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## **CONTRIBUTION AND CHALLENGES OF INDIRECT TAXES IN CASE OF LARGE TAXPAYERS' BRANCH OFFICE**

**A THESIS SUBMITTED TO THE COLLEGE OF BUSINESS AND  
ECONOMICS DEPARTMENT OF ACCOUNTING AND FINANCE IN  
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE  
OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE**

***BY  
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**ADDIS ABABA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
MSc. IN ACCOUNTING AND FINANCE PROGRAM**

***February, 2018***

***Addis Ababa, Ethiopia***



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## **DECLARATION**

**THIS RESEARCH PROJECT IS MY ORIGINAL WORK AND HAS NOT BEEN SUBMITTED FOR A DEGREE IN ANY OTHER UNIVERSITY OR FOR ANY OTHER AWARD.**

***DECLARED BY***

***BIRHANU SISAY*** \_\_\_\_\_ ***FEBRUARY, 2018***

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## **LIST OF ACRONYMS**

**FIRA**= Federal Inland Revenue Authority

**GDP** = Gross Domestic Product

**ERCA** = Ethiopian Revenue and Customs Authority

**IMF** = International Monetary Fund

**LTO** = Large Taxpayer's Branch Office

**MOFED** = Ministry of Finance and Economic Development.

**VAT** = Value Added Tax

**OECD** = Organization for Economic Co-operation and Development

**GDP** = Gross Domestic Product

**MDG s** = Millennium Development Goals

**NBE** = National Bank of Ethiopia

**WB** = World Bank

**LIC** = Low-Income Country

**UN** = United Nations

**SSA** = Sub Sahara Africa

**SPSS** = Statistical Package for Social Science

## **ABSTRACT**

*The focus of paper is to assess contribution of indirect taxes and challenges focusing on VAT and Excise tax using primary and secondary data from ERCA LTO. The objective of the study was to identify contribution of indirect tax to tax revenue, contribution of VAT to tax revenue, contribution of Excise Tax to tax revenue and challenges related to VAT and Excise Tax. The study is intended to identify indirect tax contribution and related challenges. The research approach adopted in this thesis includes mixed research approach using secondary series data set that consists of fifteen years and primary data related to indirect tax challenges. The time period covered was 2002/03 to 2016/17; this is primarily due to introduction of VAT in 2002/03 primary data was collected through questionnaires and interview. Descriptive statistics and SPSS analytical tool were employed to analyze and presented using tables, graphs and frequency of obtained data. The findings from this research provide evidence that on average direct tax revenue contributes 23.13%, indirect tax revenue contributes 25.77% and customs taxes and duties contributes 50.95 to total tax revenue . VAT contributes above 40% to total tax revenue which was collected at customs and inland tax authorities and Excise tax contribution to tax revenue on average was 24% which was collected at customs and inland tax authorities. In line with primary data analyses of this study it is found that tax payers and professionals have huge problems on the clarity of the Ethiopian value added tax (VAT) and excise tax proclamations, regulation and directives, lack of control and follow by the tax authority most of businesses are affected by those who are not registered for VAT, computation VAT on consignment transaction, advance payments and promotional goods delivered to customer considered by the taxpayers is not fair. On the hand, the findings of this study indicated that applying excise tax on imported raw materials is not fair, excise tax rate is not fair, the base for the payment of excise tax computation for locally produced goods is not clear, applying excise tax on packaging material is not fair and applying excise tax on cost of building and delivery materials is not fair. This paper recommends that policy makers should revise VAT and excise tax proclamations and regulations by doing further specific researches on each challenges stated above.*

**Key words:** *Indirect Tax, Value Added Tax, Excise Tax, challenges of indirect taxes, Ethiopia*

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the study

Tax is a compulsory contribution to the support of government, levied on persons, property, income, commodities, transactions, etc., now at fixed rates, mostly proportional to the amount on which the contribution is levied (Oxford English Dictionary). It also defined as a "pecuniary burden laid upon individuals or property owners to support the government, a payment exacted by legislative authority." Tax "is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority". (O Michael -Academic Journal of Interdisciplinary Studies, 2014.)

Taxation is the avenue through which persons both corporate and individuals contribute towards revenues of their country or tax jurisdictions they operate in. On the other hand taxation is the most important avenue through which governments generate revenue necessary for development projects and recurrent expenditure. Taxation is intended to raise the necessary funds for public expenditure, to redistribute income, to stabilize the economy, to overcome externalities, to influence the allocation of resources, while at the same time should be supportive to the economic growth. (A Giddens2013)

Revenue from taxation and customs provides governments with the funds needed to invest in development, relieve poverty and deliver public services directed toward the physical and social infrastructure required to enhance long term growth. Strengthening domestic resource mobilization is not just a question of raising revenue: it is also about designing a revenue system that promotes inclusiveness, encourages good governance, improves accountability of governments to their citizens, and cultivates social justice. Revenue system design and delivery is also closely linked to domestic and international investment decisions, including in terms of transparency, anti-corruption and fairness, as it may serve to improve the framework for attracting increased private investment.

Low income countries face a number of challenges to increasing their revenue from domestic sources such as a small tax base, a large informal sector, misuse of transfer pricing, low levels of per capita income, domestic savings and investment plus weak governance and capacity. Though many economies have made noticeable progress in revenue collection in the past decade, half of sub Saharan African countries mobilize less than 17% of their GDP in tax revenues, below the minimum level considered by the UN as necessary to achieve the Millennium Development Goals. Goals of taxation has four main purposes of taxation can be distinguished, each one of potentially great significance in the attempt to improve the welfare of citizens living in poverty. (IMF 2015)

- 1) **Revenue** is the most obvious and direct role of taxation. Three separate calls on the public purse can be identified, each of which must ultimately be met by tax revenues:
  - i. The short-term need to address immediate problems of human development – the imperative that stems from a basic needs conception of poverty, including the provision of food, clothing and emergency medical treatment;
  - ii. The need for investment to address less pressing but equally important human development issues – those stemming from a more complex approach to poverty, including education and preventative medicine and to simultaneously improve economic potential; and
  - iii. The creation and/or long-term maintenance of the institutions and governance structures needed as guarantors of quality of life, and prospects for its further improvement.
- 2) **Redistribution** is the second role of a tax system. It is of course not valuable for its own sake but specifically, rather, to the extent that it can allow a given society to achieve human development gains by lifting its poorest members out of poverty. Where a society has wealth sufficient to meet the first demand on revenues above, inequality may form the obstacle to widespread human development. Immediate gains from direct quality of life enhancement are complemented by longer-term benefits through the effective increase in the society's (economic) development potential.
- 3) **Representation** is the final potential advantage generated by a well-functioning tax system. On the one hand, this relates directly to the claim 'no taxation without

representation'. The connection between representation and taxation goes further however. Citizens may feel they have a lower stake in governance and policy outcomes when they are excluded from government as the community purchase of a public good.

- 4) **Re-pricing economic alternatives** is the fourth purpose of taxation policy. Specifically, taxation can be governments' main tool by which to influence the behavior of their individual and corporate citizens. Addressing externalities by e.g. increasing the costs of polluting behavior, or the incentives to save, can deliver substantial benefits.

The major principle of taxation is that the burden of tax should be distributed fairly. Accordingly, equity or fairness is further highlighted by two principles: the ability-to-pay principle and the benefits principle. The ability-to-pay principle holds the idea that the amount of taxes that people pay should be based on their ability to pay. This principle implies two things:

- i) **Horizontal Equity:** People in equal positions should be made to pay the same amount of taxes.
- ii) **Vertical Equity:** A tax system should distribute the burden of paying taxes fairly across people with different abilities to pay. Thus, people who earn more should pay more than those people who make less than them. Ethiopia implementing the ability-to-pay principle and scheduler tax system.

Indirect tax revenue is type of tax revenue collected directly from consumer and in Ethiopia indirect tax revenue consists of VAT, excise tax and customs duties.

## 1.2 Statement of the problem

Over the last few decades, a general consensus regarding the indirect tax reform in developing countries has emerged. A reduction in the trade tax with a compensating or revenue-enhancing increase in value-added tax (VAT) has been the center-piece of such a reform, and it has been implemented in a large number of developing countries under the structural adjustment and stabilization policy conditionality of the IMF and the World Bank.

The average fiscal revenue-to-GDP ratio (without grants) in sub-Saharan Africa (SSA) was around 17.9% of GDP in 2015 (IMF, 2016), but many low-income countries in Africa (LICs) have a tax-to-GDP ratio 16.3% which is less than the average and Ethiopia's Tax revenue to

GDP ratio is 15.1 in year 2015 which is below sub Saharan Africa average as well as low income countries average which shows low performance in collecting revenue in the past years from 2008 to 2015 as per analysis made by IMF (IMF report 2016).

As per report issued by national bank of Ethiopia, government revenue including grants reached Birr 243.6 billion in 2015/16 and its GDP ratio remained at 15.1 percent. About 82.3 percent of the total domestic revenue came from tax sources which recorded 14.8 percent annual growth which resulted from improved collection of direct taxes (18.2 percent) and indirect taxes (12.8 percent). Direct taxes contributed 37.5 percent to total tax revenue while that of indirect taxes was 62.5 percent. at the same time, from the indirect tax portion VAT contributed high percentage around 55% -60% (NBE 2015/16 report), for further improvement of tax administration and revenue collection which is explained by increased tax to GDP ratio compared to IMF standard still there are a lot of challenges and opportunities.

Some of the challenges identified related to administration and performance especially in developing countries are evasions and fraud (Keen and Lockwood, 2007), poor administration (Aizenman and Jinjark, 2008), increase in administrative expenditure and compliance costs (Agha and Haughton, 1996; Yesegat, 2009), miss understanding of taxpaying community, poor technology management; especially Electronic Tax Register (ETR) (Taye, 2011). Empirical studies further reveal challenges related to consumers` awareness, taxpayers misunderstanding and evasion act, tax authority commitment and organizational inefficiency, unfair competition due to unregistered but fall in the domain of the criteria (Simon Tareke, Yibrah Hagos and Abiy Kassa, 2013; Habtamu Dheressa, K.K Reddy, and Debela Yadeta, 2015; Simon Tareke Abay, 2013).

## **1.3 Objectives of the research**

### **1.3.1 General Objective**

The general objective of the study is to assess the contribution and challenges of indirect taxes in Ethiopia in case of large taxpayers' branch office.

### **1.3.2 Specific Objectives**

In order to achieve the general objective, the researcher developed the following specific objectives. The specific objectives are:-

- To examine the level of indirect tax revenue contributed to total revenues for the last 15 years.
- To assess the VAT contribution to tax revenue for the last 15 years.
- To identify the excise tax contribution to tax revenue for the last 15 years.
- To examine the clarity of VAT laws issued by different government bodies
- To assess tax payers understanding on exempted items from VAT payments
- To identify problems related to VAT withholding practices
- To examine VAT input claim (VAT Refund) practices and usages of purchase invoices.
- To examine the clarity of Excise tax laws issued by different bodies
- To identify issues related to computation of production cost as a base for the payment of excise tax
- To assess difficulties of applying excise on importation and production of excisable raw materials.

### **1.4 Significance of the study**

The study focused on the evaluation of the contribution and challenges of indirect taxes for tax revenue in case of large taxpayers' branch office. Based on the title of the research the study has number of benefits to different stake holders:

- For Ethiopian government provide indirect tax contribution and related challenges on collection and administration of tax provide an evidence for policy formulation, budgeting source for government expenditures, and market stabilization in the form of increasing or reducing tax rates.
- For Ethiopian revenue and customs authority provide evidence on tax collection performance for past years, contribution of indirect taxes to total taxes, challenges related to VAT and Excise Tax and helps an office to improve collection capacity and reduce customer non compliance levels.
- For the future researchers helps as reference for further study and pinpoint some researchable areas.

## **1.5 Scope of the Study**

The scope of the study is limited to assessment of indirect tax contribution and challenges in case of LTO by taking into account two types of indirect taxes which are VAT and excise tax only. It does not consider other types of taxes. In addition, it was conducted in LTO branch of the Revenue and Customs authority found in Addis Ababa Ethiopia. In addition the scope of the study was limited to fifteen years (from 2002/03 to 2016/17) time based on the availability of data and introduction of VAT practice.

## **1.6 Limitations of the study**

The study is conducted in the Ethiopian revenue and customs authority LTO branch office and the tax payers that are used as primary source of data are only from large tax payers. The total taxpayers in the branch are around one thousand one hundred taxpayers which may not represent the total VAT registered tax payers in the country so it is difficult to show the whole image of the indirect tax revenue administration and collection challenges and limited the researcher to generalize the output gained but the tax collected by the branch office represent more than 75% of domestic revenue sources.

## **1.7 Organization of the study**

The study contains five chapters. The first chapter comprises General introduction such as background of the study, statement of the problem, basic research questions, objective of the study, significance of the study, limitation of the study and scope of the study. The second chapter comprise the relevant literatures in the field are reviewed as theoretical and empirical evidences from past studies. Chapter three discusses the methodology of the study such as research design, source data, method of data collection, method of data analysis and sampling methods are presented. Chapter four present the results and discussion of the study. Finally, chapter five portrays the summary, conclusions and recommendations of the study.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1. Theoretical Literature

Taxation is the earliest and most prevalent form of government interference with the economic life of individuals and business enterprises. Taxes are important sources of public revenue. Taxation provides revenues for national budgets emanating from national taxes, local taxes and social contributions which are levied on consumption, labor or capital.

Public goods and services are normally subject to collective consumption. The nature of consumption of public goods is such that consumption by one does not reduce consumption for others. Besides, consumption of public goods by an agent does not exclude others from doing same. Such nature of public goods therefore makes them impossible for private suppliers to avail them at market prices like other commodities.

A well-functioning revenue system is a necessary condition for strong, sustained and inclusive economic development. Revenue funds the public expenditure on physical, social and administrative infrastructure that enables businesses to start or expand. The revenue system is also a central element in supporting a strong citizen–state relationship that underpins effective, accountable and stable governments.

Tax revenue collection is one significant issue of economic development among others. The economic resources available to society are limited, and so an increase in government expenditure normally means a reduction in private spending. Taxation is one method of transferring resources from the private to the public sector, but there are others i.e. creation of more money, to charge for the goods and services it provides or to borrow. Two categories of consumption taxes are generally distinguished (OECD, 2013):

- General taxes on goods and services, consisting of VAT and its equivalent in several jurisdictions, sales taxes and other general taxes on goods and services.

- Taxes on specific goods and services, consisting primarily of excise taxes, customs and import duties, and taxes on specific services.

## **2.1.1 The General Tax Principles**

### **Vertical equity**

The burden of taxation should be shared in accordance with taxpayers' respective ability to pay. The concept that higher profits should be taxed at higher rates is not often applied to companies other than certain reliefs for small companies in some countries.

### **Horizontal equity**

Taxpayers in the same economic circumstances should receive equivalent treatment.

### **Efficiency**

Efficiency described as neutrality, particularly in relation to different types of investment. Generally taxes should be neutral to ensure that investment decisions take into account the 'best' location from an economic perspective. This avoids 'location inefficiency' whereby investments are not placed where the productivity of capital is highest.

### **Effectiveness**

Effectiveness is essentially the capacity of the tax base to achieve its basic objectives. Taken together with the rate these would be to generate revenues and set the desired economic incentives.

### **Simplicity, Transparency, and Certainty**

The simpler a tax base is the lower the administrative or compliance costs should be, for both administrations and business. These costs are difficult to measure so international comparisons, measuring the incentive provided by a tax base which has 'low' costs against a 'high' cost are difficult. The rules must also be certain and clear which links in to the requirement for transparency. Certainty is desirable to assist business planning, but also to provide a degree of revenue certainty for administrations, for example if the rules governing loss-offset are unclear then neither business nor government can predict tax payments and revenues. The rules must also provide an appropriate level of protection against tax evasion and the unacceptable use of purely artificial tax avoidance schemes.

### **Consistency & coherence**

When two transactions have the same commercial result they should have the same tax result – i.e. commercial decisions on the structuring of transactions should not be distorted by taxation

considerations, for example the finance leasing of plant should arguably produce the same post tax profits as the purchase of plant.

### **Flexibility**

Markets and business practices change over time so the tax base should be responsive and be capable of change as well. However, too much flexibility can endanger certainty from a business perspective.

### **Enforceability**

The rules of a tax base must be easy to enforce as an unenforceable system is unlikely to be either equitable or neutral.

## **2.1.2 Principles of a Good Tax System**

**Efficient** - A tax system should raise enough revenue such that government projects can be adequately sponsored, without burdening the economy too much (not particularly the tax payer), as not to become a disincentive for performance (internal and external investment, work returns and savings).

**Understandable** - The system should not be incomprehensible to the layperson, nor should it appear unjust or unnecessary complex. This is to minimize discontent and costs.

**Equitable** - Taxation should be governed by people's *ability to pay*, that is, wealthier individuals or firms with greater incomes should pay more in tax while those with lower incomes should pay comparatively less.

**Benefit Principle** - Those that use a publicly provided service (which is funded primarily through taxation) should pay for it! However, conflicts in principle may and often do arise between this and principle

## **2.1.3 Direct and Indirect Taxation**

There are two types of taxes: direct and indirect. The terms 'direct taxation' and 'indirect taxation' are not used consistently by commentators. There is, however, a broad consensus that 'direct taxes' are those, such as income tax or corporation tax that are levied directly on the taxpayer by means of some process of assessment. By contrast, 'indirect taxes', such as value added tax (VAT), are those that the taxpayer pays to the government indirectly; i.e., the person

who bears the tax (the customer) pays it to the retailer, who in turn passes it on to the government.

Direct taxation describes taxes that are levied on income, wealth and capital, whether personal or corporate. Indirect taxation comprises taxes that are not levied on income or property. It includes VAT, excise duties, import levies and energy and other environmental taxes. The fundamental principle in international taxation is that indirect taxes on consumption are charged in the country in which the goods and services are consumed. The consumers bear the burden of these taxes, in principle, as part of the market price of the goods or services purchased.

## **VAT**

The idea of the value added taxation (VAT) traces back to the writing by von Siemens, a German businessman, in the 1920s. Not until 1948, however, was the tax first applied in France. At the beginning, France applied the GNP-based VAT covering up to the manufacturing level and subsequently replaced it with a consumption VAT in 1954.

Compared with alternatives in indirect taxation, the VAT has more revenue potential: it is generally more broad-based and entails a trail of invoices that helps improve tax compliance and enforcement. Heady (2002)

### **The Rationales for VAT**

There are some good rationales for a VAT.

- The VAT replaces other unsatisfactory indirect taxes (e.g., turnover and single-stage taxes)
- Invoice-based credit VAT, the most common form of VAT, is, in principle, self-enforcing and hence a buoyant tax
- Unlike income taxes, consumption-based VAT does not distort consumption-savings/investment decision
- A VAT on destination principle may relieve exports from indirect tax burden on inputs if the tax is properly applied.

### **VAT Design Issues and Policy Implications**

Origine versus destination principe :

Under destination principle, the tax is imposed at the point of consumption (tax on consumption)—for a VAT to be effectively imposed on domestic consumption, the tax must be applied on destination principle. Destinations VAT zero rates exports and taxes imports. Destination principle requires border tax adjustment, but generally, exporters have no incentives to under-declare their export values, and importers have no incentives to overvalue their imports as often seen in the VAT on origin principle.

Under origin principle, tax is imposed at the point of production: exports are taxed, but imports are not (tax on production). In VAT, exports will be subject to tax, and credit is given in importing country at the rate applied there. The tax burden is the sum of the VAT on the value added generated in the exporting country at its applicable rate, and the VAT on the value added generated in the importing country at its own applicable rate. Origin principle results in global consumption efficiency as consumers in different countries face the same consumer prices (gross-of-tax prices, adjusted for differences in transportation costs in domestic distribution and foreign trade), even if the tax rates vary in different countries. (Tuan 2003 IMF working paper)

### **Value Added Tax (VAT) in Ethiopia**

Value added tax in Ethiopia was introduced in year 2003 with proclamation 285/2003 “Value Added tax proclamation”

Most business transactions involve supplies of goods or services. VAT is payable if they are: Supplies made in Ethiopia, Made by a taxable person, made in the course or furtherance of a business and are not specifically exempted or zero-rated. The Value Added Tax would be levied at the rate of 15% of the value of: Every taxable transaction by a registered person, every import of goods, other than an exempt import; and Import of services

A person who carries on taxable activity and is not registered is required to file an application for VAT registration with the Authority if: At the end of any period of 12 calendar months the person made , during that period, taxable transactions the total value of which exceeded 500,000 Birr; or at the beginning of any period of 12 calendar months there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during that period will exceed 500,000 Birr.

## **Excise Tax in Ethiopia**

Excise tax application in Ethiopia emanate from proclamation 307/2002 and is imposed and payable on selected goods, such as, luxury goods and basic goods which are demand inelastic. Moreover, it is believed that imposing the tax on goods that are hazardous to health and which are cause to social problem, will reduce the consumption of such goods.

Rate of Excise Tax: The excise tax shall be paid on goods mentioned under the schedule of the proclamation: when imported and when produced locally at the rate prescribed in the schedule.

Base of computation of excise Tax: In respect of goods, produced locally, the cost of production; In respect of goods imported, cost, insurance and freight (CIF value).

The excise tax shall be paid within the time prescribed according proclamation 307/2002 Sub-Article/2/: In respect of goods produced locally, by the producer; and In respect of goods imported, by the importer. According to the excise tax proclamation, excise tax on goods shall be paid under the schedule: When imported at the time of clearing the goods from customs area and When produce locally, not later than 30 days from the date of production.

## **Tax revenue collection challenges and remedies**

From Pramod K. Rai thesis “The Challenges of Tax Collection in Developing Economies (with Special Reference to India)” 2004 the researcher summarized the following tax related challenges and remedies in developing countries:

### **The challenges in tax collection**

- Low gross national product and low rate of capital formation
- Poverty and inequality
- Occupational pattern unsuitable for taxation
- Large population with unemployment and underemployment
- Abundance of exemptions for political reasons: exemption on agricultural income, ambiguous exemptions on commodities under vat system
- Predominance of cash transactions with no trails
- Huge black economy
- Extremely narrow tax base and heavy burden on the corporate sector

- Predominance of regressive indirect taxes
- Rampant tax evasion: very low percentage of GDP is collected in taxes,

### **Remedies**

- Wider Tax Base with Moderate Tax Rates: Expansion of the Service Tax Base, Expansion of the Income Tax Base
- Deterrence Against Tax Evasion
- Higher Standards of Tax Compliance for Certain Individuals
- Issue universal Identification Number
- Reduction of the Black Economy: Checks on Real Estate Transfers, Discouraging Cash Transactions,
- Modifying the Small-Scale Exemption Scheme
- Taxing Agricultural Income
- Setting Large Taxpayer Units
- Simplification and Transparency Based on Mutual Trust
- Implementing True VAT and Single VAT: Merging All Commodity Taxes, Uniformity in the Tax Regime, Creditability of Taxes Should Be Unconditional,
- Systematic Publication of Codes and Regulations
- Fixed Tenure of Tax Officials

## **2.2. Empirical Literature review**

The major aim of most governments in developing countries is to stimulate and guide their economic and social development. One of the most important policy upon which most agreed is that emerging economies must increasingly mobilize their own internal resources to provide economic growth.

Africa's scale and diversity means that it is highly unlikely that a harmonized system of VAT comparable to the other developed countries. VAT regimes have been introduced in many African countries and the World Bank and the IMF are strongly advocating its adoption by countries that have not already done so. But while an Africa wide system is unlikely, greater harmonization and coordination for VAT policies between smaller groupings of countries and trading partners is perhaps a more realistic vision of the future of indirect taxes in Africa.

The IMF has for a number of years been promoting the adoption of VAT systems by countries in Africa. Most African countries apply a destination based VAT, designed to encourage cross border trade and investment. Cross border trade in Africa takes many forms, from the largest multinational groups to individuals living near a border who may cross into a neighboring country to do their shopping. This can give rise to double taxation. Unless specific double taxation agreements are drawn up to deal with this possibility, double taxation at border posts will be routine. But it is not only individuals who are caught in the problem of double taxation. Practical problems with the documentation required to demonstrate zero rating of exports often means that in practice tax is charged unnecessarily. A tension between theory and practice is a feature of much of the problems with VAT in Africa.

In addition to VAT there are also a broad number of other taxes, levies and duties. Among these, environmental taxes are likely to become an increasingly prominent part of policy making, but their rate of adoption varies considerably between countries and will develop over time.

Of the 53 countries in Africa, 40 have thus introduced VAT systems. Given the other economic variables in many of these countries, it is hard to say whether the adoption of VAT relates to a move to greater reliance on indirect or more simply a desire to address a taxable base that often

resides outside the formal economy. However, the IMF and the World Bank has also greatly encouraged the adoption of VAT systems throughout Africa.

Value added taxes (VAT) and other consumption taxes are generally designed to be indirect taxes. While they are generally intended to tax the final consumption of goods and services, they are collected from the suppliers of these goods and services rather than directly from the consumers.

Ethiopia adopted VAT 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. The design of the VAT legislation is intended to achieve the expected revenue projections, support capital investment and development, simplify its administration for the tax authority and the business community, and, combined with the recent reductions in the income tax rates, minimize the tax burden for the lower income population.

Governments are introducing VAT mainly because it is important for the development process. VAT has the following importance:

- Possibility of the evasion shall significantly be reduced under the VAT, since every transaction is made using VAT invoice that provides the means for varying VAT amounts due and payable;
- The introduction of VAT the problems of double taxation of commodities and multiplicity of taxes, resulting in a cascading tax burden that exists with the sales tax it replaced in most countries;
- VAT replaces the existing system of inspection by a built in self-assessment and auditing;
- VAT allows the tax system to be broader based, getting the tax structure simpler and more transparent and, therefore, improves tax compliance and revenue growth will get a boost;
- VAT encourages export and investment, as these activities are, in most countries, zero rated and exempted, respectively;

The designers of the VAT law intended it to be a tax on the final consumer. In other words, a business buying goods or services would generally not suffer VAT because it could pass on the burden of the tax to its customers, either directly by charging them VAT on taxable sales or indirectly by raising its prices to cover the cost of any VAT that it had paid on purchases used to produce goods or services that were exempt from VAT (*Dakito Alemu, 2011*).

VAT revenue has positively contributed to the development of the rest of four sectors (health, agricultural and natural resource, infrastructure development, and other development indicators such as, urban development and housing, culture and sport, social welfare, and disaster trade and industry). VAT had contributed positively to the respective economic sectors in Ethiopia State economy except education sector. That means VAT revenue has negative contribution to education sector development but it is statistically insignificant (*Dakito Alemu, 2011*).

Dasalegn Mosissa Jalata, (2014) descriptive analysis showed that the ratio of VAT to GDP in average was 2.95%. In addition, the growth rates of VAT from 2003 to 2012 were 66.27% in average. Likewise, the average growth rates of the government revenue were 22.82%. Generally, the comparison of the GDP growth rates during the periods of Value added tax (2003 to 2012) with the periods of general sales tax (1993-2002), it was after the implementations of VAT that GDP was alarmingly grown. During the sales tax periods, the average growth rates of GDP were only 2.53%. However, after the executions of VAT, the average GDP growth rate reached 21.9%. This reveals that, during the periods under review (2003 to 2012), the revenue generated from VAT contributed for the Ethiopian economic growth in general.

Also Dasalegn Mosissa Jalata, (2014) the regression findings of the study showed that all variables of VAT, total tax revenue (both direct and indirect tax with the exclusions of VAT (TTR) and Non-tax revenue (summations of charges and fees, sale of goods and services, government investment income, miscellaneous revenue, pension contribution, extraordinary revenue, privatization proceeds and capital revenue) (NTR) except foreign revenue (both external assistance and external loan) (FR) were significant at 5% level of significance but all of them including FR were positively contributed for economic growth during the periods under

review. In general, the finding of the study reveals as VAT enhances the country's economic growth during the periods under review.

Excise taxes are selective taxes on the sale or use of specific goods and services, such as alcohol and gasoline. Excise taxes have existed for centuries and are widely used by governments today. The twentieth century spread of income taxation and value-added taxation reduced the significance of excise taxation as a source of government revenue, but most governments still collect sizable taxes on petroleum products, tobacco products, and alcohol. In addition to generating needed revenue, excise taxes can be designed to control externalities and to impose tax burdens on those who benefit from government spending. Excise taxes also can be used to discourage consumption of potentially harmful substances (such as tobacco and alcohol) that individuals might over consume in the absence of taxation. (James R. Hines Jr., 2007)

The United States relies on excise taxes of the 30 wealthy nations that are members of the Organization for Economic Cooperation and Development (OECD), whose excise tax collections in 2000 averaged 12 percent of total government revenues (Hines, 2007).

Where an excise tax is levied on a particular industry there is a clear economic impact and in the context of seeking tax revenues, the literature suggests that the effect of excise taxation on these industries is to drive down revenue receipts from VAT and sales taxes, as well as reduce the taxes which apply to profitability, such as income taxes or company taxes from taxpayers in these industries. In terms of excise-type taxes being levied on non-alcoholic beverages, an excise tax is still in place in several countries, primarily in developing countries within Africa, the Middle East and Asia. In those countries such products are included in a range of goods seen as 'luxury goods' and the same excise systems extend into other commodities such as perfumes, jewelers, carpets, crystal glassware, etc., with the aim of establishing a progressive tax on the spending of the wealthy (World Customs Journal).

In the current global market's conditions, in order to ensure each country's economic development, the protection of public interests, the business community's stability and transparency, Customs play an important role. Customs control all the aspects of international transactions, receive the information on all the parties operating by the external borders of the

country with third countries thus implementing the country practiced policy on Customs and international trade (Dr Danute Adomaviciute, Mykolas Romeris University, European International Journal of Science and Technology).

### **2.2.1 Value Added Tax challenges in Ethiopia**

Markos 2010 identified challenges related to Value Added Tax (VAT) Administration and Revenue Performance: Challenges and Opportunities in the Mekelle Branch of the Ethiopian Revenue and Custom Authority (ERCA) by collecting questionnaire from 120 taxpayers and 20 tax officers at the branch main challenge in the VAT administration process is the attitude of the taxpayers, all of those who should get registered for VAT are registered, there was an awareness creation problem by tax payer as a result tax payer awareness problem was a main challenge, branch VAT administration practice have a problem and there are people and companies who are VAT registered but are not declaring with payments as a challenge identified by the tax researcher.

Temtime 2014 come up with business taxpayers are not satisfied with the existing tax systems. The ways tax authority provides tax information to taxpayers, tax collection and tax refund, administration capability to solving taxpayers' problem and the area of tax audit procedures are found to be the major dissatisfied areas. Moreover researcher identified the tax system is so complex and unfair, discretionary treatment by officers and existent of lack of monitoring in the tax authority with the research topic titled as Business Taxpayers' Satisfaction with the Tax System in Addis Ababa, Ethiopia

Hailemariam 2011 identified VAT related challenges: misunderstanding of the public in general and business community in particular regarding the VAT laws, resistance against registrations for VAT by some traders, administration inefficiency from ERCA, provisions of understated financial statements, and non-issuance of invoices or issuance of illegal invoices exercised by registered business enterprises with the research title implementation of value added tax and its related problems in Ethiopia" (the case of ERCA) by using primary and secondary data collected through questionnaire and interview.

Bizualem 2015 identified key challenges related to VAT with the title of the thesis practices and challenges of Value Added Tax implementation in Ethiopia post January 2003 assessment

accordingly lack of sufficient number of skilled personnel, limited staff capacity, non responsiveness by the management, limited awareness creation, problems related with invoicing, unfair competition, and control centered management tendency using both qualitative and quantitative research methods to collect and analyze both primary and secondary data. By using primary and secondary data collected from different sources.

Wollela 2008 identified the following problems related to VAT administration taxpayer's identification and registration, VAT filing and payment, VAT refunds, VAT audits, penalties and VAT invoicing. In addition tax awareness gap and lack of trust between taxpayers and administrators due to under staffing of the tax authority.

The researcher believes that, as these and related challenges affect contribution of indirect tax to tax revenue collection of Ethiopian revenue and customs authority large tax payers branch office there is considerable need for conducting research on the area which this study purports to do.

The main gap researcher identified related to the title is that previous researchers more focused on administration problems of VAT application in Ethiopia and these research focused on contribution and challenges of indirect taxes focusing on VAT and excise tax clarity of the laws, challenges during application and tax payers perception on issues related to indirect tax which is a new contribution existing knowledge related to the topic to the understanding of the researcher.

## CHAPTER 3

### RESEARCH METHODOLOGY

The purpose of this chapter is to describe an appropriate research method for the study. The chapter discusses about the research design, population and sample size, source and type of data, data collection instrument and method of data analysis and interpretation. In a brief, this section presents and gives insight on how and from where the data are collected

#### **3.1 Research approaches**

According to Hair (2000) the heart of any research design is the method and the technique actually used to collect the required data. In recent years the methods available for collecting data has been generally classified into three broad categories: qualitative, quantitative and mixed research methods.

##### **3.1.1 Qualitative Research approach**

According to Hair (2000) qualitative research tends to focus on the collection of detailed amount of primary data from relatively small samples of subjects by asking questions or observing behavior. One of the main objectives of qualitative research is to gain preliminary insights into decision problems and opportunities. As Ortinau (1999) noted on the surface qualitative research methods incorporate some scientific elements but normally lack of critical elements of true reliability. In this research questionnaires and interviewing techniques played an important role to collect qualitative data.

##### **3.1.2 Quantitative Research Method**

According to Harold (1958) quantitative research is commonly associated with surveys or experiments and is still considered the main stay of the research industry for collecting data.

Quantitative research places heavy emphasis on using formalized standard questions and predetermined response options in questionnaires or surveys administered to large number of respondents.

Normally in quantitative research, the information research problems and opportunities are specific and well defined, and the decision maker and the researcher have agreed on what the

precise information needs are. AS Harold (1958) noted the main goal of quantitative research is to provide specific facts decision makers can use to:

- Make accurate predictions about relationship between factors and behaviors;
- Gain meaningful insights into those relationships; and
- Verify or validate the existing relationships.

### **3.2.3 Mixed Research Method**

As Sheth (1971) stated triangulation is the term used to describe the combination of several qualitative methods or combining qualitative with quantitative methods. This method is invented because of the controversy between qualitative and quantitative methods. Possibly because of their origin, qualitative methods do not enjoy the unqualified endorsement of upper management. Many senior managers maintain qualitative data are too subjective and susceptible to human error and bias in data collection and interpretation.

## **3.3 Methods Adopted**

However there are three types of research approaches, mixed research method is appropriate to assess the contribution and challenges of indirect tax to Total Tax Revenue. To get the most advantageous characteristics of conducting mixed methods research that is possibility of triangulation, i.e., the use of several means (methods, data sources and researchers) to examine the same phenomenon. Triangulation allows one to identify aspects of a phenomenon more accurately by approaching it from different vantage points using different methods and techniques. Successful triangulation requires careful analysis of the type of information provided by each method, including its strengths and weaknesses.

Because of the research problems needs both quantitative data and qualitative data and hence, descriptive survey type of research was used for the study. In survey method research, participants answer questions administered through interviews or questionnaires. After participants answer the questions, researchers describe the responses given. In order for the survey to be both reliable and valid it is important that the questions are constructed properly.

Questions should be written so they are clear and easy to comprehend. Jackson, S.L. (2009).

An additional advantage of this method is that the topic could be examined in-depth, albeit gathering information from a much more limited sample of subjects than would have been possible with a much more questionnaire (Girma, 2010). Apart from the primary data collected, Documentary analyses of financial records were used from NBE, MoFED, and ERCA in large tax payer's branch office.

### **3.4 Target Population:**

The target population of this study was all taxpayers registered and currently declaring their tax at large taxpayers branch office (LTO) and the employees who are directly involved in VAT and Excise Tax collection and administering departments. The target population is all employees working in the process of tax audit, collection & enforcement, customer service, law enforcement, and branch managements and team leaders in each process, senior officers in each team, and junior officers are included in the target group.

### **3.5 Sample Size:**

A sample is a subset containing the characteristics of a larger population. Samples are used in statistical testing when population sizes are too large for the test to include all possible members or observations. A sample should represent the whole population and not reflect bias toward a specific attribute.

Taking into consideration the researcher collected date representative size of sample in the sample frame. These are done using random sampling technique from the overall list of branch tax payers except those not paying VAT and Excise Tax. In large taxpayers branch office there are 1116 companies which consists of private limited company and Share Company. From the tax office five different processes and management members totally there 408 employees out of these 305 employees are directly working on tax proclamation and regulations. Managers, process owners, team leaders and officers working on different positions were filed the questionnaires. In addition, discussions have been made with five persons working in the office focusing to the issue at hand. For detail list of employee in their respective process are presented below with table.

### Number of employee working in branch of ERCA, LTO in their respective departments

Department	Female	Male	Total
Administration and Manager office	27	18	45
Tax Audit Process	37	55	92
Tax collection and enforcement process	58	36	94
Law enforcement process	11	14	25
Customer service process	28	21	49
Resource management and general service	58	45	103
Total	219	189	408

According to Roscoe (1975), the appropriate sample sizes for most research to be greater than 30 and less than 500. Taking in to consideration this guideline, the sample size decided was 150 taxpayers from LTO which represent around 13.5% of the total tax payers and 100 employees from total target group of 305 working directly on VAT and Excise Tax which represent around 32.8% of the total employees working in VAT and Excise Tax related issues and challenges.

The main reason to select large tax payer's branch office was its tax collection percentage to total tax revenue was above 40% and from domestic tax revenue the branch collected more than 70% of the tax from domestic source in the period from 2008/09 to 2016/17

### Tax collected by LTO, LTO tax collection to domestic tax revenue ratio and LTO tax collection to total tax revenue ratio.

Year	Tax collected by LTO	LTO tax collection to Domestic Tax revenue ratio	LTO tax collection to Total Tax revenue ratio
2008/09	7,346.94	64.55%	31.63%
2009/10	11,736.84	66.82%	33.29%
2010/11	19,659.63	75.15%	39.56%

2011/12	26,136.98	72.28%	37.49%
2012/13	32,492.38	72.34%	39.13%
2013/14	43,933.73	73.70%	41.76%
2014/15	53,043.13	71.97%	41.93%
2015/16	60,719.98	75.61%	42.45%
2016/17	68,235.11	74.47%	43.23%

Source: ERCA, own computation

### **3.6 Sampling Technique**

Sampling Methods can be classified into one of two categories as Probability Sampling: Sample has a known probability of being selected and Non-probability Sampling: Sample does not have known probability of being selected as in convenience or voluntary response surveys. From the above two types the researcher selected probability sampling method and used random sampling in which every set of individuals has an equal chance to be in the selected sample. So that from 1116 taxpayers 150 took the questionnaires and only 122 returned and out of 305 employees selected 100 are selected on random basis and 85 filled the questionnaires. In addition, five people working on appeal in this branch are interviewed.

### **3.7 Source of data**

The researchers obtained data from primary and secondary data sources in order to obtain a reliable data and achieve the stated objectives of this study. In the study, both primary and secondary data sources were used.

#### **i. Primary Sources of Data**

This primary source of data collection was employed through the use of questionnaires. The researcher used both quantitative and qualitative methods of data collection to gather the data. With the help of the tax officers of the branch, the taxpayers and officers of LTO filled questionnaires.

## **ii. Secondary Sources of Data**

Secondary data was obtained from documentary sources such as books, journals, newspapers, publication, reports, articles and other research related to this study. These sources were very useful in the literature review about VAT administration and revenue performance, challenges and opportunity. The literatures reviewed were served for both theoretical and empirical base for the analysis of the data collected.

### **3.8 Method of data collection**

The researcher used Questionnaires types of data collection to get the following advantages: responses can be analyzed with quantitative methods by assigning numerical values to Likert-type scales, Results are generally easier to analyze and Pretest/Posttest can be compared and analyzed

The researchers used use one set of structured questionnaire for the survey which was answered by selected branch officials, process coordinators and team leaders of tax assessment and collection department. Most of the questions were close ended with 5 point scales, and categorical scaled questions. In addition there was some open ended questions.

### **3.9 Method of Data Analysis**

For the qualitative researches using interviews and questionnaire data collection methods the researcher analyzed the data to involved in identifying common patterns within the responses and critically analyzing them in order to achieve research aims and objectives.

#### **Scales of Measurement**

The type of data analysis used on a set of data and the relevant forms of pictorial presentation or data display. The decision is based on the scale of measurement of the data.

These scales are nominal, ordinal and numerical.

- A nominal scale is where: the data can be classified into non numerical or named categories, and the order in which these categories can be written or asked is arbitrary.
- An ordinal scale is where: the data can be classified into non-numerical or named categories an inherent order exists among the response categories. Ordinal scales are seen

in questions that call for ratings of quality (for example, very good, good, fair, poor, and very poor) and agreements (for example, strongly agree, agree, disagree, and strongly disagree).

- A numerical scale is: where numbers represent the possible response categories there is a natural ranking of the categories zero on the scale has meaning there is a quantifiable difference within categories and between consecutive categories.

The researcher used two types of measurement scales in using SPSS which are nominal and ordinal scales. In addition the researcher used the following statically calculations to look insight into the responses:

	Objective	Calculations
1	To identify how many individuals check the answer	Frequency
2	To proportion people answer in certain way	percentage
3	To average the number of scored	Mean
4	To know the middle value in range of values/scores	Median
5	To show the ranges in answers/scores	range
6	To show the degrees to which responses varies from the mean	Standard deviation
7	To compare one group with other	Cross tab

Output data from SPSS version 20 was presented in the form of Percentages, Tables and Figures. Finally the relationships between responses were summarized in addition to interview ideas gathered from the respondents.

## CHAPTER 4

### RESULTS AND DISCUSSIONS

#### 4.1 SECONDARY DATA ANALYSIS

Under this chapter, the study discussed about Total tax revenue collection in the past fifteen years from 2002/03 to 2016/17, tax revenue collection from domestic sources consisting of Personal income tax, Rental income tax, business income Tax, capital gain tax, dividend tax, royalty tax, tax on interest income, withholding tax on goods and service and windflow tax as a direct tax and Value Added Tax (VAT) on goods and services, excise tax, turn over tax on goods and services and timber tax as an indirect tax. In addition tax revenue from foreign source including customs duties, excise on imported goods, VAT on imported goods, surtax and tax on foreign trade.

In the below listed tables the researchers presented total tax revenue to GDP ratio, domestic tax to tax revenue ratio, foreign tax revenue to total revenue ratio, indirect tax revenue to total tax revenue ratio, direct tax revenue to total tax revenue ratio and customs duty to tax revenue ratio.

As stated on the objective the study the specific objectives are to look at indirect tax revenue contribution to tax revenue, VAT to tax revenue and excise tax to revenue in the past 15 years according the researcher presented in the following tables.

##### 4.1.1 Tax revenue collection performance

Tax revenue is one of the most important domestic sources of revenue. Taxes are compulsory payments to government without expectation of direct return or benefit to tax payers. It imposes a personal obligation on the taxpayer. Taxes received from the taxpayers, may not be incurred for their benefit alone. In Ethiopia, government collect various types of taxes revenue: income and expenditure (income tax, corporate tax etc.), taxes on property and capital transactions (estate duty, tax on wealth, gift tax etc) and(taxes on commodities and services, covers excise duties, customs duties, withholding tax ,VAT etc.)The aforementioned taxes types can be reclassified into direct and indirect taxes. Tax performance of a given country measured in terms of ability to collect tax from the total GDP in the year which is tax to GDP ratio.

From the table 1.1 below, the researcher concluded that on average Ethiopian government collects 57,511.78 million birr in the past fourteen years from 2002/03 to 2015/16. The Total Tax Revenue collection was increased from time to time and Ethiopia government collects birr 143,025.16 million in year 2015/16 from tax revenue and these tax collection represent 19.15% of GDP which is below sub-Saharan African countries and world average even though it shows improvements from year to year with an incremental rate from the lowest percentage 3.34 in year in 2002/03 and the maximum 19.15 in year 2015/16.

**Table 1.1 Tax Revenue, Real GDP and Tax revenue to GDP ratio**

<b>Year</b>	<b>Total Tax revenue (in Millions)</b>	<b>Real GDP (in Millions)</b>	<b>Tax Revenue to GDP (real) Ratio</b>
2002/03	6,591.65	197,331.46	3.34%
2003/04	8,591.50	220,477.15	3.90%
2004/05	9,595.38	248,354.75	3.86%
2005/06	11,177.07	277,013.34	4.03%
2006/07	14,016.09	309,686.77	4.53%
2007/08	19,209.52	344,331.93	5.58%
2008/09	23,230.44	378,907.38	6.13%
2009/10	35,252.89	418,946.14	8.41%
2010/11	49,695.52	475,600.00	10.45%
2011/12	69,712.67	517,000.00	13.48%
2012/13	83,040.90	568,000.00	14.62%
2013/14	105,206.06	627,000.00	16.78%
2014/15	126,496.98	692,000.00	18.28%
2015/16	143,025.16	747,000.00	19.15%

Source: NBE, ERCA and own computation

#### 4.1.2 Sources of tax revenue

In the research period Ethiopian government collects tax revenue from two sources which were domestic and foreign sources as depicted on the table 1.2 below domestic tax revenue contributes 49.05% in the years 2002/03 to 2016/17 and foreign tax revenue contributes 51.95% in the years 2002/03 to 2016/17.

**Table 1.2 Total tax revenue by source and their percentage contribution to tax revenue**

Year	Total Tax revenue (in Millions)	Domestic Tax revenue (in Millions)	Foreign Tax revenue (in Millions)	Domestic tax revenue to Total tax revenue Ratio	Foreign tax revenue to Total tax revenue Ratio
2002/03	6,591.65	3,026.81	3,707.32	45.92%	56.24%
2003/04	8,591.50	3,350.84	5,490.72	39.00%	63.91%
2004/05	9,595.38	3,850.76	5,866.62	40.13%	61.14%
2005/06	11,177.07	4,590.16	6,651.86	41.07%	59.51%
2006/07	14,016.09	5,804.94	8,376.45	41.42%	59.76%
2007/08	19,209.52	8,009.59	11,242.40	41.70%	58.53%
2008/09	23,230.44	11,381.66	12,172.45	48.99%	52.40%
2009/10	35,252.89	17,564.76	18,092.88	49.83%	51.32%
2010/11	49,695.52	26,160.79	24,581.33	52.64%	49.46%
2011/12	69,712.67	36,161.58	34,487.65	51.87%	49.47%
2012/13	83,040.90	44,915.77	39,391.63	54.09%	47.44%
2013/14	105,206.06	59,607.99	47,078.81	56.66%	44.75%
2014/15	126,496.98	73,706.78	54,499.00	58.27%	43.08%
2015/16	143,025.16	80,302.23	63,947.15	56.15%	44.71%
2016/17	157,834.88	91,632.68	68,444.91	58.06%	43.36%

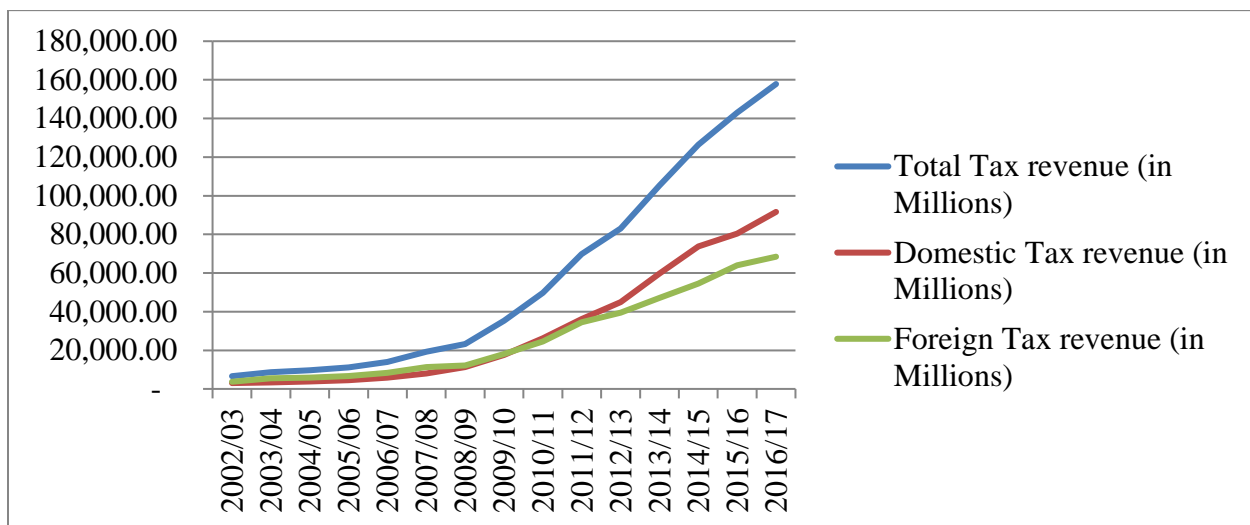
Source: ERCA, Own computation

Domestic tax revenue contribution below 50% to tax revenue in the first eight years (2002/03 to 2009/10) which and shows incremental each year. After 2010/11 on wards contribution of domestic tax revenue exceeds 50% and reached 58.02% in year 2016/17 these shows the policy direction of Ethiopian government and organizational vision to cover government expenditures from own sources by raising enough tax from domestic sources. The researcher concluded that

domestic source of revenue shows incremental over time which in line with government policy and recommended as the best source of tax income.

Foreign tax revenue contributes above 50% to tax revenue in the first eight years (2002/03 to 2009/10) which and shows declining each year. After 2010/11 on wards contribution of foreign tax revenue below 50% and reached 43.36% in year 2016/17. Researcher concluded that declining the foreign source of income support Ethiopian government policy direction and good improvement.

**Graph 1.1 sources of tax revenue as domestic and foreign**



#### 4.1.3 Types of Tax revenue

In Ethiopian context there are major two types of tax as direct and indirect taxes and customs related taxes. Direct tax consists of tax on employment, business profit tax, tax on income from rental of building, tax on interest income on deposits, dividend income tax, tax on income from royalty, tax on income from games of chance, tax on Gains of Transfer of Certain Investment Property, Tax on Income from Rental of Property, Rendering of Technical Services Outside Ethiopia, Agricultural Income Tax and Land Use Tax. Indirect tax consists of turn over tax, value added tax, excise taxes and customs duties.

In the table below the researcher identified the contribution of direct tax to tax revenue, indirect tax to tax revenue and customs duty to tax revenue to answer the specific objective number one of the study saying indirect tax contribution to tax revenue accordingly the result was presented succinctly.

**Table 1.3 Total Tax revenue types and their respective percentage share to tax revenue.**

Year	Total Tax revenue (in Millions)	Direct tax revenue (in Millions)	Indirect tax revenue (in Millions)	Customs tax and duties (in Millions)	Direct tax revenue to Total tax revenue Ratio	Indirect tax revenue to Total tax revenue Ratio	Customs tax and duties to Tax revenue ratio
2002/03	6,591.65	1,608.82	1,406.45	3,564.84	24.41%	21.34%	54.08%
2003/04	8,591.50	1,528.36	1,820.31	5,240.66	17.79%	21.19%	61.00%
2004/05	9,595.38	1,681.27	2,167.04	5,744.62	17.52%	22.58%	59.87%
2005/06	11,177.07	2,053.46	2,533.34	6,586.91	18.37%	22.67%	58.93%
2006/07	14,016.09	2,646.08	3,155.62	8,211.16	18.88%	22.51%	58.58%
2007/08	19,209.52	3,781.41	4,224.21	11,199.93	19.69%	21.99%	58.30%
2008/09	23,230.44	5,396.26	5,979.25	11,848.78	23.23%	25.74%	51.01%
2009/10	35,252.89	8,693.44	8,848.38	17,688.14	24.66%	25.10%	50.17%
2010/11	49,695.52	13,149.62	12,967.27	23,534.73	26.46%	26.09%	47.36%
2011/12	69,712.67	17,076.23	18,991.72	33,551.08	24.50%	27.24%	48.13%
2012/13	83,040.90	20,211.71	24,521.49	38,125.13	24.34%	29.53%	45.91%
2013/14	105,206.06	27,711.02	31,565.12	45,598.07	26.34%	30.00%	43.34%
2014/15	126,496.98	32,596.41	40,656.20	52,790.20	25.77%	32.14%	41.73%
2015/16	143,025.16	38,597.73	41,066.14	62,722.94	26.99%	28.71%	43.85%
2016/17	157,834.88	44,105.47	46,836.28	66,202.20	27.94%	29.67%	41.94%

Source: ERCA and researcher computation

From the above table on average direct tax revenue contributes 23.13%, indirect tax revenue contributes 25.77% and customs taxes and duties contributes 50.95 in the research period covered (2002/03 to 2016/17) as the data from ERCA portray customs tax and duties includes customs duties, imported goods excise tax, imported goods VAT, imported goods surtax and export trade taxes. Due to these report presentation from ERCA classification as direct and indirect may not in line with theoretical classification, we used data as ERCA reported and summarized but in the next topic the researcher classified taxes exhaustively.

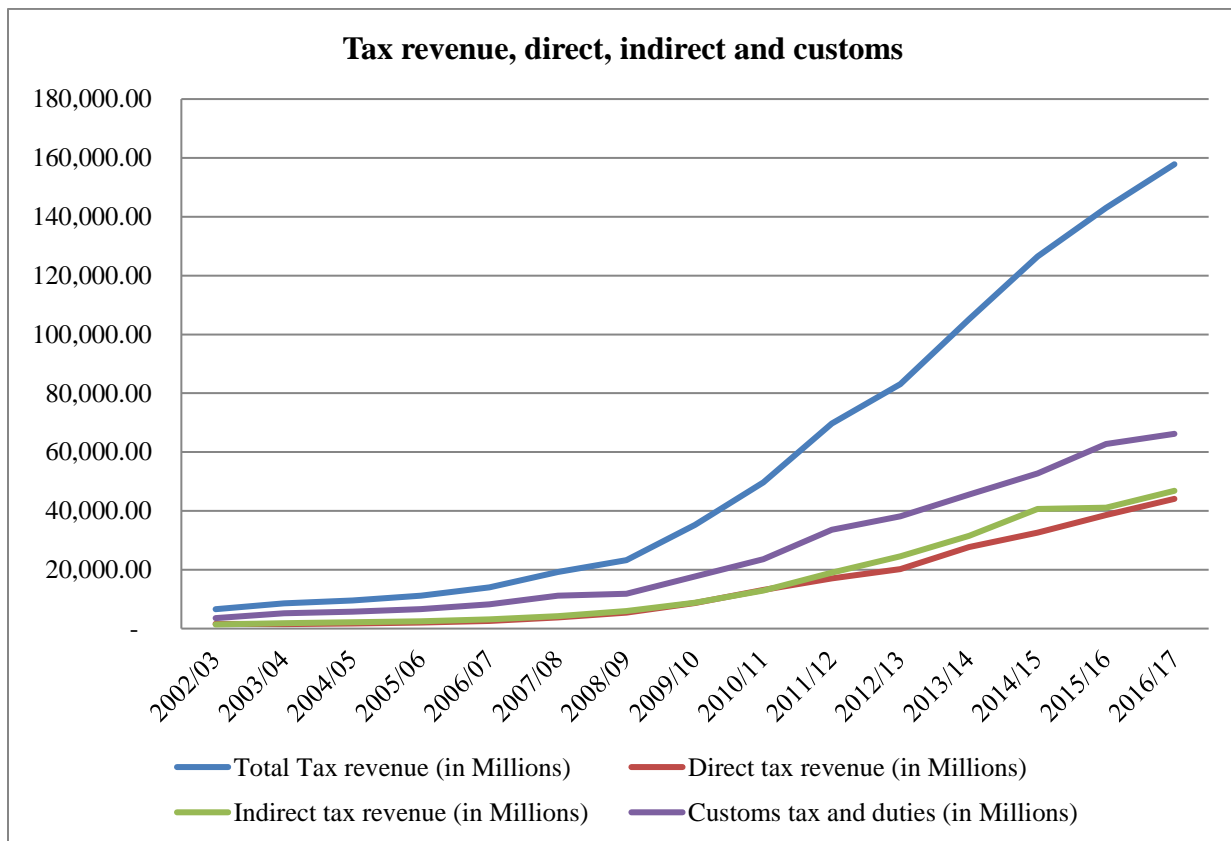
The maximum domestic direct tax to total tax ratio was registered in year 2016/17 having the value of 27.94% while the minimum registered in year 2004/05 with the value of 17.52%

The maximum domestic indirect tax to total tax ratio was registered in year 2014/15 having the value of 32.14% and the minimum one registered in year 2003/04 with the value of 21.19%.

The maximum value of customs duty and taxes was registered in year 2003/04 with the value of 61.0% and the minimum one registered in year 2014/15 with the value of 41.73%

The researcher conclude that contribution of direct tax, indirect taxes and customs duties and taxes to tax revenue was verifying over years in research period covered. Overall the source and types of taxes go on the same direction and indirect taxes contribute much higher than direct taxes to the total tax revenue collected in the last fourteen year of our study since customs duties consists of indirect tax items from foreign sources as well customs duties can be categorized as indirect tax types in some literatures.

**Graph 1.2 tax revenue, direct, indirect and customs duties.**



**4.1.4 Indirect tax revenue, VAT and excise tax contributions**

The specific research objectives were to identify the contribution of VAT and excise tax in the last fifteen years accordingly the researcher presented in tabular form here below.

**Table 1.4 tax revenue, indirect tax revenue, VAT, excise tax revenue, VAT to total tax revenue ratio, excise tax to total tax revenue ratio**

Year	Total Tax revenue (in Millions)	Indirect tax revenue (in Millions)	VAT revenue(in Millions)	Excise tax revenue(in Millions)	VAT to Tax revenue ratio	Excise tax to total Tax revenue ratio
2002/03	6,591.65	1,406.45	1,933.09	1,923.15	29.33%	29.18%
2003/04	8,591.50	1,820.31	3,488.27	2,681.47	40.60%	31.21%
2004/05	9,595.38	2,167.04	4,032.05	2,955.83	42.02%	30.80%
2005/06	11,177.07	2,533.34	4,809.15	3,566.62	43.03%	31.91%
2006/07	14,016.09	3,155.62	5,931.48	4,144.55	42.32%	29.57%
2007/08	19,209.52	4,224.21	7,312.89	4,904.01	38.07%	25.53%
2008/09	23,230.44	5,979.25	8,988.18	5,257.74	38.69%	22.63%
2009/10	35,252.89	8,848.38	13,677.94	7,584.18	38.80%	21.51%
2010/11	49,695.52	12,967.27	19,311.22	10,581.56	38.86%	21.29%
2011/12	69,712.67	18,991.72	28,320.21	14,671.90	40.62%	21.05%
2012/13	83,040.90	24,521.49	35,151.80	16,536.55	42.33%	19.91%
2013/14	105,206.06	31,565.12	44,218.56	20,418.06	42.03%	19.41%
2014/15	126,496.98	40,656.20	55,465.62	23,916.11	43.85%	18.91%
2015/16	143,025.16	41,066.14	58,132.06	26,983.68	40.64%	18.87%
2016/17	157,834.88	46,836.28	63,762.15	30,230.45	40.40%	19.15%

Source: ERCA, own computation

From the above table we can see that on average VAT contributes above 40% to total tax revenue which was collected at customs and inland tax authorities. The maximum VAT to tax revenue ratio was registered in year 2014/15 having 43.85 percentages and the minimum one was registered in year 2003/04 having the value of 29.33 percentages.

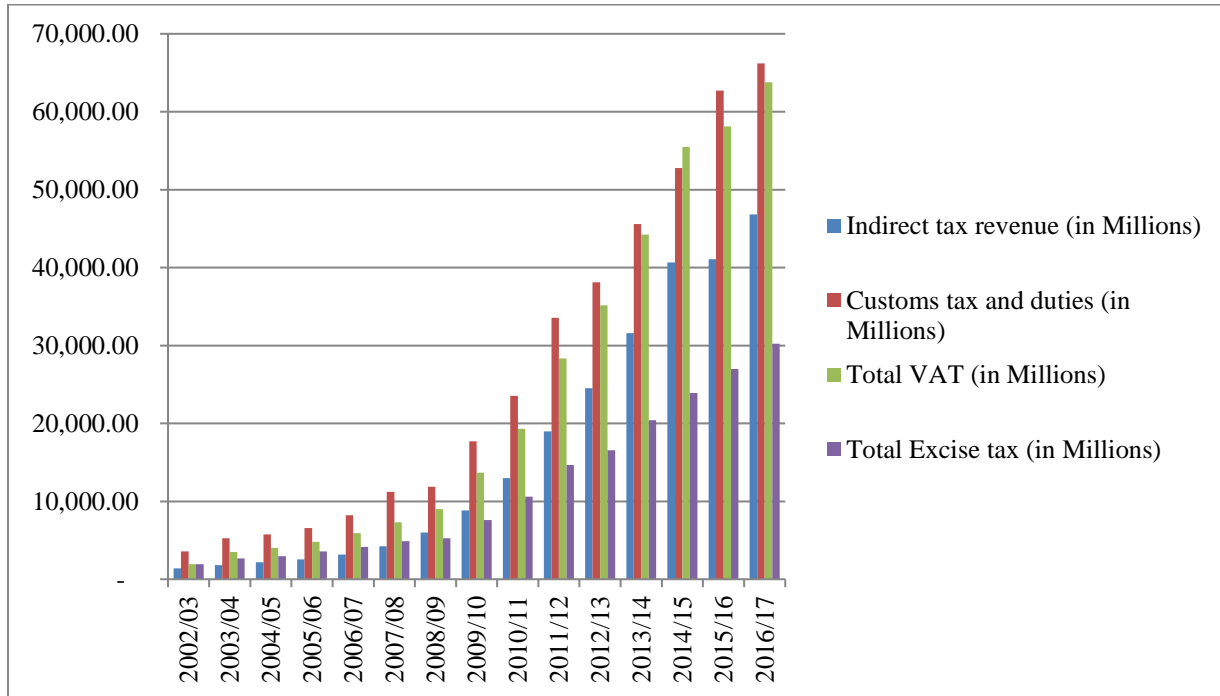
From this researcher concluded that VAT contributes major as one types of tax source to tax revenue.

When we look at excise tax contribution to tax revenue on average excise tax contributes 24% to tax revenue which was collected at customs and inland tax authorities under the research period the

maximum excise tax to tax revenue ratio was 31.91% in year 2005/06 and the minimum excise to tax revenue ratio was registered in year 2015/16 having the value of 18.87%.

From these the researcher concludes that excise tax contributes more than 20% on average in the research period from 2002/03 to 2016/17.

**Graph 1.3 Tax revenue, indirect tax revenue, VAT, excise tax revenue, VAT to total tax revenue ratio, excise tax to total tax revenue ratio**



## 4.2 ANALYSIS OF PRIMARY DATA

In the following sections data collected as a primary source of data to answer research questions related with challenges of indirect tax consists of value added tax and excise tax from two groups of the respondents' which is tax payers at large tax payers branch office and employees working in the branch. From the 150 number of questionnaires distributed to tax payers 122 cautiously filled questionnaires are acceptable for further analysis and from 100 questionnaires distributed to employees 85 with care filled questionnaires are acceptable for analysis. Accordingly analysis was done using SPSS 20 version soft ware. The tools used for an analysis was mainly descriptive statistics to identify the frequency of the responses for each types of variables.

Finally the result was presented in tabular form showing the frequency, percentage, valid percent and cumulative percentage by grouping the tax payer's response in one column and employee response in the other column using the split file menu bar and inclusion the variable called category of the respondents. Finally the result from SPSS explained in words and conclusion was drawn by referring the percentage value of the scales.

### 4.2.1 Back Ground of the Respondents

To get an insight knowledge into the respondents back ground we asked the questions about their gender, education back ground, age, department they are working currently, types of business they are working in and their respective work experiences for an employee and tax payers of LTO branch office are presented separately under respective types of questions.

<b>4.2.1.1 Gender of the respondent</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	female	42	34.4	34.4	34.4
		male	80	65.6	65.6	100.0
		Total	122	100.0	100.0	
Employee	Valid	female	35	41.2	41.2	41.2
		male	50	58.8	58.8	100.0
		Total	85	100.0	100.0	

From the above table we can see that 34.4% of the respondents represent female gender and 65.6% of the respondents have male gender from the total number of customer's respondents. While employee respondents have 41.2 female respondents and 58.8% are male.

From this we can conclude that large percent of the respondents are male under the two groups of respondents.

<b>4.2.1.2 Age of the respondent</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	20 to 30	48	39.3	39.3	39.3
		30 to 40	55	45.1	45.1	84.4
		40 to 50	12	9.8	9.8	94.3
		more than 50	7	5.7	5.7	100.0
		Total	122	100.0	100.0	
Employee	Valid	20 to 30	45	52.9	52.9	52.9
		30 to 40	34	40.0	40.0	92.9
		40 to 50	6	7.1	7.1	100.0
		Total	85	100.0	100.0	

From the above table we can distinguish that 39.3% of the tax payer respondents' age was from 20 to 30 years, 45.1% of the tax payer respondents' age is from 30 to 40, 9.8% of the tax payer respondents' age was from 40 to 50 years and 5.7% age of the tax payers respondents age was above 50 years. Whereas 52.9% of the employee respondents' age was from 20 to 30 years, 40% of the tax employee respondents' age was from 30 to 40 and 7.1% employee respondents' age was from 40 to 50 years.

From these result we can conclude that large number of tax payer's respondents' age was from 30 to 40 years while large number of employee respondents' age was from 20 to 30 years so an employee respondents are younger than the tax payers. Even though there was no direct relation between age indirect tax as man getting older the ability to evaluate things will increase so tax payer's response may be more valuable if there tax awareness is good.

#### **4.2.1.3 Educational back ground**

From the below table we can differentiate that 3.3% of the tax payer respondents' educational back ground was below diploma, 9.8% of the tax payers have diploma, 75% of the tax payers

have degree and 11.5% of the tax payers have an educational back ground of masters and above. While 2.4% of employee have diploma, 85.9% of an employees have degree educational back ground and the remaining 11.8% of an employees have an educational back ground of masters and above.

#### 4.2.1.3 Education back ground of the respondents

Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	below diploma	4	3.3	3.3	3.3
		diploma	12	9.8	9.8	13.1
		Degree	92	75.4	75.4	88.5
		masters and above	14	11.5	11.5	100.0
		Total	122	100.0	100.0	
Employee	Valid	diploma	2	2.4	2.4	2.4
		Degree	73	85.9	85.9	88.2
		masters and above	10	11.8	11.8	100.0
		Total	85	100.0	100.0	

From these result the majority of the tax payers as well as employees are holder of degree in different educational fields these will have positive impact on the responses from two groups of respondents since they can understand easily the questionnaires and fill carefully which improve the research findings.

4.2.1.4 Department employee is currently working in						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Employee	Valid	Assessment and follow up	13	15.3	15.3	15.3
		auditing and investigation	55	64.7	64.7	80.0
		collection and enforcement	9	10.6	10.6	90.6
		other department	8	9.4	9.4	100.0
		Total	85	100.0	100.0	

To identify the department of employees working in LTO branch office selected randomly for our study 15.3% of them are working in assessment and follow up process, 64.7% working in Auditing and investigation as well 10.6% of an employees are working in collection and

enforcement and the remaining 9.4% of the respondents are working in other departments like human resource, cash register and related supporting staffs.

From the result we can conclude that large number of employee respondents are working in auditing and investigation process which is a major process in ERCA departmentalization having large number of staffs and directly working on the enforcement process of the tax laws and easily understand tax applications and have full information related to challenges in practicing the tax collections so that it positively improve our research findings since they are more aware about tax than other staffs.

<b>4.2.1.5 Types of business activity</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	Manufacturing	33	27.0	27.0	27.0
		Construction	30	24.6	24.6	51.6
		Agriculture	6	4.9	4.9	56.6
		import export	30	24.6	24.6	81.1
		professional service	23	18.9	18.9	100.0
		Total	122	100.0	100.0	
Employee	Missing	System	85	100.0		

From the table above we see the result of business types of the tax payers in our study to get in information about sectors of the business and their indirect tax challenges since excise tax was practices by some business types only. Accordingly 27% of the tax payer's business sector was manufacturing, 24.6% was construction, 4.9% was agriculture, 24.6% of tax payers are from import and export business and 18.9% of tax payers are working service businesses. From the result we can conclude that large numbers of respondents are working in manufacturing business sector and two business sectors import and export and construction sectors are having large percentage close to manufacturing sector. Our sample covers major three sectors which help the researcher to get challenges related to the sector accordingly have positive impact on the findings.

<b>4.2.1.5 Position in the organization</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Employee	Valid	officer/auditor	35	41.2	41.2	41.2
		senior officer/senior auditor	35	41.2	41.2	82.4
		team leader/process owner	9	10.6	10.6	92.9
		other position	6	7.1	7.1	100.0
		Total	85	100.0	100.0	

From the table above about the result of employee position in an organization to identify as junior, senior and management members 41.2% of an employee respondents are officers or auditors which is the lowest level of the title in the different process in LTO branch, 41.2% of an employee respondents are senior officers or auditors which is middle level of employee hierarchy, 10.6% of an employee respondents team leaders and process owners which are members of management and process heads and 7.1% of employees are other positions not mentioned as an options.

From the result researcher concluded that large numbers of the respondents are working on junior and senior positions work positions and making their respective decision assigned to post for the study they gave good output since they are directly involved in daily operation and facing challenges in practicing the tax law applications.

<b>4.2.1.6 Work experience in the organization</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	Less than five years	56	45.9	45.9	45.9
		Five to ten years	43	35.2	35.2	81.1
		Ten to fifteen years	18	14.8	14.8	95.9
		More than fifteen years	5	4.1	4.1	100.0
		Total	122	100.0	100.0	
Employee	Valid	Less than five years	51	60.0	60.0	60.0
		Five to ten years	25	29.4	29.4	89.4
		Ten to fifteen years	5	5.9	5.9	95.3
		More than fifteen years	4	4.7	4.7	100.0
		Total	85	100.0	100.0	

From the above table presented about work experience of the tax payer and an employee 45.9% of the tax payers are having less than five year, 35.2% have an experience of five to ten years,

14.8% have an experience of ten to fifteen years and 4.1% have an experience of fifteen and more years in their organizations. While 60% of employees are having less than five years work experience, 29.4% of employees have an experience of five to ten years. 5.9% and employee have experience of ten to fifteen years and 4.7% of employees have an experience of fifteen and more years in their organizations.

From the result we can conclude that large numbers of tax payers as well as employees have an experience of one to five years in their organizations.

#### 4.2.2 Analysis and Result Discussion of Value Added Tax Related Research Questions

To answer the research objectives like the clarity of VAT laws, exempted items from VAT collection, challenges related to VAT withholding and invoicing problems the researcher formulated research questions, accordingly the respondents view was analyzed with descriptive statistics and presented in tabular form.

<b>4.2.2.1 VAT proclamation, regulation and directives are clear and easy for application</b>					
Category of the respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	5	4.1	4.1
		disagree	22	18.0	18.0
		agree	70	57.4	57.4
		strongly agree	25	20.5	20.5
		Total	122	100.0	100.0
Employee	Valid	strongly disagree	1	1.2	1.2
		disagree	16	18.8	18.8
		agree	60	70.6	70.6
		strongly agree	7	8.2	8.2
		do not know	1	1.2	1.2
		Total	85	100.0	100.0

From the above table we can see that 4.1% of the tax payers strongly disagree with the clearness of VAT proclamation where as 18% of them disagree with it. Again 57.4% of the respondents said that they agree with the idea. In addition 20.5% of them said they strongly agree with VAT proclamation clearness. While, 1.2% of an employee respondents strongly disagree with the clearness of VAT proclamation where as 18.8% of them disagree with it. Again 70.6% of employee said that they agree with the idea. In addition 8.2% strongly agree and 1.2% of an

employee is not rate the clarity of the VAT proclamation, regulation and related directives clarity.

From this we can conclude that large percent of the respondents under two groups agree with the clear and easy application of the VAT proclamation, regulation and directives.

#### 4.2.2.2 VAT rate is fair for the society considering current Ethiopian economy

Category of the respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	21	17.2	17.2
		disagree	41	33.6	50.8
		agree	44	36.1	86.9
		strongly agree	11	9.0	95.9
		do not know	5	4.1	100.0
		Total	122	100.0	100.0
Employee	Valid	strongly disagree	4	4.7	4.7
		disagree	34	40.0	44.7
		agree	42	49.4	94.1
		strongly agree	5	5.9	100.0
		Total	85	100.0	100.0

From the above table we can see that 17.2% of the tax payers strongly disagree with the fairness to the society of VAT rate which 15 percent on sales where as 33.6% of them disagree with it. Again 36.1% of the tax payer respondents said that they agree with the idea. In addition 9% of them said they strongly agree and 4.1% of them cannot decide about the fairness of VAT rate to the society. Whereas, 4.7% of an employee respondents strongly disagree with the fairness to the society of VAT rate where as 40% of them disagree with it. Again 49.4% of employee said that they agree with the idea. In addition 5.9% strongly agree with the fairness of VAT rate to the society.

From the result researcher concluded that large percentage of the respondents under the two groups disagree with fairness of the VAT rate fairness to the society and more than 50.8% of the tax payers and 44.7% employees require rate revision which is still a challenge to society and VAT collectors.

### 4.2.2.3 VAT turnover threshold which is 500,000.00 acceptable according to current Ethiopian economy

From the result below we can see that 14.8% taxpayer respondents are strongly disagree with VAT turnover threshold where as 30.9% disagree with subject matter, 39.3% agree with VAT threshold and the remaining 9% and 6.6% of the tax payer respondents are strongly agree and don't decide consecutively.

Whereas 5.9% of employee respondents are strongly disagree with VAT turnover threshold again 54.1% disagree with the subject matter, 34.1 agree with VAT threshold amount of birr 500,000.00 and the remaining 3.5% and 2.4% of an employee respondents are strongly agree and don't decide consecutively.

From the result we can conclude that large number of the tax payers agree with VAT threshold amount where as large number of an employee disagree with the subject matter these shows the two groups have different view on VAT threshold amount and it can be one challenge.

### 4.2.2.3 VAT turnover threshold which is birr 500,000.00

Category of the respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	<i>strongly disagree</i>	18	14.8	14.8
		<i>disagree</i>	37	30.3	45.1
		<i>agree</i>	48	39.3	84.4
		<i>strongly agree</i>	11	9.0	93.4
		<i>do not know</i>	8	6.6	100.0
		<i>Total</i>	122	100.0	100.0
Employee	Valid	<i>strongly disagree</i>	5	5.9	5.9
		<i>disagree</i>	46	54.1	60.0
		<i>agree</i>	29	34.1	94.1
		<i>strongly agree</i>	3	3.5	97.6
		<i>do not know</i>	2	2.4	100.0
		<i>Total</i>	85	100.0	100.0

#### 4.2.2.4 VAT exempted items according to VAT proclamation, regulation and directives are practically applicable.

From the table below we can see that 4.1% tax payer respondents are strongly disagree with VAT exempted items practically applicable easily where as 18.9% disagree with subject matter, 58.2% agree with VAT exempted items practically applicable and the remaining 10.7% and 8.2% of the tax payer respondents are strongly agree and don't decide consecutively on the case of VAT exempted items practically applicable. While 16.5% of employees respondents are disagree with VAT exempted items practically applicable easily where as 68.2% agree with VAT exempted items practically applicable and the remaining 14.2% and 1.2% of an employee respondents are strongly agree and don't decide consecutively on the case of VAT exempted items practically applicable.

From the result we can conclude that both the tax payer and an employee agree with VAT exempted items practically are applicable according to the proclamation, regulation and directives. So it's not the challenge to VAT practice.

4.2.2.4 VAT exempted items according to VAT proclamation, regulation and directives are practically applicable.						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	5	4.1	4.1	4.1
		disagree	23	18.9	18.9	23.0
		agree	71	58.2	58.2	81.1
		strongly agree	13	10.7	10.7	91.8
		do not know	10	8.2	8.2	100.0
		Total	122	100.0	100.0	
Employee	Valid	disagree	14	16.5	16.5	16.5
		Agree	58	68.2	68.2	84.7
		strongly agree	12	14.1	14.1	98.8
		do not know	1	1.2	1.2	100.0
		Total	85	100.0	100.0	

#### 4.2.2.5 All tax payers registered for VAT are issuing invoices upon transactions properly

From the table below we can see that 12.3% tax payer respondents are strongly disagree with issuance of VAT invoices by all tax payers where as 41% disagree with subject matter, 33.3% agree with issuance of VAT invoices by all tax payers and the remaining 11.5% and 0.8% of the tax payer respondents are strongly agree and don't decide consecutively on the case of All tax payers registered for VAT are issuing invoices upon transaction properly. While employee respondents 21.2% strongly disagree with issuance of VAT invoices by all tax payers where as 62.4% disagree with subject matter. 12.9% agreed with issuance of VAT invoices by all taxpayers and the remaining 3.5% employee respondents are strongly agree with all tax payers registered for VAT are issuing invoices upon transaction properly.

From the result researcher concluded that both tax payer and employee believe that all tax payers are not issuing VAT invoice on each transaction properly; so this is a challenge to tax office.

4.2.2.5 All tax payers registered for VAT are issuing invoices upon transaction properly						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	15	12.3	12.3	12.3
		disagree	50	41.0	41.0	53.3
		agree	41	33.6	33.6	86.9
		strongly agree	14	11.5	11.5	98.4
		do not know	1	.8	.8	99.2
		43.00	1	.8	.8	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	18	21.2	21.2	21.2
		disagree	53	62.4	62.4	83.5
		agree	11	12.9	12.9	96.5
		strongly agree	3	3.5	3.5	100.0
		Total	85	100.0	100.0	

#### 4.2.2.6 Tax officer have the required skill and experience to detect and handle VAT related offences.

From result below displayed 6.6% of tax payers respondents are strongly disagree with the skill of tax officers to detect and handle VAT related offenses, 26.2% of them disagree with the subject matter while 48.4% of the tax payers have agreed with the skill of tax officers to detect and handle VAT related offenses and the remaining 13.1% and 5.7% respondents have strongly agreed and not decided on the subject matter consecutively. Though 1.2% of employee respondents are strongly disagree with the skill of tax officers to detect and handle VAT related offenses, 38.8% of them disagree with the subject matter while 48.2% of an employee have agreed with the skill of tax officers to detect and handle VAT related offenses and the remaining 9.4% and 2.4% employee respondents have strongly agreed and not decided on the subject matter consecutively.

From the result researcher concluded that both the tax payer and an employee have agreed as tax officers have the required skill and experience to detect and handle VAT related offences. Even though some respondents don't believe in officer's skill and experience to detect and handle VAT related offences.

4.2.2.6 Tax officers have the required skill and experience to detect and handle VAT related offences.						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	8	6.6	6.6	6.6
		Disagree	32	26.2	26.2	32.8
		Agree	59	48.4	48.4	81.1
		strongly agree	16	13.1	13.1	94.3
		do not know	7	5.7	5.7	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	1	1.2	1.2	1.2
		Disagree	33	38.8	38.8	40.0
		Agree	41	48.2	48.2	88.2
		strongly agree	8	9.4	9.4	97.6
		do not know	2	2.4	2.4	100.0
		Total	85	100.0	100.0	

#### 4.2.2.7 Getting training and awareness creation from tax center regularly.

To identify the regular training and awareness creation done LTO branch if not it is hinder the knowledge of tax payer and employee and taken as a challenge to VAT collection.

Accordingly the tax payer 6.6% responded that they disagree with training and awareness given by tax offices regularly, 27.9 of them disagree and 43.4 agree with regularly given training and awareness by tax office. The remaining 13.9% and 8.2% of the respondents strongly disagree and no awareness about the case. While 5.9 of an employee disagree with training and awareness given by tax offices regularly, 52.9% of them disagree and 34.1% agree with regularly given training and awareness by tax office. The remaining percentage of the respondent's 4.7% and 2.4% of employees respondents strongly disagree and no awareness about the case.

From the result we can concluded that majority of the tax payers are getting regular training and awareness creation while majority of employees are not getting training and awareness regularly.

4.2.2.7 Getting training and awareness creation from tax center regularly						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	8	6.6	6.6	6.6
		Disagree	34	27.9	27.9	34.4
		agree	53	43.4	43.4	77.9
		strongly agree	17	13.9	13.9	91.8
		do not know	10	8.2	8.2	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	5	5.9	5.9	5.9
		disagree	45	52.9	52.9	58.8
		agree	29	34.1	34.1	92.9
		strongly agree	4	4.7	4.7	97.6
		do not know	2	2.4	2.4	100.0
		Total	85	100.0	100.0	

**4.2.2.8 Businesses are affected by those who are not registered for VAT and those who are not issuing invoices.**

To identify the effect of not registering for VAT and not issuing an invoice on tax payers already registered for VAT 4.1% of the tax payer respondents strongly disagree, 21.3 disagree and 41% agree with subject matter. The remaining 24.6% of the tax payer respondents are strongly agree and 9% of them not are in between to decide the issue.

While 2.4% employee are strongly disagree on the case business are affected by those not registered for VAT and not issuing invoices, 17.6% disagree and 31.8 agree with subject matter. The remaining 27.1 and 21.2 of employees are strongly agree and are in between to decide the issue consecutively.

From the result we can conclude that both the tax payer and employee of the tax office believe that businesses are affected by those business man not registered for VAT and those don't issue an invoice the reason behind is that difficult of price competition in similar market.

<b>4.2.2.8 Businesses are affected by those who are not registered for VAT and those who are not issuing invoices.</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	5	4.1	4.1	4.1
		disagree	26	21.3	21.3	25.4
		agree	50	41.0	41.0	66.4
		strongly agree	30	24.6	24.6	91.0
		do not know	11	9.0	9.0	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	2	2.4	2.4	2.4
		disagree	15	17.6	17.6	20.0
		agree	27	31.8	31.8	51.8
		strongly agree	23	27.1	27.1	78.8
		do not know	18	21.2	21.2	100.0
		Total	85	100.0	100.0	

#### 4.2.2.9 Tax payers receive VAT withholding receipt on time from government organization for goods sold and services rendered.

When the tax payer sold goods and render service to government organizations the receive VAT withholding receipt instead of cash payment for the portion of VAT as per directive issued Ethiopian revenue and customs authority in year 2002 E.C these creates additional cash flow problem on the tax payers. To check as if it is a challenge to the tax office and tax payer in current VAT collection practice the researcher forwarded the above question to the respondents. Accordingly the result shows that 3.3% of tax payer's respondents are strongly disagree, 15.6% disagree and 47.5% agree with tax payers receive VAT withholding receipt on time from government office for goods and services and use it as a deduction to tax payments. The remaining percentages of 26.2% respondents strongly agree and 7.4% of them are not deciding on the subject matter. At the same time as employee 7.1% strongly, 43.5% disagree and 40% agree with tax payers receive VAT withholding receipt on time from government office for goods and services and use it as a deduction to tax payments. The remaining percentages of 7.1% employee respondents strongly agree and 2.4 of them are not deciding on the subject matter.

From the result we can conclude that majority of the tax payer believe that VAT withholding tax receipts are given by government offices while employee believe the government does not give receipts on time and tax payers used it as deduction to tax payments.

#### 4.2.2.9 Tax payers receive VAT withholding receipt on time from government organization for goods sold and services rendered.

Category of the respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	4	3.3	3.3
		disagree	19	15.6	15.6
		agree	58	47.5	47.5
		strongly agree	32	26.2	26.2
		do not know	9	7.4	7.4
		Total	122	100.0	100.0
Employee	Valid	strongly disagree	6	7.1	7.1
		disagree	37	43.5	43.5
		agree	34	40.0	40.0
		strongly agree	6	7.1	7.1
		do not know	2	2.4	2.4
		Total	85	100.0	100.0

#### 4.2.2.10 Fairness and transparency of VAT penalty

From the table below 5.7% of the tax payer respondents strongly disagree with fair and transparent VAT penalty on tax payer, 27% disagree and 44.3% of the tax payers agree with the case. In addition 13.1% of the respondents strongly agree and the remaining 9.8% not choose options to agree or not on the issue related to fairness and transparency of VAT penalty. Similarly 32.9% of employees disagree with the fairness and transparency of the VAT penalty, 54.1% agree, 8.2% disagree and 4.7% not choose options to agree or not on the issue related to fairness and transparency of VAT penalty.

From the we can conclude that both tax payer and employees believe that there is a fair and transparent VAT penalty on tax payer by the LTO branch office which is not a challenge to tax collection.

4.2.2.10 There is fair and transparent VAT penalty on tax payers by authority						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	7	5.7	5.7	5.7
		disagree	33	27.0	27.0	32.8
		agree	54	44.3	44.3	77.0
		strongly agree	16	13.1	13.1	90.2
		do not know	12	9.8	9.8	100.0
		Total	122	100.0	100.0	
Employee	Valid	disagree	28	32.9	32.9	32.9
		agree	46	54.1	54.1	87.1
		strongly agree	7	8.2	8.2	95.3
		do not know	4	4.7	4.7	100.0
		Total	85	100.0	100.0	

#### 4.2.2.11 The tax authority responds to VAT refund application on time

To get information on VAT refund practice on time to the tax payers by LTO the question was to the fore for both the respondents group accordingly 9% of the tax payer strongly disagrees with the tax authority respond to VAT refund application, 37.7% disagree, 36% agree with the case mentioned above additionally 11.5% of the tax payer respondents are strongly agree and the remaining 5.7% are in doubt to the issue. While 9.4% of employee respondents payer strongly

disagrees with the tax authority respond to VAT refund application, 45.9% disagree, 36.5% agree with the case mentioned above additionally 1.2% and 7.1% of the employee respondents strongly agree and are in doubt to the issue.

From the result we can conclude that both the tax payer and employees believe that tax office was not responding to VAT refund application on time to increase satisfaction of taxpayers and it's a min challenges to VAT collection practice its contribution to tax revenue.

#### 4.2.2.11 The tax authority responds for VAT refund application on time.

Category of the respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	11	9.0	9.0
		disagree	46	37.7	37.7
		agree	44	36.1	36.1
		strongly agree	14	11.5	11.5
		do not know	7	5.7	5.7
		Total	122	100.0	100.0
Employee	Valid	strongly disagree	8	9.4	9.4
		disagree	39	45.9	45.9
		agree	31	36.5	36.5
		strongly agree	1	1.2	1.2
		do not know	6	7.1	7.1
		Total	85	100.0	100.0

#### 4.2.2.12 There is clear rule and regulation on consignment transaction regarding VAT invoice.

Consignment is the act of consigning, the act of giving over to another person or agent's charge, custody or care any material or goods but retaining legal ownership until the material or goods are sold. That may be done for the purpose of shipping the goods, transferring the goods to auction or intending the goods to be placed on sale in a store. (Wikipedia)

From the table below 5.7% of tax payer respondents strongly agree with clarity of tax laws related to consignment transactions invoicing, 27% disagree, 43% agree with subject matter and 9.8% strongly agree with VAT invoice for consignment transactions and the remaining 13.9% tax payer's respondents are in reservation to range the question. While 4.7% of employee respondents strongly agree with clarity of tax laws related to consignment transactions invoicing,

29.4% disagree, 55.3% agree with subject matter and 5.9% strongly agree with VAT invoice for consignment transactions and the remaining 4.7% employee respondents are in reservation to range the issue.

From the result researcher concluded that majority of both the tax payer and employees are clear with the tax law and regulations related to consignment transaction for VAT invoice application even though the title of goods are not transferred to an agent.

<b>4.2.2.12 There is clear rule and regulation on consignment transaction regarding VAT invoice.</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	7	5.7	5.7	5.7
		disagree	33	27.0	27.0	32.8
		agree	53	43.4	43.4	76.2
		strongly agree	12	9.8	9.8	86.1
		do not know	17	13.9	13.9	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	4	4.7	4.7	4.7
		disagree	25	29.4	29.4	34.1
		agree	47	55.3	55.3	89.4
		strongly agree	5	5.9	5.9	95.3
		do not know	4	4.7	4.7	100.0
		Total	85	100.0	100.0	

#### **4.2.2.13 Issuance of VAT invoice on advance collection is fair and in line with accounting standard**

An advance payment, or simply an advance, is the part of a contractually due sum that is paid or received in advance for goods or services, while the balance included in the invoice will only follow the delivery. Advance payments are recorded as a prepaid expense in accrual accounting for the entity issuing the advance. Advanced payments are recorded as assets on the balance sheet. As these assets are used they are expended and recorded on the income statement for the period in which they are incurred. On other way on VAT application in Ethiopian case advance considered as sales due to this business having advance collection faces financial reporting challenges to get respondents view on the matter we forwarded the question and accordingly result presented below. From the result below 7.4% of tax payer respondents

strongly disagree with issuance of VAT invoice on advance collections is fair and in line with accounting standards, 34.4% disagree, 38.5 agree with subject matter and the remaining 10.7% strongly agree and 9% in doubt to judge the issue from tax payer respondents. While 4.7% employee respondents strongly disagree with issuance of VAT invoice on advance collections is fair and in line with accounting standards, 38.8% disagree, 51.8% agree with subject matter and the remaining 3.5% strongly agree and 1.2% in doubt to critic an issue from employee respondents.

From the result presentation and discussions researcher concluded that large number of both the tax payers agree that issuing VAT invoice on advance collections is fair and in procession with accounting standard even though 41.8% of tax payers and 43.5% of employee deciding it's not proper to issue invoice on advance collection which needs further research.

<b>4.2.2.13 Issuance of VAT invoice on advance collections is fair and in procession with accounting standard</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	9	7.4	7.4	7.4
		disagree	42	34.4	34.4	41.8
		agree	47	38.5	38.5	80.3
		strongly agree	13	10.7	10.7	91.0
		do not know	11	9.0	9.0	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	4	4.7	4.7	4.7
		disagree	33	38.8	38.8	43.5
		agree	44	51.8	51.8	95.3
		strongly agree	3	3.5	3.5	98.8
		do not know	1	1.2	1.2	100.0
		Total	85	100.0	100.0	

#### **4.2.2.14 Issuance of VAT invoice on promotional goods delivered to customer without charge is fair.**

Promotional goods given items are an expense of the company and an accounting treatment is to increase promotional expense and reduce cost of goods sales in this case there is no sales transaction that took place. In Ethiopian VAT proclamation and related directives there was no clear rule on the issue and tax authority impose VAT on the items since the company was final

user and should have to pay tax. To identify an application its impact the question was raised and the result presented below. From the table 12.3% of tax payer respondents are strongly disagree with issuance of VAT invoices on promotional goods free of charge, 36.1% disagree and in other way 31.1% agree, 12.3% strongly agree and the remaining 8.2% of the tax payer respondents said have doubt on subject matter. While 2.4% of employees are strongly disagree with issuance of VAT invoices on promotional goods free of charge 42.4 disagree and in other way 44.7% agree, 4.7%strongly agree and the remaining 5.9% of employees respondents said have doubt on subject matter.

From these the researcher can conclude that majority of tax payer said issuing VAT invoice on promotional goods delivered to customer free of charge is not fair. While majority of employee at LTO said Issuing VAT invoice on promotional goods delivered to customer free of charge is fair. So that it's a challenge to tax payer where as not to tax office.

<b>4.2.2.14 Issuance of VAT invoice on promotional goods delivered to customer without charge is fair</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	15	12.3	12.3	12.3
		disagree	44	36.1	36.1	48.4
		agree	38	31.1	31.1	79.5
		strongly agree	15	12.3	12.3	91.8
		do not know	10	8.2	8.2	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	2	2.4	2.4	2.4
		disagree	36	42.4	42.4	44.7
		agree	38	44.7	44.7	89.4
		strongly agree	4	4.7	4.7	94.1
		do not know	5	5.9	5.9	100.0
		Total	85	100.0	100.0	

#### **4.2.2.15 VAT administration should be enhanced by tax authority.**

To get the feedback of tax payer and employee for the enhancement of VAT administration 3.3% of tax payer respondents are strongly disagree, 14.8% disagree believing that current VAT tax administration is well , 39.8% agree with subject matter, 33.6% strongly agree and the remaining 9% have no information on the issue. While 1.2% of employees are strongly disagree,

12.9% disagree believing that current VAT tax administration is healthy, 52.9% agree with subject matter, 30.6% strongly agree and the remaining 2.4% of employees have no information on the issue.

From the result we can conclude that both the tax payer and employee believe that VAT administration should be enhanced or improved by LTO.

<b>4.2.2.15 VAT administration should be enhanced by tax authority.</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Customer	Valid	strongly disagree	4	3.3	3.3	3.3
		Disagree	18	14.8	14.8	18.0
		Agree	48	39.3	39.3	57.4
		strongly agree	41	33.6	33.6	91.0
		do not know	11	9.0	9.0	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	1	1.2	1.2	1.2
		Disagree	11	12.9	12.9	14.1
		Agree	45	52.9	52.9	67.1
		strongly agree	26	30.6	30.6	97.6
		do not know	2	2.4	2.4	100.0
		Total	85	100.0	100.0	

### **4.2.3 Analysis and Result Discussion of Excise Tax Related Research Questions**

To answer research objectives related to excise tax related challenges the researcher forwarded different research question which can be a challenge to tax office and to the tax payer accordingly the respondents answer analyzed using SPSS version 20 by descriptive analysis to identify the frequency of the responses under each questionnaires by grouping into two as the tax payer and employee to check the consistency and difference of their view.

#### **4.2.3.1 All the tax payers are complying to excise tax proclamation regulations and directives.**

From the result presented on below table 5.7% of tax payer respondents strongly disagree with all tax payers are complying to excise tax laws, 17% disagree and on other hand 47.5% of tax

payers are agreed with the compliance of tax payer to excise tax laws, 9% strongly agree and the remaining 20.5% tax payers have no awareness about compliance to excise tax laws. Whereas 2.4% of employees respondents strongly disagree with all tax payers are complying to excise tax laws, 55.3% disagree and on other hand 38.8% of employees agree with the compliance of tax payer to excise tax laws and the remaining 3.5% have said no information on the subject matter. From these we can conclude that tax payers believe they are complying to excise tax proclamation regulations and directives where as employees believe tax payers are not complying with the laws.

#### 4.2.3.1 All the tax payers are complying to excise tax proclamation regulations and directives

Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	7	5.7	5.7	5.7
		Disagree	21	17.2	17.2	23.0
		Agree	58	47.5	47.5	70.5
		strongly agree	11	9.0	9.0	79.5
		do not know	25	20.5	20.5	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	2	2.4	2.4	2.4
		disagree	47	55.3	55.3	57.6
		agree	33	38.8	38.8	96.5
		do not know	3	3.5	3.5	100.0
		Total	85	100.0	100.0	

#### 4.2.3.2 Excise tax proclamation, regulation and directives are easy to understand

To understand easily understandability of excise tax related laws the researcher asked the question which is a challenge to the tax application. Accordingly 6.6% of tax payers strongly disagree, 35.2% disagree on excise tax laws are easily understandable and 32.8% agree on the subject matter at the same time 9% of respondents strongly agree and 16.4% of tax payer have no awareness about excise tax. While 1.2% of employee strongly disagree, 47.1% disagree on excise tax laws are easily understandable and 45.9% agree on the subject matter at the same time 5.9% employee respondents strongly agree theme.

From the result we can conclude that tax payer believe that excise tax related laws are not easily understandable for application while employee believe laws are easily understandable so that excise tax laws understandability is a challenge to taxpayers.

<b>4.2.3.2 Excise tax proclamation, regulations and directives are easy to understand</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Taxpayer	Valid	strongly disagree	8	6.6	6.6	6.6
		disagree	43	35.2	35.2	41.8
		agree	40	32.8	32.8	74.6
		strongly agree	11	9.0	9.0	83.6
		do not know	20	16.4	16.4	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	1	1.2	1.2	1.2
		disagree	40	47.1	47.1	48.2
		agree	39	45.9	45.9	94.1
		strongly agree	5	5.9	5.9	100.0
		Total	85	100.0	100.0	

#### **4.2.3.3 The rate for the payment of excise tax is fair when goods are imported and locally produced.**

Excise tax in Ethiopia is imposed and payable on selected goods, such as, luxury goods and basic goods which are demand inelastic. Moreover, it is believed that imposing the tax on goods that are hazardous to health and which are cause to social problem, will reduce the consumption of such goods. As per Excise Tax Proclamation No 307/2002 and the amendment 610/2008 rate of excise tax range from 0% to 100% with respect to item of product when imported and locally produced. To check fairness and reasonableness of the rate research question was forwarded accordingly the result shows 6.6% of tax payer strongly disagree, 37.7% disagree and 31.1% agree with fairness of excise tax rate on the other hand 5.7% of tax payer responds strongly agree while 18.9% of them have no awareness about excise due to applicability of the tax only to some sectors of business. Whilst 3.5% of employee respondents strongly disagree, 50.6% disagree and the remaining 45.9% of employee agree with fairness of excise tax rate.

From these we can conclude that both the tax payer and employee believe that excise tax rate is not fair this is a challenge to revenue collection and the society as well.

**4.2.3.3 The rate for the payment of excise tax is fair when goods are imported and locally produced.**

Category of the respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	8	6.6	6.6
		disagree	46	37.7	44.3
		agree	38	31.1	75.4
		strongly agree	7	5.7	81.1
		do not know	23	18.9	100.0
		Total	122	100.0	100.0
Employee	Valid	strongly disagree	3	3.5	3.5
		disagree	43	50.6	54.1
		agree	39	45.9	100.0
		Total	85	100.0	100.0

**4.2.3.4 The base for the payment of excise tax computation for locally produced goods is clear**

As per Excise Tax Proclamation No 307/2002 article 5 the base for excise tax in respect of goods produced locally is the cost of production excluding depreciation on machinery. The term cost of production computation some time creates difficulty to business owners. To check as if it was a challenge researcher raised a question accordingly the response presented below.

From table below 9% of tax payer respondents are strongly disagree, 34.4% disagree with clarity of base for computation of excise tax for locally produced goods while 29.5% agree, 6.6% strongly agree with subject matter and the remaining 20.5% of tax payer respondents are neutral on the issue. Whereas 2.4% of employees respondents are strongly disagree, 41.2% disagree with clarity of base for computation of excise tax for locally produced goods while 52.9% agree, 2.4% strongly agree with subject matter and the remaining 1.2% of employee respondents is neutral on the issue.

From the result we can conclude that tax payer believe the base for the payment of excise tax computation for locally produced goods is not clear and majority of employee believe that computation base is clear.

**4.2.3.4 The base for the payment of excise tax computation for locally produced goods is clear**

Category of the respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	11	9.0	9.0
		disagree	42	34.4	34.4
		agree	36	29.5	29.5
		strongly agree	8	6.6	6.6
		do not know	25	20.5	20.5
		Total	122	100.0	100.0
Employee	Valid	strongly disagree	2	2.4	2.4
		disagree	35	41.2	41.2
		agree	45	52.9	52.9
		strongly agree	2	2.4	2.4
		do not know	1	1.2	1.2
		Total	85	100.0	100.0

**4.2.3.5 Excise tax payment period which is 30 days from date of production is enough for locally produced goods.**

As per Excise Tax Proclamation No 307/2002 article 6(2) Time of Payment shall be when imported at the time of clearing the goods from Customs area and when produced locally, not later than 30 days from the date of production; accordingly we raised question and the result of respondents depicts that 7.4% tax payer respondents are strongly disagree with period excise tax payment is enough, 22.1% disagree and 37.7% agree with subject matter. In other way 10.7% of tax payer respondents strongly agree and the remaining 22.1% of tax payer is neutral on the subject matter.

Whereas 23.5% of employee respondents disagree, 63.5% agrees with period excise tax payment is enough and 19.6% strongly agree and the remaining 2.4% of employee is neutral on the subject matter.

From these we can conclude that large number of the tax payer and employees believe that excise tax payment period which is 30 days from date of production is enough for local production.

<b>4.2.3.5 Excise tax payment time which is 30 days from date of production is enough.</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Customer	Valid	strongly disagree	9	7.4	7.4	7.4
		disagree	27	22.1	22.1	29.5
		agree	46	37.7	37.7	67.2
		strongly agree	13	10.7	10.7	77.9
		do not know	27	22.1	22.1	100.0
		Total	122	100.0	100.0	
Employee	Valid	disagree	20	23.5	23.5	23.5
		agree	54	63.5	63.5	87.1
		strongly agree	9	10.6	10.6	97.6
		do not know	2	2.4	2.4	100.0
		Total	85	100.0	100.0	

#### **4.2.3.6 Computing cost of production creates difficulty and additional administrative problems for the payment of excise tax.**

From table below 4.9% tax payer respondents strongly disagree, 16.4% disagree with enquiry of computing cost production for excise tax payment creates difficulty whereas 50.8% agree with subject matter in addition 6.6% strongly agree and the remaining 21.3% of tax payer respondents are neutral on subject matter. Whereas 1.2% of employee's respondents strongly disagree, 24.7% disagree with enquiry of computing cost production for excise tax payment creates difficulty whereas 63.5% agree with subject matter in addition 4.7% strongly agree and the remaining 5.9% employee respondents are neutral on subject matter.

From the result we can conclude that majority of the tax payer and employee agreed that computing cost of production creates difficulty and additional administrative problems for the payment of excise tax which is a challenge to tax payer.

**4.2.3.6 Computing cost of production creates difficulty and additional administrative problems for the payment of excise tax**

Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	6	4.9	4.9	4.9
		disagree	20	16.4	16.4	21.3
		Agree	62	50.8	50.8	72.1
		strongly agree	8	6.6	6.6	78.7
		do not know	26	21.3	21.3	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	1	1.2	1.2	1.2
		disagree	21	24.7	24.7	25.9
		agree	54	63.5	63.5	89.4
		strongly agree	4	4.7	4.7	94.1
		do not know	5	5.9	5.9	100.0
		Total	85	100.0	100.0	

**4.2.3.7 Adding excise tax on cost of production for goods exported will affect competitive advantage in global market by boosting selling price.**

For the above enquiry the table below depicts that 6.6% of tax payer respondents strongly disagree, 18% disagree and 44.3% agree with adding excise tax on cost of production for goods exported will affect competitive advantage on global market by boosting selling price in addition 12.3% strongly agree and the remaining 18.9% of tax payer responded that they are neutral on subject matter. While 1.2% of employee respondents strongly disagree, 18.8% disagree and 58.8% agree with adding excise tax on cost of production for goods exported will affect competitive advantage on global market by boosting selling price in addition 17.6% strongly agree and the remaining 3.5% of employees responded that they are neutral on subject matter.

From the result we can conclude that both the tax payer and employees believe that adding excise tax on cost of production for goods exported will affect competitive advantage on global market by boosting selling price. This is one challenge especially for goods excisable and locally produced and exported to other country.

<b>4.2.3.7 Adding excise tax on goods exported will affect competitive advantage in global market by boosting selling price</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	8	6.6	6.6	6.6
		disagree	22	18.0	18.0	24.6
		agree	54	44.3	44.3	68.9
		strongly agree	15	12.3	12.3	81.1
		do not know	23	18.9	18.9	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	1	1.2	1.2	1.2
		disagree	16	18.8	18.8	20.0
		agree	50	58.8	58.8	78.8
		strongly agree	15	17.6	17.6	96.5
		do not know	3	3.5	3.5	100.0
		Total	85	100.0	100.0	

#### **4.2.3.8 Applying excise tax on import raw materials at customs and at locally at stage production creates replication of manufacturing cost.**

From the table below 5.7% of tax payer respondents strongly disagree, 19.7% disagree and 41% agree with applying excise tax on imported raw materials at customs and local production creates manufacturing cost replica. Additionally 14.8% strongly agree and the remaining 18.9% of tax payer respondents are neutral on the topic. Although 2.4% of employee respondents strongly disagree, 27.1% disagree and 55.3% agree with applying excise tax on imported raw materials at customs and local production creates manufacturing cost replica. Additionally 15.3% of employee respondents strongly agree with the topic.

From the result we can conclude that both the tax payer and employee believe that applying excise tax on raw materials during import at customs and at local production creates duplication of manufacturing cost which is a challenge to tax payer. Related to these case for some business types like textile manufacturer and vehicle assembling companies tax authority issued a directive to deduct payment of excise tax at customs and local raw material purchase to reduce double payment of excise tax.

<b>4.2.3.8 Applying excise tax on raw materials during import at customs and at local production creates duplication of manufacturing cost</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	7	5.7	5.7	5.7
		Disagree	24	19.7	19.7	25.4
		Agree	50	41.0	41.0	66.4
		strongly agree	18	14.8	14.8	81.1
		do not know	23	18.9	18.9	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	2	2.4	2.4	2.4
		Disagree	23	27.1	27.1	29.4
		Agree	47	55.3	55.3	84.7
		strongly agree	13	15.3	15.3	100.0
		Total	85	100.0	100.0	

#### **4.2.3.9 Current excise tax rate and excisable items are enough to generate large amount tax revenue for government.**

From the table below 5.7% of tax payer respondents strongly disagree, 18.9% disagree and 38.5% agree with excise tax rate and items are enough to generate large amount of tax revenue for government in addition 13.9% strongly agree and the remaining 23% of tax payers are neutral on the subject matter. Mean while 1.2% of employee respondents strongly disagree, 31.8 disagree and 60% agree with excise tax rate and items are enough to generate large amount of tax revenue for government and the remaining 7.1% of employee respondents are neutral on the subject matter.

From the result we can conclude that large number of both the tax payer and employees agreed that Current excise tax rate and excisable items are enough to generate large amount tax revenue for government.

**4.2.3.9 Current excise tax rate and excisable items are enough to generate large amount tax revenue for government**

Category of the respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	7	5.7	5.7
		Disagree	23	18.9	18.9
		Agree	47	38.5	38.5
		strongly agree	17	13.9	13.9
		do not know	28	23.0	23.0
		Total	122	100.0	100.0
Employee	Valid	strongly disagree	1	1.2	1.2
		disagree	27	31.8	31.8
		agree	51	60.0	60.0
		strongly agree	6	7.1	7.1
		Total	85	100.0	100.0

**4.2.3.10 the base of excise tax application on volume, kilogram, meter, and price of products will solve computation problem**

From table below 8.2% of tax payer respondents strongly disagree, 21.3 disagree and 38.5% agree with the base of excise tax application on other measures will solve computation problem in addition 8.2% strongly agree and the remaining 23.8% of tax payer respondents are neutral with subject matter. While 2.4% of employee respondents strongly disagree, 38.8% disagree and 49.4% with the base of excise tax application on other measures will solve computation problem in addition 2.4% strongly agree and the remaining 7.1% of employee respondents are neutral with subject matter.

From the result we can conclude that both the tax payer and employee respondents majority agree with the base of excise tax application on volume, kilogram, meter, and price of products will solve computation problem of cost production which is a challenge discussed under section 4.2.3.6 about computation difficulty of cost of production.

**4.2.3.10 The base of excise tax application on volume, kilogram, meter, and price of products will solve computation problem**

Category of the respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	10	8.2	8.2
		disagree	26	21.3	29.5
		agree	47	38.5	68.0
		strongly agree	10	8.2	76.2
		do not know	29	23.8	100.0
		Total	122	100.0	100.0
Employee	Valid	strongly disagree	2	2.4	2.4
		disagree	33	38.8	41.2
		agree	42	49.4	90.6
		strongly agree	2	2.4	92.9
		do not know	6	7.1	100.0
		Total	85	100.0	100.0

**4.2.3.11 Applying excise tax on packaging materials is fair.**

Packaging materials some time s considered as distribution expenses and when computing cost of production some companies are in dilemma to include under cost or not to identify the fairness of packaging material as part of production cost and base of excise tax payment. Accordingly the respondents result shows 9.8% tax payer respondents strongly disagree, 32% disagree and 26.2% agree with fairness of applying excise tax on packaging material. In addition 7.4% strongly agree and 24.6% tax payer respondents are neutral on subject matter. While 4.7% of employee respondents are strongly disagree, 55.3% disagree and 32.9 agree with fairness of applying excise tax on packaging material. In addition 3.5% strongly agree and the remaining 3.5% employee respondents are neutral on subject matter.

From the result we can conclude that majority of tax payer and employees believe that applying excise tax on packaging material is not fair.

<b>4.2.3.11 Applying excise tax on packaging materials is fair</b>						
Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	12	9.8	9.8	9.8
		disagree	39	32.0	32.0	41.8
		agree	32	26.2	26.2	68.0
		strongly agree	9	7.4	7.4	75.4
		do not know	30	24.6	24.6	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	4	4.7	4.7	4.7
		disagree	47	55.3	55.3	60.0
		agree	28	32.9	32.9	92.9
		strongly agree	3	3.5	3.5	96.5
		do not know	3	3.5	3.5	100.0
		Total	85	100.0	100.0	

#### **4.2.3.12 Applying excise tax on cost of manufacturing sites, building and delivery materials is fair.**

From the table below 13.9 of tax payer respondents strongly disagree, 36.9% disagree and 23.8% agree with the fairness of applying excise tax on manufacturing sites, building and delivery material. In addition 4.9% tax payer respondents strongly agree and the remaining 20.5% of respondents are neutral on the subject matter. While 3.5% of employee respondents strongly disagree, 54.1% disagree, 34.1% agree with the fairness of applying excise tax on manufacturing sites, building and delivery material. In addition 4.7% employee respondents strongly agree and the remaining 3.5% of respondents are neutral on the subject matter.

From the result we can conclude that large number of tax payer and employee respondents believe that applying excise tax on cost of manufacturing sites, building and delivery materials is not fair.

**4.2.3.12 Applying excise tax on cost of manufacturing sites, building and delivery materials is fair**

Category of the respondents			Frequency	Percent	Valid Percent	Cumulative Percent
Tax payer	Valid	strongly disagree	17	13.9	13.9	13.9
		disagree	45	36.9	36.9	50.8
		agree	29	23.8	23.8	74.6
		strongly agree	6	4.9	4.9	79.5
		do not know	25	20.5	20.5	100.0
		Total	122	100.0	100.0	
Employee	Valid	strongly disagree	3	3.5	3.5	3.5
		disagree	46	54.1	54.1	57.6
		agree	29	34.1	34.1	91.8
		strongly agree	4	4.7	4.7	96.5
		do not know	3	3.5	3.5	100.0
		Total	85	100.0	100.0	

## CHAPTER 5

### CONCLUSION AND RECOMMENDATION

The final chapter of the paper discusses topics about the conclusion driven from the analysis of the study and possible policy recommendations are made.

#### 5.1 CONCLUSION

Based on the discussion and analysis made in chapter four the researcher concluded that indirect tax revenue contributes on average 64% to total tax revenue in the research period year 2002/03 to 2016/17 while VAT on average contributes around 40% and excise tax contributes on average around 24% in the specified period.

The key challenges identified related to VAT were VAT registration threshold which is 500,000.00 birr is not enough, VAT rate which is 15% is not fair to the society, there was no regular training given to employee of the LTO, business of VAT registered tax payers are affected by those not registered, VAT withholding receipts are not timely given to tax payers which affect tax payments, tax office not responding to the refund applications on time and issuing VAT invoice on promotional goods are not fair. The above identified challenges by the researcher inconsistent with previous research works done by Markos 2010, Temtime 2014, Hailemariam 2011, Bizualem 2015 and Wollela 2008.

On other way challenges identified related to excise tax were tax payers are not complying to excise tax laws, laws are not easily understandable, excise tax rate is not fair, excise tax computation base is not clear, computing cost of production creates difficulty, including excise on exported goods are not fair and application excise tax on packaging materials and manufacturing sites, building materials and delivery items are identified challenges on the issue. Related to excise tax there was no past research done in Ethiopia to the knowledge of the researcher which is new finding and the area where further researchers can do more.

In detail the challenges are presented below under each topics and category of the respondents.

### **5.1.1 Tax revenue collection performance, Indirect tax revenue contribution, VAT Contribution and excise tax contribution to tax revenue**

1. Tax revenue collected by Ethiopian government on average was 57,511.78 million birr in the past fourteen years from 2002/03 to 2015/16. Total Tax Revenue collected was increased from time to time and Ethiopia government collects birr 143,025.16 million in year 2015/16 from tax revenue and these taxes tax collection represent 19.15% of GDP percentage which is below sub-Saharan African countries and world average even though it shows improvements from year to year with an incremental rate from the lowest percentage 3.34 in year in 2002/03 and the maximum 19.15 in year 2015/16.
2. In the research period Ethiopian government collects tax revenue from two sources which were domestic and foreign sources. Over all domestic tax revenue contributes 49.05% in the years 2002/03 to 2016/17 and foreign tax revenue contributes 51.95% in the years 2002/03 to 2016/17. Domestic tax revenue contribution below 50% to tax revenue in the first eight years (2002/03 to 2009/10) which and shows incremental each year. After 2010/11 on wards contribution of domestic tax revenue exceeds 50% and reached 58.02% in year 2016/17 these shows the policy direction of Ethiopian government and organizational vision to cover government expenditures from own sources by raising enough tax from domestic sources. Foreign tax revenue contributes above 50% to tax revenue in the first eight years (2002/03 to 2009/10) which and shows declining each year. After 2010/11 on wards contribution of foreign tax revenue below 50% and reached 43.36% in year 2016/17. Researcher concluded that declining the foreign source of income support Ethiopian government policy direction to base source of government income inland.
3. In Ethiopian context there are major two types of tax as direct and indirect taxes and customs related taxes. Direct tax consists of tax on employment, business profit tax, tax on income from rental of building, tax on interest income on deposits, dividend income tax, tax on income from royalty, tax on income from games of chance, tax on Gains of Transfer of Certain Investment Property, Tax on Income from Rental of Property, Rendering of Technical Services Outside Ethiopia, Agricultural Income Tax and Land Use Tax. Indirect tax consists of turn over tax; value added tax, excise taxes and customs duties.

4. On average direct tax revenue contributes 23.13%, indirect tax revenue contributes 25.77% and customs taxes and duties contributes 50.95 in the research period covered (2002/03 to 2016/17) as the data from ERCA portray customs tax and duties includes customs duties, imported goods excise tax, imported goods VAT, imported goods surtax and export trade taxes. Overall the source and types of taxes revenue goes the same direction and indirect taxes contribute much higher than direct taxes to the total tax revenue collected in the last fourteen year of our study since customs duties consists of indirect tax items from foreign sources as well customs duties can be categorized as indirect tax types in some literatures.
5. VAT contributes above 40% to total tax revenue which was collected at customs and inland tax authorities the maximum VAT to tax revenue ratio was registered in year 2014/15 having 43.85 percentage and the minimum one was registered in year 2003/04 having the value of 29.33 percentage.
6. Excise tax contribution to tax revenue on average was 24% which was collected at customs and inland tax authorities under the research period the maximum excise tax to tax revenue ratio was 31.91% in year 2005/06 and the minimum excise to tax revenue ratio was registered in year 2015/16 having the value of 18.87%.

### **5.1.2 Value Added Tax related challenges**

By referring back to chapter 4 discussion and analysis of respondents answer researcher indentified the following VAT related challenges:

- 1) Large percentage of the respondents under the two groups agree with fairness of the VAT rate fairness to the society and more than 50.8% of the tax payers and 44.7% employees require rate revision which is still a challenge to society and VAT collectors.
- 2) Large number of the tax payers agrees with VAT threshold which is 500,000.00 (Five Hundred Thousand birr only) amount is enough, where as large numbers of an employee disagree with the subject matter these shows the two groups have different view on VAT threshold amount and which is a challenge to tax payer.
- 3) Majority of the tax payers are getting regular training and awareness creation while majority of employees are not getting training and awareness regularly which is a challenge to employee

- 4) Both the tax payer and employee of the tax office believe that businesses are affected by those business entities not registered for VAT and those don't issue an invoice the reason behind is that difficult of price competition in similar market.
- 5) Majority of the tax payer believe that VAT withholding tax receipts are given by government offices while employee believe the government does not give receipts on time but lately tax payers used it as deduction to tax payments. So it s a challenge to tax payer and for tax office.
- 6) Both the tax payer and employees believe that tax office was not responding to VAT refund application on time to increase satisfaction of employee and it's a min challenges to VAT collection practice its contribution to tax revenue.
- 7) Majority of tax payer said issuing VAT invoice on promotional goods delivered to customer free of charge is not fair. While majority of employee at LTO said issuing VAT invoice on promotional goods delivered to customer free of charge is fair. So that it's a challenge to tax payer where as not to tax office.
- 8) Both the tax payer and employee believe that VAT administration should be enhanced improved by LTO these show there is no continuous improvement related to VAT.

### **5.1.3 Excise tax related Challenges**

By referring back to chapter 4 discussion and analysis of respondents' answers researcher indentified the following Excise tax related challenges:

- 1) Tax payers believe they are complying to excise tax proclamation regulations and directives where as employees believe tax payers are not complying with excise tax law which is a challenge.
- 2) Tax payer believe that excise tax related laws are not easily understandable for application while employee believe laws are easily understandable so that excise tax laws understandability is a challenge to taxpayers.
- 3) Both the tax payer and employee believe that excise tax rates need to be revised and so that it is a challenge.
- 4) Tax payers believe that the base for the payment of excise tax computation for locally produced goods is not clear and requires to make it understandable.

- 5) Majority of the tax payer and employee agreed that computing cost of production, which is a base for calculating excise tax, creates difficulty and additional administrative problems for the payment of excise tax which is a challenge to tax payer.
- 6) Both the tax payer and employees believe that adding excise tax on cost of production for goods exported will affect competitive advantage on global market by boosting selling price.
- 7) Both the tax payer and employee believe that applying excise tax on raw materials during import at customs and at local production creates duplication of manufacturing cost which is a challenge to tax payer.
- 8) Majority of tax payer and employees believe that applying excise tax on packaging material is not logical and so that it may discourage taxpayers.
- 9) Large number of tax payer and employee respondents believe that applying excise tax on cost of manufacturing sites, building and delivery materials creates difficulty in computing excise tax.

## **5.2 RECOMMENDATION**

Based on the findings of the study, the following recommendations and further research areas are identified:

- 1) Revenue collection performance should have to be enhanced to increase tax to GDP ratio which is below Sub Saharan African countries and world standard and as well to cover government expenditure with own revenue sources which is strength of good government and healthy economy.
- 2) Ethiopian government should focus more on domestic sources of revenue rather than foreign sources since the globalization is a current world trend and free movement of goods are mandatory since Ethiopia on the way to be registered as member of world trade organization.
- 3) More emphasis and awareness creation should be given to indirect taxes specially to VAT and Excise taxes since on average they consists of 40% and 24% respectively to tax collected in the research period.

- 4) VAT rate which is 15% and the VAT registration threshold 500,000.00 require revision which goes with current economic condition and capacity of consumers bearing tax.
- 5) In order to enhance the efficiency of tax administration providing regular training for employees will increase skill and confidence of decision making.
- 6) Enhancing the enforcement of tax payer to issue VAT invoice properly on transaction and working on registration of new tax payers not registered for VAT in collaborating with other branch offices.
- 7) Tax authority should increasing efficiency of the VAT refund payment in order to increase taxpayer satisfaction.
- 8) Enhance tax payer compliance and create training sessions on excise tax proclamation regulations and directives.
- 9) Revise excise tax rate on selected items by doing further researches.
- 10) Prepare detailed manual how to computing cost of production for excise tax payment or use other methods to easily collect excise tax on time like sales volume based approach.
- 11) Tax authority shall discuss in detail with taxpayers about application of excise tax on exportable items and the treatment ways to give competitive advantage on global market.
- 12) Government should give excise payment on raw materials at customs as a deduction when further produced locally for all types of business and all items of production.

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## APPENDICES

### Table of current Excise Tax Rates in Ethiopia

(Proclamations 307/2002, 570/2008 & 610/2008)

S.N.	Type of Product	Excise Tax Rate (%)
1	Any type of sugar/In solid form excluding Molasses	33
2	Drinks	
2.1	All types of soft drinks/except Fruit/ Juices	30
2.2	Powder soft drinks	30
2.3	Water bottled or canned in a factor	20
2.4	Alcoholic drinks	
2.5	All types of beer & stout	50
2.6	All types of wine	50
2.7	Whisky	50
2.8	Others alcoholic drinks	100
3	All types of pure Alcohol	75
4	Tobacco & Tobacco products	
4.1	Tobacco leaf	20
4.1	Cigarettes, Cigar, Cigarillos, pipe Tobacco snuffs and other tobacco products	75
5	Salt	30
6	Fuel-Super Benzene, Regular Benzene, Petrol, Gas-online and other motor spirits	30
7	Perfumes and toilet waters	100
8	Textile and Textile products	
8.1	Textile fabrics, knitted or woven of natural silk, Rayon, nylon wool or other similar material	10
8.2	Textile of any type partly or wholly made from cotton which is gray, white, dyed or printed, in pieces of any length or width /except mosquito net and "Abudgedid"/ and including blankets, bed sheets, counterpanes, towels, table clothes and similar articles	10

8.3	Garments	10
9	Disk washing machines of a kind for domestic use	80
10	Washing machines of a kind for domestic purpose	30
11	Video decks	40
12	Television and video cameras	40
13	Television broadcast receivers whether or not combined with gramophone, radio, or sound receivers and reproducers	10
14	Motor passenger cars, station wagons, utility cars, and land rovers, tips pickups, similar vehicles/including motorized caravans/ whether assembled, tighter watt gaur appropriate initial equipment.	
14.1	Up to 1,300 C.C	30
14.2	From 1,301 C.C up to 1800 C.C	60
14.3	Above 1,800 C.C	100
15	Carpets	30
16	Asbestos and Asbestos products	20
17	Clocks and watches	20
18	Dolls and toys	20

## QUESTIONNAIRES

**ADDIS ABABA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
MSC in Accounting and Finance Program**

**Questionnaires for the LTO employees and tax payers**

Dear Participant,

This questionnaire is designed to conduct a research on the topic “**Contribution and Challenges of indirect taxes in case of large tax payers’ branch office**”. The purpose of the study is for the partial fulfillment of the requirements of MSC Degree in Accounting and finance at Addis Ababa University. For the successful accomplishment of the research, the genuine response of the tax payer’s and employees of the large tax payer's branch office will have pivotal role and will be used as a valuable and primary input for the study. So, you are gently and courteously requested to take few moments of your busy schedule and genuinely fill this questionnaire.

Thank you in advance for your cooperation and enhancing research and education!

If you have any questions or concerns, please contact me through: +251-911-15-78-26

Instructions:-

1. Writing your name is not necessary.
2. On the rectangle just put tick mark “√” for each question as required or answer the questions in the space provided.

**Part 1: - Background (Personal information)**

1. Gender: (a) Male  (b) Female
2. Age: (a) 20-30  (b) 30-40  (c) 40-50  (d) 50>
3. Education: (a) Below Diploma  (b) Diploma   
(c) Bachelor degree  (d) Master and Above
4. Name of your department (*for employee of tax office*):  
(a) Assessment and follow-up  (b) Auditing and investigation   
(c) Collection and enforcement  (d) Other, please specify\_\_\_\_\_

5. What is your main business activity?(For tax Payer)

- (a) Manufacturing  (b) Construction, real estate and mining and quarrying   
 (c) Agriculture, hunting and forestry  (d) Trade Import and export   
 (e) Professional service

6. Your status or position in the organization?

- (a) Auditor/officer  (b) senior auditor/officer   
 (c) Team leader /process coordinator  (d) Deputy/general manager   
 Other, specify\_\_\_\_\_

7. How long have you been working in the organization?

- (a) Less than five years  (b) Five to ten years   
 (C) Ten to fifteen years  (d) More than fifteen years

**Part II: Attitude questions on the issues related to VAT by tax payers and employee**

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know (5)
8. Do you think VAT proclamation, regulation and directives are clear and easy for application or implementation?					
9. Do you think VAT rate is fair for society considering the current Ethiopian economy?					
10. Do you think VAT turnover threshold which is birr 500,000.00 is acceptable according to the current economic situations of Ethiopia?					

11. Do you think VAT exempted items according to VAT proclamation, regulation and directives practically applicable in trade transactions?					
12. Do you think all tax payers registered for VAT issuing invoices upon transaction properly?					
13. Do you agree that tax officials have the required skill and experience to detect and handle VAT related offences by taxpayers?					
14. Do you get training and awareness creation from your tax center regularly?					
15. Is your business affected by those who are not registered for VAT or those who are not issuing VAT receipt?					
16. Do taxpayers receiving VAT withholding receipt on time from government organizations for their goods and services sold?					
17. Do you think because of delay of VAT withholding voucher from government organizations affects your business and VAT reporting process?					
18. Do you agree that there is fair and transparent VAT penalty on tax payers by the authority?					
19. Do you agree that the tax authority respond for excess VAT refund on time?					

20. Do you agree that there is clear rule and regulation in consignment transaction regarding issuance of VAT receipt?					
21. Do you agree issuance of VAT receipt for advance payment is fair and in line with the accounting standards?					
22. Do you agree the issuance of VAT receipt for promotional goods which are delivered for customers without charge is fair?					
23. Do you suggest VAT administration should improve by the tax authority?					

**Part III: Attitude questions on the issues related to Excise tax by tax payers and employee**

Questions	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Do not Know(5)
24. Do you think that tax payers are compliant to Excise tax rules and regulations?					
25. Do you believe that excise tax proclamations and directives are easy to understand and implement?					
26. Do you think that the rate for payment of excise tax is fair when goods are imported and locally produced?					
27. Do you think that the base for payment of excise tax computation for locally produced goods is clear?					
28. Do you agree that the excise tax payment period, which is 30 days next to production month, is enough?					

29. Do you think computing cost of production creates difficulty and additional administrative problems for the payment of excise tax on tax payers?					
30. Do you think that adding excise tax on goods exported will affect competitive advantage in global markets by boosting their sells price?					
31. Do you think that applying excise tax on raw materials during import at customs and also applying it locally during production which creates duplication and affects manufacturing companies?					
32. Do you think that current excise tax rate and excisable items are enough to generate large amount of tax revenue for the government?					
33. Do you agree if the base of excise tax applies on volume, kilogram, meter, and price of products will solve the problem of computation?					
34. Do you agree applying excise tax on packaging materials is fair?					
35. Do you agree applying excise tax on manufacturing sites, building and delivery materials, is fair?					

**Thank you!**

## Interview Questions

1. How do you evaluate the clarity of VAT proclamations, regulation and directives?

.....  
.....  
.....

2. How does the organization file a timely tax return and payment system?

.....  
.....  
.....

3. How do comment the minimum turnover threshold 500,000 birr is reasonable for VAT registration?

.....  
.....  
.....

4. How do you evaluate the practice of exemptions stated on VAT proclamations, regulation and directives?

.....  
.....  
.....

5. How do you see the tax office employees' knowledge of tax practice, skills and decision making ability?

.....  
.....  
.....

6. How do you evaluate the practice of VAT withholding directive and its impact on tax administration and business?

.....  
.....  
.....

7. How do you evaluate the practice of consignment practice and its impact on tax administration and business?

.....  
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8. How do you evaluate the clarity of Excise tax proclamations and directives?

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9. How do you evaluate the Excise tax base for locally produced goods (cost of production)?

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10. Could you mention some of the challenges related with excise tax application?

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11. Finally, what is your suggestions regarding indirect taxes application?

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**Thank you!**