ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

ASSESMENT OF VAT (VALUE ADDED TAX) ADMINISTRATION IN FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA MINISTRY OF REVENUE MEDIUM LEVEL TAX PAYERS BRANCH OFFICE

BY: NATNAEL TESFAYE

JANUARY, 2024

ADDIS ABABA, ETHIOPIA

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ATHESIS SUBMITTED TO THE COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF ART (MA) IN ACCOUNTING AND FINANCE

BY: NATNAEL TESFAYE

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ADDIS, ABABA, ETHIOPIA

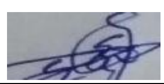
DECLARATION

I, Natnael Tesfaye, the undersigned, declare that this thesis entitled: "**Assessment of VAT (value added tax) Administration in Federal Democratic Republic of Ethiopia Ministry of Revenue Medium level Taxpayers Branch Office** is my original work. I have undertaken the research work independently with the guidance and support of the research supervisor. This study has not been submitted for any degree or diploma program in this or any other institutions and that all sources of materials used for the thesis has been duly acknowledged:

______________________________ ______________________ _______________________

Name of Student Signature Date

This is to certify that the thesis entitled: "**Assessment of VAT (value added tax) Administration in Federal Democratic Republic of Ethiopia Ministry of Revenue Medium level Taxpayers Branch Office**" submitted in partial fulfillment of the requirements for the **degree of Master of Accounting and Finance** of the Postgraduate Studies, Addis Ababa University and is a record of original research carried out by Natnael Tesfaye**,** under my supervision, and no part of the thesis has been submitted for any other degree or diploma. The assistance and help received during the course of this investigation have been duly acknowledged. Therefore, I recommend it to be accepted as fulfilling the thesis requirements.



Takele Fufa (PHD) January, 2024

Name of Advisor Signature Date

CERTIFICATE OF APPROVAL

This is to certify that the thesis prepared by Natnael Tesfaye, entitled "Assessment of VAT (value added tax) Administration in Federal Democratic Republic of Ethiopia Ministry of Revenue Medium level Taxpayers Branch Office" and submitted in partial fulfillment of the requirements for the degree of Master of Arts in Accounting and Finance, complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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Acronym and Abbreviation

VAT= Value Added Tax

SPSS = Statistical Package for Social Sciences

IMF = International Monetary Fund

MRE = Ministry of Revenues of Ethiopia

TIN = Tax Identification Number

TOT = Turn over Tax

WTO = World Trade Organization

KPMG =Klynveld Peat Marwick Goerdeler

Abstract

The general objective of this research assesses value added tax administration specifically addresses: effectiveness and efficiency of tax administration, problems of VAT administration, attitude of taxpayers and type of system. To achieve this objective, the researcher used both qualitative and quantitative descriptive research designs and a sample of employees and tax payers of the authority were selected using a random sampling technique among the probability sampling methods. From 3426 tax payers and 358 employees samples were selected whose activity is directly related. The researcher used questionnaires, Interviews and relevant documents to collect primary and secondary data from the branch by reviewing documents from annual reports. Graphs, table, Percentages were used in analyzing the collected data (findings). Secondary data were obtained from the; audit, enforcement and refund performance reports of the branch. Tables, percentages and graphs were used for data analysis. The Statistical Package for Social Sciences (SPSS) version 26 was the tools used for quantitative data analysis. From the outcome of the study the major obstacles that hinder VAT Administration are low rate of voluntary compliance, lack of taxpayer's awareness, shortage of audit and refund process, and affect the follow-up and controlling activities, relatively low rate of audit and enforcement, and late payment system. The paper suggests that in Federal Democratic Republic of Ethiopia Ministry of Revenue Medium Level taxpayers' branch office, attempting to implement what is legislated in the main areas deserves the Government's due attention. The study also emphasizes the need to strengthen the administration capacity in general and the VAT administration system in particular as efficiently as possible. The outcomes of the research showed lack of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. Therefore, the researcher recommended developing taxpayer's awareness to increase voluntary compliance, refund process and strengthen audit and enforcement capacity of the Federal Democratic Republic of Ethiopia Ministry of Revenue Medium Level taxpayers' branch office.

Key Words: VAT, VAT Administration, Refund, Compliance, Enforcement.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The tax was pioneered in France in the late 1950s, after being tried first in the then-French colony of Cote d'Ivoire, though the first comprehensive version of the tax was adopted in Brazil in 1967 (Shoup, 1988). Since then, VAT has been adopted by most rich countries and, particularly since the 1980s, has spread widely across low- and middle- income countries. VAT and other sales taxes often account for a third or more of developing countries' tax revenues (Abramovsky et al., 2017).

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 (Moore et al., 2018). While at the beginning of the 1980s only about 30 countries had adopted the VAT, this number increased to almost 140 by 2009, an increase mostly driven by low- and middle-income countries (IMF, 2011). The VAT has become the single largest source of revenue in many countries, rising on average about a quarter of total tax collected and almost 40 percent in African countries (Ebrill et al., 2001; Keen, 2012; ATAF, 2019).

Value-added tax (VAT) is a tax that is levied on goods and services at each stage of production and distribution. Although VAT is an effective mechanism for revenue collection, managing the assessment and collection processes can become problematic. Some common challenges faced during VAT assessment and collection includes issues of tax evasion and difficulties of auditing. Furthermore, differing interpretations of tax laws and regulations among tax authorities can exacerbate the problem.

According to the International Monetary Fund (IMF), VAT implementation and collection pose significant challenges, particularly in developing countries. Tax authorities in such countries often lack proper institutional frameworks, adequate controls, and sufficient resources to ensure effective VAT administration (IMF, 2018).

Even though VAT is a crucial source of revenue for many governments around the world, the assessment and collection of VAT can be complex and challenging. Problems associated with VAT assessment and collection includes issues surrounding the determination of the tax base, timing of payment, compliance and enforcement, and cross-border transactions. These issues can lead to unclear tax liabilities and disputes between taxpayers and tax authorities (Bartlett & Bird, 2014).

To address the issues surrounding VAT assessment and collection, policymakers and tax authorities should aim to implement more transparent rules and regulations, establish risk-based auditing processes, and provide adequate training to tax officials. Additionally, enhancing cooperation and coordination between tax authorities and other government agencies can help tackle VAT evasion effectively (KPMG, 2018).

Ethiopian government has introduced Value Added Tax as part of the overall tax reform program. The tax reform program is preceded by establishment of a new Ministry of Revenue as a first step to improve tax collections and to combat fiscal fraud. Various reforms have been conducted subsequent to this: the increase in the sales tax and the removal of import duty surcharge in 2000; a new legislation on presumptive taxation and a 5 percent withholding tax on imports became effective in February 2001; legislation was approved in March 2001 to introduce the TIN system to reinforce the collection powers of revenue agencies, and a tax reform implementation task force was established; a large taxpayer was made operational in July 2001;a draft Value Added Tax legislation was submitted to parliament inOctober2001 (Habtamu, Reddy, Debela, 2015).

On January 1st, 2003, Ethiopia introduced VAT through adopted New Zealand's model of VAT which is a standard rate of 15 % broad based and minimum exemption as a replacement to the outdated sales tax. Since its introduction, VAT has been more revenue productive than sales tax (Teferra, 2004). For instance, VAT is by far the largest individual contributor to overall tax collections. It comprises about 33% of total tax revenues and almost three-fifths of all indirect tax revenues in 2018/19 (Harris&Seid, 2021).

According to Yesegat (2008), in Ethiopia revenues raised by VAT are usually gathered at the expense of loss in its significant features. This may be caused by factors including poor VAT administration, i.e., the in capacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design features of VAT and achieving government's policy objectives at large.

Numerous studies on tax compliance and administration have been conducted. While our country also faces challenges with tax collection, few studies have examined the taxpayer's perspective. Previous studies by Teklu (2011),Zenebe (2018),Heran(2018) and Girma (2019) and focused on problems with the revenue authority but did not consider taxpayers' opinions and no study was conducted at Federal Medium Level Taxpayers Branch. Therefore, this paper examined Value Added Tax Administration in Medium Level Taxpayers branch office involving major stake holders i.e., tax collection officers and taxpayers.

1.2. Statement of the Problem

Public revenue is heavily dependent on taxes, due to the need for resources to provide collective goods and services. These services include roads, utilities, and municipal services which have a positive effect on businesses and individuals alike. Consequently, it is essential that the government intervene in the supply of such goods to ensure their provision for the public. The funding for this intervention is obtained through taxpayers, as they contribute towards the production and supply of said goods (MRE, 2015).

Ethiopia is currently experiencing a significant development process that will effectively solve multiple societal issues through a variety of activities and infrastructure improvements. In order to achieve this socio-economic development, the government relies heavily on the collection of VAT from the public. Taxation is a crucial aspect of the country's economic development and VAT, in particular, serves as a necessary source of income for the government, with a 15% tax levied at every level from producers, retailers, and consumers to service providers (MRE, 2018).

Developing countries struggle with low tax collection rates, which can be attributed to ineffective tax administration caused by factors such as limited resources and designing taxes without considering their practical implementation. Bird and Gendron (2007) pointed out that developing and transitional countries have specific challenges, including fragmented economies, large informal sectors, low tax morale, rampant evasion, and lack of trust between tax administrators and taxpayers. Furthermore, a lack of proper management in the VAT selling process results in unfair competition and revenue loss due to the failure to issue receipts as proof of payment to the government. This is a significant issue as receipts are necessary for the government to collect revenue from any business activity, leading to a decrease in government revenue.

The inadequate performance of taxes in developing countries can be attributed to weak tax administration characterized by the inability of the administration to implement the tax as intended (Yesagat, 2008). This is usually due to factors such as limited resources and the tax being designed separately from the administration. Fragmented economies, large informal sectors, low tax morale and widespread evasion contribute to the problem in developing countries, unlike in developed countries where these issues are less common. Additionally, there is unfair competition when VAT sales are not properly managed, as competitors may not issue receipts, which are crucial for the government to collect revenue and is yet another problem that contributes to the decline of government revenue (Bird and Gendron, 2007).

In general, there have been studies on VAT administration in Ethiopia and in the different towns of the country, Markos (2010), investigated the VAT administration and revenue Performance: in the Mekelle branch of Ministry of Revenues of Ethiopia, Habtamu et al., (2015) assessed the challenges of VAT administration in East Wollega Zone, Legesse (2017) examined the tax administration system on category 'B' taxpayers, GamoGofa Zone, Leta (2019) studied the determinants of Value Added Tax collection performance in West Shoa Zone, Estifanos (2019) assessed the VAT administration in Guraghe Zone while Woretaw (2019) and Asmare (2020) studied VAT administration and its challenges in South Gondar Zone.

In Addis Ababa level, Kassu (2011), Rosen (2011) and Fiyori (2017) studied the challenges of tax administration in Arada Sub City, while Gebreselassie (2011) and Asamenew (2012) investigated the tax assessment and collection problems of category "A" taxpayers in Yeka Sub City. Henok, (2014) also assessed the VAT administration impact on revenue performance in Yeka Sub City. Heran (2018) examined the VAT administration practice in Lideta Sub city small scale taxpayers branch office, Messay (2019) investigated the tax assessment and collection problems of category "A" Taxpayers in Gulelle Sub City and Sara (2016) studied the VAT administration in Addis Ababa No.2 medium taxpayers branch office.

As evident from the studies presented, different researchers studied the VAT administration through different point of view in several study areas. However, most of the studies examined the topic from the tax administer side without including the taxpayers view in a narrow scope and also no study has been made at Federal medium level taxpayers branch office which continuing to be an unexplored as far as the researcher's knowledge there is no study conducted on the branch and this study is wide than other studies. Accordingly, the purpose of this thesis investigated the Value Added Tax administration in the Federal Medium Level Taxpayers Office and also to include the taxpayer view to make an all-round assessment.

1.3. Research Questions

The study attempted to answer the following questions:

1. What are effective and efficient tax administrations for Federal medium level taxpayers' branch office?
2. What are the challenges that hinder the Federal medium level taxpayer's branch office?
3. What are taxpayers' knowledge and awareness about taxation?
4. What kind of system does the branch implement to VAT collection?

1.4. Objective of the Study

1.4.1. General Objective

The general objective of the study is to assess the VAT administration in Ethiopian Revenues and Customs Authority Federal Medium Level Taxpayers branch office.

1.4.2 Specific Objectives

Specifically, this research paper tries to address the following issues:

1. To examine the effectiveness and efficiency of tax administration at Federal medium level taxpayers branch office
2. To examine the challenges of VAT administration in the Federal Medium Level Taxpayers Office,
3. To analyze the knowledge and awareness of taxpayers related with VAT administration.
4. To assess the type of system the branch office use to administer VAT.

1.4. Significance of the Study

Since Ministry of Revenues of Ethiopia opened this branch in order to collect value added tax from medium taxpayers in an efficient way, the study might give a clear picture on the status of VAT administration and point out the difficulties faced by taxpayers as well as tax collection officers that hinder the collection of potential revenue. Therefore, the branch would use the findings to evaluate its performance and revise its administration practice and fills the gap between the planned and actual collection of VAT. In addition, it would make its service more efficient and increase the revenue that gained from VAT. The findings of this study also compared with results in other branches to draw conclusions. It was also benefit future researchers who endeavor to study VAT administration and related subjects as a reference. The information gap on the branch is the major factor that initiated the researcher to conduct this study; hence, this study was tried to fill the information gap and adds more information on the existing knowledge.

1.5. Scope of the Study

The scope of this study focused on the assessment of the Value Added Tax (VAT) administration in the Revenues and Customs Authority Federal Medium Level Taxpayers branch office. The research was involved a comprehensive analysis of how the VAT system is managed in the Ministry of Revenues of Ethiopia, examining the procedures, policies, and documentation involved in VAT administration.

Methodologically, the study was conducted using a quantitative research method. The study was used a descriptive research design to assess the VAT administration in the Revenues and Customs Authority Federal Medium Level Taxpayers branch office.

Geographically, the study was conducted at the Federal Medium Level Taxpayers branch office located in Addis Ababa.

1.6. Definitions of key terms

Value Added Tax-Value Added Tax is the tax that is charged on goods and services, levied at each stage of a supply chain. At every stage, a certain value (a small amount of the total tax) is added from the point of production to sales (Lejeune, 2011) .

Refund-To give someone backs an amount of money, especially because they have paid too much or is not happy with a product or service: The court ordered the company to refund current customers (Markos, 2010).

Compliance-Compliance means that a company adheres to the applicable rules and laws. This includes both country specific laws and requirements from the regulatory authorities as well as internal company directives (OCED, 2004).

Enforcement-Enforcement refers to the state procedure by which a creditor can forcibly enforce his civil law claim against a debtor (Asmamaw, 2012).

1.7. Organization of the study

This study was organized into five chapters. The first chapter include; introduction which includes background of the study, statement of the problem, objective of the study, basic research questions, significance, scope, and limitation of the study and definition of terms. Review of related literatures that includes theoretical reviews, empirical reviews and conceptual framework was discussed in the second chapter. The third chapter deals with the research methodology that was applied in the study. The data analysis, interpretation and discussion of results was presented under chapter four. Finally, chapter five was presented the major findings, conclusion, recommendation, research limitation and areas of future research.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Theoretical Literature Review

2.1.1 Concept and Definition of Value Added Tax (VAT)

Taxes are mandatory contributions to support the government, which are levied on various things such as property, income, and transactions. They differ from fees and fines in that they are imposed on the entire community and are not tied to receiving any specific services, privileges, or violations of the law. Taxpayers are legally obliged to pay taxes and may not always receive direct benefits in return. The primary means for governments to generate revenue is taxation, which is essential for financing operations and providing public goods and services (Jemal, 2020)

VAT is an indirect tax levied on the consumption of goods and services, but definitions of the term vary across different authors. Lejeune (2011) identifies it as a prevalent form of consumption tax and a major source of revenue for governments. For James (2011), VAT is advantageous as it allows for the recovery of taxes on business inputs and prevents the cascading effects of turnover tax. Meanwhile, Parameswaran (2005) views VAT as a type of sales tax that must be paid by manufacturers or providers based on the value added by them. Producers only owe tax on the added value, meaning they can receive a refund for VAT paid on purchases or inputs. Ultimately, VAT is meant to be paid on the difference between the value of sales and purchases throughout the production and distribution chain.

The value added tax (VAT) is a fairly recent form of taxation that was first introduced in France around 50 years ago. While it was initially only used in a few countries, by the late 1980s most countries had adopted it and it now accounts for around 25 percent of tax revenue worldwide. VAT is now the main form of indirect taxation in many different countries at varying levels of development (Thorony, 1960 and Ebrill et al, 2001).

2.1.2 VAT in Ethiopia

In Ethiopia, VAT was introduced on January 1st, 2003, as a replacement for sales tax. It is believed that VAT plays a major role in generating revenue for the government in the countries that implement it (FDRE, 2002). The introduction of VAT in Ethiopia aimed to address the limitations of the sales tax system, which did not allow for the collection of taxes on added value created during sales transactions. VAT, on the other hand, enables the collection of taxes at multiple stages and allows for the refund of taxes paid on inputs, thus reducing the likelihood of tax evasion. VAT is also viewed as a consumption tax, which raises awareness among consumers and encourages them to reduce consumption, leading to increased savings and investments. Outdated sales tax was insufficient in generating revenue for the government to cover necessary expenditures (Yohannes & Sisay, 2009).

Jaleta (2014) outlines four primary reasons for the implementation of VAT in Ethiopia. These objectives include generating significant amounts of revenue to drive and support national development, distributing income and wealth among individuals living within the state, fulfilling obligations under the WTO agreement, and following the IMF's directives.

The Ethiopian revenue and customs authority has implemented a new amendment to the Tax Administration Proclamation no.983/2008. This categorizes taxpayers into three groups. Firstly, the Category "A" taxpayers is considered large size taxpayers, who includes business income taxpayers or rental income taxpayers that have separate legal personality regardless of their annual revenue. Secondly, any other business income or rental income taxpayers with an annual gross turnover of birr 1,000,000 or more fall under this category. The Category "B" taxpayers are medium size taxpayers that fall under this category if their annual gross turnover is more than birr 500,000 but less than birr 1,000,000. Lastly, the Category "C" taxpayers are small and micro size taxpayers that are any other business income or rental income taxpayer with no legal personality whose annual gross turnover is estimated to be up to birr 500,000.

In Ethiopia, small and medium businesses must operate formally, with proper licensing, and pay taxes according to the Income Tax Proclamation No. 979/2008. Those who earn income from trading must register for tax, keep records, conduct tax assessments, pay taxes, and have other tax-related duties. Businesses also need to use cash register machines, and most small-to-medium taxpayers must comply with indirect taxes, including VAT and TOT. Small and medium businesses with an annual taxable transaction below birr 1,000,000 must pay TOT to ensure fairness in commercial relationships and increase government revenue from taxation (MRE, 2016).

2.1.3 VAT Administration

In the study by (Yesegat, 2008) VAT administration pertains to how tax authorities discharge the responsibilities entrusted to them with respect to taxpayers' identification and registration, VAT filing and payment, control of VAT filing and payment, VAT invoicing, VAT auditing, penalties, and VAT refund. In Nwanyanwu (2015) on his behalf stated that, Value Added Tax (VAT) Administration refers to the process adopted in registering, assessing, collecting, and accounting for VAT revenue. It encompasses penalties and cases of appeal associated with the making of returns arising from failure to register in line with the VAT Act. Therefore, a good VAT administration means fully implementing the design attribute of tax and reducing gap between effective taxation and what it is implied to be in legislation (Abay, 2013).

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, and collection (Kangave, 2005). Ethiopia's tax reform program has introduced VAT at the rate of 15% on January 1, 2003, to replace the sales tax proclamation that provides exemption for necessities and domestic transportation and zero rating to encourage exports and capital investments. After the introduction of VAT, additional exemptions were extended to basic foods, agricultural fertilizers and to other products. Unlike the sales tax, VAT provides relief of tax on all business inputs, including capital goods and business expenditures and will provide further business incentives by zero rating exports and the international transport of goods and passengers. Since domestically produced goods relieved of VAT, they will be more competitive within international markets and may mean a shift from Ethiopia's dependence on foreign to domestic trade, but it is too early to evaluate its impact. It is not, however, difficult to see that its implementation is a challenge, owing to the predominance of small and informal operators in the country, its history of tax evasion and corruption, lack of standard recordkeeping systems as well as the lack of knowledge about VAT and a tax-base for its computation.

Tax assessment refers to the initial review by the tax authority of the tax declaration and attached supplementary documents submitted by a taxpayer and verification of the arithmetical and technical accuracy of the declared tax liability and tax payable shortly after the submission of the declaration once an income declaration is checked and verified by the concerned tax authority through a process called income tax assessment, hence, tax assessment is the end result of the process of ascertaining a tax payer's taxable income and the tax payable on that income. Tax collection is a collection of money from taxpayers based on the tax assessment declaration or notification (Tesfaye et al, 2014).

Jantscher (1990) noted that the basic tasks of tax administration consists of three distinct (though connected) activities i.e., identification, assessment, and collection.

2.1.4 Registration procedure

Under the VAT proclamation, registration for VAT is categorized in to three. These are obligatory, voluntary and special business categories. Any person who carries on a taxable activity and at the end of any period of 12 calendar months has made, during that period, taxable transactions the total value of which exceeds 1,000,000 birr or at the beginning of any period of 12 calendar months there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during the period will exceed 1.000,000 birr, has the obligation to register for VAT. (article 16(1) (a) and (b)) according to article 17, a person who carries on taxable activity and is not required to be registered for VAT may voluntarily apply to the tax authority for such registration, if he regularly is supply ignore rendering at least 75% of his goods and services to registered persons. The third category of registration, special business categories that also have the following features: those who are involved in export are advised to be registered voluntarily in order to get refund. This is practical through zero rate purchases that enable the person to ask credit on input tax. Such forced special business category registrants are gold, electronics, importers, shoe factories, level ten and above constructors, computers and their accessories, leather and leather products, plastic and plastic products (Proclamation no. 978/2008).

2.1.5 Filling of tax return and payment of VAT

Every registered person is required to file a VAT return with the authority for each accounting period, whether or not tax is payable in respect of that period; and to pay the tax for every accounting period by the deadline for filing the VAT return. The VAT return for every accounting period is filed no later than the last day of the calendar month following the accounting period. VAT on taxable imports is collected by the Ministry of Revenues of

Ethiopia accordance with VAT as per the customs legislation of Ethiopia under the procedure contemplated for customs duty, (proclamation no.978/2008, and art.26).

2.1.6 VAT assessment procedures

The tax assessment for those, who are required to maintain financial records, is done based on the records that taxpayers maintain; however, if they fail to maintain financial records, estimated assessment will be done. For the rest of taxpayers, who are not required to maintain financial records, it is based on the standard assessment method (Council of Ministers, 2008). The self- assessment systems which are require taxpayers to do calculation, payment, and reporting their own tax payable by themselves. However, VAT is essentially a self-assessed by taxpayer. In the self-assessment taxation approach, taxpayers calculate their taxable income, file tax returns and pay their taxes due. This taxation system basically presupposes taxpayer's willingness to pay taxes, continue accurate bookkeeping behavior and calculate their taxable income based on objective data. Self-assessment is so important helps to improve effectiveness by focusing resources on taxpayer services, enforcement, reduce compliance costs and reduce corruption. But administrative assessment is not compatible with modern tax administration (Bodin, 2008). The issue of self-assessment reemerged in the early 1990s, as transition economies moved toward VAT implementation with little experience of tax administration and little appreciation of what would be required to administer an accounts-based tax (Ebrill, et al, 2002). Modern tax systems and their administration are built on the principle of "voluntary compliance," meaning that taxpayers are expected to comply with their basic tax obligations with only limited intervention by revenue officials. In practice, voluntary compliance is achieved through a system of "self- assessment". In most countries, the development of self-assessment is closely linked to the rise of the VAT. Indeed, the real question is not how to administer a VAT in a country without the capacity to administer self-assessment, but how to implement the basic principles of self-assessment in a country willing to introduce a VAT (Keen, 2005).

2.1.7 Efficient VAT Administration System

Modern tax administrations attempt to collect adequate revenue while keeping tax administration and compliance costs low and treating taxpayers fairly. The most cost-effective systems are those that convince most taxpayers to meet their tax obligations voluntarily, so that tax officials can concentrate on the small number who does not comply.

Features of the tax administration that encourage compliance include a service- oriented attitude that educates and assists taxpayers in meeting their obligations, effective audit programs and consistent use of penalties as strong deterrents to non-compliance, and transparent administration of the tax laws that is viewed as honest and fair (Okello, 2014).

Facilitating voluntary compliance: Modern tax administrations proactively facilitate compliance by simplifying processes, providing information, education, and support to taxpayers, and directing their limited compliance monitoring and enforcement resources to the areas of greatest risk to revenues. They adopt a compliance risk management approach that recognizes a spectrum of compliance behavior and an opportunity to foster a cooperative relationship with taxpayers. This risk management approach is structured to systematically identify, assess, rank, and treat tax compliance risks, as in the figure below, by segmenting taxpayers into compliance groups and developing different responses to the factors that influence compliance in each group. This approach recognizes that tax administrations must be thoughtful in how they deploy their limited resources. Rather than focusing on enforcing compliance throughout the compliance risk spectrum, tax administrations focus on enforcement in areas of greatest risk and facilitate voluntary compliance in remaining areas (Munoz and Cho, 2003).

Tax administrations utilize information systems to monitor taxpayer accounts and an audit strategy to detect non-compliance. A highly visible audit program is essential to ensuring that taxpayers understand and are exposed to the consequences of non-compliance. An audit strategy that focuses on the areas of greatest risk to revenues not only increases the return on the use of limited audit and other compliance resources, but also facilitates voluntary compliance by reducing the intrusion of the tax administration into the affairs of compliant taxpayers (OCED, 2004).

Traditionally, tax administrations have relied on recourse to legal remedies to enforce taxpayer compliance, which has been described as a classic enforcement mentality, built upon the fundamental assumption that a ruthless and efficient investigation and enforcement capability will produce compliance through the mechanism of deterrence. Today, tax administrations focus on facilitating and encouraging voluntary compliance. H owever, where appropriate, the full rigor of the legal system is brought to bear on taxpayers who do not comply, thereby instituting some level of uniformity in the application of the law and a perception of fairness among taxpayers (Malcolm, 1994).

According to Tesfaye (2008), taxation has become a vital component of 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. Many countries are beginning to see that a tax system has a role in providing a safety net for the poor. It is incentive measure to protect the environment a good tax system is essential if governments are to pursue growth, equity and environmental protection people will be more willing to pay. As stated by Uremadu, 2000; Harvey, 1982; and Musgrave, 1987 cited in Uremadu and Ndulue (2011), a good tax system must be based on principles as thus explained. Equity: treatment of similarly situated taxpayers or that people should pay tax according to their abilities to pay. Certainty: it stipulates that the time of payment, the manner of payment and the amount to be paid should be clear to the taxpayer and to the taxing authorities. Convenience: this relates to mode of payment and the timing. This principle stipulates that the time and manner of payments should be convenience to the taxpayer. As a matter of fact, a tax system should be simple, easily assessed, and understood and be collected at minimal costs. Economy: the total costs of collection should be small when compared with the tax yield or amount realized from tax. Hence, the compliance costs to the taxpayers and the administrative costs to the government negatively affect national output of taxes collected. Simplicity: this is usually a good tax system should be very simple and not be complex. It should be simple and well understood by both the taxpayers and tax administrators alike. It should as well be easily administered.

2.1.8 Principles of a Good Tax System

A good tax system is an essential element of a well-functioning economy. Therefore, the principles that guide its operation must be clearly defined and effectively implemented. According to Bird and Zolt (2014), the following are the primary principles of a good tax system: fairness, efficiency, simplicity, accountability, predictability, transparency, adequacy, and enforceability.

Fairness implies that the tax system should ensure that each taxpayer contributes to the public good according to their ability to pay. In other words, the tax burden should be distributed equitably across income levels, to avoid any undue advantage to any individual or group (Bird and Zolt, 2014). To achieve this, governments may use a progressive tax system where individuals with higher incomes contribute more than those with lower incomes. Efficiency, on the other hand, implies that the tax system should not impede economic growth or distort market incentives. The tax system should allow businesses to operate efficiently and invest in productive activities without any unnecessary burden. The tax code should be designed to minimize compliance and administrative costs (Mankiw et al., 2010).

Simplicity means that the tax system should be easy to understand, comply with, and administer. The complexity of the tax system is a significant compliance burden for taxpayers, especially for small business owners. A simpler tax code can reduce the cost of compliance and free up time for businesses to focus on other essential activities (Auerbach, 2010).

Accountability refers to the transparency of the tax system, both to taxpayers and to the government. Transparency ensures that taxpayers understand how their tax dollars are being used by the government, and that the government is accountable for its use of taxpayer funds. A transparent tax system reduces the potential for corruption and improves governance (Zucman, 2019). Predictability means that the tax system should be stable, with long-term policies and expectations that will not change suddenly. Taxpayers need to be able to make informed decisions regarding their business finances, and sudden tax changes can deter investments and undermine economic growth (Bird and Zolt, 2014).

Transparency requires that the tax system should be open and accessible to taxpayers. The government must provide adequate information on tax mechanisms and administration, tax policies, and revenue collections to enable taxpayers to make informed decisions (Brondolo & Cervellino, 2018).Adequacy means that the tax system should generate enough revenue to fund government programs and projects adequately. The tax system should be designed to reflect the government's fiscal priorities, taking into account the country's social, economic, and political contexts (Bird and Zolt, 2014).

Enforceability refers to the Government’s ability to collect taxes effectively. An enforceable tax system means that the government must have the necessary resources and legal frameworks to enforce tax laws and regulations without undue hardship to taxpayers. The tax system should also operate in a manner that reduces the likelihood of tax evasion (Bird and Zolt, 2014).

A good tax system plays a critical role in the economic growth and stability of any country. Governments must ensure that their tax system is guided by the principles of fairness, efficiency, simplicity, accountability, predictability, transparency, adequacy, and enforceability. The application of these principles can lead to a fairer, more efficient, and more manageable tax system, which enhances economic growth and social equity.

2.2 Empirical Review

According to Dheressaet.al, (2015), the study was particularly focused on challenges of VAT administration regarding the assessment, collection and implementation of VAT. Their survey result showed that, most of the business entities have not comply with the laws and regulations of VAT and they committed illegal activities by preparing fake invoices and they remitted the tax income for themselves rather than to pay the government. Concerning the side of the authority, it is incapable to identify and control business enterprises that are noncompliance with the laws and regulations of VAT. They recommended in their study that the authority should strengthen its follow-up, appraise the performance of existing, recruit qualified new employees, strengthen its controlling mechanisms, improve its administrative systems and prepare programs to provide intensive education to the society about the benefits, rules and regulations of taxes specifically VAT.

Bizualem (2015), indicated that the major challenges delay Ministry of Revenues of Ethiopia from generating what was initially planned are: lack of sufficient number of skilled personnel, limited staff capacity, non-responsiveness by the management, limited awareness creation, problems related with invoicing, unfair competition, and control centered management tendency. And he recommended that the need to strengthen the administration capacity in general and the VAT collection system as efficiently as possible. According to Jebessa (2005), many business owners do not keep their books properly, which invited to general estimations, which are often arbitrary. So training is necessary on the one hand and on the other hand, national standards for bookkeeping, which would be respected in all taxation offices nationwide, need to be defined and introduced.

According to Dekan (2003), the tax assessment sometimes can be un clear to the taxpayers. Regarding to the complexity of tax assessment system (not simple and clear) may result in unintentional non- compliance if taxpayers have problems with filling the tax form. Furthermore, such noncompliance differs from other crimes. Because it can be concluded that the errors occurred unintentionally due to the misinterpretation of the rules. Results from a survey shown that only 55% of the taxpayers were certain, that they had neither overstated a deduction nor understated taxable income on their return. Thus, by enhancing complexity, it is difficult to distinguish honest from dishonest taxpayers. By this virtue, tax examiners in the tax administration will have greater problems to identify a case of noncompliance and comparing whether the violation was deliberate or unintentional. And this can be increased tax collection costs. Besides, the Kwabena (2011), findings on the knowledge of tax systems revealed that most self- employed are not knowledgeable of the tax system in Ghana. To affirm this internal revenue service organizes educational programmers, for the self-employed category of the taxpayers and find out the possible impact on revenue mobilization from the informal sector. The analyses on education the research shown that, only 27 out of 189 respondents' representing 14.3% have received some tax education while the remaining 85.7% have never received any form of income tax education.

Asamenew (2012), found that the major causes for the problem in VAT administration practices are there exist inefficiency and insufficient number of tax assessment and collection officers, most taxpayers lack sufficient knowledge of tax assessment and collection procedures. Thus, most of taxpayers do not know why they are paying taxes; what types of taxes are expected from them; and the applicable rules and regulations. Due to this he recommends that negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes.

According to Hagos (2011) and Lemessa (2007), awareness creation by the authority on taxpayers were rated about 87.8% and 74% of the respondents responded that below enough and poor and this shows that the awareness creation activities of the tax authority were ineffective and inefficient in according to awareness creation. Therefore, they established that the awareness creation problem was a series and the root cause of all problems relating to the tax collection and assessment. Due to this, the authority may not achieve the expected future voluntary compliance in the absence of services along with the taxpayer's lack of tax awareness. Without educating taxpayers and creating tax awareness, making power visible to the community might detect the deliberate evasions and frauds but not be a solution to create a compliant taxpayer those does not comply unknowingly.

Markos (2010) found that different problems were observed, the main one is being attitudinal problem of the taxpayers and implementation capacity of the government employees. As a result, the data show that there are many businessmen and companies that should be registered for VAT but are not. As a result, the branch office is losing millions of birr per year. And he recommended changing the attitude of the taxpayers and building the implementation capacity of the employees.

A study on Challenges of Value Added Tax Administration: The Case of East Wollega Zone by Dheressa, Reddy, and Yadeta, 2015 investigated the challenges of VAT administration in relation with assessment, collection and implementation and they also evaluate the main problems related to VAT administration activities performance and service delivery of tax office and voluntary compliance of taxpayers in the case of Eastern Wollega Zone specifically Nekemte town. Their samples were composed of VAT registrants, Auditors, Tax Collectors, Audit and Assessment and Process Owners/ Team leaders. The researchers noted that the authority is facing the following problems that have an effect on collecting sufficient amount of revenue, resistance against Value Added Tax registration, low level of tax awareness, weak audit and enforcement capacity of the tax authority, selling goods and service without using value added tax invoices by registrants, weak culture of taxpayers, lack of fairness, lack of experience of Value Added Tax registrants, weak follow-ups and controlling mechanisms against those unregistered and registered Value Added Taxpayers generally majority of the respondents stated that there is poor Value Added Tax Administration in the East Wollega Zone.

In 2008, Yesegat's study about Value Added Tax Administration in Ethiopia: A reflection of problems had the objective of how VAT administrators in Ethiopia perform their duties and how the effective taxation requirements differ from the legislation (focusing on the key administration tasks) and identify key problem areas that deserve the government's due attention. The outcome of the study shows lack of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. The gaps and problems identified in the study were partly because of under staffing of the tax authority which confirms the existence of limited tax administration resources. The researcher therefore suggested that enhancing tax education and follow up programs are valuable and designing a strategy that can encourage consumers to ask for VAT invoices could be helpful although this is likely to increase the administrative costs of the tax. It is also advisable for the authority to consider the possibility of recruiting and retaining sufficient number of qualified VAT administrators, auditors in particular.

Research about by Aruwa (2008), mainly examines the relevance and problems hindering efficiency of VAT. Most of the staff perceives that they are not adequately equipped technically and administratively to handle VAT operations. Taxpayer organizations have in appropriate knowledge of VAT operations because as per the in-depth interviews with a few of the organizations indicate that input VAT is wrongly treated as production costs. The responding organizations declaim that input VAT caused their working capital requirements to increase. Therefore, the argument that the system is not properly understood by the organizations remains. Even if the governments have raised substantial revenue from VAT, it is presently perceived as been underutilized due to high rate of tax evasion, lack of record keeping by business enterprises.

2.3 Summary and Knowledge Gap

The use of VAT as a means of raising government revenue is on the rise globally, with African countries also adopting it due to its lower administrative and economic costs as compared to other broadly-based taxes. Despite even relatively poor administration, VAT is considered an effective tool for generating government revenue. The literature review includes discussion of the concept and definition of VAT, as well as various administration activities such as VAT collection, voluntary compliance, audit, refund, and enforcement.

According to studies, numerous challenges have been encountered in the Ethiopian tax system since the introduction of VAT. The primary areas of concern are taxpayers' identification and registration, VAT filing and payment, VAT refunds, VAT audits, penalties, and VAT invoicing related to tax administration. Moreover, society lacks tax awareness, and trust between taxpayers and administrators is weak. Resistance to registering for Value Added Tax, low tax awareness, weak audit and enforcement capacity of the tax authority, unregulated sale of goods and services without tax invoices by Value Added Tax collectors, and challenges enforcing tax laws all impact the collection of sufficient revenue through Value Added Tax.

Tax authorities encounter various challenges in dealing with taxation, especially VAT, and require enough time to comprehend and address these intricate matters. One of their greatest challenges is convincing taxpayers to pay their taxes consistently and honestly. Once effective systems are established, the administration and execution become seamless and user-friendly. However, Ethiopia, similar to other developing nations, has only recently implemented VAT and continues to experience obstacles in its VAT administration.

Overall, the researcher has identified a gap in the existing studies on VAT administration in Ethiopia. While previous research has been conducted on this topic in various towns and by different researchers, there has been a lack of comprehensive studies on VAT administration practices at the federal medium level taxpayers' branch office in Addis Ababa. Furthermore, even the existing studies have not fully examined the taxpayers' aspects of VAT administration. This particular study aims a comprehensive study on VAT administration practices by focusing on the federal medium level taxpayers' branch office in Addis Ababa.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

The primary objective of this study was, investigating the administration of Value added tax in the Federal Medium Level Taxpayers Office. The purpose of this chapter is to discuss the research methodology for this study. Under here, are the discussions on the research design; population and data source; sampling techniques; data collection method; data collection instruments; validity and reliability; data analysis and presentation method; and the ethical considerations.

3.1 Background of Ministry of Revenue

In Ethiopia, the responsibility to collect revenue for the federal government rests with the Ethiopian Revenue and Customs Authority. According to article 3 of the proclamation No. 587/2008, the Authority is looked upon as "an autonomous federal agency having its own legal personality". The Authority came into existence on 14 July 2008, by the merger of the Ministry of Revenue, Ethiopian Customs Authority and the Federal Inland Revenue Authority who formerly were responsible to raise revenue for the Federal government and to prevent contraband. Reasons for the merge of the foregoing administrations into a single autonomous Authority are varied and complex.

Vision: The Authority's vision is to see "fair and modern taxes and customs administration system that enhances the proper and effective revenue collection".

Mission: The Ministry of Revenues of Ethiopia shall promote the voluntary compliance of taxpayers, ensure integrity and develop the skill of the employees, support the modernization and harmonization of the taxes and customs administration system, contribute to economic development and social welfare through effective revenue collection.

Values: Some of the values of the Authority are Customer focused service delivery (trust, respect, protect, support), Protect the well-being of the society, Integrity and transparency, Professionalism, Collaborative working

The Authority has its headquarters in Addis Ababa. The Authority is led by a Director General who reports to the Prime Minister and is assisted by four Deputy Director

Generals, namely: Enforcement sector, Operations sector, Deputy Director General for Corporate functions sector, and Change Management and Support sector.

Both the Director General and the Deputies are appointed by the Prime Minister. The Authority, at the headquarters level, has 19 business processes and 2 directorates namely Women's Affairs Directorate and Ethics Directorate. Apart from the 19 business processes and the2 directorates at the headquarters level, the Authority has 17 field offices which can be divided as follows: 15 branch offices located in a regional state or city administrations and 2 coordination offices located outside of Ethiopia at the port of Djibouti and at the port of Burbera, Somalia. Each field office is directed by a manager who is accountable to the Director General of the Authority. In Addis Ababa, there are fourteen tax offices, namely ten micro taxpayer offices, two medium taxpayer offices and two project offices.

A medium taxpayer branches were opened in order to bring tax harmonization, to improve the service delivery and to solve the problems in the Federal Tax Administration. The openings of this new branch also help to decrease the burden of small and large taxpayer's branches. Previously small and large taxpayer's branches served lots of taxpayers in addition to those VAT registrants whose annual turnover is below 1 million, but currently if the VAT registrants' annual turnover reaches 1 million, they are categorized as medium taxpayers and their documents were transferred to those newly opened federal medium taxpayers branch office. The study aims at assessing the VAT administration of this Federal Medium Level Taxpayers branch.

3.2 Research Design and Approaches

Research approaches can be classified under the categories: quantitative research and qualitative research. Quantitative research approach is systematic and objective in its ways of using numerical data from only a selected subgroup of a population to generalize the findings to the universe under study (Walliman, 2001). Similarly, Welch et al. (2013) has indicated that a quantitative method is appropriate to examine the relationship between two or more variables in the study and is mainly relevant for theory testing. It involves the collection and analysis of numerical data through statistical methods to examine a particular phenomenon or problem. The data collected is objective, reliable, and measurable, hence making the findings more easily generalize to the larger population (Creswell, 2014).

Qualitative research approach seeks to understand and interpret the social phenomena based on the unique perspectives of the participants involved. According to Creswell (2013), qualitative research helps to provide a deeper understanding of a particular research problem through the collection and analysis of data that is descriptive and subjective in nature. Some common methods used in qualitative research include interviews, focus groups, case studies, and ethnography. One of the major strengths of qualitative research is its ability to provide rich and detailed data on complex social issues. Additionally, qualitative research is useful in generating new theories and conceptual frameworks that can be tested using other research methods.

Based on the above explanation, this study finds appropriate and was applied the quantitative research approach. The reason for selection is that the quantitative research approach proposed in this study was provide a comprehensive assessment of VAT administration in the Federal Medium Level Taxpayers branch office of Ministry of Revenues of Ethiopia, Ethiopia. This was helping identify areas that need improvement and make recommendations for effective VAT administration.

The research design is an essential element in the research process so as to make the study stronger and to manage the research process easily. It includes the research process from defining a research question to analyzing data (Yin, 2015).

The design chosen for the present study was a descriptive and explanatory study. According to Abiy et al. (2009), descriptive and research sets out to describe and to interpret the area under study. Furthermore, it looks at individuals, groups, institutions, methods, and materials in order to describe, compare, contrast, classify, analyze, and interpret the entities and the events that constitute the various fields of inquiry. It aims to describe the situation as it exists.

One of the methods under descriptive research is Cross-sectional design. In this design, a sample of participants is selected from a specific population, and data is collected at a single point in time, allowing for a snapshot of the current state of the phenomenon of interest. Also, it is appropriate for this assessment, as the aim is to gain an understanding of the current VAT administration practices in the branch office. Cross-sectional design is less complex and less time-consuming than longitudinal designs, and it is also more cost-effective (Creswell, 2014).

3.3 Data Types and Sources

This study was employed both primary and secondary sources of data. The primary data was collected from the employees and taxpayers through a questionnaire.

3.4 Population and Sampling Design

A population is a group of potential participants to whom one is seeking to generalize the results of a study. It represents the collection of all units of analysis (Abiy, et al., 2009). According to Ethiopian Revenues and Customs Authority (2019), there are more than 30,262 registered under the Revenue Authority. The report indicated that out of the total 3,462 is category B or medium taxpayers and the remaining 26,800 fall under category A and C or large and small taxpayers respectively. In case of employees, the selected branch has a total of 94 employees that are taken as the target population.

The target population of this study was the full-time staff members and medium taxpayers and the study was excluded employees that are temporary and with work experience of less than a year, and the reason behind this are to take maximum causation in reliability of data collected as these employees could be less accurate to present the full picture.

3.5 Sampling Technique and Simple Size

The study was applied both probability and non-probability sampling technique among the probability sampling methods. The guiding principle behind this technique is that each element must have an equal and nonzero chance of being selected.

There are 3,462 Federal medium taxpayers registered under the Federal Medium Level Taxpayers Office. While the branch has total of 157 permanent employees, out of which 94employees have an experience of more than a year.

The sample size of the study was calculated as follows by using Yamane's (13587) formula as the target population is finite considering 95% confidence level and 5% margin of error or level of precision.

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

Where:

n= is the sample size

N= is the population size, and

e = is the level of precision or sampling error

Medium Level Taxpayers	Branch Employees
$n = \frac{3426}{1+3426(0.05^2)}$ $n = \frac{3426}{9.57}$ $n = 358$	$n = \frac{94}{1+94(0.05^2)}$ $n = \frac{94}{1.24}$ $n = 76$

Therefore, the sample size for targeted population of the study is 358 (Medium Level Taxpayer) and 76 (Branch Employees).Once the sample size was identified, the sample items in each number of samples distributed to each business sector and working department at the time of questionnaire distribution, respondents selected using random sampling technique.

One appropriate sampling method is stratified random sampling. This involves dividing the population into subgroups, based on specific characteristics such as taxpayer business types, and employee's wrong department. The strata are then randomly sampled to obtain a representative sample that reflects the proportion of each stratum. The advantage of stratified random sampling is that it allows for the identification of the unique issues in each stratum while still ensuring that the sample is representative of the whole population. This method is also useful in ensuring that enough data points are collected for each stratum to produce reliable results.

Table Target Population and Sample Size of the Study for Medium Level Taxpayer

Types of Business	**No of Taxpayers (VAT Registrant)**		**Sample**
Services	820	(820/3426) * 358	86
Manufacturing	630	(630/3426) * 358	66
Construction	235	(235/3426) * 358	25
Mortising	502	(502/3426) * 358	52
Import and Export	763	(763/3426) * 358	80
Other	476	(476/3426) * 358	50
	3426		358

Table Target Population and Sample Size of the Study for Branch Employees

Departments	Employees		Sample
Investigation Audit	16	(16/94) * 76	13
Value Added Tax Assessment	69	(69/94) * 76	56
Value Added Tax Collection	9	(9/94) * 76	7
	94		76

3.6 Data Collection Method

In an attempt to collect data, the researcher was employed structured questionnaires. A questionnaire has two main advantages. First, it can be easily distributed to a large number of people, meaning that it’s less time consuming and economical. Second, they often allow anonymity, and allowing respondents to be anonymous is important in order to collect their honest answers to highly personal question (Mitchell &Jolley, 2010).

Two questionnaires were used to collect data for this study. The questionnaires sought information on the VAT administration practices from full-time employees (76) and taxpayers (358) of the selected branch.

3.7 Method of Data Analysis

A quantitative approach was used to analyze the data for this research. The completed data from the questionnaire was entered directly into the SPSS data editor. The research was made using of statistical techniques to enable generalizations of the research findings. These were including descriptive statistics like; tables, mean, standard deviation and frequency.

Descriptive statistics was used to analyze demographic data. It was used to describe, present and summarize quantitative information in the form of measures of central tendency (mean was used to describe the central position) and measures of spread (standard deviation was used to describe the spread of score). Furthermore, tabulated descriptions and graphical descriptions were used to analyze collected data.

3.8 Ethical Considerations

Before starting the actual data collection, the purpose of the study, the rights to participate and refuse were told to the study subjects. Verbal consent from the study participants was obtained. Confidentiality of the information was guaranteed by not writing a name or anything that enable to identify study participants. In addition to that a respondent answer was kept in a confidential place. The researcher acted responsibly according to ethical standards to ensure that the information gathered was not brought to disregard. All respondents have the right to privacy, to safety, to know the true purpose of the research, to obtain research results and to abstain from answering questions.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.1 Introduction

The present chapter of the study provides an in-depth analysis and interpretation of data collected from a questionnaire that aimed to assess the VAT administration in the Federal Medium Level Taxpayers branch office of the Ethiopian Revenues and Customs Authority. In order to ensure clear presentation, tables, charts, and brief descriptions were utilized. The chapter begins by outlining the response rate. Following this, the demographic characteristics of the respondents are discussed. Descriptive statistics, such as mean, standard deviation, tables, frequencies, and percentages, were presented by using SPSS version 25 for data analysis. Finally, research questions are answered by summarizing the collected responses through tables and charts, allowing for the facilitation of better understanding on the issues.

4.2 Response Rate

In order to achieve the main research objective, two questionnaires were developed and distributed to both medium level taxpayers and branch employees. The completeness of all questionnaires was reviewed to ensure data suitability for analysis. For quantitative data analysis, 13 and 19-item questionnaires were used and distributed to 76 employees and 358 taxpayers accordingly. The questionnaires were collected from all 76 employees and 280 taxpayers out of the 385 sample respondents. The remaining 78 taxpayers did not return the questionnaire due to various reasons, resulting in a response rate of 100% for employees and 79% for taxpayers. The response rate of 79% was considered excellent by academic standards. There were no missing values in the collected data as all respondents answered all questions. As suggested by Saunders, Lewis &Thornhill (2019), this response rate exceeds the statistical analysis response rate of 60%.

4.3 Descriptive Statistics

Table 1 Demography of Respondents (Employee)

No	Items	Categories	Frequency	Percentage
1	Gender	Male	44	57.9
		Female	32	42.1
		Total	76	100.0
2	Age category	Below 31	13	17.1
		31-40	39	51.3
		41-50	17	22.4
		Above 50	7	9.2
		Total	76	100.0
3	Experience	2 – 5 Years	7	9.2
		6 - 10 Years	48	63.2
		11 - 15 Years	15	19.7
		16+ Years	6	7.9
		Total	76	100.0
4	Education	Degree	45	59.2
		MA/MSC	28	36.8
		Other	3	3.9
		Total	76	100.0
5	Position	Officer	11	14.5
		Senior Officer	38	50.0
		Team Leader	13	17.1
		Other	14	18.4
		Total	76	100.0

Source: Own Survey Data, 2023

The provided data shows the gender distribution of officials in the Federal Medium Level Taxpayer Branch. Out of a total of 76 officials, there are 44 male officials who constitute 57.9% of the total officials, and 32 female officials which constitute 42.1% of the total officials. This helps for effective task achievement for the office specifically maternal leave.

In terms of age, the majority of participants, 51.3%, fall in the age category of 31-40 years old. The participants in this age bracket make up more than half of the total study participants. There are only a few participants over the age of 50, at 9.2%. The age distribution is relatively even between the two older age categories of 41-50 years old, and over 50 years old, with 22.4% and 9.2%, respectively. This helps for effectiveness of value added tax administration.

According to the collected data, the majority of participants (63.2%) have between 6 and 10 years of work experience, making them the most experienced group in the sample. Meanwhile, those participants with 2 to 5 years of work experience represented a small proportion of the sample size (9.2%). The data also reveals that a sizable number of participants (19.7%) have worked between 11 and 15 years, while only a small percentage of participants (7.9%) have 16 years or more of professional experience. Overall, the data suggests that the Federal Medium Level Taxpayer Branch employs a range of experienced professionals. While there are some participants who are relatively new to their respective fields, the majority of participants have a solid foundation of experience with at least 6 to 10 years under their belts. The organization is so effective because most of the respondents are most experienced.

Based on the data, the majority of study participants (59.2%) reported possessing a Bachelor's degree while, around 36.8% of participants reported holding a Master's degree. Finally, a small proportion of participants (3.9%) reported having other types of education. Majority of the respondents are educated and helps for the effectiveness of the study and organization.

In terms of position, the data reveals that participants in the Federal Medium Level Taxpayer Branch hold different positions, with 50.0% of individuals being Senior Officers. Additionally, 13 participants (17.1%) were designated as Team Leaders, and 11 participants (14.5%) were Officers. For 18.4% of participants, other positions were reported, although no further details were given. The findings indicate a varied workforce with staff members occupying different roles and positions. Nonetheless, senior officer roles dominate, highlighting the presence of experienced staff members within the organization. This is also helpful for the study to get enough information for the success of this study.

Table 2 *Demography of Respondents (Taxpayers)*

No	Items	Categories	Frequency	Percentage
1	Gender	Male	213	76.1
		Female	67	23.9
		Total	280	100.0
2	Age category	Below 31	31	11.1
		31-40	134	47.9
		41-50	74	26.4
		Above 50	41	14.6
		Total	280	100.0
3	Education	Diploma	26	9.3
		Degree	115	41.1
		MA/MSC	21	7.5
		Other	118	42.1
		Total	280	100.0
4	Position	Owner	121	43.2
		Employee	159	56.8
		Total	280	100.0
5	Years in the VAT System	<5 Years	87	31.1
		6 – 10 Years	118	42.1
		10+ Years	75	26.8
		Total	280	100.0

Source: Own Survey, 2023

Based on the above table 5 the gender distribution of study participants who are medium level taxpayers out of the total size of 280, 76.1% are male and 23.9% are female taxpayers. While the data shows the majority of taxpayers fall in the age group of 31-40, with 47.9% of the total individuals. The second-largest age group is that of 41-50 years, which accounts for 26.4% of the total individuals. The age groups below 31 and above 50 make up smaller proportions of the population, with 11.1% and 14.6%, respectively. This indicates that the majority of medium level taxpayers belong to the working-age group.

Understanding the age distribution is essential for framing tax policies and planning tax education campaigns. The data can also provide insight into the level of compliance with tax laws and regulations among different age groups.

The second majority of the participants (41.1% or 115 individuals) possess a degree. The slightly majority participants completed other qualifications, who represent 42.1% (118 individuals) of the sample. Diplomas were held by 26 of the participants, which accounts for 9.3% of the total sample, while only 7.5% (21 individuals) held MA/MSC qualifications. It is clear from the data that around two-thirds (61.6%) of the participants have completed a degree or higher qualification. This data suggests that Taxpayers in the study generally possess higher levels of educational attainment. This could have implications for tax behavior and compliance, as individuals with higher income and educational qualifications are often more aware of tax regulations and may be more likely to comply with them.

In terms of position in the company, the data indicates that the majority (56.8%) of participants were employees, while 43.2% (121 individuals) were business owners. Most of employees expected to access task system easily and helps for the organization.

According to the data Number of Years in the VAT system, the majority of taxpayers in the study have been in the VAT system for between 6 and 10 years. Specifically, 42.1% of the participants fall into this category. Additionally, 31.1% of the participants have been in the VAT system for between 2 and 5 years, while 26.8% have been in the system for 10 or more years. As the study shows the majority of taxpayers in the study have been in the VAT system for between 6 and 10 years. This helps for tax payers and the organization to communicate easily.

This data may imply that the VAT system is relatively stable and established, as a significant proportion of participants have been using it for several years. However, it is also worth noting that a sizeable minority (31.1%) have been using the system for less than five years, suggesting that there may still be ongoing efforts to onboard new taxpayers to the system. Overall, this data provides valuable insights into the length of time that medium level taxpayers have been using the VAT system, which can be used to inform decisions about how to improve and optimize the system in the future.

Also the data can be used to identify trends and patterns that can help to improve the VAT system, such as targeting training and education initiatives towards the 31.1% of the participants who have been engaged in the system for a shorter period. It can also highlight the importance of retaining the existing taxpayers who have been using the system for more than ten years. Therefore, the data provides important insights that can be used to optimize the VAT system, streamline processes, and ensure that taxpayers comply with tax regulations effectively. This helps for the organization to simplify tasks.

In general knowing the general information of respondents helps for the study to achieve its objectives.

4.3.2 Employees Assessment of VAT Administration in Federal Medium Taxpayers Branch

This part of the study focused on examining the frequency distribution and percentage of VAT administration assessment in the Federal medium Taxpayers Branch. The measurement of agreement of the participants' responses to the survey questions was determined using Likert's scale. The researcher utilized a ranking system from 1 to 5, where 5 represent the highest level of agreement and 1 denotes the lowest. Table 4 displays the Likert's scale used to evaluate the participants' responses.

Table 3 Rating, Mean Range and its interpretation

Rating	**Mean Range**	**Interpretation**
5	4.21-5.00	Strongly agree
4	3.41-4.20	Agree
3	2.61-3.40	Not sure
2	1.81-2.60	Disagree
1	1.00-1.80	Strongly disagree

Source: Michael et al (2020)

Table 4 Tax Assessment Service

Tax Assessment Service	Mean	Std. D
It is reasonable to require a minimum threshold of birr 1,000,000 in annual turnover for VAT registration.	2.41	1.368
We provide a good service to taxpayers	4.38	.489
We have a simple filing and payment procedure	4.25	.768
The penalties are appropriate and fair	3.45	1.025
We have a fair and efficient appeals system	4.33	.619
The branch is effective in auditing and enforcement of VAT	3.76	.978

Source: Own Survey, 2023

The data collected from the study participants (Medium Level branch employees) is related to the statement "It is reasonable to require a minimum threshold of birr 1,000,000 in annual turnover for VAT registration." Based on the data collected, it appears that a majority of the Medium Level employees do not agree with the requirement of a minimum threshold of birr 1,000,000 in annual turnovers for VAT registration. Specifically, over 60% of the participants either strongly disagree or disagree with this threshold, while only 25% agree and 6.58% are unsure. The mean of 2.41 and standard deviation of 1.368 suggest that there is a moderate level of disagreement among the participants, with some variation in opinions. Therefore, there is a tendency for the participants to disagree with the idea of imposing a minimum threshold of birr 1,000,000 in annual turnover for VAT registration.

The standard deviation value of 1.368 indicates that there is a significant variation in the responses given by the participants. This suggests that the participants have different opinions regarding the idea of imposing a minimum threshold of birr 1,000,000 in annual turnover for VAT registration.

Overall, based on the mean and standard deviation values, it can be concluded that the idea of imposing a minimum threshold of birr 1,000,000 in annual turnover for VAT registration may not be supported by the majority of the medium level branch employees who participated in the study. The standard deviation value indicates a significant variation in the responses, and it may be necessary to investigate further to understand the reasons behind the differing opinions.

Based on the data collected, it appears that the majority of the Medium Level branch employees strongly agrees or agrees that they provide a good service to taxpayers. Specifically, 38.16% of the participants strongly agree, while 61.84% agree. No participant disagrees or is unsure about the quality of service provided.

Based on the mean value, it can be concluded that the participants believe that they are providing a good service to taxpayers. However, it is worth noting that the mean value is relatively high. Therefore, we cannot say that the participants strongly believe in the quality of the service they provide.

The high percentage of employees who agree or strongly agree with this statement is a positive reflection of the group's perception of their ability to quality service to taxpayers. This is reinforced by the high mean score of 4.38, which suggests that the group's perception of the quality of service provided is above average.

The standard deviation of 0.489 is relatively small, indicating that there is not much variation in the responses given by the participants. This suggests that the majority of the participants hold similar perceptions regarding the quality of service they provide.

Overall, the data implies that the medium level branch employees perceive that they are providing good service to taxpayers, they strongly convinced of their performance. Also, the small standard deviation value suggests that there is a lot of agreement among the participants, which may indicate that the quality of service provided by medium level employees in general is consistently good. These findings are a positive indicator of the commitment of medium level branch employees towards providing high-quality service to taxpayers.

This finding could be interpreted as a positive reflection on the Medium Level branch employees and their dedication to providing high-quality service to taxpayers. It may also suggest a strong culture of service within the organization. Building on this strength could be beneficial, in terms of improving customer satisfaction, building trust and promoting compliance.

The data collected from medium level branch employees pertains to their opinion about the simplicity of filing and payment procedure. Based on the data collected, the majority of the employees agrees or strongly agrees that the organization has a simple filing and payment procedure. Specifically, 38.16% of participants strongly agree and 55.26% agree, while only 6.58% of participants disagreed. No participant is unsure.

The mean score of 4.25 suggests that on strong agreement, the perception of the filing and payment procedure is high. While the standard deviation of .768 indicates that there is some variation in the scores provided, the majority of the participants gave high scores to the filing and payment procedure.

Based on the mean value, it can be inferred that the participants strongly agree that the filing and payment are simple. This suggests that the majority of the participants feel very strongly that the filing and payment procedures are easy to follow and understand. The standard deviation of 0.768 is relatively large, indicating that there is a considerable amount of variation in the responses given by the participants. This suggests that some participants may feel more strongly about the simplicity of the procedures than others.

This is a positive indication of the organization's service delivery, as a simple procedure can be an important aspect of ensuring compliance and taxpayer burden. Therefore, building on this strength could further increase the efficiency and effectiveness of the organization's service delivery.

Overall, the data implies that the medium level branch employees perceived the filing and payment procedures to be simple. The high mean value indicates that most of the participants believe that the procedures are easy to understand and follow. However, the relatively large standard deviation indicates that some participants may have different opinions about the simplicity of the procedures. These findings are an indication that the procedures may be easy to follow but there may still be some scope for further improvement to reduce the amount of variation in participants' perceptions.

Based on the data collected from the study participants, it appears that the majority of the Medium Level branch employees (48.68%) agree that the penalties are appropriate and fair. However, there are a noticeable percentage of participants (27.63%) who disagree with this statement. Additionally, 11.84% of participants are not sure where they stand on this issue, while an equal percentage of participants (11.84%) strongly agree that the penalties are appropriate and fair. The mean value for the responses given by the participants is 3.45, and the standard deviation of the responses is 1.025.

The mean score of 3.45 indicates that overall, the study participants have a slightly positive perception of the appropriateness and fairness of the penalties. However, the standard deviation of 1.025 suggests that there is a significant amount of variability in the participants' responses. This indicates that there may be some differences in opinions among the participants. Overall, the data suggests that there may be room for improvement in the penalties system, as a significant proportion of study participants disagree with the statement.

Overall, the data implies that the participants have a mixed opinion about the fairness and appropriateness of the penalties in the VAT system. However, the high standard deviation indicates that there are different opinions among the participants, which may suggest that there are issues that need to be addressed. Further investigation may be necessary to understand the reasons behind the varying opinions about the appropriateness and fairness of the penalties in the VAT system.

Based on the data collected from the study participants, it appears that the majority of Medium Level branch employees (51.32%) agree and a significant proportion (40.79%) strongly agrees that the organization has a fair and efficient appeals system. None of the study participants strongly or even mildly disagree with this statement. Additionally, only 7.89% of participants are not sure about the fairness and efficiency of the appeals system. The mean value for the responses given by the participants is 4.33, and the standard deviation of the responses is 0.619.

The mean score of 4.33 suggests that the participants have a positive perception of the appeals system and consider it to be fair and efficient. It can be inferred that the participants strongly agree that the appeals system is both fair and efficient. This suggests that the majority of the participants feel very strongly that the appeals system is well-functioning and provides a fair chance for taxpayers to appeal decisions.

The standard deviation of 0.619 is relatively small, indicating that there is not much variation in the responses given by the participants. This suggests that the participants hold very consistent perceptions regarding the efficiency and fairness of the appeals system.

Overall, the data implies that the medium level branch employees hold a positive view of the appeals system in the VAT system, and see it as both efficient and fair. These findings are a positive indicator of the efficiency and fairness of the appeals system in the VAT system, which is essential to maintain trust and confidence among taxpayers. However, the organization may still benefit from collecting more data to understand the small proportion of employees who are not sure about the appeals system's fairness and efficiency.

The data collected from medium level branch employees pertains to their opinion about the effectiveness of branch in terms of auditing and enforcement of VAT, it appears that a significant proportion of Medium Level branch employees (14.47%) disagree and another notable percent (18.42%) are not sure about the effectiveness of the branch in auditing and enforcing VAT. However, there are still a considerable proportion of employees who agree (43.42%) and strongly agree (23.68%) that the branch is effective in this aspect. The mean value for the responses given by the participants is 3.76, and the standard deviation of the responses is 0.978.

Based on the mean value, it can be inferred that the participants are somewhat positive in their evaluation of the branch's effectiveness in terms of VAT auditing and enforcement. The mean value is above the midpoint of the scale. However, it is not overly high, suggesting that there is room for improvement in this area. The standard deviation of 0.978 is relatively large, indicating that there a considerable amount of variation in the responses given by the participants. This suggests that some participants may feel more strongly about the effectiveness of VAT auditing and enforcement than others.

Overall, the data implies that the branch employees hold a mixed view of the effectiveness of the branch in terms of VAT auditing and enforcement. While many employees feel the branch is effective in auditing and enforcement, a sizable percentage has uncertain or negative views on this issue. The high mean value indicates that the majority of the participants hold a somewhat positive view, but the large standard deviation suggests that there are differing opinions among the participants. Thus, there may be a need for management to take steps and strategies to improve the effectiveness of auditing and enforcement measures to ensure that there is consistency in its implementation. Also evaluate its procedures and communication strategies to address any concerns about VAT auditing and enforcement raised by employees who may be unsure or disagree with the statement.

Based on the analysis of the data collected from the study participants, it can be observed that the participants have a favorable perception of various aspects related to VAT such as providing good service to taxpayers, having a simple filing and payment procedure, having a fair and efficient appeals system, and the effectiveness of auditing and enforcement of VAT. However, the data also shows that there are some concerns regarding other aspects, such as the appropriateness and fairness of penalties, and the minimum threshold for VAT registration, where the majority of the participants disagree or are neutral. The large standard deviation values for these questions indicate that there is a considerable variation in opinions among participants.

According to the data, the VAT system needs to further improve in terms of imposing penalties, regulations governing VAT registration, and auditing, and enforcement efforts. There may be a need for management to introduce new and better refinements or initiatives to address these issues, to ensure a consistent and efficient implementation of these processes. Generally, the data provides useful insights into the perceived strengths and weaknesses of the VAT system from the personal experience of Medium Level branch. It shows that further improvements required to ensure efficient administration of VAT and to boost the confidence of taxpayers in the system.

4.3.3 Employees Assessment of Taxpayers in VAT Administration in Federal Medium Taxpayers Branch

Table 5 Questions related to Taxpayers

Questions related to Taxpayers	**Mean**	**Std. D**
The number of voluntary VAT payers are high	3.97	.864
The general sentiment of our taxpayers towards VAT is positive.	4.05	.746
Taxpayers diligently pay their VAT and timely declare their income.	3.75	.785
VAT registrants sell goods and services without issuing receipt	3.87	.885
Some traders registered for VAT have manipulated the machine to produce inaccurate reports	4.18	.989
VAT registrants provide fake invoices to secure more input tax	3.87	.943
Majority of eligible traders for VAT have been actually registered for VAT	4.07	.525
The business owners have enough awareness on tax payment.	3.53	1.077

Source: Own Survey, 2023

According to the above table 8, it appears that the majority of Medium Level branch employees (59.42%) agree and a significant proportion (28.99%) strongly agrees that the number of voluntary VAT payers is high. However, there is a notable percentage of study participants who are not sure (11.59%) or disagree (10.14%) with this statement.

The mean score of 3.97 indicates that the participants' perception of the number of voluntary VAT payers being high is slightly above average. The standard deviation of .864 suggests that the participants' responses are relatively consistent and clustered around the mean score, indicating strong agreement with the statement.

Overall, the data suggests that the participants have a generally positive perception of the number of voluntary VAT payers being high. However, the organization may benefit from collecting more data to understand why some employees are unsure or disagree with this statement. The organization may also consider reviewing its communication strategies on the subject to ensure that all staff members are well-informed regarding changes in the number of voluntary VAT payers.

The medium level branch employees believe that the overall sentiment towards VAT among taxpayers is positive. The high percentage of participants agreeing or strongly agreeing with the statement (57.97% and 30.43%, respectively) indicates that many employees think that taxpayers feel positively about VAT Additionally, the mean score of 4.05.

The relatively low percentage of participants who disagreed with the statement (2.9%), however, the high percentage of participants who were unsure about taxpayers views (18.84%). The standard deviation of .746 is relatively low, which implies that there is not much variation in the responses, and the results are more reliable.

According to the branch employees, they generally believe taxpayers diligently pay their VAT and timely declare their income. The vast majority of participants (79.71%) agreed with the statement, with 8.70% strongly agreeing. However, relatively high percentages (14.49%) of participants disagreed or were unsure about whether taxpayers diligently pay their VAT and timely declare their income. It shows that that a notable percentage of tax officials have some doubts or concerns about taxpayer compliance.

The standard deviation of .785 shows that the responses were clustered relatively closely around the mean score of 3.75. These findings suggest that the employees view paying their VAT and declaring their income as important obligations that they take seriously.

Overall, the data suggests that the employees have a moderately positive view of taxpayer compliance with VAT payment and timely declaration of income, although there some level of un-sureness or concern among the participants. To further promote taxpayer compliance, it may be necessary to invest in education and awareness-raising campaigns, as well as strengthening the enforcement mechanisms to ensure that all taxpayers are complying with relevant regulations.

Based on the collected data from there is concern about VAT registrants selling goods and services without issuing a receipt. The mean score of 3.87 indicates that participants generally agree with the statement, but not overwhelmingly so. The standard deviation of .885 indicates that there is some level of variation in the responses given, with some participants were more concerned than others about this issue. Nearly a quarter of participants strongly agreed with the statement, while over 62% simply agreed. This indicates that a majority of medium level branch employees believe that VAT registrants selling goods and services without issuing a receipt is an issue. On the other hand, a relatively small percentage (13.04%) of participants disagreed with the statement, and over 11% were unsure.

The data indicates that VAT registrants not issuing receipts is an issue that may need to be addressed and improved, as it appears to be a point of concern among medium level branch employees. More education or enforcement may be necessary to address the issue, and to ensure that VAT registrants comply with regulations regarding receipt issuance.

The employee's response suggests that there is significant concern regarding some traders registered for VAT manipulating machines to produce inaccurate reports. Over half of participants (52.17%) strongly agreed with the statement, indicating a high level of concern regarding the issue. Over 39% simply agreed, adding to strong overall agreement with the statement. A small percentage (13.04%) of participants disagreed with the statement, and only 5.80% were unsure. This indicates that the majority of the branch employees have a clear and negative impression regarding some traders' actions in manipulating machines to produce inaccurate reports.

The mean score of 4.18 suggests strong agreement with the statement, with a relatively high standard deviation of .989 indicating that the responses were spread out around the mean. These findings imply that the participants have observed instances where some VAT registered traders have deliberately misused the machines to produce inaccurate reports.

Overall, the results suggest that there may be a need for further increased monitoring, education and enforcement efforts to ensure that VAT registered traders are complying with their obligations and accurately reporting their income.

Based on the data, appears that a majority of the employees agree or strongly agree that VAT registrants provide fake invoices to secure more input tax. Specifically, 82.61% of the participants either agree or strongly agree with this statement. The mean score of 3.87 also suggests that the perceptions of the participants are leaning towards agreement and perceive that this fraudulent behavior is occurring. However, the standard deviation of .943 indicates that there is some variation in the responses, and not all participants view the situation the same way. It is worth noting that 13.04% of the participants were unsure about this statement, indicating a lack of knowledge or information on the topic.

The findings of this data signal that there may be a need for more rigorous monitoring and controls to tackle this issue. For example, organizations may need to invest more in compliance-related training and monitoring or take legal and regulatory action against fraudulent behavior. This data can be used as a basis for creating strategies to address the problem and help create a system that prevents against fraudulent behavior. Also further education or enforcement may be necessary to address the issue and ensure that VAT registrants are not issuing counterfeit invoices to secure more input tax.

The branch employees show strong agreement that majority of eligible traders for VAT has actually been registered for VAT. A significant percentage of participants (18.84%) strongly agreed with the statement, while 79.71% simply agreed, indicating a strong overall agreement with the statement. No participants disagreed with the statement. Relatively small percentages (11.59%) of participants were unsure about the sentiment. However, given the high level of agreement with the statement among the rest of the participants, it can be inferred that most medium level branch employees have a positive view of the VAT registration process and the compliance of traders. The mean score of 4.07 indicates a high level of agreement with the statement, with a relatively low standard deviation of .525 suggesting that the responses were clustered closely around the mean.

Overall, the data suggests that the majority of eligible traders for VAT have been registered and compliant with their VAT obligations. This indicates that the registration process has been effective and most traders are willing to comply with their VAT obligations.

The result of the employee response indicates a moderate level of agreement with the statement that business owners have enough awareness on tax payment. The mean score of 3.53 indicates moderate agreement with the statement. Additionally, the relatively high standard deviation of 1.077 suggests there is a wider range of opinions among the participants. While 68.12% of participants agreed and 10.14% strongly agreed that business owners have enough awareness on tax payment, there were still 21.74% of participants who disagreed or strongly disagreed with the statement, indicating some concerns regarding business owners' tax awareness. Moreover, 10.14% were unsure, further indicating a potential lack of information, or varied opinions on this matter.

Overall, the data suggests that while some participants believe business owners have enough awareness on tax payment, there is still room for improvement. In order to enhance tax compliance, it may be necessary to undertake initiatives aimed towards increasing tax education and awareness among business owners. These could include providing resources and guidance to help businesses stay up-to-date with tax regulations, as well as exploring the development of tailored education programs that address specific industries, sectors, and groups of taxpayers.

The data collected from tax officials of the Medium Level branch provides valuable insight into the taxpayer behavior and attitudes and highlights both positive and negative aspects of tax compliance and attitudes towards VAT in the branch.

On the one hand, a significant proportion of participants reported voluntary VAT payment and a positive general sentiment towards VAT. Also the majority of eligible traders for VAT are registered. This is a positive sign, as more registered traders contribute to the overall tax revenue and taxpayers may value their contribution to the VAT system and be motivated by ethical reasons or social responsibility to comply with tax obligations.

However, on the other hand, the data also highlights potential areas of concern regarding VAT compliance. Participants reported instances of non-compliance, including the failure of traders to issue receipts, provision of fake invoices to secure more input tax and manipulation of the machine for reporting sales to produce inaccurate reports. These findings suggest that non-compliant behavior among VAT registered traders may still be an issue in the branch and require monitoring and enforcement efforts.

Additionally, while the result for diligent payment and timely declaration of VAT and income suggests good compliance attitudes, there is room for improvement in this area. Also business owner's awareness of tax payment indicates a moderate level of awareness, with a high level of variability between participants. This implies that some business owners may require more focus on tax compliance education programs, while others may not need it urgently. Education and awareness programs could be targeted to reach business owners with lower awareness levels.

In conclusion, while there are positive aspects in taxpayer behavior, such as high voluntary compliance, registration and a positive sentiment towards VAT, areas of concern remain, such as the existence of non-compliance and the need for improved awareness of tax payments among business owners. Addressing these concerns would help in achieving better overall tax compliance in the Medium Level branch. Moreover, support for compliant behavior among the traders needs to be encouraged to maintain the general taxpayer's positive sentiment towards VAT.

4.3.4 Taxpayers Assessment of VAT Administration in Federal Medium Taxpayers Branch

Table 6 Questions related to Branch Service

Medium Taxpayers Branch Service	Mean	Std. Deviation
The Branch Office updates any changes in relation to VAT on time and appropriately	3.51	1.368
Tax officials give you sufficient information when ever asked	3.83	1.279
The Branch Office often tries to make traders to comply with the law	2.94	1.019
Tax officials respond in case of error happens in usage of cash register machine errors created either because of the machine itself or in case where void transactions happen	3.80	1.267
The branch service is fast and excellent	3.00	1.414
The branch is organized with competent and skilled manpower	3.56	1.302
The branch employees are honesty and dedicated	3.73	1.056
The branch provides good tax assessment	2.46	1.516
The branch has good VAT collection system	3.38	1.459
The penalties and appeal system are fair and efficient	2.68	1.560
The branch has good auditing system	3.01	1.394
The branch has awareness creation program	3.64	1.251

Source: Own Survey, 2023

From the data collected, we can interpret that the majority of medium level tax payers either agree or strongly agree that the Branch Office updates any changes in relation to VAT on time and appropriately, as indicated by the high percentage of agreement responses (31.07% agree and 29.64% strongly agree). However, there is still a significant portion of study participants who either strongly disagree or disagree with this statement (11.43% and 16.79%). Additionally, there are a sizable percentage of participants who are still unsure about the Branch Office's updates (11.07%). The mean score of 3.51 indicates that the study participants on average have a relatively positive outlook towards the Branch Office's handling of VAT updates. The standard deviation of 1.368 also suggests that the responses are spread out and varied, with some participants having a more negative perception and others having a more positive one.

In general, while the data shows that the Branch Office is generally viewed positively by the Tax Payers, there is room for improvement in their VAT updating process to ensure that all taxpayers feel confident in the Branch's ability to handle their tax affairs.

Based on the data collected, we can infer that the majority of medium level tax payers either agree or strongly agree that tax officials give them sufficient information whenever asked. This is supported by the high percentage of agreement responses (32.5% agree and 38.93% strongly agree). However, there are still a small percentage of study participants who either strongly disagree or disagree with this statement (7.5% and 12.86%). Additionally, there is a significant portion of participants who are still unsure about the level of information provided by tax officials (8.21%).

The mean score of 3.83 indicates that, the study participants have a positive perception of the level of information provided by tax officials. The standard deviation of 1.279 suggests that there is some variability in the responses, indicating that some participants feel more strongly about the sufficient information provided to them by tax officials, while others may feel less certain. Generally, the data suggests that most medium level tax payers feel that they have received the required level of information from tax officials. Nonetheless, there are still a few individuals who do not feel satisfied with the information provided and the tax officials need to focus on addressing their concerns and work to taxpayers are provided with sufficient information when needed.

From the data collected, we can interpret that a majority of medium level tax payers either disagree (31.43%) or are unsure (34.64%) about whether the Branch Office attempts to make traders comply with the law. Furthermore, the mean score of 2.94 indicates that, on average, the participants do not perceive the Branch Office to be actively enforcing tax compliance among traders. The standard deviation of 1.019 also suggests that the perception of the study participants is not uniform and some participants may have more disagreement. A relatively small percentage of participants agreed (21.07%) or strongly agreed (7.50%). Overall, the data suggests that the Branch Office may need to do more to make their efforts to promote compliance more visible to taxpayers. The relatively low score on this statement indicates that there is still a lot of room for improvement in terms of building trust and confidence, and addressing the concerns of study participants who do not see active efforts to promote compliance.

From the data collected, we can interpret that a significant majority of tax payers agree that tax officials respond in case of errors happening in usage of cash register machine errors created either because of the machine itself or in case where void transactions happen, as indicated by the high percentage of agreement responses (71.43%). The mean of 3.80 indicates that participants have a relatively high expectation and level of trust that tax officials were responsive and address any errors that may occur. The standard deviation of 1.267 also suggests that the responses are relatively dispersed, indicating that some participants may have a less favorable view of tax officials. However, there is still a relatively small percentage of participants disagree (19.28%). Additionally, almost 10% of participants are unsure about how tax officials respond in case of errors occurring.

The result shows a large percentage of tax payers are satisfied with how tax officials respond about the errors in usage of the cash register machine. However, the feedback from those who do not agree should be taken into account, and officials should work to improve their communication and responsiveness to ensure all taxpayers feel supported when errors occur.

The data collected from the study participants shows that the branch service is fast and excellent. The mean score for the service is 3.00, indicating that on average, the participants neither agree nor disagree with the statement, falling somewhere in the middle. The standard deviation of 1.414 suggests that there is a wide range of responses among the participants.

Looking at the percentage breakdown of the responses, 22.50% of the participants strongly disagree with the statement about the branch service, and 14.64% disagree. This indicates that a significant minority of the participants perceive the service as slow and subpar. Moreover, 20.71% of the participants are not sure about the quality of the service, suggesting that they are uncertain or perhaps have not experienced the service enough to make an informed opinion. On the positive side, 42.14% of the participants agree with the quality of service. This shows that there is a segment of the participants who feel that the branch service is fast and excellent.

In conclusion, this data highlights that the branch service quality is perceived more positively than negatively by the study participants. However, the high proportion of disagreement responses that there is a need for improvement in the speed and quality of service. There are also a significant number of participants who have had negative or uncertain experiences. It may be helpful for the branch to investigate further and identify areas for improvement in the branch service.

Based on the data collected from the study participants who are Medium Level Tax Payers, we can see that the mean score for the competence and skill of the manpower in the branch is 3.56 with a standard deviation of 1.302. This suggests that, on average, the participants have a positive opinion of the competence and skill level of the manpower in the branch. When we break down the data further, we see that the majority of the participants – a substantial 62.50% - either agrees or strongly agree that the manpower in the branch is organized and competent. This is a good sign and indicates that the branch is doing a good job in terms of hiring and training competent staff members. However, it is important for the branch to take note of the significant number of participants who are not sure or disagree about the competency of the manpower. This is indicated by the combination of participants who either disagree or strongly disagree or are unsure (37.50%), which is relatively high compared to the positive responses. This suggests that there may be gaps in terms of the quality of the services provided by the manpower in the branch.

To maintain their good score, the branch needs to ensure that their manpower is constantly trained and equipped with the necessary skills so as to provide top-notch services to all their customers, but there are also some areas where improvement is needed. By addressing these concerns, the branch can work to improve its overall performance and ensure that it is meeting the needs and expectations of its medium level tax payer customers.

The data presented is from a survey of medium-level tax payers, asking them to rate their level of agreement with a statement about branch employees being honest and dedicated. Based on the data, we can see that the mean score is 3.73 with a standard deviation of 1.056. This suggests that, on average, the participants have a positive opinion of the honesty and dedication of the branch employees. Furthermore, we see that the majority of the participants – a substantial 65.35% - either agree or strongly agree that the branch employees are honest and dedicated. This is a positive sign and suggests that the employees are doing a good job in terms of serving their customers. However, the percentage of participants who are unsure (22.14%) is relatively high compared to the positive responses. Additionally, the percentage of participants who either disagree or strongly disagree (12.50%) is still significant, even though lower than the percentage of those who strongly agree. This suggests that there may be some inconsistencies in the behavior of the branch employees, which is causing some of the customers to doubt their honesty and dedication.

To maintain a positive image and retain their customers, the branch needs to work on ensuring that all of their employees are consistently honest and dedicated in their work. This can be achieved through a combination of training, hiring, and monitoring to ensure that the employees are truly aligned with the values of the organization.

Based on the data collected from Medium Level Tax Payers, we can see that the mean score for the quality of tax assessment provided by the branch is 2.46 with a standard deviation of 1.516. Suggests that, there is disagreement, the participants have a negative opinion of the tax assessment provided by the branch. Also, the majority of the participants 62.86% show disagreement that the branch provides good tax assessment, which is a worrying trend. Moreover, the percentage of participants who are not sure (4.64%) is relatively low, indicating that the participants have a clear opinion on this matter.

It is important for the branch to acknowledge the participants' negative feedback and take measures to their tax assessment services. The high percentages of those who disagree and strongly disagree are concerning, and if left unchecked, could lead to a loss of taxpayers and reputation. The branch needs to invest in their staff training and technology to improve their tax assessment services and ensure that their customers are satisfied. Moreover, it is also important for the branch to communicate their commitment to improving their tax assessment processes and be transparent about the steps they are taking to address customer concerns. This could help to win back the trust of their customers and strengthen their reputation as a reliable tax service provider.

The data collected from Medium Level Tax Payers pertains to the assessment of the VAT collection system in the branch. The mean score for the quality of VAT collection system provided by the branch is 3.38 with a standard deviation of 1.459. This suggests that, on average, the participants have a positive opinion of the VAT collection system provided by the branch. Additionally, a substantial majority of the participants 60.07% agree or strongly agree. This is good news and indicates that the branch is doing a good job in terms of providing quality VAT collection services to their customers. Additionally, the percentage of participants who are unsure (8.21%) is relatively low, suggesting that the participants have a clear opinion on this matter. However, there are still a significant number of participants who either disagree or strongly disagree with the quality of the VAT collection system provided by the branch (30.71%).

To maintain their positive reputation and keep the taxpayers satisfied, the branch needs to take prompt action to address the concerns raised by the participants who are critical of the VAT collection system. The branch can create a loyal and contented taxpayer base by addressing the issues highlighted by the participants and sustaining their positive quality service.

According to the data gathered from the Medium Level Tax Payers, the mean score for the penalties and appeal system's fairness and efficiency provided by the branch is 2.68, with a standard deviation of 1.560. This implies that, generally, the participants hold an unfavorable view of the penalties and appeal system implemented by the branch. On further examination of the data, it becomes apparent that a significant proportion of the participants 47.86%, to be precise hold a negative opinion and do not believe that the penalties and appeal system provided by the branch is fair and efficient. This is a worrying trend, indicating that there are significant problems with the penalties and appeal system that the branch must tackle urgently. Furthermore, the percentage of participants who are uncertain (8.93%) is relatively minor, implying that the participants have a definite viewpoint on the matter. In addition, the combined percentage of those who hold a negative view (47.86%) is considerably higher than those who hold a positive view (33.31%), which is a cause for concern.

In general, the result highlights that the participants did not view the penalties and appeal system as being fair and efficient. The high standard deviation indicates that the participants had different experiences with the system. Improving the fairness and efficiency of the system could potentially enhance the confidence of the taxpayers towards the tax administration.

Based on the data collected from the study participants, we can see that the mean score for the quality of the auditing system provided by the branch is 3.01 with a standard deviation of 1.394. This suggests that, on average, the participants have a neutral opinion of the auditing system provided by the branch. When we break down the data further, we can see that a substantial percentage of participants (36.79%) disagree with the quality of the auditing system provided by the branch. This is a worrying trend and calls for the branch to take action. However, the percentage of participants who either agree or strongly agree with the quality of the auditing systems is not negligible, adding up to a total of 43.21%, which means that there are still a considerable number of participants who have confidence in the quality of the auditing systems. The high number of not sure participants, 20%, implies that there is a lack of clarity or communication on the nature of the services offered by the branch in terms of auditing systems.

To maintain or increase taxpayer’s satisfaction and loyalty, the branch needs to work on improving the quality of their auditing system. They also need to communicate with their customers clearly on the nature and quality of auditing services they provide. This might involve an overhaul in their procedures, investing in technology or staff training and increased transparency on their auditing procedures. Overall, the data highlights the importance of providing high-quality auditing systems in tax service providers and suggests that the branch needs to take steps to improve the quality of their auditing systems and communicate better with their clients.

In case of the branch awareness creation program, the mean score indicates that, the participants perceive the program positively. The standard deviation of 1.251 suggests that there is some variation among the participants' responses. Looking at the percentage breakdown of the responses, 8.21% of the participants strongly disagree with the effectiveness of the program, 12.50% disagree, 16.07% are not sure, 33.93% agree and 29.29% strongly agree. It is worth noting that the largest proportion of participants (62.22%) agree with the program, indicating overall positive perception of the program. However, the proportion of those who are not sure (16.07%) is still relatively high, suggesting that some participants may require more information or clarification about the program.

In conclusion, the data suggests that the branch's awareness creation program is generally perceived positively by the study participants. The high proportion of agreement and strong agreement indicates that the program is effective in raising awareness among medium level tax payers. The low standard deviation indicates that there was a general level of agreement among the participants. However, it is still essential to ensure that the quality of programs remains consistent and to address the concerns raised by any participant for further improvement.

The study's findings suggest that there is room for improvement in specific areas of the Branch's functioning, such as tax assessment services, the penalties and appeal system, and making traders comply with the law. These areas require attention to improve the efficiency and effectiveness of the services provided by the Branch. Additionally, the moderate variance in participants' responses highlighted the importance of identifying variations in perceptions among individuals. Obtaining differing opinions could be an opportunity for the Branch to make data-driven decisions based on specific customer demands and experiences.

Furthermore, while participants viewed the Branch as having competent and skilled manpower, the study identified opportunities to improve the quality of service, speed and efficiency of the branch service. To improve service quality, the Branch could introduce regular feedback surveys to obtain customers' opinions on service quality and identify areas that require improvement. The study conveyed the importance of transparency, accountability, and trust between the taxpayers and the tax administration. Participants' perceptions of tax officials' honesty and dedication were positive. The Branch could keep building on these attributes by upholding ethical conduct and accountability within its workforce. The study participants, in general, perceived the awareness creation program as satisfactory. The Branch should continue to create awareness programs to keep individuals updated on tax-related matters regularly.

In summary, the data collected from the study participants provided useful insights into the operations of the Branch, identifying areas where the quality of service could be improved, and highlighting areas of excellence. Further, the study shows the relevance of continuously collecting customer feedback to improve the tax administration's efficiency and effectiveness in providing services to taxpayers.

4.3.5 Taxpayers Assessment of VAT Administration Knowledge

Table 7 Questions related to Taxpayers Knowledge

Questions related to Knowledge	Mean	Std. Deviation
I know all tax laws about my business	3.25	1.320
I know tax proclamation about my business	3.95	1.183
I participated different training given by tax about taxation	3.34	1.475
I know the tax regulations, directives, and circulars	2.98	1.428
Awareness created by tax authority about taxation helps us to improve our tax knowledge	3.46	1.411
I know how to declare any tax returns	4.00	1.188
I have enough information about tax system	3.08	1.557

Source: Own Survey, 2023

The data collected from the study participants suggests that the majority of medium level taxpayers do not feel confident in their knowledge about tax laws related to their business. Specifically, 35.36% of participants either strongly disagreed or disagreed with the statement "I know all tax laws about my business," and an additional 13.57% were unsure. This indicates a lack of confidence or knowledge among a significant portion of the participants. On the other hand, 51.07% of participants either agreed or strongly agreed with the statement, suggesting that a majority of medium level taxpayers do feel confident in their knowledge about tax laws related to their business. However, the mean score of 3.25 and the standard deviation of 1.320 suggest that there is some variability in the level of knowledge and confidence among the participants.

Overall, the data suggests that there may be room for improvement in the level of knowledge and confidence that medium level taxpayers have about tax laws related to their business. This may indicate a need for additional education and support to ensure that taxpayers are fully aware of all relevant tax laws and requirements. By increasing their knowledge and confidence in this area, taxpayers may be better equipped to minimize their tax liability and avoid potential penalties or other issues related to non-compliance.

The data collected from the study participants suggests that a majority of medium level taxpayers feel confident in their knowledge about tax proclamation related to their business. Specifically, 41.79% of participants strongly agreed and an additional 32.14% agreed with the statement. This indicates a high level of confidence or knowledge among the participants. On the other hand, a small proportion of participants (4.29%) strongly disagreed that they knew tax proclamation related to their business, and an additional 12.50% disagreed. This suggests that there is a minority of participants who may not have a good understanding of relevant tax proclamation. Overall, the mean score of 3.95 and the standard deviation of 1.183 suggest that there is some variability in the level of knowledge and confidence among the participants, but that the majority of participants feel confident in their understanding of tax proclamation related to their business. The high level of confidence among the participants in this study may suggest that medium level taxpayers have a good understanding of relevant tax proclamation.

The data shows that the majority of the participants either agreed or strongly agreed with the training, with a combined percentage of 56.79%. The Mean rating of 3.34 indicates that, on average, the participants had a slightly positive view of the training. The standard deviation of 1.475 indicates that the responses were moderately spread out around the mean. 18.57% of the participants strongly disagreed with the training, and 13.57% disagreed with it. This suggests that some participants had a not participated in training. Additionally, 11.07% of the participants were not sure. Overall, the data suggests that most participants found the training to be useful, but there are also a significant proportion of participants who either had a negative view of the training or were uncertain about its effectiveness. The tax authorities may want to consider gathering more feedback from participants to improve the training program.

The data shows that the majority of the participants either disagreed or strongly disagreed with the statement, with a combined percentage of 42.86%. The Mean rating of 2.975 indicates that, on average, the participants had a neutral view of their knowledge of tax regulations, directives, and circulars. The standard deviation of 1.428 indicates that the responses were moderately spread out around the mean. 21.79% of the participants strongly disagreed, and 21.07% disagreed with it. This suggests that a significant proportion of participants had a not confident view of their knowledge of tax regulations, directives, and circulars. Additionally, 11.43% of the participants were not sure, indicating that there was some uncertainty about their knowledge. On the other hand, 16.43% of the participants strongly agreed with the statement, and 29.29% agreed with it. This suggests that a minority of participants had a positive view of their knowledge.

Overall, the data suggests that most participants are not confident about their knowledge of tax regulations, directives, and circulars, with only a minority having a positive view. The tax authorities may want to consider providing more training and education on these areas to improve the knowledge of the taxpayers. Additionally, the tax authorities may want to consider gathering more feedback from participants to improve the effectiveness of the training and education programs.

The response shows that over 57% of participants agreed that the awareness created by tax authority about taxation helps improve their tax knowledge. The Mean rating of 3.46 indicates that, above average, the participants had a positive view of the awareness created. However, the standard deviation of 1.411 indicates that the responses were moderately spread out around the mean. Approximately 14% of the participants disagreed with the statement, and another 14.64% were not sure about the effectiveness of the awareness. This suggests that some participants may not have found the awareness campaigns to be effective or were uncertain about their effectiveness. Overall, the data suggests that most participants had a positive view of the effectiveness of the awareness created by the tax authority on improving their tax knowledge. However, there is still a minority of participants who either had a negative view or were uncertain about its effectiveness.

The data shows that the majority of medium level tax payers are confident in their ability to declare any tax returns. A significant proportion of respondents strongly agrees (43.93%) and agrees (33.21%) that they know how to declare any tax returns. However, a small minority have a less perception, with 5.36% strongly disagreeing and 10.36% disagreeing. A smaller portion is unsure (7.14%). The mean of 4.00 indicates a strong positive perception towards the participants' knowledge of how to declare tax returns. The standard deviation of 1.188 indicates some variation in the level of agreement among the participants. However, overall, the data suggests that most medium level tax payers feel confident in their ability to declare any tax returns. This is a positive finding as it suggests that taxpayers may be more likely to comply with tax regulations if they feel competent in filing their returns.

The data shows that among medium level tax payers, there is a mixed perception about whether they have enough information about the tax system. A significant proportion strongly agrees (27.50%) or agrees (19.29%) that they have enough information, but a substantial portion disagree (20.00%) or strongly disagree (23.21%). A smaller proportion is unsure (10.00%).

The mean of 3.08 indicates a neutral perception towards the participants' level of information about the tax system, with responses on average leaning towards disagreement. The relatively high standard deviation of 1.557 suggests that there is significant variation in the level of agreement among the participants, with some feeling more informed than others. Overall, the data suggests that there is a need for more efforts to enhance tax literacy among medium level tax payers to provide them with a better understanding of the tax system, its rules, and requirements. This could lead to more effective tax compliance among this group.

In summary, the data highlights that while participants had a relatively better understanding of tax proclamations and how to declare tax returns, their knowledge of other aspects related to taxation was moderate to low. The tax authorities may want to consider providing more education and information to the taxpayers on various aspects related to taxation to improve their understanding of the tax system. Additionally, the tax authorities may want to gather more feedback from participants to identify areas of improvement and enhance the effectiveness of their education and information campaigns.

4.4. Discussion

According to Hagos (2011) and Lemessa (2007), awareness creation by the authority on taxpayers were rated about 87.8% and 74% of the respondents responded that below enough and poor and this shows that the awareness creation activities of the tax authority were ineffective and inefficient in according to awareness creation. Therefore, they established that the awareness creation problem was a series and the root cause of all problems relating to the tax collection and assessment. Due to this, the authority may not achieve the expected future voluntary compliance in the absence of services along with the taxpayer’s lack of tax awareness. Without educating taxpayers and creating tax awareness, making power visible to the community might detect the deliberate evasions and frauds but not be a solution to create a compliant taxpayer those does not comply unknowingly.

As the study finding shows that the data highlights that while participants had a relatively better understanding of tax proclamations and how to declare tax returns, their knowledge of other aspects related to taxation was moderate to low. The tax authorities may want to consider providing more education and information to the taxpayers on various aspects related to taxation to improve their understanding of the tax system.

VAT is an indirect tax levied on the consumption of goods and services, but definitions of the term vary across different authors. Lejeune, (2011) identifies it as a prevalent form of consumption tax and a major source of revenue for governments. For James (2011), VAT is advantageous as it allows for the recovery of taxes on business inputs and prevents the cascading effects of turnover tax.

The data collected from tax officials of the Medium Level branch provides valuable insight into the taxpayer behavior and attitudes and highlights both positive and negative aspects of tax compliance and attitudes towards VAT in the branch. On the one hand, a significant proportion of participants reported voluntary VAT payment and a positive general sentiment towards VAT. Also the majority of eligible traders for VAT are registered. This is a positive sign, as more registered traders contribute to the overall tax revenue and taxpayers may value their contribution to the VAT system and be motivated by ethical reasons or social responsibility to comply with tax obligations.

The tax assessment for those, who are required to maintain financial records, is done based on the records that taxpayers maintain; however, if they fail to maintain financial records, estimated assessment will be done. For the rest of taxpayers, who are not required to maintain financial records, it is based on the standard assessment method (Council of Ministers, 2008).

The findings of the analyses suggested that, the main areas where there are gaps and problems include registration, record keeping, VAT invoicing, issuing VAT receipts, the and penalties. In addition, the outcomes of the research showed lack of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. The gaps and problems identified in the study were partly because of under staffing like communication of the tax authority, limited automation and inadequate public relation work.

CHAPTER FIVE

5. SUMMERY OF FINDINGS, CONCLUSIONS ANDRECOMMENDATIONS

5.1. Summary of Findings

This chapter deals with the summary of findings, conclusions and recommendations based on the findings of the study:-

Based on the analysis of the data collected from the study participants, it can be observed that the participants have a favorable perception of various aspects related to VAT such as providing good service to taxpayers, having a simple filing and payment procedure, having a fair and efficient appeals system, and the effectiveness of auditing and enforcement of VAT. However, the data also shows that there are some concerns regarding other aspects, such as the appropriateness and fairness of penalties, and the minimum threshold for VAT registration, where the majority of the participants disagree or are neutral. The large standard deviation values for these questions indicate that there is a considerable variation in opinions among participants.

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In case of the branch awareness creation program, the mean score indicates that, the participants perceive the program positively. The standard deviation of 1.251 suggests that there is some variation among the participants' responses. Looking at the percentage breakdown of the responses, 8.21% of the participants strongly disagree with the effectiveness of the program, 12.50% disagree, 16.07% are not sure, 33.93% agree and 29.29% strongly agree. It is worth noting that the largest proportion of participants (62.22%) agree with the program, indicating overall positive perception of the program.

However, the proportion of those who are not sure (16.07%) is still relatively high, suggesting that some participants may require more information or clarification about the program.

The mean of 3.08 indicates a neutral perception towards the participants' level of information about the tax system, with responses on average leaning towards disagreement. The relatively high standard deviation of 1.557 suggests that there is significant variation in the level of agreement among the participants, with some feeling more informed than others. Overall, the data suggests that there is a need for more efforts to enhance tax literacy among medium level tax payers to provide them with a better understanding of the tax system, its rules, and requirements. This could lead to more effective tax compliance among this group.

In summary, the data highlights that while participants had a relatively better understanding of tax proclamations and how to declare tax returns, their knowledge of other aspects related to taxation was moderate to low. The tax authorities may want to consider providing more education and information to the taxpayers on various aspects related to taxation to improve their understanding of the tax system. Additionally, the tax authorities may want to gather more feedback from participants to identify areas of improvement and enhance the effectiveness of their education and information campaigns.

5.2. Conclusion

VAT revenue plays a significant role in a country's economy; it becomes the more reliable tax revenue as a source of income in which government can rely on. On the contrary, still there are many factors which affect the revenue generated from VAT. Therefore, to benefit from this tax and to get maximum revenue as much as possible, it needs to discover and solve those obstacles To increase voluntary compliance and decrease the frequency of non-compliances taxpayer education is vital which helps them to better understand the rules and regulations and to discharge their obligation easily.

The findings of the analyses suggested that, the main areas where there are gaps and problems include registration, record keeping, VAT invoicing, issuing VAT receipts, the and penalties. In addition, the outcomes of the research showed lack of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. The gaps and problems identified in the study were partly because of under staffing like communication of the tax authority, limited automation and inadequate public relation work.

To minimize problem exist during administration activities of VAT, and not paid on time with proper figure a branch should control a bill or invoice they use, ordered them use a cash registered machine, follow- up, support in preparation of VAT return, initiate potential unregistered business for VAT registered so as to avoid unfair competition.

Based on the analysis of the data collected from the study participants, it can be observed that the participants have a favorable perception of various aspects related to VAT such as providing good service to taxpayers, having a simple filing and payment procedure, having a fair and efficient appeals system, and the effectiveness of auditing and enforcement of VAT. However, the data also shows that there are some concerns regarding other aspects, such as the appropriateness and fairness of penalties, and the minimum threshold for VAT registration, where the majority of the participants disagree or are neutral. The large standard deviation values for these questions indicate that there is a considerable variation in opinions among participants.

In conclusion, the data suggests that the branch's awareness creation program is generally perceived positively by the study participants. The high proportion of agreement and strong agreement indicates that the program is effective in raising awareness among medium level tax payers. The low standard deviation indicates that there was a general level of agreement among the participants. However, it is still essential to ensure that the quality of programs remains consistent and to address the concerns raised by any participant for further improvement.

5.3 Recommendations

The following recommendations are made based on the conclusion and findings of the study:

According to the data, the VAT system needs to further improve in terms of imposing penalties, regulations governing VAT registration, and auditing, and enforcement efforts. There may be a need for management to introduce new and better refinements or initiatives to address these issues, to ensure a consistent and efficient implementation of these processes. Generally, the data provides useful insights into the perceived strengths and weaknesses of the VAT system from the personal experience of Medium Level branch. It shows that further improvements required to ensure efficient administration of VAT and to boost the confidence of taxpayers in the system.

There are positive aspects in taxpayer behavior, such as high voluntary compliance, registration and a positive sentiment towards VAT, areas of concern remain, such as the existence of non-compliance and the need for improved awareness of tax payments among business owners. Addressing these concerns would help in achieving better overall tax compliance in the Medium Level branch. Moreover, support for compliant behavior among the traders needs to be encouraged to maintain the general taxpayer's positive sentiment towards VAT.

The data collected from the study participants provided useful insights into the operations of the Branch, identifying areas where the quality of service could be improved, and highlighting areas of excellence. Further, the study shows the relevance of continuously collecting customer feedback to improve the tax administration's efficiency and effectiveness in providing services to taxpayers.

The data highlights that while participants had a relatively better understanding of tax proclamations and how to declare tax returns, their knowledge of other aspects related to taxation was moderate to low. The tax authorities may want to consider providing more education and information to the taxpayers on various aspects related to taxation to improve their understanding of the tax system. Additionally, the tax authorities may want to gather more feedback from participants to identify areas of improvement and enhance the effectiveness of their education and information campaigns.

Develop taxpayer’s awareness to increase voluntary compliance, refund process and strengthen audit and enforcement capacity of the Federal Democratic Republic of Ethiopia Ministry of Revenue Medium Level taxpayers’ branch office.

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Appendices

Questionnaire

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS PROGRAM OF ACCOUNTIG AND FINANCE

Questionnaire to be filled by employees of Federal Medium Level Taxpayer Branch

Demographic Data

QA 1: Gender

A. Male B. Female

QA 2: Age:

A. Below 31 years B. 31 to 40 years C. 41 to 50 years D. above 50 years

QA 3: How long have you been working in the branch?

A. Less than 2-5 years B. 6 - 10 years C. 11– 15 years D. 16 years and above

QA 4: Your professional qualification

A. Diploma B. BA/BSC C. MA/MSC D. Other

QA 5: Your Position

A. Officer B. Senior Officer C. Team Leader D. Other

This part of the questionnaire consists of items related to **VAT administrationactivities.** To what extent do you agree with the following statements about organization culture in your organization, ranging from strongly disagree to strongly agree? And put "√" mark for each rating. 1: Strongly Disagree, 2: Disagree, 3: Neutral, 4: Agree and 5: Strongly Agree

Q6. In registering taxpayers for VAT, what system does the branch follow?

Physical Survey

Surprise Visit

Checking Purchase

No	Item	1	2	3	4	5
Questionsrelatedtothetaxoffice						
1	It is reasonable to require a minimum threshold of birr>1,000,000 in annual turnover for VAT registration.					
2	We provide a good service to taxpayers					
3	We have a simple filing and payment procedure					
4	The penalties are appropriate and fair					
5	We have a fair and efficient appeals system					
6	The branch iseffectiveinauditingand enforcementofVAT					
Questions related to taxpayers						
7	ThenumberofvoluntaryVATpayers are high					
8	The general sentiment of our taxpayers towards VAT is positive.					
9	Taxpayers diligently pay their VAT and timely declare their income.					
10	VATregistrantssellgoodsandserviceswithoutissuingreceipt					
11	Some traders registered for VAT have manipulated the machine to produce inaccurate reports.					
12	VATregistrantsprovidefakeinvoicestosecuremoreinputtax					
13	Majority of eligible traders for VAT have been actually registeredfor VAT					
14	The business owners have enough awareness on tax payment.					

Questionnaire to be filled by Medium Level Taxpayer

Demographic Data

QA 1: Gender

A. Male B. Female

QA 2: Age:

A. Below 31 years B. 31 to 40 years C. 41 to 50 years D. above 50 years

QA 3: Your Educational level

A. Diploma B. BA/BSC C. MA/MSC D. Other

QA 4: Your Position

A. Owner B. Employee

QA 5: HowmanyyearsareyouinVATsystem?

A. 0-5 B. 6-10 C. 10+

This part of the questionnaire consists of items related to **VAT administration activities.** To what extent do you agree with the following statements about organization culture in your organization, ranging from strongly disagree to strongly agree? And put "√" mark for each rating. 1: Strongly Disagree, 2: Disagree, 3: Neutral, 4: Agree and 5: Strongly Agree

No	Item	1	2	3	4	5
Questionsrelatedtothetaxoffice Service						
1	The Branch Office updates any changes in relation to VAT on time and appropriately					
2	Tax officials give you sufficient information when ever asked					
3	The Branch Office often tries to make traders to comply with the law					

4	Tax officials respond in case of error happens in usage of cash register machine errors created either because of the machine itself or in case where void transactions happen					
5	The branch service is fast and excellent					
6	The branch is organized with competent and skilled manpower					
7	The branch employees are honesty and dedicated					
8	The branch provides good tax assessment					
9	The branch has good VAT collection system					
10	The penalties and appeal system are fair and efficient					
11	The branch has good auditingsystem					
12	The branch has awareness creation program					
Questions related to Knowledge						
13	I know all tax laws about my business					
14	I know tax proclamation about my business					
15	I participated different training given by tax about taxation					
16	I know the tax regulations, directives, and circulars					
17	Awareness created by tax authority about taxation helps us to improve our tax knowledge					
18	I know how to declare any tax returns					
19	I have enough information about tax system					