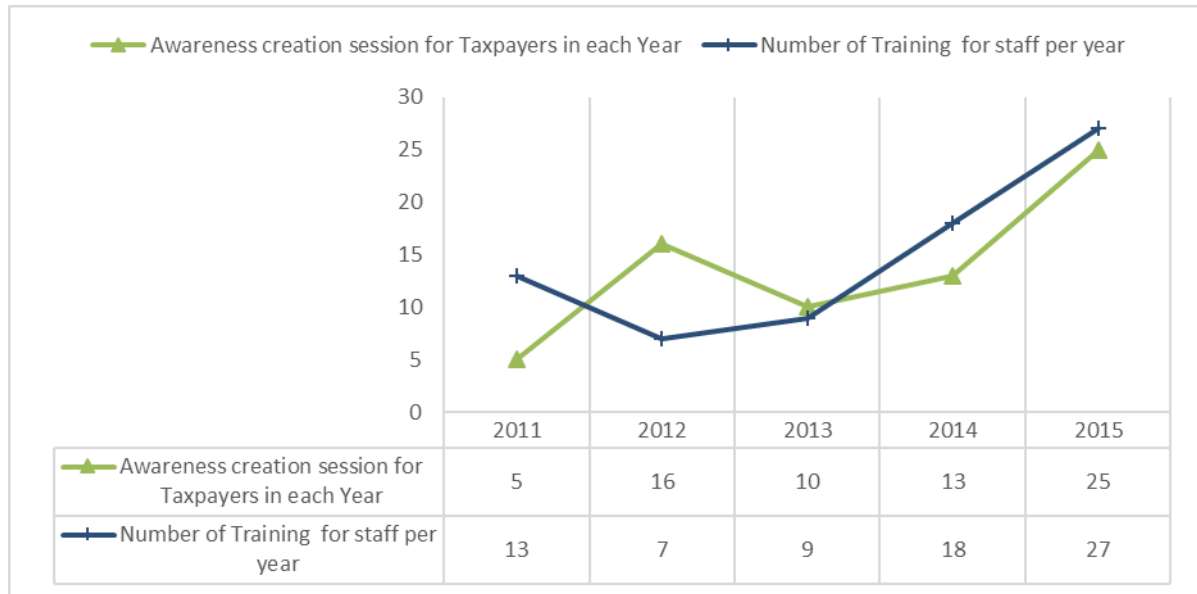
Source; Annual report (2011-2015)

Figure 4. Number of VAT payers in each year



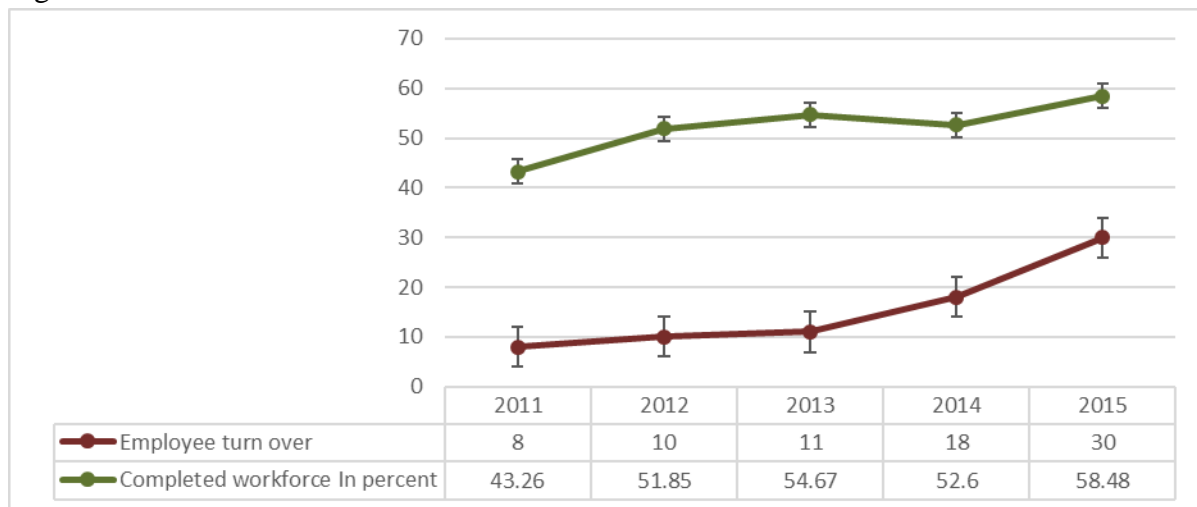
Source; Annual Report (2011-2015 EFY)

Figure 5. Awareness and training sessions for taxpayers and staffs



Source; Annual Report (2011-2015 EFY)

Figure 6. Recruited workforce and staff turnover of the branch office.



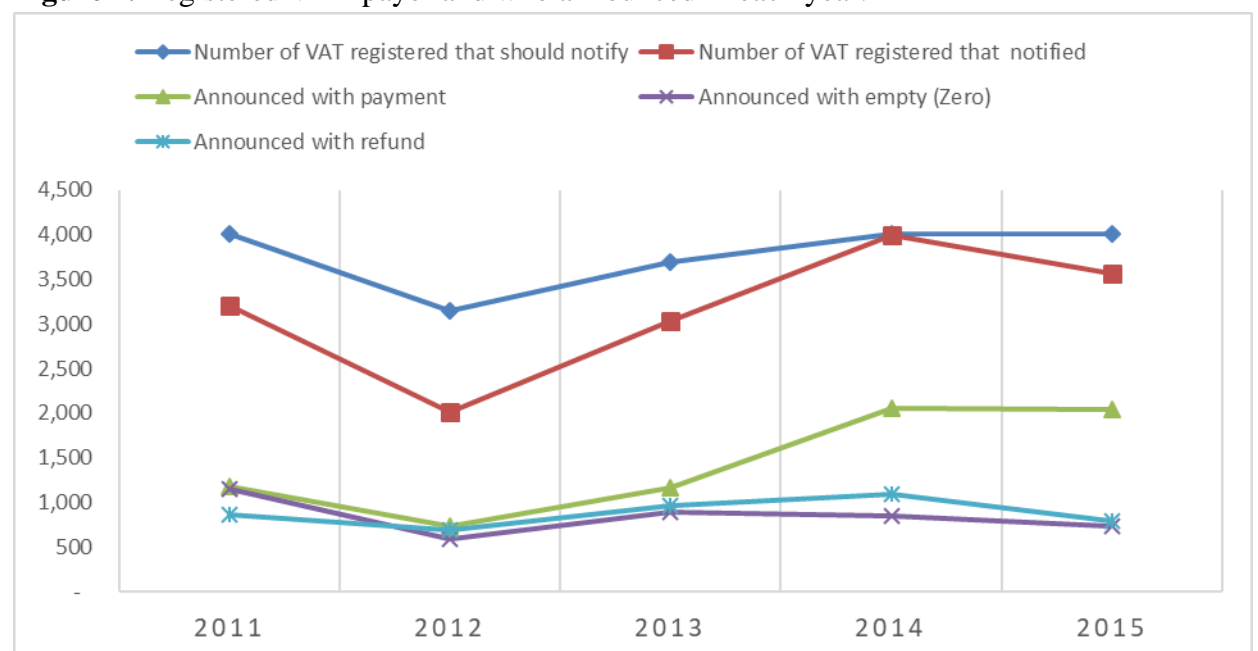
Source; Annual report (2011-2015 EFY)

Table 18. Registered VAT payer and who announced in each year.

Year	Number of VAT registered that should notify	Number of VAT registered that notified	Announced with payment	Announced with empty	Announced in return
2011	4,009	3,200	1,183	1,149	868
2012	3,147	2,018	737	586	695
2013	3,696	3,034	1,168	898	968
2014	4,011	3,996	2,058	846	1,096
2015	4,005	3,566	2,038	733	795

Source: Annual report (2011- 2015 EFY)

Figure 7. Registered VAT payer and who announced in each year.



Source: Annual report (2011- 2015 EFY)

Table 17, Figures 1 and 2 above, show that there is progress in VAT collection performance in each year except 2012 EFY. The low performance of VAT collection recorded in 2012 EFY compared to the other year's performance. In the years 2011,

2014, and 2015, VAT collected more than the plan. But in two years (2012 and 2013 EFY), the VAT collection performance was below the collection plan. The low performance of VAT collection recorded in 2012 EFY against the other fiscal years due to the fact that a low number of VAT payers registered than the other four years (Figure 4), the number of trainings provided for the staff of the branch is lower than the other years (figure 5), and 51.85 % of the manpower only recruited in the branch office which is also the lower performance against the other years except 2011 EFY (Figure 6).

In addition to the above-mentioned reasons, the researcher analyzed that, the broke out of COVID – 19 had impacted the VAT collection performance of 2012 and 2013 EFY (Annual report). The office's intention had diverted to coronavirus rather than doing the office objective, it took the time and energy of the management and the staff. Sekiraqa, et el. (2021), stated that the impact of coronavirus (COVID-19) is being felt by all businesses around the world. They also stated that, the position of businesses in most sectors has taken a different direction, causing the reduction of transactions and their value with suppliers, customers and other interest groups. And the (World Bank, 2021) survey, also concludes that, following the onset of the COVID-19 pandemic, firms in Addis Ababa experienced a significant drop in sales revenue.

VAT collection plan has a positive relationship with the dependent variable (VAT collection). The data on table 17 and figure 2 shows, if the plan of the VAT collection increases the performance of the VAT collection similarly increased. This is due to the fact that the office management and the employees have been working towards the achievement of the plan. As per table 17 raw data, we can conclude that the branch office collected the VAT effectively as per the plan. But against this conclusion, the primary data assessment on Table 5 above shows 66.67 % of the respondents stated that VAT is not collected as planned. From this, the researcher analyzed that even though the VAT is collected as plan (Table 17), most respondents believe that the amount of VAT that should be collected in each year had to be more than the recorded performance. In other ward it means that the office is working with lower efficiency or under performance.

There is a strong correlation between the number of registered VAT payers and the performance of VAT collection each year. Figures 3 and 4 above illustrate this point. As the number of VAT payers grew, so did the performance of VAT collection, and vice versa. Basically, it is determined by the number of VAT payers who announced the VAT with payment (Figure 7). In addition to this, according to Figure 7 data, when the number of VAT payers who notified their VAT with request of refund and with nil report decreased, the VAT collection amount increased. It means that VAT notification with refund and reporting with zero have a negative relationship with VAT collection.

The other factor that determines the VAT collection performance is the number of trainings provided each year for the staff. When the number of trainings increased similarly the VAT collection performance increased and vice versa is also true (figure 3 and 5). However, the primary data survey result shows that the training that had been provided for the staff was very low and not significant (Table 10). Training develops the capacity of employees to contribute the optimal organizational performance and thus training of employees has positive impact on performance of organization (Olaniyan and Ojo, 2008). In addition, Gbolahan (2012), also stated that employee training is positively associated with organizational performance. It means that, if the office had provided quality training for the staff and built their capacity, hence it has appositive relation, the branch office could collect VAT more.

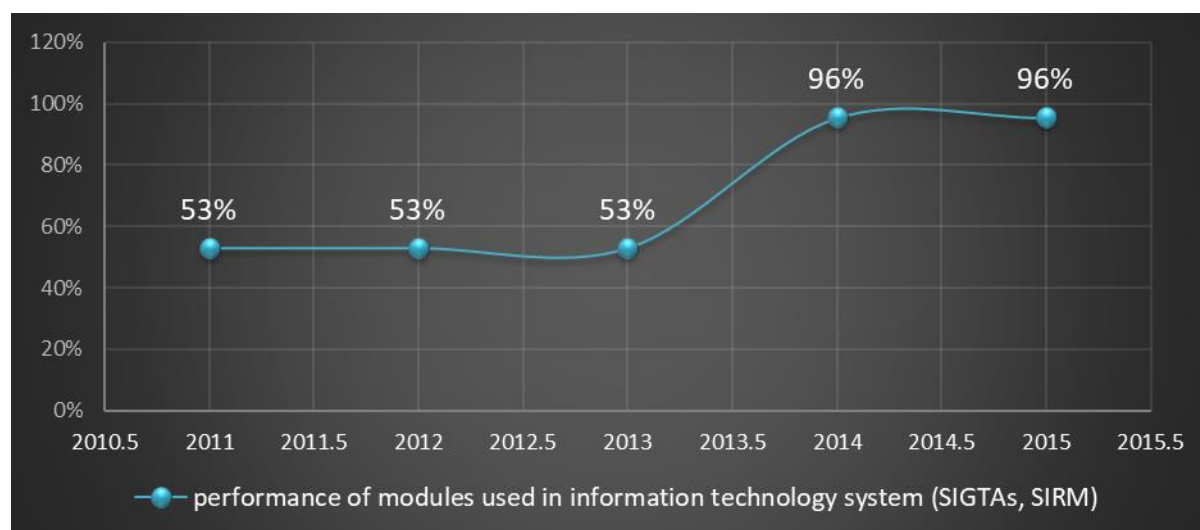
The awareness created for taxpayers and consumers also the other determinant factors of VAT collection performance (Figure 5). Except for the 2012 EFY, there has been a favorable correlation between the performance of VAT collection and the taxpayer and consumer awareness sessions during the past five years. This is similar with the result of closed ended question that was mentioned in table 12. Most of the respondents believe that the awareness level that is created for the VAT payers and consumers are at good level. Hence, VAT payers and consumers' awareness is crucial for the efficient collection of VAT. It is very important to enhance the awareness level of the taxpayer and consumer from good to very good. Additionally, awareness among both VAT payers and consumers can also lead to better compliance with VAT regulations, reducing the likelihood of errors and underreporting. This can ultimately lead to more accurate VAT collection and increased revenue for the government.

In 2012 EFY, the awareness provided for taxpayers and consumers are high, but the VAT collection performance is low which is against the positive relationship of the variables. This happened because the awareness sessions provided during the year was focused on COVID – 19 rather than the tax issues (2012 EFY annual report).

As shown on Figure 6, Employee turnover in the branch office became increased from year to year. (Maryam Farid, 2014), found that Staff turnover if not taken into consideration will damage the image of the organization, where customers will lose trust in the organization. Moreover, Maryam (2014), also stated productivity of the organization will also decrease, while employees will be demotivated to work for accompany with a high staff turnover rate. He also mentioned that paying employees, a market-related salary may help management in retaining valuable employees. Therefore, a better handling of the branch office's turnover will improve the VAT collection performance.

The other factor that affects the collection of VAT performance is the number of staff that is recruited in the branch office. As per Figure 6 data, the office didn't fulfill the required manpower for the last 5 consecutive years. In those years the performance was very low. From the year 2011 to the Year 2015 EFY, the number of staff recruited were 292 (43.26 %), 350 (51.85 %), 369 (54.67%), 355 (52.59 %), and 393 (58.48 %) respectively (Annual report). It shows almost half of the required staff had not fulfilled. The mystery here is the office collected VAT as per the plan (Annual report) without fulfilling almost half of the required staff in the last five years. Such a gap in the branch office increases the work burden in the existing staff and they may not deliver the required outputs with its standard and quality. Still the question that should be raise here is how the branch office collect the VAT for the last five years as per the plan with half of the required work force.

Figure 8. Performance of modules used in information technology system (SIGTAS)
In percent.



Source; Annual report (2012 – 2015 EFY)

As Figure 8 above, the office has been using the Standard Integrated Government Tax Administration System (SIGTAS) to manage tax collection. From the year 2011 to 2013 EFY, the office used 5 of the modules only and its usage rate was 53%. In those years there was a huge difference between the hard copy and SIGTAS data of taxpayer's information. In order to solve the problems related to data clearance, the sub-city branch office has worked hard, and all the data of the taxpayers are interred in the system and have been managed by the system since 2014 EFY. Then onwards the office used 9 modules of the system out of 10 and its usage rate was 95.55 %. (2015 EFY Annual Report). Linus E. and Prof. Mathias M. (2023) stated that adequate investment in technology infrastructure is essential for successful technology adoption in tax collection. As Oyebola Ok. Fabrizio S. and Celeste Sc., (2023), stated, using technology can help to identify the tax base, and monitor and facilitate compliance.

Three years before, Nigatu Mengesha, (2020), found that, the system (SIGTAS) is outdated and serves the past fifteen years, this creates a significant challenge in VAT invoicing transactions. He also stated, sales register systems are not active, and the machines themselves are continuously in the problem. However, according to 66.67% of respondents to this survey, the branch office applies a dependable electronic data processing system and appropriate technology, and the office's yearly reports reflect

to the fact that SIGTAS utilization performance has increased to 95.5%. So, the researcher found that there is an improvement of using technology properly to enhance the VAT collection. But still the system needs to be updated for better performance. That is why, 48 % of the respondents in the open-ended question stated, “the system is not modern, and it is an outdated system”.

Chapter Five

Summary, Conclusion and Recommendation

In the previous chapter, the study's findings and analysis were given. This chapter offers the study's summary, conclusion and suggestions based on its results. There are three sections to the chapter. The study's summary is covered in the first portion, conclusion in the second section and some recommendations based on those conclusions are presented in the third section.

5.1. Summary

The study reached the following summary based on the data analysis results:

In different literature, it is confirmed that age, education level, skills and experience have their own determinant factors for the productivity of one organization. As per the survey result, most of the branch office staff are younger, most of the staff who are working directly in collecting the VAT are educated and most of them have been working for more than 5 years. Young employees who are educated can bring valuable skills and knowledge to the task of collecting VAT. Their education can provide them with a strong understanding of financial principles, accounting practices, and tax regulations, which are essential for accurate VAT collection. Additionally, their ability to analyze data, interpret complex regulations, and communicate effectively can contribute to the efficient and effective collection of VAT. In conclusion, young employees of the office who are well-educated can play a crucial role in improving the VAT collection performance. Their skills, knowledge, and ability to adapt to new technologies can contribute to the overall success of VAT collection efforts of the government of Ethiopia.

Although the office's yearly report states that the VAT is collected as planned, the primary data gathered from the majority of respondents indicates that the office is unable to collect as predicted. It means that the office has the potential to collect VAT more than the recorded performance. The challenges and weakness that is

analyzed in the office don't match with the annual VAT collection performance. In the branch office, there is a low awareness created for taxpayers and consumers, taxpayers are not willing to transact with receipts, consumers have a low train of asking for receipts during transactions, weak monitoring, tax evasion, inconsistency of laws, insufficient number of staff, lack of monitoring and control, and etc. with those gaps and weaknesses, it is not possible to improve the VAT collection performance. As a result, from the above analysis, the researcher concludes that the overachievement of VAT collection in the last years is recorded due to the law VAT collection planned. If the mentioned gaps were solved, the office could record more achievements.

In the annual report of 2012 EFY, the finding result show that the low number of registered VAT payers and lack of adequate training affects the VAT collection performance. From this point of view, the study concludes that those factors have negatively impacted the VAT performance unless they are managed well.

The study result shows there is no adequate training provided to the staff of the branch office and most of the employee works traditionally. Inadequate training of staff can hinder the effectiveness of VAT collection, leading to financial losses for the government and the business. Therefore, it is essential for the office to invest in proper and adequate training for their staff to ensure efficient and improve the VAT collection performance.

VAT collection plan, number of registered VAT payers, the awareness creation for taxpayers and consumers, staff training, and use of updated technology have an effect on VAT collection performance.

Based on the survey result, the reason that is mentioned for the law awareness of Taxpayers and consumers is the limited capacity of the staff to provide appropriate awareness and training and the unwillingness and law interest of taxpayers and consumers to participate in the awareness sessions. The awareness of VAT payers and consumers is essential for the efficient collection of VAT and for maintaining compliance with VAT regulations. It is important for governments to invest in public education and awareness campaigns to ensure that both VAT payers and consumers are well-informed about their roles and responsibilities in the VAT collection process.

Many customers are not interested in transacting with a VAT receipt to decrease transaction costs, which is one of the issues that affects the efficient collection of VAT. It is also related to the awareness of consumer. They may not know how much it affects their life negatively. This can result in a significant loss of tax revenue for the government, which can ultimately impact public services and infrastructure. Furthermore, customers might not be able to get credits or refunds for the VAT they paid on their purchases if they do not have VAT receipts, which would increase their expenses.

Hence the SIGTAS usage rate increased to 95.5 % by implementing 9 modules of the system, the survey result concludes that there is an improvement in using technology properly to enhance the VAT collection against the previous year's performance and the survey result of Nigatu Mengesha (2020). But, still, the system needs to be updated for better performance.

Employee turnover, VAT notification with zero balance and with a request for a refund, have negatively affected the VAT collection performance.

5.2. Conclusion

The study reached to the following conclusion based on the data analysis results:

- Even though the 5 years office's report showed that the VAT is collected as planned, the branch office could collect more, if the office worked intensively towards the factors that impacted the VAT collection performance.
- Low awareness created for taxpayers and consumers and consumers have a low train of asking for receipts during transactions.
- Taxpayers are not willing to transact with receipts.
- There is an insufficient number of staff to handle the office work and customers.
- Inadequate training of staff observed.
- There had been a lack of registering qualified business organization and since the registered number of VAT payers had not increased for the last 5 years but decreased.
- Usage of SIGTAS improved but still it needs to be modernized.

5.3. Recommendation

These recommendations were drawn from the research findings and those recommendations help for improvement and further studies.

- Developing countries like Ethiopia economic growth mainly depends on the VAT revenue. Therefore, improving the VAT collection performance needs more attention and commitment of the government and citizens.
- Hence, the branch office has younger employees, utilizing their youthful, vibrant energy is crucial to enhance the VAT collection performance.
- Staff should always be supported by continuous training and their capacity should be built constantly to improve the VAT collection performance.
- VAT planning should be done critically by evaluating the potential and gaps of the office; otherwise, it will impact the VAT performance highly and it may lead to a wrong conclusion regarding the VAT performance.
- The absence of VAT registration among all qualified business traders may result in adverse effects on government income, market competitiveness, and regulatory compliance. It is important for governments to enforce VAT registration requirements to ensure fairness and compliance in the business environment.
- Parallel to awareness creation for the taxpayers, consistent penalty system and law enforcement should be applied to protect and minimize the transaction made without VAT receipts.
- Even though usage of technology improved, it is better to use advanced and updated technology to enhance the VAT collection and for better performance.

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7. Appendix: Questionnaire

Questionnaire for Gullele sub-city Employees

Dear Participants,

The questions are prepared to collect information and write an Executive MSC research paper on the efficacy of VAT. The objective of the study is to assess, investigate and analyze the efficacy of Value Added Tax and the factors that determine the collection of VAT like Technology and VAT Administration. To attain the stated objectives, collecting relevant and genuine data is highly significant. In this regard, questionnaires, interviews and discussion guides are prepared for the respective respondents. I am, therefore, kindly requesting you to take some time and fill the questionnaire with due attention.

If you have any questions and needs my clarification, please contact me through: Phone number 0960-247969 or with email address mekbibaltaye03@gmail.com

Thanks a lot in advance for your unreserved cooperation.

Please respond the following questions using tick mark (√) to your best choice.

Part I: Personal information

1. **Gender:** Male Female
2. **Age:** 20-30 30-40 40-50 > 50
3. **Education:**
 - Below 12 grade
 - Certificate
 - Diploma
 - Bachelor
 - Master and Above
4. **Position:**

5. **How long have you been working in the organization?**
 - (A) Less than five years
 - (B) Five to ten years
 - (C) Ten to fifteen years
 - (D) More than fifteen years

If No, Why?

7. How much is the staff turnover of the office?

- (a) Low (b) medium (C) High

If your answer is b or C, would you please explain the reason?

8. How much awareness was created for VAT payers and consumers?

- (a) Poor (b) Good (c)Very good

If your answer is “poor” please describe.

9. Are consumers willing and determined to transact with a proper VAT receipt?

- (a) Yes (b) NO

If your answer is “No” what is the reason behind it?

10. Is there a sound and effectively applied penalty system?

- (a) Yes (b) No

If your answer is No, what is the reason?

Question 3, Use of Technology

11. Is Gullele sub-city revenue office uses adequate technology (a reliable electronic data processing system) which provides accurate and timely information to manage and collect VAT effectively?

- (a) Yes (b) No

If your answer is “yes” please rate the capacity of the technology

- (a) Poor (b) Good (c) Very good

If your answer is “Poor” please describe the reasons for being poor.

Question 4, Final

12. Are there any instances that you have personally challenged in the implementation of VAT?

- (a) Yes (b) No

If your answer is “yes” please state, the incidents and explain the situation.

13. To improve VAT collection and maximize the VAT revenue of the country; Please suggest at least three ideas that need action;

(A) _____

(B) _____

(C) _____

I thank you for your time and contribution to conducting this research work and for sharing your honest feedback.