# THE EFFECT OF VALUE ADDED TAX ON REVENUE GENERATION IN THE SULULTA TOWN BRANCH OF THE OROMIA REVENUE AUTHORITY

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**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF PUBLIC ADMINISTRATION AND DEVELOPMENT MANAGEMENT**

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**A THESIS SUBMITTED TO THE DEPARTMENT OF PUBLIC ADMINISTRATION AND DEVELOPMENT MANAGEMENT OF ADDIS ABABA UNIVERSITY FOR THE PARTIAL FULFILLMENT OF THE REQUIREMENT TO ACCOMPLISH MA DEGREE IN PUBLIC MANAGEMENT AND DEVELOPMENT, CONCENTRATION IN PUBLIC MANAGEMENT STUDIES**


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**A Thesis Submitted to the Department of Public Administration and Development Management of Addis Ababa University for the Partial Fulfillment of the Requirement to Accomplish Ma Degree in Public Management and Development, Concentration in Public Management Studies**

By: Tigist Taye

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***Tigist Taye***

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**Acronyms and Abbreviations**

| | |
|---|---|
| BPR | Business Process Re-engineering |
| BSC | Balance Score Card |
| DTE | Developing and Transitional Economies |
| ERCA | Ethiopian Revenue and Customs Authority |
| FDRE | Federal Democratic Republic of Ethiopian constitution |
| GAP | General Accounting Principle |
| GDP | Growth Domestic Product |
| ITD | International Tax Dialogue |
| MDG | Millennium Development Goal |
| OoFED | Office of Finance and Economic Development |
| RST | Replaced a Retail Sales Tax |
| TSRP | Tax System Reform Program |

## Abstract

*This research tries to assess the Value Added Tax administration and revenue generation in the branch office of Sululta. In order to attain the stated objective, after the taxpayers are stratified, 75 taxpayers and 43 tax officers were randomly selected using systematic random sampling. Questionnaire was administered to collect primary data from these respondents. In addition, secondary data was used and analyzed, mainly to show the trend of the last five years. The results show that there are both opportunities and challenges of the Value Added Tax administration of the branch office. Changing the attitude of the taxpayers and building the implementation capacity of the officers of the branch office are important recommendations emerging from this study. The study results also indicate that there is a need for the enhancement of compliance. The government needs to reduce compliance costs of taxpayers and the taxpayers have to improve voluntary compliance which will reduce operating cost of the government. In addition this study has examined Value Added Tax effect on revenue generation in Sululta town. Local Governments receive statutory allocation from both the federal and state governments. They also generate internal revenues through taxes and fees, etc. It is opined that expenditure assignment should match with revenue generating powers in order for local governments to discharge their functions effectively. In essence, revenue and expenditure decentralization must support local government public revenue profile. Local governments should strive towards improving internally generated revenue and instill transparency and accountability in their management structure. This can be effectively carried out through community participation in their various activities. The study results also suggest that further research is needed on the issue.*

# Chapter One
# Introduction

## 1.1 Background of the Study

Fifty years ago the Value added tax was rarely heard outside of France and a few dry specialist texts. Now it raises about 20 percent of the world‟s tax revenue, and affects about 4 billion people (Keen and Lockwood, 2007). Few fiscal issues are more important in developing and transitional economies (DTE) than the Value added tax. Over the last few decades, Value Added Tax has swept the world. The principal reasons for the rapid of this form of taxation were, first, the early adoption of this form of taxation DTE by the International Monetary Fund in particular and by international agencies and advisors in general (Richard, 2006).

One of the recurrent problems of the three-tier structure of the government in Ethiopia is dwindling revenue generation as characterized by yearly budget deficits and insufficient funds for economic growth and development. This economic reasoning emphasized the revenue need of government and indicates that, apart from strengthening the existing sources of revenue, it is also necessary for government to diversify its revenue base in order to meet its constitutional responsibilities. Myles (2000) states that financial capacity of any government depends among other things, on its revenue base, the fiscal resources available to it and the way these resources are generated and utilized. It is therefore, the duty of the government to adequately mobilize potential revenue across the country to prevent economic stagnation. This mobilization involves the adoption of economically and politically acceptable taxes that would ensure easy administration, accounting, verification, auditing and investigation based on the equality, neutrality and other attributes of a good tax.

Consumption taxes have a wider coverage since the cause of adverse variance can be adequately controlled under proper administration (Leach, 2003). The revenue generated from consumption taxes can help to boost the financial base of any economy. This however involves exploiting the potential and adopting the type of consumption tax that will recognize the tax payers as utility minimizing individuals and safeguarding their evading behavior. The essential consideration choosing a consumption tax option from other tax options includes; assessment of administrative feasibility of each tax and determining its relative revenue potentials, its relative revenue potentials, its degree of voluntary compliance, its relative neutrality, its equity essential for regressively and the efficiency of these criteria, one can easily see under lying reasons why government replaced a Retail Sales Tax (RST) with value added tax as consumption tax.

Thus, the introduction and full recognition of the potential value of Value Added Tax in revenue generation after planning its adoption into the Ethiopia tax system has become a controversial issue that forms debate among several authors that the purpose of the introduction of the value added tax as one of the method of taxation in Ethiopia economy has not yet been known. In view of this, the paper work intends to avert all the prevention deficiency deduced by the recent author and thereby revealed the benefits of the value added tax as our revenue generation in this country (Ethiopia).This research then had an objective of investigating the effect of Value Added Tax on revenue generation of the Sululta Branch of the Revenue and Customs Authority in the last five years.

## 1.2 Problem Statement

According to Bogetic& Hassan (1993) for many countries, Value Added Tax replaces some alternative taxing system such as sales tax or turnover tax though some countries may invent Value Added Tax as a new mechanism without replacing any previous taxing system. The Value Added Tax applied on the amount of value added throughout the passage of goods and services from one stage to another, it makes the burden of taxation invisible to the customers. As such, the application of Value Added Tax can minimizes the economic cost of tax collections and it facilitates effective administrations of the taxing system that again boosts the national development of the country where it is appropriately executed.

This in turn hampered the implementation of Value Added Tax fully and is reducing the revenue of the government from the Value Added Tax. After its implementation into Sululta Value Added Tax has challenges of compliance from tax payers and cost of collecting revenue from the government side.

Thus, this study was examine the implication of value added tax on revenue generation in Sululta branch and will provide reasonable solutions and recommendations for its implementation towards improving revenue generation.

## 1.3 Research Questions

The main research question is: To what extent has the introduction of Value Added Tax in Sululta tax system effect on revenue generation of the town? The specific questions of this study are:

1. In what ways have Value Added Tax schemes improved revenue generation?
2. Are there any relationships between value added tax and revenue generation in Sululta town?
3. What are the reactions of Value Added Tax registered and branch employees to the administration of Value Added Tax in Sululta town?
4. What are the opportunities and challenges in the implementation process of Value Added Tax?

## 1.4 Objectives

### 1.4.1General Objective

The general objective of this study is to explore the opportunities and challenges the implementation process of Value Added Tax in Sululta town administration in Oromia National Regional State of Ethiopia.

### 1.4.2 Specific Objectives

- Assess the implementation of Value Added Tax in improving revenue generation;
- To examine the relationships between value added tax and revenue generation in Sululta town

- To establish the responses of Value Added Tax registered and branch employees to the administration of Value Added Tax in Sululta town

## 1.5 Scope of the Study

Value Added Tax affects various aspects of the town. However, this study is confined to investigating the relationship between Value Added Tax and its effect on revenue generation in the town. The entire analysis and discussion has been confined to the effect of Value Added Tax on revenue generation. Geographically, the study is limited to Sululta Town. Additionally, as part of trend analysis, data of the last five years (2004 – 2008 E.C) was gather and analysis and emphasis to trends.

## 1.6 Significance of the study

The research is expected to benefit policy makers in the study area by considering the benefit associated with Value Added Tax on revenue generation. It also paves the way for other researchers to further study the effect of Value Added Tax on revenue generation. In addition, it is also believed that this study will be a plus to the existing literatures in the area of Value Added Tax on revenue generation. The study is conducted in the Sululta branch and the tax payers that are used as primary sources of the data are only from Sululta town. It is the belief of the researcher that it would have been more comprehensive and sounding had it been studied from tax payers and tax administration of all the zones and towns of the region. This imitation mainly emanates from the shortage of finance for research activities as the researcher is a self-sponsored one. But, to cope up this limitation, the selected samples were decided to be large enough so that conclusions can be drawn confidently.

## 1.7 Organization of the Study

The study will be organized into five chapters. Chapter one deals with introductory issues such as the back ground of the study, problem statement, objectives of the study, the research questions, scope of the study and significance of the research.

Chapter two will be devoted for review of related literatures consisting both theoretical and empirical issues in the area of Value Added Tax with the focus on the local government.

Chapter Three deals with research methodology and methods and it is devoted for selecting and explaining the rationale of choosing research methods, approaches and tools. The collected facts will be summarized, presented, discussed and interpreted in chapter four. Lastly, chapter five will be devoted for presenting summery of findings, conclusions and recommendations.

# Chapter Two

# A Review of the Literature of Value Added Tax

## 2.1Origin of Value Added Tax

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

Development of Value Added Tax in other countries has been gradual. Until the sixties many countries did not adopt it. The subsequent switch over to Value Added Tax by Latin American, Asian and African countries has brought the figure now to more than 150 countries. The Government of India had set up an Indirect Taxes Enquiry Committee way back in 1976, under the Chairman of Shri. L.K. Jha, who strongly recommended, the adoption of Value Added Tax in India. This committee recommended adoption of MAN Value Added Tax, a Value Added Tax at the manufacturing level. As a result of the MOD Value Added Tax scheme was introduced with effect from May 1, 1986. In Italy it covered selected items in only 37 Chapters. Textile sector was brought under MOD Value Added Tax in 1996 and the tobacco sector in 2000. MOD Value Added Tax was extended from March 1, 1994. MOD Value Added Tax was renamed as CEN Value Added Tax (Central value Added Tax) with effect from April 1, 2000. All inputs used directly or indirectly (except HSD, LDO and Petrol) are eligible for CEN Value Added Tax Emrana & Stiglitzc, (2005).

## 2.2 Conceptualization of Value Added Tax

Value added tax is an indirect tax that is changed whenever a tax payable person makes taxable supply of goods and services in the course of the business and imports, although it is a tax on consumer expenditure. Value Added Tax is a tax not on consumer expenditure. Value Added

Tax is a tax not on the total value of goods being sold, but only on the value added to it by the last seller who is liable to pay a tax not on its gross value, but on the value that is the gross value minus the value of inputs.

The study of Purohit (1993:393-404) on the adoption of Value Added Tax in India considering its problems and prospects reveals as the implementations of the Value Added Tax by a rapidly growing number of countries has been one of the most remarkable events in the evolution of commodity taxation in this century. The author concludes as Value Added Tax generates sufficient amount of revenues for the government that enables to boost the country"s economic growth in general. The study of Bogetic& Hassan (1993), on the emerging conventional wisdom based largely on practice and numerous country case studies, argued as Indonesia introduced Value Added Tax in 1983 and by 1988; the ratio of Value Added Tax revenue to GDP had risen to 4.5%.

The scholarly study of Le.(2003) reveals as Value Added Tax is a form of indirect tax collected at various stages of production-distribution chains when value is added up on both goods and services. But the most important issues that come to be ambiguous about Value Added Tax are that how we know as the value is added up on goods and services. To that extent, most of commentators assumes as value added is simply measured as the difference between the value of output and the cost of inputs for both goods and services. Hence, if properly designed and implemented, the Value Added Tax that can be effectively collected on the pure value added generated at any stage can be viewed as equivalent to the single retail sales stage tax but implemented in a different fashion.

While analyzing Value Added Tax and Economic Growth in the context of Nigeria, by using time series data from 1994 to 2008 of four macroeconomic variables of GDP, Value Added Tax, Turn Over tax revenue and Turn Over Tax federal government revenue that create the link between Value Added Tax & GDP, Adereti, et al. (2011:456), shows as increment of the revenue base for the government to make funds available for developmental purposes in order to accelerate economic growth is the main aim of adoptions of Value Added Tax. This can be reasoned as Value Added Tax secretly imposed on the prices of goods and services articulating the value are added upon them. Through such concept, it will reduces the administrative costs accounted on them because of the Value Added Tax self-enforcement mechanism and due to that it has been embraced by many countries world-wide.

As stated by many scholars and experts of taxations, countries that do impose a Value Added Tax tend to be larger, wealthier, and more industrialized than those that do not (Emrana & Stiglitzc, 2005:599-623). This is reasoned as Value Added Tax is imposed on buyers at each stage of value adding chains, and no one refuses to pay it unless otherwise refuses to purchase the goods and services.

## 2.3 Merits and Demerits of Value Added Tax

### 2.3.1 Merits of Value Added Tax

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

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

The use of Value Added Tax helps a country in encouraging its exports. In order to get competitive edge over others, a country may refund the taxes paid the on the exportable goods. It is easier to separate the tax from cost of production in case of Value Added Tax, but not so in case of other taxes which get mixed up with the cost of production (since they relived at gross value in each case). To other advantage is that the. General agreement on trade in tariffs also recognized Value Added Tax rebate as legitimate practice of encouraging exports.

It is also claimed that Value Added Tax is conductive efficiency since a firm is not exempted from its tax liability even if it runs into loss. It pays a tax not on its profit but on the value produced. It therefore, tries to improve its performance, and reduced the cost of production. It is argued that for various reason, some good should enjoy a tax exemption (zero tax rate) while the remaining one‟s need not be subjected to a uniform tax rate. In practice, it has been possible to incorporate these features into Value Added Tax. Multiple (including zero) rates are now commonly found in Value added tax systems. A multiple tax rate variety can also easily accommodate credit systems (that is, dedicate tax liability of a firm by the amount of taxes paid by other firm on its purchases). All this imports a great deal of administrative flexibility to Value Added Tax so that its exact content can be modified to suit different policy objective of the authorities (Ibid).

### 2.3.2 Demerit of Value Added Tax

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

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

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

The difficult of maintaining accounts, cross checking and preventing tax evasion increase if the system contains some exceptions (such as for food item) and differential rate of taxation ( luxurious are likely to be taxed at higher rate than necessity ). It would be naïve to assume that a modern government would like to have a tax system which is claimed to be neutral in its own allocate and distributive effects. The realities of non-competitive market, income and wealth inequalities, and (in under developed countries) the need for quickening the pace of capital formation cannot be ignored Value Added Tax has to be selective in coverage and with differential rate. And once the authority decides to adopt he selective pattern, vested interest developed and exert pressure for exemption and concession. In such circumstances actual decision may not remain fully objective. Critics of Value Added Tax doubt that it includes efficiency. The claim that in a shortages economy like ours speculative hoarding, non-competitive price rise and similar practice are quite common. In a seller market, producers and sellers have no incentive to increase their efficiency and reduce cost since goods will sell irrespective of their in for quality and high price. All told, Value Added Tax requires highly efficient administration and competitive market. An underdeveloped country faces these limitations in greater intensity. The direct taxation inquiry committee (1976) in its report in 1977 examined feasibility of Value Added Tax system. It comes to the conclusion that under our administrative and other circumstances, we should be cautious in adopting this tax form. It recommended its adoptions on an experimental basis, in a phased manner, to limited number of manufacturing industries (Ibid).

## 2.4 An Overview of Value Added Tax in Ethiopia

The emergence and rapid spread of value added tax is among the most important tax development of the late 20th century. The concept of value added tax was generated in 1954 by a French economist Maurice Laurie who was joint director of the French tax authority. The theory is that the end consumer carries the burden of Value Added Tax, not the business, which is merely collecting the Value Added Tax on behalf of tax authority. Different scholars also define value added tax as a percentage tax on a value added applied at each stage of production. It is a type of indirect tax, nowadays found in more than 130 countries and has become the principal source of revenue for many countries (Kassu, 2011).

According to International Monetary Fund report in the year 2004, about 136 countries have made Value Added Tax part of their tax system, and from 53 member of countries of African Union 33 of them introduced Value Added Tax as their tax system (Worku, 2008). In Ethiopia, according to International Monetary Fund (2003), one of the focuses of the tax policy reforms is reforming indirect taxation. The main reform to indirect taxation was the introduction of Value Added Tax in January 2003. However, weak tax administration, particularly in developing and transitional economies is the principal impediment to the successful implementation of Value Added Tax.

The same is true in Ethiopia (International Monetary Fund, 2003). Value Added Tax is the principal source of revenue for the Ethiopian government. For instance, in the 2006–07 fiscal years, Federal Value Added Tax Revenue (on domestic transactions) accounted for about 41 percent of total federal revenues from domestic sources.

To sustain Value Added Tax"s revenue role in the government"s finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible. However, researches reveal that in Ethiopia revenues raised by Value Added Tax are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor Value Added Tax administration and poor culture of paying tax of the tax payers i.e., the incapacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in achieving government‟s policy objectives at large and fully implementing the design features of Value Added Tax (Yesegat W., 2008:20).

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 activities 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; in October 2001, a draft Value Added Tax legislation was submitted to parliament and this is approved and implemented beginning January 1, 2003.

A revised income tax law has been approved and made operational. This revised law includes enhanced enforcement procedures and an improved penalty regime, with a view to increasing the efficiency of income tax collection, and ensuring the recovery of income tax arrears. Prior to the introduction of Value Added Tax, the Ethiopian government has initiated a number of processes. These include the design and computerization of the taxpayer registration process; the operational development of taxpayer services activities, return process and debit and audit activities; publicity campaign and taxpayer education. These measures are expected to improve the government‟s revenue position.

## 2.5 Legal Framework of Value Added Tax In Ethiopia

The Value Added Tax proclamation No 285/2002 which has rescinded and replaced the sales and excise tax proclamation No. 68/1993 (as amended) and which has come into force as of January 1st,2003 is a consumption tax which is levied and paid as value added tax at a rate of 15 percent of the value of every taxable transaction by a registered persons, every import of goods, other than an exempt import and an import service rendered in Ethiopia for a person registered in Ethiopia for Value Added Tax or any resident legal person by a non-resident person who is not registered for Value Added Tax in Ethiopia. (Article 7 (1) (a)-(c) and Article 23 (1) and (2)) A taxable transaction is a supply of goods or a rendition of services in Ethiopia in the course or furtherance of a taxable activity other than an exempt supply. (Article 7(3)) A taxable activity is any activity, which is carried on continuously, or regularly by any person in Ethiopia, or partly in Ethiopia, whether or not for a pecuniary profit that involves, in whole or in part, the supply of goods or services to another person for consideration. (Article 6 (1) and (2)) Supply means the sale of goods or rendition of services or both and rendition of services means anything done, which is not a supply of good or money. (Article 2(17) and Art.4 (1)) For the purpose of the Value Added Tax proclamation the following are considered as taxpayers on whom the Value Added Tax law is applicable.

These are: -

(a) A person who is registered or is required to register for Value Added Tax;

(b) A person carrying out a taxable import of goods to Ethiopia;

(c) A non-resident person who without registration for Value Added Tax renders service in Ethiopia for any person registered in Ethiopia for Value Added Tax or any resident legal.

## 2.6 Value Added Tax Structure in Ethiopia

The Value Added Tax law contains two Value Added Tax rates. One is the standard 15 percent rate and the other is zero-rated. In terms of design Value Added Tax is imposed on the supply of goods and services other than exempted supplies (such as bread and milk). Value Added Tax is based on the invoice credit method in which taxpayers are given credit for the Value Added Tax paid on inputs when it is supported by the relevant documents. The tax is also based on the destination principle in that imports are taxed but not exports. Value Added Tax is chargeable at a standard rate of 15 per cent on all taxable supplies of goods and services other than those zero rated (mainly exports). Value Added Tax registration is required by businesses that have annual turnover of Ethiopian Birr (ETB) 500,000 and more. The Value Added Tax legislation allows refunds to be made to mainly exporters within two months from the time applications are lodged. Non-exporting taxpayers are required to carry forward excess credits to the next five accounting periods; if there are still unused excess credits it is allowed (at least in the legislation) to be refunded within two months from the time of lodging applications. Value Added Tax is administered by the ERCA and the Regional Government‟s Finance Bureaus (ERCA).

## 2.7 Problems of implementing Value Added Tax in Ethiopia

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

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

## 2.8 The Effect of Value Added Tax in Ethiopia

Ethiopia is one of non-oil owned and highly populous but fastest developing country. According to World Bank (2012), Ethiopia‟s 2012 estimates of population being around 82.9 million having an average life expectancy of 58 years with a total land area of 1.14 million square kilometers. In the modern days of Ethiopia, many reforms were made that leads to aquatic change in the socio-political and economic structural patterns (Yesegat, 2009). Hence, the government needs ample amounts of revenue to meet the current expenditure that provoked than ever before. This leads to common benefits among federal, state and local governments. According to Musgrave and Musgrave (2004), the most important economic means by which funds can be raised for the public to facilitate its activities are taxation, borrowing from the public and credit creation. As credit creation will lead the country towards inflation and borrowing of money from the bank requires the payments of principal and interest on the sum amount borrowed, they can be detrimental to building wealth over the time (Machiraju, 2008). Hence, because of drawbacks associated with both credit creations and borrowing from the public, tax is the bona fide instrument for collecting

Taxes are revenue collected by the government to afford public services for the country and finance its daily activities (Bhatia, 2009). The work of Jhingan (2004) shows as the main and most important reasons for taxation are to finance government expenditure and to redistribute wealth for the development of country in general. The tax that is levied directly on personal or corporate income is direct tax and if it is levied on the price of a good or service, then it is an indirect tax. According to Shenk and Oldman (2007), indirect taxes of a tax on consumption have long been the heart of taxation in developing countries and it provide two-thirds or more of tax revenues in many countries. Similarly, the author argued as indirect tax is more important instrument for the poorest countries to boost domestic tax revenues on goods and services. Value added tax is one of indirect tax that applied on consumption of goods and services and it is to be charged on the value of imports and on value added on goods and services supplied by one business to another till it reaches to final consumers (Bird, 2005:1627-1695). According to Shenk and Oldman (2007), France was the first country who implemented Value Added Tax for the first time in the world by 1954. Value Added Tax has been the most important development in taxation and over the last half-century; it becomes a widely accepted indirect tax system across the globe. The study of Charlet and Butdens (2012:175-184) reveals as Value Added Tax was limited to less than ten countries in the late 1960s, and now it has been implemented by more than 150 countries across the world. Ethiopia adopted Value Added Tax by January 1, 2003 through replacing the out dated general sales tax in accordance with proclamation No 285/2002 for the purpose of raising sufficient tax revenues. Hence, Ethiopia entered what is currently a large chorus of nations in the world just as about 50 years after France implemented it as a taxing system by 1954. Among all the African union countries, Ethiopia adopted Value Added Tax after all of them with the exception of Angola who adopted it in 2008 (Abate, 2011).

The study conducted by Bird (2005:1630), reveals Value Added Tax as the „money machine‟ tax which necessarily adopted by both developed and developing countries that allow the government to collect sufficient amount of revenue. Hence, the majority of economists as well as experts of political scientists think that Value Added Tax is the best preferable general consumption tax recently available that enhances economic growth. In the recent decades, it is commonly contended that Value Added Tax increases government revenue, improves economic efficiency, promotes exports, raise revenue rapidly, simplify the tax administration procedures and widen the tax base and fosters growth (Brautigam et al., 2008). Hence there is a growing recognition among developing countries for the crucial role of Value Added Tax revenue as an instrument of economic growth. According to Adereti, et al., (2011:456-471), the main aim of Value Added Tax was to increase the revenue base of government and make funds available for developmental purposes that will accelerate economic growth. The study of Aizenman and Jinjarak (2005:1-24) explained Value Added Tax as a tax system applied on the percentages of the price of goods and services throughout the value addition mechanism continuously on all goods and services with some exemption stated under the law. Their conclusion is that Value Added Tax collects sufficient amounts of revenue through lessening cost of their collection and easement of their administration. Furthermore, the consumption type of Value Added Tax revenue is unavoidably collected as far as there were the chain of production and consumptions of goods and services.

In general, many studies were conducted on the contributions of Value added tax revenues for the economy by using gross domestic product as macro level indicator both in developed and developing countries. Among them, Unegbu and Irefin (2011:492-503), Wawire (2011:1-42) and Adereti, et al., (2011:456-471) was the common. To the extent of the researcher‟s knowledge, with the exceptions of Alemu (2011) that uses micro economic sectors to empirically evaluate the contributions of Value Added Tax for the Ethiopian economic development and social spending however, their scholarly contribution in this regard was unnoticed of the role of Value Added Tax on economic growth in the Ethiopian context.

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

## 2.9 The Benefits of Value added tax for Local Government in Ethiopia

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

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

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

This paper examines the contribution of Value Added Tax administration such as assessment and collection activities with respect to the main constraints at Oromia special Zone Surrounded Addis Ababa. So that many potential problem of Value Added Tax implementation of Oromia special Zone Surrounded Addis Ababa Value Added Tax administration is poor due to many factors, such as: difference in culture Value Added Tax registrant, lack of self-registrant, lack of awareness among the potential tax payers about the importance of Value Added Tax and poor tax collection system still exists (Yesegat W., 2008:20).

# Chapter Three

# Research Methodology, Methods and Design

## 3.1 Introduction to Research Area

**Sululta** is found 25 km far from Addis Ababa to the North on the main high way from Addis to Bahir Dar. The town was established in 1929 E.C. According to the information obtained from the Municipality, the name **"Sululta"** was derived from Afaan Oromoo word **„Sulula‟** meaning valley or low land (Socio- Economic Profile of Sululta Town, 2013).

**Sululta** is located at $09^{0}$ 1784‟ Latitude North and $038^{0}$ 7579‟ Longitude East. It is found between 2600-3230 meters above sea level. The town has cold weather condition with annual 800-1200 mm rainfall and average annual temperature of $18^{0}$-$22^{0}$C. **Sululta** was one of the „Kebeles‟ in Sululta Woreda between 1934 and 1999. Begging from July 1999 E.C. the town has earned level "**2A**" based on the town reform. As special town, Sululta is bounded by Sululta Woreda in the north, West and East, and Addis Ababa city in the south (Socio- Economic Profile of Sululta Town, 2013). **Sululta** is one of the fastest growing towns in Oromia in terms of population and industry. According to the survey conducted by the city council in May 2006 E.C. the population is 37,988.

## 3.2 Research Methodology and Methods

This chapter deals with research methodology, methods and designs. It also deals with research paradigm which dictates the choice and justification of appropriate methodology, methods and relevant tools.

Different modes of research allow us to understand different phenomena and for different reasons (Deetz, 1996:191-207). The methodology chosen depends on what one is trying to do rather than a commitment to a particular paradigm (Cavaye, 1996:227-242). Thus, the methodology employed must match the particular phenomenon of interest. Different phenomena may require the use of different methodologies. By focusing on the phenomenon under examination, rather than the methodology, researchers can select appropriate methodologies for their enquiries (Falconer & Mackay, 1999).

The naturalistic posture contends that epistemologically, the inquirer, and the inquired, into are interlocked in such a way that the findings of the investigation are the literal creation of the inquiry process (Al Zeera, 2001). The constructivist, therefore, takes the position that the knower and the known are co-created during the inquiry. Based on these theoretical positions, a researcher is convinced to follow pragmatic/constructionist paradigm. This is due to the fact that pragmatism holds that the successful practices in a particular context be recommended to other contexts with similar conditions or scenarios. Hence, the researcher believes that the success stories in Value Added Tax in revenue generation in Sululta Town Administration can be recommended to other urban areas.

According to this research a case study was chosen. Because, case study method enables a researcher to closely examine the data within a specific context. In most cases, a case study method selects a small geographical area or a very limited number of individuals as the subjects of study. Case studies, in their true essence, explore and case study as a research method investigate contemporary real-life phenomenon through detailed contextual analysis of a limited number of events or conditions, and their relationships.

Case study was an overall approach for its ability to incorporate different methods and techniques in the collection and analysis of data that focuses on the various issues of the study. In addition, searching for explanation in a scientific way requires the identification of phenomena and relationships. Moreover, discovering regularities in relationships between events was a prerequisite for deducing theories. However, the stable regularities were rare for social science studies. Therefore, the case study was believed to be appropriate for this study as it consists of mainly how and why questions of the study, behavioral real events which are not possible to control and contemporary and complex social phenomenon whose boundary is not clear (Yin, 1991:14). In realizing this, Sululta Town was chosen as a Case Study. This was due to the fact that Sululta was nearer to Addis Ababa City which is the capital of Ethiopia. Moreover, Sululta Town is one of the special zones around Addis Ababa City.

In addition, because of the nature of the data to be collected being qualitative and quantitative, the researcher was convinced to utilize mixed approach so as to gain the advantages of both qualitative and quantitative research approaches.

## 3.3 Data type, sources and collection tools

To meet the objectives of the study, both qualitative and quantitative types of data were collect. Besides, to secure adequate data for the study both primary and secondary data sources were access. The primary data was collected from authorities in Sululta Town while the secondary data was collected from different published and unpublished resources such as books, journals, organizational reports, Value Added Tax manuals, proclamations and other researches in the same areas.

To collect the primary data from the higher officials in the town, the interview was used as they are believed to have adequate information about the Value Added Tax in the Town. Besides, semi structured questionnaire was distributed to address the sample employees working in Sululta town branch revenue authority and high tax payers of the town.

## 3.4 Sampling Design

The study population was Sululta Revenue Authority Branch employees and Sululta Value Added Tax registered tax payers. From this population, by using simple random sampling from Revenue Authority Sululta branch employees out of 45 employees 43 employees were selected for the study. In addition from 115 of Value Added Tax registered tax payers in the town 75 tax payers were selected. The researcher uses this sampling method because it is more reliable, valid, as well as each individual (respondents) has an equal probability of being selected and the sample can be generalized to the larger population and they have experienced the central phenomenon. Farther for this research the researcher uses a questionnaire and interview as the best data collecting tool. This is so because questionnaire and interview was more reliable and valid for the study as well as it is least expensive, time saving and encourage the respondents to fill their feeling.

## 3.5 Data Analysis And Interpretation

The data analysis was start while the questionnaire and interviews were still under way. The researcher used Simple sampling technique and distributed 60 copies of questionnaires for the Value Added Tax registered tax payers and 30 copies of questionnaires for the branch employees working in Sululta Town branch. All the 37 questionnaires were completed and collected which makes 100% response rate. Besides, Key Informant Interviews were held with 15 for the Value Added Tax registered tax payers and 13 for the branch employees working in Sululta Town branch. The preliminary analysis was helping the researchers to redesign the questions to focus on central themes as continues questionnaires and interviewing. After the questionnaires and interviewing were complete, the researcher was done a more detail analysis of what the observe Value added tax partners which are the Value Added Tax registered tax payers and branch authority employees tell about the issue. A computer tool was used as an aid in the management of textual data, for processing, storage and retrieval of information, as well as other function that these programs offer.

To address the objectives of the research and to analysis the data, was be based on four dimensions; i.e., theoretical prepositions, case description, complimentarity of qualitative and quantitative data and examining explanations. Based on these dimensions, the collected data was be categorized, presented, analyzed and interpreted using tools, percentages, tables, graphs, charts. Moreover, descriptive statistics was also being employed in processing qualitative data. As part of trend analysis, data of the last five years (2004 – 2008 E.C) was gather and analysis and emphasis to trends. All the questionnaires and interview were completed and collected which makes 100% response rate.

## 3.6 Report Writing and Quality Assurance

As part of the data quality assurance, the trustworthiness of the results was ensured by careful selection of informants using a scientific method and establishing good rapport by the researcher. The research also used a combination of methods or sources of data (triangulation) as a way of guarding against the Researchers" biases and checking out accounts from different informants. All the survey instruments were also pre-tested before actual data collection is administered.

## 3.7 Ethical Issues

In order to maintain the ethicality of the study, the respondents were clearly informed about the purposes of the study. In addition, to ensure the reliability of the instruments, pilot test will be made. Moreover, content and statistical analysis will be made to secure validity.

# Chapter Four

# Data Presentation, Analysis and Interpretation

## 4.1 General Back Ground of the Study Area

**Responses from the Tax Payers**

## 4.2 Socio-Demographic Characteristics of the Respondents

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

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

| No | Item | Respondent Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | Age | 18-25 | 4 | 5.33 |
| | | 26-30 | 21 | 28 |
| | | 31-40 | 39 | 52 |
| | | 41-50 | 8 | 10.67 |
| | | Above 51 | 3 | 4 |
| 2 | Sex | Male | 43 | 57.33 |
| | | Female | 32 | 42.67 |
| 3 | Year of experience in specific field | Less than 2 | 9 | 12 |
| | | 2-5 years | 12 | 16 |
| | | 5-7 years | 24 | 32 |
| | | 7-10 years | 21 | 28 |
| | | Above 10 years | 9 | 12 |
| 4 | Educational status | Illiterate | 6 | 8 |
| | | Elementary School | 13 | 17.3 |
| | | High School | 25 | 33.3 |
| | | TEVT /Certificate | 9 | 12 |
| | | Diploma Holder | 14 | 18.7 |
| | | BA/BSC Holder and Above | 8 | 10.7 |
| 5 | Type of business/unit | Agriculture | 9 | 12 |
| | | Manufacturing | 24 | 32 |
| | | Trade | 36 | 48 |
| | | Construction | 6 | 8 |
| 6 | Relationship of the respondent with organization | Owner | 42 | 56 |
| | | Employee | 30 | 40 |
| | | Others | 3 | 4 |

According to **Table 1** above, the majority of the respondents 52% (39) are between age of 31-40 and the rest are between 26-30, 28% (21), 18-25, 5.33% (4), 41-50, 10.67% (8) and >50, 4% (3). This implies that most of the respondents are in productive age category. Therefore, they contribute more increasing the amount of Value Added Tax than the rest of age category.

In addition, **Table 1** also indicates that out of 75 respondents 57.33% (43) respondents are male and the rest 42.67% (32) respondents are females. The figure may shows encouraging numbers of females are engaged in the sectors.

Regarding the respondent‟s year of experience in the specific field, **Table 1** above shows that out of the 75 respondents 28% (21) have 7-10 year of experience, 28% (21) respondents have 5-7 year of experience, 13.5% (10) respondents have above ten years of experience and the rest have 2-5 years of experience. This implies that the majority of the respondents have long year of experience of paying tax.

Moreover, educational level of the respondents was also studied and results show that out of the 75 respondents, 6(8%) are illiterate, 13(17.3%) elementary school, 25(33.3%) high school, 14(18.7%) are diploma holders and 8(10.7%) had first degree and above. This shows that all the respondents are expected to have basic knowledge about Value Added Tax and easily understand the role of Value Added Tax in economic development of one‟s country.

Furthermore, it is evident from **Table 1** above that majority of respondents 48% (36) are engaged in trade, 32% (24) are engaged in manufacturing field, 12% (9) are engaged in agriculture and the rest 8% (6) are engaged on construction sector. This implies that the implementation of Value Added Tax in increasing the amount of revenue generated from all sectors seems to gear more toward trade and manufacturing respectively than agriculture and construction sectors.

Finally, **Table 1** shows that majority of the respondents 56% (42) are owner of the organization or unit, 40% (30) are employee and the rest are other. This implies that the information gathered is from concerned body and reliable.

### 4.3 Awareness and context of Value Added Tax

This section presents data relating to awareness of respondents about Value Added Tax its proclamation and implementation. See table 2.

**Table 2: Awareness and context of Value Added Tax**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | Is Value Added Tax in Ethiopia necessary by replacing sales tax | Yes | 42 | 56 |
| | | No | 30 | 40 |
| | | I have no idea | 3 | 4 |
| 2 | Familiarity with Value Added Tax proclamation and regulations. | Yes | 27 | 36 |
| | | To some extent | 24 | 32 |
| | | No | 15 | 20 |
| | | I have no idea | 9 | 12 |
| 3 | The branch office are Sufficient explanation to the public regarding Value Added Tax | Yes | 33 | 44 |
| | | To some extent (little) | 27 | 36 |
| | | No | 15 | 20 |

As it is indicated in **Table 2** above majority of the respondents 56% (42) said that replacing sales tax by Value Added Tax is necessary in Ethiopia; 40% (30) respondents said that in Ethiopia replacing sales tax is not necessary and the rest 4% (3) respondents have no idea about it. This implies that from the total respondents greater than half respondents believe in replacing sales tax by Value Added Tax and they understand more about Value Added Tax than the rest respondents. In contrast, respondents who do not believe in necessity of Value Added Tax are not few and indicate that they lack enough knowledge about the importance of Value Added Tax.

In addition, **Table 2** shows that 36% (27) respondents are familiar with proclamation and regulation of Value Added Tax, 32% (24) of them are to some extent familiar, 20% (15) respondents are not familiar with the proclamation of Value Added Tax and the rest respondents have no idea about it. This implies that only few tax payers are familiar with the proclamation and regulation of Value Added Tax which means majority of the respondents didn"t get enough information or orientation on Value Added Tax and related issues.

According to **Table 2** above, 20% (15) respondent indicated that sufficient explanation hasn"t been given to the public regarding Value Added Tax, 36% (27) respondent said sufficient explanation has been given to the public to some extent and the rest 44% (33) respondent said that sufficient explanation has been given to the public regarding Value Added Tax by the revenue authority. This implies that there is lack of awareness and understanding about Value Added Tax.

As explained by the taxpayers, some of the reasons for those who reported that no such awareness raising efforts were exerted are:

- They don"t care about the awareness of the customers. They only want to collect money without giving the needed services.
- There are things that need to be improved.
- The do not go to the public and they want the public to come to them.
- They should prepare short trainings to the taxpayers.
- There should be a coordination and joint effort between the taxpayers and the Sululta Branch of the Ethiopian Revenue and Custom Authority (ERCA).
- We have never been invited to such forums,
- Most of the taxpayers have no needed information,
- The only source that we have is the Ethiopian Television and other medias,

### 4.4 Value Added Tax and Revenue Growth in Sululta Town

This section presents the relation between Value Added Tax and revenue growth in the town branch. More specifically, this section presents facts such as how value Added Tax registered enhances the revenue. See Table 3 below.

**Table 3: Value Added Tax and Revenue Growth in Sululta Town**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | The intention of Value Added Tax implementation in Sululta is: | Enhance revenue and encourage tax payers | 42 | 56 |
| | | reduce revenue and discouraging | 30 | 40 |
| | | I have no idea | 3 | 4 |
| 2 | Fairness of the threshold of Value Added Tax (500,000) | Yes | 12 | 16 |
| | | No | 57 | 76 |
| | | I have no idea | 6 | 8 |

**Table 3** above also displays that majority of respondent 56% (42) respond that the intention of Value Added Tax implementation is to enhance revenue and encourage tax payers, while 40% (30) respondents said that Value Added Tax implementation reduce revenue and discourage tax payers and the rest 4% (3) have no idea whether it enhance or reduce revenue. This implies that even if majority of respondents believe that Value Added Tax enhance revenue and encourage tax payers; 40% of the respondents are against idea of the majority. This shows that there is poor understanding and little knowledge about Value Added Tax and its effect on country‟s economy.

Moreover, **Table 3** indicates that 76% (52) respondents said that the threshold of Value Added Tax (500,000 ETB) is not fair, 16% (12) respondents said the threshold of Value Added Tax is fair and the rest 8% have no idea about. This reflects dissatisfaction of the majority of tax payers with the amount of threshold. On the other hand the amount of threshold (500,000) may block interested tax payers from registering for Value Added Tax.

Regarding the fairness of the amount of threshold of Value Added Tax, respondents who said that it isn‟t fair; to be fair the threshold should be less than 500,000 and should be between 50,000-200,000 they replayed.

### 4.5The Advantage of Value added Tax in Sululta Town

This section presents the advantage of Value Added Tax and in Sululta town branch. More specifically, this section presents facts what is the advantage of Value Added Tax on revenue generation. See Table 4 below.

**Table 4: The Advantage of Value added Tax in Sululta Town**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | Value Added Tax is more advantageous in comparison with the Turn Over Tax. | Yes | 30 | 40 |
| | | No | 42 | 56 |
| | | I have no idea | 3 | 4 |

Furthermore, **Table 4** depicted that 40% (30) respondent replay that Value Added Tax is not more advantageous than the replaced sales tax, 56% (42) respondent said that to some extent Value Added Tax is more advantageous than sales tax and 4% (3) respondent respond that Value Added Tax is more advantageous than sales tax. Some of the reasons why 56 percent of the respondents reported that getting registered for Value Added Tax has an advantage are:

- Priority is given to those who are Value Added Tax registered in tenders and bids,
- Has an advantage for the development of the nation,
- The money collected through Value Added Tax is used for infrastructure development and that in turn facilitates our business.
- It is an obligation of anybody who is eligible for that,
- There cannot be a stable government without tax and Value Added Tax is one of the main sources of tax,
- It is very useful for the development process and the development process also benefits business persons,
- It is a source of civilization; as the provision of education and other services can only be possible by collecting taxes,
- It gives freedom and freedom is the source of success,
- Enhances quality of services delivered by the government,

Out of the 75 respondents only 40 percent reported that getting registered for Value Added Tax has no advantage and it only has disadvantages. The reasons that they said for this is that:

- Not all business people are registered for Value Added Tax and competition becomes unfair,
- Not all people have similar awareness about the mode of its implementation,

## 4.6 Problems and Prospects of Implementing Value Added Tax

This section presents the problems and prospects of Value Added Tax in Sululta town branch. More specifically, this section presents facts what is the problem and prospects of implementing Value Added Tax. See Table 5 below.

**Table 5: Problems and Prospects of Implementing Value added tax**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | The process of Value Added Tax registration is easy for taxpayers. | Yes | 30 | 40 |
| | | No | 45 | 60 |
| 2 | Most of the Value Added Tax payers are registered obligatorily | Yes | 60 | 80 |
| | | No | 15 | 20 |
| 3 | Value Added Tax declaration process is easy | Yes | 21 | 28 |
| | | No | 54 | 72 |
| 4 | There are customers who are not willing to purchase goods and services with Value Added Tax. | Yes | 54 | 72 |
| | | No | 15 | 20 |
| | | I don"t know | 6 | 8 |

Furthermore **Table 5** indicates that majority of respondent 60% (45) said that the process of Value Added Tax registration is not smooth and easy for taxpayers but 40% (30) respondent said that Value Added Tax registration process is smooth and easy for taxpayers. This implies that there is problem in the process of Value Added Tax registration.

**Table 5** again shows that 80% (60) respondent said that most of Value Added Tax payers registered obligatorily and 20% (15) respondent said that Value Added Tax payers registered voluntarily. We can see that most of the Value Added Tax payers registered obligatorily. This implies majority of Value Added Tax payers are not interested with paying Value Added Tax. Among the total respondent 80% (60) registered obligatorily, 75% (45) link their reason with high amount of threshold of Value Added Tax (500,000) and heavy bureaucracy in the office of the authority, and the rest 25% (15) respondent were not willing to express the reason.

It is also indicated on **Table 5** that 72% (54) respondent responded that the process of Value Added Tax declaration was not easy and effective, and 28% (21) respondent said that the Value Added Tax declaration process was easy and effective. We can infer from this that the Value Added Tax declaration process had problem by itself. Among respondents who said the process of Value Added Tax declaration was not easy and effective, forwarded their contradiction said that the awareness giving education were not given at different level to concerned bodies especially to expected Value Added Tax payers.

More again **Table 5** describe that 72% (54) respondents said that there were customers who were not purchase goods and services with Value Added Tax, 20% (15) respondent said that there were no customers who were not purchase goods and services with Value Added Tax and 8% (6) respondents responded that they don"t know. So the majority of the respondents indicated that there were many customers who were not willing to purchase goods and services with Value Added Tax. This implies that there is lack of awareness about Value Added Tax on the side of customers also. Among 72% (54) respondents who said that there were customers who were not purchase goods and services, the majority of them 85% (45.9) expressed that their customers belief that as if it is unnecessary cost added to the value of goods or services and they don"t consider as a part of revenue.

## 4.7 Adequate Number and Skilled Man Power

This section more specifically presents that the authority has adequate number and skilled man power. See Table 6 below.

**Table 6: Adequate Number and Skilled Man Power**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | The Authority has adequate number of and skilled man power. | Yes | 42 | 56 |
| | | No | 30 | 40 |
| | | I don"t know | 3 | 4 |

It is also indicated on **Table 6** that majority of the respondent 56% (42) reply that the authority has adequate number of and skilled man power, 40% (30) respondent said that there the authority has no adequate number of and skilled man power and the rest 4% (3) respondent have no idea about. This implies that since the authority has adequate number of and skilled man power, it can achieve the implementation of Value Added Tax for the intended national goal.

The reasons why 40 percent reported that the service delivery is poor or very poor was also studied and results show the following.

- They have shortages of human-power.
- The service delivery doesn‟t encourage the taxpayers.
- It needs sustainability.

### 4.8The Problems of Value Added Tax Administration and Improved

This section presents the administration and improved of Value Added Tax in Sululta town branch. More specifically, this section presents facts how can manage Value Added Tax through implementing. See Table 7 below.

**Table 7: The Problems of Value Added Tax Administration and Improved**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | The problems in the Value Added Tax administration that needs to be improved, | Yes | 27 | 36 |
| | | No | 33 | 44 |
| | | I have no idea | 15 | 20 |

**Table 7** presents that 44 percent of the respondents reported that there are no problems that demand improvement. More than 36 percent of the respondents have reported that there are things that need to get improved and the respondents were required to list at least some of them.

Their responses are summarized as follows.

- More has to be done till all the business people get convinced in the taxation system of the country.
- There are some confusion between the Ethiopian calendar and the European calendar that need to be scrutinized.
- All the necessary reporting formats should be given by the branch office (such as that of withholding tax).
- The gap in the performance between employs has to get narrowed down.
- Much effort is needed to raise the awareness of the taxpayers.
- Auditing takes time.
- They have to make the playground similar. The branch office knows that there are people with the same capital, but not registered for Value Added Tax. So, serious measures have to be taken so that we all can play in more or less the same or similar playground.
- Additional assessments have to be made in understanding the existing situation.
- Time management has to get improved.
- There is a need for giving timely and urgent solutions for the problems that may be observed associated with tax.
- There are some who add no value, but charge Value Added Tax and such individuals need serious follow up.
- Some tax payers get exposed to big punishments because of little mistakes. Such an inappropriate measure has to get improved.
- There is a need to understand the problems of the tax payers.
- There is still a need for modernizing the system.
- Much more has to be done in enhancing the awareness level of the taxpayers.
- The office has to be strengthened by assigning trained personnel in different fields.
- The office has to trust taxpayers.
- There must be a clear plan on how to generate more and more revenue through the taxation system.

- More studies, investigations and assessments have to be made so that the government can have enough information and understanding about what is going on.

### 4.9 Benefit of Turn Over Tax and Value Added Tax Registered

This section presents which one is more benefited than others. More specifically, this section presents facts Non- Value Added Tax registered taxpayers or Value Added Tax registered taxpayer enterprises more benefited. See Table 8 below.

**Table 8: Benefit of Turn Over Tax and Value Added Tax Registered**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | Turn Over Tax taxpayers are more benefited than those of Value Added Tax registered enterprises. | Yes | 33 | 44 |
| | | No | 27 | 36 |
| | | I have no idea | 15 | 20 |

Finally **Table 8** presents that whether Non- Value Added Tax registered taxpayers are more benefited than Value Added Tax registered taxpayer enterprises. In this regard the significant number of respondent 20% (15) responded that they have no idea, 36% (27) respondent said that Non- Value Added Tax registered taxpayers are not more benefited than Value Added Tax registered taxpayer enterprises and the rest 44% (33) respondent replied that Non- Value Added Tax registered taxpayers are more benefited than Value Added Tax registered enterprises. What is inferred from this fact is that the respondents do not clearly know whether Value Added Tax registered taxpayer enterprises are more benefitted than Non- Value Added Tax registered taxpayers or not; which indicate the presence of information gap between the authority‟s public communication office and taxpayers as well as the whole community at large.

It can be observed from the table that many taxpayers are reporting that the competition between the Value Added Tax registered and Turn Over Tax payers is unfair. The reasons for that are explained below.

The taxpayers were asked about the reasons why they reported that the competition is unfair and some of the reasons are given as follows:

- The concerned bodies do not take it seriously,
- No tax specific awareness raising activities are made on the TURN OVER TAX payers,
- The awareness level of the Value Added Tax registered and Turn Over Tax payers is not similar,
- The punishments and other consequences of not respecting rules and regulations such as deadline is not the same,
- For reasons that we do not exactly know,

The way the Turn Over Tax payers use receipts was also another point of interest of the study. Accordingly, the respondents were required to evaluate the way the Turn Over Tax payers use receipts in their day to day activities.

Respondents who said that non- Value Added Tax registered taxpayers are more benefited than Value Added Tax registered taxpayer enterprises in competitive market were asked why they are as so. In this regard, all the 20% (15) respondents explained that most of their customers prefer purchasing goods and services without Value Added Tax than purchasing with Value Added Tax due to difference price gap of goods and services between purchasing with and without Value Added Tax. Therefore Turn Over Tax taxpayers were visited by many customers per day than Value Added Tax registered taxpayer enterprises. As a result, non- Value Added Tax registered taxpayers are more benefited than Value Added Tax registered taxpayer enterprises. Since the growth of income of taxpayers is directly related with number of their customers and amount of goods and services they render to their customers. These imply that lack of awareness on customers‟ side has negative effects on enhancing revenue by implementing Value Added Tax.

**Responses from Authority Branch Employees**

Hereunder, the socio-demographic attributes of the Sululta branch authority employee‟s respondents are presented which is followed by discussions of items that have relevance to the study. See Table 9 below:

**Table 9: The Socio-Demographic Characteristics of the Respondents of Authority Branch Employees**

| No | Item | Respondent Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | Age | 18-25 | 1 | 2.3 |
| | | 26-30 | 13 | 30.2 |
| | | 31-40 | 22 | 51.2 |
| | | 41-50 | 5 | 11.6 |
| | | ≥51 | 2 | 4.7 |
| 2 | Sex | Male | 28 | 65.1 |
| | | Female | 15 | 34.9 |
| 3 | Education | Diploma Holder | 10 | 23.3 |
| | | BA/BSC holder | 32 | 74.4 |
| | | MA/MSC holder | 1 | 2.3 |
| 4 | Duration of service | Less than 2 years | 1 | 2.3 |
| | | 2-5 years | 14 | 32.6 |
| | | 5-7 years | 11 | 25.6 |
| | | 7-10 years | 9 | 20.9 |
| | | Above 10 years | 8 | 18.6 |
| 5 | Position held | Middle level management | 14 | 32.6 |
| | | Operational level management/experts | 29 | 64.4 |
| | | **Total** | **43** | **100** |

**Source:** Fieldwork, April 2017

According to **Table 9** above, the majority of employees 51.2% (22) are between the age 31-40 and the rest are in the age category ranging from 18-25 (2.3%), 26-30 (30.2%), 41-50 (11.6%), and ≥51 (4.7%). This implies that most of the workers are in the productive age category. Therefore, they are critical for the change of the organizations so as to improve the organizational performance.

In addition, **Table 9** also indicates that out of 43 respondents 65.1% (28) of the respondents are male and the rest 34.9% (15) of the respondents are female. The figure may imply that a good number of females are employed in the selected sectors.

Moreover, respondents‟ educational background is presented in the **Table 9** above. In this regard, Diploma graduate constitute 23.3% (10), degree holders are 74.4% (32) and Master holders are 2.3% (1). This shows that there are sufficient qualified persons at the local level where the majority of work is done.

Furthermore, it is evident from the **Table 9** that most of the respondents 18.6% (8) had adequate work experience of ten years and above. It also shows that 20.9 %( 9) of the employees have served the office for 7-10 years and 32.6% (14) respondents served 2-5 years. From this data, it is possible conclude that the offices have retained employees for a long period of time which allowed the employees to have such extended experiences.

Finally, as it is presented in the **Table 9** above, majority of the respondents 64.4 %( 29) are operational level workers (experts) and the remaining 32.6% (14) are Middle level managers. This may assure that the respondents are the right persons to provide information pertaining to the topic investigated.

## 4.10 Awareness and context of Value Added Tax

This section presents data relating to awareness of respondents about Value Added Tax its proclamation and implementation. See Table 10 below.

**Table 10: Awareness and Context of Value Added Tax**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | Awareness about Value Added Tax | Yes | 38 | 88.4 |
| | | To some extent | 6 | 17.6 |
| 2 | Method of getting awareness | Short-term training | 11 | 25.6 |
| | | Specialized training | 3 | 7 |
| | | formal education | 29 | 67.4 |
| 3 | Familiarity with Value Added Tax proclamation and regulations. | Yes | 35 | 81.4 |
| | | To some extent | 6 | 14 |
| | | No | 2 | 4.6 |
| 4 | Factors led to the adoption and implementation of Value Added Tax | Poor performance | 7 | 16.3 |
| | | Leveraging good performing organizations that have implemented it | 10 | 23.3 |
| | | Policy direction | 23 | 53.4 |
| | | Any other | 3 | 7 |

As it is indicated in the **Table 10** above, the majority of the respondents 88.4% (38) were aware about Value Added Tax before its implementation while the remaining 17.6% (6) to some extent early awareness about Value Added Tax purpose, process and success. It is possible to infer from this fact that though most of the employees might have been provided awareness about the essence of Value Added Tax, there might have also been a gap in addressing all the employees of the sectors engaged in the process.

Besides, **Table 10** also presents that from among the respondents who stated that they have had awareness Value Added Tax before its implementation, majority of the respondents 25.6% (11) got awareness through short-term training conducted to implement Value Added Tax. In this regard, insignificant number of respondents stated that they have had awareness through specialized training 7% (3) and through formal education 67.4 (29). From the facts presented above it is possible to deduce that the employees have proactive to the Value Added Tax through specialized training and education.

In addition, **Table 10** shows that 81.4% (35) respondents are familiar with proclamation and regulation of Value Added Tax, 14% (6) of them are to some extent familiar and 4.6% (2) respondents are not familiar with the proclamation of Value Added Tax. This implies that majority of the respondents are familiar with the proclamation and regulation of Value Added Tax which means only few employees of the respondents didn"t get enough information or orientation on Value Added Tax and related issues.

Moreover, in addressing the question raised to identify the momentums that have led to the adoption of the Value Added Tax, majority of the respondents 53.4% (23) stated that the adoption has been instructed by government policy from above. However, a good number of respondents stated that it has been the leverage good performing organizations that have implemented of the organization that has led to the initiative to the Value Added Tax. From the facts presented above it can be said that the approach employed in the course of adopting the Value Added Tax was the top-down one.

Finally some of the reasons for the low awareness as explained by the officers are given below.

- The tax payers do not appear to the training sessions arranged by the office.

- Tax payers are not ready to read and then update themselves about new rules, regulations and proclamations about Value Added Tax and other forms of tax.
- Tax payers have low educational level and cannot cope up with the situations.

### 4.11 Advantage of Value Added Tax and Process of Registration

This section presents the advantage of Value Added Tax in Sululta town branch. More specifically, this section presents facts what is the advantage and process of registration of Value Added Tax on revenue generation. See Table 11 below.

**Table 11: Advantage of Value Added Tax and Process of Registration**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | Value Added Tax is more advantageous in comparison with the Turn Over Tax. | Yes | 31 | 72.1 |
| | | No | 12 | 27.9 |
| 2 | The process of Value Added Tax registration easy for taxpayers. | Yes | 37 | 86 |
| | | No | 6 | 14 |

Furthermore, **Table 11** depicted that 72.1% (31) respondent replay that Value Added Tax is more advantageous than the replaced sales tax, 27.9% (12) respondent said that Value Added Tax is not more advantageous than sales tax. Respondent who said Value Added Tax is advantageous than the replaced sales tax, stated the following reasons: firstly the tax is collected from customers and the business organization acts only as tax collector on behave of revenue authority, secondly since the process of tax collection is supported by technology it minimizes error and simplify the process as well as enhance revenue.

Furthermore **Table 11** indicates that majority of respondent 86% (37) said that the process of Value Added Tax registration is easy for taxpayers but 14% (6) respondent said that Value Added Tax registration process is not easy for taxpayers.

### 4.12Tax Administration

This section presents the tax administrations are strong enough to control non-registered and illegal activities of Value Added Tax payers, Value Added Tax registered business enterprises that have collected the tax with illegal invoices and Had all those who should get registered for Value Added Tax been registered, the income of the branch office would be increase. See Table 12 below.

**Table 12: Tax Administration**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | Tax administrations are strong enough to control non-registered and illegal activities of Value Added Tax payers | Yes | 23 | 53.5 |
| | | No | 20 | 46.5 |
| 2 | Value Added Tax registered business enterprises that have collected the tax with illegal invoices | Yes | 21 | 48.8 |
| | | No | 22 | 51.2 |
| 3 | All those who should get registered for Value Added Tax are registered, | Yes | 8 | 18.6 |
| | | No | 35 | 81.4 |

Additionally, **Table 12** depicted that 53.5% (23) respondent replay that tax administrations are strong enough to control non-registered and illegal activities of Value Added Tax payers, 46.5% (20) respondent said that tax administrations are not strong enough to control non-registered and illegal activities of Value Added Tax payers.

Moreover, **Table 12** depicted that 48.8% (21) respondent replay that Value Added Tax registered business enterprises that have collected the tax with illegal invoices, 51.2% (22) respondent said that Value Added Tax registered business enterprises that have collected the tax without illegal invoices.

Additionally, **Table 12** depicted that 81.4% (35) respondent replay that all those who should get registered for Value Added Tax are not registered, 18.6% (8) respondent said that all those who should get registered for Value Added Tax are registered. According to the respondents, the reason for at least some of them not to get registered for Value Added Tax are many tax payers have the necessary information but some are not yet registered for Value Added Tax mainly because of their selfishness and the poor capacity of the government bodies who are in charge of Value Added Tax administration is the reason for it.

### 4.13 Value Added Tax Registered and Branch Office Income

This section presents the relation between Value Added Tax and revenue growth in the town branch. More specifically, this section presents facts such as how value Added Tax registered enhances the revenue. See Table 13 below.

**Table 13: Value Added Tax Registered and Branch Office Income**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | Had all those who should get registered for Value Added Tax been registered, the income of the branch office would be increase? | Yes | 34 | 79.1 |
| | | No | 9 | 20.9 |
| 2 | Fairness of the threshold of Value Added Tax (500,000) | Yes | 19 | 44.2 |
| | | No | 24 | 55.8 |

Moreover, **Table 13** depicted that 79.1% (34) respondent replay that all those who should get registered for Value Added Tax been registered, the income of the branch office would be increase, 20.9% (9) respondent said that all those who should get registered for Value Added Tax been registered, the income of the branch office would be not increase.

Moreover, **Table 13** indicates that 55.8% (24) respondents said that the threshold of Value Added Tax (500,000 ETB) is not fair, 44.2% (19) respondents said the threshold of Value Added Tax is fair and the rest. This reflects dis-satisfaction of the majority of tax payers with the amount of threshold. On the other hand the amount of threshold (500,000) may block interested tax payers from registering for Value Added Tax.

### 4.14 The Benefited of Turn Over Tax and Value Added Tax Registered

This section presents the advantage of Value Added Tax and in Sululta town branch. More specifically, this section presents facts what is the advantage of Value Added Tax on revenue generation. See Table 14 below.

**Table 14: The Benefited of Turn Over Tax and Value Added Tax Registered**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | Turn Over Tax registered taxpayers are more benefited than those of Value Added Tax registered enterprises | Yes | 31 | 72.1 |
| | | No | 12 | 27.9 |

**Table 14** presents that whether Turn Over Tax registered taxpayers are more benefited than Value Added Tax registered taxpayer enterprises. In this regard the significant number of respondent 27.9% (12) respondent said that Turn Over Tax registered taxpayers are not more benefited than Value Added Tax registered taxpayer enterprises. What is inferred from this fact is that the respondents do not clearly know whether Value Added Tax registered taxpayer enterprises are more benefitted than Turn Over Tax registered taxpayers or not; which indicate the presence of information gap between the authority"s public communication office and taxpayers as well as the whole community at large.

Respondents who said that Turn Over Tax registered taxpayers are more benefited than Value Added Tax registered taxpayer enterprises in competitive market were asked why they are as so. In this regard that most of their customers prefer purchasing goods and services without Value Added Tax than purchasing with Value Added Tax due to difference price gap of goods and services between purchasing with and without Value Added Tax. Therefore Turn Over Tax registered taxpayers were visited by many customers per day than Value Added Tax registered taxpayer enterprises. As a result, Turn Over Tax registered taxpayers are more benefited than Value Added Tax registered taxpayer enterprises. Since the growth of income of taxpayers is directly related with number of their customers and amount of goods and services they render to their customers. These imply that lack of awareness on customers" side has negative effects on enhancing revenue by implementing Value Added Tax.

Some of the reasons for the unfairness as explained by the officers are:

- If similar commodities are available at both the Turn Over Tax payers and Value Added Tax registered, these commodities are generally cheaper in organizations where they are Turn Over Tax registered, provided both sellers bought it from Non Value Added Tax registrants.
- Turn Over Tax payers are poor users of invoice.
- No consistency is observed in the Turn Over Tax payers.

The Turn Over Tax payers use receipts is poor or very poor. The reasons for not using invoices properly as explained by the experts are:

- No strict control on the side of the government to the Turn Over Tax payers.
- No motivating factor as compared to that of the Value Added Tax.
- The consumers have not developed a culture of asking invoices after they got the needed service.

### 4.15 The Efficient of Value Added Tax Assessment and Collection Mechanism

This section presents the Value Added Tax assessment and collection mechanism efficient. See Table 15 below.

**Table 15: The Efficient of Value Added Tax Assessment and Collection Mechanism**

| No | Items | Respondents Category | Frequency | Percentage |
|---|---|---|---|---|
| 1 | The Value Added Tax assessment and collection mechanism is efficient | Yes | 35 | 81.4 |
| | | No | 8 | 18.6 |

It also indicates on **Table 15** depicted that 81.4% (35) respondent replay that the Value Added Tax assessment and collection mechanism is efficient but 18.6% (8) respondent said that the

Value Added Tax assessment and collection mechanism is not efficient. According to the respondent the reason of more efficient is:-

- Enhance the capacity of the tax payers.
- Introducing a well-established system in handling the tax payer‟s profile.
- Introduce joint committee of the tax officers and tax payers as well as other relevant bodies.

**Secondary Sources**

### 4.16 Value Added Tax and Revenue Generation in Sululta Town Branch Authority

In the last five years (2004 E.C. – 2008 E.C.) Value Added Tax effects require a much more subtle analysis, many scholars (and practitioners) are ultimately interested in superior (financial) performance in Sululta town branch authority. The survey facts collected also confirmed that Value Added Tax has strong relationship with organizational financial performance. For instance it is evidenced that Sululta Town is able increase its internal revenue as a result of Value Added Tax. See Table 16 below:

**Table 16: Budget Allocation from the year 2004-2008 E. C**

| No | Types of Budget | 2004 EC | 2005 EC | 2006 EC | 2007 EC | 2008 EC |
|---|---|---|---|---|---|---|
| 1 | State Budget | 17,379,985 | 25,633,648 | 39,266,208 | 49,941,876 | 62,482,736 |
| 2 | Municipality Budget | 26,043,524 | 17,972,807 | 37,562,356 | 62,596,330 | 95,571,697 |
| 3 | Total | 43,423,509 | 43,606,455 | 70,166,235 | 112,538,206 | 158,054,433 |

***Source: Sululta Revenue Authority Branch 2017***

As it is depicted by the Table 16 above, the internal revenue of Sululta Town is increased in the fiscal year 2004, 2005, 2006, 2007 and to 2008 E. C. respectively. In addition, it is evidenced for the above figure that the state budget is increased throughout the specified fiscal years. In line with this, the key informants stated that the collects revenue from concurrent sources. They stated that the Town Administration retains some amount of revenue to be allocated to its state budget which is authorized by the regional government and transfers the remaining to the region.

Based on the Figure 16 above, it is possible to conclude that implementing the Value Added Tax is resulted in the efficient collection of internal revenue from economic activities under the jurisdiction the town and collection of concurrent revenues from activities under the jurisdiction of the regional government.

**Table 17: Value added tax collection Performance of Sululta Branch**

| Year in E.C | Total Revenue Collected | Total Value Added Tax Collected | Number of Value Added Tax registered |
|---|---|---|---|
| 2004 | 43,423,509 | 4,264,887 | 21 |
| 2005 | 43,606,455 | 10,259,072 | 28 |
| 2006 | 70,166,235 | 14,009,995 | 45 |
| 2007 | 112,538,206 | 18,350,369 | 54 |
| 2008 | 158,054,433 | 23,556,403 | 76 |
| **Total** | **427,788,838** | **70,440,726** | 224 |

Sources: Annual report of Sululta Branch (Oromia Regional Revenue Authority)

From **Table 17** one can easily understand that the amount of revenue generated is increasing dramatically from year to year and is expected to increase in the coming years also. At Sululta town the number of Value Added Tax registrant increased from 43,423,509 in 2004 E.C. to 158,054,433 in 2008 E.C. At this point, one can easily observe that there is a sharp decline in the proportion of the taxpayers that declaring with payments. If we consider the views of the taxpayers and tax officers, it can be clearly shown that had those who had to be registered for Value Added Tax been registered for it, revenue would increase by millions.

# Chapter Five

# Conclusion and Recommendation

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

## 5.1 Conclusions

From the socio-demographic background of the 75 taxpayers, it was observed that the age of the respondents was between 18-30 /Young/ years old are 25 respondents, between 31-50 /Adult/ years old are 47 respondents and above 50 years old are 3 respondents. From those tax payers 43 respondents are male and 32 respondents are female. The educational level of the respondents was also studied and results show that out of the 75 respondents, 6(8%) are illiterate, 13(17.3%) elementary school, 25(33.3%) high school, 14(18.7%) are diploma holders and 8(10.7%) had first degree and above. It can generally be seen that more than three-fourth (77.5%) of the tax payers have high school an above. This is a good opportunity for them to get updated with the possible changes that the government may make.

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

All of the tax officers and 81.4 percent of the taxpayers reported that not all of those who should get registered for Value Added Tax are registered. It seems that there is an agreement between the taxpayers and tax officers that there are many companies or individual business men that should get Value Added Tax registered but are not registered. As a result of this almost all of the respondents agree that the government is losing revenue that should be collected from Value Added Tax. In the last five years the branch office has collected 70,440,726 million birr from Value Added Tax. But, according to the respondents of the tax payers and the tax officers, had all those who should get registered for Value Added Tax been registered for it, the income of the branch office would increase. By letting every member who should be registered for Value Added Tax, there is an opportunity of collecting millions of Birr. According to the Value Added Tax proclamation, these enterprises whose annual turnover is more than Birr 500,000 have the responsibility to be registered for Value Added Tax. In some countries, this threshold is lower than that of Ethiopia and in other countries it is higher. If the threshold is reduced there is an opportunity of collecting additional millions of Birr in the form of Value Added Tax. The only disadvantage of reducing such an amount of the threshold is the administrative issue and this can be solved by enhancing the capacity of the branch office.

There is a competition between the Value Added Tax registered and Turn Over Tax payers. More of the respondents are explained that the competition between the Value Added Tax registered and the Turn Over Tax payers are unfair. They reported that the playground for these two types of taxpayers is not the same. Results of the study clearly show that there are complaints about the rate difference between the turn over tax (2%) and Value Added Tax rate (15%), though it is known that Turn Over Tax is an equalizing rate with Value Added Tax. If two enterprises procure their inputs from non- Value Added Tax registrants and sale adding different tax rate of Value Added Tax and Turn Over Tax, then the two enterprises are not in equal footing in the market and hence, a2% Turn Over Tax cannot be an equalizing rate for Value Added Tax. More than the respondents are explained that the way Turn Over Tax payers use invoices is poor or very poor.

The study result reveals that there are people and companies are Value Added Tax registered but are not declaring with payments. This number is increasing from day to day. This needs serious attention by the implementing body. In general, one can clearly observe that attitudinal problem on the side of the taxpayers and the poor implementation on the side of the branch office is the main constraints and challenges for the smooth implementation of Value Added Tax. In fact, in Sululta business and investment is flourishing and this is the main opportunity that the government in general and the branch office in particular have to use in generating revenue.

Finally according to data gathered from primary data and secondary data indicated that based on article 62 (7) that states the house of federation to determine the division of revenues derived from joint sources, the revenue collected by PLC or SC. form of businesses was divided as 30% to 70% per cent between the sources region and the federal government. Thus, every towns and cities in Oromia have no direct mandate to raise revenues from Value Added Tax. However, this indirect or consumer tax is levied on end consumers is highly characterized by local source or sales center. In the first place, the value of tax withhold at the factory gate or by wholesalers and an agent who collected the final amount of this tax is obliged to reimburse the only the portion in excess of the value paid on the prior transaction. So, the burden born by the end users is distributed across the value chain. Even this thin amount restricted to be endorsed to the regional account due to the directive enacted by the Oromia Finance and Economic Cooperation Bureau. The benefit of the town can derive from taxpayers registered for Value Added Tax; is enhancement of compliance rate as these taxpayers are forced to record all transaction to reliable keep book of accounts. Since, all purchases and sales are registered accordingly and allow conducting an audit based on General Accounting Principle (GAP). This has direct and positive spill over to improve voluntary compliance for the town in which the taxpayer is operating. Hence, the towns would able to raise adequate and reliable direct taxes as; business profit tax and income tax.

## 5.2. Recommendations

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

1. Based on the summarized finding, the awareness of the business community and tax payers is to enhance the effectiveness of the implementation of Value Added Tax. There is a need for more creation of awareness on Value Added Tax payers as to the fact that Value Added Tax is important source of revenue of the government and yet the ultimate beneficiary is the society. Thus, it is evident from this responses that there is a need for campaigns by government authorities in reshaping this perception of few Value Added Tax payer sections of the businesses that believe that government is the only beneficiary of the Value Added Tax revenue. This is also an indication that there is a need to exert more effort into increasing the willingness of Value Added Tax payers to get registered based on their goodwill and positive ion. Therefore, Sululta town branch authority to enhance the awareness of the tax payers and other members of the community.
2. The study shows that not all companies and business people who should get registered for Value Added Tax are registered. This is a very serious problem. Therefore, a researcher recommends that urgent action has to be taken in letting those who should get Value Added Tax registered to get registered on time. This also demands a coordinated effort of all the concerned government bodies.
3. Results showed that the playground of those who are Value Added Tax registered and Turn Over Tax payers is not similar. The rate difference between the turn over tax (2%) and Value Added Tax rate (15%), if two enterprises procure their inputs from Non- Value Added Tax registrants and sale adding different tax rate of Value Added Tax and Turn Over Tax, then the two enterprises are not in equal footing in the market. There must be a mechanism of narrowing down the difference between the 2% and the 15% may be by increasing the rate of Turn Over Tax or any other mechanism that makes the market of equal footing has to be devised.
4. A threshold for Value Added Tax registration has been put in place for administrative purpose. The current threshold level (500,000 birr) is high and hence allows most business communities whose return is below the threshold but actively participating in the market competition to stay unregistered. Therefore the current threshold level should be adjusted

into more rational level by considering the increasing number of entities engaging in different businesses and should be minimized to incorporate at least those business enterprises that are actively participating in the market competition and balance the revenue generated from the tax. This can be carried out by hiring more qualified and professional employees and reducing the threshold to the lower level.

5. Value Added Tax implementation in Sululta has been facing different problems. Since a poorly administered Value Added Tax raises less revenue that can change the very nature of the tax resulting in unintended economic distortions, the Sululta town revenue authority branch has to build its administration capacity on both human and material resources to carry out its duties and responsibilities effectively and efficiently. This can be maintained through hiring of more qualified employees, provision of consistent training and development for staffs who will join and who have joined and using advanced information and communications technology so as to improve its administration capacity and control those noncompliance Value Added Tax payers.
6. More of the taxpayers and the tax officers have reported that the branch office has so many problems that demand change and improvement. At the same time, it is clear that the branch office has already introduced the reforms (BPR, BSC and Change Army) as a management tool. It is the belief of the researcher that if the recommendations included in the designing stage of the reforms are properly implemented, radical changes would be observed. Therefore, the branch office has to study and assess possible reasons that hinder the full implementation of the reforms and then take appropriate measures.
7. Rewarding and celebrating performances motivate employees to work more and more. However, this study shows that there is no culture of rewarding and celebrating good performances in organizations. Therefore, to motivate poorly performing employees and departments, the good performing employees should be rewarded and appreciated.
8. Finally, as a matter of fact, every research is the beginning moving from the known to the unknown. Hence, future researchers are recommended to investigate other aspects of the Effect of Value Added Tax on Revenue Generation.

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**Appendixes**

**Questionnaire filled by Sululta Authority Branch Employees**

**Addis Ababa University**

**College of Business and Economics**

**Department of Public Administration and Development Management**

**Master"s Program in Public Management and Developmental Study**

Dear respondents;

My name is Tigist Taye, a graduate student at Addis Ababa University. Currently, I am conducting master"s thesis entitled: **"The Effect of VAT on Revenue Generation"**. The purpose of the study is to fulfill the partial requirement to accomplish Master"s in Public Management and Developmental Study. To this effect, this semi-structured questionnaire is designed to collect pertinent information relating to the topic.

Dear respondents, the quality of this research is very much dependent up on the data you may provide. Indeed, the researcher would like to assure you that the data collected will be used only for academic purpose and will be kept confidential.

Thank You in advance!

Tigist Taye

March 2016

**Instructions:**

- ❖ Please put a tick mark ✓ corresponding your choice
- ❖ No need to write your name

**Part One: Personal Information**

Please provide the following information about your personal information by checking the appropriate box.

1. Respondent‟s age in year

   18-25

   26-30

   31-40

   41-50

   Above 51

2. Sex: Male Female
3. Educational Status:

   10th or 12th graduate

   TVET/Certificate

   Diploma Holder

   BA/BSC holder

   MA/MSC holder

   PhD

4. Position held:

   Middle level management

   Operational level management/experts

   Any other, please specify: ____________________

**Part Two: General Information relating to VALUE ADDED TAX**

For this questions Select an appropriate answer from the given alternatives and circle it, for other questions please provide your answers on your own words.

1. Can you explain the challenges of VAT during implementation? ______________________________________________________________________________________________________________________________________________
2. What are the contributions of Ethiopian tax reform on VAT collection? ____________________________________________________________________________________________________________________________________________
3. How can VAT contribute in revenue enhance more others major types of tax in Sululta? ____________________________________________________________________________________________________________________________________________
4. What do you think Ethiopian tax laws to encourage VAT collection properly? ____________________________________________________________________________________________________________________________________________

What do you think that VAT effect on economic growth? How? ____________________________________________________________________________________________________________________________________________

5. Do you explain the advantage and disadvantage of VAT in Sululta? ____________________________________________________________________________________________________________________________________________
6. Are you familiar with the Ethiopian VAT Laws and proclamations?

A) Yes B) No

7. Do you believe that VAT implementation is more advantageous than the replaced sales tax?

A) Yes B) No C) I have no idea

8. If your answer for question no.**5** is **yes**, can you mention how it could be please? _______________________________________________________________________________________________________________________________________________________________________________________________________________________________

9. Do you believe that the process of VAT registration is easy for taxpayers?

A) Yes B) No C) I have no idea

10. If your answer for question no.**8** is **No**, what do you think of the reason? ___________________________________________________________________________________________________________________________________________________________________________

11. Do you think that tax administrations are strong enough to control non-registered and illegal activities of VAT payers?

A) Yes B) No C)I have no idea

12. If your answer for question no.**10** is **No**, what do you suggest to strengthen their control system? _______________________________________________________________________________________________________________________________________________________________________________________________________________________________

Are there VAT registered business enterprises that have collected the tax with illegal invoices?

A) Yes B) No C) I don"t know

13. If your answer for question no.**12** is **yes**, what do you think of the reasons? ____________________________________________________________

14. Do you think that the threshold level (Br 500,000) in the VAT proclamation is fair?

    A) Yes B) No C) I have no idea

15. If your answer for question no.**11** is **No**, please mention your suggestion how much it should be? ____________________________________________

    Why?____________________________________________________

16. Whom do you think has benefitted from the market competition between VAT registered or non-registered?

    A) Registered B) non-registered C) I don"t know

17. If your answer for question no.**19** is **registered**, why do you think that? ____________________________________________________________

18. If your answer for question no.**19** is **non-registered**, can you list down the reasons please? ____________________________________________________________

    Do you think that the VAT assessment and collection mechanism is efficient?

    A) Yes B) No C) little C) I have no idea

19. If your answer for question no.**25** is „**B**" or „C" what do you think of the reasons? ____________________________________________________________

20. If you have any information relating to the VAT and its effect on the revenue generation, please specific in the space provided for you below;

**Interview for Sululta Authority Branch Employees**

**Addis Ababa University**

**College of Business and Economics**

**Department of Public Administration and Development Management**

**Master‟s Program in Public Management and Developmental Study**

Dear respondents;

My name is Tigist Taye, a graduate student at Addis Ababa University. Currently, I am conducting master‟s thesis entitled: **"The Effect of VAT on Revenue Generation"**. The purpose of the study is to fulfill the partial requirement to accomplish Master‟s in Public Management and Developmental Study. To this effect, this semi-structured questionnaire is designed to collect pertinent information relating to the topic.

Dear respondents, the quality of this research is very much dependent up on the data you may provide. Indeed, the researcher would like to assure you that the data collected will be used only for academic purpose and will be kept confidential.

Thank You in advance!

Tigist Taye

March 2016

**Part One: Personal Information**

Please provide the following information about your personal information by checking the appropriate box.

1. Respondent"s age in year
2. Sex:
3. Educational Status:
4. Work Exprience
5. Position held

**Part Two: General Information relating to VAT**

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

**Questionnaire filled by VAT registered taxpayers**

**Addis Ababa University**

**College of Business and Economics**

**Department of Public Administration and Development Management**

**Master‟s Program in Public Management and Developmental Study**

Dear respondents;

My name is Tigist Taye, a graduate student at Addis Ababa University. Currently, I am conducting master‟s thesis entitled: **"The Effect of VAT On Revenue Generation"**. The purpose of the study is to fulfill the partial requirement to accomplish Master‟s in Public Management and Developmental Study. To this effect, this semi-structured questionnaire is designed to collect pertinent information relating to the topic.

Dear respondents, the quality of this research is very much dependent up on the data you may provide. Indeed, the researcher would like to assure you that the data collected will be used only for academic purpose and will be kept confidential.

Thank You in advance!

Tigist Taye

March 2016

**Instructions:**

- ❖ Please put a tick mark ✓ corresponding your choice
- ❖ No need to write your name

**Part One: Personal Information**

Please provide the following information about your personal information by checking the appropriate box.

1. Respondent‶s age in year
   - 18-25
   - 26-30
   - 31-40
   - 41-50
   - Above 51
2. Sex: Male ☐ Female ☐
3. Educational Status:
   - ☐ 10th or 12th graduate
   - ☐ TVET/Certificate
   - ☐ Diploma Holder
   - ☐ BA/BSC holder
   - ☐ MA/MSC holder
   - ☐ PhD
4. Type of the business/unit:
   - ☐ Agriculture
   - ☐ Manufacturing
   - ☐ Trade
   - ☐ Construction

5. Relationship of the respondents with the organization:
   - [ ] Owner
   - [ ] Employee
   - [ ] Any other, please specify: ___________________

**Part Two: General Information relating to VAT**

For this questions Select an appropriate answer from the given alternatives and circle it, for other questions please provide your answers on your own words.

A. What do you think Ethiopian tax laws to encourage VAT collection properly? ________________________________________________________________________
________________________________________________________________________
__________________________________________________________

B. What do you think that VAT effect on economic growth? How? ________________________________________________________________________
________________________________________________________________________
________________________________________________________________

C. Do you explain the advantage and disadvantage of VAT in Sululta? ________________________________________________________________________
________________________________________________________________________
_________________________________________________________

D. As a taxpayer, do you think that you/your organization are familiar with VAT proclamations and?

A) Yes  B) to some extent  C) no D) I have no idea

E. In your opinion, what is the intention of VAT implementation in Sululta is:

A) Enhance revenue and encourage tax payers  B) reduce revenue and discouraging

D) I have no idea

F. Do you think that the threshold of VAT (500,000) is fair?

A) Yes B) No C) I have no idea

If your answer for question no.**5** is **No**, what do you think of it should be? ________________________________________________________________________________________________________________________________________________________________________________________

Do you think that VAT is more advantageous in comparison with the replaced sales tax?

A) Yes B) No C) I don"t know

G. If your answer for question no.**6** is **yes**, can you mention how it could be please? ____________________________________________________________________________________________________________________________________________________________________

H. Do you believe that Sululta Revenue Authority branch had made sufficient explanation to the public regarding VAT?

A) Yes B) to some extent (little) C) No

I. Do you believe that the process of VAT registration is easy for taxpayers?

A) Yes B) No

J. If your answer for question no.**9** is **No**, what do you think of the reasons? ____________________________________________________________________________________________________________________________________________________________________

K. Do you think that the VAT refunding processes being made are on time effectively?

A) Yes B) No

L. If your answer for question no.**13** is **No**, what do you think of the reasons? ______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

M. Do you believe that the declaration process is easy?

A) Yes B) No

N. If your answer for question no.**15** is **No**, what do you think of the problems that makes it difficult?

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

O. Are there customers who are not willing to purchase goods with VAT?

A) Yes B) No C) I don‟t know

P. If your answer for question no.**17** is **yes**, what do you think of the reasons? ______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

Q. Do you believe that the Authority have adequate number of and skilled man power?

A) Yes B) No C) I don‟t know

R. Do you think that the non-VAT registered taxpayers are more benefited than those of VAT registered enterprises from the competition in the market?

A) Yes B) No C) I have no idea

S. If your answer for no.**20** is **yes**, how do you think of they are as so? ______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

T. Number of years after your organization is registered for VAT ___________

U. What do you think of the measures that have to be taken by the Authority over the enterprises that are evading tax payments?

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

If you have any information relating to the VAT and its effect on the revenue generation, please specific in the space provided for you below;

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

**Interview for VAT registered taxpayers**

**Addis Ababa University**

**College of Business and Economics**

**Department of Public Administration and Development Management**

**Master‟s Program in Public Management and Developmental Study**

Dear respondents;

My name is Tigist Taye, a graduate student at Addis Ababa University. Currently, I am conducting master‟s thesis entitled: **"The Effect of VAT on Revenue Generation"**. The purpose of the study is to fulfill the partial requirement to accomplish Master‟s in Public Management and Developmental Study. To this effect, this semi-structured questionnaire is designed to collect pertinent information relating to the topic.

Dear respondents, the quality of this research is very much dependent up on the data you may provide. Indeed, the researcher would like to assure you that the data collected will be used only for academic purpose and will be kept confidential.

Thank You in advance!

Tigist Taye

March 2016

**Part One: Personal Information**

Please provide the following information about your personal information by checking the appropriate box.

1. Respondent‟s age in year__________________
2. Sex: ______________________
3. Educational Status:_________________
4. Type of the business/unit:______________
5. Relationship of the respondents with the organization:

**Part Two: General Information relating to VAT**

1. What is your opinion on VAT proclamations and regulations during implementation in Sululta?
2. What is the advantage and disadvantage of VAT on the revenue generation?
3. What is your opinion on Sululta Revenue Authority to manage VAT in Sululta town?
4. What do you evaluate that tax administrations are strong enough to control non-registered and illegal activities of VAT payers?
5. What do you observe that VAT registered business enterprises that have collected the tax with legal invoices?
6. Whom do you think has benefitted from the market competition between VAT registered or non-registered? How?
7. What do you evaluate that the VAT assessment and collection mechanism is effective and efficient?
8. If you have any information relating to the VAT and its effect on the revenue generation, please give detail