



**PRACTICES OF TAX ADMINISTRATION IN ADDIS ABABA, ETHIOPIA:  
THE CASE OF AKAKI KALITI SUB-CITY**

**BY: ENGDAWORK DAGNE**

**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY COLLEGE OF  
BUSINESS AND ECONOMICS IN PARTIAL FULFILMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTERS OF SCIENCE IN  
ACCOUNTING AND FINANCE**

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**Addis Ababa University**  
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## **Statement of Declaration**

This is to certify that this study paper titled "**practices of tax administration in Addis Ababa, Ethiopia: the case of Akaki kaliti sub- city**" undertaken by Engdawork Dagnefor the partial fulfillment of Master Degree from Addis Ababa University School of Business and economics is an original work and fit for partial fulfillment for Masters of Arts Degree in Business and economics complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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<b>Advisor</b>	<b>Signature</b>	<b>Date</b>
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## **Abstract**

The purpose of this study was to assess *practices of tax administration in Addis Ababa, Ethiopia: the case of Akaki kaliti sub- city*. The research design was descriptive design. The research used both quantitative and qualitative approaches and both primary and secondary sources of data. The data collected from 162 employees' randomly selected through simple random sampling and 370 taxpayers selected. Additionally, 2 informants were selected for semi-structured interview through purposive sampling techniques. Tax collection practices the majority of employees' opinion the tax collection mechanism not effective. The finding indicates that the sub city was effective by preventing corruptions related issue. According to the employees' perception the penalties imposed on taxpayers did not fair. The finding shows that taxpayers were not aware of the tax proclamation and regulations. Tax payers regularly did not declare their income on time. The revenue office has sufficient number of skilled man power. However, the results revealed that the sub city administration did not provide adequate training for the staffs. The most tax payers know why they pay tax. Most respondents disagreed some people do not pay tax honestly because they believe that large portion of collected money is not used to the public. The finding indicate that poor tax administration, low awareness, Institutional capacity of the office, lack of an Integrated Banking System were factors for tax effectiveness. The revenue office should outfit with cutting-edge technology and sufficient human resources. The sub city administration penalty should be strong, clear and consistent. The tax payer office should create a clear, simple, intelligible, transparent, and user-friendly administrative system for income tax laws and procedures Taxpayers had complained on service delivery system

**Key Words:** Tax administration, challenges, effectiveness, Addis Ababa, Taxpayers

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

Taxation is a governmental charge for which no good or service is actually paid in exchange - that is, the amount of tax people pay is unrelated to the income they get from the provision of a specific good or service. Until the early 1930s, the idea that governments should balance their budgets was widely accepted. Taxes account for the majority of government revenue in both developed and developing countries. Taxes are the main source of revenues from the national budget (Meyer et al., 2015; Bradbury, 2018; Hernoko et al., 2018). Funds that enable the state to perform its functions properly in the stabilization of the economic and financial system must be raised and directed to areas requiring state funding and support (Brondolo et al., 2008). Besides, the role of tax control authorities in the government is very important. Their tasks include collecting funds from taxpayers and monitoring the timeliness and correctness of tax payments and other compulsory payments (Serikova et al., 2018).

The attitudes of taxpayers toward the tax system have attracted many revenue authorities across the world are paying close notice especially in developed countries. However, what steps have been taken to research the conduct of the taxpayer with regard to the tax system in progress is debatable. Regulation attempts are working. Perhaps, since they run on "budget deficits," countries that are less developed are not to blame; therefore, insufficient resources to see through such studies that are viewed as adding little direct value to revenue collection. However, in recent years, even developed countries have begun to focus various studies on taxpayers' attitudes towards taxation by taking into account their attitudes towards taxation (Marti et al., 2010).

According to Misrak(2008), tax is an essential contribution owed to a government by economic units without the promise of a direct and equal government return on the contribution made. In a modern economy, taxes have both micro-and macro-economic impacts. Taxes have both positive and negative effects on output, income distribution and the stability of the economy. A tax is a levy on a commodity, revenue, or operation paid or imposed by a government. Taxation is meant to fund government expenditures (Gupta, 2001). Financing community goods and services is one

of the most significant uses of revenue. Roads, electricity, city facilities, street cleaning and other public amenities are all public goods. Because public goods and services do not allow a non-payer to be excluded or allow a customer to be excluded, the goods or services cannot be placed on the market and instead need to be supplied by a government or quasi-government entity, which seeks to fund itself primarily through taxation. Despite the fact that taxation is not preferred by many, since it forms a vital element of how a government influences the lives of its people, it is necessary to consider it (Oberholzer, 2008).

If tax is imposed on individual or business income directly, it is a tax that is imposed directly on the consumer. When tax is imposed on a product's or service's *price*, it is referred to as an indirect tax. A taxpayer does not anticipate the government's direct and equal return for the compulsory contribution made (Ethiopia Trade and Investment, 2015). Taxation is the best tool that can be used by governments as a source of revenue. One of the aims of taxation in Ethiopia, as in all other countries, is to collect as much revenue as possible to fund ever-expanding public spending concerning the delivery of public goods and services which would not otherwise be available on the market to the general public. The core purpose of the levy structure in Ethiopia is to raise enough money to fund government administrative mechanisms and to finance the implementation of basic infrastructures such as highways, telecommunications, energy and other basic social services such as education, health and water services (The Ethiopian Chamber of Commerce, 2005)

## **1.2 Statement of the Problem**

One of the primary sources of revenue for the government is taxes. Well, coordinated assessment and collection of business taxes make a positive contribution to the country's economic growth in general (Alabede et al., 2011). The nature of collective goods and service consumption allows some of our revenue to be held in government hands. For many facilities, business enterprises, businesses, and the general public, public goods such as highways, electricity, municipal services, and other public amenities have beneficial effects. Consequently, government interference in the procurement of commodities is necessary and can be accomplished only if the public pays taxes on the production and supply of such goods (ERCA, 2015.) Developing countries need to take the lead in mobilizing the financing necessary for development (World Bank, 2013). Nevertheless, for many governments, particularly in low-income countries, rising Domestic Revenue Mobilization (DRM) remains a challenge. The low tax-to-GDP ratios are

compounded by the limited ability to collect revenue, especially tax revenue. Progress will be needed expanding tax coverage, strengthening accountability, improving tax administration, and closing loopholes could make a significant difference in lower-income countries, where tax revenues account for only about 10 to 14 percent of GDP, one-third less than in middle-income countries and far below the 20- 30 percent of GDP reached in high-income countries (World Bank, 2013). Different studies were conducted on the tax system. For example, Habtam and Debela (2015), value-added tax administration, Messy (2019) collection problems of category "A" taxpayers, Ketema (2016), factors affecting tax compliance of small and medium taxpayers. Hence, this research focuses on particularly value-added tax, collection problems, and factors from the perspective of taxpayers.

Indeed, few researchers conducted on tax administration in Addis Ababa city administration. For instance, Teklu (2011), studied on challenges of tax administration in Addis Ababa. This study is focused on VAT administration and impact constraints on revenue collection. Abebe(2012), studied the Collection procedure in Addis Ababa. However, none of the researchers focused on the practice and challenges of tax administration. There is a limitation in studies undertaken on it. Hence, it needs an assessment to improve the tax administration. Therefore, this issue and the context gap of previous studies trigger the interest of the researcher to assess the major practices and challenges of tax administration.

### **1.3. Research Objectives**

#### **1.3.1 General Objective**

The general objective of the study was to assess the practices of tax administration in Addis Ababa, Ethiopia: the case of AkakiKaliti sub- city.

#### **1.3.2 Specific Objectives**

The specific objectives of the study were:

1. To assess the effectiveness of practices of tax administration in Akakikalit Sub-city Administration.
2. To examine the perception of taxpayers towards tax administration in Akakikalit Sub-city Administration.
3. To identify the challenges of tax administration in Akakikalit Sub-city Administration.

#### **1.4 Research Questions**

The research questions were the following questions:

1. What are the practices of tax administration effective in Akakikaliti Sub-city Administration?
2. What perception has taxpayers towards tax administration in Akakikalit Sub-city Administration?
3. What are the challenges of tax administration in Akakikalit Sub-city Administration?

#### **1.5 Significance of the Study**

The study will benefit Akakikality sub-city administration leaders as they will use study findings to reconsider the city tax administration in the sub-city. Besides, the sub-city administration may also adopt the study recommendations to improve tax collection and administration. Policymakers use the findings of the study to revise, reconsider the tax administration practices and management. The finding will also be of importance to literature, as it will add to the existing literature on the tax administration system. Generally, this study will be used by the general public to understand the practices and challenges of tax administration.

#### **1.6 Scope/delimitation of the Study**

The study was bounded by thematic and geographical scope. Thematically, this study focused on the tax administration practices and challenges in Akaki Kaliti sub-city administration. The study assessed practices of tax administration, tax payer's perceptions about tax administration and the major challenges that hinder the effectiveness of tax administration. The geographical boundary of the study was in Addis Ababa city administration the case of Akakikaity- sub-city.

#### **1.7 Organization of the study**

The paper was structured into five chapters. The first chapter deals with the introduction which includes the background of the study, statement of the problem, objectives, significance, scope, of the study. The second chapter presents the review of related literature that highlights related literature to the topic under discussion.

The third chapter encompasses research methodology which includes research design, sampling technique, data collection instruments and methods of data analysis. Chapter four introduces data presentation, analysis, and interpretation along with works of some scholars and deals the data

presentation, analysis and major findings and the last chapters, chapter five constitute summaries, conclusions and recommendation.

## CHAPTER TWO

### **REVIEW OF RELATED LITERATURE**

This section will outline accessible literature on tax administration by various scholars across the globe and Ethiopia. The chapter will describe the theoretical and empirical literature review related to tax administration, practices, and challenges.

#### **2.1 Theoretical Literature Review**

##### **2.1.1 The Meaning and Concept of Tax**

A tax is "a mandatory fee forced by the Government without any expectation of direct benefit returns." In other words, a tax is essential payment or donation by individuals to the government for which taxpayers do not expect a direct return (Bhatia, 2003) Taxation is a payment levied by government for which no good or service is received directly in return - that is, the total of tax people pay is not related directly to the benefit people obtain from the provision of a particular good or service.

The tax imposes a personal obligation on the people to pay if they are liable to pay it. The general population should be taxed based on their capacity to pay, i.e. citizens in the same financial situation should be taxed without prejudice in the same way. As a result, a tax can be described as an involuntary fee or, more specifically, an unrequited payment" made to the government by individuals or businesses (Richard, 2005).

##### **2.1.2. Objectives of Taxation**

The main objectives of taxation are the rising of revenue with which governments can drive human development by providing systems of health, education and social security and the provision of a successful economy through regulation, administration and investment infrastructure. Furthermore, the elimination of poverty and injustice in order to ensure that development gains are felt by all, and the effective use of taxes and subsidies to ensure that all the social costs and benefits of the manufacture or sale of a given good are expressed in the consumer price, such as the taxation of tobacco to minimize harm to citizens' health. In addition, reinforcement and defense (Cobham, 2007).

##### **2.1.3 Taxes and their Components**

The distinction is usually made between direct and indirect taxes in economic literature. Direct taxes are taxes on income or receipt, and the occurrence of such a tax is directly due to the payer

because it is not possible for the individual paying the tax to pass the responsibility on to another person. Personal income tax, capital gains tax, corporate income tax, business and payroll taxes are examples of direct taxes (Bawa, 2009). Direct taxes, according to Musgrave and Musgrave (2004), are those that are imposed initially on the individual or household that is supposed to bear the burden, whereas indirect taxes are those that are imposed at a later point in the system but are supposed to be shifted to whoever is supposed to bear the burden in the end. Personal income taxes, for example, are direct taxes, but most indirect taxes, such as sales and excise taxes, are indirect.

Direct taxes are used as a financial instrument to change the taxable income of individuals and to lower the unearned income parameter. At the macroeconomic level, direct taxes are applied to redistribute revenues (Alasan, 2003). The concepts of taxation on the provision of income lead us to the various types of direct taxation, which are progressive tax, neutral (or proportional) tax, and regressive tax. The higher the tax base, the higher the tax rate is, according to the progressive tax structure. When revenue increases, the rate of taxation steadily decreases. The direct opposite of the progressive tax is the regressive tax. If the wage level or tax base rises, the tax rate decreases, such that the low rate of tax is collected at a higher level of income. The neutral tax is a way of setting tax rates such that as real income increases, the taxes paid as a fraction of income remain constant (Bawa, 2009).

Taxation is subject to taxes from most sources, including pay for work performed, interest and dividend income, capital gains, rent and royalties, and the company or benefit income. On taxable income, which is total income minus exemptions and deductions, income taxes are imposed. Some of these modifications are often called loopholes, especially when used in ways that are unintended by legislation. On the other hand, Analyze the payroll tax as a fixed-rate tax on wages without deductions or exemptions (up to a defined level) where the money is distributed (set aside) as contributions to some social security programmers (Henderson & Poole, 1991).

An indirect tax is an expenditure or outlay tax, and the tax incidence may be transferred (partly or entirely) to someone else (Alasan, 2003). Customs duties are an example of indirect tax which consists of both export and import duties, but in countries where imports predominate, customs duties are typically emphasized. The export duty refers to the tax on products exported

to other countries; while the import duty refers to the tax on goods from other countries entering the country. Value-added tax is another type of indirect tax rate that is applied to the value-added at each point of development. The additional value is equivalent to the retail price at all stages of output, so the tax should be the same as the retail sales tax at the same rate (Ojo, 2003).

#### ***2.1.4. Importance of Tax Administration***

According to Asian Development Bank (2001), tax administration dictates tax policy. Indeed, tax administration and compliance issues determine the broad evolution of tax systems. The transition from dependency on excise, customs and property taxes to corporate income and progressive income taxes in developed countries over a century ago can be explained in large part by the relative decline in the rural sector, the concentration of jobs in large companies and the rising literacy of the population. In recent years, the shift away from corporate income taxes and progressive individual income taxes in favor of broad-based consumption taxation, such as value-added taxes, flatter rate structures and the implementation of 'dual income taxes,' has been followed by a low flat-rate progressive tax on labor income.

#### **2.1.5 Tax payers' attitude towards public goods and services**

Many factors certainly affect people's normative dedication to paying taxes. The first one is their attitude toward government spending programs, or the purpose on which the taxes they pay are spent. These aspects create an environment that is more or less conducive to honest taxpaying. (Brooks, 2001). Citizens' tax culture and morale are strongly and positively linked to their perceptions of the societal benefits derived from public goods and services delivery (Alm & Martinez-vatquer, 2001). This shows the willingness to pay taxes depends on the transaction of taxes in the public goods and services.

#### ***2.1.6. Tax Administration Challenges***

The efficiency of the tax system is determined not only by relevant legislation, but also by the effectiveness and dignity of the administration of the tax structure. Small quantities of collected public money can be explained in many countries, particularly in poor countries, by either the tax administration's inability to carry out its duties or some degree of corruption. Tax laws, no matter how properly crafted, will not be able to eradicate friction between tax administration and taxpayers. The presence of a knowledgeable and accountable tax administration is almost the most crucial requirement for the state's "tax potential" to be realized. It is generally known that

tax laws and tax policy are as good as the tax administration (Kaldor, 1980). A major challenge of revenue authorities is to be responsive to the individual circumstances of taxpayers while at the same time being consistent.

#### ***2.1.6.1 Illicit financial flows***

Illicit financial flows refer to money that is illegally earned, transferred or utilized and does not include outflow of capital due to macroeconomic and governance problems. The major sources of illicit money can be commercial tax evasion, trade miss-invoicing including transfer pricing, criminal activities such as drug trade, human trafficking, arms dealing, smuggling and contraband, bribery and theft by corrupt governments. Tax evasion can be the major component of illicit financial flows and can be reduced or prevented through statutory anti avoidance rules if these rules do not exist or ineffective (IFF, 2014).

#### ***2.1.6.2. Slow structural transformation***

One of the structural factors that challenge domestic resource mobilization is low income and high share of agriculture in GDP. This is supported by North-South institute (2010) Karagoz (2013). This implies that the longer countries stay dominated by agriculture and informal sectors, the less they are able to increase tax revenues.

#### ***2.1.6.3. Tax incentives and exemptions***

Many developing countries, particularly in Sub-Sahara-Africa, offer significant tax exemptions and incentives such as tax holidays, tax credits, reduced income tax rates, accelerated depreciation allowances, concessions in export processing zones, import duty waivers and full repatriation of profits in order to attract foreign investments. Studies also claimed myriad of tax exemptions and incentives are resulting in low effective tax revenue mobilizations in Africa. For example, a report by African Development Bank (2010) indicated Tanzania lost US\$ 1.23 billion (6percent of GDP), in 2008, through tax exemptions (Kariuki & Kiragu, 2011).

#### ***2.1.6..4 Improper tax administration***

In reform of tax administration the importance of tax structure is clearly reflected, because tax administration and tax structure are interconnected and they have to be improved simultaneously in the tax reforms (The World Bank, 1991). Individual taxpayer information must be kept private and secret, and the tax administration must provide unbiased, professional, and courteous service. It should also provide tax information that is clear, intelligible, and current, and will make this information available to taxpayers through multiple media, as well as prompt, accurate written responses to queries and requests for tax information (Asian Development Bank, 2001).

## **2.1.7 Challenges for tax Effectiveness**

### **2.1.7.1 Tax Audit Effectiveness**

According to Chen (2013), the purpose of a tax audit is to improve taxpayers' compliance with tax laws in the self-assessment system. Specifically, Clement, Stephen, Festus (2018) found that in Nigeria; a successful field tax audit has a large positive influence on tax productivity. Similarly, Zakir (2018) found As a result of Bangladesh's stringent tax audit, significant company tax payers tend to comply with the law. Tax assessors must carry out their duties effectively and successfully in order to ensure that taxpayers are meeting their tax obligations. A tax investigation, on the other hand, is the process of gathering evidence in order to determine the estimated amount of tax evasion.

The focus of a tax audit is on the targeted risk, technical corrections, procedural corrections, and proper reference. Tax audit efficacy is measured by the number of tax violations tracked, non-compliance detected, and increased income predicted from the audit (Drogalas, Ioannis, Dimitra & Iohannis, 2015 & OECD, 2006). Effective auditing is difficult because it evaluates the fillings of financial transactions to determine whether taxpayers provide an accurate and reasonable view. It is expected to meet the required auditing and ethical standards. Auditors should be prepared with theoretically and practically, knowledgeably inquisitive and free of bias, their approach based on an awareness of the regulatory environment, and they must offer the proper audit opinion, in which investors have confidence (Hobbs, 2013).

From one taxation role to the next and from one jurisdiction to the next, the precise obligation of the taxpayers changes. Registration in the tax system, timely filing of tax returns, reporting of complete and accurate information in tax returns, and prompt payment of tax obligations are likely to exist for practically all taxpayers around the world (OECD, 2010).

### **2.1.7.2 Management Support**

Individual taxpayer information must be kept private and confidential, and the IRS must offer fair, professional, and courteous service. It should also give taxpayers with clear, understandable, and current tax information, as well as quick, correct written responses to queries and requests for tax information (Zabihollah, Ahmad, Rick & Peter, 2018). Enterprise Resource Planning (ERP), online marketing, and online reporting are being used to link every company function with IT. As a result; properly skilled IT auditors should be trained in order to enhance quality of

financial reporting and auditing of business organizations (Barta, 2018). This implies, effective tax audit necessitates the support of higher management and resource allocation, competency of audit staff and quality of audit (OECD, 2006).

### **2.1.7.3 Audit Quality**

Audit quality is diverse and has no universal definition, resulting in arguments among participants, officials, standard-setters, auditing firms, and other interested parties, as well as strategy formulation. It can be attained when the investigators' judgment on the financial reports will be reliable upon as it was based on adequate and appropriate audit evidence gathered by an appointed audit team which reveals suitable outcome; adequately educated, well-informed and had enough time allocated to implement it. The International Auditing and Assurance Standards Board (IAASB), 2013, states that a functional complete investigative process and quality control processes produce relevant and timely reports and interact appropriately with a number of stakeholders (IAASB, 2013).

Audit quality delivering an acceptable expert opinion supported by relevant facts and objective judgment is what audit quality is all about. When a report is independent, reliable, and backed up by appropriate evidence, it is referred to as a quality audit. It also entails auditors providing adequate and complete reporting that allows the responsible entity to fulfill its obligations. In order to provide an objective judgment and complete reporting, evidence should be sufficient. Before rejecting a financial report provided by a corporate organization, tax auditors should have compelling proof. In this regard, Antonia and Cristina (2018) suggested that levying income tax based on unreliable financial statements is considerably superior to levying tax based on subjective estimation. They also claimed that presumptive taxation should be used only as a last alternative in taxing, and that financial reports should be prioritized regardless of quality. It stems from the audit firm's ideology, technical skill and personal quality of audit partners and personnel, audit process effectiveness, and audit reporting reliability and utility. Users of the audit report rely on giving robust and objective opinion in which financial statement indicates a fair and true view, prepared in line with applicable accounting framework and prepared in line with relevant legal requirement (Financial Reporting Council, 2006).

#### **2.1.7.4 Standardized Integrated Government Tax Administration System**

Automation of the tax system can be used to perform the function of tax administration more rapidly, which enables easy detection of defaulters and reduces corruption by reducing personal contact between tax officials and taxpayers that is necessitated by inefficient manual systems. Automation by itself does not necessarily improve tax administration without the combination of the political willing and effective management system (Kayaga, 2007). According to Drogalas et al. (2015), According to Drogalas et al. (2015), effectively designed information technology enables tax auditor to track tax violation, which enhance tax audit effectiveness.

#### **2.1.7.5 Taxpayers' Awareness**

According to Mukhtar, Abdi, and Elmi (2015), performing effective taxpayers' awareness increases business owners' tax understanding, making it more favorable for them to voluntarily comply. On the contrary, failing to raise taxpayer awareness leads to continued failure of taxpayers to comply voluntarily with tax payments, resulting in costly losses for the government. Continued taxpayer education and awareness of their rights and obligations fosters positive relationships between taxpayers and tax authorities, resulting in citizens who have a better grasp of taxes and are more likely to comply honestly and voluntarily. Furthermore, Diana (2016) indicated that boosting taxpayer attitudes improves tax compliance behavior, and he suggested that future study focus on ways for improving tax payer attitudes.

A tax professional creates financial reports, which include a tax return or other data for submission to the tax authority; however, taxpayers are still responsible for the correctness of the income reporting. When a taxpayer fails to fully cooperate with the performance of an intervention, he or she may be subject to administrative and criminal penalties in the 'non-collaboration' category. Taxpayers' awareness minimizes both the administrative and criminal penalties that they face. According to Ola (2001), referenced in Peter (2013), tax education is a tactic used by a tax authority to ensure that taxpayers comply with the law. The education of taxpayers is a key component of a successful and efficient tax administration. Susan, Tim, and Marty (2017) stated that taxpayers should have as much confidence as possible that any tax levy imposed by the government is fair and equitable. Taxpayers must grasp the tax laws, regulations, and procedures, as well as how computations and assessments for the tax they will pay will be made. To promote tax compliance, these tax legislation and rules should be simple, transparent,

and understood. The creation of awareness and education Taxpayers raise the bar for voluntary tax compliance and reduce tax evasion and avoidance (Olowookere, 2013).

#### **2.1.7.6 Tax Legislations Complexity**

Tax laws and procedures should make it simple for taxpayers to satisfy their obligations and access their entitlements; individuals may not voluntarily comply if the tax system makes meeting their obligations too complex or expensive. Antonia and Cristina (2018) discovered that a large percentage of tax cheating occurs in Portugal as a result of the country's complicated tax rules. Tax legislation is meant to be straightforward for tax authorities, so that tax inspectors and experts don't have to waste time interpreting tax proclamations and regulations. Because complex tax regulations have a substantial impact on compliance (Drogalas et al.), the effectiveness of tax audits will be subjective (2015).

Effective tax audits require a legislative framework that requires taxpayers to keep appropriate books and records; provides the administration with adequate powers to conduct wide-ranging inquiries; allows delegation of powers to audit staff; allows reconstruction of income and reassessments of tax using a variety of methods and techniques within a generous timeframe; provides taxpayers with a right of appeal, and places a burden on taxpayers (Forum Tax Administration's, 2006).

#### **2.1.7.7 Tax Accounting and Reporting**

The presentation of uniform financial reporting framework enhances transparency and responsibility by centralizing financial reporting. It is pillar to support the economy and reduce the risk of economic crisis, business malfunction' and related negative economic impact; it also ensures the provision of financial information meets internationally recognized reporting standards (HPR, 2014).

Except category "C" taxpayer category "A" and" B" are required to maintain books and accounts records by having vouchers authorized by tax authority. The accounting method to determine the income generates and expense rendered in the tax period shall be made in generally accepted accounting principles. The accounting methods in the Ethiopian income tax proclamation specifies taxpayers to compute some transactions in line with accounting principles and income tax legislations, i.e. inventory shall be valued at average method; depreciation expense shall be in the straight line method, bad debt shall be deductible when any lawful act to collect the money

owing is undertaken, however, liability is not recoverable, etc. Financial reporting standard enhances shareholders value and benefits investors, lenders; other capital providers as well as reduce cost of compliance facilitate education and training (Pacter, 2011). In connection to this small and medium enterprise in Malaysia who did not keep book of account evade to much tax and the researchers recommended that government should make it an obligation to prepare financial report though it may not be to the standard (Azhar, Mohd&Zarinah, 2016).

## **2. 1.8 Empirical Studies in Ethiopia**

In Ethiopia, there have been research on tax components and tax structures for various times and regimes. Wogene (1983) attempted to investigate the role of taxation. He said that taxation and the system were used to create the material foundations of socialism. He calculated the total tax revenue's buoyancy and built-in elasticity, as well as the difference between the two, to show the effect of tax reforms on revenue reforms facilitated an increase in tax collection from 1975 to 1981, according to the data. The constant rate of adjustment technique was used to estimate the tax system's elasticity in this study.

Teshome (1979) conducted a study in Ethiopia to look at tax elasticity. Using the built-in elasticity mechanism, the author looked at the revenue effectiveness of Ethiopia's coffee export taxes. In regard to changes in export volume and value, his empirical findings show that revenue elasticity is unity, meaning that revenue is price inelastic.

Teame (1985) looked at the overall efficiency of the tax system from 1968 to 1983 and discovered that it had buoyancy greater than unity but elasticity less than one, implying that the tax system was fragile and inflexible.

Zelalem (1999) looked at the Ethiopian tax system's productivity from 1961 to 1998. Using the method of division matrix, he calculated the buoyancy and elasticity of the total and major individual tax categories. The findings of this study revealed that the Ethiopian scheme was unreliable, with the majority of coefficients being less than one.

Study conducted by Delessa (2014) on the research title Tax Reforms and Tax Revenues Performance in Ethiopia the purpose of the study was to analyze and compare tax revenues performances of the two governments in power in Ethiopia during the last 39 years. Descriptive analysis is used to 14 compare different categories of tax performance of the Derg and Ethiopian people revolutionary Democratic Front (EPRDF) regimes in terms of tax revenues mobilization is tax to GDP ratio. In light of this major tax categories of tax to GDP and total tax revenues

ratios over the period of 1974/75 to 1912/13 (39 years) were computed and analyzed. In addition comparison has been made between pre and post-tax reforms to compare tax system flexibility in terms of raising tax revenues during the EPRDF regime. The period after 2002/03 was considered as post comprehensive tax reforms years. The researcher concluded the comparison of two government's tax ratios are divided into several categories shows a slight increment from an average 3.77 percent to 9.95 during EPRDF period. When comparing pre- and post-tax reform revenue ratios for the years 1991/92 to 2012/13, the post-comprehensive tax reform period shows no substantial change. When comparing direct and indirect tax categories, direct tax shows a downward trend, which is in contrast to the major goal of the comprehensive tax reform, which was to increase the direct tax's proportion of overall revenues.

The researcher's objective in Disabling (2014) on the title the impact of value added tax on Ethiopian Economic Growth was to assess the role of VAT on Ethiopian economic growth from 2003 to 2012 using theoretical and empirical evidence. He employed time series macroeconomic data on GDP, VAT, total tax revenue excluding VAT, non-tax revenue, and foreign revenue to achieve his goal. To evaluate the data, he used descriptive statistics and multiple regressions. The finding of the study show that, when compared to sales tax, VAT enhances Ethiopia's overall economic growth, yet the issue of regressively mimicking sales tax persists. The average increase rate of VAT for the periods under consideration was 66.27 percent. The average GDP growth rates during the sales tax eras were only 2.53 percent. However, after VAT implementation, such growth rates averaged around 21.9 percent. The analysis also revealed that as the average VAT to GDP ratio raises to 2.95 percent. The findings also show that, except for foreign revenue, VAT, total tax revenue, and non-tax revenue were all statistically significant at the 5% level of significance, and that they all contributed to economic growth over the years under consideration. However, to be effective, it requires strong administrations and cooperation's of the tax payers with taxing authority and the government in general.

Tesfaye (2015) used a secondary data and multiple variables regression model to study the determinants of tax revenue in Ethiopia. The study's goal was to find out what factors influence tax revenue in different sectors of the economy, such as agriculture, industry, and services, as well as FDI, inflation, interest rates, per capita income, and trade openness. This thesis employs a fifteen-year series data set as part of its research methodology. Tilahun A. 2014, with the title

Determinants of Tax Compliance Behavior in Ethiopia: The Case of Bahir Dar City Taxpayers, has been open for empirical inquiry with the goal of identifying factors that determine tax compliance behavior. The data was collected using a structured questionnaire, and the researcher employed one-way ANOVA, two samples, and one sample T-test. Perceptions of government expenditure, justice and fairness of the tax system, fines, personal financial constraints, changes in existing government policies, and referral group (friends, relatives, etc.) were all found to have a substantial impact on tax compliance behavior. Gender and the likelihood of being audited, on the other hand, have little bearing on tax compliance behavior.

#### **2.1.8. Research Gaps**

There are few researchers conducted on tax system in Ethiopia. However, as to my best knowledge, there is no research conducted on practices and challenges of tax administration. There is a limitation in studies undertaken on it. Hence, it needs an assessment to improve the tax administration. Therefore, this issue and the context gap of previous studies trigger the interest of the researcher to assess the major practices and challenges of tax administration. Moreover, it gives input to City revenue administration after it investigated the general practices of tax administration.

#### **2.1.9 Conceptual framework**

The conceptual framework shows the relationship of the concepts, factors, variables and indicators that used in the research. The dependent variable is tax administration Efficiency. The study identifies major challenges of tax administration. Hence independent variables will include Tax exemptions, Corruption, Tax Knowledge, and Lack of coordination.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Research Design

According to Ahuja (2010), pointed out that Research design is a plan, structure, strategy, and investigation to ensure that questions are searched and variances controlled. This study employed a descriptive design. A descriptive research design helps the research to describe attitudes, perceptions, characteristics, activities, and situations, and help to combine the results of the quantitative and qualitative analysis through collecting survey data and individual interviews (Kothari, 2004). Based on this description, the study described the practice of tax administration, perception of civil servants toward tax administration, and challenges of tax administration. Therefore, based on the objectives of the study, this research design employed a descriptive research design. This study employed mixed research approach.

#### 3.2. Population and sampling Techniques

The researcher used the target population of Akaki kaliti sub- city administration top managers and experts, and tax payers of in the sub city.

##### 3.2.1 Sample size

The study employed formula to draw a representative sample size from the target population. The sample size is the number of items chosen from the entire universe to make up a sample. (Kothari, 2014). To Calculate the sample size Taro Yamane (1967) the statistical formula is employed.

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

Where: n=number of sample size

N=Number of total targeted population

e= Margin error at 5 % (0.05) and at 95% confidence level

$$n = \frac{N}{1+N(e^2)}n = \frac{300}{1+300(0.5^2)}$$

$$n = \frac{300}{1+300(0.0025)}$$

$$n = \frac{300}{1+0.75}$$

$$n = \frac{300}{1.75}$$

$$n = 172$$

On the other hand, the sample size of tax payers was calculated in the above formula. Therefore, the total population 12,986 the sample size for this study was 388. According to the sample formula, the representative sample size for this study was 172 and 388 questionnaires were distributed for employees and taxpayers respectively.

### **3.2.2 Sampling Technique**

The study employed both probability and non-probability sampling techniques. For probability sampling used simple random sampling. On the other hand, from the non-probability sampling, the study used purposive sampling. Qualitative research focuses on a small number of people. Who can explain their perceptions and experiences about certain research questions or phenomenon (Baskarada, 2014; Creswell, 2003). In line with this, A key informant interviews selected purposively through purposive sampling to select the participants by own judgment that appropriately relevant for the study.

### **3.3 Source of Data**

The researcher gathered information from a primary and secondary source of data and both are qualitative and quantitative types of data. Primary data collected by conducting an interview for top-level management and questioners for taxpayers. Secondary data conducted and collected from documents.

### ***3.4 Methods of Data Collection***

#### ***3.4.1 Questionnaire***

Questionnaire is the first primary data collection instrument the researcher used during data collection from employees and taxpayers. To collect the necessary data from these respondents, a structured questionnaire that incorporated both closed-ended and open-ended questions develop and distribute to the sample population.

#### ***3.4.2 Interview***

Interview is the primary data collection technique that used to collect primary data from tax office head and team leader. The researcher used interview from important people who have first-hand knowledge about the issue under investigation.

### ***3.5 Method of Data Analysis and Presentation***

Data interpretation can describe Interpretation includes within the data collected and the extension of analysis beyond the data collected (Kothari, 2014). The findings of the research reported using a combination of varied approaches and techniques. The respondent's result was addressed under the study's objectives. The quantitative data result analyzed using descriptive statistics to describe the practice of tax administration and to summarize their responses using statistical package for social sciences (SPSS) Version 21. The quantitative presented by Data, Frequency of appearance and per cent, and tables were used to examine and understand the general conditions of the results of sample respondent. The qualitative data analyze through content and context analysis.

### ***3.6 Reliability and validity***

#### ***3.6.1 Pilot Study***

A pilot study conducted before the actual data collection. The questionnaire checked to determine whether the questionnaire is able to collect the required data as expected by the researcher. The pilot test conducted mainly to assess whether the questionnaire is easy to understand as well as whether the questionnaire contain any ambiguous and confusing questions. Ten participants selected at random to fill in the questionnaires. The pilot test results helped to make changes to the questionnaires. Clarification of certain questions that are not clear is also done to ensure sufficient and accurate data collection is facilitated. Through the pilot analysis, the information obtains use to measure the index of reliability.

### **3.6.2 Data Validity**

Validity is the most critical criterion and indicates what extent to which an instrument measures what it should be measured and the researcher ensured to gate validity (Kothari, 2004). The research instruments are validated by applying validity procedures for material. The survey questionnaires examined by the advisor, senior experts, and other colleagues to determine its clarity. That helps to avoid the ambiguity of the research instrument.

### **3.6.3 Data Reliability**

The study used Cranach alpha to assess the internal consistency of the research instrument. It is mainly use as a measure of internal consistency or reliability of a psychometric test score for a sample of examinees. Reliability analysis measures the internal consistency of a group of items that are used in the construction of the questionnaire. Cranach's alpha is a measure of internal consistency and helps to look at how closely related a set of items are as a group. The survey will test on 10 percent respondents from a representative sample of potential participants.

### **3.7 Ethical Considerations**

The following ethical considerations are at the base these research are Fairness, openness of intents, discloser of methods, respect or the integrity of individuals, informed the willingness of on the part of the subjects to the participants to the research activity. The researcher's objectives articulated verbally and written permission to proceed with the study as articulated received from the informant, and the informant rights and interests considered. The researcher attempted to ignore the personal accounts of the participants to collect information devoid of intervening factors that may be hampered the reliability of the findings. The researcher acknowledged and cited the references for the sake of avoiding plagiarism.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

This chapter portrays and discusses the results of the study and attempts to place the findings of the study in its scientific context. This chapter specifically presents and discusses respondents' demographic data analysis, practices of tax administration and perception of taxpayers towards tax administration in light of attaining the objectives of the study. The data was presented in tabular and graph forms and analysis was made using frequency and percentage. Following the presentation and discussion of the quantitative data was presented. Then, a discussion was made in line with the result of empirical studies in the area.

#### 4.2 Descriptive rate of respondents

*Table 4.1 Respondents rate*

Participants	Distributed questionnaire	Return questionnaire	Return questionnaire by Percent
Employees	172	162	94 %
Taxpayer	388	370	95.3%

**Source: own survey 2021**

As in the table 4.1 shows that 172 questionnaires were distributed and 162(94 percent) of respondents properly completed the questionnaires. On the other hand, 388 questionnaires distributed to taxpayers and 370(95.3 percent) were filled properly the questionnaires.

### 4.3. Background Information of Respondents

Table 4.2 Demographic characteristics of Employees

<b>Variables</b>	<b>Categories</b>	<b>Frequency</b>	<b>Valid percent</b>
<b>Sex</b>	Male	85	52.5
	Female	77	47.5
<b>Age</b>	18-35	86	53.1
	36-45	74	45.7
	above 45	2	1.2
<b>Educational status</b>	Certificate	4	2.5
	Diploma	17	10.5
	Degree	124	76.5
	Masters and above	17	10.5
<b>work experience</b>	Less than 3 years	29	17.9
	4-10 years	113	69.8
	Above 10 years	20	12.3
<b>Position</b>	Team leader	15	9.3
	Expert	119	73.5
	Other	28	17.3

**Source: Field survey, (2021)**

The results of the survey revealed that in table 4.2 from sample respondents were about 52.5 percent of represented male and 47.5 percent of respondents were female. The result clearly shows that male respondents were greater in number than female respondents which imply that female respondents are less in number in responding to this particular questionnaires.

With regard to respondent's age, about 53.1 percent respondents were age group between (18-35) years, 45.7 percent of respondents were between (36-45) years, and the remaining 1.2 percent of respondents was above 45 years old. From this analysis, we can understand the majority of respondents 53.1 percent of respondents were within the age range between 18-35

years of old. Respondents those their ages 18-35 years have taken the large percent of the total respondents.

The educational levels of the respondents clearly indicated in table 4.2 concerning educational status, out of total participants around 2.5 percent of respondents certificate, 10.5 percent of the respondent had a diploma, 76.5 percent of the respondents educational level was the first degree, 10.5 percent of respondents were masters and above level of education. From the above analysis, we can infer that there were more respondents whose educational level was first degree holders.

When examine the respondents working experience, about 69.8 percent of the respondents have 4-10 years of working experience; 17.9 percent of respondents have been served less than 3 years, and the remaining 12.3 percent of respondents serve above 10 Years. The composition of work experience of the respondents may have a positive effect on the quality of the findings of the study because views of those groups were incorporated in the data, and the respondents expected to have a better understanding of the practices and challenges of tax administration due to having long work experience. This is helped the researcher to increase the validity and reliability of the study.

When it comes to the respondents' position, as shown in table 4.2 about 73.5 percent of respondents were experts, 17.3 of respondents were other positions and the remaining 9.3 percent of respondents were team leaders. This indicates that the majority of respondents were experts. Thus, the findings indicate that majority of the respondents are relatively experienced.

#### 4.4 Descriptive Analysis on the practices of tax administration

The five-point Likert scale has been used for this study as it is most applicable and customary to use in business researches to understand patterns of attitudes among respondents or study participants (Sekaran & Bougie, 2016, Kothari, 2014). To analyze the Likert scale data with the SPSS generated mean, the five-point Likert scale is expressed in terms of interval. The mean score of respondents for the five-point Likert scale is determined by using the maximum and minimum values on the Likert scale which are 1 and 5 (where 1 represents strongly disagree while 5 is for strongly agree). The mean is calculated by deducting 1 from 5 and then dividing the difference by 5 as it happened to be the largest value on the scale used. This gives a mean value of 0.8. then by adding this mean to 1 we get the first interval which represents strongly disagree and it is (1, 1.80). Accordingly, the following table shows the interval for all the five points in the Likert scale.

**Table 4.3 Likert scale**

Point	Attitude	Interval
1	Strongly disagree	(1.00, 1.80)
2	Disagree	(1.81, 2.60)
3	Neither agree nor disagree	(2.61, 3.40)
4	Agree	(3.41, 4.20)
5	Strongly agree	(4.21, 5.00)

**Source: Mohammed (2016)**

#### 4.4.1 Statistics for Tax collection practice

*Table 4.4 Employees opinion on Tax collection practice*

No	collection practice	N	Mean	Std. Deviation
1	Tax collection mechanism is effective in akakikality sub-city.	62	2.59	1.137
2	There is strong tax administration control system in akakikality sub-city	162	2.86	.987
3	Preventing corruptions related to tax in akakikality sub-city is effective	162	3.12	.996

**Source: Field survey (2021)**

Respondents were asked to provide their opinion about tax collection practice in akakikality sub-city. Table 4.4 shows that the statistical result of respondents for Tax collection practice. Accordingly the average mean value tax collection mechanism is effective in akakikality sub-city (**2.59**) and with a standard deviation of **1.137** indicated that the respondents were disagreed the tax collection mechanism is effective. The mean value of there is strong tax administration control system in akakikality sub-city (**2.86**) with a standard deviation of **.987** indicated that the respondents neither agree nor disagree there is strong tax administration control system in akakikality sub-city. On the other hand, the average mean value preventing corruptions related to tax is effective (**3.12**) with a standard deviation of **.996** indicated that the respondents neither agree nor disagree preventing corruptions related to tax is effective.

**Table 4.5 Employees opinion on Penalty practice**

<b>No</b>	<b>Penalty practice</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>1</b>	The penalties imposed on taxpayers are fair.	162	2.60	1.338
<b>2</b>	The enforcement of penalty is strong.	162	2.17	1.207
<b>3</b>	The penalty applied by revenue office is based on the tax law.	162	3.41	1.232
<b>4</b>	Tax payers' penalties are transparence.	162	3.62	1.196

**Source: Field survey (2021)**

As shown in Table 4.5, from the result shown in the above table, the majority of the respondents were disagree the penalties imposed on taxpayers are fair the mean value (**2.60**) with a standard deviation of **1.338** indicates that respondents the penalties imposed on taxpayers did not fair. With regard to the enforcement of penalty is strong or not, the scored a mean of the enforcement of penalty is strong (**2.17**) with a standard deviation of **1.207** indicated that the most respondents disagreed the enforcement of penalty is strong. With regard to the penalty applied by revenue office is based on the tax law the mean scored value (**3.35**) with a standard deviation of **1.232** indicated that the respondents agree the penalty applied by revenue office is based on the tax law. On the other hand, respondents asked their opinion towards tax payers' penalties are transparence or not. Accordingly, the mean scored value (**3.62**) with a standard deviation of **1.196** indicated that the majority of respondents strongly agreed AkakiKality sub city tax payers' penalties are transparence.

**Table 4.6 Employees opinion on Taxpayers awareness**

No	Taxpayers awareness	N	Mean	Std. Deviation
1	Taxpayers are well aware of the tax proclamation and regulations.	162	2.58	1.392
2	Tax payers regularly declare their income timely.	162	2.49	1.21
3	Taxpayers' awareness is increased time to time.	162	3.51	1.36

**Source: Field survey (2021)**

Respondents were asked to share their opinion about Taxpayers are well aware of the tax proclamation and regulations. Accordingly, as shown in table 4.6 the scored a mean of Taxpayers are well aware of the tax proclamation and regulations (**2.88**) with a standard deviation of **1.392** indicated that taxpayers were not aware of the tax proclamation and regulations. Respondents were asked to share their opinions tax payers regularly declare their income timely or not. Accordingly, the scored mean values of Tax payers regularly declare their income timely (**2.49**) with a standard deviation of **1.21** indicated that the tax payers regularly did not declare their income timely. As indicated in the same table above, the scored mean values of (**3.51**) with a standard deviation of **1.36** shows that taxpayers' awareness is increased time to time. Summary statistics of taxpayer's awareness was low. However, tax payers regularly declare their income timely and taxpayers' awareness is increased time to time.

**Table 4.7 Employees opinion on employees' competency**

No	Competency	N	Mean	Std. Deviation
1	The revenue office has sufficient number of skilled man power.	162	3.68	1.117
2	The sub city administration provides adequate training for the staffs to efficient tax collection.	162	2.59	1.203
3	Competence of employees affects the effectiveness of tax administration.	162	3.42	1.376
4	Employees integrity has effect on the effectiveness of tax administration	162	2.53	1.181
5	The overall tax practices administration in akakikality sub city is effective	162	2.49	1.033

**Source: Field survey (2021)**

Respondents were asked to share their opinion about the employees 'competency in Akakikality sub city. As shown table 4.7 can clearly explain that the mean value of the revenue office has sufficient number of skilled man power (**3.68**) with a standard deviation of **1.117** indicated that the most respondents strongly agree the revenue office has sufficient number of skilled man power. With regard to the sub city administration provides adequate training for the staffs to efficient tax collection. Accordingly, the mean value of the sub city administration provides adequate training for the staffs to efficient tax collection (**2.59**) with a standard deviation of **1.203** indicated that the sub city administration did not provide adequate training for the staffs.

Respondents were asked to share their opinion about competence of employees affects the effectiveness of tax administration. Accordingly, the mean value of the competence of employee's affects the effectiveness of tax administration collection (**3.42**) with a standard deviation of **1.376** indicated that that competence of employees affects the effectiveness of tax administration. With regard to employees integrity has effect on the effectiveness of tax administration or not. Accordingly, the mean value of employee's integrity has effect on the effectiveness of tax administration (**2.53**) with a standard deviation of **1.181** indicated that employees integrity has

no effect on the effectiveness of tax administration. Finally, the overall tax practices administration in akakikality sub city is effective or not. According, the mean scored (2.49) and with a standard deviation of 1.033 indicates that the respondents disagree which means the overall tax practices administration in Akakikality sub city is did not effective.

Information obtained from the key informant interview pointed out that, kaki kality sub city revenue office collect tax to alleviate poverty, and provide public services. The sub city income is increased from time to time.

The Key informant information obtained revealed that:

*Tax is the primary source of revenue for the sub city budget. Tax laws and regulations implemented to accelerate the sub city tax income. As the result the government income tax increases. The tax reform has focused on raising tax rates, improving the economic efficiency of the tax system, and establishing new forms of taxing, rather than administrative changes. Key informant interview, 2021*

With regard to awareness of taxpayers the key informant interview confirmed that tax payer awareness level increased time to time. However, there were none tax payers. They did illegal activity and not announce their income tax on time.

Key interview participant explains:

*The sub city tax administration system is based on tax rule. Taxpayers announce their income for tax collector office. If taxpayers not appropriately their income. Tax assessment auditors receive records of the required books and supporting documents taxpayers to verify according to business income tax regulation for the purpose of taxation. Following the verification of the statements, a copy will be supplied to the taxpayer and also sent to the documentation section, which will be approved by the income tax assessment, collection, and controlling core process owner. Income tax law implementers and controlling process officers are responsible for ensuring that taxpayers are following all applicable rules and regulations, as well as taking legal action against those who receive a tax*

*assessment notification but refuse to pay their liability under proclamation no 311/2003.* Key informant interview, 2021

As a result, there are taxpayers who receive taxes from clients but are not properly identified. The taxpayers will be fined if they present income that is underestimated. However, tax officials face difficulties because there is no defined criterion for determining whether an underestimated amount is substantial or not. As a result, a loophole was created for certain unethical negotiating and activity between the taxpayer and the tax officer. There was a lack of competency, employee satisfaction, and a refusal to delegate responsibility. The quality of audits performed by tax officers is harmed by a lack of sufficient comprehensive audits due to a manpower shortfall. Furthermore, in the majority of cases, tax audits have been carried out manually. Manually verifying taxpayer information not only exposes revenue officers to errors, but it also slows down the auditing process. Furthermore, the tax collectors lacked the necessary ability. The tax administration has been harmed by the presence of inadequately trained staff, as well as perceived low remuneration packages and corruption.

According to the revenue head's interview, the decision-making process within the core process is not participatory. This could lead to subordinates refusing to participate in essential process tasks and a lack of willingness to carry out decisions. It also causes internal tension inside the fundamental process, which reduces its effectiveness. Because there are no employees with qualifications beyond a first degree, the firm also pays less attention to staff training and personal development. There is a lack of document identification as well as a severe assessment procedure. This failure has an effect on the collection process.

When taxpayers go to the tax office for assistance or to protest about various issues, they frequently grumble about the cumbersome civil service procedures in place. The following are the primary causes of the aforementioned concerns or challenges with profit tax administration, Taxpayers' lack of willingness and lack of comprehension of tax proclamations, rules, and regulations, in addition to the complexity of tax laws and proclamations Failure to pay attention to frequently changing government policy Because of the constant changes in policies, there is a lot of confusion. Due to a shortage of assessors, the authority's tax assessment procedure has been delayed.

#### 4.4.2. Perception of Taxpayers towards Tax Administration

*Table 4.8 Response opinion towards tax Administration*

No	Items	N	Mean	Std. Deviation
1	Taxpayers are well aware of the tax proclamation and regulations.	370	3.47	1.171
2	I know why I have to pay tax.	370	3.40	1.156
3	Some people do not pay taxes honestly because they believe that a big amount of the money collected is not used for the public good.	370	2.86	.987
4	Employee/tax collectors demonstrate high level of honest	370	2.12	.996
5	Tax collector have self-discipline to undertake their job	370	2.54	1.362
6	There is good service to taxpayers	370	2.60	1.186
7	Tax administration procedural manuals and rules, forms for taxpayers, Easily accessible.	370	4.31	1.257
8	The enforcement of penalty is strong, clear and consistent in akakikality sub city	370	2.35	1.232
9	There is a poor service delivery by the tax authority	370	3.62	1.196
10	There is creation of awareness to the tax payers by the tax authority	370	2.04	.254
11	There is no reward to taxpayers, which is, giving a trophy for being best taxpayer.	370	2.14	.871

**Source: Field survey (2021)**

The study attempted to assess the perception of taxpayers towards tax administration. As table 4.8 shows that, the mean vale of taxpayers is well aware of the tax proclamation and regulations (3.37) with a standard deviation of 1.171 indicated that that the most taxpayers are well aware of the tax proclamation and regulations. With regard to respondents were asked they know why

they have to pay tax or not, the mean score value (**3.40**) with a standard deviation of **1.156** indicates that the most tax payers know why they pay tax. With regard to some people do not pay taxes honestly because they believe that a big amount of the money collected is not used for the public good. The mean value (**2.86**) with a standard deviation of **.987** indicates that respondents neither agree nor disagree on some people do not pay taxes honestly because they believe that a big amount of the money collected is not used for the public good.

.With regard to employee/tax collectors demonstrate high level of honest or not, the mean vale of employee/tax collectors demonstrate high level of honest (**2.12**) with a standard deviation of **.996** indicates that the respondents disagree the tax collectors demonstrate high level of honest .With regard to tax collector have self-discipline to undertake their job were asked to share their idea. Accordingly, the mean vale of Tax collector has self-discipline to undertake their job (**2.54**) with a standard deviation of **1.362** shows that tax collector employees were not self-discipline to undertake their job. With regard to there is good service to taxpayer's in akakikality sub city administration, the mean value (**2.60**) with a standard deviation of **1.186** indicates that Akakikality sub city administration service was not good to taxpayers.

Taxpayers were asked to share their idea about tax administration procedural manuals and rules, forms for taxpayers, easily accessible. Accordingly, the mean score value (**4.31**) with a standard deviation of **1.257** shows that respondents confirmed Akaki kality sub city administration procedural manuals and rules; forms for taxpayers were easily accessible to taxpayers. In the same table the mean value score of the enforcement of penalty is strong, clear and consistent (**2.35**) with a standard deviation of **1.232** shows that the respondents confirmed the enforcement of penalty was not strong, clear and consistent the sub city. Respondents were asked to share their opinion about the service delivery by the tax authority. Accordingly, the mean value score (**3.62**) with a standard deviation of **1.196** indicates that Akaki kality sub city administration service delivery is poor.

With regard to awareness creation to tax payers, the score mean value (**2.04**) with a standard deviation of **.254** which indicates that the sub city awareness creation to taxpayers is not sufficient. On the other hand, the mean value score of the there is no reward to taxpayers, which is, giving a trophy for being best taxpayer (**2.14**) with a standard deviation of **.871** indicates that best tax payers did not give reward and recognition by sub city.

#### 4.4.3. Challenges for Tax Administration Effectiveness Practices

*Table 4.9 Response opinion towards Challenges for Tax Administration*

No	Items	N	Mean	Std. Deviation
1	There is poor tax administration.	162	2.68	1.1179
2	There is a lack of awareness of tax payers.	162	2.79	1.203
3	Insufficient of Institutional Capacity of the office.	162	3.41	1.376
4	The absence of an integrated financial system is a limiting factor in the efficiency of tax administration.	162	2.43	1.181
5	Lack of Coordination among different sectors	162	2.49	1.033
6	There is lack of consistency and transparency in imposing penalties	162	2.62	1.099
7	There is a lack of follow up and control tax payers	162	3.54	1.257

**Source: Field survey, (2021)**

To know the constraints that hinder for tax Administration effectiveness. As respondent's results indicate that, there were several obstacles for the effectiveness of tax administration. The following challenges were identified.

##### 4.4.3.1 Poor tax administration

Tax administration is likely to be ineffective in undeveloped countries, resulting in poor tax performance (i.e., the incapacity of the administration to implement the tax in practice). This could be due to resource constraints and the tax being designed separately from the administration (Bird & Gendron, 2005). Respondent were asked to share their opinion about poor tax administration challenge or not. Accordingly, as shown in table 4.8 about 109 (67.5 percent) of respondents replied agree and strongly agree. While about 43(26.4 percent) of respondents

replied disagree and strongly disagree and the remaining 10(6.1 percent) of respondents not decide. The finding reveals that Poor tax administration was challenge for tax administration effectiveness.

#### **4.4.3.2 Lack of awareness**

As shown in table 4.8 about 109 (67.2%) of respondents replied agree and strongly disagree there is lack of awareness challenge for tax administration. About 30 (18.5%) of respondents replied disagree and strongly disagree and the remaining 23 (14.3%) of respondents not decide on this issue. This implied that lack of awareness towards tax has effect on tax administration effectiveness. Furthermore, key informant interview confirmed taxpayers' lack of desire and comprehension of tax declarations, rules, and requirements and Complexity in understanding tax laws and proclamation.

#### **4.4.3.3 Institutional Capacity of the office**

Tax in particular requires administrative capacity within the tax authority through follow up and controlling. It is clear that the capacity of much of the public sector is so low that it forms a major obstacle to effective implementation of the law. As shown in table 4.8 about 120(74.2 percent) of respondents replied agree and strongly agree, While about 30 (18.4 percent) of respondents replied disagree and strongly disagree and the remaining 12(7.4 percent) of respondent not decide. From this analysis it can conclude that Institutional Capacity of the office was challenge for tax administration.

#### **4.4.3.4 Lack of an Integrated Banking System**

As shown in table 4.8 respondents were asked to share their opinion about the absence of an integrated financial system is a limiting factor in the efficiency of tax administration. Accordingly 128(79.1 percent) of respondents replied agree and strongly agree, about 18 (17.2 percent) of respondents replied disagree and strongly disagree and the remaining 6(3.7 percent) of respondent not decide. The finding reveals that absence of an integrated financial system is a limiting factor in the efficiency of tax administration.4.4.3.5 Lack of Coordination among different sectors.

Coordination needs an integrated effort of a government institution, and other stakeholders to ensure the achievements of a goal set to address a particular problem. For this mater, as shown in table 4.8 about 119(73.4 percent) of respondents replied agree and strongly agree, about 25(15.5 percent) of respondents replied disagree and strongly disagree and the remaining 18(11.1

percent) of respondent not decide. According to the respondents lack of coordination among public sectors one factor for tax administration effectiveness.

#### **4.4.3.6 Lack of consistency and transparency**

As shown in table 4.8 about 122(75.3 percent) of respondents replied agree and strongly agree, about 27(16.7 percent) of respondents replied disagree and strongly disagree and the remaining 13(8.0 percent) of respondent not decide. This implies that is lack of consistency and transparency in imposing penalties factor for tax administration effectiveness.

#### **4.4.3.7 Lack of follow up and control**

Follow-up and control t are important to know what is going on the ground. The information obtained from the respondents indicates that 91(56.1 percent) of respondents replied agree and strongly agree, about 58 (35.7 percent) of respondents opposed and the remaining 13(8.2 percent) of respondent not decide. From this analysis we can conclude a lack of follow-up and controlling system has negative impact on tax effectiveness.

Summary statistics of challenges for tax administration effectiveness practices are presented in table 4.9 shows that the mean value of there is poor tax administration, there is a lack of awareness of tax payers, Insufficient of Institutional Capacity of the office, the absence of an integrated financial system, lack of coordination among different sectors, There is lack of consistency and transparency in imposing penalties and there is a lack of follow up and control tax payers 2.68 with a standard deviation of 1.1179 , 2.79 with a standard deviation of 3.41 with a standard deviation of 1.376, 2.43 with a standard deviation of 1.181, 2.49, with a standard deviation of 1.033 , 2.62 with a standard deviation of 1.099 and 2.54 with a standard deviation of 1.257 respectively.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of the study, the conclusion and the recommendations comprehensively.

#### 5.1 Summary of the Findings

The general objective of the study was to assess practices of tax administration in Ethiopia in the case of Akaki Kaliti sub- city of Addis Ababa. Furthermore, the study was deal with the effectiveness of practices of tax administration, perception of taxpayers towards tax administration and the challenges of tax administration.

The researcher collected data through the survey questionnaires and interviews in order to finalize this research. These gathered data were presented in the form of tables and presented in a descriptive way to make meaning out of them. Then, based on the data presentation, interpretations and discussions were made in the aforementioned section. The major findings were explained as follows in relation to the research questions.

The first objective that assessed in this research was the effectiveness of practices of tax administration. The study sought to investigate the overall practices of tax administration in Akaki kality sub city. With regard to tax collection practice the majority of employees' opinion the tax collection mechanism could not effective. Respondents did not believe there is strong tax administration in terms of control system. The finding indicates that the sub city was effective by preventing corruptions related issue.

With regard to penalty practice, according to the employees' perception the penalties imposed on taxpayers did not fair. However, the enforcement of the penalty in the sub city was strong. This indicates that the most respondents agreed the penalty is based on law. On the other hand, respondents agreed the penalties are transparence to tax payers.

Respondents were asked to share their opinion about Taxpayers are well aware of the tax proclamation and regulations. The finding reveals that taxpayers were not aware of the tax proclamation and regulations. According to respondents responses tax payers regularly did not declare their income on time. Yet, taxpayers' awareness level is increased from time to time.

With regard to employees' competency the most respondents confirmed the revenue office has sufficient number of skilled man power. However, the results revealed that the sub city

administration did not provide adequate training for the staffs. A respondent believe that competence of employees affects the effectiveness of tax administration. The finding revealed that in the overall tax practices administration in Akakikality sub city did not effective.

The second objective of this study was to examine the perception of taxpayers towards tax administration in Akaki kalit Sub-city Administration. According to the information obtained from the respondents taxpayers are well aware of the tax proclamation and regulations as the result the finding indicates that the most tax payers know why they pay tax. Most respondents disagreed some people do not pay taxes honestly because they believe that a big amount of the money collected is not used for the public good. On the other hand, respondents replied disagree and strongly disagree with employee/tax collectors demonstrate high level of honest. With regard to tax collector have self-discipline to undertake their job the finding reveals that tax collector employees were not self-discipline to undertake their job.

The results of the study revealed the majority of Akaki kalit sub city administration service was not good to taxpayers. The majority of respondents confirmed the sub city administration procedural manuals and rules; forms for taxpayers were easily accessible to taxpayers. However, the most respondents confirmed the enforcement of penalty was not strong, clear and consistent. Taxpayers had complained on service delivery system. On the other hand, the sub city awareness creation to taxpayers is not sufficient. The finding indicates that best tax payers did not give reward and recognition by sub city.

The other objective of the study was to identify major challenges of tax administration. The analyzed data shows that poor tax administration, Low awareness, Institutional capacity of the office, lack of an Integrated Banking System were factors for tax effectiveness. Furthermore, Lack of Coordination among different sectors, consistency and transparency and follow up and control were challenges for the effectiveness tax administration. The revenue office does not provide people with long-term training to increase their tax awareness. Furthermore, the office does not produce a report for each type of taxpayers' annual collection plan. Due to a lack of clarity in the tax code, there was room for interpretation.

## **5.2 Conclusions**

The study revealed that the practices and challenges of tax administration in the case of Akaki kalit Sub-city of Addis Ababa. The data was obtained from employers, heads and tax payers.

Based on the results from data analysis and findings of the research, Akakikality sub city collect tax from tax payers. To enhance the revenue the sub city implements various tax management principles. The sub city revenue is increased time to time. However it could be conclude that the sub-city tax office has faced different operational and administrative problems and challenges to handle the taxpayers. It may be considered as the implemented tax collection and assessment system is not effective. There exist various challenges that face for tax effectiveness in the sub city. Even though, the sub city faced various problems. The sub city's revenue has increased progressively.

### **5.3 Recommendation**

Based on the study's findings and conclusion, the following recommendations are forwarded based on the objectives of the study.

- Setting clear and transparent rules and regulations is necessary for an efficient and proper tax administration. Revenue office should be outfitted with cutting-edge technology and sufficient human resources. The tax authority must keep a proper management information system in place. As a result, taxpayers must be given clear, succinct, and current information on what is taxable, how to compute their tax liabilities, and methods for calculating and paying taxes, as well as where and when they pay taxes.
- Kality sub city office should raise awareness of the importance of tax collection to the improvement of public goods in general to business persons who are involved in tax collection through a workshop or by distributing magazines published on the subject. Moreover, the tax office should increase taxpayer educational programs to increase tax awareness by tax payers.
- The sub city should prepare or design a reward for those business persons that perform the best in terms of tax collection. The reward can be certificate or lump sum amount of money.
- The sub city administration penalty should be strong, clear and consistent. The tax payer office should create a clear, simple, intelligible, transparent, and user-friendly administrative system for income tax laws and procedures. Taxpayers had complained on service delivery system. The service delivery should be fast and easy to tax payers.

### **Recommendations for Further Study**

This study has assessed the practices and challenges of tax administration. The study assists tax administration effectiveness. It contributes to the sub city that commenced the service by showing the gap with regard to tax collection methods, penalty and tax payer's awareness. The study did not cover every aspect of tax administration principles. Therefore, the untouched areas by this thesis due to the time limit and budget need further research.

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# Appendix



## School of business and economics

### Questionnaire to be filled by Akakikality sub-city employees

My name is **EngdaworkDagne**. I am a student at Addis Ababa University. I am a prospective graduate and conducting my thesis on practices and challenges of tax administration in Ethiopia: the case of akakikaliti sub- city of Addis Ababaas my Master Degree requirement. The purpose of conducting this research is to assess the overall practices of tax administration.

Your participation will be anonymous and confidential. I would like to assure you that the information received will be used exclusively for academic purpose. Therefore, you are kindly requested to respond to the questions freely and to the best of your knowledge. By taking part in this survey, you are acknowledging that you understood the terms of participation and that you consent to these terms. If you have any further question regarding this study and the questionnaire, you can contact me with the following cell phone. I would like to thank you for your participation and valuable time in advance.

- You do not need to write your name
- **Tick (√) or Circle** on your response among the alternative provided

### Instruction I: Demographic Data

1.Sex	2. Age (year)	3. Educational Status	4. Your Current position	5. Your Work Experience in your current organization in years
1.male <input type="checkbox"/>	1.18-35 <input type="checkbox"/>	1. Certificate <input type="checkbox"/>	1. team leader <input type="checkbox"/>	1. less than 3 year <input type="checkbox"/>
2. female <input type="checkbox"/>	2. 36-45 <input type="checkbox"/>	2. Diploma <input type="checkbox"/>	2. expert <input type="checkbox"/>	2. 4-10 year <input type="checkbox"/>
	3. above 45 <input type="checkbox"/>	3. Degree <input type="checkbox"/>	3. Other <input type="checkbox"/>	3. above 10 years <input type="checkbox"/>
		4.Masters and above <input type="checkbox"/>		

**Instructions II:** Please read each statement carefully and choose the most appropriate answer Put “x” mark that best describes the degree to which you are Agree or disagree with each statement. (Where, 1 = Strongly disagree, 2= disagree , 3= No comment , 4= agree and 5= Strongly agree .

No	effectiveness of practices of tax administration	Level of Agreement				
		1	2	3	4	5
	<b>collection practice</b>					
1	Tax collection mechanism is effective in akakikality sub-city.					
2	There is strong tax administration control system in akakikality sub-city					
3	Preventing corruptions related to tax in akakikality sub-city is effective					
	<b>Related with penalty</b>					
1	The penalties imposed on taxpayers are fair.					
2	The enforcement of penalty is strong in akakikality sub-city.					
3	The penalty applied by revenue authority is based on the tax law.					
4	Taxpayers' penalties are transparence.					
	<b>Related with taxpayers awareness</b>					
1	Taxpayers are well aware of the tax proclamation and regulations.					
2	Tax payers regularly declare their income timely.					
3	Taxpayers' awareness is increased time to time.					
	<b>Related with employees competency</b>					
1	The revenue office has sufficient number of skilled man power					
2	The sub city administration adequate training for the staffs and the taxpayers that Contribute to efficient tax collection.					
3	Competence of employees affects the effectiveness of tax administration					
4	Employees integrity has effect on the effectiveness of tax administration					
5	The overall tax practices administration in akakikality sub city is effective.					
	<b>The challenges of tax administration</b>					
1	There is poor tax administration.					
2	There is a lack of awareness of tax payers.					
3	Insufficient of Institutional Capacity of the office.					

4	lack of an integrated banking system factor for tax administration					
5	Lack of Coordination among different sectors					
6	There is lack of consistency and transparency in imposing penalties					
7	There is a lack of follow up and control.					

1. What is look like tax administration practice in kalitiy sub city?

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2. What are the main factors that hindered for effective ness of tax administration?

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3. What should be done to improve effective tax administration practices?-

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## Appendix



### School of business and economics

#### Questionnaire to be filled by Akakikality sub-city tax payers

My name is Engdawork Dagne. I am a student at Addis Ababa University. I am a prospective graduate and conducting my thesis on practices and challenges of tax administration in Ethiopia: the case of akakikaliti sub- city of Addis Ababa my Master Degree requirement. The purpose of conducting this research is to assess the overall practices of tax administration.

Your participation will be anonymous and confidential. I would like to assure you that the information received will be used exclusively for academic purpose. Therefore, you are kindly requested to respond to the questions freely and to the best of your knowledge. By taking part in this survey, you are acknowledging that you understood the terms of participation and that you consent to these terms. If you have any further question regarding this study and the questionnaire, you can contact me with the following cell phone. I would like to thank you for your participation and valuable time in advance.

#### General Direction

- **You do not need to write your name**
- **Tick ( ✓ ) or Circle on your response among the alternative provided**

**Instructions II:** Please read each statement carefully and choose the most appropriate answer Put “x” mark that best describes the degree to which you are Agree or disagree with each statement. (Where, 1 = Strongly Agree, 2= Agree , 3= No comment , 4= Disagree and 5= Strongly Disagree .

No	Statements	Level of Agreement				
	<b>perception of taxpayers towards tax administration</b>					
1	Taxpayers are well aware of the tax proclamation and regulations.	1	2	3	4	5
2	I know why I have to pay tax.	1	2	3	4	5
3	Some people do not pay tax honestly because they believe that large portion of collected money is not used to the public.	1	2	3	4	5
4	Employee/tax collectors demonstrate high level of honest	1	2	3	4	5
5	Tax collector have self-discipline to undertake their job	1	2	3	4	5
6.	There is good service to taxpayers	1	2	3	4	5
7	Tax administration procedural manuals and rules, forms for taxpayers, Easily accessible.	1	2	3	4	5
8	The enforcement of penalty is strong, clear and consistent in akakikality sub city	1	2	3	4	5
9	There is a poor service delivery by the tax authority	1	2	3	4	5
10	There is creation of awareness to the tax payers by the tax authority	1	2	3	4	5
11	There is no reward to taxpayers, that is, giving a trophy for being best taxpayer	1	2	3	4	5

1. What is look like tax administration practice in kalitiy sub city?

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2. What are the main factors that hindered for effective ness of tax administration?

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3. What should be done to improve effective tax administration practices?-

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## **Appendix B**

### **Semi-structured Interview guidelines to revenue office head.**

1. Do you think that tax administration practices are effective in akakikality sub city? If Yes how? If not why?
2. What are the main challenges that encounter in the existing tax administration?
3. How tax administration practices looks like?
4. What are the management systems of tax administration?
5. What is your general comment to improve tax administration effectiveness?